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September 5, 2024

BY E-PORTAL

Mr. Adam Teitzman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

**Re: Docket No. 20240001-EI: Fuel and Purchased Power Cost Recovery Clause with
Generating Performance Incentive Factor**

Dear Mr. Teitzman:

Attached for filing, please find Florida Public Utilities Company's Testimony of P. Mark Cutshaw in support of the Company's proposed Fuel Factors.

Thank you for your assistance with this filing. As always, please don't hesitate to let me know if you have any questions whatsoever.

Sincerely,

Beth Keating
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MEK
cc:/(Certificate of Service)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**DOCKET NO. 20240001-EI: FUEL AND PURCHASED POWER COST RECOVERY
CLAUSE WITH GENERATING PERFORMANCE INCENTIVE FACTOR**

2025 Projection Testimony of P. Mark Cutshaw
On Behalf of
Florida Public Utilities Company

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

2 A. My name is P. Mark Cutshaw, 780 Amelia Island Parkway, Fernandina Beach,
3 Florida 32034.

4 **Q. By whom are you employed?**

5 A. I am employed by Florida Public Utilities Company (“FPUC” or “Company”).

6 **Q. Could you give a brief description of your background and business
7 experience?**

8 A. I graduated from Auburn University in 1982 with a B.S. in Electrical Engineering.
9 My electrical engineering career began with Mississippi Power Company in June
10 1982. I spent nine years with Mississippi Power Company and held positions of
11 increasing responsibility that involved budgeting, as well as operations and
12 maintenance activities at various locations. I joined FPUC in 1991 as Division
13 Manager in our Northwest Florida Division and have since worked extensively in
14 both the Northwest Florida and Northeast Florida divisions. Since joining FPUC,
15 my responsibilities have included all aspects of budgeting, customer service,
16 operations and maintenance. My responsibilities also included involvement with
17 Cost of Service Studies and Rate Design in other rate proceedings before the

1 Commission as well as other regulatory issues. During January 2024, I moved into
2 my current role as Manager, Electric Operations for the Northeast Florida Division.

3 **Q. Have you previously testified before the Florida Public Service Commission**
4 **(“Commission”)?**

5 A. Yes, I’ve provided testimony in a variety of Commission proceedings, including the
6 Company’s 2014 rate case, addressed in Docket No. 20140025-EI, as well as
7 rebuttal testimony in Docket No. 20180061-EI and numerous annual proceedings
8 for Fuel and Purchased Power Cost Recovery. Most recently, I provided testimony
9 in Docket Nos. 20220049 and 20240010, in the Storm Protection Plan and Cost
10 Recovery proceedings.

11 **Q. What is the purpose of your direct testimony in this Docket?**

12 A. My direct testimony addresses several aspects of the purchased power cost for our
13 FPUC electric customers. This includes activities to investigate the potential for
14 reduced purchase power costs, execution/amendment of purchased power
15 agreement(s) with Florida Power & Light (“FPL”), billing of purchased power cost
16 to our industrial customers, Combined Heat and Power (“CHP”) generation supply
17 located on Amelia Island and investigation into the opportunities of energy provided
18 from solar and battery installations.

19 **Q. Do natural gas costs have a significant impact on the overall cost of purchased**
20 **power for FPUC?**

21 A. Yes, because FPUC does not own its own generation, it purchases the power it needs
22 to serve its customers from larger, generating utilities. At present, FPUC purchases
23 the majority of the power it needs to serve its customers from FPL. The majority of
24 electricity generated in Florida is generated by natural gas fueled generating

1 facilities. As such, the cost of natural gas directly impacts the cost of power
2 purchased by FPUC.

3 **Q. Has FPUC taken steps to ensure more accurate cost projections based on**
4 **activity in the natural gas markets?**

5 A. Yes. FPUC, being predominately a natural gas utility, has utilized information from
6 both inside the Company and other external sources to carefully monitor the natural
7 gas markets. Based on the information gained, the Company forecasts 2025 natural
8 gas costs and includes that information in its purchased power cost projections.

9 **Q. What is the status of the purchase power agreements in place with FPL?**

10 A. The previous agreement for our Northwest Florida Division with FPL became
11 effective January 1, 2020, with a termination date of December 31, 2026, unless
12 extended by FPUC. The previous agreement for our Northeast Florida Division with
13 FPL became effective January 1, 2018, was amended in 2019 and was scheduled to
14 terminate December 31, 2026, unless extended by FPUC. During 2023, FPUC and
15 FPL engaged in discussions with a goal of combining the separate purchased power
16 agreements into a single agreement, which would continue to provide reliable, cost
17 effective purchased power to FPUC for its customers. The combined purchased
18 power agreement was developed, executed and became effective on July 1, 2024,
19 replacing the two prior agreements for the each of FPUC's divisions.

