

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 120019-11

PETITION FOR INCREASE IN RATES
BY FLORIDA POWER & LIGHT COMPANY.

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VOLUME 3

Pages 295 through 352

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN RONALD A. BRISE
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Monday, August 20, 2012

PLACE: Betty Easley Conference Center
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APPEARANCES: (As heretofore noted.)

FLORIDA PUBLIC SERVICE COMMISSION

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(The transcript follows in sequence from Volume 2.)

Q Okay. All right, let's look at your direct testimony, page 22, if we could. And starting on 22 and going over to 23, you kind of summarize some categories at a very high level that were used in your benchmarking study, right?

A Yes.

Q Now, the first seven categories you laid out there on page 22, lines 10 through 16, those are expense items, those are primarily O&M items, right?

A They are expense items, yes.

Q Okay. And then on line 20 that's really a receivable that you're looking at?

A That is correct, for line 20.

Q Okay. And labor efficiency, that's based on compensations you discussed with Mr. Moyle?

A Yes, and number of employees.

Q Uh-huh. And the last category, additions to plant relative to customer growth, that's based on total investment, is that right?

A That's one element of it, yes.

Q All right. That doesn't purport to split out how the investment is funded between equity and debt, right?

A No, we looked at a measure of plant, not capital

1 supporting the plant.

2 Q Okay. We agreed at the outset, though, that it
3 was important to consider the full range of FPL's performance
4 when determining whether FPL should receive an ROE adder,
5 didn't we?

6 A Yes.

7 Q Okay. And you had concluded, had you not, that
8 FPL is exercising exemplary cost control, correct?

9 A Yes.

10 Q Okay. Would you agree that one responsibility of
11 management is to efficiently manage the capital structure of
12 its enterprise?

13 A Yes.

14 Q All right. But you didn't present an analysis of
15 efficiency and cost effectiveness with which FPL sources its
16 capital between debt and equity?

17 A No, that's presented in the testimony of
18 Mr. Dewhurst and Mr. Avera. I didn't see a need to repeat
19 it.

20 Q I see. And you understand from the comments, for
21 instance, made earlier today in the opening remarks that the
22 combination of the return on equity and the composition of
23 the capital structure are probably the largest single swing
24 item in the cost of service that are being debated here?

25 A I'm not sure what you mean by swing item. It's a

1 major issue of dispute between the parties.

2 Q Okay. Let's -- to wrap up, let's look at page
3 five of your rebuttal, if we could.

4 A I have that.

5 Q Lines 11 and 12, you're kind of, I think, summing
6 up at the end of your summary of your rebuttal, right? And
7 you refer to FPL's impressive achievements in terms of cost
8 of service.

9 You are, in that statement, not alluding to its
10 ability to seek a 59 percent equity component and an 11.5
11 percent return on equity, are you?

12 A No, I'm referring to the costs that I have
13 presented in my direct testimony, which are O&M costs, A&G
14 costs, and as well as the operational performance of the
15 units.

16 MR. SUNDBACK: Thank you, Mr. Reed. Mr. Chairman,
17 that's all we have.

18 CHAIRMAN BRISE: Thank you, Mr. Sundback. At this
19 time we will hear from Algenol -- no, I'm sorry, FEA.
20 Sorry.

21 LT. COL. FIKE: Thank you, Mr. Chairman.

22 CROSS EXAMINATION

23 BY LT. COL. FIKE:

24 Q Just a few questions for you to start off with. I
25 want to kind of go back to something you talked to Mr. Moyle

1 about regarding the average salary and wages for the
2 employee. Was that \$70,000 a year average salary and wages
3 for employee was what you used in your calculations?

4 A 72,000 is what is indicated as the national
5 average from the Bureau of Labor Statistics.

6 Q And if you assume that FPL's average salary and
7 wages per employee was 95,000 a year, would that change your
8 testimony or your opinion?

9 A No, we looked at that in measuring the O&M costs
10 and the A&G costs, and what we determined, that even though
11 it's disadvantaged by being in a higher labor cost area,
12 because it makes more efficient use of its people, its ratio
13 of head count and labor costs to power sales or to customers
14 offsets that. So it's able to achieve, through efficiency,
15 enough to offset the disadvantage of operating in a higher
16 labor cost area.

17 Q So you do agree that FP&L's average labor and
18 salary costs are higher than the industry average, though?

19 A Higher than the national average. That's my
20 understanding.

21 Q How much of an increase in total revenue would a
22 .25 percent adder generate for FP&L?

23 A My understanding is it's about \$41 million.

24 Q And the company's proposal would justify return on
25 equity performance adder based upon maintaining competitive

1 residential rates, is that correct?

2 A That's not the justification for the adder, that's
3 the justification for continuing it. But as I've tried to
4 make clear, I believe the Commission should look at the
5 entirety of the operating statistics that I've put forward in
6 determining whether it believes that the adder is warranted.

7 Q The testimony presented earlier in opening
8 regarding the lowest residential rates for FP&L, or one of
9 the lowest residential rates, is a factor, however, in
10 determining whether or not the adder should be applied?

11 A It's a factor, but in my mind that's not
12 sufficient. I would go beyond that.

13 Q So would you agree that the incentive, then,
14 produces an economic reward for FP&L to shift costs to
15 non-residential customers in an effort to keep the
16 residential costs low and therefore justify the adder?

17 A No, I don't think so. If it did that in lost
18 industrial and commercial markets, that would be a mistake
19 and that would show up to the detriment of the system. But
20 more importantly, as I said in my rebuttal, any cost shifting
21 between classes through the cost allocation process has to be
22 reviewed and approved by this Commission. It's not something
23 that FPL can do unilaterally.

24 Q Are you aware with the proposal that FP&L proposes
25 to raise the commercial industrial class CLLC 1T, their base

1 rates, by 34 percent?

2 A That's not something I have specific knowledge of.

3 MR. FIKE: No further questions.

4 THE CHAIRMAN: Thank you very much. Now, Algenol.

5 MR. HAYES: Algenol has -- Algenol has no
6 questions.

7 CHAIRMAN BRISE: All right, thank you very much.
8 At this time, the Office of Public Counsel.

9 MS. CHRISTENSEN: Office of Public Counsel has no
10 questions for this witness.

11 CHAIRMAN BRISE: All right. Florida Retail
12 Federation.

13 MR. WRIGHT: No questions, Mr. Chairman. Thank
14 you.

15 CHAIRMAN BRISE: Okay. Village of Pinecrest?

16 MR. GARNER: Village of Pinecrest has no questions
17 at this time.

18 CHAIRMAN BRISE: Okay. Mr. Saporito?

19 MR. SAPORITO: Yes, Mr. Chairman, thank you.

20 CROSS EXAMINATION

21 BY MR. SAPORITO:

22 Q Good afternoon, Mr. Reed.

23 A Good afternoon, Mr. Saporito.

24 Q Before I get into my specific questions, I'd like
25 to refer you back to a document marked as Exhibit 472, at the

1 second to the last page, a header Establishment Data Not
2 Seasonally Adjusted, Table 6. Do you see that?

3 A Yes.

4 Q You testified about this particular document and
5 this page with respect to Florida and under the manufacturing
6 heading there was a 315.6 number and 312.1 number. Do you
7 see that?

8 A I do.

9 Q Okay, now, the 312.1 number is under the July
10 column, and it's specifically under the year 2012, but
11 there's a little P there, do you see that, after the 2 in
12 2012?

13 A I do.

14 Q And that P, that represents a preliminary
15 assessment, a preliminary number, is that not correct?

16 A Yes.

17 Q So that number is subject to adjustment by the
18 government, is that not true?

19 A Yes, technically all the numbers are subject to
20 adjustment, but that is a non-final number.

21 Q So it could go up and down?

22 A Yes, they all could, but that's less certain than
23 the rest of the data.

24 Q And again, on your Exhibit JJR-5, page eight of
25 ten -- and let me know when you find that, sir.

1 A I have that.

2 Q As I recall your testimony, you testified about
3 this graph, this SAIDI graph, which is a distribution and
4 reliability. And if I recall your testimony correctly you
5 said the numbers in the left-hand column represented an
6 increment of time and minutes, meaning how long it took to
7 repair a particular outage, is that correct?

