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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 140001-EI

FUEL AND PURCHASED POWER COST
RECOVERY CLAUSE WITH GENERATING
PERFORMANCE INCENTIVE FACTOR.

_____ /

VOLUME 8

Pages 995 through 1101

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING:

CHAIRMAN ART GRAHAM
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Tuesday, December 2, 2014

TIME: Commenced at 12:00 p.m.
Concluded at 3:20 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: MICHELLE SUBIA, RPR
Notary Public in and for
the State of Florida
at Large

APPEARANCES: (As heretofore noted.)

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1 P R O C E E D I N G S

2 (Transcript follows in sequence from
3 Volume 7.)

4 MR. GUYTON: Florida Power & Light recalls
5 Mr. Forrest.

6 Thereupon,

7 SAM FORREST

8 was called as a witness, having been previously duly
9 sworn, was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. GUYTON:

12 Q Would you please state your name?

13 A Sam Forrest.

14 Q Are you the same Sam Forrest that testified
15 here in the same docket yesterday?

16 A Yes, I am.

17 Q Have you prepared and caused to be filed 36
18 pages of rebuttal testimony on October 13th in this
19 proceeding?

20 A Yes.

21 Q Do you have changes or corrections to your
22 prefiled rebuttal?

23 A No, I do not.

24 Q If I were to ask you the same questions as
25 appear in your prefiled rebuttal, would your answers be

1 **the same?**

2 A Yes, they would be.

3 MR. GUYTON: Mr. Chairman, we would ask that
4 Mr. Forrest's rebuttal testimony be inserted into
5 the record as though read.

6 CHAIRMAN GRAHAM: We will put Mr. Forrest's
7 prefiled rebuttal testimony into the record as
8 though read.

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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. Have you previously submitted direct testimony in this proceeding?

A. Yes. My direct testimony was submitted on June 25, 2014.

Q. Have your position, duties, or responsibilities changed since you last filed testimony in this docket?

A. No.

Q. Are you sponsoring any rebuttal exhibits?

A. Yes. I am sponsoring Exhibits SF-10 and SF-11, which are the Customer Savings under FPL and Intervenor Gas Price Forecasts and Total Volume Traded on NYMEX in 2014, respectively.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address three major themes in the testimony of OPC witnesses Ramas and Lawton and FIPUG witness Pollock. Specifically, I will show that: 1) the projected savings for FPL's customers resulting from the Woodford Project are substantial; 2) rather than constituting a "handsome profit" on the Woodford Project as the intervenor witnesses assert, the return on investment for FPL's shareholders is appropriate, by definition, because it is established at the midpoint of what the Florida Public Service Commission ("FPSC" or "Commission") has determined to be a fair

1 range; and 3) the Woodford Project actually reduces risk for FPL's customers,
2 rather than increasing it as claimed by the intervenors. FPL's other rebuttal
3 witnesses will address additional issues, errors, and misstatements in the
4 testimony of the intervenor witnesses.

5
6 My rebuttal testimony commences with a discussion of why FPL is seeking
7 approval of the Woodford Project. This project benefits FPL customers
8 through the significant customer savings that are projected under a number of
9 scenarios, as well as through the project's value as a hedge for FPL's natural
10 gas procurement portfolio. The overriding theme running through the
11 testimony of all the intervenor witnesses that the Woodford Project is being
12 pursued just for the benefit of shareholders and offers only risk to FPL's
13 customers is highly inaccurate. To the contrary, the Woodford Project will be
14 extremely beneficial to customers, providing them with a high probability of
15 achieving lower gas costs starting in Year 1 (2015) and continuing thereafter,
16 as well as mitigating price volatility.

17
18 My rebuttal testimony will then address another overriding, but completely
19 inaccurate, theme of the intervenor witnesses (primarily OPC witness Lawton
20 and FIPUG witness Pollock): that there will only be customer savings for the
21 Woodford Project under FPL projections of future gas prices, which may turn
22 out to be too high. I will show that the intervenor witnesses are again
23 completely off base and that, in fact, customer savings can be expected under

1 a wide range of forecasted gas prices, including the forecasts suggested by the
2 intervenor witnesses.

3
4 I conclude my rebuttal testimony by addressing what both OPC witness
5 Lawton and FIPUG witness Pollock assert are “significant risks” with the
6 Woodford Project and show that, in fact, the Woodford Project reduces risk
7 for our customers. The market price risk for natural gas to customers is lower
8 with this transaction than it is without it. I then address the issues raised by
9 the intervenors around the proposed gas reserves guidelines and show that
10 their opposition appears to be fixated on the “benefits” to FPL’s shareholders,
11 rather than the benefits for customers that arise from gas reserves transactions.
12 This transaction, and subsequent gas reserves transactions pursued under the
13 proposed guidelines, reduce gas price risk for customers and provide an
14 opportunity for lower overall gas costs.

15

16 **II. CUSTOMER BENEFITS FROM THE WOODFORD PROJECT**

17

18 **Q. Why did FPL propose the Woodford Project?**

19 A. Despite the misguided claims of the intervenor witnesses, FPL proposed the
20 Woodford Project to benefit FPL’s customers. The Woodford Project is the
21 result of FPL creatively looking for ways to capitalize on the low price
22 environment for natural gas that has arisen out of the prolific production from
23 unconventional gas discoveries like the Woodford shale formation. FPL’s

1 customers will benefit from the Woodford Project in two significant ways.
2 First, there is a very strong probability that the Woodford Project will lower
3 the fuel costs that FPL customers pay through the Fuel Clause. In eight out of
4 nine sensitivity scenarios that FPL analyzed, the Woodford Project is
5 projected to achieve natural gas price savings for FPL's customers, with the
6 most likely scenario resulting in net present value savings of \$107 million. As
7 shown in FPL's response to Staff discovery on this topic, there is an 85%
8 chance that customers will see savings from the Woodford Project. And even
9 in the one sensitivity scenario under which customers would not see savings
10 from the project, the additional cost would be small (about \$14 million) while
11 FPL customers' overall fuel costs would be dramatically lower because that
12 scenario envisions market gas prices far below FPL's current projections.

13

14 Second, and regardless of where gas prices actually end up, customers will
15 benefit from the Woodford Project because it is a long-term physical hedge
16 against highly volatile gas prices. It is curious, if not completely inconsistent,
17 that the intervenor witnesses seek to downplay this valuable role of the
18 Woodford Project as a long-term hedge, because if they are right that there is
19 a high degree of uncertainty about future gas prices, then that environment is
20 exactly where a long-term hedge would be most valuable.

1 **Q. FIPUG witness Pollock asserts on page 8, lines 10-12 of his testimony,**
2 **that potential savings of \$107 million for the Woodford Project are not**
3 **significant. What is your reaction to this assertion?**

4 A. Mr. Pollock's dismissive statement is astoundingly wrong. FPL proposes to
5 invest up to \$191 million in 2015 to achieve enormous customer fuel savings.
6 For this investment of \$191 million, customers are projected to receive fuel
7 cost savings of \$395 million on a nominal basis over the life of the Woodford
8 Project -- more than doubling the investment in the project. These fuel
9 savings equate to the net reduction in cost to customers of \$107 million (net
10 present value) that I refer to in my direct testimony. This is an exceptional
11 value creation for customers. While the Woodford Project is relatively modest
12 in size compared to FPL's overall natural gas requirements, it clearly
13 represents the sort of first step that FPL's customers should be very happy to
14 see FPL take.

15
16 Mr. Pollock also attempts to detract from the significance of customer savings
17 with his misleading calculation of the benefit to shareholders (what he
18 characterizes as "FPL's Benefits"). His FPL Benefit figure of \$155 million
19 incorrectly contains a return *of* capital component, which can hardly be
20 construed as a benefit to shareholders, because it simply represents getting
21 their initial investment back over time. No rational investor who puts money
22 into a multi-decade project would consider getting only that original
23 investment back, at a later date, a benefit. Likewise, no rational investment

1 analyst would consider a return *of* investment as a benefit. FPL’s proposal for
2 the Woodford Project is that, like all FPL investments, it will earn FPL’s
3 authorized weighted average cost of capital, as calculated under the
4 Commission-approved formula for Fuel Clause recovery (to which OPC had
5 stipulated), as a return *on* capital. This return includes both debt and equity
6 capital. It is only that return allocated to equity capital that can properly be
7 seen as a benefit to shareholders. That “benefit”, however, is merely the
8 ability to earn what the Commission has determined to be the actual *cost* of
9 equity capital. By definition, a return that is equal to the cost of capital
10 produces \$0 NPV to shareholders. It should be noted that all \$107 million
11 savings to customers from this project otherwise would have been profit to
12 third party, out of state, gas companies.

13

14 Finally, Mr. Pollock attempts to mislead the Commission by calculating the
15 savings resulting from the Woodford Project on a typical residential customer
16 bill. His convoluted math erroneously depicts the total savings to FPL’s
17 customers of \$0.013 per month over the life of the Woodford Project. In fact,
18 this is fairly substantial given the relatively small investment in the Woodford
19 Project and the amount of gas to be recovered. However, the actual savings
20 presented in the Base Case are immediate and reflect approximately \$0.07 in
21 savings per month on a typical residential customer bill in 2015 and \$0.09 in
22 2016. Again, given the relatively small volume of gas to be received from the

1 Woodford Project, these savings underscore the real benefit of the proposed
2 gas reserves transaction for our customers.

3 **Q. Are there any previous decisions by the Commission that would indicate**
4 **a net present value of \$107 million of customer savings is significant?**

5 A. Yes. For instance, in 1995, the Commission approved FPL's recovery of the
6 cost of rail cars to deliver coal to Plant Scherer, where FPL showed that an
7 investment in the rail cars would save customers more than \$24 million.
8 Order No. PSC-95-1089-FOF-EI. In 1996, the Commission approved FPL's
9 recovery of the cost of thermal uprates at the Turkey Point nuclear units that
10 were projected to result in fuel savings of \$97 million on a net present value
11 basis. Order No. PSC-96-1172-FOF-EI. And, in a series of decisions, the
12 Commission approved recovery by Duke Energy Florida's predecessor of the
13 costs of fuel-conversion projects at oil-fired plants that were projected to
14 produce fuel savings varying between \$2.1 million and \$22 million over a
15 five-year period, on a nominal basis. Order Nos. PSC-96-0353-FOF-EI, PSC-
16 97-1045-FOF-EU, and 97-0359-FOF-EI.

17 **Q. Looking now to the second customer benefit that you attribute to the**
18 **Woodford Project – that it serves as a long-term physical hedge**
19 **mitigating natural gas price volatility to customers – please address the**
20 **intervenor witnesses' treatment of this benefit.**

21 A. Remarkably, despite their ready acknowledgement of natural gas price
22 volatility, the intervenor witnesses either ignore or disagree that there is a
23 hedging benefit associated with the Woodford project. Witnesses Ramas and

1 Pollock completely ignore the hedging value of the Woodford project. The
2 only customer benefit that they address is potential natural gas price savings.
3 OPC witness Lawton at least acknowledges that FPL takes the position that
4 the Woodford project will serve as a hedge, but he tries to deflect attention
5 from that benefit by asserting a narrow conception of what constitutes
6 hedging:

7
8 Hedging, like FPL's financial hedging program, involves
9 locking in a future price to avoid the adverse effects of price
10 fluctuations. Hedging does not lower costs or create savings
11 but rather stabilizes prices over time. FPL's portrayal of the
12 Petition as a hedging mechanism is at odds with its
13 representation that customers will likely see a lower cost of gas
14 if its Petition is granted.

15
16 While I agree with his assessment of hedging as a tool to reduce price
17 fluctuations, I totally disagree that a project cannot be intended to provide fuel
18 at a cost that is both lower *and* more stable. To assert that hedging stabilizes
19 prices but cannot also be beneficial in lowering prices is completely illogical.
20 Indeed, that is one of the real advantages of the Woodford Project. Because
21 the inputs to the cost of gas from the Woodford Project are largely fixed and
22 well understood, the cost to FPL for that gas should remain within a narrow
23 range. This stable relationship is hedging, pure and simple. At the same time,

1 there is a very high probability - approximately 85% - that this stable cost of
2 gas produced from the Woodford Project will be below the volatile market
3 price of gas over the life of the Woodford Project.

4
5 As described in the rebuttal testimony of FPL witness Taylor, the drilling of
6 shale formations is well understood and fairly predictable in the aggregate.
7 Because of this fact, the effective cost of gas in the Woodford Project will be
8 stable over the long run, which makes it an excellent hedge to the larger
9 procurement portfolio managed by FPL and a nice complement to FPL's
10 current Commission-approved hedging program.

11
12 The intervenor witnesses' failure to even acknowledge the Woodford
13 Project's hedging value to FPL's customers is, at best, disappointing.
14 Fortunately, as I will explain, the Commission understands the value of
15 hedging natural gas and has allowed the recovery of hedging activities, both
16 financial and physical, through the Fuel Clause, even when they do not have a
17 high assurance of it resulting in customer savings.

18 **Q. What is your reaction to OPC witness Lawton's assertion that "FPL ...**
19 **cannot predict future market prices for natural gas"?**

20 A. FPL has never suggested it can "predict" future gas prices. He is absolutely
21 correct in that assertion. Although I explain in the next section of my
22 testimony that FPL's *forecast* is reasonable and the Commission has much
23 experience reviewing proceedings that utilize FPL's longstanding

1 methodology to forecast prices, there is no question regarding the uncertainty
2 of gas prices going forward.

3

4 On page 28, lines 12 – 14, OPC witness Lawton states: “The unknowable
5 nature of future prices of natural gas and oil is one of the reasons natural gas
6 and oil exploration and drilling is a risky business.” The uncertainty of future
7 natural gas prices is one of the very reasons that FPL has proposed the
8 Woodford Project. No one can precisely say what the future price of gas will
9 be, and that is why this hedging transaction is so valuable for customers.

10

11 As discussed previously, the underlying costs of this project are fairly
12 predictable, as is the expected production, making the effective cost of gas
13 received from the Woodford Project largely known. While it does not
14 eliminate all the risks inherent in the market, the project clearly will reduce
15 the volatility of future fuel costs for FPL’s customers.

16

17 Reducing or mitigating the volatility of future fuel costs is one of the key
18 tenets of FPL’s current hedging program, a tenet recognized by the
19 Commission in their original 2002 order on hedging, as is further described in
20 the rebuttal testimony of FPL witness Deason. The Commission reiterated its
21 views on hedging and its purpose regarding the reduction of the impacts of
22 volatility on the fuel charges paid by customers in their order (PSC-08-0667-
23 PAA-EI) that established the Hedging Guidelines that currently control FPL’s

1 hedging activities. Each of the statements made by the Commission
2 reinforces one of the primary benefits of the Woodford Project, and that is to
3 reduce volatility in the customer's fuel bill, something the Woodford Project
4 clearly will do.

