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1 P R O C E E D I N G S

2 (Transcript follows in sequence from
3 Volume 2.)

4 CONTINUED EXAMINATION

5 BY MR. MOYLE:

6 Q So, this document says, here are -- here are
7 some things, as I interpret it that would suggest you
8 ought to do hedging. And admittedly, it's for mining
9 and metals, but you would also agree that a lot of
10 hedging concepts -- they work whether you're in
11 agriculture, they work whether you're in metal and
12 minings, they work whether you're in energy, or they
13 work whether you're in stocks, correct; that the
14 concepts of hedging are --

15 A That's correct.

16 Q -- consistent across commodity?

17 A Uh-huh.

18 Q So, you're not uncomfortable talking about
19 this just because it says mining and metals, correct?

20 A Correct.

21 Q Okay. So, let's talk -- I want to ask you
22 about what this paper says are pros for hedging and ask
23 you if these exist in FPL's program. Hedging is a risk
24 management tool.

25 A Correct.

1 **Q Okay. Provides greater certainty over cash**
2 **flows.**

3 A I would say, in our case, it provides greater
4 certainty over fuel costs.

5 **Q Okay. How about with respect to cash flows?**

6 A I don't know that. It provides greater
7 certainty over fuel costs.

8 **Q How about with respect to locking in profit?**

9 A That doesn't apply.

10 **Q Proportionate hedging?**

11 A I don't know what that means.

12 MR. BUTLER: Mr. Moyle, do you know what it
13 means? I mean, you're asking him about a document
14 that is simply -- it looks like a printout from a
15 web page. I bet you that these are actual links
16 that you can get down and it gives further
17 information under each of them. But you're simply
18 showing kind of a cover sheet to a web-based
19 tutorial on metals hedging.

20 MR. MOYLE: Yeah. No, I appreciate it. I
21 mean, the document speaks for itself.

22 MR. BUTLER: It doesn't speak very clearly.

23 MR. MOYLE: I don't know that I can get a turn
24 to answer questions, not yet, but I'm not going
25 to -- I'm not going to belabor it. I just want to

1 test -- test his knowledge and ask him -- ask him
2 if he has information about these concepts.

3 BY MR. MOYLE:

4 Q Are there any other concepts that are listed
5 as why hedge that are a pro that you have familiarity
6 with?

7 A Going down the list, no.

8 Q Okay. Now, the main purpose for hedging, in
9 your mind, in this -- in this scheme is -- is what?

10 A Reducing volatility.

11 Q Anything else?

12 A I mean, we can -- we can probably term it in
13 three different components. We're reducing the
14 variability of fuel costs. We're protecting from
15 extreme price spikes in fuel. And we're also allowing
16 our customers to benefit from falling market prices,
17 which has clearly happened over the last couple of
18 years.

19 Q Right. But that's a two-way street, right? I
20 mean, the benefit of falling market prices -- market
21 prices could go up. That's not a -- you don't -- you
22 don't speculate. You don't try to take positions.

23 A No, we don't. We do not take positions, but
24 the benefit of falling prices within our hedge program
25 is real, and our customers do get the benefit of falling

1 market prices.

2 **Q For the unhedged --**

3 A For the unhedged portion of the portfolio,
4 that's correct.

5 **Q For the hedged portion of the portfolio,**
6 **they -- it's a bad deal for them, correct? I mean,**
7 **financially.**

8 A No, I wouldn't say it's a bad deal. I
9 think --

10 **Q Did it make money or lose money on --**

11 A But that's -- but what you're doing is you are
12 trying to isolate a byproduct of hedging. We are
13 hedging to reduce volatility. A byproduct of that is
14 there could be gains and there could be opportunity
15 costs. It depends on whether the market settles lower
16 or higher. But at the end of the day, we're reducing
17 volatility and still allowing customers to benefit from
18 falling fuel prices, which they have.

19 So, I would say to you that to answer the
20 question of that the losses are not good -- it's not a
21 valid question. It's taking a piece in isolation that
22 can't be taken in isolation.

23 **Q So, let me ask you it way: If this Commission**
24 **said, you know what, this hedging stuff is too**
25 **complicated. We hear you, consumers. You're just going**

1 **to pay at the pump.**

2 If we sit here today, since 2002, consumers,
3 collectively, with respect FPL hedging natural gas would
4 have 3-point -- no, it would have \$4 billion in their
5 pockets that they don't have now, correct?

6 A That is correct.

7 **Q All right. So, I --**

8 A But let me -- let me just clarify --

9 **Q Your lawyer will give you a chance --**

10 A Okay.

11 **Q -- to do that.**

12 A Okay.

13 **Q So, the only thing you have identified is a**
14 **good thing for hedging is it reduces volatility. And**
15 **you told me there were three sub-pieces to that, right;**
16 **that fallings prices benefit.**

17 A We're reducing volatility. We're protecting
18 against extreme price spikes. And we are allowing --
19 our customers do benefit from falling fuel prices on the
20 unhedged piece of our portfolio, correct.

21 **Q And protecting against extreme benefit, that's**
22 **just a natural byproduct from hedging, right? It's not**
23 **a separate thing.**

24 A No, but that's what hedging is accomplishing.

25 **Q Right. It's -- it's almost synonymous with**

1 **reducing volatility.**

2 A That's correct.

3 Q So, this Ernst & Young document talks about
4 why not hedge. First is getting it wrong. Do you agree
5 with that being a significant risk?

6 A I don't agree with the phrasing. I'm not sure
7 we're -- unless you're speculating in the market, I
8 don't know if getting it wrong is really something I
9 would describe our or FPL's hedging program. Getting it
10 wrong, to me, just speaks of speculating on the market
11 and where prices are going to go. And that's certainly
12 not something we do.

13 Q So, see where it says why hedging hasn't
14 worked?

15 A I do.

16 Q And it says, quote: The most powerful
17 argument against hedging is that, historically, large
18 amounts of shareholder value have been destroyed by poor
19 hedging programs. Would you agree with that statement?

20 A I honestly don't know. I can't agree with
21 that statement. I -- I don't know -- no, I don't know.

22 Q So, what if -- what if we substituted the most
23 powerful argument against edge hedging is that,
24 historically, large amounts of ratepayer value has been
25 destroyed by natural gas hedging programs? I deleted

1 "poor," I substituted ratepayer for shareholder, and I
2 put in natural gas. Would you agree with that
3 statement?

4 A No.

5 Q Why not?

6 A Because our customers have benefited from our
7 hedge program. Our hedge --

8 Q Finan- -- financially --

9 A Gains and -- gains and the losses of hedge
10 program are not how the success of the program is
11 judged. It cannot be judged that way. We're -- we are
12 reducing volatility. Gains and losses are a byproduct
13 of hedging, are a direct outcome of hedging, which this
14 Commission has deemed as a reasonable tradeoff from at
15 least the opportunity-cost side in reducing volatility.

16 So, our hedge program has been successful in
17 13 years in reducing volatility, which has been the
18 objective of the program.

19 Q So, how do you measure the degree to which
20 volatility has been reduced or not? I mean, is there
21 like a matrix that says, we says we get an "A" this year
22 for reducing volatility as compared to a "C"? I mean,
23 do you have some way that you can show the consumers and
24 say, hey, we really reduced volatility this year, look?

25 A I think we -- and I think Mr. Butler talked

1 about it in his pre-hearing statement. I think our
2 response to OPC's interrogatory -- I believe the number
3 was 127 -- is probably a very good indication of the
4 volatility that's been reduced with the hedge program
5 one time in 13 years without hedging in place, nine
6 times exceeding the 10-percent threshold. That's as
7 good as an indication as any in determining whether the
8 hedge program has been successful.

9 While that is a complicated exercise, even the
10 simplified method that we use clearly demonstrates the
11 volatility has been reduced.

12 **Q So, is the answer to my question, Mr. Moyle,**
13 **no, we don't have a matrix that we use on an annual**
14 **basis to determine the reduction and volatility?**

15 A No, Mr. Moyle, we do not have a matrix that we
16 use on an annual basis to determine the volatility that
17 we've reduced, no.

18 **Q Okay. So, that's your answer.**

19 A That is my answer.

20 **Q And what you're saying is the only analytic**
21 **that you have with respect to measuring reduction and**
22 **volatility is how many times you've been in for a mid-**
23 **course correction, correct?**

24 A All right.

25 **Q Is that correct?**

1 A Please repeat the question?

2 Q Okay. so, I'm asking -- you know, you say on
3 hedging, the big benefit to my clients and the clients
4 of Mr. Brew and Mr. Wright -- the Retail Federation and
5 OPC, they represent everybody, all the consumers.
6 You're telling us that the only benefit is that it
7 reduces volatility.

8 I'm saying, okay, how can we measure, how do
9 we know the degree to which volatility is reduced? How
10 do we measure that? And you're telling me the only
11 thing -- I think you're telling me the only thing we
12 have that measures that is a document that was
13 referenced that says here is how many times we've been
14 in for a mid-course correction since we've had hedging
15 and here is what -- how many times we would have been in
16 for mid-course correction if we hadn't had hedging; is
17 that right.

18 MR. BUTLER: I'm going to object. Mr. Yupp
19 asked and answered the question. All that
20 Mr. Moyle has done is make a speech about how he
21 doesn't like the answer he got.

22 CHAIRMAN GRAHAM: I'll allow it. I think he
23 was trying to get a specific.

24 THE WITNESS: Yes, the response to the
25 interrogatory is a very clear indication of the

1 volatility reduced -- that we have reduced. Do we
2 have another analytical document showing on an
3 annual basis? No. Is limiting mid-course
4 corrections part of the success of the hedging
5 program? Certainly it is, yes.

6 BY MR. MOYLE:

7 Q In your view.

8 A Yes, in my view.

9 Q That's your opinion, right?

10 A That is my opinion.

11 Q And you haven't talked to my clients and go,
12 hey, is it really going to be a problem for you if we
13 have five mid-course corrections as compared to two?

14 A I have not, no. But I will say I do -- I do
15 remember back in 2000 and 2001 when hedging first came
16 up, when very early in 2001, FPL was significantly
17 under-recovered by the tune of, say, 400 million with
18 another recovery carrying over that was almost a billion
19 dollars.

20 There was quite an uproar of that type of
21 under-recovery due to, at the time, what was described
22 as an unprecedented rise in gas prices, which was about
23 \$2 in MMB to you.

24 So, while I have not talked to your clients
25 specifically, I do recall that when prices go up, there

1 is -- there is a lot of discussion, and was certainly at
2 that time, on how to mitigate the impact of prices going
3 up.

4 **Q So, you would agree with me that this**
5 **Commission, in making decisions that affect consumers,**
6 **should give considerable weight to the views of the**
7 **consumers, correct?**

8 A I think this Commission does give considerable
9 weight to all of the parties' views, yes.

10 **Q And it should as well, correct?**

11 A Yes, I believe so.

12 **Q Okay. And are you representing the consumers**
13 **here today?**

14 A No, I'm not. I'm representing Florida Power &
15 Light.

16 **Q Okay. And does Florida Power & Light have any**
17 **financial interest in any of these hedges that we've**
18 **talked about? Do they make money on these hedges?**

19 MR. BUTLER: I'll object that that was asked
20 and answered. Mr. Sayler asked him about that.

21 MR. MOYLE: Yeah, I think -- I don't think it
22 was fully answered.

23 MR. BUTLER: He just doesn't remember the
24 answer. It was --

25 MR. MOYLE: No, I do remember the answer. He

1 said no as it relates to financial hedges, but I
2 ask it broad purposely to see if he will say, yeah,
3 we make money on Woodford.

4 THE WITNESS: First, I don't -- I don't think
5 I said no with regard to financial hedges. I
6 certainly could have, but I thought I said no. But
7 if you are asking about Woodford --

8 BY MR. MOYLE:

9 Q No, let me just start over because I thought
10 you said, no, we don't make any money on financial
11 hedges. So, if you don't remember it that way, I think
12 it's probably a fair question to get clarification on.

13 Do you make money on financial hedges?

14 A No, we --

15 Q You, being FP&L.

16 A No, we do not.

17 Q Do you make money on any type of hedges?

18 A I believe in the Woodford Project, the
19 physical hedges, we are earning a return on that
20 investment.

21 Q And do you know how much you earned on that
22 investment in 2015 and 2016?

23 A No, I do not know specifically.

24 Q Do you know -- were the -- was the 31 million
25 that you're seeking for 2015 or the 57.6 million that

1 **you're seeking for 2016 -- were those audited -- were**
2 **those numbers audited by any third party?**

3 A That, I don't know specifically. I'm
4 trying -- I'm trying to -- forgive me. I'm trying to
5 recall the timing of the Commission's fuel audit or
6 staff's fuel audit. I do not know that. As part of the
7 normal process, they would be audited through our normal
8 fuel audit each year.

9 **Q And why do you say that?**

10 A I would assume that, as part of the Fuel
11 Clause, that those types transactions would be audited.
12 Our hedges are also audited through the hedging audit.
13 So, I would assume that some combination of the hedging
14 audit and Fuel Clause audit would audit the numbers that
15 we are projecting or have incurred on an actual basis.

16 **Q Would it be of concern if that was not the**
17 **case to you?**

18 A I don't think that's going to be the case. I
19 would assume that they would be audited.

20 **Q Okay. But as an expert in hedging and things**
21 **like that, I'm just asking you, if they weren't audited,**
22 **wouldn't -- it seems to me it would be a concern if you**
23 **were looking at these numbers, the Commission or someone**
24 **else, and you had unaudited numbers. Is that not a**
25 **concern to you?**

1 A Yes, it would be a concern. I believe all our
2 numbers are audited.

3 Q And when you say they are audited, are they
4 audited by third parties like, you know, Price
5 Waterhouse if they are still --

6 A We go through annual staff audits each year on
7 hedging and on fuel.

8 Q Do you back those up with third-party audits?

9 A Not to my knowledge, no.

10 Q So, the audits you were referring to were
11 audits performed by PSC staff?

12 A Correct.

13 Q Did they perform audits this year?

14 A Yes.

15 Q But you just don't know whether they audited
16 Woodford numbers or not.

17 A I don't recall, no.

18 Q Okay. As a general proposition, would you
19 agree that it's appropriate to consider someone's view
20 of the world if that someone has a financial interest in
21 a particular matter?

22 A Can you explain that a little bit more?

23 Q It's just a very broad question. If
24 someone -- if I'm testifying in a case and I'm in a
25 dispute with a client over a big fee, it would be in my

1 financial interest to win that case and get money. And
2 maybe somebody would go, well, maybe your testimony is
3 colored a little bit by your financial interests.
4 That's kind of the point I'm trying to make.

5 You would agree, as a general proposition,
6 that financial interest is a legitimate thing that
7 potentially could -- should be considered when making
8 decisions, correct?

9 A Okay. Correct.

10 MR. MOYLE: Okay. Thank you. That's all I
11 have.

12 CHAIRMAN GRAHAM: Staff?

13 MS. BROWNLESS: No, sir. Thank you.

14 CHAIRMAN GRAHAM: Commissioners?

15 Redirect.

16 MR. BUTLER: Thank you.

17 REDIRECT EXAMINATION

18 BY MR. BUTLER:

19 Q Mr. Yupp, real briefly, you were asked by
20 Mr. Saylor about whether there is an ample supply of
21 shale gas presently. Do you remember that?

22 A Yes.

23 Q Was there an ample supply of shale gas in
24 2014?

25 A Yes, there was.

1 **Q What was the recorded annual average**
2 **volatility of natural gas prices in 2014?**

3 A I believe it was 96.7.

4 **Q How did that compare to years before and after**
5 **that?**

6 A The volatility in 2014 was, I think, as we've
7 stated before, the third highest level of volatility in
8 the years 19 of data that we looked at.

9 MR. SAYLER: Objection. Outside the scope of
10 my cross. And this is also his rebuttal exhibit.

11 MR. BUTLER: But it's answering a question --
12 following up on a question you asked, Mr. Sayler,
13 about there being an ample supply of shale gas,
14 which was clearly directed at the topic of whether,
15 therefore, there isn't much volatility left.
16 Simply following up on your line of questioning.

17 MR. SAYLER: I'll defer to the Chairman on his
18 ruling for this.

19 CHAIRMAN GRAHAM: I'll allow it.

20 MR. BUTLER: That's all the redirect I have.

21 CHAIRMAN GRAHAM: Okay. Exhibits.

22 MR. BUTLER: FPL would move the admission of
23 Exhibits 2 through 6.

24 CHAIRMAN GRAHAM: Any objections? We'll enter
25 Exhibits 2 through 6.

1 (Exhibit Nos. 2 through 6 admitted into the
2 record.)

3 CHAIRMAN GRAHAM: Any other exhibits?

4 MR. SAYLER: Office of Public Counsel would
5 move Exhibits 115, 116, 117 into the record.

6 CHAIRMAN GRAHAM: Let's just move 115 right
7 now. And let's move the other ones when we get
8 around to it.

9 MR. SAYLER: All right. Certainly.

10 (Exhibit Nos. 115 and 117 marked for
11 identification.)

12 (Exhibit No. 115 admitted into the record.)

13 MR. MOYLE: 119 FIPUG would move in.

14 MR. BUTLER: FPL would to object to
15 Exhibit 119. We don't think that an adequate
16 foundation was established for it. It's, as
17 Mr. Moyle, acknowledged about hedging on mining.
18 It's simply what looks like the first page of a
19 series of nested tutorials on hedging from Ernst &
20 Young. I don't think he established that Mr. Yupp
21 validated its authenticity or otherwise established
22 that it's an appropriate exhibit to admit.

23 MR. MOYLE: So, he's -- he's an expert, and
24 Ernst & Young is a well-known name in the
25 consulting business and accounting business. And I

1 think it's fair to ask an expert questions about --
2 about another expert's view of hedging.

3 He acknowledged that hedging principles were
4 the same whether it related to metals or minerals
5 or energy. So, I think it should come in and give
6 it the weight it's due.

7 CHAIRMAN GRAHAM: You actually agreed to that?
8 (Laughter.)

9 I'm going to allow it. We spent quite a bit
10 of time on it. And if somebody wants to go back
11 and reference it -- so, I'll allow it.

12 (Exhibit No. 119 marked for identification and
13 admitted into the record.)

