**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 2013**

FPSC DOCKET NO. 130001-EI

**DIRECT TESTIMONY OF
JOSEPH McCALLISTER**

August 30, 2013

REDACTED

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

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

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

A. I am employed by Duke Energy Progress. I am the Director of Gas, Oil and Power in the Fuels and Power Optimization Department. This section is responsible for natural gas, fuel oil and emission allowance activity for the Duke Energy Indiana ("DEI"), Duke Energy Kentucky ("DEK"), Duke Energy Carolina ("DEC"), Duke Energy Progress ("DEP"), and Duke Energy Florida ("DEF") systems.

Q. Please describe your education background and professional experience.

A. I received a Bachelor Degree in Business Administration majoring in Accounting from The Ohio State University. Prior to the merger between Progress Energy and

Duke Energy, at Progress Energy I served as the Director of Portfolio and Market Risk Assessment from 2003 until mid 2006, , the Director of Gas and Oil Trading from mid 2006 through early 2009, and the Director of Gas, Oil and Power Trading from early 2009 through July 2012. Prior to my tenure with Progress Energy, I spent approximately 10 years in management positions at energy trading and asset generation based companies. Summary experiences over this time period include gas and power scheduling, real time power trading and scheduling management, commercial management of gas storage and transportation agreements, commercial management of fuel and power optimization activities for unregulated generation assets and wholesale contract agreements, and corporate planning.

Q: Have your duties and responsibilities remained the same since you last testified in this proceeding?

A: Yes. As the Director of Gas, Oil and Power, I am responsible, along with the other members of the section, for the management of the gas and oil procurement, transportation, hedging activities, and administration of gas and oil contracts with various suppliers for DEI's, DEK's, DEC's, DEP's, and DEF's electrical power generation facilities.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to outline DEF's hedging objectives and activities for 2014 and outline DEF's hedging results for January 2013 through July 2013.

Q. Are you sponsoring any exhibits to your testimony?

A. Yes, I am sponsoring the following exhibits:

- Exhibit No. ___ (JM-1P) – 2014 Risk Management Plan (*originally filed August 2, 2013, redacted version attached*); and
- Exhibit No. ___ (JM-2P) – Hedging Results for January 2013 through July 2013 (*originally filed August 16, 2013, redacted version attached*).

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

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

Q. Describe DEF's hedging activities that the Company will execute for 2014.

A. DEF will hedge a percentage of its projected natural gas and light oil fuel oil burns, and a portion of the estimated fuel surcharge exposure embedded in DEF's coal river barge and railroad transportation agreements. DEF will utilize approved physical and financial agreements. With respect to hedging activity, natural gas represents the largest component of DEF's overall hedging activity given it is the largest fuel cost component. DEF's target hedging percentage ranges are between [redacted] to [redacted] percent of its current 2014 forecasted calendar annual burns. DEF anticipates to target to hedge a minimum of [redacted] percent of its forecasted natural gas burn projections for 2014. With respect to light oil forecasted to be burned at DEF's owned generation facilities for calendar year 2014, during the balance of

2013 and 2014, DEF will target to hedge a minimum of [redacted] percent of its forecasted light oil burns for the 2014 calendar period. With respect to coal river and rail transportation estimated fuel surcharges, for calendar year 2014 DEF will target to hedge between [redacted] and [redacted] percent of the estimated fuel surcharge exposure in the coal rail and river barge transportation agreements, during the balance of 2013 and 2014. Hedging in the ranges and targets provided allows DEF to monitor actual fuel burns, updated fuel forecasts, and make any adjustments as needed throughout the year.

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

As of August 21, 2013, for 2014 DEF has hedged approximately [redacted] percent of its forecasted natural gas burns. In addition, as of August 21, 2013, for 2014 DEF has hedged approximately [redacted] percent and [redacted] percent of its estimated fuel surcharge exposure based on the contractual provisions in the coal rail and river barge transportation agreements, respectively. DEF will continue to execute additional hedges for 2014 throughout the remainder of 2013 and during 2014 consistent with its on-going strategy.

Q. What were the results of DEF's hedging activities for January through July 2013?

A. The Company's natural gas hedging activities for January through July 2013 have resulted in hedges being above the closing natural gas settlement prices for the periods of January 2013 through July 2013 by approximately $81.3 million. The Company's overall fuel oil hedging activities have resulted in hedges being above the closing settlement prices for the periods of January 2013 through July 2013 by approximately $0.3 million. These overall hedge results were driven primarily by declines in natural gas prices after the execution of DEF's 2013 hedging transactions. The hedging activities were executed consistent with its Risk Management Plan. Although DEF's hedging activity did not result in net fuel cost savings, the activities did achieve the objective to reduce the impacts of fuel price risk and volatility, and greater fuel price certainty for DEF's customers.

Q. Does this conclude your testimony?

A. Yes.