BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI
FLORIDA POWER & LIGHT COMPANY

IN RE: PETITION FOR RATE INCREASE BY
FLORIDA POWER & LIGHT COMPANY

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REBUTTAL TESTIMONY OF:

SAM A. FORREST

(PROPOSED SETTLEMENT AGREEMENT)

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NOVEMBER 8, 2012

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Sam A. Forrest. My business address is Florida Power & Light Company ("FPL"), 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. Did you previously submit direct testimony in this proceeding?

A. Yes.

Q. Are you sponsoring any rebuttal exhibits in this case?

A. Yes. I am sponsoring the following rebuttal exhibits:

- SF-4, Incentive Mechanism Comparison
- SF-5, FPL responses to Staff's Twenty-Second Set of Interrogatories, Nos. 608 through 611
- SF-6, FPL's Natural Gas Assets

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut the testimony of the Office of Public Counsel ("OPC") witness James W. Daniel. Specifically, I will rebut his inaccurate assertions that (1) the proposed Incentive Mechanism would be detrimental to customers' interests and would be unreasonably one-sided in favor of FPL; (2) short-term power purchases should not be in the proposed Incentive Mechanism; (3) the information FPL has provided regarding the proposed Incentive Mechanism is insufficiently detailed; (4) FPL's lack of experience with additional forms of asset optimization would make Commission approval of the proposed Incentive Mechanism untimely; and (5) the review and timing process for the proposed Incentive Mechanism is not appropriate.

II. SUMMARY

Q. Please summarize your rebuttal testimony.

A. The proposed Incentive Mechanism is a win-win proposition for FPL and its customers. It provides FPL a meaningful incentive to encourage innovation and maximization of its asset utilization to produce gains for customers, while ensuring that customers will retain 100% of the first $46 million of such gains and a percentage of any gains above that threshold. Over the term of the Proposed Settlement Agreement, $46 million represents a "stretch goal" for FPL, exceeding its current projections of customer savings by approximately $10-$20 million per year. Only if FPL exceeds its "stretch goal" will shareholders receive a portion of incremental gains above that goal. OPC witness Daniel raises several objections to the proposed Incentive Mechanism, but none of them is valid:

- The proposed Incentive Mechanism will *not* undermine the reliability of service or the costs that customers pay for that service. First and foremost, FPL's goal is to deliver reliable fuel supply to its generating units. This focus will not change with the implementation of the proposed Incentive Mechanism. FPL has engaged in asset optimization through wholesale power sales for many years and the reliability of its system has not been impacted. Likewise, the costs that customers pay for service will also not be impacted by the proposed Incentive Mechanism. FPL will not deprive customers of lower cost power or fuel in order to experience higher levels of gains for the proposed Incentive Mechanism. Simply put, FPL's track record does not support the assertions made by OPC witness Daniel, who really has no experience with FPL or its operations.

- The proposed Incentive Mechanism would not result in FPL receiving too large a share of gains; to the contrary, it would provide a reasonable, meaningful incentive where the current mechanism does not. This is illustrated by witness Daniel's own Exhibit JWD-2. Even though his exhibit is unreasonably skewed against FPL, it still demonstrates clearly that (1) FPL has not received meaningful incentives under the current mechanism; and (2) the sharing methodology prescribed in the proposed Incentive Mechanism would have resulted in customers receiving approximately 84% of the total benefits. For the five years he chose to include in Exhibit JWD-2, FPL received only 0.38% of the total benefits in incentives under the current mechanism, nowhere nearly enough to provide meaningful motivation. For those same five years, customers would have received approximately 84% of the total benefits under the proposed Incentive Mechanism, with only 16% going to FPL. I do not see how this could be viewed as unreasonable from the standpoint of customers. My

Exhibit SF-4 shows that, over the full eleven years in which the current incentive mechanism has been in place, FPL customers would have received more than 90% of the total benefits with FPL receiving just below 10%. Again, this allocation of benefits between customers and FPL clearly and quantitatively discredits witness Daniel's claim that the proposed Incentive Mechanism would unreasonably favor FPL.