14 CHAIRMAN GRAHAM: All right. Mr. Yupp, thank
15 you very much for your testimony.

16 MR. BUTLER: May he be excused?

17 CHAIRMAN GRAHAM: Yes -- well, for now.

18 MR. BUTLER: Thank you. For now, yes.

19 CHAIRMAN GRAHAM: We're going to take probably
20 about a ten- -- let's call it 15- -- we'll come
21 back at five after. That's a 12-minute break by
22 the clock at back of the room, five after four.

23 (Brief recess from 3:54 p.m. to 4:06 p.m.)

24 CHAIRMAN GRAHAM: Okay. One witness down,
25 couple dozen to go.

1 MR. BERNIER: Thank you, Mr. Chairman. DEF
2 will call Joseph McCallister.

3 DIRECT EXAMINATION

4 BY MR. BERNIER:

5 Q Sir, would you please state your name -- will
6 you please introduce yourself to the Commission and
7 provide your business address.

8 A My name is Joseph McCallister. My business
9 address is 526 South Church Street, Charlotte, North
10 Carolina 28202.

11 Q Thank you. And have you already been sworn in
12 as a witness?

13 A I have.

14 Q Thanks. Who do you work for and what is your
15 position?

16 A I work for Duke Energy Progress. And my
17 position is the director of natural gas, fuel oil, and
18 emissions.

19 Q Thank you. And have you filed on April 7th
20 and August 31st direct testimonies and exhibits in this
21 docket?

22 A I have.

23 Q Do you have copies of your prefiled direct
24 testimonies with you today?

25 A I do.

1 Q And do you have any changes to make to your
2 prefiled direct testimonies?

3 A I do not.

4 Q So, if I was to ask you the same questions
5 that appear in your direct testimonies today, would your
6 answers be the same?

7 A They would.

8 Q Thank you.

9 Are you familiar with the notice of areas of
10 witness expertise DEF filed in this docket on
11 October 14th, 2015?

12 A Yes, I am.

13 Q And can you please affirm for the Commission
14 that you are qualified through your knowledge, skill,
15 experience, training, and education to offer expert
16 opinions on the following topics; whether the continued
17 financial hedging of natural gas is in the customer's
18 best interest?

19 A Yes.

20 Q Changes that may be appropriate to the
21 Commission's current policy regarding the financial
22 hedging of natural gas?

23 A Yes.

24 Q The prudence of DEF's actions to mitigate the
25 volatility of natural gas, residual oil, fuel oil, and

1 **purchased power?**

2 A Yes.

3 **Q And the reasonableness of DEF's 2016 risk**
4 **management plan.**

5 A Yes.

6 MR. BERNIER: Mr. Chairman, we understand that
7 FIPUG and possibly some other parties would like to
8 voir dire Mr. McCallister. So, we would tender him
9 for that purpose at this time.

10 CHAIRMAN GRAHAM: Thank you very much.

11 Mr. Moyle?

12 MR. MOYLE: I have a few questions on voir
13 dire.

14 VOIR DIRE EXAMINATION

15 BY MR. MOYLE:

16 **Q Good afternoon.**

17 A Good afternoon.

18 **Q I want to ask you -- your counsel read the**
19 **areas in which you have expertise. You agree with**
20 **those; is that right?**

21 A Yes, sir.

22 **Q Okay. And so, I want to understand a little**
23 **bit -- you have a degree in accounting from Ohio State,**
24 **right?**

25 A Yes, sir.

1 **Q Are you a CPA?**

2 A I am not. I passed the CPA, but I am not a
3 CPA.

4 **Q Okay. And then when you were director of**
5 **portfolio and market risk assessment, I assume that you**
6 **were involved in natural gas markets at that point in**
7 **time; is that right?**

8 A You want to know what my responsibilities
9 were?

10 **Q Yeah, that's a better way to ask it.**

11 A Yeah, in that position, I helped develop
12 guidelines around various corporate risks, including
13 natural gas, fuel procurement, power, et cetera. I
14 reviewed deal proposals for risk components, made sure
15 that deal structures were properly vetted out, risks
16 were properly vetted out, reviewed by management, those
17 sort of things.

18 **Q And then you were giving advice to senior**
19 **management with respect to managing risk and allocating**
20 **risk?**

21 A I would say it was a collaborative process.
22 Certainly, I worked directly for the chief risk officer.
23 And certainly, through the collaborative process of him
24 and I talking -- us talking to senior management, us
25 talking to other companies, certainly, we provided some

1 input on the process.

2 Q Okay. And you've been in the room since this
3 hearing started, correct?

4 A Yes, sir.

5 Q All right. If I -- if I had a document like
6 the one I used with the previous witness, 119 that's now
7 in evidence or another document that's typically used
8 with experts, I assume you would be comfortable
9 responding and answering questions related to that?

10 A Yes, sir.

11 Q And you're familiar with hedges, you've placed
12 hedges and understand pros and cons of hedges?

13 A In my past work experience, I have, yes.

14 Q And when you say the past work experience, is
15 there anything beyond what we've talked about that would
16 be applicable?

17 A Prior to my work experience in my testimony?

18 Q Yes, sir.

19 A Yes. There probably are some specific
20 positions where now I'm more of an overseer in
21 developing plans. Before, I actually executed plans and
22 procured gas and executed hedging programs.

23 Q Tell me about that and who you did that for,
24 if you would, please.

25 A Sure. I worked for Amerint (phonetic)

1 Corporation prior to Progress Energy and Duke. In
2 those -- at that company, I had a variety of commercial
3 positions. One position, I was the director of the gas,
4 storage and transportation book, which was a book that
5 we managed all of our storage for our customers as well
6 as transportation. And via that, we had gas hedging
7 strategies around managing the risk, buying the gas,
8 protecting value in the portfolio.

9 Another position, I was the director of the
10 Texas commercial assets, which was a set of merchant
11 plants and load obligations where we bought fuel,
12 managed risk through power. And then I was the director
13 of the mid-Atlantic assets and PJM where I also managed
14 a fleet of assets as well as fuel procurement hedging
15 strategies, et cetera, optimization.

16 **Q And you would agree, in those positions you**
17 **described, the objectives were more than just to reduce**
18 **the fuel volatility as objectives, correct?**

19 A Well --

20 **Q I mean, I don't want to go through -- I**
21 **just -- I --**

22 A Once again, the -- working in an unregulated
23 merchant environment in terms of trying to add value to
24 assets, create optimization margins, profit and loss --
25 certainly different businesses have different

1 objectives.

2 Q Right.

3 A So, if that -- I don't know if that answered
4 your question, but the certainly, the business
5 strategies and objectives of certain businesses can be
6 different than others.

7 Q Right. And I'm just trying to have you affirm
8 that, in those roles, it was more than reducing risk
9 volatility that the FPL witness just talked to with
10 respect to want to try to shave peaks and valleys from
11 prices. I mean, did Amerint ever try to lock in profits
12 and you go, let's take a little money of the table here
13 and we'll hedge against this?

14 A Well, it was about managing risk. That was
15 one, always managing risk. And two, certainly, locking
16 in margins was part of the objective.

17 Q All right. So, then, the answer to the
18 underlying question is: Yes, my previous
19 responsibilities relating to hedging involved more
20 components than just shaving peaks and valleys as you do
21 in a regulatory context.

22 A Well, I wouldn't say we're shaving peaks and
23 valleys. We're following a structured program to, over
24 time, lock in prices to reduce price -- you know, to
25 reduce price volatility. I'm not --

1 **Q Okay.**

2 A -- sure. I mean, maybe we're saying the same
3 thing, but peaks and valleys -- I'm not sure if I would
4 categorize it that way.

5 **Q Okay. And you're comfortable talking about**
6 **the program that you follow?**

7 A Yes, I am.

8 MR. MOYLE: Okay. I have no objection to this
9 witness being tendered as an expert in the manners
10 for Duke that they've set forth in their filing.

11 CHAIRMAN GRAHAM: Mr. Wright?

12 MR. WRIGHT: Nor do we. Thank you,
13 Mr. Chairman.

14 CHAIRMAN GRAHAM: Okay.

15 MR. BERNIER: Thank you. Then we would ask
16 that Mr. McCallister's prefiled direct testimonies
17 entered into the record as though read.

18 CHAIRMAN GRAHAM: We'll enter
19 Mr. McCallister's prefiled direct testimony into
20 the record as though read.

21 MR. BERNIER: Thank you.

22 (Prefiled direct testimony inserted into the
23 record as though read.)

24

25

DUKE ENERGY FLORIDA
DOCKET No. 150001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December 2014

DIRECT TESTIMONY OF
JOSEPH MCCALLISTER

April 7, 2015

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

2 A. My name is Joseph McCallister. My business address is 526 South Church
3 Street, Charlotte, North Carolina 28202.

4
5 **Q. By whom are you employed and in what capacity?**

6 A. I work for Duke Energy Progress an affiliate company of Duke Energy
7 Florida, Inc. ("DEF", "Petitioner" or "Company") as the Director, Natural Gas
8 Oil and Emissions. I am responsible for the natural gas, fuel oil and
9 emission group activities in the Fuel Procurement Section of the Systems
10 Optimization Department for the Duke Energy regulated generation fleet.
11 This group is responsible for the natural gas and fuel oil acquisition and
12 transportation needed to support the generation needs for Duke Energy
13 Indiana, Duke Energy Kentucky, Duke Energy Carolinas, Duke Energy
14 Progress and Duke Energy Florida. In addition, this group is responsible for
15 the emission allowance ("EA") position management for Duke Energy

1 Indiana, Duke Energy Kentucky, Duke Energy Carolinas, Duke Energy
2 Progress and Duke Energy Florida.

3

4 **Q. Have you testified before the Commission in previous fuel clause**
5 **proceedings?**

6

A. Yes.

7

8

Q. Please briefly describe your work experience.

9

A. I received a Bachelor Degree in Business Administration majoring in
10 Accounting from The Ohio State University. While at Duke Energy, from
11 2003 until mid 2006, I served as the Director of Portfolio and Market Risk
12 Assessment through mid 2006, the Director of Gas and Oil Trading from mid
13 2006 through early 2009, the Director of Gas, Oil and Power from early 2009
14 to June 2012, and Director of Gas, Oil and Emissions from July 2012 to the
15 present. Prior to my tenure with Duke Energy, I spent approximately 10
16 years in management positions at energy trading and asset generation
17 based companies. Summary experiences over this time period include gas
18 and power scheduling, real time power trading and scheduling management,
19 commercial management of gas storage and transportation agreements,
20 commercial management of fuel and power optimization activities for
21 unregulated generation assets and wholesale contract agreements, and
22 corporate planning.

23

24

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

2 A. The purpose of my testimony is to provide the August-December 2014
3 hedging true-up data and summarize the results of DEF's hedging activity
4 for calendar year 2014 as required by Commission Order No. PSC-02-1484-
5 FOF-EI and further clarified by Commission Order No. PSC-08-0667-PPA-EI
6 issued in October 2008.

7
8 **Q. Have you prepared exhibits to your testimony?**

9 A. Yes. I have attached Exhibit No.____ (JM-1T) which is the Hedging Activity
10 Report for the period August – December 2014.

11
12 **Q. What are the objectives of DEF's hedging strategy?**

13 A. The objectives of DEF's hedging strategy are to reduce the impacts of fuel
14 price volatility over time and provide a greater degree of fuel price certainty
15 to DEF's customers.

16
17 **Q. What hedging activities did DEF undertake for 2014 and what were the
18 results?**

19 A. DEF utilized approved physical and financial agreements to hedge a portion
20 of its projected natural gas and light oil fuel burns, and a portion of the
21 estimated fuel surcharge exposure embedded in DEF's coal river barge and
22 railroad transportation agreements. These activities resulted in a net hedge
23 cost for 2014 of \$28.5 million.

24

1 **Q. Did DEF execute its hedging activities consistent with its approved**
2 **Risk Management Plan?**

3 A. Yes. The hedging activities executed by DEF were consistent with those
4 outlined in its 2014 Risk Management Plan ("Plan"). In the Plan filed in
5 August 2013, DEF's hedging target ranges were to hedge ■■■■ to ■■■■ of its
6 forecasted natural gas burns for calendar year 2014 with a target to hedge
7 approximately ■■■■ of the forecasted natural gas burns over time. With
8 respect to light oil forecasted to be burned at DEF's owned generation
9 facilities for calendar year 2014, DEF targeted to hedge a minimum of ■■■■.
10 With respect to the coal river and rail transportation estimated fuel surcharge
11 exposures for calendar year 2014, DEF targeted to hedge between ■■■■ to
12 ■■■■ of the estimated fuel surcharge exposures based on contractual
13 provisions in the coal rail and river barge transportation agreements. As of
14 December 2013, based on DEF's forecasted burns and estimated coal rail
15 and river barge transportation agreements, DEF's hedge percentages for
16 calendar year 2014 were approximately ■■■■, ■■■■, ■■■■ and ■■■■
17 respectively for forecasted natural gas, and light oil burns, and estimated
18 fuel surcharge exposures in the coal river and rail transportation
19 agreements. As such, DEF was within its targeted hedge ranges for
20 calendar year 2014 going into the year.

21
22 For calendar year 2014, DEF's hedge percentages based on actual burns
23 for natural gas and light oil, were approximately ■■■■ and ■■■■, respectively.
24 DEF hedge percentages for the estimated fuel surcharges embedded in

1 DEF's coal river and rail transportation in 2014 were [REDACTED] and [REDACTED],
2 respectively. The actual hedge percentages for natural gas, light oil, and the
3 estimated fuel surcharges for coal river and rail transportation were within
4 the ranges outlined in the Plan. As outlined in the Plan, actual hedge
5 percentages for any monthly period, rolling twelve month time period or
6 calendar annual period can come in higher or lower than the hedge
7 percentage targets as a result of actual versus forecasted fuel burns.

8
9 **Q. Did DEF hedging activities meet the stated objective and are the**
10 **activities consistent with the Commission's Orders for hedging?**

11 A. Yes. DEF's hedging activity met the stated objective of DEF's hedging
12 strategy to reduce the impacts of fuel price volatility over time and provide a
13 greater degree of fuel price certainty to DEF's customers. The hedging
14 activities are consistent with Commission Orders No. PSC-02-1484-FOF-EI
15 and No. PSC-08-0667-PPA-EI. DEF's hedging activities are conducted in
16 an environment of strong internal controls and executed in a structured
17 manner. DEF's hedging activities do not attempt to outguess the market
18 and may or may not result in net fuel cost savings, but have achieved the
19 objectives.

20
21 **Q. Does this conclude your testimony?**

22 A. Yes.

**IN RE: PETITION ON BEHALF OF DUKE ENERGY FLORIDA, LLC.
FOR**

**FUEL AND CAPACITY COST RECOVERY
FINAL TRUE-UP FOR THE PERIOD
JANUARY THROUGH JULY 2015**

FPSC DOCKET NO. 150001-EI

**DIRECT TESTIMONY OF
Joseph McCallister**

August 31, 2015

I. INTRODUCTION AND QUALIFICATIONS

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

2 **A.** My name is Joseph McCallister. My business address is 526 South Church Street,
3 Charlotte, North Carolina 28202.

4
5 **Q. By whom are you employed and in what capacity?**

6 **A.** I work for Duke Energy Progress, LLC, an affiliate company of Duke Energy
7 Florida, LLC (“DEF”, “Petitioner” or “Company”), as the Director, Natural Gas Oil
8 and Emissions. I am responsible for the natural gas, fuel oil and emission group
9 activities in the Fuel Procurement Section of the Systems Optimization Department
10 for the Duke Energy regulated generation fleet. This group is responsible for the
11 natural gas and fuel oil acquisition and transportation needed to support the
12 generation needs for Duke Energy Indiana, Duke Energy Kentucky, Duke Energy
13 Carolinas, Duke Energy Progress and Duke Energy Florida. In addition, this group
14 is responsible for the emission allowance (“EA”) position management for Duke

1 Energy Indiana, Duke Energy Kentucky, Duke Energy Carolinas, Duke Energy
2 Progress and Duke Energy Florida.

3

4 **Q. Please describe your education background and professional experience.**

5 **A.** I received a Bachelor Degree in Business Administration majoring in Accounting
6 from The Ohio State University. While at Duke Energy, from 2003 until mid-
7 2006, I served as the Director of Portfolio and Market Risk Assessment through
8 mid-2006, the Director of Gas and Oil Trading from mid-2006 through early 2009,
9 the Director of Gas, Oil and Power from early 2009 to June 2012, and Director of
10 Gas, Oil and Emissions from July 2012 to the present. Prior to my tenure with
11 Duke Energy, I spent approximately 10 years in management positions at energy
12 trading and asset generation based companies. Summary experiences over this
13 time period include gas and power scheduling, real time power trading and
14 scheduling management, commercial management of gas storage and transportation
15 agreements, commercial management of fuel and power optimization activities for
16 unregulated generation assets and wholesale contract agreements, and corporate
17 planning.

18

19 **Q. Have your duties and responsibilities remained the same since you last
20 testified in this proceeding?**

21 **A.** Yes.

22

23

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

2 **A.** The purpose of this testimony is to outline DEF's hedging objectives and activities
3 for 2016, and outline DEF's hedging results for January 2015 through July 2015.
4

5 **Q. Are you sponsoring any exhibits to your testimony?**

6 **A.** Yes, I am sponsoring the follow exhibits:

- 7 • Exhibit No. ____ (JM-1P) – 2016 Risk Management Plan (*filed August 4,*
8 *2015*); and
9 • Exhibit No. ____ (JM-2P) – Hedging Results for January 2015 through July
10 *2015 (filed August 14, 2015).*
11

12 **Q. What are the objectives of DEF's hedging activities?**

13 **A.** The objectives of DEF's hedging strategy are to reduce the impacts of fuel price
14 risk and volatility over time, and provide a greater degree of fuel price certainty to
15 DEF's customers.

