BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 130001-EI

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

VOLUME 2

Pages 290 through 446

PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: CHAIRMAN RONALD A. BRISÉ
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Monday, November 4, 2013

TIME: Commenced at 10:06 a.m.
Concluded at 12:00 noon

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter
(850) 413-6732

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
1	Comprehensive Exhibit List	294	294
2-9, 26A-33, 35 and 96		295	295
97		295	295
98		338	366
99		338	366
100		338	366
21-26			366
101		428	445
10-18			445

P R O C E E D I N G S

CHAIRMAN BRISÉ: Exhibits.

MS. BARRERA: Staff asks, Commissioner, that you mark and admit the Comprehensive Exhibit List into the record. The list itself is Exhibit 1. There is no objection to the entry of this exhibit on the record.

Staff would please note that Exhibit 34 has been withdrawn, and Exhibits 10 through 26 are exhibits to the testimony of Witnesses Keith, Rote, and Foster, and they will be introduced at the time of their testimony. There are no listed exhibits for Witness Grissette.

Staff will ask that you move the exhibits listed on the Comprehensive Exhibit List as Exhibits 2 to 9, 26A to 33, and 35 to 96 into the record. These exhibits, of course, include the prefiled exhibits of the excused witnesses.

At this time staff believes that all the exhibits have been stipulated. FP&L has one additional exhibit to introduce at this time, which is a correction to Staff Exhibit 62, and we have no objection.

CHAIRMAN BRISÉ: Okay.

MR. RUBIN: Thank you. Chairman Brisé, on Friday, November 1st, FPL filed this revised response to Staff's 9th Interrogatories, Question 62. It has no impact on any of the fallout issues or on the factors, and so we would simply ask that it be admitted as the next numbered exhibit.

CHAIRMAN BRISÉ: Okay. Thank you. So let's deal with the exhibits in terms of moving them in. So we first want to move the Comprehensive Exhibit List into the record as outlined as Exhibit 1.

MS. BARRERA: Yes.

CHAIRMAN BRISÉ: So we will move that into the record at this time, seeing no objections. Okay.

(Exhibit 1 marked for identification and admitted into the record.)

MS. BARRERA: Commissioner, it has been pointed out that Exhibit 74 has also been withdrawn.

CHAIRMAN BRISÉ: 74?

MS. BARRERA: Yes.

CHAIRMAN BRISÉ: Thank you.

Okay. And staff also identified Exhibits 2 through 9, 26A through 33, 35, and 96. So we will move those into the record, seeing no objections. Are there any objections? Okay. Let me make sure I'm giving everybody enough time to sort of look through to see if there are any objections. Okay. And I'm not seeing any objections, so we will move those into the record at this time.

(Exhibits 2 through 9, 26A through 33, 35, and 96 marked for identification and admitted into the record.)

CHAIRMAN BRISÉ: And now we will deal with Exhibit 62. Are there any -- or, not Exhibit 62.

MS. BARRERA: It would be Exhibit 97.

CHAIRMAN BRISÉ: Exhibit 97, which is the response to the questions asked by staff as offered by FPL for Question 62. Are there any objections to that?

Okay. Seeing none, we will move that into the record and that will become Exhibit 97.

(Exhibit 97 marked for identification and admitted into the record.)

CHAIRMAN BRISÉ: Okay. Any other exhibits that we are missing that need to be moved into the record at this time? Okay.

All right. Commissioners, we are at the point of decision on the stipulations, and I don't know if there are questions.

Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Mr. Chairman. Noting that in this docket there are many, many more issues than in the dockets that we addressed just a bit ago earlier this morning, and that we will be taking testimony here in a few minutes and an opportunity to question witnesses on the nonstipulated issues, therefore, I would move approval of all stipulated issues as contained in the prehearing order.

COMMISSIONER BROWN: Second.

CHAIRMAN BRISÉ: Okay. It has been moved and seconded. Any further comments, questions, or discussion? Seeing none, all in favor say aye.

(Vote taken.)

CHAIRMAN BRISÉ: Okay. Thank you very much. Are there any outstanding motions?

MS. BARRERA: No, Commissioner.

CHAIRMAN BRISÉ: Thank you. Are there any additional preliminary matters that we need to address?

MS. BARRERA: No, Commissioner.

CHAIRMAN BRISÉ: Okay. So now we will move to the contested issues. The request was made --

MR. STONE: Chairman Brisé.

CHAIRMAN BRISÉ: Yes, sir.

MR. STONE: All of my witnesses have been excused. All of my issues have been stipulated. May I be excused from further attendance at this hearing?

CHAIRMAN BRISÉ: You don't want to hang out with us?

(Audience laughter.)

MR. STONE: It's not a matter of want to.

CHAIRMAN BRISÉ: Understood. You are certainly excused.

MR. STONE: Thank you.

(Simultaneous conversation; audience laugher.)

MS. KEATING: We want to leave, too.

CHAIRMAN BRISÉ: All right. So you are excused.

MS. DANIELS: Likewise; may we be excused, as well?

CHAIRMAN BRISÉ: Okay. You are excused, as well. All right. Anyone else that is seeking to be excused from the hearing at this time? Seeing none. Well, thank you. And you all that are leaving us, travel safely.

And we have witnesses that we are going to swear in shortly, and we are going to go ahead and take the Duke witness first and proceed that way. So if you are one of the witnesses, if you would stand with me so that we can swear you in.

(Witnesses sworn.)

CHAIRMAN BRISÉ: All right. Thank you very much.

I understand that we are going to have opening statements and those opening statements are going to be limited to five minutes per party.

MR. BUTLER: Thank you, Mr. Chairman. Good morning, Commissioners. For FPL, thanks to staff's hard work, a well-run prehearing conference, and cooperation of the parties, most of this docket has been stipulated by you. I appreciate that.

FPL is here today to address the two topics that remain for us. First, FPL is asking to recover through the capacity clause its incremental costs to comply with the emerging regulatory requirements that the U.S. Nuclear Regulatory Commission is imposing as a result of the Fukushima earthquake and tsunami.

FPL Witness Don Grissette is with our nuclear division. He will describe the NRC regulatory requirements and how FPL is addressing them. He will explain that compliance will be a multiyear constantly evolving process with a great deal of uncertainty as to the ultimate nature and cost of those measures.

At this point, FPL has submitted an implementation plan for the most immediate of the NRC requirements and we are awaiting the NRC's approval of that plan. Until the NRC has given its approval, we cannot know whether the NRC will have any changes that it wants FPL to make to it.

FPL currently estimates that its compliance costs over the period 2012 to 2016 will total between 93 million and $189 million. This contrasts sharply to the minimal $10 million that FPL included in its 2013 rate case test year as a preliminary estimate based on very limited information available at that time.

Costs beyond 2016 simply can't be predicted at this time as the NRC has not yet determined what, if any, additional regulatory requirements might be imposed. FPL's Witness Terry Keith will testify that FPL's incremental Fukushima compliance costs should be recovered through the capacity clause for the same reasons that FPL has been authorized to recover incremental power plant security costs since 2001.

The costs arise out of regulatory requirements in both cases imposed in response to extraordinary game-changing external events. In the case of the power plant security costs, these were the 9/11 terrorist attacks. In the case of the Fukushima compliance costs at issue here, it is the disastrous earthquake and tsunami that crippled a nuclear plant and its safety systems in Japan.

The ultimate compliance costs for the Fukushima regulatory matters are unknown and highly volatile because regulatory requirements are emerging as the NRC and industry learn more about those problems. It's the exact same fact pattern we had with -- or still have with respect to the power plant security.

When faced with such volatility, both FPL and customers are best served if the costs are recovered through the capacity clause. This avoids the risk of significant under or overrecovery that could occur in the absence of a true-up mechanism like the capacity clause provides.

The second issue FPL will address today concerns the generating performance incentive factor, or GPIF. Issue 18B asks whether FPL should be excluded from the GPIF program for the duration of FPL's pilot asset optimization program. This issue is in an unusual procedural posture here. At the Commission's direction in last year's fuel clause docket, staff has conducted informal meetings with the parties throughout this year to determine whether the GPIF should be modified. That process led to the identification of one revision to which all parties have stipulated in Issue 18A.

No one raised Issue 18B during the informal meetings, and no party has filed testimony supporting that issue. FPL's Witness Charles Rote testifies generally about the GPIF and also explains that the GPIF does not overlap with the asset optimization program. Mr. Rote concludes that these programs are very different distinct mechanisms, both of which inappropriately incent FPL in different ways. There is no basis and no reason to exclude FPL from the GPIF.

Thank you.

CHAIRMAN BRISÉ: Thank you. Duke.

MS. TRIPLETT: Thank you, Mr. Chairman. Dianne Triplett on behalf of Duke Energy Florida.

The sole remaining issue with respect to DEF is whether we have made the necessary adjustments and refunds to our 2014 fuel factors that are required under the recently approved revised and restated stipulation and settlement agreement. The answer to that issue is yes, we have made the necessary adjustments. Our prefiled testimony and exhibits fully demonstrate that the necessary adjustments and refunds have been included in the 2014 fuel factors.

We have one witness here today, Mr. Thomas Foster, to respond to questions in further support of those adjustments. Thank you.

CHAIRMAN BRISÉ: Thank you.

Mr. McGlothlin.

MR. McGLOTHLIN: Good morning. And just a very quick administrative errand. I'm going to be involved in the FPL portion of the case, and my opening will be limited to the Fukushima cost issue.

Mr. Rehwinkel also has an issue with Duke, and he is planning to make an opening, also, but we think the combination will be within the five minutes.

CHAIRMAN BRISÉ: Okay.

MR. McGLOTHLIN: I think mine is about three and a half, and he says he can do the rest with the remainder of the five minutes.

CHAIRMAN BRISÉ: All right. Thank you.

MR. McGLOTHLIN: Good morning, Commissioners.

When a utility incurs an increase in a cost being recovered through base rates, all other things being equal, earnings that remain after costs are subtracted from revenues are reduced.

When a utility experiences a decrease in a base rate related cost, or an increase in revenues, either of which can happen also and for a variety of reasons, the earnings remaining after costs are subtracted from revenues are increased. A utility, therefore, has an incentive to celebrate and enjoy the benefits of reductions that increases earnings, but it also has an incentive to seek to flow cost increases that would reduce earnings through a separate cost-recovery clause.

If the Commission allows a recovery through the clause, the earnings are unaffected by the costs, but the customers total bills increase. It's, therefore, imperative that the Commission police the application of cost-recovery clauses and limit them to the recovery of costs for which they were intended.

In this proceeding, FPL asks the Commission to permit it to flow the costs of complying with the NRC requirements stemming from the Fukushima incident in Japan through the capacity cost-recovery clause. In support of the request, FPL invokes the Commission's decision to permit FPL and Duke to recover the incremental costs of post-9/11 security costs through first the fuel cost-recovery clause, and subsequently the capacity cost-recovery clause.

This past weekend, I had the occasion when traveling to wind my way through the security screening lines at the Atlanta and Charlotte airports, and I'm sure you have had similar experiences and with some frequency. It is a very vivid reminder of the incident that changed all of our lives in 2001.

And I had the opportunity to reflect on the nature of that 2001 decision that the Commission made. The decision to authorize recovery of security costs through a clause was made in 2001 shortly after terrorist attacks on the World Trade Center and the Pentagon. The decision was made in response to the realization that the United States is under attack by an enemy that is fanatically intent on killing Americans and is probing to identify vulnerabilities that would provide opportunities to kill more Americans.

Because nuclear power plants are an inviting target, the decision was the regulatory equivalent of an emergency wartime measure. The decision was unique to an existential and ongoing threat of terrorist attack. In sharp contrast, FPL has gone to lengths to tell you and the public that its nuclear power plants are very different from the factors that contributed to the Fukushima incident and to emphasize that the plants are safe from similar incidents.

Given that the 2001 decision by this Commission was largely an extraordinary accommodation, an expression of solidarity in defending nuclear units against terrorist attack, FPL's effort to expand the security cost exception into a broader category of clause costs is particularly inappropriate.

I underscore that the issue is not whether FPL will recover the costs of complying with NRC requirements growing from the Fukushima evaluations, but where those costs would be recovered. Certainly, FPL will incur costs associated with complying with additional requirements that the NRC imposes as a result of Fukushima. However, it has already been established that these costs are base rate related.

FPL's witnesses testify that an estimate of 2013 Fukushima related compliance costs was included in the 2013 test year of Docket Number 120015. We have here then the unusual and possibly singular situation of a utility attempting to use a clause proceeding to modify MFR base rate projections in the middle of the MFR test year. FPL's request is a novel example of hoped for piecemeal ratemaking, but that's all it is.

Other test year projections will also miss the mark whether above it or below it. If the overall impact of all such deviations from projections is to cause FPL to earn less than a fair rate of return, it knows its way to the Commission.

You have heard of the often used example of the camel's nose under the tent. It applies here, but in this instance the nose and the four legs and the hump would be under the tent. Because in addition to the Fukushima related costs, FPL offers you this standard: They say the costs would be incurred in order to allow FPL's nuclear plants to continue operation and that the costs would be uncertain in amount.

Under that standard proposed by FPL, what compliance costs would not be eligible for recovery? So vigilance is required, and we ask you to deny the request to flow these costs through the capacity cost-recovery clause.

CHAIRMAN BRISÉ: Thank you. Just for the record, it is five minutes and thirty-eight seconds.

Go ahead, Mr.--

MR. REHWINKEL: Thank you, Mr. Chairman. Briefly, the Public Counsel's participation in this docket on the Duke side is only on Issue 1C, and it is whether Duke has properly accounted for the required provisions in the recently approved revised stipulation and settlement agreement, or RRSSA.

At this point we have not identified any adjustments or errors in the ongoing fuel true-up process. At the hearing, though, we have some questions to explore and we want to confirm the implementation process that all parties and the Commission expect to incur. Because the fuel clause is the vehicle for implementation of many of the customer impacts of the RRSSA, we believe that it is important each year, including this year, to have a process to verify that the fuel clause is working as intended relative to the RRSSA, and that the public can see the benefits that customers have been promised are being delivered. Thank you.

CHAIRMAN BRISÉ: Thank you.

Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman. The Retail Federation concurs in the remarks and arguments made by the Public Counsel's attorneys. Thank you.

CHAIRMAN BRISÉ: Thank you. FIPUG.

MS. PUTNAL: Thank you, Mr. Chairman.

FIPUG also supports the general comments made by the Public Counsel attorneys. Thank you.

CHAIRMAN BRISÉ: Okay. PCS Phosphate.

MR. BREW: Thank you, Mr. Chairman.

I'd just like to take a minute on a somewhat related issue, and that is we certainly support what the Public Counsel said with respect to Duke. And PCS does not propose any adjustments to the proposed factors that are in the stipulation on Issue 23. But we have a concern that needs to be addressed going forward. And that's, as Mr. Rehwinkel mentioned, there for the next couple of years are a variety of puts and takes that are flowing through the fuel clause as a result of the restated settlement agreement approved last month.

But the factors here that are proposed, for example, Duke is proposing a 9 percent increase for the on-peak fuel factor, but a 27 percent increase in the off-peak fuel factor based on their established process which is forecasted production simulations, but it is very mechanical. And what you are seeing is the narrowing of the spread between on and off-peak fuel prices.

And to the extent that those on and off-peak fuel prices are supposed to send price signals affecting consumer behavior, that incentive is being diminished. I would note that in their ten-year site plan, Duke is forecasting a 6 percent increase in its winter peak in two years. And so to the extent that in this docket, as in all the dockets, since we are doing five of them today, the Commission tends to look at discreet items, but as consumers we get hit with the bills all at once.

And we are concerned that we are going to move very quickly from a ten-year site plan where Duke appears to be flush with capacity where they are going to be scrambling looking for options. But before we sit and look at whether there is a need for new CTs, the Commission should be perhaps revisiting some of its prior decisions on time-based pricing.

You will recall in the 2005 energy policy act, the Commission was directed, as all states were, to look at implementing time based pricing for consumers and determined at the time that the efforts underway at the time were sufficient, while in the case of Duke Energy Florida, that is probably these time-of-use provisions.

So to the extent that you are looking at a flattening of those distinctions based on the existing mechanisms and you are not seeing any kind of price responsive behavior because it is being watered down based on the fact that you don't have nuclear generation, you are losing coal generation, you are getting increasingly gas-fired generation on the margin most of the times, and you are seeing more and more of a flattening of those fuel factors and a reduction of that spread, you are not going to be seeing the types of things that you might otherwise be looking at.

So as I said, we are not proposing a change in the recovery factor here, but we think it is a clear portent of what the Commission will be looking at for the future, and it is an issue that needs to be looked at while there is time to actually consider options before we simply find ourselves limited with whatever supply options that the utility will be coming down the pike with.

Particularly based on their current forecast for the winter need for 2015, our suggestion is that the Commission take a look at the basis upon which Duke looks at their time-based pricing. Thank you.

CHAIRMAN BRISÉ: Thank you.

Okay. At this time we are going to get ready to hear from our witnesses.

MS. TRIPLETT: Thank you. Duke Energy Florida calls Thomas Foster to the stand. And I appreciate your willingness to accommodate the out-of-order. Thank you.

CHAIRMAN BRISÉ: No problem.

You may proceed.

MS. TRIPLETT: Thank you.

THOMAS G. FOSTER

was called as a witness on behalf of Duke Energy Florida, and having been previously sworn to tell the truth, testified as follows:

DIRECT EXAMINATION

BY MS. TRIPLETT:

Q Will you please introduce yourself to the Commission.

A Good morning, Commissioners. My name is Thomas G. Foster. My business address is 299 1st Avenue North, St. Petersburg, Florida 33701.

Q And you have been sworn in as a witness?

A Yes.

Q Who do you work for and what is your position?

A I'm employed by Duke Energy Florida as Manager of Retail Riders and Rate Cases.

Q And have you filed prefiled direct testimony and exhibits in this proceeding?

A Yes.

Q Do you have those with you?

A Yes.

Q Do you have any changes to make to your prefiled testimony?

A I have two small changes. One on Page 10 of my March 1st testimony. At Line 20 it says overrecovery. It should say underrecovery. It doesn't affect any numbers in the schedules, so just a scrivener's error, I suppose.

And then on Page 12 of my August 30, 2013, testimony, at the top it says August 30, 2012; it was August 30, 2013.

Q Okay. And with those corrections, if I asked you the same questions that are in your prefiled testimony today, would you give the same answers that are contained therein?

A Yes.

MS. TRIPLETT: Mr. Chairman, we request that the prefiled testimony with the two corrections noted by Mr. Foster be entered into the record as if it were read today.

CHAIRMAN BRISÉ: Okay. At this time we will enter Mr. Foster's prefiled testimony recognizing the two corrections that were just made into the record as though read, seeing no objections. All right. It's moved into the record.

MS. TRIPLETT: Thank you.

PROGRESS ENERGY FLORIDA

DOCKET NO. 130001-EI

Fuel and Capacity Cost Recovery
Actual True-Up for the Period
January through December, 2012

DIRECT TESTIMONY OF
Thomas G. Foster

March 1, 2013

Q. Please state your name and business address.

A. My name is Thomas G. Foster. My business address is 299 First Avenue North, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Energy Service Company, LLC as Manager, Retail Riders and Rate Cases.

Q. What are your responsibilities in that position?

A. I am responsible for regulatory planning and cost recovery for Progress Energy Florida, Inc. ("PEF" or the "Company"). These responsibilities include: regulatory financial reports; and analysis of state, federal, and local regulations and their impact on PEF.