- Contrary to witness Daniel's assertion, power purchases are not part of the economic dispatch process. The concept of economic dispatch specifically relates to the efficient utilization of a utility's own resources. Resources that are not under a utility's control are not part of its economic dispatch process. The purpose of the incentive mechanism is to provide appropriate incentives to enhance or add value beyond the economic dispatch process. Engaging in both power purchases and sales allows a utility to improve upon the economic dispatch of its own resources. Opportunities to participate in the wholesale power market must be actively pursued and require the execution of several activities. Gains on power sales and savings due to power purchases have the same dollar-for-dollar impact on reducing fuel expenses. For these reasons, there should be no distinction or differentiation made to the application of incentives between power sales and purchases.

- Contrary to witness Daniel's assertion, FPL has provided voluminous, detailed information regarding the proposed Incentive Mechanism. FPL has responded to over ninety discovery requests covering all relevant topics related to the proposed Incentive Mechanism.
- Regarding witness Daniel's assertion that an "after the fact" review will be difficult and involve limited time, for several years the Commission has reviewed and approved FPL's expanded hedging program. The same review mechanisms could be utilized effectively for review and approval of the proposed Incentive Mechanism.

III. IMPACT OF ASSET OPIMIZATION ON RELIABILITY

Q. Do you agree with OPC witness Daniel's assertion on page 19 of his testimony that the proposed Incentive Mechanism would encourage FPL to pursue marginal gains at the expense of electric service reliability for native load customers?

A. Absolutely not. Witness Daniel's assertion challenges the integrity of FPL, has no basis in fact, and is quite simply preposterous. To suggest that FPL would jeopardize the reliability of its system for monetary gains is an irresponsible accusation. Reliability is the foundation of the electric utility business. Fuel procurement and the utilization of fuel is a core component of providing reliable electric service. The primary goal of FPL's fuel procurement activities is to deliver the most reliable fuel supply to FPL's generating units and this would not change with the implementation of the proposed Incentive Mechanism. FPL's history of participation in asset optimization through the wholesale power market demonstrates its commitment to reliably serving its customers. Incentives are in place for power sales, and FPL has participated in the power market for numerous years without impacting reliability. FPL will apply the same principles when evaluating potential asset optimization transactions to arrive at decisions that maintain reliability while helping to reduce overall fuel costs for customers.

IV. IMPACT OF ASSET OPTIMIZATION ON COSTS

Q. Witness Daniel asserts on pages 14 and 15 of his testimony that the proposed Incentive Mechanism could result in FPL depriving its customers of less expensive power and fuel in order to expand its profits in the market. Is this a valid conclusion?

A. No. The asset optimization measures included in the proposed Incentive Mechanism are intended to derive *additional* value for customers. FPL optimizes its generation and fuel portfolio on a daily basis through economic dispatch, efficient utilization of its gas transportation capacity, and taking the lowest-cost, most reliable approach to gas procurement. This optimization will continue to take place if the Incentive Mechanism is approved, as it is an integral part of daily operations. In addition to those on-going activities, FPL will look for opportunities to enhance the value it provides to customers.

Witness Daniel's testimony is essentially an unsubstantiated assertion that FPL would "game" the Incentive Mechanism with the hope of potentially realizing higher sharing levels at the expense of its customers. FPL's track record clearly does not support witness Daniel's suggestion. For example, FPL is now at the lowest three-year threshold for gains on sales since the current incentive mechanism was put in place, but it hasn't shared in benefits in six years. Following witness Daniel's conclusion, FPL should be exceeding the threshold of the current incentive mechanism by continually selling its least expensive power into the market to increase gains. The reality is that FPL has never conducted business that way and never will. Moreover, the Commission has review mechanisms in place to assure itself that FPL's resources are deployed appropriately.

