BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080677-EI
FLORIDA POWER & LIGHT COMPANY

IN RE: PETITION FOR RATE INCREASE BY FLORIDA POWER & LIGHT COMPANY

TESTIMONY & EXHIBITS OF:

ARMANDO J. OLIVERA

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF ARMANDO J. OLIVERA

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Armando J. Olivera. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company ("FPL" or the "Company") as President and Chief Executive Officer.

Q. Please describe your duties and responsibilities in that position.

A. I have overall responsibility for the operations of FPL.

Q. Please describe your educational background and business experience.

A. I have a Bachelor of Science degree in electrical engineering from Cornell University and a Master of Business Administration from the University of Miami. I am also a graduate of the Professional Management Development program of the Harvard Business School. I was appointed to my current position in 2003. My professional background is described in more detail in Exhibit AJO-1.

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring the following exhibits:

- AJO-1 - Biographical Information for Armando J. Olivera
- AJO-2 - FPL Typical Residential 1,000 kWh Bill for January 2009, January 2010 and January 2011

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of FPL's filing and its position in this case, together with an introduction of the witnesses who have filed direct testimony on FPL's behalf in support of that position.

II. SUMMARY OF TESTIMONY

Q. Please summarize the Company's position in this case.

A. FPL's customers expect their utility to provide affordable, reliable, clean energy solutions - both now and in the years to come. It is therefore our responsibility to plan ahead and make efficient and prudent investments that ensure we continue to meet those expectations. Because of today's bleak economic climate, we want to ensure that we clearly explain why a rate change is the right course of action – we want to demonstrate to the Commission and to our customers how we're doing our part, every day. We want to show how we have performed, and want to continue to perform, in providing reliable and affordable electric service to our customers. And once we've done that, the need for the rate change will be clearer. To be sure, it is more important than ever that we plan ahead carefully and invest wisely. But we also know that we must work to keep costs low.

Here's what we've done – and what we do each day – to keep costs low and prevent the need for rate increases: FPL embraces efficiency at all levels of the business. Our fossil generation fleet continues to become more efficient as we add new, cleaner and more efficient units, as was the case with the addition of Turkey Point Unit 5 in 2007 and will be seen with the planned additions of the West County Energy Center units. It should also be noted that these newer, more efficient units have a relatively small impact on customer bills when the fuel savings are taken into account, a win-win situation for everyone. We focus on efficiency, not just in how we deliver electricity, but in how we operate as a company. To illustrate this commitment: since 1985 FPL has succeeded in lowering its non-fuel operating and maintenance (O&M) expenses per kWh by approximately 22% and, as FPL witness Reed states, the Company's performance is particularly strong in controlling non-fuel O&M expenses.

As you know, we have a history of working to keep costs low. For a typical residential (1,000 kWh) customer, FPL's total bill as of January 2009, is the lowest of all Florida investor owned utilities (RBD-4). As well, FPL has actually reduced base rates twice in the past 10 years – by $350 million in 1999 and again by $250 million in 2002. In addition to these two reductions totaling $600 million per year, FPL also provided customers with refunds of more than $225 million through the terms of its revenue sharing agreements. As a result, over the past decade, our customers have received total savings of over $6 billion. And based on the benchmarking conducted by FPL witness Reed, FPL has outperformed other companies in terms of its strong financial and operational performance. For 2007 alone, had FPL performed only at an average level (instead of being one of the top performers in the benchmarking group), non-fuel O&M costs would have been between $700 million and $1.3 billion higher than FPL's actual costs – a clear and substantial savings for our customers.

We recognize there is no good time for a rate increase, especially given the current state of the economy. However, it appears at this time that 2010 fuel prices to customers will be substantially lower (based on February 9, 2009 price projections), due in part to overall lower fuel costs but also due to FPL's past commitment to investing in a cleaner and more efficient fossil generation fleet. As a result, even with the full required base rate increase, it is projected that FPL's customers will likely see their total bill *decrease*, not increase, effective January 1, 2010.

And each day we also work to deliver FPL customers more value from their electric utility service. We work to make our generation infrastructure stronger, smarter, and cleaner. FPL's commitment to provide clean energy (i.e., low or no greenhouse gas emissions) starts with fuel diversity. Because of its fuel mix, FPL is recognized as a clean-energy company, with one of the lowest emissions profiles among U.S. utilities. FPL currently obtains most of its electricity from clean-burning natural gas. The contribution of natural gas to our overall generation mix has grown and will continue to grow since 2006, the test year from our last base rate case, as follows:

2007 – 52%	2010 – 61%
2008 – 53%	2011 – 63%
2009 – 48%	

The addition of this clean and efficient natural gas enhances our system overall, and greatly benefits customers. However, it also highlights the need for diversification of the fuel supply in the future. Nuclear power, which produces no greenhouse gas emissions, is responsible for another significant portion (19%) of power production. As you know, we are in the process of increasing the output at our existing nuclear facilities in Florida and are developing two new nuclear units at our Turkey Point site.

As Florida continues to grow, it is FPL's responsibility to plan new power plants to ensure that electricity needs are met while preserving Florida's environment. FPL is working with legislative and other governmental leaders as well as state regulators in support of Governor Crist's clean energy agenda to find a balanced approach to our future energy needs.

FPL also is working to take a leadership role in Florida with regard to renewable energy through the Company's development of three solar energy projects. These projects represent a total of 110 megawatts (MW) of emissions-free electricity that will make Florida the second-largest supplier of utility-scale solar power in the U.S. FPL also supports greenhouse gas reductions through its industry-leading energy management programs, which help save customers money each month – and have eliminated the need for 12 power plants since the inception of these programs in the early 1980s.

FPL also is investing in an Advanced Metering Infrastructure (AMI), or "Smart Meters," which will give customers more information about how they use electricity each day – giving them the tools they need to better control their energy use.

Over the years, FPL also has become a leader in efficiency: The percentage of time our fossil-fueled power plants are available to generate power, as measured by the Equivalent Availability Factor (EAF), is among the best in our industry. The reliability of our power delivery system, as measured by the distribution System Average Interruption Duration Index (SAIDI) compares very well to other Florida investor owned utilities and ranks among industry leaders nationally. And FPL's nuclear plants have shown recent improvement in generation performance, as measured by the capacity and availability factors, reflecting FPL's significant investment in nuclear plant equipment.

Overall we are investing in making our infrastructure stronger, smarter, cleaner, more efficient and less reliant on any single fuel source. As a result, the service provided by FPL remains strong, and the value provided to customers remains high.

Yet there is more work to do, and this brings us to where we are today: a base rate proceeding. The conditions under which we operate have changed dramatically since 2005, the year of FPL's last base rate proceeding, challenging our ability to continue to provide the type of electric service our customers expect.

FPL's last rate proceeding in 2005 resulted in a settlement agreement among all of the parties that was subsequently approved by the Florida Public Service Commission ("FPSC" or the "Commission") following the submission of all direct and rebuttal testimony, months of discovery, and the review of thousands of pages of information by Commission Staff, the Office of Public Counsel and the other parties. That agreement held FPL's base rates flat, but provided for necessary and limited increases later to accommodate the large planned capital expenditures associated with the development of generation to meet Florida's expanding requirements via the Generation Base Rate Adjustment (GBRA) mechanism.

Throughout my testimony I will describe how conditions have changed in terms of costs, customer growth and sales growth, and the resulting major factors that are driving the need for a base rate increase at this time. FPL's witnesses in this proceeding will show how the Company plans and acts based on a long term perspective in order to address the long term needs of our customers, while balancing our actions to acknowledge and react to short term changes in the environment in which we operate. It will be critical during this proceeding that the Commission and all parties also maintain this balanced long term perspective so that we, the Company, will be able to continue to meet Floridians expectations for affordable, clean and reliable energy solutions for years to come.

III. INTRODUCTION OF WITNESSES

Q. What are the main topics addressed in the testimony filed on FPL's behalf?

A. The testimony submitted by the other witnesses on behalf of FPL in this proceeding is offered to explain and support:

1) The need for an increase in base rates for 2010;

2) Continuation of the GBRA mechanism for new generation;

3) The need for an increase in 2011, i.e., the Subsequent Year Adjustment;

4) A rate of return on equity (ROE) of 12.5%;

5) Adjustments that the Commission requires FPL to make or should allow to be made in establishing FPL's rates; and

6) The proposed rate schedules and service charges that implement the requested rate relief.

