

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 120015-EI
FLORIDA POWER & LIGHT COMPANY**

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

REBUTTAL TESTIMONY & EXHIBITS OF:

COM 5
AFD 4
APA 1
ECO 1
ENG 1
GCL 1
IDM 1
TEL 1
CLK T-Ct Rep

THOMAS J. FLAHERTY

DOCUMENT NUMBER-DATE
05139 JUL 31 92
FPSC-COMMISSION CLERK

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF THOMAS J. FLAHERTY

DOCKET NO. 120015-EI

JULY 31, 2012

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

I. INTRODUCTION AND QUALIFICATIONS.....3

II. PURPOSE OF TESTIMONY.....4

III. INTERVENOR COMMENTS AND RECOMMENDATIONS.....6

IV. FPL’S STRUCTURE AND AFFILIATE SERVICE DELIVERY MODEL DO NOT NEED TO BE RESTRUCTURED.7

V. SERVICE AGREEMENTS ARE NOT NECESSARY TO ENSURE EFFECTIVE SERVICE DELIVERY.....15

VI. FPL DOES NOT NEED TO PERFORM ADDITIONAL ACTIVITIES TO UNDERSTAND “MARKET PRICES”.....19

VII. FPL’S DIRECT CHARGE LEVEL IS NOT UNUSUALLY LOW, NOR IS ITS MASSACHUSETTS FORMULA ALLOCATION UNUSUALLY HIGH.....24

VIII. USE OF MASSACHUSETTS FORMULA DOES NOT BIAS AGAINST CUSTOMERS.....27

IX. INSUFFICIENT EVIDENCE HAS BEEN PRESENTED TO SUPPORT ANY ADJUSTMENT TO FPL’S AFFILIATE COSTS.....30

X. CONCLUSIONS.....33

1 **I. INTRODUCTION AND QUALIFICATIONS**

2

3 **Q. Please state your name and business address.**

4 A. My name is Thomas J. Flaherty, and I am a Senior Vice President in the Energy,
5 Chemicals and Utilities practice of Booz & Company. My business address is
6 901 Main Street, Suite 6500, Dallas, Texas 75202.

7 **Q. On whose behalf are you testifying in these proceedings?**

8 A. I am testifying on behalf of Florida Power and Light Company ("FPL").

9 **Q. What is your educational background?**

10 A. I graduated from the University of Oklahoma with a B.B.A. degree in Accounting
11 and immediately joined Touche Ross & Co., where I began my career as a
12 management consultant. Subsequently, I worked for Deloitte & Touche (formed
13 by the merger of Touche Ross and Deloitte, Haskins & Sells in 1989) for more
14 than 30 years until joining Booz Allen Hamilton as a Senior Vice President. In
15 2008, a corporate transaction was announced with the Federal consulting practice
16 of Booz Allen Hamilton being acquired by the Carlyle Group and Booz &
17 Company being created as an independent entity with a focus on commercial
18 sector clients. I continue to be a Senior Vice President of Booz & Company in
19 the post-transaction organization. Additional information about my background
20 and experience may be found in Exhibit TJF-1.

21 **Q. Have you previously testified before any regulatory commissions?**

22 A. Yes, I have pre-filed direct testimony and appeared for cross-examination in the
23 states of Arizona, California, Colorado, Delaware, Georgia, Iowa, Idaho, Illinois,
24 Indiana, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Minnesota,

1 Mississippi, Missouri, Montana, New Jersey, New Mexico, North Carolina, Ohio,
2 Oklahoma, Oregon, Texas, Utah, Washington, Wyoming, in the District of
3 Columbia, and before the Federal Energy Regulatory Commission (“FERC”).

4 **Q. Do you hold any professional certifications?**

5 A. Yes. I am a Certified Management Consultant and a member of the Institute of
6 Management Consultants.

7 **Q. Are you sponsoring any exhibits in this proceeding?**

8 A. Yes. I am sponsoring the following exhibits:

- 9 ● TJF-1 - Prior Regulatory Experience
- 10 ● TJF-2 - Comparative Service Company Composition
- 11 ● TJF-3 - Direct Charge Levels for Various Utilities
- 12 ● TJF-4 - Trend of FPL MWh and Customers
- 13 ● TJF-5 – Form 1 Benchmarking Summary – FPL Compared to Average

14
15 **II. PURPOSE OF TESTIMONY**

16
17 **Q. Have you provided any consulting support to this particular proceeding?**

18 A. Yes, I was engaged for the purposes of providing advice and support information
19 to FPL’s counsel related to the incurrence, distribution and recovery of charges
20 for corporate services performed.

21
22 I conducted a variety of interviews and analyses that provided insights into: the
23 nature of affiliate services and charges; the level of costs incurred; the manner in
24 which these services and charges were planned, budgeted and managed; the

1 nature of the cost allocation process utilized to distribute these costs, and; the
2 comparability of these costs to those of similar companies. In each topical area,
3 specific attributes were utilized as a basis for evaluating the related activities,
4 processes and costs with the analyses conducted consistent with other similar
5 assignments we have completed regarding to the subject of the reasonableness of
6 affiliate charges.

7
8 My analyses evaluated the nature of these costs to determine whether they are
9 necessary to support the needs of affiliate or operating companies; whether they
10 are necessary to meet FPL's responsibilities to customers, shareholders, and
11 governmental entities; whether they provide identifiable benefits to FPL; whether
12 these costs are appropriately controlled and managed; whether these costs are
13 appropriately allocated among the affiliates; and whether these costs are
14 reasonable when compared against other similar companies.

15 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

16 A. The purpose of my rebuttal testimony is to respond to the comments of Office of
17 Public Counsel's witness David Vondle who raises concerns regarding FPL's
18 current affiliate relationships and transactions, proposes alternative structures and
19 methodologies and recommends adjustments to FPL's affiliate charges.
20 Specifically, I address the assertions made by Mr. Vondle regarding FPL's
21 affiliate service delivery model, lack of service agreements, asymmetric pricing
22 procedures and, use of a general allocator.

23

1 **III. INTERVENOR COMMENTS AND RECOMMENDATIONS**

2

3 **Q. What were the principal issues raised by Mr. Vondle in this testimony to**
4 **which you respond?**

5 A. Mr. Vondle’s assertions relating to affiliate charges that I will address can be
6 summarized as follows:

- 7 1. There is no service company as a legal entity that encompasses the common
8 support services provided by FPL, which complicates the determination of
9 the appropriateness of affiliate transactions.
- 10 2. FPL has service agreement-like contracts for only two of its several
11 affiliates.
- 12 3. Asymmetric pricing is not used by FPL for all affiliate transactions for
13 goods and services provided
- 14 4. FPL uses the general allocator too much and the direct charge method too
15 little.
- 16 5. The Massachusetts Formula used by FPL is biased against customers
17 because it doesn’t address “growth and change.”

18

19 Additional responses to other assertions of Mr. Vondle are contained in the
20 rebuttal testimony of FPL witness Ousdahl.

21 **Q. What adjustments did Mr. Vondle propose in order to address the issues he**
22 **raised?**

23 A. Mr. Vondle recommends FPL’s 2013 charges to affiliates be increased by 20% to
24 \$180.7 million and 2013 charges from affiliates to FPL be reduced by 20% to

1 \$17.8 million. In addition, Mr. Vondle recommends that the Florida Public
2 Service Commission (“Commission”) also open an investigation into FPL’s
3 affiliate relationships and transactions.

