

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION FOR INCREASE IN RATES DOCKET NO. 080677-EI
BY FLORIDA POWER & LIGHT COMPANY.

2009 DEPRECIATION AND
DISMANTLEMENT STUDY BY FLORIDA DOCKET NO. 090130-EI
POWER & LIGHT COMPANY.

VOLUME 26
Pages 3599 through 3781

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PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Thursday, September 3, 2009

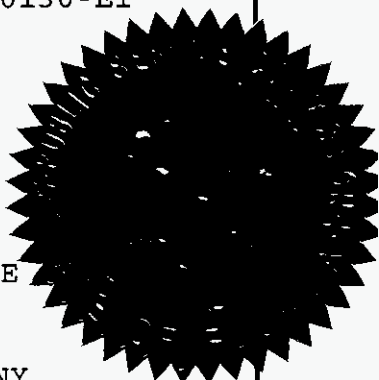
TIME: Commenced at 5:00 p.m.
Concluded at 7:00 p.m.

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

REPORTED BY: CLARA C. ROTRUCK
Court Reporter
(850) 222-5491

ORIGINAL

PARTICIPATING: (As heretofore noted.)



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P R O C E E D I N G S

1
2 (Transcript follows in sequence from
3 Volume 25.)

CROSS EXAMINATION

4
5 BY MR. WRIGHT:

6 Q Now, you do agree, as you stated, that
7 companies like Wal-Mart, Publix, Praxair and so on may
8 not be directly comparable for investors. Would you
9 agree that all retailers in Florida operate in
10 competitive markets?

11 A Yes, I believe that's true.

12 Q So people have a choice whether to go to
13 Publix or Wal-Mart or Target or Sweetbay and so on,
14 right?

15 A I believe so.

16 Q Would you also agree that Florida Power &
17 Light Company customers have no practical or meaningful
18 option to getting their electric service but to get it
19 from FPL?

20 A Yes, that's correct. That is part of the
21 structure that we have in the state of Florida and why
22 we have a Public Service Commission.

23 Q Still on page 12 at line 11, you make the
24 statement that, "There is no one to tell any of these
25 institutions," and by that, I -- well, let's stop there

1 and I'll ask a clarifying question. Do you mean Publix,
2 Wal-Mart, Tenet and Praxair in that reference to "these
3 institutions"?

4 A Yes, it was in reference to the kind of
5 companies that are in this space.

6 Q And you go on to say, just to complete the
7 sentence, you said, "There is no one to tell any of
8 these institutions or companies that they are earning
9 above a fair rate of return," that's your testimony,
10 correct?

11 A Correct, but I also go on to say that the *quid*
12 *pro quo* is we also have an obligation to serve. So I
13 think you have to look at kind of the totality of the
14 statement that I was making, that we don't have the
15 flexibility. When times are tough, a number of these
16 companies can close doors, they slim down their
17 inventory, they can take a number of actions that are
18 very hard for us to take. We can't tell a customer that
19 we can't hook them up. The way our business operates,
20 our ability to control inventory is pretty limited.

21 Q You would also agree that there is no one, no
22 regulatory agency, that would enable Publix, Wal-Mart or
23 any other retailer in Florida to raise their prices
24 pursuant to a tariff that has the force and effect of
25 law, wouldn't you?

1 A Yes, I would agree with that.

2 Q And you would also agree that their customers
3 could tell them if they thought they were making too
4 high profits by going somewhere else, couldn't they?

5 A Correct.

6 Q I just have a few more questions that relate
7 to the concluding part of your testimony on page 14.
8 I'm looking at the paragraph that begins at line 10 and
9 concludes at line 20 on the last page, page 14 of your
10 testimony. The last clause there -- and I'm happy if
11 Ms. Clark wants to preserve optional completeness.

12 MS. CLARK: Mr. Wright, I was distracted.
13 Could you tell me where you are again?

14 MR. WRIGHT: Yeah. Specifically, Ms. Clark,
15 specifically I'm going to ask about the last statement
16 that begins at line 18, which appears to me to be an
17 independent clause of a very long sentence.

18 MS. CLARK: I'm sorry, the page number again?

19 MR. WRIGHT: Page 14, beginning at line 18.

20 BY MR. WRIGHT:

21 Q If you would, read the last sentence. It
22 actually begins at line 16, beginning with, "FPL is
23 mindful," and continuing through the text on line 20.

24 A "FPL is mindful of the scope of the projected
25 base rate increase. However, we also have a

1 responsibility for making prudent, long lead time
2 investments in our infrastructure, and it is in our
3 customers' long-term best interests to implement this
4 base rate increase now, the time when the result will be
5 lower overall bills for most customers."

6 Q This is going to sound slightly repetitive to
7 what Mr. Moyle asked you about, but I have a different
8 point and it won't take long.

9 You will agree that if FPL's fuel charges were
10 the same in 2010 as they are today, your requested base
11 rate increase would cause customer bills to increase,
12 yes?

13 A If the fuel prices -- the fuel cost recovery
14 is the same in both years, customer bills would
15 increase.

16 Q Thank you. So won't you also agree that
17 customer bills will be lower as a result of lower fuel
18 costs and correspondingly lower fuel charges, and not as
19 a result of your base rate increase?

20 A Well, this is where I differed with Mr. Moyle
21 in our earlier discussion, because I do believe that the
22 investments that we have made, which is part of the rate
23 request, have resulted in system efficiencies which are
24 reflected in the bills, so part of what this case is all
25 about is to continue to make those types of capital

1 investments that will allow us to continue to improve
2 the efficiency of the system and improve the fuel
3 diversity of the system.

4 Q You talked about new, more efficient plants,
5 and I think most if not all of us would agree that FPL's
6 fleet of gas-fired combined cycle plants are efficient,
7 state-of-the-art power plants.

8 A Not all of them, unfortunately, but that's one
9 of our goals.

10 Q On that point, though, since you brought it up
11 again, you built those plants because they were the most
12 cost-effective alternative as you made the judgment at
13 the time, correct?

14 A Correct.

15 Q And you wouldn't have built anything other
16 than those cost-effective alternatives at the time,
17 would you?

18 A I would hope not.

19 Q Okay. The issue that I have with your
20 statement that we went over is your assertion that the
21 base rate increases, that it's in your -- the best
22 interests of customers to implement this base rate
23 increase now at a time when the result will be lower
24 overall bills for most customers.

25 Isn't it true that the real reason that

1 customer bills are going to be lower is lower fuel
2 costs?

3 A The lower fuel cost is certainly a component,
4 but I think you're taking my comment out of context and
5 restating it in a way that it was not intended.

6 When we talked about the base increase, we are
7 talking about being able to continue to make the
8 investments that have gotten this company to where it is
9 today, a low-cost provider, high levels of reliability,
10 and we're asking that we be allowed to do that into the
11 future, and that means continuing to invest in hardening
12 the infrastructure, it means continuing to invest in
13 additional combined cycle plants, it means continuing to
14 make investments to increase the output of our nuclear
15 plants and maybe one day to build the nuclear plant.
16 All of those things require a lot of capital, and we're
17 saying we've got to have the right financial framework
18 to be able to continue to do that.

19 Q Let me ask you this way: Even with the
20 efficiency gains, if natural gas prices were \$12 a
21 million BTU like they were a year ago, or 13 months ago,
22 your bills would go up, correct?

23 A Correct. But again, they go up less if you
24 continue to make investments in efficiency. The higher
25 the bill, the greater contribution the customer gets

1 from investments that you make in efficiency. It is
2 simple math.

3 Q Thank you.

4 MR. WRIGHT: That's all I have, Mr. Chairman.

5 CHAIRMAN CARTER: Thank you. I think we have
6 covered all the Intervenors.

7 Staff, you're recognized. We did cover all
8 Intervenors, correct?

9 Okay, staff, you're recognized.

10 MS. BENNETT: I have good news: No questions.

11 CHAIRMAN CARTER: Okay, redirect?

12 MS. CLARK: I just have a couple.

13 REDIRECT EXAMINATION

14 BY MS. CLARK:

15 Q Mr. Olivera, you recall the questions recently
16 from Mr. Wright regarding a comparison to retail
17 establishments and their ability to attract capital. As
18 compared to FPL, do they have more flexibility as to
19 when they go to the capital markets?

20 A Absolutely. They can time expansion of a
21 store or expansions of product lines based on when you
22 have the best market conditions.

23 Q I want to clarify something that you just
24 said. When you said -- in response to something Mr.
25 Wright asked you, when you said the higher bill, did you

1 mean higher gas prices?

2 A Yes, that was in reference to the question on
3 higher gas prices, or at least that was my
4 interpretation. So the higher the natural gas prices,
5 the more -- the more benefit the customer gets from
6 having more efficient plants.

7 MS. CLARK: Mr. Chairman, we have no further
8 redirect.

9 MR. WRIGHT: Mr. Chairman, brief recross,
10 please, on the timing of access to capital?

11 CHAIRMAN CARTER: Brief.

12 MR. WRIGHT: Yes, sir.

13 RE CROSS EXAMINATION

14 BY MR. WRIGHT:

15 Q Mr. Olivera, isn't it true that once the
16 Commission approves your authorization to issue
17 securities in a given year, you at least have discretion
18 within that year to do it at the most convenient time?

19 A No, we really don't have a huge amount of
20 discretion on the timing, because the capital projects
21 really have -- the ones that really use up a lot of cash
22 have pretty well-established time lines when we have to
23 make payments for equipment and make payments to the
24 EPC. So we don't have a lot of flexibility on when we
25 go to the market. We have some, but not as much as I

1 think you have if you run a retail operation where you
2 make decisions on expansion based on economic conditions
3 and you get to time it.

4 You know, unfortunately, sometimes we're
5 making investments today where the customers won't see
6 the benefits for four, five years, maybe even longer, so
7 because we have those long lead times, we're unable to
8 time it on when we have the absolute best market
9 conditions.

10 Q Thank you.

11 MR. WRIGHT: And thank you, Mr. Chairman.

12 CHAIRMAN CARTER: Thank you. No re-redirect,
13 right?

14 Exhibits?

15 MS. CLARK: Mr. Chairman, we would move
16 admission of 332.

17 CHAIRMAN CARTER: 332, is that right, staff?

18 MS. BENNETT: I'm unearthing my exhibit list.

19 CHAIRMAN CARTER: 332, show it done. No
20 objections, right? No objection. Without objection,
21 show it done.

22 (Exhibit No. 332 admitted into the record.)

23 CHAIRMAN CARTER: Anything further for this
24 witness? He is done direct and rebuttal, so, Mr.
25 Olivera, have a nice day.

1 THE WITNESS: Thank you, Mr. Chairman.

2 CHAIRMAN CARTER: Okay. Call your next
3 witness.

4 MS. BENNETT: Mr. Chairman, we have quite a
5 few documents for Ms. Ousdahl that we would like to pass
6 out to the parties in the hopes that by the time she
7 comes up --

8 CHAIRMAN CARTER: Okay, let's take a break in
9 place. We don't want anybody to disappear. So go ahead
10 and get those out and -- is this also a witness where
11 staff has some exhibits where you want to enter at the
12 end of the --

13 MS. BENNETT: We intend to -- there are so
14 many off of our composite exhibit that I decided to take
15 a different approach and --

16 CHAIRMAN CARTER: All right, we're taking a
17 different approach here, everybody.

18 MS. BENNETT: And we're going to enter these
19 into the record as large exhibits instead of off the
20 staff's composite exhibit.

21 CHAIRMAN CARTER: All right. If anybody needs
22 to go to the necessary room, we will just take five real
23 minutes. Off the record for five minutes.

24 (Brief recess.)

25 CHAIRMAN CARTER: We're back on the record,

1 and when we last left, we were getting ready to call up
2 Witness Ousdahl. Mr. Butler?

3 MR. BUTLER: Thank you. Ms. Ousdahl has not
4 been previously sworn.

5 CHAIRMAN CARTER: Ms. Ousdahl, would you
6 please stand and raise your right hand?

7 Whereupon,

8 KIM OUSDAHL
9 was called as a witness on behalf of Florida Power &
10 Light Company and, having been duly sworn, was examined
11 and testified as follows:

12 CHAIRMAN CARTER: Thank you. Please be
13 seated.

14 MR. BUTLER: We will be presenting both Ms.
15 Ousdahl's direct and rebuttal testimony at this time.

16 CHAIRMAN CARTER: Direct and rebuttal, so,
17 Mike, when we set the timer, give her six minutes.

18 You may proceed.

19 DIRECT EXAMINATION

20 BY MR. BUTLER:

21 Q Would you please state your name and business
22 address for the record?

23 A Kim Ousdahl, 700 Universe Boulevard, Juno
24 Beach, Florida.

25 CHAIRMAN CARTER: Wait a minute. Can we get

1 some more volume? Try it again.

2 THE WITNESS: Kim Ousdahl, 700 Universe
3 Boulevard, Juno Beach, Florida.

4 CHAIRMAN CARTER: That's better. Can you guys
5 hear her on that end? No? A little more. State your
6 name and address again.

7 THE WITNESS: Kim Ousdahl, 700 Universe
8 Boulevard, Juno Beach, Florida.

9 CHAIRMAN CARTER: Thank you.
10 You may proceed.

11 MR. BUTLER: Thank you.

12 BY MR. BUTLER:

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

14 A I'm employed by Florida Power & Light as
15 comptroller.

16 Q Have you prepared and caused to be filed in
17 these proceedings 44 pages of pre-filed direct testimony
18 and 57 pages of pre-filed rebuttal testimony?

19 A I have.

20 Q Do you have any changes or revisions to make
21 to your pre-filed direct or rebuttal testimony?

22 A I do not.

23 Q If I asked you the same questions contained in
24 your direct and rebuttal testimonies today, would your
25 answers be the same?

1 A They would.

2 MR. BUTLER: Mr. Chairman, I would ask that
3 Ms. Ousdahl's direct and rebuttal testimony be inserted
4 into the record as though read.

5 CHAIRMAN CARTER: Pre-filed testimony of the
6 witness will be inserted into the record as though read.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **FLORIDA POWER & LIGHT COMPANY**
3 **DIRECT TESTIMONY OF KIM OUSDAHL**
4 **DOCKET NO. 080677-EI**

5
6 **Q. Please state your name and business address.**

7 A. My name is Kim Ousdahl, and my business address is Florida Power & Light
8 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

10 A. I am employed by Florida Power & Light Company (“FPL” or the
11 “Company”) as Controller.

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

13 A. I am responsible for financial accounting and internal reporting for FPL, along
14 with the management of the Property Accounting and Regulatory Accounting
15 functions. In these roles, I am responsible for ensuring that the Company’s
16 financial reporting complies with requirements of Generally Accepted
17 Accounting Principles (GAAP) and multi-jurisdictional regulatory accounting
18 requirements.

19 **Q. Please describe your educational background and professional
20 experience.**

21 A. I graduated from Kansas State University in 1979 with a Bachelor of Science
22 Degree in Business Administration, majoring in Accounting. That same year,
23 I was employed by Houston Lighting & Power Company in Houston, Texas.

1 During my tenure there, I held various accounting and regulatory management
2 positions. Most recently, prior to joining FPL in June 2004, I was the Vice
3 President and Controller of Reliant Energy.

4
5 I am a Certified Public Accountant (CPA) licensed in the State of Texas and a
6 member of the American Institute of CPA's, the Texas Society of CPAs and
7 the Florida Institute of CPAs.

8 **Q. Are you sponsoring any exhibits in this case?**

9 **A. Yes. I am sponsoring the following exhibits:**

- 10 • KO-1 – Minimum Filing Requirements (MFRs) & Schedules
11 Sponsored and Co-sponsored By Kim Ousdahl
- 12 • KO-2 – MFR A-1 for the 2010 Test Year
- 13 • KO-3 – Listing of MFRs & Schedules Directly Supporting Requested
14 Revenue Increase
- 15 • KO-4 – 2010 and 2011 ROE Calculation Without Rate Relief
- 16 • KO-5 – MFR A-1 for the 2011 Subsequent Year
- 17 • KO-6 – Base Rate Recovery Formula for Nuclear Uprates
- 18 • KO-7 – Depreciation Expense Reconciliation from Forecast to
19 Proposed Amount
- 20 • KO-8 – FPL's 2009 Dismantlement Study
- 21 • KO-9 – FPL's Cost Allocation Manual
- 22 • KO-10 - NARUC Cost Allocation and Affiliate Transaction Guidelines

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to support the calculation of the rate relief
3 requested by FPL in this proceeding. Specifically, this includes:

- 4 1. The calculation of rate relief requested for the 2010 Test Year;
- 5 2. The calculation of FPL's requested 2011 Subsequent Year Adjustment
6 starting January 1, 2011, excluding the impact of West County Energy
7 Center (West County) Unit 3;
- 8 3. The continuation of the Generation Base Rate Adjustment (GBRA)
9 mechanism, including use of the GBRA to recover costs and expenses
10 associated with West County Unit 3 being placed into service in June
11 2011; and
- 12 4. Adjustments that FPL proposes to rate base, net operating income and
13 working capital, in order to better reflect 2010 Test and 2011
14 Subsequent Year results for ratemaking purposes.

15 **Q. Please summarize your testimony.**

16 A. I will present and discuss the following items:

- 17 1. 2010 Base Rate Revenue Increase – The information necessary to
18 support the calculation of the rate relief requested by FPL using a 2010
19 test period. FPL believes a 2010 Test Year would be the most
20 representative since this would be the year in which the new rates
21 would go in effect, and it coincides with the effective date of FPL's
22 2009 depreciation and dismantlement studies. Absent base rate relief

1 for 2010, FPL's adjusted jurisdictional ROE is estimated to be 4.7
2 percent.

3 2. 2011 Subsequent Year Adjustment - The information necessary to
4 support the calculation of the rate relief requested by FPL for a
5 January 1, 2011 Subsequent Year Adjustment. Absent both the 2010
6 and 2011 requested base rate relief, the 2011 adjusted jurisdictional
7 ROE is projected to be only 3.1 percent. With FPL's requested base
8 rate relief for 2010 but absent the requested rate relief for 2011, the
9 2011 adjusted jurisdictional ROE is projected to be only 10.7 percent,
10 which is still well below the Company's cost of equity. If the
11 Commission does not approve FPL's proposed Subsequent Year
12 Adjustment for 2011 in this proceeding, FPL will have to consider
13 initiating another proceeding to seek further rate relief in 2011.

14 3. GBRA - FPL is requesting the continuation of the GBRA mechanism,
15 including the recovery of costs and expenses associated with West
16 County Unit 3 being placed into service in June 2011; therefore those
17 costs are excluded from the 2011 Subsequent Year requested rate
18 relief. It has proven to be an efficient and effective way of providing
19 for new generating plant inclusion in base rates commensurate with the
20 time fuel savings associated with new plant begin to be achieved, and
21 the Company's expenses associated with operation of new units begin
22 to be incurred. The estimate used in the GBRA is assured of true-up
23 when actual capital costs are known, which ensures that any savings

1 achieved through improved cost control are realized by customers.
2 Application of this mechanism avoids the expenditure of costs and
3 resources associated with back-to-back base rate proceedings.

4 4. Nuclear Uprates – FPL expects to include the full in-service revenue
5 requirements estimate for the nuclear uprate projects in its Nuclear
6 Cost Recovery (NCR) clause filings. Therefore, all costs projected for
7 new nuclear and nuclear uprates are excluded from the base rate
8 revenue requirements through Commission and company adjustments
9 in this proceeding. Since this proceeding and the NCR clause
10 proceeding are occurring almost simultaneously, and the uprates will
11 facilitate fuel cost benefits to customers, the Company should not be
12 denied recovery of prudently incurred nuclear plant investment and
13 operating costs. Therefore, FPL requests that any amount that is
14 excluded from NCR clause recovery solely because it is believed to be
15 included in base rates should be recovered instead in base rates
16 through a base rate adjustment using the formula that I provide.

17 5. Depreciation and Dismantlement – FPL has included the current
18 approved depreciation rates and dismantlement accrual in its forecast
19 for the 2010 Test Year and 2011 Subsequent Year, and has made
20 company adjustments to these years to reflect changes in expense
21 based on its 2009 depreciation and dismantlement studies.

22 6. Company Adjustments – The accounting adjustments which impact the
23 determination of FPL's rate base, working capital, rate of return,

1 capital structure and net operating income and resulting revenue
2 requirements. With the adjustments proposed, I believe that the MFRs
3 fairly present FPL's financial condition and requested revenue
4 increases based on the projected results for the 2010 Test and 2011
5 Subsequent Years.

6 7. Affiliate Transactions – I conclude my testimony with discussions
7 regarding the methods FPL uses to charge costs to its affiliates, and the
8 controls in place to ensure retail customers do not subsidize FPL's
9 affiliates. I also discuss how FPL has removed all costs and expenses
10 associated with FPL's New England Division (FPL-NED), a division
11 of FPL, from the determination of its retail base rate revenue
12 requirements in this proceeding.

13
14 **SPONSORSHIP OF MINIMUM FILING REQUIREMENTS,**
15 **2011 SUBSEQUENT YEAR ADJUSTMENT SCHEDULES AND**
16 **2011 WEST COUNTY UNIT 3 ADJUSTMENT SCHEDULES**

17
18 **Q. Are you sponsoring or co-sponsoring any MFRs in this case?**

19 A. Yes. Exhibit KO-1 shows my sponsorship and co-sponsorship of MFRs as
20 well as 2009 Supplemental MFR schedules that FPL has agreed with the
21 Florida Public Service Commission ("FPSC" or the "Commission") Staff and
22 the Office of Public Counsel to file.

1 **Q. What is the basis and time periods covered by the MFRs and schedules**
2 **that FPL is filing in this proceeding?**

3 A. As further described in the testimony of FPL witness Barrett, FPL is filing
4 MFRs based upon forecasts completed in late 2008 and is utilizing a 2010 Test
5 Year as the basis for its overall jurisdictional revenue requirement calculation.
6 Generally, the periods covered in FPL's MFRs are a 2008 historical year, 2009
7 Prior Year, and 2010 Test Year. Additionally, FPL has prepared a set of MFRs
8 for 2011, which are equivalent to the information provided for the 2010 Test
9 Year, supporting a Subsequent Year Adjustment beginning on January 1, 2011.
10 Finally, FPL has prepared a set of schedules that follow the format of certain
11 MFRs, to reflect the revenue requirements that would result from West
12 County Unit 3 being placed into service on June 1, 2011 if GBRA
13 continuation was not approved. These 2011 West County Unit 3 schedules
14 cover the twelve months ended May 31, 2012, which is the first full year of
15 operations after West County Unit 3 is scheduled to go in service.

16 **Q. Why is 2010 a representative Test Year for FPL to use to set base rates?**

17 A. Based on the stipulation to the Company's 2005 rate settlement agreement,
18 approved by the Commission in Order No. PSC-05-0902-S-EI, FPL's base
19 rates remain unchanged, excluding GBRA, for a minimum term of four years,
20 January 1, 2006 through December 31, 2009, and would continue to be
21 effective thereafter until new base rates are set. FPL's forecasts for 2010 and
22 beyond show that FPL's earnings are expected to deteriorate significantly by
23 2010, so FPL is seeking to revise its base rates once the rate settlement

1 agreement's minimum term has passed, which would be on January 1, 2010.
2 Therefore, FPL believes a 2010 Test Year is necessary in order to match its
3 rate change with the year in which those costs are expected to be incurred. An
4 additional benefit of a 2010 Test Year is that it coincides with the proposed
5 January 1, 2010 effective date of FPL's 2009 dismantlement and depreciation
6 studies included as Exhibit KO-8 and FPL witness Clarke's Exhibit CRC-1,
7 respectively. As discussed later in my testimony, the 2005 rate case settlement
8 does not permit depreciation rates to be changed until January 1, 2010. Using
9 a Test Year earlier than 2010 would be inconsistent with that limitation, as it
10 could not reflect the new depreciation rates or dismantlement accrual.

11

12 **2010 AND 2011 REVENUE REQUIREMENT CALCULATIONS**

13

14 **Q. Which Exhibit shows the calculation of the base revenue increase that**
15 **FPL is requesting for 2010?**

16 A. Exhibit KO-2, which is MFR A-1 for the 2010 Test Year, shows the
17 calculation of our requested base revenue increase for 2010 of \$1.044 billion.

18 **Q. Does FPL's requested base revenue increase for 2010 of \$1.044 billion**
19 **reflect the Company's proposed adjustments to move costs between base**
20 **rates and clause recovery?**

21 A. Yes. This amount is net of proposed company adjustments, which I will
22 discuss in further detail later in my testimony, for certain costs to be recovered
23 through FPL's cost recovery clauses. There are six adjustments which move

1 costs between base rates and clause recovery: clause bad debt expense, St.
2 John's River Power Park capacity clause recovery, incremental hedging costs,
3 incremental security cost payroll loadings, energy conservation cost recovery
4 (ECCR) payroll loadings, and nuclear uprate operations and maintenance
5 expenses. These adjustments are all summarized on MFR C-2.

6
7 As stated in Note 2 to MFR A-1, FPL's total requested base rate increase,
8 without these adjustments, would be \$1.121 billion. The Company has
9 presented the total revenue increase in Note 2 in the Test Year in order to
10 remind the Commission that FPL will seek recovery of a portion of its total
11 Test Year revenue requirements through cost recovery clauses rather than base
12 rates.

13 **Q. Which MFRs directly support the 2010 revenue increase calculation on**
14 **Exhibit KO-2?**

15 A. Page one of Exhibit KO-3 lists the MFRs that directly support the overall
16 2010 jurisdictional revenue requirement increase of \$1.044 billion requested
17 by FPL. Those MFRs include schedules that support adjusted jurisdictional
18 rate base of \$17.1 billion, adjusted jurisdictional net operating income of \$726
19 million and the calculation of the jurisdictional revenue expansion factor of
20 1.63342 to arrive at the requested overall jurisdictional revenue requirement.
21 Additionally, I present the jurisdictional adjusted capital structure which
22 reflects FPL's requested return on equity (ROE) of 12.5 percent, which is
23 further discussed in the testimonies of FPL witnesses Pimentel and Olivera,

1 and an overall rate of return of 8.0 percent. Related FPSC and company
2 adjustments applicable to the above schedules are included in the MFRs filed
3 in this case.

4 **Q. What would be the resulting ROE for the 2010 Test Year absent the**
5 **requested rate relief?**

6 A. Exhibit KO-4 shows that absent the requested rate relief, the 2010 adjusted
7 jurisdictional ROE is projected to be 4.7 percent. Since FPL's growth in
8 revenues will be insufficient to offset increased costs, a base rate increase is
9 necessary. This current and projected decline in revenue growth coupled with
10 the need to invest in infrastructure is further discussed in FPL witness
11 Pimentel's testimony.

12 **Q. Which MFR shows the calculation of the base revenue increase that FPL**
13 **is requesting for 2011?**

14 A. MFR A-1 for the 2011 Subsequent Year, which is Exhibit KO-5, shows the
15 calculation of our requested base revenue increase for 2011 of \$247.4 million.

