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April 15, 2016

-VIA ELECTRONIC FILING -

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

Re: Petition for Limited Proceeding to Modify and Continue Florida Power & Light Company's Incentive Mechanism

Dear Ms. Stauffer:

I enclose for electronic filing in the above docket (i) Florida Power & Light Company's ("FPL") Petition for Limited Proceeding to Modify and Continue its Incentive Mechanism and (ii) the prepared testimony and exhibit of FPL witness Sam Forrest.

If there are any questions regarding this transmittal, please contact me at (561) 304-5639.

Sincerely,

s/ John T. Butler
John T. Butler

Enclosures
cc: Service List
J. R. Kelly, Esq., Office of Public Counsel

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Limited Proceeding To Modify and Continue Florida Power & Light Company's Incentive Mechanism	Docket No. _________________ Filed: April 15, 2016

PETITION FOR LIMITED PROCEEDING TO MODIFY AND CONTINUE FLORIDA POWER & LIGHT COMPANY'S INCENTIVE MECHANISM

Florida Power & Light Company ("FPL" or the "Company"), pursuant to Section 366.076(1), Florida Statutes (2016) and Rule 25-6.0431, Florida Administrative Code ("F.A.C."), hereby requests that the Commission conduct a limited proceeding to approve modifying and continuing the incentive mechanism for FPL to create gains on wholesale power transactions and asset optimization for customers that was approved as part of FPL's 2012 rate case settlement agreement by Order No. PSC-13-0023-S-EI (the "Incentive Mechanism"). FPL incorporates the prepared testimony and exhibits of FPL witness Sam Forrest and states as follows:

1. All pleadings, correspondence, staff recommendations, orders, or other documents filed, served or issued in this docket should be served on the following individuals on behalf of FPL:

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2. FPL is a corporation with its headquarters located at 700 Universe Boulevard, Juno Beach, Florida, 33408-0420. A wholly-owned subsidiary of NextEra Energy, Inc., FPL is an investor-owned utility operating under the jurisdiction of this Commission pursuant to the provisions of Chapter 366, Florida Statutes (2016).

3. This Petition seeks to initiate proceedings that may involve disputed issues of material fact. This case does not involve reversal or modification of an agency decision or an agency's proposed action. Therefore, paragraph (c) and portions of paragraphs (e), (f) and (g) of Rule 28-106.201(2), F.A.C., are not applicable to this Petition. It is not known which, if any, of the material facts set forth in the body of this Petition, or in the testimony and exhibits filed herewith, may be disputed by others planning to participate in the proceeding initiated by this Petition. All other requirements for petitions filed under Rule 25-106.201, F.A.C., have been met in the body of this Petition.

4. This Petition seeks to initiate a limited proceeding under Section 366.076(1), Florida Statutes (2016) and Rule 25-6.0431, F.A.C. A limited proceeding is appropriate because FPL's request to modify and continue the Incentive Mechanism raises a single, narrow issue that does not require a general review of FPL's operations or revenue requirements. As a result, FPL's testimony and exhibits needed to support this request are limited in scope and are appropriate for purposes of a limited scope proceeding.

5. As explained in more detail below, the Incentive Mechanism is designed to allow FPL to retain a portion of gains that its wholesale power transactions and asset optimization activities have generated for FPL customers, once those gains exceed a prescribed threshold. The Incentive Mechanism thus operates as an inducement for FPL to maximize gains, to the mutual benefit of customers and the Company. FPL is not requesting recovery of any specific

rate base components or operating expenses under this Petition. FPL recovers its portion of gains through adjustments to its Fuel Cost Recovery ("FCR") factors that are made in the normal course of calculating those factors and that flow through to all rate classes in the same manner as other costs recovered through the factors. Thus, there is no need for the schedules contemplated by sections (3), (4) and (5) of Rule 25-6.0431.[1]

Background

6. Prior to the 2012 rate case settlement, FPL was subject to the Commission's standard sharing mechanism for gains on short-term wholesale power ("economy") sales. While that sharing mechanism provides an incentive to create gains for customers, for FPL's circumstances it is overly narrow and restrictive in two important respects. First, it only applies to economy *sales* whereas in certain market conditions there are substantial opportunities to create customer gains from economy *purchases* as well. Second, the standard sharing mechanism does not address the opportunities to create gains from optimizing the use of other utility assets, such as natural gas storage and transportation rights. Accordingly, FPL proposed in Paragraph 12 of the 2012 rate case settlement to substitute a more broadly-based Incentive Mechanism in place of the standard sharing mechanism. The Commission agreed to let FPL operate under the Incentive Mechanism as "a four-year pilot program." Order No. PSC-13-0023-S-EI, at p. 6.