8 A Yes.

9 Q Okay. But this chart to me is unclear with
10 respect to the type of outage. So when you drew this chart
11 or when you created this chart, is this chart just a generic
12 chart of outages, which could be a tree limb going into a
13 voltage line or a transformer blowing up, or is it specific
14 to a specific common type of outage, between the graph that
15 you show in dash lines versus the representative for Florida
16 Power & Light, which is the straight solid line below that?

17 A The data for both the industry and for FPL are the
18 same and they represent what the industry describes as a
19 non-momentary outage. And also typically excluded are major
20 events such as a hurricane or an earthquake. So it's
21 non-momentary and conventional.

22 Q So depending on the type of outage, you could take
23 longer to repair it?

24 A If you had a hurricane that wipes out a system,
25 and it takes a week, that's the type of information that's

1 excluded, and, as well, a two-second interruption, which is
2 described as momentary, is not included.

3 Q Okay, thank you. Mr. Reed, should FP&L's request
4 for 25 points basis point performance adder to the authorized
5 return on equity and proposed and/or review mechanism be
6 approved?

7 A Yes, I think it should.

8 Q Mr. Reed, do you recall stating in your prefiled
9 testimony that FPL's customer base consists of a high
10 percentage of residential customers and its sales volume has
11 been relatively flat in the past year and is expected to
12 continue in this trend as Florida continues its slow economic
13 recovery? And it's identified at page six, lines 8 through
14 12 in your testimony, your direct testimony, sir.

15 A Yes.

16 Q And do you recall stating in your prefiled
17 testimony, at page 16, lines 2 and 3, that FPL's sales growth
18 has been flat since the last rate case was decided?

19 A Maybe you can give me a specific reference on page
20 16.

21 Q Yeah, on page 16, sir, lines 2 to 3.

22 A I see the statement, yes, that sales growth has
23 been flat since the last rate case was decided.

24 MR. SAPORITO: Mr. Chairman, at this time I'd like
25 to identify into the record a document, and I believe

1 it's Number 480, is that true?

2 CHAIRMAN BRISE: That would be correct.

3 (Exhibit 480 marked for identification.)

4 BY MR. SAPORITO:

5 Q For the record, this exhibit, which has now been
6 marked Exhibit Number 480, is an excerpt, page 45, from
7 NextEra Energy, Inc., annual report, 2011, FPL results of
8 operations. Mr. Reed, do you have that document in front of
9 you at the --

10 MR. LITCHFIELD: May I object, at least in part,
11 here? There is no -- there's no title page, there's --
12 I don't have a clear understanding that this is the
13 document that Mr. Saporito purports that it is. It may
14 be, but we just can't tell from the face of it.

15 CHAIRMAN BRISE: Mary Anne?

16 MS. HELTON: Perhaps we can hear from Mr. Saporito,
17 and then I can --

18 CHAIRMAN BRISE: Mr. Saporito?

19 MR. SAPORITO: Yes, Mr. Chairman, I believe I have
20 the complete document here, and I'd be happy to show the
21 witness the same page in the annual report to validate
22 that particular exhibit, sir.

23 CHAIRMAN BRISE: All right.

24 MR. LITCHFIELD: Thank you.

25 MR. SAPORITO: Do you want me to do that, sir?

1 CHAIRMAN BRISE: Make it available. You may
2 proceed, Mr. Saporito.

3 BY MR. SAPORITO:

4 Q Mr. Reed, do you have that document in front of
5 you, Exhibit Number 480, and it's actually the last page in
6 that document?

7 A I do.

8 Q Now, specifically, the third paragraph from the
9 top of that page, under the heading FPL results of
10 operations, where it begins FPL's net income for 2011. Do
11 you see that?

12 A Yes.

13 Q In reviewing the third paragraph in that document,
14 how much net income did FPL report in the year 2009?

15 MR. LITCHFIELD: I'll object to this line of
16 questioning. I'm not sure that this has -- or at least
17 let me ask, I don't know how this has any relevance to
18 Mr. Reed's testimony or that is anywhere near related to
19 what's he's testified to.

20 CHAIRMAN BRISE: Mr. Saporito, if you can --

21 MR. SAPORITO: Yes, Mr. Chairman.

22 CHAIRMAN BRISE: -- provide me some rationale.

23 MR. SAPORITO: Absolutely, Mr. Chairman. Mr. Reed
24 testified that -- about Florida's -- FPL's consumer
25 customer base being flat for a specific period of time

1 in his testimony. And the point of this questioning is
2 to show that FPL's sales, residential sales, actually
3 increased over this three-year period from 2009 into
4 2011. So that the percent -- the volume of sales wasn't
5 flat, it actually increased year over year from 2009 to
6 2011.

7 MR. LITCHFIELD: If Mr. Saporito is able to point
8 to kilowatt-hour sales, then perhaps we can proceed. I
9 just don't see that here.

10 MR. SAPORITO: Mr. Chairman, kilowatt sales
11 correlates back into net income for Florida Power &
12 Light, so an analysis of FPL's net income is relative to
13 their commercial -- not the commercial, but the
14 residential sales of electricity.

15 MR. LITCHFIELD: Mr. Chairman, I'm happy to have
16 the witness answer this question. I think there's a lot
17 of confusion here and I think he can straighten it up.

18 CHAIRMAN BRISE: You may go ahead, Mr. Saporito, if
19 you --

20 MR. SAPORITO: I'll repeat the question.

21 CHAIRMAN BRISE: Repeat the question, and we'll see
22 how it goes.

23 BY MR. SAPORITO:

24 Q In reviewing the third paragraph in that document,
25 how much net income did FPL report in the year 2009?

1 A 831 million.

2 Q And how much net income in the year 2010?

3 A 945 million.

4 Q And how much net income in the year 2011?

5 A 1.068 billion.

6 Q How much of an increase in revenue did FPL realize
7 in 2010 as compared to 2009?

8 MR. LITCHFIELD: Object. Mr. Saporito indicated he
9 wanted to talk about sales, and he continues to talk
10 about revenue and net income.

11 MR. SAPORITO: Again, the net income that FPL
12 receives is directly related to their sales of their
13 product, which is electricity.

14 MR. LITCHFIELD: Not established in evidence, that
15 fact, simply an assertion.

16 CHAIRMAN BRISE: Mr. Saporito, what do you have to
17 say to respond to that?

18 MR. SAPORITO: Okay, I'll establish that through
19 this witness's testimony.

20 CHAIRMAN BRISE: You'll establish that through --

21 MR. SAPORITO: That net income is derived from
22 electric sales by FP&L from residential -- their
23 residential base of customers uses electricity, they pay
24 for it, FPL receives income from that, revenue. That's
25 what these documents are showing.

1 CHAIRMAN BRISE: Okay, Mr. Saporito. Mary Anne, do
2 you have a suggestion here?

3 MS. HELTON: Mr. Chairman, I don't know if it's
4 just because it's late in the day and I'm tired, but I'm
5 having a hard time following where we are and how this
6 all meshes together.

7 CHAIRMAN BRISE: Yeah, I'm having some of the same
8 issues, so I'm trying to get some guidance.

9 MS. HELTON: I still can't even figure out where
10 Mr. Saporito is on this exhibit page, so maybe if he
11 could point me to what he's referring to, on which
12 paragraph on Exhibit 480.

13 MR. SAPORITO: Yes, it's under the title -- it's in
14 bold print, FPL Results of Operation, that first
15 paragraph under there.