Q. Please describe your educational background and professional experience.

A. I joined Progress Energy on October 31, 2005 as a Senior Financial analyst in the Regulatory group. In that capacity I supported the preparation of testimony and exhibits associated with various Dockets. In late 2008, I was promoted to Supervisor Regulatory Planning. In 2012, following the merger with Duke Energy, I was promoted to my current position. Prior to working at Progress I was the Supervisor in the Fixed Asset group at Eckerd Drug. In this role I was responsible for ensuring proper accounting for all fixed assets as well as various other accounting responsibilities. I have 6 years of experience related to the operation and maintenance of power plants obtained while serving in the United States Navy as a Nuclear operator. I received a Bachelors of Science degree in Nuclear Engineering Technology from Thomas Edison State College. I received a Masters of Business Administration with a focus on finance from the University of South Florida and I am a Certified Public Accountant in the State of Florida.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe PEF's Fuel Adjustment Clause final true-up amount for the period of January through December 2012, and PEF's Capacity Cost Recovery Clause final true-up amount for the same period.

Q. Have you prepared exhibits to your testimony?

A. Yes, I have prepared and attached to my true-up testimony as Exhibit No. __(TGF-1T), a Fuel Adjustment Clause true-up calculation and related schedules; Exhibit No. __(TGF-2T), a Capacity Cost Recovery Clause true-up calculation and related schedules; Exhibit No. __(TGF-3T), Schedules A1 through A3, A6, and A12 for December 2012, year-to-date; and Exhibit No. __(TGF-4T), a schedule outlining the 2012 capital structure and cost rates applied to capital projects. Schedules A1 through A9, and A12 for the year ended December 31, 2012, were previously filed with the Commission on January 18, 2013.

Q. What is the source of the data that you will present by way of testimony or exhibits in this proceeding?

A. Unless otherwise indicated, the actual data is taken from the books and records of the Company. The books and records are kept in the regular course of business in accordance with generally accepted accounting principles and practices, and provisions of the Uniform System of Accounts as prescribed by this Commission.

Q. Would you please summarize your testimony?

A. Per Order No. PSC-12-0664-FOF-EI, the projected 2012 fuel adjustment true-up amount was an under-recovery of $145.4 million. The actual under-recovery for 2012 was $217.6 million resulting in a final fuel adjustment true-up under-recovery amount of $72.2 million (Exhibit No. __(TGF-1T)).

The projected 2012 capacity cost recovery true-up amount was an under-recovery of $10.5 million. The actual amount for 2012 was an under-recovery of $20.3 million resulting in a final capacity true-up under-recovery amount of $9.8 million (Exhibit No. __(TGF-2T)).

FUEL COST RECOVERY

Q. What is PEF's jurisdictional ending balance as of December 31, 2012 for fuel cost recovery?

A. The actual ending balance as of December 31, 2012 for true-up purposes is an under-recovery of $217,577,600.

Q. How does this amount compare to PEF's estimated 2012 ending balance included in the Company's estimated/actual true-up filing?

A. The actual true-up amount attributable to the January - December 2012 period is an under-recovery of $217,577,600 which is $72,210,688 higher than the re-projected year end under-recovery balance of $145,366,912.

Q. How was the final true-up ending balance determined?

A. The amount was determined in the manner set forth on Schedule A2 of the Commission's standard forms previously submitted by the Company on a monthly basis.

Q. What factors contributed to the period-ending jurisdictional under-recovery of $217,577,600 shown on your Exhibit No. __(TGF-1T)?

A. The factors contributing to the under-recovery are summarized on Exhibit No. __(TGF-1T), sheet 1 of 6. Net jurisdictional fuel revenues were unfavorable to the forecast by $58.2 million, while jurisdictional fuel and purchased power expense decreased $42.4 million, resulting in a difference in jurisdictional fuel revenue and expense of $15.9 million. The $42.4 million decrease in jurisdictional fuel and purchase power expense is primarily attributable to a favorable system variance from projected fuel and net purchased power of $71.2 million as more fully described below. The $217.6 million under-recovery also includes the deferral of $201.4 million of 2011 under-recovery approved in Order No. PSC-12-0664-FOF-EI. The net result of the difference in jurisdictional fuel revenues and expenses of $15.9 million, plus the 2011 deferral of $201.4 million and the 2012 interest provision calculated on the deferred balance throughout the year is an under-recovery of $217.6 million as of December 31, 2012.

Q. Please explain the components contributing to the $72.2 million variance between the actual under-recovery of $217.6 million and the approved, estimated/actual under-recovery of $145.4 million.

A. The major factors contributing to the $72.2 million variance are a $37.6 million reduction in sales and a $35.4 million increase in system fuel and net power costs.

The $35.4 million increase in system fuel and net power costs results from a variety of increased generation costs and decreased firm purchases.

Q. What is the current status of NEIL replacement power reimbursement and repair policy insurance proceeds owed PEF as of December 31, 2012?

A. PEF and NEIL have reached a resolution of its insurance coverage claims through a mediation process. Under the terms of the mediator's proposal, which both parties accepted, NEIL will pay PEF $530 million in additional proceeds. The parties are currently negotiating a final settlement agreement to clarify the specifics of the resolution. Because NEIL did not make any additional payments in 2012, the expected receipt of additional proceeds from NEIL will not impact PEF's 2012 true-up filing. Rather, PEF will include the expected net insurance proceeds in its actual/estimated filing.

Q. Please explain the components shown on Exhibit No. __(TGF-1T), sheet 6 of 6 which helps to explain the $71.2 million favorable system variance from the projected cost of fuel and net purchased power transactions.

A. Exhibit No. __(TGF-1T), sheet 6 of 6 is an analysis of the system dollar variance for each energy source in terms of three interrelated components; (1) changes in the <u>amount</u> (MWH's) of energy required; (2) changes in the heat rate of generated energy (BTU's per KWH); and (3) changes in the unit price of either fuel consumed for generation ($ per million BTU) or energy purchases and sales (cents per KWH). The $71.2 million favorable system variance is mainly attributable to lower than projected fuel and net power transactions, partially offset by a lower than expected credit to fuel costs from stratified sales and the projected recovery of outstanding NEIL replacement power reimbursements. This is further broken out on Schedule A2, Page 1 of 2.

Q. Does this period ending true-up balance include any noteworthy adjustments to fuel expense?

A. Yes. Noteworthy adjustments are shown on Exhibit No. __(TGF-3T) in the footnote to line 6b on page 1 of 2, Schedule A2. Included in the footnote to line 6b on page 1 of 2, Schedule A2, is the allocation of $10.9 million of Nuclear Electric Insurance Limited (NEIL) replacement power reimbursement funds to the fuel clause and a reduction of $12.6 million for the incremental cost of replacement power provided the joint owners of CR-3 per PEF's Joint Ownership Agreements.

Q. Please explain the adjustment of $10.9 million related to the Nuclear Electric Insurance Limited (NEIL) replacement power reimbursement.

A. The $10.9 million credit represents the application of NEIL funds to the fuel clause received for the partial month of December 2010.

Q. Please explain the adjustment of $12.6 million for the incremental cost of replacement power provided the joint owners of the Crystal River nuclear unit (CR-3).

A. Per agreements with the joint owners of CR-3, if PEF does not meet a specific capacity factor for this unit per a designated two-year interval, PEF must replace enough power to meet the capacity factor or reimburse the joint owners for their cost of replacing the power. PEF decided to replace CR-3 joint owner power throughout 2012. For each hour replacement power was provided the joint owners of CR-3, PEF calculated the fuel costs on the incremental generating units that ran during those hours and the replacement MW. The incremental cost of the replacement power was then adjusted from generated fuel expense in order to remove these costs from fuel expense recovered from our retail ratepayers.

Q. Did the Company make an adjustment for changes in coal inventory based on an Aerial Survey?

A. Yes, PEF included a favorable adjustment of $0.7 million to coal inventory, which is attributable to the semi-annual aerial survey conducted on October 16, 2012 in accordance with Order No. PSC-97-0359-FOF-EI, found in Docket No. 970001-EI. This adjustment represents 0.16% of the total coal consumed at the Crystal River facility in 2012.

Q. Did PEF exceed the economy sales threshold in 2012?

A. No. PEF did not exceed the gain on economy sales threshold of $0.9 million in 2012. As reported on Schedule A1, Line 15a, the gain for the year-to-date period through December 2012 was $0.3 million; which fell below the threshold. This entire amount was returned to customers through a reduction of total fuel and net power expense recovered through the fuel clause.

Q. Has the three-year rolling average gain on economy sales included in the Company's filing for the November, 2012 hearings been updated to incorporate actual data for all of year 2012?

A. Yes. PEF has calculated its three-year rolling average gain on economy sales, based entirely on actual data for calendar years 2010 through 2012, as follows:

Year	Actual Gain
2010	1,116,387
2011	352,650
2012	298,813
Three-Year Average	$589,283

CAPACITY COST RECOVERY

Q. What is the Company's jurisdictional ending balance as of December 31, 2012 for capacity cost recovery?

A. The actual ending balance as of December 31, 2012 for true-up purposes is an under-recovery of $20,253,872.

Q. How does this amount compare to the estimated 2012 ending balance included in the Company's estimated/actual true-up filing?

A. When the estimated 2012 under-recovery of $10,485,622 is compared to the $20,253,872 actual under-recovery, the final capacity true-up for the twelve month period ended December 2012 is an under-recovery of $9,768,250.

Q. Is this true-up calculation consistent with the true-up methodology used for the other cost recovery clauses?

A. Yes. The calculation of the final net true-up amount follows the procedures established by the Commission in Order No. PSC-96-1172-FOF-EI. The true-up amount was determined in the manner set forth on the Commission's standard forms previously submitted by the Company on a monthly basis.

Q. What factors contributed to the actual period-end capacity over-recovery of $20.3 million?

A. Exhibit No. __(TGF-2T, sheet 1 of 3) compares actual results to the original projection for the period. The $20.3 million under-recovery ~~over-recovery~~ is due primarily to the higher than projected capacity expenses and lower than projected capacity revenues.

OTHER MATTERS

Q: Please explain the adjustment found on line C. 12 (Other) of Schedule A2 in Exhibit No. __(TGF-3T)?

A: Line C. 12 of Schedule A2 represents an adjustment to the allocation of fuel expense between the retail and wholesale jurisdictions for 2012.

Q: Have you provided Schedule A12 showing the actual monthly capacity payments by contract consistent with the Staff Workshop in 2005?

A: Yes. A confidential version of Schedule A12 is included in Exhibit No. __(TGF-3T).

Q. Does this conclude your direct true-up testimony?

A. Yes.

FILED AUG 30, 2013
DOCUMENT NO. 05171-13
FPSC - COMMISSION CLERK

DUKE ENERGY FLORIDA

DOCKET NO. 130001-EI

Fuel and Capacity Cost Recovery Factors
January through December 2014

DIRECT TESTIMONY OF
Thomas G. Foster

August 30, ~~2012~~ 2013

Q. Please state your name and business address.

A. My name is Thomas G. Foster. My business address is 299 1st Avenue North, St. Petersburg, Florida 33701.

Q. Have you previously filed testimony before this Commission in Docket No. 130001-EI?

A. Yes, I provided direct testimony on March 1, 2013 and August 2, 2013.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Commission approval the fuel and capacity cost recovery factors of Duke Energy Florida (DEF or the Company) for the period of January through December 2014.

Q. Do you have an exhibit to your testimony?

A. Yes. I have prepared Exhibit No.__(TGF-3), consisting of Parts 1, 2 and 3. Part 1 contains our forecast assumptions on fuel costs. Part 2 contains fuel cost recovery (FCR) schedules E1 through E10, H1 and the calculation of the inverted residential fuel rate. I have not included the schedule that supports the rate of return applied to capital projects recovered through the fuel clause pursuant to Order No. PSC-13-0001-PCO-EI, as we have no capital projects for which we are requesting recovery herein. Part 3 contains capacity cost recovery (CCR) schedules.

FUEL COST RECOVERY CLAUSE

Q. Please describe the fuel cost factors calculated by the Company for the projection period, including the fuel rate adjustment of $1.00/mWh as set forth in paragraph 7a of the 2013 Revised and Restated Stipulation and Settlement Agreement, which is subject to approval by the Commission.

A. Schedule E1 shows the calculation of the Company's jurisdictional fuel cost factor of 4.303 ¢/kWh. This factor consists of a fuel cost for the projection period of 4.20289 ¢/kWh (adjusted for jurisdictional losses), a GPIF reward of 0.00866 ¢/kWh, and an estimated prior period under-recovery true-up of 0.08813 ¢/kWh. Utilizing this factor, Schedule E1-D shows the calculation and supporting data for the Company's levelized fuel cost factors for service taken at secondary, primary, and transmission metering voltage levels. To perform this calculation, effective jurisdictional sales at the secondary level are calculated by applying 1% and 2% metering reduction factors to primary and transmission sales, respectively (forecasted at meter level). This is consistent with the methodology used in the development of the capacity cost recovery factors.

Schedule E1-D, lines 8-10 illustrate the application of the fuel adjustment prescribed in paragraph 7a of the 2013 Revised and Restated Stipulation and Settlement Agreement. Pursuant to that agreement, an adjustment of $1.00/mWh, or 0.10 ¢/kWh, was added to the fuel factor at secondary metering consistent with the normal fuel projection process. All other fuel factors were developed using this adjusted fuel factor at secondary metering in a manner consistent with their normal derivation.

Schedule E1-D shows the Company's proposed tiered rates of 4.077 ¢/kWh for the first 1,000 kWh and 5.077 ¢/kWh above 1,000 kWh. These rates are developed in the "Calculation of Inverted Residential Fuel Rates" schedule in Part 2.

Schedule E1-E develops the Time of Use (TOU) multipliers of 1.291 On-peak and 0.858 Off-peak. The multipliers are then applied to the levelized fuel cost factors for each metering voltage level which results in the final TOU fuel factors to be applied to customer bills during the projection period.

Q. Please describe the application of the $10 million refund pursuant to the Stipulation and Settlement Agreement approved in Order No. PSC-12-0104-FOF-EI and included in paragraphs 6a and 6b of the 2013

Revised and Restated Stipulation and Settlement Agreement, subject to approval by the Commission.

A. Pursuant to Order No. PSC-12-0104-FOF-EI and the 2013 Revised and Restated Settlement and Stipulation Agreement, the $10 million refund in 2014 is allocated 94%, or $9.4 million, to the Residential Service rate schedules RS-1, RST-1, RSL-1, RSL-2 and RSS-1. The remaining 6%, or $0.6 million, is allocated to the General Service Non-Demand rate schedules GS-1, GST-1 and GS-2.

The levelized fuel cost factor, prior to the application of this refund, is 4.408 ¢/kWh (Schedule E1-D, line 10). To calculate the levelized fuel cost factor for residential service, the above rate is reduced by 0.049 ¢/kWh. The adjustment reflects the rate impact of the $9.4 million refund plus the interest amortization (Schedule E1-D, lines 13-16). The resulting levelized fuel cost factor for residential service is 4.359 ¢/kWh (Schedule E1-D line 17). A similar methodology was used in the calculation of the General Service Non-Demand rate schedules (Schedule E1-D, lines 18-22).

Q. What is the amount of the 2013 net true-up that DEF has included in the fuel cost recovery factor for 2014?

A. DEF has included a projected under-recovery of $33,195,183. This amount includes a projected actual/estimated over-recovery for 2013 of $39,015,505 net of the final 2012 true-up under-recovery of $72,210,688 as included in my Direct Testimony filed on March 1, 2013.

Q. What is the change in the levelized residential fuel factor for the projection period from the fuel factor currently in effect?

A. The projected levelized residential fuel factor for 2014 of 4.359 ¢/kWh is an increase of 0.656 ¢/kWh or 18% from the 2013 projected levelized residential fuel factor of 3.703 ¢/kWh.

Q. Please explain the increase in the 2014 fuel factor compared with the 2013 fuel factor.

A. There are three primary drivers of the increase in the 2014 fuel factor. First is the difference in NEIL reimbursement. In developing the 2013 retail fuel factors, NEIL reimbursement of approximately $326 million was assumed, compared with approximately $490 million which was adjusted in 2013 retail fuel expense; thus the approximate net effect of the above is $164 million of NEIL reimbursement included in 2014 retail fuel factors. The 2014 retail NEIL reimbursement is therefore approximately $162 million lower than 2013, thereby resulting in an increase in retail fuel factors. The increase is also driven by the collection of prior year under-recovered fuel costs. Finally, the 2014 fuel factor includes the $1.00/mWh fuel adjustment pursuant to the 2013 Revised and Restated Stipulation and Settlement Agreement.

Q. Have you made any adjustments to your estimated fuel costs for the period January through December 2014?

A. Yes, on Schedule E1, line 4, we made three adjustments totaling a net reduction of $128,673,569. First we made an adjustment to refund $129,000,000 (grossed up to $129,582,266 from retail to system) pursuant to the Stipulation and Settlement Agreement approved in Order No. PSC-12-0104-FOF-EI and included in the 2013 Revised and Restated Stipulation and Settlement Agreement. We also made an adjustment to reduce fuel costs by $142,800 (grossed up to $143,677 from retail to system) for the amortization of interest on the $129 million refund pursuant to the Stipulation and Settlement Agreement approved in Order No. PSC-12-0104-FOF-EI and included in the 2013 Revised and Restated Stipulation and Settlement agreement. Finally, we made a final tank bottom adjustment for Bartow tanks T1 and T2 of $1,052,374. This adjustment reflects the write-off of all remaining oil and tank bottom.

Q. Is DEF proposing to continue the tiered rate structure for residential customers?

A. Yes. DEF is proposing to continue use of the inverted rate design for residential fuel factors to encourage energy efficiency and conservation. Specifically, the Company proposes to continue a two-tiered fuel charge whereby the charge for a customer's monthly usage in excess of 1,000 kWh (second tier) is priced one cent per kWh higher than the charge for the customer's usage up to 1,000 kWh (first tier). The 1,000 kWh price change breakpoint is reasonable in that approximately 72% of all residential energy is consumed in the first tier and 28% of all energy is consumed in the second tier. The Company believes the one cent higher per unit price, targeted at the second tier of the residential class' energy consumption, will promote energy efficiency and conservation. This inverted rate design was incorporated in the Company's base rates approved in Order No. PSC-02-0655-AS-EI.

Q. How was the inverted fuel rate calculated?

A. I have included a page in Part 2 of my exhibit that shows the calculation of the fuel cost factors for the two tiers of the residential rate. The two factors are calculated on a revenue neutral basis so that the Company will recover the same fuel costs as it would under the traditional levelized approach. The two-tiered factors are determined by first calculating the amount of revenues that would be generated by the overall levelized residential factor of 4.359 ¢/kWh shown on Schedule E1-D. The two factors are then calculated by allocating the total revenues to the two tiers for residential customers based on the total annual energy usage for each tier.

Q. How do DEF's projected gains on non-separated wholesale energy sales for 2014 compare to the incentive benchmark?

A. The total gain on non-separated sales for 2014 is estimated to be $737,287 which is above the benchmark of $387,112 by $350,175. 100% of gains below the benchmark and 80% of gains above the benchmark will be distributed to customers based on the sharing mechanism approved by the Commission in Order No. PSC-00-1744-PAA-EI. Further, consistent with that Order, $70,035 or 20% of the gains above the benchmark will be retained for the shareholders. The benchmark of $387,112 was calculated based on the average of actual gains for 2011 and 2012 and estimated gains for 2013 in accordance with Order No. PSC-00-1744-PAA-EI.

Q. Please explain the entry on Schedule E1, line 12, "Fuel Cost of Stratified Sales."

A. DEF has several wholesale contracts with SECI. One contract provides for the sale of supplemental energy to supply the portion of their load in excess of SECI's own resources. The fuel costs charged to SECI for supplemental sales are calculated on a "stratified" basis in a manner which recovers the higher cost of intermediate/peaking generation used to provide the energy. There are other contracts with SECI, Reedy Creek, Gainesville, the City of Homestead, New Smyrna Beach and Winter Park for fixed amounts of base, intermediate, peaking and plant-specific capacity. DEF is crediting average fuel cost of the appropriate strata in accordance with Order No. PSC-97-0262-FOF-EI. The fuel costs of wholesale sales are normally included in the total cost of fuel and net power transactions used to calculate the average system cost per kWh for fuel adjustment purposes. However, since the fuel costs of the stratified and plant-specific sales are not recovered on an average system cost basis, an adjustment has been made to remove these costs and the related kWh sales from the fuel adjustment calculation in the same manner that interchange sales are removed from the calculation.

