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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF J. TERRY DEASON

DOCKET NO. 130223-EI

July 28, 2014

Q. Please state your name and business address.

A. My name is Terry Deason. My business address is 301 S. Bronough Street, Suite 200, Tallahassee, FL 32301.

Q. Have you previously submitted direct testimony in this proceeding?

A. Yes.

Q. Are you sponsoring any rebuttal exhibits?

A. No.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to many of the positions and recommendations contained in the testimony of Marilynne Martin. Witness Martin does not agree with the basis of FPL’s determination of incremental costs and mistakenly asserts that the Non-Standard Meter Rider (NSMR) is “not consistent with historical tariff requirements by the Commission.” She ultimately recommends that the Florida Public Service Commission (Commission) either: 1) open FPL’s entire Advanced Metering Infrastructure (AMI) project for review and adjust rates based on that review; or 2) wait until FPL’s next rate case to implement the NSMR tariff. Witness Martin’s recommendations should be

1 rejected as neither option is consistent with Commission practice or good
2 regulatory policy. Contrary to witness Martin's assertion, FPL's approach to
3 quantifying and implementing its NSMR tariff is consistent with the manner in
4 which the Commission has approved tariffs for non-standard services and is
5 necessary to place costs on the cost causer and prevent cross-subsidies among
6 customer groups.

7 **Q. How is your rebuttal testimony organized?**

8 A. My rebuttal testimony is organized into three sections. Section I addresses the
9 proper role of rate cases and why witness Martin's recommendation to wait until
10 FPL's next rate case to implement its NSMR tariff is ill-advised and contrary to
11 established ratemaking principles. Section II addresses witness Martin's
12 references to other non-standard services to incorrectly assert that they support
13 her conclusion that the NSMR tariff should not be approved. Section III is my
14 conclusion.

15

16 **I. RATE CASE AND POLICY CONSIDERATIONS**

17

18 **Q. What is the basis for witness Martin's recommendation that the NSMR tariff**
19 **be delayed until FPL's next rate case?**

20 A. Witness Martin asserts that it is not possible to establish fair and reasonable rates
21 for non-standard meters outside the confines of a general rate case. She further
22 states: "It is difficult to arrive at fair and reasonable rates by looking at them in
23 isolation."

1 **Q. Is witness Martin correct in her assertion?**

2 A. No, it is not a question of ease or difficulty. Rates for optional services, to be fair
3 and reasonable, must cover the incremental cost of providing the optional service.
4 This cost analysis can be done within a general rate case or as prescribed by
5 Commission rule, as is the case with underground facilities. It can also be done
6 on a case-specific basis, as is being done here for the NSMR tariff. Regardless of
7 the regulatory approach used, FPL's resulting NSMR tariff rates will be fair and
8 reasonable, as long as they cover the incremental costs of providing this optional
9 service.

10 **Q. Did the Commission consider FPL's deployment of smart meters in previous**
11 **rate cases?**

12 A. Yes. In its 2009 rate case, FPL's smart meter deployment was reviewed and
13 approved by the Commission. The Commission found FPL's AMI project
14 prudent and specifically directed that the project not be delayed. In essence, the
15 Commission found that smart meters would become the standard meters by which
16 service would be provided to customers. And in FPL's 2012 rate case, the costs
17 and savings associated with smart meters were identified as an issue.

18 **Q. What did the Commission decide on the costs and savings of smart meters in**
19 **the 2012 rate case?**

20 A. The Commission did not vote on that specific issue. Rather, the Commission
21 approved a settlement for a lesser overall increase than the amount requested
22 based on a 2013 test year.

1 **Q. Witness Martin asserts that the current base rates in effect include smart**
2 **meter project costs of \$3.7 million, rather than net savings. Is she correct?**

3 A. I do not believe it is correct to make such an emphatic statement. While FPL's
4 request was based on \$3.7 million of smart meter costs in the 2013 test year,
5 FPL's overall requested increase was not approved by the Commission.
6 Nevertheless, the level of costs or savings associated with smart meters that may
7 or may not be reflected in current rates is irrelevant to the issue of the NSMR
8 tariff.

