

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI

In re: Petition for rate increase  
by Florida Power & Light Company.  
\_\_\_\_\_ /

TELEPHONE DEPOSITION OF: KATHY L. WELCH

TAKEN ON BEHALF OF: Office of Public Counsel

DATE: August 9, 2012

TIME: Commenced at 1:00 p.m.  
Concluded at 2:46 p.m.

LOCATION: 111 West Madison Street  
Tallahassee, Florida

REPORTED BY: MARY ALLEN NEEL, RPR, FPR  
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PROCEEDINGS

The following deposition was taken on oral examination, pursuant to notice, for purposes of discovery, for use as evidence, and for such other uses and purposes as may be permitted by the applicable and governing rules. Reading and signing of the deposition transcript by the witness was not waived.

\* \* \*

MS. CHRISTENSEN: Why don't we first take appearances, first with staff.

MS. KLANCKE: I'll begin, and we'll go around the room. This is Caroline Klancke from Commission legal staff.

THE WITNESS: Kathy Welch, Commission staff.

MS. PIEDRA: Iliana Piedra, Commission staff.

MS. CHRISTENSEN: Could you speak up a little? The last person, I didn't hear your name.

MS. PIEDRA: Iliana Piedra, Commission staff.

MS. CHRISTENSEN: Iliana Piedra?

MS. PIEDRA: Yes.

MS. CHRISTENSEN: Anybody else?

MR. PRESTWOOD: This is clarence Prestwood, Commission staff.

MS. MAITRE: Bety Maitre, Commission staff.

MS. KLANCKE: And Bety is also a notary, and

1 she'll be providing the oath.

2 MS. CHRISTENSEN: It was Betty, and I'm sorry,  
3 I didn't catch Betty's last name.

4 MS. MAITRE: Maitre.

5 MS. CHRISTENSEN: Maitre?

6 MS. MAITRE: M-a-i-t-r-e.

7 MS. CHRISTENSEN: Okay. Sorry. It's hard to  
8 hear when you're not right on top of the phone.

9 FPL?

10 MR. WHITE: This is Jordan White with FPL, and  
11 I've got a group of folks here with me.

12 MS. CHRISTENSEN: Jordan White, you're the one  
13 putting in the appearance; right?

14 MR. WHITE: Right.

15 MS. CHRISTENSEN: Okay. FIPUG?

16 MS. KAUFMAN: Vickie Gordon Kaufman here for  
17 FIPUG.

18 MS. CHRISTENSEN: Okay. Any others? Village  
19 of Pinecrest?

20 MR. GARNER: Bill Garner for the Village of  
21 Pinecrest.

22 MS. CHRISTENSEN: Okay. Do we have any other  
23 intervenor attorneys on the line?

24 MR. REHWINKEL: Patty, this is Charles  
25 Rehwinkel listening in.

1 MS. CHRISTENSEN: And here with the court  
2 reporter, it's Patty Christensen with the Office of  
3 Public Counsel, and Tricia Merchant is also  
4 listening in.

5 With that, the appearances done, did anybody  
6 else just dial in who is going to make an  
7 appearance in the deposition?

8 MR. SMITH: Rob Smith, interested party.

9 MS. BROWN: Patty, it's Martha Brown up here  
10 at the Commission with a bunch of staffers who are  
11 going to listen in.

12 MS. CHRISTENSEN: Okay.

13 MR. WHITE: To clarify, the last person who  
14 mentioned a name, Rob Smith, are you representing a  
15 group, or have you been --

16 MR. SMITH: Myself.

17 MR. WHITE: Have you been granted status as a  
18 party in this proceeding?

19 MR. SMITH: No, I have not.

20 MS. CHRISTENSEN: So my understanding is that  
21 Mr. Smith will not be asking questions.

22 MR. SMITH: Understood. Thank you.

23 MS. CHRISTENSEN: Anyone else?

24 Okay. Can we have the deponent sworn in,  
25 please.

1           THE NOTARY: Kathy Welch, do you swear to tell  
2 the truth?

3           THE WITNESS: I do.

4           MS. CHRISTENSEN: Okay. When you all complete  
5 the affidavit, if you have the ability to scan it  
6 and email it --

7           MS. KLANCKE: We do. Who should we email it  
8 to?

9           MS. CHRISTENSEN: Okay. I have Mary -- this  
10 is all one word, maryallenneel@gmail.com. If you  
11 also want to send it to me, and I think you have my  
12 email address.

13          MS. KLANCKE: We do.

14          MS. CHRISTENSEN: At the same time, we can  
15 make sure she gets it both ways.

16          MS. KLANCKE: We would be happy to do that.  
17 She will send it to Mary Allen Neel right now, and  
18 I will send it to you after this deposition is  
19 concluded.

20          MS. CHRISTENSEN: Okay. That's fine. And at  
21 some point, if she hasn't gotten it, then I'll make  
22 sure she gets it. Okay.

23          MS. KLANCKE: Thank you.

24          MS. CHRISTENSEN: All right. I think we are  
25 ready to begin.

1       Thereupon,

2                               KATHY L. WELCH

3       the witness herein, having been first duly sworn, was  
4       examined and testified as follows:

5                               DIRECT EXAMINATION

6       BY MS. CHRISTENSEN:

7               **Q.**    Can you please state your name and by whom  
8       you're employed, for the record?

9               **A.**    Kathy L. Welch.  I work for the Florida Public  
10       Service Commission.

11              **Q.**    And in what capacity do you work for the  
12       Florida Public Service Commission?

13              **A.**    I'm the audit supervisor in the Miami district  
14       office.

15              **Q.**    Okay.  Did you participate in an audit that  
16       was conducted of FPL?

17              **A.**    I did.

18              **Q.**    Okay.  And can you tell us what dates or  
19       period of time that audit was conducted over?

20              **A.**    One second.  I need to go into my audit file.  
21                      We started it in March of 2012 and ended June  
22       28, 2012.

23              **Q.**    And did you file testimony with regards to  
24       that audit?

25              **A.**    I did.



1           **Q.**    In this docket?

2           **A.**    I did.

3           **Q.**    Okay.  And you included a copy of the audit  
4 findings attached to your testimony; correct?

5           **A.**    The audit report is attached, yes.

6           **Q.**    And I wanted to ask you some questions about  
7 the testimony that you filed.  Let me take you to page  
8 6, starting on line 23.

9           **A.**    Yes.

10          **Q.**    Okay.  In that portion of your testimony, you  
11 talk about the audit that was done with regards to the  
12 affiliate transactions; is that correct?

13          **A.**    Yes.

14          **Q.**    Did you conduct the affiliate transactions  
15 audit yourself, or were you supervising that portion of  
16 the audit?

17          **A.**    I did a lot of it, and I had another auditor  
18 do part of it.

19          **Q.**    Okay.  So you have familiarity with what was  
20 done in conjunction with the audit of the affiliate  
21 transactions?

22          **A.**    Yes.

23          **Q.**    Now, looking at line 24 on page 6 through the  
24 top of line 1 on page 7, you write in your testimony  
25 that during the review of the base rate and net

1 operating income, you examined items that were allocated  
2 and compared them to the utility's policies and  
3 procedures; is that correct?

4 **A.** Yes.

5 **Q.** Can you explain to us what you mean by you  
6 compared them with the utility's policies and  
7 procedures?

8 **A.** I compared them to the CAM, the Cost  
9 Allocation Manual.

10 **Q.** And can you tell me, how did you compare them  
11 with the CAM? Exactly what did you do to compare them?

12 **A.** I made sure that -- well, I could go through  
13 the CAM, but the basic concept was to review the  
14 transactions and make sure they had supporting  
15 documentation, determine whether they were charging  
16 things from the affiliates at the lower of cost or  
17 market and things out of the utilities to the affiliates  
18 at the higher of cost or market.

19 Do you want it more specific than that?

20 **Q.** Well, yes, I think we're going to ask a few  
21 questions on that in that regard.

22 Okay. You said you examined some supporting  
23 documentation, in the next line, from several of the  
24 affiliates. Which affiliates did you actually look at  
25 that you looked at for supporting documentation?

