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October 13, 2016

**- VIA ELECTRONIC FILING -**

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

**Re: Docket Nos. 160021-EI, 160061-EI, 160062-EI and 160088-EI**

Dear Ms. Stauffer:

Enclosed for filing on behalf of Florida Power & Light Company ("FPL") is supplemental testimony supporting approval of the proposed settlement agreement filed on October 6, 2016 by FPL, the Office of Public Counsel, South Florida Hospital and Healthcare Association, and Florida Retail Federation. The supplemental testimony and exhibits are for the following FPL witnesses:

1. Bob Barrett
2. Tiffany Cohen
3. Keith Ferguson
4. Sam Forrest

If you should have any questions about this filing, please do not hesitate to contact me.

Sincerely,

*/s/ John T. Butler*

John T. Butler

Enclosures

cc: Parties of record in Docket Nos. 160021-EI, 160061-EI, 160062-EI and 160088-EI

**CERTIFICATE OF SERVICE**
**160021-EI, 160061-EI, 160062-EI and 160088-EI**

**I HEREBY CERTIFY** that a true and correct copy of the foregoing has been furnished by electronic mail this 13th day of October 2016, to the following parties:

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By: *s/ John T. Butler*
John T. Butler
Florida Bar No. 283479

# BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

## FLORIDA POWER & LIGHT COMPANY

## DIRECT TESTIMONY OF ROBERT E. BARRETT, JR.

## (PROPOSED SETTLEMENT AGREEMENT)

## DOCKET NOS. 160021-EI, 160061-EI, 160062-EI AND 160088-EI

## OCTOBER 13, 2016

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## I. INTRODUCTION

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

A. My name is Robert E. Barrett, Jr. My business address is Florida Power & Light Company ("FPL" or "the Company"), 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to explain why the Stipulation and Settlement filed on October 6, 2016 (the "Proposed Settlement Agreement"), taken as a whole, is appropriate and in the public interest. My testimony will also discuss the reserve amortization mechanism contained in the Proposed Settlement Agreement and its critical role in enabling the four-year term of the agreement. Next, my testimony will explain the solar base rate adjustment ("SoBRA") mechanism and discuss the process set forth in the Proposed Settlement Agreement for Florida Public Service Commission ("FPSC" or "the Commission") review of the cost-effectiveness of future solar generating facilities and approval of the recovery of the revenue requirements associated with those facilities. My testimony will also discuss the battery storage pilot program and the benefits of such a program for FPL's customers. Finally, my testimony will explain the provision of the Proposed Settlement Agreement to request a Commission workshop to address a pilot demand-side management ("DSM") opt-out program.

## II. SUMMARY

**Q. Please provide an overview of the Proposed Settlement Agreement and describe why it is in the public interest.**

A. The Proposed Settlement Agreement would resolve all of the issues in FPL's base rate case filed on March 15, 2016 ("2016 Rate Petition") as well as the issues in FPL's filed Depreciation and Dismantlement Study and the Incentive Mechanism docket in a fashion that balances the interests that customers have in receiving low bills, high reliability and excellent customer service with the opportunity for investors to have the potential to earn a fair rate of return. The signatories also have affirmed that the Proposed Settlement Agreement would call for the Commission to approve FPL's Storm Hardening Plan and Wooden Pole Inspection Program, as filed.

Through its terms, the Proposed Settlement Agreement provides for a reduction in FPL's base rate request, while allowing for scheduled base rate increases in 2017, 2018 and a limited scope adjustment when the Okeechobee Clean Energy Center enters commercial operation, currently scheduled in June 2019. Taken as a whole, the Proposed Settlement Agreement will provide for a high degree of base rate certainty to all parties and FPL customers for a fixed term of four years; encouraging management to continue its focus on improving service delivery, realizing additional efficiencies in its operations and creating stronger customer value, while maintaining residential bills that are projected to continue to be among the lowest in the state and nation. This negotiated outcome resolves a number of competing considerations in a way that produces an overall result that is in the public interest.

## III. AMORTIZATION OF RESERVE AMOUNT

**Q. What is the Reserve Amount as defined in the Proposed Settlement Agreement?**

A. Paragraph 12(c) of the Proposed Settlement Agreement defines the Reserve Amount as comprised of two parts: (1) the actual remaining portion as of December 31, 2016 of the reserve amount that the Commission authorized FPL to amortize in Order No. PSC-13-0023-S-EI (adjusted for the Cedar Bay Settlement in Order No. PSC-15-0401-AS-EI) plus (2) up to $1,000 million of the theoretical depreciation reserve surplus effected by the depreciation parameters and resulting rates set forth in Exhibit D of the Proposed Settlement Agreement, subject to certain restrictions. FPL witness Ferguson describes the Reserve Amount in more detail.