7. Paragraph 12 of FPL's 2012 rate case settlement describes the Incentive Mechanism as follows:

> (a) In order to create additional value for customers by FPL engaging in both wholesale power purchases and sales, as well as all forms of asset

[1] The Incentive Mechanism provides for FPL to recover incremental O&M costs incurred in its implementation, but this Petition only addresses recovery of such costs conceptually. There is nothing to provide as the "detailed description of the expenses" contemplated by Rule 25-6.0431(4), F.A.C.

optimization, the Parties agree that FPL will be subject to the following mechanism, effective on the Implementation Date (the "Incentive Mechanism"):

(i) FPL will file each year as part of its fuel cost recovery clause ("Fuel Clause") final true-up filing a schedule showing its gains in the prior calendar year on short-term wholesale sales, short-term wholesale purchases (including purchases that are reported on Schedule A-7), and all forms of asset optimization that it undertook in that year (the "Total Gains Schedule").[2] FPL's final true-up filing will include a description of each asset optimization measure for which gain is included on the Total Gains Schedule for the prior year, and such measures shall be subject to review by the Commission to determine that they are eligible for inclusion in the Incentive Mechanism.

(ii) For the purposes of the Incentive Mechanism, "asset optimization" includes but is not limited to:

- Gas storage utilization (FPL could release contracted storage space or sell stored gas during non-critical demand seasons);
- Delivered city-gate gas sales using existing transport (FPL could sell gas to Florida customers, using FPL's existing gas transportation capacity during periods when it is not needed to serve FPL's native load);
- Production (upstream) area sales (FPL could sell gas in the gas-production areas, using FPL's existing gas transportation capacity during periods when it is not needed to serve FPL's native load);
- Capacity Release of gas transport and electric transmission (FPL could sell idle gas transportation and/or electric transmission capacity for short periods when it is not needed to serve FPL's native load;
- Asset Management Agreement ("AMA") (FPL could outsource optimization function such as those described above to a third party through assignment of transportation and/or storage rights in exchange for a premium to be paid to FPL).

(iii) On an annual basis, FPL customers will receive 100% of the gain described in Paragraph 12(a)(i), up to a threshold of $36 million ("Customer Savings Threshold"). In addition, FPL customers will receive 100% of the gain described in Paragraph 12(a)(i) for the first $10 million above the Customer Savings Threshold ("Additional Customer Savings"). Incremental gains above the total of the Customer Savings Threshold and the Additional Customer Savings (i.e., above a gain of $46 million) will be shared between FPL and customers as follows: FPL will retain 60% and customers will receive 40% of incremental gains between

[2] For the purpose of this Agreement, "short-term" is intended to refer to non-separated wholesale sales and purchases. Order No. PSC-97-0262-FOF-EI defined "non-separated" sales as "sales that are non-firm or less than one year in duration."

$46 million and $100 million; and FPL will retain 50% and customers will receive 50% of all incremental gains in excess of $100 million. The customers' portion of all gains will be reflected as a reduction to fuel costs recovered through the Fuel Clause. FPL agrees that it will not require any native load customer to be interrupted in order to initiate or maintain an economy sale, whether that sale is firm or non-firm.

(b) FPL will be entitled to recover through the Fuel Clause the following types of reasonable and prudent incremental O&M costs incurred in implementing its expanded short-term wholesale purchases and sales programs as well as the asset optimization measures (the "Incremental Optimization Costs"):

(i) incremental personnel, software and associated hardware costs incurred by FPL to manage the expanded short-term wholesale purchases and sales programs and the asset optimization measures; and

(ii) variable power plant O&M costs[3] incurred by FPL to generate additional output in order to make wholesale sales, to the extent that the level of such sales exceed 514,000 MWh (*i.e.*, the level of sales assumed for the purpose of forecasting 2013 test year power plant O&M costs in the MFRs filed with the 2012 Rate Petition), with such costs determined by multiplying the sales above that threshold times the monthly weighted average variable power plant O&M cost per MWh reflected in the 2013 test year MFRs.

FPL's final true-up filing will separately state and describe the Incremental Optimization Costs that it incurred in the prior year, and such costs shall be subject to review and approval by the Commission.

(c) On or after January 2, 2015 (*i.e.*, two years after the Implementation Date), the Commission may review, as appropriate, and, to the extent necessary and in the public interest, revise the terms of the Incentive Mechanism that would apply thereafter for the remainder of the Term.

Order No. PSC-13-0023-S-EI, at pp. 21-24.

Continuation of the Incentive Mechanism

8. As noted above, the Commission approved the Incentive Mechanism as a four-year pilot program, meaning that the Commission authorized FPL to operate under the Incentive Mechanism only for the four years of the settlement term. Thus, absent approval for the Incentive Mechanism to continue in effect as requested in this Petition, it will expire at the end of 2016.

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3 For the purpose of this Agreement, "variable power plant O&M costs" includes non-fuel O&M expenses and costs for capital replacement parts that vary as a function of a power plant's output.

9. The Incentive Mechanism has benefited customers in its first three years:

Year	Total Incentive Mechanism Gains	Customer Share	FPL Share
2013	$24,563,872	$24,563,872	$0
2014	$67,626,867	$54,650,747	$12,976,120
2015	$46,884,377	$46,353,751	$530,626
Total	**$139,075,117**	**$125,568,370**[4]	**$13,506,747**

Thus, over the first three years customers have received gains, net of Incremental O&M Expenses, that reduce their FCR factors by more than $124 million, while paying incentives to FPL that represent a little less than 10% of total gains. Moreover, looking only at the added value that FPL has generated from the natural gas transportation, storage and trading optimization activities that are incented under the Incentive Mechanism, the 2013-2015 gains have averaged more than $7 million per year higher than they would have been under the standard sharing mechanism. Thus, the Incentive Mechanism has worked over that period as FPL and the Commission intended. *See* Order No. PSC-13-0023-S-EI, at p.7 ("We also find that the pilot incentive mechanism is in the public interest. The pilot incentive mechanism is beneficial to both FPL's customers and FPL.")