16 **REDACTED**

17 **Q. Describe DEF's hedging activities that the Company will execute for 2016.**

18 **A.** DEF will hedge a percentage of its projected natural gas burns and a portion of the
19 estimated fuel surcharge exposure embedded in DEF's coal river barge
20 transportation agreements. DEF will utilize approved physical and financial
21 agreements. With respect to hedging activity, natural gas represents the largest
22 component of DEF's overall hedging activity given it is the largest fuel cost
23 component. DEF's target hedging percentage ranges are between ■ to ■ percent

REDACTED

1 of its current 2016 forecasted calendar annual burns. DEF anticipates to target to
2 hedge a minimum of ■ percent of its forecasted natural gas burn projections for
3 2016 as outlined in the Risk Management Plan. With respect to coal river barge
4 transportation estimated fuel surcharges, during the balance of 2015 and for
5 calendar year 2016, DEF will target to hedge between ■ and ■ percent of any
6 estimated fuel surcharge exposure in the coal river barge transportation agreements.
7 Hedging in the ranges and targets provided allows DEF to monitor actual fuel
8 burns, updated fuel forecasts, and make any adjustments as needed throughout the
9 year.

10
11 DEF's hedging activities do not involve price speculation or trying to "out-guess"
12 the market. All hedging transactions are executed at the prevailing market price that
13 exists at the time the hedging transactions are executed. The results of hedging
14 activities may or may not result in net fuel cost savings due to differences between
15 the monthly settlement prices and the actual hedge price of the transactions that
16 were executed over time. The volumes hedged over time are based on periodic
17 updated fuel forecasts and the actual hedge percentages for any month, rolling
18 period, or calendar annual period may come in higher or lower than the target
19 minimum hedge percentages and hedging ranges because of actual fuel burns versus
20 forecasted fuel burns. DEF's approach to executing fixed price transactions over
21 time is a reasonable and prudent approach to reduce price risk and provide greater
22 cost certainty for DEF's customers.

REDACTED

1 As of August 11, 2015, DEF has hedged approximately ■ percent of its forecasted
2 natural gas burns for 2016. DEF will continue to execute additional hedges for
3 2016 throughout the remainder of 2015 and during 2016 consistent with its on-
4 going strategy.

5
6 **Q. What were the results of DEF's hedging activities for January through July**
7 **2015?**

8 **A.** The Company's natural gas hedging activities for the period of January 2015
9 through July 2015 have resulted in hedges being above the closing natural gas
10 settlement prices by approximately \$122.5 million. The Company's overall fuel oil
11 hedging activities have resulted in hedges being above the closing settlement prices
12 for the period of January 2015 through July 2015 by approximately \$0.3 million.
13 These overall hedge results were driven primarily by a decrease in natural gas prices
14 after the execution of DEF's 2015 hedging transactions. The hedging activities
15 were executed consistent with DEF's Risk Management Plan. DEF's hedging
16 activity did achieve the objective to reduce the impacts of fuel price risk and
17 volatility, and providing greater fuel price certainty for DEF's customers.

18
19 **Q. Does this conclude your testimony?**

20 **A.** Yes.

1 BY MR. BERNIER:

2 Q Mr. McCallister, do you have a summary of your
3 prefiled direct testimony?

4 A I do.

5 Q Would you read it at this time, please?

6 A Yes.

7 Good afternoon, Commissioners. My name is Joe
8 McCallister. In my direct testimony, I provide DEF's
9 August through December 2014 hedging true-up data,
10 summarize the results for DEF's hedging activity through
11 July 2015, and also outline DEF's proposed hedging
12 objectives and activities for 2016.

13 I'm available to ask any questions that the
14 parties or the Commission may have regarding my
15 testimony.

16 Thank you.

17 MR. BERNIER: I would tender Mr. McCallister
18 for cross examination.

19 CHAIRMAN GRAHAM: Thank you.

20 OPC?

21 MR. SAYLER: Thank you, Mr. Chairman.

22 We do have one exhibit to pass out.

23 CHAIRMAN GRAHAM: 116?

24 MR. SAYLER: In addition to 116, it would be
25 Exhibit 120, a new one. It would be excerpt from

1 2011 hedging workshop transcript.

2 And I would also like to note at the very back
3 of it I have the Henry Hub Natural Gas Spot Price.

4 CHAIRMAN GRAHAM: I didn't hear what you said.

5 MR. SAYLER: Oh, after the transcript -- it's
6 not just the transcript. It's also the Henry Hub
7 Natural Gas Spot Price.

8 CHAIRMAN GRAHAM: Okay. So, we'll give this
9 one Exhibit 120.

10 (Exhibits Nos. 116 and 120 marked for
11 identification.)

12 MR. SAYLER: Thank you.

13 CROSS EXAMINATION

14 BY MR. SAYLER:

15 Q I'll be asking you questions about this
16 exhibit a little later.

17 A Okay.

18 Q So, I'll just start on with my cross.

19 Mr. McCallister, are you familiar with a
20 statement that, over time, gains and losses in hedging
21 are expected to offset one another?

22 A Yes, sir.

23 Q And from 2002 to 2014, your company incurred
24 approximately 1.2 billion in natural gas hedging costs
25 or losses.

1 A That is correct.

2 Q And for 2015, your company is projected to
3 incur about 196 million in natural gas hedging costs or
4 losses?

5 A Yeah, I will update that. The number is --
6 and this is subject to change. But based on late
7 September, that number is about 215 million,
8 approximately, subject to check.

9 Q 21- -- 215 or --

10 A 215.

11 Q Okay. Thank you.

12 And you would agree that hedging costs or
13 losses are solely borne by the customers, correct?

14 A I would.

15 Q And you would agree that natural gas market
16 conditions are different in 2015 than they were in 2002.

17 A I would.

18 Q And you would agree that advances in
19 recovering gas from shale formations has increased the
20 supply availability of natural gas since 2002.

21 A It has.

22 Q And you would agree that the addition of shale
23 gas into the market has also decreased the price of gas
24 since 2002?

25 A It has.

1 **Q** All right. And also -- same question: The
2 price of natural gas is lower now than it was in the
3 mid-2000s.

4 A It is.

5 **Q** All right. Would you agree that fuel-price
6 volatility is decreasing since 2002?

7 A I think I would say that the overall average
8 has decreased. So, yes, I would agree that prices in
9 general are less volatile.

10 **Q** Okay.

11 A On average.

12 **Q** On average.

13 A Over a long period.

14 **Q** Over a long period. Okay.

15 And you would agree that your company does not
16 estimate or forecast fuel-price volatility for the price
17 of natural gas?

18 A We do not. We use the market to determine
19 what the volatility is.

20 **Q** All right. And when it comes to hedging, does
21 the company profit or make a return on any natural gas
22 financial hedging transactions entered into between the
23 company and its counter-parties?

24 A We do not.

25 **Q** And does the company have any affiliate

1 relationships with its financial hedging counter-
2 parties?

3 A We do not.

4 Q Does the company have in place corporate
5 policies and procedures for its employees, including
6 officers, to prevent conflicts of interest as it relates
7 to these hedging transactions?

8 A Yes, we do.

9 Q It's my understanding that your company hedges
10 to reduce fuel-price volatility; is that correct?

11 A Right.

12 Q And pursuant to its risk management plan, it
13 must hedge a certain volume of gas regardless of whether
14 prices are going up or down; is that correct?

15 A Well, I would categorize it as we -- we have a
16 structured approach over time where we're targeting a
17 certain percentage. We certainly don't do it all at
18 once. We're doing it over time. We're doing it right
19 now in the low-price environment, but yeah, we do
20 ultimately target a certain percentage over time.

21 Q Okay. But your hedging risk management plan
22 does require that you do a minimum amount of hedging.

23 A We target in our risk management plan a
24 certain minimum within that plan.

25 Q And if you have a hedging target range, but it

1 would make sense to hedge below that target range, would
2 your company hedge below that target range?

3 A I think if we thought that we needed to do
4 that, we would update our plan and file that in our
5 plan.

6 Q Okay. But when it comes to hedging, at a
7 minimum -- excuse me. But for the most part, when it
8 comes to hedging, you're not looking at market
9 conditions when you enter into those hedging contracts;
10 is that right?

11 A Well, I -- certainly, we're monitoring market
12 conditions. I think, just like I said, prices are
13 really low right now, but we're still executing hedges
14 in this low-price environment. So, certainly, we're --
15 we monitor market conditions. We're not speculating on
16 market conditions. That's not part of the program.

17 But by virtue of layering in prices over time,
18 you're -- you are executing hedges in different market
19 environments over time as they change. So, I wouldn't
20 categorize us as not monitoring market conditions, but
21 certainly, we're not speculating on prices either, if
22 that's your question.

23 Q Okay. If you will, take a look at this
24 exhibit. It's an excerpt from a transcript from the
25 2011 hedging workshop. And it's my understanding that

1 you were the spokesperson -- spokesman for the utilities
2 in that workshop; is that correct?

3 A Well, I would say I was the appointed
4 presenter. It was a joint effort by all the utilities.

5 Q So, you drew the short straw?

6 A Possibly, yes.

7 (Laughter.)

8 Q Okay. If you will, look at Page 22, Lines 4
9 to 15. Do you recall stating to the Commission that the
10 spot price of gas and forward prices of gas have
11 declined?

12 A Yes.

13 Q And that production growth from shale has
14 changed domestic natural gas supply picture?

15 A Yes.

16 Q Okay. And -- excuse me. And specifically,
17 the yellow highlighted area, you stated that, based on
18 price trends, it appears there is limited room for
19 further price decline, such as, greater volatility of
20 risk in the future could be price increases. Do you see
21 that?

22 A Yes, I do.

23 Q And would you agree that prices today are
24 currently below what they were in 2011?

25 A They are.

1 MR. SAYLER: Thank you very much,
2 Mr. McCallister. No further questions.

3 CHAIRMAN GRAHAM: Mr. Wright?

4 MR. WRIGHT: No questions, Mr. Chairman.
5 Thank you.

6 CHAIRMAN GRAHAM: Mr. Brew?

7 MR. BREW: Thank you, Your Honor.

8 CROSS EXAMINATION

9 BY MR. BREW:

10 Q Good afternoon, Mr. McCallister.

11 A Good afternoon.

12 Q You are director of natural gas, oil, and
13 emissions at Duke Energy, right?

14 A Yes, I am.

15 Q And that responsibility applies to all of the
16 regulated companies?

17 A Yeah, it applies to the five regulated
18 utilities; Kentucky, Indiana, Duke Energy Carolina, Duke
19 Energy Progress, and Duke Energy Florida.

20 Q Do you engage in hedging for all of the
21 regulated utilities?

22 A We do not.

23 Q Okay. Do you engage -- which state
24 jurisdictional utilities do you engage in hedging in
25 besides Florida?

1 A North Carolina and South Carolina.

2 **Q Okay. So, not in Indiana.**

3 A Yeah, we do not engage in hedging in Indiana
4 for natural gas or Kentucky simply because of the fuel
5 mix. It's predominantly coal.

6 **Q In both states.**

7 A In both states.

8 **Q Okay. You mentioned a minute ago in response
9 to Mr. Sayler that you do -- you market monitor
10 conditions -- market conditions; is that right?**

11 A We do.

12 **Q In fact, that's a basic part of your job; is
13 that right?**

14 A It's part of our job to -- to monitor, you
15 know, different aspects of the market. We certainly
16 aren't predicting the market, but we certainly get
17 information on market trends over time.

18 **Q And so, you would look at both spot and
19 forward-looking prices for both gas and oil?**

20 A I wouldn't say so much on oil. Our fleet is
21 not really focused on oil. I would say more for natural
22 gas, sure.

23 **Q So, for natural gas, are you looking at trends
24 in those markets?**

25 A Yes, we have been monitoring trends in those

1 markets.

2 **Q Okay. And are you looking at factors that may**
3 **affect those trends?**

4 A Yes, we are.

5 **Q And would that be just for Florida?**

6 A Well, I think it's -- it's overall trends,
7 supply-and-demand driven trends. You know, each state
8 has their own unique needs. You know, Florida is a
9 state that doesn't have any natural gas production. So,
10 you may look at different ways to manage that versus,
11 you know, a particular region that maybe is right on top
12 of a bunch of production.

13 So, it does depend on the jurisdiction. It
14 depends on the circumstance for each company and each
15 state they are operating in.

16 **Q Okay. Well, let's stick to -- so, you look at**
17 **both -- you look at Florida circumstances, national**
18 **circumstances; is that right?**

19 A Well, I mean, I think my point is, certainly,
20 from a supply-demand perspective, we're looking at the
21 overall trends; we're not necessarily picking one state
22 over or another. We're looking at the general trends in
23 the market via supply or demand.

24 **Q Supply or demand, rig counts?**

25 A Sure, monitor rig counts.

1 Q Economic activity?

2 A To some degree.

3 Q Okay. So, in your testimony on Page 4, at the
4 bottom of the page, you mention that Duke establishes
5 target hedging percentages. And you state a range
6 there. Do you see that?

7 A On Page --

8 Q I'm sorry. It's your August 31st testimony.

9 A -- 3 -- I'm sorry?

10 Q Your August 31st testimony.

11 A Okay. One second (examining document). Yes,
12 sir.

13 Q Okay. So, you see the statement that DEF's
14 target hedging percentage ranges -- ranges are
15 between -- and it gives two numbers?

16 A Yes.

17 Q Okay. And the percent is based on your
18 current projection of the fuel burned for the next year,
19 in this case, 2016, right?

20 A Yes.

21 Q Okay. How do you develop those targets?

22 A Well, a couple -- a couple of ways; one --
23 well, there is really one single way. We look at our
24 burn profile. And for -- for our fleet, the vast
25 majority of our burns, we call them, are mostly base

1 load.

2 We have a lot of combined cycles and a couple
3 of steam plants that run pretty -- the combined cycles
4 are running at a high-capacity factor, and the steam
5 plants are pretty predictable.

6 So, we look at the overall usage of our fleet,
7 looking at that burn profile. And then we back into an
8 approximate percentage that we feel is necessary to
9 hedge given our fuel mix.

10 **Q So, if you're burning more, is your percentage**
11 **higher?**

12 A No. In fact, I -- you know, that's a good
13 point. The -- you know, our absolute gas usage
14 continues to go up, but we haven't changed the
15 percentage. Actually, the percentage has been pretty
16 constant the last few years.

17 **Q Okay.**

18 A But our average usage, in terms of our fuel
19 mix percentage as well as the absolute amount of gas we
20 burn, actually has been increasing.

21 **Q So, do you change the percentage targets based**
22 **on your perception of projected increased volatility in**
23 **the markets?**

24 A We do not.

25 **Q Okay. Based on changes in rig counts?**

1 A We do not.

2 **Q Okay. Based on whether or not Congress will**
3 **pass a law authorizing exports of natural gas or crude**
4 **oil?**

5 A No, we do not.

6 **Q Do you track, for example, activity at FERC**
7 **with respect to licensing L and G export facilities?**

8 A Yes.

9 **Q Okay. So, you're aware there are ten pending**
10 **applications to build such facilities, pending --**

11 A Yeah, I mean, I know there has been -- there
12 is six -- or five or six under active construction and a
13 number in pending application.

14 **Q Do you change your hedging practices or target**
15 **based on FERC's actions with respect to approving or**
16 **denying any of those applications?**

17 A No. I think we look at the whole picture,
18 right. We look at the supply and certainly the demand
19 factors that could potentially increase usage. And
20 there's a number of them. There's not just L and G.
21 There's industrial demand. There's increase in Mexican
22 exports.

23 There's a number of factors that could
24 potentially -- you know, you have increase in supply.
25 You could have increase in demand, but we're not

1 speculating on what is going to happen. We're not
2 certain of that. But in terms of just monitoring
3 general trends, certainly we -- we do monitor those
4 trends.

5 **Q And that's -- that's really what I want to get**
6 **to. I understand you do monitor those trends, but what**
7 **do you actually take into account in developing your**
8 **targets?**

9 A Well, I think the primary thing we're taking
10 into account is reducing price volatility. But the
11 other thing to note is that as gas prices have come
12 down, our usage has gone up.

13 So, I think we certainly look at our fuel mix
14 when we're evaluating what our percentage targets should
15 be. But we're not speculating on where we think a
16 specific project is going to get approved or not or
17 those sort of things. That is very speculative. We're
18 not speculating on price. We're simply trying to, over
19 time, layer in transactions to mitigate price risk.

20 **Q Well, let's talk about a hedge for a minute**
21 **and when Duke enters into a physical hedge, and let's**
22 **confine ourselves to natural gas for a moment. You will**
23 **be entering into a contract for a specific quantity of**
24 **gas?**

25 A We will be entering into a notional quantity

1 of -- if you're talking physical?

2 **Q Yes, physical.**

3 A Yeah, we would be agreeing to a physical -- a
4 certain volume of physical gas.

5 **Q At a specified price?**

6 A Yes, sir.

7 **Q At a specified delivery time?**

8 A A delivery time and location.

9 **Q And a location. And is the delivery of that
10 quantity to that location guaranteed?**

11 A No, it is not. It could --

12 **Q So --**

13 A You -- it happens the vast majority of the
14 times, but certainly, you could have events that curtail
15 that gas. You could have forced major events. You
16 could have events that the gas may not show up. Doesn't
17 happen very often, but certainly that -- it doesn't
18 absolute guarantee 100 percent delivery.

19 **Q So, if there was a deliverability problem, the
20 hedge wouldn't cover you.**

21 A Correct.

22 **Q Okay. Not to belabor the point because you
23 talked about it with Mr. Sayler, but whether you hedge
24 or not, a hundred percent of the fuel-price risk is with
25 Duke's consumers, right?**

1 A Yes, sir.

2 Q Okay. And your hedging practices through your
3 risk management plan aim to smooth that risk out through
4 your hedges, but it at no time shifts the risk away from
5 consumers, right?

6 A That's correct.

7 Q Okay. Would -- do you know if Duke's approach
8 to hedging would change if the utility had some skin in
9 the game, say a 90/10 share of gains and losses?

10 A I -- I would think it would change. I
11 don't -- I'm not sure that, you know, the hedging
12 program as it stands is -- was enacted to benefit and
13 protect the customer from fuel-price movements.

14 I'm not certain that we could support a plan
15 that where they are sharing because that would be
16 speculative and that's not -- not something I'm sure we
17 would be able to support.

18 Q My question is whether you thought you might
19 hedge differently if you had -- if the company had some
20 risk at stake?

21 A Well, I think fundamentally -- let me be
22 clear. Maybe I didn't answer it very well. But the
23 company does believe in managing fuel-price risks for
24 our customers. We think it's an important risk
25 management tool, particularly in light of our fuel mix.