Q. Please give a brief overview of the procedure used in developing the projected fuel cost data from which the Company's fuel cost recovery factor was calculated.

A. The process begins with a fuel price forecast and a system sales forecast. These forecasts are input into the Company's production cost simulation model along with purchased power information, generating unit operating characteristics, maintenance schedules, and other pertinent data. The model then computes system fuel consumption and fuel and purchased power costs. This information is the basis for the calculation of the Company's fuel cost factors and supporting schedules.

Q. What is the source of the system sales forecast?

A. System sales are forecasted by the DEF Load and Fundamentals Forecasting Department using a sales-weighted median 20-year average of weather conditions at seven weather stations across Florida, population projections from the Bureau of Economic and Business Research at the University of Florida, and economic assumptions from Moody's Analytics.

Q. What is the source of the Company's fuel price forecast?

A. The fuel price forecasts for natural gas and fuel oil (residual and distillate) are based on observable market data in the industry and are prepared jointly by the Company's Enterprise Risk Management Department and Fuels and Power Optimization Department. For coal, a third party forecast is used. Additional details and forecast assumptions are provided in Part 1 of my exhibit.

Q. Are current fuel prices the same as those used in the development of the projected fuel factor?

A. No. Fuel prices can change significantly from day to day, particularly in the storm season. Consistent with past practices, DEF will continue to monitor fuel prices and update the projection filing prior to the November hearing if changes in fuel prices warrant such an update.

CAPACITY COST RECOVERY CLAUSE

Q. Please explain the schedules that are included in Exhibit__(TGF-3) Part 3.

A. The following schedules are included in my exhibit:

<u>Schedule E12-A – Calculation of Projected Capacity Costs – Year 2014</u>

Page 1 of Schedule E12-A includes estimated 2014 calendar year system capacity payments to qualifying facilities (QF) and other power suppliers, as well as recovery of nuclear costs pursuant to Rule 25-6.0423. The retail portion of the capacity payments is calculated using separation factors consistent with DEF's 2012 Stipulation and Settlement Agreement approved in Order No. PSC-12-0104-FOF-EI and the 2013 Revised and Restated Stipulation and Settlement Agreement. Total nuclear costs are made up of costs for the Levy Nuclear Project and the CR3 Uprate project. 1) Revenue requirements for Levy are calculated by applying the factors in Exhibit 9 of the 2013 Revised and Restated Stipulation and Settlement Agreement, which is subject to approval by the Commission, to the effective sales (kWh) in Exhibit E12-E for the Residential, General Service Non-Demand, General Service 100% Load Factor and Lighting rate classes and to the effective demand (kW) in Exhibit E12-E for General Service Demand, Curtailable and Interruptible rate classes. 2) The revenue requirements for the CR3 Uprate project are as filed with the FPSC in Docket 130009-EI. Schedule E12-A, page 2, provides dates and MWs associated with the QF and purchase power contracts.

Schedule E12-B – Calculation of Estimated/Actual True-Up - Year 2013

Schedule E12-B, which is also included in Exhibit __(TGF-2) to my direct testimony filed on August 2, 2013 in the 2013 estimated/actual true-up filing, calculates the estimated true-up capacity under-recovered balance for calendar year 2013 of $24,360,251. This balance is carried forward to Schedule E12-A to be collected from customers from January through December 2014.

Schedule E12-D – Calculation of Energy and Demand Percent by Rate Class

Schedule E12-D is the calculation of the currently approved 12CP and 1/13 annual average demand allocators for each rate class.

<u>Schedule E12-E – Calculation of Capacity Cost Recovery Factors by Rate Class</u>

Schedule E12-E calculates the CCR factors for capacity and CR3 Uprate costs for each rate class based on the 12CP and 1/13 annual average demand allocators from Schedule E12-D. The factors for capacity and CR3 Uprate, excluding Levy, for the Residential, General Service Non-Demand, General Service (GS-2), and Lighting secondary delivery rate class in cents per kWh are calculated by multiplying total recoverable jurisdictional capacity (including revenue taxes) from Schedule E12-A by the class demand allocation factor, and then dividing by estimated effective sales at the secondary metering level. For Levy, the factors are based on Exhibit 9 in the 2013 Revised and Restated Stipulation and Settlement Agreement, which is subject to approval by the Commission. The revenues were calculated by multiplying the effective sales at secondary metering level for each class by the rates in Exhibit 9. The factors for primary and transmission rate classes reflect the application of metering reduction factors of 1% and 2% from the secondary factor. The factors allocate capacity and CR3 Uprate costs to rate classes in the same manner in which they would be allocated if they were recovered in base rates.

Pursuant to the 2013 Revised and Restated Stipulation and Settlement Agreement, DEF has revised the billing for the demand (General Service Demand, Curtailable, and Interruptible) rate classes to be on a kilo-watt (kW) rather than a kilo-watt-hour (kWh) basis. These changes are reflected in columns 11 – 16.

Q. Has DEF used the most recent load research information in the development of its capacity cost allocation factors?

A. Yes. The 12CP load factor relationships from DEF's most recent load research conducted for the period April 2011 through March 2012 are incorporated into the capacity cost allocation factors. This information is included in DEF's Load Research Report filed with the Commission on July 31, 2012.

Q. What is the 2014 projected average retail CCR factor?

A. The 2014 average retail CCR factor is 1.373 ¢/kWh, made up of capacity and nuclear costs of 0.909 ¢/kWh and 0.464 ¢/kWh, respectively.

Q. Please explain the change in the CCR factor for the projection period compared to the CCR factor currently in effect.

A. The total projected average retail CCR factor of 1.373 ¢/kWh is 0.076 ¢/kWh or 5% lower than the 2013 factor of 1.449 ¢/kWh. This decrease is primarily attributable to a reduction in base production capacity purchases of $67,332,264 and is partially offset by a nuclear recoveries increase of $31,518,655.

Q. Does this conclude your testimony?

A. Yes

BY MS. TRIPLETT:

Q Do you have a brief summary of your testimony?

A Yes.

Q Would you provide it?

A Yes.

My name is Thomas Foster and my testimonies address Duke Energy Florida's actual fuel and capacity cost-recovery true-up amounts for the period January through December 2012, estimated actual amounts for the period January through December 2013, and projected amounts for the period of 2014. I'm available to answer any questions you may have on these.

MS. TRIPLETT: Thank you. We tender Mr. Foster for cross.

CHAIRMAN BRISÉ: Thank you.

OPC.

MR. REHWINKEL: Mr. Chairman, before I begin my cross-examination, just for the record, staff has passed out at my request three exhibits that I intend to use for cross-examination. And I think maybe at this time we can just get it all done at once.

CHAIRMAN BRISÉ: Sure.

MR. REHWINKEL: And I want to use them in this order, the first one would be the RRSSA excerpt.

CHAIRMAN BRISÉ: So that would be 98.

MR. REHWINKEL: Okay. The second exhibit would be the DEF summary of NEIL reimbursement.

CHAIRMAN BRISÉ: 99.

MR. REHWINKEL: Okay. And then the third would be the Composite 2013 and 2014 true-up schedules.

CHAIRMAN BRISÉ: Then that would be 100.

MR. REHWINKEL: Okay. Thank you.

(Exhibit 98, 99, and 100 marked for identification.)

MR. REHWINKEL: And, Mr. Chairman, for the record, I have -- as you recall from our recent hearing we had, this is the thickness of the Duke RRSSA. I am certainly willing to have that put into the record. I don't think it's out in an order yet, so official recognition is not possible, but it just seemed administratively efficient to just use the excerpt if no one has any objection.

CHAIRMAN BRISÉ: Any objections?

MS. TRIPLETT: No, sir.

CHAIRMAN BRISÉ: Okay. Thank you.

CROSS EXAMINATION

BY MR. REHWINKEL:

Q Mr. Foster, good morning.

A Good morning.

Q You're the witness designated to present the

2014 fuel and capacity factors, correct?

A Correct.

Q And as part of the development of the factor, you present the effects of the ongoing true-ups that are a part of the fuel and capacity clause process, correct?

A Correct.

Q Today, I have some questions for you that are intended to discuss on the record the mechanics of the fuel factor development as a means of flowing the benefits and impacts of the recently approved revised and restated stipulation and settlement agreement, or RRSSA to the customers.

MR. REHWINKEL: And just for the record, Mr. Chairman, my questions are not intended at this time to suggest that Duke is not correctly flowing the benefits intended or that the presentation of the benefits in the manner that has been prescribed by the Commission is not being followed or is wrong.

BY MR. REHWINKEL:

Q Do you understand that, Mr. Foster?

A Yes.

Q Now, are you generally familiar with the RRSSA provisions that impact the fuel clause in Paragraph 6 and 7?

A Yes.

Q And I take it you have seen the provisions that are in Exhibit 98?

A Yes.

Q Okay. Would you agree with me that the RRSSA calls for three types of benefits or impacts to be flowed to the customers via the fuel clause?

A Yes.

Q The first one would be NEIL insurance proceeds in the amount of $490 million, which when added to the previously received $151 million in retail totals $641 million on a retail basis and are addressed in Paragraphs 8C and 8D of the RRSSA?

A With one caveat, yes.

Q Okay.

A I think you intended to say 7C and 7D.

Q Yes, I did.

A The only thing I'd note is that of that total you gave the 641, is that right?

Q Yes.

A Three million of it, I know you know this because it's in your exhibit here, did go through capacity.

Q Okay. So the next benefit would be refunds in the amount of $388 million, and that would be on Bates 2 and 3 of the RRSSA, is that right, in Paragraphs 6A and

6B?

A Yes.

Q And then there is -- the final impact is three separate stand-alone annual revenue increases of one dollar, one dollar, and one dollar and 50 cents in 2014, 2015, and 2016, which are addressed in Paragraph 7 of the RRSSA, correct?

A Yes.

Q Okay. Now, is it also true that your determination of the 2014 factor as shown in your testimony and the schedules accompanying them incorporates elements of each of these impacts?

A Yes.

Q Is it also Duke's position that 100 percent of these benefits and impacts will be and are accurately reflected in the rates that are charged since 2010, and will be charged through 2016, and as long as subsequent year true-ups are required?

A Yes.

Q Let me get you to turn to Exhibit 99, and this is the document entitled, "DEF Summary of NEIL Reimbursement." Do you have that?

A Yes, I do.

Q Now, are you familiar with this document since it was developed with your assistance at my request?

A Yes, I am.

Q Okay. Would you agree that in 2010, Duke began flowing NEIL insurance proceeds to customers?

A Yes.

Q Okay. Exhibit 99 shows the total and the retail distribution of the entire $835 million of NEIL insurance proceeds related to the CR-3 power plant, is that right?

A Yes.

Q Okay. And just so we understand what this document is, the top chart shows the total receipts totaling 835 million, is that right?

A That's correct.

Q And in the NEIL replacement power reimbursement column, you show the years 2009 through 2013, right?

A Correct.

Q And this shows a total of $158 million received, is that right?

A Yes.

Q Okay. And there's 108 million, 39, and 11 million in the years 2010, 2011, and 2012 respectively, is that right?

A That's correct.

Q And what you have done is -- can you describe for me what is the difference between the capacity reimbursement in the second column and the repair reimbursement in the third column relative to the first column?

A Excuse me. Sorry, I've got some allergies. The first column, those reflect dollars flowed back through the fuel clause. The second column reflects dollars, and it was relatively minor, the 4 million, I think it was -- to be exact it was about 3.7 million that went back through the capacity clause. And the third column reflects dollars that were applied against the CWIP or reg asset project for the repair.

Q Okay. So on the total column along the bottom, the first three columns total 305 million, is that right?

A Yes.

Q And then the NEIL settlement final column of 530 million, which is shown in 2013, that is the -- those are the proceeds that were agreed to in the settlement that Duke entered into with NEIL in February of 2013, correct, or thereabouts?

A Yes. I think it was February, but, yes, that is reflective of those proceeds.

Q Okay. So when we go from this top part of the schedule to the bottom part of the schedule, all this is -- the bottom part is just taking the total amount down to retail and showing the respective amounts and the respective years for which they were actually included in the clause, for example, in Columns 1 and 2, right?

A Correct.

Q So just for the record, the retail portion of the chart under the NEIL final settlement, this shows in 2013 $490 million, and these are the same $490 million that are referenced in Exhibit 98 relating to the -- well, on Bates Page 5 of Exhibit 98. I think it actually uses the number 489. That's the same?

A Yes, that is correct.

Q Just a matter of rounding and change?

A Exactly.

Q Okay. So that NEIL final is 490, and that's shown as in 2013. The total amount for retail that was directed to the Florida customers is 762 million, which is shown in the last column, right?

A Correct.

Q And to determine the amount that was credited to the benefit of customers in the clauses, you would subtract the 121 and the NEIL repair reimbursement column, is that right?

A I'm sorry, say that one more time. Forgive me.

Q To determine the amount of NEIL dollars that are or will be flowed through the clauses, the fuel and capacity clauses, you would subtract the 121 and the NEIL repair reimbursement column from the 762, is that right?

A That's correct.

Q Okay. Would you agree that the Commission prescribed schedules and ongoing true-up process that you have followed in your testimony and the accompanying schedules understandably do not lend themselves to a simple presentation of the flow-through of these NEIL reimbursement dollars, but you would agree that this schedule that's Exhibit 99 accurately summarizes how Duke has endeavored to flow 100 percent of the NEIL proceeds according to the settlement agreement?

A Yes.

MR. REHWINKEL: Okay. Mr. Chairman, I'd like next to turn to Exhibit 100.

CHAIRMAN BRISÉ: Sure.

BY MR. REHWINKEL:

Q Mr. Foster, do you have Exhibit 100 with you?

A Yes, I do. Thank you.

MR. REHWINKEL: And just for the record, I think counsel for Duke can confirm this, the composite exhibit schedules here are excerpted from Exhibits 25 and 26 of the stipulated hearing exhibits.

CHAIRMAN BRISÉ: We'll give you a minute to look at them.

MS. TRIPLETT: I should have been more prepared looking at it. Yes, sir, confirmed. Thank you.

CHAIRMAN BRISÉ: Thank you.

BY MR. REHWINKEL:

Q And at the bottom right of the exhibit -- I have attached Bates numbers, so I will try to refer to these Bates numbers instead of the myriad of exhibit schedules. On Bates 1 of Exhibit 100, which is your TGF-2, Part 1, Schedule E1-B, Sheet 1, this was attached to your August 2nd, 2013 testimony, right?

A Yes, that's correct.

Q Is this schedule your calculation of the estimated true-up of 2013 for fuel?

A Yes. This shows the estimated true-up for fuel.

Q Okay. So it's part actual and part estimated for the year 2013, right?

A Exactly.

Q Okay. Now, on that same Bates 1, on Line A5 there is a line that says "adjustment to fuel costs," do you see that?

A Yes, sir.

Q And there in the May column is $507,889,089, do you see that?

A Yes, I do.

Q Is this where the $490 million that we talked about on Exhibit 99 was reflected in the projection and true-up process?

A Yes.

Q So that entry reflects the recording for the benefit of customers of the $490 million, which is the retail portion of the $530 million check received from NEIL. I think you testified it was received in April, the check was, right, and recorded in May?

A That's accurate.

Q Okay. And that, as we also discuss, is the 489 or $490 million number that's discussed in the RRSSA exhibit, Paragraph 7C, is that right?

A Yes.

Q Okay. Now, in Exhibit 98, Paragraph 7D, there is a reference to Duke collecting from customers the approximately 328 million, or 326 million retail previously credit in the fuel adjustment clause beginning in January 2014. Do you see that?

A Yes, I do.

Q And this is essentially an accounting adjustment for Duke to get credit for the dollars that they had advanced in anticipation of NEIL proceeds for credits in 2013 in the clause, is that essentially right?

A I would maybe say it slightly differently.

Q Yes.

A In our projection for our 2013 rates we assumed receipt of 326, roughly, million dollars. Therefore, that was never collected, has not been collected from customers. This was to make it clear that that wasn't going -- the 490, in essence, is -- the 326 is part of that. So to make sure that it was clear that it wasn't -- the two weren't kind of separate, but one was just reflection, kind of, of actual receipt versus what was embedded in projections.

Q So the way you have reflected the 490 in these schedules appropriately separates the credit that the customers are to get and the funds that Duke had advanced, if you will, in determination of rates for 2013?

A Yes.

Q Okay. Continuing with Exhibit 100 in that Line A5, if you go all the way on Bates 2 of this exhibit in the 12-month period column in Line A5, the total amount is 635,633,018; do you see that?

A Yes.

Q Would it be accurate to state that this Line 5 is where Duke records not only the 490 that we just discussed, but also the first of two $129 million refunds that are called for under the RRSSA?

A That's correct.

Q Okay. Now, are you familiar that in the 2012 hearing Duke Witness Marcia Olivier testified that Duke would ensure that customers received the refunds called for in the RRSSA in 2013 by taking the $129 million and dividing it by 12 and flowing back $10.75 million per month?

A Yes, I'm aware of that.

Q Okay. And is it true that that process is reflected here in the 2013 true-up?

A Yes.

Q Can you explain to me, just for the record, if I look at the -- for example, if I look on Bates 2, Line A5, I don't see 10.75 in that column. Can you just explain to me how that is -- that process is done, according to Ms. Olivier's testimony?

A Sure. And, you know, first, I will confirm that we are applying the 10.75 to the retail customer evenly each month in '13. You won't see that, because by the way the math flows, if you look down in Line B4, you jurisdictionalize. So we wanted to make sure -- and, you know, one of the factors, there's a couple, but one of the factors is we had to gross-up that 10.75 to make sure the portion that gets to the retail customer is the 10.75. So the number that resides in that A5 line is going to be slightly different for that.

Additionally, we are flowing through some interest associated with these refunds to the customer, so that's going to cause some differences. So the Line A5 is not just discreetly the refund dollars, and that's what's causing the differences.

There's also a few other adjustments that reside in that line in addition to the 490 which we have already discussed. There's about 7 million in credits that show up associated with the joint owner capacity factor, so we make sure that we are not impacting the retail ratepayer with anything related to that.

And that then is also where things like tank bottom adjustments, aerial survey adjustments go, so there are some -- there was about $6 million in '13 associated with those types of adjustments in the favorable direction.

Q Okay. Thank you. And so you've confirmed to me that at a minimum embedded in this at line A5 is the

10.75 that was testified to last year?

A Absolutely.

Q On that same -- let's stay on Page 2, Bates Page 2 of that Exhibit 100, and go to the 12-month period column line. I guess -- is it C13, is that what we call that?

A Yes.

Q Okay. C13, 33,195,183; that's the cumulative true-up balance for 2013, is that right?

A For the end of 2013 that's the estimated December balance, yes.

Q Okay. And just to kind of state the obvious, that number in, kind of, a rolled-up fashion, if you will, incorporates not only the $129 million refund, but the $490 million NEIL proceeds to the customers, is that right?

A Yes, that's accurate.

Q Okay. Let me ask you to go to Bates Page 5, and on Line 4 of Bates Page 5 we see that same $33 million number, right?

A Yes.

Q And Bates Page 5 is -- this is kind of a summary schedule where you develop the true-up factor that would be added to the 2014 estimate for 2014 period costs, is that right?

A That's correct.

Q Okay. This, plus a GPIF factor. Those three give you the fuel factor, if you will, for 2014, right?

A Your period costs plus those two, yes.

Q Okay. And if I can get you to turn to Bates Page 8?

A I'm there.