**Q. What does the Proposed Settlement Agreement provide as it relates to amortization of the Reserve Amount?**

A. Paragraph 12 of the Proposed Settlement Agreement provides FPL with the ability to amortize the Reserve Amount, at its discretion, during the settlement term conditioned by the following: (1) for any period in which FPL's actual FPSC adjusted return on equity ("ROE") would otherwise fall below 9.6%, FPL must amortize any remaining Reserve Amount to at least increase the ROE to 9.6%; and, (2) FPL may not amortize the Reserve Amount in an amount that results in FPL achieving an FPSC adjusted ROE greater than 11.6%.

**Q. Is this provision critical to the settlement?**

A. Yes. The reserve amortization mechanism provides the Company the flexibility necessary to achieve reasonable financial results during the four-year settlement period while also agreeing to substantially lower base revenue increases compared to those requested in the 2016 Rate Petition. Without this flexibility, base rates could not be held constant for such an extended period due to the risk of weather, inflation, rising interest rates, mandated cost increases and other factors affecting FPL's earnings that largely are beyond the Company's control.

**Q. What are the benefits of allowing FPL to amortize the Reserve Amount during the settlement term?**

A. The amortization of the Reserve Amount provides rate certainty and avoids the need for expensive and disruptive base rate proceedings over the four-year settlement period. The Commission approved a similar mechanism in Order No. PSC-13-0023-S-EI, so the Proposed Settlement Agreement provides nothing new in that regard. Specifically, the reserve amortization mechanism allows the Company to forgo a portion of the cash revenue increases it petitioned for, providing significant benefit to customers through lower rates over the four-year period.

## IV. SOLAR BASE RATE ADJUSTMENT

**Q. Please provide an overview of the SoBRA included in the Proposed Settlement Agreement.**

A. The SoBRA is very similar to the generation base rate adjustment ("GBRA") mechanism the Commission has approved in the past. For purposes of SoBRA cost recovery pursuant to the Proposed Settlement Agreement, FPL may construct approximately 300 MW of solar generating capacity per calendar year, projected to go into service no later than 2021. The cost of the components, engineering and construction for any solar project undertaken pursuant to the Proposed Settlement Agreement will be reasonable and will not exceed $1,750 kWac. Through the SoBRA mechanism, FPL will be allowed to recover the annual base revenue requirements reflecting the first twelve months of operations of each solar generation project.

**Q. How will the solar projects and attendant cost recovery pursuant to the SoBRA mechanism be reviewed and approved by the Commission?**

A. For solar projects 75 MW or greater that are subject to the Florida Electrical Power Plant Siting Act ("Siting Act"), FPL will file a petition for a Determination of Need with the Commission. If approved, FPL will calculate and submit for Commission confirmation the SoBRA amount for each such solar project using the annual Capacity Clause projection filing for the year that solar project is scheduled to go into service.

Solar projects less than 75 MW, and therefore not subject to the Siting Act, also will be subject to Commission approval through FPL's Fuel and Purchased Power Cost Recovery Clause docket ("Fuel Docket"). The petition for approval will be made in the annual true-up filing. The cost effectiveness will be determined by whether the solar project lowers FPL's projected system cumulative present value revenue requirement ("CPVRR"). If the solar project is approved as cost-effective, FPL will calculate and submit for Commission confirmation the amount of the SoBRA for each such solar project using the annual Capacity Clause projection filing for the year that solar project is scheduled to go into service and base rates will be adjusted consistent with that amount upon commercial operation of the respective solar project(s).

**Q. How will the SoBRA revenue requirement be calculated?**

A. Each SoBRA will be calculated to recover the estimated revenue requirements for the first twelve months of operation using a 10.55% ROE and the appropriate incremental capital structure consistent with that used for the Okeechobee Limited Scope Adjustment reflected in FPL's 2016 Rate Petition adjusted to reflect the inclusion of investment tax credits on a normalized basis. As the solar generating facilities are expected to increase system efficiency by lowering the overall system fuel cost, FPL also will seek approval in the Fuel Docket for fuel factors that reflect those savings coincident with the projected in-service dates of the various solar projects.

**Q. Does the proposed SoBRA mechanism provide for adjustments to the projected SoBRA factors to account for actual capital expenditures?**

A. Yes. Similar to the previous and existing GBRA mechanism, the initial SoBRA factor will be adjusted automatically if actual capital expenditures are lower than projected. In that event, a revised SoBRA factor will be calculated and a one-time credit will be made through the Capacity Clause, with base rates adjusted on a go-forward basis for the revised factor.

If actual capital expenditures are higher than projected, FPL at its option, may initiate a limited proceeding, to address the limited issue of whether FPL has met the requirements of Rule 25-22.082(15), F.A.C. (i.e., that such costs were prudently incurred and due to extraordinary circumstance). All parties would have the right to participate in the limited proceeding and challenge whether

FPL has met the Rule 25-22.082(15) requirements. If the Commission finds that FPL has met the requirements of Rule 25-22.082(15), then FPL may increase the SoBRA by the corresponding incremental revenue requirement due to such additional capital costs. This process also is identical to the process that was available, but never employed, under the terms that governed the GBRA mechanism throughout the period since a GBRA was first established under FPL's 2005 settlement agreement in Order No. PSC-05-0902-S-EI.