1 I think the FPL witness said their fuel mix was 72
2 percent. Ours next year -- our fuel mix generation is
3 73 percent natural gas.

4 So, as a fundamental practice, do we believe
5 that managing risk for the customer is important and
6 managing price risk for our fuel is important? Yes.
7 But if there is no policy, I'm not certain we could
8 support ongoing hedging, you know, as a means for
9 managing risk if the customers and the Commission
10 determine that that wasn't what was needed.

11 **Q I'm trying to follow the last piece of your**
12 **answer there.**

13 You talked about your prior experience
14 managing fuel books for Amerint and others, right?

15 A Yes, sir.

16 **Q Where your business criteria were different in**
17 **terms of optimizing either margins or the asset value,**
18 **right?**

19 A Well, we were generally looking at the
20 difference between the fuel costs and the power markets
21 and trying to lock in a margin between the fuel and the
22 unregulated power generator into the power markets.

23 So, it was just a different -- a different
24 business model. We weren't necessarily trying to pick
25 the best -- you know, buying the best fuel price or the

1 market. We were just trying to hedge risk in the sense
2 of doing that at market and managing that margin for the
3 company.

4 Q Okay. So --

5 A So, it's a different business model.

6 Q Okay. My question, then, is: If the -- if
7 Duke had a stake in the outcome of your hedging, would
8 the hedging practices be different? And I thought you
9 said earlier, probably, but could you clarify that?

10 A Yeah, I think -- if there is no policy, I
11 think the company's position would be we would stop
12 hedging.

13 MR. BREW: Okay. That's all I have. Thank
14 you.

15 CHAIRMAN GRAHAM: Mr. Moyle?

16 MR. MOYLE: Thank you.

17 CROSS EXAMINATION

18 BY MR. MOYLE:

19 Q Following up, I assume that you say -- in
20 response to Mr. Brew's question, you would stop hedging
21 because you don't want to assume that risk of whether
22 this Commission or another commission would say, yeah,
23 that was good or not good. It's a recovery issue,
24 correct?

25 A Well, in part, but I think also we're -- you

1 know, we're following policy. So, to the extent that
2 policy changed, then we would have to -- if one of the
3 criteria was maybe there will be some skin in the game,
4 we would have to evaluate that and provide feedback. I
5 just think it's -- you know, in general, without a
6 policy, we would probably not hedge.

7 MR. MOYLE: Okay. I have a document that I'm
8 going to share with you. Maybe I could get a
9 little help on another exhibit.

10 CHAIRMAN GRAHAM: We'll give this
11 Exhibit No. 121.

12 (Exhibit No. 121 marked for identification.)

13 MR. MOYLE: Ready to move forward, Mr. Chair?

14 CHAIRMAN GRAHAM: Yes.

15 BY MR. MOYLE:

16 Q Okay. Sir, I've given you a document that's
17 been marked as 121. It's entitled "Gas hedging: Should
18 utilities do less and do it differently." And it's
19 authored by a Ken Costello, principal, National
20 Regulatory Research Institute. And it says NARUC
21 subcommittee on gas, Los Angeles, California, 2017
22 [sic], 2011.

23 I know you haven't had a lot of time to look
24 at this, but are you familiar with NARUC?

25 A I'm familiar with the name.

1 Q Do you know what the organization does or --

2 A Not in detail, no.

3 Q Yeah. Do you know anything about the National
4 Regulatory Research Institute?

5 A Not -- not a -- no.

6 Q Okay. So, let me -- let me test your
7 knowledge vis-a-vis some of the things in this document,
8 if I -- if I could. On Page 3, there is a definition of
9 hedging. It says, quote: Hedging is an economic
10 activity in which a party tries to protect against
11 potential adverse price fluctuation -- fluctuations in a
12 market. Would you agree with that definition?

13 A Yeah, I would generally agree that definition.

14 Q But in a regulatory context, doesn't -- my
15 thinking was adverse requires you to factor in a little
16 bit of judgment about which way the market might go. Do
17 you disagree with that?

18 A Well, once again, I think, you know, there is
19 a lot of opinion on what the word "adverse" could mean
20 to one person or another. When we look at our risk
21 profile, right, which is our fuel mix, and we look at
22 the bucket that's tied to natural gas, which is over
23 70 percent, it doesn't necessarily, in terms of the
24 context I think you were going, Mr. Moyle -- adverse --
25 I'm not sure what that means. But certainly we look at

1 that in the terms and the context of the risk we're
2 trying to protect.

3 I -- I couldn't tell you what they mean by,
4 you know, adverse, whether that means a dollar movement,
5 whether that means a \$1.50 movement, if that means a
6 \$2.00 movement -- I'm not sure what that means.

7 **Q Yeah, and when you say those movements, you're**
8 **not talking about a -- you're not talking about a, you**
9 **know, \$1.50 in sum, you're talking about a \$1.50 move in**
10 **natural gas.**

11 A Yeah, I'm saying if gas -- you know, we -- I
12 think people have been talking -- so, for example, if
13 natural gas is \$2.50 for 2016 right now and it goes to
14 \$4.00, well, that's a -- I don't know the percentage.
15 It's a high-percentage move. Is that considered adverse
16 by some standards? It would be to me. Now, is that
17 adverse to other people? I -- I don't know.

18 **Q Okay. So, the objective for the current**
19 **hedging program that this Commission oversees -- and I**
20 **guess you have responsibility for overseeing for Duke;**
21 **is that right?**

22 A Yes, sir.

23 **Q -- is to reduce fuel volatility; is that**
24 **right? Natural gas --**

25 A It's to reduce price volatility, correct.

1 **Q Price volatility?**

2 And I asked the witness from FP&L, how that
3 was measured. And I would ask you the same question.
4 Do y'all have -- maybe the better question is: What
5 metric do you use to gauge whether you're successful in
6 achieving that objective?

7 A Well, I think the metric we use is the
8 percentages we're trying to hedge. We do not have a
9 specific metric that I think you were referring to when
10 you were discussing it with Mr. Yupp.

11 **Q And that was different -- that was different,**
12 **presumably, when you -- than when you were working with**
13 **Reliant. That you, I think, had said that was to lock**
14 **in some margins, right? I mean --**

15 A Well, I just used one example of a particular
16 strategy to give some context to --

17 **Q Sure.**

18 A -- hedging fuel and selling power. It's
19 different.

20 **Q Right. But in this context, no one is trying**
21 **to make money locking a profit, right?**

22 A Correct.

23 **Q Right. And so, you say the percentage that's**
24 **tied to the hedge is a metric that you use. When is the**
25 **last time you changed that percentage in your plans?**

1 A We lowered the percentage -- we used to hedge
2 a little bit higher. I think if you go back, some of
3 our previous hedges were probably 10 percent higher.
4 There were some years we had 70 percent. So, we tried
5 to lower it consciously. I wouldn't say we lowered it
6 significantly. We certainly lowered it roughly 10
7 percent.

8 **Q And when was that?**

9 A I believe it was in -- this is subject to
10 check -- '09-'10 time frame. And we used to -- just to
11 put it into context, Mr. Moyle, we used to have a
12 general range, 50 to 80 percent. And sometimes you
13 would end up higher on that range; sometimes you would
14 end up lower. But I think we went to kind of the
15 lower -- lower end of that range in trying to set a
16 minimum target sometime in that '09-2010 time frame,
17 2011, but that's purely from memory.

18 **Q And where are you today?**

19 A For --

20 **Q Percentage. Can you --**

21 A For this year?

22 **Q Yeah.**

23 A We're slightly over that target.

24 **Q Over that 50 to 80 target?**

25 A Lowering the percentage to the 60 percent.

1 **Q All right. So, these aren't confidential**
2 **numbers, right?**

3 A Well, it's -- that's what's in the past. So,
4 no, it's not confidential.

5 **Q Okay. So, if I asked you what your current**
6 **percent is, can you answer that without writing it down**
7 **on a piece of paper?**

8 A For what time period?

9 **Q For your plan going forward for '16.**

10 A Yeah, it's in my -- it's in our plan. So, the
11 number is there.

12 **Q What is it?**

13 A It's the same number --

14 **Q 60?**

15 A Yes.

16 **Q Okay. Why did you lower it?**

17 A I just think we had variability in burns. And
18 we wanted to target something on the lower end of the
19 range.

20 **Q Was there concerns about potentially having**
21 **losses for customers that --**

22 A No, I think it was acknowledgment that we
23 wanted to set a minimum target versus having such a wide
24 range because it wasn't a specific...

25 **Q So, right now is it specific, 60 percent?**

1 A It's targeted there, yes.

2 **Q So, then, my impression and doing some**
3 **discovery on this -- and we talked -- we've been talking**
4 **for about this for a little bit -- was that kind of the**
5 **hedging program that you all do, it's -- and no**
6 **disrespect, but it's a little bit, to use an analogy --**
7 **it's a little bit like following a cookbook recipe; that**
8 **you kind of go in, you know, regularly and make certain**
9 **purchases. Would you disagree with that**
10 **characterization?**

11 A Well, I mean, we're following a structured
12 strategy to reduce price risk. We're not speculating on
13 price.

14 **Q Right.**

15 A Now, we are doing it over time. We're not
16 doing it all at once. We continue to hedge in the
17 current environment. So, it's not -- I'm not sure I
18 would categorize it as cookbook. I would say it's a
19 structured approach to managing the risk that the policy
20 is intended to manage.

21 **Q If I had a week of training, could I do it?**

22 A I don't -- I don't know.

23 (Laughter.)

24 **Q Strike that. I'll withdraw that.**

25 But it's all set forth in the plan, right?

1 I'm just -- in terms of -- in terms of how you do it,
2 it's all laid out in the plan.

3 A Our approach is a consistent structured
4 approach to managing risk, you know, consistent with
5 policy. And like I said, I wouldn't characterize it as
6 a cookbook. I would say it's done over time. We phase
7 into dollar cost averaging. We're not speculating on
8 price.

9 Q Okay. Are there subjective judgments that
10 have to be made?

11 A No, there is not a lot of subjectivity to it.
12 It's a program. And it's there for consistency and
13 structure.

14 Q Is there any other metric that's used to
15 measure whether you're successful in achieving the
16 objective of reducing volatility other than the
17 percentage used?

18 A There is not.

19 Q Let me flip you to Page 7 of the document that
20 I provided you. The last bullet point says, quote: A
21 major motivator for utilities to hedge is protection
22 against volatile gas price for which regulators might
23 hold them accountable, (i.e., to minimize regulatory
24 risk).

25 Do you agree with that statement?

1 A Let me read the whole page (examining
2 document). Well, I think in the context of here in
3 Florida, the hedging plans -- the hedging programs are
4 there for the consumer.

5 And certainly, as we discussed before, without
6 a specific policy with specific parameters, certainly, I
7 would agree that if this is -- if I'm understanding this
8 right, that utilities want -- want some idea that
9 whether if they hedge or not, it's going to be approved
10 as a -- as a prudent risk-management practice.

11 So, I -- if I'm reading this right, I would
12 agree with that.

13 **Q Since the hedging program has been in place,**
14 **1.2 billion, is that right, of losses for Duke**
15 **customers --**

16 A Correct.

17 **Q -- on natural gas hedging?**

18 A Correct.

19 **Q Okay. And how would you characterize**
20 **1.2 billion in terms of a dollar amount?**

21 A I --

22 **Q So, significant? Insignificant? Moderate?**

23 A Well, certainly, it's a -- it's a big number.
24 We're not going to sit here and say it's not a big
25 number. But I do think some context is needed. So, if

1 you look at our total fuel bill -- or fuel cost from
2 2002 to, say, 2016, it's roughly 13 billion. If you
3 look at our -- I'm sorry. That's gas. If you look at
4 our total fuel, it's roughly 22 to 23 billion. And if
5 you look at total fuel and purchased power, it's
6 somewhere in the range of 27 to 28 billion.

7 So, certainly, \$1.2 million -- billion is a --
8 is a large number. But put in context, I think -- we do
9 think a little context is needed around that number.

10 **Q Yeah, and so I'm not -- I don't want to get**
11 **into aggregating numbers on purchased power and things.**
12 **But it's a little under 10 percent, essentially, of your**
13 **total your natural gas fuel spend from 2002 to 2014,**
14 **right?**

15 **A** If you say so, yes.

16 **Q I mean, I just did the math.**

17 **A** Yeah, I mean, roughly, yeah, of the total
18 fuel.

19 **Q Yeah.**

20 **A** Maybe a little less. But yes, that's about
21 right.

22 **Q You had answered a couple of questions with**
23 **Mr. Brew about your hedging activities in other states.**
24 **Do you hedge coal in Kentucky?**

25 **A** Well, I think we don't categorize it as

1 hedging. Certainly, we buy fixed-price coal through
2 physical contracts to lock in the price.

3 **Q Okay. So, what we're doing here -- we have a**
4 **hedging plan, right? Do they have a plan -- do you have**
5 **a plan like that that you give to the Kentucky**
6 **Commission and say here is what we want to do with**
7 **respect to coal?**

8 A We do have a procurement plan that, I
9 believe -- I'm not the witness, but I do believe we file
10 a procurement plan that shows our procurement activities
11 with the Kentucky Commission.

12 **Q Does it have a hedging -- well, maybe --**

13 A I'm not certain if it has specific targets or
14 not. In terms of percentages -- is that where you're
15 going?

16 **Q Right.**

17 A Yeah, I'm not intimately familiar with it.

18 **Q So, here is Florida, we've got 60 percent.**
19 **You don't know what Kentucky has with respect to fuel**
20 **procurement.**

21 A Well, I can tell you that a hundred percent
22 of our -- of our fuel, from what the folks who do
23 this -- a hundred percent of our coal was procured under
24 fixed-price contracts for at least 2014 when I asked
25 about it. So, a hundred percent was bought under fixed-

1 price agreements.

2 Q And when you -- under your current plan here
3 in Florida, do you -- when you're executing the hedging
4 plan, is it through fixed-price contracts?

5 A Our financial hedging program?

6 Q Yes.

7 A Yes, we primarily use swaps for that.

8 Q Same question about Indiana. Do you have a
9 hedging plan in Indiana for coal?

10 A Hedging -- we have a procurement plan where we
11 procure coal over -- over time in Indiana, from what I
12 understand.

13 Q So, that would be no, but you have a
14 procurement plan?

15 A That would be yes, we have a procurement that
16 we execute over time for Indiana.

17 Q But you don't consider it a hedging plan.

18 A Well, we don't categorize it as hedging under
19 the context of what we're discussing here, which is
20 under an official umbrella of a hedging program.

21 Q Let me flip you to Page 10 of the handout of
22 the exhibit. It's entitled "Reasons for revisiting
23 hedging." And you would agree that a lot of
24 commissions -- I say a lot, but some commissions like
25 this Commission are revisiting hedging as things change,

1 correct?

2 A I would agree.

3 Q And that's a good -- a good process, a good
4 decision to do that. You would agree with that, right?

5 A I agree.

6 Q Yeah. So, the last bullet point says: The
7 tough question is when do large losses or prolonged
8 losses reflect events outside the control of utility and
9 when do they reflect unreasonable or flawed utility
10 actions that make some of those losses avoidable.

11 Being -- have you looked at any of the losses
12 and made any judgments as to whether they -- they could
13 have been avoidable?

14 A Well, in hindsight --

15 Q Yeah.

16 A I mean, sure, in hindsight, we know what the
17 costs are. That's why we're -- one of the things we're
18 discussing here today. But no, I don't think our
19 program has been flawed. I don't think the policy,
20 historically, from the time it started and the reason it
21 started is flawed.

22 I think it's -- certainly, from time to time,
23 you need to revisit it. From time to time, you need to
24 have input. But you know, I'm not sure that I would
25 take this flawed utility actions and apply it to

1 what's -- what has happened in our hedging program.

2 **Q Okay. And you were given an exhibit that's**
3 **been marked as 120 by Office of Public Counsel. I think**
4 **that's your testimony, right?**

5 A This (indicating)?

6 **Q Yes.**

7 A It was --

8 **Q The excerpt from --**

9 A -- the excerpt?

10 **Q Yeah.**

11 A It was a couple of pages from the presentation
12 that the -- that the IOUs did jointly. And they took
13 some -- some comments from that. But no, it wasn't from
14 testimony. I think it was from a -- it was a transcript
15 from a presentation that was done --

16 **Q So, help me --**

17 A -- during the 2000 --

18 **Q Help me understand that because I looked -- I**
19 **look -- usually, on these transcripts, it will say**
20 **Witness Somebody. And anyway, it goes on to Page 23.**

21 And Commissioner Chair Graham -- this was in 2011 --
22 says, "Any questions on the presentation." And it looks
23 like you're the witness, Mr. McCallister, Yes, when
24 Commissioner Balbis asked you a question; is that right?

25 A Well, I think if you -- I haven't seen this in

1 a long time. I think they asked all of the participants
2 questions. So, what's here is just my piece. I think
3 they went down the line and asked each of us questions
4 as joint presenters or joint participants.

5 I think, you know, the question was: Have we
6 plotted volatility. And you know, I think we plotted
7 volatility compared to the market. But I do think they
8 sequentially went down the line and asked each of us
9 questions.

10 **Q Okay. And at the time, it looks like on**
11 **Page 21, Line 22, that gas was in the \$5 to \$6 range; is**
12 **that right?**

13 A I think gas was in the \$5-ish range from
14 memory. I don't -- subject to check, which was also in
15 line with what the IA forecasting for that time period
16 as well. It wasn't materially different in my review of
17 that as well. So, it was in line with, you know,
18 different forecasts at the time.

19 **Q And now it's less than half of that.**

20 A True, it is. It's less than half of that
21 today.

22 **Q And --**

23 A That certainly wasn't forecasted in 2011.

24 **Q Right. And I guess, OPC highlighted this**
25 **Page 22. It said: Based on the price trends, it**

1 appears there is limited room for further price
2 declines. That turned out not to be correct.

3 A Well, that wasn't a -- a statement of
4 definitive conclusion, right. You know, that was the
5 general view at the time of the marketplace.

6 Q Are you aware that a similar argument is being
7 made today to this Commission in this case that some
8 utility witnesses are saying, well, it's at 2.50. I
9 don't -- you know, there is not much room for it to go
10 down any more?

