

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 120015-EI

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

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VOLUME 9

Pages 1099 through 1135

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PROCEEDINGS: HEARING

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

DATE: Wednesday, August 22, 2012

PLACE: Betty Easley Conference Center
Room 148
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Tallahassee, Florida

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APPEARANCES: (As heretofore noted.)

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I N D E X

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P R O C E E D I N G S

(The transcript follows in sequence from Volume 8.)

MR. BUTLER: I should have done that earlier.

CHAIRMAN BRISE: All right, Mr. LaVia.

MR. LaVIA: No questions, Mr. Chairman.

CHAIRMAN BRISE: Okay. Mr. Saporito.

MR. SAPORITO: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. SAPORITO:

Q Good afternoon, Ms. Ousdahl. I hope I pronounced that right.

A Yes, Ousdahl. That's correct.

Q My name is Tom Saporito. I'm here pro se as an Intervenor. And I don't know if you were here earlier but I made the statement that I was a shareholder in NextEra Energy, Inc., who is the parent company of Florida Power & Light. So some of your prefiled testimony I have an Intervenor's interest, but also a shareholder's interest.

And I'm going to explore just a little bit following Mr. Morley's area of inquiry regarding the ROE and the ROE adder that you testified about. Page six of your prefiled testimony, at lines seven and eight, it states in there that absent a base rate relief for 2013 test year, FP&L's adjusted jurisdictional ROE is estimated to be 8.2 percent. Do you see that?

1 A I do.

2 Q And then the prior page on page five, at lines 19
3 to 20, you talk about the impact of -- there's a statement
4 there about the impact of the ROE performance adder on
5 revenue requirements for the 2013 test year. Do you see
6 that?

7 A Yes.

8 Q Well, the question to you is based on the current
9 economic conditions. I mean, I have a significant amount of
10 funds invested in FP&L, even though I have to buy the shares
11 in NextEra Energy.

12 MR. BUTLER: I'm going to object to this line of
13 questions. First of all, I don't think that
14 Mr. Saporito's interests as a shareholder is relevant to
15 this rate proceeding.

16 Second of all, it's pretty clear page seven, line
17 11 of Ms. Ousdahl's testimony, all she does is calculate
18 the dollar amount associated with the 25 basis point ROE
19 adder that we're requesting. So this is not appropriate
20 area of questions for her testimony.

21 MR. SAPORITO: Mr. Chairman, I haven't even asked
22 the question yet and I have an objection on the floor.
23 I mean, I think I should at least be able to ask the
24 question. And then if my good friend at the other end
25 of the table wants to object, then he would have a basis

1 to do it.

2 CHAIRMAN BRISE: Okay, I will listen to the
3 question, but I think there is some validity as to the
4 preamble of being a shareholder and so forth.

5 MR. SAPORITO: Well, I'm just trying to lay a
6 foundation, you know. I'm trying to do that attorney
7 bit that Mr. --

8 CHAIRMAN BRISE: Ask your question.

9 BY MR. SAPORITO:

10 Q Okay. So if there was no -- it's my understanding
11 if there was no rate relief in this proceeding awarded by the
12 Commission with respect to the return on equity, that FPL
13 would still realize an 8.2 percent return on equity, am I
14 correct?

15 MR. BUTLER: Objection, asked and answered.

16 CHAIRMAN BRISE: That has been asked by Mr. Moyle.

17 BY MR. SAPORITO:

18 Q Well, isn't 8.2 percent more than enough for FP&L
19 to continue operations as they have since the last rate case
20 that FPL put before this Commission?

21 MR. BUTLER: I would object. This is not our cost
22 of capital witness. We have two on the subject:
23 Mr. Dewhurst and Mr. Avera.

24 CHAIRMAN BRISE: Okay, I'm going to allow you this
25 one question, understanding that this witness does not

1 deal with cost of capital.

2 BY MR. SAPORITO:

3 Q Can you answer?

4 A I think your question was isn't 8.2 percent
5 enough. And I am not able to answer that question. I'm not
6 the witness on cost of capital. I cannot tell you what our
7 equity investors expect or what we need to report in equity.

8 MR. SAPORITO: Okay, thank you. That's all I have.

9 CHAIRMAN BRISE: Thank you very much.

10 Mr. Hendricks?

11 MR. HENDRICKS: Yeah, I just have one matter I'd
12 like to ask her about.

13 CROSS EXAMINATION

14 BY MR. HENDRICKS:

15 Q I believe in the introduction that you made, your
16 summary, you mentioned that you were the person responsible
17 for the net operating income multiplier?

18 A That's correct.

19 Q That calculation? Could you just briefly explain
20 to us the components of the -- or that make up the inputs to
21 the net income -- net operating income multiplier?

22 A The purpose of the net operating income multiplier
23 is to gross up, in effect, the cost of service to ensure that
24 we recover in revenue enough dollars to pay the revenue
25 related costs. So it's made up of items that are a function

1 of revenue.

