

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI

In the Matter of:

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

RECEIVED - FPSC
12 NOV 20 AM 10:28
COMMISSION
CLERK

VOLUME 37

Pages 5382 through 5489

PROCEEDINGS: HEARING

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

DATE: Monday, November 19, 2012

TIME: Commenced at 2:35 p.m.
Concluded at 4:35 p.m.

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

REPORTED BY: MICHELLE SUBIA, RPR

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

NAME:	PAGE NO.
RENAE B. DEATON	5385
Cont' Cross Examination by Mr. Saporito	5385
Cross Examination by Mr. Gardner	5393
Cross Examination by Mr. Young	5394
Redirect Examination by Ms. Clark	5405
JEFFRY POLLOCK	5407
Direct Examination by Mr. Moyle	5408
Cross Examination by Mr. McGlothlin	5446

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

EXHIBITS

NUMBER:	ID.	ADMTD.
667		5406
668		5406
669		5406
670		5406
671		5406
706		5406
707		5406
708	5451	
709	5457	
710	5459	
711	5461	
712	5474	
713	5480	

* * *

CERTIFICATE OF REPORTER 5489

P R O C E E D I N G S

(Transcript follows in sequence from
Volume 36.)

Thereupon,

RENAE B. DEATON

was called as a witness, having been first previously
sworn, was examined and testified as follows:

CONTINUED CROSS EXAMINATION

BY MR. SAPORITO:

**Q All right. And I understand your answer to
be with respect to FPL. I'm asking you with respect to
public interest, would you agree with me that if
99 percent of FPL's customers make up the classes
represented by Office of Public Counsel and Federal
Retail Federation, would those customers be more of a
concern to this Commission making their decision with
respect to public interest than the other classes?**

**A No, I don't think any class of customer is
more of a concern than any other.**

**Q So in your view, public interest doesn't deal
with quantity of customers at all?**

A I think it deals with all customers equally.

**Q You had a chance to review both of
Exhibits 706 and 707; is that correct?**

A I scanned it.

1 Q Okay. And this question kind of relates to
2 the Exhibit 707, so that's why I'm asking you that.

3 Would you agree with me that under the
4 Proposed Settlement Agreement, the base rate for FPL's
5 typical 1000-kilowatt hour residential customer will
6 increase \$43.26 as of January 2012 to \$47.36 as of
7 January 2013 and then increase to \$49.03 as of June
8 2013?

9 A These numbers were preliminary numbers. And
10 if you'll look at my Exhibit RBD-12, page one of five,
11 I have different numbers there that show it increasing
12 to 49.01 instead of 49.03.

13 Q So we have a 2-cent disparity there?

14 A No. These were just preliminary. These were
15 earlier numbers.

16 Q So would you agree with me that although you
17 allege under the Proposed Settlement Agreement the
18 bills for residential customers remain the lowest in
19 the state, their base rates will increase by five
20 dollars and, I guess, 75 cents now as of June 2013?

21 A That's correct.

22 Q So would you agree with me that according to
23 your prefiled testimony at page four, lines ten to 11
24 where you state "The net impact on bills for commercial
25 and industrial customer classes in June 2013 is

1 **expected to range from flat to a 3 percent decrease; is**
2 **that correct?**

3 A And that's correct.

4 **Q Would you agree with me that under the**
5 **Proposed Settlement Agreement, FPL's residential**
6 **customers will pay higher base rates as compared to**
7 **FPL's commercial industrial customer classes throughout**
8 **the term of the Proposed Settlement Agreement?**

9 A I disagree with that. The residential
10 customers are seeing about the same percentage base
11 rate increase as the GSLD-1 and LD-2 customers.

12 **Q Does that include all of the other classes**
13 **besides residential?**

14 A That includes the GSD, the GSLD-1 and the
15 GSLD-2 rate classes. The general service rate classes
16 are not receiving an increase in January because their
17 parity level was so high we did not give them any
18 increase. And that helped bring them much closer to
19 the range of -- plus or minus 10 percent -- they come
20 down to 114 percent of parity.

21 The other classes are receiving, based -- the
22 CILC customers are receiving effectively base rate
23 decreases because of the higher CILC credits, which do
24 benefit all customers through the interruptibility
25 load.

1 And, also, I would point out that 40 -- over
2 50 percent of our CILC customers are local, city and
3 governmental and county authorities and schools and
4 universities, as well as department stores, hospitals,
5 and grocery stores.

6 **Q So you state at page seven, lines eight and**
7 **nine of your prefiled testimony that "The Proposed**
8 **Settlement Agreement should promote economic**
9 **development and job creation"; is that correct?**

10 A That's correct.

11 **Q Okay. Would you agree with me that if**
12 **99 percent of FPL customer base rate increased, that**
13 **they will have less money to purchase products and**
14 **services offered by Florida businesses?**

15 A I would agree that if the rates go up, they
16 have less money left for other things. But I also
17 would agree that the value that we're offering
18 customers and the reliability and the service is a very
19 good value and without that increase, then FPL would be
20 a weaker company as a result and not be able to provide
21 that level of service.

22 **Q Well, would you agree with me that if the**
23 **Commission were to reject the settlement and adopt a**
24 **position in the original FPL filing, and specifically**
25 **OPC's recommendation to lower the base rates, the FPL**

1 **customers would have even more money to spend in the**
2 **economy in Florida?**

3 A I guess there are a lot of options in the
4 litigated position between the positions advocated by
5 Public Counsel and those of FPL. And this settlement
6 is somewhere in the middle of that and I think is in
7 the public interest, as I stated.

8 **Q Well, is your opinion that if FPL customers**
9 **have more money to enhance Florida's economy, that that**
10 **would be in the best interest of the public?**

11 A I think that if we have the business and
12 industry add new jobs, it would allow people to have
13 jobs that don't have them now, that that would provide
14 more money than a lower electric bill.

15 **Q And if businesses in Florida had more money,**
16 **such as those businesses represented by the Federal**
17 **Retail Federation, they could hire more people, right?**

18 A That's correct. And that's what FPL's
19 proposal does.

20 **Q At page ten, lines four through eight, you**
21 **state that "Increasing the minimum charge for late**
22 **payments from \$5 to \$6 is in the public interest**
23 **because it reduces the amount of revenues to be**
24 **recovered from all other customers who pay timely by**
25 **\$10 million"; is that correct?**

1 A Can you tell me again what page you're on?

2 Q I'm on page ten, lines four through eight.

3 A Yes.

4 Q Okay. Would you agree with me that the
5 increase results in -- the late fee increasing by
6 20 percent for FPL customers that can least afford to
7 pay them?

8 A No, I would not agree. We have no reason to
9 think that it's only customers who are in financial
10 distress that pay late. Many customers pay late for
11 many reasons. And financial ability is not always one
12 of those reasons.

13 And FPL does offer a wide variety of
14 assistance programs to customers who do wish to pay
15 timely. We have the FPL --

16 MR. SAPORITO: Your Honor, I didn't ask her
17 that part of the question. You know, her
18 response, she can qualify it, but it should go to
19 the part of rate increasing to \$5 to \$6, not these
20 other extraneous areas that she wants to dwell
21 into.

22 CHAIRMAN BRISE: If you could repeat your
23 question for me so I can be refreshed on the
24 question.

25

1 BY MR. SAPORITO:

2 **Q Would you agree with me that the increase**
3 **would result in the late fee increasing by 20 percent**
4 **for FPL customers that can least afford to pay?**

5 CHAIRMAN BRISE: I think that her response is
6 to your question but also to the rationale for
7 explaining the latter part in terms that your
8 description that those are the least able to pay
9 and so forth. So I think she's going into the
10 rationale as to maybe what they see and what they
11 don't see in that so I'll allow her to finish her
12 response.

13 MR. SAPORITO: Yes, sir.

14 THE WITNESS: Well, I think I was about
15 finished. But we do offer assistance programs and
16 various programs to help customers pay timely if
17 they wish. And I would point out that this
18 revenue directly offsets the amount of revenue
19 required to be collected from residential
20 customers that do pay timely.

21 BY MR. SAPORITO:

22 **Q I don't believe I got an answer to the first**
23 **part of that question, probably the most important**
24 **part, so I'm going to rephrase it and ask you that**
25 **would you agree with me that the increase from \$5 to \$6**

1 for the late fees, increasing that by that -- that late
2 fee by that amount is actually a 20 percent increase?

3 A I would agree the difference between 5 and \$6
4 is 20 percent.

5 Q And would you agree with me that to the
6 extent that public interest embraces the policy that
7 regulated utilities like Florida Power & Light provide
8 vital services, such as electric power to private
9 citizens, raising late fees by 20 percent would not be
10 in the public interest because it would result in
11 certain FPL customers not being able to afford electric
12 power?

13 A No. I would disagree with that. As I
14 explained, the revenue directly offsets the amount of
15 revenue required to be collected through base rate and
16 lowers the bill for all residential customers,
17 including those that can least afford it.

18 MR. SAPORITO: Mr. Chairman, I have no
19 further questions, and I would move those two
20 exhibits into the record.

21 CHAIRMAN BRISE: Okay. And we will do that
22 at the appropriate time.

23 MS. CLARK: Mr. Chairman, along the lines of
24 exhibits, I need to point out that the exhibit
25 MD-11, which is attached to Mr. Dewhurst's

1 testimony, which is 701, Ms. Deaton is the witness
2 that sponsors the Exhibits A and B.

3 CHAIRMAN BRISE: Okay. Let's deal with
4 exhibits a little bit later.

5 Mr. Gardner, I don't know if you have any
6 questions.

7 CROSS EXAMINATION

8 BY MR. GARDNER:

9 **Q Good afternoon, Ms. Deaton. Is there**
10 **anything in your testimony or in your exhibits that**
11 **provides an illustration or comparison of what a**
12 **customer's bill -- a typical customer's bill might be**
13 **in 2014 or 2016?**

14 A No, not in my exhibits. I believe there was
15 a staff interrogatory on that.

16 **Q And why is that?**

17 A Why is that? Because we don't -- can't
18 project exactly what the prices of all of our clauses
19 would be out that far in the future.

20 MR. GARDNER: Thank you. That's all I have.

21 CHAIRMAN BRISE: Mr. Hendricks.

22 MR. HENDRICKS: No questions. Thank you.

23 CHAIRMAN BRISE: Thank you.

24 Staff.

25 MR. YOUNG: Yes, sir, just a few.

1 CHAIRMAN BRISE: Sure. Go right ahead.

2 CROSS EXAMINATION

3 BY MR. YOUNG:

4 Q Good afternoon, Ms. Deaton.

5 A Good afternoon.

6 Q Looking at page ten of your prefiled
7 testimony beginning on line four, it deals with the
8 late fee charges.

9 A Yes.

10 Q All right. What is FPL's current late fee
11 charge?

12 A Currently it's 1 and a half percent.

13 Q Okay. And in the rate case, you requested a
14 late fee charge to go to 5 percent, correct -- \$5?

15 A A minimum of \$5, yes.

16 Q Are late fee costs -- are late fee charges
17 cost based?

18 A They are not cost based, but they are
19 intended to incent timely payment behavior. And the
20 rationale for a 5 or \$6 charge is the same. Although
21 they are not cost based, late payments do cause
22 increase costs on the utility, which would be passed on
23 to other customers.

24 Q Has the PSC approved a late fee charge
25 greater than \$5?

1 A I am not sure if the PSC has actually
2 approved. I know they have some jurisdiction over the
3 rate design for municipal and co-ops. And my Exhibit
4 RBD-16 lists -- I think there's over a dozen other
5 utilities that do have late payment charges higher than
6 \$5, I just don't know if the PSC approves that or not.

7 **Q Let me rephrase that. Looking at your**
8 **RBD-16 --**

9 A Uh-huh.

10 **Q -- which is the last page -- it's a**
11 **one-pager -- for the investor-owned utilities under PSC**
12 **regulations, has a late fee charge been approved**
13 **greater than \$5?**

14 A No, they are all \$5 minimums.

15 MR. YOUNG: That's all the questions I have.

16 CHAIRMAN BRISE: Commissioner Brown.

17 COMMISSIONER BROWN: Thank you. As a
18 follow-up to Mr. Young's questions regarding that
19 late fee proposal in the Settlement Agreement.
20 Given that the IOUs in Florida had a late fee of
21 \$5, how are you justifying that the \$6 late fee in
22 the Settlement Agreement is in the public
23 interest?

24 THE WITNESS: Again, it's in the public
25 interest, it's taken as a whole, with the whole

1 package of the Settlement Agreement, it's a part
2 of it.

3 And I just want to clarify, I'm not sure
4 whether Polk County Utilities, which is a water
5 company, whether they are regulated by the PSC or
6 not, but they do have a \$6 minimum.

7 COMMISSIONER BROWN: And, I guess, going back
8 to page five of your direct, lines 19 through 22,
9 and it goes over to page six, you state that based
10 on current projections of fuel prices and other
11 expected changes to clauses and base rates, the
12 net impact on a typical customer residential bill
13 amounts to less than a 2 percent increase.

14 Do you have these figures of what the maximum
15 percentage increase on a typical residential bill
16 would be if the current projections and estimated
17 changes to clauses and base rates do not occur
18 based on the settlement proposal?

19 THE WITNESS: Under our filed case, yes, that
20 was provided in Exhibit RBD-2. Let me see if I
21 have that here. It's a base increase of -- net
22 increase of \$2.18 or 2.3 percent. The base
23 increase is \$7.09 cents.

24 COMMISSIONER BROWN: Okay. Thank you.

25 One last question. During the hearing,

1 Witness Ender addressed methodology, stating that
2 the 12CP 1/13 methodology had a significant
3 history at the Commission and regulatory
4 acceptance in Florida. He also testified that
5 this methodology has been in place for about 30
6 years FPL has used it.

7 How do you justify under the Settlement
8 Agreement changing a methodology that has
9 traditionally been in place for 30 years and a
10 well-established Commission practice?

11 THE WITNESS: The Settlement Agreement does
12 not change the cost of service methodology. It
13 specifically states that the cost of service
14 methodology is that that was filed with our MFR,
15 which is the 12CP and the 1/13 methodology.

16 The Settlement Agreement does allocate the
17 reductions differently among the classes and it
18 recognizes that there were opposing views on how
19 costs should be allocated, how the increases
20 should be allocated.

21 So I think that the Commission can recognize
22 that this is a compromise in the settlement about
23 how to allocate the increases, but we have not
24 changed the cost of service.

25 COMMISSIONER BROWN: Okay. So the cost of

1 service methodology is still the same, it's just
2 making it more on parity amongst the classes?

3 THE WITNESS: It's keeping the moving -- the
4 classes are outside of the goal towards parity and
5 it is changing the way the costs were allocated
6 among the classes so that we could lower the
7 increase to our industrial and commercial
8 customers.

9 COMMISSIONER BROWN: Okay. Do you see any
10 detriment to residential and small business owners
11 with this type of a shift?

