FILED OCT 09, 2015
DOCUMENT NO. 06406-15
FPSC - COMMISSION CLERK

DUKE ENERGY FLORIDA

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

October 9, 2015

VIA ELECTRONIC FILING

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

Re: *Fuel and purchased power cost recovery clause with generating performance incentive factor; Docket No. 150001-EI*

Dear Ms. Stauffer:

Please find enclosed for filing on behalf of Duke Energy Florida, LLC ("DEF"), Rebuttal Testimony of Joseph McCallister for the above referenced docket.

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,

s/Matthew R. Bernier

Matthew R. Bernier
Senior Counsel
Matthew.Bernier@duke-energy.com

MRB/mw
Enclosures

Duke Energy Florida, LLC
Docket No.: 150001
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail this 9th day of October, 2015 to all parties of record as indicated below.

s/Matthew R. Bernier
Attorney

Suzanne Brownless, Esq Danijela Janjic, Esq. John Villafrate, Esq. Office of General Counsel Florida Public Service Commission 2540 Shumard Oak Blvd. Tallahassee, FL 32399-0850 sbrownle@psc.state.fl.us djanjic@psc.state.fl.us jvillafr@psc.state.fl.us James D. Beasley, Esq. J. Jeffry Wahlen, Esq. Ashley M. Daniels, Esq. Ausley McMullen Law Firm P.O. Box 391 Tallahassee, FL 32302 jbeasley@ausley.com jwahlen@ausley.com adaniels@ausley.com Jeffrey A. Stone, Esq. Russell A. Badders, Esq. Steven R. Griffin, Esq. Beggs & Lane P.O. Box 12950 Pensacola, FL 32591 jas@beggslane.com rab@beggslane.com srg@beggslane.com Jon C. Moyle, Jr., Esq. Moyle Law Firm, P.A. 118 North Gadsden Street Tallahassee, FL 32301 jmoyle@moylelaw.com Kenneth Hoffman Florida Power & Light Company 215 S. Monroe Street, Suite 810 Tallahassee, FL 32301-1858 ken.hoffman@fpl.com	Mike Cassel Aleida Socarras Florida Public Utilities Company/Florida Division of Chesapeake Utilities Corporation 1750 SW 14th Street, Suite 200 Fernandina Beach, FL 32034 mcassel@fpuc.com asocarras@chpk.com Robert Scheffel Wright, Esq. John T. LaVia, III, Esq. c/o Gardner Law Firm 1300 Thomaswood Drive Tallahassee, FL 32308 schef@gbwlegal.com jlavia@gbwlegal.com Robert L. McGee, Jr. Gulf Power Company One Energy Place Pensacola, FL 32520-0780 rlmcgee@southernco.com Beth Keating, Esq. Gunster, Yoakley & Stewart, P.A. 215 South Monroe Street, Suite 601 Tallahassee, FL 32301 bkeating@gunster.com Charles J. Rehwinkel Erik Sayler / John Truitt Patty Christensen / J.R. Kelly Office of Public Counsel c/o The Florida Legislature 111 West Madison Street, Room 812 Tallahassee, FL 32399-1400 rehwinkel.charles@leg.state.fl.us sayler.erik@leg.state.fl.us kelly.jr@leg.state.fl.us Christensen.patty@leg.state.fl.us Truitt.john@leg.state.fl.us	Ms. Paula K. Brown Manager, Regulatory Coordination Tampa Electric Company P.O. Box 111 Tampa, FL 33601 regdept@tecoenergy.com Raoul G. Cantero, III, Esq. White & Case, LLP Southeast Financial Center, Suite 4900 200 South Biscayne Boulevard Miami, FL 33131-2352 rcantero@whitecase.com James W. Brew, Esq. Owen J. Kopon, Esq. Laura A. Wynn, Esq. Stone Matheis Xenopoulos & Brew, PC 1025 Thomas Jefferson Street NW 8th Floor, West Tower Washington, DC 20007 jbrew@smxblaw.com ojk@smxblaw.com laura.wynn@smxblaw.com John T. Butler, Esq. Maria Moncada, Esq. Florida Power & Light Company 700 Universe Boulevard (LAW/JB) Juno Beach, FL 33408-0420 john.butler@fpl.com maria.moncada@fpl.com

