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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor	Docket No: 140001-EI Filed: December 12, 2014

FLORIDA POWER & LIGHT COMPANY'S POST-HEARING BRIEF (ISSUES 1, 2, 3, 6 AND 8)

Florida Power & Light Company ("FPL" or the "Company"), pursuant to Order No. PSC-14-0667-PHO-EI (the "Prehearing Order") and direction given at the December 1-2, 2014 hearing on this matter, hereby files with the Florida Public Service Commission ("FPSC" or "Commission") its post-hearing statement of issues, positions, and brief ("Post-Hearing Brief") on Issues 1, 2, 3, 6 and 8 in the Prehearing Order, and states:

I. OVERVIEW AND SUMMARY OF ARGUMENT

"Innovation is the ability to see change as an opportunity, not a threat."

In recent years, FPL has made significant investments in clean, fuel-efficient natural gas generation and transportation. FPL currently supplies 62% of the electricity consumed in Florida, with approximately 65% of this coming from natural gas fired generation. FPL's investments in natural gas have saved customers more than $7 billion in fuel costs since 2001, and these investments will continue to provide customer savings for decades.[1] With such a large demand for natural gas, establishing a predictable, reliable, and low cost fuel supply is imperative for FPL and its customers. FPL now looks to continue its efforts to ensure a reliable and stable source of delivery of clean electricity for its customers, by making targeted investments in natural gas production.

[1] When FPL filed its Petition and testimony in this matter, FPL's investments had saved customers more than $6.5 billion in fuel costs since 2001. That number is expected to grow to about $7.5 billion by the end of 2014.

As a means to achieve this goal, FPL is seeking a Commission determination that the Woodford Gas Reserves Project (the "Woodford Project"), a joint venture with PetroQuest Energy, Inc. ("PetroQuest") to invest in gas production in the Woodford Shale region, is prudent and that the revenue requirements associated with this investment may be recovered through the Fuel and Purchased Power Cost Recovery Clause ("Fuel Clause"). In effect, FPL is asking to replace one type of cost (commodity purchase costs) with another (production costs), with respect to a portion of the gas it burns in its power plants. The Woodford Project will provide significant benefits to customers in two important ways.

First, it will provide a hedge against volatile natural gas prices. As the single largest electric utility purchaser of natural gas in the United States, FPL currently uses short-term financial hedges to mitigate price volatility for customers in what is an inherently volatile market.[2] While that program has been successful, the price stability it provides is temporally limited. The gas reserves proposal at issue in this proceeding would replace a portion of this existing short-term *financial* hedging program with a longer-term *physical* hedge that will provide price stability over a much longer time horizon.

Second, the Woodford Project is projected to deliver very substantial fuel savings for customers. Under the same gas price forecast that FPL used for its recent DSM goals and Ten Year Site Plan filings, the project is estimated to deliver $107 million of fuel savings on a net present value ("NPV") basis. And, these savings are estimated to start in year one and continue for each and every year of the project.

[2] Natural gas prices have demonstrated varying degrees of volatility over the years, and in fact prices have experienced a price variation of 92% in 2014 to date. Tr. 213 (Forrest). Even the EIA, whose escalation rates Mr. Lawton endorses, forecasts substantial upward volatility in gas prices over the next few years: an increase of $1.34 (34%) from 2015 through 2018. *See* Ex. 11, Column J. This volatility in the recent past and near future utterly discredits Mr. Lawton's assertion that he sees little – certainly no more than 10% -- volatility in gas markets today. *See* Tr. 748, 790 (Lawton).

The Office of Public Counsel ("OPC") and Florida Industrial Power Users Group ("FIPUG") filed testimony opposing FPL's requests. FPL is disappointed[3] that the intervenors are opposing a project that FPL projects will provide real value for customers. Their opposition is strident, but not well-founded. They erroneously argue that the Woodford Project shifts risks from investors to customers, that the risks to customers are significant with little benefit to customers, and that the project provides a windfall for FPL's shareholders. Each of these arguments lacks merit and has been thoroughly rebutted.

II. BENEFITS OF FPL'S PROPOSAL

A. **The Commission Should Not be Distracted By the Intervenors' Mischaracterization of FPL's Proposal**

In this proceeding, FPL is requesting a determination that it is prudent for FPL to acquire an interest in a natural gas reserves project that will provide price stability and projected fuel savings for customers. FPL also requests that the revenue requirements associated with investing in and operating the gas reserves are eligible for recovery through the Fuel and Clause. As is shown by the facts presented by FPL in this case, FPL's investment in the Woodford Reserve *is* prudent. The Woodford Project offers customers two very substantial benefits:

- The proposed investment will provide long-term price stability for a portion of FPL's natural gas needs. By disassociating a portion of FPL's natural gas purchases from volatile market prices, and instead obtaining a portion of its natural gas requirements at a stable, lower cost of production, this investment will allow the Company to replace a

[3] While disappointed, FPL is not surprised by these intervenors' reflexive opposition, even to a proposal that is expected to reduce and stabilize fuel costs for their clients and members. For example, OPC witness Ramas acknowledged that in formulating her position she had not even thought to inquire as to FPL's track record on a range of projects that have dramatically reduced the cost and environmental impact of electric generation. Tr. 601-02.

portion of its short-term financial hedging program for fuel purchases with, in effect, a longer-term physical hedge. Tr. 115 (Forrest).

- The revenue requirements associated with the project, on an NPV basis, are projected to be approximately $107 million lower than the cost of the natural gas FPL would otherwise be required to purchase over the expected economic life of the project. Tr. 115 (Forrest). This results in direct savings for customers that will begin immediately upon FPL's initiation of the Woodford Project and continue over the project's life. TR. 114 (Forrest); Ex. 9.

Sadly, the intervenors have resorted to scare tactics in a misguided attempt to distract attention from the robust value this opportunity brings for customers. But those arguments cannot obscure the following three, fundamental points about the Woodford Project.

1. <u>This is *not* a proposal that shifts risks from investors to customers</u>

First and foremost, the intervenors suggest that the Woodford Project would shift risks onto customers. This is 180 degrees from the truth. At present, FPL buys the natural gas needed for its power plants at market prices. Tr. 95-96 (Forrest). Unless FPL acts imprudently in making those purchases, its costs are recovered in full from customers through the Fuel Clause. Thus, customers bear essentially all of the risk of price fluctuations in the volatile natural gas market. Tr. 96 (Forrest); Tr. 894 (Deason). If the Woodford Project is approved, customers will pay the actual and much more stable cost of gas produced from the project, which is being developed in a well-known and proven gas producing area, again subject to prudence review of FPL's actions with respect to the project. Tr. 114-16, 122, 124, 126, 130, 162, 275-76, 286 (Forrest). There is no shift of risk, but rather a *reduction* of customer risk through a substitution of the controlled, low risk associated with gas production from the Woodford Project, for the

very substantial risk of purchasing 100% of FPL's gas requirements in the volatile gas markets. Tr. 894-95 (Deason).

2. <u>This proposal *reduces* risks that customers (not shareholders) currently bear and at the same time creates significant opportunities for customer savings</u>

Regardless of where gas prices actually end up, customers will benefit from the Woodford Project because it is a long-term physical hedge against highly volatile gas prices. Tr. 91-93, 1003, 1006-08 (Forrest). It is curious, if not completely inconsistent, that the intervenor witnesses seek to downplay this valuable role of the Woodford Project as a long-term hedge, because if they are right that there is a high degree of uncertainty about future gas prices, then that environment is exactly where a long-term hedge would be most valuable. *Id.* Moreover, customers stand to save millions of dollars under almost all sensitivity analyses performed by FPL (and under all the alternative forecasting approaches proposed by the intervenors), with the most likely scenario resulting in a net present value savings of $107 million. Ex. 9. There is an extremely high probability -- 85% -- that customers will see savings from the Woodford Project. Tr. 333-34, 1012, 1043 (Forrest). Even in the one sensitivity scenario under which customers would see an additional cost from the project, it is small and would occur only in the event that market prices are extremely low for a sustained period and simultaneously the production level is 10% below forecast (actual production levels for the aggregate output from existing wells have been within 1% of estimates). Tr. 117-18 (Forrest); Ex. 9; Tr. 870 (Taylor). That would still be a very good day for customers, as overall fuel costs would be dramatically lower than under FPL's current projections. Tr. 96, 117-18, 1002-03 (Forrest). Intervenors conveniently ignore this fact.

3. <u>The investment necessary to reduce risk and create savings for customers under the Woodford Project is compensated at a rate no different than any other investment FPL's shareholders make in power plants, poles or wires (i.e., it is not a</u>

guaranteed return, but simply a return at the authorized cost of capital for property that is considered used and useful)

FPL is only proposing to earn the mid-point of its Commission-authorized return on equity ("ROE") for the Woodford Project, which is what the Commission has determined is necessary to attract equity capital to FPL on investment that is both used and useful in providing electric service to customers.[4] Despite OPC's attempt to categorize this as a "windfall" for FPL, earning that ROE on the Woodford Project is not only appropriate, but necessary in order to finance the project. Tr. 311-12 (Forrest). It is simply a project cost like any of the other expenses that FPL must incur in order to secure gas at the cost of production. Tr. 896-99 (Deason). As such, recovery of the Commission-approved ROE on the Woodford project is not an impermissible "profit." Rather, it is exactly what the Commission routinely permits utilities to recover on investments through the Fuel Clause, calculated in the manner to which OPC and FIPUG have previously stipulated. *Id.*; Tr. 373 (Ousdahl); Order No. PSC-12-0425-PAA-EU.