10. In view of the demonstrated success of the Incentive Mechanism over its first three years, there is no reason for it to expire at the end of 2016. To the contrary, continuing to provide FPL an incentive to maximize gains from a broad range of sources is in customers' best interests. Accordingly, FPL is requesting in this Petition that the Commission approve the Incentive Mechanism as modified below, to continue in effect for another four years, through the end of December 2020. If this Request is approved, FPL expects to request continuation of the

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4 Under the Incentive Mechanism, FPL collects Incremental O&M Expenses from customers through the Fuel Clause. For 2013-2015, the total Incremental O&M Expenses were $1,197,386, so the customers' net gain was $124,370,983.

modified Incentive Mechanism, including any appropriate additional modifications, in 2020 prior to its termination.

Updating the Incentive Mechanism To Reflect Current Circumstances

11. While the Incentive Mechanism has reflected an appropriate balance of benefits for customers and incentives for FPL based on the circumstances that existed at the time it was approved, recent changes in circumstances have upset that balance. Accordingly, FPL is proposing two modifications that will update the Incentive Mechanism to reflect current conditions and restore an appropriate balance in the sharing of benefits.

Updating the Sharing Threshold

12. First, FPL proposes to revise the threshold above which FPL begins to share in savings under the Incentive Mechanism, from its current level of $46 million to $36 million. When the sharing threshold was set in 2012, it reflected FPL's ability to realize gains from optimizing the Unit Power Sales ("UPS") contract with Southern Company and associated electric transmission access rights. The $46 million threshold has proven to be reasonable, as FPL has averaged $46.4 million in gains over the three years for which results have been reported thus far (i.e., 2013-2015). However, the UPS contract expired at the end of 2015 and will not be replaced because the offered renewal terms were not economically attractive for FPL and its customers. Of the $46.4 million in average annual gains from 2013-2015, $10.5 million have been UPS-related. Because FPL will no longer have the opportunity to realize UPS-related gains in the future, it is appropriate to reduce the sharing threshold to reflect the loss of that opportunity. Subtracting the $10.5 million average UPS gain from the current sharing threshold of $46 million would result in an adjusted threshold of $35.5 million, which FPL proposes to round up to $36 million.

Updating the Basis for Variable Power Plant O&M Recovery

13. Second, FPL proposes to update and simplify the process for Incentive Mechanism recovery of the variable power plant O&M ("VOM") costs associated with economy sales. There are two components to this adjustment.

Replacement of 514,000 MWh Threshold

14. First, FPL proposes to eliminate the 514,000 MWh threshold for recovery of VOM costs and replace it with an approach that nets economy sales and purchases and then recovers or credits VOM on only the net amount. The 2012 rate case settlement resolved a rate case that was based on a 2013 projected test year. FPL's forecast of power plant O&M costs for 2013 assumed that FPL's power plants would generate 514,000 MWh above and beyond native load requirements, in order to serve economy sales. Thus, base rates were deemed to recover variable power plant O&M costs associated with the first 514,000 MWh of economy sales, and FPL appropriately sought to recover costs through the Incentive Mechanism only for economy sales above that threshold. In contrast, when FPL forecasted variable power plant O&M costs for the 2017 and 2018 test years used in the current base rate case (Docket No. 160021-EI), FPL did not include costs to serve any economy sales. Thus, starting in 2017 there will be no base rate recovery for variable power plant O&M costs associated with economy sales, and the rationale for the 514,000 MWh threshold no longer applies.

15. FPL is proposing to eliminate the 514,000 MWh threshold and instead net economy sales and purchases in order to determine the impact of VOM costs. If FPL executes more economy sales than economy purchases, it would recover the net amount of VOM costs incurred in a given year. If economy purchases are greater than economy sales, FPL's customers would receive a credit for the net VOM costs that has been saved in that year. FPL believes that

this is a fairer and more even-handed approach both for customers and FPL, as only the O&M costs actually incurred (or saved) will be passed through (or credited) to customers.

Updating the VOM Cost

16. Pursuant to Paragraph 12(b)(ii) of the 2012 rate case settlement agreement, FPL is to recover the "monthly weighted average variable power plant O&M cost per MWh reflected in the 2013 test year MFRs." Based on the forecasted costs in the 2013 Test Year MFRs, the VOM cost per MWh is $1.51/MWh. Using the corresponding forecasted costs from the 2017 MFRs in Docket No. 160021-EI, however, the VOM cost per MWh has decreased to $0.97. In large part, this decrease is a result of FPL's success in reducing fossil fleet O&M and CAPEX associated with operating and maintaining its fleet, as described in the testimony of FPL witness Roxane Kennedy in Docket No. 160021-EI. FPL proposes to revise the Incentive Mechanism to rely on the updated, lower VOM cost per MWh of $0.97 because it is more representative of current conditions.