16 MS. HELTON: Uh-huh.

17 MR. LITCHFIELD: Mr. Chairman, clearly FP&L reports
18 its sales. We do that regularly. It's just not on this
19 document. And so Mr. Saporito may be able to locate a
20 document where we report our sales and have the
21 discussion with Mr. Reed, it's just not this piece of
22 paper.

23 MS. HELTON: In the second sentence of that
24 paragraph it says FPL obtains its operating revenues
25 primarily from the sale of electricity to retail

1 customers, but I don't think it's clear what other
2 aspects come into the revenues category. And if he's
3 trying to say that it's all electricity sales or all
4 residential sales, I don't think there's been a record
5 to do that.

6 CHAIRMAN BRISE: Okay. Mr. Wright?

7 MR. WRIGHT: Mr. Chairman, if it might be your
8 pleasure, we have come up on the magic two-hour time
9 period. It might be a good time to take a break.

10 CHAIRMAN BRISE: No, I think we're going to forge
11 on at this moment.

12 MR. WRIGHT: Certainly, Mr. Chairman. Thank you.

13 CHAIRMAN BRISE: Because we have one hour left and
14 we've done the switch already, so we're just going to
15 keep on moving.

16 Mr. Saporito, if you could clarify where you're
17 trying to get at and how it relates to this document,
18 then I'll allow you to pose a question. But if you
19 can't clarify what you're trying to get at, and how it
20 relates to the document that we have in hand, then I
21 would ask that you move on to other questions.

22 MR. SAPORITO: Yes, sir. I'm trying to relate to
23 Mr. Reed's testimony, his prefiled testimony, with
24 respect to his testimony that FPL's sales growth has
25 been flat since the last rate case.

1 And to do that I would like to be able to show
2 through this exhibit that FPL's -- FPL's growth hasn't
3 been flat because the document indicates that FPL's
4 growth has increased year over year by the mere fact
5 that their net income year over year from 2009 to 2011
6 has increased every year. And part of that income is
7 the sale of electricity to residential customers.

8 CHAIRMAN BRISE: Thank you, Mr. Saporito. If you
9 could move on to your next line of questioning.

10 BY MR. SAPORITO:

11 Q Mr. Reed, do you recall stating in your prefiled
12 testimony at page 14, lines 21 to 22 that FPL's last rate
13 case was decided in March, 2010, and since then electric
14 utility employee compensation has grown 5.72 percent?

15 A Yes.

16 MR. SAPORITO: At this time, Mr. Chairman, I want
17 to put another document -- identify another document in
18 the record, 481, I believe.

19 CHAIRMAN BRISE: Yes, that would be correct, 481.

20 (Exhibit 481 marked for identification.)

21 BY MR. SAPORITO:

22 Q Mr. Reed, do you have a document marked for
23 identification as Exhibit Number 481 in front of you?

24 A I do.

25 MS. HELTON: Mr. Chairman, could we ask

1 Mr. Saporito to speak into the microphone a little bit
2 more? One of my issues is I don't hear him very well,
3 for some reason. So if he can maybe speak into the
4 microphone a little bit closer.

5 CHAIRMAN BRISE: Okay.

6 BY MR. SAPORITO:

7 Q Mr. Reed, I'd like to call your attention to this
8 Exhibit 481 under the heading Cost of Living Adjustment, or
9 COLA information for 2012. Can you determine from that
10 document that 60 million Americans received 3.6 percent
11 increase adjustment in their cost of living in 2012?

12 A That's what it indicates, yes.

13 Q Can you make an opinion as to how the 3.6 percent
14 cost of living increase for 60 million Americans compares to
15 5.72 percent increase in FPL employee compensation?

16 MR. LITCHFIELD: I'll object to the question.
17 There's no basis for asking this question since it is
18 completely outside the scope of Mr. Reed's testimony.
19 Unless Mr. Saporito wants to go back and show us how
20 this relates to Mr. Reed's testimony, I would object.

21 CHAIRMAN BRISE: Mr. Saporito?

22 MR. SAPORITO: Yes, Mr. Chairman, the witness
23 testified with respect to FPL's compensation in this
24 time period, and I would like the witness to make an
25 opinion about the 60 million Americans that got a raise

1 of 3.6 percent and how that compares to FPL employees
2 getting a raise in that same period of time.

3 CHAIRMAN BRISE: Okay, I'll allow you a little bit
4 of latitude there.

5 THE WITNESS: Mr. Saporito, the 5.72 percent was
6 the national average, it was not FPL's cost of labor
7 increase. So I'd like to start by correcting that. But
8 certainly the 5.72 percent is a bigger number. But just
9 so we can be clear, the 5.72 percent is not an annual
10 figure, that's a figure for an interval of time that's
11 longer than a year.

12 BY MR. SAPORITO:

13 Q Okay, thank you. Mr. Reed, in your prefiled
14 testimony, identified at page 16, lines 15 through 20, if you
15 can find that for me.

16 A Page 15, lines --

17 Q No, page 16, sir, lines 15 through 20.

18 A I have that.

19 Q From 1985 -- your testimony states that from 1985
20 to 2005 FPL's customer base grew by an average annual rate of
21 about 85,500 customers, or 2.8 percent per year. During that
22 same time, energy use per customer grew about 0.6 percent per
23 year. As a result, FPL's electric sales almost doubled in
24 the 20-year period ending in 2005. From 2006 to 2010, as
25 discussed above, growth in customer sales and revenues slowed

1 dramatically due to economic downturn. Do you see that? Is
2 that correct?

3 A Yes.

4 Q Now, if the Commission were to lower FPL's base
5 rates from their current level, would residential customer
6 bills be lower?

7 A That would depend on what else changed. If
8 consumption went up, then no.

9 Q Well, if consumption remained the same and the
10 Commission were to lower FPL's base rates from the current
11 level, would residential customer bills be lower?

12 A We can accept that subject to all else being the
13 same. So no change in fuel clause recovery or anything else,
14 yes.

15 Q Thank you. And if residential customer bills were
16 lower due to a base rate decrease, would that provide Florida
17 citizens greater buying power to purchase consumer goods?

18 A Again, all other things being equal, if your
19 utility bill goes down, your disposable income goes up.

20 Q And if Florida citizens had greater buying power
21 to purchase consumer goods, would that benefit Florida's
22 economy?

23 A That would be speculative. It would benefit the
24 economy someplace.

25 Q If the Commission were to lower FPL's base rate

1 from their current level, would commercial business customer
2 bills be lower, if all things -- other things remained the
3 same?

4 A I'm sorry, I need to you repeat that. Thank you.

5 Q If the Commission were to lower FPL's base rates
6 from their current level, would commercial business customer
7 bills be lowered if fuel costs and all other charges remained
8 the same?

9 A If that base rate increase applied to commercial
10 customers, yes.

11 Q And if FPL commercial business customer bills were
12 lower due to a base rate decrease, would that enhance the
13 ability of business customers to hire in the state of
14 Florida?

15 A Not necessarily. It would reduce their bills,
16 which could either be reflected in terms of higher income, or
17 it could be obviously spent for employment or other things.

18 Q And if FPL commercial business customers began to
19 hire due to a base rate decrease, would that benefit
20 Florida's economy?

21 A All other things being equal, increased employment
22 would benefit the state economy.

23 Q And can you offer an opinion as to whether a base
24 rate decrease would encourage further business to come to the
25 state of Florida?

1 A That would depend on the relative economics of
2 Florida versus other states, so I wouldn't want to speculate
3 on that.

4 Q So can you offer the opinion if Florida electric
5 rates were lower than the electric rates wherever the
6 business happened to be operated, would that be an enticement
7 for them to come into Florida to do business?

8 A If they are lower than the other state and
9 electric costs are a significant factor of production costs,
10 yes. But again, Florida's rates are already among the most
11 attractive in the country.

12 Q Can you offer an opinion as to whether a base rate
13 decrease would actually increase FPL's revenues due to a
14 resulting increase in Florida's economy?

