

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION FOR RATE INCREASE BY
FLORIDA POWER & LIGHT COMPANY.

DOCKET NO. 160021-EI

PETITION FOR APPROVAL OF
2016-2018 STORM HARDENING PLAN
BY FLORIDA POWER & LIGHT
COMPANY.

DOCKET NO. 160061-EI

2016 DEPRECIATION AND
DISMANTLEMENT STUDY BY,
FLORIDA POWER & LIGHT COMPANY.

DOCKET NO. 160062-EI

PETITION FOR LIMITED
PROCEEDING TO MODIFY AND
CONTINUE INCENTIVE MECHANISM,
BY FLORIDA POWER & LIGHT
COMPANY.

DOCKET NO. 160088-EI

VOLUME 28

(Pages 3990 through 4164)

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN JULIE I. BROWN
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER JIMMY PATRONIS

DATE: Tuesday, August 30, 2016

TIME: Commenced at 9:30 a.m.
Concluded at 10:53 a.m.

1 PLACE: Betty Easley Conference Center
Room 148
2 4075 Esplanade Way
3 Tallahassee, Florida

4 REPORTED BY: LINDA BOLES, CRR, RPR
Official FPSC Reporter
5 (850) 413-6734

6 APPEARANCES: (As heretofore noted.)
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I N D E X

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P R O C E E D I N G S

1
2 **CHAIRMAN BROWN:** Good morning and happy
3 Tuesday. I hope everybody is in a pleasant mood today.
4 I'm trying to be. I'm trying to be.

5 We are on the Hospitals' direct, and at this
6 time I believe we have Mr. Kollen.

7 **MR. BUTLER:** Madam Chairman.

8 **CHAIRMAN BROWN:** Mr. Kollen.

9 **MR. BUTLER:** Excuse me, Madam Chair.

10 **CHAIRMAN BROWN:** Yes.

11 **MR. BUTLER:** Before we go to Mr. Kollen, a
12 procedural matter I'd like to raise for your
13 consideration.

14 In view of the now sort of seeming greater
15 inevitability of some storm impact on FPL's system, we
16 would like to propose a reordering of our witnesses.
17 It's primarily intended to move the two operational
18 witnesses who would have responsibilities storm related
19 up in the order. That would be Ms. Kennedy and
20 Mr. Forrest. We'd like to take them after Mr. Barrett.
21 And then we would like to move Mr. Deason and
22 Mr. Dewhurst to the end of the line, if that would be
23 acceptable with you and the parties.

24 **CHAIRMAN BROWN:** Okay. I personally don't
25 have a problem with it, but I will look to the

1 intervenors to see if they have any problems.

2 **MR. REHWINKEL:** No objection.

3 **CHAIRMAN BROWN:** Thank you. No objection?

4 Seeing none. Okay. So --

5 **MR. RAPPOLT:** Excuse me, Madam Chair. We do
6 have an issue with moving Mr. Forrest. We're currently
7 trying to get some documents together for his
8 cross-examination, and they're not complete as of right
9 now. So it's -- it is a problem in that respect for us.

10 **CHAIRMAN BROWN:** I don't anticipate getting to
11 him until later in the afternoon, if at all today.

12 **MR. RAPPOLT:** Okay.

13 **MR. BUTLER:** And we could certainly have him
14 after Ms. Kennedy, so it would be sort of the second of
15 the two operational witnesses, if that would help.

16 **CHAIRMAN BROWN:** Is that okay?

17 **MR. RAPPOLT:** That would help. You know, we
18 don't have it done yet, so I can't say for certain if
19 we're going to have those documents together at that
20 time, but we're going to do our best.

21 **CHAIRMAN BROWN:** Okay. Try hard.

22 **MR. RAPPOLT:** Yes.

23 **MR. REHWINKEL:** Madam Chairman.

24 **CHAIRMAN BROWN:** Yes.

25 **MR. REHWINKEL:** Another preliminary matter.

1 **CHAIRMAN BROWN:** Just one second,
2 Mr. Rehwinkel. I just want to be clear of the order
3 then. So we've got Barrett, Kennedy, Forrest, and then
4 the rest go in the same order. And then you said to
5 move Deaton or Deason?

6 **MR. BUTLER:** Deason and Dewhurst to the very
7 end.

8 **CHAIRMAN BROWN:** Okay. So then they would
9 come after Deaton -- after Deaton it would be Deason and
10 then Dewhurst.

11 **MR. BUTLER:** That's right.

12 **MS. BROWNLESS:** And, I'm sorry, Madam Chair.
13 Can you just read them all together?

14 **CHAIRMAN BROWN:** Okay. Why not. Barrett,
15 Kennedy, Forrest, Ousdahl, Morley, Allis, Ferguson, Knop
16 (sic) -- Kopp, sorry, Slattery, Hevert, Cohen, Koch,
17 Deaton, Deason, Dewhurst.

18 **MS. BROWNLESS:** Thank you, ma'am.

19 **CHAIRMAN BROWN:** Is that correct?

20 **MR. BUTLER:** That sounds right.

21 **CHAIRMAN BROWN:** Okay.

22 **MR. BUTLER:** Thank you.

23 **CHAIRMAN BROWN:** I'm going to encourage the
24 Hospitals to expeditiously try to work on that.

25 **MR. RAPPOLT:** We will.

1 **CHAIRMAN BROWN:** Okay. All right.

2 Mr. Rehwinkel.

3 **MR. REHWINKEL:** Yes, Madam Chairman, for the
4 record I would like to lodge an objection. We -- I will
5 not reargue the motion that you have set for resolution
6 at a later time, but I want to note as a predicate for
7 my objection that there is a pending motion to dismiss
8 and for directed verdict on FPL's direct case.

9 The OPC wants to lodge an objection to FPL
10 continuing to seek to make its direct case through
11 cross-examination of witnesses that are not their own.
12 Last night they elicited information about depreciation
13 surplus from the FEA's witness, and I believe that is
14 contrary to their opportunity to make their burden of
15 proof.

16 We would also like to lodge and maintain a
17 continuing and standing objection to what appears to us
18 to be a contrived line of cross by your staff asking
19 witnesses about discovery that they have reviewed in
20 their, quote, area. This line of cross only surfaced
21 after Mr. Pous' testimony was withdrawn, and it appears
22 to be -- to us to be an effort to bolster the
23 evidentiary case that FPL failed to make on its direct
24 case in its amended petition to establish a theoretical
25 depreciation reserve, which their testimony doesn't

1 demonstrate, and what I call a RAMM, R-A-M-M, or reserve
2 amount amortization mechanism. So I'm just stating this
3 for the record, but we would object to that line of
4 cross in the entire concept of what's going on. And
5 I -- when we're done with that point, I want to ask for
6 a clarification about the state of the exhibits.

7 **CHAIRMAN BROWN:** All right. First,
8 Mr. Rehwinkel, did you make a timely objection last
9 night when those matters arose?

10 **MR. REHWINKEL:** There were objections raised
11 to the question. I think three attorneys objected to
12 that. Mr. Lavia, Mr. Sayler, and I think Mr. Moyle
13 objected.

14 **CHAIRMAN BROWN:** Are there specific questions
15 that you can point us to at this time?

16 **MR. REHWINKEL:** Oh, that was the question from
17 Mr. Butler to -- I think it was Anderson (sic) --
18 Andrews. I'm sorry. But the questions from the staff,
19 I am lodging those objections going forward. I wanted
20 to make it before Mr. Kollen got on the stand because we
21 believe that staff's cross-examination is approaching
22 friendly cross because the cross-examination to
23 Mr. Andrews on the life spans of the -- or the lives of
24 the assets in the accounts he addressed last night were
25 not, in my view, cross but were supplemental direct

1 examination.

2 So we did not object to those questions then,
3 but I want to maintain this objection going forward.

4 **CHAIRMAN BROWN:** All right. And I do want to
5 remind you, Counsel, I appreciate you giving us a
6 heads-up of your future objections, but please remember
7 to make timely objections as they arise.

8 **MR. REHWINKEL:** We will. Yes.

9 **CHAIRMAN BROWN:** Okay. FPL.

10 **MR. BUTLER:** Just a few observations. I'll
11 try to be brief. First of all, the motion that OPC
12 filed is seeking to dismiss our case for a directed
13 verdict with respect to a particular issue based on the
14 record as it stood at the end of our direct case. So
15 that motion kind of logically can't be affected by
16 whatever is developed in the record subsequent to that
17 time, and, therefore, I don't think that Mr. Rehwinkel's
18 concerns are well founded with respect to, you know, the
19 status or the positioning of his motion.

20 I'd also observe that, first of all,
21 Mr. Andrews was hardly a friendly witness. This is a
22 witness by FEA, and he filed testimony opposing the
23 position of our depreciation expert. I asked him
24 questions that were exploring his position early within
25 the normal realm of cross. You want to talk friendly

1 cross-examination, I mean, last night Mr. Sayler
2 explored an entire new subject of double leverage that
3 hadn't even been in the testimony of the witness that he
4 was crossing on it. So I think that there has been
5 considerable latitude allowed generally, and I think
6 that we work well within that latitude. Thank you.

7 **CHAIRMAN BROWN:** Okay. Thank you.

8 Mary Anne. Oh, Ms. Brownless.

9 **MS. BROWNLESS:** I would like to address --

10 **CHAIRMAN BROWN:** Absolutely.

11 **MS. BROWNLESS:** -- the point that OPC has
12 brought up.

13 First of all, with regard to our questions of
14 the -- of all witnesses, both FPL's witnesses as well as
15 intervenor witnesses, with regard to the materials
16 identified on the staff Comprehensive Exhibit List, we
17 are allowed, under the rules of evidence, to
18 authenticate every exhibit with the witness that
19 prepared that exhibit. That is what we are doing. So
20 that's number one.