16 **Q. Which MFRs directly support the 2011 Subsequent Year increase**
17 **calculation on Exhibit KO-5?**

18 A. Page two of Exhibit KO-3, lists the MFRs that directly support the overall
19 2011 jurisdictional revenue requirement increase of \$247.4 million requested
20 by FPL. Those MFRs include schedules that support FPL's adjusted
21 jurisdictional rate base of \$17.9 billion, adjusted jurisdictional net operating
22 income of \$662.8 million and the calculation of the jurisdictional revenue
23 expansion factor of 1.63256 to arrive at the requested overall jurisdictional

1 revenue requirement. Additionally, I present the jurisdictional adjusted capital
2 structure which reflects FPL's requested ROE of 12.5 percent, which is further
3 discussed in the testimonies of FPL witnesses Pimentel and Olivera, and an
4 overall rate of return of 8.2 percent. Related FPSC and company adjustments
5 applicable to the above schedules are included in the MFRs filed in this case.

6 **Q. Did FPL include any costs or expenses related to West County Unit 3 in**
7 **calculating its 2011 Revenue Requirements?**

8 A. No. As discussed later in my testimony, these projected costs were removed
9 from rate base and operating expenses as company adjustments in FPL's 2011
10 Subsequent Year Adjustment schedules. FPL is requesting the continued use
11 of a GBRA mechanism for recovery of costs and expenses related to West
12 County Unit 3 being placed into service on June 1, 2011. Therefore, FPL has
13 removed all amounts associated with West County Unit 3 from its 2011
14 revenue requirements.

15 **Q. What would be the resulting ROE for the 2011 Subsequent Year absent**
16 **the requested rate relief?**

17 A. Exhibit KO-4 shows that, absent both the 2010 and 2011 requested base rate
18 relief, the 2011 adjusted jurisdictional ROE is projected to be only 3.1 percent.
19 The exhibit also shows that, with FPL's requested base rate relief for 2010 but
20 absent the requested rate relief for 2011, the 2011 adjusted jurisdictional ROE
21 is projected to be 10.7 percent, which is still well below the cost of equity for
22 FPL that is supported by FPL witness Avera. Therefore, if the Commission
23 does not approve FPL's proposed Subsequent Year Adjustment for 2011 in this

1 proceeding, FPL will have to consider initiating another proceeding to seek
2 further rate relief in 2011. Subsequent year adjustments are used for precisely
3 this reason, to avoid the cost and distraction for all parties of back-to-back rate
4 proceedings.

5

6

GENERATION BASE RATE ADJUSTMENT

7

8 **Q. Why is it appropriate for FPL to recover the costs associated with the in-**
9 **service of new generating plant through a GBRA mechanism?**

10 **A. The stipulation to the Company's 2005 rate settlement agreement, approved**
11 **by the Commission in Order No. PSC-05-0902-S-EI, provided for the use of a**
12 **GBRA for recovery of annualized base revenue requirements for new**
13 **generating units. This revenue requirement is based on projected amounts**
14 **reflected in FPL's need determination filings and subsequently adjusted once**
15 **actual plant costs are known. This mechanism was used to implement a base**
16 **rate change effective beginning in May 2007 for FPL's Turkey Point Unit 5**
17 **fossil plant and is to be used for West County Units 1 and 2, which are**
18 **projected to be in-service before the expiration of the current rate settlement.**

19

20 FPL expects substantial base rate cost impacts from adding new, more
21 efficient generating units beyond 2011. FPL proposes these generating plant
22 investments be included in base rates through the continuance of the GBRA

1 mechanism; thereby avoiding the expenditure of costs and resources
2 associated with back-to-back base rate proceedings.

3

4 The GBRA mechanism has proven to be an efficient and effective way of
5 providing for new generating plant inclusion in base rates commensurate with
6 the time fuel savings associated with new plant begin to be achieved, and the
7 Company's expenses associated with operation of new units begin to be
8 incurred. It allows for FPL to make these needed investments, pass benefits
9 on to customers and mitigate the financial impacts associated with the
10 inherent regulatory lag that would be unavoidable in a traditional base rate
11 proceeding. The use of a GBRA for West County Unit 3 and subsequent
12 generation additions will achieve the same objectives with the greatest
13 regulatory and administrative efficiency.

14 **Q. Would it not be more expedient in this proceeding to include West**
15 **County Unit 3 in FPL's 2011 Subsequent Year Adjustment increase**
16 **requested herein?**

17 **A.** The GBRA mechanism is a preferable approach even in the context of the
18 current rate filing, which includes a 2011 Subsequent Year Adjustment
19 request. It is appropriate for West County Unit 3 because it provides
20 flexibility and insures precision in timing of base rate changes commensurate
21 with in-service dates. In the event West County Unit 3 is placed in service
22 before or after the current June 1, 2011 estimated in-service date, a GBRA

1 would be perfectly timed to synchronize the base rate cost changes with the
2 fuel cost decreases.

3
4 Use of the GBRA avoids the need to determine the revenue requirement
5 calculations in a traditional base rate proceeding, as the GBRA is based upon
6 the previously approved need determination estimate of revenue requirements.
7 Additionally, the estimate used in the GBRA is assured of a true-up when
8 actual capital costs are known, which ensures that any savings achieved
9 through improved cost control are realized by customers. In contrast, FPL's
10 requested 2011 Subsequent Year Adjustment would not provide for a true-up.

11
12 Lastly, the GBRA mechanism is analogous to and consistent with the
13 Commission's own benchmarking practice, whereby production plant costs
14 are benchmarked to increases in CPI plus new generating plant O&M. The
15 Commission has explicitly acknowledged through this approach that
16 production plant cost increases are reasonable when related clearly to the
17 addition of generating plant already determined to be necessary to serve
18 customers. Using GBRA to recover base rate cost increases for new units,
19 while reflecting fuel cost decreases in the fuel adjustment clause, is thus quite
20 consistent with Commission production plant recovery practices overall.

NUCLEAR UPRATES

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Q. Why are nuclear uprate costs a necessary consideration in FPL's request for base rate relief?

A. FPL is entitled to recover prudently incurred nuclear uprate costs through rates. This can be accomplished through the NCR clause, through base rates, or a combination of the two approaches.

Q. How does the Company propose to recover the in-service revenue requirements associated with its nuclear uprate projects?

A. Consistent with the Commission decision in Order No. PSC-08-0749-FOF-EI, Docket No. 080009-EI and with Rule 25-6.0423, Florida Administrative Code, FPL expects to include the full in-service revenue requirements estimate for the nuclear uprate projects in its NCR clause filings. At the proper time, subsequent to completion of all uprate in-service activities at the end of each outage (two at each of FPL's four nuclear units), the Company will file a separate petition as required by Rule 25-6.0423, requesting final base rate treatment for the balance of uprate costs.

Q. Has FPL made corresponding adjustments to remove any uprate-related costs from the Test Year in this proceeding?

A. Yes, all costs projected to be incurred for new nuclear and nuclear uprates are excluded from the base rate revenue requirements through Commission and company adjustments shown on MFRs B-2 and C-3.

1 **Q. Do these adjustments also remove all of the labor charges associated with**
2 **the nuclear uprate project?**

3 A. Yes, and by so doing the adjustment resets the basis upon which incremental
4 labor for clause recovery is established.

5 **Q. Please explain the process and necessity of resetting the basis for**
6 **incremental cost recovery.**

7 A. The Commission's policy and approach for the determination of incremental
8 vs. non-incremental labor has always relied on the test year assumptions as the
9 baseline for later determination. Costs reflected in base rates are not
10 incremental and not recoverable in the NCR clause filings. Conversely, costs
11 excluded from base rates are considered incremental and thus eligible for
12 NCR clause recovery. Because FPL has removed 100 percent of labor costs
13 associated with projects included in the NCR clause filings, the 2010 Test
14 Year in this base rate proceeding will reset the basis upon which incremental
15 labor will be established.

16

17 As a result of the process of resetting the determination of what is
18 incremental, it is possible that costs which were not deemed incremental in
19 years prior to 2010 would become incremental in 2010 and thereafter. For
20 example, if an employee's labor cost was not included in the NCR clause
21 filing in 2009 because that employee's salary was charged to base rate
22 operations and maintenance expense during 2006 (the Company's Test Year
23 in its last rate case filing), that salary would be included in the total company

1 amount forecasted as recoverable in the 2009 Prior Year. However, by
2 separate adjustment, this amount is removed for ratemaking purposes. Thus,
3 in 2010, the Test Year restarts and that same salary would be removed as a
4 company adjustment in this filing and thus becomes recoverable in 2010 in the
5 NCR clause filing.

6 **Q. Will the operation of Rule 25-6.0423 ensure recovery of all the uprate-**
7 **related costs that FPL's adjustments have removed from the Test Year?**

8 A. That is FPL's expectation, but the scope of recovery under Rule 25-6.0423 is
9 unknown at this time.

10 **Q. If all the prudently incurred nuclear uprate costs that FPL has removed**
11 **from the Test Year are not recovered through the NCR clause, how**
12 **should they be recovered?**

13 A. Any such prudently incurred costs ultimately found to be ineligible for
14 recovery through the NCR clause would have to be recovered in base rates.

15 **Q. How does FPL propose to address this contingency?**

16 A. FPL requests that any prudently incurred amount that is excluded from clause
17 recovery be recovered instead in base rates through a base rate adjustment.
18 The proposed formula to calculate the resulting revenue requirements is
19 shown on Exhibit KO-6. This formula would also apply to any costs that are
20 capitalized in the normal course of business and not recoverable through the
21 NCR clause, because they could not be shown to be incremental in the year
22 incurred.

1 For example, assume the Commission does not allow recovery of \$5 million
2 in prudently incurred capital expenditures associated with the St. Lucie Unit 2
3 nuclear uprate through the NCR clause starting in January 2010. It further
4 determines these expenditures are prudent, but not recoverable through the
5 NCR mechanism due to its application of the "separate and apart" criterion
6 that has been announced by the Commission in Order No. PSC-08-0749-FOF-
7 EI, Docket No. 080009-E1, but not yet interpreted. In this case, the
8 Commission should use the template provided on Exhibit KO-6 to insert the
9 \$5 million of capital expenditures for the St. Lucie Unit 2 uprate and calculate
10 the resulting revenue requirement to add to the base rate increase that it
11 approves in this base rate proceeding.

12 **Q. Why should the Commission approve a mechanism to allow FPL to**
13 **recover nuclear uprate costs in base rates that are not recovered through**
14 **the NCR clause?**

15 **A.** In order to accommodate the use of the NCR mechanism as contemplated by
16 statute and Commission rule, FPL has made an adjustment in good faith to
17 reduce the amount of its rate request that otherwise would be justified, based
18 on reasonable expectations of what is recoverable under the NCR mechanism.
19 However, 2009 will only be the second year in which that mechanism has
20 been in operation and there remains some uncertainty about the details of its
21 application. The Company should not be denied recovery of prudently
22 incurred nuclear plant investment and operating costs, which will facilitate
23 substantial fuel cost benefits to customers, because of uncertainty in

1 regulatory proceedings that are occurring almost simultaneously. Without the
2 recognition of this Catch-22 and establishing a mechanism to address it, the
3 Company would be denied the opportunity to earn a fair return and could be
4 required to file for additional recoveries in future proceedings.

5
6 **DEPRECIATION AND DISMANTLEMENT**

7
8 **Q. Please comment on the approach the Company has taken for inclusion of**
9 **depreciation expense in 2010 and beyond.**

10 **A. The depreciation rates used in the forecast of FPL's 2010 Test and 2011**
11 **Subsequent Year are based on the depreciation study filed with the FPSC in**
12 **March 2005, and approved in Order No. PSC-05-0902-S-EI issued on**
13 **September 14, 2005. FPL has prepared and filed its 2009 depreciation study**
14 **with the Commission on March 17, 2009, which is being sponsored by FPL**
15 **witness Clarke as Exhibit CRC-1, and has made a company adjustment to the**
16 **2010 Test and 2011 Subsequent Years to reflect changes in depreciation**
17 **expense based on this depreciation study. The reconciliation of total**
18 **depreciation expense per books in FPL's 2010 and 2011 forecast to the**
19 **calculated expense based on the proposed rates included in FPL's 2009**
20 **depreciation study can be found on Exhibit KO-7.**

21
22 Rule 25-6.0436, Florida Administrative Code, requires a study to be filed at
23 least once every four years and as stated in Order No. PSC-05-0902-S-EI,

1 FPL's depreciation rates are not to be changed during the term of FPL's
2 current Stipulation and Settlement. Therefore, the Company's 2010 Test Year
3 and 2011 Subsequent Year requests include the impact of these updated
4 depreciation rates.

5 **Q. What is the basis for the plant balances used in FPL's new depreciation
6 study?**

7 A. The new study's analyses are based on actual plant and reserve balances as of
8 December 31, 2007 in order to reflect a full year of historical data, i.e.,
9 salvage, retirements, etc. The results of these analyses are then applied to
10 estimated balances through the end of 2009, which include actuals as of
11 September 30, 2008. The composite depreciation rates, which are based on
12 the new study, are used to calculate company adjustments to the 2010 Test
13 Year and 2011 Subsequent Year. Further assumptions and details of the study
14 are discussed in FPL witness Clarke's testimony.

15 **Q. Please discuss the \$125 million annual credit to depreciation expense
16 authorized by the FPSC in the Company's 2005 rate settlement
17 agreement.**

18 A. Included in FPL's 2005 rate settlement agreement, which was approved by the
19 Commission, FPL was provided the option to record up to \$125 million
20 annually as a credit to depreciation expense and a debit to a bottom line
21 depreciation reserve over the term of the agreement. Annually, FPL must
22 make a decision, which is irrevocable, on the amount to record up to the \$125
23 million. For 2006, 2007, and 2008, FPL recorded a \$125 million credit to

1 depreciation expense, and is expected to record the same amount in 2009.
2 Therefore, by the end of 2009, FPL is forecasted to show a \$500 million
3 reduction in the bottom line depreciation reserve balance associated with these
4 annual credits. No continuation of this credit is extended via this filing to the
5 Test Year or beyond.

6 **Q. How has the Company accounted for the \$500 million bottom line**
7 **reduction in the depreciation reserve in its new depreciation study?**

8 A. FPL has allocated the \$500 million bottom line depreciation reserve debit to
9 the functional areas identified with theoretical reserve excesses in the
10 Company's 2005 depreciation study based on the percentage of each
11 functional area excess to the total. The functional areas receiving an
12 allocation of the reserve are steam, nuclear, other production, and distribution.

13
14 The amount allocated to each functional area was then distributed to the site
15 and plant account level based on the percentage of current theoretical reserve
16 excesses to the functional total excesses identified in FPL's 2009 depreciation
17 study. Allocation of the debit in this manner ensures that only sites and
18 accounts with current reserve excesses receive an allocation of the debit. The
19 allocation of the bottom line depreciation reserve debit is shown in Exhibit
20 CRC-1 included in FPL witness Clarke's testimony.

21 **Q. Has the FPSC approved FPL's 2009 depreciation study?**

22 A. Not at this time. The concurrent filing of FPL's 2009 depreciation study along
23 with FPL's base rate filing was made to allow the FPSC time to review and

1 approve the depreciation rates prior to setting base rates in this proceeding.
2 FPL requests that the final outcome of the FPSC's review and approval of the
3 depreciation study be reflected in the 2010 Test and 2011 Subsequent period
4 results.

5 **Q. Please discuss the basis for FPL's fossil dismantlement accruals in the**
6 **2010 Test Year and beyond.**

7 A. FPL's current annual accrual for fossil dismantlement is \$15.3 million, which
8 was approved by the FPSC in Order No. PSC-08-0095-PAA-EI issued on
9 February 14, 2008. However, FPL has made a company adjustment to the
10 2010 Test Year and 2011 Subsequent Year results reflecting a \$5.8 million net
11 increase in dismantlement accrual based on its 2009 dismantlement study,
12 which was filed with the Commission on March 17, 2009. The Company has
13 filed its 2009 dismantlement study as required in Order No. PSC-08-0095-
14 PAA-EI, Docket No. 070378-EI, issued on February 14, 2008. The
15 Commission required FPL to file its next dismantlement study concurrently
16 with the filing of its next depreciation study, which must be on or about March
17 17, 2009. A copy of FPL's 2009 filed dismantlement study is presented on
18 Exhibit KO-8.

19 **Q. What are the primary drivers for the increase in dismantlement accruals?**

20 A. There are three primary drivers for the increase. One driver is the addition of
21 the West County Units since the last dismantlement study was prepared in
22 2007. Inclusion of those units increases the dismantlement expense by \$1.4
23 million. A second driver is the increase in labor rates caused by the increase

1 in the equipment component of that rate. We studied the equipment rental
2 rates more carefully in consultation with our engineering and construction
3 team. This team has been considering the costs to be incurred in the near
4 future at the Riveria and Cape Canaveral sites, which are planned for
5 modernization. In our discussions, the team recommended the use of higher
6 heavy equipment rental rates that they believe will be incurred and are more
7 representative of the actual costs. Use of these higher equipment rates has
8 resulted in an increase in the proposed dismantlement accrual of about \$3.7
9 million. The last driver is an increase in fuel oil tank removal costs of \$1.1
10 million. These removal costs have increased due to higher demand for fuel oil
11 tank cleaning services and higher transportation costs for the disposal of
12 contaminated materials. Further information related to these drivers, as well
13 as other reasons for the change in the total dismantlement accrual, can be
14 found in Exhibit KO-8.

15
16 One important consideration to note is that the Company did not reflect the
17 current depressed market values for salvage in this study, but chose instead to
18 use the higher salvage rate estimates that were reflected in its 2007 study.
19 Had we instead reflected the current market drop in salvage rates, the accrual
20 would have increased by another \$4 million. We feel that the current salvage
21 rates do not represent those expected to be realized upon retirement of these
22 units as the economic conditions today may have unduly depressed those
23 prices.

1 **Q. Has the FPSC approved FPL's new dismantlement study?**

2 A. Not at this time. The concurrent filing of the dismantlement study along with
3 FPL's base rate filing was made to allow the FPSC time to review and approve
4 the dismantlement accruals prior to setting base rates in this proceeding. FPL
5 requests that the final outcome of the FPSC's review and approval of the
6 dismantlement study be reflected in the 2010 Test and 2011 Subsequent period
7 results.

8

9

PROPOSED ADJUSTMENTS TO 2010 TEST AND

10

2011 SUBSEQUENT YEAR RESULTS

11

12 **Q. Are there any adjustments FPL is proposing at this time to rate base, net**
13 **operating income or working capital in this proceeding that would better**
14 **reflect 2010 Test Year and 2011 Subsequent Year results for ratemaking**
15 **purposes?**

16 A. Yes. These adjustments are detailed in MFR B-2 and MFR C-3.

17 **Q. Would you please describe the adjustments FPL is proposing?**

18 A. Below is a brief description of each adjustment FPL is proposing. Additional
19 information regarding each adjustment can be found in the above mentioned
20 MFRs.

1 Adjustments Impacting Revenue Requirements

- 2 • Storm Damage and Property Insurance Reserve Accrual – As discussed in
3 FPL witness Pimentel’s testimony, FPL is requesting an annual storm
4 damage and property insurance reserve accrual of \$150 million. This
5 amount is reflected as an expense in the Company’s filing in each of the
6 Test and Subsequent Years.
- 7 • FGPP Cost Recovery – Based on the Commission’s ruling in Order No.
8 PSC-07-0557-FOF-EI, Docket No. 070098-EI, FPL was ordered to cease
9 construction of two coal-fired generation units at FPL’s Glades Power
10 Park (FGPP). However, FPL had already incurred \$34.5 million in capital
11 expenditures associated with necessary steps in order to construct the units
12 to serve customers starting in 2013. Since this ruling, FPL petitioned the
13 Commission for recovery of these costs over a five-year period. In Order
14 No. PSC-09-0013-PAA-EI, Docket No. 070432-EI, issued on January 5,
15 2009, the Commission granted FPL recovery of these costs and provided
16 for amortization of \$34.1 million of these costs over a five-year period
17 beginning on January 1, 2010. Therefore, FPL has included \$6.8 million
18 of amortization expense in the 2010 Test and 2011 Subsequent Years. As
19 it is necessary and appropriate for all recoverable assets, the unamortized
20 balance must be included in rate base in the Test Year in order to avoid an
21 implicit disallowance.
- 22 • Rate Case Expenses - FPL is requesting that a three year amortization of
23 estimated rate case expenses totaling \$3.7 million be included in the

1 calculation of FPL's 2010 and 2011 revenue requirements. Recovery of
2 necessary rate case expenses is appropriate and historically has been
3 included as requested herein. Similar to FGPP cost recovery, the
4 unamortized balance must be included in rate base in the Test Year in
5 order to avoid an implicit disallowance. The Company has been prudent
6 in limiting its incremental rate case expenses, while being mindful of the
7 need to present and fully support its case in accordance with Commission
8 requirements.

9 • Dismantlement Study – As previously discussed, the \$5.8 million
10 adjustment is needed in order to reflect FPL's total annual dismantlement
11 accrual of \$21.1 million FPL has proposed in its 2009 dismantlement
12 study.

13 • Depreciation Study – As previously discussed, the \$95.1 million
14 adjustment is needed in order to reflect FPL's 2010 total depreciation
15 accrual, excluding depreciation related to clauses, of \$1.1 billion FPL has
16 proposed based on the rates determined in its 2009 depreciation study.
17 FPL has made a similar adjustment for 2011 of \$101.2 million to reflect an
18 accrual of \$1.1 billion.

19 • Gas Pipeline – FPL is in the early stages of the development of a gas
20 pipeline to secure additional reliable natural gas supplies to key generating
21 plants in its fleet. It expects to file a need determination with the
22 Commission in the spring of 2009. Upon the granting of an affirmative
23 determination of need, the required construction costs will begin to

1 escalate dramatically. In 2010, the company projects it will have incurred
2 approximately \$64.5 million in development of this pipeline. The
3 Company expects that subsequently it will secure siting board approval, at
4 which time the costs would be transferred from the deferred debit account
5 where it is recorded today to Construction Work In Progress (CWIP), in
6 recognition of the change in status from development to construction.
7 FPL could simply leave the 2010 projected costs in working capital as
8 reflected in the forecast filed herein and receive a cash return in base rates
9 on the 13-month average estimated balance. Instead, we are proposing a
10 company adjustment to transfer the estimated capital expenditures
11 associated with this project from working capital to Construction Work In
12 Progress, Account 107. This transfer reduces the base rate increase
13 request and instead provides for FPL to accrue Allowance for Funds Used
14 During Construction (AFUDC) on the investment at the time it is
15 approved for construction. This is appropriate due to the difficulty in
16 estimating cash flows reliably this early in the developmental stage of a
17 complex project such as this and due to the uncertainty around the timing
18 of the need determination. In using this approach, a non cash return is
19 provided and neither the customer nor the Company is disadvantaged by
20 those uncertainties.

- 21 • End-of-Life Nuclear Fuel Last Core and M&S Inventory – Per FPSC
22 Order No. PSC-02-0055-PAA-EI, Docket No. 981246-EI, FPL is required
23 to update and report the values associated with its end-of-life nuclear fuel

1 last core and end-of-life materials and supplies inventory concurrent with
2 the filing of each of its subsequent nuclear decommissioning studies.
3 Since the filing of its last study in 2005, FPL has noted a significant
4 increase in the projected value of the end-of-life nuclear fuel last core due
5 to a sustained increase in the price of fuel. FPL believes the updates of
6 these values should be accounted for in this proceeding, since FPL is not
7 required to file its next nuclear decommissioning study until December
8 2010. As a result, FPL has included an additional expense accrual of \$6.0
9 million for end-of-life nuclear fuel last core and \$137 thousand for end-of-
10 life materials and supplies inventory in both the 2010 Test Year and 2011
11 Subsequent Year.

12 ● Commercial/Industrial Demand Reduction (CDR) – CDR is a voluntary
13 energy management program that provides customers bill credits, while
14 helping FPL efficiently manage the supply of electricity by allowing the
15 Company to unilaterally reduce power usage during peak demand periods,
16 capacity shortages, or system emergencies. FPL records an offset to its
17 base revenues for the benefits received by those customers who participate
18 in the CDR program. FPL inadvertently excluded the debit to base
19 revenues in its 2010 Test Year and 2011 Subsequent Year forecasts.
20 Therefore, FPL has included a reduction in base revenues of \$10.3 million
21 for the 2010 Test Year and \$10.6 million for the 2011 Subsequent Year.

22 ● Nuclear Fuel Lease – FPL Fuels, Inc., set up in 1979 under the former
23 name of St. Lucie Fuel Company, was established for the purpose of

1 financing the acquisition of nuclear fuel and then subsequently leasing the
2 fuel to FPL. A credit facility was also established to support commercial
3 paper issuance to fund nuclear fuel acquisitions; however, this was
4 dropped in 2007 and commercial paper is now guaranteed directly by FPL.
5 Since the rating agencies no longer give off-balance sheet treatment to
6 commercial paper issued by FPL Fuels, Inc. and changes in accounting
7 rules now require FPL to consolidate FPL Fuels, Inc. into its financial
8 statements, there is no longer any benefit to maintain a separate fuel
9 company. Further discussion of the dissolution of FPL Fuels, Inc. is
10 included in FPL witness Pimentel's testimony. Therefore, FPL intends to
11 dissolve FPL Fuels, Inc. on or before January 1, 2010. Because the
12 carrying costs for nuclear fuel will no longer be part of a lease payment to
13 FPL Fuels that is recovered through the fuel clause, FPL has included a
14 company adjustment to add \$378.7 million in 2010 and \$412.8 million in
15 2011 of net capitalized nuclear fuel to rate base. Like any other
16 investment, FPL will incur cash outflows in the purchase of capitalized
17 nuclear fuel. These investments must earn a cash return as would any
18 other prudently incurred capital expenditure required in the provision of
19 electric service to customers.

- 20 • Atrium Expenses – Per Order No. 10306, Docket No. 810002-EU, the
21 Commission ordered FPL to exclude the costs associated with the atrium
22 in its General Office from operating expenses because FPL was not “cost
23 conservative” in the design and construction of the atrium. Since then, the

1 capital investment in the atrium has been retired and FPL is only incurring
2 a small amount of continuing maintenance costs. FPL believes the \$22
3 thousand included in its 2010 and 2011 revenue requirements related to
4 atrium maintenance expenses are insignificant, an administrative burden to
5 provide as a Commission adjustment each month in its required FPSC
6 surveillance reporting, and therefore no longer appropriate to remove from
7 base rates.

8 • Orange Groves - In Docket No. 830465-EI, FPL made a commission
9 adjustment to impute the revenues it could have received had it rented the
10 orange groves at its Manatee Plant site to a third party. FPL is now
11 leasing the property at the Manatee Plant site to other parties for grove
12 operations (orange, lime and avocado) and has included the rental
13 revenues above the line in our 2010 Test Year forecast. Therefore, it is no
14 longer necessary or appropriate to impute rental revenues, and this
15 adjustment should be excluded.

16 • Clause Overrecoveries – The Commission’s current practice with regard
17 to cost of capital on clause over and underrecoveries is not equitable.
18 When FPL is projected to be in an overrecovery position regarding the
19 fuel, capacity, environmental and conservation clauses at the time of a
20 base rate filing, the FPSC has not permitted FPL to remove the liability
21 from working capital even though FPL compensates customers by paying
22 interest on the overrecovery through the cost recovery clauses. This is
23 inconsistent with the treatment of underrecoveries, where the FPSC has

1 previously required FPL to remove the asset from working capital. The
2 FPSC should acknowledge that base rates should never include the cost of
3 capital associated with clause over or underrecoveries as that cost is
4 already provided for in the clause rate itself. Instead, FPL must remove
5 the regulatory liability associated with projected overrecoveries from
6 working capital.