11 A Well --

12 Q Are you aware -- just if you could answer, are
13 you aware of that --

14 A Could you repeat the question?

15 Q That some utility witnesses are suggesting
16 that -- a similar argument, that gas currently, at its
17 current pricing, is not likely to go down much further
18 in the future?

19 A Well, if you're comparing \$5.00 and \$50 --

20 MR. BERNIER: I'm sorry. Mr. Moyle, are you
21 asking him if he's aware that other witnesses are
22 saying, not that he is saying that? Is that what
23 you're asking him?

24 MR. MOYLE: Yes.

25 MR. BERNIER: Okay. Thank you.

1 THE WITNESS: Am I -- well, I'm not sure what
2 specifically -- if they are saying that prices
3 won't go down. I think my understanding is they
4 are saying the statistical risk or the distribution
5 of potential price -- prices, the downside is less
6 than the upside, just based on, you know, prices.

7 Now, what does that mean. I -- you know, once
8 again, I don't think anyone is going to try to
9 predict prices. I think that's, you know, the
10 point that I would make.

11 BY MR. MOYLE:

12 Q You can do it, but you can't do it correctly
13 very often, correct?

14 A Do what?

15 Q Predict prices.

16 A We don't try to predict prices.

17 Q Right. Do you think this Commission should --
18 well, let me ask you this: Does Duke give credence to
19 the customer's view that hedging should be discontinued?
20 I mean, that's a clear message that the customers are
21 trying to send. Do you understand that?

22 A I do. And I think, in my rebuttal, I make it
23 very clear that the customer's interests are very
24 important in this process and that customer feedback is
25 very important for the Commission to consider. So, the

1 answer is yes.

2 Q And it wouldn't affect Duke in any way, even
3 if the customers got it wrong and, you know, the prices
4 went up and all of a sudden, said, oh, we -- we would
5 have saved money. You understand that we're saying,
6 that's okay, we'll live with that?

7 A I've heard from that from you today. And I
8 think, once again, it's a policy, you know, that the
9 Commission has to take all the input from this
10 proceeding as part of their review and decision-making.
11 We're following policy today. And if that policy
12 changes as a result of that, we'll follow the new policy
13 or the -- the change in policy.

14 Q The last point on this slide I wanted to flip
15 you to is the last page of it. It's Page 14. And I
16 think we've already agreed that regulators should review
17 the utilities' hedging activities. I wanted to focus
18 you on the quote that says: When these activities
19 consistently produce large losses, they should raise a
20 red flag.

21 The overall cumulative losses for hedging for
22 all the utilities is north of \$5 billion. You would
23 agree that's large, correct?

24 A I would.

25 MR. MOYLE: And I have some more questions for

1 you, but I think -- I think we'll save them for
2 rebuttal.

3 THE WITNESS: Okay.

4 MR. MOYLE: So, thank you for your time.

5 CHAIRMAN GRAHAM: Staff?

6 MS. BROWNLESS: No, sir. Thank you.

7 CHAIRMAN GRAHAM: Commissioners?

8 Commissioner Brisé.

9 COMMISSIONER BRISÉ: Thank you, Mr. Chairman.

10 Just a couple of quick questions. So, the
11 hedging program, I think as everyone has stated, is
12 there to benefit consumers and, ultimately, benefit
13 consumers from the perspective of having a
14 levelized cost in terms of gas is concerned.

15 If hedging was not in place, what type of
16 spikes would the individual consumer see during the
17 time period that we're -- we're talking about?

18 THE WITNESS: During when the annualized fuel
19 factor --

20 COMMISSIONER BRISÉ: Sure.

21 THE WITNESS: -- was in place? Well, I
22 think -- I think the point has been made by some of
23 the intervenors that the fuel factor itself will
24 minimize the month-to-month changes or the day-to-
25 day changes in any fuel-price spikes. Certainly,

1 there is the mid-course correction process. Those
2 sorts of things. So, day to day, the consumer
3 wouldn't feel the impact of the fuel-price changes.

4 I think the flip side to that is if there not
5 a hedging program, or without a hedging program,
6 there wouldn't be any protection locking down
7 prices so that when you did true it up, regardless
8 of whether it was big or small, particularly if it
9 was big, there wouldn't be any protection for that.

10 But certainly the levelized fuel factor
11 provides -- you know, we're not disagreeing that it
12 provides the mechanism to recover forecasted costs,
13 but it doesn't provide the mechanism to reduce risk
14 for the consumer.

15 But the consumer would not see day-to-day
16 changes in price in their bill. It would come
17 through a true-up or a mid-course, those sort of
18 things.

19 COMMISSIONER BRISÉ: So, generically, over
20 time, the consumer would not see any appreciable
21 change?

22 THE WITNESS: Well, it's -- it depends on what
23 prices do. I think, once again, that's the --
24 that's the big question. I think we're -- you
25 know, we can't predict prices. I think, certainly,

1 when you look at Florida, it's a little bit
2 different with respect to its reliance on natural
3 gas.

4 So, the appreciable change is certainly going
5 to be only a function of what -- in general -- I'm
6 not doing all the math, but a big piece of that is
7 what gas prices do, natural gas prices do.

8 COMMISSIONER BRISÉ: All right. I'll leave it
9 there. Thank you.

10 CHAIRMAN GRAHAM: Commissioner Brown?

11 COMMISSIONER BROWN: Thank you.

12 Mr. Moyle handed out this exhibit that was
13 produced -- I guess it was a bunch of slides
14 produced from NRRI presented to you. And he asked
15 you a series of questions, one of which he -- I
16 believe it was: Do you believe that
17 Commissioners -- commissions should revisit hedging
18 and you responded yes; is that right?

19 THE WITNESS: Yes, I did.

20 COMMISSIONER BROWN: All right. And you said
21 that Duke operates or facilitates hedging programs
22 in all but two states that you represent?

23 THE WITNESS: Correct -- well, kind of natural
24 gas hedging programs.

25 COMMISSIONER BROWN: Okay. Have any of those

1 Commission revisited their hedging programs?

2 THE WITNESS: We have been executing a hedging
3 program in North and South Carolina now for several
4 years. And certainly, they have questions. But
5 they have -- we haven't fundamentally changed those
6 programs in the last year or two. We did tweak
7 them a few years ago. We scaled them back a little
8 bit.

9 But the other factor in the Carolinas, I
10 think -- once again, I pointed this out with the
11 other Commissioner's questions, that in the
12 Carolinas, the fuel mix is different, too, for us.

13 So, in Florida, it's, you know, 70 to
14 75 percent. In the Carolinas, it's -- it's grown
15 to where it's approximately 30 percent, but it used
16 to be a smaller -- so, we're adding a lot of gas
17 generation in the Carolinas.

18 So, our interest as a company, as that has
19 happened -- certainly, hedging has been part of
20 that discussion with the regulators, but it's been
21 kind of an active dialogue.

22 The one difference in the Carolinas as well,
23 there is not a -- and this is my understanding.
24 I'm not a lawyer. But by statute, they are not
25 allowed to preapprove a hedging program. So, the

1 regular dialogue is certainly part of the regular
2 fuel proceeding process, those sorts of things.

3 But it a little bit different for two reasons;
4 one, the statute doesn't allow it; and secondly,
5 the fuel mix is a little bit different for us in
6 the Carolinas.

7 COMMISSIONER BROWN: Thank you for that
8 explanation.

9 You said that Duke scaled back in Carolina.
10 Can you --

11 THE WITNESS: Well, we have a -- we scaled
12 back just a little bit. And we actually started
13 hedging -- one entity, we scaled back, and then we
14 started hedging the other entity. There are two
15 entities. And scaled back from a longer-term
16 program to a rolling two-year program for the
17 Carolinas.

18 COMMISSIONER BROWN: Why?

19 THE WITNESS: Just because it was -- as part
20 of the dialogue we're having here, it was part of
21 the dialogue with the staff and others about the
22 adjustments we wanted to make.

23 But our fuel mix was a little bit different as
24 well and -- but in saying that, we've also
25 presented to those same staff members this year

1 that maybe we should extend it, given our continued
2 growth in gas and given the current market for gas.

3 So, in saying that, it is a -- it's not a put-
4 your-head-in-the-sand sort of approach. We
5 recognize that over time there are adjustments that
6 need to be made.

7 But although, we have the current program we
8 have, it's still ongoing. We certainly are looking
9 at potentially extending that. But nothing set in
10 stone, just conversation at this point.

11 COMMISSIONER BROWN: Thank you.

12 CHAIRMAN GRAHAM: Redirect?

13 MR. BERNIER: None, sir.

14 CHAIRMAN GRAHAM: Okay. Exhibits.

15 MR. BERNIER: We would move Exhibits 25, 26,
16 and 27 into the record.

17 CHAIRMAN GRAHAM: We'll move 25, 26, and 27
18 into the record.

19 (Exhibit Nos. 25, 26, and 27 admitted into the
20 record.)

21 CHAIRMAN GRAHAM: Any other exhibits?

22 MR. SAYLER: OPC would move Exhibit 116 and
23 120 into the record.

24 CHAIRMAN GRAHAM: If no objections, we'll move
25 116 and 120 into the record.

1 (Exhibit Nos. 116 and 120 admitted into the
2 record.)

3 MR. MOYLE: FIPUG would move 121 into the
4 record, please.

5 CHAIRMAN GRAHAM: We'll move 121 into the
6 record.

7 (Exhibit No. 121 admitted into the record.)

8 CHAIRMAN GRAHAM: Mr. McCallister, thank you
9 very much.

10 THE WITNESS: Thank you.

11 CHAIRMAN GRAHAM: Next one, Young.

12 Yes.

13 COMMISSIONER EDGAR: While we're changing
14 witnesses, I would just like to state for the
15 record, I recognize that opening statements are not
16 testimony. However, in -- I believe in Mr. Moyle's
17 opening statement, he said that he was going to
18 hand out a NARUC document.

19 I would point out if, indeed, you're referring
20 to what was now marked as Exhibit 120, that this is
21 a copy of a Powerpoint presentation that was made
22 by a separate organization to a subcommittee.

23 So, to state that it's a NARUC document I
24 don't think is completely accurate.

25 MR. MOYLE: Yeah, I -- I may have misconstrued

1 it, but --

2 COMMISSIONER EDGAR: Just for clarity.

3 MR. MOYLE: Okay. Thanks.

4 CHAIRMAN GRAHAM: Ms. Keating.

5 MS. KEATING: Thank you, Mr. Chairman. I did
6 it again. Thank you, Mr. Chairman. FPUC calls
7 Mr. Curtis Young.

8 DIRECT EXAMINATION

9 BY MS. KEATING:

10 Q **Good afternoon, Mr. Young.**

11 A Good afternoon.

12 Q **Would you please introduce yourself to the
13 Commission and provide your business address.**

14 A My name is Curtis Young. I'm for regulatory
15 analyst from Florida Public Utilities. My business
16 address is 1641 Worthington Road, West Palm Beach,
17 Florida.

18 Q **And you were in the room earlier, were you
19 not, and sworn?**

20 A Yes.

21 Q **If you would, then, please tell us who your
22 employer is what position you hold with the company.**

23 A Yes, Florida Public Utilities Company, and I'm
24 a senior regulatory analyst.

25 Q **And did you prefile testimony and exhibits in**

1 **this proceeding on March 5th, August 4th, and**
2 **September 1st?**

3 A Yes, I did.

4 **Q And do you have any corrections to the**
5 **testimony that you filed?**

6 A I do have one correction for the testimony.

7 **Q If you would, please describe that.**

8 A Yes. I have one typographical error to
9 correct on Page 7, Line 17 of my projection testimony
10 filed on September 1st, 2015. It currently reads: The
11 company believes that this project "with" be. This
12 should read the company believes the project "will" be.

13 MS. KEATING: And Mr. Chairman, we've prepared
14 a corrected page as well as an errata sheet that is
15 being provided to the court reporter.

16 CHAIRMAN GRAHAM: Okay.

17 BY MS. KEATING:

18 **Q Mr. Young, with that correction, if I asked**
19 **you all the same questions that are in your prefiled**
20 **testimony, would your answers be the same?**

21 A Yes.

22 MS. KEATING: Okay. With that, Mr. Chairman,
23 we ask that Mr. Young's prefiled testimony be
24 inserted into the record as though read.

25 CHAIRMAN GRAHAM: We will insert Mr. Young's

1 prefiled direct testimony with the errata sheets
2 into the record as though read.

3 MS. KEATING: Thank you, Mr. Chairman.

4 (Prefiled direct testimony inserted into the
5 record as though read.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 150001-EI
Fuel and Purchased Power Cost Recovery Clause
Direct Testimony of
Curtis Young
(2014 Final True-Up)
on behalf of
Florida Public Utilities Company

1 Q. Please state your name and business address.

2 A. Curtis Young, 1641 Worthington Road, Suite 220, West Palm Beach, FL 33409.

3 Q. By whom are you employed?

4 A. I am employed by Florida Public Utilities Company.

5 Q. Could you give a brief description of your background and business experience?

6 A. I am the Senior Regulatory Analyst for Florida Public Utilities Company. I have
7 performed various accounting and analytical functions including regulatory
8 filings, revenue reporting, account analysis, recovery rate reconciliations and
9 earnings surveillance. I'm also involved in
10 the preparation of special reports and schedules used internally by division
11 managers for decision making projects. Additionally, I coordinate the gathering
12 of data for the FPSC audits.

13 Q. What is the purpose of your testimony?

14 A. The purpose of my testimony is to present the calculation of the final remaining
15 true-up amounts for the period January 2014 through December 2014.

16 Q. Have you included any exhibits to support your testimony?

17 A. Yes. Exhibit _____ (CDY-1) consists of Schedules A, C1 for the
18 Consolidated Electric Division and E1-B for the Northwest Florida (Marianna)

1 and Northeast Florida (Fernandina Beach) divisions. These schedules were
2 prepared from the records of the company.

3 Q. What has FPUC calculated as the final remaining true-up amounts for the period
4 January 2014 through December 2014?

5 A. For the Consolidated Electric Division the final remaining true-up amount is an
6 under recovery of \$1,548,212.

7 Q. How was this amount calculated?

8 A. It is the difference between the actual end of period true-up amount for the
9 January through December 2014 period and the total true-up amount to be
10 collected or refunded during the January - December 2015 period.

11 Q. What was the actual end of period true-up amount for January - December 2014?

12 A. For the Consolidated Electric Division it was \$4,455,777 under recovery.

13 Q. What was the Commission-approved amount to be collected or refunded during
14 the January – December 2015 period?

15 A. A consolidated under-recovery of \$2,907,565.

16 Q. Did you include costs in addition to the costs specific to purchased fuel in the
17 calculations of your true-up amounts?

18 A. Yes, included with our fuel and purchased power costs are charges for contracted
19 consultants and legal services that are directly fuel-related and appropriate for
20 recovery in the fuel clause.

21 Q. What are the costs outside of purchased fuel costs, included in the 2014 final true
22 up for Florida Public Utilities Company?

1 A. The Company engaged Christensen, Gunster, and Sterling, as well as, King &
2 Spalding, LLP (“King and Spalding”), Cantrell Advisors LLC (“Cantrell”) and
3 Stinson Leonard Street LLP. (“Stinson”) (all jointly referred to herein as
4 “Consultants”), for services directly related to fuel costs and fuel cost reductions
5 for the feasibility research and analysis, of projects/programs designed to protect
6 current fuel savings, and to possibly further reduce fuel costs to its customers.
7 Specifically, Christensen performed a due diligence review and cost analysis of
8 the pricing under the current Purchased Power Agreements between FPUC and
9 its power suppliers (JEA, Rayonier and Rock-Tenn) with the goal of determining
10 whether there are further avenues for achieving cost reductions. Additionally,
11 the Consultants provided services related to reviewing and evaluating the impact
12 of the new Generation facility at Rayonier on our purchased power costs, and the
13 impact from the loss of the purchased power from Rayonier. They assisted in the
14 negotiations and review of the Purchased power agreements between the
15 Company and Eight Flags Energy LLC (“Eight Flags”) as well as the existing
16 renewable energy power purchase contract with Rayonier Performance Fibers.
17 The Consultants also assisted the Company in its evaluation of alternatives on
18 what could be done to protect fuel savings to our customers, and what can be
19 done to further reduce the Company’s costs for purchased power.
20 The specified legal and consulting costs were not included in expenses during the
21 last FPUC consolidated electric rate base proceeding and are not being recovered
22 through base rates. While the purchased power agreements for the cogeneration
23 project have been completed and approved by the Commission, the Company’s

1 efforts in this regard are ongoing until the plant is fully operational. The
2 Company fully expects that the cogeneration project, with which these legal and
3 consulting expenses are associated, will come to fruition and ultimately produce
4 significant fuel savings for customers, as well as increased reliability. As such,
5 consistent with past Commission precedent, these fuel-related costs should be
6 deemed appropriately recoverable through the fuel clause.

7
8 Q. Please explain how these costs were determined to be recoverable under the fuel
9 clause?

10 A. Consistent with the Commission's policy, similar expenses paid in Docket No.
11 120001-EI, Docket No. 130001-EI and Docket No. 140001-EI, for legal and
12 consulting costs associated with the review and analysis of the Company's
13 existing purchase power agreements, as well as the development and negotiations
14 for a renewable energy contract with Rayonier were determined to be appropriate
15 and recoverable through the fuel clause.

16 Q. Which legal and consulting costs were allowed to be recovered through the fuel
17 clause in 2012, 2013 and 2014?

18 A. In all three years, the Commission allowed FPUC to recover costs associated
19 with work done by Christensen and Associates ("Christensen"), Gunster,
20 Yoakley, & Stewart, ("Gunster") and Sterling Energy Services ("Sterling")
21 pertaining to the Rayonier renewable energy contract, which was finalized in
22 early 2012. This contract provides for the purchase of power at rates lower than
23 the existing Purchase Power Agreement between FPUC and JEA. FPUC realized

1 reduced fuel rates for the Northeast Division customers as a result of this
2 agreement, beginning in mid-2012. The costs associated with the development,
3 negotiation, and regulatory approvals for the contract had not been included in
4 expenses during the last FPUC consolidated electric base rate proceeding; thus,
5 they were not being recovered through the Company's base rates. Consequently,
6 the Commission allowed these costs to be passed through the fuel clause. The
7 Company believes that the costs addressed herein are similar to those allowed to
8 be recovered through the fuel clause in 2012, 2013 and 2014. As such, the
9 Company believes the costs addressed herein are likewise appropriate for
10 recovery through the fuel clause.