Q Bates Page 8 is your true-up for 2014, and it also includes the -- for example, on Line C2 it has that same 33,195,183, right?

A Correct.

Q And on Line A5 for 2014 we see the figure of 128,673,569 in the adjustments to fuel line, is that right?

A That's correct.

Q Now, is this 128.67 million the equivalent of the $129 million refund that's applicable to 2014?

A Yes, embedded in that number is the 129 that is applicable to 2014. As I mentioned, there are other adjustments that go in that line, as well.

Q Okay. So just like your answer for 2013, the 10.75 million per month is amortized, if you will, or spread evenly through each of the months that are estimated for 2014, is that right?

A That's accurate, yes.

Q And are the variances similar to the ones you describe for 2013 that would vary this number?

A Very much so, yes.

Q Okay. On Bates 9, this is another way of presenting the period revenue for 2014, and adding the GPIF and 2013 true-up factors to develop the total recovery factor for fuel?

A Yes. It's another presentation of that.

Q Okay. But in any event, the revenue that's applicable to and to be collected to 2014 is shown on this schedule, is that right?

A Yes.

Q On this Bates Page 9, Line 10, I believe it is, is the $1,583,009,064 in the total column, do you see that?

A Yes, I do.

Q Okay. That number is the -- well, could you tell me what that number represents?

A Sure. And it is similar to or the same number as on Bates Page 8, so it has got your fuel recovery revenue for the period that you need to collect as well as the true-up provision and incentive provision embedded in it. Also embedded in there, as we have discussed, is the 129.

Q So if I look at the very bottom, Line 20, in the column total, 4.303, that's the total fuel recovery factor that includes the period revenue for 2014, or the period costs, I guess I should say, the true-up for 2013, and the GPIF, they all roll into that 4.303?

A That's correct.

Q Okay. And so the bottom line of this 4.303 number is that it reflects NEIL, Duke's inclusion of the NEIL refunds called for by the RRSSA, and both, or the two $129 million refunds applicable to 2013 and 2014, is that right?

A That's correct.

Q And I don't have it as part of this schedule, but if you could turn to your Exhibit TGF-3 that's attached to your August 30th testimony, Schedule E-1, which I think is your very first schedule. Do you have that?

A I'm there, yes.

Q What we have just gone through -- this is another way of presenting what we have just gone through. It shows on Line 29, the 4.303 factor, right?

A That's accurate.

Q And it also is a summary of all of the schedules. It shows the development of the factor and it also demonstrates that you have flowed through the $129 million for both periods as well as the NEIL proceeds, is that right?

A It includes those, the effects of those, yes.

Q Okay. I guess you haven't completed it because the flow-through will be substantially completed in 2014 for those numbers, right?

A Yes. And I guess I was just saying that this E1 schedule, because the 490 and first portion was done in 2013, it is encompassed in, you know, the true-up. However, it doesn't discreetly show that.

Q Okay. So having gone through the refunds and the NEIL proceeds, there are still two other RRSSA related adjustments to be made in development of the fuel factor, right?

A That's correct, yes.

Q And these are the allocation of the $10 million refund to residential and small businesses, and the dollar increase for early recovery of the CR-3 asset in 2014, is that right?

A That's correct.

Q And Bates 10 of Exhibit 100 is where we see the development or the recognition or incorporation of these adjustments, is that right?

A That's correct.

Q Okay. The 4.303 factor is shown on Exhibit 6 -- I mean, Line 6 of Bates 10, is that right?

A That's correct.

Q Okay. Now, you adjusted that 4.303 for what's called secondary metering per the existing Commission practice, is that right?

A That's correct.

Q And that's shown on Line 8?

A That's correct.

Q All right. And what you did then was to take -- to incorporate the dollar increase on Line 9, you converted that dollar per thousand kWh, you convert it to a cents per kWh, is that right?

A That's accurate, yes.

Q So that is added to the 4.303 and you get in Line 10 a 4.408 factor, right?

A That's correct.

Q Okay. And then from that factor -- so that was the third step, that was the third item from the RRSSA, and there was only one thing left to do which was to take the $10 million refund that's called for under the agreement and to split it between residential and small businesses, is that right?

A That's correct, yes.

Q So what you have done on Lines 13 through 17 is to develop a factor for the residential customers, is that right?

A Yes.

Q And that's the 4.359 --

A Yes.

Q -- on Line 17. And then for small businesses their 6 percent allocation gives them the Line 22 factor of 4.364 cents per kilowatt hour, is that right?

A That's correct.

Q Now, what we have just walked through here with these exhibits is Duke's implementation of the three areas of the stipulation that was approved by the Commission in October of this year that are applicable to the periods leading up to 2014, is that right?

A Yes, and 2014 itself.

Q Okay. Up to and including 2014, that's what I meant.

A Yes.

Q There are other adjustments that will involve true-ups that will be in future periods. That is not of a concern to us today in the development of this factor, right?

A Correct.

Q Okay. And just to be clear for the record, you would agree with me that these adjustments reflect Duke's intention to accurately provide to customers the full NEIL proceeds and the full refund benefits called for in the RRSSA, as well as to accurately reflect the rate impacts called for in the RRSSA, right?

A Absolutely.

Q Given the unique circumstances of this case where the fuel clause is the vehicle for distributing over a billion dollars in refunds and other customer benefits, and that the process is now just essentially getting underway to reflect final NEIL proceeds and the implementation of the refunds and rate impacts, would you or would Duke agree that it might be a good idea to implement some kind of a tracking mechanism that would provide a simplified informational demonstration that the RRSSA provisions are accurately being implemented?

A We'd certainly be willing to work with folks on something that might help this process of making sure we know the right numbers are in there exactly as they are from the settlement, so, yes.

Q So you would be willing to work with the staff of the Commission and other parties to supplement this process that's included in your schedules to provide information to the Commission and the public until all the impacts are fully implemented or trued up?

A Yes. I think prospectively we'd be willing to work with staff and the parties on if there is some way to make it easier to follow or more obvious, absolutely.

Q Yes. And my question is not to indict the process that has been developed over a number of years that you're following, but to make sure that what's shown and what the public can see syncs up, and you would agree to do that?

A Yes.

MR. REHWINKEL: Okay. Those are all the questions I have, Mr. Chairman. Thank you.

CHAIRMAN BRISÉ: Thank you.

Mr. Wright.

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

CHAIRMAN BRISÉ: Thank you.

FIPUG.

MS. PUTNAL: No questions. Thank you.

CHAIRMAN BRISÉ: PCS Phosphate.

MR. BREW: Yes. Thank you, Mr. Chairman.

And at the risk of upsetting Mr. Rehwinkel, there's a couple of things I just wanted to clarify with Mr. Foster, if I could.

CROSS EXAMINATION

BY MR. BREW:

Q Very quickly, you discussed the NEIL refund of 490 million, right?

A Yes.

Q And you also discussed the deferred replacement fuel costs of 326 million?

A Yes.

Q Okay. The 490 million was reflected on -- if we look at Exhibit 100, Bates Page 1, under May actual where it shows 507 million, is that where the NEIL refund was reflected?

A That's correct.

Q Okay. And where is the 326 reflected, which line?

A The 326 would not be in here. It's almost as if the reality is the absence of it being in here is the way that it's reflected in here. Because it was embedded and not collected in '13 in rates, and we are not making 490 plus 326, we're recognizing that the 326 is part of the 490, that's how it's reflected in here.

Q Well, the 326 is a positive number, right, dollars to be recovered?

A The 326 -- it is. It's dollars that we deferred recovery of in '13, and now we will collect all costs after application of the NEIL reimbursement.

Q So the recovery factor, the 4.303 that Mr. Rehwinkel mentioned, would take into account the 326?

A That's accurate, yes.

Q My question is where?

A Again, it's the fact that it is not shown, that there is no adjustment to not collect an additional 326 is how it's clear that it's being collected.

Q Does it show up as a prior period underrecovery anywhere?

A Yes. It would be embedded in our 2013 actual/estimated over/underrecovery.

Q So is it reflected on Line 1 of the fuel costs of system generation?

A The actual costs, yes, are. The 326 is something that only has existed in ratemaking space as far as to make sure that in 2013 we were reflecting there is an expectation for some NEIL proceeds, so we don't want to embed collecting that.

So if you think about '13, let's just use some round numbers. Let's say your fuel costs were a billion. We would remove that 326, and then the remainder would have been used to set the fuel factor in '13. And what's happening now, and, you know, the wording of the settlement is just to make it clear that, hey, we're not going to defer the 326 previously because now we have got the 490, and it's going to be applied in the fuel costs in the fuel clause.

And you can kind of see that on Exhibit 100, again, Bates Page 3. If you look at Row 4, you see the delta there of 178 million.

Q On the third column?

A That's correct. Contained in there is that 164 million that we talk about in the settlement. Now, you know, as we discussed, there are some other relatively minor adjustments made in that line, but the delta between the 635 that we are reflecting in '13 of reimbursements compared to what we projected of 456, that's the incremental 164 million of benefit that you are seeing in 2014 due to the NEIL reimbursement.

Q So the 635 as you went through with Mr. Rehwinkel was supposed to capture the effects of the NEIL recovery and the 129 million refund from the original rate settlement, correct?

A Correct.

Q Okay. And what you are showing on Bates 3 is the estimated original is about $179 million less, and you mentioned the 164, that's the difference between the 490 retail for NEIL and the 326 deferred fuels?

A Right.

Q Okay. So the 326 never actually appears as an underrecovery for a prior period even though it was deferred for recovery later?

A It's embedded in our '13 actual/estimated.

Q Throughout each of the months?

A Yes. Over the period of 2013 because rates were set to not collect that amount of money.

Q So you reflected the NEIL number in the one month of May, but the 326 is embedded in all the numbers appearing on Line 1?

A Line 1 of --

Q I'm sorry, Bates Page 1 of this exhibit.

A No, it's more embedded in the revenue line, because we would not have collected it. We would have set to not collect that amount, so it's not in our -- because Line 1, A1 of Bates Page 1, that's our actual costs. So there is no -- that is just as it flows through. But where that 326 would be reflected is the fact that as we collect revenues, they are going to be lower than had we set them to recover all system costs without adjusting them lower by the 326 in 2013. When we set 2013 rates, I should say.

Q Okay. So the actual cost of generation is not in any sense adjusted for each of the months, it is actual or the estimated for that month. But your revenue recovery would have been underrecovered by the 326 million?

A Exactly.

Q But that's not shown on any of the lines on this exhibit?

A Other than where your revenue is coming through. It is inherently a piece of that. But, no, it's not discreetly shown. It was a piece of setting the rates and the revenues that we would recover in '13.

Q Is it a piece of Line C6?

A Yes. And even C13. When you get down to the 33 million, it's inherently considered in that. I'm sorry, on Bates Page 2, forgive me, the bottom right. So the total underrecovery at the end of 2013, it's inherently considered in that.

Q Okay. So the short answer is you reflected the NEIL payment all at once, but you reflected that deferred replacement fuel recovery spread out over the periods in your revenue recovery?

A Yes.

Q Okay. And that's all reflected in the actual/estimated for '13?

A That's correct.

Q Is there any similar adjustment for the estimated period for '14?

A The adjustment for -- not like that, no.

MR. BREW: Okay. All right. Thank you. That's all I have.

CHAIRMAN BRISÉ: All right. Thank you.

Redirect?

MS. TRIPLETT: No, sir.

CHAIRMAN BRISÉ: Oh, forgive me. Staff.

MS. BARRERA: No questions.

CHAIRMAN BRISÉ: All right. Thank you.

Now redirect.

MS. TRIPLETT: Still no.

CHAIRMAN BRISÉ: Commissioners?

MR. REHWINKEL: Mr. Chairman, before you go to the Commissioners, I had talked to the parties, and I have just a 20-second statement to make that I don't think we need to do briefs in this, and I would just like to make a statement for the record that may facilitate not making filing briefs or doing anything, making this available for you to vote on for Duke, if that would be appropriate.

CHAIRMAN BRISÉ: Let's take your statement and then we will come back to the Commission for questions.

MR. REHWINKEL: Okay. Commissioners, at this point in this ongoing true-up process, the Public Counsel has not identified any issues that require adjustment, as I said in my opening. Since the fuel adjustment process is ongoing and the Commission retains full jurisdiction to correct any errors, and in view of the fact that the true-up process for all of the major RRSSA impacts is yet to finally occur, we have no objection to the fuel factors that Duke proposes in this hearing.

CHAIRMAN BRISÉ: Thank you.

Commissioners, any questions for the witness?

All right.

Redirect? She said no already.

MS. TRIPLETT: No, but I am ready to ask for the exhibits to be moved in when that is appropriate.

CHAIRMAN BRISÉ: Sure. You may.

MS. TRIPLETT: Okay. We would move into evidence the witness' prefiled exhibits, which I believe have been marked as 21 through 26 on the Comprehensive Exhibit List.

CHAIRMAN BRISÉ: Okay. At this time we will move Exhibits 21 through 26 into the record.

Are there any objections? Seeing none, we will move those into the record.

(Exhibits 21 through 26 admitted into the record.)

MR. REHWINKEL: Public Counsel would move Exhibits 98 through 100.

CHAIRMAN BRISÉ: Okay. We will move Exhibits 98 through 100 into the record, seeing no objections.

(Exhibits 98 through 100 admitted into the record.)

MS. TRIPLETT: Mr. Chairman, if that's all for Mr. Foster, I would ask if he could be excused from the hearing.

CHAIRMAN BRISÉ: Sure. Mr. Foster, you may be excused.

THE WITNESS: Thank you.

MS. TRIPLETT: And then if so you are willing to consider Issue 1C, I would then ask for me to be excused, too, but I'll wait. I don't know how you all wanted to proceed.

CHAIRMAN BRISÉ: Sure.

MS. TRIPLETT: Not that I don't want to stay and hang out, but -- (Laughter.)

CHAIRMAN BRISÉ: All right.

Commissioners, what's your pleasure?

Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Mr. Chairman. If I may, a question for Mr. Brew, PCS Phosphate.

You had in the prehearing order, and I believe at the opening of this docket on Issue 1C adopted the position of OPC. So is that consistent, then does that carry through to Mr. Rehwinkel's statement a moment ago about agreeing with the Duke factor at this time?

MR. BREW: Yes, Commissioner. As I indicated earlier, we don't have any objection to the proposed factor in the stipulation on Issues 23 or 1C.

COMMISSIONER EDGAR: I just wanted to confirm. Thank you.

CHAIRMAN BRISÉ: Sure. Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Chairman. I have a question for staff, and I don't know which staff member would be appropriate, but obviously there was a lot of discussion and cross-examination questions as to whether or not the refunds were reflected in Mr. Foster's exhibits. And I know that the Office of Public Counsel has indicated that they are stipulating this issue, but before we go to a decision, is staff comfortable that the refunds associated with the 2012 and 2013 settlement agreement are accurately reflected?

MR. LESTER: Yes, sir, and we're prepared to make a recommendation on that, and we are comfortable with the way the refunds have been calculated and the adjustments have been calculated.

COMMISSIONER BALBIS: Okay. Thank you.

CHAIRMAN BRISÉ: Okay. Commissioners, anything further?

Okay. Staff.

MR. LESTER: I'm Pete Lester with staff. And Issue 1C is has Duke Energy Florida correctly reflected necessary refunds and adjustments pursuant to either the settlement approved in Order Number PSC-12-0104-FOF-EI, or the revised and restated stipulation and settlement agreement filed in Docket Number 130208 as appropriate in the calculation of 2014 factors.

Staff's position, or staff's recommendation is yes, based on the record for this proceeding, Duke Energy Florida has correctly reflected necessary adjustments and refunds pursuant to the revised and restated stipulation and settlement agreement filed in Docket Number 130208 and approved by the Commission.

CHAIRMAN BRISÉ: Thank you.

Commissioners, any questions or comments? Okay. We are at a point of decision, and we have heard the recommendation, and it's up to you.

Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Mr. Chairman. Hearing from the parties and from our staff, I will move at this point that we adopt the recommendation that our staff has just made on Issue 1C in this docket.

COMMISSIONER GRAHAM: Second.

CHAIRMAN BRISÉ: Okay. It has been moved and seconded. Any further discussion?

Commissioner Balbis.

COMMISSIONER BROWN: Thank you, Mr. Chairman. I just want to make a comment for the parties, and I understand you are going to be working together with coming up with a way to track this more accurately. I found this confusing, and obviously spending an hour trying to walk through whether or not it was included or not was a little difficult, so I hope that whatever you come up with make it a lot easier next year.

CHAIRMAN BRISÉ: Okay. Any further comments? Okay. I think we are ready for the vote. All in favor say aye.

(Vote taken.)

CHAIRMAN BRISÉ: Any opposed?

Seeing none, it's carried. Thank you very much.

And, Duke, you are excused.

MS. TRIPLETT: Thank you.

CHAIRMAN BRISÉ: All right. Now we are going to turn to FPL, and you can call your first witness.

MR. BUTLER: Thank you, Mr. Chairman. We would Terry Keith to the stand. And I would note that Mr. Keith was here when you did the swearing in of all the witnesses.

CHAIRMAN BRISÉ: Okay.

TERRY J. KEITH

was called as a witness on behalf of Florida Power and Light Company, and having been previously sworn to tell the truth, testified as follows:

DIRECT EXAMINATION

BY MR. BUTLER:

Q Mr. Keith, would you please state your name and business address for the record?

A My name is Terry J. Keith. My business address is 9250 West Flagler Street, Miami, Florida 33174.

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

A I'm employed by Florida Power and Light Company as Director of Cost-Recovery Clauses.

Q Have you prepared and caused to be filed in this docket 15 pages of prefiled testimony on March 1, 2013, 21 pages of prefiled testimony on August 2, 2013, and 16 pages of prefiled testimony on August 30, 2013?

A Yes, I did.

Q Do you have any changes or revisions to those prefiled testimonies?

A I do have an update to my Schedules E10 and Exhibits TJK-5, TJK-6, and TJK-7 of my August 30th, 2013 testimony. The E10 schedules have been revised to update the storm charge beginning in January 2014 per FPL's November 1, 2013, true-up filing. The E10s have also been revised to update the 2014 base rate charges per FPL's October 4th, 2013, extended power uprate filing. The revised proposed 1,000 kWh bill is now $100.01 effective January 2014 instead of $100.26.

Q With that change, if I asked you the questions contained in your prefiled testimonies, would your answers be the same today?

A They would.

MR. BUTLER: Mr. Chairman, I would ask that Mr. Keith's prefiled testimonies be inserted into the record as though read.

CHAIRMAN BRISÉ: Okay. We will insert Mr. Keith's testimony into the record as though read. Let me give Mr. McGlothlin an opportunity to get settled and see if he has any objections to that.

MR. McGLOTHLIN: No objection.

CHAIRMAN BRISÉ: No objections. Does anyone else have objections? Okay. Seeing none --

MS. BARRERA: Chairman, excuse me, does that include the corrections that he just mentioned to his testimony?

MR. BUTLER: Yes.

MS. BARRERA: Okay.

CHAIRMAN BRISÉ: All right. So they are moved into the record.

MR. BUTLER: Thank you.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF TERRY J. KEITH

DOCKET NO. 130001-EI

MARCH 1, 2013

Q. Please state your name, business address, employer and position.

A. My name is Terry J. Keith and my business address is 9250 West Flagler Street, Miami, Florida, 33174. I am employed by Florida Power & Light Company (FPL or the Company) as the Director, Cost Recovery Clauses, in the Regulatory & State Governmental Affairs Department.

Q. Have you previously testified in predecessors to this docket?

A. Yes.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present the schedules necessary to support the actual Fuel Cost Recovery (FCR) Clause and Capacity Cost Recovery (CCR) Clause Net True-Up amounts for the period January 2012 through December 2012. The Net True-Up for the FCR is an under-recovery, including interest, of $4,550,654. The Net True-Up for the CCR is an under-recovery, including interest, of $7,913,484. FPL is requesting Commission approval to include the FCR true-up under-recovery of $4,550,654 in the calculation of the FCR factor for the period January 2014 through December 2014. FPL is also requesting Commission approval to include the CCR true-up under-recovery of $7,913,484 in the calculation of the CCR factor for the period January 2014 through December 2014.