7

8 Adjustments to Move Items between Base Rates and Clause Recovery

- 9 • Clause Bad Debt Expense – Bad debt expense is normally recovered
10 through base rates; however, bad debts associated with clause revenues are
11 clearly an incremental cost that should be associated with the incremental
12 (to base rates) revenues that give rise to them. The Commission has ruled
13 on a number of occasions that incremental costs may be recovered through
14 clauses and other incremental-recovery mechanisms (e.g., storm
15 surcharges, nuclear cost recovery, etc.) so long as the costs are
16 functionally related to the reason for the incremental recovery. The bad
17 debts associated with clause revenues would not exist but for the clause
18 revenues, so both criteria are met: they are incremental (in the sense of
19 being a higher level of bad debt expense than would be associated solely
20 with base rates) and they are functionally related to the reason for the
21 incremental recovery (i.e., they are driven by, and proportional to, the
22 clause revenues that recover the costs covered by the clause in question).
23 In addition, because the clause-related bad debt expenses are proportional

1 to the clause revenues and those revenues fluctuate substantially from year
2 to year, the clause-related bad debt expenses are volatile and thus most
3 properly recovered through the clauses.

4
5 The Company's 2010 and 2011 forecast includes an estimate of bad debt
6 expense on its total revenues, including revenues generated from clauses,
7 in accordance with current practice. The company adjustment removes
8 estimated bad debt expense related to clause revenues from base rates and
9 proposes to include the clause related bad debt expense with the clause
10 revenues giving rise to the bad debt exposure itself. Including the clause
11 bad debt as a clause recoverable cost ensures that the estimate is consistent
12 with and related to the clause revenues that are not collected. It results in
13 the measurement of clause recoveries being based on amounts collected,
14 not amounts billed. Also, as clause revenue increases or decreases over
15 time, the bad debt expense is consistent with the level of that revenue
16 resulting in no benefit or detriment to the Company or its customers as
17 clause rates are reconciled. Therefore, FPL has removed \$16.9 million
18 and \$13.9 million of bad debt expense for 2010 and 2011, respectively,
19 which is calculated based on the relative percent of clause revenue to total
20 revenue multiplied by the forecasted bad debt expense. Beginning in
21 2010, FPL's bad debt expense associated with clause revenue would be
22 recovered through the clauses.

- 1 • St. Johns River Power Park Capacity Clause Recovery - Capacity charges
2 associated with St. Johns River Power Park (SJRPP) and certain capacity
3 related revenues that are currently in base rates should be removed from
4 base rates and included in the capacity clause in order to be consistent
5 with the recovery mechanism for other capacity arrangements and to
6 comply with the Commission’s decision in Order No. 25773, Docket No.
7 910794-EQ which stated in part “that capacity related purchased power
8 costs not currently being recovered in any manner may be included in the
9 capacity recovery factor. Those costs currently being recovered in base
10 rates will remain in base rates until the utility’s next general rate case.” A
11 net amount of \$56.9 million was included for recovery in 1988 base rates
12 as explained in FPSC Order No. PSC-94-1092-FOF-EI, Docket No.
13 940001-EI. Therefore, FPL is requesting that this amount be transferred
14 from base rates to the capacity clause.
- 15 • Incremental Hedging Costs – Incremental hedging costs of \$715 thousand
16 for 2010 and \$736 thousand for 2011 primarily consist of the labor costs
17 associated with the trading, back office, and middle office staff employed
18 in support of the Company’s Commission-sanctioned fuel hedging
19 program. In accordance with Commission Order No. PSC-02-1484-FOF-
20 EI, issued October 30, 2002, in Docket No. 011605-EI, incremental costs
21 associated with the Company’s hedging program were recoverable as a
22 part of the fuel clause until the earlier of 2006 or the establishment of new
23 base rates in the Company’s next base rate case. FPL’s clause recovery of

1 its incremental hedging costs was extended in Docket No. 050001-EI,
2 Order No. PSC-05-1252-FOF-EI, issued on December 23, 2005, through
3 at least December 31, 2009 and thereafter until FPL's next base rate
4 proceeding. At this time, it is appropriate to include these costs in the
5 current base rate revenue requirements calculations.

6 • Incremental Security Payroll Loadings – This company adjustment applies
7 payroll loadings consistent with the payroll dollars recovered through the
8 capacity clause. Currently, FPL has not been including payroll taxes
9 related to compensation associated with incremental security through the
10 capacity clause. FPL proposes to remove \$430 thousand from base rates
11 in the 2010 Test Year and \$506 thousand from the 2011 Subsequent Year
12 for payroll taxes related to compensation associated with incremental
13 security, in order to facilitate recovery of fully loaded incremental security
14 payroll costs through the capacity clause beginning in 2010. These
15 loadings are incremental and vary directly with incremental security
16 payroll costs charged to the capacity clause.

17 • ECCR Payroll Loadings – This company adjustment applies payroll
18 loadings consistent with the payroll dollars recovered through the energy
19 conservation cost recovery (ECCR) clause. Currently, FPL makes an
20 adjustment to the ECCR clause to reduce total payroll loadings related to
21 compensation associated with conservation employees by the amount of
22 loadings for FICA and unemployment taxes. This adjustment has been
23 required due to a finding in Docket No. 850002-PU that these items were

1 already included in base rates at that time. FPL is proposing to remove
2 \$1.6 million for 2010 and \$1.5 million for 2011 for the FICA and
3 unemployment taxes remaining in base rates, in order to facilitate recovery
4 of fully loaded ECCR payroll costs through the ECCR clause beginning in
5 2010. The amount of these loadings varies directly with payroll costs
6 charged to the ECCR clause, so it is appropriate that they be recovered via
7 that mechanism.

8
9 Adjustments Made to Isolate Certain Costs from Base Rate Revenues
10 Requirements

- 11 • Nuclear Uprates - As previously discussed all clause revenue and expenses
12 associated with the nuclear uprate projects are identified and removed
13 from base revenue requirements consideration. Specifically, during the
14 Test Year and Subsequent Year in this filing, we must reflect the
15 determination of the optimal recovery mechanism for the nuclear uprates,
16 all of which will go into service during the 2010, 2011, and 2012 outages.
17 As already discussed, FPL is including its in-service revenue requirements
18 related to nuclear uprates with its NCR filings. Therefore, FPL has
19 removed all amounts associated with nuclear uprates from the Test and
20 Subsequent Years through this company adjustment.
- 21 • West County Unit 3 - Included in the 2011 Subsequent Year Adjustment
22 schedules are amounts associated with West County Unit 3, which is
23 projected to be placed in service on June 1, 2011. As already discussed,

1 FPL is requesting a GBRA recovery of the revenue requirements for
2 commercial operation of this unit and therefore made an adjustment to
3 remove \$457.2 million from rate base and \$20.0 million from operating
4 expenses from the 2011 Subsequent Year.

5 **Q. Is FPL making an adjustment to reflect the impacts of the recently**
6 **enacted Economic Stimulus bill?**

7 A. No. The Economic Stimulus bill was signed into law by the President on
8 February 17, 2009 and many of the provisions of the bill are effective for the
9 2009 tax year. The Company is presently researching the various provisions
10 of the legislation but many compliance and accounting questions remain. At
11 this time, the Company has not quantified or captured the potential benefits.
12 Certainly, during this proceeding, additional insights will be provided and
13 shared with all parties so that these benefits may be provided to our customers
14 to the extent they can be realized by the Company.

15

16 AFFILIATE TRANSACTIONS

17

18 **Q. Please describe FPL Group's structure and its impact on FPL.**

19 A. As the originating legal entity of today's successor FPL Group, Inc. (FPL
20 Group), FPL has long been the primary operating entity of FPL Group. In the
21 course of the years since the formation of FPL Group, FPL has continued to
22 operate and grow in concert with the growth of its service area. At the same
23 time, new operating affiliates of FPL within the FPL Group corporate

1 umbrella have been formed. Today, FPL is one of more than 500 legal
2 entities that operate under FPL Group's corporate legal structure.

3
4 As the primary operating entity for many years, FPL has had to provide
5 resources and incur the related costs in order to perform all necessary
6 operating and support functions in order to provide electric service to
7 customers. More recently it has acted as the service company for its parent
8 company and affiliates in many of the staff functions and activities, as well as
9 operating support activities such as those performed by the nuclear and power
10 generation divisions. A sample list of these shared services may be found on
11 Exhibit KO-9. The activities embedded in FPL today continue to be
12 necessary to support the provision of electric service to FPL's Florida retail
13 customers; charging a portion of these support services to its affiliates has
14 allowed FPL and its customers to reduce its share of these necessary fixed
15 costs.

16
17 This structure has been proven over the years to be efficient and effective
18 from an operating perspective, as the special skills and talents can be
19 leveraged over the largest organizational reach. Furthermore, by spreading
20 the fixed cost of the support activities over a broader base, the retail utility
21 customers' cost responsibility is reduced below what they would otherwise
22 incur.

1 FPL implements this cost sharing via an integrated structure of billings and
2 allocations that are codified in its Cost Allocation Manual (CAM).
3 Maintaining the CAM is a requirement of Rule 25-6.1351, Cost Allocations
4 and Affiliate Transactions. The CAM largely follows the published
5 guidelines recommended by the National Association of Regulatory Utility
6 Commissioners (NARUC). The CAM is included as Exhibit KO-9, and the
7 NARUC guidelines are included as Exhibit KO-10.

8 **Q. What methods are used by FPL to charge costs to affiliates?**

9 A. As reflected in Exhibit KO-9, there are currently three ways FPL charges costs
10 of shared activities to its affiliates:

- 11 1. Direct Charges - Costs of resources used exclusively to provide service
12 for the benefit of one company are directly charged to that company.
13 Payroll is charged to a specific work order, which translates to a
14 specific affiliate accounts receivable account. To ensure the coding of
15 these work orders is accurate, each employee charging their time to an
16 affiliate is held responsible for the accuracy of the charges. Each FPL
17 Business Unit then performs an annual review of their employees'
18 fixed payroll distribution;
- 19 2. Service Fees – Costs for ongoing services provided to or shared by
20 affiliates of FPL. All service fees are charged monthly based on
21 budgeted amounts and reviewed for potential true-up quarterly and at
22 year end when actuals are known, and may be revised during the year,

- 1 as needed, to reflect significant changes. FPL currently has four
2 service fees:
- 3 a. Power Generation – Services includes fleet team management
4 and direct plant specific support. Costs are directly charged
5 and fully loaded;
 - 6 b. Nuclear – Services include nuclear operations, fuels support,
7 management team, engineering, and assurance support to
8 NextEra Energy Resources’ nuclear plants. Costs are fully
9 loaded and allocated based on the number of generating units;
 - 10 c. Energy, Marketing, & Trading (EMT) - Services include back
11 office support, which are fully loaded and allocated based on
12 time studies or specific analysis by function; and
 - 13 d. Information Management Nuclear – Services include nuclear
14 procurement and work management system application
15 support, Information Management Business Unit management
16 team support, data services, and infrastructure support to
17 NextEra Energy Resources’ nuclear plants. Costs are fully
18 loaded and allocated based on either the number of application
19 systems or number of generating units.
- 20 3. Affiliate Management Fee (AMF) – Corporate staff infrastructure and
21 governance costs that benefit both FPL and the affiliates are
22 categorized into specific cost pools. The AMF is charged on a
23 monthly basis based on budgeted amounts and trued-up at year end

1 when actuals are known, and may be revised, as needed, during the
2 year to reflect significant changes;

3 a. Where distinct cost “drivers” may be determined, the cost of
4 ongoing services shared jointly to support utility and affiliate
5 operations are allocated using specific factors. Examples of
6 these cost pools include corporate systems applications,
7 support for computer mainframe operations, benefit programs,
8 and corporate security. The drivers to allocate these costs are
9 carefully selected in order to accurately allocate costs.
10 Examples of commonly used drivers include number of
11 personal computers, number of transactions, headcount and
12 square footage; and

13 b. Those cost pools which do not have distinct cost drivers are
14 allocated using the Massachusetts Formula, a methodology
15 widely accepted by utility regulators as a fair and reasonable
16 way to allocate common costs among affiliates. The
17 Massachusetts Formula has three components: property, plant
18 and equipment, revenue and payroll. The annual amounts
19 forecasted for each of these components are collected from
20 FPL and its affiliates, and used as the basis in calculating the
21 percentage to be charged to each affiliate. First, the percentage
22 for each component to the total is determined. Then once these
23 percentages are determined, they are then averaged to give

1 each of the three components equal weight. The use of a
2 calculated average of property, plant and equipment, revenue
3 and payroll appropriately considers the various factors
4 affecting the use of common services. Examples of cost pools
5 that do not have a specific driver include budgeting, and
6 planning, external financial reporting, corporate
7 communications, mail services, and shareholder services.

8 **Q. Please describe the controls FPL designs, maintains and relies on to**
9 **ensure that FPL retail customers do not subsidize the operation of an**
10 **affiliate.**

11 A. FPL has documented the practices and procedures that must be adhered to by
12 each employee in the conduct of shared services and appropriate billings.
13 These procedures may be found in the CAM, which can be accessed readily
14 by each and every employee through the internal FPL Group corporate
15 website.

16
17 In addition, the Company maintains a Cost Measurement and Allocations
18 department whose responsibilities include the monitoring and controlling of
19 the affiliate billing process. These employees perform the following
20 functions: prepare affiliate billings for FPL's direct charges based on the
21 transactions provided by the originating services organization; review,
22 implement and oversee the service fees; annually review services that should
23 be allocated to the affiliates during the budgeting and forecasting process for

1 the upcoming year with each corporate staff group; and perform the
2 allocations included in the Affiliate Management Fee. This group is the
3 primary control and oversight organization whose mission is to ensure that
4 FPL complies with Rule 25-6.1351.

5 **Q. Does FPL conduct self-assessments of its affiliate transactions to ensure**
6 **that they are properly documented and comply with the Commission's**
7 **rule?**

8 A. Yes, FPL Group's Internal Audit Department performed a review of FPL's
9 affiliate transactions in 2008 to ensure FPL's controls are operating as
10 designed in order to record and transfer costs to its affiliates. The scope of the
11 review included the AMF, Service Fees, direct charges, and other affiliate
12 transactions. Overall, Internal Audit deemed the results of these controls to be
13 adequate. As always, some improvement opportunities were noted and
14 implemented by year end.

15 **Q. Please discuss how the Company handles the costs and expenses**
16 **associated with FPL-NED, in determining retail base rate revenue**
17 **requirements.**

18 A. The amounts recorded at FPL-NED, a division of FPL, represent its
19 ownership share of the Seabrook Transmission Substation (STS) at NextEra
20 Energy Resources' plant located in New Hampshire.

21
22 All transmission operations and maintenance costs associated with FPL-
23 NED's ownership share of the STS are charged to FPL-NED. Also, FPL

1 direct charges any services it performs for FPL-NED on the same basis it
2 charges its affiliates, fully loaded. The costs recorded at FPL-NED are
3 recovered from ISO-New England customers and NextEra Energy Resources.
4 Amounts are recorded to FPL-NED, instead of FPL, in order to separately
5 identify these transactions and, for regulatory purposes, assign them as 100
6 percent non-Florida, non-retail jurisdictional. Costs associated with FPL-
7 NED's ownership and operation of the STS are reported as a separate
8 reporting division and not included in FPL's determination of retail
9 jurisdictional rate base, operating income, or revenue requirements. This is
10 reflected on MFRs B-6 and C-4, where all system amounts associated with
11 FPL-NED have a retail jurisdictional factor of zero.

12 **Q. How is FPL-NED reflected in FPL's capital structure for ratemaking**
13 **purposes?**

14 A. FPL removes FPL-NED from its capital structure on a prorata basis,
15 consistent with Commission practice. As a result, and based on the removal
16 of costs previously mentioned, FPL has removed all amounts associated with
17 FPL-NED in determining its retail base rate revenue requirements in this
18 proceeding.

19 **Q. Is FPL taking steps to evaluate and implement a transfer of FPL-NED**
20 **assets into a separate corporate entity?**

21 A. Yes, FPL is currently in the process of evaluating the most appropriate way to
22 structure and implement transferring FPL-NED from a division of FPL to a
23 separate corporate entity. A separate corporate entity would further simplify

1 the tracking of the assets and operations associated with the ownership share
2 of the STS, and would confirm its separation from FPL's Florida retail
3 operations. Once a transfer is complete, there would then be no further
4 connection of the STS with FPL.

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

6 **A. Yes.**

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **REBUTTAL TESTIMONY OF KIM OUSDAHL**

4 **DOCKET NO. 080677-EI & 090130-EI**

5 **AUGUST 6, 2009**

6
7 **Q. Please state your name and business address.**

8 A. My name is Kim Ousdahl. My business address is Florida Power & Light
9 Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

10 **Q. Did you previously submit direct testimony in this proceeding?**

11 A. Yes.

12 **Q. Are you sponsoring any rebuttal exhibits in this case?**

13 A. Yes. I am sponsoring the following rebuttal exhibits:

- 14 • KO-11, FPSC Summary of Orders on Capital Structure
- 15 • KO-12, Capital Structure Adjustments
- 16 • KO-13, RS Means/NUS Productivity Factor Comparison
- 17 • KO-14, Affiliate Management Fee (AMF) Specific Cost Drivers
- 18 • KO-15, Power Generation Division (PGD) MW Capacity
- 19 • KO-16, Identified Adjustments

20 **Q. What is the purpose of your rebuttal testimony?**

21 A. The purpose of my rebuttal testimony is to comment on the testimonies of the
22 Office of Public Counsel's (OPC) witnesses Dismukes, Brown, and Pous, Florida
23 Industrial Power Users Group (FIPUG) witness Jeffry Pollock and South Florida

1 Hospital and Healthcare Association's (SFHHA) witness Kollen. Specifically, I
2 will address the following topics:

- 3 • Environmental Insurance Refund
- 4 • Capital Structure
- 5 • Calculation of Generation Base Rate Adjustment (GBRA)
- 6 • Dismantlement
- 7 • Nuclear Plant End-of-Life Materials and Supplies, and Last Core Fuel
8 Cost
- 9 • Clause-Related Bad Debt Expense
- 10 • Affiliate Transactions
- 11 • Removal of FPL Historical Museum Expenses
- 12 • FPL-New England Division
- 13 • Power Monitoring Revenues
- 14 • Revenue Requirement Shift to Clauses
- 15 • FPSC Staff Audit Report
- 16 • Identified Adjustments
 - 17 ○ Economic Stimulus Bill
 - 18 ○ Department of Energy (DOE) Settlement
 - 19 ○ Customer Information System (CIS)
 - 20 ○ Nuclear Electric Insurance Limited (NEIL) Distribution
 - 21 ○ Other Miscellaneous Adjustments

SUMMARY

1

2

3 **Q. Please summarize your rebuttal testimony.**

4 A. My rebuttal testimony will demonstrate that the Company's request is reasonable
5 and that the intervenor recommendations are flawed as they relate to the proper
6 accounting and ratemaking treatment of the Associated Electric & Gas Insurance
7 Services Limited (AEGIS) environmental insurance commutation, FPL Historical
8 Museum costs, power monitoring revenues and the calculation of the West
9 County Unit 3 GBRA. I will show that, contrary to intervenor assertions, the
10 Company's capital structure adjustments, affiliate transactions, and clause-related
11 bad debt expense are reasonable and appropriate. I will demonstrate that
12 intervenor attempts to simply dismiss the proper accruals of dismantlement and
13 nuclear plant end of life materials and supplies and last core fuel costs based on
14 remote possibilities will only lead to higher future accruals and the inappropriate
15 deferral of costs to future customers. Lastly, I will present the Company's
16 revenue requirement impact of certain recently identified adjustments, the most
17 significant of which is the increase in accumulated deferred taxes due to bonus
18 depreciation which should be reflected in the 2010 and 2011 revenue
19 requirements.

20

21

AEGIS ENVIRONMENTAL INSURANCE REFUND

22

23 **Q. On page 60 through 61, OPC witness Brown recommends the Commission**

1 **require FPL to amortize the AEGIS environmental insurance refund over a**
2 **five year period beginning in 2010. Do you agree?**

3 A. No. At the time the coverage was purchased, the full amount of the premium was
4 expensed for tax purposes at policy inception and a 1998 tax deduction was taken
5 for the full amount. For book purposes, the previously recorded environmental
6 reserve was reduced as a result of this risk mitigation through third party
7 coverage. Concurrent with this purchase, FPL transacted a settlement with
8 predecessor insurers for a release on future claims in exchange for a payment to
9 FPL offsetting in the aggregate the AEGIS purchase amount. The settlement
10 transaction was likewise recorded against the reserve associated with those
11 specific exposures.

12
13 Upon commutation of the policy in 2008 and release of all exposures, the \$43.8
14 million refund received was recorded as a reduction to Account 924 – Property
15 Insurance Expense. No reserve was reinstated in 2008 when the AEGIS policy
16 was commuted as the historical exposures associated with the policy were no
17 longer evident and therefore no further liability was incurred.

18
19 The original policy was purchased in a non-base rate setting year (1998). The
20 purchase was not included in FPL's Environmental Cost Recovery Clause
21 (ECRC). Thus, purchase of the policy has never had any direct impact on rates
22 customers pay. Transactions such as this that result in increases or decreases in
23 period operating expenses outside of a test year are reflected in surveillance

1 reporting, and may result in a higher or lower return than authorized.
2 Commission practice has not included deferral of ongoing period operating
3 expenses in order to “spread” either benefit or cost. Commission practice
4 generally limits deferral and recovery to gains and losses. Gains and losses are
5 not period costs, but instead represent benefit or detriment outside of the
6 operation of the business. Therefore, this Commission and others view the
7 deferral of these non-operating financial transactions to be appropriate in order to
8 symmetrically spread these impacts through rates prospectively. The
9 commutation of this AEGIS policy does not represent an accounting gain and
10 should not be treated as anything other than a change in a period cost.

11

12 In addition, when the Company experiences peaks and valleys in operating costs
13 it manages those in the normal course of business. So, when this policy was
14 commuted and cash was received in the fourth quarter of 2008, the cash was
15 immediately reinvested in the business. In other words, the customer received a
16 direct benefit of that cash through its use in electric operations. If the opposite
17 had been the case, as it many times is, and the Company had an unexpected and
18 unplanned expense increase in its normal course of operations, it likewise would
19 have managed that event within the context of other cash and expense constraints.

20 **Q. Is the amortization of FPL’s Glades Power Park (FGPP) a proper analogy**
21 **for the deferral and amortization of the AEGIS commutation?**

22 A. No. The Commission action in the FGPP need determination gave rise to this
23 regulatory asset. Without the amortization of the FGPP coal investment, the

1 Company would have been prohibited any opportunity to recover its investment
2 in future generating plant necessary to fulfill its obligation to serve customers.
3 This is not a corollary to period expense deferral.

4 5 CAPITAL STRUCTURE

6
7 **Q. On page 66, SFHHA witness Kollen states that accumulated deferred income**
8 **taxes (ADIT) are understated due to an adjustment for the effects of FIN 48.**
9 **Do you agree with Mr. Kollen?**

10 **A. No. Mr. Kollen references SFHHA's Ninth Set of Interrogatories, Question No.**
11 **278, and states that the Company reduced its ADIT included in the capital**
12 **structure. If Mr. Kollen had read the entire response to this question, he would**
13 **have noted the following:**

14 "Since uncertain tax positions relate to future potential liabilities,
15 the deferred taxes associated with the temporary differences related
16 to the FIN 48 liabilities were included in the accumulated deferred
17 income taxes in the capital structure, rather than including them
18 with long-term liabilities in rate base."

19
20 Therefore, the \$168.6 million Mr. Kollen is referring to is already included in the
21 accumulated deferred income taxes in the capital structure and no adjustment is
22 required.

1 **Q. On page 68, SFHHA witness Kollen alleges that the Company has**
2 **improperly diluted the low-cost capital provided by customer deposits and**
3 **cost-free capital provided by ADIT by allocating pro rata adjustments to all**
4 **sources of capital. Do you agree with the arguments put forth by Mr.**
5 **Kollen?**

6 **A. No. Mr. Kollen does not provide evidence or cite any past Commission decisions**
7 **to support his recommendation. When FPL expends cash in the normal course of**
8 **its operations, it does so from a pool of funds that is generated from all sources of**
9 **capital – including deferred taxes, customer deposits and investment tax credits.**
10 **The sources of capital that were used to fund the Company’s rate base, including**
11 **Construction Work In Progress (CWIP) and plant, cannot be traced solely to**
12 **investor supplied sources of capital as suggested by witness Kollen. His**
13 **adjustments would be appropriate only if FPL were financing the clause-related**
14 **plant and CWIP that is excluded from rate base differently than it is financing the**
15 **plant and CWIP included in the base rate recoverable rate base. This is clearly not**
16 **the case.**

17
18 **Making adjustments for rate base items over only investor sources of capital**
19 **results in an inappropriate double counting of the low cost customer deposits and**
20 **zero cost deferred tax capital structure components. This is a disallowance**
21 **masquerading as an adjustment.**

22 **Q. Has this Commission considered Mr. Kollen’s approach in previous**
23 **proceedings?**

1 A. Yes. The approach Mr. Kollen is advancing has been rejected by this
2 Commission each time it has been considered. Exhibit KO-11, contains
3 references and relevant extracts from previous FPSC orders supporting FPL's
4 position on this issue.

5 **Q. The Gulf Power Order referenced in Exhibit KO-11 (Order No. PSC-02-**
6 **0787, Docket No. 010949-EI) mentioned a double counting of lower cost**
7 **capital components under this approach. Can you explain why double**
8 **counting of lower cost capital structure items, especially deferred taxes,**
9 **would occur?**

10 A. Yes. As noted by Mr. Kollen, a significant portion of FPL's pro rata adjustments
11 reflect the removal of clause-related plant and Allowance for Funds Used During
12 Construction (AFUDC)-eligible CWIP from FPL's retail rate base. These rate
13 base items are removed because they earn their own return outside of base rates.
14 In the case of the clause assets, they earn a Commission approved rate of return
15 that is calculated over all sources of capital, including deferred taxes, customer
16 deposits and investment tax credits. The calculation of the rate of return for base
17 rates should mirror the calculation of the return for clauses. Exhibit KO-12
18 compares Mr. Kollen's capital structure adjustment method to the proper pro rata
19 method. Because Mr. Kollen's method adjusts rate base over only investor
20 sources of capital, when clause assets are removed from jurisdictional rate base,
21 the proportion of deferred taxes and customer deposits that remain in the
22 reconciled, jurisdictional adjusted capital structure used to calculate the base rate
23 required rate of return is increased. As shown on page 1 of Exhibit KO-12,

1 deferred taxes increase by \$112 million. The same zero cost deferred taxes and
2 customer deposits that reduced the clause rate of return are used again to lower
3 the base rate required rate of return. This is the double counting effect.

4
5 The same problem occurs with the adjustment to exclude AFUDC-eligible CWIP
6 from rate base. The AFUDC rate that provides a capitalized return on these
7 CWIP balances is calculated over all sources of capital, including the zero cost
8 deferred taxes and the low cost customer deposits. The Commission's base rate
9 return calculation should mirror that of CWIP. Like the clause rate of return, the
10 inclusion of these low cost capital structure components in the AFUDC rate
11 calculation results in a lower AFUDC rate than would have been calculated using
12 investor sources of capital only in the calculation. When the AFUDC-eligible
13 CWIP balance adjusted from the jurisdictional rate base is assigned to only
14 investor sources of capital, no deferred taxes and customer deposits are removed
15 from the capital structure, and the double counting that resulted from the clause
16 assets will occur again. Page 2 of Exhibit KO-12 shows the effect of the double
17 counting that will occur if Mr. Kollen's recommendation is approved; \$287
18 million of deferred taxes would be double counted. This would represent a
19 significant error and a deviation from previous Commission ratemaking practice.