21 Number two, the staff is not engaging in
22 friendly cross. We are merely authenticating the
23 exhibits which have been included on the Comprehensive
24 Exhibit List which was distributed to the parties prior
25 to the beginning of this hearing, something I note that

1 the parties did not do for the staff. We did not have a
2 list of their exhibits that they would introduce at the
3 hearing; however, we did provide them the Comprehensive
4 Exhibit List and we actually provided all the responses
5 as well. So I think it is perfectly appropriate for the
6 staff to be allowed to do that. And the reason that we
7 did it before the witness was tendered was to allow
8 every party to cross-examine the witness on those
9 exhibits, should they wish to do so. I note that the
10 intervenors did not do that, although afforded the
11 opportunity to do so.

12 And finally, I would say that the staff's role
13 is not that of a party. The staff is here to develop
14 the record. So in a sense, to use a colloquialism, we
15 have no dog in the hunt other than to make sure that the
16 record is complete and the Commission is provided with
17 all of the information necessary to make a reasoned and
18 well-informed judgment.

19 **MR. REHWINKEL:** Madam Chairman.

20 **CHAIRMAN BROWN:** Just one second, please.

21 **MR. REHWINKEL:** That was not what I was
22 talking about. The questions at the beginning --

23 **CHAIRMAN BROWN:** Mr. Rehwinkel, I have a
24 question, please.

25 **MR. REHWINKEL:** Okay.

1 **CHAIRMAN BROWN:** Thank you. And I appreciate
2 that explanation, Ms. Brownless. All very good points
3 that you made.

4 Mary Anne.

5 **MS. HELTON:** I think what Mr. Rehwinkel is
6 concerned about with respect to the staff questions are
7 the questions that Ms. Brownless had been -- has been
8 asking at the end. I can tell you that the staff has
9 had a lot of discussions about how to deal with the
10 objections to the staff exhibits listed on the
11 Comprehensive Exhibit List and how to get them into the
12 record, and Ms. Brownless and I have had many
13 conversations about that not in conjunction at all with
14 Mr. Pous. And what the course was that Ms. Brownless
15 decided to take was to ask the intervenor witnesses on
16 the stand, "Have had you an opportunity to look at the
17 discovery that has been served throughout the case?" to
18 ensure that everyone did have timely opportunity to look
19 at all of the documents that the staff is seeking to
20 have admitted into the record at the end. It does
21 not -- it never -- Mr. Pous never even crossed my mind,
22 Mr. Rehwinkel. And I have -- based on my conversations
23 with Ms. Brownless, I don't think -- I think we would be
24 doing that regardless whether Mr. Pous had been
25 withdrawn or not. So does that give you some comfort?

1 **MR. REHWINKEL:** Madam Chairman, if I could --

2 **CHAIRMAN BROWN:** Yes.

3 **MR. REHWINKEL:** And I appreciate that. That
4 clarification would put my mind at ease. I was
5 talking -- the questions Ms. Brownless asked at the
6 beginning I think are appropriate, and I appreciate that
7 she has gone to the effort to do that.

8 It is correct, it's the ones at the end. And
9 I noted it because they only started getting asked after
10 we pulled Mr. Pous' testimony. So to the extent they're
11 not part of an effort to take the testimony -- the
12 discovery that Mr. Pous would have attested to were he
13 to be on the stand.

14 **MS. HELTON:** Not at all. And the reason why
15 the timing, I guess, lined up that way was because we --
16 Florida Power & Light has not objected to staff's
17 exhibits. So we started doing that when the intervenor
18 witnesses took the stand. That's why the timing lined
19 up that way.

20 **MR. REHWINKEL:** Well, I stand corrected. And
21 I would -- I wish I would have talked to Ms. Helton
22 before I raised the issue, but thank you for indulging
23 me and letting me clear the air on this.

24 **MS. HELTON:** And did you want me to address
25 the cross-examination?

1 **CHAIRMAN BROWN:** Yes.

2 **MS. HELTON:** I think, given the fact that we
3 have -- when I counted -- before we walked into the
4 hearing room, I think it was 51 witnesses in two weeks
5 and a lot of ground to cover. I think you have given,
6 given all of that and given the circumstances that we
7 find ourselves in, a lot of latitude to the witnesses
8 (sic). And when -- I mean, excuse me, to the parties to
9 the case when they are cross-examining the witnesses.

10 **CHAIRMAN BROWN:** Thank you. I think so too.

11 **MS. HELTON:** And when an objection has been
12 lodged, you have, I believe, appropriately and timely
13 dealt with that, and I have no reason to believe that
14 you will not do so on a going-forward basis.

15 I also believe that staff is not a party to
16 this case. The staff's role is different from that of
17 the parties. The staff's role, as I understand it, is
18 to act as your working arm to ensure that you have an
19 adequate and developed record to make a reasoned
20 decision based on competent, substantial evidence.

21 **CHAIRMAN BROWN:** Thank you. That's my
22 understanding too. So I appreciate everybody clearing
23 the air.

24 **MR. REHWINKEL:** Madam Chairman, may I ask
25 then, is it staff's intention not to seek to introduce

1 526, 529, 531, 532, 533, 535, and 536, given that
2 Mr. Pous has -- will not be testifying, if I could
3 inquire?

4 **CHAIRMAN BROWN:** Staff. Yeah, Ms. Brownless.

5 **MS. BROWNLESS:** If you can give me a minute to
6 look at that.

7 **CHAIRMAN BROWN:** Sure. I don't even know if
8 this is the appropriate time to address that.

9 **MR. REHWINKEL:** I understand. Yeah.

10 **CHAIRMAN BROWN:** We're going to deal with all
11 of that at the conclusion of the hearing. So am I --
12 unless you're prepared to make a definitive answer at
13 this time.

14 **MS. BROWNLESS:** I need to talk to my staff
15 about that.

16 And let me tell you what my concern is.
17 Certainly to the extent that Mr. Pous has withdrawn his
18 testimony, we need to understand the ramifications of
19 that. It would appear to me, sitting here right now
20 without having talked to the staff, that those could be
21 excluded and would not be offered as part of the
22 Comprehensive Exhibit List. However, sometimes to
23 figure out what should be in the record and what should
24 not be in the record, you need to have both pieces to
25 figure out if the appropriate material was excluded, and

1 I need to get with staff and understand that.

2 **CHAIRMAN BROWN:** Okay.

3 **MR. REHWINKEL:** Madam Chairman, that's why the
4 timing is if -- until we get a definitive answer, I will
5 object as a precaution to that line of cross with the
6 understanding that if they -- if Mr. Pous is not -- if
7 Mr. Pous' discovery is not coming in, then it will be
8 really a moot objection.

9 **CHAIRMAN BROWN:** Got it.

10 **MS. BROWNLESS:** Well, I will find that out --

11 **CHAIRMAN BROWN:** Swiftly.

12 **MS. BROWNLESS:** -- quickly, yes, ma'am, and
13 get back to Mr. Rehwinkel.

14 **CHAIRMAN BROWN:** Okay.

15 **MR. REHWINKEL:** The final point that I would
16 like to ask, and we can deal with this later, but I am
17 going to ask the parties and staff if the FPL petition
18 is deemed to be considered part of the exhibits that
19 come in with the MFRs. And if it's not, I'm going to
20 ask the parties if the FPL petition can be made part of
21 the record. But we'll deal with that later. Thank you.

22 **CHAIRMAN BROWN:** Okay.

23 **MS. BROWNLESS:** We have no objection to that.

24 **CHAIRMAN BROWN:** Okay. All right. One
25 housekeeping item. Obviously we have a storm that is

1 brewing, and it looks like it's developing. And we'll
2 know more as the day progresses, as the week progresses,
3 and we will deal with that accordingly. But our folks
4 are looking at that and we are very aware of it.

5 So with that, are there any other housekeeping
6 matters? Or, Commissioners, do you have any comments or
7 thoughts before we proceed today?

8 All right. I don't believe Mr. Kollen was
9 sworn in.

10 **MR. RAPPOLT:** That's correct.

11 **CHAIRMAN BROWN:** Mr. Kollen, please stand and
12 raise your right hand.

13 Whereupon,

14 **LANE KOLLEN**

15 was called as a witness on behalf of South Florida
16 Hospital and Healthcare Association and, having first
17 been duly sworn, testified as follows:

18 **CHAIRMAN BROWN:** Thank you. Please be seated,
19 and welcome.

20 **THE WITNESS:** Thank you.

21 **CHAIRMAN BROWN:** Good morning.

22 **THE WITNESS:** Good morning.

23 **EXAMINATION**

24 **BY MR. RAPPOLT:**

25 **Q** Mr. Kollen, could you please state your name

1 and business address.

2 **A** Yes. My name is Lane Kollen. My business
3 address is J. Kennedy and Associates, 570 Colonial Park
4 Drive, Suite 305, Roswell, Georgia 30075.

5 **Q** And on whose behalf are you appearing at this
6 hearing?

7 **A** I'm appearing on behalf of the South Florida
8 Hospital and Healthcare Association, or SFHHA.

9 **Q** Have you prepared and caused to be filed 20
10 pages of direct testimony that was filed on June 17th,
11 2016, and an additional 82 pages of direct testimony
12 that was filed on July 7th, 2016?

13 **A** Yes.

14 **Q** And on August 29, 2016, did -- SFHHA filed
15 errata sheets to your direct testimony; correct?

16 **A** Yes.

17 **Q** And besides those errata, do you have any
18 further changes or revisions to your direct testimony?

19 **A** I do. As I was reviewing my testimony last
20 night, I found that I had some quantifications related
21 to this issue on Okeechobee, and I need to correct some
22 of the dollar amounts on pages 67 and 68.

23 **Q** Could you please provide those corrections for
24 the record?

25 **A** Yes.

1 **CHAIRMAN BROWN:** And that's the July
2 testimony; correct?

3 **THE WITNESS:** Yes.

4 **CHAIRMAN BROWN:** Okay.

5 **BY MR. RAPPOLT:**

6 **Q** When you're ready, Mr. Kollen, please go
7 ahead.

8 **A** Page 67, line 22, the income tax rate there at
9 38.58 percent should be 34.80 percent. The dollar
10 amount of 152.822 should be 137.849. Then turning to
11 page 68, line 1, the income tax rate, instead of
12 38.58 percent, should be 34.80 percent.

13 On line 2, the dollar amount 75.296 should be
14 59.520, and the dollar amount 71.443 should be 56.474.
15 Those amounts then conform with the other errata that
16 was filed yesterday.