Q. Have you prepared or caused to be prepared under your direction, supervision or control an exhibit in this proceeding?

A. Yes, I have. It consists of two appendices. Appendix I contains the FCR related schedules and Appendix II contains the CCR related schedules. In addition, FCR Schedules A-1 through A-12 for the January 2012 through December 2012 period have been filed monthly with the Commission and served on all parties of record in this docket. Those schedules are incorporated herein by reference.

Q. What is the source of the data you present?

A. Unless otherwise indicated, the data are taken from the books and records of FPL. The books and records are kept in the regular course of the Company's business in accordance with generally accepted accounting principles and practices, and with the applicable provisions of the Uniform System of Accounts as prescribed by the Commission.

FUEL COST RECOVERY CLAUSE

Q. Please explain the calculation of the FCR net true-up amount.

A. Appendix I, page 1, titled "Summary of Net True-Up," shows the calculation of the Net True-Up for the period January 2012 through December 2012, an under-recovery of $4,550,654.

The Summary of the Net True-up amount shown on Appendix I, page 1 shows the actual End-of-Period True-Up over-recovery for the period January 2012 through December 2012 of $94,655,667 on line 1. The Actual/Estimated True-Up over-recovery for the same period of $99,206,321 is shown on line 2. Line 1 less line 2 results in the Net Final True-Up for the period January 2012 through December 2012, an under-recovery of $4,550,654 (line 3).

The calculation of the true-up amount for the period follows the procedures established by this Commission as set forth on Commission Schedule A-2 "Calculation of True-Up and Interest Provision."

Q. Have you provided a schedule showing the calculation of the FCR actual true-up by month?

A. Yes. Appendix I, page 2, titled "Calculation of Actual True-up Amount," shows the calculation of the FCR actual true-up by month for January 2012 through December 2012.

Q. Have you provided a schedule showing the variances between actual and actual/estimated FCR costs and applicable revenues for 2012?

A. Yes. Appendix I, page 3, provides a comparison of jurisdictional fuel revenues and costs on a dollar per MWh basis. Appendix I, page 4, compares the actual End-of-Period True-up over-recovery of $43,534,642 to the Actual/Estimated End-of-Period True-up over-recovery of $48,085,296 resulting in the $4,550,654 under-recovery.

Q. Please describe the variance analysis on page 3 of Appendix I.

A. Appendix I, page 3, provides a comparison of Jurisdictional Total Fuel Revenues and Jurisdictional Total Fuel Costs (including Net Power

Transactions) on a dollar per MWh basis. The $4,550,654 under-recovery was primarily due to a decrease in the fuel cost per MWh of $34.94/MWh vs. $34.98/MWh that resulted in a cost decrease of $4,359,280, and a decrease in fuel revenues per MWh of $36.44/MWh vs. $36.52/MWh that resulted in a revenue decrease of $9,018,664, for a net decrease due to cost of $4,659,384.

The $4,659,384 variance due to cost was slightly offset by an increase due to consumption of $93,222 and an increase of $15,509 in interest that was primarily due to higher than expected commercial paper rates.

Q. What was the variance in Adjusted Total Fuel Costs and Net Power Transactions?

A. The variance in Adjusted Total Fuel Costs and Net Power Transactions was a decrease of $4,033,422. As shown on Appendix I, page 4, this decrease was due primarily to a $34.8 million decrease in Energy Payments to Qualifying Facilities (QFs), a $7.3 million higher credit to Inventory Adjustments, a $7.3 million decrease in Fuel Cost of Purchased Power, and a $0.8 million decrease in Nuclear Fuel Disposal Costs. These amounts were partially offset by a $37.1 million increase in the Fuel Cost of System Net Generation, a $4.3 million decrease in the Fuel Cost of Power Sold, a $2.7 million increase in Non-Recoverable Oil/Tank Bottoms, a $1.4 million increase in Energy Cost of Economy Purchases and a $0.6 million decrease in Gains from Off-System Sales.

Energy Payments to Qualifying Facilities ($34.8 million decrease)

The variance for Energy Payments to Qualifying Facilities was primarily attributable to lower than projected QF purchases. FPL purchased approximately 692,000 MWh less from QFs. Lower purchases resulted in a decrease of approximately $29.2 million, which was 84% of the total variance. Additionally, the fuel cost of QF purchases was approximately $2.28/MWh less than originally projected. Lower than projected fuel costs resulted in a decrease of approximately $5.6 million, which was 16% of the total variance. The combination of lower volume and lower fuel costs resulted in a total variance of $34,825,999.

Inventory Adjustments ($7.3 million variance)

A $7,020,652 Gain on Sale of Inventory in August, 2012 as a result of tank dismantlement at FPL's Sanford Plant, which was not projected, reduced the overall fuel cost.

Fuel Cost of Purchased Power ($7.3 million decrease)

The Fuel Cost of Purchased Power was approximately $7.3 million lower than originally projected. The cost of PPA contracts, SJRPP purchases and St. Lucie purchases were lower than projected but partially offset by higher UPS fuel costs.

FPL purchased approximately 148,000 fewer MWh under its PPA contracts. The lower purchased volume, when compared to projected amounts, resulted in a decrease of approximately $6.2 million. The per-unit cost of PPA purchases was $4.34/MWh lower than originally projected. The lower than projected unit cost for PPAs resulted in a decrease of approximately $2.1 million. The total variance for PPA purchases was $8.3 million lower than projected.

The total costs for SJRPP purchases were approximately $235,000 lower than originally projected. FPL purchased approximately 63,000 fewer MWh than projected, while the overall unit cost was $1.22/MWh higher than projected.

St. Lucie purchases resulted in a total cost decrease of approximately $115,000. FPL purchased approximately 19,000 fewer MWh than projected, while the overall unit cost was $0.08/MWh higher than originally projected.

The total costs for UPS purchases were approximately $2.6 million higher than originally projected, primarily due to higher fuel costs. This was partially offset by a reduction of $1.2 million due to approximately 35,000 MWh less UPS purchases, resulting in a net variance of $1.4 million for the fuel cost of UPS purchases.

<u>Nuclear Fuel Disposal Costs ($0.8 million decrease)</u>

The decrease in nuclear fuel disposal costs was primarily due to less generation from Turkey Point Unit 3. The EPU outage and power ascension was longer than originally planned.

Fuel Cost of System Net Generation ($37.1 million increase)

FPL's natural gas cost averaged $4.97 per MMBtu, which was $0.04 per MMBtu or 0.9% lower than projected during the period and FPL consumed 24,226,409 or 4.2% more MMBtu than projected during the period. The net $95.4 million increase in the cost of natural gas reflects a $121.3 million increase due to higher than projected consumption that was partially offset by a $26.0 million decrease due to lower than projected unit costs.

FPL's heavy oil cost averaged $13.81 per MMBtu, which was $0.77 per MMBtu or 5.3% lower than projected during the period. Additionally, FPL consumed 3,300,978 less MMBtu (42.4%) than projected during the period. Of the total $51.6 million decrease for heavy oil, $48.1 million was due to lower than projected consumption and $3.5 million was due to lower than projected unit costs.

FPL's nuclear fuel cost averaged $0.57 per MMBtu, which was $0.04 per MMBtu or 6.6% lower than projected during the period. Additionally, FPL consumed 11,911,888 less MMBtu (6.0%) than projected during the period. Of the total $14.8 million decrease for nuclear, $7.2 million was due to lower than projected unit costs and $7.6 million was due to lower than projected consumption.

FPL's coal cost averaged $2.89 per MMBtu, which was $0.04 per MMBtu or 1.6% higher than projected during the period. Additionally, FPL consumed

2,042,848 more MMBtu (4.3%) than projected during the period. Of the total $8.0 million increase for coal, $5.8 million was due to higher than projected consumption and $2.2 million was due to higher than projected unit costs.

FPL's light oil cost averaged $20.52 per MMBtu, which was $0.53 per MMBtu or 2.5% lower than projected during the period. FPL consumed 15,925 more MMBtu (4.0%) than projected during the period. The total $0.1 million increase for light oil reflects a $0.3 million increase due to higher than projected consumption, partially offset by a $0.2 million decrease due to lower than projected unit costs.

<u>Fuel Cost of Power Sold ($4.3 million decrease)</u>

The approximately $4.3 million decrease in Fuel Cost of Power Sold was primarily attributable to lower than projected fuel costs for economy sales. FPL's average fuel cost attributable to economy sales was $20.67/MWh as compared to an original estimate of $30.60/MWh. Additionally, FPL sold approximately 16,000 MWh less of economy power than originally projected. Approximately 88% of the variance is due to lower than projected fuel costs for economy sales and the remaining 12% is due to lower than projected volume of economy sales. This variance was slightly increased by lower than projected sales and costs related to the St. Lucie Reliability Exchange. Overall, the total variance of $4,253,429 for Fuel Cost of Power Sold was 92% attributable to lower than projected fuel costs and 8% attributable to lower than projected sales.

Non-Recoverable Oil/Tank Bottoms ($2.7 million increase)

The increase in non-recoverable oil/tank bottoms was primarily due to $1.8 million associated with a tank at Turkey Point Fossil which was placed in service in September 2012 and $1.2 million in October 2012 associated with a tank at Cape Canaveral Energy Center. Neither amount had been projected.

Energy Cost of Economy Purchases ($1.4 million increase)

The increase of $1.4 million for the Energy Cost of Economy Purchases was primarily attributable to higher than projected economy purchases. FPL purchased approximately 47,000 MWh more of economy energy than it projected. This higher volume of economy purchases resulted in an increase of approximately $2.0 million. The costs of economy purchases were, on average, $0.76/MWh lower than projected, which resulted in a decrease of approximately $0.6 million that partially offset the volume variance.

Gains from Off-System Sales ($0.6 million decrease)

Gains from Off-System Sales were lower than projected primarily because of lower than projected margins on economy sales. FPL's average margin on economy sales was $1.11/MWh lower than projected. Additionally, FPL made 16,000 MWh less economy sales than projected. Approximately 71% of the total decrease of $575,136 was attributable to lower than projected margins on economy sales and the remaining 29% was attributable to lower than projected economy sales.

Q. What was the variance in retail (jurisdictional) FCR revenues?

A. As shown on Appendix I, page 4, line 24, actual jurisdictional FCR revenues, net of revenue taxes, were approximately $6.8 million or 0.2% lower than the actual/estimated projection.

Q. Pursuant to Commission Order No. PSC-12-0664-FOF-EI, FPL's 2012 gains on non-separated wholesale energy sales were to be measured against a three-year average Shareholder Incentive Benchmark of $6,680,369. Did FPL exceed this benchmark?

A. No.

Q. Will FPL continue to use in 2013 the shareholder incentive mechanism that was approved by the Commission in Order No. PSC-00-1744-PAA-EI?

A. No. FPL is implementing a new Incentive Mechanism beginning in 2013, which was a component of the Stipulation and Settlement that was approved by the Commission in Order No. PSC-13-0023-S-EI issued on January 14, 2013 in Docket No. 120015-EI. The new Incentive Mechanism does not rely upon the three-year average Shareholder Incentive Benchmark specified in Order No. PSC-00-1744-PAA-EI, so there is no need to continue calculating that benchmark.

CAPACITY COST RECOVERY CLAUSE (CCR)

Q. Please explain the calculation of the CCR net true-up amount.

A. Appendix II, page 1, titled "Summary of Net True-Up" shows the calculation of the CCR Net True-Up for the period January 2012 through December 2012, an under-recovery of $7,913,484, which FPL is requesting to be included in the calculation of the CCR factors for the January 2014 through December 2014 period.

The actual End-of-Period under-recovery for the period January 2012 through December 2012 of $23,791,944 shown on line 1 less the Actual/Estimated End-of-Period under-recovery for the same period of $15,878,460 shown on line 2 that was approved by the Commission in Order No. PSC-12-0664-FOF-EI, results in the Net True-Up under-recovery for the period January 2012 through December 2012 of $7,913,484 (line 3).

Q. **Have you provided a schedule showing the calculation of the CCR actual true-up by month?**

A. Yes. Appendix II, page 2, titled "Calculation of Final True-up" shows the calculation of the CCR End-of-Period true-up for the period January 2012 through December 2012 by month.

Q. **Is this true-up calculation consistent with the true-up methodology used for the FCR clause?**

A. Yes, it is. The calculation of the true-up amount follows the procedures established by this Commission set forth on Commission Schedule A-2 "Calculation of True-Up and Interest Provision" for the FCR clause.

Q. **Have you provided a schedule showing the variances between actual and actual/estimated capacity charges and applicable revenues for 2012?**

A. Yes. Appendix II, page 3, titled "Calculation of Final True-up Variances," shows the actual capacity charges and applicable revenues compared to actual/estimated capacity charges and applicable revenues for the period January 2012 through December 2012.

Q. What was the variance in net capacity charges?

A. Appendix II, page 3, line 12 provides the variance in Jurisdictional Capacity Charges, which is an increase of $1,893,356 or 0.3%. This $1.9 million increase was primarily due to a $3.7 million increase in Payments to Cogenerators, a $0.4 million increase in Transmission of Electricity by Others and approximately $64,000 less revenues from Transmission Revenues from Capacity Sales. These increases were partially offset by a $2.0 million decrease in Incremental Plant Security Costs and a $0.1 million decrease in Payments to Non-cogenerators.

Payments to Cogenerators ($3.7 million increase)

The $3.7 million increase was due primarily to increased payments to two cogenerators. Both Indiantown (ICL) and Cedar Bay (CB) units had better availability performance. Therefore, the capacity payments to these cogenerators were approximately $4.9 million higher than projected. In contrast, payments to the Solid Waste Authority (SWA) were approximately $1.3 million lower than projected, partially offsetting the increased payments to ICL and CB.

Transmission of Electricity by Others ($0.4 million increase)

The approximately $0.4 million increase was due to lower than projected UPS power purchases, resulting in higher than projected unutilized transmission costs. FPL purchased approximately 35,000 MWh less than projected from the UPS units for the last five months of 2012.

Transmission Revenues from Capacity Sales ($0.06 million variance)

The approximately $64,000 decrease in Transmission Revenues from Capacity Sales was due to lower than projected economy power sales. FPL sold approximately 16,000 MWh less economy power during the period when compared to amounts projected.

Incremental Plant Security Costs ($2.0 million decrease)

The decrease in incremental plant security costs was primarily due to the deferral of the Force on Force Upgrades work scope due to Extended Power Uprate (EPU) outages at St. Lucie and Turkey Point as well as lower than projected Part 73 Cyber Security Digital Assessment costs. Additionally, Force on Force drills were modified from the initial project plan due to EPU outages at St. Lucie and Turkey Point. Finally, the costs to install a security fence at the Port Everglades terminal were lower than projected and a change in project work scope at Turkey Point and Sanford plants also contributed to the lower variance.

Payments to Non-cogenerators ($0.1 million decrease)

The primary cause of the approximately $139,000 decrease was a reduction of approximately $304,000 in costs associated with the SJRPP agreement, partially offset by a net increase of approximately $165,000 in capacity payments under the Seminole (PPA) and Franklin (UPS) contracts.

Approximately $723,000 of the SJRPP variance was due to lower costs for Debt Service. Transmission Service and JEA O&M expense charges to FPL were also approximately $290,000 lower than projected. These amounts were partially offset by payments for Property Taxes, Cumulative Capital Recovery Amount (CCRA) payments, and Inventory costs which in total were approximately $709,000 higher than projected.

Increased PPA capacity costs associated with a contract term extension with Seminole contributed $187,500 to the overall variance. Finally, there was a reduction of approximately $22,000 in costs due to Capacity Availability Performance Adjustment (CAPA) payments related to the Franklin unit in the UPS agreement.

Q. What was the variance in Capacity Cost Recovery revenues?

A. As shown on page 3, line 13, actual Capacity Cost Recovery Revenues (Net of Revenue Taxes) were $6,025,791 or 0.9% lower than the actual/estimated projection. This $6,025,791 decrease in revenues, plus the $1,893,356 increase in costs and $5,663 decrease in interest (page 3, line 17), result in the final under-recovery of $7,913,484.

Q. Have you provided Schedule A12 showing the actual monthly capacity payments by contract?

A. Yes. Schedule A12 consists of two pages that are included in Appendix II as pages 4 and 5. Page 4 shows the actual capacity payments for Qualifying Facilities, the Southern Company UPS contract and the SJRPP contract for the period January 2012 through December 2012. Page 5 provides the Short Term Capacity payments for the period January 2012 through December 2012.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF TERRY J. KEITH

DOCKET NO. 130001-EI

AUGUST 2, 2013

Q. Please state your name and address.

A. My name is Terry J. Keith and my business address is 9250 West Flagler Street, Miami, Florida 33174.

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

A. I am employed by Florida Power & Light Company (FPL) as Director, Cost Recovery Clauses in the Regulatory Affairs Department.

Q. Have you previously testified in this docket?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Commission review and approval the calculation of the Actual/Estimated True-up amounts for the Fuel Cost Recovery (FCR) Clause and the Capacity Cost Recovery (CCR) Clause for the period January 2013 through December 2013. My testimony also presents FPL's request for recovery through the CCR Clause of incremental costs associated with new Nuclear Regulatory Commission (NRC) compliance requirements resulting from the Fukushima Daiichi event.

Q. Have you prepared or caused to be prepared under your direction, supervision or control an exhibit in this proceeding?

A. Yes, I have. It consists of various schedules included in Appendices I and II. Appendix I contains the FCR related schedules and Appendix II contains the CCR related schedules.

The FCR Schedules contained in Appendix I include Schedules E3 through E9 that provide revised estimates for the period July 2013 through December 2013. FCR Schedules A1 through A9 provide actual data for the period January 2013 through June 2013. They are filed monthly with the Commission, are served on all parties and are incorporated herein by reference.

The CCR Schedules contained in Appendix II provide the calculation of the actual/estimated true-up amount and actual/estimated variances for the period January 2013 through December 2013.

Q. What is the source of the actuals data that you will present by way of testimony or exhibits in this proceeding?

A. Unless otherwise indicated, the actuals data are taken from the books and records of FPL. The books and records are kept in the regular course of our business in accordance with generally accepted accounting principles and practices, as well as the provisions of the Uniform System of Accounts as prescribed by this Commission.

Q. Please describe what data FPL has used as a comparison when calculating the FCR and CCR true-ups that are presented in your testimony.

A. The FCR and CCR true-up calculations compare actual/estimated data consisting of actuals for January 2013 through June 2013 and revised estimates for July 2013 through December 2013 to original projections for 2013.

Q. Please explain the calculation of the interest provision that is applicable to the FCR and CCR true-ups.

A. The calculation of the interest provision follows the same methodology used in calculating the interest provision for the cost recovery clauses, as previously approved by this Commission. The interest provision is the result of multiplying the monthly average true-up amount times the monthly average interest rate. The average interest rate for the months reflecting actual data is developed using the AA financial 30-day rates as published in the Federal Reserve website on the first business day of the current and the subsequent month. The average interest rate for the projected months is the actual rate published as of the first business day in July 2013 reflecting the last business day in June 2013.

FUEL COST RECOVERY CLAUSE

Q. Have you provided a schedule showing the calculation of the 2013 actual/estimated true-up by month?

A. Yes. Appendix I, Page 1 shows the calculation of the FCR actual/estimated true-up by month for the period January 2013 through December 2013.

Q. Please explain the calculation of the FCR end-of-period net true-up and actual/estimated true-up amounts you are requesting this Commission to approve.