WHEREFORE, FPL requests that the Commission authorize FPL (1) to modify the Incentive Mechanism by (a) revising the sharing threshold from $46 million to $36 million to reflect termination of FPL's UPS contract in December 2015, and (b) revising the basis for VOM cost recovery to (i) eliminate the 514,000 MWh threshold and instead either recover VOM costs from customers on the net excess of economy sales over economy purchases or credit VOM costs to customers on the net excess of economy purchases over economy sales, and (ii) reduce the VOM cost per MWh used in that calculation to $0.97 based on data from the 2017 test year MFRs filed in Docket No. 160021-EI; and (2) to continue the Incentive Mechanism as modified in effect for four additional years, until the end of December 2020. If this relief is granted, FPL expects to request continuation of the modified Incentive Mechanism, including any appropriate additional modifications, in 2020 prior to its termination.

Respectfully submitted,

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By: *_/s/ John T. Butler_*
John T. Butler
Fla. Bar No. 283479

CERTIFICATE OF SERVICE
Docket No. 16_____-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic service on this 15th day of April 2016, to the following:

Suzanne Brownless, Esq.
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850
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By: *s/ John T. Butler*
John T. Butler
Florida Bar No. 283479

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF SAM FORREST

DOCKET NO. 16_______-EI

APRIL 15, 2016

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I. INTRODUCTION

Q. Please state your name and business address.

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

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company ("FPL" or the "Company") as Vice President of the Energy Marketing and Trading ("EMT") Business Unit.

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Science in Electrical Engineering from Texas A&M University and a Masters of Business Administration from the University of Houston. Prior to being named Vice President of EMT for FPL in 2007, I was employed by Constellation Energy Commodities Group as Vice President, Origination. In this capacity, I was responsible for managing a team of power originators marketing structured electric power products in Texas, the Western United States, and Canada. Prior to my responsibilities in the West, I was responsible for Constellation's business development activities in the Southeast U.S.

Before joining Constellation, from 2001 to 2004, I held a variety of energy marketing and trading management positions at Duke Energy North America ("DENA"). Prior to DENA, I was employed by Entergy Power Marketing

Corp. ("EPMC") in several positions of increasing responsibility, including Vice President – Power Marketing following EMPC's entry into a joint venture with Koch Energy Trading.

Prior to my entry into the energy sector, I was involved with a successful start-up organization in the automotive industry from 1996 to 1998. From 1987 to 1996, I worked for AlliedSignal Aerospace at the Johnson Space Center in Houston, Texas, in increasing roles of responsibility.

Q. Please describe your duties and responsibilities in your current position.

A. I am responsible for the overall direction and management of the EMT Business Unit, which handles FPL's short-term and long-term fuel management and operations. These fuels include natural gas, residual and distillate fuel oils, and coal. Additionally, EMT is responsible for FPL's fuel hedging program, long-term fuel transportation and storage contracts, power origination activities and short-term power trading and operations. EMT is an active participant in the short-term and long-term natural gas markets throughout the Southeastern United States.

Q. Are you sponsoring an exhibit in this case?

A. Yes. I am sponsoring the following exhibit, which is attached to my direct testimony:

- SAF-1 Incentive Mechanism Comparison for Period 2013-2015 (pages 1-4)

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain and support FPL's request to extend the current incentive mechanism that was approved as part of FPL's 2012 rate case settlement agreement by Order No. PSC-13-0023-S-EI (the "Incentive Mechanism"). I will provide (i) a description of the Incentive Mechanism under which FPL operates, including a review of the results compared to the sharing mechanism used prior to 2013, (ii) the details of FPL's request to modify specific aspects of the Incentive Mechanism, and (iii) an overview of ongoing optimization costs.

Q. Please provide a brief summary of your testimony.

A. The Incentive Mechanism that was approved as part of FPL's 2012 rate case settlement agreement was designed to expand opportunities for FPL to create gains on short-term wholesale power transactions ("economy sales" and "economy purchases", which are transactions of less than one year in term) and optimize the availability and utilization of other assets to provide increased value for FPL's customers while also providing an incentive to FPL if certain customer-value thresholds were achieved. It has absolutely worked as intended and designed. Customers have benefitted from the expanded focus on asset optimization. However, the Incentive Mechanism will automatically be terminated at the end of 2016 (when the 2012 settlement agreement terminates), unless the Commission acts to keep it in effect.

While the Incentive Mechanism has worked very well, both for customers and FPL, there are two elements of the program that need to be adjusted to reflect changed circumstances since the Incentive Mechanism was originally approved. The first adjustment is to the sharing threshold, to recognize that FPL's Unit Power Sales ("UPS") contract with the Southern Company expired at the end of 2015 and was not renewed as customer economics were not favorable. That contract facilitated roughly $10 million of gains each year that will no longer be achievable, and so the sharing threshold needs to be adjusted accordingly. Second, when the Incentive Mechanism was originally approved, FPL's 2013 test year reflected base rate recovery of the variable power plant O&M costs needed to support 514,000 MWh of economy sales. The 2017 and 2018 test years in FPL's current rate case filing reflect no such base rate recovery, and so the basis for recovering variable power plant O&M costs through the Incentive Mechanism needs to be adjusted accordingly. This second adjustment will benefit customers by eliminating an asymmetry in recovery of such costs that is currently part of the Incentive Mechanism and will treat variable power plant O&M in a very straightforward manner.