1           **A.**    Hold on one second.

2                   Most of the charges were from FP&L to  
3 affiliates, so we looked at several different components  
4 of those charges.

5                   Give me one more second. I'm still trying to  
6 get to the correct workpaper.

7                   Okay. Now, this workpaper is in the  
8 confidential workpapers. I don't think anything that  
9 I'm talking about right now is something that isn't  
10 already in testimony. If I get to something that is --

11           **Q.**    Well, maybe it would be easier to go down  
12 to -- okay. Starting on line 6 through line 8, you talk  
13 about obtaining a list of space rented to affiliates.

14           **A.**    Right.

15           **Q.**    And market valuation. What documentation did  
16 you see regarding market valuation?

17           **A.**    That section I didn't do myself, but I have  
18 done it in the past, and I do have workpapers here about  
19 it.

20                   For the market valuation, we basically went on  
21 the Internet and compared prices for offices that were  
22 in the vicinity that were comparable, and that's how we  
23 determined market.

24           **Q.**    Okay. Did you include any of those Internet  
25 price comparisons in your workpapers?

1           **A.**    Some of them are in Workpaper 60.

2           **Q.**    Was that Workpaper 60?

3           **A.**    Yes.

4           **Q.**    And you also talk about reviewing the  
5 Diversification Report.

6           **A.**    Yes.

7           **Q.**    What is that exactly?

8           **A.**    The Diversification Report is part of the FERC  
9 form that's filed, and they also filed it as part of an  
10 exhibit in the MFRs. It came late. It was filed with  
11 Schedule F-1 of the MFRs called the F-1 update.

12          **Q.**    Okay. Now, did you look at any other reports  
13 regarding officer allocations?

14          **A.**    I looked at a lot of different reports. I  
15 have a lot of supporting documents in Sections 44 and 45  
16 of the workpapers, Section 60 of the workpapers --

17          **Q.**    Well, I guess I'm -- I'm sorry.

18          **A.**    Section 58.

19          **Q.**    Okay. My understanding was that Section 44 of  
20 the workpapers was a listing of the work you performed  
21 on affiliate transactions.

22          **A.**    That was some of it. There were other  
23 sections that also had work that related to the  
24 affiliates.

25          **Q.**    In that section, would you agree that you

1       stated there are several different methodologies for  
2       charging fees to and from the affiliates?

3           **A.**    Yes.

4           **Q.**    Okay. And the allocations that you looked at  
5       were management fees; is that correct?

6           **A.**    That was one of them.

7           **Q.**    Energy marketing and trading risk management  
8       costs?

9           **A.**    Yes. For your information, management, we  
10       reviewed some of the direct charges. We reviewed  
11       FiberNet. We reviewed the FPLES process. We looked at  
12       some of the rent transactions. I think that's most of  
13       it.

14          **Q.**    So in your review, you were reviewing the  
15       allocation methodology; is that correct?

16          **A.**    That's part of what we looked at. We looked  
17       at the actual documentation they had to make the  
18       documentation.

19          **Q.**    Can you describe the documentation that you're  
20       talking about with regards to making the allocation?

21          **A.**    Do you want me to go through each different  
22       type of allocation separately?

23          **Q.**    Yes. Let's start with management fees. What  
24       type of documentation did you look at regarding  
25       management fees?

1           **A.**    Okay. The first thing I looked at was the  
2 true-up calculations before the gas plant sale. And  
3 again, these are all in confidential workpapers. I'm  
4 not really sure how much -- I think I can tell you  
5 conceptually what I'm looking at.

6           The true-up calculation had the actual amount  
7 through June, the driver percentages that were used, the  
8 amounts that were allocated. That was the first thing I  
9 looked at.

10          **Q.**    Can I ask you, with regard to management fees,  
11 did you look at any -- were there any market price  
12 studies regarding management fees?

13          **A.**    There are no outside markets where FP&L does  
14 this kind of service to an outside market. I don't  
15 believe that there's too many people that they could get  
16 a market price for these types of services without an  
17 extensive RFP process.

18          **Q.**    Did you see any RFP process related to  
19 management fees?

20          **A.**    No.

21          **Q.**    Okay. And these were charges, management fees  
22 that were allocated from whom to whom?

23          **A.**    From FPL to the different affiliate companies.

24          **Q.**    And were any of the affiliate companies that  
25 they charged to regulated?

1           **A.**    No.

2           **Q.**    Okay.  The energy marketing and trading risk  
3 management costs --

4           **A.**    Oh, I'm sorry.  Yes, one of them was  
5 regulated.  Some it went to FiberNet.

6           **Q.**    Okay.  Does FiberNet have some sort of service  
7 agreement that you reviewed?

8           **A.**    I'm not sure I understand what you're talking  
9 about.  Let me to go what I have on FiberNet and see  
10 what I looked at.  I'm going back and forth between  
11 confidential and nonconfidential, so it takes a few  
12 minute to figure out what I have where.

13          **Q.**    That's fine.  Take your time.  Just let me  
14 know when you've found what you're looking for.

15          **A.**    There is a methodology that they do have  
16 related to FiberNet.  There's an interoffice memorandum  
17 of September 30, 2010, that discusses the methodology  
18 for allocating FiberNet, so there are procedures.

19          **Q.**    The procedures you're referring to are  
20 contained where?

21          **A.**    In that memorandum.

22          **Q.**    Okay.

23          **A.**    They follow a previous Commission order.

24          **Q.**    Do you know what the order number is?

25          **A.**    Oh, it's been a long time since we did that

1       audit. Hold on one second. It should be in here.

2               I did not include the order number in here.

3               **Q.**    Okay. Let me go to the next -- well, let me  
4       ask you this. Did you review any -- I think you talked  
5       about reviewing some internal documentation and cost  
6       allocation manuals related to management fees. Did you  
7       review anything else that we have not discussed already  
8       in the deposition?

9               **A.**    Just related to management fees?

10              **Q.**    Correct.

11              **A.**    I reviewed the true-up that occurred after the  
12       gas plants were sold. I also reviewed the accounts with  
13       cost loading.

14               I reviewed -- I got a list of all the budget  
15       activity codes and reviewed all the budget activity  
16       codes to determine whether they used the same ones that  
17       they used in the past and if there were any that  
18       appeared to be things that might have needed to be  
19       allocated. I did find one that made it to a finding.

20               I reviewed types of charges to what was used  
21       before. I reviewed the drivers to determine if the same  
22       methodology was used as the last audit that I did of it.

23               For the second six months -- during this  
24       audit, we had different data for the first six months  
25       and the second six months, so I reviewed documentation



1 from the second six months. I obtained reports of all  
2 of the WBS codes that had an M1 or T2, or TU, all the  
3 different codes that were considered drivers.

4 Q. Okay. For allocations; correct?

5 A. Yes.

6 Q. So --

7 A. And I compared the second six months to the  
8 first six months and made sure that the new system  
9 appeared to have all the same types of charges as the  
10 old system. I looked at the affiliate billing rate  
11 comparison for the overhead factor. And now I think  
12 that covers what I did for the management fee part.

13 Q. Okay. And if I'm understanding correctly, a  
14 lot of what you were doing was comparing or tracing  
15 through allocations based on what the policies and  
16 procedures were to make sure they were being allocated  
17 correctly?

18 A. Plus I used what I call the smell test to see  
19 whether it looked like they were charging things that  
20 should be charged as their procedure said, you know,  
21 whether it looked like they were charging reasonable  
22 budget activity codes to it, that there weren't any that  
23 they were excluding.

24 Q. Okay. Let me take you to the next item I  
25 think you reviewed, which was energy marketing and

1 trading risk management costs. Did you conduct a  
2 similar type of audit regarding those costs?

3 **A.** I did.

4 **Q.** Was there anything that you did in addition to  
5 what you've already described as following through the  
6 costs and tracing them to see if the utility adhered to  
7 past practices and its internal policies?

8 **A.** I'm bringing up those workpapers right now. I  
9 reviewed to make sure they did include overhead. I  
10 reviewed the methodology that they used. I did compare  
11 it to the last time. There were some differences. I  
12 inquired about the reduction in the number of employees  
13 that they were allocating. I followed through on their  
14 calculations.