9 **Q. Please explain.**

10 A. The justification of the NSMR tariff should be based only on the incremental
11 costs of providing the optional service. Under an incremental cost approach, it is
12 only the incremental costs of the optional service that are relevant and not the
13 costs reflected in existing base rates. To assert that the level of costs in current
14 base rates should be determinative or somehow germane to the level of an
15 optional service's rate is inconsistent with the manner in which base rates are set.

16 **Q. How are base rates set?**

17 A. Base rates are set using a test year in which the level of investment (rate base),
18 expenses, and revenues are scrutinized. The goal is to set base rates at a level that
19 will enable a regulated utility to recover all of its prudently incurred expenses and
20 provide the utility a reasonable opportunity to earn its authorized rate of return on
21 its rate base. This is done with the recognition that the test year is a "snapshot,"
22 but when appropriately adjusted, will be a sound basis to set rates that are
23 prospective in nature. A fundamental goal of this process is to set rates in a

1 manner that combats regulatory lag and enables rates to be sufficient for the test
2 year and hopefully a number of years following the test year. Consistent with this
3 goal is the further recognition that individual components of rate base, expenses,
4 and revenues will fluctuate from those established in the test year. Thus, once
5 rates are set, the amount of individual expenses (or savings) associated with one
6 component of the regulated utility's overall operations, such as smart meters, is
7 not as important as the overall result of operations. Only when the results of
8 overall operations cause a regulated utility's achieved rate of return to be in
9 excess of or below its authorized range should there be the need to once again
10 have a rate case and scrutinize the individual cost components. However, witness
11 Martin would violate this basic approach to setting base rates and instead have the
12 Commission consider anticipated smart meter savings as an excuse to delay the
13 recovery of the incremental costs of the optional NSMR service.

14 **Q. What would be wrong with delaying consideration of the NSMR tariff until**
15 **the next FPL rate case?**

16 A. There are at least six reasons why such a delay would be wrong. First, the timing
17 of FPL's next rate case is uncertain. FPL is currently operating pursuant to a
18 settlement which precludes a rate case (absent extraordinary circumstances as
19 more fully described in the settlement) through the year 2016. Under normal
20 circumstances, new rates could not be implemented until 2017. This could cause
21 an unduly long and unnecessary delay in implementing the NSMR tariff.

22
23 Second, the delay in implementation would result in cross-subsidies between

1 customers choosing non-standard meters and those with standard meters.
2 Regulation in Florida goes to great lengths to set rates that are fair, just, and
3 reasonable, and which do not foster cross-subsidies among customers. This is
4 apparent in both the nature of and the extent to which costs are recognized in
5 rates, as well as in the structure of the rates themselves. The Commission has
6 rules dealing with cost of service studies and many years of precedent to ensure
7 that rates are set equitably and on a non-discriminatory basis. The Commission
8 also has a policy of having cost causers pay their fair share of the costs they place
9 on the system, especially when they engage in actions or choose options that, if
10 not specifically recognized, would tend to cause rates for the general body of
11 customers to increase. All of this is done to minimize cross-subsidies to the
12 greatest extent possible. Any unnecessary delay in implementing the NSMR tariff
13 would achieve the opposite.

14
15 Third, a delay in implementing the NSMR tariff would contribute to regulatory
16 lag in contravention of Commission policy to minimize its impacts whenever
17 possible. By delaying the recognition of the incremental costs in rates, customers
18 choosing the new non-standard service would not be paying their fair share to
19 cover the incremental costs. This would put upward pressure on rates and
20 potentially impact the long-term stability of rates as established in the 2012 rate
21 stipulation, all of which would contribute to regulatory lag. Along with the
22 Commission, both the Florida Legislature and the Florida Supreme Court have
23 recognized regulatory lag as being counter to the goals of good regulatory policy.