4 **Q. Do you agree with Mr. Vondle’s assertions and recommendation?**

5 A. No, for the reasons I discuss below.

6

7 **IV. FPL’s STRUCTURE AND AFFILIATE SERVICE DELIVERY MODEL DO**

8 **NOT NEED TO BE RESTRUCTURED**

9

10 **Q. What has Mr. Vondle stated about FPL’s current affiliate service delivery**
11 **model?**

12 A. Mr. Vondle states that FPL’s current delivery model for affiliate services is
13 complicated and “less than transparent,” which leads to an “extra step” for
14 allocating common and shared costs. His concerns appear to be grounded in his
15 lack of familiarity with the FPL model and its difference from other service
16 company-based models with which he states he is more familiar. According to
17 Mr. Vondle, the absence of a formal service company structure means that
18 “...[FPLs] costs must first be segregated between its pure utility operating
19 company costs and the common or shared costs that should be allocated among
20 FPL and its affiliates.” To Mr. Vondle, this additional requirement creates an
21 incentive for FPL to classify costs as purely utility operating costs that are not
22 allocated to unregulated affiliates, thus overstating the level of costs that should
23 be borne by customers.

1 **Q. Do you agree with Mr. Vondle’s assertions about complexity and lack of**
2 **transparency?**

3 A. No, I do not. Mr. Vondle’s assertions are simply that – personal opinions not
4 supported by the facts related to how FPL structures and executes its role in
5 performance of a range of services on behalf of itself and its affiliates. Moreover,
6 his assertions are primarily the result of his fundamental lack of familiarity with
7 FPL, rather than any deficiency in the underlying affiliate services delivery
8 structure that exists today at FPL. Mr. Vondle appears to be used to dealing with
9 a specific affiliate service delivery model (i.e., a service company model), and
10 doesn’t have familiarity with FPL’s “primary operating entity” approach, which is
11 an equally effective model.

12 **Q. Is FPL’s service delivery model unique?**

13 A. No. Mr. Vondle stated that companies with operations in more than one state –
14 typically those companies that were “registered” under the Public Utility Holding
15 Company Act of 1935 (“PUHCA”) and are today operating in multiple states
16 under a holding company structure -- frequently utilize a formal service company.
17 But companies that were not registered holding companies or today operate in
18 single states are free to adopt operating and delivery models that they believe
19 provide the optimal blend of operating effectiveness and cost efficiency.

20

21 The differential between FPL and the formal service company model is not
22 atypical, given that the regulatory requirements embodied in PUHCA only
23 applied to approximately 25 companies within the industry. Thus, the rest,
24 including FPL, were not constrained by these structural requirements. They

1 maintained a great deal of flexibility and autonomy with respect to operating and
2 organizational model design, including even whether shared services
3 organizations were implemented. Even where service companies were formed,
4 these retained this flexibility as evidenced by the wide variation in the functional
5 composition of such entities.

6 **Q. How do other utilities organize to provide similar affiliate services?**

7 A. Generally, there have been three primary approaches to creating an affiliate
8 service delivery model: adopt a service company model if the company was a
9 registered holding company under PUHCA; create a shared services entity; or,
10 deliver common services directly from the corporate and business support
11 functional organizations, sometimes known as the “hosted” model. Any of these
12 models can provide for effective delivery of services across the business and any
13 of these models can enable service performance costs to be efficiently incurred.

14 **Q. Is there a standard operating model that utilities adopt for affiliate service
15 delivery?**

16 A. Frankly, there is no common model except for those entities that were registered
17 holding companies and required to adopt a formal service company that would
18 contain employees providing common services to regulated and/or non-regulated
19 affiliates. However, even with a service company in place, the manner in which
20 companies implemented this structure in terms of business role, functional
21 composition, and even allocation factors, could be different. For example, my
22 Exhibit TJF-2 provides an illustrative summary of a sub-set of the service
23 companies and identifies the functions that are formally part of these
24 organizations. As shown, there is wide disparity with respect to whether

1 companies place functions such as fuel, nuclear, engineering and, customer
2 service within these formal organizations. In addition, these companies could
3 also create separate service companies for nuclear operations, such as Southern
4 Company and Entergy do, which they believe provides more focus to their fleets
5 for relevant operating support functions. Thus, a variety of functional elements
6 could be formally part of a service company depending on the purpose of this
7 organization and the operating model within the business.

8
9 Even if a service company was implemented, companies still maintained
10 flexibility with respect to organizational design around this entity. For example,
11 Southern Company created Southern Company Services which is both a legal and
12 operating entity with distinct executive leadership and a strong identity still today.
13 On the other hand, Xcel Energy was a registered holding company that also
14 created a formal service company to “house” common employees for compliance
15 with PUHCA, however, a separate shared services organization was also created
16 and consisted of far fewer functions than the service company and maintains a
17 less visible role within the business. Thus, the manner in which companies
18 implemented PUHCA gave wide latitude to managements in designing their
19 affiliate service delivery models.

20 **Q. How do those companies that are not required to become registered holding**
21 **companies deliver affiliate services?**

22 A. As would be expected, companies not required to adopt a service company
23 structure as part of being a registered holding company can exercise even greater
24 flexibility in how they elect to organize and deliver services to affiliates.

1 Consequently, a number of companies have elected to create a shared services
2 structure as the basis for delivering services across multiple operating segments.
3 However, as I noted, even with a shared services structure, companies markedly
4 differ on the functional composition of this group. This means that some common
5 corporate support functions will exist outside this structure and be delivered
6 directly from the corporate functions. Moreover, adopting a shared services
7 structure is not a universal choice of delivery model. Some companies also
8 simply deliver services from their corporate functions directly to the business
9 segments.

10
11 As an example of how companies work within their own differentiated structures,
12 Sempra Energy is a diversified energy company headquartered in San Diego,
13 California. It operates both regulated and non-regulated business segments across
14 its electric and gas transmission and distribution utilities, merchant generation,
15 pipeline and, energy services businesses. Thus, it is similar to NextEra Energy,
16 Inc. and FPL in that it has significant scale, multiple non-regulated businesses and
17 utility operations. While it has implemented a partial shared services group for
18 selected functions such as legal, regulatory, and human resources, it has not
19 adopted a comprehensive organization to house all of its common corporate
20 services, such as finance and accounting and supply chain. In fact, while it retains
21 certain shared functions at the corporate center level, it also has moved certain
22 support functions to one of the operating utilities to house performance of these
23 activities. Consequently, the Company allocates cost from within and outside the
24 corporate center to its affiliated companies. It follows similar processes as FPL to

1 appropriately distribute costs among its affiliates by using accepted direct charge,
2 direct assignment and general allocation protocols.

3
4 Similarly, Spectra Energy, a Houston-based energy company with pipelines,
5 gathering systems, joint ventures and, utility operations, has a small shared
6 services organization that contains limited functions, such as information
7 technology and facilities management, but does not include other corporate center
8 functions such as finance and accounting, supply chain and human resources.
9 While the company provides enterprise-wide support on behalf of all of its
10 affiliates, it does so from both within and outside the shared services organization.
11 Like Sempra Energy, Spectra Energy is able to provide necessary services to its
12 affiliates using a model that differs from a comprehensive shared services model,
13 and it has adopted a cost distribution process to govern assignment of cost
14 responsibility.