20 **Q. What new opportunities has the Company implemented with the intent of**
21 **achieving energy resiliency and reducing costs for its customers in its**
22 **consolidated electric divisions?**

23 A. In addition to consolidation of the purchased power agreements, FPUC also engaged
24 with FPL in the review of the transmission agreements and infrastructure currently

1 in place between the two companies. These discussions led to opportunities to
2 change the delivery points at four of the five substations in the Northwest Florida
3 Division, which could reduce purchased power costs to FPUC.

4 **Q. What changes are anticipated to the transmission agreements in the Northwest**
5 **Florida Division?**

6 A. Under the current transmission agreement for the Northwest Florida Division, the
7 interconnection point between FPUC and FPL is located at the low voltage side of
8 the substation transformer. Based upon the location of the interconnection point, it
9 was necessary for FPL to pass along substation cost associated with providing
10 purchased power to FPUC in the form of a distribution charge which was
11 incorporated into the purchased power cost. In relocating the interconnection point
12 to the high voltage side of the substation transformer, the additional distribution cost
13 was no longer required for four of the five substations which helps reduce purchased
14 power cost. The fifth substation is configured in such a way that two customers are
15 provided service from the same transformer which would not allow the relocation
16 of the interconnection point. The distribution charge at this substation will continue.

17 **Q. Is FPUC proposing any changes to the way purchased power costs are allocated**
18 **to its two industrial customers?**

19 A. Yes. Under the current billing mechanism, there are a number of considerations and
20 calculations that occur in order to calculate the purchased power billing for the
21 industrial customers. Since this must occur on the first business day of every month
22 and certain critical data is unknown at that point, the bill is estimated. Due to the

1 fact that this estimated billing results in a significant expense, which is actually
2 incurred in the month preceding the bill, it is necessary to place that expense on the
3 books in the form of an accrual to comply with accounting practices. Therefore,
4 FPUC sends an estimated bill to the industrial customers. Later in the month after
5 all the final information is available, a final bill is calculated and provided to the
6 customers. This again results in FPUC and the industrial customers being required
7 to reverse the accrued estimated bill and record the final billing for the month.

8 FPUC is proposing to change this approach by issuing only a final bill based on
9 customer demand on the first business day of the following month. The Company
10 would continue to keep up with the existing purchased power allocation for the
11 appropriate GSLD1 rate class and then true up the billing parameters at year end.
12 This true up would be handled similarly to what is being done for other FPUC rate
13 classes but would involve only the appropriate GSLD1 rate class.

14 **Q. How will be you able to produce a final bill if you don't have all the appropriate**
15 **information on the first day of the month?**

16 A. FPUC is proposing to change the basis upon which these customers are billed. The
17 new billing mechanism will be based solely on the customers' maximum KW
18 demand for the previous month, which is data that is known on the first day of the
19 subsequent month. Currently, the purchased power calculations involve the KW
20 demand charges coincident with the FPUC peak, a KW demand coincident with the
21 FPL peak and the energy charges. However, the FPUC peak and FPL peak times

1 can't be confirmed until later in the month, which results in estimated values being
2 used in the preliminary billing.

3 **Q. How will the annual true up for purchased power charges be calculated?**

4 A. For these customers, the proposed billing method will be used during the year as
5 described above. Additionally, during the course of each month, FPUC will
6 continue to calculate the purchased power billing monthly allocation in the current
7 manner so that it will be possible to true up the cost and adjust billing for the new
8 year during this annual proceeding. The GSLD1 customers have traditionally been
9 removed from the annual fuel filing and true-up mechanism for other rate classes.
10 If the Company's proposed billing change is approved, the GSLD1 customers will
11 continue to be handled outside the Fuel Clause but their bill would include an actual
12 monthly charge and the proposed true-up mechanism.

13 **Q Why is FPUC making this change to how it bills its industrial customers?**

14 A. FPUC is proposing this change in order to bill the GSLD1 customers in a prompt
15 and efficient manner while using a similar true-up mechanism used for all other rate
16 classes. This not only makes the billing more timely and efficient but also makes
17 the accounting for these expenses more accurate for both FPUC and the GSLD1
18 customers.

19 **Q. How will this change impact the two industrial customers?**

20 A. The proposed change will result in a positive impact for the industrial customers.
21 The proposed billing mechanism is intended to allow recovery of the same fuel

1 charge as the current mechanism and will be much more efficient and accurate in
2 the processing.

3 **Q. Has the Company made the customers aware of this proposed change?**

4 A. FPUC has not made the customers aware of this proposed change at this time. As
5 we move through this proceeding we will ensure information is provided to the
6 customers regarding any changes that we anticipate being incorporated into the
7 approved purchase power cost recovery clause.

8 **Q. Are there any other modifications the Company is proposing to the Rate
9 Adjustment Rider?**

10 A. Yes. On the Rate Adjustment Rider shown in the tariff page No. 65, we are
11 proposing to remove the Time of Use Rate Class rate schedules. Currently there are
12 no customers remaining on these rate schedules and we do not anticipate future
13 customers.