1 The Florida Legislature has given tools to the Commission to minimize regulatory
2 lag, and these tools have been sustained by the Florida Supreme Court. The
3 Commission has used these tools to minimize the harmful effects of regulatory
4 lag. It would be counterintuitive and counterproductive to Florida's established
5 policy to minimize regulatory lag to unnecessarily delay implementation of the
6 NSMR tariff.

7
8 Fourth, there would be a delay in sending the correct pricing signals to customers.
9 Customers who are contemplating the option to choose a non-standard meter
10 should be fully informed and know the cost impacts of their decision. Any
11 unnecessary delay would not be conducive to making fully informed choices and
12 could result in prolonged inefficiencies on the system as a whole.

13
14 Fifth, witness Martin's proposal to delay implementation until the next rate case is
15 based on a fundamental misconception that the cost of the non-standard meter
16 service is somehow contingent upon or otherwise inextricably linked to the setting
17 of rates in a rate case. In reality, the costs of the non-standard service are
18 independent of rates for standard services in a rate case. These costs can be
19 determined on an incremental basis, either as part of a rate case or as part of an
20 independent review. If done correctly, the cost of the non-standard service will be
21 the same regardless of whether it is determined as part of a rate case or
22 independent of a rate case. This is because the optional non-standard meter
23 service is an independent service with its own set of costs. This is also true of

1 other optional services whose costs are routinely determined and tariffs are filed
2 outside of a rate case.

3
4 Sixth, witness Martin's proposal to delay implementation of the NSMR tariff until
5 the next rate case is inconsistent with the settlement approved in the 2012 rate
6 case. This settlement provides for the long-term stability of FPL's rates and
7 appropriately recognizes that a degree of flexibility is needed to address the need
8 for new or revised tariffs. Section 14 of the settlement specifically contemplates
9 the filing of tariffs for optional services outside the scope of a rate case:

10 Nothing in this agreement will preclude FPL from filing and the
11 Commission from approving any new or revised tariff provisions
12 or rate schedules requested by FPL, provided that such tariff
13 request does not increase any existing base rate component of a
14 tariff or rate schedule during the Term unless the application of
15 such new or revised tariff or rate schedule is optional to FPL's
16 customers.

17 **Q. Why is it appropriate for new tariffs or tariff changes to be considered**
18 **outside of a rate case?**

19 A. As I previously stated, the timing of rate cases can be uncertain. If efforts to
20 control regulatory lag are successful and increases in uncontrollable costs are
21 minimal, the amount of time between rate cases can be several years. During this
22 time, there will be the need to introduce new services or make changes to existing
23 services. Requiring rate cases to address these tariff changes would be both

1 inefficient and disruptive to meeting customer needs in a timely manner. It would
2 also be difficult to meet changing regulatory requirements, changing technologies,
3 and changing economic conditions. Examples of tariffs filed outside of a rate
4 case to address such changes include: tariffs to implement net metering; tariffs to
5 update the costs of providing optional undergrounding services; and tariffs to
6 promote economic development, such as FPL's Commercial/Industrial Service
7 Rider in Docket No. 130286-EI. In fact, FPL's NSMR tariff filing is the result of
8 an extensive regulatory review which indicated that a tariff should be filed and
9 considered outside the confines of a rate case.

10 **Q. Witness Martin repeatedly states that non-standard meter costs should be**
11 **“absorbed.” Is this appropriate?**

12 A. No, it is not. Her use of the term “absorb” is a misnomer. In the context in which
13 she uses this term, she really means that the incremental costs should simply be
14 ignored for purposes of setting the rate for the non-standard meter service. For
15 example, witness Martin incorrectly asserts that “basic rates include cost recovery
16 for sampling and testing” of meters. However, as more fully explained in the
17 testimony of Robert Onsgard, the sampling and testing of non-standard meters are
18 incremental and would not be incurred if it were not for customers choosing the
19 non-standard meter option. She also asserts that “FPL has sufficient
20 compensation in base rates” to absorb many of the incremental costs, such as
21 OSHA-related costs. But in making these claims, she once again ignores the
22 purpose and manner in which base rates are set. Her argument to “absorb” costs
23 is subject to the same six misconceptions and inconsistencies that I identified

1 earlier for her suggestion to wait until the next rate case to set rates for the non-
2 standard meter service. As such, her suggestion to “absorb” costs is without merit
3 and should be rejected.