V. INCENTIVE MECHANISM COMPARISON

Q. Does OPC witness Daniel's Exhibit JWD-2 provide a complete comparison of the current incentive mechanism and the proposed Incentive Mechanism utilizing historical data?

A. No. Exhibit JWD-2 is incomplete. Witness Daniel selected five years of data from an eleven year period to show the benefits customers and FPL received under the current incentive mechanism and the benefits each would have received under the proposed Incentive Mechanism. The five years he selected are not representative for the eleven-year period in which the current incentive mechanism has been in place. Nonetheless, two important conclusions can be drawn from the exhibit as it stands. First, Exhibit JWD-2 clearly shows that FPL has not received meaningful incentives under the current mechanism. In the five years of data that witness Daniel's selected, FPL received just over $1 million in incentives, or only 0.38% of the total $300 million in benefits. Second, applying the sharing methodology of the proposed Incentive Mechanism to the total benefits of $300 million yields a sharing of approximately 84% to customers and only 16% to FPL. I do not see how this could be viewed as unreasonable from the standpoint of customers.

But as I noted earlier, witness Daniel's Exhibit JWD-2 does not tell the whole story, because it reflects only five out of the eleven years in which the current incentive mechanism has been in effect. I have created an identical table to Exhibit JWD-2 that shows a complete representation of all eleven years of data. This is attached to my rebuttal testimony as Exhibit SF-4.

Q. **What information can the Commission derive from Exhibit SF-4?**

A. Exhibit SF-4 helps to further demonstrate the reasonableness of the sharing methodology prescribed in the proposed Incentive Mechanism. From 2001 through 2011, FPL delivered almost $503 million in total benefits from power sales and purchases. Under the current incentive mechanism, customers received nearly $501 million in benefits, or 99.63% and FPL received just under $1.9 million in incentives, or only 0.37% of the total. In eight of the eleven years, FPL received no incentive.

FPL's proposed Incentive Mechanism strives to deliver additional value to customers while also providing a meaningful incentive to FPL if certain thresholds are reached. As shown in Exhibit SF-4, the proposed Incentive Mechanism would have also resulted in several years of FPL receiving no incentive (six of the eleven years); however, it would have provided meaningful incentives in the years that the threshold was exceeded. Under the proposed Incentive Mechanism, customers would have received just over $454 million in benefits, or 90.37% and FPL would have received just over $48 million in incentives, or 9.63% of the total. This allocation of benefits between customers and FPL clearly and quantitatively discredits witness Daniel's claim that the proposed Incentive Mechanism would unreasonably favor FPL. FPL's total share of slightly less than 10% provides a meaningful incentive while continuing to ensure that the great majority of the benefits would go to customers.

VI. SHORT-TERM POWER PURCHASES

Q. Do you agree with OPC witness Daniel (pages 11-12) that savings generated from short-term power purchases should not be included in an incentive mechanism because they are part of a utility's normal practice under its fundamental economic dispatch process and objective?

A. No. Witness Daniel states, "In my 38 years of experience in electric rate regulation, I have never seen a case in which a utility had the audacity to claim that implementing the concept of economic dispatch should be a source of bonuses." What is audacious is witness Daniel's mischaracterization of the relationship between short-term power purchases and economic dispatch. The concept of economic dispatch specifically relates to the efficient utilization of a utility's own resources. Resources that are not under a utility's control are not part of its economic dispatch process. The purpose of the incentive mechanism is to provide appropriate incentives to enhance or add value beyond the economic dispatch process. For example, power purchases and sales are activities conducted outside of the economic dispatch process, but which allow a utility to improve upon the economic dispatch of its own resources.