15 I'm still looking here. I determined what was  
16 charged during the second six months, because everything  
17 changed. I have explanations for different changes in  
18 the number of employees that were allocated and why in  
19 the workpapers.

20 I think that is the whole section on  
21 management fees.

22 **Q.** Did you review any market price studies  
23 related to energy marketing and trading costs?

24 **A.** It's not the type of cost that I believe  
25 there's a big market of people that would be able to do

1       this work. It's an administrative cost.

2           **Q.**   Well, can I ask -- I understand, but did you  
3       review any market studies? Did they provide any market  
4       studies or support for those charges?

5           **A.**   No.

6           **Q.**   Okay. Did they provide any bids regarding  
7       those types of charges?

8           **A.**   No.

9           **Q.**   Okay. The next item that I have on the list  
10      is nuclear service fees. Did you do a similar type of  
11      review tracing through the allocations to ensure -- to  
12      look at whether or not they were adhering to the  
13      utility's policies and procedures for the cost  
14      allocations?

15          **A.**   Yes.

16          **Q.**   Did you do anything particularly different for  
17      the nuclear service fees?

18          **A.**   Give me a second to look at it.

19          **Q.**   Okay.

20          **A.**   The documentation was different, but I would  
21      say the procedures were basically the same.

22          **Q.**   And relating to the nuclear service fees, did  
23      FPL provide any market price studies to you for those  
24      charges?

25          **A.**   No.

1           **Q.**   Any RFP or bid process paperwork for those  
2 costs?

3           **A.**   No.

4           **Q.**   Nuclear information management costs, did you  
5 do a similar review of the allocated costs to see if the  
6 utility was following their policies and procedures?

7           **A.**   The same type of thing.

8           **Q.**   Did you do anything different for those  
9 particular costs?

10          **A.**   No.

11          **Q.**   Did FPL provide you any market price studies  
12 related to those costs?

13          **A.**   No.

14          **Q.**   And did FPL provide you any bids or RFPs for  
15 those costs?

16          **A.**   No.

17          **Q.**   Okay. I just want to make sure I clarify.  
18 For the energy marketing and trading risk management  
19 costs, were those costs from FPL to affiliates or the  
20 other way around?

21          **A.**   They were from FP&L to the affiliates.

22          **Q.**   And for the nuclear service fee, was that from  
23 FPL to the affiliates or from the affiliates to FPL?

24          **A.**   I believe that went the same way.

25          **Q.**   From FPL to the affiliates?

1           **A.**    (No audible response.)

2           **Q.**    Are you reviewing your materials?

3           **A.**    No.    I said yes.

4           **Q.**    Oh, okay.  I'm sorry.  We didn't hear your  
5 answer.

6                   For the nuclear information management cost,  
7 was that from FPL to affiliates?

8           **A.**    Yes.

9           **Q.**    Okay.  The next item that I have that I see  
10 that you reviewed was costs related to nuclear from the  
11 affiliates to FPL; is that correct?

12          **A.**    Yes.

13          **Q.**    Did you do the same type of examination of  
14 whether or not the affiliates were adhering to FPL's  
15 policies and procedures regarding allocation of costs?

16          **A.**    Yes.

17          **Q.**    Did you do anything different with your review  
18 of affiliate costs to FPL?

19          **A.**    Not in this audit, but in other audits we have  
20 nuclear charges back and forth.

21          **Q.**    For this audit, though, your review was  
22 regarding whether or not they adhered to their -- if FPL  
23 adhered to their policy and procedure regarding  
24 allocation of affiliate costs to them?

25          **A.**    Yes.

1           **Q.** Did FPL provide you with any market price  
2 studies related to the nuclear charges from its  
3 affiliates?

4           **A.** Not in this audit.

5           **Q.** Okay. And in this audit, did FPL provide you  
6 any documentation regarding any RFPs or bids?

7           **A.** No.

8           **Q.** Okay. You talked about direct charges as  
9 well?

10          **A.** Yes.

11          **Q.** And in this audit, did you review -- was your  
12 review similar to the other review, that you looked at  
13 the cost allocation and compared it to make sure that it  
14 was consistent with FPL's policies and procedures?

15          **A.** Yes. Well, we looked at the invoices, some of  
16 the invoices that were charged directly and determined  
17 that the activity on the invoices was related to FP&L,  
18 and looked at some of the descriptions of what the  
19 employees that were charging some direct time were  
20 working on.

21          **Q.** And were those invoices created by FPL  
22 describing the work? I'm trying to understand better  
23 what invoices, who created the invoices.

24          **A.** The detail that I had showed all the different  
25 invoices that made up the charge from NextEra, and I

1       selected some of those and obtained the invoices and  
2       questioned the different projects that the employees  
3       were working on.

4           **Q.**    So that was from NextEra to FPL, the invoices  
5       that you reviewed?

6           **A.**    Yes.

7           **Q.**    Okay. Did you review direct charges from FPL  
8       to its affiliates?

9           **A.**    Wait a minute. Can you ask me that again,  
10       please?

11          **Q.**    I'm just trying to understand. I know you  
12       said when we were talking about invoices that the  
13       invoices you checked were direct charges from NextEra to  
14       FPL.

15          **A.**    Yes.

16          **Q.**    What I was asking is, when you looked at the  
17       direct charges, did you also review direct charging from  
18       FPL employees to affiliates?

19          **A.**    I reviewed some charges that were from FP&L,  
20       but I don't believe they were payroll related, if that's  
21       what you're asking.

22          **Q.**    The direct charges that you reviewed, were  
23       those -- were you mainly concentrating on charges from  
24       affiliates to FPL?

25          **A.**    The review I'm talking about was where we just

1       went to the Diversification Report and picked some  
2       different items from the report and got backup.

3           **Q.**    Oh, okay. That's fine. I just wanted to make  
4       sure I understood exactly the review process you were  
5       doing.

6                   With regard to the direct charges, did you  
7       review any, or did FPL -- let me put it this way. Did  
8       FPL provide you any market price studies with regard to  
9       direct charges that you reviewed?

10       **A.**    No.

11       **Q.**    Did FPL provide you with any RFP or bid  
12       process regarding direct charges that reviewed?

13       **A.**    In one of these sections we just discussed,  
14       no. For the rent transactions, yes.

15       **Q.**    Well, I'm going to get there. And I think you  
16       may have talked about it before, but I'm going to make  
17       sure I understand for each type of the costs.

18                   For the FiberNet cost, is the FiberNet cost  
19       from the affiliate FiberNet to FPL?

20       **A.**    It's from FP&L -- I'm sorry. Yes, it's from  
21       FiberNet to FP&L.

22       **Q.**    And in regards to the FiberNet cost, were you  
23       reviewing the allocations and comparing them to FPL's  
24       policies to see if they were adhering to their policies?

25       **A.**    Yes.



1           **Q.** Did you do any other examination of the costs  
2 from FiberNet to FPL?

3           **A.** Yes.

4           **Q.** Okay. Can you explain?

5           **A.** For FiberNet, I don't have the old order  
6 number, but I do have the old audit number that it  
7 related to. It was Audit Number 01-067-4-1.

8           **Q.** Okay.

9           **A.** We determined that they followed the same  
10 methodology that had been approved then for the asset  
11 allocation costs or the return on the assets that were  
12 transferred.

13           **Q.** Okay. So this was related to -- you were  
14 specifically looking at transfer of assets?

15           **A.** It was costs related to the assets that were  
16 transferred from FP&L to FiberNet back in, I guess, '01  
17 or the year 2000. That was part of it.

18                   Then we also determined during the audit in  
19 our review of expenses that there were also data line  
20 charges, and we compared those data line charges to  
21 external prices from AT&T to determine whether FiberNet  
22 was charging FP&L less than market.

23           **Q.** Did you look at any other telecommunications  
24 or long distance fiber optics providers?

25           **A.** No, we didn't, because we actually got this

1 information about two days before the report went out,  
2 so that's all we were able to do.