11

12 Q. Does this conclude your direct testimony?

13 A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 150001-EI
Fuel and Purchased Power Cost Recovery Clause
Direct Testimony of
Curtis Young
(Actual/Estimated)
on behalf of
Florida Public Utilities Company

1 Q. Please state your name and business address.

2 A. Curtis D. Young, 1641 Worthington Road Suite 220, West Palm Beach, FL 33409.

3

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

5 A. I am employed by Florida Public Utilities Company (“Company”) as Senior
6 Regulatory Analyst.

7

8 Q. Have you previously testified in this Docket?

9 A. Yes.

10

11 Q. What is the purpose of your testimony at this time?

12 A. I will briefly describe the basis for the computations that were made in preparation of
13 the schedules that have been submitted to support the Company’s calculation of the
14 levelized fuel adjustment factor for January 2016 – December 2016.

15

16 Q. Were the schedules filed by the Company completed by you or under your direction?

17 A. Yes.

1 Q. Which supporting schedules has the Company completed and filed?

2 A. On the Company's behalf, I am submitting Schedules E1-A, E1-B, and E1-B1, which
3 are included in Exhibit CDY-2 to my testimony. Schedule E1-B shows the Calculation
4 of Purchased Power Costs and Calculation of True-Up and Interest Provision for the
5 period January 2015 – December 2015 based on 6 Months Actual and 6 Months
6 Estimated data.

7

8 Q. What was the final remaining true-up amount for the period January 2014 –
9 December 2014?

10 A. The final remaining true-up amount was an under-recovery of \$1,476,353.

11

12 Q. What is the estimated true-up amount for the period January 2015 – December 2015?

13 A. The estimated true-up amount is an under-recovery of \$112,373.

14

15 Q. What is the total true-up amount to be collected or refunded during January 2016 –
16 December 2016?

17 A. The Company has determined that at the end of December 2015, based on six months
18 actual and six months estimated, the Company will under-recover \$1,588,726 in
19 purchased power costs to be collected during January 2016 – December 2016.

20

21 Q. Does this conclude your testimony?

22 A. Yes.

23

ERRATA
CURTIS D. YOUNG – PROJECTION TESTIMONY/FILED SEPTEMBER 1, 2015

Page 7, Line 17: Replace “with” with the word “will”, so that the sentence reads:

17 Ultimately, the Company believes that this project **will** be economically beneficial to
18 its rate payers and will facilitate the Company’s efforts to achieve fuel savings for its
19 customers.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**DOCKET NO. 150001-EI: FUEL AND PURCHASED POWER COST RECOVERY
CLAUSE WITH GENERATING PERFORMANCE INCENTIVE FACTOR**

2016 Projection Testimony of
Curtis D. Young
On Behalf of
Florida Public Utilities Company

- 1 Q. Please state your name and business address.
- 2 A. Curtis D. Young, 1641 Worthington Road Suite 220, West Palm
3 Beach, FL 33409.
- 4 Q. By whom are you employed?
- 5 A. I am employed by Florida Public Utilities Company (FPUC).
- 6 Q. Could you give a brief description of your background and
7 business experience?
- 8 A. I am the Senior Regulatory Analyst. I have performed various
9 accounting and analytical functions including regulatory filings,
10 revenue reporting, account analysis, recovery rate
11 reconciliations and earnings surveillance. I'm also involved in the
12 preparation of special reports and schedules used internally by
13 division managers for decision making projects. Additionally, I
14 coordinate the gathering of data for the FPSC audits.
- 15 Q. Have you previously testified in this Docket?
- 16 A. Yes.
- 17 Q. What is the purpose of your testimony at this time?
- 18 A. I will briefly describe the basis for the computations that were

Docket No. 150001-EI

1 made in the preparation of the various Schedules that the
2 Company has submitted in support of the January 2016 -
3 December 2016 fuel cost recovery adjustments for its
4 consolidated electric divisions. In addition, I will explain the
5 projected differences between the revenues collected under the
6 levelized fuel adjustment and the purchased power costs
7 allowed in developing the levelized fuel adjustment for the period
8 January 2015 – December 2015 and to establish a "true-up"
9 amount to be collected or refunded during January 2016 -
10 December 2016.

11 I. Consolidated Electric Cost Recovery Schedules

12 Q. Were the schedules filed by the Company completed by you?

13 A. Yes, they were completed by me under the supervision and
14 review of Mr. Cutshaw.

15 Q. Which of the Staff's set of schedules has your company
16 completed and filed for approval in this Docket?

17 A. The Company has filed Consolidated Electric Schedules E1,
18 E1A, E2, E7, E8, E10 and Attachment A. Composite Exhibit
19 Number CDY-3 contains this information.

20 Q. Did you follow the same procedures that were used in the prior
21 period filing in preparing the projected cost factors for January –
22 December 2016 for the Consolidated Electric Divisions?

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1 A. Yes. In the prior period, the Company requested and
2 subsequently received approval to consolidate the fuel filing of
3 its two electric divisions. This fuel rate consolidation allowed
4 FPUC to standardize fuel costs, as is done by other utilities, and
5 assisted in stabilizing fuel rate charges to all customers now and
6 in the future.

7 II. Additional Fuel-Related Costs Included for Recovery

8 Q. Did you include costs in addition to the costs specific to
9 purchased fuel in the calculations of your true-up and projected
10 amounts?

11 A. Yes, included with our fuel and purchased power costs are
12 charges for contracted consultants and legal services that are
13 directly fuel-related and appropriate for recovery in the fuel
14 clause.

15 Q. Please explain how these costs were determined to be
16 recoverable under the fuel clause?

17 A. Consistent with the Commission's policy set forth in Order No.
18 14546, issued in Docket No. 850001-EI-B, on July 8, 1985, the
19 other costs included in the fuel clause are directly related to fuel,
20 have not been recovered through base rates.

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1 Specifically, consistent with item 10 of Order 14546, the costs
2 the Company has included are fuel-related costs that were not
3 anticipated or included in the cost levels used to establish the
4 current base rates. To be clear, these costs are not tied to the
5 Company's internal staff involvement in fuel and purchased
6 power procurement and administration. Instead, these costs are
7 associated with external contracts which consequently, tend to
8 be more volatile depending upon the issue. Similar expenses
9 paid to Christensen and Associates associated with the design
10 for a Request for Proposals of Fuel costs, and the evaluation of
11 those responses, were deemed appropriate for recovery by
12 FPUC through the fuel clause in Order No. PSC-05-1252-FOF-
13 EI, Item II E, issued in Docket No. 050001-EI. Additionally, in
14 more recent Docket Nos. 120001-EI, 130001-EI, 140001-EI and
15 150001-EI, the Commission determined that many of the costs
16 associated with the legal and consulting work incurred by the
17 Company as fuel related, particularly those costs related to the
18 purchase power agreement review and analysis, were
19 recoverable under the fuel clause. Likewise, the Company
20 believes that the costs addressed herein are appropriate for
21 recovery through the fuel clause.

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1 Q. Please explain what are the costs outside of purchased fuel
2 costs included in the 2015 true-up for Florida Public Utilities
3 Company?

4 A. Florida Public Utilities engaged Gunster, Yoakley & Stewart, P.A.
5 ("Gunster"), Christensen and Associates ("Christensen") and
6 Pierpont and McClelland ("Pierpont") for assistance in the
7 development and enactment of projects/programs designed to
8 reduce their fuel rates to its customers. The Company will
9 continue to engage legal and consulting assistance as it
10 explores additional fuel related savings options including other
11 CHP opportunities and solar/photovoltaic opportunities. The
12 legal and consulting costs associated with the development and
13 negotiations of the power supply contracts (JEA) are appropriate
14 for recovery through the Fuel and Purchased Power cost
15 recovery clause. Christensen and Pierpont have been
16 performing due diligence in their occasional review and analysis
17 of the terms of the current Renewable Energy Agreement
18 between FPUC and Rayonier in order to increase the production
19 of renewable energy and for further discovering avenues
20 towards negotiating cost reductions. These costs were not
21 included in expenses during the last FPUC consolidated electric

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1 base rate proceeding and are not being recovered through base
2 rates. Christensen and Pierpont have been performing due
3 diligence in their occasional review and analysis of the terms of
4 the current Purchased Power Agreement between FPUC and
5 JEA in the efforts of further discovering avenues towards
6 minimizing cost increases and/or negotiating cost reductions.
7 The resulting savings from their efforts have been included in
8 the 2013, 2014 and 2015 True-up as well as our 2016
9 Projections. The associated legal and consulting costs, included
10 in the rate calculation of the Company's 2016 Projection factors,
11 were not included in expenses during the last FPUC
12 consolidated electric base rate proceeding and are not being
13 recovered through base rates.

14 Q. Are there any other fuel related costs included in this filing?

15 A. Yes, the Company has included depreciation expense, taxes
16 other than income taxes and a return on investment for an FPL
17 interconnect to its Northeast Division. These costs will directly
18 result in fuel savings to our customers, and will increase the
19 reliability of electricity to the Northeast Division. These costs
20 have not been recovered through base rates, and will directly
21 benefit the customers through future reductions to its fuel costs.

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Corrected

1 Since this investment would allow the Company to pursue
2 alternatives in its future fuel contracts, and will result in
3 additional fuel options as well as increased competition to
4 provide fuel to our Company, the Company feels that recovery in
5 the fuel clause would be appropriate until such time that any
6 remaining costs, if any, can be rolled into rate base in a future
7 rate proceeding. See Exhibit Schedule A for a summary of the
8 expected costs for the interconnect investment, and the related
9 revenue requirement that is included in this fuel filing for
10 recovery through fuel rates. Also included on this exhibit are
11 estimated savings that will likely occur as a result of this
12 investment to our customers. Without recovery on this
13 investment as requested, the Company would either have to
14 defer this project and the anticipated benefits, or would have to
15 file a rate proceeding to pursue recovery through base rates,
16 which would inevitably be a lengthy and costly process.
17 Ultimately, the Company believes that this project **will** be
18 economically beneficial to its rate payers and will facilitate the
19 Company's efforts to achieve fuel savings for its customers. As
20 such, the Company believes that recovery is consistent with prior
21 cases in which recovery of similar, fuel-related investments has

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1 been allowed, because it will lower the delivered price of fuel –
2 or input price - for FPUC, as contemplated by Order No. 14546
3 and Order No. PSC-95-1089-FOF-EI. Moreover, it will avoid
4 “regulatory lag”, which the Commission has recognized in the
5 past as the underlying purpose for the Fuel Clause.

6

7

8

9

Summary Rates

10 Q. What are the final remaining true-up amounts for the period
11 January – December 2014 for both Divisions?

12 A. The final remaining consolidated true-up amount was an under-
13 recovery of \$1,476,353.

14 Q. What are the estimated true-up amounts for the period of
15 January – December 2015?

16 A. There is an estimated consolidated under-recovery of \$112,373.

17 Q. Please address the calculation of the total true-up amount to be
18 collected or refunded during the January - December 2016 year?

19 A. The Company has determined that at the end of December
20 2015, based on six months actual and six months estimated, we
21 will have a consolidated electric under-recovery of \$1,588,726.

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1 Q. What will the total consolidated fuel adjustment factor, excluding
2 demand cost recovery, be for the consolidated electric division
3 for the period?

4 A. The total fuel adjustment factor as shown on line 43, Schedule
5 E-1 is 6.693¢ per KWH.

6 Q. Please advise what a residential customer using 1,000 KWH will
7 pay for the period January - December 2016 including base
8 rates, conservation cost recovery factors, gross receipts tax and
9 fuel adjustment factor and after application of a line loss
10 multiplier.

11 A. As shown on consolidated Schedule E-10 in Composite Exhibit
12 Number CDY-3, a residential customer using 1,000 KWH will
13 pay \$140.06. This is a decrease of \$1.04 under the previous
14 period.

15 Q. Does this conclude your testimony?

16 A. Yes.

1 BY MS. KEATING:

2 Q Mr. Young, did you also prefile exhibits in
3 this proceeding?

4 A Yes, I did.

5 Q And do you have any changes to those prefiled
6 exhibits?

7 A Yes, I do.

8 Q If you would, please describe those.

9 A Okay. I have corrections for the following
10 schedules; changes that -- changes that reclassification
11 of costs from one bucket to another that has no impact
12 on the result and calculation.

13 On Exhibit CDY-1, Schedule A of CDY-1 as part
14 of my 2014 true-up filed on March 5th, 2015;
15 Schedule C1, the line described as the true-up provision
16 collect refund has been corrected and all subsequent
17 lines computed from that line.

18 There is no impact to the subsequent filings
19 in this docket since the -- their computations were
20 based on the collected true-up amounts.

21 Q And with regard to CDY-3 --

22 A On CDY-3 -- on Schedule CDY-3, as part of the
23 2016 projection filed on September 1st, 2015,
24 Schedule E1, Page 1, Line 10, Line 10B, and Line 11,
25 Column A for dollars and the Column C rates per kWh.

1 On Schedule E2, Lines 3A and 3B, and for
2 Schedule E8 has two changes. Column 2, the description
3 should include Eight Flags as a qualifying facility
4 beginning from the period July 2016 through
5 December 2016, and in Column 9, reflects the dollar
6 impact associated with the Column 2 description change
7 mentioned previously.

8 **Q And Mr. Young, again, just to be clear, the**
9 **changes that you've explained here today -- do they have**
10 **any impact in the amounts for which FPUC is seeking**
11 **approval to recover through the clause or any impact on**
12 **the factors?**

13 A No, they don't.

14 MS. KEATING: Okay. Thank you.

15 Mr. Chairman, Exhibit CDY-1 has already been
16 identified as Exhibit 32, and Exhibit CDY-3 has
17 already been identified as Exhibit 34. We have
18 prepared corrected versions of both exhibits and
19 would ask that the corrected versions substitute
20 entirely for the versions that were previously
21 filed.

22 CHAIRMAN GRAHAM: We'll do that, enter that
23 into the record, after his testimony.

24 MS. KEATING: Thank you.

25

1 BY MS. KEATING:

2 Q Mr. Young, did you prepare a summary of your
3 testimony?

4 A Yes, I did.

5 Q If you would, please go ahead and provide
6 that.

7 A Good afternoon, Commissioners. My name is
8 Curtis Young. And I am here on behalf of Florida Public
9 Utilities Company. I currently serve as a senior
10 regulatory analyst for FPUC and was responsible for the
11 completion of the various schedules supporting our
12 estimated true-up amount for the period January through
13 December 2015. Additionally, I was responsible for the
14 development and calculation -- of the calculation
15 supporting the amount of its recovery.

16 Over recent history, FPUC has aggressively --
17 has been aggressively seeking opportunities to reduce
18 fuel costs to its consumers. In order to properly and
19 thoroughly vet these opportunities, FPUC must seek the
20 expertise of contracted consultants and legal service
21 professionals.

22 The cost associated with these contracted
23 experts are directly related to the activities
24 associated in lowering fuel costs to our customers and
25 are consistent with the Commission's policy set forth in

1 Order No. 14546.

2 Because these costs are directly fuel-related
3 and tend to be more volatile in nature, they have not
4 been anticipated and were not included in the cost
5 levels used to establish the current base rates.

6 To be clear, these costs are not tied to
7 FPUC's internal staff involvement and fuel and purchased
8 power procurement and administration. Rather, they are
9 the associated -- they are associated with the
10 activities such as the development and the negotiation
11 of power supply contracts, analysis of the development
12 and -- sorry -- analysis of the terms of purchased power
13 agreements between FPUC and the power providers,
14 performing occasional due diligence of the terms
15 renewable energy agreements and the review of CHP and
16 solar photovoltaic projects. All of these activities
17 are anticipated to bring savings to our customers by
18 lower fuel rates.

19 In this filing, FPUC has also included a
20 return on investment for an additional interconnect with
21 FP&L in its northeast division. The costs associated
22 with this project will directly result in fuel savings
23 as well as increase the reliability of electricity to
24 our customers.

25 Like the consultant and legal fees discussed

1 previously, the costs associated with this project are
2 were not anticipated and have not been recovered in our
3 base rates. Since this investment should allow FPUC to
4 pursue alternatives in its future fuel contracts and
5 will result in additional fuel options as well as
6 increase competition to provide fuel to our company, we
7 feel that recovery in the Fuel Clause would be
8 appropriate until such time that the remaining costs, if
9 any, can be rolled into rate-based and future
10 proceedings.

11 In this filing, we have included the estimated
12 savings that will likely occur as a result of this
13 investment. Without recovery in the Fuel Clause, FPUC
14 may have to recover -- may have to consider filing a
15 costly rate case.

16 FPUC also believes that this recovery is
17 consistent with the prior cases in which recovery of
18 similar fuel-related investments have been allowed.
19 Additionally, inclusion in this docket will avoid
20 regulatory lag, which the Commission has recognized in
21 the past as the underlying purpose for the Fuel Clause.

22 As a small utility, it is critical for FPUC to
23 be forward-thinking and to -- and it must utilize
24 industry experts as a means to vet opportunities to
25 reduce purchased power costs to our customers.

1 We request your approval in our current
2 filing. Thank you for your time.

3 MS. KEATING: Thank you, Mr. Young.

4 With that, Mr. Chairman, Mr. Young is tendered
5 for cross.

6 CHAIRMAN GRAHAM: Thank you.

7 OPC?

8 MR. BERNIER: Mr. Chairman, I apologize for
9 the interruption. I failed to ask you if
10 Mr. McCallister could be excused. And he has let
11 me know that he would like to be excused for the
12 rest of the evening, if that's all right. He's
13 throwing spitballs at my neck at this moment.

14 (Laughter.)

15 CHAIRMAN GRAHAM: He can -- we can excuse him
16 until the rebuttal.

17 MR. BERNIER: Excellent. Thank you.

18 MS. CHRISTENSEN: Commissioners, I have some
19 exhibits that need to be passed out. Several are
20 just excerpts of a previously admitted exhibit and
21 I've already marked those with the composite
22 exhibit number that they came from.