**Q. Is FPL allowed to recover more than an incremental 300 MW of solar generating capacity in a calendar year?**

A. No. FPL may not receive approval for incremental SoBRA recovery of more than 300 MW of solar projects in a calendar year; provided, however, to the extent that FPL receives approval for SoBRA recovery of less than 300 MW in a year, the surplus capacity can be carried over to the following years for approval and recovery. For example, if FPL receives approval for SoBRA recovery in 2017 of 200 MW of solar capacity, it would be entitled to increase its request for SoBRA recovery in subsequent year(s) by an additional 100 MW. Additionally, in 2017, FPL may at its option and for administrative efficiency, petition for approval of up to 300 MW for 2017 SoBRA recovery and up to 300 MW for 2018 SoBRA recovery; provided however, that no base revenue increase may occur in 2017 until the Commission has approved the 2017 SoBRA and those projects have entered commercial service.

## V. BATTERY STORAGE PILOT PROGRAM

**Q. Please explain the battery storage pilot program.**

A. The battery storage pilot program will allow FPL to deploy 50 MW of battery storage technology designed to serve commercial, industrial and retail customers. Parties to this Proposed Settlement Agreement agree that this pilot program is a prudent investment and provides benefits for FPL's customers. Through this program, FPL will be able to gain a better understanding of how battery storage can improve the reliability and efficiency of the system. FPL has agreed that the average installation cost of the battery storage projects will not exceed $2,300/kWac during the term of the agreement, and FPL will not seek incremental recovery of the revenue requirements associated with the pilot program until its next general base rate increase.

## VI. WORKSHOP FOR PILOT DSM OPT-OUT PROGRAM

**Q. Please explain the pilot DSM Opt-Out Program workshop provision of the Proposed Settlement Agreement?**

A. FPL and interested parties will jointly request a Commission workshop to consider a pilot DSM Opt-Out Program. Some of the items to be considered at that workshop will include eligibility criteria for opting out of FPL's DSM programs, procedures for verifying continued compliance with those eligibility criteria, impacts on FPL's cost recovery for DSM and other implementation issues. The workshop will not be limited to the signatories to the Proposed Settlement Agreement, but may include anyone who otherwise would be eligible to participate as determined by the Commission. There is no commitment among parties to the Proposed Settlement Agreement with regard to the appropriate outcome of such a workshop, beyond requesting the workshop and participating in good faith.

**Q. When will FPL and the interested parties make their request for the proposed Commission workshop?**

A. FPL and the interested parties will work with the Commission Staff to determine the appropriate time for the parties to make such a request.

## VII. CONCLUSION

**Q. Should the Commission approve the Proposed Settlement Agreement as consistent with the public interest?**

A. Yes. As in any settlement context, parties will have made concessions relative to their positions in the case. This settlement is no different and must be viewed and accepted (or not) on its whole. There are several factors which FPL would offer in support of the Commission entering an order approving the Proposed Settlement Agreement. First, the Proposed Settlement Agreement provides customers with predictability and stability in their electric rates, while allowing FPL to maintain the financial strength to make investments it believes are necessary to provide customers with safe and reliable power. Second, the Proposed Settlement Agreement also will increase the amount of emissions-free solar power and energy that will be available to serve customers on a cost-effective basis.  Third, the Proposed Settlement Agreement reflects an average annual growth in rates of slightly less than 2%, below the expected rate of inflation.  For these reasons, FPL submits that the Proposed Settlement Agreement, taken as a whole, is in the public interest and should be approved by this Commission.

**Q. Does this conclude your testimony?**

A. Yes.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**DIRECT TESTIMONY OF TIFFANY C. COHEN**

**DOCKET NOS. 160021-EI, 160061-EI, 160062-EI AND 160088-EI**

**(PROPOSED SETTLEMENT AGREEMENT)**

**OCTOBER 13, 2016**

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

A. My name is Tiffany C. Cohen. My business address is Florida Power & Light Company ("FPL" or the "Company"), 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

**Q. Are you sponsoring any additional exhibits in this case?**

A. Yes. I am sponsoring the following exhibits:

- TCC-10 1,000-kWh Typical Residential Bill Comparison
- TCC-11 2017-2020 Typical Bills under the Proposed Settlement Agreement
- TCC-12 Parity of Major Rate Classes

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to present the rates projected to result from the Stipulation and Settlement filed on October 6, 2016 (the "Proposed Settlement Agreement"). Under the Proposed Settlement Agreement, the bills for all customers are projected to remain among the lowest in the state and nation. As shown on TCC-10, the projected 2020 typical residential 1,000-kWh bill would remain 30 percent below the <u>current</u> national average and 13 percent below the <u>current</u> Florida average, even without taking into account likely increases in other utilities' rates over the Minimum Term for which the Proposed Settlement Agreement would be in effect. Additionally, rates that are projected to result from the Proposed Settlement Agreement were designed in accordance with the Florida Public Service Commission's ("the Commission") gradualism principle, and rate classes as a whole move towards greater parity.