5

6

III. FPL'S NATURAL GAS PRICE FORECAST

7

8 **Q. The intervenors question FPL's projection of natural gas prices. Would**
9 **this be a valid reason to reject the Woodford Project?**

10 A. No it would not. There are certainly many views of the forward price for any
11 commodity, and natural gas is no exception. In fact, as mentioned previously
12 in my testimony, the high degree of uncertainty and volatility in the natural
13 gas market is the driving force behind hedging, whether those hedges are
14 financial or physical. As discussed above, the role of the Woodford Project as
15 a long-term physical hedge is one of the principal benefits of the project.

16

17 OPC witness Lawton dedicates several pages of his testimony to questioning
18 FPL's ability to forecast natural gas prices. As I acknowledged in my direct
19 testimony, FPL is not in the natural gas forecasting business. However, that
20 does not mean that FPL does not and will not routinely assess the forecasted
21 market price of natural gas over a wide range of time horizons, using inputs
22 from a variety of third party experts.

1 A reliable fuel forecast, including a reliable natural gas forecast, is essential to
2 the conduct of FPL's business. There are very few major decisions that FPL
3 makes that are not affected by FPL's fuel forecast. For instance, fuel forecasts
4 play an important role in the selection of resources employed by FPL to meet
5 customer needs. The fuel forecast affects the choice of whether to employ
6 supply side or demand side resources to meet customer needs and what type
7 of supply side resource should be selected. Mr. Lawton's suggestion that
8 FPL cannot be counted on to reasonably forecast future market prices for
9 natural gas ignores the fact that FPL has been providing such forecasts for
10 decades as an essential part of its business and of the Commission's review
11 process.

12 **Q. Is FPL's natural gas forecast in this proceeding reliable?**

13 A. Yes. FPL's natural gas forecast relies on reputable and recognized
14 independent third party experts. As the Commission well knows from review
15 of FPL's natural gas forecasts in the Fuel Clause, Ten Year Site Plan and
16 resource planning proceedings, FPL utilizes NYMEX market prices for the
17 first two years of its forecast, to reflect the more liquid part of the curve and to
18 be consistent with the prices used for FPL's Commission-approved hedging
19 program. FPL then transitions to a more fundamental market forecast
20 provided by PIRA Energy Group ("PIRA"), which takes into consideration
21 such things as future LNG exports, increasing industrial demand, and carbon
22 regulation.

1 The fuel forecasting methodology employed to estimate the pure economic
2 customer benefit of the Woodford Project is the exact same methodology FPL
3 has utilized for years to evaluate every project presented to this Commission.
4 It has been reviewed with great regularity. It is relied upon every day by FPL
5 in running its business. It has been relied upon by the Commission in making
6 important resource decisions and should be relied upon once again in this
7 proceeding.

8 **Q. Has FPL considered price sensitivities other than the Base Case in**
9 **evaluating the Woodford Project?**

10 A. Yes. As discussed in my direct testimony, FPL ran “Low Fuel” price and
11 “High Fuel” price sensitivities which were part of the 9-box customer savings
12 estimates. These sensitivity cases represented a full standard deviation above
13 and below the Base Case fuel forecast. FPL’s sensitivity analysis also
14 considered changes in the volume of gas produced from the Woodford
15 Project, above and below the Base Case. In only one unlikely scenario where
16 fuel prices were low and production was low at the same time, was there a net
17 cost increase to customers of only about \$14 million (net present value). As
18 shown in FPL’s response to Staff discovery, there is an 88% chance that the
19 actual results will be better for customers than that small additional cost in this
20 one scenario (and an 85% chance the results will be positive for customers).
21 For perspective, the Commission should keep in mind that at the other end of
22 the spectrum, there is a 9% chance that savings to customers will exceed \$246
23 million on a net present value basis.

1 Furthermore, if the market price for natural gas turns out to be very low, this
2 would be a wonderful outcome for all of FPL's customers. The impact of
3 lower market prices on the rest of FPL's procurement portfolio would be
4 enormous and highly beneficial to FPL's customers. For instance, in 2017,
5 the Low Fuel price sensitivity projects an absolute cost for natural gas of
6 \$3.67/MMBtu (versus the Base Fuel price in 2017 of \$4.70/MMBtu). Based
7 on this lower price, the fuel bill for FPL customers would drop by nearly \$600
8 million, dwarfing the \$3 million in higher costs for gas from the Woodford
9 Project that would result from that scenario. To put this in context, in 2017 a
10 typical 1000 kWh monthly residential customer bill would be lowered by
11 more than \$5.00 due to the lower market price for gas, while the cost of
12 production from the Woodford Project would increase the bill by only \$0.03.

13 **Q. Do you agree with OPC witness Lawton's statement on page 36, lines 17-**
14 **18, that the Energy Information Agency ("EIA") is an objective source**
15 **for data on projected fuel prices?**

16 A. Yes. In fact, FPL utilizes EIA data in its own forecasts for the period after the
17 PIRA forecast ends.

18 **Q. Do you agree with how Mr. Lawton has used EIA data in critiquing**
19 **FPL's fuel forecast and re-calculating the fuel savings from the Woodford**
20 **Project?**

21 A. No. He has completely misapplied the EIA data. He uses the EIA's data on
22 the escalation of "real price" forecasts, which is a complete mismatch for
23 FPL's forecast in nominal dollars. FPL's use of a nominal-dollar price

1 forecast is consistent with the approach FPL uses in all economic analyses
2 presented to this Commission. In this instance, the use of a nominal-dollar
3 gas price forecast is dictated by the fact that the projections of revenue
4 requirements for the Woodford Project are in nominal dollars, and that both
5 the revenue requirements and the projected fuel costs for the Woodford
6 Project are discounted back to a present value using FPL's weighted average
7 cost of capital ("WACC"), which is an appropriate nominal discount rate. Mr.
8 Lawton should know that using a real price forecast in that setting would
9 result in "deflating" the fuel prices twice and would create a complete
10 mismatch with the corresponding projection of revenue requirements.

11 **Q. If Mr. Lawton would like to rely upon EIA, is there a more appropriate**
12 **data set that EIA provides that he could have used in his calculation?**

13 A. Yes. Mr. Lawton should have used EIA's forecast of nominal prices provided
14 in its 2014 Annual Energy Outlook, instead of just applying the EIA real-price
15 rates of escalation to current gas prices. If EIA's forecast of actual nominal
16 prices was utilized, rather than a general rate of escalation, then the projected
17 fuel savings from the Woodford Project would be approximately \$91 million,
18 which is more than double the figure that Mr. Lawton miscalculated and very
19 similar in magnitude to FPL's forecast of \$107 million in customer savings.
20 My Exhibit SF-10 shows each of these forecasts, the associated
21 methodologies, and the resulting customer savings by year.

1 There is one more important point to be made about Mr. Lawton's re-
2 calculation of the Woodford Project fuel savings. Regardless of whether one
3 uses the relevant EIA data or makes an erroneous comparison as Mr. Lawton
4 has done, the result would still be substantial projected fuel savings. Whether
5 the figure is \$107 million, \$91 million or even \$43.8 million, these are all
6 substantial, net present value benefits to customers, above and beyond paying
7 the Woodford Project's revenue requirements. None of the intervenor
8 witnesses provides any compelling reason why the Commission should reject
9 such a beneficial proposal.

10 **Q. Mr. Lawton devotes a part of his testimony to the projected increase in**
11 **FPL's natural gas price forecast between 2017 and 2018. Is that increase**
12 **significant to evaluating the Woodford Project?**

13 A. No. The projected increase is the consequence of the shift in that time period
14 from FPL relying entirely on the NYMEX forward curve to beginning to
15 incorporate the better-developed view on medium-term prices reflected in
16 PIRA's gas price forecast. It is true, as Mr. Lawton points out, that this shift
17 in forecasting method creates a 22% projected increase for the period 2017 to
18 2018. FPL believes that this increase more likely indicates that the NYMEX
19 forward curve does not reflect fundamental factors that the PIRA forecast
20 does, such as LNG export and industrial demand. Support for this view is
21 provided by the EIA forecast that Mr. Lawton utilizes. It shows a 10.7%
22 increase from 2017 to 2018, the same period he calls into question.
23 Additionally, the EIA forecast shows a 12% increase between 2016 and 2017,

1 whereas FPL's forecast for the same period only grows at a 6.9% rate. In any
2 event, to attack individual years of a 50 year forecast is certainly missing the
3 forest for the trees. As pointed out in the response to the previous question,
4 the FPL and EIA forecasts are very similar on an overall basis, and as noted
5 above, FPL's forecasting methodology has been presented time and again to
6 and utilized by this Commission.

7 **Q. Do you agree with FIPUG witness Pollock's assessment of natural gas**
8 **prices?**

9 A. In the short term, yes; but in the long run, absolutely not. In fact, FPL utilizes
10 the same market prices in the early years of its forecast to reflect the liquidity
11 of the market, as well as the supply and demand fundamentals that trade in the
12 short-term. From Mr. Pollock's Exhibit JP-3, you can see the majority of the
13 value of the Woodford Project, even using his updated projections, is in the
14 first 3 years where customers will enjoy the benefits of purchasing gas below
15 market prices. However, using the Henry Hub Natural Gas Futures contract
16 (based on delivery at the Henry Hub located in Southwest Louisiana) ("Henry
17 Hub") to develop a long-term forward curve misses the mark. For the reasons
18 I explain below, these futures contracts are not well suited to capturing market
19 fundamentals for more than a few years into the future.

20

21 The NYMEX forward curve used by Mr. Pollock is based upon actual market
22 transactions, or offers to transact. The exchanges where Henry Hub is traded,
23 such as the Chicago Mercantile Exchange and New York Mercantile

1 Exchange, are very liquid in the short-term. In fact, Henry Hub is one of the
2 largest physical commodity futures in the world by volume and is widely used
3 as a benchmark for natural gas prices. However, beyond just the first few
4 years, the exchanges lack any kind of liquidity as demonstrated by exhibit SF-
5 11, which shows a sharp decline during the period from 2015 to 2019 in the
6 volume of gas contracts traded. With such light liquidity at the later years of
7 the curve, there are not enough transactions to truly reflect what buyers and
8 sellers collectively believe. This is evidenced by sudden jumps in prices in
9 the back from single trades and no movement when significant events occur
10 that should shift prices.

11

12 As an example, in June 2014 the Environmental Protection Agency (“EPA”),
13 pursuant to Section 111(d) of the Clean Air Act, proposed a plan to cut carbon
14 pollution from power plants. As a result of this proposal, it is forecasted that
15 tens of thousands of MWs of coal plants will need to be retired. Despite this
16 forecasted impact, there was no flurry of trading on the exchanges and no run
17 up in prices to reflect what will no doubt be a significant increase in the
18 demand for gas. In fact, in the weeks leading up to EPA’s announcement and
19 the weeks following the announcement, gas prices fell an average of more
20 than \$0.50 per MMBtu over the last 5 years of the curve. This demonstrates
21 that futures are not a forecast. Instead, they are an expression of where
22 transactions moved prices on any given day. This type of market “forecast” as

1 implied by Mr. Pollock simply isn't in the best interest of FPL and its
2 customers for determining potential forward prices for natural gas.

3
4 This is why PIRA and EIA are utilized for forecasting beyond the early years
5 of liquidity of the Henry Hub futures contracts to capture the underlying
6 fundamental impacts to market prices. Organizations like PIRA, IHS
7 Cambridge Energy Research Associates ("IHS CERA"), and EIA utilize
8 bottoms-up approaches to develop curves that are based on many different
9 factors such as growth in the economy, natural gas production levels, LNG
10 exports, use of natural gas as a transportation fuel, etc. For example, the EIA,
11 in its 2014 Annual Energy Outlook, forecasts "the United States becomes a
12 net exporter of natural gas in 2018, with net exports growing to 5.8 Tcf in
13 2040. Most of the projected growth in exports consists of LNG exported to
14 overseas markets." This type of information is utilized by professional
15 forecasters to build a curve that takes into consideration all factors from a
16 supply and demand perspective.

17 **Q. On page 35, line 10 through page 36, line 11, OPC witness Lawton points**
18 **to data in an interrogatory you sponsored indicating that the cost of**
19 **production in the Woodford has previously exceeded market prices and**
20 **argues that this is a reason to deny FPL's petition. Do you agree?**

21 A. No. Witness Lawton is referring to a table in my response to Staff
22 Interrogatory No. 75, which shows a semi-annual comparison of Henry Hub
23 prices over the past four years to a Wood Mackenzie (global energy research

1 and consulting firm) analysis of break-even prices experienced by producers
2 in the Woodford during the same periods. While it is correct that the
3 breakeven cost of production was above the average market price for the
4 2010-2013 time period shown on that table, there are three important points to
5 consider about the table that all help illustrate the value of the Woodford
6 Project.

7
8 First, the period chosen for the comparison is not very representative because
9 it coincides with a gas price environment that was exceptionally low. There
10 are very few gas production plays that could have been considered
11 “economic” when compared to the historically low pricing that occurred on
12 the NYMEX for natural gas over the 2011 – 2013 period. However, by any
13 measure of forecasts, including those provided by the intervenors, this level of
14 pricing is not expected to continue into the future.

15
16 Second, the table illustrates a consistent downward trend in the Woodford
17 breakeven pricing, going from \$4.75 in 2010 to \$3.89 in 2013. This trend is
18 expected to continue, as reflected in FPL’s estimates that the Woodford
19 Project will produce gas at an effective cost of approximately \$3.50 in 2015.
20 Pairing this trend of decreasing effective costs for Woodford production with
21 the general consensus that future natural gas prices will be above the historical
22 lows in the 2011-2013 period provides a high degree of confidence that there

1 will be strong opportunities to save customers money on their fuel bills with
2 the Woodford Project.

3
4 Finally, it is instructive to compare the relative volatilities of the two price
5 strips. Over the 2010-2013 period, the 6-month average Henry Hub price
6 varied over a bandwidth of \$1.91, while the effective cost of Woodford gas
7 stayed within a band of \$0.89, less than half as wide. This illustrates quite
8 effectively the hedging value that gas priced at the cost of Woodford
9 production would have provided and clearly demonstrates one of the key
10 benefits that customers will experience: a reduction in price volatility.