15
16 Other companies within the utilities industry, such as MDU Resources and DTE
17 Energy also operate in a similar manner (i.e., a mix of shared services *and*
18 corporate center functions), with no uniformity in the composition of whatever
19 shared services entity that exists. Like Sempra Energy and Spectra Energy, these
20 companies also utilize similar cost distribution approaches to those in place at
21 FPL (i.e., direct charge for services provided, direct assignment based on causal
22 factors and use a general allocator for all other elements that cannot be more
23 specifically identified).

24

1 Thus, there are no truly common models for service companies, shared services
2 groups or stand-alone corporate centers with respect to defining an “optimal”
3 affiliate service delivery model.

4 **Q. Would Mr. Vondle’s proposal for a “virtual service company” improve the**
5 **delivery or oversight of services within NextEra Energy, Inc.?**

6 A. Mr. Vondle does not elaborate on what he means by a “virtual service company”
7 so it is difficult to imagine what he intends as an outcome. However, in my
8 opinion, FPL already operates in this manner for the following reasons: it
9 functions like a shared services group, in that common corporate services are
10 provided for the benefit of the enterprise; the corporate center functions provide
11 the same services (and more) than a commonly designed shared services group,
12 and; it uses similar processes to distribute costs across the enterprise or to the
13 entity for whom services have been directly provided.

14 **Q. Does FPL’s current affiliate service delivery model create any harm to**
15 **customers?**

16 A. No, it does not. In fact, it provides for effective service delivery and efficient cost
17 performance. It provides for centralization, just like a service company or a
18 shared services group, which enables lower costs to be incurred.

19
20 FPL has provided its Cost Allocation Manual (“CAM”) to this Commission in the
21 past and has been providing affiliate services under this document since the early
22 2000s. FPL has also delivered and received affiliate services consistent with the
23 expectations for conformance established through this document and within the
24 standards and processes contained within this document.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

An established process for cost distribution is contained within this model that is consistent with the approaches utilized by other utilities throughout the United States. Given the comparability of the framework contained within the CAM to what is adopted in other states, I believe that FPL's current affiliate service delivery model fully protects the interests of FPL's customers and provides tangible benefits to them.

Q. Is there any need to restructure FPL's current affiliate service delivery model?

A. No, there is not. FPL's "hosted" approach to corporate center functional performance is not "broken" as it operates effectively and efficiently. No legitimate issues have been demonstrated by Mr. Vondle to suggest that the outcomes would be any more cost efficient under a revised approach. More importantly, FPL would still deliver the same services and assign or allocate costs in the same manner. Mr. Vondle has not appropriately considered at least two fundamental elements: 1) FPL's current affiliate service delivery model is already consistent with his call for a "virtual service company," and; 2) FPL's effective control of corporate center costs already puts it within the top quartile within the industry. Both of these factors suggest the current "hosted" model works well.

In my view, Mr. Vondle is suggesting that some form of a service company model – virtual or otherwise – would be preferable simply because he is less familiar

1 with FPL's model. This is an insufficient reason to restructure an entity that has
2 continuously delivered low cost corporate services from its current structure.

3
4 **V. SERVICE AGREEMENTS ARE NOT NECESSARY TO ENSURE**
5 **EFFECTIVE SERVICE DELIVERY**

6
7 **Q. Please summarize Mr. Vondle's assertions regarding the absence of service**
8 **agreements.**

9 A. Mr. Vondle suggests that it is good regulatory practice for utilities that provide
10 services to affiliates to utilize service agreements to assure affiliate relationships
11 are structured to comply with affiliate rules and regulations. He goes on to say
12 that service agreements provide a starting point for affiliate audits and provide the
13 ability to assure that the affiliate relationship is structured correctly and is being
14 operated as designed.

15 **Q. What are service agreements?**

16 A. Service Agreements are specific instruments utilized with respect to providing
17 common services from a specific functional organization to various entities within
18 an enterprise. These agreements formally document the relationship between a
19 service provider and a service recipient and codify the scope and expectations for
20 service performance.

21 **Q. Are service agreements normally utilized in support of a cost assignment or**
22 **allocation process?**

23 A. For those service companies that were part of registered holding companies, use
24 of formal service agreements or service level agreements ("SLAs") was common

1 and preferred by the Securities and Exchange Commission which administered
2 PUHCA. Other shared services groups also have adopted SLAs – in varying
3 levels of comprehensiveness – as a means to document and govern the service
4 delivery relationship between a performing organization and a receiving business
5 entity.

6
7 An SLA would typically address the following service delivery elements: scope
8 of service; terms of service; roles and responsibilities; performance standards;
9 pricing and; billing protocols. As part of the pricing section, a description of the
10 basis for charging for the services provided would be explained. The pricing
11 mechanisms described within these SLAs would be governed by a CAM that
12 would provide overarching guidance on how costs would be distributed where not
13 direct charged by the unit to a particular affiliate.

14
15 As originally conceived, SLAs were intended to simply define the service
16 provider - client relationship and specify the expectations and requirements for
17 service delivery. Unfortunately, a number of companies allowed these SLAs to
18 expand and become administratively onerous to implement and maintain. Over
19 time, companies have either made their SLAs more streamlined, straightforward
20 and shorter in length, or else they have moved away from routine reliance on
21 SLAs.

22 **Q. Does FPL utilize service agreements?**

23 A. Only in a targeted manner. FPL does have agreements known as Corporate
24 Support Services Agreements with certain business entities, but does not utilize

1 SLAs in the same manner as service companies or shared services groups.

2 **Q. Is it unusual that FPL does not more broadly utilize service agreements?**

3 A. No. They were not required under PUHCA and more importantly, many utilities
4 have never believed them necessary to achieve effective control and efficient
5 performance. As noted above, the SLAs simply document the relationship and
6 add definition to the affiliate service delivery process. They would not enhance
7 the performance of these services, nor would they change the manner in which the
8 affiliates interact with FPL.

9 **Q. Does the absence of broad application of SLAs impair FPL's ability to**
10 **manage affiliate costs?**

11 A. No, it does not. FPL uses multiple other mechanisms to ensure that there is
12 understanding between it and its affiliates with respect to the scope of services
13 and the manner in which they will be billed. First, the budgeting process provides
14 for adequate interaction between the organizations on the nature of requirements
15 and needs prior to agendas being set, plans being finalized, costs being incurred
16 and, services being provided. This helps to define corporate roles and align
17 service performance constraints and requirements and set affiliate expectations,
18 much like a formal SLA does. Second, the CAM provides the basis for
19 understanding how the costs of services will be charged, e.g., fully distributed
20 costs or allocation bases, so that misunderstanding of services, costs and charges
21 is avoided. Both of these processes provide some of the same elements as
22 afforded by an SLA. More importantly, the long-standing relationship between
23 FPL and many of its affiliates provides a basis for familiarity with the role of
24 these corporate functions, the necessity for functional performance and the

1 methods for how services are provided, which are elements sometimes reflected
2 in more formal SLAs.