Q. Who will be testifying on FPL's behalf in this proceeding?

A. In addition to me, the following Company witnesses will testify as part of FPL's direct case:

- Dr. Rosemary Morley – Sales and load forecast;
- Philip Q Hanser, The Brattle Group – Sales and load forecast;
- Robert E. Barrett, Jr. – FPL's financial forecast;
- Marlene M. Santos – Customer Service cost and quality of service;
- George K. Hardy – Power Generation cost and performance;
- J. A. Stall – Nuclear cost and performance;
- Michael G. Spoor – Distribution cost and quality of service;
- James A. Keener – Transmission and Substation cost and quality of service;
- Kathleen Slattery – Human Resources costs and benefits;
- Christopher A. Bennett – Environmental Management, Six Sigma Quality and Information Technology;
- C. Richard Clarke, Gannett Fleming, Inc. – Depreciation;
- Kim Ousdahl – Calculation of the 2010 and 2011 revenue requirements and requested revenue increases, continuation of the GBRA, accounting issues and Company adjustments;
- Steven P. Harris, ABS Consulting – Storm reserve;
- William E. Avera, Ph. D., Financial Concepts and Applications, Inc. – ROE and capital structure;

- Armando Pimentel – Need for requested revenue increases, ROE, capital structure, storm reserve and accrual;
- Joseph A. Ender – Cost of service;
- Renae B. Deaton – Rate design; and
- John J. Reed, Concentric Energy Advisers – FPL's operational and financial performance relative to industry benchmarks.

Some of these individuals as well as other witnesses also may testify in rebuttal on behalf of FPL.

IV. OVERVIEW AND CONTEXT OF THE BASE RATE INCREASE

Q. Why does FPL require an increase in its base rates at this time, particularly given the current challenging economic conditions?

A. This is an important question. The full answer, of course, is found throughout the entire filing that constitutes FPL's formal request for an increase in its base rates. But perhaps a brief explanation at the outset of my testimony will better frame this important discussion.

Fundamentally, we need to increase base rates to be able to continue in the ensuing years to provide the world class utility service that our customers expect -- service that is affordable, reliable, and clean, and to retain investor confidence in the most uncertain and volatile capital market that this country has experienced since the Great Depression.

We believe this is the direction in which the electric industry must move if we are to secure our energy future. FPL and Florida are leading the way. But the projects and initiatives that are required to meet these objectives take long periods of time to develop and require major financial commitments on the part of our investors. Taking a short-sighted view, although tempting in a down economy, is precisely the wrong approach for our customers, the state of Florida and FPL. I will explain this in more detail later in my testimony.

To meet customer expectations, and to continue to provide a high quality, foundational service in support of Florida's economy and quality of life for Floridians, we must plan ahead and make efficient and prudent investments, even in challenging economic times. Such investments require an enormous amount of capital – capital that in the current market has become much more expensive due to dramatic increases in credit spreads and also more difficult to obtain, and, for some companies, not available at all.

We understand that no price increase will ever be welcomed, whether it is for electricity, healthcare, gasoline, or milk. It is worth observing, however, that there are very few services in our economy that are subject to the type of consistent and comprehensive price scrutiny to which electric prices in the

United States are subject. Many prices rise with little or no warning and require no governmental approval. Electric prices, on the other hand, increase only upon a proper showing and determination through proceedings such as these. And yet we see fairly significant differences in the prices and quality of electric service from state to state and among utilities throughout the country. FPL witnesses in this proceeding, however, confirm something that this Commission already knows – that FPL is one of the premier utilities in the entire country, providing top tier service at a price that is below the national average.

This is a very important frame of reference for this proceeding. FPL's very successful track record over many years in managing costs and making prudent investments, supported by constructive regulation from this Commission, has positioned FPL and its customers extremely well in challenging economic times compared to much of the country, even with the base rate increase that is necessary.

Q. Please elaborate on what you mean when you say that FPL and its customers are well positioned, even in these economic times.

A. Much of the electric utility industry has begun to recognize the importance of meeting the objectives I have identified above (i.e., a stronger, cleaner, smarter, and more fuel efficient system) to provide a more secure energy future for their customers. However, utilities across the country are facing many of the same economic and operational challenges that we face in Florida.

Although commodity prices have begun to moderate, this follows a period of sharp increases: financial markets are much tighter and more volatile, and sales levels are lower, meaning there are fewer kilowatt hours (kWhs) over which to spread costs. At the same time, utilities also are working, some more progressively than others, with governors, legislators and regulators to achieve meaningful reductions in greenhouse gas emissions, greater fuel diversity, and a more secure energy future for their customers.

But because of the investments FPL already has made, because of the way in which it has managed and controlled costs historically, and because of supportive, constructive regulation by the Commission, FPL is much better positioned than most to achieve these objectives despite current economic challenges and at rates that will remain among the lowest in the state and below national averages. This is a distinct advantage for FPL's customers.

In other words, because of the sound practices, investments, and regulation of prior years, Florida, the Commission and FPL are able to continue to take the progressive, proactive approach that has produced a world class utility system. This system operates at below average prices, and continues to move forward in securing the energy future for Florida and the 8.8 million Floridians (representing approximately 48% of the state's population) served by FPL, and with total bills that, based on recent fuel price projections (as of February 9, 2009), will actually be *lower* in January 2010 than they were in 2009, with subsequent increases not occurring until 2011 when most observers expect to see some of the current economic hardships begin to lift.

In contrast, compared to FPL, most other utilities already face one or more of the following: (i) a higher cost structure; (ii) a proportionally larger total investment and a longer road to become cleaner (i.e., lower emitting), more reliable, or more fuel diverse; and/or (iii) more constrained and expensive access to the debt markets. Utilities and their customers who are not as well positioned or who did not in past years receive the necessary regulatory support are going to face much larger hurdles in keeping pace with a changing energy environment, making correct and sufficient investments in infrastructure, and accessing sufficient capital at reasonable prices and on a timely basis. As a result, their customers will be at risk of experiencing deteriorating service levels at higher electric prices, while at the same time potentially losing important opportunities for the development of clean and renewable generating sources.

Q. You indicate that FPL's service levels are high and that its rates are below the national average. Please summarize those comparisons.

A. FPL has achieved superior performance in the Company's key operational areas, which ultimately serves to deliver direct benefits to our customers. This is supported by various witnesses' testimony and is also addressed later in my testimony, and includes the following areas: Customer Service, an example of which is the recognition received through the ServiceOne award for customer service performance; fossil generation performance, as evidenced by FPL's achievements in Equivalent Availability Factor (EAF) results; transmission and distribution reliability and cost performance; nuclear operational performance; and finally, FPL's environmental performance as evidenced by our actionable commitment to a cleaner, safer environment -- not just in our emissions but in how we treat the communities in which we operate. While one might assume that such performance and accomplishments would result in higher costs to customers, these remarkable achievements have actually been accomplished while maintaining rates that compare very well nationally, and in fact are below the national average, as FPL witness Deaton discusses in detail in her testimony.

Q. You have stated that, even with the required base rate increase, total bills will actually be lower in 2010 than in 2009. If the Commission approves the new base rates requested by FPL, what will be the impact on customers' bills in 2010?

A. FPL witness Deaton explains that in January 2010, the typical residential customer will likely see an overall decrease in the total bill of \$4.92 or approximately 4.5%, dropping from the current \$109.55 to \$104.63. This is due in part to the lower fuel prices projected for next year (based on February 9, 2009 projections), but also reflects the benefits of investments made by the company in cleaner, more efficient generation, both for the newer units such as Turkey Point Unit 5 and the West County units, and also through investments made to enhance the efficiency of the existing fossil fleet. This change in the bill is reflected in MFR A-2, and has been illustrated in my Exhibit AJO-2 attached to my testimony.

Q. If the Commission approves the new 2010 base rates requested by FPL, how will FPL's typical residential bill compare to that of other utilities?