11 **Q. What if gas prices go higher than forecasted?**

12 A. If gas prices go higher than currently forecasted, the Woodford Project will
13 provide an even greater level of customer savings and will provide a small
14 hedge against higher prices. As was shown in my direct testimony, the High
15 Fuel price sensitivity coupled with the Base Case level of gas production
16 results in an estimated \$203.5 million in customer savings over the life of the
17 project, and they would save almost \$16 million in 2017 alone as a result of
18 the Woodford Project.

19 **Q. What is your conclusion about the different forecasts of natural gas
20 prices and their impact on the Woodford Project?**

21 A. In every natural gas price forecast presented in this case, the Woodford
22 Project is estimated to yield significant customer savings. The robust
23 sensitivity analysis that is discussed in my direct testimony provides

1 confidence that the Woodford Project will be good for customers. That
2 assessment of savings is actually reinforced by the alternative gas forecasts
3 suggested by intervenor witnesses Pollock and Lawton. Even using their
4 lower gas forecasts, the Woodford Project generates tens of millions of
5 savings to FPL's customers. And in every forecast looked at, including those
6 provided by the intervenors, the customer savings benefits began to accrue
7 immediately in 2015.

8

9 **IV. RISK ASSOCIATED WITH GAS RESERVES PROJECTS**

10

11 **Q. Are FPL's customers exposed to additional market price risk as a result**
12 **of the potential investment in the Woodford Project?**

13 A. No. The opposite is true – as a form of hedging the Woodford Project will
14 insulate a portion of the gas purchases that FPL must make each year to run its
15 power plants from market price risk.

16

17 OPC witness Lawton devotes a considerable portion of his testimony (pages
18 47 - 56) to a series of quotations from disclosure statements that PetroQuest
19 makes as a publically traded company in order to create the misimpression
20 that participating with PetroQuest in the Woodford Project will entail a high
21 degree of risk. He cites an excerpt from PetroQuest's 2013 10-K cautioning
22 investors about variances in business results due to the impact of the market
23 price for natural gas, and potential volatility in that price as a result of an

1 extensive list of contributing factors. This sort of risk disclosure should be
2 quite familiar to anyone who reads the disclosure statements of publically
3 traded companies, regardless of the industry. For example, FPL
4 acknowledges the same general market price risk in its own 2013 10-K and
5 agrees there is potential volatility and uncertainty inherent in projecting how
6 the expected market price of natural gas will impact the utility and its
7 customers. In fact, it is common for many public companies that produce,
8 transport, or consume natural gas as part of their business to include an
9 exhaustive list of these very same risks in their filings with the Securities and
10 Exchange Commission. This practice is meant to warn potential investors of
11 all known risks, regardless of how large or remote, that may impact normal
12 business operations as part of the requirement to comply with SEC risk
13 disclosure regulations. This depiction of risk is in no way unique to
14 PetroQuest or the gas production industry.

15

16 FPL has proposed the Woodford Project to insulate customers from what both
17 FPL and the intervenors agree is potential volatility in natural gas pricing.
18 Only with the addition of a long-term physical hedge, as provided by the
19 Woodford Project, will FPL be able to provide its customers a decoupling of
20 fuel costs from volatile market prices for natural gas – volatility which is often
21 caused by the very factors Mr. Lawton points out in his testimony. And
22 unlike many forms of hedging, the Woodford Project will provide this
23 stability while also having a high probability of yielding fuel savings for

1 customers (85% chance that there will be savings at some level, and nearly a
2 50% chance that those savings will exceed \$107 MM over the life of the
3 project).

4 **Q. Is FPL attempting to shift risk onto its customers that its shareholders
5 and PetroQuest would not otherwise take?**

6 A. No. The notion that FPL's parent company NextEra Energy Inc. ("NextEra")
7 and its shareholders would not be willing to participate in the Woodford
8 Project is completely belied by the actual structure of the transaction. FPL's
9 affiliate, USG Properties Woodford I, LLC ("USG"), is currently named as
10 the counterparty in the Woodford Project and, given the large benefits
11 expected from the investment, intends to fully participate in the development
12 of these natural gas wells should FPL not be granted approval from the
13 Commission. This project was independently vetted and approved by USG as
14 a strong addition to its existing upstream portfolio. USG is providing a free
15 option to FPL's customers, so that upon FPSC approval customers may
16 receive the benefits that USG has already concluded make the Woodford
17 Project an attractive investment. It is disappointing that the intervenor
18 witnesses assiduously avoid mentioning the fact that this valuable option is
19 being provided solely to benefit FPL's customers.

1 **Q. Does the fact that USG (and FPL) will be paying a “carry” for the**
2 **Woodford Project suggest that PetroQuest considers the project to be**
3 **especially risky?**

4 A. No. It is correct that FPL will pay a larger percentage of the capital invested
5 in the Woodford Project than the percentage it will receive of gas produced by
6 the project. This differential is referred to as a “carry” and is common
7 practice in the industry. It compensates PetroQuest as initial developer for the
8 ownership interest in the leasehold and associated mineral rights that are
9 currently owned by PetroQuest and will be transferred to USG or FPL.
10 Without acquiring the leasehold interest, FPL would not be entitled to drill
11 any wells or the associated production of gas on this acreage. It is unrealistic
12 to believe that PetroQuest would transfer that valuable interest without
13 compensation. Additionally, the carry serves to compensate PetroQuest for
14 acting as the operator and to reimburse it for previous expenses incurred and
15 risks taken in purchasing the mineral rights, developing the acreage and
16 enhancing the drilling and completion techniques that increase the
17 productivity of future wells in that acreage.

18

19 In actuality - and contrary to Mr. Lawton’s suggestion - as discussed in the
20 rebuttal testimony of FPL witness Taylor, the acreage in the Area of Mutual
21 Interest (“AMI”) for the Woodford Project has already been significantly “de-
22 risked” by PetroQuest because there are 19 currently producing wells. These
23 producing wells not only show the productive nature of the acreage, but also

1 “prove up” surrounding well locations in the AMI. PetroQuest has offered
2 USG and FPL an attractive joint venture relationship because the relationship
3 will allow PetroQuest to continue its focus (as stated in its 2013 Annual
4 Report) on “finding and developing oil or natural gas liquids-rich projects.”

5
6 The fact that USG and FPL are being offered a high percentage of the
7 Woodford Project does not show that it is especially risky, but rather that it is
8 a near-perfect fit for FPL’s particular needs. The Woodford Project is
9 expected to produce 100% dry-gas, which is precisely the fuel FPL needs to
10 help meet the gas requirements of its generation fleet. While the production
11 of natural gas liquids (“NGLs”) and/or oil can be economically beneficial, the
12 purpose of these gas reserves transactions is to procure natural gas at cost. At
13 the same time, PetroQuest is more interested in targeting its limited capital on
14 the development of areas that are rich in NGLs and oil and hence is offering
15 FPL a large stake in the Woodford Project. This preference for NGLs and oil
16 extends to a majority of producers beyond PetroQuest. This current
17 preference of most market participants for NGLs and oil has created an
18 exceptional “win-win” opportunity for FPL at the Woodford Project.

1 **Q. FIPUG witness Pollock asserts on page 11, lines 12-13 of his testimony**
2 **that it is unreasonable to assume that the gas pipeline transportation rate**
3 **included in FPL's estimated costs for the Woodford Project will remain**
4 **unchanged during the life of the project. He goes on to suggest, on page**
5 **11, lines 21-24, that an increase of 2% per year should be assumed. Do**
6 **you agree with that assessment?**

7 A. No. As noted by Mr. Pollock, FPL has assumed that all gas from the
8 Woodford Project would be transported on the Enable Pipeline to Perryville,
9 where it would then be transported to FPL's power plants in Florida using the
10 same transportation network that FPL uses for gas that it buys on the market.
11 This is only one of several alternatives that FPL is currently exploring for
12 transporting the natural gas from the Woodford Project to Florida. It is the
13 most direct and obvious alternative, but it is not the cheapest. FPL chose to
14 reflect the transportation costs for the Enable Pipeline in its economic
15 evaluation of the Woodford Project in order to be conservative, recognizing
16 the likelihood that actual transportation costs will be lower.

17

18 Furthermore, even if FPL were to use the Enable Pipeline exclusively to
19 transport the Woodford Project gas to Florida as assumed in the economic
20 evaluation, there is no reason to expect significant increases in Enable's
21 transportation charges over time. The capacity would be purchased at the
22 pipeline's current recourse rate as posted in the pipeline's Federal Energy
23 Regulatory Commission ("FERC") tariff. This rate includes a fixed demand

1 charge that cannot change absent a rate case filed under Section 4 or a
2 complaint under Section 5 of the Natural Gas Act. Due to the time-consuming
3 nature of a rate case filing, pipelines will avoid filing a rate case unless
4 required under a settlement agreement in a previous rate case, a significant
5 decrease in throughput, or a serious degradation in the return on equity. In
6 FPL's experience, rate cases usually settle through negotiations between the
7 shippers and the pipeline and usually result in only minor rate increases or in
8 some cases, rate decreases. For example, over the past 20+ years, one of the
9 two FGT transportation demand charges that FPL pays has increased modestly
10 (a little more than 1% per year) while the other has actually gone down over
11 that period. Please keep in mind that, after 20 years, FPL expects to have
12 received more than 80% of the total gas production from the Woodford
13 Project, so any escalation in transportation charges applicable to the small
14 remaining volume of gas to be delivered thereafter would have a minimal
15 impact on the nominal cost of the project and, of course, even less on the
16 NPV.

17

18 Because of the minimal impact that one could reasonably expect from
19 escalation of the Enable Pipeline demand charge and the potential for FPL to
20 find less expensive transportation alternatives in any event, FPL does not
21 believe it would be necessary or appropriate to escalate the tariff demand
22 charge in the evaluation of the Woodford Project.

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V. BENEFITS OF GAS RESERVES GUIDELINES

Q. The intervenor witnesses assert that FPL’s proposed guidelines are unnecessary. Do you agree?

A. No. To the contrary, if the Commission agrees that gas reserves projects that offer fuel stability and savings are good for customers, then approval of guidelines is essential to FPL’s ability to deliver those projects. The proposed guidelines will enable FPL to act in real time to secure gas reserves projects that will benefit customers, which, based on our experience, likely will be impossible if FPL must defer closing on such projects until after a lengthy regulatory-approval process is completed. As I explained in my direct testimony, the gas exploration and development industry is not accustomed to waiting months for a potential counterparty to decide whether to close on a transaction, and FPL has been given no indication that is about to change. Both witnesses Pollock and Lawton assert that FPL could continue to bring such projects to fruition without guidelines, but neither proposes any meaningful solution to the timing problem that seeking regulatory review would pose. And certainly their clients’ vociferous opposition to the Woodford Project does not give FPL any comfort that it could or should move forward on a new project without the type of guidelines proposed by FPL, which would provide the needed level of certainty for FPL to expand into these transactions and their accompanying customer benefits.

1 **Q. OPC witness Lawton asserts that FPL’s proposed guidelines would create**
2 **the opportunity for excessive shareholder “profits.” Do you agree?**

3 A. No. Mr. Lawton’s claim illustrates a puzzling, misguided perspective that
4 pervades OPC’s opposition to FPL’s gas reserves petition and appears to be
5 contrary to the best interests of the customers OPC represents. FPL proposes
6 only to earn its allowed return on equity for the Woodford Project and any
7 other gas reserves project that might be pursued under the guidelines. By
8 definition, earning a return on equity within the authorized range of return on
9 equity is appropriate. These projects, recovered through the Fuel Clause, will
10 earn at the midpoint of the authorized range which cannot be considered
11 “excessive.” FPL will pursue projects only where fuel savings are expected to
12 exceed the projects’ revenue requirements. Simple math dictates that any
13 such projects therefore would be expected to reduce electric rates, and the
14 more projects FPL is able to find that meet the criteria, then the greater the
15 rate reduction will be. OPC appears to be determined to focus on reducing
16 earnings (which do not directly affect customers) rather than on reducing rates
17 (which provide a direct benefit to customers).

1 **Q. On page 68, line 19 through page 69, line 8 of his testimony, OPC Witness**
2 **Lawton portrays an extreme example whereby FPL would invest in a gas**
3 **reserves project that was only estimated to save customers one dollar on**
4 **an NPV basis and asserts that such an investment would not be beneficial**
5 **for customers. Do you agree with his assertion?**

6 A. No. First, I will observe that his example is unrepresentative of the sort of gas
7 reserves investments that FPL would expect to identify and pursue. However,
8 assuming for the sake of discussion that FPL identified such a transaction, it
9 would absolutely be in the best interests of customers for FPL to pursue it.
10 Mr. Lawton fails to recognize in his extreme example the value of having a
11 long-term supply of gas that is not subject to market volatility, even in a
12 circumstance where customers would effectively break even on the
13 investment. FPL agrees that it is important to show customer benefit in terms
14 of fuel cost savings and has proposed that as part of the guidelines, but the
15 benefit of stable pricing, while difficult to quantify, is also very advantageous
16 to customers and one of the defining characteristics of an effective physical
17 hedge.

18
19 Currently, the natural gas forecast that FPL utilizes shows prices increasing
20 from approximately \$4.00 to \$11.00 over the next 20 years, compared to the
21 effective cost of production from the Woodford Project increasing from \$3.50
22 to \$6.00 over the same period. The magnitude of this differential creates a
23 great opportunity for FPL to lock in the lower cost of production associated

1 with a gas reserves deal, as well as provide customer savings. However, let's
2 look at a scenario in which projected future gas prices are much lower, such
3 that the Woodford Project only projects a limited amount of fuel savings.
4 Consider a hypothetical scenario where the market curve is much flatter,
5 perhaps increasing from \$4.00 to only \$7.00 over the same period of time,
6 while using the same effective cost of gas from the Woodford Project.
7 Clearly, the absolute dollar value of potential customer savings in the
8 hypothetical case would be considerably less when stacked against the current
9 case, but this does not make this incredible opportunity to secure a long-term
10 physical hedge any less valuable to customers. In the hypothetical case,
11 customers are still receiving that same benefit of stable and predictable gas
12 pricing in addition to fuel savings. Following witness Lawton's logic that
13 FPL should only invest in gas reserves projects that have large projected fuel
14 savings, FPL would not pursue the Woodford Project under this scenario and
15 would therefore forego an incredible opportunity for customers to reduce
16 volatility for a portion of FPL's fuel-supply requirements over an extended
17 period of time. This result would fly in the face of Commission's consistent
18 recognition and support for the value of a properly run hedging program and
19 its acknowledgement that these hedges are not expected to save customers
20 money. Rather the Commission has consistently valued hedges for the
21 reduction in market volatility they provide. The gas reserves projects that
22 FPL is evaluating are indeed intended to provide customer savings, but their
23 long-term hedge value cannot, and should not, be ignored.

