BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In re: Florida Power & Light Company's Petition for Increase in Base Rates

DOCKET NO. 050045-EI

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DIRECT TESTIMONY OF

SHEREE L. BROWN

ON BEHALF OF THE

FLORIDA RETAIL FEDERATION

FPSC DOCKET NO. 050045-EI

IN RE: FLORIDA POWER & LIGHT COMPANY'S PETITION FOR APPROVAL OF INCREASE IN BASE RATES

DIRECT TESTIMONY OF SHEREE L. BROWN

INTRODUCTION

Q: PLEASE STATE YOUR NAME AND OCCUPATION.

A: My name is Sheree L. Brown and I am the President and Managing Principal of Utility Advisors' Network, Inc., located at 530 Mandalay Rd., Orlando, Florida 32809.

Q: PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A: I received a B. A. in Accounting from the University of West Florida and a Masters in Business Administration from the University of Central Florida. I am a Certified Public Accountant in the State of Florida.

I have been providing utility consulting services to municipal, cooperative, county, and institutional utilities and industrial and commercial consumers since 1981. My work has primarily focused in the areas of regulatory affairs, revenue requirement and costs of service, rates and rate design, deregulation and stranded costs, valuation and acquisition, feasibility studies, and contract negotiations.

Q: HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION ("FPSC" OR THE "COMMISSION') AND OTHER UTILITY REGULATORY AUTHORITIES?

A: Yes. I have participated in several proceedings before the FPSC, most recently including the Progress Energy Florida ("PEF") storm surcharge case, Docket No. 041272-EI; the last Florida Power & Light Company ("FPL") general rate proceeding, Docket No. 001148-EI; the last PEF general rate proceeding, Docket No. 000824-EI; and in the 2003 Fuel Cost Recovery Proceedings, Docket No. 030001-EI, on issues relating to Tampa Electric Company's fuel costs. I have also testified before the Federal Energy Regulatory Commission ("FERC"), and the following state and local regulatory authorities: the Arkansas Public Service Commission, Council of the City of New Orleans, Illinois Commerce Commission, Louisiana Public Service Commission, Massachusetts Department of Telecommunications & Energy, Minnesota Public Utilities Commission, New Hampshire Public Utilities Commission, North Carolina Utilities Commission, and the Texas Public Utilities Commission. I have also presented arbitration reports and live testimony in the Circuit Court of the Ninth Judicial Circuit in and for Orange County, Florida, and in the Circuit Court of the Eighteenth Judicial Circuit in and for Seminole County, Florida in recent arbitrations regarding acquisition of electric distribution facilities from Progress Energy Florida.

My testimony has addressed a wide range of regulatory and utility-related issues, including revenue requirement issues, cost of service, cost allocation, rate design, terms and conditions of service, merger impacts, utility valuations, stranded costs, and deregulation. My resume and a listing of my testimony experience is included as Appendix A to my testimony.

Q: ON WHOSE BEHALF ARE YOU TESTIFYING?

A: I am testifying on behalf of the Florida Retail Federation ("FRF"). Members of FRF are large and small commercial users of electricity whose costs of providing goods and services to their own customers are directly impacted by increases in the costs of electricity. FRF has more than 10,000 members in Florida, many of whom take electric service from FPL.

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A: The purpose of my testimony is to address FPL's requested increase in base rates.

<u>SUMMARY</u>

Q: PLEASE PROVIDE A SUMMARY OF YOUR TESTIMONY.

A: My testimony addresses FPL's proposed 2006 Test Year revenue requirement. Based on my analyses, FPL's request for a $430 million increase in retail base rate revenues should be reduced by at least $417 million, even before consideration of an appropriate rate of return on equity. The following is a bullet-list summary of the issues I will address herein.

- The Company has understated its customers for the Test Year, resulting in an understatement of $33.972 million in Test Year revenues at present rates.
- FPL has overstated its employees for the Test Year, resulting in an overstatement of $16.2 million in the base rate revenue requirement.
- The Company has included approximately $29.9 million in expenses related to a Long-Term Incentive Plan. This plan includes stock-based compensation. The portion of FPL's stock-based compensation that does not require actual cash outlay should be removed from the Test Year

revenue requirement. Based on FPL's historical stock-based compensation as reported for 2004, the Test Year revenue requirement should be reduced by approximately $17 million.

- FPL has included $104 million for costs associated with the GridFlorida Regional Transmission Organization ("RTO") in the Test Year revenue requirement. These costs are uncertain and speculative and should be disallowed. FPL has further inflated its speculative 2006 costs by an additional $45 million by assuming a 5-year average of RTO projected costs. In addition, FPL has not created a regulatory liability in rate base for revenues it would recover during the Test Year for costs that would not be incurred until later years. The revenue impact of eliminating this expense is $102.6 million to the retail jurisdiction.
- FPL has proposed a 50 basis point adder to its proposed "fair" return on equity as an incentive or reward. Under the current regulatory structure, this adder will not provide an added incentive for performance. FPL has not demonstrated the need to earn in excess of a fair return on equity in order to attract investor capital. The 50 basis point adder should be denied, thereby reducing the Test Year revenue requirement by $49.2 million.
- The Company has overstated bad debt expense. Elimination of this overstatement reduces the Test Year revenue requirement by $3 million.

- FPL has overestimated costs associated with an increase in postage rates. Based on a recent filing by the United States Postal Service, FPL has overstated its postage expense by $1.32 million.
- The Company has requested deferral of rate case expenses incurred in 2004 and 2005, with amortization over a two-year period at $4.475 million a year and inclusion of the unamortized balance in rate base. The Commission should not allow FPL to defer these expenses based on the level of rate case expenses included in FPL's last filing and the level of earnings FPL is currently achieving. Elimination of the rate case expenses reduces the Test Year revenue requirement by $5.001 million.
- FPL has requested an increase in its annual storm damage accrual from $20 million to $120 million. When taking into consideration the Commission's past decisions allowing FPL to seek cost recovery for negative storm reserve balances, the past actual storm damage history, and the added burden on ratepayers associated with the 2004 hurricane damages, the storm damage accruals should be maintained at the $20 million level to cover smaller storms. This would decrease the jurisdictional Test Year revenue requirement by $99.5 million. With enactment of Senate Bill 1322, commonly called the "Securitization Bill", the Company has another added layer of protection, further preventing the need for increasing annual accruals to the storm damage reserve.
- In adjusting the capital structure to remove the accumulated deferred income taxes associated with the storm damage fund, the Company has

allocated the removal on a prorata basis across all capital components. Properly eliminating the accumulated deferred income taxes from the accumulated deferred income tax capital component reduces the Test Year revenue requirement by $4.071 million.

- The Company did not adjust its accruals to the Last Core Nuclear Fuel reserve or the End-of-Life Materials and Supplies Inventory to reflect the extension of the license lives of the nuclear units. The Commission should suspend accruals to these reserves until FPL justifies the appropriate level and timing of further accruals. Suspending accruals for the Test Year reduces the jurisdictional revenue requirement by $5.263 million and $2.334 million for Last Core Nuclear Fuel and End-of-Life Materials and Supplies, respectively.
- The Company's request to recover $1.538 million in charitable contributions should be denied.
- The Company has included $522.6 million in rate base for Construction Work in Progress ("CWIP"). Based on interest coverage ratios, CWIP should be removed from rate base in accordance with past Commission decisions. The revenue impact of this adjustment is $69.585 million.
- FPL has understated its regulatory liability for nuclear maintenance reserves by charging the reserve for outage costs at the beginning of the accrual period, rather than at the time actual costs are incurred. Correction of this error reduces the jurisdictional Test Year revenue requirement by $7.2 million.

FPL'S PROPOSED INCREASE

Q: PLEASE DESCRIBE FPL'S PROPOSED INCREASE IN BASE RATES.

A: FPL is requesting a $430.198 million increase in base rates, effective January 1, 2006. The Company is then proposing to transfer $58.551 million in gross receipts taxes from base rates to an adder on customer bills. The Company is also requesting another $122.757 million annual increase in base rates, effective July 1, 2007, which is 30 days after the Turkey Point No. 5 generating unit is projected to be placed in service. FPL's request includes revenues sufficient to produce a 12.3% after-tax return on equity, including a 50 basis point "adder" as an incentive or reward. Other major components of FPL's base rate increase request include $104 million in costs that FPL claims are related to the formation and operation of an RTO, a requested $100 million increase in accruals to the storm damage reserve, and a claimed increase of approximately $211 million in non-fuel operating and maintenance expenses over actual 2004 experience, exclusive of the RTO and storm damage expenses.

Q: IS FPL'S REQUESTED BASE RATE INCREASE OF $430.198 MILLION REASONABLE?

A: No. FPL's increase includes numerous cost projections that are, at best, aggressive and over-reaching, significantly overstating justifiable revenue requirements. These projections include, but are not limited to, an understatement of customers, resulting in an understatement of revenues; the inclusion of RTO costs in the Test Year; the increase of $100 million in storm damage accruals; an increase in bad debt expense; continued accruals for Last Core Nuclear Fuel and

End of Life Materials and Supplies Inventory; the overstatement of employee headcount, resulting in overstated labor and benefits expenses; an overestimated increase in postage rates; the inclusion of charitable contributions; the requested return on equity reward mechanism; the inclusion of CWIP in rate base; and an understatement of the nuclear maintenance reserve regulatory liability.

Q: ARE FPL'S PROPOSED RATES AND ITS PROPOSED REVENUE REQUIREMENT FAIR, JUST AND REASONABLE?

A: No. Each of the cost projections and requested revenue items that I mentioned above would result in rates that are too high, and, therefore, unfair, unjust, and unreasonable. I will address each of these issues in my testimony.

CUSTOMER FORECAST

Q: PLEASE EXPLAIN YOUR CONCERNS WITH THE CUSTOMER FORECAST USED TO DERIVE THE TEST YEAR REVENUES.

A: FPL Witness Mr. Green prepared the Company's customer and load forecasts for 2006. He then adjusted the forecasts to reflect a significant reduction in customer growth for 2005, 2006, and 2007 on the assumption that the 2004 hurricanes would have a significant impact on the number of new customers. As shown on Exhibit LEG-2, page 1 of 1, FPL has experienced customer growth of over 2% for each year since 1999. The average annual customer growth on FPL's system was 2.38% from 1999 through 2004. Growth was increasing, with 2003 and 2004 growth rates of 2.4% and 2.6%, respectively. However, FPL assumed customer growth for 2005 and 2006 of only 1.7%. This is a lower percentage of growth than experienced over the past 11 years, including years following Hurricane

Andrew, which devastated South Florida, and the September 11, 2001 terrorist attacks.

Q: HOW MANY NEW CUSTOMERS WERE ADDED TO FPL'S SYSTEM IN 2003 AND 2004?

A: As shown on Exhibit__(LEG-2), FPL added 97,416 customers in 2003 and 107,289 in 2004.

Q: HOW MANY NEW CUSTOMERS IS FPL PROJECTING WILL BE ADDED IN 2005 THROUGH 2007?

A: Prior to making his hurricane adjustments, Mr. Green was projecting an annual increase of 80,000 new customers in 2005 and 82,000 new customers in 2006. After the hurricane adjustments, the projections were reduced to only 72,488 new customers in 2005 and 74,999 new customers in 2006. Mr. Green indicates that he is projecting a "return to a trend of 80,000 in 2007" and that "the impact of the 2004 hurricanes will be short-lived and customer growth will return to a more normal level in a couple of years as opposed to the impact of Hurricane Andrew which lasted six years." (Green Direct Testimony, pages 7 and 8)

Q: IS THE CUSTOMER GROWTH FORECAST REASONABLE IN LIGHT OF RECENT EXPERIENCE?

A: No. First, FPL has added over 80,000 new customers each year from 1999 through 2004. Even at the base forecast of 80,000 new customers for 2005, the growth rate would be 1.9%, while the average annual growth rate experienced from 1999 through 2004 has been 2.4%. Further decreasing the forecast of new customers to 72,448 reduces the growth rate to 1.7%. Mr. Green applied this lower growth rate to FPL average 2004 customers for both 2005 and 2006 to derive total average customers of 4,371,957 in 2006. Using the actual annual average growth rate from 1999 through 2004 would indicate a 2006 customer base of 4,429,718, or 57,761 additional customers than forecasted by FPL.

Q: HAS FPL'S ASSUMPTION BEEN REALIZED IN ACTUAL CUSTOMER GROWTH?

A: No. FPL's actual customer growth to date in 2005 has been significantly greater than that assumed by FPL. In response to OPC's Interrogatory No. 88, the Company provided the actual number of customers for each month from March, 2004 through February, 2005. The 12-month customer growth for each month through May, 2005 was provided in the response to FRF Interrogatory No. 20. From this data, the monthly customer growth for each month from January through May, 2005 can be developed. A review of historical customer growth, by month, from Table 32 of the statistics filed annually with the FPSC shows that average customer growth for January through May of the previous four-year period was 42,534. Actual customer growth for January through May of 2004 was 51,083. Actual customer growth for January through May of 2005 was 56,985—outstripping both 2004 growth and the average growth experienced over the previous four year period.