A. Based on current rates for other companies, it appears at this time that FPL will compare favorably even with the full projected increase. The latest survey from the Edison Electric Institute (EEI) reflects a national average price for a typical residential bill of $123.59, and an average for the South Atlantic Region of $105.63. FPL's projected bill of $104.63 for 2010 is well below the national average and also below the South Atlantic Regional average. In Florida, FPL's residential bill is currently the lowest among the four major IOUs; thus, an even lower bill projected in January 2010 for FPL customers would likely remain the lowest among these companies.

As FPL witness Deaton explains, FPL's typical residential bill is also currently among the lowest of the 54 electric companies surveyed by the Florida Municipal Electric Association (FMEA), and is well below the average for these companies of $133.76. Again, it would appear that FPL's lower bill in January 2010, even with the base rate increase, will compare very favorably throughout Florida. Of course, it is impossible to predict the 2010 bills for other companies with absolute precision, but these comparisons provide an excellent frame of reference based on the information we have available today.

Q. **What will be the impact on FPL's bills in January 2011 of the base rate adjustments that FPL also is requesting as part of this case and how do you expect that FPL's January 2011 bills will compare within Florida and across the nation?**

A. The structure of FPL's request in this case is such that, based on recent fuel price projections as of February 9, 2009, bills are projected to be *lower* in January 2010 than they were in 2009, with subsequent increases not occurring until 2011 when most observers expect to see some of the current economic hardships begin to lift. This is another example of what I was describing earlier – FPL and its customers being well-positioned given the challenges of today to continue to pursue the critical objectives that will secure our energy future. The timing and amount of these necessary adjustments will provide an adequate return to investors, allowing FPL to continue to work toward meeting the objectives I described earlier. The January 2011 typical residential bill is projected to still only increase by 7% over the two-year period from January 2009.

It becomes increasingly difficult to predict bill comparisons further out in time; however, taking all things into consideration, including FPL's current position and recent fuel price projections, the challenges that the entire industry is facing, and FPL's strong record of past performance relative to the industry, based on current information, we expect that our bills will continue to compare very favorably within Florida and nationally.

Q. When did FPL last receive a general base rate increase?

A. As FPL witness Deaton explains, the last time FPL requested and received a general base rate increase was in 1985, more than 23 years ago. Since then, base rates were lowered three times by a total of $638 million in annual revenue requirements (in 1990, 1999 and 2002). FPL's January 2009 typical residential base bill is $7.84 or 16.6% below 1985 levels on a nominal basis, and more than 58% below 1985 levels when inflation is taken into account over that same period (Exhibit RBD-3). Even with the projected 2009 GBRA base rate adjustments reflecting the costs associated with West County Units 1 and 2, FPL's typical residential base bill at the end of 2009 will only be $42.00, still well below the 1985 base bill of $47.15.

Q. Why should the Commission consider the prior base rate reductions in this case?

A. These base rate reductions, particularly the more recent reductions, are important in this respect: they underscore the need for symmetry in the way in which base rates are set. What I mean by this is when a combination of sales growth and productivity improvements more than offset the rate of cost increases on a utility system, base rates may be lowered to produce the required rate of return. This is what occurred in 1999 and 2002, producing base rate reductions totaling $600 million. Conversely, when higher costs and lower sales mean that existing rates are no longer sufficient to produce the necessary rate of return to investors, such as is the case today, those rates must be increased. Such symmetry in the application of ratemaking principles is foundational to electric utility regulation in the United States. And, it is required by the investment community upon which this capital intensive industry relies for the massive financial commitment that is necessary for a utility to meet all of its obligations of service responsibly and reliably.

V. MAJOR DRIVERS NECESSITATING AN INCREASE IN BASE RATES

Q. **Given FPL's excellent track record of meeting growth without the need for a general base rate increase, why does the Company now need an increase in base rates?**

A. We always look to how we can cut costs first, before we seek a rate adjustment. Indeed, for many years, FPL has worked hard at -- and succeeded in -- controlling costs. We have continued that focus on controlling costs since our last base rate proceeding in 2005. Even today, the amount of the required base rate increase has been offset to an extent by productivity improvements, as described in FPL witness Barrett's testimony and also shown in his Exhibit REB-17. In fact, this is an area in which we take a leadership role throughout the industry. FPL witness Reed shows that our premier level of efficiency and productivity are reflected in the fact that operating and maintenance (O&M) cost per megawatt-hour (MWh) and per customer have both been well below the industry average for many years, and have increased at rates that are generally below the rates of increase for the industry. That has been true and will remain true even with the required increase in our base rate.

However, continued focus on productivity improvements alone will not be sufficient to meet the significant increase in costs to reliably deliver electricity. Today we are in a much different situation, due principally to two important factors. Since 2006, (1) costs, including cost of capital, have increased significantly and (2) sales growth has dramatically declined, while the number of new service accounts added each year (requiring additional FPL infrastructure and support) has not declined nearly as much. Below, I elaborate on each of these factors.

Q. **Please describe the cost drivers that necessitate an increase in base rates in 2010.**

A. Between the end of 2006 and 2010, FPL will have incurred more than $5.6 billion in capital expenditures to meet long term growth and make the related necessary investments in its infrastructure. Speaking generally, these cost increases can be categorized as described below. Each category represents a significant driver for the overall increase in costs that FPL faces, resulting in the need for a base rate increase. These are addressed in more detail by FPL witness Barrett as well as other witnesses.

- Depreciation - comprised of three discrete items: A discontinuation, for 2010 and beyond, of the annual depreciation credit that the Company has taken in 2006 through 2009 as authorized in the Stipulation and

Settlement Agreement; the revenue requirement in 2010 associated with the cumulative effect of the depreciation credits taken in 2006 through 2009; and the increased depreciation rates reflected as a result of the new study.

- Inflation - The increased costs of goods and services in 2010 compared to the same good or service in 2006. Changes to the Consumer Price Index since 2006 including the forecast through 2010 indicate that inflation will have added about 11% to the cost of goods and services in 2010 relative to 2006, and some of the Company's costs, such as medical and dental expenses, have escalated much faster than CPI;
- Regulatory Commitments - Costs resulting from obligations that FPL must meet as a result of state and federal mandates or regulatory commitments made previously. Two examples of these commitments are the storm hardening expenditures and other storm-related commitments FPL has made to the FPSC, and expenditures required by the Nuclear Regulatory Commission (NRC) to address alloy 600 issues at FPL's nuclear plants, including the replacement of the reactor vessel head at St. Lucie Unit 2. In general, FPL's Nuclear Division has been particularly impacted by regulatory commitments, and failure to meet these commitments could have substantial economic, safety, reliability and regulatory consequences for the Company (loss of the availability of even one nuclear unit for a sustained period could result in hundreds of millions of dollars in replacement fuel costs to FPL's customers).

As FPL witness Stall discusses, FPL's 2005 rate case identified a number of needed nuclear plant modifications. FPL has been able to execute the most significant of these planned projects, and it has done so on time and under budget. For example, the following nuclear projects were on time and $27 million under budget: all four reactor vessel head replacements, St. Lucie Unit 2 steam generator replacement, and St. Lucie Unit 1 pressurizer replacement. FPL's timely decision to proceed with these replacements resulted in savings on component costs of $100 million as a result of later price increases. However, emerging regulatory and operational issues are constantly faced by the Company and continue to require an ongoing re-evaluation of projects and the addition of new initiatives;

- System Growth - Costs associated with new service accounts, such as new poles and wires for distribution and transmission, and customer growth, such as additional meter reading;
- Long-term infrastructure investments - Expenditures that are designed to provide incremental customer benefits over the long term, such as the Automated Metering Infrastructure and FPL's nuclear life extension initiatives. These expenditures were made to make FPL's infrastructure stronger, smarter, cleaner, more efficient and/or less reliant on any single source of fuel;

- Storm Reserve Accrual - The proper annual accrual to the Company's Storm Damage and Property Insurance Reserve, and why this is in the best long-term interest of our customers;
- Economic Conditions - Costs that are measurable and directly related to the economic downturn that we are experiencing currently in the Florida economy and capital markets and that are projected to continue into 2010; and
- Productivity Improvements - Savings attributable to performing an activity at a lower unit cost in 2010, adjusted for inflation, than it cost to perform the same activity in 2006.