3 **Q. Would the adoption of broad service agreements enhance the affiliate cost**
4 **control process?**

5 A. No, it would not. While the notion of SLAs seems simple enough, there is not a
6 fundamental gap that needs to be filled. An SLA can be informative and useful,
7 but it does not substantially enhance the quality of the understanding between the
8 corporate center functions and the affiliate. Further, the SLA only codifies
9 expectations; it does not enhance the management of actual service delivery.
10 SLAs generally do not provide for varying service levels between functions and
11 the affiliate since many of the services relate to the enterprise-wide role of the
12 service company and cannot be differentiated by entity. This is particularly true
13 for FPL (and for most companies where corporate center services are provided)
14 and it should be recognized that it is centralization in the corporate center and
15 standardization that create the efficiencies in performance that the affiliates seek.
16 Thus, FPL cannot simply adjust its service level to meet unique affiliate needs.
17 Recognition of these needs occurs either through direct charging or the use of
18 specific causation based allocators, e.g., information technology infrastructure
19 utilization which already exist.

20

1 provided by the utility on a fully allocated cost basis. This language does not
2 mention the need for market pricing and undermines Mr. Vondle's assertion that
3 FPL must determine market prices to allocate costs fairly to its affiliates.

4
5 In addition FERC Rule 707-A permits a single-state holding company system that
6 does not have a centralized service company to provide "at cost" to other affiliates
7 in the system the kinds of services typically provided by centralized service
8 companies, except for costs that have a clearly identifiable market price. Mr.
9 Vondle acknowledges that it is more difficult to determine market price for shared
10 common support services that do not easily lend themselves to competitive
11 bidding and recommends doing market studies in such cases.

12
13 While these rules provide a formal context for considering how costs are
14 developed and distributed and offer bases for not performing market studies, a
15 more practical limitation exists with respect to their conduct – market alternatives
16 are not always readily available and many services simply would not be provided
17 through external sources and any obtained cost is irrelevant. I will further address
18 these points later in my testimony.

19 **Q. Does FPL currently utilize any specific means to develop a perspective on**
20 **market prices?**

21 A. Yes. Though not required to do so for all its affiliate charges, as mentioned
22 above, FPL does develop or obtain market prices for cost benchmarking purposes.
23 As part of my review, I gathered a sample of functional benchmarking activities
24 performed at FPL. In these benchmarking exercises, FPL often gathers market

1 information to compare against its internal costs. For instance, employee salaries
2 are benchmarked to peer groups annually using data from sources such as Hewitt
3 Associates. As another example, FPL conducts periodic market reviews of office
4 space rental costs and uses that information to assess rent that FPL charges its
5 affiliates. Even though FPL does not provide a market price for all its affiliate
6 charges, it does so when possible, practical and meaningful.

7 **Q. What would a “Market Test” entail?**

8 A. Market tests to determine price of services would involve varying levels of effort
9 and time. The simplest market test involves determining the per unit cost of
10 goods or services that are not highly differentiated or specialized. Such items are
11 easily available in the market from multiple vendors who can readily provide their
12 prices, such as accounting firms for internal audit support or law firms for real
13 estate services. Other examples include obtaining quotes on cost per square foot
14 of office space and software installation purchase and support.

15
16 A more difficult market test would be to determine the price of a service that is
17 highly customized and would require a special level of expertise not easily or
18 widely found in the market. An example would be specialized environmental
19 assessment services for air and water requirements compliance. A relevant
20 market test would likely require more formal interaction with potential providers
21 and perhaps even a specific RFP.

22
23 Finally, certain services are performed within FPL that do not lend themselves to
24 a market test, e.g., those activities related to fiduciary role execution (closing of

1 the books and SEC reporting) or confidential matters, e.g., those activities where
2 information would not be shared (financial forecasting) or the requirements for
3 performance are rightfully the role of the company, e.g., regulatory compliance.

4 Thus, considering a market test means that companies need to understand which
5 services lend themselves to a market test. As a practical matter, there are a
6 substantial number of services in the areas of corporate governance, finance,
7 accounting, strategic planning and, fiduciary oversight among others, that could
8 never be obtained externally so any attempt to conduct a market test would be
9 fruitless.

10 **Q. Are market tests straightforward to conduct?**

11 A. No, they are not. Market tests involve a considerable amount of work, especially
12 for services that involve a high level of expertise and customization based on an
13 affiliate's needs. Market surveys or RFP issuance and subsequent review are time
14 consuming exercises. These activities involve creating a detailed description of
15 the services required, issuing an RFP or other inquiry through relevant channels
16 and reviewing and aligning responses to determine if the vendor actually meets
17 the RFP's requirements. Based on the range of services provided by FPL to its
18 affiliates, such a process for each cost item would be complex, time consuming
19 and cumbersome.

20
21 A practical consideration is that the sources of alternative service performance do
22 not readily provide information if they suspect that the inquirer is not truly serious
23 about follow-through. This point is acknowledged by Mr. Vondle in his
24 testimony.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

Finally, the extra time involved in issuing an RFP process before budgeting resources may be impractical for affiliates which may incent them to purchase services from outside vendors. This would be detrimental to FPL since it would have to incur the costs that it would have otherwise allocated to an affiliate.

Q. Would market tests provide useful information to an entity like FPL?

A. I am skeptical that a comprehensive market test, beyond the types that naturally occur during targeted benchmarking exercises, would provide FPL meaningful, useful information and provide sufficient value to justify the complexity and cost of the assessment. FPL is a mature entity with extensive experience operating electric assets. The services it provides to affiliates cannot, broadly speaking, be easily compared or obtained in the market. This is because the services provided reflect both requirements of how FPL philosophically chooses to manage its business, e.g., rigorous budgeting and cost control processes, as well as unique requirements that are enabled by the longstanding familiarity between the affiliates, e.g., technical expertise and knowledge of vendor markets. Hence, market tests can be useful in understanding what relatively similar services may cost, but these services may not be truly comparable to what FPL provides. A market test not conducted well or not well-responded to would not be useful in determining how FPL and service provider costs compare. Further, even if a market test identified that an initial cost advantage might be available, the impact on the quality of the services delivered would still need to be assessed, which could easily negate an observed economic benefit. This often occurs as companies choose to avoid additional risks from external performance.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

VII. FPL’S DIRECT CHARGE LEVEL IS NOT UNUSUALLY LOW, NOR IS ITS MASSACHUSETTS FORMULA ALLOCATION UNUSUALLY HIGH

Q. What did Mr. Vondle state about FPL’s use of direct charging?

A. Mr. Vondle asserts that FPL under-utilizes positive time reporting for direct charges and cost pools, and over-utilizes the Massachusetts Formula for general allocation. Mr. Vondle, however provides no basis or evidence for his assertion that FPL under-utilizes direct charging. He does not perform any analysis or provide sufficient explanation to support his statement.

Q. How does FPL utilize direct charging?

A. FPL follows a hierarchical system for charging affiliates as reflected in its CAM. Direct charging is used for the cost of services that can be directly traced to a particular activity. Direct charges are processed through internal orders, which in effect go through review before being allowed. For example, the salary of an engineer working on an affiliate project would fall under the direct charge method. The direct charge method uses the most precise information available, i.e., an employee’s exact hours spent on a particular task.

Q. In your view, is the amount of FPL direct charging unusually low?

A. No. Direct charging involves cost of services that can be directly traced to a particular activity performed by a specific source. FPL’s corporate support costs are directly billed to affiliates to the extent practicable, and this is the most frequently used method of billing affiliates constituting close to 47% of affiliate charges in 2011. To determine if FPL’s direct charging is unusually low, I

1 compared FPL's direct charge levels to five other similar utilities of as shown in
2 Exhibit TJF-3. While FPL's level of direct charges has been higher in prior years,
3 I used the planned test year level contained in the current rate case for
4 comparison. The data set is somewhat limited as this information can only be
5 obtained from rate case filing and utilities do not file such requests annually. The
6 information for these companies was taken from specific cases where I have
7 previously testified regarding allocations or was involved with case preparation.
8 As Exhibit TJF-3 shows, FPL's direct charge level is at the top of the peer group
9 which suggests that Mr. Vondle's assertion about FPL under-utilizing direct
10 charging is without any basis. This is particularly important to note since three of
11 the four companies incorporate service companies and the other has a broad
12 shared services entity in place.

