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Duke Energy Florida, LLC.

March 2, 2017

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. 170001-EI

Dear Ms. Stauffer:

Please find enclosed for electronic filing on behalf of Duke Energy Florida, LLC ("DEF"), the **corrected** direct testimony of Christopher A. Menendez for the Fuel and Capacity Cost Recovery Actual True Up for the Period Ending January 2016 through December 2016. The testimony has been corrected to address scrivener's errors on page 11, lines 10 and 11 of the originally filed testimony. On line 10, the 2016 Actual Gain has been changed to \$843,842 and on line 11, the 3-year average has been changed to \$3,019,369. Please replace the direct testimony of Christopher A. Menendez filed on March 1, 2017 with the enclosed.

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
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MRB/mw
Enclosures

Duke Energy Florida, LLC
Docket No.: 170001
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail this 2nd day of March, 2017 to all parties of record as indicated below.

s/Matthew R. Bernier

Attorney

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DUKE ENERGY FLORIDA

DOCKET No. 170001-EI

**Fuel and Capacity Cost Recovery
Actual True-Up for the Period
January through December, 2016**

**DIRECT TESTIMONY OF
Christopher A. Menendez**

March 1, 2017

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

2 A. My name is Christopher A. Menendez. My business address is 299 First
3 Avenue North, St. Petersburg, Florida 33701.

4

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

6 A. I am employed by Duke Energy Florida, LLC, as Rates and Regulatory
7 Strategy Manager.

8

9 **Q. What are your responsibilities in that position?**

10 A. I am responsible for regulatory planning and cost recovery for Duke Energy
11 Florida, LLC (“DEF” or the “Company”). These responsibilities include
12 completion of regulatory financial reports and analysis of state, federal, and
13 local regulations and their impacts on DEF. In this capacity, I am
14 responsible for DEF’s Final True-Up, Actual/Estimated Projection and
15 Projection Filings in the Fuel Clause, Capacity Cost Recovery Clause and
16 Environmental Cost Recovery Clause.

DUKE ENERGY FLORIDA

1 **Q. Please describe your educational background and professional**
2 **experience.**

3 A. I joined the Company on April 7, 2008 as a Senior Financial Specialist in
4 the Florida Planning & Strategy group. In that capacity, I supported the
5 development of long-term financial forecasts and the development of
6 current-year monthly earnings and cash flow projections. In 2011, I
7 accepted a position as a Senior Business Financial Analyst in the Power
8 Generation Florida Finance organization. In that capacity, I provided
9 accounting and financial analysis support to various generation facilities
10 in DEF's Fossil fleet. In 2013, I accepted a position as a Senior
11 Regulatory Specialist. In that capacity, I supported the preparation of
12 testimony and exhibits for the Fuel Docket as well as other Commission
13 Dockets. In October 2014, I was promoted to my current position. Prior
14 to working at DEF, I was the Manager of Inventory Accounting and
15 Control for North American Operations at Cott Beverages. In this role, I
16 was responsible for inventory-related accounting and inventory control
17 functions for Cott-owned manufacturing plants in the United States and
18 Canada. I received a Bachelor of Science degree in Accounting from the
19 University of South Florida, and I am a Certified Public Accountant in the
20 State of Florida.

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

2 A. The purpose of my testimony is to provide DEF's Fuel Adjustment Clause
3 final true-up amount for the period of January 2016 through December
4 2016, and DEF's Capacity Cost Recovery Clause final true-up amount for
5 the same period.

6

7 **Q. Have you prepared exhibits to your testimony?**

8 A. Yes, I have prepared and attached to my true-up testimony as Exhibit No.
9 ____(CAM-1T), a Fuel Adjustment Clause true-up calculation and related
10 schedules; Exhibit No. ____(CAM-2T), a Capacity Cost Recovery Clause true-
11 up calculation and related schedules; Exhibit No. ____(CAM-3T), Schedules
12 A1 through A3, A6, and A12 for December 2016, year-to-date; and Exhibit
13 No. ____(CAM-4T), a schedule outlining the 2016 capital structure and cost
14 rates applied to capital projects. Exhibit No. ____(CAM-4T) is included for
15 informational purposes only, as DEF's 2016 Actual True-Up Filing does not
16 include a capital return component. Schedules A1 through A9, and A12 for
17 the year ended December 31, 2016, were previously filed with the
18 Commission on January 19, 2017. Revised Schedules A1, A3 and A4 for
19 the year ended December 31, 2016 were filed with the Commission on
20 February 20, 2017.

1 **Q. What is the source of the data that you will present by way of**
2 **testimony or exhibits in this proceeding?**

3 A. Unless otherwise indicated, the actual data is taken from the books and
4 records of the Company. The books and records are kept in the regular
5 course of business in accordance with generally accepted accounting
6 principles and practices, and provisions of the Uniform System of Accounts
7 as prescribed by this Commission. The Company relies on the information
8 included in this testimony in the conduct of its affairs.