Q. What major cost drivers necessitate the Subsequent Year Adjustment increase in 2011?

A. The increase in 2011 is the result of increases in O&M and additional capital expenditures excluding West County Unit 3, for which FPL is requesting GBRA treatment. FPL witness Barrett addresses the 2011 increases in revenue requirements associated with each of the same drivers that were used to explain the 2010 increase. As he addresses, the primary drivers of this 2011 increase are growth, infrastructure investment, regulatory commitments and inflation.

VI. IMPACT OF CUSTOMER AND SALES GROWTH

Q. You indicated a second primary factor in the Company's need for a base rate increase relates to the impact of the different rates of customer growth and sales growth. How have changes in customer and sales growth since 2006, the test year in FPL's last base rate case, affected the company's need for a base rate increase in 2010?

A. The effect is significant. As indicated earlier in my testimony, when sales growth and productivity improvements more than offset the rate of cost increases on a utility system, customers can benefit from base rate reductions. In fact, FPL customers received a total of $600 million in base rate reductions in 1999 and 2002. And base rates prior to that had not been increased since 1985. So FPL has been able to effectively manage cost increases over more than twenty three years through a combination of productivity improvements and growth in sales.

However, growth in sales during 2010 and 2011 will not be adequate to offset increased costs, even taking into account continued productivity improvements that are a part of FPL's ongoing program to achieve and maintain operational excellence. As FPL witness Morley explains, billed retail sales is expected to decline at an average annual rate of 0.6% between 2006 and 2010. This overall lower sales has resulted in a dilemma in which there is no incremental sales to cover the cost of new infrastructure, or over which rising operating costs or even existing fixed costs can be spread.

The 2005 settlement agreement has served our customers and the Company well. It provided an appropriate and efficient ratemaking framework, balancing customer needs for reliable and affordable electric service with the Company's need to attract substantial amounts of investment from the equity and debt markets at a reasonable cost. This was during a period in which the Company required large capital expenditures to continue to meet Florida's electric power needs. But conditions have changed dramatically since 2005.

One of the fundamental expectations that allowed FPL to enter into the ratemaking and regulatory framework instituted under the 2005 settlement agreement is that base costs, other than those covered by the Generation Base Rate Adjustment, would grow generally at a rate consistent with the growth in the Company's energy sales. This would enable the Company to cover the rising costs of operating and maintaining the existing infrastructure and building out new infrastructure. That expectation no longer holds true.

FPL witness Morley explains how FPL's customer and sales growth have stalled in recent years. A recovery of total energy sales is not expected to take place until 2011. Even if sales growth does return to historic levels, the amount of growth that was lost in the interim effectively is lost for good. This is essentially what has happened and now requires an adjustment to FPL's base rates in order to restore the relationship between sales growth and cost growth.

Q. Can you illustrate this point with an example?

A. Yes. Assume that sales in year 0 are 10 units, with a total system base cost of $10 and an existing revenue base of $10, and that growth in sales averages 1 unit per year at $1 per unit. Assume that costs, which include the cost of capital, also are growing at about $1 per year. At those rates of growth, revenues in each succeeding year will exactly cover costs. For example, in year 5, revenues of $15 will exactly cover costs of $15.

Now assume, on the other hand, that there is no growth in sales at all during years 3, 4 and 5 but that costs continue to increase by $1 per year in each of those years. Thus, in year 5 sales will be 12 units producing revenues of only $12, while costs will still have risen to $15. The important point is that even if sales growth returns in year 6 at the prior rate of 1 unit per year, revenues in year 6 will only be $13 while costs will still exceed revenues by the same $3, revenues having only increased by $1 and costs also having increased by $1.

In effect, there must be an adjustment to correct for this deficiency in setting new rates prospectively. In my example, therefore, an increase in rates sufficient to generate an additional $3 over the revenues that otherwise would occur in year 5 is required in order to restore the appropriate relationship between costs and revenues such that the utility recovers its costs and can continue to attract capital on reasonable terms and in amounts sufficient to make the necessary investments in new plant and other infrastructure.

It is important to note that the required adjustment is not to make up for sales or revenues that did not occur in years 3 through 5; those revenues are simply foregone. Rather, it is simply an exercise in resetting rates at the proper level to recover the prudent and reasonable costs of the utility on a prospective basis which, of course, is the basic premise of utility regulation and ratemaking.

Q. Can you relate this example to FPL's situation and its need for an increase in base rates?

A. Yes. FPL has reduced its spending in recognition of the 2008 changes in economic conditions, including the slowdown in electric sales; however, costs have continued to increase and a certain level of spending will continue to be necessary, even without any compensating growth in revenues. In addition, we will need to continue a certain level of spending as a result of the ongoing cost drivers addressed earlier in my testimony. As a result, this disconnect in the historically relatively stable relationship between cost growth and sales growth has resulted in the need for an adjustment. Without this adjustment to its base rates, FPL will not cover its costs, including its cost of capital, and will have difficulty attracting capital on reasonable terms and in sufficient amounts. Service and reliability necessarily will suffer, and other long term customer benefits will not be realized.

Q. How has the Company's service environment changed since its last base rate case in 2005?

A. While total customer growth and energy sales have slowed overall, from 2006 through 2010 and into 2011 FPL has been and will continue to be required to invest in additional infrastructure for poles, wires, transformers and other facilities as a result of the continued addition of new homes and business accounts, or "new service accounts" (NSAs). Even with the slower pace of additions after mid-2007, FPL witness Morley's testimony reflects that FPL added 58,000 in 2008 and will still add another 90,000 NSAs in 2009 and 2010 combined. Thus, while these numbers reflect significantly fewer NSA additions than in the recent past (roughly half the historical rate), they nonetheless will still require additional capital and O&M spending by FPL. Furthermore, any incremental revenue associated with these new services is being offset in the short term by the high vacancy rate for existing homes.

Q. How has the Company's service environment changed since 1985 when it last received a general base rate increase?

A. While customer growth has decreased in the past few years, as FPL witness Morley testifies, the state of Florida has seen significant growth since its last general base rate increase in 1985. Likewise the Company has experienced tremendous customer and load growth since 1985. During the last 23 years (i.e., since 1985), the Company has added 1.9 million new customers, an increase of more than 72% and summer peak MW demand has grown by an astounding 10,423 MW or a 98% increase.

This major change in the scope of the Company's obligation to serve -- moving from a point at which FPL was serving 2.6 million customers in 1985 to meeting the needs of 4.5 million customers in 2008 -- has required an enormous commitment of resources and capital. To put this in perspective, consider that, based on data from EEI, there are only 11 electric operating companies in the United States besides FPL that have 1.9 million or more customers. Essentially, therefore, since 1985 FPL has added to its system the equivalent of one of the nation's largest electric utilities. In order to support this tremendous increase in its customer base, since 1985 the Company has invested over $25.9 billion in capital expenditures including $5.9 billion in the construction of new generating capacity and $11.7 billion in the expansion of FPL's transmission and distribution system. This is discussed by FPL witness Barrett in his testimony.

Q. **Why is this long term perspective important?**

A. A long term perspective is what keeps our lights on today. It is the backbone of a reliable system and reliable service. It also is what helps us foresee tomorrow's challenges, and find solutions to them well before our customers have to face them. The construction of new power plants, transmission and distribution lines as well as the supporting Company infrastructure, such as staffing and systems, must be planned many years in advance. FPL makes investments today to ensure our ability to serve our customers in the future. Today's customers benefit from similar decisions made by the Company in past years.

Likewise, FPL makes long term commitments and investments today that will secure long term benefits for all our customers -- existing and new. Examples include the system infrastructure hardening and storm preparedness activities described above. The Company also has invested in the West County Energy Center units, which will result in cleaner, more efficient energy for our customers.

VII. SUMMARY OF REQUIRED INCREASE

Q. **Please describe the specific rate relief the Company is requesting in 2010.**

A. As FPL witness Ousdahl describes, and as is presented in the minimum filing requirements (MFRs), the Company is requesting an increase in base rates effective January 1, 2010, to address the need for additional annual base revenues of $1.044 billion. This amount is net of adjustments made to the recovery of certain costs in the recovery clauses. Thus the total requested increase, taking into account the effect of these proposed company adjustments, is $1.121 billion. As FPL witness Deaton explains, the typical residential customer is projected to see a decrease in the total electric bill of $4.92, based on a recent (February 9, 2009) estimate of 2010 fuel costs, which reflects a lower price in January 2010 than for January 2009.