12 THE WITNESS: No. Because like I said, the
13 cost of service methodology has not changed. The
14 next time we file a case, we would come in with
15 the same cost of service methodology and propose
16 to bring classes within parity based on that cost
17 of service.

18 COMMISSIONER BROWN: Okay, thank you.

19 CHAIRMAN BRISE: Commissioner Graham.

20 COMMISSIONER GRAHAM: Thank you,
21 Mr. Chairman.

22 Ms. Deaton, good afternoon.

23 THE WITNESS: Good afternoon.

24 COMMISSIONER GRAHAM: Let's go back to late
25 fees. What happens when somebody's late?

1 THE WITNESS: If they are more than 21 days
2 late, then they do receive a late payment charge
3 in their next bill.

4 COMMISSIONER GRAHAM: So that's basically
5 just an added charge when the bill comes through.
6 What is the cost to Florida Power & Light when
7 somebody's late?

8 THE WITNESS: We have not quantified that.
9 There are costs with processing that and there are
10 costs with not having timely payments, but we have
11 not quantified those costs.

12 COMMISSIONER GRAHAM: If you have not
13 quantified the cost, how can you come and ask for
14 a cost increase or a minimum increase?

15 THE WITNESS: Again, it's not a cost base
16 rate. It is a rate that is designed to incent
17 proper payment behavior. It's in line with that
18 charged by other utilities in Florida. It's a
19 dollar higher than the other three IOUs, but it is
20 within the range of 31 other utilities in Florida
21 of what they charge.

22 COMMISSIONER GRAHAM: Why \$6, not \$10, not
23 \$15? You said it's to incent?

24 THE WITNESS: I am not -- I was not privy to
25 the negotiations. That is my understanding that

1 was a negotiated amount.

2 COMMISSIONER GRAHAM: Who would have that
3 knowledge?

4 THE WITNESS: I don't know if that would be
5 Witness Dewhurst or Barrett.

6 COMMISSIONER GRAHAM: Okay. You said earlier
7 when somebody had asked the question, or maybe it
8 was just a statement you made, that the
9 residential customers make up 51 percent of the
10 total power generated by Florida Power & Light?

11 THE WITNESS: The total sales, yes.

12 COMMISSIONER GRAHAM: The total sales. Okay.
13 Someone else had asked you -- oh, the settlement,
14 that the settlement would incent economic growth.
15 Is that true that you said it should or would
16 incent economic growth?

17 THE WITNESS: It should, because we heard our
18 customers testify as to the impact of the proposed
19 rate increase on their operations to the extent we
20 have addressed those and we have lowered the rates
21 to those customers and we have provided increased
22 credits to our interruptible customers,
23 recognizing the value of the interruptibility of
24 their load, then we have lowered the bills to make
25 them more competitive than what they are now.

1 COMMISSIONER GRAHAM: So economic growth, is
2 that, in your opinion, both economic development
3 and job growth?

4 THE WITNESS: Yes.

5 COMMISSIONER GRAHAM: And is economic
6 development and job growth good or bad for the
7 ratepayers?

8 THE WITNESS: I think it's good for the
9 citizens of Florida.

10 COMMISSIONER GRAHAM: Okay. I heard somebody
11 mention it, I just wanted to make sure. Thank
12 you.

13 CHAIRMAN BRISE: Commissioners Balbis.

14 COMMISSIONER BALBIS: Thank you. I just
15 wanted you to clarify an answer you gave to
16 another Commissioner. You indicated that in a
17 future rate case filing you would look to return
18 to parity. I believe that's a term you used.

19 Can you just please explain that, because in
20 the Settlement Agreement you're moving closer to
21 parity --

22 THE WITNESS: Right.

23 COMMISSIONER BALBIS: -- with a couple of
24 customer classes.

25 THE WITNESS: Right.

1 COMMISSIONER BALBIS: So are you saying that
2 in a future rate case you would ask to go back
3 further away from parity in those two classes?

4 THE WITNESS: No. No, we would not. As part
5 of any litigated rate case, the goal -- there is a
6 goal to try to achieve parity among the rate
7 classes, and we would continue that goal.

8 My point was that there were opposing
9 positions on what the proper cost of service is,
10 and that would potentially assign more -- such as
11 the minimum distribution system that would assign
12 a lot more cost to the residential and
13 commercial -- and the small general service
14 customers. And we have not agreed that that's the
15 proper cost of service methodology and so
16 therefore we would stay with the 12CP and 1/13
17 methodology. And any rate case we file, we would
18 try to achieve parity within the next rate case.

19 The point is if you adopt different cost of
20 service methodologies, your goal is still parity.
21 But the amount of costs that are assigned to
22 different classes may change, which would change
23 their overall position on the prices that we need
24 to charge them.

25 COMMISSIONER BALBIS: Okay. So -- and I

1 believe I understand it. So you're proposing to
2 maintain the 12CP and 1/13 --

3 THE WITNESS: That's correct.

4 COMMISSIONER BALBIS: -- methodology, which
5 was proposed in the original rate case?

6 THE WITNESS: That's correct.

7 COMMISSIONER BALBIS: These are just minor
8 adjustments without changing the overall
9 methodology?

10 THE WITNESS: That's correct.

11 COMMISSIONER BALBIS: And all of those costs
12 were included in the original rate case filing?

13 THE WITNESS: That's correct.

14 COMMISSIONER BALBIS: Okay. And just adding
15 a little bit on the late fees, you indicated that
16 you're proposing to increase it to \$6 to change
17 behavior to provide an incentive for those to not
18 pay late?

19 THE WITNESS: That's correct.

20 COMMISSIONER BALBIS: Is that based on any
21 study, behavioral study that shows that \$1 is a
22 magic number or --

23 THE WITNESS: No, it's not. And I don't know
24 if you -- in our last rate case, we actually
25 proposed to go to a higher minimum late payment

1 charge because we thought maybe a higher one was
2 needed to really incent behavior, but that was
3 opposed by the intervenors. So in this case, we
4 did file the \$5 minimum, which is the same as that
5 for Gulf and Tampa Electric.

6 In the Settlement Agreement, the proposal was
7 to go \$1 higher. That generates \$10 million more
8 revenue that reduces the amount of revenue that we
9 have to collect from residential customers through
10 base rates.

11 COMMISSIONER BALBIS: Okay. Thank you.
12 That's all I have.

13 CHAIRMAN BRISE: All right. I have one or
14 two questions on the late fee. What percentage of
15 your customer base or population are chronic late
16 fee payers?

17 THE WITNESS: I don't have the number of
18 chronic late fee payers. I do know that we do
19 have quite a bit of late payments every month.

20 CHAIRMAN BRISE: What does that represent to
21 you in dollars annually?

22 THE WITNESS: Let me just --

23 CHAIRMAN BRISE: And while you're looking for
24 that, the follow-up to that would be what does the
25 Delta represent annually?

1 THE WITNESS: Under current revenues, we
2 receive \$33 million in late payment charges. And
3 under the proposed settlement, we would receive --
4 let me see here -- an additional \$43 million.

5 CHAIRMAN BRISE: Okay. Thank you.

6 Commissioners, any further questions?

7 (Negative response.)

8 CHAIRMAN BRISE: All right. Seeing none,
9 redirect?

10 REDIRECT EXAMINATION

11 BY MS. CLARK:

12 **Q I just have a clarifying question.**

13 **Commissioner Brown asked you about -- mentioned small**
14 **business customers. What rate do they take under and**
15 **what is their -- are they getting a rate increase and**
16 **where are they on parity?**

17 A The smallest customers are under the general
18 service non-demand rate and they are receiving no
19 increase. The parity is going down from, I believe
20 it's 135 to 114, but let me double-check. From 134 to
21 114.

22 MS. CLARK: That's all the redirect I have.

23 I do want to clarify something regarding the
24 negotiation on the late payment fee. That should
25 be directed to Mr. Barrett as opposed to

1 Mr. Dewhurst.

2 CHAIRMAN BRISE: All right. Thank you very
3 much.

4 All right. Let's deal with exhibits.

5 MS. CLARK: Mr. Chairman, I would move
6 Exhibits 667 through 671.

7 CHAIRMAN BRISE: All right. We will move
8 into the record six -- let me get to that page --
9 667 to 671 into the record, recognizing the
10 standing objection.

11 (Exhibit Nos. 667 through 671 were received
12 in evidence.)

13 CHAIRMAN BRISE: And you had also mentioned
14 Exhibit 701.

15 MS. CLARK: Yes. But that is one
16 Mr. Dewhurst also sponsors, and I think it would
17 be appropriate to wait until he takes the stand.

18 CHAIRMAN BRISE: Perfect. Thank you.

19 Mr. Saporito.

20 MR. SAPORITO: Thank you, Mr. Chairman. I'll
21 have Exhibits 706 and 707 in the record, please.

22 CHAIRMAN BRISE: All right. We will move
23 Exhibits 707 and -- I mean, 706 and 707 into the
24 record, recognizing Mr. Saporito's objection.

25 (Exhibit Nos. 706 and 707 were received in

1 evidence.)

2 MS. CLARK: Mr. Chairman, may Ms. Deaton be
3 excused, she does not have any rebuttal testimony?

4 CHAIRMAN BRISE: Sure. Ms. Deaton, you may
5 be excused.

6 All right. As we're changing -- I mean,
7 bringing up another witness, we're going to go
8 ahead and take -- it's three o'clock, we're going
9 to take a five minute at this time.

10 (Whereupon, a recess was taken.)

11 CHAIRMAN BRISE: We're going to go ahead and
12 reconvene at this time.

13 Mr. Moyle.

14 MR. MOYLE: Thank you, Mr. Chairman. FIPUG
15 would call Jeff Pollock to the stand, and he has
16 not been sworn.

17 Thereupon,

18 JEFFRY POLLOCK

19 was called as a witness, having been first duly sworn,
20 was examined and testified as follows:

21 MR. MOYLE: Mr. Chairman, before I begin the
22 examination of Mr. Pollock, I just wanted to thank
23 the parties. Mr. Pollock had a scheduling issue
24 in St. Louis last night and was not able to come
25 out. It's worked out okay, but it was nice that

1 the parties were cooperative and worked with
2 witnesses. We all have that, OPC has that and,
3 you know, we anticipate working with them on that.
4 But I wanted to publicly thank everyone, including
5 yourself, to accommodate his scheduling conflict.

6 DIRECT EXAMINATION

7 BY MR. MOYLE:

8 **Q Mr. Pollock, would you please give your name**
9 **and business address for the record.**

10 A Jeffry Pollock, 12655 Olive Boulevard, St.
11 Louis, Missouri.

12 **Q Okay. And did you cause to be filed in the**
13 **case -- and I say "this case" -- the supplemental**
14 **portion as it related to the settlement agreement, both**
15 **direct and rebuttal prefiled testimony?**

16 A Yes.

17 **Q And you also caused to be filed exhibits to**
18 **your direct testimony which have been numbered as JP-15**
19 **to JP-22; is that right?**

20 A Yes, that's direct and rebuttal exhibits
21 both.

22 **Q So JP-15 to 22 is your direct and rebuttal.**

23 MR. MOYLE: And for the record, those have
24 been marked as 679 to 682 as direct and then 702
25 and 704 as rebuttal. So at the appropriate time,

1 we'll ask to have those admitted.

2 BY MR. MOYLE:

3 **Q Mr. Pollock, if I asked you the same**
4 **questions as set forth in both your direct and rebuttal**
5 **testimony, would your answers here today be the same?**

6 A Yes.

7 MR. MOYLE: And, Mr. Chairman, we are going
8 to do both direct and rebuttal at the same time
9 for Mr. Pollock.

10 CHAIRMAN BRISE: That's correct.

11 MR. MOYLE: The prehearing provides ten
12 minutes. I don't think it will take ten minutes,
13 but I wanted to make everyone is aware we're doing
14 both direct and rebuttal at the same time.

15 I would ask now that the direct and rebuttal
16 be inserted into the record as though read.

17 CHAIRMAN BRISE: All right. At this time, we
18 will enter Mr. Pollock's direct and rebuttal
19 testimony into the record as though read and
20 recognizing the standing objection.

21 MR. MOYLE: Okay.

22 (Whereupon, prefiled testimony inserted.)

23

24

25

SUPPLEMENTAL DIRECT TESTIMONY

1 **Q** **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Jeffry Pollock; 12655 Olive Blvd., Suite 335, St. Louis, MO 63141.

3 **Q** **ARE YOU THE SAME JEFFRY POLLOCK WHO PREVIOUSLY TESTIFIED IN**
4 **THIS PROCEEDING ON BEHALF OF THE FLORIDA INDUSTRIAL POWER**
5 **USERS GROUP?**

6 A Yes.

7 **Q** **WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

8 A I am addressing Issue No. 5 identified in Appendix A of the Commission's Third
9 Order Revising Order Establishing Procedure.¹ Specifically, this issue asks
10 whether the Settlement Agreement is in the public interest. For the reasons set
11 forth below, I have concluded that the proposed Settlement Agreement is in the
12 public interest and should be approved by the Commission.

13 **Q** **ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR**
14 **SUPPLEMENTAL TESTIMONY?**

15 A Yes. I am filing **Exhibits JP-1** through **JP-4**. These exhibits were prepared by
16 me or under my direction and supervision.

¹ Order No. PSC-12-0529-PCO-EI Issued October 3, 2012.

1 Q CAN YOU BRIEFLY SUMMARIZE WHY YOU CONCLUDE THAT THE
2 SETTLEMENT AGREEMENT IS IN THE PUBLIC INTEREST?

3 A Yes. The public interest is served when a settlement achieves a balance
4 between competing interests. Specifically, in a general rate case there are two
5 sets of competing interests:

- 6 1. The utility versus customers;
- 7 2. Individual rate classes.

8 Balancing the first set of competing interests means allowing the utility an
9 opportunity to recover its costs and earn a reasonable rate of return on its
10 investment while providing customers reliable electricity service at rates that are
11 both affordable and stable. As discussed later, FPL would be afforded an
12 opportunity to earn a competitive return, and the vast majority of FPL's
13 customers would experience lower base rates than under FPL's filed case.

14 Balancing the second set of competing interests (*i.e.*, between individual
15 rate classes) means that rates should be moved to cost (or parity) as closely as
16 practicable. This is consistent with this Commission's long-standing policy of
17 tracking each class's revenue deficiency as determined from the approved cost-
18 of-service study, and moving the classes as close to parity as practicable. Under
19 this policy no rate class should have to subsidize other rate classes. Despite the
20 wide range of cost-of-service studies filed in this case, it is clear that certain rate
21 classes are presently subsidizing others. What is not so clear is the extent of the
22 subsidy. As discussed later, the base rates under the Settlement Agreement will
23 more closely reflect the cost of providing service for the majority of rate classes.