2 The regulatory assessment rate is a fee that the
3 company must pay, I believe, under statute, in support of
4 this Commission's activities. It is specified in that -- I'm
5 saying statute. I'm pretty sure that's correct. So that's a
6 specified rate on a dollar of revenue.

7 The bad debt rate is the write-offs as a percent
8 of revenue. I think there's another MFR that shows that. So
9 for every dollar of revenue we collect, we're going to lose
10 this fraction of dollars associated with our estimate of
11 write-offs.

12 And then we continue to gross this up for the
13 state income taxes that we must pay associated with the
14 dollar of revenue, the 5.5 percent, and the 35 percent
15 Federal income tax rate. That gets you -- the math on that
16 gets you to the multiplier that must be applied to a dollar
17 of revenue requirement or to obtain a dollar of revenue
18 requirement from the cost of service.

19 Q So the -- the state tax rate that's included in
20 here is 5.5 percent, and the Federal income tax rate is 35
21 percent?

22 A The statutory rates, that's correct.

23 Q And so the way this revenue operated -- I guess
24 it's shown here as 1.63188, and I'm looking at the Cape
25 Canaveral one, but I assume it's the same for all operations.

1 A It is. It is.

2 Q So what -- do you have a -- can you explain the
3 percentage of that increase that's due to the income tax
4 provisions? I mean, I suppose we could do the math, but
5 basically you include first of all the state income tax and
6 then you -- and then you have the Federal income tax and then
7 you have to have the components that make up for paying the
8 Federal income tax on the tax subsidy, basically?

9 A Yes, the state income tax is deductible for
10 Federal income tax purposes, so the math just gets you to the
11 expansion factor, which you then essentially take the
12 reciprocal of to get to the multiplier.

13 MR. HENDRICKS: Thank you.

14 CHAIRMAN BRISE: Staff?

15 CROSS EXAMINATION

16 BY MS. KLANCKE:

17 Q Good afternoon, Ms. Ousdahl.

18 A Good afternoon.

19 MS. KLANCKE: Mr. Chair, at this time I would like
20 to have some documents passed out.

21 CHAIRMAN BRISE: Okay.

22 BY MS. KLANCKE:

23 Q Now that we all have the documents, I'd like to
24 turn your attention to the first document that appears in
25 your stack. This document contains the deposition transcript

1 of witness Kim Ousdahl.

2 CHAIRMAN BRISE: May we mark this 519?

3 MS. KLANCKE: This is already contained in Exhibit
4 Number 110.

5 CHAIRMAN BRISE: Okay.

6 BY MS. KLANCKE:

7 Q Ms. Ousdahl, do you remember when I took your
8 deposition on Monday, August 13th, 2012?

9 A Yes, I do.

10 Q And if I asked you the same questions here today
11 that I asked you on August 13th, would your answers be the
12 same?

13 A Yes, I wish I would be a little more articulate,
14 but my answers would be the same.

15 MS. KLANCKE: Mr. Chair, I would like to express to
16 the parties my intent to move Exhibit 110 containing the
17 deposition transcript which everyone has in front of
18 them into the record at the appropriate time. If there
19 are any objections to the introduction of this
20 deposition transcript, we would like to address them
21 now.

22 THE WITNESS: Counsel, I'm sorry, I did forget,
23 there are some errata to that deposition that I know we
24 filed. And you didn't mention that.

25 MS. KLANCKE: To the extent that counsel can

1 include in conjunction with this or perhaps as a late
2 filed exhibit, if it's your preference --

3 THE WITNESS: And they are just correcting
4 typographical errors.

5 MR. BUTLER: Would it make sense for us to
6 distribute those and then they could be, I guess,
7 addressed, whether there's any questions or concerns
8 about the errata? They are just kind of technical
9 typographical type changes.

10 MS. KLANCKE: Certainly, that's fine.

11 CHAIRMAN BRISE: If we have those available now, if
12 we could have them travel along with this document so it
13 can be cleaner.

14 MS. HELTON: I'm sorry, Mr. Chairman, I didn't hear
15 what you said.

16 CHAIRMAN BRISE: I said if the company has those
17 available now, if it could travel along with this
18 document so it can be one exhibit, and it would be
19 cleaner that way.

20 MS. HELTON: I think the record could show that
21 it's an addendum to that exhibit.

22 MR. BUTLER: Mr. Chairman, would it make sense to
23 take a five-minute break just to let us get the
24 paperwork, get it to Staff, and move on? I don't know
25 if we can do it in the next 30 seconds but we certainly

1 do have it here and can provide it to Staff.