A. Appendix I, Page 1 shows the calculation of the FCR end-of-period net true-up and actual/estimated true-up amounts. The end-of-period net true-up amount to be carried forward to the 2014 FCR factor is an under-recovery of $153,456,602 (Appendix I, Page 1, Column 14, Line 42). This $153,456,602 under-recovery includes the 2012 final true-up under-recovery of $4,550,654 (Appendix I, Page 1, Column 14, Line 40), filed with the Commission on March 1, 2013, and the actual/estimated true-up under-recovery, including interest, of $148,905,948 (Appendix I, Page 1, Column 14, Lines 37 plus 38) for the period January 2013 through December 2013.

Q. Were these calculations made in accordance with the procedures previously approved in predecessors to this Docket?

A. Yes, they were.

Q. Have you provided a schedule showing the variances between the actual/estimated amounts and original projections for 2013?

A. Yes. Appendix I, Page 2 provides a comparison of jurisdictional revenues and costs on a dollar per MWh basis. Appendix I, Page 3 provides a variance calculation that compares the actual/estimated period data to the data from the original projections for the January 2013 through December 2013 period.

Q. Please summarize the variance analysis on Page 2 of Appendix I.

A. Appendix I, Page 2 provides a comparison of Jurisdictional Total Fuel Revenues and Jurisdictional Total Fuel Costs and Net Power Transactions on a dollar per MWh basis. The $153,456,602 variance is primarily due to an increase in fuel costs per MWh of $31.53/MWh vs. $30.46/MWh that results in a cost variance of $110,227,434, and a decrease in fuel revenues per MWh of $29.69/MWh vs. $30.07/MWh that results in a cost variance of $38,881,836, for a total variance due to cost of $149,109,270.

The impact of the variance due to consumption is mostly offset between costs per

MWh and revenues per MWh, netting to a variance due to consumption of $238,791. The total variance due to cost of $149,109,270 less the total variance due to consumption of $238,791 results in the 2013 actual/estimated true-up variance of $148,870,479. When the interest amount of $35,469 associated with the 2013 actual/estimated true-up amount and the 2012 final true-up under-recovery amount of $4,550,654 are added to the calculation, the total amount of the variance is $153,456,602.

Q. Please summarize the variance schedule on Page 3 of Appendix I.

A. FPL originally projected Jurisdictional Total Fuel Costs and Net Power Transactions to be $3.204 billion for 2013 (Appendix I, Page 3, Column 3, Line 21). The Actual/Estimated Jurisdictional Total Fuel Costs and Net Power Transactions are now projected to be $3.298 billion for that period (actual data for January 2013 through June 2013 and revised estimates for July 2013 through December 2013) (Appendix I, Page 3, Column 2, Line 21). Therefore, Jurisdictional Total Fuel Costs and Net Power Transactions are $93.3 million, or 2.9% higher than the original projections (Appendix I, Page 3, Column 4, Line 21). Jurisdictional Fuel Revenues, net of revenue taxes for 2013 are projected to be $57.2 million, or 1.8% lower than the original projections (Appendix I, Page 3, Column 4, Line 29).

Q. Please explain the variances in Jurisdictional Total Fuel Costs and Net Power Transactions.

A. The primary reasons for the $93.3 million variance are higher than projected Fuel Cost of System Net Generation ($246.7 million), partially offset by lower than projected Energy Payments to Qualifying Facilities ($39.4 million), lower than projected Energy Cost of Economy Purchases ($36.4 million), higher than projected Fuel Cost of Power Sold ($35.6 million), lower than projected Fuel Cost of Purchased Power ($31.8 million), higher than projected Gains from Off-System Sales ($7.0 million),lower than projected Nuclear Fuel Disposal Costs ($1.0 million) and a $0.1 million decrease associated with coal cars.

<u>Fuel Cost of System Net Generation ($246.7 million increase)</u>

Natural gas costs are currently projected to be $273.7 million (11.5%) higher than the original projections. Although the unit cost of natural gas in the actual/estimated period is projected to be only 0.3% higher than what was included in the original projections ($4.8940 per MMBTU vs. $4.8815 per MMBTU), consumption of natural gas in the actual/estimated period is projected to be 544,295,269 MMBTUs, which is approximately 11.2% higher than the 489,626,432 MMBTUs included in the original projections.

Light oil costs are currently projected to be $9.7 million (1592.5%) higher than the original projections. Light oil burn in the actual/estimated period is projected to be 503,298 MMBTUs, which is approximately 1801.6% higher than the 26,467 MMBTUs included in the original projections. The unit cost of light oil in the actual/estimated period is projected to be $20.56 per MMBTU, which is 11.0% lower than the $23.10 per MMBTU included in the original projections.

Heavy oil costs are currently projected to be $3.2 million (4.8%) higher than the original projections. Heavy oil burn in the actual/estimated period is projected to be 4,693,368 MMBTUs, which is 13.6% higher than the 4,129,865 MMBTUs included in the original projections. The unit cost of heavy oil in the actual/estimated period is projected to be $14.77 per MMBTU, which is 7.8% lower than the $16.02 per MMBTU included in the original projections.

Nuclear generation costs are currently projected to be $27.1 million (112.8%) lower than the original projections. The unit cost of nuclear fuel in the actual/estimated period is projected to be $0.69 per MMBTU, which is 7.7% lower than the $0.74 per MMBTU included in the original projections. Nuclear consumption in the actual/estimated period is projected to be 269,522,718 MMBTUs, which is 5.5% lower than the 285,258,283 MMBTUs included in the original projections.

Coal costs are currently projected to be $12.8 million (7.7%) lower than the original projections. The unit cost of coal in the actual/estimated period is projected to be $2.65 per MMBTU, which is 5.2% lower than the $2.79 per MMBTU included in the original projections. Coal consumption in the actual/estimated period is projected to be 58,243,399 MMBTUs, which is 2.6% lower than the 59,813,211 MMBTUs included in the original projections.

Generation data by fuel type for the actual/estimated period January 2013 through December 2013 are included in Appendix I, Schedule E3.

Fuel Cost of Purchased Power ($31.8 million decrease)

The variance for the Fuel Cost of Purchased Power is primarily attributable to both volume and cost variances for UPS and SJRPP purchases. FPL now projects to purchase approximately 686,000 MWh less from its UPS PPA, which results in a variance of approximately $24.4 million. This is partially off-set by higher than projected unit fuel costs of approximately $4.48/MWh, or $9.0 million. FPL also projects to purchase approximately 153,000 MWh less from SJRPP at a cost of approximately $5.28/MWh lower than originally projected, resulting in variances of approximately $6.5 million and $9.9 million, respectively.

Energy Cost of Economy Purchases ($36.4 million decrease)

The variance for the Energy Cost of Economy Purchases is attributable to significantly lower than projected economy purchases. FPL projects that it will purchase approximately 928,000 MWh less of economy energy than its original projections. Lower economy purchases results in a volume variance of approximately $36.8 million, which is slightly offset by higher than originally projected costs for economy purchases of approximately $0.44 million. The combination of lower purchases and slightly higher costs results in a total variance of $36.4 million for the Energy Cost of Economy Purchases.

Energy Payments to Qualifying Facilities ($39.4 million decrease)

The variance for Energy Payments to Qualifying Facilities is primarily attributable to lower than projected QF purchases. FPL now estimates that it will purchase approximately 798,000 MWh less from QF facilities. Lower purchases result in a variance of approximately $35.7 million, or 91.0% of the total variance. Additionally, FPL now estimates that the unit cost of QF purchases will be approximately $1.53/MWh less than originally projected, resulting in a variance of approximately $3.7 million, or 9% of the total variance. The combination of lower purchases and lower fuel costs results in a total variance of $39.4 million for Energy Payments to Qualifying Facilities.

<u>Nuclear Fuel Disposal Costs ($1 million decrease)</u>

The Nuclear Fuel Disposal Costs were $1.0 million lower than projected primarily due to lower generation that was driven by the Turkey Point Unit 4 EPU outage duration, which was longer than assumed in the projections and unplanned outages at St. Lucie Unit 1 and Turkey Unit 3 that occurred in March and April, respectively.

<u>Fuel Cost of Power Sold ($35.6 million increase)</u>

The variance for the Fuel Cost of Power Sold is primarily attributable to higher than projected power sales. FPL projects that it will sell approximately 1.27 million MWh more power than originally projected, resulting in a variance of approximately $26.9 million, or 76% of the total variance. Additionally, FPL projects that its average fuel costs attributable to power sales will be approximately $3.87/MWh higher than originally projected, resulting in a variance of approximately $8.7 million, or 24% of the total variance. The combination of higher sales and higher fuel costs results in a total variance of $35.6 million for the Fuel Cost of Power Sold.

Gains from Off-System Sales ($7.0 million increase)

The variance for Gains from Off-System Sales is primarily attributable to higher than projected economy sales. FPL now projects to sell approximately 1.29 million MWh more economy power than its original projections, resulting in a variance of approximately $13.2 million. This is partially off-set by a lower than projected average margin on economy sales of approximately $3.67/MWh, which results in a variance of approximately $6.3 million. The combination of higher sales and lower margins results in a total variance of $7.0 million for Gains from Off-System Sales.

Coal Cars Depreciation and Return ($0.1 million decrease)

The variance in coal cars depreciation and return is due to proceeds received from the rail company for damaged rail cars.

CAPACITY COST RECOVERY CLAUSE

Q. Please explain the calculation of the CCR 2013 actual/estimated true-up amount you are requesting this Commission to approve.

A. Appendix II, Page 1 shows the calculation of the CCR actual/estimated true-up amount. The calculation of the actual/estimated true-up for the period January 2013 through December 2013 is an under-recovery of $24,042,297 including interest (Appendix II, Page 1, Column 14, Lines 18 plus 19).

Q. Is this true-up calculation made in accordance with the procedures previously approved in predecessors to this Docket?

A. Yes, it is.

Q. Have you provided a schedule showing the variances between the actual/estimated and the original projections for 2013?

A. Yes. Appendix II, Page 2 shows the actual/estimated capacity charges and applicable revenues (January 2013 through June 2013 reflects actual data and the data for July 2013 through December 2013 is based on updated estimates) compared to the original projections for the January 2013 through December 2013 period, filed on November 1, 2012.

Q. Please explain the variances related to capacity charges.

A. As shown in Appendix II, Page 2, Column 4, Line 14, the variance related to jurisdictional capacity charges is $6.2 million, a 0.9% decrease from original projections. The primary reason for this variance is a $6.3 million or 1.2% decrease in total system capacity costs (Page 2, Column 4, Line 10).

The $6.3 million decrease is due to a decrease in the SJRPP Suspension Accrual ($11.3 million), an increase in Transmission Revenues from Capacity Sales ($2.8 million), a decrease in Payments to Non-cogenerators ($2.0 million), partially offset by an increase in Payments to Cogenerators ($7.9 million), an increase in Incremental Plant Security Costs ($0.8 million), and an increase in Transmission of Electricity by Others ($0.5 million). Additionally, there is an increase of $83,000 of O&M estimates and $17,587 of return requirements on Construction Work In Progress (CWIP) related to compliance with new Nuclear Regulatory Commission requirements resulting from the Fukushima Daiichi event, which FPL is requesting recovery of in this docket. These costs were not included in the original CCR projections.

SJRPP Suspension Accrual ($11.3 million decrease)

The variance of approximately $11.3 million is due to lower than projected accrual amounts when compared to original calculations. The suspension date, the point at which it is projected that FPL will no longer be able to take power purchased from Units 1 and 2 due to IRS regulations, has been extended into November of 2017. Additionally, the current reserve fund balance exceeds the remaining debt service. Therefore, pursuant to the SJRPP Bond Resolution, the reserve fund balance has been applied to existing suspension accrual amounts, resulting is a reduction to previously projected accrual values.

Transmission Revenues from Capacity Sales ($2.8 million increase)

Approximately $2.2 million of the total variance is due to higher than projected economy power sales in the first half of the year. FPL sold approximately 969,000 MWh more economy power than projected during the first six months of 2013. For the full year, FPL now projects to sell over 1,290,000 MWh more of economy power than originally projected. The variance attributable to the July through December period is projected to be approximately $0.6 million.

Payments to Non-cogenerators ($2.0 million decrease)

The primary cause of the total variance is due to a reduction of approximately $2.0 million in costs associated with the SJRPP agreement. Approximately $1.25 million of the SJRPP variance was due to lower costs for Debt Service and

Cumulative Capital Recovery Amount (CCRA) payments, offset by approximately $0.5 million in higher than originally projected payments for Transmission Service, Property Taxes, JEA O&M expense charges to FPL, and Inventory costs. The remaining variance of approximately $1.3 million is due to lower than projected costs during the balance of the year for SJRPP in most categories. The primary driver is a projected reduction of approximately $1.2 million in JEA O&M expense charges to FPL during the period.

There was an increase of approximately $50,000 in costs due to Change In Law (CIL) payments related to the Scherer unit in the UPS agreement, during the January to June period. Additionally, there is a projected increase of approximately $29,000 in costs due to CIL payments for the balance of the year.

Payments to Cogenerators ($7.9 million increase)

The $7.9 million variance is primarily due to higher than projected capacity payments to cogenerators in the first half of the year. There was an approximately $4.9 million increase in payments to cogenerators resulting from better availability performance during the first six months of the year, and, therefore, higher than projected capacity payments to Indiantown (ICL) and Cedar Bay (CB). This increase was partially offset by an approximately $244,000 reduction in costs associated with the Broward North and Solid Waste Authority facilities.

Approximately 41.0%, or $3.2 million of the total variance is due to higher than originally projected capacity payments to ICL and CB resulting from anticipated better availability performance during the July to December period.

Incremental Plant Security Costs ($0.8 million increase)

The $0.8 million or 1.7% increase in incremental plant security costs is primarily due to higher than projected costs associated with the implementation of Critical Infrastructure Protection (CIP) Version 5 compliance standards at three new power plant sites as well as one existing compliant site. Also, related revisions to processes and procedures were affected by the implementation of the CIP Version 5 compliance standards. Additionally, costs associated with preparations for the Florida Reliability Coordinating Council's (FRCC) audit of the NERC CIP Standards for 2013 were higher than projected. These activities account for $1.6 million of the total variance.

The $1.6 million variance was partially offset by an $0.8 million decrease in nuclear incremental security costs primarily due to less than projected installation costs for the Ballistic Bullet Resistant Enclosure by the low level waste facility and less than projected costs incurred for contracted security services.

Transmission of Electricity by Others ($0.5 million increase)

The approximate $0.5 million variance is primarily due to lower than projected UPS power purchases, resulting in higher than projected unutilized transmission costs. FPL purchased approximately 318,000 MWh less than originally projected from the UPS units for the first six months of 2013. For the full year, FPL now projects to purchase approximately 686,000 MWh less than originally projected from the UPS units. The total increase in unutilized transmission, approximately $2.1 million, is partially offset by a credit of approximately $1.5 million that FPL received from Southern Company. The credit was part of an annual true-up of estimated versus actual costs for firm point-to-point transmission service associated with the UPS power purchase agreements.

Q. Please explain the variance in CCR Revenues.

A. The variance in CCR revenues of $30.2 million represents an under-recovery primarily resulting from a difference between the basis on which recoverable revenue requirements for West County Energy Center 3 (WCEC-3) were initially projected vs. the recovery that was subsequently approved in Docket No. 120015-EI. The approved 2013 CCR factors were limited to the annual fuel savings as prescribed in Order No. PSC-12-0664-FOF-EI, Docket No. 120001-EI. However, the Commission recognized in that same order that a decision in Docket No. 120015-EI, which addressed the future recovery of WCEC-3, would not be reached until after a decision was rendered in Docket No. 120001-EI. The order went on to state that any over or under recovery as a result of the decision in Docket No. 120015-EI would be handled through the regular CCR true-up process. Per Order No. PSC-13-0023-S-EI, the Commission approved the rate case settlement in which FPL is entitled to recover the full WCEC-3 non-fuel revenue requirements, rather than limiting that recovery to the projected annual fuel savings. Because FPL is now authorized to recover the full annual non-fuel revenue requirements for WCEC-3, it has included the difference between the originally projected WCEC-3 recovery (limited to fuel savings of $133 million) and the annual non-fuel revenue requirements for WCEC-3 of $165.0 million in its

2013 actual/estimated CCR true-up amount.

INCREMENTAL NRC COMPLIANCE COSTS - FUKUSHIMA

Q. **Is FPL requesting to recover in its CCR 2013 actual/estimated true-up incremental costs associated with new Nuclear Regulatory Commission (NRC) compliance requirements resulting from the Fukushima Daiichi event?**

A. Yes. As discussed in the testimony of FPL witness Don Grissette, the NRC has issued three Orders and three Requests for Information (RFIs) resulting from the Fukushima event that define, at a high level, what is to be changed at U.S. nuclear power plants and when the expected changes are to be completed. FPL will be required to make plant modifications and enhancements to support beyond design basis mitigation strategies submitted to the NRC.

FPL submitted its proposed implementation plan to the NRC on February 28, 2013 associated with the Orders requiring immediate action. In order to ensure FPL complies with the current regulatory deadlines, FPL has had to begin the engineering phase of the implementation plan, with the assumption that the NRC will accept the plan as submitted.

Q. **Did FPL include any costs associated with NRC compliance requirements resulting from the Fukushima event in its 2013 Test Year Forecast revenue requirements that were filed in Docket No. 120015-EI?**

A. Yes. FPL included $10.0 million of capital expenditures and $144,000 of O&M

expenses for the 2013 Test Year in Docket No. 120015-EI. At that time, not enough information was available to estimate the full impact of the Fukushima event. We now know that the required scope of Fukushima-related actions will be substantially greater than FPL was in a position to estimate at the time that the 2013 Test Year Forecast was developed.

Q. Why does FPL believe it is appropriate to recover through the CCR prudently incurred NRC compliance costs related to the Fukushima event that are incremental to what was included in its 2013 Test Year Forecast revenue requirements?

A. NRC compliance costs associated with the Fukushima event will be incurred in order to allow FPL's nuclear plants to continue operating and saving FPL customers substantial fossil fuel costs. The level of NRC compliance costs associated with the Fukushima event included in base rates does not address either (a) the increase in the compliance costs that FPL expects in 2013 and beyond; or (b) the high degree of uncertainty that exists as to the ultimate level of compliance costs. Both of these considerations make base rate recovery problematic and clause recovery appropriate. In the absence of CCR recovery, FPL will have no opportunity to recover Fukushima compliance costs that are incremental to the small level that is reflected in the 2013 test year forecast. Therefore, FPL is requesting to recover through the CCR incremental NRC compliance costs above the amounts included in the 2013 test year forecast.

Q. Has the Commission previously approved clause recovery for analogous types of compliance costs?

A. Yes, in Order No. PSC-01-2516-FOF-EI, issued in Docket No. 010001-EI on

December 26, 2001, the Commission approved recovery of FPL's incremental post-9/11 power plant security costs associated with the events of September 11, 2001 through the fuel clause. As with NRC compliance costs related to the Fukushima event, the incremental post-9/11 power plant security costs related to unanticipated, substantial new regulatory requirements that emerged following a disaster (in that instance, the 9/11 terrorist attacks). Those costs were expected to be volatile over time, and they have proven to be so. NRC compliance costs associated with the Fukushima event were also completely unexpected prior to the earthquake and tsunami in 2011.

In Order No. PSC-05-0748-FOF-EI, the Commission states:

> "Cost recovery clauses were designed to recover costs which are volatile and unpredictable. We also agree that all four current clauses address costs that are unpredictable, volatile and irregular, due to forces outside the utility's control. The original purpose of recovery clauses was to address on-going costs which could fluctuate between rate cases and unduly penalize either the utility or customers, if such costs were included in base rates."

In the same order, the Commission indicated that clause recovery was based on an immediate need to protect the health, safety and welfare of the utility and its customers, and there was a basis for believing the costs would be recurring on some level.