Opportunities to participate in the wholesale power market must be actively pursued and participation requires the execution of activities such as marginal cost modeling, communicating and negotiating with numerous counterparts on a continual basis, submitting transmission service requests, submitting data electronically showing the flow of power, and capturing transaction data for risk management and accounting purposes. All of those activities go beyond the scope of ordinary economic dispatch, and it makes sense to provide an incentive for FPL to pursue them aggressively. Furthermore, it is reasonable to apply the incentives equally to gains on power sales and purchases. Both types of transactions have the same dollar-for-dollar impact on reducing the fuel expenses that customers pay, and both require the same sort of activities to identify and execute beneficial transactions. For these reasons, there should be no distinction or differentiation made to the application of incentives between power sales and purchases.

VII. INFORMATION PROVIDED BY FPL

Q. On page 9 and 10 of his testimony, witness Daniel asserts that his chief concern is that the proposed Incentive Mechanism could be approved based on the limited and imprecise information provided in this proceeding to date. Do you agree with this assertion?

A. No. In addition to my direct testimony in this docket, FPL has provided responses to over ninety interrogatories and document requests. Those responses provide voluminous, detailed information on every relevant topic included in the proposed Incentive Mechanism. For example, witness Daniel claims on page 18 of his testimony that FPL has not addressed the specific components of risk it faces; in fact, however FPL provided detailed descriptions of the risk components and safeguards it will have in place in its responses to Staff's Twenty-Second Set of Interrogatories Nos. 608 through 611. These responses are provided in my Exhibit SF-5. The extent of OPC's own request for information regarding the proposed Incentive Mechanism through the discovery process has been minimal: two document requests issued very late in the process.

VIII. EXPERIENCE WITH ASSET OPTIMIZATION

Q. Do you agree with witness Daniel that FPL's lack of experience with additional forms of asset optimization would make Commission approval of the proposed Incentive Mechanism at this point untimely?

A. No. FPL has become the largest investor-owned utility consumer of natural gas in the United States. FPL now consumes over 500 BCF of natural gas per year and has extensive expertise in the procurement of natural gas. As shown on Exhibit SF-6, FPL's portfolio of natural gas assets has grown to meet those needs and now includes transportation capacity on five natural gas pipelines, as well as storage capacity. While FPL has not engaged in most forms of the asset optimization measures described in the Proposed Settlement Agreement, its market presence and knowledge provide a strong base for implementation of these new forms of asset optimization.

Q. Do you believe that FPL's lack of experience with these new forms of asset optimization is a reason not to incent FPL to explore additional measures?

A. No. If FPL is unable to deliver additional gains from the expanded optimization program, then it will not receive any incentives. Conversely, if FPL is successful, customers will benefit beyond the current level of gains they receive. Additionally, the Commission will always have full authority to review the prudence of FPL's transactions.

IX. REVIEW AND TIMING

Q. Witness Daniel claims that the Commission would be in a difficult position to review FPL's transactions "after-the-fact" and sufficient time would not be available for review. Do you agree with this claim?

A. No. At the time FPL files its proposed Incentive Mechanism activities with its Final True-Up filing at the beginning of March each year, the Commission will have approximately eight months to conduct a review of the material prior to the annual fuel hearing in November. As previously noted, the Commission has many provisions in place to conduct a thorough review of FPL's optimization activities including the ability to conduct an annual audit. The Commission continues to utilize these provisions to review FPL's hedging program on an annual basis. I note that the Commission Staff has become quite experienced in evaluating gas transactions as a result of its hedging reviews, and FPL expects that Staff would put that expertise to use in effectively monitoring FPL's proposed Incentive Mechanism activities.

Q. Do you agree with witness Daniel's assertion on page 21 that if the proposed Incentive Mechanism is approved, the Commission will be issuing a blank check to FPL for the associated costs of its expanded asset optimization program?

A. No. In Order No. PSC-02-1484-FOF-EI, the Commission approved fuel clause recovery for prudently incurred incremental operating and maintenance expenses incurred for the purpose of initiating and/or maintaining a new or expanded hedging program. I do not believe the Commission viewed that approval as having issued FPL a blank check to incur hedging-related O&M expenses, and the experience over the years has borne out the Commission's confidence that utilities would use their cost recovery authority prudently. FPL's projected and actual expenditures of all types are scrutinized through the normal fuel clause process. FPL envisions the same process for incremental operating and maintenance expenses associated with the proposed Incentive Mechanism.