2 CHAIRMAN BRISE: Okay, we'll take a five-minute
3 break to facilitate that.

4 (Brief recess)

5 CHAIRMAN BRISE: Mr. Butler, did we find the --

6 MR. BUTLER: Mr. Chairman, we have not gotten to
7 the distribution of the errata. I think probably the
8 best thing to do at this point is that we identify the
9 deposition transcript and we certainly don't have an
10 objection, ultimately, to its admission but I think
11 we're going to have to do a little bit of homework to
12 complete it to distribute whatever the errata for it are
13 to the parties. And then certainly we can -- Staff can
14 move it into the record at that point.

15 If there are any questions about it, I think
16 Ms. Ousdahl would be able to address those questions
17 during her rebuttal testimony, if any of the parties had
18 any questions about it at that time.

19 CHAIRMAN BRISE: Okay. Staff?

20 MS. KLANCKE: Are there any material corrections or
21 additions, deletions, associated with the errata sheet
22 to the deposition?

23 MR. BUTLER: There are not.

24 MS. KLANCKE: With that I believe we can -- as we
25 intend to amend currently existing Exhibit Number 110

1 with the errata sheet, I think we can move forward with
2 respect to this. I'd like to renew my desire at the
3 appropriate time to have the deposition transcript moved
4 in. If anybody has any objections --

5 CHAIRMAN BRISE: Are there any objections to that
6 at this time? Okay, seeing none, please proceed.

7 BY MS. KLANCKE:

8 Q Excellent. I'd like to turn your attention now to
9 another document that I have provided to you. It is FPL's
10 response to OPC's Sixth Set of Interrogatories, number 119.
11 Are you familiar with this response?

12 A Yes, I've seen the response.

13 Q This response in particular addresses advertising
14 expenses which are reflected on MFR C-14, is that correct?

15 A Yes.

16 Q And you are co-sponsoring MFR Schedule C-14, is
17 that correct?

18 A I don't have it in front of me, but I'm sure
19 you're correct.

20 Q Would you agree that your Exhibit KO-1, page four
21 of five, provides that you are co-sponsoring that schedule?

22 A Well, no, I'm not a sponsor. I'm not listed as a
23 sponsor on C-14, and I'm not listed as a sponsor on my KO-1.

24 Q Would you turn to KO-1, page four of five? The
25 second schedule reflected on that page is C-14?

1 A Yes, and it notes that I'm the sponsor for the
2 historic values, not the projected.

3 Q Fair enough.

4 A So I apologize for the confusion. I was looking
5 at the test year.

6 Q Certainly. In this proceeding FPL requested
7 advertising expenses in the amount of 516,478, is that
8 correct?

9 A Yes.

10 Q With respect to the advertising expenses in this
11 request, FPL has shifted 497,693 from FERC account 909 to
12 FERC account 910, is that correct?

13 A Give me just one minute here. Yes, that's
14 correct.

15 Q And FPL has shifted 174,000 from FERC account 909
16 to FERC account 920, is that correct?

17 A That's correct.

18 Q This shifting results in a reduction in total O&M
19 expenses in the amount of 2,645 due to a variance in
20 jurisdictional separation factors, is that correct?

21 A Yes. Let me finish reading the second page, if
22 you'd give me just one minute. Yes, there's -- yes, the
23 movement from 909 to 910 had no impact, but the movement from
24 909 to 920 had a \$2,000 impact, yes.

25 Q In particular, 2,645, is that correct?

1 A Yes, that's what it says.

2 Q Moving on, were you present or were you able to
3 hear when I asked some questions of witnesses Kennedy and
4 Miranda?

5 A I'm not -- I listened partially, to part of the
6 cross.

7 Q Certainly. Well, they both specified you as the
8 witness who was the appropriate person to answer my
9 questions.

10 A Okay.

11 Q So I'm going to ask the same questions that
12 I asked of them to you in the hopes of getting some
13 clarification about a particular C Schedule, okay?

14 A Yes.

15 Q In particular, it's Schedule C-41.

16 A Oh, I think I am aware of this.

17 Q I hope so.

18 A Yes, I have it.

19 Q In particular, Schedule C-41 addresses O&M
20 expenses -- O&M benchmarking variance by function, is that
21 correct?

22 A That's correct.

23 Q I would like to focus your attention upon column
24 four. Do you see column four?

25 A Yes.

1 Q And column four contains the 2013 adjusted O&M
2 expenses, is that correct?

3 A Yes, it does.

4 Q I'd like to turn your attention to line one. The
5 function is denoted as Production-C. The amount under column
6 four is listed as 85,366,000. Do you see that?

7 A I do.

8 Q Moving now to line three, it specifies production,
9 nuclear, and the amount under column four is 406,557,000. Do
10 you see that?

11 A I do.

12 Q Going down to line five, production, other, it
13 provides that the amount of expenses is 161,143,000, is that
14 correct?