1 **Balancing of FPL and Customers' Interests**

2 **Q IN YOUR OPINION, WOULD THE SETTLEMENT AGREEMENT PROVIDE A**
3 **REASONABLE BALANCING OF INTERESTS?**

4 A Yes. The Settlement Agreement authorizes FPL to implement a \$378 million
5 base rate increase effective in 2013 and subsequent generation base rate
6 adjustments (GBRA) when certain new generation capacity is placed in service.
7 The 2013 increase will provide FPL an opportunity to recover new infrastructure
8 costs incurred since FPL's last rate case (Docket No. 080677-EI), while the
9 GBRA's will allow for timely recovery of infrastructure costs for certain new
10 generation capacity placed into service after January 2013.

11 **Q WHAT DO YOU MEAN BY INFRASTRUCTURE COSTS?**

12 A Infrastructure costs include a return on investment plus associated income taxes,
13 property insurance, depreciation and property taxes. Each of these costs is
14 specifically related to FPL's investment in facilities that are used and useful in
15 providing electricity service.

16 **Q HOW WOULD THE 2013 INCREASE ALLOW FPL TO RECOVER**
17 **INFRASTRUCTURE COSTS INCURRED SINCE FPL'S LAST RATE CASE?**

18 A This is shown in **Exhibit JP-1**, which is a comparison of the infrastructure related
19 costs between FPL's proposal in this rate case and the corresponding costs
20 approved in the Commission's Final Order in Docket No. 080677-EI. In this
21 comparison, I have assumed that FPL would be allowed to earn a 9.78% pre-tax
22 rate of return, which reflects the 10.70% return on equity (ROE) as stipulated in

1 the Settlement Agreement. I have also assumed that the remaining \$191 million
2 of surplus depreciation would be amortized over eighteen months.

3 As can be seen, the calculation yields a \$386 million revenue deficiency.
4 This is only slightly higher than the \$378 million base revenue increase under the
5 Settlement Agreement.

6 **Q WHAT DOES THE ANALYSIS IN EXHIBIT JP-1 DEMONSTRATE?**

7 A The analysis demonstrates that the \$378 million base revenue increase as
8 authorized under the Settlement Agreement would provide FPL an opportunity to
9 recover its incremental infrastructure costs only. In other words, there is no
10 specific allowance for increases in operation and maintenance (O&M) expenses
11 since Docket No. 080677-EI. In this regard, the Settlement Agreement is
12 balanced because it would provide a significantly lower base revenue increase
13 for customers while providing FPL an incentive to manage operating expenses to
14 earn its authorized return.

15 **Q WOULD THE SETTLEMENT AGREEMENT ALLOW FPL TO RECOVER NEW
16 PRODUCTION INFRASTRUCTURE COSTS?**

17 A Yes. The Settlement Agreement allows FPL to implement GBRA's timed to
18 coincide with the completion of FPL's next three large generation capacity
19 additions. The capacity additions and projected commercial operation dates are
20 shown in the table below.

Modernization Project	Projected Commercial Operation Date
Canaveral	June 2013
Riviera Beach	June 2014
Fort Everglades	June 2016

1 Thus, FPL will have an opportunity to adjust rates in a timely manner to recover
2 the costs of the above generation projects.

3 **Q WOULD FPL BE ALLOWED TO INCREASE BASE RATES TO REFLECT**
4 **OTHER SUBSEQUENT INCREASES IN INFRASTRUCTURE COSTS?**

5 A No. Base rates will be frozen through December 2016. Thus, FPL must absorb
6 any changes in infrastructure costs recoverable in base rates, other than those
7 specifically covered under the GBRA's. Further, FPL cannot raise base rates to
8 reflect higher O&M expenses incurred subsequent to the Test Year. These are
9 further examples demonstrating how the Settlement Agreement reasonably
10 balances the interests of both FPL and its customers.

11 **Q ARE THERE ANY OTHER BENEFITS OF THE SETTLEMENT AGREEMENT?**

12 A Yes. The authorized ROE (10.70%) would preserve investor confidence in
13 Florida regulation while providing a competitive return for FPL shareholders.
14 This is demonstrated in **Exhibit JP-2**.

15 **Q PLEASE EXPLAIN EXHIBIT JP-2.**

16 A **Exhibit JP-2** is a comparison of ROEs between the range authorized under the
17 Settlement Agreement and the corresponding authorized ROEs for integrated
18 electric utilities in rates cases decided since Docket No. 080677-EI. As can be

1 seen, the authorized ROEs fall within the 9.70%-11.70% ROE range under the
2 Settlement Agreement. The midpoint ROE (10.70%) is higher than the
3 authorized ROEs for electric utilities throughout the country including the ROEs
4 authorized by this Commission in the recent Gulf Power (Gulf) and Progress
5 Energy Florida (PEF) cases. Gulf and PEF were authorized ROEs of 10.25%
6 and 10.50%, respectively. However, the midpoint ROE under the Settlement
7 Agreement is comparable to the authorized ROEs for utilities located in
8 southeastern states. I would further note that, in a recent settlement agreement
9 that this Commission approved earlier this year, PEF was authorized to earn a
10 10.70% ROE in the event that PEF successfully repairs and operates its idle
11 Crystal River 3 nuclear power plant. The latter agreement was supported by a
12 number of parties in this case, including the Office of Public Counsel, the Florida
13 Retail Federation, the Federal Executive Agencies and FIPUG.

14 **Q HOW WOULD INVESTOR CONFIDENCE BE RETAINED?**

15 A Approval of a 10.70% ROE, coupled with timely recovery of new infrastructure
16 costs, will be viewed favorably by the bond rating agencies. This should help
17 FPL maintain a strong "A" bond rating, which should ensure unfettered access to
18 capital at very reasonable terms.

19 **Q WHAT OTHER BENEFITS WOULD BE PROVIDED UNDER THE**
20 **SETTLEMENT AGREEMENT?**

21 A The Settlement Agreement will provide a more stable and predictable rate path.
22 This will allow customers to anticipate both the timing and magnitude of future
23 rate adjustments associated with the GBRA's. Further, by utilizing the surplus

1 depreciation reserve, the Settlement Agreement would restore intergenerational
2 equity. In Docket No. 080677-EI, the Commission determined that FPL had
3 accumulated a \$1.25 billion surplus depreciation reserve. A surplus depreciation
4 reserve means that current and past customers have paid a disproportionate
5 share of the investment in facilities used to provide service. If not remedied,
6 future depreciation rates are artificially low, thereby resulting in a subsidy to
7 future customers. All but \$191 million of this surplus has been returned to
8 customers, and the remaining surplus will be returned to customers under the
9 Settlement Agreement. Eliminating the surplus will remove the subsidy, thereby
10 ensuring that all customers pay their appropriate share of the investment.

11 Finally, the Settlement Agreement obviates the need for FPL and
12 customers to incur significant costs of participating in periodic rate cases. This is
13 clearly a benefit because intervenors have to fund their incurred rate case
14 expenses while all customers fund FPL's rate case expenses.

15 **Balancing of Rate Class Interests**

16 **Q HOW DOES THE SETTLEMENT AGREEMENT BALANCE THE COMPETING**
17 **INTERESTS AMONG THE DIFFERENT RATE CLASSES?**

18 A The Settlement Agreement would result in lower base rates for the vast majority
19 of rate classes. This is shown in **Exhibit JP-3**.

20 **Q PLEASE EXPLAIN EXHIBIT JP-3**

21 A **Exhibit JP-3** is a comparison of the class revenue allocation between FPL's
22 originally proposed 2013 increase (columns 1 and 2) and the Settlement
23 Agreement (columns 3 and 4). As can be seen, with a few exceptions, all rate

1 classes would experience lower base rates than under FPL's original 2013 rate
2 proposal 2013 (columns 5 and 6).

3 **Q IS THE CLASS REVENUE ALLOCATION PRECIBED UNDER THE**
4 **SETTLEMENT AGREEMENT IN THE PUBLIC INTEREST?**

5 A Yes. As previously stated, The Commission's support for cost-based rates is
6 longstanding and unequivocal. The Commission reiterated this principle in the
7 most recent Tampa Electric Company rate case:

8 It has been our long-standing practice in rate cases that the
9 appropriate allocation of any change in revenue requirements,
10 after recognizing any additional revenues realized in other
11 operating revenues, should track, to the extent practical, each
12 class's revenue deficiency as determined from the approved cost
13 of service study, and move the classes as close to parity as
14 practicable. The appropriate allocation compares present revenue
15 for each class to the class cost of service requirement and then
16 distributes the change in revenue requirements to the classes. No
17 class should receive an increase greater than 1.5 times the
18 system average percentage increase in total, and no class should
19 receive a decrease. (Docket No. 080317-EI, *Order No. PSC-09-*
20 *0283-FOF-EI*, Issued: April 30, 2009 at 86-87).

21 **Q WOULD THE SETTLEMENT CLASS REVENUE ALLOCATION RESULT IN**
22 **MOVING RATES CLOSER TO PARTIY?**

23 A Yes. In general, rate classes that are currently above parity should receive a
24 below-average base revenue increase, and vice-versa for classes that are below
25 parity. As can be seen in **Exhibit JP-3**, the classes that are farthest above parity
26 (e.g. GS(T)-1, GSCU-1, GSD(T), SL-2 and SST-TST) would receive either no
27 base revenue increase or a below-average increase. The Settlement Agreement
28 would also assign above-average base rate increases for certain rate classes
29 that are below parity (e.g. CILC-1D, CILC-1T, MET, SL-1, OL-1 and OS-2).

1 Thus, the Settlement Agreement would make some progress to moving rates
2 closer to parity.

3 **Q EXHIBIT JP-3 SHOWS THAT CERTAIN COMMERCIAL/INDUSTRIAL LOAD**
4 **CONTROL (CILC) RATE CLASSES WOULD RECEIVE AMONG THE**
5 **HIGHEST BASE RATE INCREASES. HOW WOULD THE SETTLEMENT**
6 **AGREEMENT BALANCE THEIR INTERESTS?**

7 A The Settlement Agreement provides for a 56% increase in the non-firm credits.
8 This includes the credits paid to customers taking Commercial/Industrial demand
9 response under Rider CDR and CILC customers. Prior to this rate case, the
10 CDR and CILC credits had not been significantly changed since the inception of
11 the CDR and CILC programs in 2000 and 1990, respectively.

12 **Q IS IT COST-EFFECTIVE TO INCREASE THE RIDER CDR AND CILC CREDITS**
13 **BY 56%?**

14 A Yes. FPL's own cost-effectiveness analysis shows that both Rider CDR and the
15 CILC rates would remain cost-effective even with a 56% increase in the
16 applicable credits. FPL's analysis is provided in **Exhibit JP-4**. As can be seen in
17 the Table below, which summarizes FPL's cost-effectiveness analysis, the Rider
18 CDR and CILC rates would produce benefits of 2.69 and 2.0 times the
19 associated costs under the Enhanced Ratepayer Impact Measure screening test
20 (E-RIM).

Non-Firm Rate	E-RIM	E-TRC	Participant
Commercial/Industrial Demand Reduction (CDR)			
2012 Rate Filing	4.12	124.91	Infinite
Proposed Settlement	2.69	124.91	Infinite
Commercial/Industrial Load Control (CILC)			
2012 Rate Filing	3.07	123.59	Infinite
Proposed Settlement	2.00	123.59	Infinite

1 Further, under the Enhanced Total Resource Cost screening test (E-TRC), the
2 overall benefits exceed the costs by over 100 times. The E-RIM and E-TRC
3 tests are also used by the Commission to evaluate various conservation
4 programs.

5 **Q WHAT IS THE SIGNIFICANCE OF E-RIM TEST BENEFIT-TO-COST RATIOS**
6 **ABOVE 2 TIMES?**

7 A Benefit-to-cost-ratios of 2 times or higher indicates that the CDR/CILC credits
8 could be even higher than are being proposed under the Settlement Agreement.
9 As I indicated in my direct testimony, the current Rider CDR credit is \$4.68 per
10 kW, while the "effective" credit paid to CILC customers is \$3.79 per kW.
11 However, CDR/CILC credits could exceed \$12 per kW and still produce a
12 benefit-to-cost ratio > 1.2 times. In other words, to reflect the present value of
13 these rates would require increases of 155% and 216%, respectively, in the
14 Rider CDR and CILC credits. Thus, the 56% increase proposed under the
15 Settlement Agreement would move the credits approximately one-third of the
16 way toward reflecting the value that Rider CDR and CILC customers bring to
17 Florida.

1 **Q WHY ELSE IS THE INCREASE IN THE NON-FIRM CREDITS IN THE PUBLIC**
2 **INTEREST?**

3 A The non-firm customers taking service on Rider CDR and the CILC rates are
4 generally large customers such as military bases and manufacturers. In this time
5 of economic recovery, it is very important that the right signals are sent to entities
6 that create jobs in this state. Adjusting the non-firm rates and the related credits
7 as prescribed under the Settlement Agreement would help achieve this objective.
8 It would also help to retain the fixed costs that CDR and CILC customers provide.
9 Should these customers terminate service, these fixed costs would be shifted to
10 FPL's remaining customers. Thus, retaining the Rider CDR and Rate CILC
11 customers under the rates proposed in the Settlement Agreement would
12 minimize rates and, thus, is clearly in the public interest.

13 **Q PLEASE SUMMARIZE YOUR SUPPLEMENTAL TESTIMONY.**

14 A The Settlement Agreement fairly balances the two sets of competing interests in
15 this case. First, FPL would have the opportunity to recover its growing
16 infrastructure investments. Second, customers would retain rates that are both
17 more affordable and more stable. Further, the proposed Settlement rates would
18 be consistent with the Commission's long-standing policy to move all rates closer
19 to costs and would recognize the value that non-firm customers provide to the
20 state of Florida, thereby helping to preserve the economic benefits that these
21 customers provide.

22 For all of these reasons, the Settlement Agreement is in the public
23 interest and should be adopted.

1 Q DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

2 A Yes.

SUPPLEMENTAL REBUTTAL DIRECT TESTIMONY

1 Q PLEASE STATE YOUR NAME.

2 A Jeffry Pollock.

3 Q ARE YOU THE SAME JEFFRY POLLOCK WHO PREVIOUSLY FILED DIRECT
4 AND SUPPLEMENTAL TESTIMONY AND EXHIBITS ON BEHALF OF THE
5 FLORIDA INDUSTRIAL POWER USERS GROUP (FIPUG) IN THIS
6 PROCEEDING?

7 A Yes.

8 Q WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL
9 TESTIMONY?

10 A I reply to the assertions by OPC witnesses' Donna M. Ramas and Kevin W.
11 O'Donnell that the Settlement is not in the public interest.

12 Q ARE YOU SUBMITTING ANY EXHIBITS IN CONNECTION WITH YOUR
13 SUPPLEMENTAL REBUTTAL TESTIMONY?

14 A Yes. I am filing Exhibits JP-5 and JP-6. In addition, I am submitting Errata to
15 Exhibits JP-1 and JP-2 that were filed in my Supplemental Direct Testimony.
16 The errata are provided in Exhibits JP-7 and JP-8. All of these exhibits were
17 prepared either by me or under my direction and supervision.