1 **Q. Mr. Lawton also criticizes the opportunity under the guidelines for FPL**
2 **to pursue gas reserves transactions that contain NGLs and oil. Is this a**
3 **realistic criticism?**

4 A. No. While FPL is pleased to have identified a dry gas opportunity with the
5 Woodford Project, there may not be many other such projects available given
6 the industry's focus on NGLs and oil. Rather than forego the opportunity to
7 continue benefiting customers with future gas reserves projects in the absence
8 of attractive dry gas projects, FPL believes that it would be in the best interest
9 of customers to allow FPL to pursue projects that have a limited amount of
10 NGLs and oil so long as dry gas is at least 50% of the projected volume of
11 production.

12 **Q. Do FPL's guidelines contain a loophole, as asserted by FIPUG witness**
13 **Pollock, which would allow FPL to deviate from the proposed guidelines**
14 **without Commission oversight?**

15 A. Absolutely not. Witness Pollock apparently misunderstands the purpose of
16 the following provision from the guidelines:

17 Flexibility to respond to market opportunities is in the best
18 interest of FPL and its customers. Therefore, it is understood
19 that FPL may ... seek Fuel Clause recovery for a project that
20 deviates from one or more of the guidelines upon a showing
21 that the project nonetheless is executed to benefit FPL
22 customers.

1 This provision would not allow FPL to circumvent the guidelines, which are
2 intended to establish criteria within which FPL may act without seeking
3 advance Commission approval. Rather, it is intended to recognize that FPL
4 may seek advance approval for a project that does not meet the guidelines but
5 FPL nonetheless feels would be beneficial to customers. Any such project
6 would be brought to the Commission by petition and would be subject to the
7 same sort of scrutiny as the Woodford Project is receiving here.

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

9 **A. Yes.**

1 BY MR. GUYTON:

2 Q Mr. Forrest, are you sponsoring Exhibits
3 SF-10 and 11 in your -- along with your rebuttal
4 testimony?

5 A That is correct, yes.

6 Q And is the information in those exhibits true
7 and correct to the best of your knowledge and belief?

8 A Yes, it is.

9 MR. GUYTON: Mr. Chairman, I would note that
10 those two exhibits have been identified in the
11 composite exhibits as Exhibits 11 and 12.

12 CHAIRMAN GRAHAM: Duly noted.

13 BY MR. GUYTON:

14 Q Have you prepared an oral summary of your
15 rebuttal?

16 A Yes, I have.

17 Q Would you please provide it to the
18 Commission?

19 A Yes. Mr. Chairman, Commissioners, good
20 afternoon.

21 Despite the misguided claims of the
22 intervenor witnesses, FPL has proposed the Woodford
23 Project to benefit FPL's customers. This project is
24 the result of FPL creatively looking for ways to take
25 advantage of the low price environment for natural gas

1 that has resulted from unconventional gas discoveries
2 like the Woodford Shale formation.

3 FPL's customers will benefit directly from
4 the Woodford Project in two very significant ways.
5 First, there is a very strong probability that the
6 Woodford Project will lower the fuel costs that FPL
7 customers pay through the Fuel Clause. In eight out of
8 ten sensitivity scenarios that FPL analyzed, the
9 Woodford Project is projected to achieve natural gas
10 price savings for FPL's customers with the most likely
11 scenario resulting in a net present value savings of
12 \$107 million, an amount that FIPUG has witnessed and
13 actually dismissed as insignificant.

14 But the fact is, the project savings from the
15 Woodford Project are quite meaningful, given the size
16 of the investment. Even more compelling is the fact
17 that the savings are expected to start benefiting
18 customers immediately in 2015.

19 Second, regardless of where gas prices
20 actually end up, customers will benefit from the
21 long-term physical hedge value the Woodford Project
22 offers against highly volatile gas prices. Despite the
23 intervenors' ready acknowledgment that natural gas
24 price -- that there is natural gas price volatility,
25 their witnesses either ignore or disagree that there is

1 any hedging benefit associated with the Woodford
2 Project.

3 OPC witness Lawton tries to deflect attention
4 from the hedging benefit of the Woodford Project by
5 asserting a very narrow definition of what constitutes
6 hedging. It is interesting that the intervenor
7 witnesses seek to downplay the hedging value of the
8 Woodford Project because if, as they have suggested,
9 there is a high degree of uncertainty about future gas
10 prices, then that is the exact environment where a
11 long-term hedge like the Woodford Project would be most
12 valuable.

13 The intervenor witnesses dedicate a fair
14 amount of their testimony to FPL's forecast of natural
15 gas prices, trying to discredit the analysis put
16 forward. FPL has been consistent over the years in its
17 forecasting and relies on third-party industry experts
18 to develop the forecast. In fact, two of the sources
19 used by FPL are the same as those used by intervenors
20 in developing their own forecasts, forecasts that use
21 completely different methodologies but remarkably both
22 of which show customer savings.

23 The bottom line is that under any number of
24 price sensitivities, including every alternative price
25 forecast offered by the intervenors, the Woodford

1 Project is expected to deliver customer savings.

2 As to the gas reserve guidelines, if the
3 Commission agrees gas reserve projects that offer fuel
4 stability in savings are good for customers, then
5 approval of these guidelines is essential to FPL's
6 ability to deliver those projects.

7 The proposed guidelines will enable FPL to
8 act in real-time to secure gas reserve projects that
9 benefit customers. However, based on our experience,
10 this will be unlikely, impossible if FPL must defer
11 closing on such projects until the regulatory approval
12 process is completed. The gas industry is not
13 accustomed to waiting months for a potential
14 counter-party to decide whether to close on a
15 transaction, and FPL has been given no indication that
16 is about to change.

17 Both witnesses Pollock and Lawton assert that
18 FPL could continue to bring such projects to fruition
19 without guidelines, but neither proposes any meaningful
20 solution to the timing problem that seeking regulatory
21 review would pose. And certainly their clients'
22 vociferous opposition to the Woodford Project does not
23 give FPL any comfort that it could or should move
24 forward on a new project without these guidelines,
25 which would provide the needed level of certainty for

1 FPL to expand into these transactions that provide such
2 compelling customer benefits. And that concludes my
3 summary.

4 MR. GUYTON: We tender Mr. Forrest for cross
5 examination.

6 CHAIRMAN GRAHAM: OPC.

7 MR. TRUITT: Thank you, Mr. Chairman. John
8 Truitt for OPC.

9 CROSS EXAMINATION

10 BY MR. TRUITT:

11 Q Good afternoon, Mr. Forrest.

12 A Good afternoon.

13 Q I would like to start off in the rebuttal,
14 you mentioned a couple of other orders on page 9
15 involving the railcars and the fuel conversion project,
16 which I don't think you had on your direct, and that's
17 why I didn't do it yesterday. We had talked about
18 Martin yesterday so I wanted to discuss these briefly
19 today.

20 A Okay.

21 Q I'm going to look at the fuel conversion
22 project first. Now, you agree with me the fuel
23 conversion project allowed the units to burn natural
24 gas instead of oil, like the basic principle, that was
25 the point?

1 A Correct.

2 Q Okay. Now, I note you reference in your
3 rebuttal -- isn't it true that the forecast savings
4 were projected for five years into the future, not 50?

5 A That is correct, yes.

6 Q Okay. And you would agree with me, wouldn't
7 you, that the fuel conversion projects were tangible
8 items, not fugacious things, but actual tangible items
9 that were done on the generating plants?

10 A That's my understanding, yes.

11 Q Okay. Now, the railcars, you agree with me
12 that determining customer savings involve comparing the
13 purchase price to the leasing price of the railcars,
14 assuming other constants were done? You have volume of
15 a railcar that you're going to buy, obviously, and the
16 number of trips?

17 A I agree, yes.

18 Q Okay. Now, you would agree also that if you
19 hold the other things constant, that's a fairly simple
20 mathematical calculation of purchase versus leasing
21 price?

22 A Assuming other variables that hold constant,
23 yes.

24 Q Okay. And, again, with the railcars when you
25 purchase them, you had a physical item, not anything

1 fugacious or anything like that, correct?

2 A Correct.

3 Q Okay. Now, when I'm looking at the fuel
4 conversion project -- now, the conversion project, the
5 physical item that was put on the plant and the
6 physical modification done, that didn't vary, say, on
7 day one it could burn "X" amount of fuel and on day two
8 it could burn 20 percent, a different amount of fuel,
9 it could burn the same amount of fuel every day in
10 theory if you wanted it to, correct?

11 A In theory, yes.

12 Q Okay. Again, the same thing with the volume
13 of the railcars, it didn't change?

14 A My understanding is it's the same number of
15 railcars.

16 Q Okay. Now, you had also put in your rebuttal
17 testimony on page 10, I'm looking down at lines --
18 starting on line 20, you stated, inputs of cost of gas
19 from the Woodford Project are largely fixed and well
20 understood.

21 Now, you would agree with me that you're
22 relying heavily on Dr. Taylor's expertise in that area
23 in making that statement?

24 A Yes, I am relying upon his expertise, yes.

25 Q And you're also relying on his expertise when

1 you discussed earlier the production levels as a whole,
2 correct?

3 A That is correct, yes.

4 Q Okay. And you mentioned in your opening the
5 reliability of the fuel forecast. So you would agree
6 with me that it's FPL's position that the Commission
7 can rely on FPL's Natural Gas Price Forecasts that are
8 prepared in support of its filing before this
9 Commission?

10 A It can and has for years using the same
11 methodology that we've presented for the last several
12 years.

13 Q Okay. And you agree with me that FPL created
14 the July 2014 fuel forecast in support of the 2015
15 filing, correct?

16 A That is correct, yes.

17 Q Okay. Now, if we could flip to page 26 of
18 your rebuttal, and I'm starting looking at line 8, the
19 last word of line 8 where it starts "FPL's affiliate."
20 You agree with me that it states, FPL's affiliate, USG
21 Properties Woodford, currently named as counter-party
22 in the Woodford Project, and given the large benefits
23 expected from the investment, intends to fully
24 participate in the development of these natural gas
25 wells should FPL not be granted approval from this

1 **Commission, correct?**

2 A I was trying to catch up to you but I --

3 Q Oh, I'm sorry.

4 A What line did you start on?

5 Q I started on line 8.

6 A Line 8, okay.

7 Q The last word is "FPL." So you would agree
8 with me that that statement is saying USG fully intends
9 to keep going with this if for any reason it's not
10 approved here today, correct?

11 A Absolutely, yes.

12 Q Okay. Are you aware that when Dr. Taylor was
13 asked about why they were divesting Woodford, he
14 stated, we didn't see it as a divestment, we have
15 projects all over the country and our budget was full
16 with those projects so this seemed to us a good
17 opportunity for FPL to work with one of our existing
18 partners to develop dry gas assets. We didn't have it
19 in our budget to do that, unquote.

20 A I was not, I guess, apparently listening when
21 he said that. He had said that at --

22 Q I was just asking if you were aware that he
23 stated that?

24 A Oh, was I aware of that? No, I was not aware
25 of that.

1 **Q Okay.**

2 MR. TRUITT: No further questions,

3 Mr. Chairman.

4 CHAIRMAN GRAHAM: Retail Federation.

5 MR. LAVIA: I have a couple of questions.

6 CROSS EXAMINATION

7 BY MR. LAVIA:

8 **Q Good afternoon, Mr. Forrest.**

9 A Good afternoon.

10 **Q At page 15, line 20 of your testimony -- and**
11 **you've said it before -- you state that there is -- if**
12 **the project is approved, there's an 85 percent chance**
13 **that the results will be positive for customers; is**
14 **that correct?**

15 A That's correct, yes.

16 **Q If the project is approved, what's the**
17 **probability that the results will be positive for FPL**
18 **and its shareholders?**

19 A If the project is approved --

20 **Q Yes.**

21 A -- we'll be allowed to recover our incurred
22 costs, which would include cost of capital for any
23 prudently incurred costs that we incurred as part of
24 the product.

25 **Q And that would be positive for its**

1 **shareholders?**

2 A That is certainly a -- you know, you consider
3 profit as part of a return on equity. It's effectively
4 their cost of capital. But that is a benefit, yes.

5 Q So I've heard this described as a win-win
6 proposal. Do you agree with that?

7 A I would agree, absolutely, it's a win-win.

8 Q Could it be more described -- properly
9 described as a guaranteed win for FPL and a probable
10 win for the ratepayers?

11 A No, I don't agree that it's a guaranteed win.
12 I think that's been covered numerous times over the
13 last couple of days as to why it's not guaranteed for
14 FPL.

15 MR. LAVIA: No further questions.

16 CHAIRMAN GRAHAM: Mr. Moyle.

17 MR. MOYLE: Mr. Chairman, could I get some
18 assistance with an exhibit, please?

19 CHAIRMAN GRAHAM: Sure.

20 MR. MOYLE: This is the one I tried to use
21 last night that I used in error.

22 CHAIRMAN GRAHAM: I understand.

23 MR. MOYLE: Interrogatory Number 75.

24 CROSS EXAMINATION

25

1 BY MR. MOYLE:

2 Q Sir, could you identify the document that's
3 been placed before you?

4 A Yes. It's Response to Staff's Second Set of
5 Interrogatories, Interrogatory Number 75.

6 Q Okay. And you were responsible for this
7 interrogatory, correct?

8 A That is correct, yes.

9 Q Okay. And am I correct that this chart here
10 shows, I guess for the last four years, that
11 historically speaking, that the NYMEX Henry Hub market
12 price was less than the average cost of production in
13 the Woodford Arkoma area?

14 A That is correct, as far as this chart is
15 concerned. I think it would be helpful to explain the
16 chart in terms of what is actually being presented on
17 the Woodford Arkoma line. This information was
18 provided by --

19 Q Well, let me ask you a couple more questions
20 about it and then I'm sure you'll have a chance to
21 explain it.

22 A Okay.

23 Q Wood Mackenzie, who is that?

24 A They are a global energy research firm, well
25 understood, well utilized within the oil and gas

1 industry, very well respected.

2 Q And they state in here -- they describe the
3 breakeven price at Henry Hub, equivalent price at which
4 producers would sell their production while covering
5 all operating costs and earning a 10 percent rate of
6 return?