3 Q. All right. Did FPL provide you with any  
4 market studies regarding FiberNet costs?

5 A. Just the AT&T.

6 Q. FPL provided you with the AT&T costing?

7 A. They provided us with the bills that they had  
8 from the other providers that they were using to obtain  
9 service.

10 Q. Okay. And that was AT&T only that you saw?

11 A. It might not have been only AT&T. Hold on a  
12 second and let me see if I have a workpaper that shows  
13 that.

14 I think it was only AT&T.

15 Q. Okay. Did FPL provide you with any bids or  
16 RFP papers?

17 A. No.

18 Q. Okay. Did you do anything else that we  
19 haven't already discussed related to FiberNet costs?

20 A. No.

21 Q. Okay. The next item that I think you reviewed  
22 was FPLES charges. Can you describe what that acronym  
23 stands for?

24 A. I actually have a little list of acronyms  
25 because I can never remember them. If I wasn't nervous,

1 I could remember.

2 FPL Energy Services, Inc.

3 Q. Okay. And are those charges from the  
4 affiliate to FPL that you reviewed?

5 A. Those are charges from FP&L to the affiliate.

6 Q. Okay. I just wanted to make sure I got the  
7 right direction.

8 And your review was of whether or not FPL was  
9 charging its affiliate -- whether it was adhering to its  
10 methodology, policies and procedures in allocating those  
11 costs to its affiliates?

12 A. We had done an extensive audit of just this  
13 subject in another year, so we didn't spend a lot of  
14 time reviewing that audit. We basically reviewed the  
15 workpapers and compared them to the audit that we did  
16 that was all of FPLES and determined that they were  
17 using the same methodology, and that was the extent of  
18 the audit during this time.

19 Q. Do you remember when that previous audit was  
20 conducted?

21 A. Give me one minute.

22 Q. Uh-huh.

23 A. The last year was 2009.

24 Q. Okay. If you have it readily available, do  
25 you have the audit number?

1           **A.**    One minute.

2           **Q.**    Okay.

3           **A.**    10-207-4-1.

4           **Q.**    Okay. Did FPL provide you with any market  
5 price studies related to the FPLES charges in this  
6 audit?

7           **A.**    During this audit, no.

8           **Q.**    Did FPL provide you with any RFP or bids  
9 related to the FPLES charges in this audit?

10          **A.**    In this audit, no.

11          **Q.**    Okay. And I think the last item or allocation  
12 that you reviewed was the rent allocation?

13          **A.**    Yes.

14          **Q.**    If I'm understanding that correctly.

15          **A.**    Yes.

16          **Q.**    I think you had said that in this portion --  
17 did FPL provide you with some sort of market price  
18 study?

19          **A.**    Yes, I believe they did. I did not do this  
20 section myself, so I'm going to have to refer to the  
21 workpapers. But I have done it in the past, and they  
22 have provided market studies. I believe they do them  
23 like every five years or so. We went in and compared it  
24 to Internet prices.

25          **Q.**    Do you know when that market study -- the last

1 time that study was conducted, the one that you were  
2 provided in this audit?

3 **A.** There was one here for January 2006, which is  
4 why we went to the Internet. Let me see. There's  
5 another one here. Yes, these are both for January 2006.  
6 One is for the general offices, and one is for Juno.

7 **Q.** Okay. And Juno.

8 Did you have any other sort of bid or RFP  
9 paperwork that you looked at?

10 **A.** No.

11 **Q.** Okay. And did you also, I assume, in looking  
12 at the rents compare whether or not they were adhering  
13 to their allocation policies and procedures from the  
14 CAM?

15 **A.** Yes.

16 **Q.** Okay. And did you do anything else with  
17 regard to the rent other than what we've described here,  
18 comparing it to the Internet and looking back at their  
19 2006 market study and tracing through the application of  
20 the methodology?

21 **A.** I believe that's all she did.

22 **Q.** Okay. And the utility's policies and  
23 procedures that you were comparing it to were the ones  
24 they have written in their, as we've been calling it,  
25 CAM manual, C-A-M, Cost Allocation Manual?

1           **A.**    The Cost Allocation Manual, yes.

2           **Q.**    Okay.  I think we've covered each of the areas  
3           that you had listed that you reviewed.  Did you review  
4           any other areas that we haven't already discussed?

5           **A.**    Not that I can remember.

6           **Q.**    Okay.  And I think we've fairly thoroughly  
7           gone through what your review consisted of.  Was there  
8           anything else that you did as far as your review  
9           regarding the allocation of affiliate costs that we have  
10          not already discussed?

11          **A.**    (No audible response.)

12          **Q.**    Ms. Welch?

13                   Ms. Welch?

14          **A.**    No.  I said no.

15          **Q.**    Okay.  I just wanted to make sure, because  
16          sometimes we're not hearing that one-word answer.

17                   I think that is all my questions regarding  
18          affiliate transactions, and I want to turn your  
19          attention to working capital.  Was one of your audit  
20          objectives to verify that FPL had made the appropriate  
21          adjustments to working capital from the last rate case?

22          **A.**    Yes.

23          **Q.**    Was that a yes?  I'm sorry.  I didn't --

24          **A.**    Yes.

25          **Q.**    Okay.  I didn't quite hear that "yes," so I

1 wanted to make sure.

2 Did you check to see that FPL adjusted its  
3 2011 working capital to reflect the Commission's  
4 practice to exclude fuel under-recoveries, which are  
5 assets from working capital, and to include  
6 over-recoveries, which are liabilities?

7 **A.** I didn't do this section myself, but I seem to  
8 remember her doing that, yes.

9 **Q.** And who actually conducted that section of the  
10 audit?

11 **A.** Iliana Piedra.

12 **Q.** Can you describe the procedures that were  
13 performed to verify that FPL's adjustment to 2011 was  
14 consistent with the prior Commission's order?

15 **A.** I do believe I was the one who actually did  
16 look at the assessment. Give me one minute to find my  
17 workpapers.

18 **Q.** Certainly. And to clarify, my question was  
19 related to over-recoveries and under-recoveries for all  
20 the clauses, not just the fuel.

21 **A.** Okay. I reviewed the adjustments that were  
22 made by comparing it to similar adjustments that were  
23 made in Docket 080677, and -- I'm looking at the  
24 adjustments here.

25 I honestly don't remember. I remember having

1 a conversation about it at the time, but I remember that  
2 we looked at the trial balance to try and make sure that  
3 it followed the prior order, but I don't know where that  
4 work is.

5 Q. Okay. And you can't recall as we sit here  
6 today whether or not all of the under-recoveries were  
7 excluded from your working capital adjustment?

8 A. Let me see what I have here.

9 I've got the under-recoveries for -- can I ask  
10 you to ask me the original question again, and I'll see  
11 if I have what I need to answer it.

12 Q. Whether or not when you were reviewing the  
13 2011 working capital, whether you verified that the  
14 clause under-recoveries were excluded from working  
15 capital and that the over-recoveries were included.

16 A. One more minute, and I'm going to verify, but  
17 I believe I can answer that we did.

18 Q. Okay.

19 A. Yes, they were included.

20 Q. Okay. The under-recoveries were excluded,  
21 and --

22 A. The under-recoveries were; the over-recoveries  
23 were not.

24 Q. Okay. That's what we needed to --

25 A. There wasn't -- I take that back. There was



1 other regulatory liability, over-recovered fuel costs,  
2 FERC, that was -- yeah, that was taken out, 162,000. It  
3 wasn't one of the Commission adjustments. It was a FERC  
4 over-recovery.

5 **Q.** Hold on one moment, please.

6 Let me make sure that I understand it. You  
7 audited the rate base and working capital based on the  
8 historic base year of 2011; right?

9 **A.** Correct.

10 **Q.** And just to clarify, you did not audit any of  
11 the projected test year amounts for 2012?

12 **A.** Correct.

13 MS. CHRISTENSEN: Okay. I think that's all  
14 the questions that I have for you today, and I  
15 appreciate your time, and I will hand the  
16 questioning over to the next deposer.