1 **Rebuttal to Donna M. Ramas**

2 **Q ON PAGE 7 OF HER SUPPLEMENTAL DIRECT TESTIMONY, MS. RAMAS**
3 **CRITICIZES EXHIBIT JP-1 BECAUSE (SHE ASSERTS) IT DOES NOT**
4 **DEMONSTRATE THAT THE RESULTING RATES WOULD BE FAIR OR**
5 **REASONABLE BASED ON FPL'S COSTS. DO YOU AGREE WITH HER**
6 **CRITICISM?**

7 **A** No. I acknowledge that rate case participants will view FPL's costs differently
8 and, as a result, it is no surprise that there are differences in the recommended
9 revenue requirements among the various parties. This is the general nature of
10 ratemaking. However, she misconstrues the purpose of **Exhibit JP-1**, which is
11 not to quantify every component of FPL's cost of service, but to demonstrate how
12 the proposed \$378 million is clearly a compromise between competing interests.

13 **Q HOW DOES EXHIBIT JP-1 DEMONSTRATE THAT THE SETTLEMENT IS**
14 **CLEARLY A COMPROMISE BETWEEN COMPETING INTERESTS?**

15 **A** As stated in my Supplemental Direct Testimony, FPL's interest is to establish
16 rates that reflect its cost of providing service. Ultimately, FPL's cost of service is
17 the sum of the return on rate base and operating expenses. Customers'
18 interests, by contrast, are to ensure that FPL provides reliable service at the
19 lowest reasonable rates. These competing objectives can be balanced by
20 providing FPL a reasonable opportunity to earn a reasonable return on rate base
21 and to recover reasonable and necessary operating expenses.

22 In this context, **Exhibit JP-1** focuses on only one segment of FPL's costs
23 that have increased since the last rate case: jurisdictional rate base.

1 Jurisdictional rate base is largely driven by changes in net plant investment due
2 to new infrastructure. It does not consider changes in FPL's non-fuel operating
3 expenses for the 2013 test year. Nor does **Exhibit JP-1** address changes in
4 post-test year infrastructure costs or operating expenses through 2016 except as
5 allowed under the various GBRA adjustments. Thus, FPL will have to manage
6 operating expenses during the test year as well as in future years through 2016.
7 In other words, FPL will have an opportunity, but not a guarantee, to earn the
8 authorized return even if sales increase. When viewed in this context, the
9 Settlement is a compromise between FPL's and customers' interests.

10 **Q ON PAGE 8 OF HER SUPPLEMENTAL TESTIMONY, MS. RAMAS STATES**
11 **THAT SHE COULD NOT VERIFY THE ACCURACY OF THE INFORMATION**
12 **PRESENTED IN EXHIBIT JP-1. IS THIS STILL AN ISSUE?**

13 **A** No. FIPUG will provide the documents requested by OPC that show the source
14 of the information that Ms. Ramas asserts was impeding her ability to analyze the
15 exhibit. As she will discover, all of the information was taken from MFR
16 schedules filed in this case, information provided in the pending Capacity Cost
17 Recovery case, and information attached to the final Order in FPL's last rate
18 case. Had discovery requests been served the week following the date that
19 Supplemental Testimony was filed (October 12, 2012), Ms. Ramas would not
20 have had to speculate about the source of the information in her Supplemental
21 Testimony.

1 **Q IN PREPARING FIPUG'S RESPONSES TO OPC'S FIRST REQUEST FOR**
2 **PRODUCTION OF DOCUMENTS, DID YOU FIND ANY PROBLEMS WITH**
3 **EXHIBIT JP-1?**

4 A Yes. In preparing the response I discovered an error in the calculation of
5 incremental jurisdictional rate base. Specifically, I did not remove the costs
6 associated with the Cape Canaveral modernization project, which will be
7 collected through a separate GBRA mechanism and not base rates. I also
8 updated the information pertaining to West County Unit No. 3 based on FPL's
9 recent filing in Docket No. 120001-EI. The latter costs were initially reflected in
10 FPL's proposed rate base. Under the Settlement, they will continue to be
11 collected in the Capacity Cost Recovery clause. Finally, the amortization of the
12 depreciation surplus was already reflected in depreciation expense and should
13 not have been separately netted against the revenue deficiency.

14 **Q HOW WOULD THESE CHANGES AFFECT EXHIBIT JP-1?**

15 A FPL's infrastructure related revenue deficiency would be \$14.2 million lower than
16 reflected in the original exhibit. These changes are reflected in an errata
17 document to my direct testimony that, as a convenience, I have attached as
18 **Exhibit JP-7**. The supporting calculations were provided to OPC.

19 **Q MS. RAMAS WAS ALSO PERPLEXED BY YOUR ASSUMPTION THAT THE**
20 **REMAINING SURPLUS DEPRECIATION WOULD BE AMORTIZED OVER 18**
21 **MONTHS. IS THE AMORTIZATION PERIOD RELEVANT?**

22 A No. Ms. Ramas quoted the Commission's Order No. PSC-11-0089-S-EI, which
23 stated that the Commission could order a different treatment than the one

1 authorized in FPL's last rate case. (Ramas Supplemental Testimony at 9-10).
2 Thus, the Commission is free to judge the reasonableness of the Settlement in
3 any way that it chooses, including using a different amortization period for the
4 remaining surplus depreciation.

5 **Q WOULD YOUR OPINION CHANGE IF YOUR ANALYSIS IS UPDATED TO**
6 **REFLECT FPL'S POST-HEARING CHANGES?**

7 A No. **Exhibit JP-5** is a revised calculation using the changes in rate base, rate of
8 return, and operating expenses reflected in FPL's post-hearing brief. As can be
9 seen on line 7, FPL's infrastructure-related revenue deficiency would be \$391
10 million. This includes an amortization of the remaining depreciation surplus in
11 2013 as the Commission ordered in FPL's last rate case.

12 **Q PLEASE SUMMARIZE YOUR REBUTTAL TO MS. RAMAS.**

13 A The 2013 base rate increase is only one of many components of the proposed
14 Settlement. When viewed in the context of **Exhibits JP-5** and **JP-7**, it is clear
15 that the Settlement revenue requirement is a compromise between FPL's and
16 customers' interests.

1 **Rebuttal to Mr. Kevin W. O'Donnell**

2 **Q MR. O'DONNELL ASSERTS THAT A 10.7% RETURN ON EQUITY IS TOO**
3 **HIGH, AND FURTHER, IT IS NOT CONSISTENT WITH THE RETURNS**
4 **AUTHORIZED BY OTHER STATE REGULATORY COMMISSIONS. IS THIS A**
5 **REASON TO REJECT THE SETTLEMENT?**

6 A No. The authorized ROE (and associated rate of return) is just one of many
7 aspects of the Settlement. As previously stated, the Settlement does not
8 address the ratemaking treatment of test year (*i.e.*, 2013) expenses, future
9 infrastructure investment and post-test year (*i.e.*, 2014-2016) expenses (except
10 for the specific power plants that are subject to the GBRA mechanism). Further,
11 although I disagree with portions of Mr. O'Donnell's analysis, I do not dispute his
12 conclusion that a 10.7% ROE is above-average relative to returns authorized by
13 state regulatory commissions for integrated investor-owned electric utilities. This
14 is not, however, a sufficient ground to reject the Settlement.

15 **Q ARE OTHER ELECTRIC UTILITIES AUTHORIZED TO EARN HIGHER**
16 **RETURNS ON EQUITY THAN THE 10.7% UNDER THE SETTLEMENT?**

17 A Yes. Several integrated investor-owned electric utilities have authorized ROEs
18 that are higher than 10.7%. These include:

- 19
- Alabama Power Company (13.75%);
 - 20 • Alaska Electric Light & Power Company (12.88%);
 - 21 • Dominion Virginia Power Company (over 11%);
 - 22 • Appalachian Power Virginia (between 10.53% and 11.4%);
 - 23 • Pacific Gas & Electric Company (11.35%);

- 1 • Tampa Electric Company (11.25%);
- 2 • Georgia Power Company (11.15%);
- 3 • South Carolina Electric & Gas Company (10.7% and 11%); and
- 4 • Otter Tail Power Company Minnesota (10.74%).

5 Thus, 10.7% is not the highest authorized ROE. Further, FPL must compete for

6 capital with other utilities, including those that are authorized to earn ROEs

7 above 10.7%.

8 **Q HAVE YOU REVIEWED MR. O'DONNELL'S EXHIBIT KWO-13?**

9 A Yes. Exhibit KWO-13 is Mr. O'Donnell's analysis of the ROEs authorized by

10 state regulators in 2012.

11 **Q DO YOU HAVE ANY CONCERNS ABOUT MR. O'DONNELL'S ANALYSIS?**

12 A I have several concerns with the analysis. First, not all of the utilities listed in

13 Exhibit KWO-13 are integrated electric utilities (e.g., Commonwealth Edison,

14 Orange & Rockland Utilities, Delmarva Power & Light, and Potomac Edison).

15 Second, Mr. O'Donnell omitted all regulatory orders in Virginia and excluded

16 Progress Energy Florida. Further, he ignored regulatory decisions rendered prior

17 to 2012.

18 **Q TURNING TO YOUR FIRST CONCERN, IS IT REASONABLE TO INCLUDE**

19 **NON-INTEGRATED ELECTRIC UTILITIES?**

20 A No. Non-integrated electric utilities do not own generation capacity. As such,

21 they face different risks than integrated electric utilities that supply both

22 generation and delivery services.

1 **Q DID MR. O'DONNELL EXPLAIN WHY HE EXCLUDED VIRGINIA FROM THE**
2 **ANALYSIS?**

3 A No. As previously stated, FPL must compete with other utilities for capital. This
4 includes Dominion Virginia Power and Appalachian Power Company, which are
5 regulated by the Virginia State Corporation Commission. Since FPL's last rate
6 case, these utilities have been authorized to earn ROEs ranging from 10.53% to
7 11.4% for Appalachian Power Company and from 11.65% to 12.4% for Dominion
8 Virginia Power.

9 **Q HOW WOULD THESE CONCERNS IMPACT MR. O'DONNELL'S ANALYSIS?**

10 A Had Mr. O'Donnell excluded non-integrated electric utilities and included both
11 Virginia and Progress Energy Florida, the average authorized ROE in 2012
12 would have been 10.18% nationwide and 10.8% for electric utilities located in
13 southeastern states.

14 **Q IS IT REASONABLE TO LIMIT AN ANALYSIS ONLY TO REGULATORY**
15 **DECISIONS RENDERED IN 2012.**

16 A No. This is too short of a period to measure the reasonableness of a settlement
17 that will remain in effect for four years. While Mr. O'Donnell cites the influence of
18 rising utility stock prices and declining interest rates on the cost of equity, it is
19 clear that these phenomena has been ongoing since prior to FPL's last rate case.
20 This is demonstrated in **Exhibit JP-6**, which shows the trends in utility stock
21 prices (page 1) and the 30-year Treasury Bonds (page 2). As can be seen, utility
22 stock prices have been trended upward since the first quarter of 2009. The

1 yields on 30-year Treasury Bonds fluctuated around 3.5% through September
2 2011 and have trended downward since.

3 **Q DOES THE TREND IN AUTHORIZED ROES GENERALLY CORRESPOND**
4 **WITH THE TRENDS IN UTILITY STOCK PRICES AND YIELDS ON 30-YEAR**
5 **TREASURY BONDS?**

6 A As can be seen in the table below, authorized ROEs nationwide remained
7 relatively flat following FPL's last rate case through 2011 and, thus far, have
8 declined in 2012. However, during this same period, authorized ROEs have
9 increased for integrated investor-owned electric utilities located in the southeast.

Authorized ROEs for Integrated Investor-Owned Electric Utilities		
Period	Nationwide	Southeast
3/10-12/10	10.34%	10.77%
CY 2011	10.35%	10.69%
1/12-9/12	10.18%	10.80%
3/10-9/12	10.30%	10.76%

10 The period data was originally provided in **Exhibit JP-2** and was revised to
11 include West Virginia as a southeast state. The revised analysis is provided in
12 **Exhibit JP-8.**

13 **Q PLEASE SUMMARIZE YOUR REBUTTAL TO MR. O'DONNELL.**

14 A Similar to Ms. Ramas, Mr. O'Donnell has chosen to criticize one aspect of the
15 Settlement, the authorized ROE, to bolster his claim that the Settlement is not in
16 the public interest. The authorized ROE is only one of many compromises
17 reflected in the Settlement. Other compromises will primarily benefit FPL's
18 customers. This includes a four-year base rate freeze, movement of rates closer

1 to parity and requiring FPL to absorb higher test year (*i.e.*, 2013) operating
2 expenses, future infrastructure investment and additional post-test year (*i.e.*,
3 2014-2016) expenses in order to earn the authorized ROE. In other words the
4 Settlement will provide the opportunity, but not the guarantee, that FPL will earn
5 a 10.7% ROE. For this reason, I believe that the Settlement is in the public
6 interest and should be adopted.

7 **Q DOES THIS CONCLUDE YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?**

8 **A Yes.**

CORRECTED SUPPLEMENTAL REBUTTAL DIRECT TESTIMONY

1 Q PLEASE STATE YOUR NAME.

2 A Jeffrey Pollock.

3 Q ARE YOU THE SAME JEFFRY POLLOCK WHO PREVIOUSLY FILED DIRECT
4 AND SUPPLEMENTAL TESTIMONY AND EXHIBITS ON BEHALF OF THE
5 FLORIDA INDUSTRIAL POWER USERS GROUP (FIPUG) IN THIS
6 PROCEEDING?

7 A Yes.

8 Q WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL
9 TESTIMONY?

10 A I reply to the assertions by OPC witnesses' Donna M. Ramas and Kevin W.
11 O'Donnell that the Settlement is not in the public interest.

12 Q ARE YOU SUBMITTING ANY EXHIBITS IN CONNECTION WITH YOUR
13 SUPPLEMENTAL REBUTTAL TESTIMONY?

14 A Yes. I am filing Exhibits JP-19 and JP-20. In addition, I am submitting Errata to
15 Exhibits JP-15 and JP-16 that were filed in my Supplemental Direct Testimony.
16 The errata are provided in Exhibits JP-21 and JP-22. All of these exhibits were
17 prepared either by me or under my direction and supervision.

1 **Rebuttal to Donna M. Ramas**

2 **Q ON PAGE 7 OF HER SUPPLEMENTAL DIRECT TESTIMONY, MS. RAMAS**
3 **CRITICIZES EXHIBIT JP-15 BECAUSE (SHE ASSERTS) IT DOES NOT**
4 **DEMONSTRATE THAT THE RESULTING RATES WOULD BE FAIR OR**
5 **REASONABLE BASED ON FPL'S COSTS. DO YOU AGREE WITH HER**
6 **CRITICISM?**

7 A No. I acknowledge that rate case participants will view FPL's costs differently
8 and, as a result, it is no surprise that there are differences in the recommended
9 revenue requirements among the various parties. This is the general nature of
10 ratemaking. However, she misconstrues the purpose of **Exhibit JP-15**, which is
11 not to quantify every component of FPL's cost of service, but to demonstrate how
12 the proposed \$378 million is clearly a compromise between competing interests.