7 A That is correct, yes.

8 Q Any idea why that 10 percent rate of return
9 was used?

10 A I think they just use that as a proxy for oil
11 and gas company profit levels. I'm not exactly sure
12 why 10 percent is their number, but they've been using
13 it consistently for years in terms of presenting
14 breakeven costs at the wellhead.

15 Q Okay. But I guess your assumption is that's
16 probably a reasonable rate of return for folks in the
17 business?

18 A I can't speak to what's reasonable for the
19 oil and gas industry, but it seems reasonable for
20 purposes of the comparison.

21 Q And on that 10 percent return, that's less
22 than the midpoint that FPL is authorized, correct?

23 A Again, I don't know what capital structure is
24 assumed here. Our return on equity is authorized to be
25 within the range of 9 and a half to 11 and a half under

1 the current settlement agreement. But, again, we have
2 a capital structure, and I'm not sure what is being
3 proposed here, but that's on the entire investment.

4 **Q Okay.**

5 A It may well be higher than our weighted
6 average cost of capital.

7 **Q All right. Well, the question was the**
8 **10 percent is lower than your midpoint ROE authorized**
9 **by this Commission, correct?**

10 A Correct. And I'm just suggesting that that
11 may be on the entire 100 percent investment, so it's
12 hard for me to suggest that it's lower than our
13 weighted average cost of capital.

14 **Q It's hard to look into the future, right?**
15 **We've talked about forecast and may or may not be**
16 **right, correct?**

17 A Fuel forecasts are just that. They're not a
18 guarantee of forward prices, they are a forecast given
19 the best information you have available at the time.

20 **Q Right. And historical information like this**
21 **is informative, you would agree, correct?**

22 A I absolutely believe that history is
23 informative. I don't think it's all telling.
24 Certainly we have seen over the last, you know, half a
25 dozen years, 2007 and 2008 time frame, even back to the

1 hurricane time frames of 2004, 2005 that Commissioner
2 Edgar referenced earlier, there's been some incredibly
3 volatile prices. We've seen prices at historically low
4 levels over the last couple of years.

5 **Q Right.**

6 A So it's relevant from a history perspective
7 but it's not necessarily a predictor of future.

8 **Q Yeah. And so your knowledge price here, just**
9 **if you assume your average price in production is,**
10 **what, 3.50? Is that what you're assuming for '15?**

11 A In 2015, our projected price is \$3.48 --

12 **Q Okay.**

13 A -- on the Woodford Project, that's correct.

14 **Q All right. So if you took that 3.48 and laid**
15 **it up to the Henry Hub price in 2012, that would be a**
16 **bad deal for ratepayers to the tune of a buck, right?**

17 A I think it's a completely irrelevant
18 comparison, but if you want to do the math, yeah, I
19 would agree it's a dollar lower than -- it's like
20 comparing the stock price of a company in 2014 to a
21 stock price in 2007 and saying, you know, it's better
22 or it's worse.

23 **Q Yeah. Do you buy stocks?**

24 A Yes, I do.

25 **Q When you do it, do you look at the historical**

1 trend? You know, there's a little button you can click
2 and say how did this stock perform in the last five
3 years. Do you click on that?

4 A Among other things, sure.

5 Q And to go on with your stock analogy, this to
6 me is the little button you click that says, okay, how
7 did this stock perform.

8 2012, the Henry Hub NYMEX beat your 3.50
9 price or 3.48 by 38 cents; is that right?

10 A It beat my what by 38 cents?

11 Q The New York NYMEX Henry Hub price on your
12 answer to interrogatory here.

13 A It was 38 cents lower than what? I missed
14 that, I'm sorry.

15 Q Your said your assumed price going forward is
16 3.48, right, the 2012 Henry Hub price is 3.10?

17 A Okay, I'm sorry.

18 Q So that's a 38 --

19 A Okay. I'm sorry, yes, it is 38 cents. I
20 missed your comparison.

21 Q And the same thing on '13 and '14, the 3.50
22 is less than the market price, right?

23 A That's correct. And our forecast for 2015 is
24 \$4, which is 52 cents higher than what is --

25 Q Okay.

1 A -- being projected for 2015. I think it's
2 also relevant, just to add one more piece of
3 information to the table here, which --

4 **Q Well, hold on a second.**

5 MR. MOYLE: I'm ready to move on to the next
6 exhibit. He'll have a chance on redirect --

7 CHAIRMAN GRAHAM: I agree.

8 MR. MOYLE: -- to explore that.

9 You also sponsored an answer to
10 interrogatory. And I don't have as many copies of
11 this. It's already in the record. For the
12 record, it's staff's second set of
13 interrogatories, Interrogatory Number 35.

14 And if I can approach the witness and ask him
15 to just read it, I think that will work.

16 CHAIRMAN GRAHAM: Just as long as the witness
17 and his attorney have them in front of them.

18 THE WITNESS: I have a copy of it here.

19 MR. GUYTON: And if I could get one.

20 CHAIRMAN GRAHAM: You good?

21 MR. GUYTON: Yeah.

22 BY MR. MOYLE:

23 **Q Okay. So I'll just read into the record the**
24 **question, if you would answer it and then we'll go from**
25 **there. Does PetroQuest Energy, Inc. have a bond rating**

1 **from Standard & Poor's, Moody's or Fitch? If yes,**
2 **please identify the ratings.**

3 A PetroQuest's bond rating from Standard &
4 Poor's and Moody's is B/Stable and B3/Stable
5 respectively.

6 Q Okay. And you answered this interrogatory,
7 right? This was one that you took responsibility for?

8 A I sponsored it, yes, I did.

9 Q Do you have an understanding of what B/Stable
10 is or B3/Stable is?

11 A I am certainly not a bond expert by any
12 stretch, but below investment grade.

13 Q Okay. Well, let me see if I can help you on
14 that.

15 MR. MOYLE: If I could get help with an
16 exhibit.

17 CHAIRMAN GRAHAM: Sure.

18 MR. GUYTON: Before we do that, can you refer
19 us to any place in his rebuttal that this relates
20 to, Jon?

21 MR. MOYLE: I can. Let me go ahead and pass
22 this out.

23 CHAIRMAN GRAHAM: You may want to hold off
24 before you pass that out if that's somewhere in
25 the rebuttal.

1 MR. MOYLE: Okay.

2 BY MR. MOYLE:

3 Q Do you address PetroQuest in the financial
4 suitability or the reliability of PetroQuest as a
5 partner in your rebuttal?

6 A Not that I can recall. I believe I did in my
7 direct.

8 Q Let me refer you to page 24 at line 17
9 through 21, you talk about PetroQuest and suggest that
10 OPC witness Lawton testified to create a misimpression
11 that participating with PetroQuest in the Woodford
12 Project will entail a high degree of risk. Do you see
13 that?

14 A This is addressing Mr. Lawton's continued use
15 of disclosures out of PetroQuest's 10K regarding price
16 volatility only.

17 Q Okay. Well, look, I mean, it's your
18 testimony and you said you're rebutting his suggestion
19 that there's a high degree of risk. Financial risk is
20 part of it.

21 A It's got nothing to do with -- it had
22 everything to do with price risk.

23 Q Let me finish, please.

24 You sponsored an interrogatory where you are
25 recounting the credit rating of the counter-party,

1 PetroQuest, and provided the ratings, and I want to
2 show you the Standard & Poor's and Fitch rating guides.

3 I mean, we're talking about completeness of
4 information in the record. If they say here's the
5 rating and there's no context to it, it's not
6 particularly meaningful so --

7 CHAIRMAN GRAHAM: Well, I think he addressed
8 that in his direct and not his rebuttal, and
9 that's what the objection was.

10 MR. MOYLE: Well, he's also addressing it, as
11 I just quoted, in his rebuttal. He said that
12 witness Lawton creates a misimpression that
13 participating with PetroQuest will entail a high
14 degree of risk.

15 THE WITNESS: The question I'm responding to
16 is are FPL's customers exposed to additional
17 market price risk. That's referring to gas
18 prices.

19 MR. MOYLE: I appreciate that.

20 CHAIRMAN GRAHAM: I don't see that it's in is
21 rebuttal.

22 MR. MOYLE: So your ruling would be that my
23 efforts to put in front of him the Moody's and the
24 Fitch's rating guides with respect to the
25 interrogatory answer that he provided would not

1 come into evidence; is that right?

2 CHAIRMAN GRAHAM: That's correct.

3 MR. MOYLE: Okay. Thank you.

4 And just so we have a clear record, I would
5 make a proffer that if it had been admitted, it
6 would show that the company is rated as a
7 speculative company and that in the overall
8 context supports FIPUG's argument that doing
9 business with a company that the rating agencies
10 call speculative should not be pursued.

11 CHAIRMAN GRAHAM: I think you've already made
12 that point on the direct. I think you're actually
13 making that point again.

14 MR. MOYLE: Okay. And just so we have a
15 record on it, I would like to have the exhibits,
16 the two exhibits, not admitted, because you ruled
17 that they shouldn't, but at least have them be
18 part of the record, if I could.

19 CHAIRMAN GRAHAM: Mary Anne.

20 MS. HELTON: I think to preserve his right to
21 deal with it on appeal, if he feels so necessary,
22 that it is appropriate to include them as part of
23 the record and show that they were not admitted
24 for evidence purposes but are admitted for
25 appellate purposes only.

1 CHAIRMAN GRAHAM: Do we need to give it an
2 exhibit number?

3 MS. HELTON: I think so.

4 MR. MOYLE: So I think staff just passed out
5 one exhibit, which would be identified as the
6 excerpt of Moody's Investor Services.

7 MR. GUYTON: I'm sorry, wasn't that already
8 identified in part of a composite exhibit, Jon?
9 Did I misunderstand your introduction? It's
10 already part of the record, isn't it,
11 Interrogatory 35?

12 MR. MOYLE: I thought it was not admitted.

13 CHAIRMAN GRAHAM: If it's one of the
14 interrogatories, it's already part of the record.

15 MR. MOYLE: Yeah, the interrogatory is part
16 of the record. What I wanted to do was to give
17 context to his interrogatory where he says S&P
18 gives them a B/Stable rating, to put in front of
19 him an S&P document and have him articulate what
20 that means, what B/Stable rating means, the same
21 questions with respect to Moody's.

22 CHAIRMAN GRAHAM: I understand that. So
23 that's the S&P report.

24 MR. MOYLE: I have two documents. I have an
25 excerpt from Moody's Investor Services and I have

1 another excerpt from Standard & Poor's rating
2 definitions. So I think we should identify those,
3 not admit them into the record, and at least we'll
4 have a clear understanding of where we are.

5 CHAIRMAN GRAHAM: All right. Number 68 would
6 be the -- you said Moody's?

7 MR. MOYLE: Right, excerpt of Moody's
8 Investor Services.

9 (Exhibit No. 68 was marked for
10 identification.)

11 CHAIRMAN GRAHAM: And 69 will be S&P. So
12 that way on appeal purpose, you have a part of the
13 record.

14 (Exhibit No. 69 was marked for
15 identification.)

16 MR. GUYTON: If it will move things along,
17 I'll withdraw the objection and let's get the
18 questions asked and do it that way. If it pleases
19 the Commission, we'll withdraw the objection.

20 MR. MOYLE: We're good. I mean, we've
21 covered it. Just give it to him and he'll put it
22 in the record.

23 CHAIRMAN GRAHAM: Let's move on.

24 BY MR. MOYLE:

25 Q Do you know -- can you tell me what

1 **wildcatting is?**

2 A I'm going to -- it's a bit of a slang term,
3 but it's exploring in an area that doesn't have other
4 production. And, again, this is a great question for
5 Dr. Taylor, although, he's not sitting here any longer.
6 But it's drilling for production in an area where you
7 don't have a lot of known production otherwise and so
8 you're basically relying upon seismic data in order to
9 hit a particular area of hydrocarbons.

10 Q **And your current Woodford Project does not**
11 **involve wildcatting, correct?**

12 A I would agree with that, yes.

13 Q **Okay. And I looked at your guidelines, and I**
14 **couldn't see anything in your guidelines that precluded**
15 **wildcatting on a go-forward basis. Would you agree**
16 **that the guidelines contemplate potentially that you**
17 **could engage in exploration/wildcatting?**

18 A Yeah. I would describe wildcatting as a
19 slang term for, you know, extreme exploration, if you
20 would. But our guidelines are meant to look in areas
21 with good proven reserves. That doesn't preclude us
22 from being in an area that doesn't have other
23 production but there is known production in the area
24 that we can rely upon.

25 Q **Okay. And Mr. Deason, when I was asking him**

1 about how the Commission makes its policy, he said
2 statutes, rules and orders. He didn't mention
3 guidelines, correct?

4 A Not that I can remember, no.

5 Q Did you consider asking this Commission to
6 engage in rule making with respect to how to treat oil
7 and gas exploration activities in the future?

8 A I did not, no.

9 Q Do you have an understanding of rule making
10 and it provides notice, you know, you got to publish a
11 notice so a lot of people are aware of it, you have
12 workshops?

13 A I would defer to the regulatory experts in
14 terms of that process. That's not my area of
15 expertise.

16 Q So you don't have any information about how
17 you amend a rule?

18 A No, I do not.

19 Q Okay. Do you have any understanding as to
20 how -- well, let me just come at it this way. The
21 guidelines -- the way I understand the guidelines is
22 there's language in here that says you come in every
23 third year and say, hey, are these guidelines still
24 good to go. Is that your understanding?

25 A No, it's not. It's every year. The intent

1 is to -- if I can flip to the guidelines.

2 **Q I'm sorry, you're right, Guideline 1B.**

3 A 1B, we would submit the guidelines every year
4 for --

5 **Q An annual update, two to three-year window?**

6 A Yeah, through the risk management plan, which
7 would give the Commission the opportunity to review the
8 percentages that are being pursued or at least the caps
9 on the percentages. That would be part of the annual
10 process.

11 **Q Okay. There's been a little discussion about**
12 **the 50/50 plan, and that plan is something that is not**
13 **consistent with FPL's business model, correct?**

14 A That is correct, yes.

15 **Q Do you believe that the ratepayers are**
16 **protected adequately with your proposal?**

17 A I think the proposal itself is what provides
18 the actual level of protection. Again, right now they
19 are 100 percent exposed to natural gas prices and
20 volatility. But volatility, I believe witness Ramas
21 yesterday admitted there is -- that there is certainly
22 volatility in this marketplace and it has been extreme.

23 The volatility this past year, 92 percent,
24 historical volatility for this year, volatility right
25 now for 2015 is implied somewhere in the neighborhood

1 of about 38 percent, which means just a standard
2 bell-shaped curve. That's about a 68 percent chance
3 that gas prices will move either plus or minus
4 38 percent by the end of next year. That is an extreme
5 move. There is volatility inherent in this
6 marketplace.