Simply put, on each of these major themes, the intervenors are dead wrong. Given the clear and substantial benefits for customers as supported by the competent, substantial evidence, FPL's Woodford Project is a prudent investment. Intervenors' instinctive opposition is perplexing.

B. The Woodford Project is a prudent investment for FPL and its customers

1. Objective – protect customers by mitigating some of FPL's long-term exposure to the volatile natural gas market

FPL currently purchases -- and projects well into the future that it will purchase -- up to 600 billion cubic feet ("Bcf") of gas annually. Tr. 89-90, 746-47 (Forrest). This gas fuels the generation facilities that have saved customers over $6.5 billion since 2001 and which will be used to save additional costs into the future. Tr. 90 (Forrest). With such a large demand for

[4] OPC witness Ramas agrees that the gas produced by the Woodford Project would be used and useful. Tr. 606.

natural gas, establishing a predictable, reliable, and low cost fuel supply is imperative for FPL and its customers. Tr. 85 (Forrest). FPL currently secures physical gas, months or several years in advance, with pricing formulas based on publicly available index postings. These pricing formulas can result in a large degree of price volatility due to movements in the underlying natural gas and/or index postings. Tr. 91 (Forrest).

FPL mitigates this natural gas price volatility through its Commission-approved short-term hedging program by financially hedging a portion of its projected gas consumption for the following year. Tr. 91-92 (Forrest). However, FPL's hedging program is limited in that the market does not have the liquidity to provide fixed-price hedges over the many years that gas can be produced from a portfolio of gas reserves projects. Short-term financial hedges necessarily will reflect the rise of market costs over extended periods of time, which long-term cost of service-based physical hedges can keep low. Tr. 92 (Forrest). Finally, long-term fixed-price physical supply contracts are not readily available, as gas suppliers typically only hedge on a shorter-term basis, and there is significant credit exposure to counterparties. Tr. 93 (Forrest).

Roughly 70% of FPL's natural gas supply portfolio is made up of shale gas. Tr. 97 (Forrest). FPL recognized the projected growth in the shale gas market, combined with the importance of shale gas as a part of FPL's fuel supply portfolio, and initiated a review of opportunities to acquire an interest in the production of gas from these same sources, in order to provide customer savings and price stability. *Id*.

Acquiring an interest in natural gas reserves would provide a longer-term physical hedge that compliments and diversifies FPL's current short-term financial hedges, while also providing a level of expected savings in the form of lower gas costs. Tr. 85-86, 96, 115, 126-27 (Forrest). Investments in natural gas reserves would not add to but rather would replace a commensurate

portion of the financial hedging program, which only provides short-term protection against price volatility with no expected savings. Tr. 96 (Forrest).

2. Solution – meet a portion of FPL's gas requirements at a lower, stable cost of production from the Woodford Project

FPL began reviewing opportunities for acquiring an interest in the production of shale gas by exploring options with its existing suppliers and producers who would be able to meet FPL's conditions. FPL was ultimately able to make arrangements with PetroQuest to enter into a joint venture for investment in gas reserves and production in the Woodford Shale. Tr. 97-99 (Forrest). The region of the Woodford Shale in the Arkoma Basin of southeastern Oklahoma, where the Area of Mutual Interest ("AMI") acreage with PetroQuest is located, produces dry natural gas and is viewed by PetroQuest as the "crown jewel" of its gas production portfolio. Ex. 57, Deposition Exhibit 2, at p. 5. With the advent of technological advances in horizontal drilling and completion methods, many exploration and production companies are actively drilling the Woodford Shale. Tr. 289 (Forrest); Tr. 848-50 (Taylor).

PetroQuest is a well-known, highly regarded and publicly traded independent oil and natural gas company engaged in the acquisition, exploration, development, and production of oil and natural gas properties in the United States. Tr. 99 (Forrest). PetroQuest has drilled over 120 wells in the Woodford Shale and has established itself as an efficient, low-cost developer of natural gas reserves. Tr. 506 (Taylor).

FPL's search for opportunities to invest in gas reserves was hindered by the need to allow time for Commission review before making a binding commitment to invest. Tr. 97-98 (Forrest).[5] In order to overcome this obstacle for the Woodford Project, USG Properties

[5] In its brief currently scheduled to be filed on January 5 regarding FPL's proposed Gas Reserves Guidelines, FPL will explain the need for guidelines to address concerns regarding the timing of entering into gas reserves contracts. It would not have been practical to establish guidelines for the Woodford Project. As explained by FPL witness

Woodford I, LLC ("USG"), an affiliate of FPL, entered into a series of agreements on June 18, 2014 with PetroQuest (collectively referred to as the "PetroQuest Agreement"), under which USG will pay a share of the costs for developing and operating natural gas production wells and will receive a portion of PetroQuest's working interest in those wells in the Woodford Shale Gas region.[6] Tr. 101-02 (Forrest); *see also* Ex. 7. Both USG and FPL were involved in negotiating the terms of the PetroQuest Agreement. Tr. 100 (Forrest). FPL is entitled to acquire USG's interest in the Woodford Project via assignment upon a finding by the Commission that the Woodford Project is prudent and that FPL may recover the costs of the project through the Fuel Clause. Upon such a finding, all of USG's interests in the Woodford Project will be transferred to FPL at USG's net book value. Tr. 108 (Forrest); Tr. 352 (Ousdahl). If the Commission does not approve the Woodford Project, then USG will retain its interest and all benefits in the project. Tr. 100 (Forrest). The net book value at the time of purchase between USG and FPL is estimated to be approximately $68.4 million, assuming regulatory approval and transfer by January 1, 2015, and based on current assumptions as to the timing of the drilling program and resulting gas production. Tr. 358-60 (Ousdahl); *see also* Ex. 15. FPL estimates a total capital expenditure of approximately $191 million under the PetroQuest Agreement.[7] Tr. 107 (Forrest).

3. <u>FPL's proposed accounting for the Woodford Project is transparent and effective</u>

Deason, this is because the Woodford Project has a short "shelf life," the total size of the Woodford Project is small, and lessons learned in evaluating a specific project first can be valuable in trying to develop general guidelines. Tr. 963-64.

[6] The PetroQuest Agreement comprises several documents including a Drilling and Development Agreement (DDA"), a Joint Operating Agreement ("JOA"), and a Tax Partnership Agreement. *See* Exs. 5 and 6. There is a signed Joint Operating Agreement for each well, but of necessity those agreements are not signed at the time that the DDA was executed. Rather, an agreed form of the JOA is attached as an exhibit to the DDA, which is then used as the template for each well's JOA. Tr. 235-36 (Forrest).

[7] $191 million represents the high end of FPL's investment in the Woodford Project, because it assumes that FPL consents to all 38 wells under the PetroQuest Agreement and that all of the other participants in the Woodford project non-consent to participation in those wells. Tr. 111-12 (Forrest).

FPL will establish a separate, wholly-owned direct subsidiary to hold FPL's interest in the Woodford Project, conduct its gas production activities and to transact the sale of the commodity to FPL for its customers at production costs. Tr. 352-53, 356-58 (Ousdahl). FPL intends that the transfer from USG would be to the subsidiary rather than directly to FPL. *Id*. The subsidiary will be fully consolidated with FPL for this Commission's regulatory and financial reporting purposes. *Id.*; *see also* Ex. 13. This structure will allow maximum flexibility to minimize state income tax obligations, allow for the separation of Federal Energy Regulatory Commission ("FERC") electric chart of accounts for regulatory reporting purposes, and provide clearer definition and transparency for the investment and activities associated with gas reserves projects. Moreover, because costs associated with gas production will be recovered through the Fuel Clause, the separate legal entity facilitates segregation for ratemaking and earnings surveillance related to base rates. Tr. 356-57 (Ousdahl).

Upon transfer, FPL will be subject to ASC 932 Accounting for Oil and Gas Exploration and ASC 980 (formerly known as FAS 71) -- Accounting for the Effects of Certain Types of Regulation. Accounting for oil and gas production is a highly specialized and unique form of energy accounting. Tr. 363 (Ousdahl). Neither the FERC Electric nor Natural Gas chart(s) of accounts is consistent with the standard accounting utilized in the oil and gas production industry. *Id*. In order to ensure consistency with Commission, FERC, and the U.S. Securities and Exchange Commission ("SEC") requirements, FPL intends to use the industry standard chart of accounts to record all costs associated with the investment at the subsidiary level. Tr. 374 (Ousdahl). FPL is proposing to use the FERC Uniform System of Accounts ("USOA") natural gas chart of accounts in FPL's consolidated financial statements. Tr. 374, 804 (Ousdahl); *see also* Ex. 19.

Consistent with the SEC's guidance, FPL will use the successful efforts method of accounting. Tr. 363 (Ousdahl). Under the successful efforts method of accounting, depreciation is recorded in the form of "depletion," which is measured on a unit-of-production basis rather than on a remaining life or whole life basis. In addition, estimates of reserves must be updated on an annual basis for financial reporting purposes. Tr. 365-66 (Ousdahl).

FPL will calculate the revenue requirements for the Woodford Project (e.g., depletion, O&M, return on the investment) to be recovered through the Fuel Clause, using a projection for each year of the expected quantities and related costs. Tr. 372 (Ousdahl). The first year in which costs associated with the Woodford Project will be projected for recovery in the Fuel Clause is 2015. FPL will calculate the associated return on its capital invested in the Project in the same manner as it does with other clause related capital investments. Tr. 73 (Ousdahl); *see also* Ex. 18.