13 **Q. Would it be realistic to assume that direct charging can be substantially**
14 **expanded by FPL?**

15 A. No. FPL employees perform multiple activities, often on behalf of multiple
16 affiliates, and many do not lend themselves to direct charging, such as governance
17 related activities and costs. As reflected in the CAM, costs are
18 apportioned in a hierarchical system, whereby costs are directly billed to
19 affiliates to the extent practicable. However, costs jointly incurred on behalf of
20 more than one business unit or affiliate, have to be allocated because such costs
21 are not readily divisible and assignable. Hence, costs that cannot be directly
22 charged are assigned based on cost causative factors (e.g., square footage of office
23 space used). Furthermore, costs that cannot be assigned (e.g., costs related to
24 NextEra Board of Directors) are allocated using the Massachusetts Formula.

1 Expanding direct charging substantially into these categories would be
2 impractical since they are assigned or allocated precisely because they cannot be
3 direct charged.

4
5 Further, FPL's budgeting process involves affiliates providing input with regard
6 to cost levels they are expected to incur. The budgeting process ensures that
7 direct charging is used as frequently as possible. Given the processes in place it
8 would be unrealistic to expect FPL to substantially increase direct charging.

9 **Q. Does FPL's level of direct charging suggest that its Massachusetts Formula**
10 **allocations are unusually high?**

11 A. No. As shown in Exhibit TJF-3, FPL's direct charge levels compare favorably to
12 other utilities. This indicates that FPL's Massachusetts Formula allocations are
13 not excessive or out of the norm for similar companies.

14 **Q. Does use of a general allocator bias against direct charging?**

15 A. No. Direct charging is totally unaffected by the use of a general allocator as it is
16 the first method used to apportion costs and reflects actual service consumption.
17 A general allocator is used to apportion indirect costs to affiliates. By definition it
18 addresses the types of services and costs that cannot be more directly attributed.
19 Since the Massachusetts Formula-based method utilizes an average of general
20 bases of revenues, gross Property Plant and Equipment ("PP&E") and payroll to
21 distribute costs, it broadly reflects the requirements associated with managing a
22 large and diverse business.

23

1 **VIII. USE OF MASSACHUSETTS FORMULA DOES NOT BIAS AGAINST**
2 **CUSTOMERS**

3
4 **Q. What limitations in use of the Massachusetts Formula has Mr. Vondle**
5 **identified?**

6 A. Mr. Vondle has two main issues with the Massachusetts Formula, the general
7 allocator used by FPL. First, he alleges it is biased in the direction of
8 overcharging FPL and undercharging unregulated affiliates because the formula
9 reflects a size driven allocation methodology. Secondly, Mr. Vondle asserts that
10 the Massachusetts Formula gives no weight to “growth and change”, (i.e., new
11 companies may not receive an appropriate allocation because though they are
12 small, they require disproportionate management attention because they are
13 growing entities).

14 **Q. Do you agree with his assertions regarding the inherent bias within this**
15 **allocation method?**

16 A. No. I do not understand how Mr. Vondle can suggest this is a possible outcome
17 given the attention that FPL pays to its affiliate services planning, control and
18 billing. Further, with the attention given to controlling utility costs, incurring and
19 retaining higher costs than necessary would run counter to management’s
20 objectives of managing these costs.

21
22 The Massachusetts Formula is a size driven allocation methodology which uses
23 scale as a proxy for the level of management attention needed to ensure the
24 portfolio of companies are operating effectively. Thus, the Massachusetts

1 Formula aligns cost with how benefits from service performance are realized. A
2 company's size is directly indicative of the level of management required or
3 benefits it receives from performance of affiliate service activities.

4 **Q. Can you explain his comment that this method does not recognize "growth
5 and change?"**

6 A. Mr. Vondle asserts that the Massachusetts Formula does not account for smaller
7 developing unregulated assets commanding a disproportionate amount of
8 attention from management – indicating that the size of a company is not a good
9 measure of how much management attention it needs. There are several problems
10 with this assertion. First, Mr. Vondle does not acknowledge that forward-looking
11 data is used in this filing to calculate the allocation factors in the Massachusetts
12 Formula. The use of forward-looking data thus does consider expected growth of
13 the affiliates. In addition, the largest FPL affiliate, NextEra Energy Resources,
14 which receives 33% of the AMF in 2013, is a large, mature entity just as is FPL.
15 It is not a fast growing start-up entity requiring disproportionate management
16 attention. Finally, several of the smaller, growing entities have their own
17 executive functions and do not require extensive and disproportionate
18 management attention. For example, Lone Star Transmission, LLC has its own
19 President and is also overseen by senior management of its parent company,
20 NextEra Energy Transmission, LLC.

21 **Q. Why are general allocators, like the Massachusetts Formula, utilized for cost
22 allocation?**

23 A. General allocators are primarily used because certain costs jointly incurred on
24 behalf of more than one business unit or affiliate are not readily divisible and

1 assignable through direct charging or cost causative factors. Examples of such
2 costs are those related to traditional financial planning and control functions and
3 internal governance of the business, both of which support the effectiveness of the
4 enterprise as a whole. The time and costs for these functions cannot be practically
5 direct charged or assigned, hence the need for a general allocator.

6 **Q. Does the Massachusetts Formula adequately align cost incurrence and**
7 **benefits realization?**

8 A. Yes. The general allocator used by FPL, the Massachusetts Formula, allocates
9 costs based on the size (revenues, payroll and gross PP&E) of the affiliate.
10 Though not as precise as direct charging, the Massachusetts Formula does
11 adequately align cost incurrence and benefits realization because the size of the
12 organization or affiliate is a reasonable measure of how much management
13 attention it needs and how much it benefits from service performance. This is
14 because the larger the organization the more it is responsible for the financial state
15 of the enterprise (e.g., revenue contribution which is one of the factors in the
16 Massachusetts Formula).

17 **Q. Is there a bias against customers from the use of the Massachusetts Formula?**

18 A. No. The Massachusetts Formula is commonly used by utilities as a general
19 allocator and has been routinely approved by the Commission for use in Florida
20 for many years. Customers are not adversely affected from its use and continue to
21 bear a fair and representative level of FPL costs reflecting the benefits that FPL
22 receives from service performance.

23

1 **Q. What does Mr. Vondle say about FPL's economies of scale?**

2 A. Mr. Vondle asserts that deficiencies that he has identified in FPL's affiliate
3 service delivery models are contributing to FPL and Florida customers failing to
4 benefit from actual economies of scale. Mr. Vondle points to FPL's costs that are
5 projected to increase faster than inflation as his evidence that FPL is failing to
6 realize economies of scale.