14 **Q. Are there other efforts underway to identify projects that will lead to energy
15 resiliency and lower cost energy for FPUC customers?**

16 A. Yes. FPUC continues to work with consultants, as well as project developers, to
17 identify new projects and opportunities that can lead to increased energy resiliency
18 and reduced fuel costs for our customers. We also continue to analyze the feasibility
19 of energy production and supply opportunities that have been on our planning
20 horizon for some time and noted in prior fuel clause proceedings, namely additional
21 Combined Heat and Power (CHP) projects, potential Solar Photovoltaic ("PV")
22 projects and associated utility scale battery projects. More specifically, Pierpont &

1 McLelland has been engaged to perform analysis and provide consulting services
2 for FPUC as it relates to the structuring of, and operation under, the Company’s
3 power purchase agreements with the purpose of identifying measures that will
4 minimize cost increases and/or provide opportunities for cost reductions. They have
5 also been involved in the structuring of the most effective measures to ensure a
6 reliable and resilient system on Amelia Island which may include additional
7 transmission lines to the Island as well as using existing generation and the addition
8 of new natural gas fired generation. Locke Lord is a law firm with particular
9 expertise in the regulatory requirements of the Federal Energy Regulatory
10 Commission. Attorneys with the firm have provided legal guidance and oversight
11 regarding the contracts and regulatory requirements for generation and transmission-
12 related issues for the Northeast Florida Division. The Company’s in-house
13 experience in these areas is limited; thus, without this outside assistance, the
14 Company’s ability to pursue potential purchased power savings opportunities would
15 be limited, as would its ability to properly evaluate proposals to meet our generation
16 and transmission needs and ensure compliance with federal regulatory requirements.
17 Sterling Energy and Christensen Associates have been involved to assist the
18 Company in the most cost-effective means of incorporating additional energy
19 sources, such as power available from certain industrial customers, existing and new
20 Combined Heat and Power (“CHP”) capability and improvements in the
21 transmission system to Amelia Island to improve the reliability/resiliency on Amelia
22 Island and further reduce the overall purchased power impact to all FPUC
23 customers. In addition to CHP possibilities, FPUC has been investigating how the
24 use of Renewable Natural Gas (RNG) and Hydrogen as future fuel sources for

1 generation assets may provide benefits in the future. The markets for both RNG and
2 Hydrogen are still developing, however, both have the potential to provide
3 environmental benefits compared to existing fuel sources. Although there are
4 currently some operational and cost challenges being addressed within the
5 generation community, it is important that FPUC continue to be involved in the
6 investigation and development of these resources and the long term benefits that are
7 possible.

8
9 **Q. Can you provide additional information on these CHP projects?**

10 A. Yes. The success of the Eight Flags project has sparked interest in other CHP
11 opportunities on Amelia Island. When coupled with industrial expansion in the area,
12 the already quantifiable benefits of the existing project have piqued the interest of
13 others to contemplate development of a new CHP-based project on Amelia Island.
14 FPUC was actively involved in the initial analysis, development and engineering of
15 a possible new project located on Amelia Island that would support the existing
16 industry. Significant efforts went into the evaluation of this CHP which, similar to
17 Eight Flags, would be located on Amelia Island and would allow the customer, along
18 with transmission line upgrades, to have additional reliability and resilience to its
19 electricity supply for industry and possibly supply customer on Amelia Island. This
20 second CHP would provide electricity, high pressure steam and hot water for a local
21 industrial customer which is a critical component of the local community.
22 Preliminary engineering, financial modeling and Florida Department of
23 Environmental Protection permitting were completed for this possible CHP unit.
24 Although the final agreements and structure of the proposed CHP for the customer

1 has not yet been finalized. No decisions have been made by the customer on how
2 to proceed.

3 **Q. Can you provide additional information on the PV and battery projects you**
4 **referenced above?**

5 A. Yes. FPUC continues to assess the feasibility of smaller PV systems within the
6 FPUC electric service territory. Based on the results from the analysis, the economic
7 feasibility of smaller PV installations has been difficult to achieve due to many
8 different factors but work continues to investigate alternatives to improve the
9 feasibility. At this time, FPUC is investigating opportunities involving larger PV
10 installations which have proved to be more economically feasible. Not only will
11 this increase the renewable energy available to FPUC, the cost is expected to
12 complement the overall purchased power portfolio which will provide additional
13 benefits to FPUC customers. The new “Agreement” with FPL does have provisions
14 that allow for the development of PV installations by FPUC and provides for the
15 possibility of a partnership between the parties that would allow for the development
16 of a PV project.

17 Additionally, exploration into the inclusion of battery storage capacity in
18 conjunction with the PV installation is being considered. These projects have been
19 difficult to justify economically at this point but are still under consideration by
20 FPUC. Nonetheless, the potential benefits of the PV and battery projects under
21 consideration will be continued.

22 **Q. Does this include your testimony?**

23 A. Yes.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Testimony of P. Mark Cutshaw has been furnished by Electronic Mail to the following parties of record this 5th day of September, 2024:

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