15 A A rate decrease, all other things being equal,
16 would tend to increase consumption based on measures of what
17 are called price elasticity. That wouldn't necessarily be a
18 benefit to FPL, but all other things being equal, a price
19 decrease would tend to cause a consumption increase.

20 Q Mr. Reed, do you recall your prefiled testimony at
21 page 20, lines 14 through 21, where you stated energy losses
22 are a product of transmission and distribution infrastructure
23 through which the energy is transmitted. Electric utilities
24 that are relatively transmission dependent tend to experience
25 higher losses than utilities which are able to site

1 generation closer to load centers.

2 This metric demonstrates a significant challenge
3 faced by FP&L in both the Florida Group and the Large Utility
4 Group FPL has had the highest energy losses in nine of the
5 last ten years. Do you recall that?

6 A Yes.

7 Q And when you speak about energy losses, is it fair
8 to say that energy losses are estimated from the discrepancy
9 between energy produced, as reported by FPL, and energy sold
10 to the end customers and that the difference between what is
11 produced and what is consumed constitute transmission and
12 distribution losses?

13 A Depending on the measurement points, yes.

14 Q And do you have an opinion as to how much energy
15 is lost as stated as a percentage value in transmission once
16 the energy leaves the switch yard from a power plant?

17 A That depends on the nature of the transmission
18 facility that's used; the length of it, the conductor. There
19 are many attributes that determine losses.

20 Q But on the average is it fair to say it's
21 approximately 6.5 to 6.7 percent?

22 A No, that would not be fair to say there's an
23 average like that.

24 Q Would it be higher?

25 A No, it's very much a fact-dependent situation.

1 MR. SAPORITO: Mr. Reed, can you please review --
2 I'm sorry, Your Honor -- I mean, Mr. Chairman, I want to
3 put another document into the record, 482, if I'm
4 correct.

5 CHAIRMAN BRISE: That would be correct.

6 MR. SAPORITO: Oh, actually, strike that 482. This
7 is one of my exhibits I have prefiled, Exhibit TS-10, so
8 it's already in the -- in the documents.

9 CHAIRMAN BRISE: Okay. But you probably still need
10 to pass it out so that we can have access to it at this
11 time. Our staff is coming to you, sir.

12 MR. SAPORITO: Sorry.

13 MR. LITCHFIELD: Mr. Chairman, it appears as though
14 there's just one copy for the witness, and I think we're
15 all entitled to review the document that's before the
16 witness, and I don't think we have the time to do that
17 tonight.

18 MR. SAPORITO: It was my understanding that I only
19 had to make copies of those documents I was bringing in
20 other than what I had already prefiled.

21 CHAIRMAN BRISE: Generally, for efficiency, we ask
22 that whatever you're going to present, that you have
23 copies available, because it makes it a whole lot
24 easier. Let's see if we have those copies available on
25 hand.

1 MR. LITCHFIELD: We'll look for our copy, as well,
2 but it's going to take a minute.

3 CHAIRMAN BRISE: Okay. And Mr. Saporito, this is
4 from your own testimony?

5 MR. SAPORITO: Yes, my prefiled exhibits,
6 Mr. Chairman.

7 MR. LITCHFIELD: And then does the witness get to
8 cross examine Mr. Saporito on his exhibit?

9 In the interests of time, I suppose I would request
10 or suggest that Mr. Saporito establish initially how
11 this relates to Mr. Reed's testimony. That would save
12 me at least two or three objections.

13 CHAIRMAN BRISE: Sure.

14 MR. SAPORITO: Absolutely, Mr. Chairman. It goes
15 hand in hand with the questions and answers I just
16 solicited from the witness with respect to line losses
17 and the location of the generation of electricity to
18 offset that.

19 CHAIRMAN BRISE: Okay.

20 MR. SAPORITO: Can I go forward now?

21 CHAIRMAN BRISE: Go ahead. We'll tread lightly.

22 BY MR. SAPORITO:

23 Q Mr. Reed, could you please review -- have you
24 reviewed the exhibit in front of you, TS-10?

25 A Not before this afternoon. I see what it is,

1 though.

2 Q Okay. I meant review it -- I meant have you
3 reviewed it since you were just handed it today. This is a
4 Bloomberg ES-5700 energy server, and if you would look
5 specifically at pages three and four, please. Do you
6 understand this exhibit --

7 CHAIRMAN BRISE: Mr. Saporito, if you would stop
8 for one second. I think -- I think some of us are
9 having an issue up here finding your prefiled testimony,
10 so I want to make sure that it's in our documents.

11 MS. HELTON: Mr. Chairman, it's in the FPL rebuttal
12 notebook one of two -- FEA, Algenol, Pro Se and Staff
13 direct, if that helps.

14 CHAIRMAN BRISE: Okay, thank you. Commissioner
15 Graham?

16 COMMISSIONER GRAHAM: I guess this is a question
17 for the Staff. I have a tab that says Thomas Saporito,
18 but there's nothing in there.

19 MS. HELTON: It would be under TS-10.

20 COMMISSIONER GRAHAM: Like I said, I find the tab,
21 but there's nothing in there, and there's no TS-1
22 through 10.

23 CHAIRMAN BRISE: Mr. Saporito, if you have another
24 line of questioning, if you can go there --

25 MR. SAPORITO: This was it. This was the last line

1 of questions.

2 CHAIRMAN BRISE: Okay.

3 MR. LITCHFIELD: This is the last question?

4 MR. SAPORITO: No, the last series of questions.

5 MR. LITCHFIELD: Then I do want to ask Mr. Saporito
6 to identify which issue in the docket this relates to,
7 because there were a number of issues that were
8 stricken.

9 MR. SAPORITO: Your Honor, right now I'm only
10 identifying this document in the record to cross examine
11 this witness. I don't believe it's necessary for me to
12 provide an explanation how this applies to a particular
13 issue at this time.

14 CHAIRMAN BRISE: Well, I'm not an attorney, like
15 you, Mr. Saporito. But it is my understanding that
16 every witness is present to respond to issues -- to
17 particular issues. So -- so whatever your questions
18 that you have have to be addressed to those issues that
19 the witness is addressing.

20 So if you could identify that issue, then you can
21 move forward. If you can't identify that issue, then
22 find another line of questioning.

23 MR. SAPORITO: Well, that's going to take me a
24 little bit of time here to go through this document.

25 MR. YOUNG: Mr. Chairman, Mr. Reed only addresses

1 one issue in his prefiled direct and rebuttal testimony,
2 and that's issue 54, which states should FPL's request
3 for a 25 basis point performance adder to the authorized
4 return on equity and proposed annual review mechanisms
5 be approved. That's the only issue that he addresses in
6 his testimony.

7 CHAIRMAN BRISE: Thank you. So if your question is
8 related to that issue, then you may proceed. If not,
9 then you may need to seek to wrap up your question.

10 MR. SAPORITO: I believe it's related to that
11 issue, and it goes to cross examination on the witness's
12 prefiled testimony, which I believe I have a due process
13 right to engage in.

14 He put prefiled testimony in this docket, and he
15 made certain statements under oath, and I believe I have
16 a right to cross examine him on that testimony, in
17 addition to that issue that the Chairman just
18 identified.

19 CHAIRMAN BRISE: Not in addition, okay? So if you
20 can pose your questions related to the issue at hand,
21 then you can proceed. If you can't pose your question
22 related to the issue at hand, then we need to move on.

23 BY MR. SAPORITO:

24 Q Mr. Reed, with respect to your -- the issue of the
25 performance adder, and as I recall your testimony, it related

1 to FP&L's quality of service and their level of performance,
2 and you made an opinion as to whether the Commission should
3 approve a .25 percent performance adder with respect to those
4 parameters, is that not true?

5 A Yes.

6 Q Okay. And part of that performance is related to
7 the quality of service which -- which is part -- which in
8 part is reliability of service, is that not true?