13 **Q HOW DOES EXHIBIT JP-15 DEMONSTRATE THAT THE SETTLEMENT IS**
14 **CLEARLY A COMPROMISE BETWEEN COMPETING INTERESTS?**

15 A As stated in my Supplemental Direct Testimony, FPL's interest is to establish
16 rates that reflect its cost of providing service. Ultimately, FPL's cost of service is
17 the sum of the return on rate base and operating expenses. Customers'
18 interests, by contrast, are to ensure that FPL provides reliable service at the
19 lowest reasonable rates. These competing objectives can be balanced by
20 providing FPL a reasonable opportunity to earn a reasonable return on rate base
21 and to recover reasonable and necessary operating expenses.

22 In this context, **Exhibit JP-15** focuses on only one segment of FPL's
23 costs that have increased since the last rate case: jurisdictional rate base.

1 Jurisdictional rate base is largely driven by changes in net plant investment due
2 to new infrastructure. It does not consider changes in FPL's non-fuel operating
3 expenses for the 2013 test year. Nor does **Exhibit JP-15** address changes in
4 post-test year infrastructure costs or operating expenses through 2016 except as
5 allowed under the various GBRA adjustments. Thus, FPL will have to manage
6 operating expenses during the test year as well as in future years through 2016.
7 In other words, FPL will have an opportunity, but not a guarantee, to earn the
8 authorized return even if sales increase. When viewed in this context, the
9 Settlement is a compromise between FPL's and customers' interests.

10 **Q ON PAGE 8 OF HER SUPPLEMENTAL TESTIMONY, MS. RAMAS STATES**
11 **THAT SHE COULD NOT VERIFY THE ACCURACY OF THE INFORMATION**
12 **PRESENTED IN EXHIBIT JP-15. IS THIS STILL AN ISSUE?**

13 **A** No. FIPUG will provide the documents requested by OPC that show the source
14 of the information that Ms. Ramas asserts was impeding her ability to analyze the
15 exhibit. As she will discover, all of the information was taken from MFR
16 schedules filed in this case, information provided in the pending Capacity Cost
17 Recovery case, and information attached to the final Order in FPL's last rate
18 case. Had discovery requests been served the week following the date that
19 Supplemental Testimony was filed (October 12, 2012), Ms. Ramas would not
20 have had to speculate about the source of the information in her Supplemental
21 Testimony.

1 **Q IN PREPARING FIPUG'S RESPONSES TO OPC'S FIRST REQUEST FOR**
2 **PRODUCTION OF DOCUMENTS, DID YOU FIND ANY PROBLEMS WITH**
3 **EXHIBIT JP-15?**

4 A Yes. In preparing the response I discovered an error in the calculation of
5 incremental jurisdictional rate base. Specifically, I did not remove the costs
6 associated with the Cape Canaveral modernization project, which will be
7 collected through a separate GBRA mechanism and not base rates. I also
8 updated the information pertaining to West County Unit No. 3 based on FPL's
9 recent filing in Docket No. 120001-EI. The latter costs were initially reflected in
10 FPL's proposed rate base. Under the Settlement, they will continue to be
11 collected in the Capacity Cost Recovery clause. Finally, the amortization of the
12 depreciation surplus was already reflected in depreciation expense and should
13 not have been separately netted against the revenue deficiency.

14 **Q HOW WOULD THESE CHANGES AFFECT EXHIBIT JP-15?**

15 A FPL's infrastructure related revenue deficiency would be \$14.2 million lower than
16 reflected in the original exhibit. These changes are reflected in an errata
17 document to my direct testimony that, as a convenience, I have attached as
18 **Exhibit JP-21**. The supporting calculations were provided to OPC.

19 **Q MS. RAMAS WAS ALSO PERPLEXED BY YOUR ASSUMPTION THAT THE**
20 **REMAINING SURPLUS DEPRECIATION WOULD BE AMORTIZED OVER 18**
21 **MONTHS. IS THE AMORTIZATION PERIOD RELEVANT?**

22 A No. Ms. Ramas quoted the Commission's Order No. PSC-11-0089-S-EI, which
23 stated that the Commission could order a different treatment than the one

1 authorized in FPL's last rate case. (Ramas Supplemental Testimony at 9-10).
2 Thus, the Commission is free to judge the reasonableness of the Settlement in
3 any way that it chooses, including using a different amortization period for the
4 remaining surplus depreciation.

5 **Q WOULD YOUR OPINION CHANGE IF YOUR ANALYSIS IS UPDATED TO**
6 **REFLECT FPL'S POST-HEARING CHANGES?**

7 A No. **Exhibit JP-19** is a revised calculation using the changes in rate base, rate
8 of return, and operating expenses reflected in FPL's post-hearing brief. As can
9 be seen on line 7, FPL's infrastructure-related revenue deficiency would be \$391
10 million. This includes an amortization of the remaining depreciation surplus in
11 2013 as the Commission ordered in FPL's last rate case.

12 **Q PLEASE SUMMARIZE YOUR REBUTTAL TO MS. RAMAS.**

13 A The 2013 base rate increase is only one of many components of the proposed
14 Settlement. When viewed in the context of **Exhibits JP-19** and **JP-21**, it is clear
15 that the Settlement revenue requirement is a compromise between FPL's and
16 customers' interests.

1 **Rebuttal to Mr. Kevin W. O'Donnell**

2 **Q MR. O'DONNELL ASSERTS THAT A 10.7% RETURN ON EQUITY IS TOO**
3 **HIGH, AND FURTHER, IT IS NOT CONSISTENT WITH THE RETURNS**
4 **AUTHORIZED BY OTHER STATE REGULATORY COMMISSIONS. IS THIS A**
5 **REASON TO REJECT THE SETTLEMENT?**

6 **A** No. The authorized ROE (and associated rate of return) is just one of many
7 aspects of the Settlement. As previously stated, the Settlement does not
8 address the ratemaking treatment of test year (*i.e.*, 2013) expenses, future
9 infrastructure investment and post-test year (*i.e.*, 2014-2016) expenses (except
10 for the specific power plants that are subject to the GBRA mechanism). Further,
11 although I disagree with portions of Mr. O'Donnell's analysis, I do not dispute his
12 conclusion that a 10.7% ROE is above-average relative to returns authorized by
13 state regulatory commissions for integrated investor-owned electric utilities. This
14 is not, however, a sufficient ground to reject the Settlement.

15 **Q ARE OTHER ELECTRIC UTILITIES AUTHORIZED TO EARN HIGHER**
16 **RETURNS ON EQUITY THAN THE 10.7% UNDER THE SETTLEMENT?**

17 **A** Yes. Several integrated investor-owned electric utilities have authorized ROEs
18 that are higher than 10.7%. These include:

- 19
- Alabama Power Company (13.75%);
 - 20 • Alaska Electric Light & Power Company (12.88%);
 - 21 • Dominion Virginia Power Company (over 11%);
 - 22 • Appalachian Power Virginia (between 10.53% and 11.4%);
 - 23 • Pacific Gas & Electric Company (11.35%);

- 1 • Tampa Electric Company (11.25%);
- 2 • Georgia Power Company (11.15%);
- 3 • South Carolina Electric & Gas Company (10.7% and 11%); and
- 4 • Otter Tail Power Company Minnesota (10.74%).

5 Thus, 10.7% is not the highest authorized ROE. Further, FPL must compete for

6 capital with other utilities, including those that are authorized to earn ROEs

7 above 10.7%.

8 **Q HAVE YOU REVIEWED MR. O'DONNELL'S EXHIBIT KWO-13?**

9 A Yes. Exhibit KWO-13 is Mr. O'Donnell's analysis of the ROEs authorized by

10 state regulators in 2012.

11 **Q DO YOU HAVE ANY CONCERNS ABOUT MR. O'DONNELL'S ANALYSIS?**

12 A I have several concerns with the analysis. First, not all of the utilities listed in

13 Exhibit KWO-13 are integrated electric utilities (e.g., Commonwealth Edison,

14 Orange & Rockland Utilities, Delmarva Power & Light, and Potomac Edison).

15 Second, Mr. O'Donnell omitted all regulatory orders in Virginia and excluded

16 Progress Energy Florida. Further, he ignored regulatory decisions rendered prior

17 to 2012.

18 **Q TURNING TO YOUR FIRST CONCERN, IS IT REASONABLE TO INCLUDE**

19 **NON-INTEGRATED ELECTRIC UTILITIES?**

20 A No. Non-integrated electric utilities do not own generation capacity. As such,

21 they face different risks than integrated electric utilities that supply both

22 generation and delivery services.

1 **Q DID MR. O'DONNELL EXPLAIN WHY HE EXCLUDED VIRGINIA FROM THE**
2 **ANALYSIS?**

3 A No. As previously stated, FPL must compete with other utilities for capital. This
4 includes Dominion Virginia Power and Appalachian Power Company, which are
5 regulated by the Virginia State Corporation Commission. Since FPL's last rate
6 case, these utilities have been authorized to earn ROEs ranging from 10.53% to
7 11.4% for Appalachian Power Company and from 11.65% to 12.4% for Dominion
8 Virginia Power.

9 **Q HOW WOULD THESE CONCERNS IMPACT MR. O'DONNELL'S ANALYSIS?**

10 A Had Mr. O'Donnell excluded non-integrated electric utilities and included both
11 Virginia and Progress Energy Florida, the average authorized ROE in 2012
12 would have been 10.18% nationwide and 10.8% for electric utilities located in
13 southeastern states.

14 **Q IS IT REASONABLE TO LIMIT AN ANALYSIS ONLY TO REGULATORY**
15 **DECISIONS RENDERED IN 2012.**

16 A No. This is too short of a period to measure the reasonableness of a settlement
17 that will remain in effect for four years. While Mr. O'Donnell cites the influence of
18 rising utility stock prices and declining interest rates on the cost of equity, it is
19 clear that these phenomena has been ongoing since prior to FPL's last rate case.
20 This is demonstrated in **Exhibit JP-20**, which shows the trends in utility stock
21 prices (page 1) and the 30-year Treasury Bonds (page 2). As can be seen, utility
22 stock prices have been trended upward since the first quarter of 2009. The

1 yields on 30-year Treasury Bonds fluctuated around 3.5% through September
2 2011 and have trended downward since.

3 **Q DOES THE TREND IN AUTHORIZED ROES GENERALLY CORRESPOND**
4 **WITH THE TRENDS IN UTILITY STOCK PRICES AND YIELDS ON 30-YEAR**
5 **TREASURY BONDS?**

6 A As can be seen in the table below, authorized ROEs nationwide remained
7 relatively flat following FPL's last rate case through 2011 and, thus far, have
8 declined in 2012. However, during this same period, authorized ROEs have
9 increased for integrated investor-owned electric utilities located in the southeast.

Authorized ROEs for Integrated Investor-Owned Electric Utilities		
Period	Nationwide	Southeast
3/10-12/10	10.34%	10.77%
CY 2011	10.35%	10.69%
1/12-9/12	10.18%	10.80%
3/10-9/12	10.30%	10.76%

10 The period data was originally provided in **Exhibit JP-16** and was revised to
11 include West Virginia as a southeast state. The revised analysis is provided in
12 **Exhibit JP-22.**

13 **Q PLEASE SUMMARIZE YOUR REBUTTAL TO MR. O'DONNELL.**

14 A Similar to Ms. Ramas, Mr. O'Donnell has chosen to criticize one aspect of the
15 Settlement, the authorized ROE, to bolster his claim that the Settlement is not in
16 the public interest. The authorized ROE is only one of many compromises
17 reflected in the Settlement. Other compromises will primarily benefit FPL's
18 customers. This includes a four-year base rate freeze, movement of rates closer

1 to parity and requiring FPL to absorb higher test year (*i.e.*, 2013) operating
2 expenses, future infrastructure investment and additional post-test year (*i.e.*,
3 2014-2016) expenses in order to earn the authorized ROE. In other words the
4 Settlement will provide the opportunity, but not the guarantee, that FPL will earn
5 a 10.7% ROE. For this reason, I believe that the Settlement is in the public
6 interest and should be adopted.

7 **Q DOES THIS CONCLUDE YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?**

8 **A** Yes.

1 BY MR. MOYLE:

2 Q Mr. Pollock, have you had an opportunity to
3 prepare a summary of both your direct and rebuttal?

4 A Yes.

5 Q Okay. Would you please provide that to the
6 Commission and parties.

7 A Yes, I will.

8 Good afternoon, Commissioners, and thank you
9 for accommodating my issues last night.

10 I address issue number five, whether the
11 Settlement Agreement is in the public interest. The
12 public interest is served when a settlement achieves a
13 balance between competing interests. Specifically in a
14 general rate case, there are two sets of competing
15 interests.

16 The first set is between the utility and the
17 customers that is allowing the utility a reasonable
18 opportunity but not a guarantee to recover its
19 reasonable costs and earn a reasonable return on
20 investment while providing customers reliable
21 electricity service with rates are that are both
22 affordable and favorable.

23 Now, the second set of competing interest is
24 between customer classes, and that competing set of
25 interests is moving all rates, including in this

1 instance the non-firm rates, closest to cost or parity,
2 which is consistent with the Commission's longstanding
3 policy. Settlement achieves both objectives.

4 FPL has authorized a \$378 million base rate
5 increase effective in 2013 and subsequent generation
6 base rate adjustments, or GBRAs, when certain new power
7 plants are placed in service. The 2013 increase will
8 provide the opportunity to recover new infrastructure
9 costs incurred since FPL's last rate case, while the
10 GBRAs will allow for timely recovery of infrastructure
11 costs and operating expenses associated with three
12 power plants placed into service after January of 2013.

13 Infrastructure costs are those associated
14 with the facilities that are used and useful in
15 providing electricity service and they include return
16 on investment, income taxes, property taxes,
17 depreciation, and property insurance.

18 Depending on the assumptions used, FPL has
19 experienced since its last rate case additional
20 infrastructure cost ranging from 372 million to 391
21 million. These are obviously comparable to the 378
22 million 2013 increase authorized under the settlement.

23 Importantly though, other than the direct
24 cost of the three power plants subject to GBRAs and
25 other costs recovery clauses, the settlement does not

1 address three other key components of FPL's base rate
2 cost, first being changes in operating expenses since
3 the last rate case, the second being additional
4 infrastructure cost to be incurred through 2016, the
5 third, post-test year increases in operating expenses.
6 Thus the settlement will not provide a guaranteed
7 return. FPL will have to manage expenses in order to
8 earn the authorized return.

9 In addition, the settlement agreement
10 significantly reduces the base rate revenues for the
11 vast majority of rate classes relative to the company's
12 proposal without shifting costs. It establishes rates
13 that better reflect the costs of servicing non-firm
14 customers under the CILC and CDR Riders which have not
15 materially changed since their inception in 2000 and
16 1990, respectively.

