Dianne M. Triplett
DEPUTY GENERAL COUNSEL

April 2, 2024

VIA ELECTRONIC FILING

Mr. Adam J. Teitzman, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket 20240025-EI, Petition for Rate Increase by Duke Energy Florida, LLC

Dear Mr. Teitzman,

Attached for filing on behalf of Duke Energy Florida, LLC's ("DEF") in the above-referenced docket is the Direct Testimony James McClay.

Thank you for your assistance in this matter. Please feel free to call me at (727) 820-4692 should you have any questions concerning this filing.

(Document 15 of 40)

Respectfully,

/s/ Dianne M. Triplett

Dianne M. Triplett

DMT/mw

Attachment

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CERTIFICATE OF SERVICE

Docket No. 20240025-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic mail this 2nd day of April, 2024, to the following:

/s/ Dianne M. Triplett
Dianne M. Triplett

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Duke Energy Florida, LLC	**Docket No. 20240025-EI** **Submitted for filing: April 2, 2024**

DIRECT TESTIMONY

OF

JAMES J. MCCLAY, III

On Behalf of Duke Energy Florida, LLC

Q. Please state your name and business address.

A. My name is James J. McClay, III. My business address is 525 South Tryon Street, Charlotte, North Carolina 28202.

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

A. I am employed by Duke Energy Carolinas ("DEC"), an affiliate company of Duke Energy Florida, LLC ("DEF," "Petitioner" or "Company") as the Managing Director Natural Gas Trading. As it relates to DEF, I manage the organization responsible for natural gas trading, optimization, origination, strategy, pipeline transportation for the regulated gas-fired generation assets fuel oil procurement, and emissions compliance trading.

Q. Please describe your education background and professional experience.

A. I received a bachelor's degree in business administration majoring in Finance from St. Bonaventure University. I joined Progress Energy in 1998 as an Energy Trader, was promoted to Manager of Power Trading and held that position through early 2003. I then became the Director of Power Trading and Portfolio Management for Progress Energy Ventures through February 2007. From March 2007 through late 2008, I was the Director of Power Trading for Arclight Energy Marketing. From March 2009 through present I have been employed in various managerial roles at Progress Energy and Duke Energy overseeing Natural Gas Trading and Origination, Pipeline Transportation, Oil Procurement, Power Trading, and various jurisdictions' hedging programs. Prior to my tenure with Duke Energy, I was employed for approximately 13 years in Capital Markets as a U.S. Government fixed income securities trader with various banks, and broker/ dealers.

Q. What is the purpose of your testimony?

A. My testimony outlines the Company's proposal to implement an updated incentive mechanism. I also summarize the Company's current Commission-approved incentive mechanism and explain why the Company feels its proposal provides a more significant opportunity to benefit customers than the current mechanism.

Q. Please explain DEF's current incentive mechanism.

A. Per Order No. PSC-00-1744-PAA-EI in Docket No. 991779-EI, the following incentive was established for the IOUs (DEF, Florida Power & Light ("FPL"), Tampa Electric Company ("TEC"), and is applicable to the gains from all non-separated wholesale power sales, firm, and non-firm, excluding emergency sales, made under current or future FERC-approved schedules. By Order No. PSC-97-0262-FOF-EI, the Commission defined non-separated wholesale power sales as sales that are non-firm or less than one year in duration. The Commission adopted a three-year moving average of gains on all non-separated wholesale power sales, firm, and non-firm, excluding emergency sales, as the threshold for application of the incentive. All gains below this threshold are credited to ratepayers. All gains above this threshold are split 80% / 20% between ratepayers and shareholders, respectively.

Q. Does the current incentive mechanism provide for the potential to maximize savings to customers?

A. No. Although the incentive mechanism has provided benefits to DEF's customers, the current program is focused solely on non-separated wholesale power sales, firm, and non-firm, excluding emergency sales, made under current or future FERC-approved schedules and ignores other potential opportunities for DEF to maximize customer savings. The current incentive mechanism may be limiting the benefits that the Company may be able to generate for its customers compared to a broader incentive mechanism.