15 A That's correct.

16 Q And the total of these three items would
17 constitute FPL's adjusted O&M expenses, is that correct?

18 A For those functions.

19 Q Yes, for production plant O&M expense.

20 A On a system basis, right. Yes.

21 Q Would you agree, subject to check, that if you
22 were to total these three items it would provide you with an
23 O&M expense, production plant O&M expense in the amount of
24 653,066,000?

25 A I'll stipulate to it, yes.

1 Q Are you familiar with FPL's position on Issue 89
2 that deals with the appropriate production plant O&M expense
3 for the projected test year?

4 A I am.

5 Q In FPL's position they have requested a production
6 plant O&M expense of 663,393,000, is that correct?

7 A That's correct.

8 Q Could you explain for Staff what is the basis of
9 this \$10,327,000 difference --

10 A Yes.

11 Q -- between what we just calculated using the C
12 Schedule and FPL's request?

13 A Yes, and we'll do a reconciliation for you
14 tonight, but the primary differences are that the C-41
15 Schedule is a system cost basis and the issues are all on a
16 jurisdictional basis. So that's one modest adjustment.

17 It will be a little bit of a challenge for us to
18 do that reconciliation because there are multiple accounts,
19 obviously, in the functions. The larger amount of the
20 difference is due to the fact that C-41 does not have company
21 adjustments, it has only Commission adjustments.

22 So when you look at your issues amounts, we're
23 trying to get to exactly what would, you know, end up in the
24 revenue requirements for the company. So it's got to be
25 retail jurisdiction after all adjustments, Commission and

1 company, and this does not.

2 The largest is probably the removal of Canaveral,
3 I would imagine, from the test year. But we'll do that math
4 tonight and we'll provide you that reconciliation.

5 Q That would be excellent. And with regard to it,
6 recognizing that there's a difference in system figures
7 represented on your C Schedules versus jurisdictional
8 figures, we would like you to provide for us or identify
9 where we can trace that difference, that \$10,327,000
10 difference.

11 A We'll do our best. There are a lot of accounts,
12 and we'll do our best to provide something that will give you
13 a map.

14 Q Certainly. Since this is the basis of your
15 request, Staff, you know, would just like to be able to
16 follow you and where we can see that information.

17 A I understand.

18 Q Turning now to the questions that I had asked
19 witness Miranda, who specified that you were the more
20 appropriate witness. Staying on the same C Schedule, I would
21 like to -- I would like to take you down to line nine,
22 transmission. There it specifies 47,189,000 as the O&M
23 expense for transmission. In Issue 90, it specifies that the
24 appropriate test year amount is 55,677,000, is that correct?

25 A That's correct.

1 Q Can you walk me through the same analysis with
2 respect to what constitutes -- what has led to this
3 \$8,488,000 difference?

4 A No, but we will do that for you tonight.

5 Q Excellent. Finally, turning your attention back
6 to Issue 89, with respect to line three, which specifies the
7 function as production nuclear, which we discussed previously
8 as 406,557,000, on Issue 89, further down on line three it
9 specifies that nuclear O&M expense request for FPL in this
10 proceeding is 410,557 -- 410,557,000. Is the same
11 calculation going to be provided to us with respect to the
12 difference in those two numbers?

13 A Sure.

14 MS. KLANCKE: Excellent. That is all the questions
15 that I have for this witness.

16 CHAIRMAN BRISE: All right. Commissioners?
17 Commissioner Brown?

18 COMMISSIONER BROWN: Thank you, and thank you again
19 for your testimony. The exhibit that Office of Public
20 Counsel handed out, which was FPL's response to Staff's
21 Fifteenth Set of Interrogatories, rate case expense, if
22 you could pull that out for a minute.

23 THE WITNESS: Yes.

24 COMMISSIONER BROWN: Just a couple of questions.
25 On attachment two, page one of two, of the actuals,

1 through, I guess, June of 2012, do you have a separate
2 comparison from the original budget versus the actual
3 expenses incurred?

4 THE WITNESS: I believe we've done that analysis.
5 I don't have it with me.

6 COMMISSIONER BROWN: Is it in any of the discovery,
7 in any of the discovery?

8 THE WITNESS: I don't know the answer to that. I
9 can tell you, though, Commissioner, the most significant
10 differences between what we had forecasted before and
11 the actuals to date on the non-outside witness
12 portion -- you know, we had talked about that -- there
13 are obviously some big differences in the costs that we
14 had previously estimated for the outside legal support
15 and some of the witnesses.

16 The other big differences have to do with, our
17 original estimate, we thought we were going to have to
18 bring in more project or temporary labor to help in the
19 effort on sort of the non-expert portion of the case,
20 more of the logistics, and we were able to absorb more
21 of that internally so there's no incremental cost that
22 we would be recovering.

23 The other significant item -- and I think it's
24 addressed on one of the interrogatories -- had to do
25 with some computer systems work that was going to have

1 to be performed for certain some tariff billing
2 activities, and we were not having to go out and perform
3 the systems work. So it's more of an internal cost
4 change versus an external.