9 A Part of the measure that we based that
10 recommendation on is reliability, yes.

11 Q And if FPL could reduce their line losses, their
12 transmission line losses, as you've talked about here
13 earlier, wouldn't that improve their reliability and quality
14 of service to their customers?

15 A It would not affect reliability, which is a
16 measure of outages. It would reduce costs if they could
17 reduce line losses.

18 Q Okay, sir. And now, reflecting back to Exhibit
19 Number TS-10, do you understand TS-10 to describe a
20 distributed power system which is placed at a customer
21 location to supply electrical power?

22 A Yes.

23 CHAIRMAN BRISE: Mr. Saporito, I'm going to ask
24 again how does this relate to the one issue that this
25 witness is dealing with.

1 MR. SAPORITO: Because the witness just testified,
2 Mr. Chairman, that if you reduce line losses, then your
3 performance would improve, and this is one way to do it.
4 Putting a distributed power system at a customer
5 location, there is no line losses, because it's right
6 there. And this would benefit the customers and improve
7 FPL's performance and reliability.

8 These are issues that the witness has testified to.
9 And he just used his -- FP&L is relying on his testimony
10 to support their hope for a .25 performance adder ruling
11 from this Commission.

12 MS. HELTON: Mr. Chairman?

13 CHAIRMAN BRISE: Mary Anne?

14 MS. HELTON: I'm showing my age here today, because
15 not only can I not hear Mr. Saporito very well, but I
16 can't read some of the print here, especially on this
17 first page, because it's really light. But what I can
18 read in this exhibit, it looks to me like it's a sales
19 brochure. And I'm having a real hard time figuring out
20 how a sales brochure is relevant to the testimony here
21 and relevant to the issue at hand.

22 CHAIRMAN BRISE: Thank you. I looked at the
23 exhibit myself, and that's why I posed the question as
24 to how this exhibit relates to the issue and the
25 testimony.

1 Now, we did mention having discovery questions to a
2 witness. And to me, you know, there may be the witness
3 that proffered that exhibit, that those questions could
4 be posed there, or those issues could be addressed
5 there, but I don't think that this is the appropriate
6 witness to address this issue, and I hope --

7 MR. SAPORITO: Okay, with that understanding, Your
8 Honor, I will not talk about the exhibit, but I do want
9 to continue with these questions on the subject of line
10 losses that the witness testified to related to FPL's
11 request for a .25 performance adder.

12 CHAIRMAN BRISE: I think that that's fair.

13 MR. SAPORITO: Thank you.

14 BY MR. SAPORITO:

15 Q Mr. Reed, with respect to distribution energy
16 systems, which are placed at a customer location, can you
17 form an opinion or provide an opinion to the Commission
18 whether or not that such an application would reduce line
19 losses due to its physical closeness to the customer?

20 MR. LITCHFIELD: Mr. Chairman -- and perhaps you'd
21 like to let him ask the question, but I would at least
22 note that it appears as though the line of questioning
23 relates back to issue 188, that Mr. Saporito had
24 proposed to have included in the docket, which is not in
25 the docket. But I would defer to you as to whether this

1 question on line losses would be appropriate.

2 MR. SAPORITO: This doesn't relate to that issue at
3 all, Mr. Chairman. This deals strictly to the witness's
4 testimony about line losses, specifically related to
5 FP&L's hope for a .25 performance adder.

6 CHAIRMAN BRISE: Okay, I'm going to give you one
7 more shot to see if you can move along down this path.

8 BY MR. SAPORITO:

9 Q Mr. Reed, with respect to FPL's hope for a .25
10 percent performance adder, would it not be beneficial for
11 FP&L to install distributed power systems at customer
12 locations to reduce line losses rather than suffer the high
13 level of line losses which has already been documented
14 through your testimony?

15 A No. Based on my experience, installing
16 distributed generation at customer sites is likely to highly
17 increase the cost of service, not decrease it, and that would
18 be detrimental to the productive efficiency rankings I've
19 established.

20 Q Would you base that opinion on how would it
21 increase or decrease efficiency and decrease reliability?

22 A It wasn't a matter of efficiency and reliability,
23 it's a matter of cost. The cost of a solid oxide fuel cell
24 like the one that you showed in the brochure is
25 extraordinarily high compared to central generation. And

1 even when the line losses are considered, it is still a far
2 more expensive option.

3 MR. SAPORITO: No further questions, Your Honor --
4 Mr. Chairman.

5 CHAIRMAN BRISE: Thank you, Mr. Saporito.
6 Mr. Hendricks.

7 MR. HENDRICKS: Well, it looks like I only have
8 about 30 minutes left here. Actually, I'll try to be
9 very brief.

10 CROSS EXAMINATION

11 BY MR. HENDRICKS:

12 Q Your testimony is supporting, as I understand it,
13 the 25 percent adder, and you're basing most of that support
14 on essentially benchmarking analysis that you performed, is
15 that correct?

16 A That's correct.

17 Q If we're considering using benchmarking analysis
18 to justify a performance adder that I believe you suggested
19 might have a cost of about \$40 million, it might be
20 appropriate to consider, you know, the strength of the
21 benchmarking analysis of information.

22 And if we look at the -- and I haven't,
23 admittedly, seen all of your exhibits and all of the details
24 of it. But in what we've been looking at today, it does
25 appear that a lot of -- some of the data is rank ordered

1 data, some of the data that you're dealing with is dollars,
2 some of the data is seconds. You have a lot of different
3 measures that you're using in the various benchmarking
4 studies.

5 CHAIRMAN BRISE: Mr. Hendricks, is there a question
6 in there?

7 MR. HENDRICKS: I'll try.

8 CHAIRMAN BRISE: Thank you.

9 BY MR. HENDRICKS:

10 Q Have you made any attempt to reconcile these --
11 all these different measures and to weight or relate these to
12 something that comes into a decision?

13 A Yes, I have. In fact, that's the perfect segue
14 to that chart, which does attempt to capture both the
15 operational metrics and the cost metrics and determine if you
16 capture total performance relative to both, how does FPL look
17 relative to the peer group.

18 On that chart, if I could just point out
19 something, in this chart, the further away you are from the
20 central tendency line, the median line --

21 CHAIRMAN BRISE: We have a cordless mic.

22 THE WITNESS: -- the more efficient the company is
23 regarded as being. So if we look at the central range
24 as being yellow, and this being the upper range of the
25 median performance, the further away you are from that

1 line, the better the company is in terms of total
2 performance, taking together all of the data, which
3 include minutes, include costs, include percentages for
4 availability, include metrics like customer density and
5 customer growth.

6 So in aggregate for 2010, FPL was the number one
7 performer in terms of achieving efficiency measured
8 across all 28 members of the Straight Electric Peer
9 Group.

10 BY MR. HENDRICKS:

11 Q Is that point that you referred to, the FPL dot on
12 that chart, is that the arithmetic sum of all those measures,
13 or how is it calculated?

14 A It's calculated based upon rank order across all
15 of the metrics for productive efficiency and rank order
16 across all of the metrics for situational assessment. So it
17 is, in this case, the second highest performer in terms of
18 productive efficiency and also the highest utility in terms
19 of challenges associated with the situation it finds itself
20 in. So it is rank order -- average rank order across both
21 dimensions of the benchmarking study.

22 Q Did the analysis that you performed provide any
23 financial metric or value metric that -- so that we could
24 know that one of these points is more valuable or more useful
25 than another, or are they all essentially considered equally

1 valuable?

2 A It's difficult to try and weigh reliability, such
3 as SAIDI or SAIFI, against costs, but we did examine the
4 aggregate cost savings, and that was in my summary where we
5 said that in aggregate there were \$1.6 billion of cost
6 savings relative to median level performance for FPL's
7 customers in 2010.

8 So, again, I didn't try and quantify the value of
9 reliability or the value of customer service. But from a
10 pure cost perspective there were \$1.6 billion of savings,
11 which of course is a huge multiple of the \$41 million of the
12 added ROE that the company is seeking.

