



August 22, 2014

VIA OVERNIGHT MAIL

Ms. Carlotta Stauffer, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Matthew R. Bernier
Senior Counsel
Duke Energy Florida, Inc.

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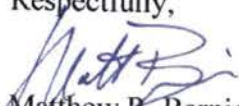
Re: *Fuel and Purchased Power Cost recovery clause and Generating Performance Incentive Factor; Docket No. 140001-E1*

REDACTED

Dear Ms. Stauffer:

On August 22, 2014, Duke Energy Florida, Inc. ("DEF") filed an original and (7) copies of DEF's Request for Confidential Classification filed in connection with direct testimony of James McClay for the Fuel and Capacity Cost Recovery Final True-Up for the Period January through July 2014. Enclosed with this cover letter is DEF's confidential Exhibit A (in a separate sealed envelope) and two copies of redacted Exhibit B that accompany the above-referenced filing.

Thank you for your assistance in this matter. Please feel free to call me at (850) 521-1428 should you have any questions concerning this filing.

Respectfully,

Matthew R. Bernier
Senior Counsel

MRB/mw
Enclosures

cc: Certificate of Service

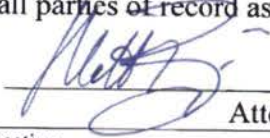
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Duke Energy Florida, Inc.

Docket No.: 140001

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail this 22nd day of August, 2014 to all parties of record as indicated below.


Attorney

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Exhibit B

REDACTED

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

**FUEL AND CAPACITY COST RECOVERY
FINAL TRUE-UP FOR THE PERIOD
JANUARY THROUGH JULY 2014**

FPSC DOCKET NO. 140001-EI

**DIRECT TESTIMONY OF
James McClay**

August 22, 2014

I. INTRODUCTION AND QUALIFICATIONS

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

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

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

6 **A.** I work for Duke Energy Carolinas (DEC) an affiliate company of Duke Energy
7 Florida, Inc. ("DEF", "Petitioner" or "Company") as the Manager of Gas Trading.
8 I manage the natural gas group procurement, scheduling and hedging activities in
9 the Fuel Procurement Section of the Systems Optimization Department for the
10 Duke Energy regulated generation fleet. This group is responsible for the natural
11 gas procurement and scheduling needed to support the gas generation needs for
12 Duke Energy Indiana, Duke Energy Kentucky, Duke Energy Carolinas, Duke
13 Energy Progress and Duke Energy Florida.

14

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

2 **A.** I received a Bachelor Degree in Business Administration majoring in Finance from
3 St. Bonaventure University. I joined Progress Energy in 1998 as the Manager of
4 Power Trading and held that position through early 2003. In early 2003, I became
5 the Director of Power Trading and Portfolio Management for Progress Ventures
6 and held that position through February 2007. From March 2007 through late 2008,
7 I was the Director of Power Trading for Arclight Energy Marketing. From March
8 2009 through June 2012 I worked for Progress Energy Carolinas as the Manager of
9 Gas and Oil Trading. After the merger with Duke Energy in July 2012, I became
10 the Manager of Gas Trading for DEC through the present. Prior to my tenure with
11 Duke Energy, I spent approximately 13 years in Capital Markets as a U.S.
12 Government fixed income securities trader with various banks, and primary broker/
13 dealers.

14
15 **Q. Have your duties and responsibilities remained the same since you last**
16 **testified in this proceeding?**

17 **A.** Yes.

18
19 **Q. What is the purpose of your testimony?**

20 **A.** The purpose of this testimony is to outline DEF's hedging objectives and activities
21 for 2015, and outline DEF's hedging results for January 2014 through July 2014.

22

23

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

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

- 3 • Exhibit No. ___ (JM-1P) – 2015 Risk Management Plan (*originally filed July*
4 *25, 2014*); and
- 5 • Exhibit No. ___ (JM-2P) – Hedging Results for January 2014 through July
6 *2014 (originally filed August 13, 2014).*

7

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

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

12

13 **Q. Describe DEF's hedging activities that the Company will execute for 2015.**

14 **A.** DEF will hedge a percentage of its projected natural gas and light oil fuel oil burns,
15 and a portion of the estimated fuel surcharge exposure embedded in DEF's coal
16 river barge and railroad transportation agreements. DEF will utilize approved
17 physical and financial agreements. With respect to hedging activity, natural gas
18 represents the largest component of DEF's overall hedging activity given it is the
19 largest fuel cost component. DEF's target hedging percentage ranges are between
20 ■ to ■ percent of its current 2015 forecasted calendar annual burns. DEF
21 anticipates to target to hedge a minimum of ■ percent of its forecasted natural gas
22 burn projections for 2015. With respect to light oil forecasted to be burned at
23 DEF's owned generation facilities for calendar year 2015, during the balance of

1 2014 and 2015, DEF will target to hedge a minimum of ■ percent of its forecasted
2 light oil burns for the 2015 calendar period. With respect to coal river and rail
3 transportation estimated fuel surcharges, for calendar year 2015 DEF will target to
4 hedge between ■ and ■ percent of any estimated fuel surcharge exposure in the
5 coal rail and river barge transportation agreements, during the balance of 2014 and
6 2015. Hedging in the ranges and targets provided allows DEF to monitor actual
7 fuel burns, updated fuel forecasts, and make any adjustments as needed throughout
8 the year.

9
10 DEF's hedging activities do not involve price speculation or trying to "out-guess"
11 the market. All hedging transactions are executed at the prevailing market price that
12 exists at the time the hedging transactions are executed. The results of hedging
13 activities may or may not result in net fuel cost savings due to differences between
14 the monthly settlement prices and the actual hedge price of the transactions that
15 were executed over time. The volumes hedged over time are based on periodic
16 updated fuel forecasts and the actual hedge percentages for any month, rolling
17 period, or calendar annual period may come in higher or lower than the target
18 minimum hedge percentages and hedging ranges because of actual fuel burns versus
19 forecasted fuel burns. Actual burns can deviate from forecasted burns because of
20 variables such as weather, unforeseen unit outages, actual load, and changing fuel
21 prices. DEF's approach to executing fixed price transactions over time is a
22 reasonable and prudent approach to reduce price risk and provide greater cost
23 certainty for DEF's customers.

1 As of August 11, 2014, for 2015 DEF has hedged approximately █ percent of its
2 forecasted natural gas burns. DEF will continue to execute additional hedges for
3 2015 throughout the remainder of 2014 and during 2015 consistent with its on-
4 going strategy.

5
6 **Q. What were the results of DEF's hedging activities for January through July**
7 **2014?**

8 **A.** The Company's natural gas hedging activities for January through July 2014 have
9 resulted in hedges being below the closing natural gas settlement prices for the
10 periods of January 2014 through July 2014 by approximately █. The
11 Company's overall fuel oil hedging activities have resulted in hedges being below
12 the closing settlement prices for the periods of January 2014 through July 2014 by
13 approximately █. These overall hedge results were driven primarily by
14 an increase in natural gas prices after the execution of DEF's 2014 hedging
15 transactions. The hedging activities were executed consistent with its Risk
16 Management Plan. DEF's hedging activity did achieve the objective to reduce the
17 impacts of fuel price risk and volatility, and greater fuel price certainty for DEF's
18 customers.

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

21 **A.** Yes.