FPL proposes to renew the Incentive Mechanism, with these two adjustments, for the four-year term of FPL's base rate request (i.e., 2017-2020). This is the most straightforward and transparent way to maintain appropriate incentives for FPL to continue identifying and acting upon opportunities for gains that create substantial value for customers.

II. BACKGROUND ON THE INCENTIVE MECHANISM

Q. What were the circumstances that led FPL to propose the Incentive Mechanism?

A. Prior to the 2012 rate case settlement, FPL operated under the Commission's standard sharing mechanism for gains on economy sales ("Prior Mechanism"). Sharing by FPL occurred if gains on economy power sales exceeded the three prior year average of gains on sales. While the Prior Mechanism provided an incentive for creating gains for customers, for FPL's circumstances it proved overly narrow and restrictive in two important respects. First, it only applied to economy *sales.* There are market conditions that provide substantial opportunities to create customer gains from economy *purchases* as well. Second, the Prior Mechanism did not address the opportunities to create gains from optimizing the use of other utility assets, such as natural gas transportation and gas storage rights. Accordingly, FPL proposed as part of the 2012 rate case settlement to substitute the more broadly-based Incentive Mechanism in place of the Prior Mechanism. The Commission agreed to let FPL operate under the Incentive Mechanism as "a four-year pilot program," which expires at the end of 2016.

Q. Please describe the current Incentive Mechanism.

A. The Incentive Mechanism is designed to create additional value for FPL's customers while also providing an incentive to FPL if certain customer-value thresholds are achieved. The Incentive Mechanism is very straightforward in that it simply adds incentives for FPL to create additional value for customers above the levels that were projected at the time the mechanism was approved. As part of the original proposal that created the Incentive Mechanism, FPL established a threshold of $46 million that had to be exceeded before FPL shared in any savings. This threshold was comprised of a $36 million "Customer Savings Threshold," which was based on FPL's 2013 projections for economy power sales gains and economy purchased power savings, and an incremental $10 million which represented the additional value that FPL was seeking to create for its customers through expansion of it optimization program. The combination of the two thresholds resulted in FPL's customers receiving 100 percent of the benefits up to $46 million. As approved by the Commission, incremental gains above the $46 million are shared between FPL and customers as follows: FPL retains 60 percent and customers receive 40 percent of incremental gains between $46 million and $100 million; and FPL retains 50 percent and customers receive 50 percent of all incremental gains in excess of $100 million. The customers' portion of all gains is reflected as a reduction to fuel costs recovered through the Fuel Clause.

Under the Incentive Mechanism, FPL has created additional value by expanding economy sales into other regions beyond the southeast, as well as adding new activities such as natural gas storage optimization, natural gas sales, capacity releases of natural gas transportation and selling rights on third-party electric transmission when they are not needed by FPL. Additionally, FPL has, on occasion, outsourced a small portion of the optimization function of assets such as natural gas transportation to a third party in the form of an asset management agreement ("AMA") in exchange for being paid a premium. The revenues from such AMAs also are included under the Incentive Mechanism.

As part of the program, FPL is entitled to recover through the Fuel Clause the reasonable and prudent incremental O&M costs incurred in implementing its expanded asset optimization measures. These include the incremental personnel, software and associated hardware costs incurred by FPL (which are not included in FPL's current base rate request), as well as the variable power plant O&M costs (non-fuel O&M expenses and costs for capital replacement parts that vary as a function of a power plant's output) incurred by FPL to generate additional output in order to make economy sales. For the term of the 2012 rate case settlement agreement (i.e., 2013-2016), FPL reflected the estimate from its filed MFRs that the variable power plant O&M costs for 514,000 megawatt-hours ("MWh") of economy sales would be recovered through base rates, while FPL would be allowed to recover through the Fuel Clause variable power plant O&M costs to support sales above that threshold. This assumption was predicated upon the 2013 test year forecast prepared by EMT, which estimated that the power plants that FPL operates would serve 514,000 MWh of economy sales in addition to the forecasted native load.

Q. Overall, how has the Incentive Mechanism performed?

A. As can be seen in Exhibit SAF-1, the Incentive Mechanism has worked as intended for both FPL's customers and FPL. Using the actual results of 2013-2015, after incremental O&M expenses are netted out, there was a total benefit of $137.9 million from all Incentive Mechanism activities to be shared between FPL and its customers. From page 4 of the exhibit, one can see greater than 90 percent of the benefits have been received by FPL's customers, with FPL receiving the balance.

Q. Has the current Incentive Mechanism delivered greater value to FPL's customers than would have been the case under the Prior Mechanism?