13 MR. HENDRICKS: Thank you. I don't have any other
14 questions.

15 CHAIRMAN BRISE: Thank you, Mr. Hendricks. Staff?

16 MR. YOUNG: Staff doesn't have any questions.

17 CHAIRMAN BRISE: Commissioners? Commissioner
18 Edgar?

19 COMMISSIONER EDGAR: Thank you, Mr. Chairman. Just
20 a couple quick questions, I think. In your -- Mr. Reed,
21 in your summary of your prefiled direct and rebuttal
22 testimony, I believe you made the statement in your
23 words that the excellent performance by FPL deserves
24 recognition by this PSC. I have not found that exact
25 statement in your prefiled testimony, although it may be

1 there.

2 Why -- so with that statement of excellent
3 performance deserves recognition by the PSC, is it your
4 testimony that a .25 basis point additional ROE is the
5 appropriate way for this Commission to recognize that
6 performance level?

7 THE WITNESS: I think it is. It's consistent with
8 the approach and the magnitude that the Commission has
9 used in the past, specifically the Gulf power case cited
10 in my rebuttal evidence.

11 So both in terms of magnitude and in terms of
12 selecting the element, which is return on equity, that's
13 the way most state commissions use to reward excellent
14 performance and to provide an incentive. And I think
15 the magnitude is appropriate here and consistent with
16 regulation precedent in Florida.

17 COMMISSIONER EDGAR: Would there be any other ways
18 or methods, mechanisms, gold stars, available to this
19 Commission to recognize that level of performance,
20 should we determine such a thing to be deserved?

21 THE WITNESS: There are other mechanisms and this
22 Commission has used some, including shared savings
23 mechanisms and other types of incentives that allow the
24 company to capture the profit or benefit associated with
25 performance in certain areas.

1 But if you're talking about performance measured
2 across all of these metrics and measured across the
3 entirety of the cost spectrum, generally ROE is the way
4 that most commissions go.

5 And that's not to say that incentives that are with
6 regard to, for example, wholesale power sales or
7 wholesale power purchases or other forms of asset
8 optimization don't work as well or couldn't work. But,
9 in general, the way most commissions try and capture the
10 right incentive for aggregate performance rather than
11 targeted performance is through ROE.

12 COMMISSIONER EDGAR: You also, in your summary,
13 made the statement that if the requested adder were to
14 be granted that it would -- and I think I'm quoting
15 here -- would serve as an incentive for continued
16 excellence.

17 THE WITNESS: I think it would, yes.

18 COMMISSIONER EDGAR: To whom -- or who is it that
19 would be incentivized by that .25 basis point addition?

20 THE WITNESS: FPL's management team. They would
21 know that that ROE adder is at risk if they don't
22 continue to deliver performance both through the
23 achieving the lowest typical residential bill between
24 now and the next rate case, and, of course, it would be
25 revisited as well at the next rate case. But that's who

1 you're incenting, is management, to keep up that type of
2 performance like they've achieved in the past decade.

3 COMMISSIONER EDGAR: When you say management team,
4 I think that is -- I think that is a phrase that could
5 possibly be defined a variety of ways, the top three,
6 top 20, top 100, anybody with supervisory authority.
7 Could you define for me, when you use the term in this
8 instance, management team, a little more precisely the
9 group that you are referring to that would be
10 incentivized?

11 THE WITNESS: It's not top three or top ten or top
12 20. That type of performance, where you're looking at
13 generation and transmission and distribution, customer
14 service and labor costs, you're talking about virtually
15 every major functional area of the company.

16 So it's not the kind of thing where you're really
17 looking to say maybe we should do it through incentive
18 compensation to individuals as opposed to ROE. You are
19 talking about thousands of employees that can contribute
20 and really have to contribute to that level of savings
21 in a company as large as FPL.

22 COMMISSIONER EDGAR: Would that -- and thank you
23 for that explanation. Would those thousands, roughly,
24 of managers receive any financial benefit from a .25
25 basis point adder?

1 THE WITNESS: It goes into obviously increasing the
2 earnings of the company. What the company does with
3 that, in terms of establishing parallel incentives
4 through incentive compensation at the employee level,
5 really should be the subject asked of some other witness
6 in the case. But it has that potential.

7 COMMISSIONER EDGAR: And just one last question.
8 Do you know how much that .25 basis point represents in
9 monetary terms under the request by FPL?

10 THE WITNESS: \$41 million per year, as compared to
11 the 1.6 billion per year of savings.

12 COMMISSIONER EDGAR: All right, thank you.

13 CHAIRMAN BRISE: Thank you, Commissioner Edgar.
14 Commissioner Balbis?

15 MR. REHWINKEL: Mr. Chairman, Office of Public
16 Counsel would move to strike Mr. Reed's reference to the
17 term asset optimization. That is a term that does not
18 appear anywhere in the prefiled testimony. It is a term
19 that appears in another document that was the issue of a
20 lot of argument this morning. I need to make this
21 objection for the record.

22 CHAIRMAN BRISE: Okay. Was the -- the term was
23 used in response to a question?

24 MR. REHWINKEL: From Commissioner Edgar.

25 CHAIRMAN BRISE: From Commissioner Edgar.

1 MR. REHWINKEL: It was the witness's term, not in
2 the Commissioner's question.

3 CHAIRMAN BRISE: Understood. Understood. And the
4 term was asset optimization?

5 MR. REHWINKEL: Yes, Commissioner -- Mr. Chairman.

6 MR. MOYLE: Mr. Chairman, if I could be heard on
7 that. If that becomes the standard, a word used in the
8 settlement agreement, you know, that's a pretty broad
9 standard. I mean, you've already ruled twice that the
10 motion in limine, you know, is denied.

11 I don't think the witness was commenting -- I
12 mean, I, in my head, didn't link the two. But it seems
13 that that's heading pretty far afield, when you've made
14 a ruling, to say, you know, the settlement is not out of
15 bounds, you'll reserve judgment based on facts as they
16 arise. So I would -- I would say that if words
17 mentioned in the settlement agreement become the
18 standard, then that's a pretty high bar.

19 MR. LITCHFIELD: I would concur, and in addition,
20 the witness did not say and therefore you should approve
21 the settlement agreement, he was simply referring to a
22 form of incentive opportunity. So I concur with
23 Mr. Moyle.

24 MR. REHWINKEL: Mr. Chairman, this case is going to
25 be for the next nine days now about insinuating this

1 document into this process little by little. The motion
2 in limine was advanced; it was denied.

3 We now will have to address each and every effort
4 to do that by these objections. So I'm objecting for
5 the record, but I do not also concur in Mr. Moyle's --
6 and we can look at the transcript -- characterization of
7 what -- that you're going to let things in and see how
8 it went.

9 If it proceeds this way, we will have to look at
10 the aggregate of the evidence that is being attempted to
11 be put into the record. So our efforts will be to keep
12 the record clean and keep it separate. I appreciate
13 your indulgence. Thank you.

14 MR. LITCHFIELD: And I object for the record to
15 counsel's insinuation that we are attempting to
16 insinuate in the record elements of the settlement
17 agreement. That's categorically false.

18 MR. REHWINKEL: The record will speak for itself on
19 that.

20 CHAIRMAN BRISE: Thank you. Thank you, gentlemen.
21 I think I will overrule the objection for the simple
22 fact that it was in response to a question, and I think
23 that term is used, you know, in a variety of scenarios.
24 So I don't think that the use of the term is referring
25 back to another document that could be related moving

1 forward. So I overrule the objection on that.

2 Commissioner Brown?

3 COMMISSIONER BROWN: Thank you. Just --

4 CHAIRMAN BRISE: Oh, I'm sorry, I'm sorry.

5 Commissioner Balbis was next. Go ahead, Commissioner
6 Balbis.

7 COMMISSIONER BALBIS: Okay, thank you. I'll be as
8 quick as I possibly can, noting the time. And I believe
9 Mr. Reed probably does not want to come back tomorrow.
10 So on page 29 of your testimony you make a couple of
11 statements concerning heat rate and also equivalent
12 availability factor. And you indicate that there's been
13 a 17 percent decrease in FPL's heat rate.