17 MS. KAUFMAN: This is Vickie Kaufman. I'm  
18 happy to go next. I don't know who else has  
19 questions.

20 I'll take silence as acquiescence.

21 MR. GARNER: This is Bill Garner. It's okay  
22 with me if you go ahead.

23 MS. KAUFMAN: Okay. Is that all right with  
24 everybody else?

25 MS. CHRISTENSEN: Fine with me.

1 MS. KAUFMAN: All right. I just wanted to be  
2 sure.

3 CROSS-EXAMINATION

4 BY MS. KAUFMAN:

5 Q. Ms. Welch, I'm Vicki Kaufman, and I'm going to  
6 ask you a few questions on behalf of the Florida  
7 Industrial Power Users Group. And most of my questions  
8 have to do with your discussion of FiberNet and your  
9 Finding Number 5 that's on page 11 of your testimony.

10 A. Okay.

11 Q. At line 7 there on page 11, you talk about  
12 that there was a transfer from FPL to FiberNet in the  
13 year 2000. Do you know what was transferred from FPL to  
14 FiberNet?

15 A. Yes. Just a moment.

16 Q. I'm sorry. You're going to have to --

17 A. In general terms, I can tell you. Just a  
18 second.

19 Q. Okay.

20 A. I'm sorry. I had put these away, and now I'm  
21 struggling to find it again, but give me a minute.

22 Again, this is in a confidential workpaper. I  
23 believe it was discussed in the docket that we had  
24 audited, the audit number that I give you before, the  
25 01-067-4-1. I'm not sure of the docket number on that.

1           **Q.**    Can you give me the number again? I'm sorry.  
2           01 -- what was it?

3           **A.**    Audit Number 01-067-4-1. There --

4           **Q.**    And that's -- go ahead. I'm sorry.

5           **A.**    There was an entire order that just discussed  
6           what was to be transferred and how they were allowed to  
7           transfer the costs and how they were allowed to charge  
8           FP&L for those assets. It consisted of shared long-haul  
9           electronics, shared spare electronics, the backbone,  
10          long-haul fiber, shared -- then they were also allowed  
11          to charge for some property taxes, certain payroll, and  
12          some leases. There was a whole process.

13          **Q.**    Right. Would I be correct in -- it's my  
14          general understanding that FPL transferred to FiberNet  
15          basically its fiber assets as well as, you know, its  
16          accessories to the fiber network. Is that accurate?

17          **A.**    It's been many years since I did that audit,  
18          but I would say that that's probably accurate.

19          **Q.**    Ms. Christensen asked you a few questions  
20          about that, and I think she was asking you basically  
21          which way the charges went. And if I remember your  
22          answer, basically, FiberNet is charging FPL for, I  
23          assume, the use of its fiber network?

24          **A.**    Yes.

25          **Q.**    And so revenues are flowing from FPL to

1 FiberNet for those services; correct?

2 **A.** Yes. It's recorded as an expense to FP&L.

3 **Q.** Now, do you know if FiberNet has any contracts  
4 with other telecommunications carriers to allow those  
5 carriers to use its fiber?

6 **A.** I do not know.

7 **Q.** So you don't know -- would it be also fair to  
8 assume that you don't know if those revenues, if any,  
9 are being allocated in any way to FPL?

10 **A.** The revenues?

11 **Q.** Let me try and ask it again. I don't think  
12 that was very clear.

13 Assuming that FiberNet receives revenues from  
14 other telecommunications providers for the use of its  
15 fiber, are any of those revenues being allocated back to  
16 FPL?

17 **A.** Not to my knowledge.

18 **Q.** And I think you said you don't know whether  
19 any other providers are using FiberNet's fiber network?

20 **A.** Not to my knowledge.

21 **Q.** I'm sorry. You don't know, or you don't think  
22 they are?

23 **A.** I do not see anything on the schedule that  
24 indicates there's any other revenue being offset in the  
25 charges that are made.

1           **Q.**    Would whatever you have reviewed show you that  
2           there was additional revenue that FiberNet had collected  
3           from other carriers?

4           **A.**    No.

5           **Q.**    So you don't know --

6           **A.**    But I don't see anything being charged back to  
7           FP&L for that.

8           **Q.**    For FiberNet's collection of revenues from  
9           others?

10          **A.**    Correct.

11          **Q.**    Would you have any way to know if FiberNet was  
12          collecting such revenues?

13          **A.**    We have audited FiberNet in the past.  We have  
14          not done it recently, so right now I do not.

15          **Q.**    When was the last time you audited FiberNet?

16          **A.**    I would have to go look at my list of audits.  
17          I don't know off the top of my head.

18          **Q.**    Was it in the last five years?  I'm just  
19          trying to get a sense of --

20          **A.**    We did audit the RAF returns, I believe, in  
21          the last five years, but not the kind of audit that I  
22          think you're trying to get at, no.

23          **Q.**    When some of us spoke to FPL's witness  
24          Mr. Flaherty yesterday, he told us that FiberNet has  
25          what he called a corporate support services agreement

1 with FPL. Have you looked at that agreement?

2 **A.** Not in this audit. I'm not sure if we have in  
3 the past.

4 **Q.** Is it something that you asked FPL to provide?

5 **A.** No.

6 **Q.** Would that be something that would be  
7 important to you in following through the cost  
8 allocations that you were discussing with  
9 Ms. Christensen?

10 **A.** I would certainly like to review it now that I  
11 know it exists. But this methodology has been approved  
12 by the Commission, and they can certainly change it. I  
13 always look at anything I know that exists, but . . .

14 **Q.** So in regards to FiberNet, I think you  
15 discussed with Ms. Christensen the fact that you looked  
16 at a December 30, 2010 memorandum regarding the method  
17 for allocating FiberNet costs?

18 **A.** Yes.

19 **Q.** And who was the author of the memorandum? Do  
20 you know?

21 **A.** It was from Lourdes Caballero to the file.

22 **Q.** Is she an FPL employee?

23 **A.** I'm assuming that, yes.

24 **Q.** Did you review any other documents in regard  
25 to FiberNet?

1           **A.**    Just what I described to Ms. Christensen.

2           **Q.**    I also just want to ask you a question or two  
3 to about Finding Number 4 regarding the patent  
4 litigation that's on page 10 of your testimony. There  
5 are six items under Finding Number 4.

6           **A.**    Correct.

7           **Q.**    Are each one of these individual pieces of  
8 litigation?

9           **A.**    Not necessarily litigation, but legal bills  
10 related to those items. It could be to get the patent  
11 or obtain the patent. I don't really know.

12          **Q.**    For example, number 1, do you know any more  
13 about what that item is?

14          **A.**    Give me a second and I'll see what my notes  
15 say on the invoice.

16               Well, I don't have an easy reference anywhere,  
17 so I'm going to have to look through the whole list.

18          **Q.**    Well, I don't want to waste everybody's time.  
19 I was just trying to understand what that was.

20          **A.**    For the most part, from my memory, I would say  
21 that the legal bills just -- the only description on the  
22 legal bills would be to discuss a case number. And I  
23 asked for more information and was given a list of the  
24 -- what the matter was about. And I don't think that I  
25 had much more description than what I put in.

1                   Oh, here it is. I found it. Number 1 was  
2 related to a litigation.

3           **Q.** Was it -- if you can tell, was it about patent  
4 infringement?

5           **A.** I don't know. And it's confidential.

6           **Q.** Oh, okay.

7           **A.** I mean, they told me that I could put this in  
8 the report as nonconfidential, but anything more on the  
9 description is in the confidential workpapers.

10          **Q.** So I understand, they did provide further  
11 information but designated it to be confidential?

12          **A.** Not a lot of description much more than what's  
13 in here, actually, very little more than that.

14          **Q.** Continuing with the patents on the next page,  
15 I guess that concludes it, and in the sentence that  
16 starts on line 3, you say that the staff should ensure  
17 that revenues or other benefits received related to  
18 these patents stay with the utility. And this may be  
19 outside your area, but are you aware as to whether FPL  
20 has, for lack of a better word, allocated any benefits  
21 related to the patent to the ratepayers?

22          **A.** It's my understanding that they have, but I  
23 did not have time to follow up on that and verify that.