20 **Q. Is FPL's position on capital structure adjustments consistent with the**
21 **Commission's recent order in the Tampa Electric Company (TECO) rate**
22 **proceeding?**

23 **A. Yes. The decision on the motion for reconsideration in the TECO rate case on pro**

1 rata capital structure adjustments is appropriate and consistent with the approach
2 FPL has recommended and therefore would be the correct application of
3 Commission precedent in this case.

4 **Q. Is there another reason why Mr. Kollen's arguments should be rejected?**

5 A. Yes. As indicated above, the same deferred tax is effectively included in the
6 calculation of the cost of capital for both base rate recovery and clause recovery.
7 This double counting of deferred taxes might result in a violation of tax
8 normalization rules. Under the tax normalization rules, any ratemaking
9 adjustment with respect to a utility's deferred tax reserves must be consistently
10 applied with respect to rate base, depreciation expense and income tax expense.
11 The consequence of such a normalization violation would be the risk of loss of
12 accelerated tax methods for depreciation.

14 CALCULATION OF GBRA

15
16 **Q. On page 12, SFHHA witness Kollen states that FPL improperly calculated
17 the proposed West County Unit 3 revenue requirement. Is that true?**

18 A. No, it is not. The Company's calculations are consistent with the methodology
19 for applying GBRA as codified in need hearing determinations and as prescribed
20 in FPL's Settlement Agreement, which was approved by the Commission. Mr.
21 Kollen's computation assumptions are inconsistent with the historical practice in
22 the following respects:

- 23 • The common equity ratio of 55.8 (rounded) percent used in the need

- 1 determination revenue requirement calculation was specified in the
2 Settlement Agreement (paragraph 17 and paragraph 15);
- 3 • Because one objective of the need determination is to evaluate the
4 relative cost effectiveness of various generation plant alternatives,
5 plant costs are calculated using incremental cost of capital so as to
6 properly compare the economics of the various alternative generation
7 sources;
 - 8 • Because generation plants are long lived assets, short term debt is not
9 included in the incremental capital structure used in the need hearings,
10 nor is preferred stock since FPL has no preferred stock in its capital
11 structure;
 - 12 • The estimated deferred tax associated with the first year operation of
13 West County Unit 3 is included in FPL's West County Unit 3 revenue
14 requirement calculation; it is included as an offset to rate base on MFR
15 B-6, page 2 line 31 of the West County Unit 3 Schedules;
 - 16 • A 25 year life was used for the West County Unit 3 revenue
17 requirement calculation in the need hearing. This is consistent with
18 the 25 year life assumed for the GBRA eligible combined cycle plants
19 recovered through the GBRA recovery mechanism. It is also
20 consistent with the useful lives for these plants in FPL's depreciation
21 study; and
 - 22 • The same assumptions other than the specific incremental cost rates
23 were used in the need determination hearings for the Turkey Point

1 Unit 5, West County Unit 1, and West County Unit 2 GBRA eligible
2 plants and were incorporated in the historical GBRA implementations.

3 **Q. On page 11 of SFHHA witness Kollen's testimony, he claims that recovering**
4 **the first year revenue requirement of new plant in GBRA when revenue**
5 **requirement is at its peak level is unfair to customers. Do you agree with his**
6 **position?**

7 A. No. The GBRA first year revenue requirement is consistent with that which
8 would result from traditional base rate setting occurring on day one of the
9 commercial operation date (COD) of a new generating plant. In the case of
10 GBRA, at the time of the next general base rate proceeding, the asset will begin to
11 be recovered in base rates on an embedded cost basis reflecting its current net
12 book value in rate base along with all other plant-in-service.

13

14

DISMANTLEMENT

15

16 **Q. On page 91 through 92 of his testimony, OPC witness Pous argues that FPL**
17 **uses a "reverse construction" assumption for the method of dismantlement**
18 **which yields a higher cost than FPL would be likely to incur. Do you agree?**

19 A. No. FPL's study estimates costs associated with dismantlement of its fossil plants
20 assuming total demolition using heavy equipment and employing the most
21 efficient methods possible in that task. Mr. Pous mischaracterizes FPL's
22 description of its method as reflected in its study.

1 **Q. Did FPL consider the use of the explosive demolition methods advocated by**
2 **Mr. Pous?**

3 A. Yes. The FPL study does employ the use of control blasting where appropriate.
4 The generating assets in the FPL service territory are in many cases situated near
5 commercial structures and/or other environmentally sensitive areas. At the
6 appropriate time when demolition planning is being conducted, these
7 determinations will be made on a site specific basis.

8 **Q. On page 87 and 88 of his testimony, OPC witness Pous cites an example of**
9 **how a “reverse construction” approach to fossil dismantlement can produce**
10 **a gross over-estimate. His example is the dismantlement of a tall smoke stack**
11 **in Oklahoma whose demolition was estimated at \$2 million predicated on a**
12 **process that knocks off sections of the stack at a time with the debris falling**
13 **into the stack. He contrasts this approach with much less costly demolition**
14 **using explosives. Is this example relevant to FPL’s dismantlement study?**

15 A. No. FPL’s dismantlement assumptions include the use of control blasting for
16 chimneys. FPL’s estimate to remove and dispose of both stacks at Riviera is \$0.4
17 million and the estimate to dispose of the stacks at Cape Canaveral is \$0.4 million
18 for each stack. In 1993, FPL used explosives to demolish a stack at Turkey Point
19 that had been damaged by Hurricane Andrew. That demolition cost \$0.4 million.
20 Clearly FPL’s current estimate for control blasting of chimneys is not overstated
21 as historical cost incurred for a similar activity was much more costly in 2010
22 dollars than that estimated in our study. Although our current study assumes this
23 method may be employed at Riviera, the demolition of the stacks using explosives

1 due to the presence nearby of commercial conveying equipment at this port
2 facility may not be feasible.

3 **Q. What other evidence demonstrates the reasonableness of the Company's**
4 **estimates for dismantlement?**

5 A. Comparison of the dismantlement cost actually incurred by FPL to dismantle its
6 power plants with the estimates of previous dismantlement studies supports the
7 reasonableness of FPL's assumptions. FPL's estimate of the cost to dismantle
8 Fossil Units 4 and 5 at Ft. Lauderdale in 1992 was \$8.9 million. The actual cost
9 to dismantle Units 4 and 5 steam supply systems in order to re-power the units
10 was \$9.8 million. Clearly in this case, we underestimated the actual
11 dismantlement costs for those units.

12
13 FPL's estimate of the cost to dismantle the Ft. Myers steam units and common
14 facilities was \$20.7 million, of which \$5.4 million was for Unit 1 and \$9.3 million
15 for Unit 2, totaling \$14.7 million. The actual cost for partial dismantlement (of
16 Units 4 and 5 steam supply systems) in order to re-power the two units was \$12.9
17 million. This evidence demonstrates that in a partial dismantlement scenario, the
18 Company expended 88 percent of the full dismantlement estimate. This review of
19 FPL's recent experience with partial dismantlement of its power plant sites
20 supports the reasonableness of the Company's estimates and methodological
21 approach.

22 **Q. On page 89 through 90 of his testimony, OPC witness Pous argues that FPL**
23 **uses old and unsubstantiated crew mix and productivity factors that should**

1 **not be relied on to estimate the costs of dismantlement. Do you agree?**

2 A. No. The productivity factors used in FPL's dismantlement study are reasonable.
3 As noted by Mr. Pous, the factors were not developed by FPL but rather, were
4 provided by NUS Engineering. The productivity factors provided by NUS
5 Engineering are valid for the methodology that assumes total demolition using
6 heavy equipment. Productivity factor estimates are not highly sensitive to minor
7 changes in specific crew size or equipment mix.

8
9 Comparison of these productivity factors with those published by R.S. Means in
10 the 2008 edition of Building Construction Cost Data supports the continued
11 reasonableness of the factors used in FPL's dismantlement study. Exhibit KO-13
12 reflects a side-by-side comparison of the NUS estimates with updated RS Means
13 estimates today.

14 **Q. On page 91 of his testimony, OPC witness Pous argues that the contingency**
15 **should be negative, due to the Company's use of a "high side cost estimate".**
16 **Do you agree?**

17 A. No. By definition the contingency percentage covers the costs of events that
18 cannot with certainty be predicted individually, but collectively have a reasonable
19 chance to occur after the dismantlement process begins. Contingent events
20 include such things as weather delays, equipment failures, failure of the
21 demolition contractor to perform, and unexpectedly severe environmental
22 problems. The use of contingency is an accepted practice in the development of
23 engineering estimates.

1 **Q. Page 91 in Mr. Pous' testimony argues that FPL's contingency percentage is**
2 **outdated, because it is based on an Atomic Industrial Forum (AIF) study**
3 **done in the late 1970's. Do you agree?**

4 A. No. As indicated in FPL's response to Depreciation - Staff's Second Set of
5 Production of Documents Request, Question No. 9, in 1995, the FPSC
6 Depreciation Staff recommended the use of a 16 percent contingency factor, after
7 requesting FPL to adjust downward its originally proposed 20 percent
8 contingency factor to reflect the lower risk associated with fossil dismantlement
9 as opposed to that associated with nuclear decommissioning. The FPSC has
10 approved every FPL dismantlement study submitted since 1995 using the 16
11 percent contingency factor. FPL continues to believe it is a reasonable
12 contingency factor.

13 **Q. On page 85 through 86 of his testimony, OPC witness Pous says that FPL**
14 **should have weighted its estimate of dismantlement cost to reflect the**
15 **possibility of sale of the generating facilities. Is this a reasonable position?**

16 A. Mr. Pous acknowledges that the vast majority of such sales occurred in states that
17 underwent deregulation of electric generation and that FPL is not subject to
18 deregulation. He also concedes that "sales of generating facilities that were still
19 in operation" are "far less frequent." FPL believes that any weighting of such
20 possibilities is unreasonable and reflects a highly unlikely scenario. Rates must
21 be set on probabilities and reasonable estimates, not speculation and remote
22 possibilities.

1 **Q. On page 92 of his testimony, Mr. Pous cites the Ft. Pierce Utilities**
2 **dismantlement of H.D. King Plant where the contractor paid for the right to**
3 **the scrap, as evidence that FPL's fossil dismantlement studies over-estimate**
4 **dismantlement cost. Do you agree?**

5 A. No. According to a June 26, 2009 news article in www.tcpalm.com/news, Fort
6 Pierce Utilities Authority (FPUA) spent \$11 million to dismantle the old H.D.
7 King power plant. That is a cost, not positive net salvage.

8
9 According to the State of Florida's Industrial Wastewater Facility Permit
10 document, the H.D. King Power Plant consisted of four steam electric generating
11 units (Units 5, 6, 7 & 8) and one combustion turbine. The largest unit had a
12 maximum nameplate generating capacity of 56 MW. The combined maximum
13 nameplate generating capacity for all five of these units was 141.3 MW. So,
14 according to this news article, FPUA spent \$11 million to dismantle generating
15 stations whose total maximum nameplate rating is about the same as FPL's Cutler
16 Unit 6. FPL's current dismantlement study estimates that it will cost \$10 million
17 to dismantle the entire Cutler site, including not only Unit 6 but also Unit 5 and
18 Common Plant. This simple comparison shows that FPL's estimates to fully
19 dismantle its units are less than the actual cost incurred by FPUA to dismantle its
20 H.D. King plant.

21 **Q. On page 86 through 87 of OPC witness Pous' testimony, he argues that the**
22 **assumption that the site will be returned to greenfield is unreasonable – that**
23 **sites will be re-used for new generation. Do you agree?**

1 A. Although continued re-powerings and site reuse is a possibility, it cannot be
2 assumed to be probable across the fleet. Site grading and site restoration activities
3 are normal activities in a dismantlement project. It is reasonable to include these
4 site restoration costs in a fossil dismantlement study. This position is supported
5 by this Commission in Order No. 24741, Docket No. 890186-EI, wherein the
6 Commission stated that:

7 “While the timing of ultimate removal certainly could remain a
8 question, there will undoubtedly come a time this action will
9 become necessary and site restoration will likewise be required.”

10 **Q. What does Mr. Pous recommend with regard to the Company’s**
11 **dismantlement accrual?**

12 A. On page 93 of his testimony, he recommends that the Commission either (1)
13 accept FPL’s accrual or (2) reduce it by 60 percent.

14 **Q. Is there any basis for reducing the accrual by 60 percent?**

15 A. No. Mr. Pous’ argument for a 60 percent reduction is based on the experience he
16 cites at Nevada Power Company, where, according to his testimony, an estimated
17 cost employing a “reverse construction” approach produced an estimate that was
18 three times greater than the actual cost to dismantle.

19
20 FPL is not familiar with all the details of this estimate and dismantlement but we
21 have learned, that a) the estimate was based on a generic fossil steam plant, not
22 the specific plant that was dismantled; and b) the estimate was done a few years
23 before the dismantlement and did not reflect the significant increase in salvage

1 values that occurred between the time of the estimate and the time of the actual
2 dismantlement. Updating the estimate to reflect salvage values current at the time
3 of the demolition would have reduced its estimated cost, which would have
4 reduced the difference between the estimate and the actual cost. Said another
5 way, a major factor driving the higher estimate was that at the time of
6 dismantlement, salvage values were at a peak. Therefore, it was not solely a
7 change in the choice of engineering method, but estimation factors that
8 contributed to the savings.

9
10 In any case, the contrast between a “reverse construction” estimate for demolition
11 of a generic fossil generating station and the actual cost to dismantle the Nevada
12 Power Company’s generating station, appears to have no evidentiary relevance to
13 FPL’s dismantlement estimates.

14 **Q. On page 19 of his testimony, FIPUG witness Pollock recommends that FPL's**
15 **dismantlement accrual be suspended. Do you agree?**

16 **A.** No. Suspending the dismantlement accrual is not reasonable. We have shown
17 our assumptions to be (1) reasonable when compared with the actual costs of
18 dismantlement; (2) consistent with previous Commission orders; and (3)
19 necessary as a component of base rate recovery. In fact, in our direct case, we
20 demonstrate that we used conservative assumptions as related to the current
21 downturn in salvage values so as not to unnecessarily increase the expense. Prior
22 to the completion of the next dismantlement study, FPL will have further
23 evidence of the cost of partial dismantlement for the Riviera and Cape Canaveral

1 modernizations which may provide information useful in testing our current
2 estimates without undue speculation. Arbitrarily reducing or eliminating the
3 accrual will likely result in a higher cost to customers in the future as we will have
4 to further increase the accrual to make up for an unnecessary shortfall.

5 **Q. On page 93 of his testimony, OPC witness Pous recommends "that the**
6 **Commission order the Company to perform detailed and well documented**
7 **analyses of the different approaches and probabilities of end of life**
8 **termination for generating facilities," and "to develop and fully justify the**
9 **most cost efficient manner for any actual demolition cost approach that it**
10 **determines to be appropriate," to be "provided to the Commission no later**
11 **than the Company's next depreciation or rate proceeding." Do you agree**
12 **with this recommendation?**

13 **A. No, I do not agree to the extent it suggests FPL's current studies are not adequate.**
14 **FPL's fossil dismantlement studies are very detailed, are based on reasonable**
15 **assumptions, and have produced estimates that have been shown to be in line in**
16 **comparison with the actual dismantlement cost incurred.**

18 **NUCLEAR PLANT END-OF-LIFE**

19 **MATERIALS & SUPPLIES AND LAST CORE FUEL COST**

20
21 **Q. Do you agree with OPC's witness Brown's recommendation on page 65 that**
22 **FPL should suspend the annual accruals for nuclear plant end-of-life (EOL)**
23 **materials and supplies (M&S) and nuclear fuel last core values, and to**

1 **eliminate the amortization amount established by the Commission in Order**
2 **No. PSC-02-0055-PAA-EI?**

3 A. No, I do not. As acknowledged by OPC witness Brown in her testimony on
4 pages 64 through 65, FPL's accruals for EOL M&S and last core values are in
5 accordance with Order No. PSC-02-0055-PAA-EI wherein the Commission
6 recognized that M&S and last core values that will remain at the end of life at the
7 nuclear units should be amortized over the remaining life of the nuclear units.
8 FPL's accounting and proposed adjustment are consistent with the Commission
9 findings.

10 **Q. What is the basis for OPC witness Brown's proposed adjustment to EOL**
11 **M&S and last core?**

12 A. OPC witness Brown does not take exception to FPL's accounting or
13 quantification of the proposed test period amounts. Her recommendation is based
14 on the premise that FPL's Nuclear Decommissioning reserves are over funded
15 and will result in excess funds at the end of the decommissioning periods.

16 **Q. On what basis did she reach her conclusion?**

17 A. Her analysis as presented on pages 63 to 64 of her testimony and her Exhibit
18 SLB-23 is based on estimated decommissioning assumptions taken from FPL's
19 last decommissioning study filed with the Commission on December 12, 2005
20 and FPL's estimated decommissioning fund balances at December 31, 2009 as
21 forecast in this docket.

22 **Q. In your opinion, do these assumptions provide a valid reason to suspend the**
23 **accrual at this time?**

1 A. No. An updated decommissioning study would have to be performed before one
2 can assume that excess decommissioning funds will exist at end of life in amounts
3 great enough to be used for end of life materials and last core fuel.

4 A comparison of the estimated fund balances forecasted by the Company as of
5 December 31, 2009 of \$2.3 million and the actual Fund balances as of June 30,
6 2009 of \$2.1 million shows that the actual balances are currently \$249 million less
7 than the forecasted December balance.

8

9 The accruals related to EOL M&S and last core should not be suspended based
10 on witness Brown's summary analysis using dated information. On the contrary,
11 they should be increased as demonstrated in my direct testimony.

12 **Q. What is your opinion of OPC's recommendation that the Commission**
13 **require FPL to investigate its options for utilizing the nuclear**
14 **decommissioning funds at an earlier date, or for classifying EOL M&S and**
15 **nuclear fuel balances as decommissioning costs and thus provide deductions**
16 **against the funds at the end of license lives?**

17 A. Those recommendations are uninformed and unreasonable. EOL M&S and
18 nuclear fuel last core balances do not represent costs related to the physical
19 removal and decontamination of the plant facility and thus under current Nuclear
20 Regulatory Commission (NRC) regulations (at 10 CFR sections 50.2, 50.75, and
21 50.82) and Internal Revenue Service (IRS) regulations (Treas. Reg. 1-468A-
22 1T(b)(6)) would not qualify as decommissioning expenditures. Release of existing
23 decommissioning funds for non-decommissioning activities would require prior

1 approval from the NRC. While it is possible that with prior FPSC approval, the
2 NRC might also approve the use of existing funds for purposes other than NRC
3 defined decommissioning activities (although NRC's approval would be
4 speculative given NRC's current position on such matters, see 73 Fed. Reg. 62220
5 (2008)), to do so would require complete segregation of such funds from amounts
6 held for NRC defined decommissioning activities. The premature release of
7 available funds to satisfy a non cash requirement would reduce the benefit
8 accruing to the customers in the form of reinvested fund earnings that would
9 continue to be available to finance future decommissioning activities. Ms.
10 Brown's testimony is speculative and provides no evidence that the accrual
11 should not be increased as demonstrated in my direct testimony.

12 **Q. On page 64 of OPC's Witness Brown's testimony, she states that "FPL**
13 **should determine whether the full decommissioning costs could be covered**
14 **by the qualified and non-qualified funds, while the tax savings are used to**
15 **fund the end-of-life materials and supplies and nuclear fuel." Please**
16 **comment on this statement.**

17 **A.** Witness Brown's reference to tax savings appears to imply that they are an
18 additional source of funds that are available over and above her already
19 speculative assumption that there will be excess funds and reserve balances
20 available for other than decommissioning activities. This is simply not the case.

21
22 Expenditures incurred to decommission the nuclear units will create a tax
23 deduction. However, to the extent the expenditures are funded from the qualified

1 fund, the withdrawal of funds will also be taxable. Thus, there is not a net tax
2 savings at the time of decommissioning. To the extent decommissioning
3 expenditures are charged against the non-qualified reserve, the source of funds
4 will come from the tax deduction plus the withdrawal of cash funds from the non-
5 qualified fund investments. The withdrawals from the non-qualified funds are not
6 taxable.

7
8 The timing of qualified and non-qualified fund withdrawals ultimately must be
9 determined by the Company on a unit by unit basis at the time of the
10 decommissioning expenditures. Given the tax deductibility of the non-qualified
11 withdrawals, it would be logical that the Company would take full use of the non-
12 qualified funds to obtain the maximum tax advantage. Therefore, it would also
13 follow that there will be no unutilized tax savings.

14 15 **CLAUSE RELATED BAD DEBT EXPENSE**

16
17 **Q. On page 23 through 24 of OPC Witness Brown's testimony, she is concerned**
18 **that collecting clause-related bad debt expense through the various clauses**
19 **creates an additional need for regulatory oversight and adjustments. Is this**
20 **concern valid?**

21 **A. No, it is not. FPL is proposing to recover clause-related bad debt expense through**
22 **the clauses because it is incremental in nature, functionally related to clause**
23 **revenues and, potentially volatile because clause revenues may fluctuate**

1 substantially from year to year. Ms. Brown's concerns are misplaced regarding
2 the additional need for regulatory oversight. FPL would not need to develop
3 separate write-off rates. If the proposed company adjustment is approved, FPL
4 will continue to calculate the uncollectible expense on a total company basis
5 because the rate of bad debt exposure is no different for a dollar of fuel revenue
6 than for a dollar of base revenue. FPL would then calculate the clause expense
7 portion exactly as it has in this filing; through an allocation based on the ratio of
8 the clause revenue to total retail revenues from sales.

9 **Q. On page 24 of OPC witness Brown's testimony, she alleges that clause bad**
10 **debt should not be recovered via the clause because doing so reduces the**
11 **incentive for FPL to decrease bad debt expense. Do you agree?**

12 A. No. The cost incurred by FPL to mitigate bad debt expense is a base rate cost and
13 will equally benefit all bad debt exposure whether base portion or clause portion.
14 When FPL is able to reduce write-offs, all revenue losses are reduced. The
15 attention paid to this expense is driven by the fundamental unfairness which
16 results when customers who do pay their bills have to pay additionally for those
17 who do not. The continued focus on bad debt exposures by FPL is supported by
18 the fact that it is one of the performance indicators used to determine FPL's
19 executive compensation. There is no evidence that the change in recovery of bad
20 debt expense would diminish FPL's attention to this important issue.

AFFILIATE TRANSACTIONS

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Q. On page 3 of OPC witness Dismukes' testimony, she alleges that there is an incentive to misallocate or shift costs to regulated companies, so that unregulated affiliates can reap the benefits. Do you agree there is a risk of subsidization of affiliate costs by FPL customers?

A. No. FPL is subject to the close oversight and scrutiny of this Commission, FERC, and numerous other governmental and regulatory bodies. At the federal, state, and local levels, FPL has specific requirements which ensure that we are in full compliance with applicable laws, regulations, and Commission policies, which include those dealing with affiliate transactions and cost allocation. Not only is it the right and legal thing to do; it is good business practice.

FPL is a registrant subject to SEC reporting requirements and as a result, must provide audited financial statements and undergo a separate review of its internal control over financial reporting as required under the Public Company Accounting Oversight Board standards. Affiliate billings are subject to review for these separate company financial statements just as any other transaction which gives rise to audited results. FPL has clear requirements to report its costs accurately in these audited financial statements.

In addition, the Company engages in its own active oversight of controls

1 including affiliate billings through periodic, thorough internal audits as discussed
2 in my direct testimony.

3
4 FPL has worked hard to earn the trust of its customers and regulators.
5 Maintaining good affiliate cost allocation practices is vital to continuing to earn
6 and maintain that trust. In order to achieve good affiliate cost allocation practices,
7 FPL commits the necessary time and resources to ensure that customers of FPL
8 do not bear any of the costs associated with affiliates.

9 **Q. Does the budget and variance reporting process at FPL mitigate any risk**
10 **which may exist to shift costs to the regulated companies?**

11 A. Yes. One of FPL's primary management tools for controlling costs is the
12 development and management of the departmental budget. Managers are charged
13 with developing budgets and managing spending levels at or below budgeted
14 amounts. The budget threshold for FPL is net of all affiliate billings. All
15 variances to budget are analyzed and reported in detail to executive management.
16 Managing costs is a key component of incentive plans. To the extent an FPL
17 manager ignored the proper billing of affiliate support costs, he/she would risk a
18 budget overrun and jeopardize their performance evaluation results and
19 commensurate incentive compensation reward. Affiliates similarly use budgets as
20 a management and performance tool, and their managers closely monitor charges
21 coming in from FPL for the same reason. These positive tensions work to
22 produce accurate financial reporting that complies with company procedures and
23 Commission rules.

1 **Q. Do you agree with OPC witness Dismukes' analogy on page 11 of her**
2 **testimony that the expectation of affiliates to review their bills is like the fox**
3 **watching the chicken coop?**

4 A. No. Ms. Dismukes appears to have difficulty understanding the incentive for
5 performance placed on employees of FPL Group. The affiliates' employees are
6 also evaluated based on their performance against financial targets, including
7 managing within their budgets. They review the detailed bills from FPL with as
8 much attention as they would review bills from other vendors or suppliers,
9 because all costs they incur have the same impact on their financial results. They
10 will not hesitate to contest a charge that does not appear to be correct. This
11 affiliate review is a valid control that helps ensure that charges are correct.

12 **Q. Please describe the Company's policies concerning integrity, compliance with**
13 **laws and regulations, record keeping, and information provided to**
14 **regulators.**

15 A. All employees of FPL and its affiliates are subject to the Company's Code of
16 Business Conduct and Ethics (the "FPL Code"). The FPL Code in relevant part
17 requires all representatives of the Company and its affiliates to: (1) act in
18 accordance with the highest standards of personal and professional integrity and
19 to comply with all applicable laws, regulations and Company policies; (2)
20 maintain all records accurately and completely; and (3) ensure that the
21 information provided to regulators is accurate and not misleading. All employees
22 of FPL and its affiliates are required to review and commit to abide by the FPL
23 Code.

1 **Q. Is FPL subject to reporting requirements with respect to its affiliate**
2 **transactions?**

3 A. Yes. FPL's affiliate reporting provides a high degree of transparency concerning
4 all of its dealings with its affiliates. FPL complies with strict affiliate accounting
5 and reporting requirements mandated by the Commission.

6 **Q. Do you agree with the comments made by OPC witness Dismukes on page 10**
7 **of her testimony regarding the direct charges FPL projected for 2009, 2010,**
8 **and 2011 shown on Exhibit KHD-4?**

9 A. No. Ms. Dismukes has understated the direct charges for the projected years 2009,
10 2010, and 2011 by failing to include the pole rental attachment fees to FiberNet,
11 which are \$1.6 million, \$1.8 million and \$2.0 million, respectively, for the
12 projected years.