Q. **Describe the specific rate relief the Company is requesting in 2011.**

A. As FPL witness Ousdahl explains, FPL is requesting an increase in base rates of $247.4 million effective January 1, 2011, as a Subsequent Year Adjustment, and is also requesting the continuation of the Generation Base Rate Adjustment mechanism, which FPL would use to recover the revenue requirements associated with West County Unit 3 when it goes into service in 2011.

Q. Please describe FPL's proposed continuation of the Generation Base Rate Adjustment (GBRA) mechanism that was established in the 2005 Stipulation and Agreement.

A. The GBRA mechanism, established pursuant to the 2005 Stipulation and Agreement, is an innovative and creative ratemaking approach allowing for recovery of costs associated with needed new generation. The GBRA mechanism reduces the administrative costs and burdens associated with frequent base rate proceedings while still providing a mechanism for Commission oversight and approval. As FPL witness Deaton Exhibit RBD-8 reflects, in the case of Turkey Point Unit 5 which was brought into service in May, 2007, and also for West County Units 1 and 2 (expected to go into service in 2009), the base cost of the new units is, to a significant extent, offset by corresponding fuel savings.

Without the GBRA mechanism, the Company would have to initiate complex and expensive ratemaking proceedings in order to recognize the cost of bringing these newer, more efficient units into our fleet, even though the units had previously been approved by the Commission in need determination proceedings. The GBRA approach has allowed prompt recovery of these costs with such base increases being largely transparent to customers due to corresponding fuel cost decreases. Customers already enjoy the cost-savings benefit of these new units in a timely manner through the annual fuel recovery clause mechanism. The continuation of the GBRA mechanism simply puts the timing of the recovery of the base rate costs of new units on an equal footing with the recognition of fuel cost savings. This approach has worked well for both the Company and its customers, allowing base rate adjustments for significant investments in generation in an efficient and timely manner. Given the success of this innovative approach to ratemaking, we are proposing that the GBRA mechanism be continued ongoing in the future for West County Unit 3 and subsequent generation additions.

Q. Why is FPL requesting a Subsequent Year Adjustment for 2011?

A. FPL is requesting an increase in base rates effective January 1, 2011, to address the need for additional annual base revenues of $247.4 million in the most cost-effective way possible. As FPL witness Ousdahl's testimony reflects, this adjustment will address the deterioration in earnings that will take place during 2010 by resetting base rates effective January 1, 2011 to a level projected to produce an ROE of 12.5%. The Subsequent Year Adjustment allows the Company, the Commission and all parties to address in a single proceeding both the 2010 and 2011 needs, avoiding the time and expense of a separate rate proceeding for 2011. By approving the Subsequent Year Adjustment, the Commission will enable the Company to maintain earnings stability and take advantage of this proceeding to minimize future administrative costs.

VIII. NECESSITY AND BENEFIT OF FUTURE INVESTMENT

Q. Please describe some of the major investments that FPL is making and why these investments are needed given the current state of the economy and the reduced growth in customers and sales.

A. While FPL significantly reduced capital expenditures in the face of the 2008 financial crisis, there are a number of areas where FPL is either obligated or where it makes good business sense to invest for the future and the benefit of our customers. FPL is striving for a system that: 1) is more robust (i.e., one that has greater resiliency and flexibility in the face of hurricanes or fuel supply disruptions); 2) is more fuel diverse and fuel efficient; 3) provides customers with more information and options regarding their energy usage and consumption patterns; and 4) is cleaner and has a "smaller" environmental footprint.

We have implemented and continue to implement significant changes since the 2004 and 2005 storm seasons to make our system more robust. These changes are necessary to address the resiliency of FPL's system against future severe weather events. Specifically, FPL is strengthening its electric infrastructure through higher standards for construction and increasing the level of certain existing reliability initiatives, such as, the six-year average vegetation management cycle for laterals and eight-year pole inspection cycle. FPL's investment in these initiatives, coupled with FPL's more established reliability initiatives, will continue to provide our customers with superior reliability, help avoid outages and reduce overall restoration costs.

Another excellent example of this is the investment FPL has been making and will continue to make in its fossil generation fleet. As discussed by FPL witness Hardy, from 1990 to 2011 FPL's fossil generation system will have both doubled in magnitude and evolved to a fleet of primarily clean and highly efficient combustion turbine-based capacity. This additional capacity, which is cleaner and more efficient (lower heat rate), helps to meet the demand created by long term customer growth, and has the benefits of reducing fuel costs to customers as well as improving FPL's emissions profile. However, both the initial capital investment and the cost to sustain the growing CT-based combined cycle fleet are drivers of fossil capital expenditures.

An example of the importance of investing for the future is FPL's nuclear power plants - a source of non-emitting, reliable, safe, and cost effective energy for FPL's customers. These plants are a key component of FPL's energy mix that benefits FPL's customers in terms of fuel savings, enhanced system fuel diversity, and reductions of greenhouse gas emissions. As FPL witness Stall discusses, FPL must commit both capital and O&M spending in order to implement required equipment upgrades, and recruit and retain a qualified workforce. As a result, we will be able to continue the reliable, safe, and cost effective operation of FPL's nuclear power plants, meet the significant operational and regulatory challenges and evolving NRC requirements facing these plants, and position our plants for operation into their renewed license terms, thereby ensuring that the continued cost-savings and environmental benefits of these plants are enjoyed by our customers well into the future.

Finally, FPL also believes it is critical that the Company continue to invest today in technology to create a smarter and more efficient delivery system through our Advance Metering Infrastructure (AMI) project. As FPL witness Santos discusses, AMI will provide both service improvements and operational efficiencies for our customers. Today's metering has advanced from just an automated meter reading technology to a complete infrastructure using secured reliable communication lines which will lead to new sources of value for our customers. One of the major benefits of AMI is the ability to provide customers with consumption data to help them manage their consumption and their costs. Thus AMI implementation is a critical step in moving towards greater energy independence and increasing energy efficiency.

Q. What other investments are being made today for the long term benefit of Florida and its residents?

A. In accordance with the provisions of House Bill 7135, which provided for the development of clean, zero greenhouse gas-emitting renewable generation in Florida, FPL is constructing three separate solar energy projects totaling 110 megawatts (MW) with different characteristics, at diverse locations. These projects will not only generate clean, renewable energy, but will also provide significant information and experience regarding key aspects of siting, constructing and operating different solar technologies at various locations in Florida.

Each one of these facilities is a significant and innovative renewable generating plant in its own right, but collectively these "Next Generation Solar Energy Centers" will be a landmark achievement. These facilities are expected to produce a total of 213,000 megawatt hours (MWh) of electricity per year, and at peak production, provide enough power and energy to serve the requirements of more than 15,000 homes and 35,000 people. While the costs of these projects are not a part of this rate proceeding, this is nonetheless an excellent example of the importance and necessity of making investments today for the future benefit of our customers and the State of Florida.

IX. ACTIONS TAKEN TO REDUCE COSTS AND AVOID THE NEED FOR AN INCREASE

Q. What actions has FPL taken in order to avoid the need for a base rate increase?

A. At FPL we are mindful of the impact that a base rate increase can have on customers, especially in this difficult economy, and we have been very successful in avoiding such increases. This has been the case since our last base rate proceeding in 2005, which was settled with rates frozen at the then-current levels (albeit with a provision to recognize the cost of new generation as it is placed into service and with the concurrent recognition in rates of the fuel savings from such generation).

FPL's corporate culture is one of continually striving to improve in all areas of the company, and it is this culture that has enabled the Company to operate under the 2005 rate settlement agreement even in the face of the economic crisis, reduced growth and lower revenues. As FPL witness Reed discusses, FPL is one of the top performers among comparable companies in terms of productive efficiency. FPL's performance demonstrates particular strength in controlling non-fuel O&M expenses each year. In 2007 alone, FPL was the second highest ranked utility in this area among the 28 companies benchmarked.

It is also important to view the company's results over a longer period of time, as true superior performance is that which is sustained for many years, not just for a year or two at a time. This long term sustained performance results in productivity and efficiencies that in turn have helped FPL to avoid base rate cases. Over more than twenty three years since 1985 (when FPL last received a general base rate increase) the Company has actually lowered its retail base rates overall, despite having made massive capital investments to meet the needs of a customer base that is now more than 1.7 times its size in 1985.