X. APPROPRIATE PROCEEDING FOR APPROVAL

Q. Do you agree with witness Daniel's comment on page 23 of his testimony that review of the proposed Incentive Mechanism should be moved to a separate proceeding involving the other utilities?

A. No. Settlement agreements provide the perfect opportunity to try new concepts and there is no reason to postpone implementation of the proposed Incentive Mechanism for FPL. The provisions of the proposed Incentive Mechanism are unique to FPL at this point. There is not necessarily a "one size fits all" incentive mechanism. The proposed Incentive Mechanism would only be in place for four years unless the Commission decided that it made sense to continue with the program. Using the proposed Incentive Mechanism first for FPL is an ideal pilot program for all parties to learn more about the practical implementation realities and then decide whether and how to expand application of the mechanism to other utilities.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Incentive Mechanism Comparison

				Customer's Share of Claimed Benefits				FPL's Share of Claimed Benefits			
				Current Incentive Mechanism		Proposed Incentive Mechanism		Current Incentive Mechanism		Proposed Incentive Mechanism	
Line No.	Year	Proposed Incentive Mechanism: Total Claimed Benefits	Proposed Claimed Benefits less Threshold of $46,000,000	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
1	2001	$32,443,426	$0	$32,443,426	100.00%	$32,443,426	100.00%	$0	0.00%	$0	0.00%
2	2002	$30,725,727	$0	$30,725,727	100.00%	$30,725,727	100.00%	$0	0.00%	$0	0.00%
3	2003	$47,939,149	$1,939,149	$47,939,149	100.00%	$46,581,745	97.17%	$0	0.00%	$1,357,404	2.83%
4	2004	$36,130,609	$0	$35,445,641	98.10%	$36,130,609	100.00%	$684,968	1.90%	$0	0.00%
5	2005	$49,612,011	$3,612,011	$48,481,777	97.72%	$47,083,603	94.90%	$1,130,234	2.28%	$2,528,408	5.10%
6	2006	$36,464,381	$0	$36,403,936	99.83%	$36,464,381	100.00%	$60,445	0.17%	$0	0.00%
7	2007	$34,820,289	$0	$34,820,289	100.00%	$34,820,289	100.00%	$0	0.00%	$0	0.00%
8	2008	$31,889,308	$0	$31,889,308	100.00%	$31,889,308	100.00%	$0	0.00%	$0	0.00%
9	2009	$50,452,089	$4,452,089	$50,452,089	100.00%	$47,335,627	93.82%	$0	0.00%	$3,116,462	6.18%
10	2010	$82,738,350	$36,738,350	$82,738,350	100.00%	$57,795,340	69.85%	$0	0.00%	$24,943,010	30.15%
11	2011	$69,563,423	$23,563,423	$69,563,423	100.00%	$53,069,027	76.29%	$0	0.00%	$16,494,396	23.71%
	Total	**$502,778,762**	**$70,305,022**	**$500,903,115**	**99.63%**	**$454,339,082**	**90.37%**	**$1,875,647**	**0.37%**	**$48,439,680**	**9.63%**

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Staff's Twenty-Second Set of Interrogatories
Interrogatory No. 608
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Q.

Please refer to page 6 of the testimony of Sam Forrest, lines 7 through 15, for interrogatories 608 through 611.

What are the risks to FPL retail customers of these transactions?

A.

First and foremost, as stated in previous Interrogatory responses, FPL does not intend to jeopardize the reliability of fuel supply or FPL's system with the execution of these asset optimization measures. FPL has participated in the power market for numerous years without impacting the reliability of FPL's system and will apply the same principles when evaluating potential asset optimization transactions to arrive at decisions that maintain reliability while helping to reduce overall fuel costs for customers. With that said, the asset optimization measures described in paragraph 12 of the Proposed Settlement Agreement have associated risks, including market risk, credit risk and operational risk. These types of risks introduce the possibility of monetary losses. While FPL will have safeguards in place to help mitigate some of the risks associated with these types of transactions, it is impossible to eliminate all risk. The safeguards that FPL will have in place are addressed in FPL's response to Staff's Twenty Second Set of Interrogatories No. 610.