A. Yes. It is difficult to make a complete comparison of the benefits to customers under the two mechanisms because FPL was already actively engaged in both economy sales and purchases when the current Incentive Mechanism was approved, although it has expanded its activities within these areas. However, a simple and conservative comparison is to look at the value that FPL has generated from the natural gas transportation, storage and trading optimization activities that are incented under the Incentive Mechanism and are essentially all new since that mechanism was approved. By that conservative measure, customers have received additional benefits to the tune of $21.7 million for the years 2013, 2014, and 2015:

- Under the Prior Mechanism, the benefits that FPL would have delivered for the three-year period totaled $113.2 million (see page 4 of Exhibit SAF-1, "Total Optimization Benefits"). This total includes the benefits achieved from optimization activities for economy power sales and purchases, as well as short-term releases of electric transmission capacity, as FPL was engaging in those activities prior to the Commission's approval of the current Incentive Mechanism. Looking at the period 2013-

2015 and applying the sharing methodology of the Prior Mechanism would have yielded net benefits to FPL's customers of $102.6 million, while FPL would have retained $10.6 million because the three-year rolling average threshold for economy sales would have been exceeded in each of the three years. These amounts correlate to a sharing split of 90.7% to customers and 9.3% to FPL.

- In contrast, as shown on page 4 of Exhibit SAF-1, FPL has generated nearly $33 million of additional benefits over the three-year period from the natural gas transportation, storage and trading optimization activities that FPL is incented to pursue under the current Incentive Mechanism. When one takes into account these additional benefits, the result is that the Total Optimization Benefits under the current Incentive Mechanism increased to $139.1 million, with customers receiving $124.4 million and FPL receiving $13.5 million after incremental O&M expenses are netted out. These amounts correlate to a sharing split of 90.2% to customers and 9.8% to FPL which is nearly identical to the split that would have occurred under the Prior Mechanism.
- Thus, over the period 2013-2015, customers received more than $21.7 million of additional benefits under the Incentive Mechanism – $124.4 million under the Incentive Mechanism vs. the $102.6 million that they would have received under the Prior Mechanism. This is proof that the Incentive Mechanism is working to deliver added value for customers as FPL and the Commission envisioned when it was approved.

III. UPDATING THE INCENTIVE MECHANISM

Q. Is FPL proposing any changes to the Incentive Mechanism as it was approved in 2012?

A. Yes. FPL is proposing two changes to the Incentive Mechanism. The first is to lower the sharing threshold from $46 million to $36 million. From the data shown on Exhibit SAF-1, $46 million appears to have been an appropriate threshold as FPL averaged $46.4 million in total gains over the 2013-2015 period (i.e., $139.1 million in Total Optimization Benefits ÷ 3 years = $46.4 million per year). However, this average reflects the results of optimizing FPL's UPS contract with the Southern Company that expired in December 2015. The UPS contract allowed for the purchase of 928 MW of capacity and energy, supplied by Southern from a mix of gas- and coal-fired units. Additionally, there was accompanying transmission capacity made available to FPL under the UPS contract, to allow the energy to be delivered into FPL's electric transmission grid in peninsular Florida. Over the period of 2013-2015, optimization of the UPS contract and associated electric transmission resulted in an average of $10.5 million in gains that were reflected in the Incentive Mechanism sharing calculations. The UPS contract made energy and idle electric transmission available in SERC for optimization when it was not needed for dispatch into FPL's system. However, due to changes in fuel prices and other factors since the UPS contract was originally entered into, it would not have been in the overall economic best interest of customers to renew it in December 2015, and there is no equivalent way of capturing the optimization opportunities in SERC from the balance of FPL's portfolio. Subtracting the average annual UPS-related gains of $10.5 million from the current sharing threshold of $46 million would reduce the threshold to $35.5 million. In order to keep the Incentive Mechanism working properly, the Commission should lower the sharing threshold to $36 million (rounded up from $35.5 million) now that the UPS contract and associated electric transmission are no longer part of the portfolio.

The second proposed change has to do with the variable power plant O&M costs incurred to generate economy sales. As mentioned earlier, under the Incentive Mechanism, FPL is allowed to recover variable power plant O&M costs beyond the 514,000 MWh of such sales that were projected in the MFRs that supported FPL's 2013 Test Year. The per-MWh rate that was reflected in the 2013 Test Year MFRs and that is currently utilized by FPL for economy sales over the 514,000 MWh threshold is $1.51/MWh.

For the 2017 and 2018 test years included in FPL's current rate case filing, FPL has not included any economy sales or economy purchases in the base rate forecast. Rather, FPL is proposing to eliminate the 514,000 MWh threshold altogether and simply net economy sales and purchases in order to determine the impact of variable power plant O&M. If FPL executes more economy sales than economy purchases, we will recover the net amount of variable power plant O&M incurred in a given year. If economy purchases are greater than economy sales, FPL's customers will receive a credit for the net variable power plant O&M that has been saved in that year. This is a much fairer and straightforward approach both for customers and for FPL, as only the O&M costs actually incurred (or saved) will be passed through (or credited) to customers.

Q. Is FPL proposing a change to the per-MWh variable power plant O&M rate?

A. Yes. FPL calculated a new per-MWh rate for variable power plant O&M based on the 2017 Test Year MFRs utilizing the same methodology that was applied to the 2013 Test Year MFRs. The updated calculation results in a substantial decrease in the per-MWh rate, from $1.51/MWh to $0.97/MWh. In large part, this decrease is a result of FPL's success in reducing fossil fleet O&M and CAPEX associated with operating and maintaining its fleet, as described in the testimony of FPL witness Roxane Kennedy in Docket No. 160021-EI.