13 **Q. Do you have any other concerns about Exhibit KHD-4?**

14 A. Yes. Ms. Dismukes has used an incomplete source to obtain the direct charges for
15 the historical years. As clarified in FPL's response to Attorney General's Second
16 Set of Interrogatories, Question No. 74, the initial source for the information
17 provided was limited to ER 99 work orders used in 2008. Her ER 99 work order
18 data for prior years is therefore incomplete as charges for a work order used in
19 2007 are not included unless the work order was also used in 2008. Additionally,
20 this process excludes amounts that may have been charged directly to the
21 "intercompany receivable from affiliates" account and billed out as a direct
22 charge.

23 **Q. Page 10 of OPC witness Dismukes' testimony states that FPL's direct**

1 **charges to affiliates are lower in 2010 and 2011 than in 2008, and that FPL**
2 **has not explained why these charges should be reduced so dramatically from**
3 **2008. Will you clarify this perceived discrepancy?**

4 A. Yes. As is the case in most years, 2008 included incremental affiliate purchases
5 and sales that represent additional costs billed to affiliates outside of the budgeted
6 ongoing levels of support typically provided.

7
8 When FPL prepares its budget, it generally considers only the ongoing embedded
9 support activities to be provided to affiliates in forecast periods. It cannot always
10 anticipate unusual, incremental activities that might occur; and in fact it is
11 unnecessary for FPL to do so. In addition, certain ongoing projects managed by
12 FPL may be budgeted net of affiliate costs. For instance, in 2008 a substantial
13 amount (\$14 million) of the increased billings was due to charges associated with
14 the SAP and the Nuclear Asset Management System (NAMS) implementations.
15 Those projects will still be ongoing in 2010 but the Information Management
16 (IM) business unit simply budgeted the FPL portion of those costs only and
17 therefore, the direct bills that will occur in 2010 are not reflected in the estimates.
18 This does not impact base rates however, as the vast majority of these costs are
19 third party sourced whether integrator, project management, hardware or
20 software. These costs are over and above the embedded FPL resource costs in
21 that year as they are sourced outside of FPL. As peak, unexpected support,
22 incremental projects or materials are requested by the affiliates during the year,
23 those materials and services are supplied incrementally through third party

1 sources. Incremental purchases and other incremental support that may be
2 provided outside of the embedded operational costs of the utility are not relevant
3 to setting future rates as a significant amount of the billed amounts to the affiliate
4 will be sourced outside of utility embedded costs.

5 In addition, the 2008 direct bills included the charges to affiliates for rental of
6 space and equipment totaling \$6 million. These affiliate services are included in
7 the 2010 forecast as revenue, not as direct bills. Therefore, the customer receives
8 the benefits in reduced rates through an increase in forecasted revenue, rather than
9 in the form of direct bill credits.

10 **Q. Do you agree with the method described by OPC witness Dismukes on page**
11 **30 through 31 of her testimony to update the specific drivers of the Affiliate**
12 **Management Fee (AMF) for the test years 2010 and 2011?**

13 A. No. Ms. Dismukes has made the incorrect assumption that all of the specific
14 drivers used in the AMF will increase over time. To address Ms. Dismukes'
15 concern that the drivers were not current, FPL has provided drivers updated in the
16 first quarter of this year as a part of its normal billing process to compare to those
17 included in the rate filing. The drivers used for the test year forecasts and the new
18 drivers are shown on Exhibit KO-14. The minor fluctuations between the two
19 sets of drivers indicate that many of the new drivers actually decreased.

20 **Q. Do you agree with the method described by OPC witness Dismukes on page**
21 **30 through 31 of her testimony to update the MW capacity used to allocate**
22 **the Power Generation Division (PGD) executive payroll through the AMF for**
23 **the test years 2010 and 2011?**

1 A. No. FPL again used the most current information available at the time to develop
2 the allocation factors. Contrary to Ms. Dismukes' testimony, this information
3 already included 1,219 MW related to FPL's West County Energy Unit 1 and 864
4 MW of wind capacity for NextEra for 2009. FPL updated MW information used
5 for these calculations as of the second quarter of 2009. Exhibit KO-15 shows the
6 current forecasted relative MW of capacity, which are minimally different from
7 those included in the filing.

8 **Q. OPC's witness Dismukes is concerned that the Massachusetts Formula is a**
9 **size-based allocation and it fails to reflect the benefit that FPL affiliates**
10 **receive from the shared services. On page 21 through 23 of her testimony,**
11 **she goes on to say that the Massachusetts Formula implicitly assumes that**
12 **the larger the affiliate, the greater its received benefit from shared services.**
13 **Is this a legitimate concern?**

14 A. No. The objective of performing cost allocations to affiliates is to recover the *cost*
15 of the shared services that the affiliates use in order to ensure that FPL's
16 customers are not paying any *costs* that would result in a subsidy to those
17 affiliates. Section (4) (c) of FPSC rule 25-6.1351 – Cost Allocation Principles
18 states that indirect costs shall be distributed to each non-tariffed service and
19 product provided by the utility on a fully allocated *cost* basis. There is no
20 language anywhere in the rule that says the affiliates must pay for shared services
21 based on the market value or benefits of the services received, and our
22 methodology fully complies with the affiliate rule. Ms. Dismukes ignores the
23 benefit that FPL and its customers receive from affiliate relationships. FPL has

1 greater access to high quality resources without having to incur the full cost
2 thereof.

3

4 Furthermore, the Company has employed the use of benefits drivers in instances
5 where they can be derived. A current example of the use of a benefits driver for
6 allocating costs is that of the SAP project. The Company has gone to great
7 lengths to analyze each module of the SAP implementation and to determine the
8 relative levels of benefit that each module provides to each affiliate that is
9 participating in this implementation. The reason that a benefits driver is not used
10 for the embedded corporate shared functions that are billed using the
11 Massachusetts formula is that these activities generally represent governance,
12 compliance or strategic endeavors that cannot be billed using a benefits analysis.
13 In this case, size is a reasonable measure of the proper "beneficiaries" of these
14 services.

15 **Q. Do you agree with OPC witness Dismukes' assertion on page 21 through 23**
16 **of her testimony that the Massachusetts Formula is size based and is**
17 **therefore inadequate for the allocation of shared services?**

18 A. No. While I agree that the Massachusetts Formula results in larger allocations for
19 larger companies, this result is entirely appropriate. Every indication we have
20 supports the notion that larger companies have greater requirements for support as
21 measured by their utilization of labor and other resources. To the extent we can
22 identify a causal relationship between activities and support services, specific
23 drivers are used to allocate costs. All of these allocations result in the larger

1 companies receiving a larger share of costs. When a similar result occurs because
2 of the application of the Massachusetts Formula for truly unattributable costs, it
3 neither is unexpected nor inappropriate. It is for this very reason the
4 Massachusetts Formula has been so widely accepted in the utility industry as well
5 as by this Commission. No adjustment is necessary to the Massachusetts formula
6 results.

7 **Q. Please comment on OPC witness Dismukes' suggestion on page 33 of her**
8 **testimony to use a 50/50 allocation of executive costs.**

9 A. Ms. Dismukes acknowledges that the work performed by these executives is
10 strategic and benefits the groups as a whole; however, she then dismisses the use
11 of size based allocators as a means to share costs with no evidence for why the
12 more sizable entity should not bear a greater portion of the costs. Her lengthy
13 discussion that refers to the NextEra section of the annual report simply distracts
14 from the reality that FPL's methods are appropriate, consistent with precedent and
15 have resulted in charges to NextEra that appropriately track its growing status
16 within FPL Group.

17 **Q. On page 46 of OPC witness Dismukes' testimony, she recommends an**
18 **adjustment to defer gains on sale of utility assets from 2007 and 2008 and**
19 **amortize them over five years. Is this an appropriate adjustment?**

20 A. No. Ms. Dismukes cites FPSC Docket No. 060657-GU, Order No. PSC-07-0913-
21 PAA-GU, issued November 7, 2007. This order relates to the sale of an entire gas
22 plant. The order also includes an embedded reference to FPL Docket No.
23 830465-EI, Order No. 13537, issued July 24, 1984. This order discusses the

1 regulatory treatment for a gain on sale of land. These transactions represent sales
2 of facilities and land, and Commission policy for the amortization of gains or
3 losses on the sale of these entire systems and land parcels would be appropriate.
4 However, Ms. Dismukes attempts to apply this Commission policy to FPL's sale
5 of *retirement units* which were transacted in 2007 and 2008. Gains and losses
6 that arise from the sale or interim retirement of *retirement units* of a utility are
7 deferred to the balance sheet and accounted for in future depreciation.
8 Specifically, for the FPL transactions analyzed by Ms. Dismukes in 2007 and
9 2008, when the FPL assets were sold, the original cost of the asset was debited to
10 account 108 and credited to account 101. Then, as required by USOA and FPSC
11 rules and practice, FPL recorded a debit to cash and a credit to account 108 for the
12 sales proceeds at market in accordance with FPSC and FERC guidelines for
13 retirement of plant in service *retirement units*. The customers will benefit from
14 these gains through reduced return and decreased depreciation expense as is the
15 requirement of the USOA and regulatory accounting practice for electric utilities.
16 Therefore, Ms. Dismukes' recommendations represent a deviation from utility
17 accounting rules and Commission practice and precedent.

18 **Q. Please summarize your recommendations regarding affiliate adjustments as**
19 **presented by Ms. Dismukes.**

20 A. Ms. Dismukes' recommended adjustments are based on inappropriate trending
21 and 50/50 allocations, and ignore the use of specific drivers and the long standing
22 Massachusetts formula employed by the Company. Her suggested use of trending
23 is clearly inappropriate. She is forecasting the historic trajectory of the growth in

1 affiliates into the 2010 and 2011 timeframe, which quite ignores the constraints
2 faced today in the capital markets which will make it impossible for historical
3 rates of growth to continue. After the release of FPL Group second quarter
4 earnings, the analyst community viewed NextEra prospects much more
5 cautiously. A report released by Citi noted, "Management also mentioned their
6 previously given long term outlook of bringing 7,000-9,000 MWs of new wind
7 online is "overly optimistic". The company's outlook has changed primarily due
8 to the effects of a slowing economy which is causing reluctance among
9 counterparties, such as utilities, from signing new PPA's." Ms. Dismukes'
10 adjustments ignore the reality of the marketplace in which we operate today, in
11 favor of generalized, unsubstantiated assumptions. Her recommendations should
12 not be adopted.

13 **Q. Page 8 of OPC witness Dismukes' testimony states that FPL uses ER 99 work**
14 **orders to capture direct charges from the affiliates to FPL. Is this correct?**

15 A. No. Ms. Dismukes has the process reversed. FPL uses ER 99 work orders only
16 to capture direct charges from FPL to the affiliates.

17 **Q. OPC witness Dismukes states on page 9 of her testimony, that FPL does not**
18 **retain the initial request to open a work order to direct-charge costs to**
19 **affiliates, implying that this is a deficiency on the part of FPL. She goes on to**
20 **recommend that FPL retain such documentation. Is this necessary?**

21 A. No. FPL has sufficient work order controls in place for establishing and charging
22 inter-company work orders. Only a small group of individuals are approved to
23 open ER 99 intercompany work orders. And once a work order is established,

1 control is maintained by strict review of charges. Details about the opening of the
2 work order do not enhance controls. The work order itself is a key control for the
3 documentation of work performed on behalf of affiliates. There is ample room
4 provided on the work order screens to record information about the work order
5 which includes a description of the work to be performed. The work order is also
6 the mechanism used to recap the detail of charges that forms the basis for the
7 affiliate's monthly bill. The bill lists all payroll and non-payroll charges made to
8 the work order, as well as the names of the individuals and the hours that they
9 charged to the work order. The work order charges are reviewed by FPL as well
10 as by the affiliate that receives the charges. Clearly, the opening of the work
11 order is not a control; rather the review of the usage is the control. Furthermore,
12 the work order system is a paperless system. Requiring the company to maintain
13 files with these requests would increase FPL's administrative burden as well as
14 require additional storage media or physical space, which would translate to
15 additional costs while not providing any additional benefit.

16 **Q. On page 11 of OPC witness Dismukes' testimony, she claims that FPL should**
17 **use direct time reporting rather than exception time reporting using fixed**
18 **payroll distributions because if an employee fails to report a change in time**
19 **reporting, the charges will be associated with the originating company, even**
20 **if time was spent elsewhere. Is Ms. Dismukes correct?**

21 **A.** No. If every employee had to input every work order number every two weeks
22 for every activity or project performed, the amount of numbers keyed in could be
23 so large that the risk of input errors would unacceptably high. Consider that each

1 work order and charge location combination is 15 digits long. When one
2 considers that the average employee has to account for at least 80 hours every two
3 weeks, when multiplied by the number of employees at FPL, the amount of digits
4 keyed in would be astronomical, and the risk of error would soar. Furthermore,
5 requiring employees to charge their time directly or account for every hour
6 worked would unfairly burden the many FPL employees who do not provide
7 affiliate support and whose time reporting does not vary. This requirement would
8 also increase non-productive time, as this is a very time-consuming process. This
9 may lead to an increase in costs because it would require that FPL have more
10 FTEs to perform the same amount of productive work. The proper approach is to
11 use variable time reporting (which Ms. Dismukes refers to as direct reporting) for
12 employees that engage in ongoing support of multiple entities and to use
13 exception time reporting for those that do not. The transactional oversight
14 associated with the payroll Sarbanes Oxley Act control process is intended to
15 catch any inadvertent errors which concern Ms. Dismukes.

16 **Q. On page 11 of OPC's witness Dismukes' testimony, she cites a 2008 internal**
17 **audit of affiliate transactions and claims that there does not appear to be**
18 **adequate follow-up of some direct payroll charges. Is this the case?**

19 A. No, it was not the case. The law department was the group in question, and they
20 stated that they did indeed review the payroll reports for labor charges to
21 affiliates. The law department indicated that while they did review the payroll
22 charges, they did not maintain a record of this review, which the auditors noted.
23 In response to the auditor's report, the law department now maintains these

1 reports. It should be noted that this was the only exception identified by Internal
2 Audit during the review of the Affiliate Management Fee (AMF) and cost
3 allocations in 2008 and that overall the report was very favorable. This is an
4 indication that FPL's processes governing affiliate transactions and cost
5 allocations are appropriate and that the controls are functioning properly, and that
6 remedial action is taken promptly when a possible deficiency is brought to our
7 attention. Note that in this very rate proceeding affiliate transactions and cost
8 allocations were also extensively reviewed by the FPSC audit staff, and no
9 exceptions were noted.

10 **Q. On Page 14 of OPC witness Dismukes' testimony, she states that costs that**
11 **are unattributable are assigned using five different fees. Is this correct?**

12 A. No, this is incorrect. FPL's Cost Allocation Manual (CAM) states that shared
13 administrative functions are allocated using five different fees. Ms. Dismukes
14 characterizes all shared administrative functions as "unattributable." The word
15 "unattributable" suggests that one cannot directly associate costs to the affiliate in
16 question. Simply because an administrative function is shared does not make it
17 unattributable. One of the five fees she describes as "unattributable" is the PGD
18 Service Fee, which is based on direct charges and is fully attributable. The other
19 service fees are based on assigned costs. The AMF uses specific drivers wherever
20 possible. The Massachusetts Formula is used for those remaining costs which
21 have no direct causal relationship and therefore could be considered
22 unattributable.

23 **Q. OPC's witness Dismukes asserts that costs included in the Affiliate**

1 **Management Fee are generally allocated using the Massachusetts Formula**
2 **on page 14 through 15 of her testimony. Do you agree with this assertion?**

3 A. No. Ms. Dismukes is incorrect when she says that these costs are generally
4 allocated using the Massachusetts Formula. Actually, in 2008, 53 percent of the
5 cost pool was allocated using specific drivers and only 47 percent was allocated
6 using the Massachusetts Formula. Ms. Dismukes leaves the impression that most
7 of our costs are allocated using the Massachusetts Formula; however, this is
8 simply not the case. FPL goes to great lengths to identify causal relationships
9 between costs and the activities that drive them in order to achieve a more precise
10 distribution of shared costs among FPL and its affiliates.

11 **Q. Is OPC witness Dismukes correct when she makes the statement on page 15**
12 **of her testimony that all of FPL Group's costs are directly charged to FPL**
13 **and then allocated to the affiliates through the Affiliate Management Fee?**

14 A. No. In her testimony she references OPC's First Set of Interrogatories, Questions
15 No. 71 and 75 as the source of her statement. FPL's response to No. 71 states that
16 FPL Group *related* costs are booked at FPL, not all FPL Group costs. FPL's
17 response to No. 75 further explains that these FPL Group *related* costs include
18 appropriate FPL Group executive payroll, which is then included in FPL's
19 calculation of the AMF. Many of FPL Group's most sizable billings are direct
20 charged by FPL Group to its subsidiaries, not allocated through the AMF.
21 Examples include the cost of benefit plans such as pension and postretirement,
22 medical and dental plans, as well as the 401K thrift plan. Share-based and
23 deferred compensation costs for affiliate employees are also booked directly by

1 the affiliates and are not initially recorded at FPL. Finally, FPL Group bills each
2 subsidiary directly for its federal and state income tax obligation as if it were a
3 stand-alone company in accordance with the FPL Group's tax sharing agreement.

4 **Q. On page 19 through 20 of OPC witness Dismukes' testimony, she alleges that**
5 **FPL did not provide adequate support for its projections. Do you agree with**
6 **this allegation?**

7 A. No. We have been entirely responsive to the discovery questions noted by Ms.
8 Dismukes. For example, with respect to AG's Interrogatory, Question No. 38,
9 Ms. Dismukes claims that FPL described the projection process, as requested, but
10 did not provide work papers for the detailed projections. However, FPL pointed
11 Ms. Dismukes to FPL's response to OPC's Second Request for Production of
12 Documents, Question No. 106 for the 2009 and 2010 work papers and SFHHA's
13 Interrogatory, Question No. 296 for 2011. These encompass the actual
14 calculation files that FPL uses to create and record the AMF. These were also
15 provided in electronic format. In addition to the more than 30,000 pages of
16 documents that have been submitted in response to formal accounting discovery
17 requests, FPL has participated in conference calls to provide requested
18 clarification on these responses. FPL also agreed to answer over twenty very
19 detailed informal discovery questions from OPC within a very short time period.
20 FPL then provided further information on these discovery questions via an
21 informal conference call with OPC and Ms. Dismukes. OPC acknowledged and
22 expressed its appreciation for the tremendous effort FPL had made to provide
23 complete and timely responses. We are puzzled by Ms. Dismukes' accusation

1 that we have not been responsive.

2 **Q. On page 21 of OPC witness Dismukes' testimony, she provides another**
3 **example where she claims FPL provides only the amount of projections, not**
4 **how the projections were developed. She also says there were no underlying**
5 **calculations or other support provided concerning the projections. Do you**
6 **agree that what FPL provided was inadequate?**

7 A. No. The production request that she refers to is the backup for MFR C-30.
8 Requests for production of documents require us to produce existing
9 documentation only. The rules do not require us to create documentation that
10 does not exist. FPL provided information at the lowest level of detail we had - the
11 budgeted information from the individual business units. As Ms. Dismukes
12 acknowledges, FPL even provided a five page document explaining the
13 assumptions behind the projections. Her allegations that we have not provided
14 adequate support have no merit. Her specific claims on the two production
15 requests referenced as well as her general claim that FPL has not provided
16 adequate support for its projections should be rejected.

17 **Q. Do you agree with the AMF cost allocation percentages of 23 percent, 25**
18 **percent, and 26 percent proposed for NextEra operations for the respective**
19 **years 2009, 2010 and 2011 as stated by OPC witness Dismukes on page 22 of**
20 **her testimony?**

21 A. No. Ms. Dismukes appears to have forgotten that the Seabrook, Duane Arnold
22 and Point Beach nuclear plants are all part of NextEra's operations. While
23 separate allocation percentages are developed for each plant, they should be added

1 to the NextEra percentage to reflect the allocation to all operations. This would
2 result in percentages of 31 percent, 33 percent and 34 percent for the respective
3 years. As a result of this incorrect percentage, her calculation of the 2010
4 allocation to NextEra on page 23, line 3 is understated by \$4.0 million.

5 **Q. Do you agree with OPC witness Dismukes' observation on page 23 of her**
6 **testimony that the cost per employee for corporate communications, general**
7 **counsel and finance services as paid by FPL vs. its affiliates is unreasonable?**

8 A. No. Ms. Dismukes attempts to demonstrate that the Massachusetts formula sized
9 based allocation provides an unreasonable result when measured on a cost per
10 employee basis. This is an analysis without merit. If a cost per employee were
11 the cost driver of these services then the analysis would be valid; however, the
12 cost incurred by FPL Group for these services is a function of compliance, risk
13 management and strategy and governance, not a function of the number of
14 employees in the business. Therefore, we allocated those costs to each entity
15 using the Massachusetts formula which provided for a higher overall cost burden
16 to be borne by FPL based on the three size based measures. To now test the
17 reasonableness of this result by translating the cost to each entity into a cost per
18 employee only proves that it was not allocated on a cost per employee basis.

19 **Q. Do you agree with OPC witness Dismukes' assertion on page 19 of her**
20 **testimony, that the labor costs projected for FiberNet indicate a problem**
21 **with the labor components of the Massachusetts Formula used by FPL for**
22 **the projected test years 2009, 2010, and 2011?**

23 A. No. Ms. Dismukes again implies that averaging, or trending, is the appropriate

1 method for forecasting future costs. As stated elsewhere in this testimony, Ms.
2 Dismukes recommends several adjustments based on trending historical costs.
3 Trending is not always appropriate, as history may contain activities or conditions
4 that will not exist in the test years. The labor projections for FPL FiberNet are in
5 line with their overall business plan and are therefore more precise than any
6 trended approach. In fact, the use of a trend simply dismisses and ignores the
7 more precise, budgeted data without proof of its weakness. It should also be
8 noted that while FPL FiberNet is the only affiliate Ms. Dismukes takes issue with
9 regarding the labor charges, its payroll only comprises about 1 percent of the total
10 payroll in the Massachusetts Formula for each of the projected test years.

11 **Q. On page 17 of her testimony, OPC witness Dismukes expresses concern about**
12 **the FPL Group allocation factors used for FAS 87 costs being based on 2008**
13 **data and FAS 106 and Post Retirement costs being based on 2007 data, and**
14 **the potential impact this has on the Affiliate Management Fee allocation. Is**
15 **this a valid concern?**

16 **A.** No. This concern is unfounded, as these FPL Group allocation factors are not
17 used in the development of AMF Fee cost allocations. They are used to develop
18 FPL's share of the FPL Group benefit plan costs. These benefit costs are then
19 included in the calculation of the benefits payroll loading rate. FPL must use the
20 latest available estimates from the actuary to calculate the test year impact of
21 these costs. It would be quite costly to have the actuary roll forward the pension
22 and postretirement calculations based on new census data as of January 1, 2009
23 and then to extrapolate this into new allocation factors. In fact, it could not be

1 performed in time to do the filing. The relative changes in pensionable earnings
2 and headcount used for the allocation of costs are typically immaterial and
3 therefore, the lagged census data use is reasonable.

4 **Q. OPC witness Dismukes suggests averaging the 2008-2010 growth rate for**
5 **FPLES revenues instead of the annual amounts forecasted for use in the**
6 **calculation of the Massachusetts Formula for the projected test years on page**
7 **18 of her testimony. Do you agree with this recommendation?**

8 A. No. This is just another application of Ms. Dismukes' misguided view that using
9 an average, or trending process, results in a more accurate forecast. Each affiliate
10 provided their Massachusetts Formula components after developing a business
11 plan for the forecast years. To imply that the results of this formal process are
12 less accurate than using an average given the current economic environment is
13 inappropriate.

14

15 **REMOVAL OF FPL HISTORICAL MUSEUM EXPENSES**

16

17 **Q. On page 42 of OPC witness Dismukes' testimony, she recommends an**
18 **adjustment to remove the 2010 and 2011 contributions made by FPL to the**
19 **Historical Museum reflected as test year expenses. Is this an appropriate**
20 **adjustment?**

21 A. No. The FPL Historical Museum is a subsidiary of FPL that is charged with
22 maintaining records and artifacts associated with the Company's long history in
23 the state of Florida. These activities are important to the preservation of the

1 historically significant information about the Company and the industry from its
2 beginning in the early 20th century until today. The FPL Historical Museum costs
3 are incurred by FPL and recorded as legitimate FPL operating costs. Therefore, it
4 is inappropriate to make an adjustment to move such costs below the line and treat
5 them as charitable donations.

6
7 **FPL-NED**

8
9 **Q. On Ms. Dismukes' testimony, page 51, she claims that FPL-New England**
10 **Division (NED) has benefited significantly because of its ownership by FPL,**
11 **and as a result, when FPL transfers the assets of NED to another legal entity**
12 **under FPL Group Capital, the transfer should occur at the higher of cost or**
13 **market, as required by the affiliate rule. Do you agree?**

14 **A.** No. FPL-NED provides transmission services to wholesale customers in New
15 England. FPL-NED's operations and tariffs are regulated by the Federal Energy
16 Regulatory Commission (FERC). It has no operations in Florida, and none of its
17 assets, costs or operating expenses are recovered through retail rates. When an
18 employee of FPL performs any work related to FPL-NED, the employee's time is
19 direct charged to FPL-NED. In addition, FPL-NED's costs are included in the
20 development of the affiliate management fee factor, and therefore FPL-NED
21 receives its respective share of common costs. Finally, all FPL-NED activity is
22 captured in separate point accounts which receive a jurisdictional separation
23 factor of zero. Together, these procedures ensure that retail customers do not bear

1 any costs associated with FPL-NED.

2 **Q. On page 51 of her testimony, Ms. Dismukes states that FPSC affiliate rule 25-**
3 **6.1351-3(d) would apply when the transfer of FPL-NED assets takes place,**
4 **and that the assets should be transferred at the higher of net book value or**
5 **market. Are the provisions of the affiliate rule applicable in this situation?**

6 A. No. Section 3(d) of the affiliate rule applies the requirement that assets be
7 transferred at the higher of net book value or market when an asset used in
8 regulated operations is transferred from a utility to a nonregulated affiliate. This
9 rule does not apply because FPL-NED assets have never been used in operation in
10 any Florida retail jurisdiction regulated by the FPSC.

11

12 **POWER MONITORING REVENUES**

13

14 **Q. On page 47 of Ms. Dismukes' testimony, she recommends an adjustment to**
15 **the Power Monitoring Revenues in 2010 and 2011 because of conflicting data.**
16 **Do you agree with her adjustment?**

17 A. No. The conflict in the data she refers to is due to an item being mislabeled. The
18 forecasted 2010 and 2011 amounts should be \$0.89 million and \$0.94 million,
19 respectively. In an informal discovery response provided to OPC, the line labeled
20 as Power Monitoring Revenues should have been labeled Regulation Service
21 Revenues. This description change is supported by FPL's response to OPC's
22 First Set of Interrogatories Question No. 55 where the same amounts are shown
23 for 2006, 2007 and 2008 with a description of Regulation Service Revenues.

1 Even though FPL misidentified the account description, it does not impact the
2 amounts forecasted for Power Monitoring revenues, which are properly reflected
3 in FPL's MFR's. Therefore, the adjustment proposed by Ms. Dismukes as shown
4 on her Exhibit KHD-15 is unnecessary and inappropriate.