5 COMMISSIONER BROWN: Okay, on page two of two of
6 attachment two, under August, 2012, the forecast.

7 THE WITNESS: Yes.

8 COMMISSIONER BROWN: I'm just curious, for that
9 month, Concentric Energy Advisors and Financial Concepts
10 and Applications, those amounts that are delineated on
11 here, what are they for during this month? Do you know
12 what function?

13 THE WITNESS: Concentric Energy Advisors is the
14 company that witness Reed is employed by, so those were
15 costs associated with his activities.

16 COMMISSIONER BROWN: And Financial Concepts, the
17 one right underneath it?

18 THE WITNESS: Yes, I see it, I'm just -- just one
19 minute.

20 MR. BUTLER: Mr. Chairman, just to perhaps speed
21 this along, I would suggest, subject to Ms. Ousdahl's
22 confirmation, that that's our witness, Mr. Avera.

23 COMMISSIONER BROWN: Okay, I'm done with that
24 exhibit. That's fine. On page 33 of your direct you
25 provide that FPL conducts self-assessments of affiliate

1 transactions. Does the company ever utilize third
2 parties to review these type of transactions?

3 THE WITNESS: Have we ever utilized third parties?

4 COMMISSIONER BROWN: Independent?

5 THE WITNESS: No, we've not had an outside review
6 performed, other than the reviews performed by this
7 Commission Staff. We've had a FERC audit as recently as
8 2006, I believe, on a portion of the activities. And,
9 of course, our internal audit. And the last one of
10 those was 2008.

11 COMMISSIONER BROWN: Okay, thank you. And one last
12 question.

13 THE WITNESS: Could I expand my answer just very
14 briefly?

15 COMMISSIONER BROWN: Certainly.

16 THE WITNESS: We do have Sarbanes Oxley processes,
17 internal controls processes around the affiliate
18 transaction, from the standpoint of internal controls.
19 And those are, as a part of DeLloyd's (phonetic)
20 responsibilities in attesting to the internal control
21 environment and structures of the company for financial
22 reporting, those are reviewed.

23 COMMISSIONER BROWN: Yes, I knew that. Thank you.
24 Finally, in your testimony you address the step increase
25 for Cape Canaveral. Do you know if Florida Power and

1 Light has any other generating facilities coming on line
2 in the near future?

3 THE WITNESS: Yes, we do.

4 COMMISSIONER BROWN: What cost recovery mechanism,
5 what does the company plan on doing for requesting
6 recovery of those facilities?

7 THE WITNESS: Well, as you understand,
8 Commissioners, we have -- the only opportunity we have
9 to seek base rate relief for the revenue requirements
10 associated with the capital costs and O&M costs of new
11 plants is to come before you.

12 The fuel costs, of course, will be received by the
13 customers immediately when those units begin operation,
14 with Riviera being the next generating station to come
15 on line. We endeavored during the settlement to try to
16 come up with a mechanism to allow us to have recoveries
17 without having to come before you. But absent that
18 settlement, we will have to be back.

19 COMMISSIONER BROWN: Thank you. That's all.

20 CHAIRMAN BRISE: Commissioner Balbis.

21 COMMISSIONER BALBIS: Thank you. I have a few
22 questions for Ms. Ousdahl. First of all, who would be
23 the appropriate witness to discuss in detail employee
24 compensation, salaries, benefits, et cetera? Would that
25 be you or another --

1 THE WITNESS: Witness Slattery.

2 COMMISSIONER BALBIS: Okay. Okay, so I just have a
3 few questions about West County Energy Center 3 and the
4 regulatory treatment of that, or cost recovery
5 mechanisms. And another witness provided this, but if
6 you can just remind me: The total revenue requirement
7 for West County Energy 3 in 2013.

8 THE WITNESS: It's approximately \$100,000,000.

9 COMMISSIONER BALBIS: A hundred million? And you
10 stated that in this rate request you're asking to place
11 West County Energy 3 into base rates or rate base rather
12 than recovery through the capacity clause.

13 But regardless of whether it's in the capacity
14 clause or it's in base rates, the customer does not know
15 the difference, it's still paying for that facility, is
16 that correct?

17 THE WITNESS: That's correct. We're already
18 recovering the dollars, just through another venue.

19 COMMISSIONER BALBIS: Okay. So then if you were to
20 reduce base rates and move West County back into the
21 clause, in essence that would, again, have no effect on
22 the customer that would still be paying for it?

23 THE WITNESS: Yes, as I discussed with counsel, you
24 know, we believe it's a base rate item. It should be
25 recovered in base rates. That's what the settlement

1 agreement always contemplated. But clearly the
2 company's need is for recovery at one time.