Q: HOW DOES THE ACTUAL GROWTH COMPARE TO FPL'S CUSTOMER FORECAST?

A: As shown in the response to FRF Interrogatory No. 20, the actual annual customer growth for the 12 months ending May, 2005 was 95,836. This is 23,388 greater than the 2005 growth projection of 72,448 as shown on Document No. LEG-2—even though the period ending May, 2005 includes the months immediately following the 2004 hurricanes in which customer growth was adversely impacted.

Q: HOW DOES THE ACTUAL NUMBER OF TOTAL CUSTOMERS IN THE FIRST QUARTER OF 2005 COMPARE TO THE FORECASTED NUMBER OF TOTAL CUSTOMERS IN THE FIRST QUARTER OF 2005?

A: MFR Schedule F-7 shows the total customers on an actual basis through December, 2004 and projected thereafter. As shown on Schedule F-7, FPL is projecting a decrease in customers from December, 2004 to January, 2005. At the end of the May, 2005, FPL projected total customers of 4,290,144 as compared to actual customers of approximately 4,313,996. FPL's projections of annual customer growth for the months ending January, February, March, April, and May, 2005 are understated by 20% to 25%. This is an unacceptable forecasting error.

Q: HAVE YOU CALCULATED THE IMPACT OF THE COMPANY'S UNDERSTATEMENT OF CUSTOMERS ON THE TEST YEAR REVENUES?

A: Yes. Exhibit__(SLB-1) provides calculations of the impact of the forecasting error on the Test Year revenues. Even *with* the impact of the hurricanes, FPL experienced 2.6% in average customer growth from 2003 to 2004. Given the actual reductions experienced in the fall of 2004 associated with the hurricanes, the actual 2.6% growth rate for the year implies an even higher growth rate, absent the storms. In 2003, customer growth was 2.4%. Further, as explained above, the average annual growth rate from 1999 through 2004 was 2.4%. To assure that the adverse impacts on customer growth that occurred during the last quarter of 2004 were recognized, I escalated the 2004 year-end customers by 2.4% for 2005 and 2006. The average of the year-end 2005 and 2006 customers is thus 4,411,489. This represents 39,532 more customers than FPL is assuming for the Test Year. FPL estimated present base revenues of $3,757,025,000 for the Test Year, with billing energy of 106,226,417 MWhs, resulting in an average rate of $0.03537 per kWh. As shown on Schedule F-6, FPL is assuming that a change in customers has a corresponding percentage change in net energy for load. Applying FPL's average use per customer to the revised customer base provides Test Year billing energy of 107,186,945 MWhs. Using the average rate per kWh produces Test Year revenues of $3,790,997,000, or an increase of $33.972 million over FPL's projected Test Year revenues. The revised Test Year revenue of $3.791 billion is only a 1.56% increase in retail revenues per year when compared to FPL's reported 2004 base revenues of $3.676 billion, as reported in its December, 2004 surveillance report. The Company's requested increase should be reduced by the $33.972 million in additional revenue that would be recovered under present rates.

Q: DOES FPL'S UNDERSTATEMENT OF CUSTOMER GROWTH AND SALES HAVE ANY IMPACT ON THE RATES THAT WILL BE DETERMINED AT THE CONCLUSION OF THIS CASE?

A: Yes. Aside from reducing the need for a base rate revenue increase, the final rates that result from whatever total revenue requirement is approved by the Commission should be calculated using the additional billing determinants, i.e.

the additional kWh sales and associated billing demands, over which the Test Year revenue requirement will be collected.

LABOR EXPENSES

Q: WHAT IS THE LEVEL OF LABOR AND BENEFITS EXPENSES INCLUDED IN THE TEST YEAR REVENUE REQUIREMENT?

A: The Company's MFRs do not include a breakdown of labor and benefit expenses included in the Test Year revenue requirement. However, by "piecing together" data from numerous responses to interrogatories, it appears that the Test Year revenue requirement include $766.4 million in labor and benefit expenses. The derivation of the labor and benefit expenses included in the Test Year revenue requirement is as follows:

Table 1. Estimates of FPL Labor and Benefits Expense, 2006

Payroll Item		($000)
Gross Payroll (MFR Schedule C-35)	$	808,940
Fringe Benefits (MFR Schedule C-35)		154,241
Long-term Incentive Payments (OPC 43)[a]		29,717
Less:		
Gross Payroll Capitalized (OPC 50)		(194,196)
Payroll Taxes Capitalized (OPC 116)		(11,904)
Other Benefits Capitalized (OPC 247) [b]		(20,402)
Payroll and Benefits included in the Test Year Revenue Requirement	$	766,396

[a] Per OPC 49, Long-term Incentive Payments are included in MFR C-1, but not in C-35.
[b] Per OPC 247, $20,402,000 was credited to O&M expense for capitalized benefits. OPC 247 does not state whether this amount includes the $11.9 million capitalized payroll taxes.

In addition to the above amounts, the Test Year revenue requirement includes labor and benefit expenses billed to the Company from its affiliates. It appears that additional deferred compensation is also included in the Test Year revenue requirement.

Q: DO YOU HAVE ANY CONCERNS WITH RESPECT TO FPL'S TEST YEAR REVENUE REQUIREMENT ASSOCIATED WITH LABOR AND BENEFITS?

A: Yes. FPL has overestimated the number of employees for the Test Year, and, therefore, has overstated the Test Year labor and benefit expenses.

Q: PLEASE EXPLAIN HOW THE COMPANY HAS OVERSTATED THE NUMBER OF EMPLOYEES PROJECTED FOR THE TEST YEAR.

A: As shown on MFR Schedule C-35, the Company has estimated that there will be an average of 10,558 employees during the Test Year. In the Company's response to OPC Interrogatory No. 256, FPL explained that the 10,558 positions in the Test Year included part-time positions as 1 position, whereas part-time positions in previous years were counted as one-half of a position. Further, the 2006 projected headcount is a greater percentage of projected year-end positions than would be expected based on actual company experience.

Q: WHAT IS THE COMPANY'S ACTUAL EXPERIENCE?

A: As shown in FPL's response to OPC's Interrogatory No. 44, the Company's actual average annual employee headcount has been approximately 97% of its year-end budget projections.

Q: WHAT WAS THE COMPANY'S TEST YEAR END BUDGET PROJECTION FOR EMPLOYEE HEADCOUNT?

A: As shown on the response to OPC Interrogatory No. 44, the Company projected 10,628 employees for the end of the Test Year.

Q: BASED ON THE YEAR-END BUDGET PROJECTION, WHAT LEVEL OF EMPLOYEES SHOULD BE EXPECTED DURING THE TEST YEAR?

A: Applying the historical average actual headcount percentage of 97% to the year-end budget of 10,628 employees gives an expected employee count of 10,335 for the Test Year.

Q: HAVE YOU ADJUSTED THE TEST YEAR PAYROLL AND BENEFITS EXPENSES TO REFLECT THIS REVISED HEADCOUNT?

A: Yes. Exhibit__(SLB-2) provides a breakdown of the adjustment to FPL's Test Year payroll and benefits expenses. The payroll and benefits expenses were adjusted to reflect a reduction in the estimated headcount from 10,558 employees to 10,335 employees. Based on information obtained in FPL's responses to OPC Interrogatories 50, 116, and 247, FPL is capitalizing approximately 23.5% of its payroll costs in the Test Year. A 76.5% expense ratio was thus applied to the total revised payroll and benefits expense to derive the amount of expense to include in the Test Year total system revenue requirement. The adjustment reduces Test Year payroll and benefits expenses (exclusive of Long-term Incentive Payments) from $736.729 million to $720.059 million, or $16.670 million.

Q: WHAT IS THE IMPACT OF THIS ADJUSTMENT ON THE RETAIL JURISDICTIONAL REVENUE REQUIREMENT?

A: In the response to OPC Interrogatory 116, the Company claimed that it does not know in which accounts the labor and benefit costs were included; therefore, to date, the information has not been provided to accurately determine the jurisdictional impact of the labor and benefit adjustment. However, in its response to OPC's Interrogatory No. 116, the Company based its jurisdictional allocation on the Company's retail administrative and general allocator of 99.5437%. Using this allocation factor, the impact of the combined adjustment on the retail jurisdiction is a reduction of $16.594 million in revenue requirement. Further adjusting this to remove amounts that will be recovered through pass-through clauses, results in an adjustment to the retail jurisdiction Test Year base rate revenue requirement of $16.2 million.

Q: DO YOU HAVE OTHER CONCERNS WITH THE COMPANY'S TEST YEAR LABOR COSTS?

A: Yes. As shown above, the Company has included approximately $29.9 million in the Test Year revenue requirement associated with the Long-Term Incentive Plan. This plan is a stock-based compensation plan. Under the plan, the Company has 13 million shares authorized. Under new rules established by the Financial Accounting Standards Board in Statement of Financial Accounting Standard No. 123-Revised (December, 2004), the fair value of share-based payments is recognized for financial statement reporting purposes. Stock-based compensation is treated as an expense based on the market value of the stock at the date of the grant. A corresponding entry is then made to equity. This treatment essentially treats the transactions as two steps: the award of compensation to the employee-shareholders, then the return of the cash in the form of equity payments. While this program is true compensation to the employee-shareholders, the actual cost of such compensation to the Company is questionable. If the Company issues additional stock and values it at market value, the ratepayers are being charged for the market value, while the Company avoids an actual cash expense.

Q: DO YOU HAVE SUFFICIENT INFORMATION TO QUANTIFY THE ACTUAL AMOUNT OF TEST YEAR LONG-TERM INCENTIVE PAYMENTS ASSOCIATED WITH STOCK-BASED COMPENSATION?

A: No. In its response to OPC's Interrogatory No. 43, the Company provided a breakdown of its Long-term Incentive Plan into "stock options" and "other long-term" incentives. The actual out-of-pocket costs associated with these incentives may include cash payments made to allow executives to pay taxes on the stock compensation and potential purchases of treasury stock to include in the program. However, as shown in FPL's response to OPC's Interrogatory No. 43, the stock options and other long-term incentives budgeted for 2004 were approximately $29 million, while the amount of stock-based compensation actually distributed for these programs in 2004 was $16.8 million. In FPL's 2004 FERC Form 1, the stock-based employee compensation expense reported in the notes to the financial statements for the "total stock-based employee compensation expense determined under fair value based method, net of related income tax effects" was $17 million. The amount of stock-based employee compensation expense under the fair value based method for 2003 and 2002 was $19 million and $21 million, respectively. The Commission should require FPL to demonstrate the actual out-of-pocket costs of the Long-Term Incentive Plan before allowing the recovery of any such costs in retail rates. However, absent such demonstration, it would be reasonable to reduce the Test Year revenue requirement by $17 million to reflect the potential value of share-based compensation included in the Test Year Long-Term Incentive Plan expenses of $29.9 million which were included in Schedule C-1.

REGIONAL TRANSMISSION ORGANIZATION

Q: HAS THE COMPANY INCLUDED COSTS ASSOCIATED WITH THE ESTABLISHMENT AND OPERATION OF A REGIONAL TRANSMISSION ORGANIZATION IN THE TEST YEAR REVENUE REQUIREMENT?

A: Yes. The Company has included $104 million ($102.6 million retail jurisdiction) in the Test Year revenue requirement for recovery of costs associated with the proposed GridFlorida RTO.

Q: HOW DID THE COMPANY DETERMINE THE RTO COSTS THAT IT INCLUDED IN ITS TEST YEAR REVENUE REQUIREMENT?

A: As explained by FPL's witness, Mr. Mennes, the RTO costs included in the Test Year include start-up costs, operating costs, and cost-shifting. The start-up and operating costs were developed from estimates provided by the Accenture Group in Docket No. 020233-EI on March 20, 2002. These costs were then escalated using cost information from other RTOs. The cost-shifting estimates were developed from data provided by the "GridFlorida pricing workgroup". (Mennes Direct Testimony, page 22)

Q: WHAT IS THE CURRENT STATUS OF THE GRIDFLORIDA RTO?

A: While the FERC approved GridFlorida as the RTO for peninsular Florida, the FPSC determined that the RTO, as established by FERC, was not in the best interest of Florida customers and required revisions to the proposed structure. The Commission held a series of workshops to address GridFlorida issues.

Ultimately, a study was commissioned to determine the costs and benefits of the proposed GridFlorida RTO. Preliminary results from that study, which was performed by ICF Consulting, were presented to the Commission on May 23, 2005. As shown in that study, the costs of the RTO were estimated at $1.253 billion, while the benefits were expected to reach only $968 million. The estimated costs thus exceed the benefits by $285 million. Thus, at this time, the status of the GridFlorida RTO is uncertain.