7 **Q. How does Mr. Vondle come to this conclusion?**

8 A. Mr. Vondle calculates the A&G Expense per customer and O&M Expense (Less
9 Fuel) per kWh sold from 2009 to 2013. According to his calculations, A&G
10 Expense per customer increases by 25.9% and O&M Expense per kWh sold
11 increases by 25.7%, both of which are higher than the Consumer Price Index.
12 However, Mr. Vondle does not acknowledge that the kWh sold has declined since
13 2007 and number of customers has barely increased over the same period, as
14 shown in Exhibit TJF-4. While FPL's fixed costs (or the numerators) in Mr.
15 Vondle's equation remain largely static, a downward trend in kWh sold and
16 minimal growth in customers results in the high cost growth ratios pointed out by
17 Mr. Vondle. A largely static customer base and shrinking kWh sold (likely
18 related to effects of the recession) will cause the expense growth results to far
19 exceed normal inflation and explains Mr. Vondle's ratios – not FPL's failure to
20 benefit from economies of scale.

21 **Q. Do you have any supporting evidence that speaks to FPL's cost performance
22 and indicates whether it benefits from economies of scale?**

23 A. Yes. In the analyses I conducted for FPL, I benchmarked FPL's costs to multiple
24 peer groups across various metrics. The use of multiple peer groups allows for a

1 comprehensive view of relative cost performance. As indicated in Exhibit TJF-5,
2 FPL performed better than average (i.e., lower comparative costs) in all of the
3 benchmark metrics analyzed across the peer groups for each time period,
4 reflecting the outcomes of effective cost control.

5
6 Across all of the chosen peer groups FPL performs extremely well; this is
7 reflective of a longstanding commitment to cost management and business
8 optimization that translates into extremely competitive positioning against peers.
9 Economies of scale is an important factor that explains low costs. This is clear
10 empirical evidence that FPL's costs are not unreasonable, and Mr. Vondle's
11 assertions that it is not benefiting from economies of scale is unjustified.

12 **Q. Has Mr. Vondle also recommended that other requirements be imposed on**
13 **FPL?**

14 **A.** Yes. Mr. Vondle recommends that several requirements to be imposed on FPL.
15 The ones related to my testimony are:

- 16 1. FPL should establish a service company legal entity or virtual service
17 companies within FPL.
- 18 2. FPL should be required to use service agreements between FPL and each of
19 its affiliates.
- 20 3. FPL should be required to provide proof of asymmetric pricing for all FPL
21 affiliate transactions.
- 22 4. FPL should substantially increase the use of direct charges.

1

2 Mr. Vondle recommendations are not sufficiently supported to provide any basis
3 for his adjustment. Making broad structural and process change
4 recommendations and using an arbitrary adjustment factor to shift cost flows
5 reflects nothing more than unsupported judgment. His assertion about FPL not
6 benefiting from economies of scale also does not stand the test of even cursory
7 scrutiny in light of FPL's favorable cost performance compared to its peers.

8

9 Mr. Vondle's recommendations requiring FPL to adopt a "virtual service
10 company" model, implement formal service agreements between FPL and each of
11 its affiliates, conduct market test for all affiliate transactions, substantially
12 increase the level of direct charging and, develop a different general allocator than
13 the commonly used Massachusetts Formula should simply be ignored.

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

15 A. Yes

Prior Regulatory Experience

- Alaska Public Utilities Commission
 - Anchorage Sewer Utility
- Arizona Corporation Commission
 - U S WEST Communications - Docket No. E-1051-88-146
- Arkansas Public Service Commission
 - FPL Group, Entergy Corporation, WCB Holding corp. and Entergy Arkansas, Inc.– Docket No. 00-329U
 - Beaumont, Texas
 - Entex, Inc.
 - Gulf States Utilities Company
- California Public Utilities Commission
 - The Washington Water Power Company and Sierra Pacific Power Company – Application No. 94-08-043
 - Pacific Enterprises and ENOVA Corporation - Application No. A-96-10-038
- Clark County, Washington
 - Washington Public Power Supply
- District of Columbia, Public Service Commissions
 - Baltimore Gas and Electric Company and Potomac Electric Power Company – Formal Case No. 951
- Colorado Public Utilities Commission
 - Public Service Company of Colorado and Southwestern Public Service Company –Docket No. 95A-513EG

- Delaware Public Service Commission
 - Atlantic City Electric Company and Delmarva Power & Light Company – Docket No. 97-65

- Federal Energy Regulatory Commission
 - Baltimore Gas and Electric Company and Potomac Electric Power Company – Docket No. EC96-10-000
 - IES Utilities Inc., Interstate Power Company, Wisconsin Power & Light Company,
 - South Beloit Water, Gas & Electric Company, Heartland Energy Services and
 - Industrial Energy Applications, Inc. - Docket No. EC96-13-000
 - Trans-Alaska Pipeline System - Docket No. OR78-1
 - Middle South Energy, Inc. – Docket No. ER-82-483-000
 - Middle South Energy, Inc. - Docket No. ER-82-616-000
 - Kansas Power and Light Company and Kansas Gas and Electric Company Docket No. EC91-2-000
 - Southwestern Public Service Company and Public Service Company of Colorado – Docket No. EC96-2-000
 - The Washington Water Power Company and Sierra Pacific Power Company - Docket No. EC94-23-000
 - Northern States Power Company and Wisconsin Energy Corporation – Docket Nos. EC95-16-000 and ER95-1357-000
 - Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company – EC95-4
 - Ohio Edison Company, Pennsylvania Power Company, The Cleveland Electric
 - Illuminating Company, and The Toledo Edison Company – ER97-412-000
 - Atlantic City Electric Company and Delmarva Power & Light Company – EC97-7 Union Electric and Central Illinois Public Service Company – EC-96-7-000

- Federal Power Commission
 - Organization and Operations Review

- Florida Public Service Commission
 - Florida Power & Light Company and Entergy Corporation – Docket No. 001148
- City of Garland, Texas
 - General Telephone Company of the Southwest
 - Lone Star Gas Company
- Georgia Public Service Commission
 - Georgia Power Company - Docket No. 3673-U
- City of Houston, Texas
 - Houston Lighting & Power Company
- Idaho Public Utilities Commission
 - The Washington Water Power Company and Sierra Pacific Power Company – Case Nos. WWP-E-94-7 and WWP-G-94-4
 - Illinois Commerce Commission
 - Illinois Power - Docket No. 84-0055
 - Iowa-Illinois Gas and Electric Company and Mid-American Company Energy – Docket No. 94-0439
 - Central Illinois Public Service Company, CIPSCO Incorporated and Union Electric Company - Docket No. 95-0551
- Indiana Utility Regulatory Commission
 - IPALCO and PSI Resources
 - Veolia – Cause No. 43936
- Iowa Utilities Board
 - Midwest Resources Inc., Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company - Docket No. SPU-94-14
 - IES Industries Inc., Interstate Power Company, WPL Holdings, Inc. – Docket No. SPU-96-6