9

10 **Q. Would you please summarize your testimony?**

11 A. Per Order No. PSC-16-0547-FOF-EI, the estimated 2016 fuel adjustment
12 true-up amount was an under-recovery of \$26.2 million. The actual under-
13 recovery for 2016 was \$85.1 million resulting in a final fuel adjustment true-
14 up under-recovery amount of \$58.9 million. Exhibit No. ____(CAM-1T).

15

16 The estimated 2016 capacity cost recovery true-up amount was an over-
17 recovery of \$14.7 million. The actual amount for 2016 was an over-
18 recovery of \$16.9 million resulting in a final capacity true-up over-recovery
19 amount of \$2.2 million. Exhibit No. ____(CAM-2T).

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FUEL COST RECOVERY

Q. What is DEF's jurisdictional ending balance as of December 31, 2016 for fuel cost recovery?

A. The actual ending balance as of December 31, 2016 for true-up purposes is an under-recovery of \$85,111,174.

Q. How does this amount compare to DEF's estimated 2016 ending balance included in the Company's actual/estimated true-up filing?

A. The actual true-up amount attributable to the January - December 2016 period is an under-recovery of \$85,111,174 which is \$58,893,512 higher than the re-projected year end under-recovery balance of \$26,217,663.

Q. How was the final true-up ending balance determined?

A. The amount was determined in the manner set forth on Schedule A2 of the Commission's standard forms previously submitted by the Company on a monthly basis.

Q. What factors contributed to the period-ending jurisdictional under-recovery of \$85,111,174 shown on your Exhibit No. __ (CAM-1T)?

A. The factors contributing to the under-recovery are summarized on Exhibit No. __ (CAM-1T), sheet 1 of 7. Net jurisdictional fuel revenues were unfavorable to the forecast by \$43.3 million, while jurisdictional fuel and

1 purchased power expense increased \$41.9 million, resulting in a difference
2 in jurisdictional fuel revenue and expense of \$85.2 million. The \$43.3
3 million decrease in jurisdictional fuel revenues is primarily attributable to the
4 Final 2015 True-Up, which was an over-recovery of \$37.8 million. In DEF's
5 2016 Midcourse Correction, DEF included this over-recovery in the
6 calculation of the Midcourse adjustment; thereby returning the over-
7 recovery to customers beginning in April 2016, as approved in Order No.
8 PSC-16-0120-PCO-EI. As a result, DEF's actual revenues are lower than
9 estimated revenues by \$37.8 million. The \$41.9 million increase in
10 jurisdictional fuel and purchased power expense is primarily attributable to a
11 unfavorable system variance from projected fuel and net purchased power
12 of \$96.9 million as more fully described below, partially offset by the 2013
13 Revised and Restated Stipulation and Settlement Agreement ("RRSSA")
14 refunds. The RRSSA refunds are also discussed more fully below. The
15 \$85.1 million under-recovery also includes the deferral of \$25,816 of 2015
16 under-recovery approved in Order No. PSC-16-0547-FOF-EI. The net
17 result of the difference in jurisdictional fuel revenues and expenses of \$85.2
18 million, minus the 2015 deferral of \$25,821 and plus the 2016 interest
19 provision calculated on the deferred balance throughout the year, is an
20 under-recovery of \$85.1 million as of December 31, 2016.

1 **Q. Please explain the components contributing to the \$58.9 million**
2 **variance between the actual under-recovery of \$85.1 million and the**
3 **approved, estimated/actual under-recovery of \$26.2 million.**

4 A. The major factors contributing to the \$58.9 million variance are a \$80.7
5 million increase in system fuel and net power costs partially offset by a
6 \$16.6 million increase in revenues.

7

8 **Q. Please explain the components shown on Exhibit No. __ (CAM-1T),**
9 **sheet 6 of 7, which helps to explain the \$41.9 million unfavorable**
10 **system variance from the projected cost of fuel and net purchased**
11 **power transactions.**

12 A. Exhibit No. __ (CAM-1T), sheet 6 of 7 is an analysis of the system dollar
13 variance for each energy source in terms of three interrelated components;
14 (1) changes in the amount (MWH's) of energy required; (2) changes in
15 the heat rate of generated energy (BTU's per KWH); and (3) changes in
16 the unit price of either fuel consumed for generation (\$ per million BTU) or
17 energy purchases and sales (cents per kWh). The \$96.9 million
18 unfavorable system variance is mainly attributable to higher than expected
19 firm purchases and increased system net generation. The \$96.9 million
20 variance is partially offset by the RRSSA refunds, which are discussed
21 more fully below.

1 **Q. Does this period ending true-up balance include any noteworthy**
2 **adjustments to fuel expense?**

3 A. Yes. Noteworthy adjustments are shown on Exhibit No. ____(CAM-3T) in the
4 footnote to line 6b on page 1 of 2, Schedule A2.

5
6 **Q. Did the Company make an adjustment for changes in coal inventory**
7 **based on an Aerial Survey?**

8 A. Yes. DEF included an adjustment of approximately \$1 million to coal
9 inventory attributable to the semi-annual aerial surveys conducted on April
10 26, 2016 and November 10, 2016 in accordance with Docket No. 970001-
11 EI, Order No. PSC-97-0359-FOF-EI. This adjustment represents 0.28% of
12 the total coal consumed at the Crystal River facility in 2016.