Q: DOES GRIDFLORIDA HAVE TARIFFS IN EFFECT?

A: No.

Q: HAS THE GRIDFLORIDA RTO BEEN IMPLEMENTED?

A: No. In fact, as I understand it, the implementation date for the RTO, if it is ever implemented at all, is unknown.

Q: TO THE BEST OF YOUR KNOWLEDGE, WHAT IS THE STATUS OF THE GRIDFLORIDA RTO AT THIS TIME?

A: At this time, the GridFlorida RTO is not operational and its future status is uncertain.

Q: IS IT REASONABLE TO INCLUDE $104 MILLION OF RTO COSTS IN THE TEST YEAR REVENUE REQUIREMENT?

A: No. First, given the uncertainty of the RTO, which is compounded by the tentative finding that costs are anticipated to exceed benefits, including the GridFlorida costs in the Test Year revenue requirement is speculative, at best. FPL has not demonstrated that it will, in fact, incur any of the projected RTO costs at all. Further, any benefits that may be derived from the RTO would not be realized until actual implementation and, therefore, the timing of cost recovery from ratepayers should coincide with the ratepayers' receipt of any associated benefits. In addition, without final approval of the RTO structure and timing, the costs and benefits may change substantially from those projected by the Company based on a study performed in 2002.

Q: WHAT IS YOUR SPECIFIC RECOMMENDATION WITH REGARD TO FPL'S CLAIMED COSTS ASSOCIATED WITH THE GRIDFLORIDA RTO?

A: The Commission should disallow all such costs from FPL's authorized revenue requirement in this case. FPL will, of course, have the option of petitioning for rate relief to recover costs it actually incurs.

Q: DO YOU HAVE ANY OTHER BASES AND INFORMATION THAT SUPPORT YOUR RECOMMENDATION?

A: Yes. PEF, another of the GridFlorida RTO applicants, recently filed a petition asking the Commission for an increase in rates to take effect on January 1, 2006, just as FPL has requested. PEF, however, did not include any RTO costs in its proposed revenue requirement for its 2006 Test Year. As stated in PEF's petition in FPSC Docket 050078-EI at page 10:

> By this Petition, PEF has not requested the recovery of any post commercial in service costs resulting from its participation in the GridFlorida regional transmission organization...The timing and nature of GridFlorida has not enabled PEF to determine when and the extent to which contributions will be required and, therefore, Company has not included any such costs in its MFRs. The Company reserves the right to

seek recovery of such costs at a later time and in any manner appropriate for recovery, including this proceeding if necessary, when the Company is better able to identify and quantify the costs.

Q: IF THE COMMISSION WERE TO DISAGREE WITH YOU AND DETERMINE THAT FPL'S RATES SHOULD INCLUDE SOME ESTIMATED RTO COSTS, IS THE COMPANY'S $104 MILLION ESTIMATE AN APPROPRIATE TEST YEAR EXPENSE?

A: No. While I believe all of the RTO costs should be excluded from the Test Year revenue requirement for the reasons previously stated, I am also concerned with FPL's proposal to increase the Test Year revenue requirement to reflect a 5-year average cost estimate. FPL's claimed RTO costs are not representative of its 2006 Test Year costs, even as represented by FPL, and are, therefore, inappropriately included in the Test Year revenue requirement. This tactic increased FPL's Test Year RTO cost estimate from $59 million to $104 million. Extending the estimates out to 2010 further increases the speculative nature of the RTO costs.

Q: DOES THE COMMISSION NORMALLY ESTIMATE REVENUE REQUIREMENTS BASED ON COST PROJECTIONS OVER A 5-YEAR PERIOD?

A: No. Normal expenses are typically projected for the single Test Year. While the Commission may amortize certain expenses over the time period in which benefits are received, the GridFlorida expenses are not subject to such amortization because they are annual expenses, similar to other transmission or distribution expenses. It is thus inappropriate to isolate this one expense to capture future cost increases without considering a host of other changes to FPL's costs of providing service over the same period of time. Therefore, even if the Commission were to allow some GridFlorida costs to be included in base rates in 2006, only the Company's actual documented, incremental 2006 expenses should be included. At a minimum, FPL's $45 million "adder" should be denied.

Q: DO YOU HAVE ANY OTHER CONCERNS WITH FPL'S INCLUSION OF RTO COSTS IN THE TEST YEAR?

A: Yes. In addition to including the overstated, speculative expenses in the Test Year revenue requirement, the Company's proposed averaging would result in a prepayment from ratepayers, yet the Company has not included a regulatory liability as an offset to rate base for the amount of the prepayment.

Q: WHAT IS THE IMPACT ON THE TEST YEAR REVENUE REQUIREMENT ASSOCIATED WITH ESTABLISHING A REGULATORY LIABILITY FOR THE RTO COSTS?

A: Assuming that FPL actually incurred $59 million of costs in the Test Year, the regulatory liability would be $22.5 million on an average Test Year basis. Including the impact of the regulatory liability and the associated deferred income taxes, the revenue requirement would be reduced by $1.84 million.

RATE OF RETURN ADDER

Q: PLEASE DESCRIBE THE COMPANY'S REQUEST FOR A RATE OF RETURN ADDER AND QUANTIFY THE IMPACT OF THE ADDER.

A: The Company has requested a 50 basis point adder to its proposed rate of return on equity as a supposed performance incentive. This adder increases the Test Year revenue requirement by $49.2 million, or 11.4% of the total requested increase in base rates.

Q: WHAT IS THE COMPANY'S JUSTIFICATION FOR THIS ADDER?

A: FPL's witness, Mr. Dewhurst, explained that "the purpose of the incentive is to recognize FPL's past superior performance and to encourage continued strong operational performance over the long-term." (Dewhurst Direct Testimony, page 20, lines 5-7) Mr. Dewhurst further noted, at page 25 of his testimony, that "a performance incentive should be large enough to motivate FPL's continued performance improvement over the long-term."

Q: WHAT IS FPL'S PROPOSAL?

A: As explained by FPL's witness, Mr. Dewhurst:

> I have reviewed the analysis performed by Dr. Avera and concur with his recommended fair rate of return on equity of 11.8%. In addition, we request that the Commission approve a performance incentive of 50 basis points to recognize the Company's superior performance and to provide an incentive for future superior performance. (Dewhurst Direct Testimony, page 11)

Q: IS THE RATE OF RETURN ADDER A REASONABLE COST OF PROVIDING SERVICE?

A: No. As noted by FPL in its Petition:

> ....FPL is obligated by statute to provide such service in a reasonable, "sufficient, adequate, and efficient" manner. Section 366.03, F.S., 2004. In return, FPL's shareholders must be provided the opportunity to earn a reasonable and adequate return on their investment. (Petition, page 6)

As explained by Mr. Avera at page 3 of his Direct Testimony:

> Investors commit capital only if they expect to earn a return on their investment commensurate with returns available from alternative investments with comparable risks.

FPL has not shown how the rate of return adder will provide an incentive for better future performance or why investors need a return greater than the "fair" return in order to invest their capital in FPL.

Regulated utilities operating in a monopolistic market have an obligation to serve their customers at the lowest possible costs. However, unlike entities operating in a competitive environment, regulated utilities are insulated from a large portion of the normal operating risks faced by unregulated entities. The customer base is not at risk due to poor performance and the recovery of a large percentage of operating costs is essentially guaranteed through cost recovery clauses (subject to prudency review) or through tax adders to customer bills.[1] Further, in exchange for the obligation to serve, the regulated utilities are provided with an opportunity to earn a fair return on their investments in assets used to serve customers.

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[1] In FPL's case, without any consideration of FPL's requested Storm Restoration Surcharge in Docket No. 041291-EI, over 64.1% of its operating expenses is recovered through recovery clauses on a pass-through basis or specific tax adders to customer bills. These pass-through costs made up over 64.1% of FPL's operating expenses and 57% of FPL's total revenue in 2004. (December, 2004 Surveillance Report)

The discounted cash flow and risk premium analyses used by Mr. Avera and other cost of capital witnesses are used to determine a "fair rate of return." These methodologies already reflect the relative risk of the Company and the markets in which it is operating. The Company's proposal for a rate of return adder provides additional "upside" for the Company, while still providing the protections inherent in regulation. This adder is not a reasonable cost of providing service, is not necessary to attract capital, and does not provide any additional incentives for improved performance. In fact, Mr. Dewhurst noted that Dr. Avera's recommended rate of return on equity, before the performance reward adder, would:

> ...fairly account for the exposures that investors attribute to FPL, while ensuring the Company's ability to attract capital even under adverse circumstances... (Dewhurst Direct Testimony at page 19)

FPL's proposed adder would, therefore, be a windfall to shareholders at customer expense.

Q: WHAT INCENTIVES DO REGULATED UTILITIES HAVE UNDER CURRENT REGULATED RATEMAKING TREATMENT?

A: Utilities, like any other business, seek to maximize profits. Profits can be maximized by increasing revenues or reducing costs. For utilities, however, revenues are generally not controllable, so utilities focus on cost reductions as a means to maximize profit. Under current regulated ratemaking treatment, there are essentially three components to the development of rates. These three components include costs that are passed-through directly to consumers through adjustment clauses, costs that are included in the development of rates with no markup to the utility, and the fair return on assets invested to serve customers. I will address each of these components.

First, in Florida, a significant portion of a utility's costs is recovered through cost recovery clauses, which essentially guarantee the Company recovery of prudently incurred costs. For FPL, 52.3% of its jurisdictional revenue in 2004 was recovered through cost recovery clauses and another 5.1% was recovered through direct tax adders to customer bills. Therefore, 57.4% of FPL's revenues were received through cost recovery clauses and adders. Excluding FPL's return on rate base, approximately 64.1% of its total operating expenses were collected through cost recovery clauses and rate adders. This does not provide incentives for the utility to reduce costs, but does protect against volatility of expenses, thereby reducing risks of losses to shareholders.

The remaining expenses are included on a dollar-for-dollar basis in the development of base rates using a proforma Test Year. Once those rates are established, the utility's profitability is dependent upon the actual costs incurred (which is controllable by the utility) and the level of revenues received (which is not controllable by the utility). This portion of the ratemaking process thus gives the utility two incentives: the first is to overestimate expenses and underestimate sales and revenues when seeking a change in base rates, and the second is to reduce expenses between rate proceedings in order to maximize profits.

The last component of the utility's rate structure is the return on rate base. Since rates are set to include a fair return on the utility's investment in assets used to serve customers, the incentive is to maximize investment and to persuade the regulatory authority to set its "fair return" as high as possible.

After the rates are set, the utility will attempt to maximize its profits by reducing its costs. Although it cannot control sales, the utility will also reap the benefit of higher sales if its rates are set based on an unrealistically low sales estimate.

Q: HOW WOULD A RATE OF RETURN ADDER CHANGE THE COMPANY'S INCENTIVES?

A: Since actual returns are not based on the rate of return set in a rate proceeding, an "incentive" rate of return adder would not change the Company's incentives. Once rates are set, the Company will still have the incentive to maximize returns by reducing expenses between rate cases. The adder is thus not really an incentive to promote future performance, but is rather a requested reward for what FPL claims is superior past performance.

Q: ARE RATEPAYERS PAYING FOR OTHER PERFORMANCE INCENTIVES?

A: Yes. The Company is providing substantial performance incentives to employees, many of whom are employee-shareholders, through its short-term and long-term incentive pay programs. The cost of these programs is estimated to be $73 million for the Test Year, as shown in FPL's response to OPC's Interrogatory No. 43. In 2004, the performance-based pay was $52.8 million, as shown in FPL's response to OPC's Interrogatory No. 255. Even with this level of performance-based compensation, the Company still earned a 12.68% rate of return on equity on an FPSC adjusted basis (12.81% when adjusted for weather normalization due to the hurricanes).

Q: SHOULD THE COMMISSION APPROVE FPL'S PROPOSED ROE ADDER OR SOME OTHER ADDER AT A LOWER LEVEL?

A: No. As demonstrated above, any adder as proposed by FPL, whether at 50 basis points or any level greater than zero, is not a legitimate or reasonable cost of providing service and is not an appropriate or meaningful incentive for future performance.

Q: WHAT IS THE IMPACT OF ELIMINATING THE 50 BASIS POINT ADDER TO FPL'S REQUESTED RETURN ON EQUITY?

A: Eliminating the 50 basis point adder reduces FPL's requested rate of return from 8.22% to 7.975%. This adjustment reduces the Test Year revenue requirement by \$49.2 million[2].

Q: SHOULD THE COMMISSION CONSTRUE YOUR TESTIMONY AS SUPPORTING OR AGREEING THAT FPL'S PROPOSED ROE OF 11.8% IS REASONABLE?