4. <u>The Woodford Project will deliver tremendous benefits for customers</u>

As noted above, the Woodford Project will benefit customers by providing price stability over a longer-term than is possible with the current short-term hedging program. Tr. 91-92, 115-16 (Forrest). By disassociating a portion of FPL's natural gas purchases from volatile market prices, and instead obtaining a portion of its natural gas requirements at a stable, lower cost of production, this investment will allow the Company to replace a portion of its short-term financial hedging program for fuel purchases with, in effect, a long-term physical hedge. Tr. 96, 115, 1003, 1006-10, 1022 (Forrest). At the same time, by procuring only a portion of FPL's gas requirements through investments in gas reserves, FPL maintains the flexibility to purchase lower-priced gas in the market, if available, for the remainder of FPL's needs. Tr. 96 (Forrest). This means that FPL customers can benefit should gas prices unexpectedly or temporarily fall.

Tr. 96, 117-18, 1013 (Forrest); Tr. 971 (Deason). Moreover, if the market evolves in a way that places downward pressure on the forward market price for gas, FPL will be able to roll off the hedges in a relatively short period of time by natural attrition due to the accelerated production (and hence depletion) of the gas reserves that occurs in the first few years of their operation. Tr. 125 (Forrest). This represents a substantial mitigant to any price risk for the portion of gas procured through this physical form of hedging, at the same time that the substantial net benefit to customers from falling prices would still be realized through lower gas prices for the much larger volumes of gas that FPL will be purchasing at market prices.

Beyond its hedging benefits, the Woodford Project is expected to result in substantial fuel savings for customers. Tr. 87, 115, 118-19, 124-25, 126, 130, 1022-23 (Forrest). To perform an economic evaluation of this investment, FPL utilized its natural gas price forecast along with estimated natural gas production and projected costs for the Woodford Project that were developed by FPL witness Taylor. Tr. 110 (Forrest). Dr. Taylor performed an internal analysis using industry accepted methods for forecasting. Tr. 508-09 (Taylor). FPL also retained Forrest A. Garb & Associates ("FGA"), a well-recognized external consultant, to provide an independent confirmatory analysis, which concluded that Dr. Taylor's analysis is a reasonable estimate of the volumes of gas to be expected from the drilling program.[8] Tr. 112 (Forrest), Tr. 510 (Taylor); Ex.30. The analysis shows that the Woodford Project is economically viable and commercially attractive, with robust reserves available with a high expectation of natural gas recovery,

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[8] During cross-examination, Mr. Lawton disparaged FGA's work as merely "checking [Dr. Taylor's] arithmetic." This is grossly inaccurate, as Mr. Lawton could have readily ascertained by simply reading the FGA report that is Ex. 30 (confidential). The report details on pages 2 through 5 of 30 the steps that FGA undertook to prepare its own, independent reserves estimate, the results of which corroborated the results that Dr. Taylor obtained using *his* own, distinct estimation methodology. The only thing that the FGA and Taylor reserves estimates shared was a common set of input data, which was provided to FGA (see General Comment 5 on page 26 of 30). Sharing a common set of inputs is not only appropriate but essential if the reserves estimates are to be compared for confirmation, as the use of different inputs would confound the comparison.

operated by an industry leader in this region. Ex. 29, 30, 31, 32; Tr. 110-12 (Forrest); Tr. 494, 511 (Taylor).

FPL then determined the revenue requirements for the Project over its 30-plus year economic life. Tr. 113-14 (Forrest); Ex. 8, 9. FPL's revenue requirements were converted to an estimated cost per MMBtu of natural gas, using the total expected gas production volumes. *Id.* FPL also conducted sensitivity analyses to evaluate the impact of a lower natural gas price forecast and/or less natural gas production from the Woodford Project than is expected. Tr. 116-18 (Forrest). The economic benefit of the Woodford Project for FPL's customers is clear – FPL will be able to procure natural gas at a lower and more stable cost per MMBtu than would otherwise be incurred if the same amount of natural gas were to be purchased at market prices. This holds true even in the event that natural gas market prices decline further from current forecasted prices or production from the Woodford Project is lower than expected. *Id.* The benefits will start immediately upon FPL taking assignment of the PetroQuest Agreement and then continue over the productive life of the Woodford Project wells. Tr. 114 (Forrest). The revenue requirements associated with the project, on an NPV basis, are projected to be approximately $107 million lower than the forecasted cost of the natural gas FPL would otherwise be required to purchase over the expected economic life of the project. Tr. 115 (Forrest). FPL's revenue requirements are projected to be lower than the forecasted market price of natural gas on a dollars per MMBtu basis during the entire life of the project, with customers experiencing a majority of their savings early in the life of the Project.[9] *Id*; *see also* Ex. 8.

[9] As discussed by FPL witness Forrest, these economics assume 100% of the gas would be delivered to Florida. However, once the gas is delivered to FPL by PetroQuest, it will be treated as a part of the entire procurement portfolio. If transportation costs could be reduced or other economic advantage derived for customers from selling the Woodford Project gas and then simultaneously buying the same quantity of gas at a different location, FPL will do so. The resulting savings would be passed on to FPL's customers through the Fuel Clause and would be treated as a gain under the Commission-approved Incentive Mechanism. Tr. 292-93 (Forrest).

5. <u>The Intervenors' "riskiness" arguments against the Woodford Project fall well short of the mark</u>

In addition to the three arguments addressed at the outset, the intervenors have raised a number of secondary arguments, all asserting that the Woodford Project is too risky in one way or another. Specifically, they question the adequacy of the accounting controls, and they fret over production-related and price-related risks. As shown below, none of these areas of purported "riskiness" should give the Commission any pause in approving the Woodford Project.

a. FPL's proposed accounting for the Woodford Project will provide appropriate oversight and control

OPC witness Ramas asserts that FPL's investment in the Woodford Project is not compatible with the FERC USOA and that FPL is not proposing to record the investments in the Woodford Project in the Plant in Service Accounts that fall under the FERC USOA. Tr, 559-60, 563-64, 571 (Ramas). Ms. Ramas is wrong, and is evidently unfamiliar with the use of account mapping. Tr. 804 (Ousdahl). As FPL witness Ousdahl testified, FPL will use the standard SEC financial accounting classifications for this industry at the subsidiary level, and will then map the information to the FERC USOA natural gas chart of accounts for FPL consolidation and financial reporting and ratemaking. Tr. 363, 374, 441 (Ousdahl); Ex. 17, 19. Ms. Ramas' confusion continues with the incorrect assertion that GAAP and the FERC USOA are mutually exclusive. Ms. Ousdahl makes clear that GAAP contemplates the effects of regulation, as codified in Accounting Standards Codification ("ASC") 980 Regulated Operations. Tr. 806-07 (Ousdahl).

Similarly, Ms. Ramas' suggestion that the annual revision to depletion rates is not consistent with the Commission's depreciation requirements under the Commission's rules underscores her misunderstanding of the accounting requirements for natural gas production. Tr.

807-08 (Ousdahl). As discussed by Ms. Ousdahl, depletion accounting is integrally woven into the FERC USOA, as is evident by its reference in several provisions including Subchapter F of the USOA Natural Gas, Part 201, 12A, and FERC Account 404.1 – Amortization and Depletion of Producing Natural Gas Land and Land Rights. *Id*.

Both OPC and FIPUG raise concerns about the Commission's ability to audit PetroQuest, suggesting that the Commission would have no ability to directly and independently confirm the accuracy and reasonableness of the Woodford Project gas production and drilling costs. These criticisms are misplaced. Tr. 808-12 (Ousdahl); Tr. 907-09 (Deason). The FPSC performs audits by examining the books and records of the utility to validate that the costs which make up the revenue requirement are properly recorded in compliance with the USOA such that the resulting revenue requirement is reasonable. Tr. 808 (Ousdahl). This examination ensures that the costs reflected in the clause are recoverable from customers under the applicable orders, rules and statutes. *Id*. This is currently done for FPL's joint venture agreement with JEA for FPL's interest in the St. Johns River Power Park, and FPL's joint venture with Georgia Power Company for FPL's interest in the Plant Scherer Unit 4. Tr. 809 (Ousdahl). The Commission does not audit the books and records of any of FPL's vendors or joint venture partners. Tr. 810 (Ousdahl).

FPL's joint venture agreements all provide FPL access to the owner/operator's books and records for periodic on-site audit of its billings to FPL to ensure all charges are appropriately incurred by FPL's customers. Tr. 810 (Ousdahl); Ex. 5, 6, 7, 13. The Commission will have access to all of FPL's records. Tr. 373, 378-379, 810-11, 838-39 (Ousdahl). Furthermore, FPL will design and implement new controls and revisions to its existing controls in order to provide appropriate assurance of financial reporting for its investment in the Woodford Project, including

the development and implementation of Sarbanes Oxley processes designed to ensure gas reserves transactions are in compliance with GAAP and any unique regulatory requirements, if any, and examination by an independent auditor. Tr. 811-12 (Ousdahl). In sum, the Commission and its Staff have all the access necessary to assure the accuracy and reasonableness of the Woodford Project gas production and drilling costs.

b. The Woodford Project's production risks are well understood and low

OPC witness Lawton asserts that there may be substantial variability in the forecast of production from the Woodford Project. This assertion is unfounded. Tr. 845-46 (Taylor). In order to forecast production, FPL utilized the services of FPL witness Dr. Taylor, who, unlike witness Lawton, has extensive academic training, as well as over 35 years of experience in estimating gas reserves. Tr. 112 (Forrest); Tr. 490-91 (Taylor); Ex. 21, 35. While it is possible that the output and reserves levels will vary to some degree, Dr. Taylor does not expect any such variances to be significant. Tr. 845 (Taylor). Based on his analysis, Dr. Taylor does not expect production levels from the Woodford Project to vary beyond 10 percent in either direction. Tr. 869-70 (Taylor). In fact, actual, observed variability for the first four years of aggregate production from the wells studied in the type curves has been within *1 percent* of the type curves.[10] Tr. 870 (Taylor); Ex. 11, 12. It is important to note that the Woodford Project is not "gas exploration"; rather, it is "gas development" in an area that has been thoroughly defined by the existing wells, and as such has been substantially "de-risked" for production. Tr. 846-47, 853 (Taylor). As explained by Dr. Taylor, a review of Exhibit TT-8 (Ex. 28) makes clear just how close the Woodford Project wells will be to existing, producing wells. Dr. Taylor's results were subsequently confirmed by FGA as an independent third party. Ex. 30.