17 **Q** Thank you, Mr. Kollen. With those changes, if
18 I were to ask you the questions reflected in your direct
19 testimonies today, would you answer -- would your
20 answers be the same?

21 **A** Yes.

22 **MR. RAPPOLT:** Madam Chair, I would ask that
23 Mr. Kollen's direct testimonies be inserted into the
24 record as though read.

25 **CHAIRMAN BROWN:** We will insert Mr. Kollen's

1 June and July direct prefiled testimony into the record
2 as though read.

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**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

IN RE:

**PETITION FOR LIMITED PROCEEDING)
TO MODIFY AND CONTINUE FLORIDA) DOCKET NO. 160088-EI
POWER AND LIGHT COMPANY'S)
INCENTIVE MECHANISM)**

DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS

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

2 A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc.
3 ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia
4 30075.

5 **Q. WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

6 A. I am a utility rate and planning consultant holding the position of Vice President and
7 Principal with Kennedy and Associates.

8 **Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL
9 EXPERIENCE.**

10 A. I earned a Bachelor of Business Administration in Accounting degree and a Master of
11 Business Administration degree, both from the University of Toledo. I also earned a
12 Master of Arts degree from Luther Rice University. I am a Certified Public
13 Accountant, with a practice license, a Certified Management Accountant, and a
14 Chartered Global Management Accountant.

1 I have been an active participant in the utility industry for more than thirty
2 years, both as a consultant and as an employee. Since 1986, I have been a consultant
3 with Kennedy and Associates, providing services to consumers of utility services and
4 state and local government agencies in the areas of utility planning, ratemaking,
5 accounting, taxes, financial reporting, financing and management decision-making.
6 From 1983 to 1986, I was a consultant with Energy Management Associates,
7 providing services to investor and consumer owned utility companies in the areas of
8 planning, financial reporting, financing, ratemaking and management decision-
9 making. From 1976 to 1983, I was employed by The Toledo Edison Company in a
10 series of positions providing services in the areas of planning, accounting, taxes,
11 auditing, and financial and statistical reporting.

12 I have appeared as an expert witness on utility planning, ratemaking,
13 accounting, reporting, financing, and tax issues before state and federal regulatory
14 commissions and courts on more than two hundred occasions. In many of those
15 proceedings, I have represented state and local ratemaking agencies or their Staffs,
16 including the Louisiana Public Service Commission, Georgia Public Service
17 Commission and various groups of Cities with original rate jurisdiction in Texas. I
18 also have appeared before the Florida Public Service Commission (“Commission”) in
19 numerous proceedings, including the four most recent Florida Power & Light
20 Company (“FPL” or “Company”) base rate proceedings in Docket Nos. 120015-EI
21 (2012), 080677-EI (2009), 050045-EI (2005) and 001148-EI (2002). I have developed
22 and presented papers at various industry conferences on ratemaking, accounting, and
23 tax issues. My qualifications and regulatory appearances are further detailed in my
24 Exhibit__(LK-1).
25

1 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

2 A. I am offering testimony on behalf of the South Florida Hospital and Healthcare
3 Association (“SFHHA”), whose members take electric service on the FPL system.

4

5 **II. SUMMARY**

6

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

8 A. The purpose of my testimony is to respond to the Company’s request to continue the
9 Incentive Mechanism adopted as a four year pilot program in the 2012 rate case
10 settlement for an additional four years (from 2017 through 2020) and to modify certain
11 of the terms.

12 The present Incentive Mechanism operates in conjunction with the FPL Fuel
13 Adjustment Clause (“FAC”) in lieu of the “prior sharing mechanism,” which was
14 applicable only to economy sales.¹ The present Incentive Mechanism allows FPL to retain
15 a portion of the net “gains” from a more expansive definition of wholesale power
16 transactions and asset optimization activities in excess of a prescribed threshold of \$46
17 million. The present Incentive Mechanism allows FPL to recover 100% of certain
18 variable and fixed costs (“variable power plant O&M”) in the calculation of the net
19 “gains” and then retain 60% of the net gains between \$46 million and \$100 million and
20 50% of the net gains over \$100 million.

21

22 **Q. Please summarize your testimony.**

¹ Economy sales are made when the utility has excessive generation not needed to serve its load and can sell the energy to another market participant for more than its marginal dispatch cost. Economy purchases are made when the utility can purchase energy from another market participant for less than its marginal dispatch cost.

1 A. I recommend that the Commission reject the Company's proposal to modify certain of
2 the calculations and continue the Incentive Mechanism for the next four years. The
3 proposed Incentive Mechanism will result in excessive, unjust, and unreasonable rates
4 and provide unnecessary and inappropriate incentives for activities that already are
5 required of a prudent utility.

6 Instead, I recommend that the Incentive Mechanism be modified so that the
7 entire savings from economy purchases and sales are timely flowed through to
8 customers and so that it provides an incentive and reasonable sharing only of the net
9 "gains" from asset optimization activities as follows.

- 10 1. Include the actual cost of economy purchases in the FAC and exclude
11 from the Incentive Mechanism all calculated "gains" based on avoided
12 marginal dispatch costs. Eliminate any sharing of the "gains" with the
13 Company. The savings should inure entirely to the Company's
14 customers. The Company has a prudence obligation to make economy
15 purchases when the cost is less than the marginal cost of dispatching its
16 own generating units. Including only the actual cost of economy
17 purchases in the FAC and excluding any sharing of "gains" on these
18 purchases from the Incentive Mechanism will ensure that the the
19 entirety of these savings inure to the Company's customers.
20
- 21 2. Include the actual revenues and marginal dispatch costs for economy
22 sales in the FAC and exclude from the Incentive Mechanism all
23 calculated "gains" and any sharing of the "gains" with the Company.
24 The Company has a prudence obligation to make economy sales when
25 it has available energy and can sell it for more than the marginal cost of
26 dispatching its generating units or purchasing power. The Company's
27 customers pay the entire jurisdictional portion of the fixed costs of the
28 generating units and are entitled to the entirety of the jurisdictional
29 portion of the gains due to economy sales made possible by selling that
30 excess energy to other market participants at prices greater than its
31 marginal dispatch cost.
32
- 33 3. If the Commission allows the Company to share in the net "gains" from
34 economy purchases and sales, then it should correct the calculation of
35 the net "gains" in the Incentive Mechanism by removing all "base
36 O&M fossil overhaul" expense and "CT capital spare parts
37 depreciation" expense from the calculation of the so-called variable

O&M expense. These expenses are not or should not be included in the dispatch algorithm or the marginal cost of dispatching generating units for purchases or sales. These expenses are fixed expenses; FPL has not demonstrated that they are variable or directly correlated with the output of the generating units and, in any event, already are included in the base revenue requirement.

- 4. If the Commission incentivizes only the asset optimization activities as I recommend, then eliminate any sharing threshold and all sharing tiers. Instead, allow the Company to retain 10% of all net “gains,” as well as retain 10% of the costs of the asset optimization activities.

III. NO INCENTIVE IS APPROPRIATE FOR ECONOMY PURCHASES AND SALES IN THE INCENTIVE MECHANISM

Q. How were economy purchases and sales reflected in the FAC prior to the present Incentive Mechanism adopted in the 2012 rate case settlement?

A. Then, as now, FPL made economy purchases if the cost of the purchase was less than the marginal cost of dispatching its generating units. However, prior to the 2012 rate case settlement, the purchases were properly reflected at cost in the FAC instead of at the avoided cost of its generating units, subject to sharing of the “gains.” There was no calculation of the net “gain,” or savings, from displacing the marginal cost of dispatching its generating units and there was no sharing of the savings due to the lower cost.²

Then, as now, FPL also made economy sales if it had available energy and the selling price (revenues) was greater than the marginal cost of dispatching its generating units to make the sales. The economy sales revenues, net of the related fuel costs incurred to supply the sales, were reflected in their entirety in the FAC, but the

²Refer to FPL witness Mr. Forrest’s Exhibit SAF-1 page 3 showing the calculations under the “Prior Mechanism.”

1 Company was allowed to retain 20% of the net “gains” over a threshold dollar amount,
2 based on a 3 year rolling average of such net “gains,” as an “incentive” to maximize
3 economy sales.³ This resulted in FPL retaining 20% of the net “gains” over the annual
4 thresholds of \$4.238 million in 2013, \$7.203 million in 2014, and \$20.823 million in
5 2015, or \$1.815 million in 2013, \$7.716 million in 2014, and \$1.028 million in 2015.⁴
6 This structure provided the Company an incentive to continually grow economy sales
7 in order to retain any of the net “gains” because it only shared in the excess over the 3
8 year rolling average of such net “gains.”
9

10 **Q. How did this change when the present Incentive Mechanism was implemented as**
11 **the result of the settlement in the 2012 rate case?**

12 A. As I noted previously, the Company’s approach to making economy sales and
13 purchases did not change. However, the present Incentive Mechanism introduced new
14 costs into the calculation of the net “gains,” which added costs into the FAC that
15 increased the costs to customers of economy sales and purchases and reduced the
16 value to customers of asset optimization activities; expanded the activities to include
17 asset optimization; and set tiered thresholds for sharing (net “gains” below \$46.0
18 million were 100% retained by customers, although such gains were reduced by the
19 additional costs; net gains between \$46.0 million and \$100.0 million were 40%

³ *Id.*

⁴ *Id.*

1 retained by customers, 60% retained by FPL; and net gains over \$100.0 million were
2 50% retained by customers, 50% retained by FPL).⁵

3 The most significant of the new costs included in the calculation were for the
4 so-called variable power plant O&M expense based on a calculated \$1.51 per MWh
5 rate times the MWh economy sales in excess of 514,000 MWh, a threshold necessary
6 because the revenues and expenses for this level of economy sales were included in
7 the base revenue requirement. The Company calculated the net “gains” from economy
8 sales by subtracting the so-called variable power plant O&M expense from the
9 economy sales “gains” (revenues less fuel expense). The Company calculated the
10 variable power plant O&M expense by multiplying the \$1.51 per MWh times the
11 economy sales MWh in excess of 514,000 MWh.⁶

12 In addition, the present Incentive Mechanism included a new cost for
13 “incremental O&M expenses” which was defined as personnel, software, and
14 hardware necessary to expand its trading and asset optimization activities.⁷ The
15 Company subtracted the “incremental O&M expenses” directly from the customers’
16 share of the net “gains,” i.e., it allocated none of this expense to the Company. This
17 methodology effectively, and rather cleverly, increases the allocation of the net
18 “gains” to the Company.