17 They will provide a more stable, predictable
18 rate path that will allow customers to anticipate both
19 timing and magnitude of future rate adjustments
20 associated with the GBRA's. The settlement will restore
21 intergenerational equity by fully utilizing the
22 191 million or so of remaining surplus depreciation
23 reserve. It will obviate the need for FPL and
24 customers to incur significant costs in participating
25 in periodic rate cases to support infrastructure

1 development and support more competitive rates for
2 business and industry which will help to retain
3 existing jobs, facilitate job creation and contribute
4 income and tax revenues to the local and state
5 economies.

6 Because FPL's and customers' interests are by
7 definition competing, it stands to reason that
8 individual parties may not like each and every
9 component of the settlement. In particular, Public
10 Counsel Witnesses Ramas and O'Donnell dispute my
11 characterization that the settlement is a compromise.
12 They do so by focusing on the authorized return,
13 keeping in mind that the authorized return is only one
14 aspect of the settlement.

15 Ms. Ramas asserts that the authorized return
16 is too high because it doesn't account for any
17 adjustments that FPL has made since its original filing
18 or any adjustments that OPC has recommended. I address
19 the first concern by incorporating FPL's post-hearing
20 adjustments, including a reduction in the interest rate
21 on customer deposits. The result was a 2013 revenue
22 deficiency of 391 million associated with new
23 infrastructure, meaning that the 2013 base rate
24 increase still looks reasonable.

25 Mr. O'Donnell asserts that the authorized

1 rate of return is too high because it reflects an
2 above-average return on equity, coupled with an equity
3 heavy capital structure. Other than noting 10.7
4 percent return on equity is above average authorized by
5 other state regulators nationwide, it is a competitive
6 return and it's competitive with the returns authorized
7 by regulators elsewhere and in the southeast since
8 FPL's last rate case.

9 Further, it's not the highest authorized
10 return on equity. Alabama Power, for example, is
11 authorized to earn 13.75 percent ROE. Other utilities
12 have authorized returns ranging from 10.74 percent up
13 to 12.88 percent. And importantly under the
14 settlement, base rates cannot be changed until after
15 2016. This long-term commitment to freeze base rates
16 introduces an element of risk that would clearly not be
17 present in a litigated rate case.

18 In this instance, the benchmark for making a
19 public interest determination should not rest solely on
20 what other regulators have authorized in the recent
21 past but what is fair, just and reasonable taking into
22 account the entirety of the settlement. Based on these
23 facts, I believe the settlement is in the public
24 interest and that you should adopt it. Thank you.

25 **Q Thank you.**

1 MR. MOYLE: Mr. Pollock is available for
2 cross.

3 CHAIRMAN BRISE: All right. Mr. McGlothlin.

4 CROSS EXAMINATION

5 BY MR. MCGLOTHLIN:

6 Q Mr. Pollock, you appear today on behalf of
7 the Florida Industrial Powers Users Group?

8 A Yes.

9 Q How many FPL customers within the FIPUG group
10 are sponsoring your testimony today?

11 A Oh, somewhere between six and eight. I'm not
12 sure exactly the specific customers.

13 Q And are those six to eight FPL customers the
14 ones who are compensating you for your testimony?

15 A Yes.

16 Q You're here to support the August 15th
17 settlement proposal that is the subject of the hearing,
18 correct?

19 A Yes.

20 Q Did you take part in the negotiation of that
21 document?

22 A At various stages during the proceeding, I
23 was asked by counsel for FIPUG to consult and to confer
24 with him about certain negotiations that were ongoing.
25 I was never directly involved in the negotiations.

1 **Q** If you recall, what was the earliest point in
2 time when you were asked to take part in the manner you
3 described?

4 A I don't recall exactly when that was. It was
5 sometime before testimony was filed.

6 **Q** Before testimony was filed in the earlier
7 round of hearings?

8 A Yes.

9 **Q** Okay. You mentioned this in your summary,
10 but it also appears at page seven you state that a 10.7
11 percent return on equity would provide a competitive
12 rate of return, and you provide what was originally
13 called JP-2 and became JP-16 in support of that
14 statement, do you not?

15 A Yes.

16 **Q** That document is taken from a compilation of
17 authorized returns on equity, correct?

18 A It is, yes.

19 **Q** And is it true that the compilation of
20 authorized returns encompasses a three-year period?

21 A It encompasses a period since about the first
22 quarter of 2009, which is when the last FPL rate order
23 was issued, so roughly, but not quite, three years.

24 **Q** So your intent was to include everything that
25 happened after the first FPL rate order in the last

1 case?

2 A Yes.

3 Q Now, you note in your testimony, do you not,
4 that treasury rates have been trending down since
5 September of 2011?

6 A The 30-year treasury note, yes, it has.

7 Q Your Exhibits JP-16 -- let me strike that.
8 Your testimony -- I'll strike that too.

9 CHAIRMAN BRISE: All right.

10 BY MR. McGLOTHLIN:

11 Q Would you agree that there's a relationship
12 between a utility's equity ratio and the appropriate
13 return on equity that should be associated with that
14 utility?

15 A Looking at all things, yes, there is a
16 relationship between the equity ratio and the cost of
17 equity.

18 Q And that is because a higher equity ratio
19 reduces financial risk and thus reduces the overall
20 investment risk, correct?

21 A I would agree with that, yes.

22 Q So other things being equal, a higher equity
23 ratio should translate into a lower required return on
24 equity?

25 A All other things equal, yes.

1 **Q** Do you know what FIPUG's position on the
2 **appropriate return on equity is in post-hearing brief?**

3 A I don't recall it, no.

4 **Q** Would you accept, subject to check, that
5 **FIPUG's position is that it should be ten or below ten?**

6 A I can except that subject to check.

7 **Q** Do you know what FIPUG's position in its
8 **post-hearing brief was with respect to the appropriate**
9 **equity ratio for FPL?**

10 A I don't recall.

11 **Q** Would you accept, subject to check, that it
12 **was 50 percent?**

13 A Yes, subject to check.

14 **Q** Now, in your testimony, you state that a
15 **10.7 percent would enable FPL to maintain its A rating,**
16 **do you not?**

17 A Yes.

18 **Q** You do not intend to imply that a
19 **10.7 percent return on equity is necessary to maintain**
20 **an A rating, do you?**

21 A I haven't done a determination of what return
22 on equity would be needed to maintain an A rating, but
23 certainly a 10.7 percent, as the testimony says,
24 certainly should ensure that the FPL maintains a strong
25 A rating.

1 **Q** It would have been possible for you to review
2 the returns on equity authorized in 2012 for other
3 utilities and compare that with their bond ratings; you
4 did not do that?

5 A I did not undertake that analysis, no.

6 **Q** All right.

7 MR. McGLOTHLIN: At this point, I want to
8 ask -- with a little help, I want to pass out a
9 document. And Ms. Merchant, it's the one that we
10 flagged as No. 9 in our set.

11 CHAIRMAN BRISE: All right. We are -- for
12 identification purposes, we are at No. 708.

13 MR. McGLOTHLIN: 708?

14 CHAIRMAN BRISE: Yes.

15 (Exhibit No. 708 was marked for
16 identification.)

17 BY MR. McGLOTHLIN:

18 **Q** Have you had a chance to review that
19 document, Mr. Pollock?

20 A I am reviewing it as we speak. Yes.

21 **Q** Did you appear for FIPUG and FPL's last rate
22 case, which was Docket 080677?

23 A Yes.

24 **Q** Do you recognize the document which we have
25 identified as 708 to be an excerpt from the prefiled

1 testimony you submitted at that time?

2 A Yes, I do.

3 Q In that testimony, you addressed the issue of
4 capital structure, did you not?

5 A Yes, I did.

6 Q And one of the aspects of that testimony was
7 the appropriate treatment of these, what we call the
8 Standard and Poor's Imputed Debt Methodology
9 Adjustment?

10 A Yes.

11 Q And did you testify that in your opinion that
12 should not be employed by the Commission?

13 A That was my testimony, yes.

14 Q And another aspect of the capital structure
15 subject in that case was the identification of the
16 appropriate equity ratio, was it not?

17 A It was, yes.

18 Q Did you address the contention that FPL's
19 59 percent equity ratio would enable FPL to maintain an
20 A rating?

21 A Do you want to refer me to a specific section
22 of testimony?

23 Q Yes, look at the last two pages.

24 A Okay.

25 Q And beginning on page 28, line, 19, you'll

1 **see the question.**

2 A Yes. The testimony basically said that it
3 was not necessary to have a 60 percent or so equity
4 ratio to maintain an A bond rating.

5 **Q And in the course of answering that question,**
6 **is it true that you prepared the table that appears on**
7 **page 29?**

8 A Yes.

9 **Q And does that table indicate that it's**
10 **possible to maintain -- for a utility to maintain an A**
11 **rating with equity ratios in the area of 50 percent?**

12 A Under the conditions in that case, yes, the
13 information showed that the average equity ratio for a
14 rated electric utility was around 50 percent.

15 **Q And what did you recommend to be the**
16 **appropriate equity ratio for FPL in that case?**

17 A I recommended a 50.2 percent equity ratio on
18 an adjusted basis.

19 **Q And you're aware, are you not, that implicit**
20 **in the August 15th Proposed Settlement Document is**
21 **FPL's equity ratio of 59.62 percent?**

22 A Yes. It's my understanding that that is
23 implicit in the amount of the 2013 increase and the
24 rate of return that is used to determine the revenue
25 requirement is based on that assumption and a lot of

1 other assumptions.

2 **Q You did not consider that, or at least you**
3 **did not include any reference to the 59.62 percent**
4 **equity ratio as you addressed the appropriateness of**
5 **the 10.7 return on equity in your testimony in this**
6 **case, did you?**

7 A I have not reflected or done any analysis to
8 determine what the proper equity ratio would be in this
9 case. My testimony is really limited to determining
10 the reasonableness of the settlement.

11 **Q Yes. And as part of your treatment of the**
12 **reasonableness of the settlement, you addressed the**
13 **10.7 percent return on equity, did you not?**

14 A I did, yes.

15 **Q I'm going to have several other documents**
16 **passed out.**

17 CHAIRMAN BRISE: Sure.

18 MR. McGLOTHLIN: This would be a package
19 containing five documents. We're going to pass
20 them out at one time and then refer to them
21 individually during the course of cross.

22 CHAIRMAN BRISE: Sure. When you pass them
23 out, please help us determine which ones you want
24 with which number. So we're at 708 and now we're
25 moving on to 709.

1 Mr. McGlothlin, would the incremental
2 infrastructure cost be 709?

3 MR. MCGLOTHLIN: If it's all right with you,
4 Mr. Chairman, I'll come to these in the course of
5 questioning and we'll identify them at that time.

6 CHAIRMAN BRISE: That's fine. That works for
7 me.

8 BY MR. MCGLOTHLLIN:

9 **Q Mr. Pollock, I'll refer you to page five of**
10 **your corrected supplemental direct testimony.**

11 A I have it.

12 **Q At lines seven through eight, you indicate**
13 **that the \$378 million base rate increase that is part**
14 **of the August 15th document would provide FPL an**
15 **opportunity to recover new infrastructure cost incurred**
16 **since FPL's last rate case, do you not?**

17 A Yes.

18 **Q And on the same page, you describe what you**
19 **mean by infrastructure cost, correct?**

20 A Yes.

21 **Q You say that infrastructure costs include a**
22 **return on investment, income taxes, property insurance,**
23 **depreciation, and that each of these costs relate to**
24 **investment in facilities that are used and useful,**
25 **correct?**

1 A Yes.

2 **Q So you're essentially talking about physical**
3 **assets, steel and concrete, that might otherwise be**
4 **called plant in service?**

5 A Yes.

6 **Q Then at 18 to 20 of that page, you indicate**
7 **that your Exhibit JP-15, now 679, is a comparison of**
8 **the infrastructure cost between FPL's proposal in this**
9 **rate case and the corresponding cost approved in the**
10 **final order in 08607, correct?**

11 A Yes.

12 **Q If you will look at your Exhibit JP-15, now**
13 **679 -- do you have that?**

14 A Yes.

15 **Q Okay. Do I understand correctly this exhibit**
16 **is meant to show the revenue requirements that would be**
17 **caused by what you have termed "additional**
18 **infrastructure related costs since FPL's last rate**
19 **case"?**

20 A Yes. Essentially the change in
21 jurisdictional rate base between the last case, as
22 approved in the last case and as proposed in this case.

23 **Q Okay.**

24 MR. McGLOTHLIN: Here comes the portion,
25 Mr. Chairman.

1 CHAIRMAN BRISE: All right.

2 MR. McGLOTHLIN: It should have a caption
3 saying, "Exhibit JP-1 Settlement." And I'm
4 getting some help on that. It should have a
5 description on the cover page that reads:
6 "Incremental Infrastructure Cost, Exhibit JP-15,
7 Originally JP-1."

8 CHAIRMAN BRISE: All right. Thank you. So
9 that would be 709.

10 (Exhibit No. 709 was marked for
11 identification.)

12 BY MR. McGLOTHLIN:

13 **Q Mr. Pollock, do you recognize 709 to be an**
14 **excerpt from the work papers that were used in**
15 **preparing your 679?**

16 A Yes.

17 **Q And, in fact, the final column on this sheet,**
18 **709, is 378 -- 385,998 -- ties to your Exhibit JP-15,**
19 **does it not?**

20 A Yes. Yeah, this ties to Exhibit JP-15 which
21 I've subsequently corrected.

22 **Q Yes. And I understand that that has been**
23 **corrected. One of my purposes in asking you about this**
24 **is to establish how that evolved and what the changes**
25 **are between the first and the latter versions of that**

1 document.

2 A Okay.

3 Q And the exhibit attached to your testimony,
4 679, your intent to include the full revenue impact
5 that would be caused by the increase in rate base that
6 has occurred since the Commission's order in the last
7 rate case?

8 A Yes.

9 Q And as I understand it, your intent was to
10 take the difference between the jurisdictional adjusted
11 rate base required by FPL for the 2013 test year that
12 would be included in base rates and the jurisdictional
13 adjusted rate base approved by this Commission in this
14 order in this last rate case, correct?

15 A That's correct.

16 Q Now, within that package of five documents,
17 you should have page 208 of the Commission's order in
18 the last rate case.

19 MR. McGLOTHLLIN: And could we have an
20 exhibit number, for ease of reference, to this
21 excerpt from the order?

22 CHAIRMAN BRISE: Sure. We're at 710. And
23 you're referring to PSC Order No. 10-0153 FOFEI?

24 MR. McGLOTHLLIN: Correct.

25 CHAIRMAN BRISE: Okay. Perfect.

1 (Exhibit No. 710 was marked for
2 identification.)