14 My question to you is, was that due to them
15 achieving the targeted heat rate goals, or was it a
16 change in fleet, or a combination of both?

17 THE WITNESS: A combination of both. Improving
18 existing units plus modernization of the fleet
19 contributed to the heat rate reduction.

20 COMMISSIONER BALBIS: Okay, and a follow-up
21 question to that is that you indicate that this
22 improvement in performance is one of the reasons why an
23 ROE adder is appropriate. Are you aware that this
24 Commission allows FPL to recover some of those cost
25 saving measures through the GPIF, or Generation

1 Performance Incentive Factor?

2 THE WITNESS: I am. I've looked at that and
3 considered the question of whether there's essentially
4 any double counting between that mechanism and the ROE
5 adder. Be aware that the heat rate, of course, reduces
6 your fuel costs, your aggregate level of fuel
7 consumption. None of my metrics go to fuel consumption.

8 I have excluded fuel from all of the operational
9 metrics that I have examined. So I've tried to focus on
10 non-fuel controllable costs. So while there are
11 benefits to customers associated with heat rate
12 improvement, those are captured through the fuel
13 savings, fuel cost mechanism, and through the generation
14 incentive mechanism, and I don't see any double counting
15 between that and what I've proposed.

16 COMMISSIONER BALBIS: Okay. And I may disagree
17 with you on that count. I have the misfortune or
18 fortune of being prehearing officer for all the clauses,
19 as well, and I believe in 2011 FPL recovered, I believe,
20 \$7.7 million in incentive compensation, if you will, in
21 additional compensation, for achieving the goals that it
22 set.

23 So they're already receiving \$7.7 million for doing
24 a good job and lowering the heat rate, increasing the
25 availability factor. But your testimony is that in

1 addition to that incentive, an additional incentive of
2 an ROE adder is appropriate?

3 THE WITNESS: Yes. And to be clear, the \$1.6
4 billion in savings that I mentioned earlier in my
5 testimony does not include any of the fuel savings that
6 are achieved through fleet modernization or heat rate
7 improvements. So the 41 million is properly compared to
8 the 1.6 billion of savings, which excludes all of the
9 fuel side.

10 COMMISSIONER BALBIS: Okay. So I'll move on to
11 another one and that's -- I apologize for going quickly,
12 but page one of your JJR-5 exhibit. Well, let me first
13 start out with I think you're benchmarking analysis -- I
14 think benchmarking is a very important tool when
15 assessing a company's performance, whether benchmarking
16 against other companies or itself, intentionally.

17 But there's been a lot of discussion on
18 benchmarking against other utilities, and I want to just
19 focus on FPL's benchmarking against itself. So I want
20 to focus on year to year performance.

21 And in this exhibit you have at the bottom those
22 three lines, the SAIDI, the SAIFI and the CAIDI. And I
23 just want to walk through that to make sure I understand
24 it in the record, because, again, this goes to the
25 performance and whether or not an adder is appropriate.

1 But looking at the SAIDI numbers, 2006, there was
2 116.33. Then it goes down significantly, and then it
3 goes back up in the latest year, 2010, back to 107.67.
4 And correct me if I'm wrong, but an increase in that
5 number is -- is an increase in the time to repair
6 the interruption. So, in other words, they're
7 performing -- they're not performing as well as they
8 did the year before, correct?

9 THE WITNESS: That's correct for SAIDI, yes.

10 COMMISSIONER BALBIS: Okay. And then in SAIFI you
11 have, again, an increase in that number from year to
12 year, is that correct?

13 THE WITNESS: From 2009 to 2010, yes.

14 COMMISSIONER BALBIS: Or even if you go back to
15 2006, that was at 1.09, and in 2010 it's at 1.29?

16 THE WITNESS: Right. That's correct.

17 COMMISSIONER BALBIS: And an increase in number
18 would indicate that they're performing better or worse?

19 THE WITNESS: An increase in the number for
20 frequency indicates that there are more frequent
21 interruptions.

22 COMMISSIONER BALBIS: Okay. And then the CAIDI
23 number from 2006 is 102.67, and then that's been
24 decreased significantly to 85. So that would indicate
25 they're performing better than the 2006, is that

1 correct?

2 THE WITNESS: Yes. And just to deal with one
3 calculation issue, CAIDI is the ratio of SAIDI over
4 SAIFI. So if you want to consider both SAIDI and SAIFI
5 together, it is the CAIDI measure that is best used to
6 capture both together.

7 COMMISSIONER BALBIS: Okay, move on to page nine of
8 JJR-6 -- I'm sorry -- yes, page nine of JJR-6. And I
9 just want to make sure I understand this correctly, but
10 it appears in this sheet that FPL's energy losses would
11 be the highest of the other four -- the Straight
12 Electric Group Mean, the Florida Group Mean, or the
13 Large Utility Group Mean, is that correct?

14 THE WITNESS: Yes. This is an element of the
15 situational assessment, and its energy losses are higher
16 because it is the most transmission dependent of all the
17 utilities.

18 COMMISSIONER BALBIS: Okay. And just for the
19 record, I'm skipping over the questions I had on all of
20 the good indices, and the -- for time considerations,
21 I'm focusing on issues that I have questions about.

22 Going to page, really, 11, 12, 15 and 16 of JJR-6,
23 and it really has to do with O&M costs. And again, I
24 see FPL performing very well when it compares to those
25 other comparison groups, whether it's Straight Electric,

1 Florida, or Large Utilities.

2 But the question I have for you is there seems to
3 be an increase in O&M costs for whether it's per
4 customer, per megawatt-hour produced, non-nuclear, O&M
5 produced, et cetera. There's been an increase from 2008
6 to 2010. Did your study look at the reasons for the
7 increase?

8 THE WITNESS: It did, yes.

9 COMMISSIONER BALBIS: Okay. Could you explain
10 that? Because with the economy going down, you would
11 expect, at least in some cases, their costs to go down.
12 But if you can please explain the increase in those two
13 years.

14 THE WITNESS: And specifically we try to examine
15 what portion of the cost increases are caused by price
16 increases, either in the form of Consumer Price Index,
17 the wage index, or the Handy-Whitman index. And the
18 Handy-Whitman is a cost index specific to public
19 utilities, and we looked specifically at the south
20 Atlantic region.

21 And the answer there is that nearly all of the
22 increase you see in O&M, whether measured on a per
23 customer basis or a per megawatt-hour basis, is
24 attributable to the unit cost increases. That is, the
25 underlying cost drivers of commodities and materials and

1 labor, not an increase in quantity on the FPL system.
2 And that information is presented in Exhibit JJR-11 and
3 JJR-12.

4 COMMISSIONER BALBIS: Okay. And I'll skip over a
5 few of these. My last question -- again, I apologize
6 for moving quickly -- on page 29 of 34 in the same
7 exhibit, again, just another increase for the salaries,
8 wages, pensions and benefits expenses per employee.

9 And if I -- can you explain -- again, well, I guess
10 the question for you is, did you look as to why there
11 was an increase in that, or just basically tracked it
12 and compared it to other benchmarked organizations?

13 THE WITNESS: We did both. We tracked it and then
14 we isolated what portion is associated with, again, what
15 we'll call the endogenous level of wage increases in the
16 economy, which is presented on Exhibit JJR-11.

17 Since the last rate case was filed, utility wages
18 have increased 14 percent on a unit cost basis. That's
19 dollars per week per employee. This is for the industry
20 as a whole. So FPL's increase is consistent with the
21 industry average.

22 COMMISSIONER BALBIS: Okay. But again, according
23 to this document, if you look at the table, 2008, 94.38,
24 and it just says annual values. And that increased up
25 to 104.53, or about a 10 percent increase in salaries,

1 wages and benefits?