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Q.
Please refer to page 6 of the testimony of Sam Forrest, lines 7 through 15, for interrogatories.608 through 611.

What are the risks to FPL of these transactions?

A.
The risks to FPL are the same as described in FPL's response to Staff's Twenty Second Set of Interrogatories No. 608. To the extent that monetary losses were incurred, FPL's customers would experience less total benefits from the asset optimization measures than they otherwise would have, and FPL's ability to reach the threshold(s) and potentially share in the overall benefits would be impaired.

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Q.
Please refer to page 6 of the testimony of Sam Forrest, lines 7 through 15, for interrogatories 608 through 611.

What safeguards are necessary to address the risks of these transactions?

A.
The execution of asset optimization transactions will be strictly governed by additional Risk Management policies and procedures that are reviewed by FPL's Risk Management department, with ultimate oversight by the Exposure Management Committee (EMC). Market risk limits (i.e., tenor, stop-loss, open positions...etc.) will be set to help mitigate market risk. FPL will manage credit risk, as it does today, through appropriate creditworthiness reviews, monitoring and the inclusion of contractual risk mitigation terms and conditions whenever possible. Operational risk due to weather uncertainty and changes in forecasts will be addressed through the retention of a portion of gas transportation or storage capacity to cover forecast errors. FPL will utilize forecasted and historical data to further determine if system conditions allow for the execution of optimization measures. Generally, given the uncertainty of weather and unit availability, FPL will execute transactions that are short-term in nature. Finally, contractual provisions, such as the ability to "call-back" delivered gas sales under certain conditions, will be used to help mitigate certain risks as much as possible while maintaining the value of the transaction(s).

The following table summarizes the safeguards that FPL has, or will have, in place to help mitigate the risks associated with asset optimization. As stated previously, these safeguards will help to mitigate some of the risks described in this response; however, it is impossible to eliminate all risk:

Asset Optimization Measure	Safeguard(s)
Gas Storage Optimization	
Sublease Capacity	Risk Management policies and procedures, retention of a portion of capacity to compensate for forecast errors, consumption of alternate fuels, short-term transactions, contractual provisions
Gas Sales	
From Gas Storage	Risk Management policies and procedures, retention of a portion of capacity/supply to compensate for forecast errors, consumption of alternate fuels, short-term transactions
Within Production Area	Risk Management policies and procedures
City-Gate Delivered	Risk Management policies and procedures, retention of a portion of capacity to compensate for forecast errors, consumption of alternate fuels, short-term transactions, contractual provisions
Capacity Release	
Natural Gas Transportation	Risk Management policies and procedures, retention of a portion of capacity to compensate for forecast errors, consumption of alternate fuels, short-term transactions
Electric Transmission	Risk Management policies and procedures
Asset Management Agreements	
Natural Gas Transportation	Risk Management policies and procedures, contractual provisions
Natural Gas Storage Capacity	Risk Management policies and procedures, contractual provisions