5
6 **REVENUE REQUIREMENT SHIFT TO CLAUSES**

7
8 **Q. On page 15 of Mr. Kollen's testimony, he claims that FPL is masking the full**
9 **magnitude of the increases in non-fuel O&M expense because of Company**
10 **Adjustments transferring \$20.9 million of 2010 O&M expense to clause**
11 **recovery. Is this a true statement?**

12 **A.** No, it is not. I clearly identified in my direct testimony in a section titled
13 "Adjustments To Move Items Between Base Rates and Clause Recovery" the
14 amounts and direction of all of the Company Adjustments that transfer items
15 between base rates and clause recovery. Also, the footnote on the bottom of
16 FPL's 2010 Test Year MFR A-1 specifically identifies the impact of the proposed
17 Company Adjustment transfers between base and clause on FPL's total requested
18 revenue increase. Lastly, as noted by Mr. Kollen in his testimony, the 2010 Test
19 Year MFR Schedule C-36 shows the increase in FPL's non-fuel, non-clause
20 O&M expenses for the years 2007 through 2010. This MFR Schedule shows the
21 base recoverable O&M expenses before any Company Adjustment transfers from
22 base rate recovery to clause recovery.

FPSC STAFF AUDIT REPORT

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Q. FPSC Staff stated in its Audit Report that rate base in 2008 was overstated because three CWIP projects recovered through the Environmental Cost Recovery Clause (ECRC) were not removed from rate base. Did this error, identified in the Audit Report as Audit Finding No. 2, impact FPL's 2010 and 2011 test year rate base?

A. No, it did not. The last actual historical month included in the rate case forecast was September 2008. The problem identified in the Audit Report only affected the historical December 2008 rate base. The ECRC treatment of the solar CWIP projects, in question, was forecast correctly and all of the ECRC CWIP balances for 2008, 2010 and 2011 years were removed from rate base.

Q. FPSC Staff also stated in its Audit Report that revenue was overstated in 2008 because a revenue account included in the Fuel Cost Recovery clause was not removed from net operating income. Did this error, identified in the Audit Report as Audit Finding No. 3, impact FPL's 2010 and 2011 test year net operating income amounts?

A. No, it did not. The account in question records revenues from penalty fees associated with imbalance violations by transmission service customers. The problem identified in the Audit Report did not affect net operating income in the 2010 and 2011 test years because there was no penalty fee revenue included in the rate case forecast for the 2009, 2010 and 2011 years.

IDENTIFIED ADJUSTMENTS

1

2

3 **Q. Please describe your Exhibit KO-16 summarizing adjustments to net**
4 **operating income and rate base.**

5 A. Exhibit KO-16 summarizes the adjustments FPL has identified as appropriate
6 during the course of this proceeding. I will describe the significant items included
7 in this Exhibit.

8

9 **American Recovery and Reinvestment Act of 2009 (Stimulus Bill)**

10

11 **Q. Please summarize the impacts of the Stimulus Bill on the Company?**

12 A. The American Recovery and Reinvestment Act of 2009 was signed into law on
13 February 12, 2009. A section of the Stimulus Bill extended bonus depreciation
14 for tax purposes for one additional year. In 2008, Congress temporarily allowed
15 businesses to deduct for tax purposes the cost of capital expenditures made in
16 2008 faster than ordinary tax depreciation would allow. It permitted businesses to
17 immediately deduct for tax purposes fifty percent of the cost of depreciable
18 property. The Stimulus Bill extended this temporary tax benefit for capital
19 expenditures incurred in 2009. FPL will take advantage of the extension of bonus
20 depreciation and will deduct additional tax depreciation in year 2009 in the
21 amount of \$884 million. This amount was calculated by multiplying the 2009
22 additions by 50 percent and then multiplying the remaining amount by the
23 Modified Accelerated Cost Recovery System (MACRS) accelerated tax

1 depreciation rate. This additional tax depreciation deduction will increase the
2 average accumulated deferred income taxes included in the capital structure for
3 years 2010 and 2011 by approximately \$288.3 million and \$257.1 million,
4 respectively (see Exhibit KO-16 Item 1). The change in the accumulated deferred
5 income taxes has been reflected in the adjustments list with a reduction in the
6 revenue requirements for the 2010 Test Year of \$40.1 million and \$35.9 million
7 for the 2011 Subsequent Year.

8
9 In addition to bonus depreciation, the Stimulus Bill would allow taxpayers to elect
10 grants in lieu of investment tax credits for certain renewable energy property (e.g.,
11 solar property). FPL will be placing in service during 2009 and 2010 solar
12 projects which will be eligible for investment tax credits (ITC). ITC or Treasury
13 grants in lieu of ITC on these solar projects have been included in the forecast for
14 the test period and were inadvertently left in capital structure in the filing. We are
15 including an adjustment, Item 18 in Exhibit KO-16, to remove those ITCs, as the
16 benefit should be returned to customers in the Environmental Cost Recovery
17 Clause along with the capital costs associated with those projects. There will be
18 no difference in the treatment of the ITC if the grants are elected since the grants
19 operate like the current law ITC.

20 **Q. Does FPL expect to participate in the Stimulus Bill's Smart Grid Investment**
21 **Grant Program?**

22 **A.** Yes. FPL is currently planning to apply for a government grant under the
23 competitive Smart Grid Investment Grant Program included in the Stimulus Bill.

1 FPL understands that the Department of Energy (DOE), in order to promote
2 economic stimulus, intends to award funding to companies making certain smart
3 grid-related investments that would otherwise likely not occur absent Federal
4 funding (i.e., for either new, incremental projects or acceleration of projects).
5 Accordingly, FPL currently plans to request funding for expenditures that were
6 not included in either the 2010 or 2011 test years. In other words, any DOE funds
7 received would cover only the related incremental expenditures over and above
8 those currently incorporated in the MFRs. These are for projects such as
9 transmission and distribution automation, and testing of customer response
10 premise equipment. The application submittal date is August 6, 2009. However,
11 the DOE is not expected to announce awards until October or November 2009.
12 Depending on the scope of the award, if in fact FPL receives one, FPL would be
13 able to provide an assessment of the potential benefits after the subsequent DOE
14 contract negotiation period. However, as stated above, any funds received would
15 only cover any incremental expenditures and would be recorded as a credit to
16 plant-in-service causing no net increase or decrease in rate base.

17 **Q. Does FPL also intend to seek to participate in the Stimulus Bill's program for**
18 **plug-in electric vehicles (PHEVs)?**

19 A. Yes. FPL has also applied to the DOE under other competitive Economic
20 Stimulus Bill appropriated grant programs for funding to cover the incremental
21 cost of converting some bucket trucks and company-owned passenger vehicles to
22 PHEVs. FPL does not expect to know until late third or fourth quarter of 2009
23 whether any amounts will be awarded to the company. Again, the Company has

1 already included the cost of the vehicles in the forecast and any incremental costs
2 necessary to convert these vehicles will be covered by the stimulus funds.

3 **Q. On page 62 of SFHHA witness Kollen's testimony, he recommends that the**
4 **Commission should direct FPL to capture all tax benefits resulting from the**
5 **Stimulus Bill, reflect them as a deferred tax liability, and review them in a**
6 **future base rate proceeding. Do you agree?**

7 A. No. The Company has a clear understanding now of the legislation and its
8 impacts as it relates to this base rate filing and is recording those impacts today on
9 its books and records. The Company has now included all the effects of the
10 stimulus bill in its computation of the revenue requirements for the Test and
11 Subsequent Years. The Company has provided the adjustment included on
12 Exhibit KO-16 to reflect the benefits of bonus tax depreciation in 2009.

13

14 **DOE Settlement (Exhibit KO-16 Items 3 and 4)**

15

16 **Q. On page 33 of SFHHA Witness Lane Kollen's testimony, he claims that FPL**
17 **should include a \$9.0 million adjustment to its 2010 Test Year revenue**
18 **requirements to reflect ongoing refunds from the Department of Energy**
19 **(DOE) related to the U.S. Government's failure to dispose of FPL's spent**
20 **nuclear fuel. Do you agree?**

21 A. I agree that FPL should make an updated adjustment to its 2010 Test Year
22 revenue requirements to reflect new information regarding an expected recovery
23 from the DOE; however I disagree with the amount of the adjustment Witness

1 Kollen is recommending. As indicated in witness Kollen's testimony (page 33,
2 line 24-26) his adjustment to the test period revenue requirement uses, as a proxy
3 for 2010 amounts, an amount reimbursed by the DOE that was based on
4 expenditures incurred prior to the test period. The adjustment to the 2010 and
5 2011 test years to reflect the results of the DOE Settlement should be based on the
6 level of expenditures included in the Company's 2010 and 2011 forecast.

7 **Q. Has FPL calculated an amount that should be used to adjust its 2010 Test**
8 **Year revenue requirements to reflect such an adjustment?**

9 A. Yes, FPL's 2010 Test Year jurisdictional revenue requirements should be
10 adjusted by \$(6.9) million, representing the NOI impact and \$(3.1) million,
11 representing the rate base impact. These adjustments are based on the amount of
12 capital and operations and maintenance expenses the Company has identified in
13 its 2010 forecast that are expected to be reimbursed by the DOE, and apply the
14 same recovery assumptions from FPL's settlement agreement with the DOE
15 entered into on March 31, 2009 resolving FPL's damages incurred prior to 2008.
16 FPL has calculated these adjustments to its 2010 revenue requirements associated
17 with the expected reimbursement, and has included them as Items 3 and 4 of
18 Exhibit KO-16.

19 **Q. Has FPL calculated an adjustment to its 2011 Subsequent Year revenue**
20 **requirements to reflect a similar adjustment?**

21 A. Yes. FPL has calculated jurisdictional adjustments of \$(7.8) million, representing
22 the NOI impact and \$(6.3) million, representing the rate base impact, to its 2011

1 Subsequent Year revenue requirements, and has included them as Items 3 and 4 of
2 Exhibit KO-16.

3

4

CIS Costs (Exhibit KO-16 Items 11 and 12)

5

6 **Q. Mr. Kollen asserts in page 36 through 37 of his testimony that FPL has**
7 **treated preliminary CIS costs incorrectly for ratemaking purposes. Do you**
8 **agree?**

9 A. No. As Mr. Kollen acknowledges in his testimony, FPL is projected to expense
10 \$7.25 million in 2010 that can be attributed to cost associated with the CIS III
11 system replacement project. The costs that are expensed include: 1) preparation
12 of detailed project plan; 2) review of scope and preliminary project requirements;
13 3) approval of Scoping Study documentation; and 4) start of preparation for data
14 conversion. This accounting treatment is in accordance with Statement of
15 Position (SOP) 98-1: Accounting for the Costs of Computer Software. Mr.
16 Kollen does not allege that the accounting treatment is incorrect, however he
17 basically says that generally accepted accounting principles (GAAP) should be
18 ignored and these costs should be appended to the CIS capitalized asset or
19 deferred and amortized for ratemaking purposes. FPL has accounted for these
20 costs correctly under GAAP and consistent with its historical application of
21 GAAP in its regulated set of financial records. The FPSC has generally
22 acknowledged that GAAP should be followed in setting rates. This deviation
23 without any basis should not be allowed. If the Commission should choose to

1 follow this recommendation, the Company will need to reverse substantial
2 previously incurred expenses associated with the planning phase of its SAP and
3 NAMS projects and defer and capitalize those expenses.

4 **Q. Mr. Kollen states on page 48 of his testimony that FPL should not have**
5 **included any depreciation expense on the new CIS system until 2012. Do you**
6 **agree?**

7 A. Yes. Mr. Kollen is correct. It was discovered in answering SFHHA's Tenth Set
8 of Interrogatories, Question No. 288 that there was a problem in the projection of
9 plant in service and depreciation expense regarding CIS III. As a result,
10 depreciation expense is overstated by \$0.5 million in 2010 and \$4.9 million in
11 2011. Also, rate base is understated due to the accumulated depreciation in 2010
12 by \$0.2 million and in 2011 by \$2.3 million. These adjustments and their revenue
13 requirement impacts are presented in the schedule of adjustments as my Exhibit
14 KO-16 Items 11 and 12.

15
16 **Nuclear Electric Insurance Limited (NEIL) Distribution (Exhibit KO-16**
17 **Item 2)**

18
19 **Q. Why has the Company proposed an adjustment to increase 2010 and 2011**
20 **revenue requirements by \$11 million related to an understatement of O&M**
21 **expenses due to the forecast of NEIL Insurance Distributions?**

22 A. The Company is a member of Nuclear Electric Insurance Limited (NEIL) a
23 nuclear industry mutual insurance group. NEIL determines annually, based upon
24 its operating results and reserve status whether distributions will be made to

1 member companies. These distributions, when received, are treated as a credit to
2 O&M expense. Included in the Company forecast for 2010 and 2011 is the
3 assumption of a distribution from NEIL of \$11 million in each year; however, the
4 Company had been alerted by NEIL in December 2008 to the possibility that poor
5 investment performance in 2008 might affect NEIL's ability to make future
6 distributions. In early 2009, when the 2008 performance became known, the
7 Company should have revised its forecast to reflect the expectation of no
8 distributions in 2010 and 2011 prior to filing its MFRs. This adjustment corrects
9 that oversight.

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

11 **A. Yes.**

1 BY MR. BUTLER:

2 Q Ms. Ousdahl, did you also cause to be prepared
3 exhibits to your direct and rebuttal testimony?

4 A I did.

5 Q And those were prepared under your direction,
6 supervision and control?

7 A They were.

8 MR. BUTLER: Mr. Chairman, I would note that
9 there are Exhibits KO-1 through KO-10 attached to Ms.
10 Ousdahl's direct testimony, and my notes reflect those
11 as being designated or identified as Exhibits 117
12 through 126 in the comprehensive exhibit list.

13 CHAIRMAN CARTER: That's correct.

14 (Exhibit Nos. 116 through 126 marked for
15 identification and admitted into the record.)

16 MR. BUTLER: And then attached to her rebuttal
17 testimony are Exhibits KO-11 through KO-16, which my
18 records indicate are 353 through 358.

19 CHAIRMAN CARTER: Hang on one second. 353
20 through 357. Actually, I have a 358 here, Mr. Butler.

21 MR. BUTLER: Yes, I'm sorry, that's what I
22 meant, 358.

23 (Exhibit Nos. 353 through 358 marked for
24 identification and admitted into the record.)

25 CHAIRMAN CARTER: Okay, you may proceed.

1 BY MR. BUTLER:

2 Q Ms. Ousdahl, have you prepared a summary of
3 your direct and rebuttal testimony?

4 A I have.

5 Q Would you please give it at this time?

6 A The purpose of my direct testimony is to
7 support the calculation of rate relief requested by FPL
8 in this proceeding. Specifically I will provide for
9 calculations of requested base rate relief, support for
10 the continuation of the generation base rate adjustment,
11 and all other adjustments that FPL properly proposes to
12 rate base, operating income and working capital in order
13 to reflect 2010 and 2011 results for ratemaking
14 purposes.

15 Absent rate relief, FPL's 2010 return on
16 equity is estimated to be only 4.7 percent. Absent rate
17 relief for both 2010 and 2011, the 2011 ROE is projected
18 to fall even further, to 3.1 percent. If the Commission
19 grants the 2010 rate increase but not the 2011 increase,
20 FPL's 2011 ROE is projected to be 10.7 percent, well
21 below FPL's cost of equity.

22 FPL is requesting continuation of the GBRA
23 mechanism, including the recovery of costs and expenses
24 associated with West County Unit 3; therefore, those
25 costs are not included in the 2011 subsequent year

1 request for rate relief. GBRA has proven to be an
2 efficient and effective way of providing for new
3 generating plant inclusion and base rates commensurate
4 with the time that fuel savings associated with new
5 plant begin to be achieved and the company's expenses
6 associated with operation of the new unit begins to be
7 incurred.

8 I present and support the proper accounting
9 adjustments which impact the determination of FPL's rate
10 base, working capital, rate of return, capital structure
11 and net operating income and resulting revenue
12 requirements. All of those items have been
13 appropriately reflected in the MFRs, as required by this
14 Commission.

15 Included in my testimony is the \$95 million
16 adjustment for the proposed depreciation expense in 2010
17 based on rates determined by the depreciation study
18 which has been presented by Witness Clarke.

19 I also sponsor the company's dismantlement
20 study, which provides analysis of the proper accrual for
21 future end-of-life dismantlement of our fossil
22 generating fleet.

23 Lastly, I will provide for a number of
24 adjustments such as the 150 million storm reserve, the
25 FPL Glades Power Park cost recovery, which has been

1 granted in an earlier order, removal of gas pipeline
2 costs from rate base, and increases associated with
3 nuclear end-of-life materials and supplies and nuclear
4 fuel last core and inclusion of capitalized nuclear fuel
5 and rate base.

6 Finally, I provide support for a number of
7 company adjustments that are made solely for the purpose
8 of complying with earlier FPSC orders, which have
9 required movement of certain costs between clause and
10 base rates. I believe the adjustments I present are
11 appropriate and help ensure a fair presentation of FPL's
12 financial condition and requested revenue increases
13 based on projected results for 2010 and 2011.

14 I conclude my direct testimony by showing that
15 FPL employs appropriate methods to charge costs to its
16 affiliates and has controls in place to ensure that the
17 methods are properly implemented. As a result, retail
18 customers do not subsidize FPL's affiliates, but rather
19 can benefit from the lower rates that result from
20 sharing costs.

21 I also show that FPL has removed all costs and
22 expenses associated with FPL's New England division from
23 the determination of its retail base rate revenue
24 requirements, so that retail customers bear no cost
25 responsibility for those operations.

1 My rebuttal testimony addresses several
2 accounting issues raised by witnesses for the
3 Intervenors. I explain why FPL's treatment is
4 appropriate and the Intervenors' analyses and proposed
5 adjustments are flawed. Let me just briefly touch on
6 the principal Intervenor adjustments addressed in my
7 rebuttal testimony.

8 The Intervenors would like to single out,
9 defer and flow back the out-of-period Aegis
10 environmental insurance refund. This refund was
11 properly recorded as a decrease to expense in the period
12 when the refund occurred. This Intervenor adjustment
13 would be inconsistent with Commission practice as to
14 increases and decreases of period expense. In adjusting
15 capital structure to rate base, the Intervenors
16 similarly want to single out and capture 100 percent of
17 cost-free capital, while all other sources are being
18 adjusted *pro rata*. This would be inconsistent with
19 Commission past practice and would improperly double-
20 count the impact of those cost-free sources of capital.

21 The Intervenors would like to depart from the
22 established practice for implementing GBRA that has been
23 used successfully for Turkey Point Unit 5, has been
24 employed just recently this year for West County Unit 1
25 and will be also employed likewise for West County Unit

1 2. My testimony demonstrates that the use of the need
2 determination revenue requirements for GBRA
3 implementation continues to be appropriate, as it is
4 efficient in its use of estimated capital costs that
5 have been previously subject to regulatory review.

6 The Intervenors advocate stopping or
7 significantly decreasing accruals for fossil
8 dismantlement and nuclear end-of-life -- and nuclear
9 end-of-life materials and supplies and last core. I
10 show that the Intervenors' purported justification is
11 speculative and not founded on any specific evidence
12 related to FPL's specific assets and costs.

13 Finally, my rebuttal testimony summarizes and
14 presents on Exhibit KO-16 certain identified adjustments
15 that reduce the company's requested base rate revenue
16 requirements by 60.6 million in 2010 and 68 million in
17 2011. These reductions primarily reflect the update
18 anticipated in my direct testimony for the effects of
19 bonus depreciation that has been granted as a part of
20 the stimulus bill enacted in February of this year.

21 The other adjustments on KO-16 have been
22 identified over the course of discovery in this docket.
23 With the adjustments identified on Exhibit KO-16, the
24 Commission has available to it all financial information
25 necessary to determine the proper base rate increases

1 for FPL in 2010 and 2011.

2 This concludes my summary.

3 CHAIRMAN CARTER: Thank you. Mike, tomorrow
4 morning we'll probably check the light system again.

5 Mr. Butler?

6 MR. BUTLER: Mr. Chairman, I tender the
7 witness for cross-examination.

8 CHAIRMAN CARTER: Mr. Wiseman, is it you or
9 Ms. --

10 MS. PERDUE: OPC is going to go first.

11 CHAIRMAN CARTER: Mr. Beck, you're recognized.

12 CROSS EXAMINATION

13 BY MR. BECK:

14 Q Ms. Ousdahl, my name is Charlie Beck, with the
15 Office of Public Counsel. I'd like to start by asking
16 you, are you familiar with the request by Tampa Electric
17 Company in its recent rate case for a transmission base
18 rate adjustment?

19 A I know of it very generally.

20 Q Would you agree that it is similar to the
21 generation base rate adjustment that you're asking the
22 Commission to approve in this case, except for Tampa
23 Electric it was a request to recover transmission costs
24 for 230 kilovolt and above transmission projects that
25 TECO submits to the Florida Reliability Coordinating

1 Council, are you familiar with that?

2 A Yes; again, generally. I don't know exactly
3 how they propose to implement their adjustment.

4 Q And are you aware that the Commission rejected
5 that request by Tampa Electric this year?

6 A I believe I did hear that.

7 Q And would you agree that among the reasons the
8 Commission rejected it was that the adjustment
9 considered the cost of constructing new transmission
10 facilities in isolation without considering potential
11 increases in revenues from additional sales or decreases
12 in rate base due to retirements or depreciation that may
13 offset the impact of construction costs?

14 A I'm not aware of the basis for their denial of
15 the request.

16 MR. BECK: Mr. Chairman, I have an exhibit.
17 It need not be numbered, but it's an excerpt from the
18 order.

19 CHAIRMAN CARTER: You're getting pretty good.
20 I'll have to tell Mr. Moyle that he has a little
21 competition. You must have trained him on the break,
22 Mr. Moyle.

23 MR. MOYLE: I wasn't paying attention.

24 CHAIRMAN CARTER: As soon as I've given him a
25 compliment, watch him blow it for me.

1 Mr. Beck, you may proceed.

2 MR. BECK: Thank you.

3 BY MR. BECK:

4 Q Ms. Ousdahl, you have the excerpt from the
5 TECO order in front of you?

6 A I do. It's quite lengthy. If you'd like me
7 to comment, I may need to stop and read.

8 Q If you'd like to, you could read the whole
9 thing. I could ask you to look at particular sections
10 if you like.

11 A Okay. However you would like to proceed,
12 we'll see how it goes.

13 Q Let's go right to the ruling by the
14 Commission. Could you turn to page 127, which is the
15 last page in the handout?

16 A I'm there.

17 Q Could you read the first two sentences of the
18 paragraph, the first little paragraph on the top?

19 A Those sentences read, "Therefore, we do not
20 approve TECO's proposed transmission base rate
21 adjustment (TBRA) mechanism. The TBRA considers the
22 cost of constructing new transmission facilities in
23 isolation, without considering potential increases in
24 revenue from additional sales or decreases in rate base
25 due to retirements or depreciation that may offset the

1 impact of construction."

2 Q So you'll agree that that's what the
3 Commission said in its order?

4 A I would agree that those words are in this
5 order, yeah. Again, there's a very lengthy discussion
6 which I have not read.

7 Q Let me ask you to turn to page 126.

8 MR. BUTLER: Mr. Beck, if you're going to be
9 asking her to do more than simply read a conclusory
10 paragraph, I think it's going to be necessary for her to
11 be afforded an opportunity to review the section that
12 you're referring to, and it looks like that's what
13 you're beginning to do. So I would ask that she be
14 provided an opportunity to read at least the excerpt
15 that you provided.

16 MR. BECK: Certainly.

17 THE WITNESS: (Examining document.) I'm on
18 126.

19 BY MR. BECK:

20 Q Okay. In your summary today, you mentioned
21 that the GBRA has been successfully implemented through
22 a settlement agreement that was approved by the
23 Commission, is that correct?

24 A I didn't reference the settlement agreement.
25 That is a fact, it was the result of a settlement

1 agreement. In my summary, I discussed the productive
2 and efficient nature of the implementation of that
3 mechanism.

4 Q If you would, the second-to-last paragraph on
5 page 126, would you agree that the Commission determined
6 that the acceptance of a settlement among parties is not
7 the same as establishing a generic policy? Do you see
8 that?

9 A I see those words, yes.

10 Q Okay. And that reference is specifically with
11 respect to the GBRA mechanism, is it not?

12 A It does.

13 Q Had you reviewed this order at all before
14 filing your testimony in this case?

15 A No, I have not.

16 Q Thank you.

17 MR. BECK: That's all I have.

18 CHAIRMAN CARTER: Thank you, Mr. Beck.

19 Ms. Griffiths, you're recognized.

20 CROSS EXAMINATION

21 BY MS. GRIFFITHS:

22 Q Good evening, Ms. Ousdahl. Am I saying your
23 name correctly?

24 A Yes.

25 Q My name is Meghan Griffiths, and I represent

1 South Florida Hospital and Healthcare Association.

2 A Hello, Ms. Griffiths.

3 Q You're a CPA and employed as FPL's
4 comptroller, is that correct?

5 A That's correct.

6 Q And in that role you have responsibility for
7 FPL's financial and regulatory accounting, is that
8 accurate?

9 A I do.

10 Q All right. And it's your job to ensure that
11 FPL's financial reporting complies with generally
12 accepted accounting principles and the Commission's
13 regulatory accounting requirements, is that accurate?

14 A It is.

15 Q And you had the enviable task of quantifying
16 FPL's requested rate increases for the 2010-2011 test
17 years and for West County Unit 3, is that accurate?

18 A Yes, I'm in the position of aggregating all
19 the various portions of the case into a mathematical,
20 yes, end result.

21 Q Okay. And you also sponsored many MFRs in
22 this proceeding, including but not limited to the MFRs
23 that support FPL's rate increases for 2010-2011 and the
24 West County Energy Center Unit 3, correct?

25 A Yes, I'm both single sponsor on many, but also

1 co-sponsor on quite a few.

2 Q Okay. At this point, I would like to pass out
3 an exhibit to you just a moment.

4 CHAIRMAN CARTER: Do you need it for
5 identification or cross-examination? What's the plan?

6 MS. GRIFFITHS: This is for cross-examination
7 purposes, so I do need an exhibit number.

8 CHAIRMAN CARTER: Excellent.

9 MS. GRIFFITHS: And then I would also like to
10 make available to you a copy of an exhibit that is part
11 of staff's composite list, which I believe was passed
12 out to all the parties. And I can give you a copy, but
13 just so everybody is on the same page, this came in the
14 packet under the description "GBRA," and it is FPL's
15 Response to Staff's Sixth Set of Interrogatories,
16 Interrogatory No. 65, and it is the first -- the first
17 hearing exhibit in that packet.

18 CHAIRMAN CARTER: Okay, hang on a second.

19 MS. GRIFFITHS: Mr. Chairman, may I approach
20 the witness to give her a copy?

21 CHAIRMAN CARTER: Yes, you may. No. 65.
22 Staff, is that in the voluminous pack, or is this one of
23 the singles?

24 MS. BENNETT: It came in a large packet.

25 MR. BUTLER: I'm going to need an opportunity

1 to find that in my large packet unless you have an extra
2 copy for me.

3 MS. GRIFFITHS: I'm sorry, I do not have an
4 extra copy for you. Would you like me to show you which
5 one it is so you can --

6 MR. BUTLER: If you would.

7 MS. BENNETT: I think it's the large stack
8 that says, "FPL's Discovery Responses," and there are
9 subcategories, Schedule B-2, Schedule B-3, et cetera,
10 Generation Base Rate Adjustment.