3 COMMISSIONER BALBIS: Okay, thank you. That's all
4 I have.

5 CHAIRMAN BRISE: All right, I have a couple of
6 questions for you. If you would turn to your testimony
7 on page 22. I believe that your testimony on page 22
8 deals with the theoretical depreciation of amortization
9 reserves.

10 THE WITNESS: Yes.

11 CHAIRMAN BRISE: Under the current settlement
12 agreement, FPL was allowed some flexibility to manage
13 the depreciation as related to maximizing the ROE. Why
14 would you need a fixed surplus amortization amount in
15 2013?

16 THE WITNESS: Commissioner, we are coming upon the
17 last year of the required amortization of that surplus.
18 And during the current period we do not know -- at the
19 end of 2012 -- what the remaining balance of the
20 original 895 million will be. So the company endeavored
21 to find a way to ensure that neither the company nor the
22 customer was disadvantaged, and we feel the only way to
23 really do that is to fix the amount.

24 What that means is we may end up amortizing a
25 little bit less or a little bit more than the 895. I

1 believe that witness Barrett can tell you where we are
2 today in terms of our forecast. But regardless, if we
3 bake into the revenue requirement this big credit, 191,
4 and we actually amortize, and we must, that exact amount
5 in 2013, the customer is indifferent and the company is
6 indifferent because we've matched the revenue credit
7 with the book credit. So it's just a way to deal with
8 the uncertainty.

9 CHAIRMAN BRISE: Okay. Sort of a follow-up to that
10 question, Ms. Kennedy testified about the amount of
11 improvements underway currently or contemplated by FPL.
12 These improvements extend the lives of the plants.

13 In some cases does it benefit your ratepayers to
14 maintain a more consistent level of depreciation rather
15 than to take it all in in an accelerated manner, or is
16 that a better question for Mr. Barrett?

17 THE WITNESS: No, it's probably mine. You know,
18 this is a flow-back of previously recovered
19 depreciation. So when witness Kennedy talks about the
20 future impacts, those will be the subject of a filing
21 that we will make as required by the rule either next
22 spring or if the settlement is implemented sometime in
23 the future.

24 When we make that filing, all of the parameters,
25 all of the values around the depreciable assets will be

1 reassessed and we'll come to the Commission with an
2 estimate of future expense.

3 This is really dealing with an historical issue, a
4 snapshot in time in the 2009 case with that surplus.
5 When we reassess, there will be a different set of
6 values, vastly more investment to be recovered between
7 2009 and 2013, likely a different view of life spans of
8 interim retirements, et cetera. We'll have a new view
9 of what needs to be recovered from customers of a return
10 on -- a return of investment.

11 CHAIRMAN BRISE: Okay. Commissioner Balbis.

12 COMMISSIONER BALBIS: Thank you, just a follow-up
13 on what Chairman Brise had asked about the surplus
14 depreciation. And I participated in the approval of
15 that settlement agreement, so I'm familiar with it.

16 But I just want you to go over that if the
17 Commission did not approve allowing FPL to use that
18 surplus depreciation reserve amount, what options did
19 the Commission have on how to deal with that reserve
20 amount?

21 THE WITNESS: Well, the Commission in the order had
22 actually required us to amortize it in a ratable way
23 over the four-year period, which you may not have been a
24 sitting Commissioner at the time the original order was
25 issued. So they were flowing that back over a four-year

1 period.

2 The settlement allowed the flexible flow-back. But
3 the way FERC and this Commission, prior to that, had
4 always dealt with surpluses or deficits was to simply
5 allow those to be recovered over the remaining lives of
6 investments. So we didn't capture them and flow them
7 back in a shorter period, we simply just rolled that
8 into future rates. That's typically the method that's
9 used.

10 COMMISSIONER BALBIS: Okay. And there was also a
11 component of the reduction in fuel costs through the
12 fuel clause, and during the 2010 agreement that we
13 approved in December, I believe that FPL was allowed to
14 recover the fuel benefits of West County Energy Center.

15 THE WITNESS: Oh.

16 COMMISSIONER BALBIS: And that was not mentioned in
17 your testimony. And so my question for you is how is
18 that treatment addressed in this rate filing? Will FPL
19 continue to do that or not?

20 THE WITNESS: Yes, now I understand what you're
21 asking about, Commissioner. In the course of the
22 settlement of all of the issues remaining at the end of
23 the 2009 case, we agreed, all the parties, that we would
24 recover the revenue requirements on West County only to
25 the extent of fuel savings. I think that's what you're

1 referring to.

2 COMMISSIONER BALBIS: Right.

3 THE WITNESS: That limit or that cap is not being
4 requested today and, in fact, I think I address in my
5 testimony that we need to be allowed full recovery of
6 West County. We only agreed to that cap in the conduct
7 of the settlement. So West County should be treated
8 like any other generating plant.