A: No. While I am not specifically opining on a recommended ROE for FPL, I believe the Commission should recognize that there are several significant factors that mitigate risks when evaluating an appropriate ROE for FPL. For example, the Commission should recognize a) the fact that more than 64% of FPL's operating expenses and 57% of its revenue are recovered through pass-through clauses and tax adders, b) FPL operates in a regulated environment and there is no threat of retail deregulation in the foreseeable future, c) that FPL has also

[2] Rate Base of \$12,410,522 x (.0822-.07975) x 1.61971.

modified its capital structure to mitigate the risks of adverse rating agency actions, and d) that FPL enjoys high rates of customer growth and associated growth in sales, with less exposure to industrial load than its counterparts.

Q: DOES FPL'S PRIOR RATE HISTORY SUPPORT ITS REQUEST FOR A BASE RATE INCREASE IN THIS CASE?

A: No. While FPL makes a point of the fact that it has not raised its base rates since 1985 and has actually provided base rate reductions, this fact has nothing to do with the establishment of rates in this proceeding. Ratemaking is prospective and should be based on what FPL's legitimate, reasonable, and prudent costs will be for the Test Year. In addition, even with the earlier rate reductions, FPL's rates have been more than sufficient to provide it with generous profits. In fact, over the last four years, FPL has earned after-tax returns of between 12.21% and 13.58%.

BAD DEBT EXPENSE

Q: WHAT IS THE LEVEL OF BAD DEBT EXPENSE THE COMPANY IS CLAIMING FOR THE TEST YEAR?

A: The Company is using a bad debt factor of 0.168% for the Test Year. When applied to the Test Year revenues at current rates of $8,722,657,950, the Test Year write-offs are $14,691,374.

Q: IS THIS AN APPROPRIATE, FAIR, AND REASONABLE VALUE TO BE USED IN SETTING RATES IN THIS CASE?

A: No. It is inconsistent with FPL's historical bad debt experience and FPL has not justified its claims.

Q: HOW DOES THE TEST YEAR BAD DEBT FACTOR COMPARE TO THE COMPANY'S PREVIOUS WRITE-OFF HISTORY?

A: The Test Year bad debt factor is higher than the level of bad debt incurred during any of the last four years. As shown on Schedule C-11, the bad debt factor ranged from 0.128% to 0.144% from 2001 through 2003 and rose to 0.158% in 2004, the year in which the Company's customers experienced the impact of the hurricanes.

Q: HAS THE COMPANY JUSTIFIED THIS INCREASE IN WRITE-OFFS FOR THE TEST YEAR?

A: No. The Company's witness, Ms. Santos, commented on the increase in the bad debt factor experienced in 2004, asserting that the change between 2003 and 2004 was attributable to the increase in fuel charges. She indicated that "all other things being equal", higher bills produce an added difficulty in bill payment. She did not directly address the increase in bad debt expense for the Test Year.

Q: DOES THE INCREASE IN FUEL CLAUSE REVENUES JUSTIFY THE INCREASE IN BAD DEBT EXPENSE FOR THE TEST YEAR?

A: No. A review of FPL's bad debt history shows that the bad debt factor does not always vary based on revenues. Exhibit__(SLB-3) provides a calculation of the revenues per customer for each year shown on Schedule C-11. As shown on Exhibit__(SLB-3), the bad debt factor rose in 2002, although revenues per customer decreased. Then, in 2003, the bad debt factor decreased, although revenues per customer increased. The level of revenues, then is not the only factor impacting the level of bad debt expense incurred by the Company.

Q: HAS THE COMPANY PROVIDED ANY OTHER JUSTIFICATION FOR THE INCREASE IN BAD DEBT EXPENSE PROJECTED FOR THE TEST YEAR?

A: No. In fact, Ms. Santos' testimony discusses the Company's improvements in billing and revenue recovery operations which would lead to an expectation of decreases in bad debt expenses, rather than the projected increase. For example, the Company has initiated numerous billing options to make it easier for customers to make payments, including credit card payments, automatic bank withdrawals, budget billing, and the FPL 62 Plus Payment Plan. Ms. Santos also notes that FPL has assisted customers experiencing financial difficulty by working with social service agencies and explains that, in 2004, assistance payments were received representing approximately $11.7 million towards customers' bills.

Q: WHAT IS AN APPROPRIATE LEVEL OF BAD DEBT EXPENSE TO INCLUDE IN THE TEST YEAR REVENUE REQUIREMENT?

A: Due to the uncertainties associated with the hurricanes in 2004, the bad debt expense factor should be based on the history from 2001 through 2003. Based on that experience, the bad debt factor would be 0.135%. The use of this factor reduces the Test Year write-offs from $14,691,374 to $11,775,588, reducing the Test Year revenue requirement by $2,915,786.

Q: DOES THE REDUCTION IN THE BAD DEBT FACTOR IMPACT ANY OTHER COMPONENTS OF FPL'S REVENUE REQUIREMENT?

A: Yes. The bad debt factor is included in the development of the revenue expansion factor. The revised bad debt factor results in a reduction in the revenue expansion factor from 1.61971 to 1.61917. When applied to the Company's claimed net operating income deficiency, the revenue increase is reduced by an additional $120,133. The total impact of this adjustment is thus $3,035,919.

<u>POSTAGE INCREASE</u>

Q: MS. SANTOS ALSO SUPPORTS AN INCREASE OF $2.2 MILLION IN BILLING EXPENSES ASSOCIATED WITH A PROJECTED POSTAGE INCREASE. IS THIS INCREASE JUSTIFIED?

A: No. Ms. Santos explains that her $2.2 million increase in billing expenses is based on a projected increase in postage of $.04 per piece. However, this increase in postage rates is overstated by over 100%. On April 8, 2005, the United States Postal Service ("USPS") filed its requested increase in postage rates in Postal Rate Commission Docket R2005-1. A review of the USPS requested increase reveals that a first class stamp is increasing from $.37 to $.39, for an increase of only $.02.

Q: IS FPL USING FIRST CLASS POSTAGE?

A: No. Ms. Santos explains that the Company has achieved cost savings on mailings by implementing systems and processes that "allow FPL to receive the greatest USPS discounts for bulk mails, zip code optimization and reduction in return mail. (Santos Direct Testimony, page 30) In its response to FRF's Interrogatory No. 51, FPL indicated that it was paying for bulk-metered postage at rates ranging from $0.275 to $0.309 for Automation Carrier Route, Automation 5-Digit, Automation 3-Digit, Automation AADC, and Automation MAADC mail.

Q: WHAT IS THE USPS REQUESTED INCREASE FOR THESE SERVICES?

A: Based on the rate and fee schedules filed in Postal Service Commission Docket R2005-1, the increase for these services is as follows:

Automation Carrier Route	$.015
Automation 5-Digit	$.015
Automation 3-Digit	$.016
Automation AADC	$.016
Automation MAADC	$.017

Q: WHAT IS THE APPROPRIATE LEVEL OF INCREASE IN POSTAGE EXPENSES TO INCLUDE IN THE TEST YEAR REVENUE REQUIREMENT?

A: At a minimum, the postage increase of $2.2 million claimed by the Company should be reduced to reflect an increase of only $.016 per piece, as opposed to $.04 per piece. The appropriate increase for postage expense is thus $880,000 million, resulting in a reduction in jurisdictional Test Year revenue requirement of $1.32 million.

<u>RATE CASE EXPENSES</u>

Q: WHAT IS THE TOTAL REVENUE REQUIREMENT INCLUDED IN THE TEST YEAR FOR RATE CASE EXPENSES?

A: The Company has estimated total rate case expenses of $8.4 million which it claims it will incur over the 2004-2005 time frame, with an additional $550,000 that it claims it will incur in 2006. The Company is proposing to defer these costs to the Test Year and amortize the costs over a 2-year period. The Test Year expenses thus include $4.475 million in rate case expenses. In addition, the

Company is proposing to include the Test Year average deferred expenses of $6.438 million in rate base.

Q: SHOULD THE COMPANY BE ALLOWED TO DEFER AND AMORTIZE THE RATE CASE EXPENSES IN THE TEST YEAR?

A: No. While the Commission has allowed utilities to defer rate case expenses in the past, FPL is already recovering its rate case expenses and its request for deferral and amortization of the rate case expenses should be denied. In FPSC Docket 001148-EI, the Company estimated total rate case expenses of $10.848 million and amortized the expenses over a 2-year period, resulting in an annual expense of $5.4 million. Actual rate case expenses associated with that Docket were only $4.5 million. Thus, any level of rate case expenses included in the development of present rates has been recovered over 44 months, rather than 24 months over which those costs were spread. By the end of 2005, this will have resulted in a fairly significant over-recovery of rate case expenses over the past 3 ½ years. I am not suggesting that FPL be required to refund any amount of over-recovery, but rather, I am making the obvious point that FPL is recovering rate case expenses during the period in which it is actually incurring rate case expenses in this docket and, accordingly, FPL's request to defer such costs should be denied. Further, review of the Company's surveillance report for the year ending December 31, 2004 shows that the Company has an earned return of 12.68% on equity on an FPSC adjusted basis. This is in excess of even the 12.3% return on equity requested by the Company in the current case. Even if the full rate case expense of $8.95 million ($5.50 million net of tax) is subtracted from the actual net operating income shown on the December 31, 2004 surveillance report, FPL's earnings would still be 12.71%, which is well in excess of the 11.83% return on equity FPL included in its MFRs in Docket 001148-EI and the 12.3% return on equity requested in this proceeding.

FPL cannot reasonably claim to be entitled to defer these costs for future recovery in order to have had a fair return for 2004 and 2005, accordingly, there is no legitimate basis for the requested deferral.

In determining whether to allow FPL to defer costs for future recovery in this proceeding, the Commission should take into consideration the level of earnings FPL is already enjoying, in conjunction with the extremely high level of rate increases that would be imposed on ratepayers in this proceeding if FPL's positions are adopted. Taking these factors into consideration, the Commission should deny FPL's request to defer the rate case expenses for recovery in the Test Year. As shown on Exhibit__(SLB-4), elimination of rate case expenses and the associated rate base and cost of capital components would reduce Test Year revenue requirement by $5.001 million.

Q: IF THE COMMISSION CHOOSES TO ALLOW DEFERRAL OF FPL'S RATE CASE EXPENSES BASED ON PAST COMMISSION POLICY, SHOULD THE COMMISSION MAKE ANY ADJUSTMENTS TO FPL'S RATE CASE EXPENSE PROPOSAL?

A: Yes. First, while the Commission has allowed deferral of rate case expenses for recovery during the time period in which the rates would be in effect, the amortization period allowed has not been limited to two years. In PSC Order No.

22224, the Commission approved a 5-year amortization period for FPUC-Fernandina Beach since it had been 15 years since its last rate case. In other dockets, longer amortization periods were used as well. FPL's last rate case was Docket No. 001148-EI, which was filed in 2001; however, that case was filed on the request of the Commission and did not include a request for a change in FPL's rates. FPL's last rate case in which it requested a change in rates was Docket No. 830465-EI, which was filed on November 23, 1983. Therefore, at a minimum, the Commission should require FPL to amortize the rate case expenses over a 4-year period.

Further, if FPL does not seek a base rate change at the end of the amortization period allowed in this proceeding, it should be required to continue accruing the annual rate case expense accrual, thereby creating a regulatory liability to be used against rate case expenses in the next proceeding.

Q: HAVE YOU CALCULATED THE IMPACT OF USING A 4-YEAR AMORTIZATION PERIOD?

A: Yes. Revising the amortization period from two years to four years results in a reduction in the Test Year revenue requirement of $2.146 million as shown on Exhibit__(SLB-4), including the impacts of modifying the Company's proposed regulatory asset for the smaller Test Year expense.

Q: DO YOU HAVE ANY OTHER CONCERNS WITH RESPECT TO FPL'S RATE CASE EXPENSE REQUEST IN THIS PROCEEDING?

A: Yes. The Company has requested inclusion of the unamortized rate case expenses in rate base as a component of working capital. In PSC Order No. 23573, the

Commission explained that "Commission policy is to exclude unamortized rate case expense from working capital." Removal of the unamortized rate case expense from working capital reduces the Test Year revenue requirement by $526,500.

Q: PLEASE SUMMARIZE YOUR RECOMMENDATIONS ON RATE CASE EXPENSES.

A: Due to the over-recovery of prior rate case expenses and the the fact that FPL does not need to defer its 2004-2005 rate case expenses associated with this docket in order to have a fair return, as evidenced by the level of FPL's 2004 and 2005 earnings under the Stipulation and Settlement in Docket No. 001148-EI, the Commission should deny FPL's request for deferral and recovery of rate case expenses in the Test Year. This adjustment would reduce the Test Year revenue requirement by $5.001 million. If the Commission chooses to allow deferral, the costs should be amortized over a 4-year period, with no return on the unamortized balance. This would reduce rates by $2.764 million ($2.238 million expense and $.526 million elimination of the regulatory asset from rate base). The following table summarizes the impacts of eliminating or extending the rate case expense amortization with and without including the regulatory asset in rate base.