- Iowa Electric Light and Power
 - Organization and Operations Review
- Kansas Corporation Commission
 - Southwestern Bell Telephone Company - Docket Nos. 117,220-U and 123,773-U
 - Kansas Gas & Electric - Docket No. 120,924-U
 - Kansas Power and Light Company and Kansas Gas and Electric Company
Docket No. 174,155-U
- Western Resources and Kansas City Power and Light - Docket No. 190,362-U
- Western Resources, Inc. and Kansas City Power and Light - Docket No. 97- WSRE-676-MER
- Kentucky Public Service Commission
- Louisville Gas & Electric Company - Case Nos. 5982, 6220, 7799, 8284, 8616 8924
- South Central Bell Telephone Company - Case Nos. 6848, 7774 and 8150
- Kentucky-American Water Company - Case No. 8571
- Duke Energy Corporation – Case No. 2005-00228
- Louisiana Public Service Commission
- American Electric Power Company, Inc., Southwestern Electric Power and Central and South West Corporation – Docket No. U-23327
- Entergy Louisiana, Inc. and Entergy Gulf States, Inc. Merger with FPL Group, Inc. – Docket No. U-25354
- Maryland Public Service Commission
- Baltimore Gas and Electric Company and Potomac Electric Power Company – Order No. 73405, Case No. 8725
- FirstEnergy Corporation – Case No. 9233
- Massachusetts Department of Telecommunications and Energy
 - Boston Edison, Cambridge Electric Light Company, Commonwealth Electric Company and Commonwealth Gas Company – Docket D.T.E. 99-19

- Nstar and NU - D.P.U. 10-170
- Michigan Public Service Commission
 - Wisconsin Electric Power Company and Northern States Power Company No. U-10913
- Minnesota Public Service Commission
 - Continental Telephone Company - Docket No. PR-121-1
 - Northern States Power Company - Docket No. E002/GR-89-865
 - Northern States Power Company and Wisconsin Energy Corporation - Docket No. E, G002/PA-95-500
- Mississippi Public Service Commission
 - Mississippi Power & Light Company - Docket No. U-4285
 - Entergy Mississippi, Inc., Entergy Corporation, FPL Group, Inc. and WCB Holding Corporation – Docket No. 2000-UA-925
- Missouri Public Service Commission
 - Union Electric Company - Case Nos. ER-84-168 and EO-85-17
 - Union Electric Company and Central Illinois Public Service Company - Case No. EM-96-149
 - Kansas City Power & Light Company - Case Nos. ER-85-128 and EO-85-185
 - Kansas Power and Light Company and Kansas Gas and Electric Company – Case No. EM-91-213
 - Southwestern Bell Telephone - Case No. TC-93-224
 - Western Resources and Kansas City Power and Light – EM 97-515
- Nevada Public Service Commission
 - Bell Telephone Company of Nevada - Docket No. 425
 - Central Telephone Company - Docket No. 91-7026
 - The Washington Water Power Company and Sierra Pacific Power Company - Docket No. 94-8024

- New Jersey Board of Public Utilities
 - Atlantic City Electric Company and Delmarva Power & Light Company – Docket No. EM-97-020103
- New Mexico Public Service Commission
 - Public Service Company of New Mexico
 - Southwestern Public Service Company and Public Service Company of Colorado - Case No. 2678
- New Mexico State Corporation Commission
 - Continental Telephone of the West - Docket No. 942
 - General Telephone Company of the Southwest - Docket Nos. 937 and 990
 - Mountain States Telephone and Telegraph Company - Docket Nos. 943, 1052, and 1142
 - U S WEST Communications - Docket No. 92-227-TC
- City of New Orleans, Louisiana
 - New Orleans Public Service Company
- New York, State of, Public Service Commission
 - Long Island Lighting Company and Brooklyn Union Gas Company - Case 95-G-0761
- North Carolina Utilities Commission
 - Duke Energy Corporation – Docket No. E-7, Sub 795
- Ohio Public Utilities Commission
 - Ohio Bell Telephone Company - Case No. 79-1184-TP-AIR
 - Cleveland Electric Illuminating Company
 - Cinergy Corporation – Case No. 05-732-EL-MER and Case No. 05-733-EL-AAM
- Oklahoma Corporation Commission
 - Organization and Operations Review
 - Southwestern Bell Telephone Company - Cause No. 26755

- Public Service Company of Oklahoma - Cause Nos. 27068 and 27639
- Southwestern Bell Telephone Company - Cause No. 000662
- American Electric Power Company, Inc., Public Service Company of Oklahoma and Central and South West Corporation – Cause No. PUD-980000444
- Oregon, Public Utility Commission of
 - Pacific Power and Light Company - Revenue Requirements Study
 - Portland General Electric Company - Revenue Requirements Study
 - The Washington Water Power Company and Sierra Pacific Power Company
- Pennsylvania Public Utility Commission
 - FirstEnergy Corporation – Docket No. A-2010-2176520
- City of Riverside California
 - San Onofre Nuclear Generating Station
- City of Sherman, Texas
 - General Telephone Company of the Southwest
- Tennessee Public Service Commission
 - United Inter-Mountain Telephone Company - Docket Nos. U-6640, U-6988 and U-7117
 - Texas Attorney General
 - Southwestern Bell Telephone Company
- Texas, Public Utility Commission of
 - Texas Power & Light Company - Docket Nos. 178 and 3006
 - Southwestern Bell Telephone Company - Docket Nos. 2672, 3340, 4545 and 8585
 - Houston Lighting & Power Company - Docket Nos. 2448, 5779 and 6668
 - Lower Colorado River Authority - Docket No. 2503
 - Gulf States Utilities Company - Docket No. 2677
 - General Telephone Company of the Southwest - Docket Nos. 3094, 3690 and 5610

- Central Telephone Company - Docket No. 9981
- Southwestern Public Service Company and Public Service Company of Colorado Docket No. 14980
- FPL Group, Inc. and Entergy Corporation – Docket No. 23335
- Reliant Energy HL&P – Docket No. 22355
- PNM Resources – Texas-New Mexico Power – Docket No. 30172 and 38480
- Entergy Gulf States – Docket No. 30123
- AEP – Central and SouthWest – Docket No. 19265
- Oncor Electric Delivery – Docket No. 35717
- Entergy Gulf States – Docket No. 34800
- Entergy Texas Inc – Docket No. 37744
- PNM Resources – Texas-New Mexico Power – Docket No. 36025
- Southwestern Electric Power Company – Docket No. 37364, 40443
- Lone Star Transmission, LLC – Docket No. 40020
- Utah Public Service Commission
 - Utah Power and Light Company - Docket No. 76-035-06
- Virginia State Corporation Commission
 - FirstEnergy Corporation – Case No. PUE-2010-00056
- Vermont Public Service Board
 - New England Telephone and Telegraph Company - Docket Nos. 3806 and 4546
 - City of Waco, Texas
 - Texas Power & Light Company
- Washington Utilities and Transportation Commission
 - The Washington Water Power Company and Sierra Pacific Power Company - Docket No. UE-94-1053 and UE-94-1054

- Puget Sound Power and Light Company and Washington Natural Gas Company – UE-960195
- Washington D.C. Metropolitan Area Transit Authority
 - D.C. Transit
- West Virginia Public Service Commission
 - FirstEnergy Corporation – Case No. 10-0713-E-PC
- Wisconsin Public Service Commission
 - Northern States Power Company and Wisconsin Energy Corporation – 6630-UM- 100 and 4220-UM-101
 - WPL Holdings, IES Industries Inc., Interstate Power Company, Inc. - Docket No. 6680-UM-100
- Wyoming Public Service Commission
 - Cheyenne Light, Fuel and Power Company (Southwestern Public Service Company and Public Service Company of Colorado) - Docket Nos. 20003-EA-95- 40 and 30005-GA-95-39
 - Mountain States Telephone and Telegraph Company - Docket No. 9343, Subs. 5 and 9
 - Organization and Operations Review Pacific Power and Light Company - Docket No. 9454, Sub. 11