[10] In contrast, the market price of gas that FPL otherwise would be paying swings dramatically: 92% in 2015 to date. Tr. 213 (Forrest)

OPC argues that, because Dr. Taylor has only 4 years of actual data to compare to the type curves, not enough is yet known to assess their accuracy. Quite to the contrary, the large majority of production from the wells used for the type curves occurs in the early years, providing a solid basis of information on the remaining years of production. Tr. 845-46 (Taylor); Ex 31, 32. Exhibits TT-11 and TT-12 (Ex. 31, 32) show that actual production from the wells for those first four years tracks the type curves very closely. *Id*; Tr. 868-69 (Taylor).

OPC witness Lawton shows his unfamiliarity with the oil and gas industry by suggesting that drilling in the Woodford Shale has come to a "basic standstill" as a result of competitive prices in the oil and gas markets. Tr. 719-20 (Lawton); Tr. 849-51 (Taylor). This is demonstrably untrue. Tr. 849-50 (Taylor). While drilling activity is lower than four years ago, it remains active, and in fact has increased between 2013 and 2014. *Id*.

OPC witness Lawton and FIPUG witness Pollock both assert that there are uncertainties around operation, production and transportation costs that are not factored into FPL's projections. Again, their assertions miss the mark. Tr. 847-49 (Taylor); Tr. 1008-09 (Forrest). Natural gas production is well understood, and the operating costs associated with gas production are highly predictable. Tr. 847 (Taylor). Furthermore, PetroQuest has a long history of production in the Arkoma-Woodford region, and it is very familiar with operations in the region. Tr. 851 (Taylor). For the Woodford Project, Dr. Taylor used the average of the actual operating cost for each of 12 prior months from PetroQuest's records for the AMI, clearly the best source of information as to what future operating costs will be for the Woodford Project. Tr. 848 (Taylor). He did not escalate those operating costs over the project life because of continuing evolution of the production technologies, along with producing multiple wells from a common surface facility, is likely to cause those costs to decline, not increase, over time. Tr. 847-48

(Taylor); Tr. 1027 (Forrest). OPC witness Ramas agreed that the operating costs are likely to decline. Tr. 617-18 (Ramas). And this downward trend is borne out by Ex. 53 (Int. 75) and the testimony of FPL witness Forrest, which indicate Woodford area production costs declined from $4.75 in 2010 to $3.79 in the first half of 2014. Tr. 1019, 1067-68 (Forrest).

FIPUG witness Pollock asserts that it is unreasonable to assume that the gas pipeline transportation rate included in FPL's estimated costs for the Woodford Project will remain unchanged during the life of the Woodford Project, and arbitrarily recommends a 2% increase per year. However, as FPL witness Forrest notes, FPL assumed the most direct and obvious transportation alternative for its financial analysis of the Woodford Project, rather than the cheapest. Tr. 1026 (Forrest). The likelihood is that transportation costs will be substantially *lower* than that assumption, not higher. *Id*.

FIPUG witness Pollock and OPC witness Lawton pointed to risk disclosure statements that PetroQuest makes as a publicly traded company to imply that participating with PetroQuest in the Woodford Project will entail a high degree of risk, and that PetroQuest's relatively small size and scale make it risker than its peers. Both of these assertions are wrong. These sorts of risk disclosure statements are commonplace for publicly traded companies, regardless of the industry. Tr. 531-32 (Taylor); Tr. 1021-22 (Forrest). It is common for many public companies that produce, transport, or consume natural gas as part of their business to include an exhaustive list of these very same risks in their filings with the Securities and Exchange Commission. *Id*; *see also* Ex. 57 at 76-79. Furthermore, PetroQuest's size has nothing to do with its ability to drill and produce wells in an efficient and profitable manner. Tr. 851 (Taylor). There are many more small independent companies in this industry than there are major companies. PetroQuest concentrates in only a few geographic areas, and it has developed expertise in drilling,

completing and operating wells in those areas. PetroQuest has a long history of very successful operations in the oil and gas industry generally and the Arkoma- Woodford region in particular, which has made it highly respected within the industry. *Id*.

FIPUG also criticizes PetroQuest as being credit-rated below investment grade. However, this is an unfounded criticism in the context of this type of transaction. First, it is not uncommon for smaller "niche" or specialty gas companies of this size to be below investment grade. Tr. 201-02 (Forrest). Second, drilling operations are funded on a pay-as-you-go basis, thus mitigating any long-term financial risk. Tr. 443-45 (Ousdahl). Third, as discussed above, PetroQuest is a well-known, highly regarded and publicly traded independent oil and natural gas company engaged in the acquisition, exploration, development, and production of oil and natural gas properties in the United States. Tr. 99 (Forrest). PetroQuest has drilled over 120 wells in the Woodford Shale and has established itself as an efficient, low cost developer of natural gas reserves. Tr. 506 (Taylor). Additionally, if there ever were a need, FPL is protected by step-in rights in the PetroQuest Agreement. Tr. 203 (Forrest).

Finally, OPC and FIPUG point to a modest drilling delay for the Woodford Project and suggest that it portends significant changes to the project economics. This is a complete red herring. While there has been a delay with *one* drilling rig, the delay is the result of PetroQuest's search for a drilling rig that meets their needs in terms of efficiency and cost. Tr. 527-28 (Taylor); Tr. 327-28 (Forrest). The delay is expected to be minimal, will have little impact on value for FPL customers, and allows for the potential to catch up once the rig is in place. Tr. 327-28 (Forrest). It is clearly better for FPL and all concerned for PetroQuest to secure the proper rig for the job (and therefore minimize drilling costs) rather than rush ahead with inappropriate equipment. As Mr. Forrest testified, the gas isn't going anywhere in the meantime,

and FPL only pays for drilling costs as they are incurred. *Id*. In short, there is little or no adverse impact from a modest schedule extension, and certainly no impacts that would warrant PetroQuest (and ultimately FPL and its customers) incurring higher costs just to stay on schedule. This is simply another example of intervenors fabricating concerns where none actually exist.

c. The Woodford Project is a good deal for customers under a wide range of price forecasts, including all of the intervenor methodologies

OPC and FIPUG both challenge FPL's projection of gas prices and propose their own, lower price forecasts; yet, interestingly, even the intervenor forecasts show that the Woodford project would produce savings for customers. Ex. 11. FPL's gas price forecast is reasonable and was developed using the same methodology that FPL has used – and this Commission has accepted. Tr. 1011-1012 (Forrest). The specific forecast FPL presented was also used in FPL's 2014 Ten Year Site Plan and DSM Goals proceeding, both of which were contemporaneous with FPL's filing of the gas reserves petition. *Id*. As it does routinely when presenting project proposals that depend in part on fuel price forecasts, FPL presented a sensitivity analysis as part of its direct case. Tr. 116-18, 1012-13 (Forrest). FPL ran "Low Fuel" price and "High Fuel" price sensitivities that were part of the 9-box customer savings estimates. These sensitivity cases represented a full standard deviation above and below the Base Case fuel forecast. The sensitivity analysis demonstrated the robustness of FPL's conclusion that the Woodford Project will produce fuel savings. Eight out of nine sensitivity cases show customer savings, ranging from \$10.3 million NPV to \$246.7 million NPV, with an overall 85% probability of customer savings. *Id*. In only one unlikely scenario where fuel prices and production were simultaneously low and remained low for decades, was there a net cost increase to customers, and then it was only about \$14 million NPV. Tr. 117, 1012 (Forrest). And, if that scenario did come to pass, it

would be a very good day for customers: Mr. Forrest calculates that the typical 1,000-kWh bill would be lower by $4.86 on a net basis compared to the base case forecast, after taking the small ($0.07) cost impact of the Woodford Project gas into account. Tr. 118 (Forrest).

A review of the intervenors' alternative gas price forecasts reveals three points, none of which supports their contentions: (i) the intervenor witnesses are unsophisticated in fuel forecasting, as evidenced by their numerous methodological errors in applying their preferred forecasting approaches. Tr. 1020-1021 (Forrest); (ii) the Woodford Project would result in fuel savings under all three of their forecasting approaches (Ex. 11); and (iii) if they are correct that there is a lot of uncertainty as to how gas prices ultimately will turn out, then that simply emphasizes the value of the Woodford Project as a long-term hedge. Tr. 1006-10 (Forrest). In addition to the intervenor witnesses' gas price forecasts, FPL was asked to evaluate the Woodford Project using the July 2014 forecast that was the basis for the 2015 Fuel Clause projections that were filed subsequent to the gas reserves petition. Using this forecast would still result in $52 million NPV in customer savings, further buttressing the conclusion that the Woodford Project would save customers money over a wide range of gas price forecasts. Ex 64.

6. <u>Conclusion</u>

In short, the intervenors' misguided attempts to derail the Woodford Project all miss the mark. Flawed assumptions, contradictions, and even invented facts pervade their arguments. Given the clear and substantial benefits for customers as supported by the competent substantial evidence, FPL's Woodford Project is a prudent investment.