11 CHAIRMAN CARTER: Is there an easier way to
12 find this?

13 MR. BUTLER: The easy way is to have Mr. Leon
14 find it for me. He's excellent at that.

15 I have it.

16 CHAIRMAN CARTER: I'm thinking about myself
17 right now, Mr. Butler.

18 MR. BUTLER: My apologies.

19 CHAIRMAN CARTER: No disrespect intended.

20 Okay. You may proceed. Mr. Butler has his
21 copy and you've got yours and the witness has hers.

22 MS. GRIFFITHS: We'll move on down the road,
23 then.

24 BY MS. GRIFFITHS:

25 Q Ms. Ousdahl, one of FPL's perceived benefits

1 of the GBRA is that it would reduce the frequency of
2 rate cases, is that accurate?

3 A That's correct.

4 Q And I believe you have listed that rationale
5 in the responses that you have before you, which I
6 neglected to get a hearing exhibit number for the SFHHA
7 Response to Interrogatory No. 112. This is the one that
8 I passed out to everybody, and I believe it should be
9 466.

10 CHAIRMAN CARTER: Hang on a second here.
11 Let's hang on, hang on a second here. I missed one.

12 Commissioners, for the record, this is 466.
13 Short title?

14 MS. GRIFFITHS: SFHHA Interrogatory No. 112.
15 (Exhibit No. 466 marked for identification.)

16 MR. BUTLER: Ms. Griffiths, if you're asking
17 her to refer -- she pretty much has two separate
18 discovery documents in front of her. If you're asking
19 her to refer to one, please direct her to which one you
20 want her to --

21 MS. GRIFFITHS: Okay, I'll try to be clear.

22 MR. BUTLER: Thank you.

23 BY MS. GRIFFITHS:

24 Q So it's correct, is it not, that one of the
25 company's perceived benefits of the GBRA is that it

1 would reduce the frequency of rate cases?

2 A That's correct.

3 Q And you've testified to that in your
4 testimony, and in addition, I believe that's listed as a
5 response provided on Hearing Exhibit No. 466. Do you
6 see that before you?

7 A I'm confused about the reference to 466.

8 Q Hearing Exhibit No. 466 you should have in
9 front of you, it's marked SFHHA's second set of
10 interrogatories, number 112?

11 A I have that. Mine aren't marked with exhibit
12 numbers, but yes, I'm with you.

13 Q Okay. If you look at the last sentence to
14 that, it says, "The GBRA process was initiated in part
15 to reduce the frequency of expensive, resource-
16 intensive, full requirements base rate cases"?

17 A That's correct.

18 Q And that's one of the company's perceived
19 benefits of the GBRA, correct?

20 A That's one of the benefits of GBRA.

21 Q All right. Now, isn't it true that one of the
22 benefits of a base rate proceeding from a consumer's
23 perspective is that a base rate proceeding would examine
24 a utility's entire cost of service to determine whether
25 reductions in rate base may offset capital additions?

1 A Yes.

2 Q Now, isn't it true that as part of a base rate
3 proceeding, the Commission has the opportunity to
4 examine whether a utility's accumulated depreciation
5 would result in a decrease in its rate base?

6 A Yes.

7 Q Isn't it true that as part of a rate case, the
8 Commission has the opportunity to determine whether
9 increases in the utility's billing determinants would
10 result in a decrease in rates?

11 A Yes. I would like to explain at some point.

12 MR. BUTLER: Which you may now, if you wish.

13 THE WITNESS: Okay.

14 Commissioners, it's true that a base rate
15 affords an opportunity for examining every cost and
16 activity of the business. What is, I think, maybe
17 misunderstood about GBRA is GBRA is not going to create
18 an overearnings situation. GBRA will always simply
19 recover the cost of that asset. So to the extent you
20 have over- or underearnings that are of concern, GBRA
21 will only result in a movement towards your authorized
22 return.

23 MS. GRIFFITHS: Commissioners, I would object
24 to Ms. Ousdahl's question and just move to strike it,
25 because it went beyond the actual questions that I was

1 asking her.

2 CHAIRMAN CARTER: Hand on, hang on now. We've
3 already had lunch. We allow the witnesses to say yes or
4 no, but we allow them to explain their answer, so move
5 on. Overruled.

6 BY MS. GRIFFITHS:

7 Q Now, I believe you said that the GBRA would
8 not result in an overearnings situation. I would like
9 you to turn to the exhibit which is Interrogatory No.
10 65, Staff's Sixth Set of Interrogatories, and it's the
11 one that you should have before you that's highlighted.
12 Do you have that?

13 A Yes, I do.

14 Q All right. That response says that, "The GBRA
15 provides the added benefit of a rate reduction if actual
16 capital costs are lower than those projected in the need
17 determination." Do you see that response?

18 A I do.

19 Q Is that what you perceive as a benefit of the
20 GBRA?

21 A Yes. We have described in testimony through
22 many witnesses the reconciliation or true-up feature of
23 GBRA, which ensures a true-up feature that's not
24 available in a base rate proceeding, and that is that
25 when GBRA is implemented at the exact time that the unit

1 goes into service, we will use the need determination
2 value that's been previously reviewed by this
3 Commission, but if our actual costs end up being lower
4 on a capital cost basis, we will reduce and refund those
5 dollars back to customers. That's unique to GBRA.

6 Q Okay, let's focus on that true-up mechanism
7 for the GBRA, as you described it.

8 It's true, is it not, that that true-up
9 mechanism would not true up decreases in the revenue
10 requirement for base rates not recoverable in the GBRA
11 associated with accumulated depreciation, the utility's
12 billing -- increases in utility's billing determinants
13 or other reductions to cost of service?

14 A I need you to clarify your question. Are you
15 referring to items that are outside of the revenue
16 requirements for the plant that we're putting into rates
17 through GBRA?

18 Q I'm referring to basically what you've called
19 in your testimony the rate base, recoverable rate base,
20 not the GBRA rate base, but the other rate base. Would
21 there be any true-up of that rate base with respect to
22 any increases in the accumulated depreciation, increases
23 in utility's billing determinants or any other
24 reductions to cost of service?

25 A So your question is does the implementation of

1 GBRA go back and somehow true up costs that have been
2 litigated or included or perhaps not even included in
3 rates in a prior period, is that your question?

4 Q I'm talking about the rates that would result
5 from this proceeding at the time the GBRA would go into
6 effect, the base rate recoverable rate base.

7 A So now your question is specific to West
8 County 3?

9 Q Let's talk generally. When the GBRA -- when a
10 unit is added to the GBRA, is there going to be any
11 reduction to base rates, not recovered in the GBRA,
12 associated with accumulated depreciation, increases in
13 the utility's billing determinants or other reductions
14 to the utility's cost of service?

15 A I believe I understand your question. The
16 answer is no.

17 If I might explain, I believe the question is
18 when we implement GBRA to recover the cost of this
19 incremental investment that we're putting into service
20 for customers, will we true up other dollars in rate
21 base having nothing to do with the cost of that plant?
22 The answer to that is no. However, as I tried to
23 explain earlier, to the extent you're over- or
24 underearning in those other costs, implementing GBRA
25 will move you closer to your authorized midpoint. There

1 will be no harm in the implementation of GBRA itself.

2 Q All right. Now, let's move and just get an
3 example here.

4 Assume for me that FPL -- and this is a
5 hypothetical, I realize, because the company doesn't
6 know this just yet -- but assume for me that FPL wins
7 its \$200 million grant request to the DOE, and FPL
8 implements -- doubles the amount of advance meters that
9 it plans to currently have in service. Isn't it the
10 case that there would be increased operational savings
11 resulting from increased advanced meters? I believe Mr.
12 Bennett testified to that, but would you agree with his
13 testimony?

14 A Well, let me try to clarify your question.
15 You're asking me if we invest in incremental AMI
16 investments and we receive a \$200 million grant, which
17 would be a return of costs associated with that
18 investment, which would reduce that investment in rates,
19 you're asking me if there would be a savings? Clearly
20 we would be able to implement the investment at lower
21 cost by virtue of the grant.

22 Q And what I'm trying to elicit from you is a
23 hypothetical that takes into account the fact that you
24 increase your investment in AMI, the company has
25 received \$200 million in additional grant funds, and Mr.

1 Bennett I believe testified to this earlier, that there
2 would be potentially increased operational savings
3 resulting from increased AMI deployment. Were you here
4 for that testimony?

5 A No, I did not hear all of Mr. Bennett's
6 testimony. What is confusing me is the savings you're
7 referencing that he referred to have nothing to do with
8 the grant, then. You're talking about the savings of
9 the technology itself?

10 Q I'm talking about increased operational
11 savings to the company. Ms. Santos also testified to
12 this issue regarding the increased operational savings
13 that would result from decreased metering costs and so
14 on. Those are the types of savings that I'm addressing
15 here.

16 A Okay, the technological.

17 MR. BUTLER: I wanted to object.

18 Ms. Griffiths, could you point to me what in
19 Ms. Ousdahl's testimony you're addressing?

20 MS. GRIFFITHS: First of all, I'll tell you
21 what I'm addressing is her recommendation regarding the
22 fact that there will not be any harm to ratepayers from
23 putting the GBRA into effect because of the -- and in
24 addition, I do believe she does also have testimony on
25 the appropriateness or inappropriateness of looking at

1 the advanced metering grant issues in her case. And I'm
2 simply trying to walk her through a hypothetical here to
3 see how her recommendations play out in what the company
4 is proposing.

5 MR. BUTLER: And where in her testimony are
6 the references to the appropriateness or
7 inappropriateness of considering the advanced metering
8 grants?

9 MS. GRIFFITHS: Let me look in her rebuttal
10 and I'll check, but I really don't think this is
11 relevant. Is this an objection to this line of
12 questioning?

13 MR. BUTLER: It is.

14 CHAIRMAN CARTER: You can take a moment to
15 look over your notes, if you wish.

16 MS. GRIFFITHS: Let me just respond to his
17 objection.

18 I actually see that specifically on that AMI/
19 DOE grant issue, she doesn't testify to that. She does
20 testify to stimulus bill impacts regarding accumulated
21 depreciation. That's kind of beside the point, because
22 what I'm trying to do here is walk her through her
23 recommendation regarding the GBRA, and she is saying
24 that there are some benefits to ratepayers and that they
25 will not be harmed, and what I'm trying to nail down is

1 what would happen in the event that there are increased
2 savings from things like increased meter investment and
3 so on and how that would impact -- how that reflects on
4 her recommendation.

5 CHAIRMAN CARTER: Mr. Butler?

6 MR. BUTLER: I have no objection to a
7 hypothetical expressed in those sort of general terms.
8 My concern was that Ms. Griffiths' question was
9 purporting to represent some pretty specific details
10 about testimony by Mr. Bennett and Ms. Santos, and it
11 was getting into details about the specifics of an item
12 outside Ms. Ousdahl's testimony that I did not think was
13 appropriate. I think if it can be structured as just a
14 hypothetical about potential savings that might occur in
15 subsequent years, I don't have any objection to that.

16 CHAIRMAN CARTER: Just rephrase.

17 MS. GRIFFITHS: That's fine. I thought I'd
18 prefaced this with a hypothetical, but let's go ahead.

19 BY MS. GRIFFITHS:

20 Q Assume for me that the company increases its
21 investment in advanced meters as a result of the DOE
22 grant that it has applied for. Are you with me so far?

23 A Okay.

24 Q Assume for me that the company doubles its
25 advanced metering investment.

1 A Okay.

2 Q All right. Assume for me that there are
3 increased operational savings resulting from that
4 additional investment in advanced metering.

5 A All right.

6 Q Now, with that being the case, if the
7 Commission opted to include West County Unit 3 in the
8 GBRA and FPL no longer had to come to this Commission
9 for a base rate proceeding, in that instance, would
10 those operational savings that resulted from the
11 increased investment in AMI, would ratepayers see those
12 savings in their rates?

13 A Let me make sure I understand your question.
14 You're asking me, in the context of GBRA, would
15 ratepayers get the savings of further AMI investments in
16 the 2011 time frame?

17 Q Sure, the 2011 time frame.

18 A Well, we've reflected in our 2011 subsequent
19 year request all of the costs that we expect to incur
20 related to that year of -- year's revenue requirements.
21 And to the extent we would receive DOE moneys or
22 implement new technologies that would create
23 efficiencies, those are reflected in the 2011 revenue
24 requirements.

25 Remember that the DOE grants are an

1 incremental investment, so they were outside -- from a
2 cost perspective, they were outside of the revenue
3 requirements for 2011, and any savings that comes
4 through from the grants are outside.

5 Q But let me just interrupt, because I'm not
6 sure that you're following the hypothetical with your
7 answer here. So, really, assume for me that that
8 additional investment in the metering, and I know this
9 is a hypothetical, is not included in your test year,
10 which I actually believe to be the case, based on the
11 record.

12 A Okay.

13 Q But assume for me it's not in the test year,
14 and as a result, there is a grant that's received, there
15 is increased investment and then there is increased
16 operational savings. That's where we're at. With that
17 being the case, would ratepayers see in rates the
18 additional savings from that investment unless there was
19 another rate case?

20 A If costs go down in 2011, for whatever reason,
21 whether it's improved technology, more efficiency in our
22 reliability of operations, whatever it might be, absent
23 another rate hearing, those savings would not be
24 achieved -- would not be received from customers, but if
25 I might clarify, that has absolutely nothing to do with

1 GBRA. It's not going to recover more than the cost of
2 the plant we're putting into rates.

3 Q All right. And you're saying it has nothing
4 to do with GBRA, but what I was talking about was
5 savings that would show up in the base rate, and I
6 believe your answer to my question was no, ratepayers
7 would not see any additional savings?

8 A In any year that we have increased costs or
9 enhanced savings, if we don't have rates reset that will
10 not be reflected for customers. And so your
11 hypothetical talked about 2011, our subsequent year, but
12 you were hypothesizing savings that we had not
13 projected. So yes.

14 Q Thank you for that response.

15 I'm going to move on, and I have an additional
16 exhibit to pass out.

17 CHAIRMAN CARTER: Need a number?

18 MS. GRIFFITHS: I'm going to need a number for
19 this one.

20 CHAIRMAN CARTER: Okay, 467. Short title?

21 MS. GRIFFITHS: SFHHA Interrogatory No. 105.

22 CHAIRMAN CARTER: SFHHA interrogatory No. 105.

23 (Exhibit No. 467 marked for identification.)

24 BY MS. GRIFFITHS:

25 Q Do you have the exhibit in front of you --

1 CHAIRMAN CARTER: Hang on a second, make sure
2 all the parties have it first.

3 Okay, you may proceed.

4 BY MS. GRIFFITHS:

5 Q Do you have the exhibit in front of you? And
6 I believe this is Hearing Exhibit No. 467.

7 CHAIRMAN CARTER: Did you hear what she just
8 said? You got it?

9 Okay, go ahead.

10 BY MS. GRIFFITHS:

11 Q Have you reviewed this interrogatory?

12 A Yes, I have.

13 Q All right. In this interrogatory, FPL states
14 that it is requesting a continuation of the current GBRA
15 mechanism as set forth in the 2005 settlement agreement,
16 and I believe OPC's counsel asked you some questions
17 regarding this previously. Do you recall what the
18 settled ROE was for the GBRA in the 2005 rate
19 proceeding?

20 A 11.75. It's the amount that's being utilized
21 in the GBRA implemented today.

22 Q And currently the company is asking for a 12.5
23 percent ROE in the GBRA, correct?

24 A It is.

25 Q And that's different than the ROE that was

1 used previously in the needs determination, is that
2 accurate?

3 A It is.

4 Q All right. I have some additional exhibits
5 that I'm going to be passing out, and these are just for
6 demonstrative purposes, just to walk through some cross-
7 examination.

8 CHAIRMAN CARTER: Are you going to pass them
9 out in bulk or one at a time? How do you want to do it?

10 MS. GRIFFITHS: I have a group of exhibits
11 here, and these are pulled from the MFRs. Primarily I'm
12 going to be going over Schedule D-1A.

13 CHAIRMAN CARTER: Okay.

14 BY MS. GRIFFITHS:

15 Q When you calculated the company's annual base
16 rate revenue requirement for this proceeding, you
17 originally used an overall rate of return of eight
18 percent, is that correct?

19 A For 2010.

20 Q Right, for 2010. And in your rebuttal
21 testimony, is it correct that FPL has come down a little
22 bit on the rate of return for 2010 to 7.85 percent, is
23 that accurate?

24 A Largely by virtue of rolling in the effects of
25 bonus depreciation from the stimulus bill.

1 Q Right. So the bonus depreciation from the
2 stimulus bill resulted in increased accumulated deferred
3 income taxes, and that had the effect of decreasing the
4 rate of return a little to 7.85 percent, correct?

5 A Yes.

6 Q Okay. But the rate of return for West County
7 Unit 3, is that still at 9.82 percent?

8 A It is.

9 Q And I believe we can see that on the -- on the
10 sheets that I have just passed out, there is a
11 handwritten number at the bottom, number 4, and that
12 shows that the weighted cost rate that the company is
13 requesting for West County Energy Unit 3 is 9.82
14 percent, is that accurate?

15 A That's correct.

16 Q And just to put it all in perspective, as a
17 simple matter of math, the 9.82 percent, if you apply --
18 if the unit cost you -- I believe it's -- is it
19 \$837 million?

20 A That's the jurisdictional 13-month average.

21 Q Okay. And if you apply the 9.82 percent
22 return to it, it's going to result in a higher revenue
23 requirement than if we applied an eight percent return?

24 A Yes. If you apply a higher return, you will
25 get a higher NOI.

1 Q Okay. Now, the difference in the rates of
2 return for the GBRA versus the base rate, that's
3 attributable to the different capital structure that's
4 used for the GBRA versus base rates, is that correct?

5 A It is. Well, let me go on to add, that's the
6 largest driver of the difference, but the GBRA rate of
7 return and all components of these GBRA schedules look
8 back to need determination with the only true-up to
9 those being the midpoint of the ROE of 12.5. So we have
10 every other factor that was estimated back in need,
11 including a different long-term debt rate.

12 Keep in mind also that the test year for the
13 filing, 2011 subsequent year, is a calendar year 2011.
14 GBRA is reflecting the first year of revenue requirement
15 for that plant operating from June 1, 2011, through May
16 of 2012, so we're talking about different time frames,
17 also.

18 Q Okay. And so just to nail it down, the needs
19 determination proceeding, you had a lower ROE in that
20 proceeding, but you're requesting the higher ROE of 12.5
21 percent in this proceeding?

22 A No, I would characterize it differently. We
23 are utilizing every aspect of the need determination for
24 West County 3. We are -- because we -- by virtue of
25 being in this rate filing situation with the test year

1 and the subsequent year, we're going to have a new ROE
2 that will be reflected in the final order in this case
3 from our Commission, and we believe whatever that
4 midpoint of that ROE is that's determined should be
5 dropped into the -- any future, any future GBRA.

6 Q Okay. And the incremental debt, the debt rate
7 that you use for the GBRA, that's higher than the debt
8 rate that you used for base rates, is it not?

9 A Yes. As I pointed out, that ties back to the
10 need determination, and it's a different time frame.

11 Q And so the debt rate for base rates is 5.55
12 percent versus a 6.43 percent debt rate for the GBRA, is
13 that accurate?

14 A I see 5.81 percent for the subsequent year.

15 Q I may be looking at the wrong thing. Let me
16 turn to that exhibit.

17 MR. BUTLER: Ms. Griffiths, one other thing,
18 to try to keep the record straight on this. You're not
19 planning to enter this package of MFR schedules into the
20 record, right?

21 MS. GRIFFITHS: No, I'm not.

22 MR. BUTLER: It would probably help the record
23 considerably to refer to the schedule number rather than
24 this hand-numbered number at the bottom of the page,
25 because otherwise nobody is going to know which one's

1 which. So I would appreciate it if you would --

2 MS. GRIFFITHS: Sure, I will do my best.

3 BY MS. GRIFFITHS:

4 Q I'm referring to Schedule D-1A for the West
5 County Energy Center Unit 3 schedules. What is the
6 long-term debt rate that the company is proposing for
7 that particular schedule?

8 A 6.43. That's for the 12 months ended May of
9 '012. It's reflected on the schedule.

10 Q If we look at Schedule D-1A for the projected
11 test year ended 12/31/10, we see a cost rate -- a
12 long-term debt rate of 5.55 percent, is that accurate?

13 A Right. Yes, it is.

14 Q And if we look at Schedule D-1A for the 2011
15 subsequent year adjustment, we see a debt rate of 5.81
16 percent, correct?

17 A That's correct.

18 Q And the 5.81 percent debt rate, that's a
19 composite debt rate, is it not?

20 MR. BUTLER: A composite of what?

21 MS. GRIFFITHS: Composite of the base rate --
22 base rate debt, long-term debt.

23 THE WITNESS: It's our estimate of our cost of
24 long-term debt on a weighted average basis for the test
25 year ended 12/31, 2011.

1 BY MS. GRIFFITHS:

2 Q Okay, whereas the 6.43 percent is a forecasted
3 incremental debt rate from the needs determination
4 proceeding, correct?

5 A The 6.43 was the estimate of the long-term
6 debt rate at the time of the need determination for
7 financing of this incremental investment.

8 Q Okay, so the capital structure for the West
9 County Unit 3 is not offset by cost-free capital such as
10 ADIT, and I'm talking about the capital structure, is
11 that accurate?

12 A Would you mind repeating your question?

13 Q The capital structure for West County Unit 3,
14 the GBRA, is not offset by ADIT, is that correct? The
15 weighted average cost of capital doesn't reflect ADIT?

16 A Well, we have reflected deferred taxes
17 associated with the 13-month average cost on West County
18 3, and those deferred taxes are reflected not on the
19 cost of capital or capitalization schedule that you've
20 had me refer to, D-1A, they are instead reflected as a
21 part of rate base. You have that schedule here. It's
22 your page number 5.

23 Q Just to clarify, you have used approximately
24 \$5 million of ADIT to reduce rate base in your GBRA
25 revenue requirement, but have you not reflected that in

1 the capital structure, is that accurate?

2 A This is akin to what you'd see when FERC sets
3 rates where they would include deferred taxes in rate
4 base versus including them in the capital structure.

5 I need to correct your statement, though.
6 It's not reducing rate base, it's actually adding to
7 rate base, because for the first 12 months of this
8 plant's operating life, we had deferred tax assets in
9 excess of the accumulated deferred taxes that would
10 offset that.

11 Q Okay. Just so that the record is clear, the
12 company is proposing to use \$5 million of ADIT to rate
13 base for the GBRA as opposed to using it in the capital
14 structure, is that accurate?

15 A We have reflected in this calculation, which
16 was a part of the need determination, the estimate of
17 deferred taxes associated with the investment in West
18 County 3 for the first year of its life.

19 Q Was that a yes to my question, or a no?

20 A I was struggling with your question. It's
21 included economically in the calculation. It doesn't
22 matter whether you include deferred taxes in the cost of
23 capital or you include them in rate base, it doesn't
24 matter, you're going to get to the same answer.

25 Q Okay. In that \$5 million of deferred taxes,

1 it's not an allocation of ADIT through *pro rata*
2 adjustments, but was, rather, a projection of the ADIT
3 that would be generated in the 12 months after the West
4 County Unit 3 goes commercial, is that correct?

5 A Yes. I believe I just stated it's the
6 calculation of deferred taxes and the balance sheet for
7 the 13-month average first year operating life of that
8 asset.

9 Q So the needs determination methodology in and
10 of itself does -- with respect to looking at the capital
11 structure, it doesn't bear any connection to the
12 embedded sources of capital in the business other than
13 debt and equity, is that accurate?

14 A It's a view that's based on the approach
15 that's taken in any need determination where the company
16 is charged with determining the proper investment to
17 make, and that economic view looks at the incremental
18 cost of that investment.

19 Q But there are other sources of capital
20 available to FPL other than debt and equity to fund West
21 County Unit 3, is that correct?

22 A Well, the other sources of capital, if you're
23 referring to short-term debt and accumulated deferred
24 taxes that are reflected in our rate filing for test
25 years 2010 and 2011, are being utilized to support the

1 investments in our base rates.

2 Q And they're accounted for in your base rates,
3 but is the cash flow available -- from those assets
4 available to fund West County Unit 3?

5 A Is the cash flow available to fund West County
6 3? No. We are representing that the costs to support
7 the first year's operation of West County 3 are
8 reflected in our West County 3 schedules, \$181 million.
9 The sources of funds that are reflected in D-1A in the
10 test years, 2010 and 2011, are being utilized to support
11 the assets of those test years, and West County is not
12 in there.

13 Q Okay. Do you believe that the company's
14 proposed capital structure for the GBRA is consistent
15 with the needs determination proceeding for West County
16 Unit 3?

17 A Yes, I believe the capital structure as we've
18 presented it is consistent with that of the need
19 determination.

20 Q Is it your understanding that the Commission's
21 order resulting from that needs determination made any
22 finding about how that unit should be recovered in
23 rates? And I specifically mean recovered in base rates
24 as opposed to a GBRA mechanism.

25 A I don't know what the order in the need

1 determination case spelled out.

2 Q So you believe that your request to recover
3 the GBRA using the capital structure from that
4 proceeding is consistent with the Commission's order in
5 the needs determination, but you're not sure if the
6 needs determination made any finding about how that unit
7 would ultimately be recovered in rates, is that
8 accurate?

9 A We are proposing that GBRA recover the cost of
10 that investment in rates on the day it goes into
11 service, and that's what's been reflected here
12 consistent with the cost estimates that were presented
13 in that need determination at the time that this
14 technology, this plant, was considered for investment
15 for our customers.

16 Q And I understand that, and I think what I'm
17 trying to nail down, though, is that in making the
18 statement that the company's request to use its capital
19 structure for the GBRA is consistent with the needs
20 determination proceeding, whether you considered whether
21 the Commission opined at all in that needs determination
22 proceeding on how that unit would ultimately be
23 recovered in rates?

24 A Again, I said I was not aware of the
25 discussion on how it would be recovered. I would like

1 to add, though, that the Commission's own rules on
2 generating plant recovery refer back to need
3 determination capital amounts as a threshold measure of
4 reasonableness for inclusion of plant and rates.

5 Q I'm going to switch gears and topics just a
6 little bit.

7 In your rebuttal testimony you responded to
8 Mr. Collins' recommendations to apply *pro rata*
9 adjustments reconciling rate base and capitalization
10 only to investor -- do you need me to repeat the
11 question?

12 A Yes.

13 Q In your rebuttal testimony, you responded to
14 Mr. Collins' recommendation to apply *pro rata*
15 adjustments reconciling rate base and capitalization
16 only to investor-supplied sources of capital. Do you
17 recall that?

18 A Yes.

19 MR. BUTLER: Could you point her to where
20 you're referring in the testimony?

21 MS. GRIFFITHS: I'm about to.

22 MR. BUTLER: Thank you.

23 BY MS. GRIFFITHS:

24 Q And the primary basis for your disagreement I
25 believe is cited on page 7, line 12 through 16, which

1 is --

2 MR. BUTLER: Of the rebuttal?

3 MS. GRIFFITHS: Yes.

4 BY MS. GRIFFITHS:

5 Q Which is that his adjustments would be
6 appropriate only if FPL were financing the clause-
7 related plant and CWIP that is excluded from rate base
8 differently than it is financing the plant and CWIP
9 included in the base rate recoverable rate base, is that
10 accurate?

11 A That's one part of my concern, yes.

12 Q Okay. Now, I would like to address your
13 contention with respect to the base rate recoverable
14 rate base, as you describe it. What are you referring
15 to by "base rate recoverable rate base"?