24          **Q.** So would it be right that you can't give us  
25 any detail?



1           **A.**    I can't tell you for sure, no.

2           **Q.**    Do you recall any dollar amount of fixed  
3           benefits?

4           **A.**    No.

5                   MS. KAUFMAN:  Thank you, Ms. Welch.  That's  
6           all I have.  I appreciate it.

7                   MS. KLANCKE:  FPL or Village of Pinecrest, do  
8           you have any questions for the witness?

9                   MR. GARNER:  I do.

10                  MS. KLANCKE:  Village of Pinecrest, do you  
11           want to go next?

12                  MR. GARNER:  Sure.

13                               CROSS-EXAMINATION

14           BY MR. GARNER:

15                  **Q.**    Please show me a little bit of mercy here.  I  
16           was just in South Florida this morning, and I only have  
17           the most general understanding of how this audit process  
18           works, so bear with me and be a little bit patient as I  
19           try and go through my questioning.

20                  MR. REHWINKEL:  Hey, Bill?

21                  MR. GARNER:  Yes.

22                  MR. REHWINKEL:  This is Charles Rehwinkel.  I  
23           apologize for the interruption, but just as a  
24           housekeeping measure, we anticipated that this  
25           deposition would not go a full two hours, and we

1           have the same reporter for the Barrett deposition  
2           that follows at 3:00. So I just wanted to --

3           MR. GARNER: I don't think it will take  
4           another hour.

5           MR. REHWINKEL: Okay. Well, it's ten after  
6           right now, and FP&L and staff still have to go.

7           MR. GARNER: Well, I'm sorry, but I would like  
8           to go.

9           MR. REHWINKEL: Okay. I need to make  
10          arrangements with Mr. Butler, then, if you think  
11          you're going to be extensive like that. It just  
12          wasn't our contemplation that this would take this  
13          long.

14          MR. GARNER: Well, let's see what everybody  
15          needs.

16          MS. CHRISTENSEN: How long do you think you're  
17          going have questions, Bill?

18          MR. GARNER: I don't think I should take much  
19          longer, if at all, than Vicki.

20          MR. REHWINKEL: All right.

21          MR. GARNER: But I'm not 100 percent sure  
22          about that, because I don't know where the answers  
23          will take me.

24          MS. CHRISTENSEN: Well, let's see where we get  
25          at the end of this.

1 MR. GARNER: Okay.

2 BY MR. GARNER:

3 Q. Help me understand the audit process a little  
4 bit. When you begin the audit, when you're looking at  
5 these things, I understand that you look at a couple of  
6 things because of the sheer size of the endeavor; is  
7 that correct?

8 A. Correct.

9 Q. Can you describe briefly to me how it works  
10 when you get started and once you get into it, how that  
11 goes?

12 A. It depends on the actual audit request. We  
13 obtain an audit request from the analyst in Tallahassee  
14 giving us specifics on what they want us to look at. We  
15 look at that request. We look at what we've done in the  
16 past. We look at the ledger for FP&L. We do analytical  
17 reviews to try and determine what areas would have the  
18 most impact, where there might be the most error. We  
19 select samples from the accounts based on those  
20 analytical reviews. Or if it's something specific that  
21 they ask us to look at, we look at that.

22 Does that kind of give you an overview?

23 Q. Yes. How do you choose your samples? What do  
24 you look for when you're deciding --

25 A. I can tell you what I look for. I mean, I'm

1       sure everybody is slightly different.

2               I take the data, and especially now that I can  
3       get it all in Excel, and I sort the data several  
4       different ways. I'll sort it by dollar amount. I'll  
5       make sure I pick all the high dollar amounts to try and  
6       get the most impact for my work. And then I usually  
7       sort by description, and I try and pick like one item  
8       from each different type of description. I read the  
9       descriptions. I look for things that, based on my  
10      experience, might be something that could be wrong.  
11      I'll try and pick those items.

12              That's basically it. I do a lot of different  
13      sorts based on what I'm reading on the file. It depends  
14      on the account and the type of data I have.

15              **Q.**    Okay. And I read in your testimony where you  
16      referred to a judgmental -- where is it? Judgmental  
17      sampling, is that what you're talking about?

18              **A.**    Yes.

19              **Q.**    And it's different for -- different staff  
20      people have different ways of going about that and bring  
21      different judgments to bear?

22              **A.**    I think most people in our office will do  
23      something very, very similar to that, but I'm sure that  
24      there's other people that might do that differently.

25              **Q.**    Are there any procedures that guide you in

1       that?

2           **A.**    If an audit is statistical, there are  
3       procedures from the accounting boards and different  
4       books that you can follow.  But for the judgmental  
5       sample, I couldn't tell you off the top of my head  
6       whether there's something in the audit manual that  
7       discusses it.

8           **Q.**    Okay.  Let me go into more specific questions,  
9       I guess, so that I can move things along, because I know  
10      everyone wants to have a shot.

11                   Yesterday FPL's witness Avera testified that  
12      FPL was making accounting adjustments to reduce revenues  
13      to a level so that it wouldn't exceed its authorized  
14      return on equity limit.  Did your audit address  
15      specifically what kinds of accounting adjustments those  
16      might have been?

17           **A.**    I'm not really sure what you're referring to.  
18      I'm sorry.

19           **Q.**    I understand.  Let's do it this way.  What  
20      kinds of -- are you familiar, or do you have any idea  
21      what types of adjustments FPL could make to ensure that  
22      it remains at or below it's authorized ROE?

23           **A.**    There are adjustments that have been made to  
24      the file, to both rate base and net operating income and  
25      cost of capital, but -- I'm sorry, but I really don't

1 know specifically what you're talking about.

2 Q. Okay. Can you talk a little bit more -- you  
3 just alluded to some of the things that you looked at in  
4 terms of cost of capital. Can you state those again?  
5 It was a little bit quick for me, and I didn't quite  
6 catch it.

7 A. We did very little on cost of capital. We  
8 mainly reconciled the books to the ledger, because we're  
9 only doing 2011. You realize that we didn't do the  
10 actual test year.

11 Let me find -- again, I did not do this  
12 section, so -- most of it was tracing it to the ledger.  
13 I believe she looked at some of the debt instruments and  
14 traced to the debt instruments, recalculated some of the  
15 2011 returns.

16 But again, since the test year was 2013, I'm  
17 not sure this would really be that important to you.  
18 I'm not sure I can answer what you're trying to get at  
19 as far as cost of capital.

20 Q. Okay. So you looked at the 2011 historical 13  
21 months?

22 A. We were asked to look at 2011, yes.

23 Q. And you're saying that that's all that you  
24 looked at, at least with respect to cost of capital?  
25 You didn't look beyond that period at all?

1           **A.**   We didn't look beyond that period for anything  
2           that we were asked to audit. The Tallahassee analysts  
3           were going to do 2013.

4           **Q.**   Okay. Let me look at my list here.

5                   Some of the issues that Pinecrest has raised  
6           in the case have to do with how FPL might have handled  
7           overhead, so I guess I would like to ask a little bit  
8           about that.

9                   What steps did you take in the audit to ensure  
10          that FPL's overhead costs related to their in-house  
11          capital improvement projects -- well, let's be more  
12          general than that. How did you ensure, if at all, that  
13          FPL's overhead costs were properly accounted for?

14          **A.**   Again, I wasn't the one that actually did the  
15          work on the plant additions. Plant additions were  
16          reviewed, and the detail related to those plant  
17          additions were reviewed. There were a few projects that  
18          were selected, the larger projects and some smaller ones  
19          that were selected to sample. I'm not sure that the --  
20          you know, what you're actually referring to as the  
21          overhead costs. I mean, we look at all different costs,  
22          so I'm not sure that I can answer specifically which  
23          costs you're referring to.

24          **Q.**   Things like salaries, benefits, materials and  
25          supplies. Do you have a -- you don't operate under a

1 policy or a definition of what overhead costs or certain  
2 types of costs are and how they ought to be treated?