19

20 **Q. What changes does the Company propose to the present Incentive Mechanism in**
21 **this proceeding?**

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

1 A. FPL seeks to modify the present calculation to net *all* energy from *all* economy sales
2 (eliminating the present 514,000 MWh threshold) and economy purchases, and multiply
3 the resulting net energy (sales less purchases) times the variable power plant O&M rate;
4 update the variable power plant O&M rate per MWh used to calculate the variable O&M
5 expense from \$1.51 per MWh to \$0.97 per MWh; and reduce the prescribed first tier
6 threshold for sharing from \$46 million to \$36 million, ostensibly because of the
7 termination of the Unit Power Sales (“UPS”) agreement with Southern Company at
8 the end of 2015.

9

10 **Q. Is it reasonable and appropriate to provide the Company an incentive to make**
11 **economy purchases when the cost is less than dispatching its own generating**
12 **units?**

13 A. No. The Company has a prudence obligation to make economy purchases when the
14 cost is less than dispatching its own generating units. Consistent with that obligation,
15 prior to the present Incentive Mechanism, the Company did not retain any of the net
16 ‘gain,’ or savings, from economy purchases.⁸ Also consistent with that obligation,
17 Duke Energy, Tampa Electric, and Gulf Power Company, are not allowed to retain any
18 of the savings from economy purchases.⁹

19

⁸ Refer to the Company’s response to OPC Request for Admissions No. 2, a copy of which I have attached as my Exhibit___(LK-2).

⁹ Refer to the Company’s response to OPC Request for Admissions No. 3, a copy of which I have attached as my Exhibit___(LK-3).

1 **Q. Is it reasonable and appropriate to provide the Company an incentive to make**
2 **economy sales when it has available energy after supplying its firm load**
3 **requirements?**

4 A. No. The utility has a prudence obligation to make economy sales to reduce the
5 recovery of the fixed costs of its generating units from customers. The Company does
6 not retain or pay any share of those fixed costs. All prudent and reasonable costs are
7 recoverable in their entirety from customers through base rates or various clause rates.
8 Consistent with the allocation of costs and risks to customers, all net “gains” from
9 economy sales made from the generating units should be allocated to customers. The
10 customers have paid for the “cows” (generating units) and are entitled to the “milk”
11 (“energy”) from those “cows,” regardless of whether the milk is used “in-kind” (to
12 meet their load) or sold to others (to meet their loads) for income.

13
14 **Q. What is your recommendation?**

15 A. I recommend that the Commission reject the Company’s proposal to continue the
16 present Incentive Mechanism’s calculations and sharing of the net “gains” on economy
17 purchases and sales. Instead, I recommend that the Commission include all economy
18 purchases at cost, include all economy sales revenues, net of the marginal cost of
19 dispatching the Company’s own generating units or purchases made to supply the
20 sales in the Incentive Mechanism, and exclude the entirety of all net “gains” from the
21 Incentive Mechanism.

22

1 **IV. BASE O&M FOSSIL OVERHAUL AND CAPITAL SPARE PARTS**
2 **DEPRECIATION EXPENSE SHOULD NOT BE INCLUDED IN THE**
3 **VARIABLE POWER PLANT O&M RATE**
4

5 **Q. What is the variable power plant O&M rate and how is it used in the calculation**
6 **of the net “gains” under the present and proposed Incentive Mechanisms?**

7 A. The variable power plant O&M rate ostensibly is the marginal or variable non-fuel
8 operating expense per MWh generated whether it is the incremental cost per MWh for
9 economy sales or the decremental cost for economy purchases.

10 Under the present Incentive Mechanism, the resulting variable power plant
11 O&M expense is subtracted from economy sales revenues in the calculation of net
12 “gains,” but there is no addition to economy purchases savings reflected in the
13 calculation of net “gains.”

14 Under the proposed Incentive Mechanism, the Company proposes to net the
15 economy energy sold and the economy energy purchased and multiply the result times
16 the variable power plant O&M rate per MWh. If there are net economy sales, then the
17 “expense” will be subtracted from the net “gain” allocated between customers and
18 FPL. If there are net economy purchases, then the avoided “expense” will be added to
19 the net “gain” allocated between customers and FPL.
20

21 **Q. Is this true regardless of whether the net “gains” exceed the threshold?**

22 A. Yes. In other words, if there is an “expense,” it is recovered from customers through
23 the FAC regardless of whether the gains exceed the threshold or the magnitude of any
24 net “gains.” This feature of the present and proposed Incentive Mechanisms provides
25 the Company with enhanced recovery of the so-called variable power plant expense

1 through the FAC even though such costs are not fuel costs and already are included in
2 the base revenue requirement.

3

4 **Q. How is the variable power plant O&M expense calculated?**

5 A. The Company's calculation includes three components in both the calculation of the
6 \$1.51 per MWh under the present Incentive Mechanism and the \$0.97 per MWh under
7 the proposed Incentive Mechanism. These components are "base O&M fossil
8 overhaul," "base qualifying facility (steam and other production) VOM" [variable
9 O&M], and "recoverable CT parts depreciation expense per annum." The Company
10 summed the costs for these components and divided by total MWh generation to
11 calculate the variable power plant O&M per MWh.¹⁰

12

13 **Q. Is it reasonable and appropriate to include "base O&M fossil overhaul" and**
14 **"recoverable CT parts depreciation expense per annum" in the variable power**
15 **plant O&M rate and expense?**

16 A. No. First, these costs are not fuel costs, they are non-fuel O&M and depreciation
17 expenses.

18 Second, these costs are fixed; they are not variable and will be incurred
19 regardless of the output from the Company's owned generation, and regardless of
20 whether the output is increased to make economy sales or reduced due to economy
21 purchases. For example, if the Company's generating units are operating at less than
22 their full capacity and it is economical to sell into the market (selling price exceeds

¹⁰ Refer to the company's response to OPC Interrogatory No. 17, a copy of which I have attached as my Exhibit____(LK-4).

1 marginal dispatch cost), then the units are ramped up and their output is increased to
2 supply the sales. This typically results in improved unit operation and efficiency as
3 the output increases, the average heat rate improves, and the average cost to generate
4 declines. The Company has provided no evidence that there is any direct correlation
5 between unit output and O&M fossil overhaul expenses, particularly on the margin for
6 economy sales and purchases. Most fossil overhaul is performed seasonally when
7 capacity is not needed to supply load. Further, some maintenance activities are based
8 on hours of operation, not energy output. In short, there is no direct correlation
9 between unit output and the timing of fossil overhauls and the related expenses.

10 Likewise, depreciation expense is not a function of generating unit output. The
11 Company calculates depreciation expense based on gross plant times its approved
12 depreciation rates. There is no correlation between unit output and the timing or
13 amount of depreciation expense. Depreciation expenses is not accrued at greater
14 amounts in months where output is greater or accrued at lesser amounts where output
15 is less. Nor has the Company proposed to actually record more or less depreciation
16 expense on its accounting books in accordance with the proposed formula for the
17 Incentive Mechanism. Nor has the Company provided any evidence that increased
18 output results in accelerated wear and tear and replacement of the equipment. In short,
19 this “depreciation expense” is an amount calculated only to increase the Companies’
20 recoveries through the FAC as a cost recovered entirely from customers in addition to
21 the sharing of net “gains” in excess of the sharing thresholds.

22 Third, these costs already are recovered fully through the base revenue
23 requirement; thus, recovery through the Incentive Mechanism allows the Company to

1 recover the same costs a second time. The Company has reflected no ratemaking
2 adjustments to the costs included in the base revenue requirement to reflect recovery
3 of these costs through the Incentive Mechanism. The Company does not incur the
4 costs a second time when it makes economy sales or avoid the costs when it makes
5 economy purchases because they are not variable.

6

7 **Q. What is your recommendation?**

8 A. If the Commission adopts my recommendation to include economy sales and
9 purchases in the FAC, but not in the Incentive Mechanism, then the calculation of the
10 variable power plant O&M rate and expense is irrelevant and moot. If, however, the
11 Commission continues to include economy sales and purchases in the Incentive
12 Mechanism, then I recommend that it correct the calculation of the variable power
13 plant O&M rate to remove the “base O&M fossil overhaul” and “recoverable CT parts
14 depreciation expense per annum,” leaving only the “base qualifying facility (steam and
15 other production) VOM” component.

16

17 **Q. What is the effect of your recommendation on the proposed \$0.97 variable power**
18 **plant O&M rate if the Commission continues to include economy sales and**
19 **purchases in the Incentive Mechanism?**

20 A. It has the effect of reducing the proposed \$0.97 per MWh rate to \$0.12 per MWh.¹¹

21

¹¹ Shown on the table provided in response to OPC Interrogatory No. 17 under the column heading 2017 Test Year and the line labeled “base qualifying facility (steam and other production) VOM - \$/MWh.”

1 **V. A REASONABLE INCENTIVE FOR ASSET OPTIMIZATION ACTIVITIES IS**
2 **APPROPRIATE**
3

4 **Q. Is it reasonable and appropriate to include asset optimization activities in the**
5 **Incentive Mechanism?**

6 A. Yes. If it is continued, the Incentive Mechanism should incentivize only the asset
7 optimization activities. These activities are directed toward extracting greater value
8 from the Company’s assets, the costs of which are presently reflected in the
9 Company’s base and other adjustment clause rates. These activities extend well
10 beyond the economy sales and purchases, require active strategic and focused
11 management, and may involve the assumption of risk.