7 This transaction and the guidelines
8 themselves are meant to try and bring some level of
9 protection in the long term that we just can't provide
10 through our current hedging mechanism. So, yeah, I
11 believe these transactions absolutely provide
12 production to customers.

13 **Q Okay. I don't want to rehash a bunch of old**
14 **ground we've already tread on, but I think we**
15 **established there's no such thing in the market as a**
16 **long-term physical or financial hedge yesterday, right?**

17 **A Correct.**

18 **Q Okay. And when you hedge, I mean, you have a**
19 **different objective with hedging, try to eliminate the**
20 **peaks and the valley, correct?**

21 **A It's meant to just reduce volatility in the**
22 **fuel bill. It's trying to eliminate some level of**
23 **risk, whatever that risk is.**

24 **Q And the way that works, as I understand it,**
25 **is that if the price went up to eight bucks, you know,**

1 **you would hedge based on that \$8 price and you have a**
2 **daily averaging formula that you follow, that you kind**
3 **of routinely put money in, depending on where the**
4 **market price is, right?**

5 A That is correct. So our current hedging
6 program, I would almost describe it as dollar cost
7 averaging. Gas prices go down, we hedge in the lower
8 price market. If gas prices go up, we hedge in a
9 higher price market. So we're just averaging those
10 hedges in over the course of a year, which at the end
11 of the year has locked in, at least at some level, a
12 percentage of our following year's expected burns at a
13 fixed price.

14 Q **But with respect to this proposal, you can't**
15 **do that because your hedge price is in effect fixed at**
16 **the production cost, right?**

17 A Exactly right, yes.

18 Q **Okay. So that's one difference as to why**
19 **this is not, you know, your typical hedge?**

20 A I think it's an improvement over a typical
21 hedge in that we're buying at production cost and not
22 tied to the market in terms of how we hedge going
23 forward. So if gas prices go to \$7 next year and we're
24 still laying in hedges in the short term, we're hedging
25 at \$7, where this transaction has locked in at the cost

1 of production. And so for 2015, we're at the \$3.48.
2 The following year we're at \$3.56. It's not following
3 the natural movement of the marketplace. It's
4 completely decoupled from the volatility in the market.

5 I think that's one of the truly added
6 benefits of this over a financial hedge that just
7 follows whatever market prices are doing.

8 **Q All right. And when you testified earlier, I**
9 **think you admitted that this deal benefits FPL**
10 **shareholders?**

11 A I think we've gone through that numerous
12 times, yes.

13 **Q Right. So I'm going to ask you the same**
14 **question that I asked Ms. Ousdahl with respect to your**
15 **testimony, whether you would be willing to amend it.**
16 **On page 5, line 19 you say, Despite the misguided**
17 **claims of the intervenor witnesses, FPL proposed the**
18 **Woodford Project to benefit FPL's customers, period?**

19 A That is exactly right, yes.

20 **Q And so you would not be comfortable with --**
21 **to say, and also to benefit FPL's shareholders?**

22 A That is correct. I mean, when we file a
23 petition for a new power plant, we don't say "and
24 shareholders." This is being done for the benefit of
25 our customers. The savings that are proposed are on

1 top of the cost of recovery of our cost of capital.

2 Q Okay. Mr. Deason, in response to a
3 Commission question I think said he would recommend or
4 he was comfortable with having these guidelines be
5 segregated from the Woodford Project in particular. Is
6 that something that you would be comfortable with?

7 A I think if it gave the Commission comfort to
8 spend additional time evaluating it, I would not push
9 back on that.

10 Q And you would agree that doing that would
11 provide an opportunity for people like PCS Phosphate
12 and others who may not be here today to become involved
13 in the conversation?

14 A I can't speak to how that would be managed.

15 Q Did you consider asking PetroQuest to
16 contractually agree to appear before this Commission,
17 if this Commission ever had any questions of them?

18 A No, we did not.

19 Q Do you think that might be a good idea?

20 A I feel like we've presented the facts as far
21 as PetroQuest is concerned. In this particular case,
22 they are a contractor. They are an operator of the
23 facilities. They're going to drill, stimulate and
24 recover the gas, and they act as a contractor in that
25 sense, no different than when we build a power plant,

1 we hire contractors to build those powers plants and we
2 don't put them in front of the Commission, so I'm not
3 sure there's any difference there.

4 Q Mr. Deason was asked some questions by the
5 Commission that in effect I interpreted them to say,
6 you know, could you possibly live with less than what
7 you proposed in your guidelines in terms of the
8 750 million per year and the percent, spend.

9 To ask you that question, I assume that
10 you're not wed to those exact numbers to the extent the
11 Commission decides to get further input on this or asks
12 the Legislature for input, that you have some
13 flexibility on those numbers as set forth in your
14 guidelines; is that fair?

15 A I think that's fair. I wouldn't speak to the
16 Legislature side of it because I'm not involved in
17 that. But in terms of the Commission, if, you know, in
18 their discussion they see something fit, we're happy to
19 have that discussion.

20 Again, the \$750 million and the percentages
21 that were proposed, were proposed to try and allow a
22 fair amount of flexibility in terms of negotiating
23 these transactions. If the Commission sees fit that
24 something else is more appropriate, we're happy to
25 engage in that dialogue.

1 Q Thank you. That's all I have.

2 CHAIRMAN GRAHAM: Staff.

3 CROSS EXAMINATION

4 BY MS. BARRERA:

5 Q Good afternoon, Mr. Forrest.

6 A Good afternoon.

7 Q Could you turn your attention to Exhibit
8 Number 44, Interrogatory Number 75. It's the handout.
9 Do you have a copy?

10 A Is it the table?

11 Q Yeah, the table.

12 A Yes, I do have it, yes.

13 Q Yeah, the five-year period, 2009 to 2013.

14 A Yes, I have it.

15 Q Okay. Does this table mean that the cost of
16 production for Woodford has consistently exceeded the
17 Henry Hub market price for each of these reporting
18 periods?

19 A As I was hoping to describe to Mr. Moyle, but
20 hopefully I'll be able to do now, I think that you need
21 to take these numbers in a certain amount of context.
22 There certainly are periods in here, like the 2012
23 period when we saw absolutely historic lows, we saw
24 monthly clearing prices on NYMEX as low as \$2.12 for,
25 you know, at least one month, and over a six-month

1 period, we saw prices probably in the \$2.45 range, so
2 it's absolutely historic lows. And, again, our
3 customers were absolutely the beneficiary of those
4 lower prices.

5 The table that was provided by Wood
6 Mackenzie, again, looks at the breakeven price, it
7 looks at the cost of delivering that gas to the system
8 to be able to get to a breakeven with the Henry Hub.
9 That is not necessarily how an individual or an
10 individual company would manage their particular
11 issues.

12 So in the case of the Woodford Project, they
13 may well drill the Woodford Project, that gas would
14 then be sold at the nearest local point without having
15 to deliver that gas down to Henry Hub, so the
16 transportation cost would be saved. They may be
17 willing to, in the case of flowing gas, accept a lower
18 rate of return for a short period of time. They may
19 well have had hedges on, that had locked-in prices and
20 so they were not tied to the clearing price that you
21 see in front of you.

22 It certainly, from the table, appears that
23 they were selling below what they -- or they were
24 generating at a cost higher than what the market was.
25 But I think there are too many variables here to draw

1 absolute conclusions from it.

2 We also looked at the first half of 2014.
3 The Woodford Mackenzie updated material in the first
4 half of 2014 is \$3.79, is the production costs. So one
5 of the things that you can draw from this is that
6 you've seen a steady decline in the cost. So starting
7 in 2010, you were at 4.75. It has steadily declined
8 over time down to 3.79 for the first half of 2014. The
9 NYMEX Henry Hub price for the first six months was
10 \$4.80.

11 So we've paid on average as a company in the
12 neighborhood of about \$4.80 for the first six months of
13 the year. That was due, again, to some of the extreme
14 volatility that occurred as a result of the colder
15 weather that happened in the southeast.

16 And so in this particular instance, there
17 are -- even with a 10 percent rate of return, they are
18 earning a dollar on top of that. So I would say their
19 returns are, you know, very, very healthy for the first
20 half of this year.

21 So there's a lot of moving parts in all of
22 this, but I think it's safe to say that the trends are
23 in the right direction when you look at the production
24 costs and where they're going. I think it's also safe
25 to say when you look at the NYMEX Henry Hub pricing,

1 there is an extreme amount of volatility in those
2 numbers. They've gone as high as \$4.39 down to \$2.48,
3 back up to \$4.80, just kind of highlighting, again,
4 that there is volatility inherent in this marketplace.

5 I would also suggest to you, if you look at
6 the production costs that we're projecting in 2015,
7 it's \$3.48, so, again, a trend down from even where we
8 were in first half of this year.

9 **Q Okay. I appreciate the explanation, but I**
10 **don't know that you answered the question.**

11 **Does this table -- looking at this table and**
12 **only the table, does this table mean the cost of**
13 **production has consistently exceeded the Henry Hub**
14 **market price for each of these reporting periods?**

15 A Again, I think that's what I was trying to
16 explain is that I don't think you can draw an apples to
17 apple comparison of the top line to the bottom line.
18 There are a lot of variables embedded in that
19 production cost line on the top that don't inherently
20 just convince me that they are selling at a loss. I
21 can't believe an entire industry would continue to
22 generate year after year after year if they were losing
23 money. That's difficult for me to believe.

24 **Q Okay.**

25 A If it's -- suffice it to say, the top line in

1 a lot of cases is definitely higher than the lower
2 line. So the production cost shows on this table to be
3 higher than the lower line, which is the NYMEX clearing
4 price. But, again, I think it's difficult to just say
5 that's a true apples to apples comparison.

6 Q So when we asked and this interrogatory
7 asked --

8 CHAIRMAN GRAHAM: Martha, can you pull --
9 thank you.

10 MS. BARRERA: I'm sorry.

11 BY MS. BARRERA:

12 Q -- for the five-year period, 2009 to 2013,
13 provide a table comparing the cost of production from
14 Woodford Shale gas reserves to market prices, are you
15 saying that this table does not represent, for that
16 period of time, a comparison between the cost of
17 production to market prices?

18 A I'm not saying that at all.

19 Q Okay.

20 A The only information we were able to find --
21 the only historical information we were able to find
22 for the Woodford Arkoma came from a company called Wood
23 Mackenzie. They provided the top line and they gave us
24 the assumptions that went into that, which include
25 covering all of their operating costs, their gathering

1 costs, transportation, and a 10 percent rate of return
2 to equate to a Henry Hub price. So that's the top line
3 that you have in front of you. So that's all the costs
4 that go into that.

5 That's not necessarily how a local oil and
6 gas company would manage their position. They may well
7 not buy that transportation. They may be willing in a
8 certain time to accept lower than a 10 percent return
9 on equity.

10 And that bottom line is just that, it's the
11 Henry Hub clearing price. So there's nothing
12 inherently wrong with that bottom line at all, or the
13 top line, it's just it's a bit of an apples and oranges
14 comparison almost in terms of how an individual might
15 manage their individual position.

16 **Q Well, what assurances can FP&L provide that**
17 **FP&L's Woodford Project production costs will be less**
18 **than the current market price -- concurrent market**
19 **price?**

20 A There are no assurances. There are no
21 guarantees in this by any stretch, again. Much like a
22 power plant, there's no guarantees that fuel savings
23 will materialize. They're based on the best
24 projections that we have at the time that we make them
25 and that's what's presented.

1 We feel very confident that, again, if you
2 look at 2015, we're projecting a production cost in the
3 neighborhood of \$3.50. With that, we believe if the
4 market prices are higher than that, we should be able
5 to achieve savings. If for some reason the price of
6 natural gas falls below 3.50, this transaction will not
7 make money in 2015 or at least save customers money.
8 It will provide a hedge benefit, but our customers will
9 be the beneficiary of all of that other gas that we're
10 buying at less than 3.50.

11 **Q Okay. In developing its proposal for gas**
12 **reserves, did FP&L explore sharing mechanisms between**
13 **ratepayers and shareholders such as the sharing of the**
14 **capital investment cost and any gas cost savings?**

15 A No, we did not.

16 **Q Okay. Is there any reason why you didn't do**
17 **that?**

18 A Again, as we had talked about yesterday when
19 we talked about the 50/50 sharing mechanism, our entire
20 effort here was to try and figure out a way to lower
21 the cost of gas for our customers and to try and find a
22 way to lock in prices over a longer period of time that
23 brought hedge benefits to our customers. We weren't
24 concerned about, you know, participating or a type of
25 incentive for FPL, we were truly looking for an

1 opportunity to try and bring lower costs to customers.

2 Q Prior to the Commission's approval of FP&L's
3 optimization mechanism, did FP&L's shareholders and
4 ratepayers share in the benefits of off-system sales?

5 A Yes, we did, yes.

6 Q Okay. Would you agree that under the sharing
7 mechanism for off-system sales, once FP&L met a
8 threshold of savings 80 percent above the threshold
9 accrued to the taxpayers and 20 percent to
10 shareholders?

11 A That is correct. And over a period of a
12 number of years, we saw no sharing in that mechanism
13 whatsoever, which was why we proposed the new mechanism
14 to expand our activities into the fuel side of the
15 business as well, which I think has worked out
16 extremely well for customers.

17 Q Does FP&L's Commission-approved current
18 optimization mechanism provide for the sharing of
19 savings between shareholders and ratepayers?

20 A Yes, it does.

21 Q Okay. Does FP&L's affiliate, USG Properties,
22 currently hold the working interest in Woodford gas
23 reserve project that's the subject of this proceeding?
24 Is this correct?

25 A That is correct, yes.

1 **Q And USG currently bears the risk of this**
2 **investment and stands to gain from any benefits that**
3 **flow from this investment?**

4 A That is correct. They definitely have some
5 skin in this game, yes.

6 **Q Okay. And how does USG presently manage the**
7 **risk exposure of the Woodford gas reserves investment?**
8 **In other words, how does USC -- USG manage outcomes**
9 **that differ from expectations, if you know?**

10 A I am not completely aware of their business.
11 I do understand that they have a hedging program, but I
12 don't know over what term they hedge or how they hedge.
13 But I'm not aware of how they manage that risk.