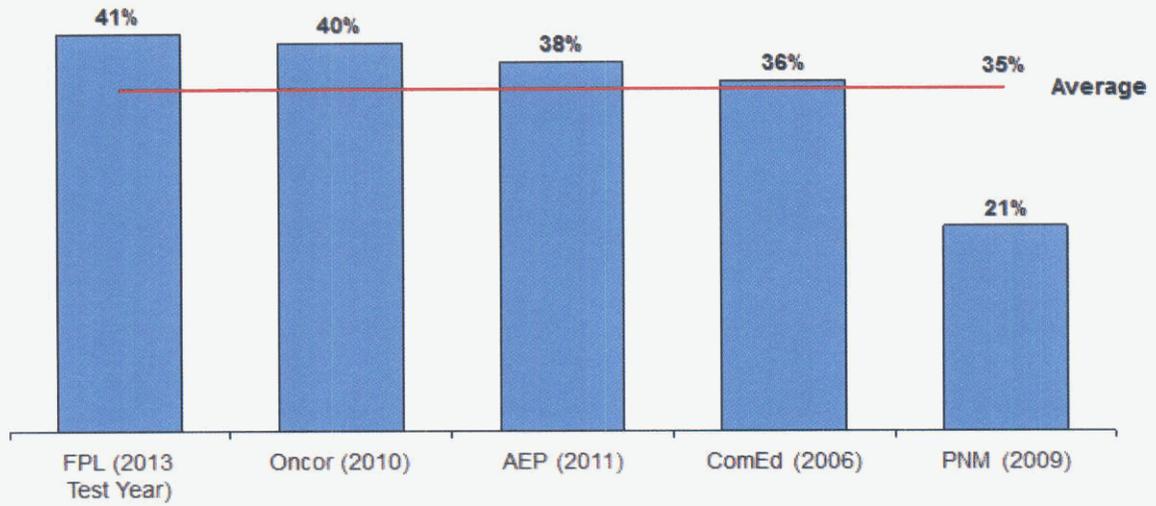
Comparative Service Company Composition

2011 Services Provided by Service Company

Services	AEP	Duke	Entergy	Exelon	First Energy	NE Utilities	PEPCO	PPL	Progress	Southern
Accounting	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Audit	✓	✓	✓	✓	✓		✓	✓	✓	✓
Aviation / Travel	✓	✓								✓
Business & Administrative Services	✓		✓	✓	✓	✓	✓	✓	✓	✓
Commercial Operations	✓	✓	✓	✓			✓			✓
Communications	✓	✓	✓	✓	✓	✓			✓	✓
Customer Operations/Service	✓	✓	✓		✓	✓	✓			
Distribution	✓		✓		✓					
Engineering	✓	✓			✓	✓				✓
Environmental	✓	✓	✓		✓		✓	✓	✓	✓
Executive / Overhead	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
External Affairs	✓	✓		✓	✓	✓	✓	✓	✓	✓
Finance	✓	✓	✓	✓	✓	✓		✓	✓	✓
Fuel	✓									✓
Generation Operations	✓	✓	✓		✓					✓
HR	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Investor Relations	✓	✓	✓		✓	✓	✓		✓	
IT	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Legal, Ethics and Compliance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Planning / Budgeting	✓	✓	✓		✓	✓	✓		✓	
Real Estate	✓	✓			✓		✓			

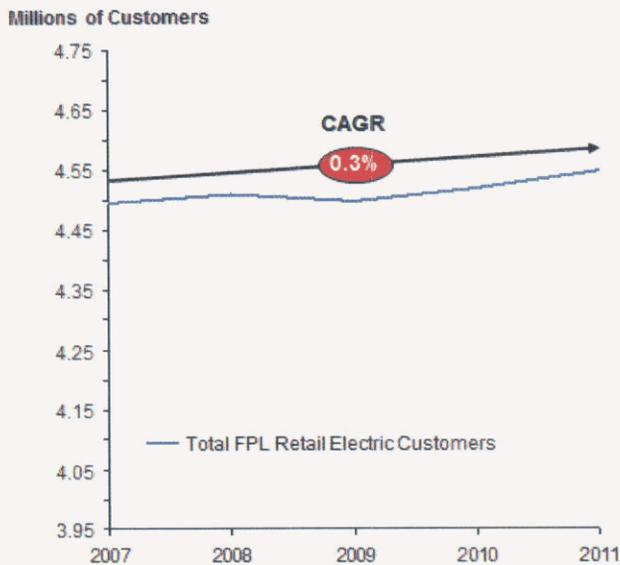
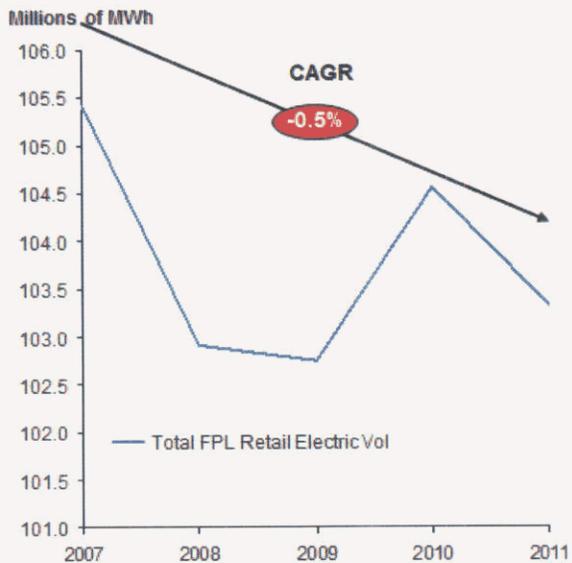
Services	AEP	Duke	Energy	Exelon	First Energy	NE Utilities	PEPCO	PPL	Progress	Southern
Regulatory Relations	✓	✓	✓	✓	✓	✓	✓		✓	✓
Risk Management	✓	✓	✓		✓			✓	✓	✓
Safety / Security	✓	✓	✓	✓	✓		✓	✓	✓	
Shared Services	✓			✓		✓		✓		
Supply Chain and Procurement	✓	✓		✓	✓		✓	✓	✓	✓
Transmission	✓		✓	✓	✓	✓				✓
Treasury	✓	✓	✓		✓	✓	✓	✓	✓	✓
Utility Operations	✓		✓		✓	✓	✓			✓
Others		✓	✓	✓	✓		✓	✓	✓	✓
Number of Services Provided	29	24	23	17	26	18	20	16	19	23

Direct Charge Levels for Various Utilities



Trend of FPL MWh and Customers

2007-2011



Form 1 Benchmarking Summary - FPL

Regional Peer Group

Adj. A&G / Customer
 Adj. A&G / MWh Sold
 Adj. A&G / Total Assets

2007	2008	2009	2010
Better	Better	Better	Better
Better	Better	Better	Better
Better	Better	Better	Better

Services Peer Group

Adj. A&G / Customer
 Adj. A&G / MWh Sold
 Adj. A&G / Total Assets

2007	2008	2009	2010
Better	Better	Better	Better
Better	Better	Better	Better
Better	Better	Better	Better

Scale-based Peer Group

Adj. A&G / Customer
 Adj. A&G / MWh Sold
 Adj. A&G / Total Assets

2007	2008	2009	2010
Better	Better	Better	Better
Better	Better	Better	Better
Better	Better	Better	Better

Note: Adj. A&G = Total A&G Less employee pensions & benefits
 Source: FERC Form 1 Filings; Booz & Company analysis