IV. EXTENDING THE INCENTIVE MECHANISM

Q. Should the Incentive Mechanism be extended past the expiration of the 2012 rate case settlement at the end of December 2016?

A. Yes. The Incentive Mechanism has worked well, and it is in the mutual best interests of FPL's customers and FPL for it to remain in effect. FPL proposes that the Commission authorize FPL to continue using the Incentive Mechanism, modified to reduce the Customer Savings Threshold to $36 million and to eliminate the variable power plant O&M threshold for the reasons I just discussed, for four more years.

Q. Why is FPL only asking for a four year extension rather than a permanent extension of the Incentive Mechanism?

A. FPL sees value in having stability in the program over time: it would be disruptive and diminish the effectiveness of the incentives if FPL could not depend on them remaining in place on known terms for more than a year at a time. On the other hand, FPL recognizes that it is appropriate to revisit the appropriateness of the Incentive Mechanism periodically. In FPL's current rate case proceeding, FPL has made a four-year rate proposal that covers the period 2017-2020. FPL believes that it would be appropriate for the Incentive Mechanism to cover this same period. This would be easy to administer and would allow for the Incentive Mechanism to be revisited as a natural component of the next rate review.

Q. Does this conclude your direct testimony?

A. Yes.

2013 Incentive Mechanism Comparison

Row	Category	Calculation	Prior Mechanism	Calculation	Current Mechanism
A	Economy Sales Gains[(1)]	Actual Results	$13,313,457	Actual Results	$13,313,457
B	Variable Power Plant O&M (over 514,000 MWh)	Not Applicable	$0	Actual Results	($2,160,452)
C	Economy Purchases Savings	Actual Results	$3,205,747	Actual Results	$3,205,747
D	Capacity Release of Electric Transmission (UPS)	Actual Results	$1,076,991	Actual Results	$1,076,991
E	Natural Gas Optimization	Not Applicable	$0	Actual Results	$9,128,128
F	**Total Optimization Benefits**	**A+B+C+D+E**	**$17,596,195**	**A+B+C+D+E**	**$24,563,872**
G	Incentive Mechanism Threshold	Footnote [(2)]	$4,238,810	Footnote [(3)]	$46,000,000
H	Gains Evaluated versus Threshold	A	$13,313,457	F	$24,563,872
I	Incentive Mechanism Customer Benefits	((H-G)*0.8)+G	$11,498,528	Footnote [(4)]	$24,563,872
J	Incentive Mechanism FPL Benefits	(H-G)*0.2	$1,814,929	Footnote [(4)]	$0
K	Incremental O&M Expenses (Personnel, Software, Hardware)	Not Applicable	$0	Actual Results	($263,408)
L	Net Customer Benefits	C+D+I	$15,781,266	I+K	$24,300,464
M	Net FPL Benefits	J	$1,814,929	J	$0
N	Customer % of Benefits	L/(L+M)	89.7%	L/(L+M)	100.0%
O	FPL % of Benefits	M/(L+M)	10.3%	M/(L+M)	0.0%
P	**Additional Customer Benefits Under Current Mechanism**			**L(Current) - L(Prior)**	**$8,519,198**

[(1)]Economy Sales Gains includes $151,074.74 from unit-specific UPS sales.

[(2)]The Prior Mechanism threshold represents the previous three-year average of gains on economy sales of $4,421,987 in 2010, $4,918,688 in 2011, and $3,375,756 in 2012.

[(3)]Under the Current Mechanism that was approved by Order No. PSC-13-0023-S-EI, the threshold is fixed at $46,000,000 from 2013 through 2016.

[(4)]Under the Current Mechanism, customers receive 100% of the benefits up to $46 million. Benefits above $46 million and up to $100 million are shared 40% to customers and 60% to FPL. Benefits above $100 million are shared 50% to customers and 50% to FPL.

2014 Incentive Mechanism Comparison

Row	Category	Calculation	Prior Mechanism	Calculation	Current Mechanism
A	Economy Sales Gains[(1)]	Actual Results	$45,780,301	Actual Results	$45,780,301
B	Variable Power Plant O&M (over 514,000 MWh)	Not Applicable	$0	Actual Results	($2,304,384)
C	Economy Purchases Savings	Actual Results	$10,528,279	Actual Results	$10,528,279
D	Capacity Release of Electric Transmission (UPS)	Actual Results	$1,659,932	Actual Results	$1,659,932
E	Natural Gas Optimization	Not Applicable	$0	Actual Results	$11,962,738
F	**Total Optimization Benefits**	**A+B+C+D+E**	**$57,968,513**	**A+B+C+D+E**	**$67,626,867**
G	Incentive Mechanism Threshold	Footnote [(2)]	$7,202,634	Footnote [(3)]	$46,000,000
H	Gains Evaluated versus Threshold	A	$45,780,301	F	$67,626,867
I	Incentive Mechanism Customer Benefits	((H-G)*0.8)+G	$38,064,768	Footnote [(4)]	$54,650,747
J	Incentive Mechanism FPL Benefits	(H-G)*0.2	$7,715,534	Footnote [(4)]	$12,976,120
K	Incremental O&M Expenses (Personnel, Software, Hardware)	Not Applicable	$0	Actual Results	($460,428)
L	Net Customer Benefits	C+D+I	$50,252,979	I+K	$54,190,319
M	Net FPL Benefits	J	$7,715,534	J	$12,976,120
N	Customer % of Benefits	L/(L+M)	86.7%	L/(L+M)	80.7%
O	FPL % of Benefits	M/(L+M)	13.3%	M/(L+M)	19.3%
P	**Additional Customer Benefits Under Current Mechanism**			**L(Current) - L(Prior)**	**$3,937,339**