23 CHAIRMAN GRAHAM: Okay.

24 MS. CHRISTENSEN: And one needs to be marked
25 for identification.

1 They are -- for clarity, I only produced ten
2 red-sheet copies, one for each one of the
3 Commissioners, staff, counsel, FPUC. And I guess,
4 if any -- and the court reporter because my
5 questions were going to go to the redacted. And
6 since no other party had taken positions on it, I
7 didn't anticipate on giving them the confidential
8 portion. Although, we can make additional copies
9 if need be and have them available. My questions
10 will use the redacted version, however. I just
11 need the confidential on the record.

12 If any of the other Counsel would like a copy
13 of that, I think we may have -- we can make
14 additional copies, if need be. Everybody can have
15 a copy of the redacted copy. We made plenty of
16 copies of those.

17 CHAIRMAN GRAHAM: Does anybody need a copy?

18 They are all shaking their heads no.

19 MS. CHRISTENSEN: We would ask that FPUC's
20 response to -- it should have been OPC's, excuse
21 me -- first set of interrogatories, No. 1 be marked
22 for identification.

23 CHAIRMAN GRAHAM: Is that the confidential
24 docket you just passed out?

25 MS. CHRISTENSEN: Correct, and also the

1 redacted version of that. And it should have been
2 OPC's interrogatory -- FPUC's response to OPC's
3 Interrogatory No. 1.

4 CHAIRMAN GRAHAM: And not staff's?

5 MS. CHRISTENSEN: Not staff's, that's correct.

6 CHAIRMAN GRAHAM: We'll give this No. 122.

7 MS. CHRISTENSEN: Should we mark both the
8 confidential and the redacted as 122?

9 CHAIRMAN GRAHAM: Is it necessary to mark both
10 of them, Mary Anne? Seeing that we're not going to
11 have the confidential one in the record --

12 MS. CHRISTENSEN: Well, I would ask to have
13 the confidential moved into the record because I
14 think we're going to need the numbers later on, but
15 I'm trying to conduct cross examination without
16 referring to those numbers for the -- for purposes
17 of the cross examination.

18 MS. HELTON: So, I'm sorry. Somehow I got
19 confused. What exactly is confidential? What are
20 you duplicating with this confidential information?
21 Which exhibit?

22 MS. CHRISTENSEN: I'm asking for it to be
23 identified with a hearing number. And I have
24 provided a confidential version, which has all the
25 information and a redacted version. And my

1 question was: Do we need separate identification
2 numbers for the redacted version and the
3 confidential or can they be in the same exhibit?

4 CHAIRMAN GRAHAM: I'll go out on a limb and
5 make a decision.

6 MS. CHRISTENSEN: Okay.

7 CHAIRMAN GRAHAM: We'll give the confidential
8 one 123.

9 MS. CHRISTENSEN: Okay.

10 CHAIRMAN GRAHAM: And the redacted one 122.

11 (Exhibit Nos. 122 and 123 marked for
12 identification.)

13 MS. CHRISTENSEN: Thank you. Thank you.

14 CROSS EXAMINATION

15 BY MS. CHRISTENSEN:

16 Q Good evening, Mr. Young.

17 A Good evening.

18 Q Mr. Young, you filed projection testimony
19 dated September 1st in this docket; is that correct?

20 A Yes, I did.

21 Q And in that testimony, starting on Page 3
22 through 6, you discuss outside legal and consulting cost
23 that FPUC is requesting for recovery in this year's
24 projection testimony; is that correct?

25 A Yes.

1 Q And on Page 4 of that testimony, specifically
2 Lines 4 through 8 -- let me know when you're there.

3 A I believe I'm there.

4 Q Okay. You state: To be clear, these costs
5 are not tied to the company's internal staff involvement
6 in fuel and purchased power procurement and
7 administration activities, right?

8 A Correct.

9 Q And then you go on to say, later down the
10 page, that these costs are associated with external
11 contracts; is that correct?

12 A Yes.

13 Q So, you would agree that these external
14 contracts are tied to fuel procurement and purchased
15 power administration, correct?

16 A I wouldn't necessarily say administration.
17 These were for specific projects that would bring about
18 cost savings to our customers.

19 Q Okay. Well, let's --

20 A But it wasn't administration.

21 Q You're -- reading that testimony altogether on
22 Page 4, Lines 4 through 8, you would agree that it
23 states: To be clear, these costs are not tied to the
24 company's internal staff involvement and fuel and
25 purchased power procurement administration.

1 A Right.

2 Q Instead, these costs are associated with
3 external contracts which consequently tend to become
4 more volatile depending on the issues.

5 A Yes.

6 Q That's what it says, correct?

7 A Yes.

8 Q Okay. Let's turn to Page 5 of your projection
9 testimony and on Page 5, you explain what costs outside
10 purchase fuel costs are included in the 2015 true-up; is
11 that correct?

12 A Correct.

13 Q And you say that FPUC has engaged Gunster,
14 Yoakley, Stewart, P.A. law firm and Christensen and
15 Associates, and Pierpont McClelland as consultants,
16 correct?

17 A Yes.

18 Q And these external contracts were for the
19 development and enactment of projects and programs. And
20 you give a couple of examples including other CHP
21 opportunities and solar photovoltaic opportunities; is
22 that --

23 A Yes.

24 Q -- correct?

25 A Yes.

1 Q Okay. CHP -- that stand for combined heat and
2 power?

3 A Yes.

4 Q And exploring such CHP opportunities is a way
5 to generate electricity like the Eight Flags project,
6 correct?

7 A That is my understanding. I'm not --

8 Q Okay.

9 A -- involved in that one, but that is my
10 understanding.

11 Q Okay. And the solar and photovoltaic
12 opportunities -- that would be another way of generating
13 electricity?

14 A To my knowledge, yes.

15 Q Okay. I would like to have you look at your
16 responses to discovery. They've been premarked and
17 handed out as excerpts from Exhibit 89. And
18 specifically, I want you to look at the one for FPUC's
19 redacted responses to staff's second set of
20 interrogatories, No. 7.

21 A Uh-huh.

22 Q And then if you could, keep FPUC's response to
23 OPC's -- or FPUC's response to OPC's first
24 interrogatory, No. 1, the redacted version available.

25 A Yes.

1 Q And I'll be asking a series of questions
2 regarding those.

3 A Okay.

4 Q Okay. Looking at Interrogatory No. 7, this is
5 a breakdown of all the non-fuel-related cost including
6 legal and consulting fees that were included in the 2016
7 factor, correct?

8 A Yes. Yes.

9 Q Okay. And looking at the first one, you have
10 Sterling Energy Services. And it says for them, they
11 evaluated CHP, combined heat and power, projects on
12 Amelia Island, correct?

13 A Uh-huh. Yes. Sorry.

14 Q No, that's fine. And let me refer you to your
15 response to OPC Interrogatory No. 1. And you were the
16 respondent for this interrogatory, correct?

17 A Yes.

18 Q Okay. And you list there Sterling Energy
19 Services. Do you see that?

20 A Yes.

21 Q Did Sterling -- Sterling Energy Services
22 conduct similar activities in 2015 to those activities
23 you described in the 2000 -- for the 2016 projected
24 activities?

25 A To my knowledge, they were similar in nature.

1 **Q Okay.**

2 A But they've -- you may have to discuss with
3 Mark Cutshaw as far as the detail of what they worked
4 on, but they were similar in nature as far as the fact
5 they were supposed to generate cost savings.

6 **Q Well, were they for similar CHP and
7 photovoltaic-type opportunities to your knowledge?**

8 A It may be or it may be other projects also.

9 **Q Okay.**

10 A I -- Mr. Cutshaw may be able to answer that
11 better than me.

12 **Q Okay. But you're the one that responded to
13 those?**

14 A Yes. Yes.

15 **Q Okay. Can you tell me in your testimony or
16 show me where in your estimated actual testimony or
17 true-up where the savings are associated for Sterling
18 and -- Sterling Energy for its 2015 activities; where
19 the fuel savings are related to those activities?**

20 A I'm not sure if I understand what -- as far as
21 the savings, as far as how they pertain to our cost
22 rates? Because --

23 **Q Let me be more specific.**

24 A Right.

25 **Q We talked about the activities they did in**

1 2016.

2 A Right.

3 Q And then the activities that they did for you
4 in 2015.

5 A Uh-huh.

6 Q Can you show me in your testimony where you
7 talk about the specific fuel savings related to those
8 activities for 2015?

9 A I don't think I addressed those savings in the
10 testimony.

11 Q Okay. Let's move to the next person listed on
12 there, Passero Associates. Do you see that?

13 A Yes.

14 Q And it talks about evaluation and permitting
15 of solar voltaic installations on Amelia Island; is that
16 correct?

17 A Uh-huh. Yes.

18 Q Okay. And just to be clear, you're the one --
19 the respondent responsibility for those responses --

20 A Yes.

21 Q -- for seven, correct?

22 A Yes.

23 Q Okay. And to your knowledge, looking at --
24 let me ask this clarifying question. They are not
25 listed as someone who had costs in 2015; is that

1 correct?

2 A You're talking about as far as Passero?

3 Q Correct.

4 A Yes.

5 Q Okay. And currently, do you know whether or
6 not FPUC has any solar or photovoltaic installations on
7 Amelia Island? Do you know?

8 A Not -- I couldn't -- I don't know
9 specifically. It may or may not.

10 Q Okay. So, would that be Mr. Cutshaw would be
11 better prepared to answer?

12 A He may be, yes.

13 Q Okay. Let's look at the next company listed,
14 Golder Associates.

15 A Yes.

16 Q It talks about evaluating and permitting CHP-
17 related generation on Amelia Island?

18 A Uh-huh.

19 Q Is that correct?

20 A Yes.

21 Q Okay. Do you have anywhere that you can show
22 me in your testimony where there are fuel savings
23 associated or where you project the fuel savings
24 associated with these -- this CHP generation related to
25 Golder Associates' activities?

1 A No.

2 Q Let's look at the next company listed on
3 there, on No. 7, the response to Interrogatory No. 7?

4 A Yes.

5 Q Christensen and Associates. It's a little bit
6 broader. It talks about economic evaluation and
7 analysis of purchased power agreements, CHP projects,
8 and solar voltaic projects; is that correct?

9 A Yes.

10 Q Okay. And you -- let's flip over to FPUC's
11 responses to Interrogatory No. 1. And you see
12 Christensen and Associates is also listed --

13 A Yes.

14 Q -- for that.

15 Do you know whether or not they conducted
16 similar activities in 2015 to the ones that were
17 described for 2016?

18 A Again, similar in cost savings, but not
19 specifics in projects.

20 Q Do you know what projects they did for the
21 company in 2015?

22 A Not specifically.

23 Q Okay. Do you know if Mr. Cutshaw might know?

24 A Yes.

25 Q Okay. Can you tell me where in your testimony

1 you describe the fuel savings related to the activities
2 associated with Christensen and Associates for either
3 2015 or 2016 activities?

4 A I don't have -- no, I don't have the savings
5 in the testimony.

6 Q Let's move on to the next company listed on
7 there. That's McClelland and Pierpont. And in there,
8 it talks about optimization of transmission
9 interconnection and purchases of independent power
10 producers and co-generations. You see that testimony?

11 A Yes. Yes.

12 Q Okay. And they are also listed on your
13 response to OPC's response to Interrogatory No. 1, but
14 they are listed on there as Pierpont McClelland. Is
15 that the same company?

16 A Yes, it is.

17 Q Okay. And to your knowledge, did they perform
18 the same activities in 2015 as they did in '16?

19 A Again, I couldn't tell you exactly the same.
20 I could just say similar.

21 Q So, you're not -- you're not sure of what
22 activities they performed in 2015?

23 A As far as specific to what project, I don't
24 have that answer.

25 Q Okay. And can you show me in your testimony

1 where the savings related to the activities for either
2 2015 or 2016 are shown?

3 A No, I don't have that in my testimony.

4 Q Okay. Next, on Exhibit 7, you have listed
5 Gunster as providing legal development and review of
6 contracts related to purchased power agreements,
7 agreements with co-generators and qualified facilities,
8 and regulatory consulting and representation; is that
9 correct?

10 A Yes.

11 Q And they are also shown on Exhibit -- FPUC's
12 responses to OPC's interrogatory and -- I'm sorry. They
13 are not listed on that one, correct? I don't believe
14 they are.

15 A Okay.

16 Q Can you show me or do you have in your
17 testimony the fuel savings related to the activities
18 described for Gunster in your 2016 projection testimony?

19 A No.

20 Q Okay. Let's go to the next company listed
21 which I believe is King and Spalding. And they are
22 listed for research and legal review of FERC-related
23 issues regarding purchased power agreements and
24 transmission of associated powers; is that correct?

25 A Yes.

1 Q Okay. And can you tell me where, if anywhere,
2 in your testimony, it lists the fuel savings related to
3 King and Spalding's activities in 2016?

4 A I don't have that.

5 Q Okay. The next one is Baker Holstetler?

6 A Yes.

7 Q Holstetler. Legal review of business terms
8 associated with the purchased power agreements and new
9 contract development; is that correct?

10 A Yes.

11 Q And if I asked you to show me where the fuel
12 savings were related to those activities projected for
13 2016, could you show me that?

14 A No.

15 Q And then, finally, the last company listed in
16 your response to Interrogatory No. 7 was Stinton,
17 Leonard, and Street?

18 A Yes.

19 Q And it talks about legal review of contracts
20 to develop new CHP contracts; is that correct?

21 A Yes.

22 Q Okay. And can you tell me -- if I were to ask
23 you where the fuel savings related to those activities
24 were in your 2016 projection testimony, could you show
25 me where that was?

1 A No.

2 Q Okay. Is the total amount for all non-fuel-
3 related costs for legal and consulting fees for 2015
4 \$169,457? If I -- subject to check, would you agree
5 with that amount?

6 A Yes.

7 Q Okay. And then subject to check, would you
8 agree that the total amount for the non-fuel-related
9 costs for legal and consulting fees are 397,000?

10 A Yes.

11 Q And for clarification, I can see where the
12 total amounts are for the legal and consulting fees
13 listed as special costs in the 2015 E1B schedule.

14 A Yes.

15 Q Do you have a similar schedule showing the
16 projected cost for legal and consulting fees in your
17 2016 projection testimony?

18 A I don't have a similar schedule to the E1B, as
19 you say it, but it's embedded in my line number on E --
20 on the E1 and the E2.

21 Q Can you tell me which lines that number is
22 embedded in?

23 A Yes. On E1 Page 1 it's --

24 Q Okay.

25 A -- on Line 10B.

1 Q So, that would be non-fuel energy and customer
2 costs for purchased power?

3 A Yes.

4 Q That's \$4.5 million approximately number?

5 A Yes.

6 Q So, the \$397,000 amount would be --

7 A Would be part of that.

8 Q -- embedded in that number?

9 A Yes.

10 Q All right. Let me ask you this -- I guess I
11 had one or two more follow-up questions on your response
12 to Interrogatory 7.

13 A Okay.

14 Q At the bottom, it says taxes for company
15 usage, 10,000; is that correct?

16 A Yes.

17 Q And then it also has a number for the FPL
18 interconnection. Is that a revenue requirement that was
19 included in the 2016 projections of \$107,000?

20 A Yes.

21 Q Or I'm -- yeah, 107.

22 A Yes.

23 Q And I just wanted to finish up one more
24 consultant off the list of FPUC's response to OPC
25 Interrogatory No. 1. It has listed Kathy Welch?

1 A Yes.

2 Q And she has an amount listed for her?

3 A Yes.

4 Q Okay. And just for ease of reference, I also
5 handed out another excerpted interrogatory response
6 for -- I believe it's 8B. Do you have that in front of
7 you?

8 A Yes, I do.

9 Q Okay. I don't know why mine doesn't have it.
10 Does your copy have a listing and the description of the
11 activities that Kathy Welch --

12 A Yes, it does.

13 Q -- performed for the company?

14 A Yes, it does.

15 Q Can you tell us what the activities Ms. Welch
16 performed for the company were in -- projected to
17 perform in 2016?

18 A It says consolidation of fuel for the electric
19 divisions involving the restructuring and reformatting
20 of "A" schedules and "E" schedules periodically filed
21 with the Commission.

22 Q Okay. And I'm going to ask you the same
23 question I've asked you for several other consultants.
24 Could you show me where in your 2016 testimony or your
25 2015 estimate actual where you show the fuel-related

1 **savings related to her activities?**

2 A No, I don't have that.

3 Q Okay.

4 A But I do have an addendum to add to this.
5 This is one that, subsequent to the filing, we had
6 reevaluated and decided that this probably was more
7 appropriately treated as base.

8 Q Okay.

9 A And it has been adjusted in our books and
10 won't be in part of our 2015 true-up.

11 Q **And in the updated schedules that you filed,**
12 **were those adjustments made for those updated schedules?**

13 A Yes.

14 Q **Okay. So, the new updated numbers do not**
15 **reflect Kathy Welch's cost in your fuel-filing factor?**

16 A Yes, to my knowledge. I have to double check
17 that. I know we removed it on the books. And if
18 it's --

19 Q Okay.

20 A It may not be reflected here, but I know that
21 by the time we do our actual true-up for 2015, it will
22 have been eliminated.

23 Q **Okay. So, we're in agreement that at least**
24 **Ms. Welch's costs should come out.**

25 A Yes.

1 Q Okay. And then we would have to, subject to
2 check, make sure that they were out -- removed from the
3 fuel factor.

4 A Yes.

5 Q Okay. And I just want to ask you a few
6 questions regarding general knowledge of base rates.
7 Would you agree that base rates include a snapshot of
8 normal recurring investment levels, capital costs, and
9 income levels estimated or incurred for a given year?

10 A Yes, I would have to agree with that.

11 Q Okay. And would you agree that if earnings
12 fall below the authorized range that was approved in the
13 last rate case, that the company has the opt- -- excuse
14 me. It's not coming out right -- option of petitioning
15 for a base-rate increase?

16 A Yes.

17 Q Okay. And if the company is earning within
18 the range authorized in the last base-rate case, you
19 would agree that it's recovering its base-rate cost,
20 correct?

21 A Yes.

22 Q And you would agree that when a projected test
23 year is used, actual costs including expense levels will
24 understandably be different than those that were used to
25 set base rates, correct?