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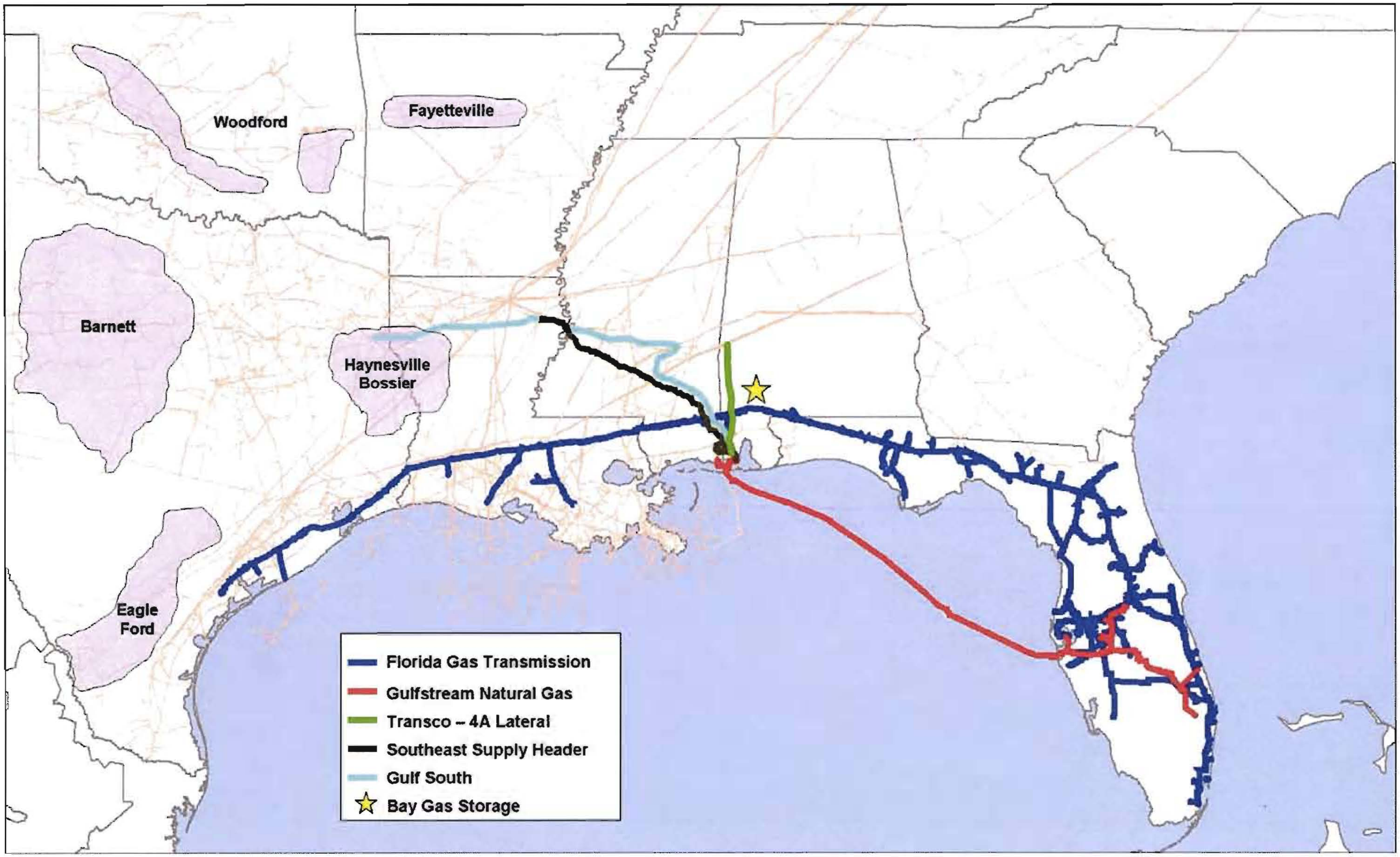
Q.
Please refer to page 6 of the testimony of Sam Forrest, lines 7 through 15, for interrogatories 608 through 611.

Could these transactions result in negative gains (losses), and what could cause such a result? Please explain by each form of asset optimization stated in paragraph 12 of the proposed settlement agreement.

A.
It is possible that these transactions could result in negative gains (losses). Monetary losses could be caused by any of the risks listed in FPL's response to Staff's Twenty Second Set of Interrogatories No. 608 and described in FPL's response to Twenty Second Set of Interrogatories No. 610. Causes could range from supplier delivery failure to changes in weather or unit availability that results in the consumption of higher-priced, alternate fuels.



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