In Order No. PSC-01-2516-FOF-EI, the Commission states:

> "We find that recovery of this incremental cost through the fuel clause is appropriate in this instance because there is a nexus between protection of FPL's nuclear generation facilities and the fuel cost savings that result from the continued operation of those facilities. Further, we believe that this type of cost is a potentially volatile cost, making it appropriate for recovery through a cost recovery clause. We are comforted that the true-up mechanism inherent in the fuel clause will ensure that ratepayers pay no more than the actual costs incurred. In addition, we find that recovery of this cost through the fuel clause provides a good match between the timing of the incurrence and recovery of the cost."

Because the NRC compliance costs associated with the Fukushima event are related to operating generating capacity, the same logic that led the Commission to move the power plant security cost recovery from the FCR to the CCR in 2002 would suggest that CCR recovery would be appropriate here as well.

Q. What is FPL's current estimate of 2013 O&M and capital costs associated with NRC requirements resulting from the Fukushima event?

A. FPL's actual 2013 NRC compliance costs resulting from the Fukushima event through June 2013 and current estimate for the remainder of the year total $227,000 of O&M expenses and $13.2 million of capital expenditures.

Q. Did FPL include any incremental O&M or capital costs associated with NRC requirements resulting from the Fukushima event in its projected 2013 CCR costs that were approved last year in Docket No. 120001-EI (Order No. PSC-

12-0664-FOF-EI)?

A. No. At the time those projections were made, FPL did not yet have enough information on the NRC requirements to accurately forecast the 2013 Fukushima-related costs.

Q. Has FPL included in its calculation of the 2013 CCR Actual/Estimated True-Up amount any incremental O&M costs associated with NRC requirements resulting from the Fukushima event?

A. Yes. FPL has included $83,000 of incremental O&M expenses associated with NRC compliance resulting from the Fukushima event. This amount is the difference between projected 2013 O&M expenses of $227,000 and the $144,000 included in FPL's base rates.

Q. Has FPL included in its calculation of the 2013 Actual/Estimated True-Up amount any incremental capital costs associated with NRC requirements resulting from the Fukushima event?

A. Yes. FPL has included in the calculation of the 2013 CCR Actual/Estimated True-Up amount $17,587 of return requirements on Construction Work in Progress (CWIP) related to this project. This $17,587 is based on 2013 capital expenditures of $3.2 million, which is the difference between projected 2013 capital expenditures of $13.2 million and the $10.0 million included in FPL's base rates. The capital recovery schedule providing the calculation of 2013 return requirements is provided on page 3 of Appendix II.

Q. Is FPL's determination of incremental costs consistent with the methodology established for incremental security costs?

A. Yes. As described above, FPL identified the O&M and capital costs included in its last rate case MFR's (Docket 120015-EI). Those amounts reduced the amounts FPL is requesting to recover through the CCR.

Q. How is FPL's recovery request for costs associated with NRC requirements resulting from the Fukushima event different from its current recovery of incremental security costs?

A. For incremental security costs, Order No. PSC-01-2516-FOF-EI did not make a distinction between capital items and expense items; thus, all costs were treated as current year expense. FPL is not requesting to recover its Fukushima-related capital costs as a current year expense, but rather to recover such costs consistent with the Company's normal accounting treatment. Therefore, capital costs will be recorded in CWIP until investments are put in service, at which time FPL will recover depreciation expense and return on the average net book value of the plant-in service balance at FPL's overall weighted average cost of capital. This approach is consistent with how the costs for capital projects are recovered in the Environmental Cost Recovery Clause.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF TERRY J. KEITH

DOCKET NO. 130001-EI

AUGUST 30, 2013

Q. Please state your name and address.

A. My name is Terry J. Keith and my business address is 9250 West Flagler Street, Miami, Florida 33174.

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

A. I am employed by Florida Power & Light Company (FPL) as Director, Cost Recovery Clauses in the Regulatory Affairs Department.

Q. Have you previously testified in this docket?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. My testimony addresses the following subjects:

- I present a revised 2013 Fuel Cost Recovery (FCR) actual/estimated true-up amount, which has been updated to include July 2013 actual data and which is incorporated into the calculation of the 2014 FCR factors.
- I present FCR factors for the period January 2014 through May 2014 and June 2014 through December 2014 that reflect the Riviera Beach Next Generation Energy Center (RBEC) fuel savings in the period after the unit goes into service (projected

to be June 1, 2014). I also present for informational purposes, 2014 FCR factors based on the traditional factor calculation methodology, which spreads the fuel savings associated with RBEC over the entire calendar year.

- I present a revised 2013 Capacity Cost Recovery (CCR) actual/estimated true-up amount, which has been updated to include July 2013 actual data and which is incorporated into the calculation of the 2014 CCR factors.
- I present the CCR factors for the period January 2014 through December 2014. I also provide CCR factors for the period January 2014 through December 2014 including an adjustment to recover the projected non-fuel revenue requirements associated with West County Energy Center Unit 3 (WCEC-3) for the period January 2014 through December 2014, as approved in Order No. PSC-13-0023-S-EI, issued in Docket No. 120015-EI on January 14, 2013.
- I present FPL's Nuclear Power Plant Cost Recovery amount to be recovered through the CCR Clause in 2014.
- I present for Commission review and approval through the CCR incremental NRC compliance costs resulting from the Fukushima Daiichi event.
- I present the WCEC-3 revenue requirement calculation for the January 2014 through December 2014 period.
- Finally, I provide on pages 76-77 of Appendix II FPL's

proposed COG tariff sheets, which reflect 2014 projections of avoided energy costs for purchases from small power producers and cogenerators and an updated ten-year projection of FPL's annual generation mix and fuel prices.

Q. Have you prepared or caused to be prepared under your direction, supervision or control any exhibits in this proceeding?

A. Yes, I have. They are as follows:

TJK-5 (Appendix II)

- Schedules E1, E1-E, E2, RS-1 Inverted Rate Calculation and E10 provide the calculation of FCR factors for January 2014 through May 2014, which exclude RBEC fuel savings.
- Schedule E1-A, a revised Schedule E1-B, which includes July 2013 actual data, Schedules E1-C, E1-D, and H1, which pertain to the entire 2014 calendar year.
- Pages 9 through 11, which provide the 2014 Projected Energy Losses by Rate Class.
- Pages 76 and 77, which provide updated COG tariff sheets.

TJK-6 (Appendix III)

- Schedules E1, E1-E, E2, RS-1 Inverted Rate Calculation and E10 for the period June 2014 through December 2014, which include RBEC fuel savings.

TJK-7 (Appendix IV)

- Schedules E1, E1-E, E2, RS-1 Inverted Rate Calculation and E10 that provide the calculation of FCR factors for the period January 2014 through December 2014 based on the traditional factor calculation methodology, which spreads the RBEC fuel savings over the entire calendar year.

TJK-8 (Appendix V)

- Page 1 provides the calculation of the revised 2013 Actual/Estimated CCR True-Up amount, which includes July 2013 actual data.
- Pages 2 through 4 provide the calculation of the 2014 CCR factors.
- Pages 5 through 7 provide the calculation of depreciation and return on incremental power plant security and incremental nuclear NRC compliance capital investments.
- Pages 10 through 12 provide the calculation of the CCR factors that recover the non-fuel revenue requirements associated with WCEC-3 for the period January 2014 through December 2014.
- Page 13 provides the calculation of the 2014 CCR factors including the calculation of the non-fuel revenue requirements associated with WCEC-3 for the period January 2014 through December 2014.

TJK-9 (Appendix VI)

- Pages 1 and 2 provide the calculation of the WCEC-3 revenue requirement for January 2014 through December 2014.

FUEL COST RECOVERY CLAUSE

Q. Has FPL revised its 2013 FCR Actual/Estimated True-up amount that was filed on August 2, 2013 to reflect July actual data?

A. Yes. The 2013 FCR actual/estimated true-up amount has been revised to an under-recovery of $143,214,959, reflecting July 2013 actual data, plus interest. This $143,214,959 under-recovery, plus the 2012 final true-up under-recovery of $4,550,654, results in a net under-recovery of $147,765,613 (see Schedule E1-b, Page 3, Appendix II). This $147,765,613 under-recovery is to be included in the FCR factor for the January 2014 through December 2014 period.

Q What adjustments are included in the calculation of the 2014 FCR factors shown on Schedules E1 included in Appendices II, III and IV?

A. The total net true-up to be included in the 2014 FCR factors is an under-recovery of $147,765,613. This amount, divided by the projected retail sales of 105,843,225 MWh for January 2014 through December 2014, results in an increase of 0.1396¢ per kWh before applicable revenue taxes, as shown on Line 26 of Schedule E1. The Generating Performance Incentive Factor (GPIF) testimony of witness J. Carine Bullock (adopted by FPL witness Charles Rote), filed on March 15, 2013 and revised on May 13, 2013, proposes a reward of $20,679,970 for the period ending December 2012. This $20,679,970 reward, divided by the projected retail sales of 105,843,225 MWh during the projected period, results in an increase of 0.0195¢ per kWh, as shown on line 30 of Schedule E1.

Q. Please explain how FPL has calculated its proposed FCR factors for the period January 2014 through December 2014.

A. In Order No. PSC-13-0023-S-EI, issued in Docket No. 120015-EI on January 14, 2013, the Commission approved FPL's recovery of annualized revenue requirements associated with RBEC with the in-service date of the unit, which is projected for June 1, 2014. FPL proposes that the corresponding fuel savings associated with RBEC be reflected in fuel factors to become effective when the unit goes in-service. Implementing the fuel factors reflecting those savings concurrent with the step base rate increase better aligns costs with the fuel savings benefits, consistent with the past practice approved by the Commission when new units come into service during the year.

Q. What are the projected jurisdictional fuel savings associated with the RBEC from June 1, 2014 through the balance of 2014?

A. As explained in the testimony of FPL witness Yupp, the projected total fuel savings for that period are $82,000,000. The jurisdictional portion of those fuel savings is $78,543,407. The calculation of this jurisdictional amount is shown on Page 2 of Appendix III.

Q. Has FPL calculated 2014 FCR factors reflecting the RBEC fuel savings commencing with the unit's in-service date?

A. Yes. FPL has prepared two E-1 Schedules to calculate average "Step

1" fuel factors to be applied during the period before RBEC goes into service, assumed to be January 2014 through May 2014, (Page 1 of Appendix II) and separate average "Step 2" fuel factors to be applied during the period after RBEC goes into service, assumed to be June 2014 through December 2014 (Page 1 of Appendix III).

Q. Please explain this calculation.

A. FPL first calculates the Step 1 fuel factors assuming RBEC is not operating in 2014, meaning that the total jurisdictional fuel savings are excluded from the calculation of the levelized fuel factor on both E-1 Schedules. This adjustment is shown on Line 2. This results in a levelized fuel factor of 3.383 cents per kWh for the period January 2014 through May 2014. For FPL's Residential 1,000 kWh bill, this represents a fuel charge of $30.67 during this period.

Next, FPL adjusts the Step 2 fuel factors for the period June 2014 through December 2014 by crediting the fuel savings associated with RBEC during this period. The total jurisdictional fuel savings of $78,543,407, divided by the projected sales for June 2014 through December 2014 of 65,556,788 MWh results in a downward adjustment of 0.1198 cents per kWh, including revenue taxes (Schedule E-1, Line 31, Page 1 of Appendix III). This downward adjustment results in a lower levelized FCR factor of 3.263 cents per kWh for the period June 2014 through December 2014, which reflects a reduction in the levelized fuel factor of 0.120 cents per kWh. For FPL's residential

1,000 kWh bill, this represents a fuel charge of $29.47 for this period.

Schedule E2 provides the monthly fuel factors and also the levelized FCR factor. Schedule E-1E provides the calculation of the FCR factors by rate group for each period.

Q. Has FPL also calculated levelized FCR factors that would apply uniformly throughout calendar year 2014?

A. Yes. Although FPL requests approval of its “Step 1” and “Step 2” FCR factors for 2014, FPL has also provided fuel factors using the traditional methodology for informational purposes. Appendix IV includes Schedules El, El-E, E2, RS-1 Inverted Rate Calculation and E10, which calculate a twelve-month levelized fuel factor of 3.308¢ per kWh, based on the traditional methodology. This twelve-month levelized fuel factor spreads the RBEC fuel savings throughout the twelve months of 2014.

Q. Were these calculations made in accordance with the procedures approved in predecessors to this Docket?

A. Yes.

Q. Is FPL proposing to discontinue calculating its Time of Use (TOU) rates based on seasonal differentiation?

A. Yes. FPL has not found that TOU rates based on seasonal differentiation have been beneficial for its customers.

Q. Please explain.

A. In Order No. PSC-11-0216-PAA-EI, issued in Docket No. 100358-EI on May 11, 2011, the Commission directed FPL to investigate whether TOU fuel factors based on seasonal differentiation would benefit its customers. While FPL believed that its current methodology for calculating TOU fuel factors was reasonable, FPL nonetheless implemented TOU fuel factors based on seasonal differentiation in January 2012 to determine whether customers would change their usage patterns.

There was not a significant change in either usage or customer bills as a result of these seasonal differentiation factors. In addition, the use of seasonal differentiation factors, with multiple rate changes throughout the year, adds a layer of complexity to the billing process that, absent any identified customer benefits, should be eliminated. Therefore, FPL has calculated its 2014 TOU fuel factors based on marginal fuel costs with on-peak and off-peak fuel factors that will apply to the entire calendar year.

Schedule E1-D, Page 1 of 2 in Appendix II provides the calculation of FPL's TOU multipliers. FPL's TOU on-peak and off-peak multipliers are 1.431 and 0.816, respectively. These on-peak and off-peak multipliers are first applied to the levelized fuel factor to arrive at the average on-peak and off-peak TOU factors. Loss multipliers for each rate group are then applied to the average on-peak and off-peak TOU factors to arrive at the final TOU FCR factors for each rate group.

Schedule E1-D, Page 2 of 2 in Appendix II provides the calculation of TOU on-peak and off-peak multipliers of 1.839 and 0.851, respectively for the Seasonal Demand Time of Use Rider (SDTR).

Schedule E-1E, Page 1 of 2 in Appendices II and III presents 2014 FCR factors for FPL's non TOU and TOU rates. Schedule E-1E, Page 2 of 2 in Appendices II and III presents FPL's 2014 FCR factors for its SDTR rates.

CAPACITY COST RECOVERY CLAUSE

Q. Has FPL revised its 2013 CCR Actual/Estimated True-up amount that was filed on August 2, 2013 to reflect July 2013 actual data?

A. Yes. The 2013 CCR actual/estimated true-up amount has been revised to an under-recovery of $25,357,191, reflecting July 2013 actual data, plus interest. This $25,357,191 under-recovery, plus the 2012 final true-up under-recovery of $7,913,484 results in a net under-recovery of $33,270,675 (see Page 1 of Appendix V). This $33,270,675 net under-recovery is to be included for recovery in the CCR factor for the January 2014 through December 2014 period.

Q. Have you prepared a summary of the requested capacity payments for the projected period of January 2014 through December 2014?

A. Yes. Page 2 of Appendix V provides this summary. Total Recoverable Capacity Payments for the period January 2014 through December 2014 are $535,688,312 (line 11). This $535,688,312 is then increased by the net under-recovery for 2012 and 2013 of $33,270,675 (line 14 plus line 15) and the Nuclear Power Plant Cost Recovery Clause amount of $43,461,246 (line 16) for which FPL has sought approval in Docket No. 130009-EI. The total CCR jurisdictional amount to be recovered in 2014, including taxes but excluding WCEC-3 revenue requirements is $587,166,525.

Q. When will the Commission approve FPL's Nuclear Power Plant Cost Recovery amount to be included in the CCR for 2014?

A. The Commission is scheduled to approve the Nuclear Power Plant Cost Recovery amount to be included in FPL's 2014 CCR factors at its October 1, 2013 Agenda Conference. If the Commission makes any changes to FPL's requested recovery amount of $43,461,246 on October 1, FPL will submit to the Commission, with copies to all parties, revised schedules showing the calculation of the 2014 CCR factors. Commission staff has been granted administrative authority to verify that the schedules are consistent with the Commission's vote on October 1, 2013.

Q. Are you proposing any changes to the recovery of capital costs associated with incremental power plant security?

A. Yes. Beginning in January 2014, instead of treating all costs as O&M, FPL is proposing to recover capital related incremental power plant security costs associated with new capital investments including return requirements on Construction Work in Progress (CWIP) consistent with the Company's normal accounting treatment. FPL will record capital costs in CWIP and recover a return on CWIP until investments are put in service, at which time FPL will recover depreciation expense and return on average net book value of the plant-in-service balance at FPL's overall weighted average cost of capital. This is consistent with the manner in which investments in capital projects are recovered and it better matches recovery of the assets with the period in which customers receive the benefit of those assets.

Q. Have you included in the calculation of your 2014 CCR factors any projected costs that are associated with Nuclear Regulatory Commission (NRC) compliance requirements resulting from the Fukushima Daiichi event?

A. Yes. FPL has included in the calculation of its 2014 CCR factors $256,000 of projected O&M costs and $1.4 million of projected return requirements for 2014 associated with Fukushima compliance. Projected 2014 O&M expenses of $400,000 less $144,000 of Fukushima compliance related O&M expenses included in FPL's base rates results in the $256,000 of incremental O&M included in the 2014 CCR factors. The $1.4 million represents return on CWIP, which is based on incremental 2014 capital investments of $27.5 million. This $27.5 million is the difference between projected 2014 capital expenditures of $37.5 and the $10.0 million included in FPL's base rates. The capital recovery schedule providing the calculation of 2014 return requirements is provided on page 7 of Appendix V.

A description of activities associated with FPL's 2014 Fukushima compliance cost projections are provided in the testimony of FPL witness Don Grissette. Previously, Mr. Grissette and I have explained in our 2013 actual/estimated true-up testimony why recovery of Fukushima compliance costs in the CCR is appropriate.

Q. What is the projected WCEC-3 jurisdictional non-fuel revenue requirement for the January 2014 through December 2014 period?

A. The projected jurisdictional non-fuel revenue requirement for January 2014 through December 2014 is $159,210,391. The calculation of this amount is shown in my Exhibit TJK-9, which is included in Appendix VI. Per Order No. PSC-13-0023-EI, issued in Docket No. 120015-EI on January 14, 2013 approving FPL's Settlement Agreement, the annual revenue requirement for WCEC-3 will continue to be recovered through the CCR but will no longer be limited to the projected annual fuel cost savings for WCEC-3. The $159,210,391 reflects the projected plant-in-service balance and operating expenses for WCEC-3 that were included in the determination of need for the unit in Docket No. 080203-EI, with the return on equity (ROE) of 10.5%, as approved in the Settlement Agreement.

Q. Have you provided a calculation of 2014 CCR factors by rate

class including an adjustment to recover the projected non-fuel revenue requirements associated with WCEC-3 for the period January 2014 through December 2014?

A. Yes. As approved in Order No. PSC-13-0023-S-EI, issued in Docket No. 120015-EI on January 14, 2013, FPL has included in Appendix VI the 2014 non-fuel revenue requirements of $159.2 million. Accordingly, Exhibit TJK-8, which is Appendix V to my testimony, shows the calculation of 2014 CCR factors including the projected non-fuel revenue requirements associated with WCEC-3 for the period January 2014 through December 2014.

Q. What is the total CCR jurisdictional amount to be recovered in 2014?

A. The total CCR jurisdictional amount to be recovered in 2014, including taxes and WCEC-3 revenue requirements is $746,376,916.

Q. Have you prepared a calculation of the allocation factors for demand and energy?

A. Yes. Page 3 of Appendix V provides this calculation. The demand allocation factors are calculated by determining the percentage each rate class contributes to the monthly system peaks. The energy allocators are calculated by determining the percentage each rate class contributes to total kWh sales, as adjusted for losses.