III. THE COSTS OF THE WOODFORD PROJECT ARE ELIGIBLE FOR FUEL CLAUSE RECOVERY

There are at least[11] three clear bases for recovery of the Woodford Project costs through the Fuel Clause.[12]

First, the Commission has a long-standing practice dating back to 1985 in Order No. 14546 of including capital projects in the Fuel Clause when they are undertaken in order to reduce the delivered cost of fossil fuels that customers must pay. As noted in Order No. PSC-11-0080-PAA-EI ("Order 11-0080"), Fuel Clause recovery for this sort of capital project has been permitted in numerous Commission decisions subsequent to Order 14546. In Order 11-0080 the Commission stated its going forward policy on the recovery of capital projects in the Fuel Clause: "…we believe that the appropriate policy going forward is to restrict capital project cost recovery through the Fuel Clause to projects that are 'fossil fuel-related' and that lower the delivered, price or input price, of fossil fuel." That is what the evidence in this case shows will result from the Woodford Project. Tr. 369-71 (Ousdahl), 88-89, 110-18 (Forrest), 880-86 (Deason). Even OPC witness Lawton acknowledged that the Woodford Project is fossil-fuel

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[11] FPL notes there are "at least" three bases for recovery through the Fuel Clause because there is a fourth ground for recovery, if the three grounds discussed above were not available. In Order 14546, after setting forth ten specific items appropriate for recovery through the Fuel Clause, the Commission provided yet another opportunity for recovery of costs through the fuel Clause. It stated:

> "While it is the Commission's intent in this Order to establish comprehensive guidelines for the treatment of fossil fuel-related costs, it is recognized that certain unanticipated costs may have been overlooked. If any utility incurs or will incur a fossil fuel related cost which is not addressed in the order and the utility seeks to recover such costs through its fuel adjustment clause, the utility would present testimony justifying such recovery in an appropriate fuel adjustment hearing."

So, if the Commission were to find that the Woodford Project costs are neither appropriately capital costs recoverable under Item 10 in Order 14546 nor hedging costs, it could still find the Woodford Project costs to be "unanticipated costs" under Order No. 14546 and allow their recovery since FPL has presented evidence justifying such costs in a fuel hearing.

[12] Because there are well-established, clear bases under the Commission's existing policy on how the Fuel Clause is to function, there is no need for legislative guidance as to whether Woodford Project costs are properly recoverable through the Fuel Clause. Mr. Deason testified that "I think the Commission has adequate jurisdiction and adequate discretion to consider this proposal on its merits without any further guidance from the Legislature." Tr. 957. There is no contrary evidence in the record.

related. Tr. 751(Lawton) and will save FPL customers $43.76 million NPV. Tr.774 (Lawton); Ex 38).

Second, the Commission also has authorized the recovery of natural gas hedging costs through the Fuel Clause. Order No. PSC-02-1484-FOF-EI; Order No. PSC-08-0667-PAA-EI. The Woodford Project provides a long-term physical hedge of natural gas that would be an effective complement to FPL's existing program of short-term hedges in mitigating the volatility of natural gas prices. Tr. 91-93, 1003, 1006-08 (Forrest); 891, 901-03 (Deason). Therefore, the Woodford Project is recoverable under the Fuel Clause as a hedging cost. Tr.902-03 (Deason).

Third, regardless of the form of expenditure, it is a cost of gas that is burned in power plants for the benefit of customers. One form of cost for natural gas (gas reserves) would be simply replacing another (purchased commodity cost) for recovery in the Fuel Clause -- just a different way of procuring the fuel that is burned to generate electricity. Tr. 967 (Deason).

The evidence demonstrates that Fuel Clause recovery is a better means of recovery of gas reserves costs than base rate recovery. Commissioner Brown's questioning of Mr. Forrest reveals several advantages of Fuel Clause recovery: (a) quicker review and implementation, allowing FPL to preserve customer benefits, (b) greater transparency with an annual review, and (c) a better match of recovery to actual revenue requirements given the quick depletion of gas reserves. Tr. 302-03. As Mr. Forrest concluded, "[f]or customers, I think this is just an absolute home run. You know, it ultimately gets down to whether the Commission believes that there is a better way of mitigating long-term risks than just ignoring it." Tr. 303.

A. Fuel Clause recovery of Woodford Project is appropriate under Item 10 in Order No. 14546 and subsequent Commission decisions implementing Order 14546

In 1985 the Commission created a docket to consider the proper means of recovery of fossil fuel-related costs. A workshop among interested parties was held, and a stipulation of the

participating parties, which included both FPL and OPC, was reached, submitted to the Commission and approved.[13] The Commission's action was committed to an order, Order No. 14546. In this proceeding FPL has requested recovery of the Woodford Project costs through the Fuel Clause based, in part, on Item 10 in Order 14546:

> As a result of our determination on this proceeding, prospectively, the following charges are properly considered in the computation of the average inventory price of fuel used in the development of the fuel expense in the utilities' fuel cost recovery clauses:
>
> …
>
> 10. Fossil fuel-related costs normally recovered through base rates but which were not recognized or anticipated in the cost levels used to determine current base rates and which, if expended, will result in fuel savings to customers. Recovery of such costs should be made on a case by case basis after Commission approval.

Order 14546 at 4, 5. FPL's witnesses Ousdahl (Tr. 369-71), Forrest (Tr. 88-9, 110-18) and Deason (Tr. 880-86) have all addressed why recovery of the Woodford Project pursuant to this provision in Order 14546 is appropriate.

Over the course of the intervening decades, there have been a number of occasions where the Commission has applied and interpreted Item 10 in Order 14546. In Order 11-0080 the Commission (a) provided a comprehensive summary of how Item 10 in Order 14546 had been applied to date, (b) offered further interpretation as to just how this provision in Order 14546 should be applied, and (c) provided a "going forward" statement of how the provision should be applied. Each of these is instructive regarding the eligibility of the Woodford Project and future gas reserves projects for Fuel Clause recovery.

The comprehensive summary of the Commission's prior application of Item 10 found in Attachment A to Order 11-0080 provides a great deal of insight as to the proper application of

[13] FIPUG was informed of the stipulation and took no position on it, which today would be referred to as a Type 2 stipulation. Order 14546 at p. 1.

the standard in this case. Two points in particular are applicable in this case. First, it is clear from summaries of various orders that the savings in fuel costs that justified recovery of the projects in question were not guaranteed or actual; rather, they were based on projections or estimates of future savings.[14] Of course, the $107 million NPV savings associated with the Woodford projection is an estimate based upon the best information available at the time of the forecast. Tr. 114-18 (Forrest). Second, in Attachment A the Commission repeatedly summarized Item 10 in Order 14546 with the following sentence: "Order No. 14546 allows a utility to recover fossil-fuel related costs which result in fuel savings when those costs are not previously addressed in determining base rates."[15] Tr. 884 (Deason). No Woodford Project costs were included in the projected test year reviewed by the Commission when it established FPL's current base rates.[16] Tr. 370 (Ousdahl). So, the Woodford Project's costs meet this oft-repeated eligibility criterion of Order 14546 as well. Tr. 883-86 (Deason).

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[14] Order PSC-95-1089-FOF-EI, FPL's recovery of rail cars, "FPL *projects* that the $24,024,000 cost *will save* ratepayers more than $24 million above the cost of *cars over a 15 year period*."; Order PSC-95-1089-FOF-EI, FPC's recovery of Intercession City CTs, "The conversions were *to produce an estimated savings* of $2.5 million …."; Order No. PSC-95-0450-FOF-EI, FPL modifications to power plants, "FPL stated ... *estimated savings* of $80 million."; Order No. PSC- 96-1172-FOF-EI, FPL uprate of TP 3 and 4, "The thermal power uprate was *estimated to produce $198 million in savings* …."; Order No. PSC-96-0353-FOF-EI, FPC's Debary unit 9 conversion, "The conversion *was to produce* an *estimated savings* of $2.1 million …."; Order No. PSC- 97-0359-FOF-EI, FPC unit conversions, "The conversions *were to produce an estimated savings* of $22 million …."; Order No. PSC-97-0359-FOF-EI, FPL generating plant modifications, "The modification were *to produce an estimated savings* of $19 million…."; Order No. PSC-98-0412-FOF-EI, FPC conversions of Suwannee 3, "The conversion was *to produce an estimated savings* of $3.25 million…."; Order No. PSC-98-1715-FOF-EI, FPC conversion of Debary 8, "The conversion was *to produce an estimated savings* of $3.25 million …."; Order No. PSC-01-2516-FOF-EI, "Parties restated that regulatory treatment of capital costs that are *expected to reduce long-term fuel costs* is the treatment prescribed in Order 14546…." (*Emphases added.*)

[15] This repeated statement in Attachment A is very similar to an interpretation of Order 14546 set forth in the body of Order 11-0080: "[w]e find that the appropriate interpretation of this section of Order No. 14546 is that capital projects eligible for cost recovery through the Fuel Clause should produce fuel savings based on lowering the delivered price of fossil fuel, or otherwise result in the burning lower price fuel at the plant." That is precisely what will happen with the fuel savings from the Woodford Project. Tr. 114-18 (Forrest); Ex. 64.