Q. Does DEF have a proposal for improving the existing incentive mechanism?

A. Yes. DEF proposes to implement an Asset Optimization Mechanism ("AOM") effective January 1, 2025. The proposed mechanism is similar to the Commission approved Asset Optimization Incentive Program and Asset Optimization Mechanism currently in place for FPL and TEC, respectively. FPL and TEC previously had the same incentive mechanism in place as DEF, but replaced their programs with updated, broader mechanisms. DEF believes that by updating the existing incentive mechanism to its proposed AOM, it will potentially be able to provide customers with greater savings opportunities. While the AOM will operate as an incentive for DEF to maximize gains to the mutual benefit of customers and the Company, DEF is not requesting cost recovery of any incremental expenses it may incur to implement the proposed AOM.

Q. Please explain DEF's proposed Asset Optimization Mechanism.

A. DEF is proposing to implement an AOM that would consist of both short-term wholesale power purchases savings and gains on short-term wholesale power sales, as well as gains on all forms of asset optimization. For purposes of the AOM, the "asset optimization" includes but is not limited to the following:

- Gas storage utilization - DEF could release contracted storage space or sell stored gas during non-critical demand seasons.
- Delivered gas sales using existing transport - DEF could sell gas to Florida customers, using DEF's existing gas transportation capacity during periods when it is not needed to serve DEF's native electric load.
- Production (upstream) area sales - DEF could sell gas in the gas-production areas, using DEF's existing gas transportation capacity during periods when it is not needed to serve DEF's native electric load.
- Capacity release of gas transport and electric transmission - DEF could sell temporarily available gas transportation and/or electric transmission capacity for short periods when it is not needed to serve DEF's native electric load.
- Asset Management Agreement ("AMA") - DEF could outsource optimization functions to a third party through assignment of power, transportation and/or storage rights in exchange for a premium to be paid to DEF.
- Coal Transportation Savings – DEF could generate savings through the re-deployment of transportation assets when they are not required for coal delivery.

- Sales of Renewable Energy Credits – Includes sales of RECs associated with DEF's Clean Energy Impact program. This mechanism would not include RECs transferred as part of DEF's Clean Energy Connection.

The customers' portion of total gains will be shown as a reduction to the fuel costs that are recovered through the fuel clause factors. DEF will recover its portion of total gains through adjustments to its fuel clause 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. This proposed process is consistent with the current incentive mechanisms that FPL and TEC have in place.

Q. Does DEF propose a revised threshold mechanism for this updated incentive mechanism?

A. Yes. DEF proposes the following thresholds to the AOM: On an annual basis, DEF customers will receive 100% of the gains up to a threshold of $4.9 million ("Customer Savings Threshold"). The $4.9 million threshold represents the annual average short-term wholesale power purchases savings and gains on short-term wholesale power sales achieved by DEF for ten calendar years, which occurred over the most recent twelve calendar years (2012 – 2023) when excluding the highest (2022) and lowest (2012) years of gains. DEF believes that by eliminating the two extreme years the threshold will be more representative of prospective savings. Incremental gains above the Customer Savings Threshold will be shared between DEF and customers as follows: DEF will retain 60% and customers will receive 40% of incremental gains between $4.9 million and $9.8 million; and DEF will retain 50% and customers will receive 50% of all incremental gains in excess of $9.8 million.

Q. **Does DEF propose any type of AOM reporting to the Commission?**

A. Yes. DEF will file annually as part of its fuel cost recovery clause final true-up filing a schedule showing its gains in the prior calendar year on short-term wholesale sales, short-term purchases, and all forms of asset optimization that it undertook in that year. DEF's final true-up filing will include a description of each asset optimization measure for which gains are included for that year, and such measures shall be subject to review by the Commission to confirm that they are eligible in the AOM. The customers' portion of total gains will be shown as a reduction to the fuel costs that are recovered through the Fuel Clause factors. DEF will recover its portion of total gains through adjustments to its Fuel Clause 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.

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

A. Yes.