3 **A.** Especially since I didn't do this area myself,  
4 I couldn't tell from you the workpapers specific items  
5 she looked at that might have been overhead type costs.  
6 Certainly we've looked at them in old audits. We've  
7 looked at different projects. But for this audit, based  
8 on what she has in the workpapers, I couldn't look at it  
9 and answer a question intelligently based on what's in  
10 there right now.

11 **Q.** But you're telling me that someone on the  
12 staff did look at that?

13 **A.** Someone looked at the plant additions. And  
14 based on that, I'm assuming that she certainly looked at  
15 the overhead costs, because she was looking at different  
16 invoices and things that related to those projects. But  
17 all I have is a list of what types of things she audited  
18 in the workpapers, and I couldn't identify anything  
19 specifically.

20 **Q.** When you say the types of things she looked  
21 at, what do you mean?

22 **A.** Let me pull out the workpapers.

23 She has the actual projects that she looked  
24 at. She has some lists of the different additions that  
25 make up the project. It includes materials. It



1 includes salaries, I believe. I can't tell from what I  
2 have in these workpapers.

3 Q. Okay. When your team, I guess, looks at these  
4 things, are they taking steps to ensure that any costs  
5 like I've been talking about, overhead type costs that  
6 would have been recorded in the rate base, are also  
7 removed from operations and maintenance expense?

8 A. Oh, absolutely.

9 Q. And how do you do that?

10 A. Well, it can't be in two places. There are  
11 debits and credits in the accounting system. It's going  
12 to be in one or the other. When you look at an  
13 accounting entry, if they were to move it into expense,  
14 there would have to be a debit somewhere else. It  
15 couldn't be in both.

16 Q. Again, I just ask for your patience, because  
17 I'm not an accountant, and I've not done this a lot, so  
18 I just have to get a little clarity for myself, that's  
19 all.

20 A. Okay.

21 Q. Do you also -- when you look at the different  
22 types of projects, do you look at ones that are done  
23 in-house versus ones that are done by outside  
24 contractors, and is there any difference in the way you  
25 look at them?

1           **A.**   In the past we've done extensive audits just  
2           on contracts. We've done entire audits on contracts and  
3           looking at the bid process, and looking at the overhead  
4           charges, and looking at the actual rates that were  
5           charged by the contractors and comparing them to the  
6           contracts, the ones that were billed compared to the  
7           contracts.

8                     In this audit, we did not do that. We did not  
9           have time to do that. That's like an audit unto itself.  
10          We tried to look at several different projects and have  
11          a little bit of each. So that was not done here. But  
12          have we done it? Yes.

13          **Q.**   Okay. And you said that here it wasn't done  
14          because there wasn't enough time?

15          **A.**   There wasn't enough time to do everything, no.

16          **Q.**   Well, I'm not sure I asked if you did  
17          everything.

18          **A.**   A contract audit in itself is incredibly  
19          time-consuming, just to do -- like I said, do all the  
20          bid process, review all the contracts and the rates.  
21          It's a lot.

22          **Q.**   What might lead staff to determine that a  
23          contract audit needs to be done?

24          **A.**   In the past we were just selecting them  
25          randomly, and we were looking -- at that time, we were

1 looking for high dollar amounts.

2 Q. So in the past if you found a number of  
3 contracts that were really high dollar amounts, I guess  
4 that would raise a flag that that's a high-impact item,  
5 and so you would want to start auditing the contracts  
6 more thoroughly? Is that the --

7 A. It wasn't even a flag. It was -- we were  
8 trying to do them in between major audits so that we  
9 could have some assurance when we got to an audit like  
10 this where we knew we weren't going to have time, that  
11 we had done some testing and made ourselves comfortable  
12 with the process and the actual work done.

13 Q. Okay. And in this case, there weren't  
14 indications that perhaps a more thorough contract audit,  
15 as you put it, needed to be done, or it just wasn't  
16 something that you were asked to do, or it was a matter  
17 of time?

18 A. Based on my discussions with the auditor that  
19 did the work, there wasn't anything that she found that  
20 warranted any follow-up.

21 Q. One moment.

22 Do you know if FPL applies overhead to its  
23 capital projects, whether they're performed by in-house  
24 personnel or outside contractors?

25 A. I can't answer that. I don't know the answer.

1           **Q.**   Your colleague who was responsible, I guess,  
2           for the area that we're discussing, are you aware of  
3           what steps she might have taken to make sure that all of  
4           these items were being treated properly?

5           **A.**   She judgmentally selected work orders, traced  
6           to additions, retirements, adjusting journal entries.  
7           She reviewed the journal entries for the aircraft  
8           transfer and reviewed the sale of the GO. Let me see if  
9           she has any tick marks that tell me on the sample.

10                   She doesn't have any detailed description of  
11           the types of things she looked at on the invoices. She  
12           reviewed them extensively. We discussed this all while  
13           she was doing it, but I don't have anything in the  
14           workpapers to answer your question.

15           **Q.**   How big was your sample?

16           **A.**   Do you have a calculator? Without going  
17           through and looking at each page in here, I'm not --

18           **Q.**   Maybe I can come at it from a little different  
19           angle.

20           **A.**   Okay.

21           **Q.**   How many documents, how many invoices would we  
22           be talking about in total?

23           **A.**   Oh, hundreds.

24           **Q.**   Hundreds, did you say?

25           **A.**   I would say, yes.

1           **Q.**    Okay. Give me a ballpark, you know, of what  
2           -- would it be ten, five, twenty?

3           **A.**    No, many more than that, many more than that.  
4           We looked at several projects. I can tell you just from  
5           looking at these workpapers, on the plant additions  
6           itself, one, two, three, four, five, six different  
7           accounts were reviewed. And then if I go to  
8           construction work in process projects, I have one, two,  
9           three, four, five, six -- at least six actual  
10          construction projects that were reviewed.

11                 Now, within those projects, she obtained many  
12          invoices for each of those projects. I can tell you I  
13          sent up boxes of paper to her in the responses that we  
14          got. It was boxes worth. It was not like we looked at  
15          ten invoices. No, it was not like that.

16          **Q.**    Okay. Just for clarity, when you say plant  
17          additions, what do you mean by plant additions?

18          **A.**    I mean that she has references on certain  
19          plant accounts where there were large additions between  
20          2010 and 2011. We actually did look back to 2009, so if  
21          there were major additions in between those years, we  
22          also selected those.

23                 I did a lot of the selection of the accounts,  
24          because as I would go through the analytical review, I  
25          would request from FP&L the account detail, and then as

1 I would get it, I would go ahead and highlight items and  
2 send it back and tell them we wanted supporting  
3 documents. And I would send those to her, and she would  
4 review them.

5 Q. And I think you mentioned that you would --  
6 one thing that would cause you to highlight something  
7 would be if it was a high cost item?

8 A. High cost. I would read descriptions and see  
9 if it was something that, you know, even remotely looked  
10 -- I'm going to say it didn't pass the smell test. All  
11 I can tell you is that I've been doing it for 33 years,  
12 and I try and pick things that are going to give me a  
13 bang for my buck. That's a lot of how I look at it.

14 Q. Okay. And do you have a number in mind when  
15 you think of what is high cost, or is it, as you  
16 mentioned, that you sort of have a gut feel for it?

17 A. It's compared to all the other costs that they  
18 have for all the other projects, all the other costs  
19 that are within that account. It depends on what I'm  
20 looking at. It varies depending on what I'm looking at.  
21 Certainly materiality is going to be different for a  
22 little water and sewer than it is for FP&L.

23 Q. What is material for FPL?

24 MR. WHITE: This is Jordan from FPL. Can we  
25 just maybe re-evaluate the potential timing on the

1 end of this deposition, just because we've got  
2 another one that's coming up at 3:00, I know, with  
3 another witness.

4 MR. GARNER: I probably have about 15 minutes.

5 MR. BUTLER: This is John Butler. I know I  
6 haven't been involved up to this point, but I'm  
7 actually the person who will be involved with  
8 Mr. Barrett's deposition. Is the plan to start  
9 that one at 3:00 regardless, or are you looking to  
10 start it at the conclusion of this one?