**Q. Please describe the base rate adjustments currently scheduled under the Proposed Settlement Agreement.**

A. The Proposed Settlement Agreement reflects scheduled general base rate adjustments of $400 million effective January 1, 2017, and $211 million effective January 1, 2018. It also includes a $200 million limited scope adjustment for the costs associated with the Okeechobee Unit effective upon the commercial operation date, currently estimated to be June 2019.

**Q. What are the projected bills for the major rate classes under the Proposed Settlement Agreement?**

A. Exhibit TCC-11 shows the projected typical bills for 2017-2020 under the Proposed Settlement Agreement for the major rate classes. These projected bills reflect the revenue-neutral transfer of the West County Energy Center Unit 3 to base rates, which increases the base portion of customer bills and decreases the capacity charge by the same amount.

Based on current projections of fuel prices and other expected changes to clauses and base rates, the Proposed Settlement Agreement reflects average annual growth of the typical residential bill through 2020 of less than 2 percent.

**Q. Do the rates under the Proposed Settlement Agreement conform to the Commission's gradualism principle?**

A. Yes. All rates were designed in accordance with the Commission's gradualism principle. The concept of gradualism limits the revenue increase for each rate class to 1.5 times the total system average increase, including adjustment clauses, and provides that no rate class receives a decrease in rates.

**Q. Do the rates under the Proposed Settlement Agreement move rate classes as a whole closer to parity?**

A. Yes. This is shown on Exhibit TCC-12, Parity of Major Rate Classes. The parity of all classes that are outside the range of 90 percent to 110 percent is improved under the Proposed Settlement Agreement. Additionally, under the Proposed Settlement Agreement, 9 of 17 rate classes move to within 10 percent of parity in 2017 and 11 of 17 rate classes move to within 10 percent of parity in 2018.

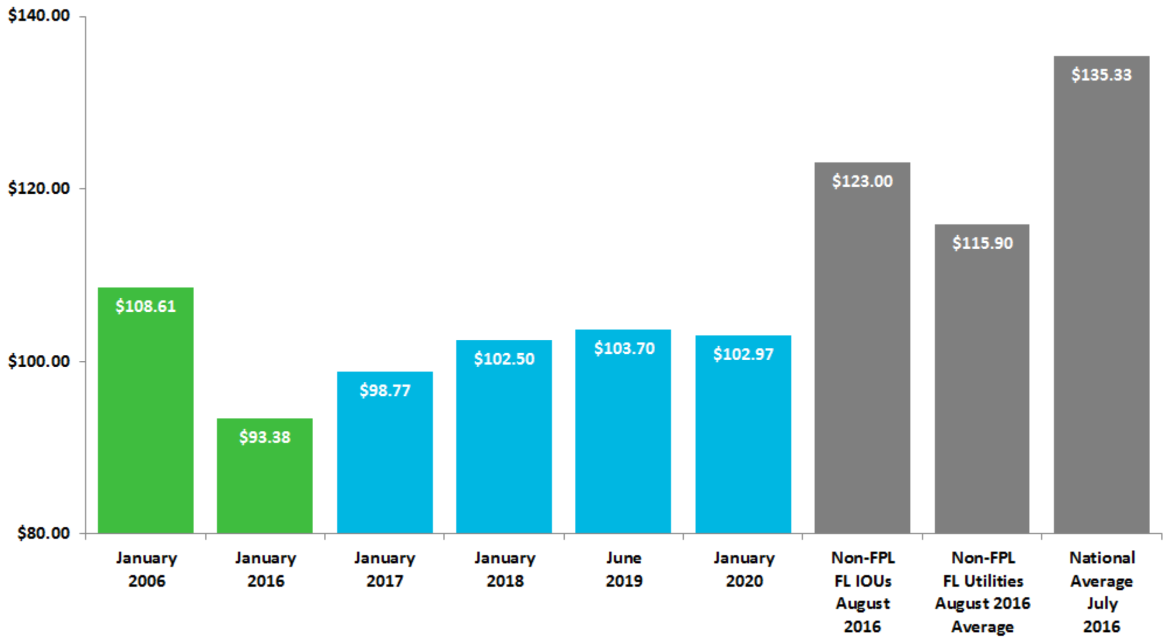
**Q. Should the Proposed Settlement Agreement rates be approved?**

A. Yes. As discussed by FPL witness Barrett, the proposed rates provide customers with predictability and stability as part of the overall Proposed Settlement Agreement. And as noted above, the projected 2020 typical residential bill would remain 30 percent below the current national average and 13 percent below the current Florida average.