13
14 **Q. Were there any impacts to the 2016 True-up filing associated with the**
15 **2013 RRSSA?**

16 A. Yes. Paragraphs 6.a and 6.b impact the 2016 true-up. Paragraph 6.a
17 requires DEF to refund Residential and General Service Non-Demand
18 customers \$10 million in 2016 through the Fuel Adjustment Clause,
19 allocated 94% to Residential and 6% to General Service Non-Demand.
20 Paragraph 6.b requires DEF to refund Retail customers \$60 million in 2016
21 through the Fuel Adjustment Clause. These impacts are addressed further
22 in my testimony below.

1 **Q. Have you included these impacts in your calculation of the true-up**
2 **balance?**

3 A. Yes.

4

5 **Q. Please describe where the impact of paragraph 6.a is included in your**
6 **schedules and how this is included in the final true-up amount?**

7 A. The 2016 Projection Filing, approved by the Commission in Order PSC-15-
8 0586-FOF-EI, established the refund of \$10 million through a reduction in
9 2016 fuel rates for Residential and General Service, Non-Demand
10 customers. The rate reduction is inherently reflected in the Jurisdictional
11 Fuel Revenues reported in Exhibit No.____ (CAM-1T) (Sheets 2 and 3 of 7)
12 on line C1. The refund of \$10 million is shown on line C.1c. This amount is
13 included in the 2016 fuel revenue applicable to period shown in line C.3
14 which is then used in the calculation of the total true-up balance (line C.13).

15

16 **Q. Please describe where the impact of paragraph 6.b is included in your**
17 **schedules and how this is included in the final true-up amount?**

18 A. Exhibit No. ____ (CAM-1T) (Sheets 2 and 3 of 7) shows the refund of \$60
19 million on line C.1a allocated evenly over the 12-month period. This
20 amount is included in the 2016 fuel revenue applicable to period shown in
21 line C.3, which is then used in the calculation of the total true-up balance
22 (line C.13).

1 **Q. On May 25, 2016, an outage occurred at the Hines Combined Cycle**
2 **Plant. Did DEF incur any replacement power costs as a result of this**
3 **outage?**

4 A. Yes. DEF incurred retail replacement power costs of approximately \$8.3
5 million (\$8.4 million system). In December 2016, DEF chose to reduce
6 retail fuel expense by \$8.3 million to remove the impact of the replacement
7 power to retail customers. This adjustment is included in Exhibit No.
8 __ (CAM-3T) in the footnote to line 6b on page 1 of 2, Schedule A2.

9
10 **Q. Did DEF exceed the economy sales threshold in 2016?**

11 A. No. DEF did not exceed the gain on economy sales threshold of \$2.9
12 million in 2016. As reported on Schedule A1-2, Line 15a, the gain for the
13 year-to-date period through December 2016 was \$0.8 million. This entire
14 amount was returned to customers through a reduction of total fuel and net
15 purchased power expense recovered through the fuel clause.

1 **Q. Has the three-year rolling average gain on economy sales included in**
2 **the Company's filing for the November 2016 hearings been updated to**
3 **incorporate actual data for all of year 2016?**

4 A. Yes. DEF has calculated its three-year rolling average gain on economy
5 sales, based entirely on actual data for calendar years 2014 through 2016,
6 as follows:

	<u>Year</u>	<u>Actual Gain</u>
7		
8	2014	\$4,493,609
9	2015	\$3,720,655
10	2016	<u>\$ 843,842</u>
11	Three-Year Average	<u>\$3,019,369</u>

CAPACITY COST RECOVERY

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Q. What is the Company's jurisdictional ending balance as of December 31, 2016 for capacity cost recovery?

A. The actual ending balance as of December 31, 2016 for true-up purposes is an over-recovery of \$16,868,290.

Q. How does this amount compare to the estimated 2016 ending balance included in the Company's actual/estimated true-up filing?

A. When the estimated 2016 over-recovery of \$14,665,232 is compared to the \$16,868,290 actual over-recovery, the final capacity true-up for the twelve month period ended December 2016 is an over-recovery of \$2,203,058.

Q. Is this true-up calculation consistent with the true-up methodology used for the other cost recovery clauses?

A. Yes. The calculation of the final net true-up amount follows the procedures established by the Commission in Order No. PSC-96-1172-FOF-EI. The true-up amount was determined in the manner set forth on the Commission's standard forms previously submitted by the Company on a monthly basis.

1 **Q. What factors contributed to the actual period-end capacity over-**
2 **recovery of \$2.2 million?**

3 A. Exhibit No. __ (CAM-2T, sheet 1 of 3) compares actual results to the original
4 projection for the period. The \$2.2 million over-recovery is primarily due to
5 higher than estimated sales.

6

7 **Q. Does this conclude your direct true-up testimony?**

8 A. Yes.