[16] OPC suggested in its cross-examination at hearing that one should not look to the MFRs in the most recent rate case to determine whether a project's costs are reflected in base rates, when the result of the rate case was a settlement. This is directly at odds with the Commission's decision in Order No. PSC-05-1252-FOF-EI, issued on December 23, 2005 in Docket No. 050001-EI, where the Commission disallowed recovery of St. Lucie Unit 2 sleeving project costs under Order 14546 because FPL knew of that project at the time that it filed the MFRs in a rate case that settled. The implication by OPC that a "black box" settlement would comprehend costs that were not

Order 11-0080 also set forth the Commission's going forward policy regarding Item 10 in Order 14546. It stated: "we believe that the appropriate policy going forward is to restrict capital project cost recovery through the Fuel Clause to projects that are 'fossil fuel-related' and that lower the delivered price or input price of fossil fuel." Multiple FPL witnesses have shown that the Woodford Project meets this going forward policy. Tr. 369-71 (Ousdahl); Tr. 88-89, 110-18 (Forrest), Tr. 880-86 (Deason); Ex. 9, 11, 63, 64. As noted above, even OPC's witness Lawton agreed that the Woodford Project is fossil fuel related and should save customers $43.8 million NPV, a clear and definitive "lower[ing] of the delivered price or input price of fossil fuel." *See* Tr. 751, 774 (Lawton); Ex. 38

In short, it is abundantly clear that the Woodford Project meets the requirements of Item 10 in Order 14546 and the subsequent Commission decisions implementing Order 14546, Item 10. It has been shown not only by FPL's evidence, but also by OPC's and FIPUG's witnesses.[17]

B. <u>The Woodford Project as a hedge properly recovered through the Fuel Clause</u>

In Order No. PSC-02-1484-FOF-EI, after a spin-off of issues from the 2001 fuel adjustment proceeding, the Commission approved a settlement, signed by both OPC and FIPUG, which addressed utility risk management plans related to fuel procurement. Part of the Commission's rationale for approving the settlement was that it "appears to remove disincentives that may currently exist for IOUs to engage in hedging transactions that may create customer benefits by providing a cost recovery mechanism for prudently incurred hedging transaction costs, gains and losses, incremental operating and maintenance expenses associated with new and expanded hedging programs." Order No. PSC-02-1484-FOF-EI at 2. In this proceeding,

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addressed in MFRs, not known at the time MFRs were filed, and to be incurred well beyond the test period far exceeds the realm of logic.

[17] Even under Mr. Pollock's infirm fuel forecast, FPL's customers are projected to enjoy $26.8 million in NPV savings due to the Woodford project. Tr. 1016-18 (Forrest); Ex. 42.

witness Deason correctly characterized the settlement as endorsing "the use of hedging, both financial and physical hedges, as a risk management tool to mitigate price volatility for the benefit of customers." Tr. 901 (Deason). So, since 2002 the Commission has had a policy in place that is meant to encourage investor-owned utilities to hedge their fuel purchases.

The evidence in this case shows that FPL's proposed Woodford Project is a form of long-term hedge and its costs are properly recoverable through the Fuel Clause. Tr. 91-93, 116, 1003, 1006-08 (Forrest). Former Commissioner Deason testified to the consistency of the Woodford Project with the Commission's hedging policy:

> Q Is FPL's proposed gas reserve project consistent with this policy?
>
> A Yes, it is. In particular, the policy recognizes that the Fuel Clause is an appropriate mechanism to effectuate cost recovery for hedging activities, that there should be flexibility in structuring hedging proposals, that there should be a determination of prudence, that the customers benefits should be the emphasis of a hedging initiative, that potential disincentives to hedging should be removed that otherwise could prevent achieving customer benefits, and that both gains and losses can result from prudent hedging initiatives. Consistent with this policy, FPL is seeking a determination of prudence for its gas reserves project that is anticipated to provide cost benefits along with its hedging benefits.

Tr. 902-03 (Deason).

Mr. Forrest addressed the hedging benefits associated with the Woodford Project. In his direct testimony he stated that, "[t]he PetroQuest transaction provides FPL's customers with a source of physical gas supply that provides for stable pricing over the production term of the project, thus mitigating volatility inherent in FPL's natural gas procurement." Tr. 85-86 (Forrest). Even Mr. Lawton agreed that "it is always prudent to mitigate volatility." Tr. 780 (Lawton). Mr. Forrest went on to explain how FPL currently hedges some of its natural gas purchases with a short-term hedging program, but he pointed out at least three significant

limitations of the existing program.[18] Tr. 91-92 (Forrest). He also testified that long-term fixed price contracts were not available to provide a long-term hedge for FPL's customers. Tr. 93 (Forrest). Mr. Forrest then addressed the hedging value of FPL acquiring natural gas reserves:

> Because the market price of natural gas is volatile and is a large component of the price of electricity, it can cause significant short- and long-term swings in customers' electric bills. Acquiring an interest in natural gas reserves and drilling operations would provide a longer-term physical hedge against future increases in natural gas costs for FPL's customers. Because the gas reserves are effectively delivering both physical supply and prices at or below FPL's current projections, they would partially supplant the need for financial hedges and allow FPL to reduce the amount of short-term financial hedges that it places.

Tr. 96 (Forrest).

Mr. Forrest explained that the production of gas from proven reserves decouples the price of natural gas from volatile market prices and ties the cost of gas to production costs, which are much more stable. Tr. 216-18 (Forrest). The costs of production in the AMI in which the Woodford Project will be located have declined over time and are projected to remain stable or even decline further. Tr. 869-70 (Taylor). In contrast, every fuel forecast before the Commission in this proceeding shows increasing market prices of natural gas over the life of the Woodford Project. The evidence is abundant that the market prices remain extremely volatile. The volatility of natural gas during 2014 so far has been 92%, and the NYMEX pricing for natural gas in 2025 recently swung from $5.60 down to $4.60 and then back to $5.60 in a period of just four months. Tr. 176, 213 (Forrest). So not only is procuring fuel at the cost of production projected to generate fuel savings for customers from day one (Ex. 9), but also it

[18] Those three limitations are (1) the financial markets do not have the liquidity to provide fixed-price hedges over 30 years or longer; (2) during periods of rising market prices, financial hedges also reflect rising costs, where an ownership interest in gas reserves is better able to keep gas costs low; and (3) even FPL's strong balance sheet would limit its ability to secure required credit support. Tr. 92 (Forrest).

should provide much greater price stability. In short, the Woodford Project will mitigate price volatility, something that even OPC witness Ramas acknowledged. Tr. 627 (Ramas).[19]

The Woodford Project is a highly beneficial hedge, providing price stability to customers. It enjoys significant advantages over existing short-term hedges, which are limited both in duration (no more than two years versus 30-50 years for this long-term physical hedge) and by credit requirements (while financial hedges require collateral, the Woodford Project does not). The Woodford Project is consistent with the Commission policy on hedging and would improve FPL's current hedging program. Therefore, even if it were not projected to save customers $107 million NPV, it would be properly recovered through the Fuel Clause.

C. The intervenor witnesses' arguments against Fuel Clause recovery are all flawed

1. OPC witness Ramas egregiously misinterprets Order 14546, Item 10

Without regard for subsequent applications and interpretations, OPC witness Ramas picked two phrases out of Item 10 in Order 14546 and erroneously concluded that the Woodford Project does not qualify for Fuel Cost recovery. Witness Deason characterized her interpretations as "overly restrictive." He was being polite. They are just plain wrong.

Witness Ramas begins by quoting the passage in Order 14546 upon which FPL relies in seeking Fuel Cost recovery for the Woodford Project.

> Fossil fuel-Related costs normally recovered through base rates but which were not recognized or anticipated in the cost levels used to determine base rates and which, if expended, will result in fuel savings to customers.

Focusing on two phrases taken in isolation, she makes two erroneous arguments. First, she argues the phrase "normally recovered through base rates" precludes recovery on gas reserves

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[19] While natural gas prices are less volatile now than they have been in recent past, traditionally natural gas has been volatile, and it remains volatile. Mr. Forrest documented a 92% volatility of natural gas prices in the current year. Tr. 213. Furthermore, there are a number of unknowns on the horizon that could affect volatility. Tr. 377-79 (Forrest).

because gas reserves have not historically recovered through base rates. Second, she argues the savings have to be actual or guaranteed; they cannot be estimated or projected. Her erroneous interpretations will be addressed in turn. Witness Deason very effectively rebutted both of witness Ramas' arguments. Tr. 881-83 (Deason).

The phrase "normally recovered through base rates" is not a reference to what has historically recovered through base rates. Under Ms. Ramas' overly restrictive interpretation literally nothing could ever be recovered through the Fuel Clause if it had not been recovered through base rates previously. Understandably, witness Ramas offers no policy rationale for such an interpretation, because there is none. Instead, the phrase is a reference to whether items could properly be included in rate base, and therefore, recovered through base rates. That is determined by looking to Section 366.06, Florida Statutes, the statute that addresses investments that can properly be included in rate base. Simply put, that statute authorizes the inclusion in rate base of assets that are prudently invested and used and useful in providing utility service. The Woodford Project investment will be prudently invested; it will be used and useful; and it will be used to provide service (and savings) to customers. Tr. 87-118 (Forrest), Tr. 893, 905 (Deason). So, it would be properly recovered in base rates, but it was not so recovered when FPL's current base rates were set. Tr. 370 (Ousdahl). Consequently, under Order 14546, Item 10, it is properly recovered through the Fuel Clause.

This interpretation of Order 14546, Item 10 is not only consistent with the statutory scheme and common sense, but also with the Commission's prior implementation of this passage. At the time the Commission allowed rail cars for coal transportation to be recovered through the Fuel Clause, such costs had not historically been included in rate base and recovered through base rates. However, their recovery was allowed through the Fuel Clause. The

Commission did not adopt witness Ramas' overly restrictive reading of that provision in those cases, and it should not now.

Witness Ramas' insistence that the phrase "will result in fuel savings to customers" requires actual or guaranteed fuel savings is also easily refuted by the Commission's prior orders applying Order 14546, Item 10. Most of those orders are summarized in Attachment A to Order 11-0080 and in footnote 14 above. They show unequivocally that the savings involved were projected or estimated. This makes sense because the Fuel Clause is initially based upon projections, and it is in projection filings where recovery for capital projects is sought.