**Q. Does this conclude your testimony?**

A. Yes.

# 1,000-kWh Typical Residential Bill Comparison




**Notes:**
- 2017 fuel and other clauses are based on rates pending FPSC approval
- September 6, 2016 fuel curves used for 2018-2020
- Projected bills do not include SoBRA impacts

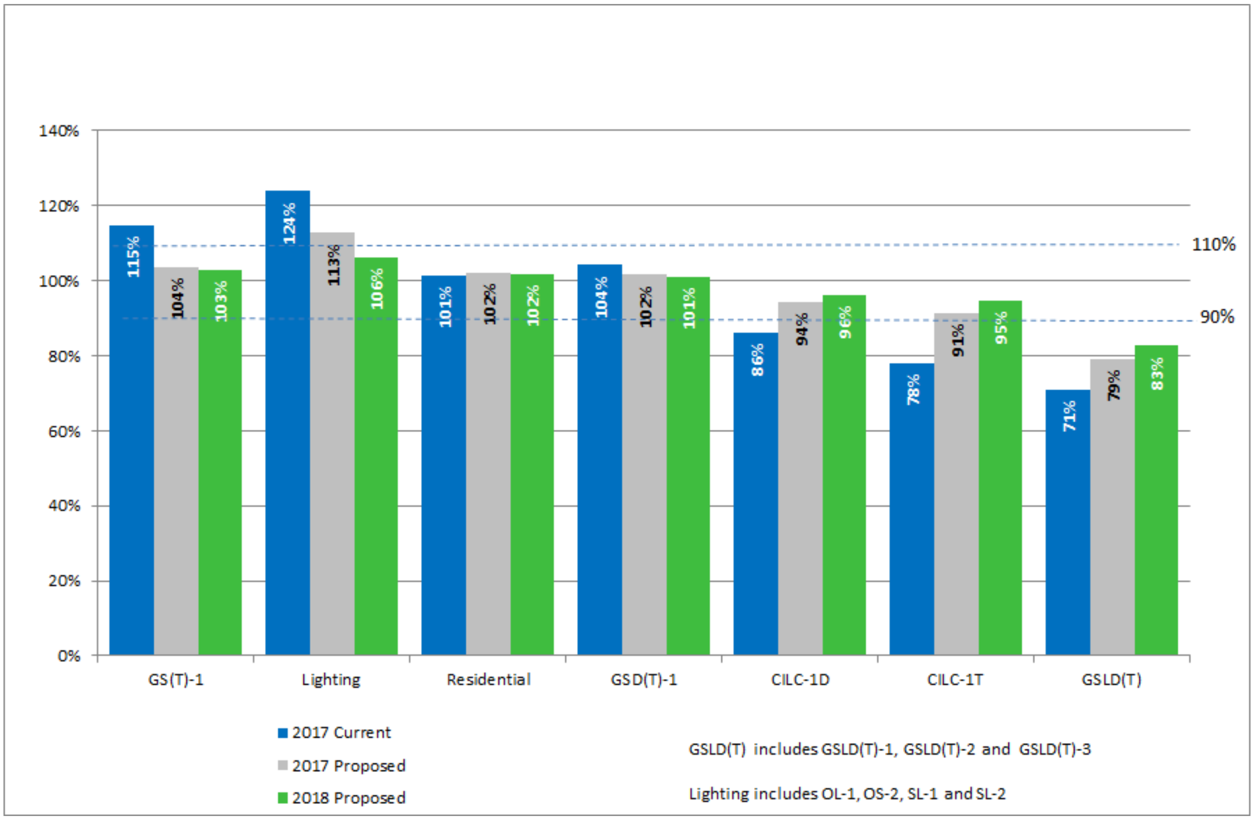
**2017-2020 Typical Bills under the Proposed Settlement**

| | Current Bills | January 2017 | January 2018 | June 2019 | January 2020 |
|---|---|---|---|---|---|
| **RS-1** | $91.56 | $98.77 | $102.50 | $103.70 | $102.97 |
| **GS-1** | $117.27 | $120.91 | $125.18 | $126.64 | $125.94 |
| **GSD-1** | $1,407 | $1,490 | $1,533 | $1,546 | $1,541 |
| **GSLD-1** | $16,915 | $18,289 | $19,054 | $19,199 | $19,145 |
| **GSLD-2** | $81,578 | $88,644 | $92,597 | $93,324 | $93,400 |

Notes:

- 2017 fuel and other clauses are based on rates pending FPSC approval
- September 6, 2016 fuel curves used for 2018-2020
- Projected bills do not include SoBRA impacts

# Parity of Major Rate Classes




The parity of all classes that are outside the range of 90% to 110% is improved under the Proposed Settlement Agreement.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**DIRECT TESTIMONY OF KEITH FERGUSON**

**(PROPOSED SETTLEMENT AGREEMENT)**

**DOCKET NOS. 160021-EI, 160061-EI, 160062-EI AND 160088-EI**

**OCTOBER 13, 2016**

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## I. INTRODUCTION

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

A. My name is Keith Ferguson, and my business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

**Q. Are you sponsoring any exhibits related to the Stipulation and Settlement filed on October 6, 2016 ("Proposed Settlement Agreement") in this case?**

A. Yes. I am sponsoring the following exhibit:

- KF-9 – Depreciation Parameter Changes in Proposed Settlement Agreement

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to address the following provisions of the Proposed Settlement Agreement: (1) the proposed revised depreciation parameters, and resulting depreciation rates and theoretical depreciation reserve surplus; and (2) the deferral of FPL's filing of its depreciation and dismantlement studies. My testimony will show that these provisions are appropriate and key elements as part of the overall Proposed Settlement Agreement.