DUKE ENERGY FLORIDA

DOCKET NO. 150001-EI

REBUTTAL TESTIMONY OF JOSEPH MCCALLISTER

October 9, 2015

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. Have you previously filed testimony in this docket?

A. Yes, I filed direct testimony on April 7, and September 1, 2015.

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

A. Yes.

II. PURPOSE AND SUMMARY OF TESTIMONY.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide additional context regarding the direct testimony of Office of Public Counsel's ("OPC" or "Citizens") witness, Mr. Daniel J. Lawton, filed September 23, 2015.

Q. Please summarize your rebuttal testimony.

A. In summary, Mr. Lawton makes three major points in his testimony that warrant discussion. First, Mr. Lawton outlines that current forecasts of gas markets show stable pricing and declining volatility. Second, Mr. Lawton states his opinion that the historical and potential future lost opportunity costs of fuel hedging are not worth the benefits of reducing price volatility for customers going forward. Third, Mr. Lawton concludes that the Commission should not approve the proposed financial hedging plans and that the Commission should discontinue the financial hedging of natural gas.

With respect to Mr. Lawton's contention that forecasts for natural gas indicate stable pricing and declining volatility, DEF has no basis to disagree with Mr. Lawton, but DEF notes that actual future prices and volatility levels are uncertain and with the increased reliance on natural gas in Florida, natural gas price fluctuations in the future could be more impactful to customers. As to the second point, this is a policy question that the Commission must decide considering all relevant information. Since the Commission's hedging program acts to serve customer interests and not the interests of utilities, we agree that customer views and opinions on this significant policy issue are important for the Commission to consider. As to Mr. Lawton's final point, DEF agrees that the Commission should review its hedging policy from time to time, as the Commission has appropriately done in the past, to determine whether changes to the policy should be made. If after such a review, the Commission determines that hedging should be wound down and eliminated, reduced in scope, suspended, or replaced with something new, DEF will comply with the Commission's policy.

Q. Are you sponsoring any exhibits to your testimony?

A. No.

III. REBUTTAL TESTIMONY.

Q. Mr. Lawton indicates that current market forecasts for natural gas pricing indicate stable gas prices and that volatility is declining. Do you agree?

A: DEF is not contesting Mr. Lawton's point. Mr. Lawton indicates that the 2015 EIA natural gas estimated price forecast projects lower prices in every year from 2015 through 2030 compared to the 2011 EIA estimates for those years.[1] A simple review of the 2015 EIA reference natural gas price forecast looking at annual periods over the next five years (2016-2020) shows that the forecasted nominal Henry Hub price averages $4.64 per MMBtu.[2] As of October 2, 2015, the current indications of market prices for the NYMEX Henry Hub contract for the annual periods over the next five years (2016-2020) averages $3.013 per MMBtu, a record low for this time period.[3] This comparison shows that future natural gas prices are uncertain and price projections and natural gas market prices will vary over time. DEF is not providing this information as a prediction on

---

[1] Lawton Direct Testimony, Sept. 23, 2015 ("Lawton"), pp. 39-40.

[2] The 2015 EIA forecasted nominal natural gas prices for 2016 through 2020 are $3.90, $4.09, $4.61, $5.07, and $5.54 per MMBtu. *See* data 2015 EIA Annual Energy Outlook, available at http://www.eia.gov/forecasts/aeo/tables_ref.cfm, and reference Table 13.