12 Typically, the entirety of the net “gains” from such activities are reflected in
13 the base revenue requirement when it is reset, but any increases over these threshold
14 amounts between base rate cases are retained in their entirety by the utility. In contrast
15 to the typical retention of increases in their entirety by the utility, the present and
16 proposed Incentive Mechanisms provide the Company’s customers a share of any such
17 increases in net “gains” on a timely basis through a reduction in the FAC.

18
19 **Q. What is an appropriate structure for the sharing of the asset optimization net**
20 **gains through the Incentive Mechanism?**

21 A. There are three components of the structure that must be addressed. First, the
22 Commission must determine whether to set a threshold over which the net “gains” are
23 shared or whether all net “gains” will be shared. Second, the Commission must
24 determine an appropriate sharing between customers and the Company. Third, the

1 Commission must decide the methodology to calculate the net “gains.”

2

3 **Q. Is there a balance between setting a threshold over which the net “gains” are**
4 **shared and the appropriate sharing percentages between customers and the**
5 **Company?**

6 A. Yes. If there is a threshold, then customers receive all net “gains” up to the threshold
7 before there is any sharing between the customers and the Company. If there is not a
8 threshold, then there is a sharing of all net “gains” between customers and the
9 Company. In the first circumstance, any increases in net “gains” over the threshold
10 generally would merit a greater sharing with the Company, perhaps 75% to customers
11 and 25% to the Company as an incentive to enhance the value of the Company’s assets
12 for the benefit of its customers. In the second circumstance, the sharing of all net
13 “gains” between customers and the Company generally would merit a lesser sharing
14 with the Company, perhaps 90% to customers and 10% to the Company because the
15 Company will share in all net “gains,” not only in those net “gains” over the threshold.

16

17 **Q. What is your recommendation regarding the threshold and sharing percentages**
18 **for net “gains” resulting from asset optimization activities?**

19 A. I recommend that there be no threshold for sharing any net “gains” from asset
20 optimization activities for the same reasons that I previously addressed in conjunction
21 with economy purchases and sales. Again, customers bear the entirety of the costs
22 incurred for the generating units and other facilities and contracts subject to asset
23 optimization activities.

1 In lieu of a threshold, I recommend that all net “gains” from asset optimization
2 activities be shared 90% to customers and 10% to the Company. This provides a
3 timely reduction in the FAC charges to customers from any net “gains” from
4 optimization activities and incentivizes the Company to not only maintain, but
5 increase these “gains,” no matter how small and without concern for whether it is
6 “worth it” if it otherwise would be under the threshold. The present incentive has
7 served to induce the Company to engage in and expand its asset optimization
8 activities.

9

10 **Q. Are there problems with the Company’s proposed methodology to calculate the**
11 **net “gains” from asset optimization activities?**

12 A. Yes. Under the present and proposed Incentive Mechanisms, the Company allocates
13 all costs (personnel, software, and hardware necessary for its trading and asset
14 optimization activities) to customers as a cost in the calculation of the net “gains.”
15 Under the Company’s proposed four year rate plan, these costs already are included in
16 the base revenue requirement.

17 The Company has proposed no ratemaking adjustments to its per books 2017
18 and 2018 test years to remove the costs from the base revenue requirement that it
19 proposes to continue to recover in the proposed Incentive Mechanism. If the
20 Commission allows the Company to continue to recover these costs through the
21 Incentive Mechanism, then it should set these costs to \$0 initially and allow recovery
22 only of incremental costs that were not included in the base revenue requirement.

23 In addition, the Company proposes to continue to allocate all such costs to

1 customers with no sharing to the Company. This is inappropriate because it does not
2 result in any sharing of the costs or the risk of cost recovery; the customers bear that
3 entire risk, but are required to share any net “gains” under both the present and
4 proposed Incentive Mechanisms.

5
6 **Q. What is your recommendation regarding the costs for asset optimization**
7 **activities in the Incentive Mechanism if it is continued?**

8 A. I recommend that the costs be reset to \$0 and that only increases in such costs that are
9 not included in the base revenue requirement starting in 2017 be reflected in the
10 Incentive Mechanism. In addition, I recommend that the Commission allocate these
11 costs in the same manner that it allocates the net “gains” from the asset optimization
12 activities, and more specifically, 90% to customers and 10% to the Company if the
13 Commission adopts my recommendation for the sharing of net “gains” for these
14 activities.

15

16 **VI. THE THRESHOLD FOR SHARING IS UNECESSARY UNDER SFHHA**
17 **RECOMMENDATIONS**
18

19 **Q. Why is the threshold proposed by the Company unreasonable and**
20 **inappropriate?**

21 A. Any threshold will require the Commission to make an uninformed “guess” regarding
22 the future economy purchases and sales and asset optimization activities during the
23 next four years when the proposed Incentive Mechanism will be in effect. The

1 Company's proposed \$36 million threshold is arbitrary and cannot be adequately
2 assessed by the parties other than the Company.

3 First, neither the \$46 million threshold in the present Incentive Mechanism nor
4 the \$36 million threshold in the proposed Incentive Mechanism reflect or match the
5 economy purchases and sales or the asset optimization activities and net gains
6 projected in the Company's internal projections for 2017 and 2018, the test years in
7 the base rate proceeding. In fact, the Company has not included any such projections
8 in the base rate proceeding.

9 Second, the Company has provided no estimates or any support for such
10 estimates of the economy purchases and sales or the asset optimization activities and
11 the net gains for those years in this proceeding. Instead, all of its quantitative analyses
12 merely compare the so-called Prior Mechanism to the present Incentive Mechanism,
13 ostensibly in order to demonstrate customer benefits, or seek to quantify the effects of
14 the termination of the UPS with Southern Company, albeit without any recognition of
15 other changes in capacity, loads, fuel costs, generating unit performance, purchase
16 power agreements, and the market for economy sales and purchases.

17 The Company's failure to provide such projections is important because the
18 Company proposes a reduction in the initial threshold for sharing net "gains" based on
19 the same threshold adopted in the 2012 rate case settlement, adjusted only to reflect
20 the "lost" economy sales from the UPS agreement, and ignoring all other changes in
21 capacity, marginal cost of dispatching its own units and the market prices that have
22 occurred since then. For example, the Company has replaced the 928 MW of UPS
23 capacity with more than 1,300 MW of capacity at the Port Everglades next Generation

1 Clean Energy Center, which affects its marginal cost of dispatch and the energy it has
 2 available to supply its own load and economy sales.¹² In addition, the Company has
 3 added thousands of MW of new and converted natural gas generation while retiring
 4 other generation since the 2012 rate case, which affects its marginal cost of dispatch
 5 and the energy it has available to supply its own load and economy sales.

6 The Company’s generating units and fuel costs now reflect a greater proportion
 7 of natural gas capacity, which affects the marginal dispatch cost of its generation
 8 compared to economy purchases and sales that make the prior threshold meaningless.
 9 In addition, the fuel costs of other market participants in economy sales (there is an
 10 economy purchase by another entity whenever FPL makes an economy sale) and
 11 economy purchases (there is an economy sale by another entity whenever FPL makes
 12 economy purchases) that make the prior and proposed thresholds threshold
 13 meaningless going forward.

14 In short, the threshold from the settlement of the 2012 rate case, adjusted only
 15 for the expiration of the UPS agreement, is meaningless as a threshold or even as an
 16 indicator of ongoing net “gains” from economy sales and purchases.

17
 18 **Q. What is your recommendation?**

19 A. I recommend that the Commission eliminate any sharing threshold in conjunction with
 20 my recommendations for economy purchases and sales and asset optimization
 21 activities, which renders a threshold irrelevant and moot.

¹² Response to OPC Interrogatory No. 5, a copy of which I have attached as my Exhibit____(LK-5).

1 However, if the Commission does not adopt these SFHHA recommendations,
2 than I recommend no reduction in the sharing threshold in the absence of credible
3 projections of economy sales and purchases for the next four years and the ability to
4 assess an appropriate threshold. I also recommend that the customers retain at least
5 90% and the Company retain no more than 10% of *all* net “gains” in excess of the
6 sharing threshold. A 10% incentive is significant and meaningful when applied to all
7 incentivized net “gains.”

8

9 **Q. Has the Company offered any rationale to retain 60% of the net “gains” between**
10 **\$36 million and \$100 million or 50% of the net “gains” over \$100 million?**

11 A. No. The Company has offered no rationale for its proposal to retain 60% of the net
12 “gains” between \$36 million and \$100 million or 50% of the net “gains” over \$100
13 million, nor is there any valid reason for the Commission to adopt such excessive
14 retained percentages. These incentive percentages were the result of the settlement in
15 the 2012 rate case. The Company offered no meaningful support for these excessive
16 percentages adopted in the 2012 rate case or proposed in this case.

17

18 **Q. Does this complete your prefiled Direct Testimony at this time?**

19 A. Yes.

ERRATA SHEET

WITNESS: LANE KOLLEN - DIRECT TESTIMONY

Testimony Errata

<u>PAGE #</u>	<u>LINE#</u>	<u>CHANGE</u>
4	1	Delete "\$166.053" and replace with "\$155.546"
4	2	Delete "\$42.971" and replace with "\$53.478"
7	N/A	Replace the following table at the top of the page:

FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA - OKEECHOBEE CLEAN ENERGY CENTER
DOCKET NO. 160021-EI
TEST YEAR ENDING MAY 31, 2020
(\$ MILLIONS)

	<u>Amount</u>
Okeechobee Step Increase per FP&L Filing	\$ 209.024
Operating Income Adjustments:	
Reduce Depreciation Expense	(11.991)
Rate Base Adjustments:	
Reflect Additional ADIT - Bonus Depreciation	(9.469)
Reflect Accum Depr and ADIT Effects of Depreciation Expense Reduction	(0.487)
Capital Structure and Rate of Return Adjustments:	
Adjust LTD Rate to 4.1% for New Issues	(1.333)
Remove 0.50% Return on Equity Incentive	(4.865)
Set Return on Equity at 9.0%	(19.458)
Adjust Capital Structure - 55% Common Equity and Add Short Term Debt	(7.366)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice	0.0065
Total SFHHA Adjustments	<u>(\$42.971)</u>
SFHHA Recommendation for Canaveral Step Increase	<u>\$166.053</u>