In addition, the performance of FPL's generating units has been a major contributor to FPL's ability to control its base rates since 1985. As FPL witness Hardy discusses, the Company has substantially improved the performance and availability of its existing generating units, thus deferring the need for new capacity. Some of these improvements have provided, in effect, additional generation at a relatively low cost compared to the costs of constructing new units. Indeed, FPL's operating performance consistently has exceeded industry averages, and frequently is within the top quartile of the industry. FPL's fossil generation availability and reliability performance frequently has been Best-In-Class among the largest fossil generating companies.

FPL continues to pursue efficiency improvements and cost reductions in all aspects of its operations. However, these and other measures, though part of FPL's continual focus to achieve top quality performance at below industry average costs, are not enough to avoid the need for an increase in base rates. We will continue to work hard and do our part – but we must ask more from our customers in order to sustain and improve upon our electricity reliability.

Q. What actions have been taken by the Company in response to the financial crisis experienced starting in 2008?

A. As FPL witness Barrett explains in his testimony, FPL's response to the economic downturn has been on two fronts. First, FPL actively sought opportunities to reduce costs. As growth expectations were revised downward, FPL was able to make significant capital expenditure reductions without compromising safety, customer reliability and other cost-effective operations for current customers. For example, as FPL witness Barrett discusses, the Company was able to reduce planned capital expenditures in 2008 by about $500 million and reduced its initial spending plans for 2009 by about $400 million. This reduction in capital spending has the direct result of lowering customer revenue requirements in 2010 by approximately $130 million.

Individual witnesses will address how various business units supported this cost-cutting effort. For example, FPL witness Keener addresses steps taken by the Transmission business unit. Specifically, expansion project need dates were reevaluated based on updated load forecasts allowing for delays for some of the work. FPL witness Hardy explains that the Power Generation business unit was able to place older, less efficient units into Inactive Reserve status. This plan allows for the reduction of operating and maintenance costs but keeps the units available to return to service if needed. In addition, spending has been curtailed for the four units located at the Cape Canaveral and Riviera sites as they are scheduled to go off-line for the modernizations beginning in 2010 and 2011. The bottom line: we revisited and were able to reduce our capital and spending plans in light of this economic crisis, but without sacrificing performance, reliability or safety.

X. IMPORTANCE OF A STRONG FINANCIAL POSITION

Q. Please summarize why FPL's request in this proceeding is so important from the standpoint of the investment community.

A. FPL witness Pimentel addresses this in detail, but I would like to make some general observations on this critical subject. FPL has enjoyed strong and cost-effective access to capital markets for years. This is a result of (1) maintaining a strong balance sheet and (2) constructive regulation that has recognized the need for an appropriate rate of return to FPL's equity investors. In a market as uncertain as we face today, with volatility and credit spreads not experienced since the Great Depression, and given our ongoing need for tremendous amounts of investor-supplied capital now and in the coming years, the Commission's decisions in this proceeding regarding FPL's return on equity and capital structure will be absolutely critical.

Q. Why is it important to maintain a strong financial position from the standpoint of FPL's customers?

A. FPL is making and will continue to make important investments in our infrastructure in order to make it stronger, smarter, cleaner, more efficient and less reliant on any single fuel source. It is our responsibility to plan ahead and make these investments efficiently and prudently. To deliver on these promises, it is critical that we maintain a strong financial position and thereby ensure that the Company has the financial strength and flexibility to not only fund long term capital requirements, but to ensure the ability to meet short term funding needs as well.

Q. Please describe the benefits to customers of FPL maintaining a strong financial position.

A. FPL's strong financial position provides real benefits to customers. These are described by FPL witness Pimentel in greater detail, but I think it is important that I summarize a few of those benefits as they relate to our overall request in this proceeding, particularly our requests on return on equity and capital structure. In general, because of its financial position, the Company has had the financial strength and flexibility necessary to fund the Company's long-term capital requirements, as well as to meet short-term liquidity needs, at an economical cost to customers.

As a result of its position, FPL has been able to obtain some of the lowest cost debt in the industry, something that has benefited customers and will benefit customers for years to come in the form of lower cost financing for the long-lived assets that are used every day to provide reliable electric service to the residences and businesses of the communities that we serve. Such access to long-term debt at competitive prices will continue to be critical for FPL's customers as we continue to make the large investments required to provide our customers with a more robust, more efficient, smarter and cleaner electric delivery system.

In addition, because of its strong balance sheet and credit position, FPL has been able to weather significant events in the financial markets without compromising our ability to continue to provide reliable, cost-effective service to our customers. FPL was able to maintain access to capital markets and to do so on terms much more favorable than many other utilities, to the benefit of our customers. The markets certainly have not fully recovered from the recent credit collapse. Moreover, this experience has underscored the importance of remaining prepared for the possibility of additional financial downturns.

FPL's strong financial position also provides it with short-term financing flexibility that is critical to the Company and its customers. For example, FPL relies upon extensive credit facilities to back-up its commercial paper program and trading obligations related to the fuel hedging program which is critical to reducing the volatility in customer bills. These same credit facilities provide us with the necessary access to funds in times of crisis such as during restoration efforts following a hurricane.

Historically, companies with ratings as strong as FPL's have been able to access the commercial paper market even during times of decreased liquidity, and avoid the substantial charges faced by companies with lower ratings if the funds are even available. This strength of credit rating can be most important during times of crisis when commercial paper is in short supply or even unavailable. For instance, any combination of another economic crisis, a rapid run-up in fuel costs as was experienced in early 2008, or a series of damaging hurricanes as happened in 2004 and 2005, and there could be a restricted availability of commercial paper, with only the strongest rated companies having access to the market. Even state governments could be financially constrained and unable to support the reconstruction of infrastructure or to assist state residents.

Q. **What are the key considerations that must be addressed by the Commission for the Company to maintain a strong financial position?**

A. Of course, stated generally, it is important that the Commission properly acknowledge the costs that the Company presents in testimony and the MFRs as prudent, reasonable and necessary. Specifically, however, two of the most basic considerations are a fair and reasonable return on equity (ROE) and support for a strong balance sheet, which includes maintaining the company's current equity ratio.

Q. **Please summarize why the Company believes an ROE of 12.5% is appropriate for setting rates.**

A. The testimony of FPL witness Avera establishes that the cost of equity for FPL is in the range of 12.0% to 13.0%. FPL witness Pimentel recommends that rates be set based on an ROE of 12.5%, within that range. This ROE considers the potential exposures faced by FPL as well as the economic requirements necessary to maintain access to capital even under adverse circumstances. In addition, a return of 12.5% would reflect appropriate recognition of FPL's overall high performance and the benefits and value such service provides to customers.

As I have described, and as reflected more fully in the testimony of various other witnesses, FPL has a track record that provides tangible benefits to customers. It is something they can see, experience, and appreciate. In short: we deliver solid results. FPL's performance levels generally have been well above industry averages and in many cases have been among the highest in the industry, while at the same time holding base rates at or below 1985 levels.

Perhaps one of the most remarkable aspects of FPL's performance is the length of time over which it has been maintained at high levels. Top performance in a category or two for a year or two can be achieved by most utilities simply by focusing all efforts and resources in a particular area over a given period. But to achieve solid results in multiple categories and over long periods of time is what has set FPL apart. I describe some of these accomplishments later in my testimony. They are described in greater detail by several other FPL witnesses. Constructive and supportive regulation has played an important role in these accomplishments. Maintaining this regulatory posture at this time of market uncertainty is more important than ever in this regard. It sends an important signal to all public utilities in the state of Florida that superior performance is a goal toward which all utilities should aspire.

Q. Why is it appropriate to acknowledge a company's performance in establishing an ROE, especially given the utility's obligation or duty to serve?

A. I can explain this best through an example. Two utilities could both be prudently operating companies that are identical in every respect, except performance. The one with better performance, however, would be providing greater overall value to customers at a lower price. Yet, these identical utilities, both operating prudently, in theory would have the same cost of capital. In such an instance, the average performing utility may have no incentive to improve service beyond that which may be necessary to avoid being penalized by the Commission. Utilities must operate prudently, providing reasonable levels of service, and cannot be deficient in carrying out the obligation to serve, but there may not be a direct incentive to achieve this higher level of service and cost-effectiveness. By providing strong performing companies with a solid ROE, the Commission sends an appropriate message that strong performance is valued.