4 **Q. Witness Martin states that where a non-standard service imposes “de**
5 **minimis” costs, those costs could be waived and shared by all ratepayers. Do**
6 **you agree?**

7 A. No, for three reasons. First, as more fully described in the testimony of Robert
8 Onsgard, the incremental costs associated with the provisioning of non-standard
9 meters are, in fact, significant. Second, witness Martin inappropriately contends
10 that cost savings from standard meters should be used to somehow offset the non-
11 standard incremental costs. This is inconsistent with the way that rates are set in
12 rate cases, would contribute to regulatory lag, and would be inconsistent with the
13 Commission’s practice of setting rates for non-standard services on the specific
14 incremental costs of the non-standard service in question. And third, even witness
15 Martin readily acknowledges that by waiving the costs, they would “be shared by
16 all ratepayers.” This would result in cross-subsidies, which are inconsistent with
17 Commission policy to minimize cross-subsidization among customer groups.

18
19 **II. OTHER NON-STANDARD SERVICES**

20
21 **Q. What other non-standard services does witness Martin reference?**

22 A. Witness Martin references three optional services which she incorrectly believes
23 support her contention that there should not be a charge for the non-standard

1 meter option. They are: Spanish customer services; “TDDY,” by which she
2 apparently is referring to telephone devices for the deaf; and budget billing
3 services. She states that there is no additional charge for these optional services,
4 indicating that the Commission’s “cost principle appears to be discretionary, not
5 mandatory.”

6 **Q. Do you agree with her assertion?**

7 A. No, her comparisons of Spanish customer service and budget billing to the NSMR
8 tariff are misplaced and her conclusion is wrong. Additionally, even Witness
9 Martin acknowledges that providing telephone service for the hard of hearing and
10 speech impaired without charge is appropriate. Doing so is a matter of public
11 policy in Florida pursuant to the Telecommunications Access System Act of
12 1991, as contained in Chapter 427, Florida Statutes.

13 **Q. Please explain how Spanish customer service is an inappropriate**
14 **comparison.**

15 A. Contrary to witness Martin’s assertion, providing customer service in Spanish is
16 not a separate service and neither is it capable of being separately billed. In short,
17 it is a means to effectively and efficiently provide service to a large portion of
18 FPL’s customers. In essence, it is a case of good business practice to do so. As in
19 the case of smart meters being the best means of providing service to customers
20 and becoming the standard, providing customer service in both Spanish and
21 English is the best means of providing service to all of FPL’s customers. Dual-
22 language service is now the standard. As such, dual-language service is beneficial
23 to the general body of customers by improving the efficiency of operations and

1 keeping rates lower than they otherwise would be for all customers. It is totally
2 inappropriate to suggest that providing dual-language customer service justifies
3 not charging for non-standard meters.

4 **Q. Please explain how budget billing is an inappropriate comparison.**

5 A. Budget billing is an optional service that enables customers to pay a leveled
6 payment for service and allows them to better budget their expenses. It was
7 thoroughly reviewed and then approved by the Commission in 1981, as part of a
8 larger review of lifeline rates pursuant to the Regulatory Policies Act of 1978.
9 The Commission noted that the service was not a discount to those customers
10 choosing the budget billing option and that it provided benefits to all customers.

11 In its Order No. 10047, the Commission stated:

12 Such plans do not amount to or offer a discount, but merely
13 provide a different method of paying the same dollar amount for
14 a year's service. Under budget billing, customers would be
15 better able to plan payment of bills during peak use months.
16 Further, an appropriate plan should facilitate payment by low- or
17 fixed-income customers. An additional benefit is realized
18 through a reduction in high bill complaints as has been
19 experienced by both Gulf and Florida Power Corporation.