With the following table (Revised 8/29/2016):

**FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA - OKEECHOBEE CLEAN ENERGY CENTER
DOCKET NO. 160021-EI
TEST YEAR ENDING MAY 31, 2020
(\$ MILLIONS)**

	<u>Amount</u>
Okeechobee Step Increase per FP&L Filing	\$ 209.024
Operating Income Adjustments:	
Reduce Depreciation Expense	(11.991)
Rate Base Adjustments:	
Reflect Additional ADIT - Bonus Depreciation	(7.485)
Reflect Accum Depr and ADIT Effects of Depreciation Expense Reduction	(0.487)
Capital Structure and Rate of Return Adjustments:	
Adjust LTD Rate to 4.1% for New Issues	(1.353)
Remove 0.50% Return on Equity Incentive	(4.938)
Set Return on Equity at 9.0%	(19.753)
Adjust Capital Structure - 55% Common Equity and Add Short Term Debt	(7.477)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice	0.0065
Total SFHHA Adjustments	(\$53.478)
SFHHA Recommendation for Okeechobee Step Increase	\$155.546

<u>LINE #</u>	<u>CHANGE</u>
3	Delete "(9.469)" and replace with "(7.485)"
5	Delete "(1.333)" and replace with "(1.353)"
6	Delete "(4.865)" and replace with "(4.938)"
7	Delete "(19.459)" and replace with "(19.753)"
8	Delete "(7.366)" and replace with "(7.477)"
10	Delete "(\$42.971)" and replace with "(\$3.478)"
11	Delete "Canaveral" and replace with "Okeechobee"
11	Delete "\$166.053" and replace with "\$155.546"

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

IN RE: PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) **DOCKET NO. 160021-EI**
COMPANY AND SUBSIDIARIES)

DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

1 **A. Qualifications**

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

3 A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc.
4 (“Kennedy and Associates”), 570 Colonial Park Drive, Suite 305, Roswell, Georgia
5 30075.

6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. Yes. I previously submitted testimony in Docket No. 160088-EI on June 17, 2016. I
9 understand that docket has been consolidated with this docket.

10 **B. Purpose of Testimony**

11 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

12 A. I am offering testimony on behalf of the South Florida Hospital and Healthcare
13 Association (“SFHHA”), whose members take electric service on the FPL system.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

1 A. The purpose of my testimony is to address the Company's proposed base rate increases
2 and the effects on various recovery clauses, to summarize the effects of the SFHHA
3 recommendations on the Company's claimed revenue requirements, and to address and
4 make recommendations on specific issues that affect the Company's claimed revenue
5 requirements.

6 **Q. PLEASE SUMMARIZE THE COMPANY'S CLAIMED REVENUE**
7 **DEFICIENCIES AND PROPOSED RATE INCREASES.**

8 A. The Company seeks a base rate increase of \$866.354 million on January 1, 2017 based on
9 a claimed revenue deficiency of an equivalent amount for the 2017 test year. The
10 Company seeks a second base rate increase of \$262.292 million on January 1, 2018, for a
11 cumulative increase of \$1,128.646 million, compared to a claimed revenue deficiency of
12 \$1,133.593 million for the proposed second 2018 test year. The Company seeks a third
13 base rate increase of \$209.024 million for the Okeechobee Clean Energy Center
14 ("Okeechobee") on or about June 1, 2019 based on a claimed revenue deficiency of an
15 equivalent amount for the proposed May 31, 2020 ending test year.

16 **C. Summary of Testimony**

17 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

18 A. I recommend that the Florida Public Service Commission ("Commission" or "FPSC")
19 restrict the scope of this proceeding to the 2017 test year and reject the Company's
20 aggressive request to expand the scope to include an additional rate increase based on a
21 2018 test year filing under the guise of a "subsequent year adjustment" ("SYA") and yet
22 another rate increase based on a May 31, 2020 ending test year filing under the guise of a

1 “limited scope adjustment” (“LSA”). The Company’s requests for the second and third
2 rate increases are premature and unnecessary and should be denied in this proceeding.
3 They require the Commission and the parties to unnecessarily speculate today about the
4 economic environment, revenues, and costs nearly four years into the future. The
5 Commission should retain the ability to knowledgeably investigate the revenues and costs
6 in future proceedings, closer to the dates when new rates would become effective. This is
7 especially true given that NextEra Energy, Inc. (“NextEra”), the parent company of FPL,
8 is actively seeking to acquire significant additional electric utility assets. Such
9 acquisitions should result in reduced costs to FPL in those years as more of the shared or
10 common costs incurred by FPL are allocated to the new NextEra affiliates. FPL can file
11 cases in the future when it believes it has or will have a revenue deficiency.

12 I recommend that the Commission reduce the Company’s base rates on January 1,
13 2017 by at least \$212.714 million compared to present rates, a reduction of at least
14 \$1,079.068 million from the increase of \$866.354 million requested and revenue
15 deficiency claimed by the Company for the test year in this proceeding.

16 If the Commission does not deny the Company’s request for a second rate
17 increase on January 1, 2018, then I recommend a reduction of at least \$1.472 million
18 compared to present rates, a reduction of at least \$1,135.065 million compared to the
19 revenue deficiency of \$1,133.593 million claimed by the Company for the proposed 2018
20 test year before consideration of any rate change in 2017.

21 If the Commission does not deny the request for a third rate increase on June 1,
22 2019, coincident with the scheduled commercial operation of the Okeechobee Clean

1 Energy Center (“Okeechobee”), then I recommend an increase of no more than \$166.053
2 million, a reduction of at least \$42.971 million compared to the increase of \$209.024
3 million requested by the Company. I also recommend that the Commission reject the
4 Company’s proposed Generation Base Recovery Adjustment (“GBRA”) form of
5 recovery. Instead, I recommend that the Commission adopt a rider that initially reflects
6 the lower of the actual capital cost or the estimated cost reviewed in the Okeechobee
7 determination of need proceeding and then is adjusted annually to reflect the declining
8 return on rate base investment as the capital cost is depreciated for book and income tax
9 purposes.

10 In addition, I recommend that the Commission implement a cost-based surcredit
11 rider to timely flow through reductions in FPL costs due to future NextEra acquisitions
12 that result in the reduction of FPL shared and common costs due to greater allocations to
13 the additional NextEra affiliates.

14 My quantifications include the effects of SFHHA witness Mr. Richard Baudino’s
15 cost of capital recommendations, including the costs of short term debt and long term
16 debt, cost of common equity and capital structure. I summarize the effects of the SFHHA
17 recommendations separately for the three increases in the following tables. In addition, I
18 address the substance of each of these adjustments in the following sections of my
19 testimony, except for Mr. Baudino’s recommendations, although I quantify the effects of
20 his recommendations. There are slight differences in the revenue requirement amounts
21 shown on the following tables compared to the operating expense adjustments that I cite

1 throughout my testimony. These differences are due to variable expenses reflected in the
2 revenue expansion factor, such as bad debt expense.

**FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
(\$ MILLIONS)**

	Amount
Base Rate Change per FP&L Filing	\$866.354
Operating Income Adjustments:	
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	(\$4.723)
Reflect End of Life Nuclear Fuel and Materials and Supplies in Decommissioning	(41.649)
Remove Depreciation Expense Increase Based on Depreciation Study Proposed Rates	(195.412)
Reduce Fossil Dismantlement Expense to Remove 20% Contingency	(4.378)
Reduce Fossil Dismantlement Expense to Extend Lives for Scherer 4 and St. Johns River	(0.962)
Extend Capital Amortization Period for Retired Plant Costs to 10 Years	(22.574)
Restate STD Commitment Fees as Operating Expense	3.974
Remove Rate Case Expense Amortization	(1.233)
Levelize Return on Dismantlement Reserve Amortization	(0.214)
Rate Base Adjustments:	
Remove Nuclear Fuel in Process From Rate Base	(40.176)
Reduce Accumulated Depreciation to Reflect Depreciation Expense Reduction	9.609
Reduce Accumulated Fossil Dismantling to Reflect Dismantling Expense Reductions	0.263
Increase Rate Base to Reflect Extended Amortization of Capital Recovery Costs	1.114
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	0.243
Amortize End of Life M&S Inv and Nuclear Last Core Excess Reserve Balance Over 4 Years	2.055
Remove Accrued Revenues from Cash Working Capital	(22.578)
Eliminate Unamortized Rate Case Expense	(0.426)
Correct Company Admitted Error for Balance of Deferred Pension Debit	(0.349)
Capital Structure and Rate of Return Adjustments:	
Adjust ADIT for Rate Base Adjustments	(4.742)
Correct Company's Allocation Methodology for ADIT - Treasury Reg 1.67(l)-1(h)(6)	(5.975)
Restate STD Commitment Fees as Operating Expense	(3.974)
Adjust STD Rate to 0.56%	(3.793)
Adjust LTD Rate to 4.1% for New Issues	(12.986)
Remove 0.50% Return on Equity Incentive	(117.402)
Set Return on Equity at 9.0%	(469.607)
Adjust Capital Structure - 55% Common Equity	(135.869)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice	(7.304)
Total SFHHA Adjustments	<u>(\$1,079.068)</u>
SFHHA Recommendation for Base Rate Change	<u><u>(\$212.714)</u></u>