Table 2. FPL Rate Case Expense – Regulatory Treatment Revenue Impacts

Rate Case Expense	Rate Base	Revenue Impact	
Eliminate	Eliminate	$	(5,001,498)
Amortize over 4	Include	$	(2,146,071)
Amortize over 4	Eliminate	$	(2,763,998)
Amortize over 2 per Company	Eliminate	$	(526,498)

STORM DAMAGE ACCRUALS

Q: WHAT IS THE COMPANY REQUESTING FOR STORM DAMAGE ACCRUALS IN THIS CASE?

A: Based on the testimony of Mr. Steven Harris, the Company is requesting an annual accrual to the storm damage reserve of $120 million. This represents an increase of $100 million per year from the $20 million per year that FPL is presently accruing to its storm damage reserve.

Q: HAS MR. HARRIS PERFORMED ANALYSES OF THE EXPECTED ANNUAL UNINSURED COSTS TO FPL'S SYSTEM?

A: Yes. Mr. Harris has analyzed the average expected annual uninsured costs based on an analysis of historical and random storms to determine the average expected level of damage. He has then applied estimates from the 2004 storm restoration costs to determine the costs associated with the average expected level of damage. Based on this analysis, Mr. Harris has concluded that the "expected" annual uninsured cost to FPL's system is estimated to be $73.7 million.

Q: IF THE ANNUAL AVERAGE EXPECTED STORM DAMAGES ARE ESTIMATED TO BE $73.7 MILLION, WHY IS THE COMPANY RECOMMENDING A $120 MILLION STORM DAMAGE ACCRUAL?

A: As explained by Mr. Dewhurst, the $120 million storm damage accrual includes the $73.7 million expected amount of annual storm losses and the remainder would "contribute towards replenishment of the storm reserve." (Dewhurst Direct Testimony, page 34)

Q: WHAT IS THE LEVEL OF STORM RESERVE BALANCE THAT FPL IS TARGETING?

A: FPL is targeting $500 million. Based on a $120 million annual accrual and Mr. Harris' probability analyses, FPL estimates that there is a 39% chance that the storm reserve balance will be greater than $500 million at the end of the five-year period. Mr. Harris indicates that the expected balance would be $367 million with recovery of negative storm balances over a two-year period and $256 million without such recovery.

Q: DO YOU HAVE ANY CONCERNS WITH FPL'S PROPOSED $120 MILLION ANNUAL ACCRUAL TO THE STORM DAMAGE RESERVE FUND?

A: Yes. While Mr. Harris has used sophisticated modeling techniques to determine the expected annual storm damage costs and the probability of insolvency of the fund during a five-year period based on various storm accruals, his results are significantly greater than the level of FPL's actual experience and frequency of major Category 3 through 5 storms. Further, I have several concerns with the ratemaking treatment proposed by FPL.

Q: WHAT ARE YOUR CONCERNS WITH THE RATEMAKING TREATMENT PROPOSED BY FPL?

A: First, in calculating the expected annual storm damage costs, Mr. Harris apparently did not segregate storm damage costs that would be expensed from those costs that would be capitalized. This aggregation would overstate the costs that would be expected to be expensed when actual storm damage occurs. Second, as experienced in the 2004 hurricane damage case, Docket No. 041291-

EI, FPL has the opportunity to seek quicker recovery of storm damage costs that exceed the balance in the storm damage account, either through a special Commission-approved surcharge or through a surcharge pursuant to the Securitization Bill. Further, the Commission has allowed the utilities to recover interest on the unrecovered balance. FPL's proposed increase in the annual accrual is thus duplicative insurance, when coupled with the ability to seek recovery for storm costs that result in a negative balance in the reserve.

Q: IN ESTABLISHING THE CURRENT ACCRUAL LEVELS, DID THE COMMISSION RECOGNIZE THE POTENTIAL FOR NEGATIVE RESERVE BALANCES?

A: Yes. In its response to OPC's Interrogatory No. 145, FPL described the Commission's decision in establishing the current accrual level.

> In Order Nos. 95-0264, issued February 27, 1995, and 98-0953, issued July 14, 1998, the Commission decided it would not set the annual accrual in base rates at a level equal to the expected annual damage. Instead, the Orders set up a three part regulatory framework which was described in question 142 that allowed FPL "to petition the Commission for emergency relief" to address any insufficiencies. (Response to OPC Interrogatory No. 145)

Although FPL notes the Commission's past decision to establish an accrual that is less than expected annual damage, in conjunction with the ability to seek additional recovery in the event that storm damages are incurred in excess of the reserve, it has taken this opportunity to (i) seek full recovery of storm damage costs incurred in the 2004 hurricanes through a special cost recovery clause and (ii) increase its storm damage accrual to 163% of its calculated average annual storm damage. This added level of protection against storm damage costs is unnecessary and is unfair and unjust to ratepayers, who are already dealing with large increases in costs due to the 2004 hurricane damage recovery, coupled with their own hurricane damages.

Q: DOES THE RECENT SECURITIZATION LEGISLATION AFFECT THE NEED FOR FPL TO MAINTAIN A STORM DAMAGE RESERVE?

A: Yes. The securitization legislation provides FPL with the ability to securitize storm damage costs, i.e. to issue bonds pursuant to a financing order issued by the Commission to recover storm damage costs, and potentially storm damage reserve replenishment costs. The costs of the associated debt service would then be recovered from ratepayers over the term of the bonds. Thus, in addition to the Commission's previous policy of allowing FPL to seek recovery of negative storm reserve balances, including interest, the Securitization Bill provides still another layer of protection for storm damages.

Q: WHAT IS THE HISTORY OF THE FREQUENCY OF CATEGORY 3 THROUGH 5 HURRICANES?

A: On FPL's website, www.FPL.com/storm, FPL notes the major storms that have occurred in the last century, affecting its service territory. Based on the noted storms, it would be reasonable to expect a Category 3 to Category 5 storm on average once every 10 years.

Q: WHAT LEVEL OF HURRICANE DAMAGE COSTS DID FPL EXPERIENCE AS A RESULT OF HURRICANE ANDREW AND THE 2004 STORMS?

A: If the storm damage costs incurred in Hurricane Andrew are escalated to 2006 dollars and averaged with the storm damage costs incurred from the 2004 hurricanes, the average damage would be approximately $363.79 million per Category 3 through 5 storm. Based on the expectation of a Category 3 through 5 storm once every 10 years, the annual average cost of storm damage for a Category 3 through 5 storm would be 1/10 of $363.79 million, or $36.38 million.

Q: WHAT IS THE ANNUAL LEVEL OF STORM DAMAGE EXPENSES EXPERIENCED BY FPL FOR CATEGORY 1 AND 2 STORMS?

A: In its response to OPC's Interrogatory No. 78, the Company provided the annual charges to the reserve for storm damages. Beginning with Hurricane Andrew and ending with the 2004 season, the Company experienced storm damage in 10 of the 13 years. To calculate the annual level of storm damage expenses experienced by FPL for Category 1 and 2 storms, the actual Category 1 and 2 storm damage expenses incurred for 1992 through 2004 were escalated to 2006 dollars and averaged over the 13 year period. The result is an average of $15.26 million.

Q: BASED ON FPL'S HISTORY AND STORM FREQUENCY, WHAT IS THE TOTAL AVERAGE ANNUAL STORM DAMAGE COSTS THAT WOULD BE EXPECTED OVER TIME?

A: The total average annual storm damage costs would be $51.64 million, including $36.38 million for larger storms occurring approximately once every 10 years and $15.26 million for the smaller storms which occur more frequently.

Q: WHAT PRINCIPLES SHOULD GOVERN THE COMMISSION'S DECISION IN ESTABLISHING THE APPROPRIATE STORM DAMAGE RESERVE ACCRUAL FOR THE TEST YEAR?

A: The Commission should ensure that FPL's rates, in total, are fair, just, and reasonable to ratepayers and the Company. As explained earlier, the ratepayers are already burdened with the high costs of the 2004 storm damages, in conjunction with higher fuel costs and any increase granted by the Commission in this docket. The ratepayer interests must be balanced with the Company's need to be able to recover costs associated with any storm damages that may occur. This principle does not require the Company to have extraordinary reserves on hand, rather, it requires that the utility and its investors be able to recover reasonable and prudent storm restoration costs at levels that are sufficient to allow the Company to continue to achieve a fair return on investment.

Q: BASED ON THESE PRINCIPLES, WHAT IS YOUR RECOMMENDED STORM DAMAGE ACCRUAL FOR THE TEST YEAR?

A: Based on these principles, I believe it would still be advisable for FPL to maintain a storm reserve fund for covering the costs of damage associated with smaller, Category 1 and 2, storms. This would prevent the Company from having to resort to numerous bond issues to handle smaller, ongoing storm damage. Based on FPL's history of damages from these smaller storms, the current $20 million annual accrual is sufficient to recover these costs.

Q: WHAT IS THE REVENUE IMPACT OF MAINTAINING THE STORM DAMAGE ACCRUALS AT THE CURRENT $20 MILLION LEVEL?

A: If the storm damage accruals are limited to the amounts needed to recover damage from the smaller storms, the Test Year revenue requirement would be reduced by $100 million ($99.5 million retail jurisdiction).

Q: DO YOU HAVE ANY OTHER CONCERNS WITH FPL'S TREATMENT OF STORM DAMAGES?

A: Yes. FPL is funding the payments from ratepayers for storm damages on a net-of-tax basis. This treatment recognizes that FPL has to pay taxes on the revenue it receives from ratepayers. However, in removing the associated deferred income taxes from the capital structure, FPL has treated the adjustment as a "prorata" adjustment, rather than a specific adjustment to accumulated deferred income taxes. Since the accumulated deferred income taxes associated with the storm damages are a debit balance, the elimination of such balances from the capital structure on a prorata basis, rather than a specific adjustment to accumulated deferred income taxes unfairly understates the zero cost accumulated deferred income taxes that should be included in the capital structure.

Q: PLEASE EXPLAIN.

A: FPL's average balance in the storm damage reserve for the Test Year is $81.342 million. The storm damage fund is funded on a net-of-tax basis; therefore, the average fund balance for the Test Year is $49.964 million ($81.342 million less $31.378 million taxes). The return earned on the fund is thus already "penalized" by the lost return on the accumulated deferred income taxes.

In making its adjustment to equalize the capital structure with rate base, FPL added the $81.342 million storm damage reserve and deducted the $49.964

million storm damage fund, for a net addition to the capital structure of $31.378 million. This adjustment is shown on Schedule D-1b. The effect of this adjustment is to eliminate the accumulated deferred income taxes from the capital structure. However, as shown on Schedules D-1b and D-1a, FPL eliminated these accumulated deferred income taxes as a prorata adjustment, which was spread to all components of the capital structure. The result is an increase in all components of the capital structure, rather than an increase to only the accumulated deferred income tax component on which FPL earns a zero return.

Q: HAVE YOU QUANTIFIED THE IMPACT OF THIS ERROR?

A: Yes. Exhibit__(SLB-5), page 2 of 2, provides the weighted average cost of capital as calculated by FPL and as adjusted to eliminate the accumulated deferred income taxes associated with the storm damage fund from only the accumulated deferred income tax component of the capital structure. As shown on Exhibit__(SLB-5), page 2 of 2, the impact of this error is $4.071 million in Test Year revenue requirement. The Commission should note that this capital structure treatment is erroneous and should be corrected regardless of the level of storm damage accrual approved in this docket.

LAST CORE NUCLEAR FUEL

Q: WHAT IS THE CURRENT ACCRUAL FOR LAST CORE NUCLEAR FUEL?

A: As shown on Schedule B-21, the Company is accruing $5.51 million a year for Last Core Nuclear Fuel. This amount was established by the Company in FPSC Docket No. 001148-EI.

Q: WHAT IS "LAST CORE NUCLEAR FUEL"?

A: Last Core Nuclear Fuel is the amount of nuclear fuel that is expected to be left in the unit at the time it is shut down for decommissioning. Last Core Nuclear Fuel, then, is like an additional cost of decommissioning that the Company will incur at the time of shut-down.

Q: HOW DID THE COMPANY DETERMINE THE LEVEL OF ACCRUAL FOR LAST CORE NUCLEAR FUEL?

A: In Docket No. 001148-EI, the Company determined that the total unamortized last core costs would be $71.224 million. This amount was broken down by unit, then each unit's last core costs were amortized over the remaining life of the unit. The result was an annual accrual of $5.51 million.

Q: DID THE COMPANY MODIFY THE ACCRUAL FOR THE TEST YEAR BASED ON THE LICENSE EXTENSIONS?

A: No. Although the Company received 20-year license extensions on all four of its nuclear units, the Test Year amortization of Last Core Nuclear Fuel was not adjusted to reflect the extensions.