**Q. Please summarize your testimony.**

A. As FPL witness Barrett explains, the Proposed Settlement Agreement has a four-year term, which provides an extended period of rate certainty and avoids the need for expensive and disruptive base rate proceedings during that term. The two provisions that I address in my testimony are essential elements of the Proposed Settlement Agreement because they help make the four-year term feasible. These provisions have been deployed by this Commission previously, and they work together in the context of the overall settlement for the benefit of customers.

## II. PROPOSED DEPRECIATION RATES

**Q. Please briefly describe the proposed depreciation rates included in the Proposed Settlement Agreement.**

A. FPL filed a comprehensive depreciation study in Docket No. 160062-EI, on March 15, 2016 (the "2016 Depreciation Study"), consistent with Rule 25-6.0436, F.A.C. The 2016 Depreciation Study developed service lives and net salvage parameters for each depreciable property account based on FPL's historical experience operating its portfolio of assets and expectations about future conditions. In Hearing Exhibit 331, Attachment 2, FPL calculated the depreciation rates and expense that result if the same parameters developed in the 2016 Depreciation Study are applied to the December 31, 2016 plant and reserve balances. Those same depreciation parameters form the basis for the depreciation rates set forth in Exhibit D of the Proposed Settlement Agreement, with the exception of the changes detailed in Exhibit KF-9 that is attached to this testimony.

The changes reflected on Exhibit KF-9 were negotiated with the signatories to the Proposed Settlement Agreement, as a compromise on certain alternative depreciation parameters based on the positions taken by the intervenors in the course of this rate proceeding. Some of the alternative parameters are reflected in the testimony and exhibits presented at hearing by South Florida Hospital and Healthcare Association witness Lane Kollen and Federal Executive Agencies witness Brian Andrews. Other parameters were negotiated for the purpose of the Proposed Settlement Agreement. Broadly, the changes reflect longer estimated lives and greater (typically, less negative) net salvage for certain types of depreciable property than FPL had proposed in the 2016 Depreciation Study. These negotiated parameters reflect a consistent theme of the intervenor positions on depreciation in this proceeding, in which they assert that there is a trend toward longer service lives and greater net salvage for many types of depreciable property. This is one of the compromises that allows the parties to reach a four-year settlement agreement.

**Q. What is the impact on 2017 depreciation expense and the theoretical depreciation reserve imbalance of applying the depreciation rates set forth in Exhibit D of the Proposed Settlement Agreement?**

A. The application of those rates results in a $125.8 million reduction in 2017 test year depreciation expense (compared to application of the depreciation rates shown in Exhibit 331, Attachment 2) and a theoretical depreciation reserve surplus estimated to be $1,070.2 million at January 1, 2017.

**Q. Would using the depreciation parameters and depreciation rates shown in Exhibit D for the purpose of the Proposed Settlement Agreement be reasonable?**

A. Yes, they reflect a compromise with the signatories to the Proposed Settlement Agreement and are not unreasonable within the overall context of a four-year settlement.

## III. DEFERRAL OF DEPRECIATION AND DISMANTLEMENT STUDIES

**Q. Why does the Proposed Settlement Agreement defer filing the depreciation and dismantlement studies until FPL files its next petition to change base rates?**

A. The FPSC rules regarding depreciation and dismantlement studies require FPL to file studies at least every four years *or pursuant to Commission order and within the time specified in the order*. [Emphasis added]. FPL's next studies are currently due to be filed by March 15, 2020. Under the Proposed Settlement Agreement, these studies would not be due until the time that FPL files to reset its base rates in a general base rate proceeding. This timing aligns the review of FPL's next depreciation and dismantlement studies with the review of FPL's next base rate petition. The current due date for the studies of March 15, 2020 and the filing date for FPL's next petition to change base rates may coincide if FPL decides to file for an adjustment in base rates at the end of the Proposed Settlement Agreement's Minimum Term (i.e., to be effective January 1, 2021). However, providing that the filing date for the studies could be deferred until FPL's next rate petition would help facilitate the possibility that the rate petition could be delayed to a later date.

**Q. Does this conclude your testimony?**

A. Yes.

**Florida Power and Light Company**
**Depreciation Parameter Changes in Proposed Settlement Agreement as of December 31, 2016**
**$000**