3 BY MR. MCGLOTHLIN:

4 **Q Do you have page two of eight of that exhibit**
5 **available to you?**

6 A Yes, I do.

7 **Q Do you see that the total Commission adjusted**
8 **rate amount in the final line in the last column is**
9 **16,787,429,918?**

10 A Yes.

11 **Q And that ties to the jurisdictional adjusted**
12 **rate base from the prior rate case shown on line one of**
13 **the exhibit I handed you, correct?**

14 A Yes.

15 **Q The work paper?**

16 A Yes, it does.

17 **Q Would you agree with me that that value**
18 **includes all components of rate base and not just those**
19 **that would be associated with infrastructure plant in**
20 **service?**

21 A It is, as I described it, rate base, yes, is
22 rate base -- the primary component of rate base is
23 plant in service.

24 **Q That your intent was to compare the**
25 **differences in infrastructure, was it not?**

1 A Well, let's not read too fine of a line in
2 it. My intent was to compare the change in rate base,
3 which infrastructure cost is a primary element, to
4 arrive at a test to determine the reasonableness of the
5 2013 increase.

6 **Q Was not the title of your exhibit, "Changes**
7 **in Infrastructure," and not changes in rate base?**

8 A The last column is entitled "Incremental
9 Infrastructure Costs," yes.

10 **Q Rate base includes not only plant but also**
11 **such things as working capital; is that right?**

12 A Yes.

13 **Q And in this case, in the last rate case**
14 **order, working capital was 112 million, was it not?**

15 A Yes, it was.

16 **Q And rate base also includes a category for**
17 **plant held for future use, correct?**

18 A Yes, it does.

19 **Q Working capital is not infrastructure, is it?**

20 A Not directly, no. Working capital is a form
21 of capital that is needed to basically run the
22 operation, so it is the same as investment in that it's
23 investment necessary to manage the enterprise.

24 **Q Plant held for future use is not**
25 **infrastructure, is it?**

1 A It's not iron and steel in the ground. In
2 that context, however, it is obviously an investment to
3 yield future facilities that will be needed to, in the
4 future, provide service.

5 **Q My question is, is it infrastructure in the**
6 **way you defined infrastructure in your testimony?**

7 A It's not directly that, no.

8 **Q Now, do you have available to you in that**
9 **package MFR Schedule B-1 for the 2013 test year?**

10 A Okay.

11 CHAIRMAN BRISE: So that would be 711.

12 (Exhibit No. 711 was marked for
13 identification.)

14 THE WITNESS: Schedule B-1?

15 BY MR. MCGLOTHLIN:

16 **Q Yes.**

17 A Yes, I have it.

18 MR. MCGLOTHLIN: I'm sorry, Mr. Chairman,
19 could I have that number again?

20 CHAIRMAN BRISE: Oh, sure. 711.

21 BY MR. MCGLOTHLIN:

22 **Q 711 is Schedule 1 for the 2013 test year.**
23 **Would you agree that the total jurisdictional adjusted**
24 **rate base from the FPL filing of 21,038,823,000?**

25 A 36 million -- 21,036,823,000.

1 Q Okay. Thanks for the correction.

2 Would you agree that ties exactly with the
3 proposed jurisdictional adjusted rate base in line one
4 of the work paper?

5 A Yeah, in the second column under "Proposed,"
6 yes.

7 Q Now, the sheet from your work paper that I
8 handed to you earlier also includes rate base amounts
9 associated with West County 3, does it not?

10 A It does, yes.

11 Q Again looking at Schedule B-1, now 711, would
12 you agree that this 21 billion 38 million also includes
13 not only infrastructure assets but also other rate base
14 items such as working capital allowance?

15 A Yes. Essentially it's the same comparison as
16 the comparison to the final order in the last rate
17 case.

18 Q But this time the working allowance has
19 increased from 112 million to \$1.2 billion, correct?

20 A Yes.

21 Q So what you show as an incremental
22 infrastructure cost in your analysis of approximately
23 \$4.28 billion, of that amount 1.1 billion is associated
24 with the increase in working capital and not an
25 increase in working infrastructure?

1 A It is the increase in working capital, yes.

2 Q Now, staying with B-1, or 711, under "Plant
3 in Service," Column 2, you see that the amount of
4 requested jurisdictional plant in service in this case
5 is approximately \$34 billion?

6 A Yes.

7 Q Now, I'll have to ask you to refer back to
8 page 208 of the Commission's order in the last case and
9 ask you to confirm that the Commission adjusted plant
10 in service balance as reflected in the order is
11 approximately \$27 billion?

12 A It is, yes.

13 Q So comparing the order in the past case to
14 Schedule B-1 in this case, the amount of plant in
15 service for FPL would have increased by approximately
16 \$3.4 billion, correct?

17 A Yes.

18 Q And that includes amounts associated with
19 West County 3?

20 A Yes.

21 Q Bearing in mind the billion dollar increase
22 represented by working capital and bearing in mind the
23 \$3.4 billion difference in plant in service between the
24 last rate case order and Schedule B-1, would you agree
25 that if your analysis in JP-15, now 679, focused on the

1 change in plant assets used to provide service to
2 customers instead of all changes in rate base, the
3 resulting revenue deficiency that you calculated would
4 have been significantly lower?

5 A It would be lower because the change in net
6 plant is lower than the change in rate base.

7 Q Do I understand correctly that your Exhibit
8 679 assumes that no adjustments are made to the rate
9 base proposed by FPL in its March MFRs?

10 A The original exhibit did not. Exhibit JP --
11 what is it, Exhibit JP -- Exhibit JP-15 did not.

12 Q Looking at the work paper for JP-15 that I
13 provided to you earlier as the first document in that
14 package.

15 A I have it.

16 Q That identifies the remaining surplus
17 depreciation as \$190,918,000, correct?

18 A Yes.

19 Q And in this exhibit, you amortized that by
20 over 18 months, did you not?

21 A Yes.

22 Q And that resulted in a \$114,800,000 reduction
23 for purposes of obtaining the revenue deficiency?

24 A Yes.

25 Q Had you reflected the entire amortization,

1 **the deficiency would have been a different number,**
2 **would it not?**

3 A If I had repeated the analysis and amortized
4 it over 12 months instead of 18 months, yes, I would
5 have.

6 **Q Did you choose the 18-month period to make**
7 **the analysis result in a revenue deficiency that was in**
8 **the neighborhood of a \$378 million increase that is**
9 **part of the August 15th package?**

10 A That was not my intent. My intent was to see
11 what the outcome would be if you assumed an 18-month
12 amortization and to see whether or not that would
13 produce a reasonable outcome. I mean, I could have
14 just as soon made an assumption that the amortization
15 was over the four-year term of the settlement.

16 **Q Did you first choose an amortization period**
17 **and then calculate the revenue deficiency?**

18 A No.

19 **Q How did you do it?**

20 A I did it just the way I said. I looked to
21 see what would be reasonable -- what would be a
22 reasonable amortization to get -- and how would I come
23 up with that reasonable number, whether or not the
24 number 378 million was a reasonable number.

25 So I can get close to 378 million by assuming

1 an 18-month amortization. I can get further away from
2 that if I assume a four-year amortization. But in
3 essence, it just says that the nature of the increase
4 is approximately 385 million -- 378 million is a
5 reasonable number.

6 **Q Was it your intent to calculate a revenue**
7 **deficiency associated with increases in infrastructure**
8 **that would support the \$378 million increase that is**
9 **part of the August 15th package?**

10 A That was -- my goal was to try to determine
11 whether not 378 was a reasonable number.

12 **Q And the 18-month amortization was one tool**
13 **you used to reach that conclusion, was it not?**

14 A It was one tool. I could have used other
15 amortization periods, and my conclusion would be
16 essentially the same, that we would be still in about
17 the proper ballpark.

18 **Q Now, the thrust of Exhibit JP-15, now 679, is**
19 **to determine whether the purported settlement and the**
20 **proposed increase of \$378 million would be to analyze**
21 **the relationship between that number and increases in**
22 **infrastructure between the last rate case order and the**
23 **MFRs in this case.**

24 **That being the case, did you prepare this**
25 **analysis and this exhibit before, during, or after the**

1 **signatories produced the August 15th document?**

2 A I was not asked to prepare testimony until
3 after the settlement had been filed with the
4 Commission; therefore, this exhibit was not prepared
5 until after that date.

6 **Q Inasmuch as it purports to describe the**
7 **relationship between FPL's increases in infrastructure,**
8 **did FPL have input to the preparation of the exhibit?**

9 A No.

10 **Q In terms of the purpose of the exhibit, which**
11 **is to analyze the relationship between increases in**
12 **infrastructure on the one hand and the \$378 million**
13 **base rate increase on the other, was that your**
14 **initiative and your idea or was it an assignment given**
15 **to you?**

16 A I approach these cases with a great deal of
17 skepticism, as the Commission probably knows, and it
18 was my intent to try to figure out, approaching a
19 settlement from a skeptical mind, did a number or did
20 an outcome look reasonable, and that was really the
21 sole purpose of the exhibit.

22 **Q So the concept of a base rate increase that**
23 **would be the appropriate amount to compensate FPL for**
24 **changes in infrastructure that have occurred since the**
25 **last rate case started with you?**

1 A I don't understand the question. Are you
2 saying this was the concept -- this was my concept?

3 **Q Yes.**

4 A Yes, I believe it is.

5 **Q Okay.**

6 A Nobody told me to do this. I came up with
7 this on my own.

8 **Q Okay. Did FPL review your analysis after you
9 prepared it?**

10 A I don't know if they did or not.

11 **Q Referring again to your supplemental
12 testimony, supplemental direct testimony, at page five
13 you say that "The 2013 increase will provide FPL an
14 opportunity to recover new infrastructure costs
15 incurred since FPL's last rate case."**

16 Isn't it true that the jurisdictional base
17 offering revenues received by FPL from customers have
18 also increased since the last rate case order?

19 A Yes.

20 **Q Within the exhibit that consists of an
21 excerpt from the last rate case order, if you have that
22 available to you.**

23 A Yes.

24 **Q Turn to page 210, please.**

25 A I have it.

1 Q And look for the amount that is identified as
2 the Commission adjustment operating revenue, which is
3 the last line on the first column. Do you see the
4 value of 4,136,447,146?

5 A Yes.

6 Q And you don't have to look far for this, on
7 page 212 on the same excerpt, is it true that the
8 Commission provided for an increase in those revenues
9 in the amount of \$65,470,948?

10 A Yes.

11 Q And with a little addition, would you agree
12 that the revenues approved in the last case, taking
13 into account the authorized increase, would be
14 approximately 4 billion 212 million dollars?

15 A Yes.

16 Q Now, do you have available to you MFR
17 Schedule C-1 in that package of five documents?

18 A Yes.

19 MR. McGLOTHLLIN: Could we have an exhibit
20 number, Mr. Chairman?

21 CHAIRMAN BRISE: Sure. We are at 712.

22 MR. McGLOTHLIN: I'm sorry.

23 CHAIRMAN BRISE: So you are talking about --

24 MR. McGLOTHLLIN: I'm sorry. It's part of
25 711, I beg your pardon.

1 CHAIRMAN BRISE: Okay.

2 MR. McGLOTHLLIN: So I'll give that number
3 back to you.

4 CHAIRMAN BRISE: All right. Thank you.

5 BY MR. McGLOTHLIN:

6 Q On Schedule C-1, Florida's 711, do you see
7 the value for the jurisdictional adjusted total
8 operating revenues for the 2013 test year?

9 A Yes.

10 Q That is 4,407,253,000?

11 A Yes.

12 Q Would you agree that based upon these
13 numbers, in addition to increased infrastructure and
14 increased rate base, FPL is experiencing increased
15 operating revenues in the amount of approximately
16 \$195 million compared to the amount approved in the
17 last rate case?

18 A Yes.

19 Q Now I have several questions for you on your
20 rebuttal. And you attached to your rebuttal testimony
21 what is described as an errata to Exhibit JP-15,
22 correct?

23 A Correct; Exhibit JP-21.

24 Q And one of the errors that you corrected in
25 JP-21, you included the Cape Canaveral modernization

1 cost in your first version and you removed that in what
2 became JP-21, correct?

3 A That's correct.

4 Q And that adjusted rate base downward by
5 \$821,325,000, right?

6 A Yes.

7 Q And the same correction reduced depreciation
8 expense in the analysis downward by \$31.5 million,
9 correct?

10 A Yes, approximately.

11 Q It reduced property tax by \$17.7 million?

12 A Yes.

13 Q It reduced property insurance by
14 approximately \$1.2 million?

15 A Yes.

16 Q And you also, in this errata, updated the
17 West County No. 3 cost, did you not?

18 A Yes, I did.

19 Q And that correction increases the rate base
20 in your incremental infrastructure cost column by
21 \$18,486,000?

22 A Compared to what?

23 Q Compared to the first version of your
24 exhibit?

25 A Well, the first version of the exhibit, the

1 rate base, jurisdictional rate base, was \$4.28 billion.
2 In JP-21, which is the errata, it's \$3.48 billion.

3 **Q Yes. Well, let me ask it this way: With**
4 **respect to the treatment of West County 3, how did you**
5 **treat West County 3 in JP-15 and did you treat it any**
6 **differently in JP-21?**

7 A The only difference, as I describe in my
8 rebuttal testimony, is that I've updated the West
9 County 3 numbers to reflect the projected costs for
10 2013, and the original exhibit had an estimate of those
11 projected costs.

12 **Q And the treatment was to remove West County 3**
13 **from both calculations of rate base; is that right?**

14 A Yes, because West County 3 would not be
15 recovered in base rates, it would be recovered in the
16 capacity clause.

17 **Q So the correction in JP-21, as it relates to**
18 **West County 3, was to correct the appropriate amount of**
19 **rate base that is removed from your exhibit, correct?**

20 A Yes.

21 **Q And you also removed -- let's back up for a**
22 **second -- you recall that in the first version, or**
23 **JP-15, you had shown the \$190 million surplus reserve**
24 **being amortized over 18 months, correct?**

25 A Yes.

1 **Q** And that led you to apply a \$114.8 million
2 **credit, correct?**

3 A Right.

4 **Q** And in JP-21, you removed that entry, did you
5 **not?**

6 A Right. As I explain in my testimony, that
7 credit had already been taken into account in the
8 depreciation expense, so removing it again would have
9 been double counting.

10 **Q** So when you consider the magnitude of the
11 **adjustments to remove Cape Canaveral with its**
12 **association taxes and depreciation and the magnitude of**
13 **the \$114.8 million adjustment to remove the entry for**
14 **an 18-month amortization, you're looking at some fairly**
15 **substantial changes, aren't you?**

16 A Well, yes, the corrections were significant.
17 I don't think that the bottom line changed
18 significantly, however.

19 **Q** Well, you lead me to my next point.
20 **Notwithstanding the magnitude of those changes, the**
21 **revenue deficiency that you compare to the \$378 million**
22 **proposed base rate increase is still in the same**
23 **neighborhood, is it not?**

24 A It is. It's a little lower. Instead of 386,
25 it's approximately 372.

1 **Q** And comparing from a high level, your
2 rebuttal Exhibit JP-21, which is now 704, to your
3 original Exhibit JP-15, now 679, the change in the
4 jurisdictional adjusted rate base moves from
5 approximately 4.28 billion to 3.48 billion, correct?