Q: WHAT IS THE EXPECTED BALANCE IN THE LAST CORE OPERATING RESERVE AS OF DECEMBER 31, 2005?

A: As shown on Schedule B-21, the expected balance in the Last Core Operating Reserve as of December 31, 2005 is $20,203,000.

Q: SHOULD THE ACCRUAL TO THE LAST CORE RESERVE BE MODIFIED TO REFLECT THE LIFE EXTENSION?

A: Yes. As noted on page 26 of Order No. PSC-02-0055-PAA-EI, "outages, capacity factor, plant life extension, future fuel contracts, the change in mix of generating assets owned by the company as the industry further evolves, market conditions, and technology" are all factors that can affect the Last Core estimate.

Q: WHAT IS YOUR RECOMMENDATION FOR THE TREATMENT OF LAST CORE NUCLEAR FUEL EXPENSES IN THIS PROCEEDING?

A: In its response to FRF Interrogatory No. 42, FPL indicated that it would address this issue in its upcoming decommissioning study. The Commission should suspend accruals to the Last Core Nuclear Fuel reserve until FPL files its decommissioning study and justifies continued accruals to the reserve.

Q: HAVE YOU CALCULATED THE REVENUE IMPACT OF THE SUSPENSION OF THE AMORTIZATION FOR THE TEST YEAR?

A: Yes. As shown on Exhibit__(SLB-6), the total jurisdictional Test Year revenue impact associated with the suspension of the Last Core Nuclear Fuel amortization is $5.263 million, including the impacts on expense, rate base, and capital structure.

NUCLEAR END-OF-LIFE MATERIALS AND SUPPLIES INVENTORY

Q: WHAT IS THE LEVEL OF AMORTIZATION OF END-OF-LIFE NUCLEAR MATERIALS AND SUPPLIES THAT THE COMPANY HAS INCLUDED IN THE TEST YEAR REVENUE REQUIREMENT?

A: As shown on Schedule B-21, the Company has included $2.444 million in the Test Year revenue requirement for amortization of End-of-Life Nuclear Materials and Supplies.

Q: WHAT ARE END-OF-LIFE NUCLEAR MATERIALS AND SUPPLIES?

A: As with the Last Core Nuclear Fuel, End-of-Life Nuclear Materials and Supplies are materials and supplies that will be on-hand at the end of the service life of the nuclear units.

Q: HOW DID THE COMPANY DETERMINE THE LEVEL OF AMORTIZATION?

A: In FPSC Docket 001148-EI, the Company provided workpapers showing the calculation of the amortization. The End-of-Life Materials and Supplies were estimated for each nuclear station, then amortized over the remaining life of the station. The amortization was approved in FPSC Docket No. 990324-EI.

Q: DID THE COMPANY ADJUST THE AMORTIZATION IN THE TEST YEAR TO REFLECT THE 20-YEAR LICENSE EXTENSIONS FOR THE NUCLEAR UNITS?

A: No. Although Footnote (B) of Schedule B-21 indicates that the costs are amortized over the remaining life span at each nuclear site, the amortization has not been changed to reflect the 20-year license extensions.

Q: WHAT IS THE EXPECTED BALANCE IN THE END-OF-LIFE MATERIALS AND SUPPLIES INVENTORY AT DECEMBER 31, 2005?

A: As shown on Schedule B-21, the balance in the End-of-Life Materials and Supplies Inventory is expected to be $8.961 million at December 31, 2005. This balance reflects 44 months of amortization, beginning with the implementation of the rates under the Stipulation and Settlement in Docket No. 001148-EI.

Q: HOW SHOULD THE COMMISSION TREAT THE EXCESS END-OF-LIFE MATERIALS AND SUPPLIES INVENTORY RESERVE?

A: As with the Last Core Nuclear Fuel accruals, it would be reasonable to suspend any further accruals to the End-of-Life Materials and Supplies Inventory reserve until such time as the Company justifies continued accruals.

Q: HAS THE COMPANY INDICATED ITS INTENT TO UPDATE ITS END-OF-LIFE MATERIALS AND SUPPLIES INVENTORY?

A: Yes. In its response to FRF Interrogatory No. 55, FPL indicated that it "intends to file a decommissioning study later this year and would support an adjustment, as necessary, to nuclear decommissioning costs in the MFRs once the new study has been reviewed and approved." In Order No. PSC-02-0055-PA-EI, the Commission determined that End-of-Life Materials and Supplies Inventory was not decommissioning, but should be treated as nuclear maintenance expense. The Commission asked FPL to address the End-of-Life Materials and Supplies Inventory in subsequent decommissioning studies. If FPL does address the End-of-Life Materials and Supplies Inventory in its upcoming decommissioning study and its analyses indicate the need for continued accruals, the Commission could adjust rates at that time, along with changes to decommissioning and Last Core Nuclear Fuel accruals.

Q: HAVE YOU CALCULATED THE TEST YEAR REVENUE IMPACT OF SUSPENDING THE END-OF-LIFE MATERIALS AND SUPPLIES INVENTORY ACCRUAL?

A: Yes. As shown on Exhibit__(SLB-7), the jurisdictional Test Year revenue impact of this adjustment is $2.334 million, including the impact on expenses, rate base and capital structure.

CHARITABLE CONTRIBUTIONS

Q: HAS THE COMPANY INCLUDED AN ADJUSTMENT FOR CHARITABLE CONTRIBUTIONS IN THE TEST YEAR REVENUE REQUIREMENT?

A: Yes. The Company has requested that $1.545 million ($1.538 million retail jurisdiction) in charitable contributions be included in the Test Year revenue requirement.

Q: SHOULD THIS ADJUSTMENT BE ALLOWED?

A: No. Following past Commission practice, this adjustment should not be allowed. Charitable contributions are discretionary and should be made at shareholder expense. Further, ratepayers should not be required to support FPL's choice of charitable donations.

CONSTRUCTION WORK IN PROGRESS

Q: HAS THE COMPANY INCLUDED CWIP IN RATE BASE?

A: Yes. As shown on Schedule B-1, the Company has included $522.6 million of CWIP in rate base.

Q: SHOULD CWIP BE REMOVED FROM RATE BASE?

A: Yes. No CWIP should be allowed in FPL's rate base. Based on prior Commission decisions, CWIP is only included in rate base when needed to maintain financial integrity. The Commission has historically measured the need for CWIP in rate base by evaluating interest coverage with and without CWIP in rate base. In this case, FPL has indicated Test Year interest coverage ratios (excluding AFUDC) of 4.03 times at present rates and 5.68 times at proposed rates. Removing CWIP from rate base, and reducing revenues and net income accordingly, results in a reduction in Test Year interest coverage ratios of .255 times, reducing the coverage at proposed rates from 5.68 times to 5.42 times and at present rates from 4.03 times to 3.77 times. This reduction is not sufficient to warrant inclusion of CWIP in the Test Year rate base.

Q: WHAT IS THE REVENUE IMPACT OF REMOVING THE CWIP FROM THE TEST YEAR RATE BASE?

A: The revenue impact of removing CWIP from rate base is $69.585 million. ($522.642 million x 8.22% x 1.61971)

NUCLEAR MAINTENANCE EXPENSE ACCRUAL

Q: PLEASE EXPLAIN HOW THE COMPANY HANDLES ITS ACCRUALS FOR NUCLEAR MAINTENANCE.

A: The Company estimates its nuclear maintenance outage costs for the next anticipated outage at the end of each outage period. The outage costs are then accrued monthly from the time of the current nuclear maintenance outage through the end of the next anticipated outage period. The nuclear maintenance reserve is a regulatory liability and is treated as a reduction to rate base.

Q: HAS THE COMPANY CORRECTLY CALCULATED THE RATE BASE REDUCTION ASSOCIATED WITH THE NUCLEAR MAINTENANCE RESERVE?

A: No. The Company has charged (debited) the nuclear maintenance reserve with the anticipated costs of the next nuclear maintenance outage at the time the accruals begin, rather than at the time the actual expenditures are made. For example, the accruals for the St. Lucie 2 October 2007 outage begin in May,

2006. The Company will not actually incur the costs associated with this outage until 2007; however, in determining the nuclear maintenance reserve balances, the Company has reduced the regulatory liability account by the October 2007 costs in May, 2006. This practice overstates the actual regulatory liability, resulting in an overstatement of rate base and the Test Year revenue requirement.

Q: WHAT IS THE IMPACT OF THIS OVERSTATEMENT?

A: Exhibit__(SLB-8) provides a recalculation of the nuclear maintenance reserve balances with charges to the reserve properly timed with the actual expenses. As shown on Exhibit__(SLB-8), this correction reduces the jurisdictional revenue requirement by $7.161 million.

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A: Yes, it does.

PSC DOCKET NO. 050045-EI, PETITION OF FLORIDA POWER & LIGHT COMPANY FOR A RATE INCREASE

DIRECT TESTIMONY OF SHEREE L. BROWN

APPENDIX A

RESUME' OF SHEREE L. BROWN

AND

TESTIMONY EXPERIENCE OF SHEREE L. BROWN

UTILITY ADVISORS' NETWORK

SHEREE L. BROWN
Managing Principal

Professional Registration	Certified Public Accountant
Education	B.S. in Accounting University of West Florida Pensacola, Florida M.B.A. University of Central Florida Orlando, Florida

Professional and Business History	Utility Advisors' Network, Inc.	2004-Present
	AEIS/SVBK CONSULTING GROUP	1985 - 2004
	R.W. Beck & Associates	1981 – 1985

Professional Experience

Ms. Brown has extensive experience in financial, management, and regulatory consulting for utilities and utility consumers. She has assisted clients in the development of feasibility studies, financing arrangements, and supply contracts for utility projects; power supply negotiations, analyses, and contract development; audit of utility contracts; development of retail rate studies, cost of service studies, and revenue requirements; deregulation planning; strategic planning; valuation; and representation in litigated regulatory proceedings.

Ms. Brown has provided expert testimony on behalf of clients on such issues as stranded cost calculation and recovery, market pricing, and public policy. In participating in deregulation proceedings, Ms. Brown has been responsible for the preparation of comments to regulatory commissions regarding policy issues on restructuring. She has participated in technical conferences held to set policy issues and assisted legal counsel in the preparation of legal positions regarding previous rate agreements and other agreements entered into relevant to the proceedings. In her experience, Ms. Brown has been responsible for the development of methodologies for determining and recovering interim stranded costs. Ms. Brown has also been called on to participate in panel discussions before the regulators regarding the many issues relative to the deregulation of the electric industry.

Professional Experience-continued

Ms. Brown has developed qualified aggregation programs and participated in public workshops to encourage eligible businesses and residents to participate in municipal aggregation programs. Ms. Brown has negotiated and evaluated power supply arrangements for municipal electric systems, universities, and retail aggregation programs. Such negotiations have included joint ownership arrangements, block power purchases combined with supplemental partial requirements, formula rate contracts, economy purchases, full requirements and partial requirements combined with self-generation. She has evaluated the economic feasibility of peaking generating facilities and has negotiated terms and conditions with the electric supplier to enhance the economic benefits of peaking operations.

Ms. Brown has extensive experience in wholesale and retail ratemaking and has represented numerous municipal, cooperative, university, and regulatory clients in proceedings before the Federal Energy Regulatory Commission and various state and local commissions. She has negotiated the settlement of rate cases and has presented expert testimony as a witness in litigated proceedings. As an expert witness, Ms. Brown has presented testimony on revenue requirement issues, cost-of-service studies and allocation methodologies, rate design, merger impacts, utility valuations, and terms and conditions of service, as well as stranded costs and deregulation policies.

Regulatory/Legal Appearances

Federal Energy Regulatory Commission ("FERC")
Arkansas Public Service Commission ("APSC")
Council of the City of New Orleans ("CCNO")
Florida Public Service Commission ("FPSC")
Illinois Commerce Commission ("ICC")
Louisiana Public Service Commission ("LPSC")
Massachusetts Department of Telecommunications & Energy ("DTE")
Minnesota Public Utilities Commission ("MPUC")
New Hampshire Public Utilities Commission ("NHPUC")
North Carolina Utilities Commission ("NCUC")
Texas Public Utilities Commission ("TPUC")
Circuit Court, Ninth Judicial Circuit, Orange County, Florida
Circuit Court, Eighteenth Judicial Circuit, Seminole County, Florida

Papers, Publications, and Presentations

"Determining the Value of Your Municipal Utility" – Presented to the Florida Municipal Electric Association and Florida Municipal Power Agency Annual Conference, 2003.

"Municipalization/Franchise Evaluation" - Presented to the Tri-County League of Cities, Casselberry, Florida, January 2001.

"Opportunities and Challenges: Managing Energy Costs in a Deregulated Environment" - Presented to the Dallas Chapter of the National Association of Purchasing Managers, Dallas, Texas, October, 2000.