In general, Florida's investor owned utilities have performed well over the years, due in large part to constructive and supportive regulation. I urge the Commission to continue to provide this important foundation for utility service in Florida, especially given the market uncertainties that prevail today and recognizing the capital-intensive needs of FPL as we move forward in building an infrastructure that is stronger, smarter, cleaner, more efficient and less reliant on any single fuel source. These are critical objectives if we are to secure Florida's energy future. Approving the requested ROE of 12.5% for the purpose of setting rates is a means by which the Commission can properly convey the importance and value of strong performance, more directly establish proper incentives for utilities to perform beyond the level of simply "prudent and reasonable," and thereby ultimately provide additional benefits to customers.

Q. Why is it important that FPL maintain its current equity ratio?

A. FPL's current adjusted equity ratio of 55.8% was established as part of the 1999 rate settlement, and was reaffirmed in the two subsequent rate settlement agreements in 2002 and 2005. As FPL witness Pimentel addresses, the equity ratio is a key factor supporting FPL's strong balance sheet, which in turn has provided continuous access to both short-term liquidity and the capital markets throughout extreme events such as the 2004-2005 storm seasons as well as the current financial market crisis. Given this background, and in light of the current conditions in the financial markets, FPL feels strongly that the current adjusted equity ratio of 55.8% should be maintained going forward.

FPL's customers also benefit from the current equity ratio as it recognizes the additional liquidity requirements and financial flexibility that is needed in order to be able to hedge fuel price volatility for our customers, fund storm restoration activities and fund substantial construction activities. It is important, therefore, that this Commission send the appropriate signal to the financial markets regarding its intention to continue to provide the needed support for the financial strength of the Company by maintaining its current adjusted equity ratio, especially at a time when many key risk drivers point to a period of increased risk.

XI. BENEFITS TO CUSTOMERS OF FPL'S SUPERIOR PERFORMANCE

Q. Please describe how FPL has maintained superior performance and continues to provide service that is a high value to its customers.

A. FPL has achieved superior performance in the Company's key operational areas, which provides direct benefits to our customers. Our performance is described in greater detail by several FPL witnesses, but I will summarize a few of these accomplishments.

FPL witness Santos describes the high-quality customer service provided by FPL, including the recognition received by the Company as an industry leader in the area of customer service performance. For example, FPL was recently awarded the prestigious ServiceOne Award by the PA Consulting Group for the fifth year in a row. This award recognizes utilities that provide exceptional service to their customers based on objective measures developed by industry experts. This is just one of many areas in which the Customer Service business unit has been able to achieve better-quality performance, while maintaining low cost and efficient operations.

In addition, FPL customers benefit from a number of the consumer programs developed by the Customer Service business unit, including energy affordability initiatives such as FPL ASSIST and Care to Share. And customers also have received significant benefits from FPL's accomplishments in energy efficiency. In U.S. Department of Energy rankings, FPL is number one in the nation in MW reduction and number three in load management. Not only do participating customers save on their individual electric bills as a result, but these efforts have deferred the need for 12 power plants which means significant savings for FPL customers overall. And when you consider all the emissions saved by not having to build 12 power plants, this initiative stands out as an accomplishment of which we all can be proud.

FPL witness Stall describes how, from the NRC's perspective, FPL's plants compare favorably with the rest of the industry. The NRC uses a performance rating system under which the best possible rating is the "green band" rating. Since this indicator program was introduced in 2000, all of FPL's performance indicators, with one exception for one quarter, were in the "green band."

FPL witness Hardy describes how FPL has maintained an industry leading position in its fossil generation fleet's Equivalent Availability Factor (EAF), and the Company's fossil EAF performance has been either "Best in Class" or "Top Decile" for 9 of the last ten years. FPL has been able to successfully defer the need for new generating units by improving the availability of its existing fossil fleet. In addition, from 2002 to 2007 FPL was able to improve the net heat rate of its fossil generation fleet by 10%, which means that our system now requires 10% less fuel to generate the same amount of kWh than in 2002. Based on an approximate annual fossil fuel cost of $5 billion, this means customers are saving about $500 million per year from this efficiency improvement made by the Company. And it's not just money that's saved – it's our air quality. Ten percent less fuel means fewer emissions. While there is more to do when it comes to going green, we hope this shows that FPL looks to do its part wherever and whenever it can.

FPL witness Spoor addresses the superior service provided by the Distribution business unit to FPL customers as measured by the distribution SAIDI. His testimony reflects that FPL's distribution SAIDI has been the best among Florida's major IOUs for four out of the last six years. Nationally, FPL ranks among the industry leaders and, on average, has been approximately 45% better than the industry average.

FPL witness Keener addresses the strong reliability performance and effective cost management of the Company's transmission operations. For example, Mr. Keener's testimony indicates that FPL's transmission reliability was in the top quartile and that FPL was Best-in-Class for Average Duration of Sustained Outages based on the most current available data (2007).

FPL witness Bennett discusses FPL's active commitment to a cleaner, safer environment -- not just in our emissions but in how we treat the communities in which we operate. For many years, FPL has been a leader in environmental management and, as a result, has some of the lowest emission rates of SO_2, CO_2 and nitrogen oxides of all power generators in the U.S. In addition, we have developed a number of programs to manage our operations while protecting wildlife such as endangered sea turtles, manatees, and crocodiles.

Q. How does FPL's operating performance compare to the industry?

A. FPL witness Reed states that FPL has out-performed similarly sized companies across an array of operational metrics. As I discussed previously, FPL is a top performer in terms of productive efficiency, and has been first among regional utilities over the past ten years in terms of operating and maintenance expense efficiency.

He also notes that FPL's high level of productive efficiency has not been achieved at the expense of customer service or system reliability. In fact, FPL has been a top performer in controlling the duration of its transmission and distribution system outages, and has consistently achieved above average performance on the frequency of interruptions. FPL is also a very strong performer in terms of customer service quality and customer satisfaction measures.

FPL witness Reed also states that FPL's environmental focus begins with a clean and efficient generation fleet. FPL is recognized as a clean-energy company, with one of the lowest carbon emissions profiles among major U. S. utilities.

Overall he explains that it is appropriate to consider the Company's productive efficiency, service quality and responsiveness to state policies in setting the allowed return on equity. The customer benefits from FPL's superior performance are clear and substantial, and acknowledgement of this performance would be appropriate.

Q. Have customers benefited from FPL's actions?

A. Yes. While additional and longer term examples of FPL's high-quality and customer-focused performance levels are included in the testimony of other witnesses, the examples I have mentioned indicate some of the recent accomplishments that FPL has achieved. We believe that customers do see and experience the benefits of our efforts every day. However, these and other measures -- though part of FPL's continuous focus to provide superior performance at below industry average costs -- are not enough to avoid the need for an increase in base rates. We will continue to do our part to ensure we lessen the need for even higher rates in the future, but today it is clear that base rates do need to increase in order to continue to provide the kind of service and performance that our customers expect.

Q. Please describe how FPL's support of the communities it serves benefits customers.

A. FPL is committed to being a good corporate citizen and a good neighbor, helping to improve the quality of life for our customers in the communities we serve. For example, the Company makes contributions of $5 million each year which includes $3.3 million for various community investments, $1 million to the Care to Share program and $731,000 to United Way agencies. These donations are paid entirely by the Company, and customers are not being asked to fund these Company contributions. These are just a couple examples of the manner in which FPL sponsors programs and partners with many organizations throughout our communities to provide assistance to our customers in need. Customers benefit directly from these efforts, such as those who receive support from United Way or Care to Share. And all FPL customers indirectly benefit from these Company contributions. For example, helping customers in need reduces uncollectible expense that is paid for by all customers. Perhaps more importantly, our customers benefit simply because we're helping to improve the quality of life in these communities. Given the current economic challenges, this support is more important than ever. Again, none of these costs are included in FPL's rate request - these are entirely corporate and employee funded initiatives.