14 **Q Okay. And USG is a nonregulated entity. If**
15 **circumstances permit, they can potentially earn a**
16 **return of -- on equity higher or lower than**
17 **10.5 percent; is that correct?**

18 A That is correct. Based on what happens with
19 natural gas prices, that is correct.

20 **Q Okay. And if FP&L believes market prices**
21 **will go higher and will be higher than the cost of**
22 **production, why would NextEra want to sell the gas for**
23 **cost of production rather than selling it at market**
24 **price via USG?**

25 A And so I understand, to sell to FPL or what

1 is the --

2 **Q Anybody, FPL or anybody.**

3 A Well, that's what they would normally do is
4 sell that gas at market prices. Again, I think you're
5 talking about USG. I want to make sure I understand
6 your question, you know, why doesn't just USG go sell
7 the gas at market as opposed to transferring it to FPL?

8 **Q Right.**

9 A Again, this is just sort of a unique
10 opportunity for FPL to find a way of presenting a
11 transaction to the Commission that allowed us to sort
12 of pause in time while the counter-parties, in this
13 case PetroQuest and USG, went out and continued the
14 drilling program.

15 Again, this is not something that is part of
16 their ongoing business model for USG. This was just
17 meant to provide basically a onetime free option so
18 that we could go through this process with the
19 Commission while the PetroQuest and USG relationship
20 went out and started drilling.

21 But in the meantime, they are selling sell
22 that gas. You know, whatever gas gets produced, they
23 will sell that gas at market. Again, I'm not sure how
24 they manage their risk around hedging or anything else.
25 But if they wind up -- if the Commission, you know,

1 denies the request for the Woodford Project, they'll
2 own this gas and they'll manage those risks
3 accordingly.

4 So this was not done for any other reason
5 than to try and provide a bridge for us to get through
6 the process here with the Commission.

7 **Q On page 26 of your of your rebuttal on**
8 **lines 9 to 13, you stated that, FPL's affiliate, USG**
9 **Properties Woodford I, LLC, USG, is currently named as**
10 **the counter-party in the Woodford Project. And given**
11 **the large benefits expected from the investment,**
12 **intends to fully participate in the development of**
13 **these natural gas wells should FPL not be granted**
14 **approval from the Commission.**

15 **If the benefits from the Woodford Project**
16 **investment are as large as expected, why isn't USG**
17 **maintaining this value for the benefit of NextEra's**
18 **shareholders?**

19 **A** Again, I think I covered that in my previous
20 answer, which is that there are -- this is a unique
21 opportunity for them to hold on to something for us
22 while we go through this approval process with this
23 Commission. They would normally hold this for their
24 own benefit as -- I think you heard Dr. Taylor say
25 earlier that if they do hold it, it meets their

1 investment profile, whatever that is.

2 So this is just sort of a onetime unique
3 opportunity for us to get something in front of the
4 Commission and go through this approval process while
5 we also try to achieve the approval of the guidelines.
6 So this is not something that would be just part of
7 their ongoing, they're going to provide this service to
8 us, that's just not going to happen.

9 Q Okay. If you would turn to page 15 of your
10 rebuttal testimony, lines 18 to 20. You state here
11 that there is an 85 percent chance that the actual
12 results of Woodford will be positive customer savings;
13 is that correct?

14 A There's an 85 percent chance that the results
15 will be positive for customers, that's correct.

16 Q And this probability percentage is based on
17 FP&L's October 2013 forecast of customer savings; is
18 that correct?

19 A That is correct, yes.

20 Q Okay. Now, turn to Exhibit 64, Attachment 2,
21 which is the late filed deposition exhibit.

22 A I'm sorry, 64; is that correct?

23 Q Yeah, it's Commission Exhibit 64.

24 A I got it.

25 Q You got it?

1 A I got it.

2 **Q Okay. Have you or anyone with FP&L**
3 **calculated the probability of customer savings based on**
4 **this 9-box pricing and productivity, sensitivity**
5 **prepared by FP&L?**

6 A And I'm assuming -- the answer is no, we have
7 not updated a probability of customer savings being
8 positive in this instance. The one thing that -- and I
9 think I covered this yesterday, was the update --
10 again, gas prices are incredibly volatile, as I've said
11 numerous times now. But the gas prices, if you look at
12 them when they are presented, they are presented at a
13 point in time. What I can assure you is when we
14 generate a forecast, the following day that forecast is
15 off by something because gas prices will have either
16 moved up or down.

17 Over a period of time, just over the last 12
18 months, gas prices have gone from 4.60 to -- excuse
19 me -- from 5.60 to 4.60 to 5.60 to 4.90. I mean, it's
20 been very, very volatile. And that's -- we're talking
21 about the 2025 time frame. I mean, so the back end of
22 the curve has been very volatility as well.

23 We see the \$51.9 million update as being
24 within the range of possibilities on the original
25 forecast that we presented, so it's still within that

1 85 percent probability that there's going to be a
2 positive customer savings.

3 In answer to your question, we did not update
4 the probabilities because, one, we weren't asked and,
5 two, we just didn't think it was appropriate.

6 **Q Okay. Changing topics. This is a question**
7 **regarding the guidelines. You make the assumption that**
8 **the Commission adopts a set of guidelines for gas**
9 **reserve projects such as Woodford. And assume that**
10 **FP&L enters into another such project, will you agree**
11 **that the issues before the Commission for the**
12 **determination of this added project would be, number**
13 **one, whether the guidelines were met and, number two,**
14 **whether despite a finding that the guidelines were met,**
15 **the project transaction was prudent?**

16 A Yes, I think there is a two-step phase to
17 that prudency determination, absolutely. Was it within
18 the definitions of the guidelines, so did we transact
19 within the guidelines? And then, secondly, were the
20 actions that we took within the individual transaction
21 prudent. So, yeah, I absolutely agree with that.

22 **Q Okay. I have no more questions. Thank you.**

23 A Thank you.

24 CHAIRMAN GRAHAM: Commissioners.

25 (No response.)

1 CHAIRMAN GRAHAM: Redirect.

2 MR. GUYTON: Thank you, Mr. Chairman, just a
3 few.

4 REDIRECT EXAMINATION

5 BY MR. GUYTON:

6 Q Mr. Forrest, you were asked by counsel for
7 Office of Public Counsel about two prior fuel cost
8 recovery capital projects, the field conversion costs
9 and the railcars. Do you recall those lines of
10 inquiry?

11 A Yes, I do.

12 Q Looking first to the Scherer railcars. And I
13 believe you were -- there was an inquiry as to whether
14 or not the savings from the railcars were fixed. Do
15 you recall that?

16 A Yes.

17 Q Okay. Are the savings that are associated
18 with the railcars dependent in any way on how
19 frequently the railcars are used, are actually used?

20 A Absolutely. Again, all variables being
21 equal, I agree that the savings are fixed. But there
22 are a tremendous number, as we know, managing those
23 railcars, that there is a lot of variability in that in
24 terms of ownership versus leasing with potential
25 liability on potential derailments and other things.

1 So it's certainly not fixed in the sense that all
2 variables aren't always equal, so I agree.

3 **Q And the usage of those cars would be**
4 **dependent in part on the dispatch of the Scherer unit?**

5 A Absolutely, yes. So to the extent that
6 there's lower dispatch, again, if you go back to the
7 2012 time frame when natural gas prices were trading
8 for \$2.12, the Scherer unit wasn't being dispatched
9 nearly to the extent that it is when gas prices were at
10 \$5, for instance, and so you see a much lower dispatch,
11 savings don't materialize to the level that was
12 originally suggested.

13 **Q So in the original analysis that was done,**
14 **there had to be some estimation of the usage of the**
15 **railcars?**

16 A Absolutely. Everything that I am aware of
17 that has gone and utilized 14546 in terms of recovering
18 capital recovery as a result of trying to lower fuel
19 cost is based in some form or another on an estimate.

20 **Q Now, you were also asked about the conversion**
21 **of a Florida Power Corporation conversion of the**
22 **Intercession City combustion turbines. Do you recall**
23 **that?**

24 A That's correct, yes.

25 **Q Now, would the savings on those potentially**

1 **depend upon a number of variety of factors, including**
2 **the price of oil, the price of gas, and the future**
3 **dispatch of the units?**

4 A Absolutely. So any time you make an estimate
5 of potential fuel savings, you're, again, at a point in
6 time making an estimate of how much your natural gas
7 prices are, your fuel oil prices are and so on, you
8 make an assumption that that relationship stays
9 constant throughout, in such that there's fuel savings
10 projected based on those estimates. If gas prices go
11 higher, if fuel oil prices go lower -- and that's,
12 actually kind of what we've seen over the last few
13 weeks -- those savings don't materialize to the level
14 that we're projecting.

15 Again, it's been a big part of this
16 Commission's, you know, practice not to judge basically
17 in a rearview mirror. You make the best decisions you
18 can with the information that's been presented at the
19 time and you move forward with it.

20 Q Counsel for FIPUG asked you a question about
21 **the availability of long-term hedges. And quite**
22 **frankly, I didn't catch the question in its entirety,**
23 **so I just -- I want to make sure that I understand both**
24 **the question and the answer.**

25 **When he asked that question, did you**

1 **understand that to be limited to just financial hedges**
2 **or was it also -- or did you respond just to financial**
3 **hedges or also long-term physical hedges?**

4 A I don't know if I exactly remember what the
5 question was. I thought it was referencing financial
6 questions but, again, I don't remember the exact
7 context of the question.

8 MR. MOYLE: I think the record would speak
9 for itself. My recollection is that it was
10 financial and physical.

11 THE WITNESS: And that's fine.

12 BY MR. GUYTON:

13 Q **And how would you characterize the hedges**
14 **provided by the Woodford proposal?**

15 A How do I characterize the hedges from the
16 Woodford proposal?

17 Q **Uh-huh.**

18 A They are effectively very stable. Again, I
19 don't know that the definition of a hedge has to be so
20 fixated on fixed price. These costs are very stable,
21 very well known, as Dr. Taylor covered. There's very
22 little variability in terms of what the pricing will be
23 once the well is drilled, and so the -- you know, there
24 are some lease operating expenses, sort of the
25 day-to-day operations of the wells. But that's a very

1 small component of the overalls in the neighborhood of
2 about 5 percent of the overall costs.

3 Certainly to the extent that there's any
4 variation in production, that will kind of impact the
5 effective cost of gas. But, otherwise, these costs are
6 very stable by comparison. And, again, certainly a
7 heck of a lot more stable than we've seen in the
8 natural gas market in terms of what market prices are
9 doing.

10 Q And would you characterize that hedge as a
11 physical hedge or a financial hedge?

12 A That would be a physical hedge.

13 Q You were asked about Interrogatory 75.
14 Mr. Moyle started to ask -- or asked you a question and
15 you started to answer it and then suggested that I
16 could ask on redirect instead. Do you recall that?

17 A I do, yes.

18 Q And I know you were asked by staff counsel
19 about Interrogatory 75 too. I just want to make sure
20 you've had the opportunity to respond and put 75 in
21 context?

22 A Yes, I feel like I answered when staff asked.

23 Q All right. Staff also asked you about the
24 asset optimization program.

25 A Yes.

1 Q Do you recall that?

2 A Yes.

3 Q And would you consider that to have been an
4 innovative proposal?

5 A Absolutely. Certainly I think that it was
6 brought to the table as a creative solution to try and
7 bring additional value to customers as part of the
8 overall settlement agreement. It has worked out
9 tremendously for customers.

10 The incentive mechanism has, I would say,
11 produced as advertised. At the time, we were
12 estimating somewhere in the neighborhood of about \$10
13 million a year for less than \$500,000 of O&M on an
14 annual basis, and it's worked out just almost exactly,
15 again, as advertised. We've added about 10 to
16 \$12 million a year of incremental value through the
17 fuel optimization that we've done. And I think our
18 track record on O&M has been somewhere in the
19 neighborhood of about 250 to \$300,000. So that
20 creative approach has worked out very, very well.

21 Q That's all that I have. Thank you,
22 Mr. Forrest.

23 CHAIRMAN GRAHAM: Exhibits.

24 MR. GUYTON: May we move Exhibits 11 and 12.

25 CHAIRMAN GRAHAM: Any objections to 11 and

1 12?

2 (No response.)

3 (Exhibit Nos. 11 and 12 were received in
4 evidence.)

5 CHAIRMAN GRAHAM: We've already put 68 and 69
6 in. Are there any other exhibits?

7 MS. HELTON: Mr. Chairman, I'm not sure what
8 we've done with 68 and 69, quite frankly.
9 Mr. Moyle made an objection and he wanted to make
10 a proffer and then Mr. Guyton withdrew the
11 objection and then Mr. Moyle said never mind, so I
12 don't know whether Mr. Moyle has withdrawn his
13 proffer and we no longer need to worry about
14 Exhibits 68 and 69 or whether we need to have them
15 preserved in the record for purposes of appeal.

16 MR. MOYLE: If I could go.

17 CHAIRMAN GRAHAM: Sure, yes.

18 MR. MOYLE: I think I was trying to proffer
19 at the point in time, but Mr. Guyton withdrew the
20 objection, so I'm good just having them come into
21 the record. And I won't ask the witness any
22 questions, they can just come in as exhibits given
23 the fact that he withdrew the objection. And we
24 can brief them. That may be a cleaner, easier way
25 to go.

1 CHAIRMAN GRAHAM: So they're in the record.

2 (Exhibit Nos. 68 and 69 were received in
3 evidence.)

4 MS. HELTON: Okay. Thank you, Mr. Chairman.

5 MR. MOYLE: As evidence.

6 MS. BARRERA: Can we have copies of them?

7 MR. MOYLE: Sure.

8 CHAIRMAN GRAHAM: I think you guys already
9 do.

10 MR. GUYTON: May Mr. Forrest be excused?

11 CHAIRMAN GRAHAM: Yes, he can.

12 All right. So concluding matters. What I
13 have here is briefs are due on December the 12th.
14 According to this schedule, we are not supposed to
15 act on this until February, but I know the
16 Prehearing Officer made some concessions where she
17 was going to try to get the Woodford piece of this
18 before us before the end of the year, which I
19 think is the December 18th agenda.

20 MS. BARRERA: Well, there is a December 18th
21 agenda, and the briefs are due December 12th.
22 That's all I know.

23 MR. SAYLOR: Excuse me, Mr. Chairman. Just
24 for purposes of the appellate record, the Office
25 of Public Counsel needs to renew its two earlier

1 objections.

2 CHAIRMAN GRAHAM: Okay.

3 MR. SAYLOR: The first objection is the
4 Commission's decision last week to deny our Motion
5 to Dismiss for lack of jurisdiction. The second
6 one is our objections to the four depositions
7 going into the record in their entirety. That's
8 Exhibit 55 through 58. Thank you.