| Line No. | | Change in 2017 Expense: Life (1) | Change in 2017 Expense: Net Salvage (2) | Change in 2017 Expense: Total (3)=(1)+(2) | Change in Theoretical Reserve Imbalance (TRI): Life (4) | Change in Theoretical Reserve Imbalance (TRI): Net Salvage (5) | Change in Theoretical Reserve Imbalance (TRI): Total (6)=(4)+(5) |
|---|---|---|---|---|---|---|---|
| 1 | **Steam Production** | | | | | | |
| 2 | Scherer - Change life span to 63 years | $ (11,326) | $ - | $ (11,326) | $ 81,879 | $ - | $ 81,879 |
| 3 | SJRPP - Change life span to 65 years | (3,143) | - | (3,143) | 36,881 | - | 36,881 |
| 4 | | | | | | | |
| 5 | **Total Steam Production** | **$ (14,470)** | **$ -** | **$ (14,470)** | **$ 118,760** | **$ -** | **$ 118,760** |
| 6 | | | | | | | |
| 7 | | | | | | | |
| 8 | | | | | | | |
| 9 | **Transmission** | | | | | | |
| 10 | 350.2 - Change life from 75-R4 to 100-S4 | $ (963) | $ - | $ (963) | $ 17,868 | $ - | $ 17,868 |
| 11 | 353 - Change life from 40-R1 to 44-L1 and net salvage from -2% to 0% | (4,612) | (1,001) | (5,613) | 30,857 | 7,315 | 38,172 |
| 12 | 353.1 - Change Life from 30-R1 to 38-R1 | (3,504) | - | (3,504) | 16,407 | - | 16,407 |
| 13 | 354 - Change life from 60-R4 to 70-R4 and net salvage from -25% to -15% | (1,255) | (765) | (2,020) | 23,223 | 12,134 | 35,356 |
| 14 | 355 - Change life from 50-R2 to 55-S0 and net salvage from -50% to -40% | (4,698) | (2,711) | (7,410) | 68,120 | 20,605 | 88,726 |
| 15 | 356 - Change life from 51-R1 to 55-S0 and net salvage from -50% to -45% | (1,916) | (1,986) | (3,902) | 8,586 | 18,552 | 27,138 |
| 16 | | | | | | | |
| 17 | **Total Transmission** | **$ (16,948)** | **$ (6,463)** | **$ (23,411)** | **$ 165,061** | **$ 58,606** | **$ 223,667** |
| 18 | | | | | | | |
| 19 | **Distribution** | | | | | | |
| 20 | 362 - Change life from 45-R1.5 to 51-S0.5 and net salvage from -10% to -5% | $ (5,712) | $ (2,225) | $ (7,937) | $ 36,812 | $ 20,306 | $ 57,118 |
| 21 | 364.1 - Change life from 40-R2 to 44-R2.5 and net salvage from -100% to -60% | (6,069) | (13,479) | (19,548) | 21,530 | 116,982 | 138,512 |
| 22 | 364.2 - Change life from 50-R1.5 to 56-S0 and net salvage from -100% to -60% | (3,137) | (5,499) | (8,636) | 5,619 | 22,497 | 28,116 |
| 23 | 365 - Change life from 48-R1 to 57-R1 and net salvage from -80% to -60% | (13,654) | (8,329) | (21,983) | 100,133 | 64,918 | 165,051 |
| 24 | 367.6 - Change life from 42-R0 to 46-L0.5 and net salvage from -5% to 0% | (5,826) | (2,328) | (8,154) | 81,299 | 16,946 | 98,245 |
| 25 | 367.7 - Change life from 35-R2 to 45-L1 | (6,526) | - | (6,526) | 84,270 | - | 84,270 |
| 26 | 369.1 - Change life from 53-R1 to 56.R1.5 and net salvage from -125% to -85% | (848) | (3,576) | (4,424) | (5,892) | 24,074 | 18,182 |
| 27 | 370 - Change net salvage from -30% to -20% | - | (527) | (527) | - | 4,963 | 4,963 |
| 28 | 370.1 - Change net salvage from -30% to -20% | - | (4,821) | (4,821) | - | 16,542 | 16,542 |
| 29 | 373 - Changed life from 35-O1 to 39-L0 | (1,643) | - | (1,643) | 9,851 | - | 9,851 |
| 30 | | | | | | | |
| 31 | **Total Distribution** | **$ (43,415)** | **$ (40,783)** | **$ (84,198)** | **$ 333,624** | **$ 287,227** | **$ 620,851** |
| 32 | | | | | | | |
| 33 | **General Plant** | | | | | | |
| 34 | 390 - Change net salvage from -10% to 10% | $ - | $ (2,117) | $ (2,117) | $ - | $ 21,916 | $ 21,916 |
| 35 | 392.3 - Change life from 12-S3 to 13-S3 | (1,626) | - | (1,626) | 4,547 | - | 4,547 |
| 36 | | | | | | | |
| 37 | **Total General Plant** | **$ (1,626)** | **$ (2,117)** | **$ (3,743)** | **$ 4,547** | **$ 21,916** | **$ 26,463** |
| 38 | | | | | | | |
| 39 | **Total Transmission, Distribution and General Plant** | **$ (61,989)** | **$ (49,363)** | **$ (111,352)** | **$ 503,232** | **$ 367,749** | **$ 870,981** |
| 40 | | | | | | | |
| 41 | **Grand Total** | **$ (76,459)** | **$ (49,363)** | **$ (125,822)** | **$ 621,991** | **$ 367,749** | **$ 989,740** |
| 42 | | | | | | | |
| 43 | | | | | | | |

| Line No. | ***Reconciliation*** | Expense | TRI |
|---|---|---|---|
| 45 | | **Expense** | **TRI** |
| 46 | | | |
| 47 | **Depreciation Rates per 2009 Order** | **$ 1,344,641** | |
| 48 | Increase for 2016 Depreciation Study | 195,216 | |
| 49 | **2016 Depreciation Study (per Second Notice of Identified Adjustments)** | **$ 1,539,857** | **$ 80,448** |
| 50 | | | |
| 51 | Change in Lives and Net Salvage | (125,822) | 989,740 |
| 52 | **Proposed Settlement Agreement** | **$ 1,414,035** | **$ 1,070,188** |