"Unbundling - Identifying Strategies for a Smooth Transition to Competition" - Presented at the South Carolina Association of Municipal Power Systems Annual Conference, Hilton Head, South Carolina, June, 1999.

"Preparing for Deregulation - Understanding Electric Restructuring Issues Affecting Local Government" - Presented at the Taking Control of Your Destiny: Assessing the Impact of Electric Utility Industry Deregulation on Local Government Conference, Minneapolis, Minnesota, June, 1999.

"Electric Restructuring and Utilities Deregulation: A Facility Manager's Guide" - Coauthor with the APPA Energy Task Force, The Association of Higher Education Facilities Managers, Alexandria, Virginia, 1998.

"Utilities and You: A New Playing Field" - Presented at the U.S. Department of Energy Rebuild America 1998 Annual Conference, San Antonio, Texas, March 1998.

"Preparing for Deregulation in the Electric Utility Industry" - Presented at the Municipal Association of South Carolina 1998 Winter Meeting, Columbia, South Carolina, February, 1998.

"Electric Utility Deregulation" - Presented at the South Carolina Association of Municipal Power Systems Annual Event, Columbia, South Carolina, April 1997.

Papers, Publications, and Presentations- Continued	"Problems & Solutions in Retail Implementation: An Overview of Issues in Electric Utility Restructuring" - Presented at the Energy Awareness: Competition in Electricity in South Carolina Conference, Columbia, South Carolina, March 1997.
	"Municipalization of Electric Utility Systems Seminar" - Presented to the Municipal Association of South Carolina, Columbia, South Carolina, August 1996.
Professional and Business Affiliations	American Institute of Certified Public Accountants

TESTIMONY EXPERIENCE OF SHEREE L. BROWN

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
Arkansas Electric Cooperative Corporation	Arkansas Public Service Commission	04-141-U	3/8/2005 And 4/25/2005	Nucor-Yamato Steel And Nucor Steel-Arkansas	Reclassification of capitalized lease; mining lease costs; TIER
Progress Energy Florida	Florida Public Service Commission	Docket No. 041272-EI	1/31/2005	Florida Industrial Power Users Group	Hurricane Damage Cost Recovery
TECO Energy	Florida Public Service Commission	Docket No. 30001-EI	2003	Florida Industrial Power Users Group, Federated Department Stores, Publix Super Markets, Inc.	Fuel Costs Avoided Maintenance Costs
Florida Power Corporation	Circuit Court of the Ninth Judicial Circuit in and for Orange	Case No: CI-01-4558	2003	City of Winter Park, Florida	Valuation of Electric Distribution System Stranded Costs
Florida Power Corporation	Circuit Court of the Eighteenth Judicial Circuit in and for Seminole County,	Case No: 00-CA-1107-16E	2002	City of Casselberry, Florida	Valuation of Electric Distribution System Stranded Costs
Florida Power Corporation	Florida Public Service Commission	Docket No. 000824-EI	2002	Publix Super Markets, Inc.	Revenue Requirements Cost Allocation Merger Benefits/Costs
Florida Power & Light	Florida Public Service	Docket No. 001148-EI	2002	Publix Super Markets, Inc.	Revenue Requirements Rate Design
Public Service Co. of New Hampshire	New Hampshire Public Utilities	DE00-211	2002	City of Berlin, NH	Hydro Facility Acquisition
Commonwealth Edison	Illinois Commerce Commission	Docket 01-0423	2001	Building Owners' & Managers' Association of Chicago and Suburban Chicago	Rate Design High Voltage Discount
Public Service Co. of New Hampshire	New Hampshire Public Utilities Commission	DR96-150	1999	Manchester, NH	Interim Stranded Costs

TESTIMONY EXPERIENCE OF SHEREE L. BROWN

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
Consumers Energy Company	FERC	SC97-4-000	1997	City of Alma, Michigan	Stranded Costs (Retail-Turned- Wholesale), Reasonable Expectation, FERC Formula, NRC Transmission Rights, Retail and Wholesale Power Market
Duke Power Company	Federal Energy Regulatory Commission	ER 97-2099 & ER97-2212	1997	Cities of Greenwood & Seneca, South Carolina	Stranded Cost, Reasonable Expectation, FERC formula, NRC transmission rights
Public Service Co. of New Hampshire	New Hampshire Public Utility Commission	DR 96-150	1997	Cities of Manchester & Nashua	Stranded Cost, Rate Agreement, FAS 71
Public Service Co. of New Hampshire	New Hampshire Public Utility Commission	DR 96-150	1996	Cities of Manchester & Nashua	Stranded Cost
All New Hampshire Utilities	New Hampshire Public Utility Commission	DR 96-150	1996	Cities of Manchester & Nashua	Restructuring Policy
All New Hampshire Utilities	New Hampshire Public Utility Commission	DR 96-150	1996	Cities of Manchester & Nashua	Market Pricing
System Energy Resources, Inc.	Council of the City of New Orleans	ER95-1042	1995	City of New Orleans	Revenue requirements; formula rates
Duke Power Co.	Federal Energy Regulatory Commission	EL95-31	1995	City of Concord, Et Al	Cost of Service; Revenue requirements; rate design; overearnings
NOPSI	Council of the City of New Orleans	CD 85-1	1995	City of New Orleans	Cost allocation & rate design

TESTIMONY EXPERIENCE OF SHEREE L. BROWN					
Utility Company	**Regulatory Agency**	**Docket No.**	**Date Filed**	**Client Represented**	**Testimony Issues**
NOPSI	Council of the City of New Orleans	CD 85-1	1994	City of New Orleans	1993 Overearnings
NOPSI	Council of the City of New Orleans	UD-92-2A UD-92-2B	1994	City of New Orleans	Cost recovery methodology LCP rider
Entergy	Federal Energy Regulatory Commission	EL94-13	1994	City Council of New Orleans	System agreement effects of extended reserve shutdown
Entergy Corporation	Federal Energy Regulatory Commission	EC92-21-000 ER92-806-000	1993	City of New Orleans	Mitigation of merger effects on system agreement
Northern States Power Company	Minnesota Public Utilities Commission	E002/GR-92-1185	1993	University of Minnesota	Standby service terms and conditions
Entergy Corporation	Louisiana Public Service Commission	U-19904	1992	City of New Orleans	Effects of the proposed combination of two existing systems
Carolina Power & Light Company	Federal Energy Regulatory Commission	ER88-224	1988	Cities of Bennettsville and Camden, South Carolina	Revenue Requirements
Florida Power & Light Company	Florida Public Service Commission	880355-EI	1988	Coalition of Local Governments	Refund of tax savings
Lower Colorado River Authority	Texas PUC	8032	1988	City of San Marcos, Texas.	Revenue requirement, payroll expenses, debt service allocation, legal fees

TESTIMONY EXPERIENCE OF SHEREE L. BROWN					
Utility Company	**Regulatory Agency**	**Docket No.**	**Date Filed**	**Client Represented**	**Testimony Issues**
Carolina Power & Light Company	Federal Energy Regulatory Commission	ER87-240	1987	French Broad Electric Membership Corporation and the Cities of Bennettsville, S.C. and Camden, S.C.	Income taxes, operating reserves, investment tax credits, agency labor fees
North Carolina Natural Gas Company	North Carolina Utilities Commission	G-21 Sub 255	1986	Wilson, Rocky Mount, Greenville, and Monroe	Level of stored gas, allocation, industrial gas sales tracker
New England Power Company	Federal Energy Regulatory Commission	ER85-646-005 ER85-647-003	1986	Public System Group & the Indiana Municipal Power Agency	Ratemaking and tax treatment of cancellation costs
Duke Power	Federal Energy Regulatory Commission	ER84-355	1984	Virginia Municipal Electric Association ("VMEA")	Amortization of canceled plant, material/supplies
Southwestern Electric Power Company	Public Utility Commission of Texas	5301 & 4628	1982 1983	Texas Municipal League of Cities	Cost of service, federal income taxes
Duke Power Company	Federal Energy Regulatory Commission	ER86-674	Case settled upon submittal	Cities of Concord, N.C., Dallas, N.C., Due West, S.C.	Cost of service, income taxes, operating reserves

Florida Power & Light Company
Monthly Customer Growth

	2001	2002	2003	2004	Avg.	2005 YTD
January	16,382	10,090	8,690	10,686	11,462	15,448
February	11,256	14,194	13,937	14,163	13,388	15,529
March	9,513	11,006	12,342	14,138	11,750	11,876
April	5,875	7,486	8,424	10,656	8,110	10316
May	(5,654)	(2,659)	(1,828)	1,440	(2,175)	3816
June	(1,609)	1,348	3,900	6,385	2,506	
July	6,179	5,586	5,347	9,273	6,596	
August	6,307	8,510	6,942	8,510	7,567	
September	3,932	5,519	9,090	(2,971)	3,893	
October	5,760	8,072	10,256	(4,864)	4,806	
November	7,555	12,304	13,611	17,424	12,724	
December	14,060	12,536	12,763	5,094	11,113	
Avg for Year	79,556	93,992	103,474	89,934	91,739	
Jan-May				51,083	42,534	56,985

Notes:
Monthly customer growth was calculated from LEG-2 and
Table 32 of the Florida Electric Utility Industry (FPSC website).

Monthly customer growth for 2005 was taken from FPL's responses to OPC's Interrogatory No. 88 and FRF's Interrogatory No. 20.

EXHIBIT NO. ______ (SLB-1)
SHEREE L. BROWN – FRF
DOCKET NO. 050045-EI

Florida Power & Light Company
Revenue Adjustment for Customer Growth

Line No.	Description		Amount
1	2004 Year-End Customers (OPC 88)		4,257,011
2	2005 Year-End Est. (2.4%)		4,359,179
3	2006 Year-End Est. (2.4%)		4,463,800
4	2006 Annual Average Estimate		4,411,489
5	FPL 2006 Average Customer Estimate (LEG-2)		4,371,957
6	FPL 2006 Retail Sales (MWh) (E19b)		106,226,417
7	MWh Sales per Customer		24.30
8	Revised MWh Sales (L. 4 x L. 7)		107,186,945
	<u>Base Revenues ($M)</u>		
9	Present Revenue (from COS)	$	3,757,025
10	E19b Retail Sales (MWh)		106,226,417
11	Avg. $/kWh	$	0.03537
12	Revised Revenues (L.13 x L.18)	$	3,790,997
13	Revenue Adjustment	$	33,972

EXHIBIT NO. ____ (SLB-2)
SHEREE L. BROWN – FRF
DOCKET NO. 050045-EI
PAGE 1 OF 1

Florida Power & Light Company
Payroll Adjustment

Line No.	Reference	Item		Costs per FPL	Adjust Headcount 10,335	Revised at Adj Headcount
1	C-35,OPC 49	Regular Payroll		$ 616,828	$ 13,028	$ 603,800
2	C-35,OPC 49, OPC 255	Overtime		109,674	2,316	107,358
3	C-35,OPC 49, OPC 255	Incentive Pay		82,438	1,741	80,696
4	C-35,OPC 49	Total Gross Payroll		808,940	17,086	791,854
						-
		Fringe Benefits				-
5	C-35	Life Insurance		3,241	68	3,173
6	C-35	Medical Insurance		79,612	1,682	77,930
7	C-35	Retirement Plan		(68,663)	-	(68,663)
8	C-35	Employee Savings Plan		24,270	513	23,757
9	C-35	FICA		54,046	1,142	52,904
10	C-35	Unemployment		2,406	51	2,355
11	C-35	Worker's Compensation		10,625	224	10,401
12	C-35	Other			-	-
13	C-35	Educational Assistance		1,050	22	1,028
14	C-35	Employee Welfare		8,774	185	8,589
15	C-35	Post Retirement Medical Benefits		32,770	692	32,078
16	C-35	Post Retirement Disability		1,400	30	1,370
17	C-35	Dental Insurance		4,549	96	4,453
18	C-35	Nuclear Child Development Center		161	3	158
19	C-35	Subtotal Fringe Benefits		154,241	4,708	149,533
20	C-35	Total Payroll and Fringes, before LTI		963,181	21,794	941,387
21	OPC 50	Labor Capitalized		194,146		
22	OPC 247	Fringe Benefits Capitalized		20,402		
23	OPC 50, OPC 116	Less Payroll Tax Capitalized		11,904		
24		Total Capitalized		226,452	5,124	221,328
25	L20 - L 35	Total Expensed	76.49%	736,729	16,670	720,059
26	OPC 116	Jurisdictional Allocation	99.54%	733,367	**16,594**	716,773
27	OPC 116	Less amounts recovered in Adj Clauses			432	
28	L 26-L 27	Reduction in Jurisdictional Base Rates			**16,162**	
29	OPC43,49	Equity Based Compensation[1]		29,717		

[1] Per OPC 49, the equity-based compensation is included in MFR Schedule C-1, but is not included in MFR Schedule C-35.