9 CHAIRMAN GRAHAM: Okay.

10 MR. MOYLE: And just to the extent that that
11 needs to be done, FIPUG would do the same.

12 CHAIRMAN GRAHAM: Okay. So several people
13 have said since we've been here this is pretty
14 much a two-piece deal. Number one is the Woodford
15 deal coming before us to see if we can put it in
16 the Fuel Cost Recovery Clause and, number two, if
17 we can or will design some guidelines for future
18 opportunities.

19 What I'm looking at is -- and this comes down
20 to staff -- coming forward with the recommendation
21 for the December 18th agenda.

22 MS. BARRERA: Yes, Chairman. As to the
23 Woodford, staff is willing to do that.

24 CHAIRMAN GRAHAM: And coming to us sometime
25 in February or later with guidelines as far as

1 other opportunities. Right now that's where we
2 currently stand.

3 MS. BARRERA: Yes, that's what we understand
4 as well.

5 CHAIRMAN GRAHAM: I want to make sure that
6 everybody is with the right understanding of where
7 we are with this process.

8 MR. MOYLE: I just want to make sure I -- so
9 when we're putting our briefs together, is it
10 contemplated that we'll put a brief together and
11 say, you know, Woodford, bad or good, depending on
12 your perspective, and leave the guidelines out of
13 it and then do the guidelines later or --

14 CHAIRMAN GRAHAM: What I would like to do --
15 and I don't know the legal precedent of doing
16 this -- and I guess that this is a question for
17 Mary Anne -- and I bounced this off of staff
18 earlier -- it seems to me that you would even --
19 you would actually do two briefs, one for Woodford
20 and one for guidelines as a whole. And I don't
21 know if that happens or if it all has to come in
22 as one brief.

23 MR. MOYLE: We're fine doing that, we just
24 want to be clear on it.

25 CHAIRMAN GRAHAM: Mary Anne, think about that

1 for a second.

2 Commissioner Brise.

3 COMMISSIONER BRISE: Thank you, Mr. Chairman.
4 For me as a single Commissioner, I think that that
5 would be particularly helpful if we deal with the
6 Woodford component and address the broader policy
7 piece separately.

8 CHAIRMAN GRAHAM: Mary Anne.

9 MS. HELTON: Let me make sure I understand
10 what you're thinking. Are you wanting to have a
11 decision made with respect to the Woodford Project
12 before briefs are filed with respect to the
13 guidelines and I guess the broader policy question
14 or are you wanting to have the parties and the --
15 or FPL and the intervenors address all of that
16 together in one filing?

17 CHAIRMAN GRAHAM: I would like to have -- I
18 think for simplicity, two separate briefs would
19 work. I don't know if that's something that the
20 Commission has done before and I don't know if
21 it's something that we can do. And that's, I
22 guess, that's the question that I'm asking you, is
23 that something that can be done, because I think
24 that makes it cleaner?

25 MS. HELTON: Yes, I think you can -- I think

1 you can have two separate briefs. The question is
2 the timing of the second brief. Do you want them
3 filed at the same time or do you want the second
4 brief filed at a staggered time?

5 CHAIRMAN GRAHAM: Well, I think it should be
6 staggered time. And this is where I don't know
7 the legal precedent, because if the briefs are
8 based on the evidence in your record, which is
9 getting ready to be closed, I think that's
10 different because I think if for some reason
11 Woodford doesn't move forward, then I think the
12 briefs change. But if that decision -- is that
13 considered part of the evidentiary record?

14 MS. HELTON: Well, I mean, the record is what
15 the record is at the end of today. I think the
16 legal arguments that are made in the potentially
17 staggered brief may change based on your decision
18 on the Woodford Project. And having potentially
19 different legal arguments, I don't think that's --
20 I mean, I think those can be made based on the
21 record that we've built over the last two days and
22 during the discovery process and everything else.

23 CHAIRMAN GRAHAM: Let me hear from my other
24 two Commissioners and we'll continue.

25 Commissioner Edgar.

1 COMMISSIONER EDGAR: Thank you, Mr. Chairman.
2 I agree with, I think the direction that I'm
3 hearing with kind of the bifurcation of those two
4 larger issues. They have, as has been stated,
5 very interrelated but yet also I do believe can be
6 separated and are in my mind. And I do believe
7 that the discussion that we would have then as a
8 full Commission after that first set of briefs has
9 come in would maybe help advise for then the
10 larger discussion at a later time.

11 CHAIRMAN GRAHAM: Commissioner Balbis.

12 COMMISSIONER BALBIS: Thank you,
13 Mr. Chairman. And, actually, I'm going to change
14 my comments based upon what Commissioner Edgar
15 said because obviously the 18th is my last
16 opportunity to participate in this, so I'm trying
17 to be careful and to not put my thoughts
18 associated with that.

19 But I think if I have the ability to provide
20 input on moving forward at that 18th Commission
21 conference and it is bifurcated, then I think --
22 then I would be okay with that.

23 I mean, personally, if the parties are ready
24 to file briefs on both of the main issues, if you
25 will, I would be certainly interested to see their

1 positions on it. And it would be helpful for me
2 to have discussions.

3 But I do understand the majority of my
4 colleagues here and their thoughts. But having
5 the opportunity to provide input on, if there's
6 going to be a process moving forward, things that
7 I think would be important based upon what's in
8 the record, I would appreciate that as well.

9 CHAIRMAN GRAHAM: Well, I think having two
10 separate briefs, if for no other reason, helps
11 staff because they have a tight window to make
12 some sort of recommendation or determination. And
13 rather than having to shift through the parts that
14 are relevant and not relevant to Woodford, I think
15 it makes it simple to have two separate briefs
16 that way.

17 MS. HELTON: So as I understand it, there
18 are -- I can't remember now how many issues in the
19 case. I think there's nine issues in the case.

20 CHAIRMAN GRAHAM: I think it's seven or
21 eight.

22 MS. HELTON: Seven. I may be counting wrong.

23 CHAIRMAN GRAHAM: Eight, I think.

24 MS. BARRERA: I believe the guidelines are
25 two issues.

1 MS. HELTON: So in knowing that we're going
2 to address only the Woodford Project in the brief
3 that is due on December the 12th, what issues
4 specifically would need to be addressed to do that
5 so everybody is clear before they leave the room?

6 I think Mr. Moray and I looked at that and I
7 think we talked about issues one and six, and I
8 want to make sure that that's everybody's
9 understanding.

10 CHAIRMAN GRAHAM: So the two issues that need
11 to be briefed to make the Woodford decision are
12 one and six or one through six?

13 MS. HELTON: One and six.

14 CHAIRMAN GRAHAM: One and six.

15 MS. HELTON: That is my interpretation, and I
16 wanted to make sure that was everyone else's
17 interpretation.

18 CHAIRMAN GRAHAM: Florida Power & Light and
19 intervenors, any comment?

20 MR. BUTLER: We're looking at it.

21 Let me, first of all, just observe as we're
22 looking at it, that we are prepared to brief all
23 of the issues and, you know, are happy to proceed
24 on that basis, if the Commission wishes us to do
25 so. But I understand that you may be looking to

1 bifurcate, and I'm going to address your question,
2 if that's what is done.

3 I guess in just looking at this quickly, you
4 know, it seems like issues two and three have to
5 do with the Woodford Project, as well as one. I
6 certainly agree that four, which talks about the
7 proposed guidelines, five, which is really just
8 talking about if there's an affirmative answer to
9 four, those two are very guideline specific. But
10 then six, I think staff had mentioned.

11 So I guess, just doing it quickly, it looks
12 to me more like one, two, three and six would be
13 relevant to a brief that was only, you know,
14 giving you what you needed to decide on the
15 Woodford Project.

16 CHAIRMAN GRAHAM: Intervenors.

17 (No response.)

18 CHAIRMAN GRAHAM: All right. So it sounds
19 like we're going to be briefing on one, two, three
20 and six, unless staff tells me differently.

21 (Inaudible speakers.)

22 CHAIRMAN GRAHAM: What about issue eight?

23 MR. BUTLER: I'm sorry, yes, and eight would
24 be affected as well, that's right. So it would be
25 one, two, three, six and eight.

1 CHAIRMAN GRAHAM: And you're more than
2 welcome to send in your brief for the guidelines.
3 But I think we will announce on December 18th when
4 those briefs are due. And they'll probably be due
5 within a week or so. But I figure we can wait to
6 then to announce.

7 MR. SAYLOR: Yes, sir. And page limitation
8 for the -- since now we're bifurcating briefs,
9 page limitations?

10 CHAIRMAN GRAHAM: One more time.

11 MR. SAYLOR: How long for the briefs? I know
12 you probably prefer as brief as possible, but
13 currently the OPC establishes 40 pages for
14 everything.

15 MR. BUTLER: FPL would propose that we stick
16 with that, you can use however much of your 40 you
17 want for the -- excuse me -- for the Woodford
18 Project, and then whatever you haven't used is
19 available for the -- for whatever briefing is done
20 subsequently on the guidelines, or you can split
21 -- I don't know, I'm not sure that down the middle
22 works because I'm not sure that they are of equal
23 significance.

24 CHAIRMAN GRAHAM: I'm not sure it does
25 either.

1 MS. BARRERA: It depends how verbose you want
2 the parties to get.

3 CHAIRMAN GRAHAM: Well, like I said, for
4 simplicity let's just go ahead and keep it the
5 40 --

6 MS. BARRERA: Okay.

7 CHAIRMAN GRAHAM: -- for this first set of
8 briefs. And we can make another determination on
9 the 18th. But right now -- and you can put as
10 much in there as possible.

11 Now, understand we are moving forward and
12 trying to get this done. I mean, there is a
13 possibility that staff says they won't have the
14 recommendation in time. There's a possibility
15 that one of my fellow Commissioners says, Art, I'm
16 not ready to make a determination. I mean, so
17 there's things that could come. But right now we
18 are looking to make this determination
19 December 18th.

20 MS. BARRERA: One last question, Chairman.
21 When would the second brief be due if --

22 CHAIRMAN GRAHAM: I said I'll announce it on
23 the 18th.

24 MS. BARRERA: Okay.

25 CHAIRMAN GRAHAM: I would say the first of

1 the year. I think New Year's Eve for good times.

2 MR. BUTLER: Yeah, the 26th through the 31st
3 come to mind.

4 CHAIRMAN GRAHAM: I'm gone on that week.

5 MR. SAYLOR: Excuse me, Mr. Chairman. With
6 regard to staff's recommendation, is it going to
7 be a written recommendation or how do you envision
8 that to be?

9 MS. HELTON: Mr. Chairman, I don't think
10 there's any way we can do a written recommendation
11 with a brief filed on December 12th and an agenda
12 vote on the 18th, so whatever happens will be
13 verbal.

14 CHAIRMAN GRAHAM: I know there's -- this is
15 not norm, but there's several time constraints on
16 this deal. And we're trying to make it work, so
17 I'm sure there won't be a written recommendation.
18 There sure won't be a written recommendation out
19 ten days prior to the 18th, which is normally
20 coming out, because that's when the briefs are
21 due.

22 MR. SAYLOR: All right. Mr. Chairman, I know
23 Chapter 120 in DOAH proceedings, there's always a
24 written recommendation before it comes to the
25 agency itself. And I'm not sure that if all

1 parties waive a written recommendation in the DOAH
2 proceeding that can happen. I'm not sure about
3 that.

4 MS. HELTON: I don't know that -- I think
5 that you are entitled to file a brief. I think
6 Chapter 120 requires the Commission to allow you
7 to file a brief. But I'm not sure of any
8 requirement that says that there has to be some
9 sheet of paper that the Commission looks at to
10 make its decision. You have the brief, you have
11 the record, you would have any discussion between
12 the staff and the Commissioners at the proceeding.
13 And it would be noticed to -- for discussion at
14 the agenda conference. So beyond those
15 requirements in Chapter 120, I would --

16 MR. SAYLOR: And, Ms. Helton, I agree with
17 you. I don't know that, whether Chapter 350 or
18 Chapter 120 allows you to forgo a written
19 recommendation. But to the extent that it
20 doesn't -- if a party cannot waive that, I do not
21 want to waive that on behalf of the customers.
22 But just to note that for the record.

23 And if there's not a written recommendation,
24 we'll go forward from there. But if there's a
25 need for a written recommendation, I just wanted

1 to let you know that we don't want to waive that
2 requirement.

3 MR. MOYLE: FIPUG has two points to make.

4 CHAIRMAN GRAHAM: Sure.

5 MR. MOYLE: One, we're good with your
6 suggested issues of one, two, three, six and eight
7 for the initial brief. And, two, we would ask you
8 to please use your good judgment and discretion
9 with respect to the timing of the second brief.

10 CHAIRMAN GRAHAM: Actually, right now I'll go
11 ahead and give you a tentative date. That may
12 change on the 18th. But right now, let's go for
13 the second brief to be due January 5th.

14 MR. MOYLE: Can we push it back a week? We
15 got family stuff.

16 CHAIRMAN GRAHAM: I already just gave you a
17 month. It's not due on the 12th.

18 MR. MOYLE: But the time crunch has been
19 removed if you deal with the first one.

20 CHAIRMAN GRAHAM: All right. Because staff
21 still wants to be able to turn around and do
22 something with this come that February. So right
23 now, put that down as your time that the second
24 one is due. There may be the opportunity for it
25 to change, and you'll hear that on the 18th, but

1 right now let's shoot for January the 5th for the
2 second set of -- that second brief.

3 MR. SAYLOR: Thank you.

4 CHAIRMAN GRAHAM: Anything else?

5 MS. BARRERA: Staff knows of nothing else
6 other than adjourning.

7 MR. BUTLER: I would like to thank everyone,
8 the parties, the staff and the Commission for all
9 of the careful attention given to this matter,
10 much appreciated.

11 CHAIRMAN GRAHAM: I want to thank everybody
12 for your patience and for bearing with us last
13 night because I know it went late for some. And
14 forgive me for not taking a lunch break today, but
15 I saw the light at the end of the tunnel and I
16 wanted to get it.

17 I want to thank you all for these last two
18 days, and please travel safe as you leave here to
19 wherever you're headed. Thank you very much,
20 we're adjourned.

21 (Whereupon, proceedings were adjourned at
22 3:20 p.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, MICHELLE SUBIA, Registered Professional Reporter, certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages, numbered 998 through 1100, are a true and correct record of the aforesaid proceedings.

I further certify that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 3rd day of December, 2014.



MICHELLE SUBIA, RPR
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