[(1)]Economy Sales Gains includes $20,506,265.90 from unit-specific UPS sales.

[(2)]The Prior Mechanism threshold represents the previous three-year average gains on short-term wholesale sales of $4,918,688 in 2011, $3,375,756 in 2012, and $13,313,457 in 2013.

[(3)]Under the Current Mechanism that was approved by Order No. PSC-13-0023-S-EI, the threshold is fixed at $46,000,000 from 2013 through 2016.

[(4)]Under the Current Mechanism, customers receive 100% of the benefits up to $46 million. Benefits above $46 million and up to $100 million are shared 40% to customers and 60% to FPL. Benefits above $100 million are shared 50% to customers and 50% to FPL.

2015 Incentive Mechanism Comparison

Row	Category	Calculation	Prior Mechanism	Calculation	Current Mechanism
A	Economy Sales Gains[(1)]	Actual Results	$25,961,825	Actual Results	$25,961,825
B	Variable Power Plant O&M (over 514,000 MWh)	Not Applicable	$0	Actual Results	($2,563,924)
C	Economy Purchases Savings	Actual Results	$9,577,611	Actual Results	$9,577,611
D	Capacity Release of Electric Transmission (UPS)	Actual Results	$2,086,020	Actual Results	$2,086,020
E	Natural Gas Optimization	Not Applicable	$0	Actual Results	$11,822,846
F	**Total Optimization Benefits**	**A+B+C+D+E**	**$37,625,456**	**A+B+C+D+E**	**$46,884,377**
G	Incentive Mechanism Threshold	Footnote [(2)]	$20,823,172	Footnote [(3)]	$46,000,000
H	Gains Evaluated versus Threshold	A	$25,961,825	F	$46,884,377
I	Incentive Mechanism Customer Benefits	((H-G)*0.8)+G	$24,934,094	Footnote [(4)]	$46,353,751
J	Incentive Mechanism FPL Benefits	(H-G)*0.2	$1,027,731	Footnote [(4)]	$530,626
K	Incremental O&M Expenses (Personnel, Software, Hardware)	Not Applicable	$0	Actual Results	($473,550)
L	Net Customer Benefits	C+D+I	$36,597,725	I+K	$45,880,201
M	Net FPL Benefits	J	$1,027,731	J	$530,626
N	Customer % of Benefits	L/(L+M)	97.3%	L/(L+M)	98.9%
O	FPL % of Benefits	M/(L+M)	2.7%	M/(L+M)	1.1%
P	**Additional Customer Benefits Under Current Mechanism**			**L(Current) - L(Prior)**	**$9,282,476**

[(1)]Economy Sales Gains includes $5,960,599.74 from unit-specific UPS sales.

[(2)]The Prior Mechanism threshold represents the previous three-year average gains on short-term wholesale sales of $3,375,756 in 2012, $13,313,457 in 2013, and $45,780,301 in 2014.

[(3)]Under the Current Mechanism that was approved by Order No. PSC-13-0023-S-EI, the threshold is fixed at $46,000,000 from 2013 through 2016.

[(4)]Under the Current Mechanism, customers receive 100% of the benefits up to $46 million. Benefits above $46 million and up to $100 million are shared 40% to customers and 60% to FPL. Benefits above $100 million are shared 50% to customers and 50% to FPL.

2013-2015 Aggregate Incentive Mechanism Comparison

Category	Prior Mechanism	Current Mechanism
Economy Sales Gains[(1)]	$85,055,583	$85,055,583
Variable Power Plant O&M (over 514,000 MWh)	$0	($7,028,760)
Economy Purchases Savings	$23,311,637	$23,311,637
Capacity Release of Electric Transmission (UPS)	$4,822,943	$4,822,943
Natural Gas Optimization	$0	$32,913,713
Total Optimization Benefits	**$113,190,164**	**$139,075,117**
Incentive Mechanism Customer Benefits	$74,497,390	$125,568,370
Incentive Mechanism FPL Benefits	$10,558,194	$13,506,747
Incremental O&M Expenses (Personnel, Software, Hardware)	$0	($1,197,386)
Net Customer Benefits	$102,631,970	$124,370,983
Net FPL Benefits	$10,558,194	$13,506,747
Customer % of Benefits	90.7%	90.2%
FPL % of Benefits	9.3%	9.8%
Additional Customer Benefits Under Current Mechanism		**$21,739,013**

[(1)]Economy Sales Gains includes $26,617,940.39 from unit-specific UPS sales.