Florida Power & Light Company
Bad Debt Expense

Year	Customers	Gross Revenues (Retail)	Revenue per Customer	Bad Debt	Bad Debt Factor	Increase in per Customer Revenue	Increase in Bad Debt Expense
2000	3,848,350						
2001	3,935,281	7,293,225,743	1853.292241	9,358,982	0.128%		
2002	4,019,805	7,035,177,384	1750.12902	10,140,606	0.144%	-5.57%	12.50%
2003	4,117,221	7,958,720,135	1933.032046	10,675,767	0.134%	10.45%	-6.94%
2004	4,224,509	8,341,481,390	1974.54459	13,173,982	0.158%	2.15%	17.91%
2006	4,371,957	8,722,657,950	1995.138093	14,691,374	0.168%		
Avg 2001-2003				11,775,588	0.135%		
Difference				**$ 2,915,786**			

Source: Schedule C-11 and Document LEG-2.

Net Operating Income Multiplier per C-44	Per Company	Revised
Revenue Requirement	1	1
Gross Receipts Tax Rate	0	0
Regulatory Assessment	0.00072	0.00072
Bad Debt Rate	0.00168	0.00135
Net Before Income Taxes	0.9976	0.99793
State Income Tax Rate	0.055	0.055
State Income Tax	0.05487	0.05489
Net Before Federal Income Tax	0.94273	0.94304
Federal Income Tax Rate	0.3451	0.3451
Federal Income Tax	0.32534	0.32544
Revenue Expansion Factor	0.61739	0.6176
Net Operating Income Multiplier	1.61972	1.61917
FPL Claimed NOI deficiency from E-1		237,437,000
Required Increase		384,450,867
Requested Increase		384,571,000
Adjustment to Revenue Requirement		**$ 120,133**
Total Adjustment to Revenue Requirement		**$ 3,035,918**

Florida Power & Light Company
Rate Case Expense Adjustment

	Eliminate Expense and Rate Base	Amortize Exp over 4 years Eliminate Rate Base	Amortize Exp over 4 years Increase Rate Base
Test Year Rate Case Expenses	$ (4,475,000)	$ (2,237,500)	$ (2,237,500)
Rate Base Elimination [1]	$ (526,498)	$ (526,498)	$ 91,429
Total Revenue Impact	$ (5,001,498)	$ (2,763,998)	$ (2,146,071)

[1] Rate Base Elimination of $6.438 million

	Before Adjustment				After Adjustment		
	Totals	Ratio	Cost	WAC	Revise DIT and Rate Base	Ratio	WAC
Long Term Debt	3,751,548	30.23%	5.89%	1.78%	3,751,548	30.23%	1.78%
Preferred Stock	-	0.00%	0.00%	0.00%	-	0.00%	0.00%
CustomerDeposits	436,358	3.52%	5.98%	0.21%	436,358	3.52%	0.21%
Common Equity	6,200,049	49.96%	12.30%	6.14%	6,200,049	49.97%	6.15%
Short Term Debt	61,631	0.50%	8.73%	0.04%	61,631	0.50%	0.04%
Deferred Income Tax	1,911,608	15.40%	0.00%	0.00%	1,909,125	15.39%	0.00%
Investment Tax Credits	49,328	0.40%	9.88%	0.04%	49,328	0.40%	0.04%
	12,410,522			8.218%	12,408,039		8.220%
Rate Base	12,410,522			1,019,920	12,404,084		1,019,595
Gross-up for Taxes				1,651,975			1,651,449
Adjustment							(526.50)

[2] Rate Base Modification to Reflect 4 year amortization

	Before Adjustment				After Adjustment		
	Totals	Ratio	Cost	WAC	Revise DIT and Rate Base	Ratio	WAC
Long Term Debt	3,751,548	30.23%	5.89%	1.78%	3,751,548	30.23%	1.78%
Preferred Stock	-	0.00%	0.00%	0.00%	-	0.00%	0.00%
CustomerDeposits	436,358	3.52%	5.98%	0.21%	436,358	3.52%	0.21%
Common Equity	6,200,049	49.96%	12.30%	6.14%	6,200,049	49.96%	6.14%
Short Term Debt	61,631	0.50%	8.73%	0.04%	61,631	0.50%	0.04%
Deferred Income Tax	1,911,608	15.40%	0.00%	0.00%	1,912,039	15.41%	0.00%
Investment Tax Credits	49,328	0.40%	9.88%	0.04%	49,328	0.40%	0.04%
	12,410,522			8.218%	12,410,953		8.218%
Rate Base	12,410,522			1,019,920	12,411,640		1,019,977
Gross-up for Taxes				1,651,975			1,652,067
Adjustment							91.43

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Florida Power & Light
Reported Hurricane Damage
(Data in Millions)

Year	Unadjusted Damage	2006$ Damage	Excluding 1992&2004	Larger Storms	Total Accrual
1992	388.04 /1	538.25		538.25	
1993	13.50 /2	18.18	18.18		
1994	5.14	6.75	6.75		
1995	6.12	7.82	7.82		
1996	-	-	-		
1997	-	-	-		
1998	27.55	32.90	32.90		
1999	67.82	79.23	79.23		
2000	17.57	19.85	19.85		
2001	27.21	29.90	29.90		
2002	3.44	3.72	3.72		
2003					
2004	890.00	916.90		916.90	
Total, excluding Andrew & 2004 storms			198.34		
Avg per Year, smaller storms			15.26		
Total Larger Storms				1,455.15	
Average cost/storm				363.79	
10 year accrual				36.38	
Total accrual			$ 15.26	$ 36.38	$ 51.64

/1	Hurricane Andrew	
	Insurance claim per OPC 12	434.4
	Deductible	21
	1996 charges	3.975
	1997 charges	1.117
	Excess insurance, 1995	-55.451
	Excess insurance, 1996	-17
	Net Costs per OPC 78	388.041

1996 and 1997 reserve charges were for Andrew and were moved to 1992.

/2 Winter Storm insurance proceeds.

Florida Power & Light Company
Impact of Removing ADIT Associated with the Storm Damage Fund
from the Cost of Capital

Cost of Capital - Schedule D1a

	Totals	Spec Adj	Prorata Adj	System Adjusted	Jurisdictional Factor	Jurisdictional Adjusted	Ratio	Cost Rate	Weighted Cost Rate
Long Term Debt	4,152,443	(177,651)	(192,686)	3,782,106	99.1920%	3,751,547	30.23%	5.89%	1.78%
Preferred Stock	-			-	0.0000%	-	0.00%	0.00%	0.00%
CustomerDeposits	454,453		(18,096)	436,357	100.0000%	436,357	3.52%	5.98%	0.21%
Common Equity	6,520,219	(6,447)	(260,618)	6,253,154	99.1508%	6,200,052	49.96%	12.30%	6.14%
Short Term Debt	64,727		(2,577)	62,150	99.1663%	61,632	0.50%	8.73%	0.04%
Deferred Income Tax	2,007,620		(79,941)	1,927,679	99.1663%	1,911,608	15.40%	0.00%	0.00%
Investment Tax Credits	51,805		(2,063)	49,742	99.1663%	49,327	0.40%	9.88%	0.04%
Total	13,251,267	(184,098)	(555,981)	12,511,188		12,410,523	100.00%		8.22%

Adjusted for Storm Damage
Funded Net of Tax

	Totals	Spec Adj	Prorata Adj	System Adjusted	Jurisdictional Factor	Jurisdictional Adjusted	Ratio	Cost Rate	Weighted Cost Rate
Long Term Debt	4,152,443	(177,651)	(203,560)	3,771,232	99.1920%	3,740,760	30.14%	5.89%	1.78%
Preferred Stock	-	-	-	-	0.0000%	-	0.00%	0.00%	0.00%
CustomerDeposits	454,453	-	(19,117)	435,336	100.0000%	435,336	3.51%	5.98%	0.21%
Common Equity	6,520,219	(6,447)	(275,326)	6,238,446	99.1508%	6,185,469	49.84%	12.30%	6.13%
Short Term Debt	64,727	-	(2,722)	62,005	99.1663%	61,488	0.50%	8.73%	0.04%
Deferred Income Tax	2,007,620	31,378	(84,453)	1,954,545	99.1663%	1,938,250	15.62%	0.00%	0.00%
Investment Tax Credits	51,805	-	(2,179)	49,626	99.1663%	49,212	0.40%	9.88%	0.04%
Total	13,251,267	(152,720)	(587,358)	12,511,189		12,410,515	100.00%		8.20%

Impact on Revenue Requirements	($000)
Rate Base	12,410,522
Change in WACC	0.02%
Change in Return Requirement	2,513
Tax Expansion Factor	1.61971
Change in Revenue Requirement $	4,071

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Florida Power & Light Company
Last Core Nuclear Fuel

Suspension of Test Year Accrual	$ (5,510,000)	
Rate Base Change	$ 225,239	[1]
Total Revenue Impact	$ (5,284,761)	
Jurisdictional Allocation (99.5899%) - C-4	$ (5,263,088)	

[1] Rate Base Elimination of Average Accrual	Before Adjustment				After Adjustment		
	Totals	Ratio	Cost	WAC	Revise DIT and Rate Base	Ratio	WAC
Long Term Debt	3,751,548	30.23%	5.89%	1.78%	3,751,548	30.23%	1.78%
Preferred Stock	-	0.00%	0.00%	0.00%	-	0.00%	0.00%
CustomerDeposits	436,358	3.52%	5.98%	0.21%	436,358	3.52%	0.21%
Common Equity	6,200,049	49.96%	12.30%	6.14%	6,200,049	49.95%	6.14%
Short Term Debt	61,631	0.50%	8.73%	0.04%	61,631	0.50%	0.04%
Deferred Income Tax	1,911,608	15.40%	0.00%	0.00%	1,912,671	15.41%	0.00%
Investment Tax Credits	49,328	0.40%	9.88%	0.04%	49,328	0.40%	0.04%
Total	12,410,522			8.218%	12,411,585		8.217%
Rate Base	12,410,522			1,019,920	12,413,277		1,020,059
Gross-up for Taxes				1,651,975			1,652,201
Adjustment							225.24

Check (rate base method)	
Rate Base Increase	2,755,000
Change in ADIT	1,062,741
Net Increase	1,692,259
WACC	0.0822
Expansion Factor	1.61971
Revenue impact of change in rate base	225,308

EXHIBIT NO. ______ (SLB-6)
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Florida Power & Light Company
End of Life Materials and Supplies Inventory

Suspension of Test Year Accrual	$ (2,444,000)	
Rate Base Change	$ 99,911	[1]
Total Revenue Impact	$ (2,344,089)	
Jurisdictional Allocation (99.5585%)	(2,333,740)	

[1] Rate Base Elimination of Average Accrual	Before Adjustment				After Adjustment		
	Totals	Ratio	Cost	WAC	Revise DIT and Rate Base	Ratio	WAC
Long Term Debt	3,751,548	30.23%	5.89%	1.78%	3,751,548	30.23%	1.78%
Preferred Stock	-	0.00%	0.00%	0.00%	-	0.00%	0.00%
CustomerDeposits	436,358	3.52%	5.98%	0.21%	436,358	3.52%	0.21%
Common Equity	6,200,049	49.96%	12.30%	6.14%	6,200,049	49.96%	6.14%
Short Term Debt	61,631	0.50%	8.73%	0.04%	61,631	0.50%	0.04%
Deferred Income Tax	1,911,608	15.40%	0.00%	0.00%	1,912,079	15.41%	0.00%
Investment Tax Credits	49,328	0.40%	9.88%	0.04%	49,328	0.40%	0.04%
Total	12,410,522			8.218%	12,410,993		8.218%
Rate Base	12,410,522			1,019,920	12,411,744		1,019,982
Gross-up for Taxes				1,651,975			1,652,075
Adjustment							99.91

Check (rate base method)	
Increase in rate base	1,222,000
Change in ADIT	471,387
Net increase in rate base	750,614
WACC	0.0822
Expansion Factor	1.61971
Revenue impact	99,937

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Florida Power & Light Company
Nuclear Maintenance Reserve

Line No.	Reference	Description	Amount ($000)
1	B-21	Beginning Balance per FPL	$ 69,797
2	OPC 100	Add Back 2006 Expenses Charged Prior to 2006	82,482
3	SUM	Revised Beginning Balance	152,279
4	B-21/OPC 93	Plus Test Year Accruals	77,185
5	OPC 100	Less 2006 Expenses	(82,482)
6	SUM	Revised Ending Balance	146,982
7	(L3+L6)/2	Average Test Year Balance	149,631
8	B-21	Average Balance per FPL	61,674
9	L7-L8	Increase in Regulatory Liability	87,957
10	L9x (1-.38575)	Net of Tax (to include capital structure impact)	54,028
11	L10 x 8.22% x 1.61971	Revenue Impact	$ 7,193
12	C-4: 99.5585%	Jurisdictional Revenue Impact	$ 7,161