11 MS. CHRISTENSEN: Well, I think we were  
12 planning on starting it at the conclusion of this  
13 one, because the court reporter that we've hired is  
14 doing both depositions, so we're kind of in a  
15 position where we're going to have to wait until  
16 our court reporter is available.

17 MR. BUTLER: All right. Well, we'll just hold  
18 off, then. We're kind of on -- you know, we're  
19 ready at 3:00 or whatever time thereafter you're  
20 ready to go with it.

21 MS. CHRISTENSEN: Okay.

22 MR. WHITE: Thank you.

23 MR. GARNER: Now I don't know where I was.

24 THE WITNESS: I don't either.

25 BY MR. GARNER:

1           **Q.**    I think I asked you what's material for FPL.

2           **A.**    And I can't give you a dollar figure.  Like I  
3           said, I looked at comparisons between the different  
4           years and between the different accounts.  I try and  
5           pick the high because I know we can't look at  
6           everything.

7           **Q.**    Is it fair to say that when it's material is a  
8           judgment call?

9           **A.**    It is.

10          **Q.**    Okay.  What do the auditors do to look at or  
11          identify FPL's expenses for outside experts, like legal  
12          services, public relations, lobbying, shareholder  
13          relations, customer relations, that kind of thing?

14          **A.**    We pick samples of the accounts.  We review  
15          the accounts that showed up high on the analytical  
16          review, but also the accounts that the analysts in  
17          Tallahassee asked for.  Outside services was included in  
18          that.  We selected portions of the accounts based on  
19          dollars that we obtained Excel spreadsheets for and went  
20          through the same process I discussed earlier with you on  
21          selecting samples, reviewing samples, reviewing  
22          invoices.

23          **Q.**    Okay.  What is the PSC's current policy to  
24          determine whether shareholders or customers pay for  
25          things like shareholder relations, customer relations,



1 public relations, that are outside --

2 **A.** I'm not a policy expert. I look at the cost.  
3 If I had found something in the sample that I thought  
4 shouldn't be borne by the customer, it would have been  
5 reported. That's all I can tell you.

6 **Q.** When you look at it, if you decide whether or  
7 not to include it as a finding, you will use your own  
8 personal judgment as to whether or not you think it's  
9 something that customers ought to pay for?

10 **A.** I would try and base it on a prior order or a  
11 rule, a FERC rule or a NARUC rule. But if I see  
12 something that I think is wrong, would I put it in?  
13 Yes, even if I don't have a rule.

14 **Q.** Do you have within your knowledge at the  
15 moment such a rule or order or policy having to do with  
16 how legal expenses ought to be handled, for example?

17 **A.** I don't believe there's a rule about legal  
18 expenses. There are certainly orders on Commission  
19 policy that talk about lobbying and say they would be  
20 below the line. There are a lot of different Commission  
21 orders regarding different expenses that should be below  
22 the line, like charitable contributions, lobbying.  
23 There have been some orders about public relations  
24 costs. We have reported them in the past.

25 **Q.** In the past, have you ever encountered what

1       you thought might be a gray area?

2           **A.**    Yes.

3           **Q.**    And can you give me a "for instance"?

4           **A.**    Not off the top of my head.

5           **Q.**    Would you -- I guess using your judgment,  
6       would you draw a distinction between either a contractor  
7       or an employee of FP&L who lobbies the Legislature  
8       versus one who interacts with local government and might  
9       engage in activities that could be similar to lobbying a  
10       legislator, for example?

11           MS. KLANCKE:  At this point, I'm going to  
12       object.  These questions are outside the scope of  
13       her testimony.  I've given you a lot of leeway with  
14       regard to your line of questions, but perhaps we  
15       could rein it in a little bit to pertain to her  
16       audit and her testimony and how she has conducted  
17       her analysis.

18           MR. GARNER:  Okay.  I'm going to be wrapping  
19       it up.  I've only got a few more questions.

20           MS. KLANCKE:  Okay.  Good.

21       BY MR. GARNER:

22           **Q.**    Okay.  In the last few years, FPL has incurred  
23       costs on activities related to the potential purchase of  
24       the Vero Beach utility and the sale of the South Daytona  
25       assets that they have to the City of South Daytona.

1           **A.**    Yes.

2           **Q.**    Did you audit them on any of those costs and  
3 expenditures that would have been within the period you  
4 looked at?

5           **A.**    Yes.

6           **Q.**    And do you have any -- well, what did you  
7 find, if anything?

8           **A.**    I think you'll find that they were included in  
9 Finding 2 on page 9 of the audit report.

10          **Q.**    Okay.

11          **A.**    As something that the analyst needed to look  
12 at for 2013 to determine whether they were going to be  
13 recurring and they were something that maybe shouldn't  
14 be in the forecast.

15          **Q.**    Okay. And when you made that finding, what  
16 was the reason why -- well, I'm just going to leave it  
17 at that.

18          **A.**    Okay.

19               MR. GARNER: I appreciated your leeway, folks,  
20 and thank you for bearing with me and understanding  
21 my newness to these issues. I thank you.

22               MS. KLANCKE: FPL, do you have any questions  
23 for this witness?

24               MR. WHITE: No, I don't. Thank you.

25               MS. KLANCKE: I would like a brief two minutes

1 to just look at my notes and see if I have any  
2 redirect, and I'll be right back.

3 (Short recess.)

4 MS. KLANCKE: I have no questions on redirect  
5 for the witness.

6 MS. CHRISTENSEN: And just for clarification,  
7 I know we didn't set it out at the beginning of the  
8 deposition, but I assume we were using the standard  
9 instructions that we're reserving all objections  
10 till the hearing except as to the form of the  
11 questions and that the witness is planning on  
12 reading the deposition.

13 MS. KLANCKE: Yes, we are planning to read the  
14 deposition, correct.

15 MS. CHRISTENSEN: Okay. Who needs a copy of  
16 the deposition?

17 MR. WHITE: This is Jordan White with FPL. I  
18 would like one.

19 MR. GARNER: Bill Garner. I would like one.

20 MS. KLANCKE: Caroline Klancke with the  
21 Commission. I would like one through our court  
22 reporter.

23 MS. CHRISTENSEN: I think with that, we can  
24 conclude this deposition.

25 (Deposition concluded at 2:46 p.m.)

CERTIFICATE OF OATHSTATE OF FloridaCOUNTY OF Dade

I, the undersigned authority, certify that Kathy L. Welch  
 personally appeared before me at 3625 NW 82 Ave, Miami and was duly sworn by  
 me to tell the truth.

WITNESS my hand and official seal in the City of Doral, County of  
Miami-Dade, State of Florida, this 9<sup>th</sup> day of August,  
 2012.

NOTARY PUBLIC, STATE OF FLORIDA  
 Betty Maigre  
 Commission # DD915532  
 Expires: AUG. 10, 2013  
 BONDED TRUST ATLANTIC BONDING CO., INC.

Betty  
 Notary Public  
 State of Florida

(SEAL)

Personally known ✓ OR produced identification \_\_\_\_\_.

Type of identification produced \_\_\_\_\_.

CERTIFICATE OF REPORTER

STATE OF FLORIDA:

COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that a review of the transcript was requested; that my shorthand notes were thereafter translated under my supervision; and that the foregoing pages numbered 1 through 60 are a true and correct record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 16th day of August, 2012.

/s/ Mary Allen Neel

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August 8, 2012

CAROLINE KLANCKE, ESQUIRE  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Dear Ms. Klancke:

Re: Docket No. 120015-EI  
Petition for rate increase by FPL

Enclosed is your copy of the deposition of KATHY L.  
WELCH taken in the above matter on August 9, 2012.

Since reading and signing was not waived, please make  
arrangements with the witness to read your copy of the  
transcript and make any corrections on the errata sheet  
on the following page.

Please forward the completed errata sheet to Patricia  
Christensen for attachment to the original transcript  
and copies to Jordan White and William Garner. You  
should also attach a copy to your transcript.

Thank you for your cooperation in this matter.

Sincerely,

/s/ Mary A. Neel

Mary A. Neel

cc: Patricia Christensen, Esq.  
Jordan White, Esq.  
William Garner, Esq.