Finally, it should be noted that if witness Ramas' flawed interpretations of Order 14546, Item 10 were adopted, they would frustrate the future operation of this provision and stifle utility innovation designed to reduce customer fuel costs. This would cause utility customers potentially to forego hundreds of millions of dollars in fuel savings with respect to gas reserves projects alone, hardly a customer-favoring "public interest" outcome.

2. <u>Witness Ramas also misinterprets Order 20604</u>

Witness Ramas argues that Order 20604 ties the Commission hands and as a matter of policy precludes it from approving any fuel arrangement that is at other than market price. Once again former Commissioner Deason fully exposed witness Ramas' misuse and misreading of Order 20604. Tr. 888-92 (Deason). His summary of that testimony bears repeating:

> Witness Ramas' heavy reliance upon Order 20604 shows that she has a blind faith in the natural gas market and the prices that it charges. But the FPL gas reserves project challenges that blind faith with a fundamental and important question: "Is there a better way to protect customers then simply assuming that 100% reliance on natural gas market prices is best?" As shown in the direct and rebuttal testimony of FPL's witnesses, the answer is a clear "yes." Neither Order No. 14546 nor Order 20604 should be interpreted in a way that interferes with the Commission's and FPL's ability to use this better way for the benefit of customers.

Tr. 892. (Deason). The evidence shows that FPL has found a "better way."

3. OPC witness Ramas' asymmetrical recovery standard is unfair.

Witness Ramas originally recommended in pre-filed testimony that FPL should be limited to Fuel Clause recovery of the market price of gas. In cross-examination, even witness Ramas stopped short of suggesting that FPL just charge market prices. Ultimately, she argued that FPL should recover no more than the market price of gas, but if production costs turned out to be lower than market prices, then FPL's recovery should be limited to production costs. This approach is asymmetrical and inappropriate. Former Commissioner Deason correctly characterized witness Ramas' asymmetrical approach as a "heads I win, tails you lose" philosophy that turns established regulatory principles "on their heads." Tr. 899-900 (Deason).

4. OPC witness Lawton's selective quoting of Order 11-0080 is misleading

As noted in Section II. A. above, Order 11-0080 is very instructive in its interpretation and application of Order 14546 and the recovery of capital projects through the Fuel Clause. Mr. Lawton selectively quotes one paragraph of this instructive order. In his cross-examination (Tr. 751-63 (Lawton), it became readily apparent that Mr. Lawton's coverage of Order 11-0080 was so selective as to be misleading. He left out passages of Order 11-0080 that effectively rebut (a) both of OPC witness Ramas' misinterpretations of Order 14546 Item 10 and (b) his own assertion that the Commission prohibits profits on fuel costs contained in the Fuel Clause.

5. OPC witness Lawton incorrectly asserts Commission policy on recovery of profits through the Fuel Clause precludes recovery of a return on fuel-saving capital projects

Witness Deason effectively rebuts this faulty concept set forth by Mr. Lawton. Tr. 897-99 (Deason). Moreover, the error of his assertion is readily apparent from a thorough reading of either or both Order Nos. 14546 and PSC 11-0080. They authorize a return on investment on

capital projects included in the Fuel Clause. If an investment is financed in part with equity, then such a return necessarily includes a return on equity. If he had not been in such a rush to throw mud on the wall with his arguments, Mr. Lawton would have understood his argument was inconsistent with the very orders upon which he ostensibly relied.

6. <u>Fuel Clause recovery of the Woodford Project is not precluded by FPL's 2012 rate case settlement</u>

FPL's legal analysis is set forth in Issue 6 below. It shows that the 2012 rate case settlement does not restrict Fuel Clause recovery pursuant to the Commission's traditional and historical practices, and FPL is requesting recovery of the Woodford Project pursuant established Commission practices on fuel-saving measures and hedging. Moreover, the evidence supports FPL's legal conclusion. Mr. Deason addressed this issue in response to a question by Commissioner Edgar:

> COMMISSIONER EDGAR: Can you speak to the to issue six, which is basically does that stipulation and settlement that was approved by this Commission preclude FPL from seeking these sorts of costs through the Fuel Clause?
> . . .
> THE WITNESS: … The settlement dealt with base rates. We're in a proceeding that's in the fuel docket. This proposal is consistent with the Commission's policy concerning the handling of investments which save fuel costs. It's appropriately before the Commission within the fuel docket. I do not see a conflict between considering this investment in terms of the fuel docket in that it being somehow prohibited or being somehow in conflict with the settlement.

Tr. 987-88 (Deason).

D. <u>Staff's 50/50 sharing approach is inconsistent with established Commission Fuel Clause policy and fundamental precepts of ratemaking</u>

In depositions and again at hearing, the Commission Staff seemed to suggest some form of a "50/50 sharing" approach. It is not clear whether Staff had a firm proposal in mind (or, indeed, what the particulars of such a proposal would be), or whether Staff was simply raising it

as a potential discussion point. To the extent that it was intended as more than a possible discussion point, FPL respectfully submits that such an approach is inappropriate.

1. A sharing approach is outside the scope of this proceeding

FPL's petition and testimony do not propose any form of shared approach. Rather, FPL's proposal is to make an investment that will be used and useful in providing a form of risk reduction and savings for customers, effectively no different than many other investments the Company makes. In doing so, FPL has based its request upon established Commission precedent. The Commission's decision should be based upon the petition before it.

2. There is an insufficient evidentiary basis for the 50/50 concept raised

Staff presented no witness setting forth just what the 50/50 sharing concept is, how it would operate in practice, or how it would be consistent with any prior Commission precedent. Neither is the concept addressed in the filed testimony of any party, having been raised for the first time in depositions after testimony was filed. Therefore, precisely what was being raised for discussion would have to be deduced from Staff's cross-examination questions. There is insufficient evidence and clarity as to the particulars of the concept that formed the basis for Staff's questions during depositions and at the hearing.[20] The entire focus of this proceeding has been on whether existing established policy applies to the Woodford Project, not whether that policy should be changed.

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[20] FPL is truly uncertain regarding just what Staff's approach would entail. On possible interpretation is that FPL would share with its customers half the actual fuel savings resulting from the Woodford Project; so customers would receive only half of the savings that FPL proposes. In exchange, customers would share with FPL half of something that FPL would receive under FPL's proposal. It is unclear whether what FPL would be required to split is one half of the entire revenue requirements associated with the Woodford Project or just half of the return on equity associated with the Woodford project, two very different values, as most of the Project's revenue requirements do not flow to equity investors, but are just used to pay costs other than an equity return. In addition, if the savings were to be calculated on a year-by-year basis, the result in terms of the sharing could be quite different than if the investment was compared to market prices over the life of that investment which is the way in which this investment is properly assessed. It is also unclear how and to what extent Staff's proposal might affect FPL's achieved rate of return for earnings surveillance purposes. These are just a few of the questions or clarifications that are not addressed in the record.

3. A 50/50 sharing approach would be an abrupt change from long-established, proven Fuel Clause policy as set forth in Order 14546 and its progeny

The policies adopted in Order 14546 were based upon a stipulation involving multiple stakeholders after negotiations. They were developed from consensus building. These policies for promoting the recovery of fuel-saving projects through the Fuel Clause have worked to serve customer interests. Tr. 878-910 (Deason). There has been no showing that those policies will not continue to work, and more importantly, there has been no compelling reason offered, much less proven, as to why the Commission should deviate from the policies.

4. A sharing approach is unnecessary

There is no need for a sharing mechanism, however designed, to protect customers. FPL has a proven record of proposing capital investments designed to generate fuel savings for customers. Tr. 90 (Forrest). It has made such proposals repeatedly in the Fuel Clause. *See* Order 11-0080, Attachment A. It has also made significant investments in fuel-efficient natural gas generation facilities designed to save customers fuel costs. Tr. 90 (Forrest). FPL has been highly successful in those efforts, saving customers more than $6.5 billion in fuel costs since 2001. *Id.* FPL clearly understands it has a duty to act in its customers' interests, and it has repeatedly acted in that fashion, serving customers reliably while keeping bills low. *Id.* There is no basis for the Commission to conclude that reducing the hedging and estimated fuel savings benefits for customers through some sort of sharing mechanism is a better deal for customers than the Woodford Project, as proposed.

Similarly, a sharing approach is unnecessary to motivate utilities to make solid investments that are effective in reducing fuel costs for customers. There is nothing in the record to suggest that the fuel-savings projects previously approved by the Commission and summarize in Order 11-0080, Attachment A were ill-chosen or ineffectively implemented. And, if that ever

turned out to be the case, then the Commission would have full authority to evaluate the prudence of the utility's actions.

5. **Sharing proposals misapprehend customer risk**

The premise behind sharing proposals appears to be the idea that the Woodford Project places the risk of market price fluctuations onto customers; therefore, sharing is necessary to mitigate customer risk. In fact, the opposite is true. Under current fuel procurement practices, FPL's customers pay the market price of gas. Tr. 210 (Forrest). That means they are 100% exposed to market price volatility. Tr. 215-17 (Forrest). By tying the cost of gas to stable gas production costs instead of the market price of gas that varies far more than production costs, the Woodford Project protects customers from the risk of natural gas market price volatility. Tr. 217 (Forrest). Simply stated, the Woodford Project does not increase customer risk -- it mitigates price volatility. Tr. 618-19, 627 (Ramas).