[3] As of October 2, 2015, the NYMEX Henry Hub contract prices for 2016 through 2020 are $2.805, $2.988, $3.049, $3.108 and $3.213 per MMBtu, respectively. The market price indications referenced above can be found at http://www.cmegroup.com/trading/energy/natural-gas/natural-gas_quotes_settlements_futures.html#tradeDate=10/02/2015.

future natural gas prices, but rather to show that predicting with certainty what actual prices and volatility will be in the future is not possible.

Q. Mr. Lawton argues that historical and potential future lost opportunity costs of hedging are not worth the benefits of reducing gas price volatility that hedging provides going forward. What do you think?

A. It is for the Commission to determine whether the benefits of the hedging program outweigh the historical and potential future costs going forward. As part of effective fuel cost management, DEF believes managing fuel price volatility risk over time for a portion of its projected fuel costs is a prudent risk management practice.

As stated by this Commission, the "purpose of hedging is to reduce the impact of volatility in the fuel adjustment charges paid by an IOU's customers . . . [i]ts primary purpose is not to reduce an IOU's fuel costs paid over time, but rather to reduce the variability or volatility in fuel costs paid by customers over time."[4] Mr. Lawton acknowledges that gas prices are constantly changing, subject to some level of volatility, and that Florida companies' hedging programs have accomplished the goal of limiting natural gas volatility.[5]

By locking in fixed prices for a portion of DEF's natural gas needs, the hedging program eliminates fuel price volatility for that portion. For 2016, DEF's generation fuel mix is currently forecasted to be approximately 73% natural gas. Given the large percentage of Florida's generation mix that is reliant on natural gas and current natural gas market prices for future periods, fluctuations in the price of natural gas could have a

[4] Order No. PSC-08-0667-PAA-EI, Attachment A, p. 2 of 3, § IV a & b (Oct. 8, 2008).
[5] Lawton, pp. 20.

correspondingly larger impact on customer prices. It is for the Commission to determine, as a matter of policy, given the reliance on natural gas and the uncertainty for future gas prices and volatility levels, if a level of price certainty is desired going forward for a portion of the projected gas usage. DEF will adhere to the Commission's direction and if so desired will adjust or suspend hedging activities consistent with Commission policy.

Q. Is it proper for the Commission to review the current hedging policy, and to determine if the policy should be changed or eliminated all together?

A. Yes. It is proper for the Commission to review, and if it determines it is necessary to do so, to revise or eliminate its policies regarding financial hedging of natural gas. The Commission's hedging program acts to serve customer interests and not the interests of utilities. We agree that customer views and opinions on these policy issues are important for the Commission to consider.

Mr. Lawton also pointed out that other states' commissions have recently reviewed and changed their hedging policies. However, when looking at what other jurisdictions have concluded, such as Kentucky, it is important to consider regulated generation fuel mix differences between states. Kentucky is an instance of a state public service commission that ordered the end of financial gas hedging programs due to the current conditions and outlook for future natural gas supplies.[6] For background, the regulated electric generation fuel cost mix for Duke Energy Kentucky ("DEK") in 2014 was approximately 92% coal and 4.0% gas. Although not categorized as hedging, it is my understanding that all of the coal procured for DEK's regulated electric utility for 2014 was procured over time under fixed-price coal agreements thereby reducing fuel cost risk for

[6] Lawton, at pp. 45-47.

customers. In addition, given its fuel mix, to my knowledge DEK has never utilized financial gas hedges to lock in prices for any portion of DEK's regulated electric gas generation.

DEF agrees that the Commission should review its hedging policy from time to time, as the Commission has appropriately done in the past, to determine whether changes to the policy should be made. As noted previously, as part of effective fuel cost management, DEF believes managing fuel price volatility risk over time for a portion of its projected fuel costs is a prudent risk management practice. However, if the Commission determines that hedging should be wound down and eliminated, reduced in scope, or replaced with something new, DEF will comply with the Commission's will.

Q. Does this conclude your testimony?

A. Yes.