3

**FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2018
(\$ MILLIONS)**

	Amount
Base Rate Change from Present Rates per FP&L Filing - Includes YTD Costs	\$ 1,133.593
Operating Income Adjustments:	
Reduce Injuries and Damages Expense	(1.298)
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	(4.726)
Reflect End of Life Nuclear Fuel and Materials and Supplies in Decommissioning	(41.652)
Remove Depreciation Expense Increase Based on Depreciation Study Proposed Rates	(198.548)
Reduce Fossil Dismantlement Expense to Remove 20% Contingency	(4.381)
Reduce Fossil Dismantlement Expense to Extend Lives for Scherer 4 and St. Johns River	(0.962)
Extend Capital Amortization Period for Retired Plant Costs to 10 Years	(22.592)
Restate STD Commitment Fees as Operating Expense	4.735
Remove Rate Case Expense Amortization	(1.233)
Levelize Return on Dismantlement Reserve Amortization	(0.469)
Rate Base Adjustments:	
Remove Nuclear Fuel in Process From Rate Base	(41.125)
Reduce Accumulated Depreciation to Reflect Depreciation Expense Reduction	29.361
Reduce Accumulated Fossil Dismantling to Reflect Dismantling Expense Reduction	0.798
Increase Rate Base to Reflect Extended Amortization of Capital Recovery Costs	3.375
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	0.706
Amortize End of Life M&S Inv and Nuclear Last Core Excess Reserve Balance Over 4 Years	6.226
Remove Accrued Revenues from Cash Working Capital	(22.930)
Eliminate Unamortized Rate Case Expense	(0.307)
Correct Company Admitted Error for Balance of Deferred Pension Debit	(0.858)
Capital Structure and Rate of Return Adjustments:	
Adjust ADIT for Rate Base Adjustments	(14.982)
Correct Company's Allocation Methodology for ADIT - Treasury Reg 1.67(l)-1(h)(6)	(4.887)
Restate STD Commitment Fees as Operating Expense	(4.735)
Adjust STD Rate to 0.56%	(2.002)
Adjust LTD Rate to 4.1% for New Issues	(35.680)
Remove 0.50% Return on Equity Incentive	(122.941)
Set Return on Equity at 9.0%	(491.766)
Adjust Capital Structure - 55% Common Equity	(156.470)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice	(5.722)
Total SFHHA Adjustments	<u>(\$1,135.065)</u>
SFHHA Recommendation for Base Rate Change Based on 2018 Test Year	<u>(\$1.472)</u>
SFHHA Recommendation for Base Rate Change Based on 2017 Test Year	<u>(212.714)</u>
SFHHA Recommendation for Base Rate Change (Incremental to 2017 Recommendation)	<u>\$211.242</u>

ERRATA SHEET

WITNESS: LANE KOLLEN - DIRECT TESTIMONY

Testimony Errata

<u>PAGE #</u>	<u>LINE#</u>	<u>CHANGE</u>
4	1	Delete "\$166.053" and replace with "\$155.546"
4	2	Delete "\$42.971" and replace with "\$53.478"
7	N/A	Replace the following table at the top of the page:

FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA - OKEECHOBEE CLEAN ENERGY CENTER
DOCKET NO. 160021-EI
TEST YEAR ENDING MAY 31, 2020
(\$ MILLIONS)

	<u>Amount</u>
Okeechobee Step Increase per FP&L Filing	\$ 209.024
Operating Income Adjustments:	
Reduce Depreciation Expense	(11.991)
Rate Base Adjustments:	
Reflect Additional ADIT - Bonus Depreciation	(9.469)
Reflect Accum Depr and ADIT Effects of Depreciation Expense Reduction	(0.487)
Capital Structure and Rate of Return Adjustments:	
Adjust LTD Rate to 4.1% for New Issues	(1.333)
Remove 0.50% Return on Equity Incentive	(4.865)
Set Return on Equity at 9.0%	(19.458)
Adjust Capital Structure - 55% Common Equity and Add Short Term Debt	(7.366)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice	0.0065
Total SFHHA Adjustments	<u>(\$42.971)</u>
SFHHA Recommendation for Canaveral Step Increase	<u>\$166.053</u>

With the following table (Revised 8/29/2016):

**FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA - OKEECHOBEE CLEAN ENERGY CENTER
DOCKET NO. 160021-EI
TEST YEAR ENDING MAY 31, 2020
(\$ MILLIONS)**

	Amount
Okeechobee Step Increase per FP&L Filing	\$ 209.024
Operating Income Adjustments:	
Reduce Depreciation Expense	(11.991)
Rate Base Adjustments:	
Reflect Additional ADIT - Bonus Depreciation	(7.485)
Reflect Accum Depr and ADIT Effects of Depreciation Expense Reduction	(0.487)
Capital Structure and Rate of Return Adjustments:	
Adjust LTD Rate to 4.1% for New Issues	(1.353)
Remove 0.50% Return on Equity Incentive	(4.938)
Set Return on Equity at 9.0%	(19.753)
Adjust Capital Structure - 55% Common Equity and Add Short Term Debt	(7.477)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice	0.0065
Total SFHHA Adjustments	(\$53.478)
SFHHA Recommendation for Okeechobee Step Increase	\$155.546

LINE #	CHANGE
3	Delete "(9.469)" and replace with "(7.485)"
5	Delete "(1.333)" and replace with "(1.353)"
6	Delete "(4.865)" and replace with "(4.938)"
7	Delete "(19.459)" and replace with "(19.753)"
8	Delete "(7.366)" and replace with "(7.477)"
10	Delete "(\$42.971)" and replace with "(\$3.478)"
11	Delete "Canaveral" and replace with "Okeechobee"
11	Delete "\$166.053" and replace with "\$155.546"

**FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA - OKEECHOBEE CLEAN ENERGY CENTER
DOCKET NO. 160021-EI
TEST YEAR ENDING MAY 31, 2020
(\$ MILLIONS)**

	Amount
Okeechobee Step Increase per FP&L Filing	\$ 209.024
Operating Income Adjustments:	
Reduce Depreciation Expense	(11.991)
Rate Base Adjustments:	
Reflect Additional ADIT - Bonus Depreciation	(9.469)
Reflect Accum Depr and ADIT Effects of Depreciation Expense Reduction	(0.487)
Capital Structure and Rate of Return Adjustments:	
Adjust LTD Rate to 4.1% for New Issues	(1.333)
Remove 0.50% Return on Equity Incentive	(4.865)
Set Return on Equity at 9.0%	(19.458)
Adjust Capital Structure - 55% Common Equity and Add Short Term Debt	(7.366)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice	0.0065
Total SFHHA Adjustments	(\$42.971)
SFHHA Recommendation for Canaveral Step Increase	\$166.053

1
2 The amounts on the preceding tables are supported by exhibits to my testimony,
3 which are referenced in the appropriate sections.

4 In addition to the adjustments on the preceding tables, SFHHA may support
5 adjustments proposed by other parties at hearing and on brief, and may modify its
6 recommendations as further evidence is adduced in this case.

7 Finally, the Commission should recognize that the depreciation rates and cost of
8 capital adopted in this proceeding, including the return on equity, affect the Company’s
9 clause recoveries that include depreciation expense and return on rate base investment,
10 although the nuclear cost clause recovery clause is subject to a separate cost of capital for
11 the return on rate base investment. The primary effect on the clause recoveries is on the
12 Company’s environmental cost recovery. The cost of capital adopted in this proceeding
13 also affects the Allowance for Funds Used During Construction (“AFUDC”) rate, which
14 impacts the revenue requirements in this and future proceedings.

1 The remainder of my testimony is structured to follow the sequence of the
2 adjustments listed on the preceding tables.

3 **II. THE COMMISSION SHOULD DENY THE 2018 ADDITIONAL TEST YEAR**
4 **REFLECTING SUBSEQUENT YEAR ADJUSTMENTS, AND THE MAY 31,**
5 **2020 ENDING TEST YEAR REFLECTING OKEECHOBEE LIMITED SCOPE**
6 **ADJUSTMENTS**

7 **Q. PLEASE DESCRIBE THE COMPANY’S 4 YEAR RATE PROPOSAL.**

8 A. The Company proposes a 4 year rate plan that includes a series of three base revenue
9 increases that will be effective on January 1, 2017 (\$866 million), January 1, 2018 (an
10 additional \$262 million), and June 1, 2019 (an additional \$209 million), according to the
11 Company’s “Petition for Base Rate Increase” filed on March 15, 2016. The first rate
12 increase is styled as “the 2017 base rate increase” and is based on a test year of 2017.
13 The second rate increase is styled as a “subsequent year adjustment” and is based on a
14 “subsequent” test year of 2018. The third rate increase is styled as a “limited scope
15 adjustment” for the Okeechobee Clean Energy Center, which has not been placed in
16 service, and is based on the “twelve months of revenue requirements . . . coincident with
17 its commercial operation date,” assumed to be the 12 months ending May 31, 2020. The
18 Company asserts that it will not file another base rate increase with an effective date prior
19 to January 1, 2021 if its 4 year rate proposal is adopted.

20 **Q. WHAT AUTHORITY DOES FPL CITE IN ITS PETITION FOR THE SECOND**
21 **RATE INCREASE BASED ON A SECOND FULLY PROJECTED TEST YEAR?**

22 A. In its Petition, FPL states that “Pursuant to Section 366.076(2), Florida Statutes and Rule
23 25.06425, F.A.C., the Commission ‘may in a full revenue requirements proceeding
24 approve incremental adjustments in rates for periods subsequent to the initial period in

1 which the new rates will be in effect.’ FPL proposes that the rates resulting from the 2018
2 SYA be effective January 1, 2018. Accordingly, FPL proposes that 2018 be the Test Year
3 for the 2018 SYA.”

4 **Q. WHAT DOES RULE 25.06425 STATE REGARDING “SUBSEQUENT YEAR**
5 **ADJUSTMENTS”?**

6 A. The Rule in its entirety states:

7 **25-6.0425 Rate Adjustment Applications and Procedures.**

8 The Commission may in a full revenue requirements proceeding
9 approve incremental adjustments in rates for periods subsequent to
10 the initial period in which new rates will be in effect.

11
12 This Rule presupposes a “full revenue requirements proceeding,” which in this
13 proceeding would be the claimed revenue deficiency based on the 2017 test year. The
14 Rule then addresses “incremental adjustments” within that proceeding. The Rule does
15 not address a second “full revenue requirements proceeding” within that proceeding
16 based on a subsequent test year in which *all* revenues, expenses, and rate base
17 components comprising the revenue requirement in the subsequent test year are subject to
18 change, although this is the basis for the Company’s request for a second base rate
19 increase to recover a claimed revenue deficiency for the proposed 2018 test year. In my
20 experience, “incremental adjustments” are limited to specific known and measurable
21 changes to reflect one or more known and significant events, such as the completion of a
22 new transmission line or power plant shortly after the end of the test year.