Q. What effective date is FPL requesting for the new FCR and CCR factors?

A. FPL is requesting that the FCR and CCR factors become effective with customer bills for January 2014 (cycle day 1, which will be January 2, 2014) and that they remain effective until cycle day 21 of December 2014, or until they are modified by the Commission. This will provide for 12 months of billing on the FCR and CCR factors for all our customers.

Q. What is FPL's proposed preliminary residential 1,000 kWh bill for the period beginning January, 2014?

A. Based on FPL's requests in its cost recovery clause filings, its preliminary residential 1,000 kWh bill for January 2014 through May 2014 is $100.26. Of this amount, the base rate charges are $52.48, the FCR charge is $30.67, the CCR charge is $7.86, the Environmental charge is $2.30, the Conservation charge is $3.37, the Storm charge is $1.07 and the amount of Gross Receipts Tax is $2.51.

Once RBEC becomes operational, which is projected to be on June 1, 2014, FPL's base rate charges will increase to $54.88 and its FCR charge will decrease to $29.47. The base rate change reflects the application of a Generation Base Rate Adjustment ("GBRA") for RBEC consistent with the Stipulation and Settlement that was approved in Order No. PSC-13-0023-S-EI. Appendix VII contains the affidavit and supporting schedules of Kim Ousdahl, which present the base revenue requirement of $233.6 million for the first twelve months of operation for FPL's RBEC. Appendix VIII contains the affidavit of Tiffany Cohen and GBRA supporting schedules for RBEC. FPL's preliminary Residential 1,000 kWh bill for the period June 2014 through December 2014, including an increase in the amount of Gross Receipts Tax of $0.03, will be $101.49, which is an increase of $1.23, from its January 2014 through May 2014 bill. FPL's proposed preliminary Residential 1,000 kWh bills for 2014 are provided on Schedule E-10, which is page 7 of Exhibit TJK-6, Appendix III.

Q. Does this conclude your testimony?

A. Yes, it does.

BY MR. BUTLER:

Q Mr. Keith, are you also sponsoring Exhibits TJK-1 through TJK-9?

A I am.

MR. BUTLER: Mr. Chairman, I note that these have been premarked on Staff's Comprehensive Exhibit Lists as Exhibits 10 through 18.

BY MR. BUTLER:

Q Mr. Keith, have you prepared an oral summary of your testimony?

A Yes, I did.

Q Please provide your summary to the Commission at this time.

A Sure. Good morning, Commissioners. I think it's still morning. My testimony in this docket supports 2014 fuel factors and 2014 capacity factors being requested by FPL. Other than fallout issues, the only contested issue that my testimony addressed relates to the capacity clause recovery of extraordinary and volatile Nuclear Regulatory Commission, or NRC, compliance costs associated with the Fukushima event. The extraordinary NRC compliance costs associated with the Fukushima event will be incurred in order to allow FPL's continuing operation of its nuclear fleet, but thereby saving FPL customers significant fossil fuel savings.

In other words, Commissioners, there is a direct nexus between the ability to continue operating FPL's nuclear generation facilities and the fuel cost savings resulting from the operation of those facilities. The level of NRC compliance costs associated with the Fukushima event included in base rates does not address either, A, the increase in the compliance costs over what we estimated for 2013 and 2014, or, B, the high degree of uncertainty that exists as to the ultimate level of compliance costs.

Both of these considerations make base rate recovery problematic and clause recovery appropriate. In the absence of the capacity clause recovery, FPL would have no opportunity to recover Fukushima compliance costs that are incremental to the small level that was included in its 2013 forecasts.

FPL's request to recover incremental Fukushima-related costs through the capacity clause is directly analogous to clause recovery of post-9/11 incremental power plant security costs which the Commission approved in 2001. Mr. Grissette explains in his testimony both events were unanticipated disasters causing significant changes to regulatory requirements and resulting in additional volatility and uncertainty in the timing and levels of costs associated with compliance with new and evolving regulations. Therefore, FPL is requesting to recover through the capacity clause incremental NRC compliance costs above the amounts included in its 2013 test year forecast.

Commissioners, this concludes my summary.

CHAIRMAN BRISÉ: Thank you.

MR. BUTLER: Mr. Chairman, before I move to tendering the witness for cross-examination, I apologize for not doing this earlier, but we have the revised E10 schedules that reflect the amounts that Mr. Keith had read into the record earlier. I think it might be useful to distribute these and have them identified as Exhibit 101 in case there is any desire to refer to them.

CHAIRMAN BRISÉ: Okay.

MR. BUTLER: Thank you, Mr. Chairman. As I indicated, I think that would be Exhibit 101 next on the list. And to avoid confusion, staff also handed out some exhibits I assume Mr. McGlothlin is going to be identifying that are his cross-examination exhibits for Mr. Keith. With that, I tender the witness for cross-examination.

CHAIRMAN BRISÉ: Thank you. Before we move forward with 101, are there objections to 101? Okay.

Thank you.

(Exhibit 101 marked for identification.)

CHAIRMAN BRISÉ: Okay. You may proceed, Mr. McGlothlin.

CROSS EXAMINATION

BY MR. McGLOTHLIN:

Q Mr. Keith, let me first refer you to Page 10 of your August testimony.

A August 2nd or August 30th?

Q Well, what I have here is August 2nd.

A Okay.

Q At Page 10, this question is posed to you, is this true-up calculation made in accordance with the procedures previously approved in predecessors to this docket, and your answer is yes. Do you see that on Pages 10 and 11?

A Yes, I see that.

Q And that question and answer refer to the calculation that appears on what is identified above this question as Appendix 2 to your testimony, correct?

A Yes.

Q Now, Appendix 2 includes $83,000 of O&M associated with increased compliance costs related to Fukushima, right?

A That is correct.

Q And it also includes $17,000 and change in capital-related expenses associated with the Fukushima compliance costs.

A That is correct.

Q And the entries for Appendix 2 reflect that the projections for those amounts were zero at the time the projections were made, correct?

A I'm sorry, at the time the projections were made?

Q The projections were zero in amount.

MR. BUTLER: I'm sorry, at what point in time are you saying the projections were zero, Mr. McGlothlin?

MR. McGLOTHLIN: At the point in time the projections for 2013 were originally made.

THE WITNESS: We did not include any costs in our 2013 projections, correct.

BY MR. McGLOTHLIN:

Q So these true-up amounts are in the form of true-ups to a zero projection, correct?

A Yes, I'll agree with that.

Q And you have also in other areas of your testimony indicated that FPL is now asking for authority to flow those Fukushima-related compliance costs through the capacity cost-recovery clause, correct?

A The incremental amounts, yes.

Q And this is the first occasion in which that request has been made, correct?

A In the 01 docket, yes.

Q So to the extent this is a new request, would you agree that that aspect of Appendix 2 is not made in accordance with procedures previously approved in predecessors to this docket?

A No, I don't think I'll agree to that.

Q Has FPL ever requested and been given approval to flow the compliance costs associated with Fukushima through the capacity recovery clause prior to this occasion?

A No.

Q Okay. Please turn to Page 17. At Line 10, you say NRC compliance costs associated with the Fukushima event will be incurred in order to allow FPL's nuclear plants to continue operating. Do you see that statement?

A Yes.

Q Wouldn't that statement be true of any and all compliance costs imposed by the NRC?

A I'm sorry, I didn't hear you.

Q Wouldn't that statement be true of any and all compliance costs imposed by the NRC?

A Yes. I'm only pointing out here that this is a new compliance requirement. That's all.

Q In fact, it would be true of any expenditure that is necessary to the operation of the units, whether it's in the form of compliance costs or other reasons, correct?

A I think I would agree to that. Without being in compliance, FPL would not be able to operate its nuclear generation fleet.

Q At Page 17, Line 17, you make this statement, "In the absence of CCR recovery, FPL will have no opportunity to recover Fukushima compliance costs that are incremental to the small level that is reflected in 2013 test year forecast." Do you see that?

A I do.

Q And I take from the fact that you gave that answer that you have some familiarity with the way base rates are constructed and established, correct?

A Correct.

Q Would you agree that in base rates there is no separate factor that is identified for the recovery of Fukushima costs?

A There is no separate factor?

Q (Indicating affirmatively.)

A There is only one base rate factor.

Q And that one base rate factor has within it -- has embedded within it a variety of costs, included but not limited to the Fukushima compliance costs, correct?

A There was a level of -- a small level of Fukushima costs that basically reflected FPL's planned expenditures or expected expenditures in 2012 and 2013. There was not included in there an amount based on whether or not FPL had the ability to project what the full impact of the Fukushima event would be or to quantify it. The first quantification was probably around February of this year, and we now know that we have a fairly decent estimate that it is between 89 million and 108 -- excuse me, $93 million and $189 million. We did not know that at the time.

Q I understand. I think you misunderstood my question. Let me try it another way.

You said in answer to an earlier question that there is only one base rate. There is no separate factor segregated and applied to recover Fukushima-related compliance costs through base rates. Do you remember that question and answer?

A Yes.

Q Now, would you agree with me that base rates are designed to recover the total cost of service in the aggregate and with sufficient revenues to provide a fair return?

A For all of the cost categories that are included in the base rates, yes.

Q Fukushima and a variety of other categories, correct?

A Yes.

Q If FPL recovers through base rates revenues that are sufficient to defray all costs and provide a fair return, would you agree that it has recovered its Fukushima costs?

A No.

Q If the base rates recover all costs plus a return that exceeds the limits of its authorized rate of return, would you agree that in that instance it has recovered Fukushima costs?

A No. I think we have to start with the question of whether Fukushima in this case is a base rate item. And my testimony proposes that it is more appropriately recovered through a clause versus base rates.

Again, when we are setting base rates it's not just for the expenditures that may have been incurred in that one particular year. You have to look at all of the events, and you come up with a reasonable estimate to include in base rates that you are going to charge customers for four, five, six years. That's not normally done just based on one year of expenditures where you haven't looked at the full impact. That's why I believe with the wide range of what this cost could be for this extraordinary event, this unique event, unpredictable costs can be extremely volatile.

I think it would be inappropriate to attempt to recover those through base rates in order to protect the customer with the clause regardless of whether, you know, the 189 million is the amount or the 93 million is the amount, the customer is protected. The cost is trued up, the Commission has acknowledged that in its Order 01-2516.

Q With respect, sir, that was not responsive, and if it is because I haven't been clear with the question, let me try again.

A Okay.

Q My question assumes there is no recovery of Fukushima-related costs through the capacity cost-recovery clause. It assumes that base rates are set that are based on the assumptions built into the test year at the time the test year was fashioned. It further assumes that Fukushima-related costs are greater than the amount involved in the setting of the test year. But by virtue of the many variations and departures from the assumptions, changes in revenues, changes in costs other than Fukushima, FPL recovers through base rates revenues sufficient to pay all of its costs and a fair rate of return. All of its costs including the increased level of Fukushima costs.

In that situation, has FPL recovered all of its Fukushima costs?

A Again, I'm having difficulty agreeing with the assumptions there. But I will say this, if the Commission denied FPL's request to recover the Fukushima costs through the capacity clause, and FPL still earned within its range, then they would be considered recovered.

Q Turn to Page 18. At the middle of 18 beginning with Line 11, you quote from Order No. PSC-05-0748, do you not?

A That's correct.

Q In what context did the Commission state the passage that is quoted there?

A That was a Duke Energy request for storm relief. I believe they were initially requesting to recover through a clause-like mechanism, and this was in response to the Commission stating what the intent of the clauses were, and the fact that they considered those costs to be more of a one-time cost, not an ongoing cost.

Q So did the Commission grant or deny the request for a cost-recovery clause in the order that you quoted here?

A They implemented a surcharge, so they basically denied clause cost-recovery. But, again, it was because they didn't feel that it was ongoing. But I think it is still instructive to look at Lines 12 and 13 of my testimony there. They did describe what their intent was and that's that cost-recovery clauses were designed to recover costs which are volatile and unpredictable, and I think that easily fits the Fukushima event compliance costs that we are looking at today.

Q You have been provided a document, if you have it in front of you, and it is described as an excerpt from this Order PSC-05-0748. Do you have that available to you?

A I do.

Q Turn to the last page of this excerpt.

MR. McGLOTHLIN: And, Mr. Chairman, because this is an excerpt from an order, I don't believe we have to have an exhibit assigned to it. This is just for the convenience of the witness and the Commissioners.

CHAIRMAN BRISÉ: Okay.

BY MR. McGLOTHLIN:

Q Would you read for us -- first of all, you did not quote anything on Page 38, did you?

A In my testimony?

Q Correct.

MR. McGLOTHLIN: I'll withdraw that question.

BY MR. McGLOTHLIN:

Q Just read for us the first bracketed material at the top of Page 38.

A "We are concerned with the precedent of establishing a specific clause for any extraordinary expense the utility might incur between rate cases. Although we have decided to include security costs in the fuel cost-recovery factor, that decision was based on an immediate need to protect the health, safety, and welfare of the utility and its customers, and there was a basis for believing the costs would be recurring on some level."

Q That's enough. Thank you. And the second bracketed material on the same page?

A "We are concerned that using a cost-recovery clause to recover a single extraordinary cost is inconsistent with the traditional application of such clauses and could create a troublesome precedent for recovering a single expense without consideration of a company's total operation. This idea of a limited proceeding has rarely been used in the electric industry for that very reason. As some costs go up, some go down. And absent extraordinary circumstances, all balancing impacts should be considered in setting rates."

Q That's enough. Thank you, sir. At Page 19 you also quote from Order PSC-01-2516, do you not?

A I do.

Q And that is the one -- that is the order in which the Commission authorized FPL to recover the incremental security costs through the fuel clause, correct?

A Correct.

Q You have before you another excerpt, this one from 01-2516. Do you find that before you?

A I do.

Q If you would turn to Page 4 of the order, and you see the paragraph that begins, "We believe." That does not appear in your prefiled testimony, does it?

I will withdraw the question. If you will just read the first part of that paragraph for me.

A "We believe that approving recovery of this incremental power plant security cost through the fuel clause sends an appropriate message to Florida's investor-owned electric utilities that we encourage them to protect their generation assets in extraordinary emergency conditions as currently exist."

MR. McGLOTHLIN: Thank you. That's all I have.

CHAIRMAN BRISÉ: Thank you. Staff.

MS. BARRERA: We have one question.

CROSS EXAMINATION

BY MS. BARRERA:

Q Mr. Keith, are the projected 2014 costs included in the calculation of the capacity cost-recovery factors incremental to similar costs included in FPL's base rates?

A I would say that they would fall into the same category, and that's why we went through the exercise of identifying what was included in FPL's last rate case in Docket 120015. And consistent with the Commission's methodology for determining incremental costs, we identified those amounts and we removed them from our request such that we were only left with the incremental piece.

It's my understanding that the Commission's longstanding policy has always been geared toward avoiding double cost-recovery and, therefore, they adopted a methodology to do so. I think in a predecessor docket to here, the 2003 docket, the Commission was asked specifically to approve a methodology for doing such, which it did. I think the parties here were a part of the stipulation to that. So that is exactly what we did in this case.

MS. BARRERA: Thank you. I have no more questions.

CHAIRMAN BRISÉ: Commissioners?

Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Mr. Chairman.

Hello.

THE WITNESS: Hi.

COMMISSIONER EDGAR: Can you remind me what year the initial incident at Fukushima occurred?

THE WITNESS: March 2011.

COMMISSIONER EDGAR: Thank you. And during your testimony you have frequently said that the costs imposed by the NRC on plants in this country as a result of information learned after Fukushima are, and I quote, volatile and unpredictable. But I do believe that the NRC as an agency, and individual NRC Commissioners have made very public statements, and through hearings and rulemaking and other administrative activities that they would be imposing additional safety requirements and precautionary requirements that would include costs. So with that as a foundation, how are these costs both volatile and unpredictable?

THE WITNESS: I think what makes them both volatile and unpredictable is they are ongoing evolving regulations coming from the NRC. Mr. Grissette could go into more detail, but the first three orders and three requests for information that we received from the NRC described only events that have been addressed through 2016. I think there is an expectation that there is going to be more to come and it's going to be even beyond that period of time.

We filed -- we, being FPL -- filed a response to two of those orders in February of this year, and we are waiting to see if those plans are accepted. There can be all kind of changes that come back from the NRC in terms of the plans we filed which can change our cost structure significantly. So that's what makes it unpredictable.

It can be very volatile. It could be one thing this year and another thing next year, and that's why I believe that the best way to protect the customer in terms of recovery of this type of cost is to use the clause. The Commission has said that it is very comfortable because of the true-up mechanism, and the

Commission has never locked itself in to change its mind down the road as circumstances may change.

COMMISSIONER EDGAR: Thank you.

CHAIRMAN BRISÉ: Commissioners, any further questions for Mr. Keith?

Okay. Seeing none, redirect.

MR. BUTLER: Thank you, Mr. Chairman.

REDIRECT EXAMINATION

BY MR. BUTLER:

Q Mr. Keith, did FPL have power plant security costs in its base rates before 9/11 for protecting its nuclear plant's safe operation?

A Yes, we did.

Q What was FPL asking to do then in 2001 when it sought recovery of power plant security costs through the fuel clause?

A Very similar to what we are doing, what we are requesting today. We simply requested to recover the incremental piece of the power plant security costs, those post-9/11 security costs.

Q Do you have a copy of the excerpt that Mr. McGlothlin discussed with you of Order PSC-05-0748?

A Yes.

Q And he asked you to read part of the first paragraph on that Page 38, didn't he?

A Yes.

Q And the first sentence says, "We are concerned with the precedent of establishing a specific clause for any extraordinary expense the utility might incur in between rate cases." Is FPL asking the Commission to establish a separate clause for recovery of the Fukushima-related costs?

A No, we are not. We are seeking recovery through the existing capacity clause consistent with recovery of the post-9/11 incremental security costs.

Q Is it your understanding that the Commission in this Order 05-0748 -- what did it do with respect to the establishment of a temporary surcharge for storm recovery?

A I'm sorry, Mr. Butler, could you ask that again?

Q What did the Commission do with respect to establishing a temporary surcharge for storm cost-recovery?

A I believe they implemented a -- and I don't recall the full details of it, but I do believe they implemented a storm surcharge for Duke.

Q Is there a similar surcharge mechanism available for recovering costs such as those that FPL is incurring with respect to Fukushima compliance?

A No, and I don't think that that necessarily would have been appropriate, either. I think the Commission said this is a one-time expense due to the hurricane charge, so it was more of a known amount. It wasn't ever evolving subject to change from day-to-day, to go up, to go down. So it was a one-time event, and what we are looking at here is ongoing, so I don't think they are the same.

MR. BUTLER: Thank you. That's all the redirect that I have.

CHAIRMAN BRISÉ: Okay. Thank you. Let's deal with exhibits. We have Exhibit 101, which is the revised E10 from FPL.

MR. BUTLER: I would move Exhibits 10 through 18 and Exhibit 101 into the record.

CHAIRMAN BRISÉ: Okay. 10 through 18 and 101 into the record. Are there any objections?

MR. McGLOTHLIN: No objections.

CHAIRMAN BRISÉ: Okay. Thank you. OPC did not have any exhibits, am I correct?

MR. REHWINKEL: Correct.

CHAIRMAN BRISÉ: Okay. Staff?

MS. BARRERA: We have no exhibits.

CHAIRMAN BRISÉ: Okay. Thank you. So we have moved Exhibits 10 through 18 into the record, and

Exhibit 101.

MR. BUTLER: Thank you.

(Exhibits 10 through 18 and 101 admitted into the record.)

MR. BUTLER: May Mr. Keith be excused?

CHAIRMAN BRISÉ: Yes, Mr. Keith may be excused. I think now is a good time for us to take our lunch break. We have our court reporters, which are going to do their switch at this time, as well. So we will reconvene at 1:00 p.m.

(Lunch recess.)

(Transcript continues in sequence with Volume 3.)

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

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

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

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

DATED THIS 5th day of November, 2013.

JANE FAUROT, RPR
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