XII. CLOSING COMMENTS

Q. Do you have any closing comments?

A. Yes. FPL has worked hard to establish itself as a low-cost provider of high-quality electric service. The Company's results reflect the efforts of a strong management team and a quality-driven work force, efforts that have been facilitated through progressive and responsible regulation. Collectively, these efforts enabled the Company to support the significant rate reductions made in 1999 and 2002, and more recently have succeeded in delaying as long as possible increases in FPL's retail base rates while keeping pace with Florida's long-term growth and demand for energy. Indeed, but for the base rate decreases implemented by the Company in recent years, FPL's need for an increase at this time would be much lower.

We are very aware of the challenges customers are facing in this economy, and we recognize that no increase in price is ever welcome; however, the increase requested by the company is necessary and appropriate in order for the Company to invest in our infrastructure, making it more robust and resilient, to improve fuel efficiency, to give customers more choices and information by which to manage their energy usage, and to work toward a cleaner environmental footprint. These are tremendously important objectives if we are to work toward securing Florida's energy future, and cannot be abdicated to someone else or placed on the back burner for some future consideration.

We need to move forward today to secure Florida's energy future. Given our existing profile, and our current rate structure, FPL and its customers have the opportunity to do so with minimal or only modest bill impacts, compared with much of the industry. At the same time, with these challenges, and the need to continue to raise large amounts of capital to continue to responsibly and reliably serve our customers, we must retain investor confidence in the most uncertain and volatile capital market that this country has experienced since the Great Depression.

We know that our customers feel the costs of everything today. This is the effect that recessions have on consumers. But we also know that as their utility, we cannot afford to compromise on safe and reliable energy. At FPL, we will continue to do our part – and we will continue to reduce costs wherever we can. Our track record is a proven one. But for the reasons I have summarized, and other FPL witnesses in this proceeding will explain in detail, an increase in retail base rates is necessary at this time. Significantly, however, given improvements in fuel efficiency and recent fuel price projections, it appears that the total bill for almost all customers would go down in 2010 even with the required base rate increase, with subsequent increases not occurring until 2011 when most observers expect to see some of the current economic hardships begin to lift. This will be the right result for our customers as it will afford them near term relief from increases in their electric bill, while ensuring that FPL can continue to provide safe and reliable electric service at the levels its customers expect and deserve.

Q. Does this conclude your direct testimony?

A. Yes.

Florida Power & Light Company

Biographical
Information

Armando J. Olivera

President and Chief Executive Officer

Armando Olivera is president and chief executive officer of Florida Power & Light Company (FPL), a subsidiary of FPL Group, Inc., and one of the largest investor-owned electric utilities in the nation. He was appointed to his current position in June 2003.

Under Mr. Olivera's leadership, FPL has invested heavily in ensuring reliable service and meeting strong current and projected growth in demand for electric power in its vast service territory. The company is a clean energy leader and is moving forward to bring three state-of-the-art solar power plants to Florida as well as additional emissions-free nuclear power. FPL has the number one energy efficiency program in the U.S., one of the most efficient fossil power plant fleets in the nation and has taken a number of additional actions to mitigate high fuel costs. The company has implemented an industry-leading program to harden its electric system against hurricanes as well as ensure everyday reliability.

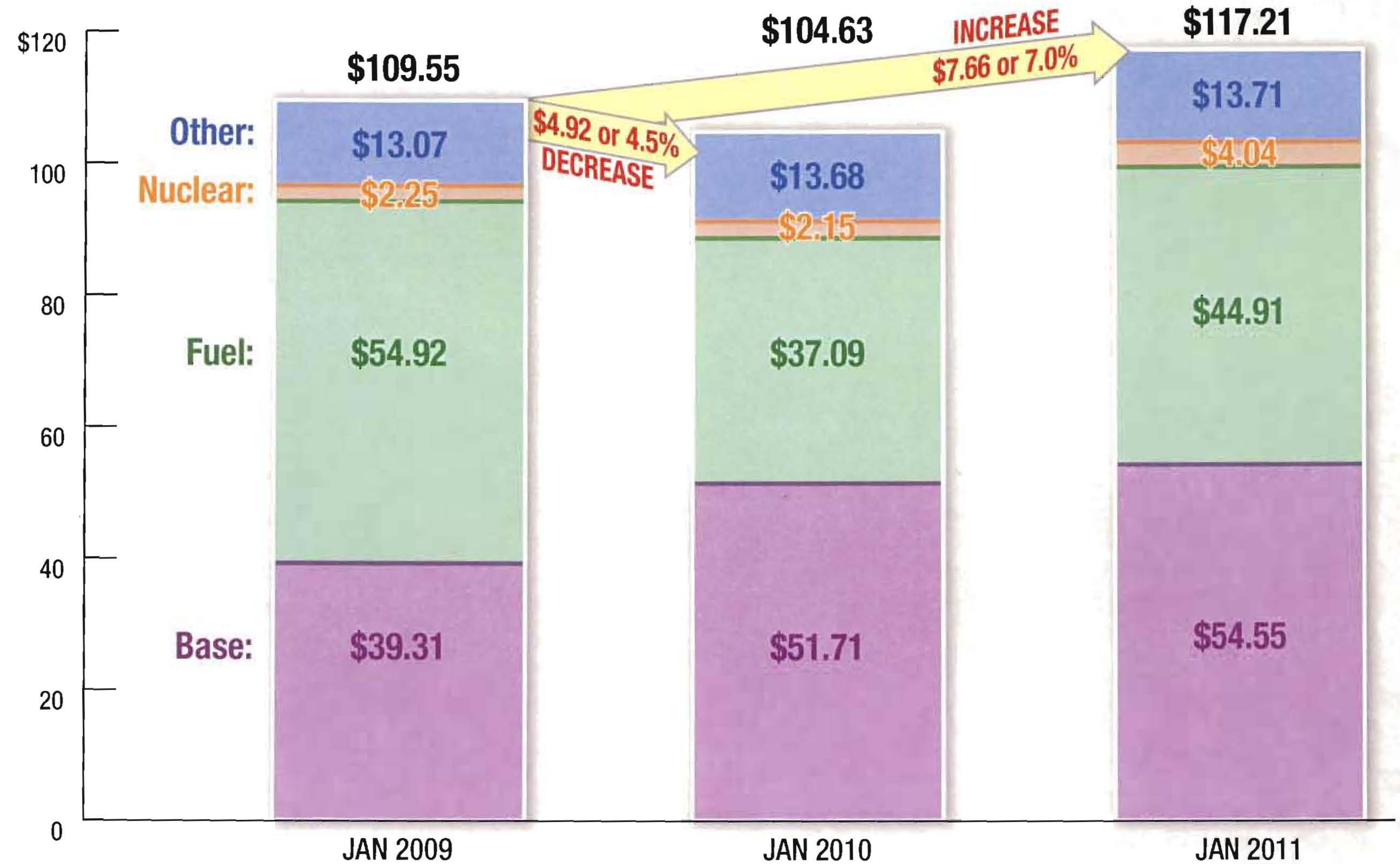
Mr. Olivera joined FPL in 1972 and has served in a variety of management positions in the areas of transmission and distribution operations, fuels management, and strategic planning and resource allocation. Prior to being named to his current role, he was senior vice president of FPL's Power Systems business unit.

Mr. Olivera holds a bachelor of science degree in electrical engineering from Cornell University and a master of business administration degree from the University of Miami. He also is a graduate of the professional management development program of the Harvard Business School.

In 2007, Mr. Olivera was appointed by Florida Governor Charlie Crist to serve on the Florida Governor's Action Team on Energy and Climate Change, which is tasked with developing a comprehensive strategy that achieves targets for statewide greenhouse gas reductions.

He is a past president of the Southeastern Electric Exchange, immediate past chairman of the Florida Reliability Coordinating Council (FRCC), and a member of the board of Enterprise Florida, as well as a member of Cornell University Engineering Council and Cornell University Council.

FPL Typical Residential 1,000 kWh Bill



Source: Exhibit RBD-2
Fuel prices based on fuel cost projections as of February 9, 2009
"Other" includes clauses other than fuel and nuclear recovery, such as energy conservation and gross receipts tax

Docket No. 080677-EI
FPL Typical Residential 1,000 kWh Bill for January 2009, January 2010 and January 2011
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