1 A Just repeat that question?

2 Q Sure.

3 A Just to make sure --

4 Q That when you use a projected test year --

5 A Yes.

6 Q When you have final actual expenses, those
7 will be different than what you projected in your
8 projected testimony?

9 A Yes. Correct.

10 Q And you would also agree that you would expect
11 the different components that go into base rates,
12 including expenses, to change over time?

13 A Yes.

14 MS. CHRISTENSEN: Okay. That's all I have.
15 Thank you. No further questions.

16 CHAIRMAN GRAHAM: Mr. Wright?

17 MR. WRIGHT: Thank you, Mr. Chairman. I just
18 have a few questions.

19 CROSS EXAMINATION

20 BY MR. WRIGHT:

21 Q Continuing from, I think, something
22 Ms. Christensen was just asking you about, on your
23 Schedule E1, I'm looking at a couple of rows, Row 1 and
24 Row 18. This is estimated for the period January 2016
25 through December 2016, that shows fuel cost of system

1 net generation. And there is nothing in that row. So,
2 that's a zero; is that correct?

3 A Yes.

4 Q And in Row 18, total fuel costs and gains --
5 that would include fuel cost. And there is a zero
6 there, correct?

7 A Yes.

8 Q Does the company buy any fuel? Your company,
9 Florida Public Utility's Fernandina division, northeast
10 division.

11 A Our purchased power, yes.

12 Q Do you buy any fuel? Do you buy gas?

13 A When you say fuel, I'm thinking you're talking
14 purchased power.

15 Q Well, you used the term "fuel contract terms,"
16 fuel contracts," "fuel options," "competition for fuel
17 supply to your company." Did you really mean purchased
18 power?

19 A In this -- yeah, in this clause, yes.

20 Q You don't buy any natural gas, do you?

21 A Not for this clause. We purchase gas, but
22 that's in another docket.

23 Q Okay. Do you know whether there are any
24 combined heat and power installations in place in the
25 northeast division?

1 A I can't -- I don't -- I can't answer that,
2 now --

3 Q **"I don't know" is an okay answer.**

4 A Right. Right. I don't know.

5 Q **Okay. Same question for solar photovoltaic.**

6 A Same -- same answer.

7 Q **You did testify, I think, on Page 7 of your**
8 **testimony that if you don't get recovery for the**
9 **transmission project, you might have to defer the**
10 **project?**

11 A Yes.

12 Q **Would the company really -- this is a good**
13 **project, right?**

14 A From my understanding, yes.

15 Q **Would the company really not do the project**
16 **given that it's a good project if you didn't get**
17 **recovery in the Fuel Clause?**

18 A I mean, there may be other options. But I --
19 I don't know for sure. I would think not if we couldn't
20 afford it --

21 Q **I'm sorry. I --**

22 A -- if we could get recovery if -- if we're not
23 able to get recovery on this, it's going to be difficult
24 to go forward with the project as is.

25 Q **Well, I understand it's not going to be in**

1 service -- as of Mr. Cutshaw's testimony, it's not going
2 to be in service until the latter part of 2017; is that
3 correct?

4 A Right. Correct.

5 Q So, you would agree that it wouldn't be used
6 and useful in providing public service until that date,
7 correct?

8 A Correct.

9 Q You could file a rate case between now and
10 then, couldn't you?

11 A We could, but that would just only increase
12 the cost to the customer and through our base rates.

13 Q Well, maybe or maybe not, given that they
14 are -- wouldn't you agree that that may or may not be
15 true depending on what else happens in the rate case?

16 A It may or may not be true, correct.

17 MR. WRIGHT: Thank you. That's all I have.

18 CHAIRMAN GRAHAM: Mr. Brew?

19 CROSS EXAMINATION

20 BY MR. BREW:

21 Q Mr. Young, with respect to the last question,
22 if you put the investment in rate base, would you
23 allocate the cost based on energy?

24 A I -- I don't know, sir, if I'm understanding
25 the question. When you say allocate the cost --

1 Q How do you recover your fuel cost on a per-
2 kilowatt-hour basis?

3 A Yeah, there is a lot -- there is a lot -- when
4 you say allocate, you're saying according to the
5 customer classes?

6 Q Yes. How -- how would you recover the cost in
7 rates? The same way you do it under fuel?

8 A Please ask the question one more time. Are
9 you speaking about base or are you speaking about fuel?

10 Q Okay. Let take -- if you recovered the
11 investment cost in base rates --

12 A Correct.

13 Q Would you allocate the recovery of that cost
14 on an energy basis?

15 A I -- I don't know.

16 MR. BREW: Okay. Thank you. That's all I
17 have.

18 CHAIRMAN GRAHAM: Mr. Moyle.

19 CROSS EXAMINATION

20 BY MR. MOYLE:

21 Q Good evening. In your opening, I thought I
22 heard you say that if these costs were awarded to you,
23 you would put them into base rates at the next
24 opportunity. Was that right?

25 A At some point, yeah, if they -- I believe --

1 I'll give you an example.

2 Q That's all right. I think -- I guess that
3 brought up a question in my mind was, are you saying
4 that these are typically costs that would go in base
5 rates, but we're kind of in here because we want to do
6 an expedited process? I mean, are you admitting that
7 these are costs that are base rate in --

8 A No, we believe these are fuel costs. They are
9 fuel-related. And the savings are coming from our Fuel
10 Clause, the savings that we will experience will be
11 coming through fuel.

12 Q So, why put them into base rates? Why did you
13 make that statement about them --

14 A No, I think -- I believe I said -- according
15 to what I have here, I said, at such time, the remaining
16 costs, if any, would be rolled into the base and for
17 future -- for future proceedings -- in a future
18 proceeding.

19 Q And some of these interconnection costs and
20 legal fees related to CHP projects, right --

21 A Correct.

22 Q -- that you're trying to get recovery for?

23 A Yes.

24 Q And you're getting asked questions by people
25 that typically don't ask questions of you, but sometimes

1 orders have a way of being used beyond just your case.

2 You understand that, right?

3 A I'm not sure if I understand your question.

4 (Laughter.)

5 Q Well, I think -- I'm just trying to help you
6 you explain why we may be asking a lot of questions.

7 You know, what is your understanding of the Fuel Clause?
8 Like, what is it used for?

9 A My understanding for the Fuel Clause is to
10 recover costs for the fuel docket. You know, these are
11 costs that we incur in your fuel -- fuel -- from our
12 fuel purchases. The costs we recover from our fuel
13 expenses are being recovered.

14 Q And so, like, natural gas -- you're hearing
15 about natural gas and coal. Those are clearly fuel,
16 right?

17 A That's the terminology they use is. We don't
18 apply that terminology in at FPUC. Our fuel relates
19 to -- to electric.

20 Q Right.

21 A Or purchased power.

22 Q Because you don't have generation.

23 A No.

24 Q Right. But you would take the view that
25 transmission assets also would be within the scope of

1 **something appropriately recovered under the Fuel Clause?**

2 A I think that would have to be qualified. I
3 don't know just specifically -- just transmission
4 automatically as Fuel Clause.

5 Q Like, if a transmission line, if you needed to
6 build a new transmission line to get purchased power,
7 you wouldn't try to get that cost of that transmission
8 line in the Fuel Clause, would you?

9 A I'm -- I don't know. I'm not sure if I am
10 understanding your question. Could you --

11 Q Do you buy power from merchant plants
12 presently?

13 A Yes.

14 Q And have merchant plants sought or applied to
15 you over the years to interconnect to your system?

16 A That, I don't have any knowledge on. I could
17 research that, but presently, I don't have knowledge on
18 that.

19 MR. MOYLE: That's all I have. Thank you.

20 CHAIRMAN GRAHAM: Staff?

21 MS. JANJIC: Good evening, Mr. Young. My name
22 is Danijela Janjic. And I will be passing out a
23 courtesy copy of Exhibit 89 before I begin my
24 questioning.

25 CROSS EXAMINATION

1 BY MS. JANJIC:

2 Q I would like you to turn to CDY-3, Page 10,
3 please.

4 A (Examining document.) Yes.

5 Q Okay. In the schedule, there are line entries
6 for projected cost savings based on purchase of 10
7 megawatts and 20 megawatts, correct?

8 A Yes.

9 Q In this schedule, savings are shown for 2016,
10 although the project is not projected to go into service
11 until January 1st, 2018.

12 A Yes.

13 Q Can you explain to me what the savings of
14 2,216,000 based on 10 megawatts shown for 2016
15 represent?

16 A That was if -- this was a pro forma as if --
17 since we were in the year 2016, if the connection was
18 going inactive -- be activated in 2016 and at the rates
19 applicable, these were -- the estimated savings would be
20 there. But these -- the savings here is not included in
21 my 2016 projections. It was just here for illustration
22 purposes.

23 Q Okay. So, looking at the same schedule, is it
24 correct that the cost savings based on 10 megawatts for
25 2017 are 2,294,000?

1 A Yes.

2 **Q Has anything about the schedule changed since**
3 **you prepared it?**

4 A I didn't exactly prepare the schedule. It was
5 provided to me from a consultant we had who was an
6 expert economist in this field. And he qualified these
7 entries saying that these were the best estimates he had
8 at the time when he prepared this. So, they may or may
9 not change. I don't know.

10 **Q Are you aware of any changes as of today --**

11 A I'm not aware of --

12 **Q -- made to the schedule?**

13 A -- any.

14 **Q Okay. Do you agree that the total projected**
15 **cost of the interconnection investment is approximately**
16 **3.5 million?**

17 A To my knowledge, that's what the estimate was.

18 **Q And did you use the \$3.5 million figure when**
19 **calculating the schedule?**

20 A I'm not sure. I'm not sure. Again, a
21 consultant prepared the schedule.

22 **Q Would Mr. Cutshaw be able to answer that**
23 **question?**

24 A I don't know.

25 **Q Has anything changed about the cost of this**

1 project or projected savings since the schedule was
2 prepared?

3 A Not to my knowledge.

4 Q I am looking at the CDY-3, Page 9 of 10.

5 A Yes.

6 Q Is it correct that you calculated a revenue
7 requirement associated with the project to be recovered
8 through the Fuel Clause in the amount of 107,333?

9 A Yes.

10 Q What amount of investment for 2016 was this
11 revenue requirement based upon?

12 A If you look at Line -- well, I have the
13 investment near the top of the schedule. And this was
14 estimated as what we predicted the cost would be on a
15 monthly basis. And the balances were based on that
16 monthly estimate.

17 Q So, the total was 1.75, the year-end balance
18 at the end?

19 A Oh, yes.

20 Q Okay. I passed out the Exhibit 89. It's just
21 a courtesy copy, but if you can, please turn to that.

22 A Yes.

23 Q FPUC's response to staff's second set of
24 interrogatories, No. 12. This response states that the
25 bill impact of including the company's requested revenue

1 requirement for 2016 is 17 cents per 1,000 kilowatts
2 monthly residential bill; is this correct?

3 A Yes.

4 Q Has anything changed about this discovery
5 response since it was prepared --

6 A No.

7 Q -- Mr. Young? No? Okay.

8 Please turn to your projection testimony for
9 the next two questions, which was filed on
10 September 1st, 2015. I'm specifically looking at
11 Page 7, Lines 12 through 16.

12 A Yes.

13 Q In this testimony, you stated: Without
14 recovery of the interconnection investment, the company
15 would either have to defer the project or file a rate
16 case.

17 A Yes.

18 Q If the company is not granted recovery through
19 the Fuel Clause, when do you anticipate the company
20 would file its next rate case?

21 A I wouldn't have specific knowledge on that.

22 Q Would Mr. Cutshaw be better able to answer
23 that question?

24 A I couldn't answer that for him. I'm not sure.

25 Q If the company was allowed recovery of the

1 interconnection investment as requested, would the
2 delay -- would that delay the need to file a rate case?

3 A Yes.

4 Q On the same Page 7, but looking at Lines 4
5 through 7 --

6 A Yes.

7 Q -- you stated: The company requests recovery
8 of the interconnection investment through the Fuel
9 Clause until such time that any remaining cause can be
10 rolled into rate case in future rate proceedings.

11 Based on the statement, if the company was
12 granted recovery through the Fuel Clause, then
13 subsequently filed a rate case, would only the remaining
14 cost, if any, be included in the rate case?

15 A Yes.

16 Q Mr. Young, can you tell me your achieved
17 return on equity as filed in the most recent
18 surveillance report?

19 A I'm not sure --

20 Q Do you need me to repeat --

21 A I heard the question. I'm not sure if I have
22 that answer for you right now.

23 Q We have -- we're going to be passing out an
24 exhibit so you can refresh your memory.

25 Mr. Young were you responsible for preparing

1 the surveillance report?

2 A Yes.

3 Q Would you agree, subject to check -- oh, okay.

4 CHAIRMAN GRAHAM: We need an exhibit number
5 for this?

6 MS. JANJIC: Yes, we do, as I believe it's
7 123.

8 CHAIRMAN GRAHAM: 124.

9 MS. JANJIC: 124. I'm sorry.

10 (Exhibit No. 124 marked for identification.)

11 THE WITNESS: Yes, I have it.

12 BY MS. JANJIC:

13 Q And could you tell me your achieved return on
14 equity?

15 A Yes, 4.79.

16 Q All right. I'm going to shift gears and ask
17 you a few questions about the consulting costs that are
18 subject to Issues 4B.

19 A Okay. Yes.

20 Q Mr. Young, in talking about consulting costs
21 for 2015 and '16, can you describe for me the services
22 consultants have provided FPUC in 2015 and are projected
23 to provide in 2016?

24 A How descriptive do you want these services to
25 be described? Just in -- I'm just -- I just want -- the

1 question as far -- you want a brief description of what
2 they're doing or --

3 **Q Brief description will be fine.**

4 A Yeah, in a nutshell, they are engaging in
5 projects and programs that are intended to bring about
6 cost savings to the customers.

7 **Q Is FPUC seeking cost recovery in the Fuel
8 Clause for any of its administrator costs?**

9 A When you say administrative costs, you're
10 talk- -- I just want to understand this specifically,
11 which costs you're talking about.

12 **Q Preparing reports.**

13 A No.

14 **Q And is FPUC seeking recovery costs for the
15 actual procurement of fuel?**

16 A For -- for -- not -- no, not at this point.

17 MS. JANJIC: Thank you, Mr. Young.

18 Mr. Chairman, nothing further from staff.

19 CHAIRMAN GRAHAM: Commissioners?

20 Redirect?

21 MS. KEATING: Thank you, Mr. Chairman. Just a
22 few.

23 REDIRECT EXAMINATION

24 BY MS. KEATING:

25 **Q Mr. Young?**

1 A Yes.

2 Q Ms. Christensen took you through a line of
3 questions --

4 A Yes.

5 Q -- regarding each of your consultants --

6 A Yes.

7 Q -- and asking if you could correlate the work
8 of those consultants with specific savings. Do you
9 recall that line of questioning?

10 A Yes. Yes.

11 Q Does FPUC analyze cost savings on a per-
12 consultant basis?

13 A No, we don't.

14 Q Do you analyze savings based on particular
15 projects?

16 A No, we don't.

17 Q How do you analyze savings?

18 A I'm not sure I'm understanding the question as
19 far as did --

20 Q Let me ask it this way --

21 A Yes.

22 Q Are there projects that the consultants are
23 working on that the company anticipates will produce --

24 A Yes.

25 Q -- or has produced savings?

1 A That's correct.

2 Q Mr. Moyle also asked you a few questions and,
3 in particular, mentioned transmission-related costs?

4 A Yes.

5 Q Do you know whether FPUC is recovering
6 transmission-related costs through the Fuel Clause?

7 A My best way to answer the question is that our
8 fuel costs are generated from our fuel power suppliers.
9 If they have transmission at their -- embedded in their
10 costs to us, then that would be a part of our cost
11 recovery. But specifically our own transmission, no.

12 MS. KEATING: I think that's it. Thank you,
13 Mr. Chairman.

14 CHAIRMAN GRAHAM: Thank you.
15 Exhibits.

16 MS. JANJIC: 124.

17 CHAIRMAN GRAHAM: Hold on.

18 MS. JANJIC: Oh, I'm sorry.

19 MS. KEATING: 32, 33, and 34, please.

20 CHAIRMAN GRAHAM: 32, 33, and 34. Okay.

21 (Exhibit Nos. 32, 33, and 34 admitted into the
22 record.)

23 MS. CHRISTENSEN: OPC moves 122 and 123.

24 CHAIRMAN GRAHAM: 122 and 123 well enter into
25 the record.

1 (Exhibit Nos. 122 and 123 admitted into the
2 record.)

3 MS. JANJIC: My turn? Okay. 124.

4 CHAIRMAN GRAHAM: We'll enter --

5 MS. JANJIC: The surveillance report.

6 CHAIRMAN GRAHAM: We'll enter 124 into the
7 record as well.

8 (Exhibit No. 124 admitted into the record.)

9 CHAIRMAN GRAHAM: Mr. Young, thank you very
10 much for your testimony.

11 THE WITNESS: All right. Thank you.

12 CHAIRMAN GRAHAM: I said when we started today
13 that we're going to shoot for ending at 6:00 or
14 6:30. I think this is a good stopping point.

15 MS. KEATING: Mr. Chairman, just to be clear,
16 may Mr. Young be excused for --

17 CHAIRMAN GRAHAM: Yes, ma'am.

18 MS. KEATING: -- not to return tomorrow?

19 Thank you.

20 MS. CHRISTENSEN: Commissioner, I don't know
21 how you want to handle the red folders, if you want
22 me to pick those back up --

23 CHAIRMAN GRAHAM: Yes.

24 MS. CHRISTENSEN: I'm done with them for
25 purposes of cross examination. So, I'm happy to

1 pick those up. And I'll leave the redacted with
2 the Commission.

3 CHAIRMAN GRAHAM: Yes.

4 Okay. So, we will be back here tomorrow
5 morning at 9:30. And plan on lunch around 1:00,
6 dinner around 6:00, 6:30, and going late.

7 I hope everybody drives safely. We're
8 adjourned.

9 (Whereupon, the proceedings were adjourned at
10 6:00 p.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, ANDREA KOMARIDIS, Court 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 434 through 580, 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 3rd day of November, 2015.



ANDREA KOMARIDIS
NOTARY PUBLIC
COMMISSION #EE866180
EXPIRES FEBRUARY 09, 2017