16 A In this case, it's the \$17 billion that we're
17 seeking to earn a return on and to recover a return of
18 in this proceeding.

19 Q Okay, so let's compare that to the proposed
20 GBRA. Would you agree that the issue raised by Mr.
21 Collins addresses whether the entirety of ADIT, ITC and
22 customer deposits should be allocated among the base
23 rate recoverable rate base on one hand and other forms
24 of recovery such as the GBRA rate base?

25 A I don't know. If he's making that statement

1 in his testimony, I would prefer to answer if I could
2 look at that with you, and I don't have his testimony in
3 front of me.

4 Q I think the testimony reflects itself, so
5 let's just walk through a hypothetical here.

6 Let's assume that there are only two forms of
7 recovery, and therefore only two rate bases, the GBRA
8 rate base and the base rate recoverable rate base. And
9 there are two capitalizations used for the respective
10 rates of return on each of the rate bases, one for each
11 form of recovery. Is that clear?

12 A I'm with you.

13 Q Okay, so the two forms of recovery are base
14 rates and the GBRA. Let's assume that the combined rate
15 base for base rates and the GBRA exactly equals the
16 company's capitalization. Are you with me on that?

17 A Would you repeat that one more time?

18 Q Let's assume that the combined rate base for
19 base rates and the GBRA exactly equals the company's
20 capitalization.

21 A Okay.

22 Q Now, if FPL's approach is used, then the total
23 company ADIT, ITC and customer deposits are allocated
24 between the base rate recoverable base rate -- rate base
25 and the GBRA rate base, is that correct?

1 A Would you repeat one more time?

2 Q Sure. I'm just trying to get a distinction
3 between the company's proposal here. If the company's
4 approach is used, then ADIT, ITC and customer deposits
5 are allocated between base rate recoverable rate base on
6 one hand and the GBRA rate base on the other?

7 A So your assumption is we're going to set base
8 rates and the item we're going to have to adjust is
9 simply for GBRA, there are no other items?

10 Q That's correct.

11 A Okay.

12 Q So then my question was, is it correct that if
13 the company's approach is used, then the total ADIT, ITC
14 and customer deposits are allocated between base rate
15 recoverable rate base and the GBRA rate base?

16 A Yes, if our submittal contemplated situations
17 where GBRA was always occurring at the time of the base
18 rate case, that's true. What I would like to just
19 reinforce, though, is that we have reflected our base
20 rate items and reconciled rate base to cost of capital
21 in the way that we believe is appropriate and
22 consistent, *pro rata*, and we have in a completely
23 different forum, using a different kind of touchstone
24 back to need determination, looked at that incremental
25 cost of that one plant.

1 Q I understand that, and I just want to walk you
2 through my hypothetical, so that -- all right. If Mr.
3 Collins' approach is used and all of the ADIT, ITC and
4 so on is in the base rate recoverable rate base, then
5 there would be no allocations to the GBRA rate base, is
6 that correct, or there should be no allocations?

7 A I'm trying to follow along your hypothetical,
8 and I think that would be true.

9 Q In that instance, there would be no double-
10 counting of ADIT, ITC and customer deposits between base
11 rates and the GBRA, correct?

12 A Well, simply because of this circumstance
13 where the first year deferred tax associated with this
14 new generating plant is quite low relative to the
15 overall balance of accumulated deferred taxes, but
16 again, his method gives us grave concern, because to
17 ensure that you're not going to violate normalization,
18 you've always got to be comparing what is in your
19 starting point with what you're adjusting out.

20 Q And if we didn't have a GBRA, we wouldn't have
21 to worry about this in this hypothetical, would we?

22 A If we didn't have clause items, if we didn't
23 have a plant that's coming out as CWIP to earn a return
24 through AFUDC, we would not have reconciliation issues,
25 that's correct.

1 Q Let's go back to the discussion that we were
2 having, and that was that if you allocated all the ADIT,
3 ITC and customer deposits between -- to rate base rather
4 than allocating it to GBRA, there would be no double-
5 counting, and I think we're on the same page, that the
6 answer would be there would be no double-counting, is
7 that correct?

8 A I don't think I agreed there would be no
9 double-counting. I said you would not run the risk of
10 normalization violations simply because in your example
11 the only amount that's coming out is GBRA, and we have a
12 very immaterial amount of deferred taxes associated with
13 GBRA. It's not an appropriate method, and it's not the
14 fact circumstances that we have in our case today where
15 \$3 billion worth of costs are being adjusted out to earn
16 a return in other ways, or through other venues, I
17 should say.

18 Q Understood, and let's go back to my
19 hypothetical, and under that hypothetical, there would
20 be different rates of returns required between base
21 rates and the GBRA, is that correct?

22 MR. BUTLER: I object to this line of
23 questions. I think that Ms. Ousdahl has explained
24 several different ways that the hypothetical is
25 unrepresentative and unrealistic and isn't directed to

1 the types of clause recoveries and CWIP funding that her
2 testimony refers to, and yet counsel keeps coming back
3 to the same unrepresentative hypothetical.

4 ACTING CHAIRMAN EDGAR: Ma'am?

5 MS. GRIFFITHS: Yes, Commissioner, I
6 understand that this is a hypothetical, and I'm trying
7 to walk through the hypothetical, and Ms. Ousdahl has
8 her opportunity to explain whether or not she agrees
9 with it. It is, however, a legitimate hypothetical, and
10 there is an issue in this case that if the Commission
11 were to approve the GBRA, there would be undercounting
12 of ADIT associated with that.

13 And so I understand that hypotheticals are
14 simplistic and they also often assume that all things
15 being equal and so on, and so for that reason, they
16 don't like the hypothetical, but I'd like to be allowed
17 to proceed just to address the issue.

18 ACTING CHAIRMAN EDGAR: Let me ask you this,
19 realizing that the hour is getting late and we will be
20 going for at least a little while longer, but roughly
21 how much more do you have along this line?

22 MS. GRIFFITHS: I think I'll be finishing up
23 with this particular line rather shortly, and then I
24 actually don't have that much more. I have
25 probably about ten or 15 -- two other lines of cross, I

1 think that will sum it up.

2 ACTING CHAIRMAN EDGAR: Overruled. Let's move
3 along.

4 BY MS. GRIFFITHS:

5 Q Ms. Ousdahl, in my hypothetical, there would
6 be different rates of return required between base rates
7 and the GBRA, correct?

8 A Yes, I believe so.

9 Q And the reason for the different rates of
10 return is that if the entirety of the ADIT, ITC and
11 customer deposits are assigned to the base rate
12 recoverable rate base, then there are no additional
13 amounts that should be reflected in the GBRA rate of
14 return, correct?

15 A Yes, I think in your hypothetical you have
16 just understated our required return by including 100
17 percent of deferred taxes after reconciliation to rate
18 base for all other base rate items.

19 Q Okay. And in this proceeding, with respect to
20 the capital structure as opposed to offsetting against
21 rate base, the rate of return that you propose in the
22 GBRA for West County Unit 3 does not reflect any ADIT,
23 ITC or customer deposits, correct?

24 A As I tried to explain earlier, deferred taxes
25 are included in the calculation of revenue requirements

1 appropriately for that asset. They're not ignored.

2 Q Understood, and that's the end of that line.

3 MS. GRIFFITHS: I'm passing out an additional
4 exhibit that will need to be marked. I believe we're on
5 Exhibit 467.

6 ACTING CHAIRMAN EDGAR: I think we're on 468,
7 but let me -- I see a nod from staff. We'll mark this
8 as 468. And if you will give us a title?

9 MS. GRIFFITHS: NEIL 2008 Annual Report.

10 ACTING CHAIRMAN EDGAR: NEIL, N-E-I-L, 2008
11 Annual Report.

12 (Exhibit No. 468 marked for identification.)

13 BY MS. GRIFFITHS:

14 Q Ms. Ousdahl, would you please turn to your
15 Exhibit KO-16 in your rebuttal testimony?

16 A I'm there.

17 Q Now, this exhibit sums up the company's
18 changes in its 2010 and 2011 revenue requirements from
19 its direct case, is that correct?

20 A That's correct.

21 Q All right. And one of the items on this
22 revision to the company's case relates to distributions
23 from the Nuclear Electric Investment Limited, is that
24 correct?

25 A That's correct. No, I'm sorry, it's Nuclear

1 Electric Insurance Limited, I believe.

2 Q I misspoke. Can we refer to it as NEIL for
3 short?

4 A Yes.

5 Q Okay. NEIL is a utility-owned insurer for
6 nuclear risk, is it not?

7 A No, I don't believe so. I think there are
8 members that are not regulated that participate in the
9 insurance as a mutual through NEIL.

10 Q Okay. So FPL is a member of NEIL, is that
11 correct?

12 A That's correct.

13 Q And so the company is insured for its nuclear
14 risk by NEIL?

15 A Not solely. It's one layer of specific
16 coverage that we're securing through this membership.

17 Q Okay. And as -- if we look to line 2 on
18 Exhibit KO-16, there is an adjustment that you made that
19 says that O&M expenses are understated due to the
20 forecast of NEIL insurance distributions budgeted at
21 \$11 million, and it appears that you have added to the
22 amount -- added to the revenue requirement, \$11 million
23 for 2010 and 2011 associated with the company's
24 expectation that it will not receive NEIL distributions
25 in 2010 and 2011, is that correct?

1 A That's correct.

2 Q All right. And I have handed you the annual
3 report from NEIL for 2008, and I believe you also have
4 some testimony on this issue in your rebuttal testimony,
5 but just to sum it up, it's FPL's belief, is it not,
6 that because of the economic downturn, NEIL may not make
7 distributions in 2010, correct?

8 A I believe more specifically, NEIL has had a
9 very tremendous peak in losses in 2008, so it's both
10 experienced losses and degradation of the returns --
11 negative returns of its investment portfolios. So the
12 combined events have caused it to notice all members
13 that it's improbable that we will receive a distribution
14 in 2010, and perhaps prospectively, we believe,
15 associated with 2009 activity. They go on to state
16 their sole objective has got to be to rebuild their
17 surplus.

18 Q Am I correct that NEIL hasn't definitively
19 stated that it will not provide distributions, correct?

20 A We are making a probability assessment. NEIL
21 has put us on notice. Our experts have looked -- our
22 risk management folks have looked at the results of
23 NEIL. We're members, we have access to all the
24 financial information, and our risk management experts
25 have advised us there will be no distribution for 2010

1 and 2011.

2 Q I don't think you answered my question. I
3 would just like to know, has NEIL definitively informed
4 you that there will be no distributions in 2010 and
5 2011?

6 A No. They have told us it's probable and not
7 to expect a distribution, and we will not know until the
8 end of the year, until the end of 2009.

9 Q Could you turn, and I acknowledge that the
10 numbers are very small, but it's on Exhibit 468, it's
11 page 5 of that exhibit. Let me know when you find it.

12 A I seem to have a copy that's skipping pages.

13 Q Actually, there's two pages on each page, so
14 page 4 will be on the left and page 5 is in the upper
15 right-hand corner.

16 A I'm sorry. And you want me on 5?

17 Q Yes.

18 A Okay, I'm with you.

19 Q All right. And this exhibit shows, and there
20 is a graph at the top, the annual policyholders'
21 distribution in millions. Do you see that?

22 A Yes.

23 Q And do you agree with me that this exhibit
24 shows that NEIL has made distributions to its members
25 going back, at least in this exhibit, to back as far as

1 1999, correct?

2 A Yes. Those are aggregate distributions to all
3 of the membership.

4 Q Okay. And then we can see that in '08, the
5 distribution was -- I believe it's reflected under the
6 paragraph, "Distributions," but the distribution to
7 members was 175 million, is that accurate?

8 A Yes, that looks correct.

9 Q And FPL received that distribution in 2009, is
10 that correct?

11 A Well, we didn't receive 175 million, we
12 received our portion of the '08 distribution in '09.

13 Q Understood, and was that portion around
14 \$11 million?

15 A I believe that it was.

16 Q So the company's belief is that it will no
17 longer receive a distribution from NEIL, correct?

18 A That's correct, we believe there will be no
19 distribution.

20 Q But the company has received one every year --
21 well, how long has the company been a member of NEIL?

22 A I believe prior to '99, I just don't know the
23 exact year.

24 Q How far back has it received distributions?

25 A I don't know.

1 Q Has it received distributions at least as far
2 back as 1999?

3 A I don't know. I think it has regularly
4 received distributions, and those distributions can be
5 volatile, and it has to do with losses and the surplus
6 -- or the investment returns, just as they've described
7 in this report.

8 Q And I think we can see the volatility of the
9 distributions in the aggregate on this graph, can't we?

10 A Yes. It looks like it has declined
11 considerably in the last ten years.

12 Q Okay. Now, one of the perceived benefits of
13 the GBRA, is it not, is that there will no longer --
14 that the company will not have the need to come in for
15 another rate case, correct?

16 A To the extent we have to include in rates a
17 new generating unit, it would avoid the need otherwise
18 to come in to include that unit in rates, that's
19 correct.

20 Q Has NEIL informed the company that it would
21 not -- that it no longer plans to make distributions to
22 its members in the future?

23 A No. It has informed us, as it does every
24 year, of the financial performance of its operation and
25 the impact of -- or expected impact of those results on

1 future distributions. That's what they have done in
2 this regard.

3 Q Okay. Assume for me that NEIL's
4 distribution -- I'm sorry, NEIL's surplus is sufficient
5 to fund distributions as it has been for the last ten
6 years, but the Commission accepts this 11 million
7 revenue requirement adjustment. Assuming that to be the
8 case, and NEIL does indeed make distributions to the
9 company, wouldn't that go straight to FPL's earnings?

10 A It would only go straight to FPL's earnings if
11 they do not redeploy that in some other category of
12 expense. I mean, if we had an eleven -- any windfall,
13 it's going to be redeployed in the business. Whether
14 that's a capital item or an expense item, I don't know.

15 MS. GRIFFITHS: If I could have just a moment,
16 I think I'm finishing up here.

17 ACTING CHAIRMAN EDGAR: That's fine, take a
18 moment.

19 (Brief pause.)

20 MS. GRIFFITHS: Thank you. I pass the
21 witness.

22 ACTING CHAIRMAN EDGAR: Thank you.

23 Mr. Beck?

24 MR. BUTLER: It looks like Mr. Beck has
25 already gone.

1 ACTING CHAIRMAN EDGAR: Ms. Bradley?

2 MS. BRADLEY: No questions.

3 ACTING CHAIRMAN EDGAR: No questions?

4 MS. BRADLEY: Right.

5 ACTING CHAIRMAN EDGAR: Mr. Moyle?

6 MR. MOYLE: Mr. Wright and I just had a
7 conversation. I have quite a bit for this witness, he
8 says he has five or ten minutes, so I was going to --

9 ACTING CHAIRMAN EDGAR: In the interests of
10 time, you want to switch orders?

11 MR. MOYLE: Yes.

12 ACTING CHAIRMAN EDGAR: That works for me.

13 Mr. Wright?

14 MR. WRIGHT: Thank you, Madam Chairman.

15 CROSS EXAMINATION

16 BY MR. WRIGHT:

17 Q Good evening, Ms. Ousdahl. My name is Scheff
18 Wright, I'm an attorney for the Florida Retail
19 Federation in this proceeding, and I really do have what
20 I think are a few questions for you.

21 I would like to follow on an answer you gave
22 in questioning a moment ago to Ms. Griffiths. You said
23 that whether -- I think you said that whether an
24 insurance distribution or a distribution of funds from
25 the Nuclear Electric Insurance --

1 A Limited.

2 Q Limited?

3 A Limited. NEIL, we agreed to call it NEIL.

4 Q NEIL. From NEIL, you said whether that would
5 go to earnings depends on whether it's redeployed
6 elsewhere, correct?

7 A That's correct.

8 Q Okay. Does FPL track revenues of that sort by
9 source to use?

10 A That's not a revenue, that would be a
11 reduction in expense. If we would receive an unexpected
12 distribution from NEIL, it would reduce our operating
13 expenses.

14 My response to Ms. Griffiths was to explain
15 that the cash might be deployed any number of ways, and
16 if it were deployed in an expense item, that would
17 offset any reduction associated with the NEIL receipt.

18 Q Thank you, that's getting to my question. As
19 cash, wouldn't that -- we're talking about a cash
20 receipt from NEIL, correct?

21 A Yes.

22 Q Wouldn't that cash get commingled with other
23 cash in the company?

24 A Sure. That's why I said I didn't know. It's
25 going to get utilized.

1 Q And then my question is that if you assume
2 that the company's capital expenditures and operation
3 and maintenance expenses otherwise stay the same, there
4 will be an increment of \$11 million available for
5 earnings, correct?

6 A If we did not increase our spend to take
7 account of the fact that we had an unexpected windfall,
8 that would go as reduction expense to the bottom line.

9 Q Thank you.

10 I don't remember the exact context, but in
11 your summary you said something to the effect that the
12 Intervenors' recommended results would result in FPL
13 earnings results well below FPL's cost of equity. Is
14 that a fair characterization of something you said?

15 A I honestly --

16 Q I wrote that down, taking notes.

17 A It's terrible, but I don't recall discussing
18 returns, and --

19 Q I did write down the phrase "well below FPL's
20 cost of equity" as you were giving your summary, but
21 that was the best I could do at the time.

22 A I don't see a discussion -- I have a lot of
23 discussion on Intervenor action and the appropriate
24 treatment that's being deployed, but I don't see where I
25 connected the Intervenor approaches to not being able to

1 earn our allowed return. I discuss that in my direct
2 summary, however, that without rate relief, we would not
3 earn our necessary return. That was in the earlier part
4 of my summary.

5 Q That was what I was getting at. And all I
6 want to ask you on that, I think, is you're not the ROE
7 witness, are you?

8 A No, I'm not.

9 Q So your statement really -- would it be a fair
10 interpretation of your statement that without the
11 relief, you would earn below FPL's cost of equity as
12 testified to by FPL's other witnesses on that subject?

13 A That's right. We believe 12.5 is our cost of
14 capital -- cost of equity, and if we're not successful
15 in achieving any sort of a base rate increase, we will
16 not earn that required cost of equity.

17 Q I understand that, but my question goes to
18 this point: Your testimony assumes the 12.5 percent.
19 You're not testifying that that is or is not the rate?

20 A I'm not the ROE witness.

21 Q Thank you.

22 I have a question about -- and one of the MFR
23 schedules for which you're identified as the sponsor,
24 and it's Schedule C-1.

25 MR. BUTLER: Scheff, do you want her to look

1 at C-1?

2 MR. WRIGHT: I do. I promise there are few
3 questions on this line. There's just a number I need to
4 understand, and it's this witness.

5 MR. BUTLER: No problem. Let's just have her
6 get it, and then I need to get a copy.

7 THE WITNESS: 2010 or --

8 BY MR. WRIGHT:

9 Q I think that -- yes, let's look at 2010,
10 that's good.

11 A I have it in front of me.

12 Q Thanks.

13 My question is really a question designed to
14 help me understand what a particular value or maybe two
15 or three particular values in this table show. What I
16 want to know is, looking at column 6, the value shown in
17 what is row 2, "Revenue From Sales," is that the value
18 for revenue from sales of electricity?

19 A Yes.

20 Q Thank you. If you know, would that
21 correspond to the values shown on C-5, which is a
22 schedule sponsored by Renae Deaton? But if I look at
23 the numbers, they look to be identical, within rounding
24 error. I think it corresponds -- if you would maybe
25 look at column 3 on C-5?

1 A It's close -- oh, yes, there. Okay. I'm just
2 not the sponsor of C-5, so I'm not as familiar. Yes.
3 In her column 3 on C-5?

4 Q Yes, ma'am.

5 A Yes, it's very close.

6 Q Thank you.

7 I have just a few other questions about your
8 testimony regarding the generation base rate adjustment.
9 I think you made the statement that GBRA would never
10 result in overearnings, correct?

11 A The implementation of GBRA would result in our
12 earning at the authorized midpoint.

13 Q That goes to the point of my question. When
14 you make the statement, and as I think you did, that it
15 wouldn't result in overearnings, that assumes or
16 addresses the question relative to the midpoint of the
17 last authorized range, correct?

18 A Right.

19 Q How do O&M costs work in the GBRA? That was
20 arguably a somewhat vague question, so I was going to
21 try to make it a little more specific.

22 Are O&M expenses added into the revenue
23 requirement as presented in the need determination
24 estimates of O&M expenses?

25 A They are.

1 Q Are the O&M expenses then trued up on a plant-
2 specific basis in the implementation of the GBRA?

3 A No. The only true-up is for the capital-
4 related costs.

5 Q So if by some chance the O&M expenses were --
6 given generation addition, were actually less than
7 projected in need determination, the extra would be
8 otherwise available to the company?

9 A Yes. It turns out that our estimate is right
10 on top of need determination, both for total capital and
11 for O&M. I think those numbers have been presented in
12 the case.

13 Q When you say that, you're speaking of West
14 County 3?

15 A Yes, I am.

16 Q Thank you.

17 MR. WRIGHT: That's all I have for
18 Ms. Ousdahl.

19 ACTING CHAIRMAN EDGAR: Thank you.

20 Mr. Moyle, you said you had a good amount, is
21 that what you said? I'm thinking it's about that time
22 to call it a day or a night or both, but before we do,
23 let me look to staff. Did you want to talk to us about
24 exhibits?

25 MS. BENNETT: I would appreciate an

1 opportunity for the parties to come and talk to me, and
2 maybe a lot of this will --

3 COMMISSIONER ARGENZIANO: Madam Chair, I'm
4 sorry, I can't hear anybody. I don't know if we're just
5 getting tired and we're getting lower or the mikes are
6 down.

7 ACTING CHAIRMAN EDGAR: Well, Commissioner
8 Argenziano, I won't presume to talk for anybody else,
9 but I can tell you that I'm getting tired, so we're
10 about to call it a night, and I'm just looking to -- and
11 we will begin in the morning with continued cross with
12 this witness, but before we adjourn, I wanted to see if
13 staff had anything they wanted to talk to us about this
14 evening.

15 So, Ms. Bennett, if you would begin again,
16 please.

17 MS. BENNETT: Certainly. What I would suggest
18 is that maybe if I could talk with the parties for a few
19 minutes and make sure that they have all the documents
20 and give them an opportunity to review, maybe we can
21 save some of our time tomorrow.

22 ACTING CHAIRMAN EDGAR: Okay, then I would ask
23 that after we break for the evening here in just a
24 couple moments, that all of the parties get with our
25 staff to go over the documents and exhibits and whatever

1 other matters would be helpful so that we can begin
2 strong and make good progress in the morning.

3 Any other matter that would be useful to --
4 before I ask that, let me say this, which I think I just
5 did, but I will continue.

6 In the morning after we talk about whatever
7 preliminary matters may be helpful, Mr. Moyle, we will
8 begin with you. We will ask the witness to come back
9 and help start us off in the morning. My understanding
10 that after this witness is completed, that then Witness
11 Ender will be next up, unless that -- that's my
12 understanding tonight, so that's the way we will leave
13 it tonight.

14 Mr. Butler, do you have anything else to add?
15 You're not going to ask me about start time, are you?

16 MR. BUTLER: I was tempted, but -- no, I have
17 nothing to add.

18 ACTING CHAIRMAN EDGAR: Anybody else, anything
19 that would be helpful for us to discuss?

20 Yes, Ms. Bradley.

21 MS. BRADLEY: I just have a question about, I
22 think we probably are going to have some witnesses
23 tomorrow that we may need some of the confidential
24 documents, and I don't know if we have extra copies of
25 them or something to use for examination purposes or --

1 MS. BENNETT: Yes, we will have copies for
2 everyone to use of the staff's confidential exhibits.
3 If you've got something else, you need to bring yours.

4 MS. BRADLEY: Thank you.

5 ACTING CHAIRMAN EDGAR: And if there is
6 anything more specific on that, I know staff will try to
7 help you here in a few moments.

8 Okay, then we're going to be back and start at
9 9:30 tomorrow morning.

10 Commissioner Skop?

11 COMMISSIONER SKOP: Thank you. I'm just
12 looking at the remaining witnesses and the proposed
13 schedule that has already slid, so I'm wondering as to
14 Saturday, whether we may extend the end time past one
15 o'clock if necessary?

16 ACTING CHAIRMAN EDGAR: I know that the
17 Chairman had prior to this said 9:00 to 1:00, so I will
18 hold that question for him to take up in the morning,
19 and thank you for giving us a chance to think about it.

20 MR. WRIGHT: Madam Chairman?

21 ACTING CHAIRMAN EDGAR: Yes, Mr. Wright.

22 MR. WRIGHT: If I may, I have a question about
23 order of witnesses, and I thought it might be more
24 appropriate to do it on the record.

25 There have been a lot of witness lists, and I

1 thought that I recalled -- I thought that I recalled
2 from an earlier list that there was a consensus
3 agreement among the parties that we would take the
4 testimony of Dr. Avera and Mr. Pimentel on Friday. So
5 my only question is, is that FPL's plan, or are we going
6 to go with the order of witnesses shown on the last list
7 that I got this morning? I'm okay with either, I just
8 need to know how to prep for tomorrow, Madam Chairman.

9 Thank you.

10 ACTING CHAIRMAN EDGAR: Would I be accurate to
11 also describe your question as will Witness Pimentel be
12 up Friday or Saturday?

13 MR. WRIGHT: My real question -- I, too, am an
14 optimist, Madam Chairman. I just want to know -- it's
15 FPL's case and they can put their witnesses up in
16 whatever order they want. Earlier I thought that one of
17 the lists had Dr. Avera and Mr. Pimentel on Friday. I
18 just need to know --

19 ACTING CHAIRMAN EDGAR: I didn't catch the
20 Avera. I think I understand.

21 MR. WRIGHT: Is it FPL's intention to go in
22 the order listed in this list, or is there going to be a
23 reversion to the prior indication that we would take the
24 testimony of Dr. Avera and Mr. Pimentel on Friday?

25 ACTING CHAIRMAN EDGAR: We will let them

1 huddle for a moment and see if we can get some clarity.

2 (Brief pause.)

3 MR. BUTLER: FPL is not intending to move them
4 out of order to make a sort of time-certain appearance
5 on Friday or date-certain appearance on Friday.

6 MR. WRIGHT: That answers my question, Madam
7 Chairman. Thank you very much.

8 MR. BUTLER: Obviously if we get to them, so
9 much the better, but we're not planning to move them out
10 of order.

11 ACTING CHAIRMAN EDGAR: Understood.

12 Mr. Moyle?

13 MR. MOYLE: We're just working off the list
14 that you all distributed this morning still, right?

15 MR. BUTLER: That's right.

16 ACTING CHAIRMAN EDGAR: That's my
17 understanding now, and, of course, reserve for the
18 Chairman to take up any preliminary matters or requests
19 about order of witnesses in the morning as well.

20 Anything further? Hearing none, we're
21 adjourned for the evening. We will be back at 9:30
22 tomorrow morning to continue. Thank you all.

23 (Hearing adjourned at 7:00 p.m.)

24 (The transcript continues in sequence with
25 Volume 27.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)

COUNTY OF LEON)

I, CLARA C. ROTRUCK, do hereby certify that I was authorized to and did stenographically report the foregoing proceedings at the time and place herein stated.

IT IS FURTHER CERTIFIED that the foregoing transcript is a true record of my stenographic notes.

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

DATED this 8th day of September, 2009, at Tallahassee, Leon County, Florida.

Clara C. Rotruck

CLARA C. ROTRUCK