9 You know, there will be, in any investment that we
10 make in generating plants, some amount of revenue
11 requirements that must be recovered over that life, and
12 some amount of fuel savings. And as is typically
13 understood and is certainly, I think, implied under the
14 statute and the regulatory paradigm, companies must be
15 allowed an opportunity to recover the reasonable costs
16 of those investments.

17 COMMISSIONER BALBIS: Okay, and I just wanted to
18 make sure that in moving it back into rate base then the
19 customers will realize the fuel savings benefit; that
20 cap will no longer exist.

21 THE WITNESS: Yes, they were always realizing the
22 fuel savings, yes, sir.

23 COMMISSIONER BALBIS: Thank you, that's all I have.

24 CHAIRMAN BRISE: Okay. Commissioners? Okay,
25 redirect?

1 MR. BUTLER: Thank you, Mr. Chairman.

2 REDIRECT EXAMINATION

3 BY MR. BUTLER:

4 Q Ms. Ousdahl, you were asked by Commissioner Brown
5 about third-party reviews of FPL's affiliate transactions
6 processes.

7 A Yes.

8 Q Has the Booz & Company done any work for FPL
9 regarding that topic?

10 A Yes, we had a witness Flaherty, who is one of our
11 rebuttal witnesses, who came in to perform a study actually
12 at my request of our processes. It was not an audit, it was
13 not performed from the standpoint of validating the
14 transactions. It was instead a review to look at the
15 reasonableness of the approach.

16 He has experience throughout the country, has
17 seen affiliate transactions performed in different ways,
18 understands the various commission reactions to and comfort
19 levels with the processes, so we had him come in and do a
20 review of our processes.

21 Q Can you briefly describe what the results were of
22 sort of the conclusions that Booz & Company reached as a
23 result of their analysis?

24 A Yes, he prepared a detailed report, and they had
25 some modest suggestions about changes we might make, but

1 there was no indication and not a surprise to me that our
2 processes are rigorous, that our controls are well
3 understood, in place and effective, and that we are
4 performing those transactions as we should and realizing
5 benefits for our customers.

6 Q Mr. Moyle asked you some questions about FiberNet
7 and in particular about periodic market testing of the rates
8 that are paid to FiberNet. Do you remember those questions?

9 A Yes, I do.

10 Q Okay. What does FPL do at the point that one of
11 its existing contracts with FiberNet expires, comes to an
12 end?

13 A Yes, I was hoping to make the point that we treat
14 FiberNet as we would any other vendor. So we're looking at
15 FiberNet as a source, just as AT&T or Verizon might be a
16 source. When we write agreements, when we enter into
17 agreements with vendors, they have a term of various, you
18 know, tenors. And we typically don't market test the
19 activities of a vendor during the middle of a term. You
20 would wait until the term of an agreement ends and then you'd
21 look at what your alternative sources are, and that's the
22 point in time where you would market test.

23 So it's not that we aren't market testing, it's
24 that we don't in any case look at the current price we're
25 paying relative to market on a fixed point in time.

1 Q And with respect to the FiberNet network, was a
2 portion of that transferred from FPL to FiberNet at some
3 point in the past?

4 A Yes, my understanding is that the entire system
5 was transferred from FPL to FiberNet over a decade ago, I
6 believe.

7 Q And did the Commission, at the time of that
8 transfer, establish a -- or the pricing mechanism with
9 respect to FiberNet's charges to FPL?

10 A It did. We were given specific instructions from
11 the Commission on how we would recover the costs, or I should
12 say not recover the costs, but pay FiberNet for the provision
13 of its long-haul service to us, and we're following that
14 method. It's a revenue requirements method which results in
15 a declining cost for the long-haul service.

16 Q And under that formula what happens if FiberNet is
17 able to add customers other than FPL with respect to the
18 charges to FPL for use of that original network backbone?

19 A Yes, in addition to it being a revenue
20 requirements based method, to the extent they are able to add
21 customers, we would receive a lower portion of the cost.

22 Q Mr. Moyle also asked you some questions about the
23 recovery of FPL's incremental security costs.

24 A Yes.

25 Q Would you comment on whether in your view it would

1 make sense to transfer those costs to base rate rather than
2 continuing to recover them through the capacity clause?

3 A Yes. The company continues to see volatility, as
4 shown in the appropriate MFR for incremental security costs.
5 I think there's been conversation, or testimony, I should
6 say, in these last few days, about the increasing
7 requirements for security following the activities of 911,
8 which are resulting in frequent additional requirements being
9 placed on the company.

10 Due to the fact that none of the conditions that
11 the Commission set originally for recovery of those costs --
12 they have not changed -- the company believes that it's
13 appropriate to continue to recover those in clause.

14 Q Ms. Ousdahl, you were asked by Public Counsel
15 about FPL's use of the Massachusetts formula. Do you recall
16 that?