2 THE WITNESS: I'm sorry, you were looking for what?

3 COMMISSIONER BALBIS: The table on page 29 of 34.

4 THE WITNESS: Which two years?

5 COMMISSIONER BALBIS: Between 2008 and 2010.

6 THE WITNESS: Right.

7 COMMISSIONER BALBIS: Or you can pick any years.

8 But I just want to make sure that that shows
9 approximately a 10 percent increase in salaries, wages,
10 and benefits over that two-year period.

11 THE WITNESS: That's correct. And again, we
12 focused on since the last rate case, and FPL's numbers
13 have increased slightly more rapidly than the national
14 average. But the national average was 14 percent, and I
15 think FPL was 16 percent. So it's very much in line
16 with the national average.

17 COMMISSIONER BALBIS: Okay, thank you. That's all
18 I had.

19 CHAIRMAN BRISE: Thank you, Commissioner Balbis.
20 Commissioner Brown?

21 MR. BROWN: Thank you. My question was asked and
22 answered.

23 CHAIRMAN BRISE: All right, thank you. Redirect.

24 MR. LITCHFIELD: Thank you, Mr. Chairman.

25 REDIRECT EXAMINATION

1 BY MR. LITCHFIELD:

2 Q I have just a couple of questions, and I want to
3 start back with where you were with Commissioner Balbis on
4 JJR-5, page one of ten, and ask you, as a predicate, this
5 shows the metrics both for Florida Power & Light Company and
6 then by industry average, does it not?

7 A It does.

8 Q Can you describe for us which figures we were
9 referring to in that discussion?

10 A I'm sorry, were the numbers that were referred to
11 for the industry average for the SAIDI, SAIFI and CAIDI, we
12 should have obviously been looking at the FPL numbers if
13 we're focusing on FPL, which are the --

14 Q And what do these metrics tell you about Power &
15 Light's performance relative to the industry averages?

16 A They show that SAIDI has gone from 74 to 77, SAIFI
17 has gone down substantially from 129 to 0.92. CAIDI has gone
18 from 58 to 84 over that period of time from 2006 to 2010.

19 Q And these are effectively what are plotted on the
20 following graphs, is that right?

21 A Yes.

22 Q Okay. Okay, my next question relates back to
23 Exhibit 473, which is a stack of work papers that
24 Mr. Sundback walked you through. Do you recall him doing
25 that?

1 A I have that.

2 Q And these were your work papers, correct?

3 A Yes.

4 Q And there are 48 pages here?

5 A Yes.

6 Q And Mr. Sundback referred you to a couple of pages
7 with data points that I think you characterized as indicative
8 of companies not having reported?

9 A Yes, he made that point.

10 Q Then my question, Mr. Reed, is given those missing
11 elements that Mr. Sundback referred you to, what are your
12 observations with respect to the impact of those data points
13 on your overall analysis and recommendations?

14 A It doesn't adversely affect the conclusions.
15 Whether you're 12th out of 12 or 28th out of 28, it's the
16 relative position to the industry average that determines the
17 overall ranking in my productivity -- my productive
18 efficiency metric. So it's your position in rank order
19 relative to the industry average, and if the industry average
20 goes down by half, because half of them don't report, then it
21 takes that into account.

22 MR. LITCHFIELD: That's all I have.

23 CHAIRMAN BRISE: Thank you very much. Commissioner
24 Balbis?

25 COMMISSIONER BALBIS: Yeah, thank you,

1 Mr. Chairman. I just want to state for the record --
2 and I think it's because it is late and I was moving
3 quickly, and I appreciate Mr. Litchfield pointing out
4 the numbers that I was referring to, that I should have
5 identified where those were. And just to make sure it's
6 clear for the record, on the same discussion on the
7 SAIDI and the SAIFI that, again, the witness in, I
8 guess, redirect, correctly identified it. But I should
9 have been referring to those other numbers, so thank you
10 for that.

11 CHAIRMAN BRISE: Thank you very much. We have to
12 move -- do we have to move anything into --

13 MR. LITCHFIELD: We do. We have to move Mr. Reed's
14 Exhibits 123 through 134 and then also 435.

15 CHAIRMAN BRISE: Okay. All right. Exhibits?
16 (Exhibits 123, 124, 125, 126, 127, 128, 129, 130, 131,
17 132, 133, 134 and 435 admitted in evidence.)

18 MR. MOYLE: I'm sorry, there's no objection to
19 those. We would move in, I think, 472 was the exhibit
20 that we used, the Bureau of Labor Statistics.

21 MR. LITCHFIELD: No objection.

22 CHAIRMAN BRISE: Okay.
23 (Exhibit 472 admitted in evidence.)

24 MR. SUNDBACK: Mr. Chairman, Florida -- South
25 Florida Hospitals would move in 473 through 479, if our

1 notes are correct.

2 CHAIRMAN BRISE: That is correct.

3 Mr. LITCHFIELD: No objection.

4 CHAIRMAN BRISE: Okay, are there any objections?

5 Okay, seeing none, Mr. Saporito?

6 (Exhibits 473, 474, 475, 476, 477, 478, 479 admitted in
7 evidence.)

8 MR. SAPORITO: I'd like to move in Exhibits 480,
9 481.

10 MR. LITCHFIELD: Objection to 480. No objection to
11 481. 480, as you'll recall, was never really discussed.

12 CHAIRMAN BRISE: Okay. That was the annual report
13 or --

14 MR. LITCHFIELD: Correct. Right.

15 CHAIRMAN BRISE: Okay. All right. And 481?

16 MR. LITCHFIELD: No objection to 481.

17 CHAIRMAN BRISE: Okay. All right, so we have --

18 MR. YOUNG: Mr. Chairman, I think the ruling on --
19 if Mr. Saporito is withdrawing number 480, I think it's
20 objected to by FPL. I haven't heard anything from
21 Mr. Saporito --

22 CHAIRMAN BRISE: Right. I'm going to go to him in
23 a second.

24 MR. YOUNG: And just for the record, he withdrew --
25 we have 482 still -- that's an open spot.

1 CHAIRMAN BRISE: Okay, 482 is still an open spot?

2 MR. YOUNG: Yes.

3 CHAIRMAN BRISE: Okay. Mr. Saporito, 480?

4 MR. SAPORITO: I do not opt to withdraw at this
5 point because the document was validated with the
6 original report issued by Florida Power & Light, and the
7 witness did testify to certain paragraphs in there with
8 respect to FPL's net income year over year. I believe
9 it was from 2009 to 2011.

10 MR. LITCHFIELD: The objection is relevance, then.
11 It was validated as something from our 10-K, but it
12 was -- the objection is relevance.

13 CHAIRMAN BRISE: Okay. Mary Anne?

14 MS. HELTON: If it is from Florida Power & Light's
15 10-K -- and there were some questions about it. I just
16 think for completeness of the record it would be better
17 to include it and when it reaches that point where
18 you're making a decision, you can give it the weight
19 that it's due.

20 MR. LITCHFIELD: It was from NextEra's annual
21 report, not their 10-K.

22 CHAIRMAN BRISE: Thank you. All right, so we will
23 enter the exhibits for Mr. Reed, including 480, okay?
24 (Exhibits 480 and 481 admitted in evidence.)

25 MS. HELTON: And just so we know where to start

1 tomorrow, Mr. Chairman, Mr. Saporito had started to
2 identify an exhibit as Number 482 and then didn't do
3 that. So are we going to start tomorrow with 482?

4 CHAIRMAN BRISE: We're going to start tomorrow with
5 482. Okay? And I want to thank you for all of your
6 hard work today. We will resume tomorrow morning at
7 9:30, and the witness that we have is Mr. Silagy. All
8 right, thank you very much. See you tomorrow.

9 (The transcript continues in sequence to Volume 4.)

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Dated this 23rd day of August, 2012.


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