6 A Yes.

7 **Q** And that is largely due to the removal of
8 Cape Canaveral, right?

9 A Entirely, or mostly, yes.

10 MR. McGLOTHLLIN: Could I have a moment in
11 place, Mr. Chairman?

12 CHAIRMAN BRISE: Sure.

13 BY MR. McGLOTHLIN:

14 **Q** Mr. Pollock, you should have in your package
15 a document that's captioned "Incremental Infrastructure
16 Costs JP-21" with Column C to G expanded. Do you have
17 that available to you?

18 A Yes, I believe so.

19 MR. McGLOTHLLIN: Could I have a number for
20 that, Mr. Chairman?

21 CHAIRMAN BRISE: Sure, 712.

22 (Exhibit No. 712 was marked for
23 identification.)

24 BY MR. McGLOTHLIN:

25 **Q** Mr. Pollock, do you recognize this Exhibit

1 712 as one of the work papers that was provided to OPC
2 in response to discovery?

3 A Let me make sure I'm looking at the right
4 exhibit. Does this exhibit have lines 5A and 5B on it?

5 Q No.

6 A Okay. Sorry.

7 Yes, I recognize this exhibit.

8 Q And this exhibit is the backup or support for
9 what is now JP-21 or 704?

10 A Yes.

11 Q And looking at the final column entitled
12 "Incremental Infrastructure Costs," that's the same as
13 the costs on your JP-21, correct?

14 A Yes.

15 Q And, again, turning to the work paper, this
16 analysis still incorporates the change in the
17 jurisdictional adjusted rate base amounts from the
18 Commission's order in the last case as compared to
19 FPL's filing, correct?

20 A Yes, it does.

21 Q But now your incremental change in rate base
22 is corrected on JP-21 to exclude the Cape Canaveral
23 rate base?

24 A That's right. That was the reason for the
25 correction to the exhibit.

1 Q And it also excludes West County 3?

2 A Correct.

3 Q This corrected exhibit also excludes the
4 amortization of the remaining surplus depreciation,
5 does it not?

6 A Right. For the reasons we just talked about
7 a few minutes ago, that it avoided double counting.

8 Q And that explanation appears on page five of
9 your rebuttal, does it not?

10 A Yes.

11 Q When you state the amortization of the
12 depreciation surplus was already reflected in
13 depreciation expense, it should not have been
14 separately netted against the revenue deficiency?

15 A Yes.

16 Q Looking again at 712, which is the work paper
17 supporting 721 in your rebuttal exhibit, it shows that
18 16,769,000 of depreciation included in the incremental
19 infrastructure costs in your analysis is the difference
20 between the depreciation expense in FPL's filing and
21 the depreciation expense approved in the last rate case
22 with West County 3 removed, correct?

23 A Yes.

24 Q And the calculation would be the adjusted
25 test year depreciation of 803,912,000 less the

1 753,237,000 authorized in the prior rate case and then
2 also again subtracting the West County 3 depreciation
3 expense of 33,960,000, correct?

4 A Yes.

5 Q And as we've established, you have not shown
6 the application of the remaining depreciation reserve
7 surplus?

8 A Not on this exhibit, no, because I understood
9 that that amount had already been reflected in proposed
10 rates.

11 Q Yes. So I believe you answered my question,
12 the \$803 million includes or reflects the application
13 of the \$190 million amortization?

14 A That was my understanding of the source
15 schedule that that number came from, yes.

16 Q Okay. Stated differently, but for the
17 application of the amortization, FPL depreciation
18 expense in this case would have been about \$191 million
19 higher, correct?

20 A I'm sorry, I don't understand your question.

21 Q Okay. The \$803 million reflects the
22 inclusion or the application of the amortization of
23 190?

24 A That's right. It's net of the amortization,
25 yes.

1 **Q** And the amortization serves to reduce
2 depreciation expense, correct?

3 A Correct.

4 **Q** So absent that amortization, the amount of
5 depreciation expense in the new filing, in the new
6 case, would have been higher with that amount?

7 A That's correct.

8 **Q** Now, with respect to the amount of
9 depreciation shown in the final order -- again, that
10 number is \$753,237,000 -- that also reflects the
11 application of the \$190 million amortization, does it
12 not?

13 A Well, it reflects the amortization of the
14 surplus reserve --

15 **Q** I misspoke.

16 A -- that would have been amortized in that
17 particular test period, but yes.

18 **Q** I misspoke. It reflects the \$223 million
19 that would have been part of the four-year amortization
20 ordered by the Commission, correct?

21 A Yes, I believe it does.

22 **Q** Now, on your schedule -- and I'm talking
23 about the work paper supporting your rebuttal
24 exhibit -- you subtract the 2010 amount of depreciation
25 containing the \$223 million of amortization from the

1 2013 depreciation that reflects the \$190 million
2 amortization, correct?

3 A Yes.

4 Q So with respect to the treatment of the
5 remaining depreciation reserve surplus to be amortized,
6 the depreciation amount that you calculate in your
7 analysis as the incremental infrastructure cost of
8 16 million 769 really contains only the difference
9 between the depreciation reserve surplus that was
10 incorporated in the Commission's order, that being
11 \$223 million, and the amount incorporated in FPL's
12 filing, which is \$190 million, correct?

13 A Yes.

14 Q And that difference is about \$33 million,
15 would you agree?

16 A Yes.

17 Q Now, since these amortization values are
18 offsets to depreciation expense, would you agree that
19 the impact of subtracting a smaller offset from a
20 larger offset is that it increases the depreciation
21 expense?

22 A It would.

23 Q In other words, if the amortization of the
24 surplus had been excluded from both the prior rate case
25 amount and FPL's filing, the amount shown in the

1 depreciation expense column of your analysis would have
2 been a negative number instead of a positive 16.8,
3 correct?

4 A Well, if you did the mathematical calculation
5 it would be.

6 Q Now, since the depreciation amounts that you
7 show on your work paper, which is the backup to JP-21,
8 are actually the net of two values, that being
9 depreciation expense and amortization of reserve
10 surplus, it would be possible to display that
11 relationship by showing two line entries instead of
12 one, would it not; one entry for depreciation expense,
13 a corresponding entry for the amount of amortization?

14 A It's possible, yes.

15 Q That would be the other sheet in your
16 package. I think you picked it up when we were about
17 to talk about JP-21.

18 MR. McGLOTHLLIN: And, Commissioners, I'll
19 need an exhibit number.

20 CHAIRMAN BRISE: Sure, 713.

21 (Exhibit No. 713 was marked for
22 identification.)

23 MR. McGLOTHLLIN: The description reads:
24 "Exhibit JP-21 modified to remove depreciation
25 surplus amortization impacts from line five."

1 CHAIRMAN BRISE: Thank you.

2 BY MR. MCGLOTHLIN:

3 Q Take a moment and review that, Mr. Pollock,
4 and focus on lines 5, 5A and 5B, if you will. I think
5 that you will recognize the values that appear there.

6 With respect to the final order, it shows
7 depreciation of 753,273,000, breaks out the surplus
8 depreciation amortization in that figure and shows that
9 depreciation excluding that amortization would be 976
10 million 932.

11 Do you see that?

12 A Yes.

13 Q And then there are corresponding entries for
14 the increase since the last rate case?

15 A Yes. So if you ignore one critical aspect of
16 the cases, both cases, then you get a different answer,
17 of course.

18 Q Well, let's take these in steps. Would you
19 agree that the depreciation value and the related
20 amortization value are accurately stated with respect
21 to the amounts approved in the last case and the
22 amounts reflected in FPL's March filing?

23 A They are.

24 Q Do you agree that the net impact on
25 depreciation, subtracting 191 million from 223 million

1 is as shown, that it results in a negative \$16 million
2 in depreciation?

3 A Yes.

4 Q Now, isn't it true that since all you have
5 done is subtract the smaller 2013 offset from the
6 larger 2010 offset, you have not yet applied the
7 remaining depreciation reserve surplus of \$190 million?

8 A I'm sorry, I don't understand your question.

9 Q All right. You agreed that --

10 A You mean because of the proposed depreciation
11 expense without the surpluses only slightly higher in
12 the proposed column? Is that your question?

13 Q Because with respect to the application of
14 the \$190 million of reserve amortization which you
15 showed as a separate line entry on the first version of
16 the exhibit but that you removed from the corrected
17 version under the belief that it had already been
18 reflected is an error in itself because all you have
19 done is begin with a credit of \$223 million and
20 subtract that from a smaller credit of \$190 million?

21 A Well, I don't agree with the
22 characterization. What I did was I subtracted the
23 depreciation expense that was authorized in the last
24 case starting point and then compared that to the
25 corresponding depreciation expense in the company's

1 proposed filing to capture what the net increase in
2 that expense is.

3 **Q Yes. And in the course of doing that, you**
4 **subtracted depreciation values that had embedded in**
5 **them amortizations that are credits to depreciation**
6 **expense?**

7 A I looked at only the actual depreciation
8 expense that was approved in the last case, vis-a-vis
9 what the company had filed in this case.

10 **Q Yes. And you agreed with me that the amount**
11 **of depreciation expense approved in the last case per**
12 **the order reflected the application of a \$223 million**
13 **credit in the form of amortization, did you not?**

14 A It does, yes.

15 **Q And you agreed with me that the amount of**
16 **depreciation shown in the MFR schedule reflected the**
17 **application of \$190 million of amortization?**

18 A That was my understanding, yes.

19 **Q Okay. And you then subtracted from the MFR**
20 **schedule amount the depreciation approved by the**
21 **Commission in the last rate case?**

22 A Yes, as shown in Exhibit JP-21, the
23 calculation is comparing 803.9 million at proposed
24 rates to 753.2 million under the final order minus West
25 County 33.9 million to come up with an incremental

1 depreciation expense.

2 Q It's true, isn't it, that when one applies
3 amortization as a credit to depreciation, the
4 amortization is in basically a negative number that's
5 being added to the expense?

6 A The amortization lowers the expense, yes.

7 Q Okay. So let me ask you to do a quick bit of
8 arithmetic. Start with a value of minus six and
9 subtract from the value of minus six the value of minus
10 ten. What's the answer?

11 A Plus four.

12 Q So when you began with an amortization which
13 is the offset in the amount of \$190 million and you
14 subtract from this offset of \$190 million a larger
15 offset of \$223 million, what is the impact on
16 depreciation?

17 A Well, it shows a higher increase in
18 depreciation mathematically, it has to.

19 Q Okay. Now that you've increased depreciation
20 expense by this relationship of the difference in
21 amortizations, you've still got \$190 million of
22 amortization that has to be used up either in one year,
23 as you might have treated it, or 18 months, as you
24 chose to treat it in the first --

25 A Well, the 191 has already been offset fully

1 so it's already been fully used, which means the
2 following year that 191 is not there to offset future
3 costs.

4 **Q Explain to me how it's used when --**

5 A It's reflected in the expense. It lowers --
6 the amortization lowers depreciation expense, so it's
7 been -- the assumption is it's fully used in 2013.
8 That's why depreciation expense is lower by the
9 191 million.

10 **Q We've got \$190 million to use up. And that's**
11 **the starting point, correct?**

12 A I don't know what you mean by "the starting
13 point." My starting point was the depreciation expense
14 that the company filed which assumed the 191 million
15 offset for the amortization; therefore, assuming a
16 12-month amortization of the remaining balance.

17 **Q And you subtracted from that depreciation**
18 **expense the amount approved in the order, correct?**

19 A I compared the proposed depreciation expense
20 with the offset against the final order depreciation
21 expense with the corresponding offset, yes. In both
22 cases, the amortization is offsetting the expense.

23 **Q If we were to focus for a moment on the**
24 **Column D "Final Order" on the last exhibit I asked you**
25 **to look at, 713.**

1 A I'm sorry, the column -- which column?

2 Q "Final Order."

3 A Okay. Oh, D, okay, docket, D for docket?

4 Q Yes. Do you see that line five begins with
5 the depreciation expense shown in the final order,
6 correct, the \$753 million?

7 A That was the Commission approved depreciation
8 expense in the last rate case, yes.

9 Q And that reflected the application of
10 one-fourth of the total amount of amortization to be
11 applied over four years, correct, with the \$223 million
12 amortization?

13 A Yes.

14 Q So if we were to back out the amount of
15 amortization from the 753, that would result in
16 depreciation excluding surplus of \$976,932,000,
17 correct?

18 A Well, I can't tell from the adjustment
19 whether it was 223. The Commission order that's
20 attached to your exhibit shows an adjustment of 310. I
21 don't know how much of that is the surplus amortization
22 or other adjustments.

23 Q Okay.

24 A But if we use the 223 number, which I
25 don't -- it doesn't show up on page 210 of your

1 exhibit -- you would be looking at roughly 977 million
2 of expense.

3 Q Okay. Within the excerpt from the order,
4 Mr. Pollock, turn to page 168.

5 A Okay. Yes, I see it.

6 Q Would you agree that the appropriate value is
7 the 223 shown on --

8 A It looked correct, yes.

9 Q Okay. So if it were to start with the amount
10 of depreciation approved in the last rate case and then
11 back out the amount of \$223 million, the depreciation
12 that would result would be 976,932,000, correct?

13 A Right. That's correct.

14 Q And then you'll see under the column
15 "Proposed" \$803 million is the amount of depreciation
16 reflected in the MFRs?

17 A Yes.

18 Q If we were to similarly back out the amount
19 of amortization of \$190 million, that results in the
20 \$994 million of depreciation shown there, correct?

21 A Yes, if I ignore it, yes. If I restate the
22 depreciation expense before, it would be 194 or -- I'm
23 sorry -- 994.8.

24 Q So if we were to deal with depreciation
25 expense on a standalone basis, excluding amortization,

1 you would subtract from the \$994,830,000 the value from
2 the final order of 976, correct?

3 A Well, I'm not sure why one would do that, but
4 if you did the math, yes, the math does show a
5 difference of about 17.9 million before the West County
6 removal.

7 Q And then removing the West County from the
8 \$17.9 million, that would leave you with a negative
9 amount of depreciation expense, correct?

10 A Yes. Again, not comparing apples and apples,
11 you know, you would get a different number.

12 Q Well, isn't it true that they're apples and
13 apples in that each is pure depreciation having
14 excluded amortization?

15 A It's true. But when you have to look at the
16 additional costs that the company has incurred, you
17 have to look at the totality of the expenses that were
18 included for rate-making purposes, which means by
19 definition you have to reflect the amortizations that
20 were authorized in the rates, not ignore them.

21 (Whereupon, proceedings continued in Volume
22 38.)

23
24
25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, MICHELLE SUBIA, Registered Professional Reporter, certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages, numbered 5385 through 5488, 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 am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 20th day of November, 2012.

MICHELLE SUBIA
NOTARY PUBLIC
COMMISSION #DD987077
EXPIRES JUNE 7, 2014