17 A Yes.

18 Q Do you know approximately how long FPL has been
19 using the Massachusetts formula as a general allocator?

20 A I understand it's been since before the 1990s, so
21 a very long period of time.

22 Q Do you know whether the Florida Public Service
23 Commission Staff has reviewed FPL's use of the Massachusetts
24 formula as a general allocator before?

25 A Yes, in the eight years I've been here, they've

1 reviewed it at least in the two times that we have had rate
2 filings, so yes.

3 Q Do you know approximately what percentage of the
4 costs that are allocated from FPL to affiliates is done on
5 the basis of the Massachusetts formula?

6 A Less than 50 percent. I think it's around 30
7 percent on the Mass. formula alone.

8 MR. BUTLER: Thank you, Ms. Ousdahl, that's all the
9 redirect that I have.

10 CHAIRMAN BRISE: Okay. Let's deal with the
11 exhibits for Ms. Ousdahl.

12 MR. BUTLER: FPL would move the admission of
13 Exhibits 148 through 160.

14 CHAIRMAN BRISE: Okay, any objections? Seeing
15 none, we will move Exhibits 148 through 160. Office of
16 Public Counsel?

17 (Exhibits 148, 149, 150, 151, 152, 153, 154, 155, 156,
18 157, 158, 159 and 160 admitted in evidence.)

19 MR. REHWINKEL: Office of Public Counsel moves
20 Exhibit 519.

21 CHAIRMAN BRISE: 518, you mean?

22 MS. KLANCKE: I have 518.

23 MR. REHWINKEL: Oh, I thought the Staff's, that
24 they were holding off on, was given 518. I apologize.

25 CHAIRMAN BRISE: No, 518 was yours. The one that

1 we were holding off for Staff was -- would have been
2 519.

3 MR. REHWINKEL: Okay.

4 MS. KLANCKE: With that --

5 CHAIRMAN BRISE: Okay, so OPC's exhibit is 518.
6 Okay, we'll move that into the record.

7 (Exhibit 518 admitted in evidence.)

8 MS. KLANCKE: Staff would like to move 110, Exhibit
9 110 into the record containing the deposition
10 transcript, noting that it will be amended to include
11 the errata sheet once it's provided.

12 CHAIRMAN BRISE: Okay, any objections? Seeing
13 none, so we'll move Exhibit Number 110. Okay. Did we
14 use the interrogatory 119?

15 (Exhibit 110 admitted in evidence.)

16 MS. KLANCKE: We -- with respect to the -- in light
17 of her responses, we do not need to move that in and we
18 were using it purely for demonstrative purposes.

19 CHAIRMAN BRISE: All right, perfect. Thank you.

20 MR. LaVIA: Mr. Chairman, one quick -- one point of
21 clarification. The new calculations that the witness is
22 going to prepare, is that going to be contemplated to be
23 a late filed exhibit, or is that -- do we know how we're
24 going to treat that?

25 MR. REHWINKEL: Mr Chairman, along the same line,

1 we had asked for some information about the
2 uncollectibles adjustment that Ms. Ousdahl testified
3 about. In order to avoid any controversy about late
4 filed exhibits, I would propose, if it's okay, that the
5 reconciliation information the Staff requested, as well
6 as the information related to uncollectibles, be
7 provided to the parties between now and the time she
8 reappears for rebuttal so that we can have a chance to
9 look at it. And if there's any questioning that needs
10 to be followed up on, we can do it at that time, and we
11 have a clean record.

12 CHAIRMAN BRISE: That sounds reasonable to me.

13 MR. BUTLER: And that is our intent.

14 MR. MOYLE: And late filed exhibits -- I just want
15 to make sure -- it sounds like we're going to get them,
16 we're going to be able to look at them, and then we can
17 make a judgment. It's not something that's coming in.

18 CHAIRMAN BRISE: Correct.

19 MS. KLANCKE: Staff may, upon review of the
20 documents, have additional questions for the witness on
21 rebuttal.

22 MR. BUTLER: And we would not have any objection to
23 asking her those questions at that time.

24 MR. REHWINKEL: And that would be likewise with the
25 uncollectibles?

1 MR. BUTLER: That is true.

2 CHAIRMAN BRISE: All right, I think we're all on
3 the same page.

4 MR. BUTLER: May Ms. Ousdahl be excused with
5 respect to her direct testimony?

6 CHAIRMAN BRISE: Yes, Ms. Ousdahl, you may be
7 excused with respect to your direct testimony. Thank
8 you for your testimony this afternoon.

9 It is 5:08. We have one more witness this evening.
10 We are going to take a dinner break at this time. This
11 will also give an opportunity to our staff reporter to
12 take a little bit of break herself. So we'll see you
13 back here at 6:00.

14 MR. BUTLER: Mr. Chairman, 6:00?

15 CHAIRMAN BRISE: 6:00 p.m. If it wasn't clear,
16 6:00.

17 (The transcript continues in sequence in Volume 10.)

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