6. A sharing approach would not be in the public interest

The Commission is mandated by the Legislature to act in the public interest in its regulation of FPL. Section 366.01, Florida Statutes; Tr. 903-04 (Deason). FPL is proposing to invest in the Woodford Project to provide benefits to its customers. Tr. 1002 (Forrest). A sharing proposal would shift 50% of the fuel savings benefits that customers would enjoy to FPL, cutting customers' benefits in half. It is not in the public interest to shift to FPL half the savings designed for customers. Conversely, half of FPL's revenue requirements, or at least half of FPL's authorized return on equity in the Woodford Project, would no longer be paid by customers. This could lead to a confiscatory return to FPL if fuel savings were lower than projected, which is not in the public interest. On the other hand, if fuel savings were greater than

expected, it could result in FPL's earnings on the Woodford Project exceeding the authorized return on equity range, which typically would be seen by intervenors as not in the public interest.

The Commission's current policy regarding recovery of capital projects through the Fuel Clause has worked for almost thirty years and has proven to be in the public interest. There is no apparent reason to abandon it in favor of an unclear proposal that stands a good chance of not serving the public interest.

7. <u>A sharing proposal is at odds with the regulatory policy set forth in statute</u>

The applicable statutory standard was addressed by former Commissioner Deason:

> Q What does the statute say about the recovery of utility investments?
>
> A. Section 366.06 requires the Commission "to investigate and determine the actual legitimate costs of property of each utility company, actually used and useful in the public service" and that the net investment "shall be used for ratemaking purposes and shall be the money honestly and prudently invested by the public utility company in such property…." So, succinctly, the standard is one of prudently incurred costs in property that serves the public.
>
> Q Does FPL's proposed gas reserves project fall within this statutory provision?
>
> A Yes. FPL is seeking the Commission's determination that its investment in the gas reserves project is prudent and is used and useful in serving the public, such that it is in the public interest and eligible for cost recovery. What is being sought is squarely within the statutory framework and is eligible for cost recovery through the Fuel Clause.

Tr. 905 (Deason).

Under that approach, the investment in the Woodford Project would be prudently invested and used and useful in serving the public. However, the return that would be earned on this significant investment being made to serve customers could vary significantly, for factors outside FPL's control and unrelated to the prudence of FPL's actions. If savings are lower than forecasted, the effective return to FPL could be confiscatory. Conversely, if savings are at the high end of the forecast, FPL could earn far above its authorized return on equity range. This

would be a significant departure from the required statutory scheme and the Commission's current implementation of it. There is no compelling reason to deviate from that scheme. As an investment prudently made and used and useful in providing service, FPL is entitled to earn its authorized rate of return on the investment – nothing more and nothing less.

E. <u>Conclusion -- The Woodford Project is properly recovered through the Fuel Clause, without dilution or distortion by a 50/50 approach</u>

It is clear from the evidence and argument offered in this case that the Woodford Project is properly recovered through the Fuel Clause, because it is consistent with Order 14546 and its progeny as well as the Commission policy set forth in Order No. PSC-02-1484-FOF-EI for recovery of hedging costs. The Intervenor witnesses' misinterpretations of Commission policy to the contrary have been definitively rebutted. Finally, there is no valid or supportable justification to dilute or distort the Fuel Clause recovery with either Staff's 50/50 sharing approach or OPC's proposal to limit FPL's recovery asymmetrically to the lesser of each year's production cost of gas or market prices.

IV. ISSUES AND POSITIONS

<u>ISSUE 1:</u> **Should the Commission approve FPL's request to recover the amounts it would pay to its subsidiary for gas obtained from the PetroQuest joint venture through the fuel cost recovery clause on the basis and in the manner proposed by FPL in the June 25 Petition?**

<u>FPL:</u> Yes. FPL's investment in the PetroQuest joint venture is prudent. FPL's investment in the PetroQuest joint venture is projected to provide for $107 million in customer fuel savings over the life of the project. In addition, the PetroQuest joint venture will provide for fuel price stability, effectively acting as a long-term hedge. Because it is designed to reduce the delivered price of fossil fuel (natural gas) and the costs for the PetroQuest joint venture were not recognized or anticipated in the cost levels used to determine FPL's current base rates, the costs associated with the PetroQuest joint venture are appropriate for recovery through the Fuel Clause. The PetroQuest joint venture also provides a longer-term physical hedge to complement FPL's existing program of short-term financial hedges, and it is properly recoverable through the Fuel Clause as a hedging cost. Finally, Fuel Clause recovery of costs for the PetroQuest joint venture

appropriately substitutes for Fuel Clause recovery of the volume of purchased gas that it replaces.

ISSUE 2: **If the Commission answers Issue 1 in the negative, what standard should the Commission apply to a request by FPL to recover the price that FPL pays to its subsidiary/affiliate for gas obtained through the joint venture with PetroQuest?**

FPL: Although FPL has agreed to the inclusion of this issue in the Prehearing Statement, it is effectively moot. If the Commission rejects FPL's Petition, FPL will not pursue the PetroQuest joint venture. Instead, FPL's unregulated affiliate, USG Properties Woodford I, LLC will retain all of the rights, benefits and responsibilities of the PetroQuest joint venture. Therefore, the question of what Commission standards would apply to recovery for the PetroQuest joint venture in the event of Commission rejection is purely hypothetical and need not be addressed.

ISSUE 3: **What amount, if any, associated with the transactions proposed in FPL's June 25 Petition should be included for recovery through FPL's 2015 fuel cost recovery factor?**

FPL: For 2015, the amount to be recovered is projected to be $45,473,295, which is based on FPL's share of the costs to be incurred in 2015 for the PetroQuest joint venture. The recovery amount will be adjusted through the normal Fuel Clause true-up mechanism as actual 2015 costs are known.

ISSUE 6: **Is FPL contractually precluded by paragraph 6 of the Stipulation and Settlement Agreement dated December 12, 2012 and approved by the Commission in Order No. PSC-13-0023-S-EI from seeking to increase rates as it proposes?**

FPL: It is FPL's position that Issue 6 is subsumed by Issue 1. Moreover, the premise of this issue is that the PetroQuest joint venture would increase rates, whereas FPL's testimony demonstrates that there is a high probability (85%) that it would reduce rates because of the fuel savings that it would make possible. Regardless of where Issue 6 is addressed, FPL's position on this issue is "no." The first sentence of paragraph 6 in the Stipulation and Settlement Agreement provides expressly that "[n]othing shall preclude the Company from requesting the Commission to approve the recovery of costs (a) that are of a type which traditionally and historically would be, have been, or are presently recovered through cost recovery clauses or surcharges …." FPL's request to recover costs associated with the PetroQuest joint venture through the Fuel Clause is fully consistent with the Commission's traditional and historical practices under Order No. 14546 (fuel-saving measures) and Order Nos. PSC-02-1484-FOF-EI and

PSC-08-0667-PAA-EI (hedging), because it is projected to provide net savings for customers and would serve as a valuable longer term physical hedge.

ISSUE 8: **What effect, if any, does Commission's decision on Issue 3 have on the fuel cost recovery factor and GPIF targets/ranges for the period January 2015 through December 2015?**

FPL: If the Commission approves recovery of costs associated with the PetroQuest joint venture through the Fuel Clause, FPL does not propose to revise the fuel cost recovery factors for the period January 2015 through December 2015. Rather, FPL would reflect both the costs and fuel savings associated with the PetroQuest joint venture in the actual/estimated and final true-ups for 2015. The GPIF targets/ranges table that was approved by stipulation at the October 22, 2014 hearing in this docket would change slightly as a consequence of approving cost recovery for the PetroQuest joint venture. As revised, the proper values for FPL in the table would be as shown in Appendix A to this brief.

V. CONCLUSION

FPL respectfully requests that the Commission find that FPL's participation in the Woodford Project is prudent and that the Woodford Project costs are eligible for recovery through the Fuel Clause.

Respectfully submitted this 12th day of December, 2014.

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By *s/ John T. Butler*
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APPENDIX A

GPIF TARGET AND RANGE SUMMARY
JANUARY THROUGH DECEMBER, 2015

Company (Exhibit)	*Plant/Unit*	*EAF*			*ANOHR*			*Total Projected Max Fuel Savings ($000's)*
		Target	*Maximum*		*Target*	*Maximum*		
		EAF (%)	*EAF (%)*	*Savings ($000's)*	*ANOHR BTU/KWH*	*ANOHR BTU/KWH*	*Savings ($000's)*	
FPL	*Ft. Myers 2*	*84.1*	*86.6*	4,621	*7,197*	*7,064*	3,193	7,814
(JCB-2)	*Martin 8*	*84.7*	*87.2*	5,003	*6,922*	*6,789*	3,875	8,878
	Manatee 3	*90.3*	*92.8*	4,322	*6,921*	*6,804*	2,802	7,124
	St. Lucie 1	*83.5*	*86.5*	10,302	*10,405*	*10,277*	4,324	14,626
	St. Lucie 2	*84.8*	*87.8*	8,486	*10,288*	*10,142*	4,019	12,505
	Turkey Point 3	*83.2*	*86.2*	8,459	*11,143*	*10,972*	4,506	12,965
	Turkey Point 4	*93.6*	*96.6*	9,317	*11,002*	*10,821*	5,305	14,622
	Turkey Point 5	*91.1*	*93.6*	5,530	*7,011*	*6,861*	2,862	8,392
	West County 1	*89.8*	*92.3*	5,343	*6,794*	*6,648*	5,234	10,577
	West County 2	*78.8*	*81.8*	5,692	*6,866*	*6,726*	4,367	10,059
	West County 3	*90.0*	*92.0*	3,955	*6,703*	*6,568*	4,388	8,343
	Total			71,030			44,875	115,905

CERTIFICATE OF SERVICE
DOCKET NO. 140001-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic service on this 12th day of December, 2014 to the following:

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