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**DIRECT TESTIMONY OF SAM FORREST**

**(PROPOSED SETTLEMENT AGREEMENT)**

**DOCKET NOS. 160021-EI, 160061-EI, 160062-EI AND 160088-EI**

**OCTOBER 13, 2016**

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

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

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

A. Yes.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to address the provision of the Stipulation and Settlement filed on October 6, 2016 ("Proposed Settlement Agreement") under which FPL would terminate financial hedging prospectively with respect to natural gas requirements during the Proposed Settlement Agreement's Minimum Term.

**Q. Has FPL agreed to terminate natural gas financial hedging prospectively for the Minimum Term of the Proposed Settlement Agreement?**

A. Yes, as part of the negotiated resolution of the disputed issues that led to the Proposed Settlement Agreement, FPL has agreed to terminate its natural gas financial hedging prospectively for the Minimum Term of the Proposed Settlement Agreement.

**Q. Within the overall context of the Proposed Settlement Agreement, is terminating natural gas financial hedging prospectively for the Minimum Term reasonable?**

A. Yes, the decision to terminate financial hedging of natural gas prospectively for the Minimum Term of the Proposed Settlement Agreement reflects a compromise with the signatories and is not unreasonable within that context. This provision is one element of the Proposed Settlement Agreement, the overall benefits and public interest of which are addressed by FPL witness Barrett.

**Q. What does the Proposed Settlement Agreement provide with respect to hedging following the expiration of the Minimum Term?**

A. The Proposed Settlement Agreement does not prohibit FPL from filing a petition and proposed risk management plan with the Florida Public Service Commission (the "Commission") to address natural gas financial hedges for periods following expiration of the Minimum Term. Of course, any signatory to the Proposed Settlement Agreement and other intervenors would be free to take whatever position they choose on any proposal that FPL might file.

**Q. If the Commission approves the Proposed Settlement Agreement, how does FPL plan to implement the requirement that it terminate natural gas financial hedging prospectively for the Minimum Term?**

A. FPL annually files a Risk Management Plan that describes the level of hedges it will place in a given year, which secures the price for a portion of the volumes of natural gas to be procured during the following year. On August 4, 2016, FPL filed its 2017 Risk Management Plan in the Fuel Clause proceeding, which would provide for FPL to continue executing financial natural gas hedging transactions in 2017 for natural gas to be procured in 2018. FPL's 2017 Risk Management Plan reflects a target hedging level that is 25 percent lower than in previous years consistent with the joint motion that

FPL and the three other major investor-owned utilities filed in Docket No. 160096-EI on April 22, 2016. Unless and until the Proposed Settlement Agreement is approved, FPL will not withdraw that Risk Management Plan. However, on October 19, 2016, FPL will file an alternative 2017 Risk Management Plan in Docket No. 160001-EI under which it would financially hedge zero percent of its natural gas requirements for 2018. FPL will ask the Commission to approve the alternative plan instead of the August 4 plan if the Proposed Settlement Agreement is approved. Similarly, FPL's 2018 and 2019 Risk Management Plans would seek approval to financially hedge zero percent of its natural gas requirements for 2019 and 2020, respectively, if the Proposed Settlement Agreement is approved.

**Q. Has FPL already executed most of its 2016 Risk Management Plan, as previously approved by the Commission?**

A. Yes.

**Q. Will FPL make any changes to its existing hedges that were put in place as part of the 2016 Plan?**

A. No.

**Q. How does FPL intend to execute its 2016 Risk Management Plan through the end of 2016 if the Proposed Settlement Agreement is approved?**

A. FPL's approved 2016 Risk Management Plan allows FPL to execute a portion of the annual hedges within a specific range each month of the year. Upon Commission approval of the Proposed Settlement Agreement, FPL will continue to execute only the minimum trades required to meet the lower end of that range, consistent with Paragraph 16 of the Proposed Settlement Agreement. FPL fully expects that no additional hedges would need to be placed in December 2016 to meet the requirements of the 2016 Risk Management Plan.

**Q. Is it possible that FPL will need to rebalance its hedges for 2017 executed pursuant to the approved 2016 Risk Management Plan?**

A. Yes. However, in accordance with Paragraph 16 of the Proposed Settlement Agreement, FPL will execute only the minimum trades necessary to stay in compliance with the 2016 Risk Management Plan.

**Q. Does this conclude your testimony?**

A. Yes.