20

21 In essence, the Commission found that budget billing provides benefits in excess
22 of any administrative costs of administering the program. This is unlike the case
23 of the non-standard meter option, which does not benefit the general body of

1 customers and imposes significant costs that need to be paid by those customers
2 choosing that option.

3 **Q. Does witness Martin address any other non-standard service in her**
4 **testimony?**

5 A. Yes, she addresses the provisioning of underground service pursuant to Rule 25-
6 6.115, F.A.C. She attempts to characterize it as not being comparable to the
7 provisioning of the non-standard meter option.

8 **Q. Is witness Martin correct in her characterization?**

9 A. No. The provisioning of underground service is a perfect example of an optional
10 service imposing costs greater than the standard service and that charges to cover
11 the incremental costs should be collected specifically from those customers
12 choosing the non-standard service. Witness Martin does not directly dispute that
13 the undergrounding tariff accomplishes this result. What she does is raise a
14 number of spurious differences that elevates form over substance in a futile
15 attempt to show that the policies applied to undergrounding are not applicable to
16 non-standard meters.

17 **Q. Please explain.**

18 A. First, witness Martin makes the distinction that the burial of lines is for a new
19 service while non-standard meters are an existing service. This is totally
20 irrelevant, but is nevertheless incorrect. Undergrounding can be either for new
21 service or the undergrounding of existing service. Likewise, it would also be
22 permissible for a new customer to request a non-standard meter. Second, witness
23 Martin states that “efforts to initiate improvements to the transmission lines are

1 measured and quantifiable.” She apparently is asserting that the cost of the non-
2 standard meters is not measured and quantifiable. She continues by stating that
3 “the Commission engaged in a deliberation of the process and standards to apply
4 when converting overhead facilities to underground facilities”, again apparently
5 asserting that the Commission has not done so for non-standard meters. She
6 continues by stating that the undergrounding rule “goes so far as to offer the
7 customer/applicant for this service the opportunity to challenge an electric
8 utility’s cost estimates to complete the service.”

9
10 These distinctions/assertions are fiction. FPL, through the testimony of Robert
11 Onsgard, has provided the Commission with extensive cost information that is
12 both measured and quantifiable. In addition, this very proceeding is a deliberation
13 of the process and indeed offers customers the opportunity to challenge the
14 electric utility’s cost estimates. The only distinction is that the undergrounding
15 tariffs are filed subject to rule while the non-standard meter tariff was filed within
16 this specific docket. This is a distinction without a meaningful difference when it
17 comes to evaluating the applicability of the Commission’s policy on pricing
18 optional services. The overarching policy is applicable regardless of the
19 regulatory means of implementing the policy.

1 **III. CONCLUSION**

2
3 **Q. What is your conclusion?**

4 A. Witness Martin's recommendation to either open an AMI project review to adjust
5 base rates or wait until FPL's next rate case to implement the NSMR tariff should
6 be rejected. Both of these alternatives are inconsistent with the manner in which
7 base rates are set, are inconsistent with the need to approve optional tariffs outside
8 of a rate case, and fail to fully recognize differences between standard and non-
9 standard services. In addition, delaying action would have other adverse
10 consequences. Among these consequences are regulatory lag impacts, prolonged
11 cross-subsidies among customer groups, and inappropriate price signals to
12 customers. In regard to other optional services, the non-standard services
13 referenced by witness Martin do not support her contention that the Commission
14 does not have a uniform policy on collecting rates based on the incremental cost
15 of optional services. And they further do not support her contention that the
16 incremental costs of non-standard meters should be waived and/or absorbed. And
17 finally, witness Martin is incorrect in her assertion that the overarching policy of
18 recovering incremental costs for underground service can be distinguished from
19 the need to recover incremental costs for non-standard meters.

20 **Q. Does this conclude your testimony?**

21 A. Yes, it does.

**CERTIFICATE OF SERVICE
DOCKET NO. 130223-EI**

I HEREBY CERTIFY that a copy of the foregoing has been furnished by electronic mail on this 28th day of July 2014, to the following:

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