23 **Q. WHAT DOES RULE 25-6.0431 STATE REGARDING LIMITED**
24 **PROCEEDINGS?**

1 A Rule 25-6.0431 states in its entirety:

2 **25-6.0431 Petition for a Limited Proceeding.**

3 A petition for a limited proceeding shall include:

4 (1) A list of all issues the petitioner believes should be decided;

5 (2) A detailed statement of the reason(s) why the limited
6 proceeding has been requested and why a limited proceeding is the
7 appropriate type of proceeding for consideration of the requested
8 relief;

9 (3) A schedule showing the specific rate base components for
10 which the utility seeks recovery, on both a system and
11 jurisdictional basis, if the utility is requesting recovery of rate base
12 components;

13 (4) A detailed description of the expense(s) requested on both a
14 system and jurisdictional basis, if the utility is requesting recovery
15 of operating expenses;

16 (5) A schedule showing how the utility proposes to allocate any
17 change in revenues to rate classes, and the proposed rates, if the
18 petition requests a change in retail rates; and

19 (6) Any other information that the utility deems relevant.

20 Among other provisions of the Rule, the utility must provide a detailed statement
21 of the reason(s) why the limited proceeding has been requested and why a limited
22 proceeding is the appropriate type of proceeding for consideration of the requested relief.

23 **Q. IS THIS A “LIMITED PROCEEDING” AND HAS FPL JUSTIFIED WHY THIS
24 PROCEEDING IS THE “APPROPRIATE TYPE OF PROCEEDING FOR
25 CONSIDERATION OF THE REQUESTED [OKEECHOBEE] RELIEF”?**

26 A. No. This not a “limited proceeding.” It is a “full revenue requirements proceeding.”
27 FPL may file a “limited proceeding” when the in-service date of Okeechobee is closer,
28 which would be more “appropriate” for “consideration of the requested relief.”

29 **Q. DOES RULE 25-6.0431 REQUIRE THE COMMISSION TO ADDRESS THE
30 REVENUE REQUIREMENT FOR A NEW POWER PLANT MORE THAN 3
31 YEARS BEFORE ITS PROJECTED COMMERCIAL OPERATION?**

1 A. No. There is no such requirement and with good reason. There is no reason to set rates
2 for a Okeechobee in this proceeding. Okeechobee has only recently been approved by
3 the Commission and will not be in commercial operation until 2019.

4 **Q. DO YOU AGREE WITH FPL WITNESS SILAGY THAT FPL'S 4-YEAR**
5 **PROPOSAL WILL PROVIDE STABILITY AND BENEFITS TO FPL'S**
6 **RATEPAYERS?**

7 A. No. FPL necessarily speculates about numerous factors that are critical to determining
8 just, reasonable and fair rates based on a 2018 test year and then even further into the
9 future based on a test year ending May 31, 2020. The use of projected test years
10 necessarily requires the use of projected costs based on thousands of assumptions and
11 tens of thousands of data inputs, nearly all of which are uncertain and subject to change
12 when rates actually are in effect.

13 FPL has multiple software systems designed to project and calculate the amounts,
14 based upon various presumptions, necessary to populate the test year data requirements,
15 but almost none of these amounts are known with certainty. Nearly every input is the
16 result of multiple assumptions about a future that is unknown and uncertain. The
17 projections used for the 2017 test year were developed in late 2015 and early 2016 even
18 though the 2016 period itself was based on projected costs. The projections for 2017 are
19 more uncertain than for 2016 given that the test year is 13 to 24 months removed from
20 the most recent actual data. The projections for 2018 are even more uncertain given that
21 the second test year is 25 to 36 months removed from the most recent actual data. The
22 projections for the 12 months ending May 2020 are still more uncertain given that the
23 third test year is 42 to 53 months removed from the most recent actual data.

1 For the test year ending May 2020, FPL proposes only one change (in its favor)
2 based upon the commencement of the operation of the Okeechobee plant, and that
3 formulation simply provides one factor that on a stand-alone basis would increase rates,
4 without consideration of accumulated depreciation which would have the opposite effect,
5 to say nothing of other factors that could cause unit rates to decrease. Acceptance of
6 FPL's proposal benefits primarily FPL, not its customers.

7 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**
8 **PROPOSAL FOR A MULTI-YEAR RATE PLAN?**

9 A. I recommend that the Commission reject the proposed rate increases in 2018 and 2019 in
10 this proceeding. The Company's request for a multi-year rate plan is unnecessary and
11 unduly aggressive. The Commission should not adopt a multi-year ratemaking scheme
12 on a piecemeal basis in a general base rate case that is not addressed or sanctioned by
13 statute or an administrative rule. Although the Commission has approved multi-year rate
14 plans in certain prior FPL proceedings, those approvals were in the context of settlement
15 agreements.

16 If the Commission rejects the proposed increases in 2018 and 2019 in this
17 proceeding, the Company still may file cases for 2018 and/or 2019 if it believes it has a
18 revenue deficiency. Thus, the Company may file and, if justified, recover costs it
19 actually incurs based upon more timely and realistic data.

20 Finally, the Commission should not reward the upside estimation error that
21 necessarily results from multi-year projections. FPL has strong incentives to
22 underestimate its revenues and overestimate its costs in such multi-year projections and

1 then retain the benefits of actual greater revenues and lower costs after the revenue
2 requirement is determined at an excessive level. This historically has been the case under
3 the prior multi-year rate settlements. FPL's actual costs have often been below levels
4 that FPL projected in its prior filings.

5 **III. OPERATING INCOME ISSUES**

6 **A. Injuries and Damages Expense Accruals and Reserves Are Excessive and Should Be**
7 **Reduced**

8 **Q. PLEASE DESCRIBE THE COMPANY'S REQUEST FOR INJURIES AND**
9 **DAMAGES EXPENSE ACCRUALS AND THE RELATED RESERVE LEVELS**
10 **IN 2017 AND 2018.**

11 A. The Company requests injuries and damages ("I&D") expense accruals of \$10.404
12 million in 2017 and \$11.700 million in 2018, according to Schedule B-21. The Company
13 projects the related reserve level of \$19.500 million at December 31, 2017 and \$19.500
14 million at December 31, 2018, according to Schedule B-21.

15 **Q. HAS THE COMPANY PROVIDED ANY VALID JUSTIFICATION IN ITS**
16 **FILING TO INCREASE THE I&D EXPENSE ACCRUAL FROM \$10.404 IN 2017**
17 **TO \$11.700 MILLION IN 2018?**

18 A. No.

19 **Q. WHAT IS YOUR RECOMMENDATION?**

20 A. I recommend that the Commission reflect the same I&D expense accrual in 2018 that the
21 Company has requested for 2017.

22 **Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION IN 2018?**

1 A. The effect is a reduction of \$1.296 million in I&D expense and \$1.298 million in the
2 revenue requirement for 2018.

3 **Q. WHAT DO THE I&D RESERVE LEVELS INDICATE REGARDING PRIOR**
4 **AND FUTURE RECOVERIES OF I&D EXPENSE?**

5 A. The I&D reserve level at January 1, 2017 indicates that the Company has recovered more
6 from customers, which increases the reserve level, than the actual I&D costs that it has
7 incurred, which reduces the reserve level. The Company *projects* that it will incur costs
8 slightly more than its proposed expense accrual in 2017 and that the costs incurred and
9 the proposed expense accrual will be the same in 2018, according to Schedule B-21. In
10 other words, the Company projects a slight reduction in the reserve from \$20.796 million
11 at January 1, 2017 to \$19.500 million at December 31, 2017, and that the reserve will
12 remain unchanged at \$19.500 million at December 31, 2018.

13 **Q. HAS THE COMPANY PROPOSED ANY TRUE-UP OR RETURN OF THE**
14 **EXCESS RESERVE TO CUSTOMERS?**

15 A. No.

16 **Q. IS THERE ANY REQUIREMENT OR NEED TO MAINTAIN THE RESERVE**
17 **AT THE PROJECTED LEVELS?**

18 A. No. The reserve is merely a form of cost tracking mechanism that allows the
19 Commission to monitor the actual costs incurred against the expense accrual authorized
20 in rates and to true-up the reserve if a balance builds up, whether negative or positive.
21 The reserve is not funded and does not provide funds for the Company to pay incurred
22 I&D costs. The goal of reserve accounting is to equitably ensure that the Company's

1 costs are recovered from customers dollar for dollar over time so that neither the
2 Company nor customers are benefitted or harmed. In other words, the goal is to achieve
3 a \$0 balance in the reserve over time, not to build and then retain an overrecovery
4 balance in perpetuity and without ever truing it up to \$0. It is quite likely that FPL would
5 not support a proposal to underrecover over time and never recover these amounts from
6 customers to true-up the reserve to \$0.

7 **Q. WHAT IS YOUR RECOMMENDATION?**

8 A. I recommend that the Commission amortize the excess reserve to \$0 over a four year
9 amortization period. This will return the excess reserve to customers in a timely manner
10 rather than allowing the Company to retain the excess recoveries indefinitely.

11 **Q. WHAT IS THE EFFECT ON THE REVENUE REQUIREMENT OF YOUR**
12 **RECOMMENDATION?**

13 A. The effect is a reduction in amortization expense of \$4.716 million in 2017 and \$4.720
14 million in 2018. There also is an offsetting increase in the revenue requirement to reflect
15 the increase in rate base, which I address in the Rate Base Issues section of my testimony.
16 The calculations are shown on my Exhibit No. ____ (LK-6).

17 **B. Separate Expense Accruals for End of Life Materials and Supplies and Nuclear Fuel**
18 **Last Core Should Be Terminated and Subsumed Within Decommissioning Expense**
19 **Accruals Due to Overfunding in Nuclear Decommissioning Trust Funds**

20 **Q. PLEASE DESCRIBE THE COMPANY'S REQUEST FOR RECOVERY OF END**
21 **OF LIFE MATERIALS AND SUPPLIES AND NUCLEAR FUEL LAST CORE.**

22 A. The Company requests end of life ("EOL") materials and supplies ("M&S") expense
23 accruals of \$1.407 million and nuclear fuel last core expense accruals of \$11.754 million

1 in each of 2017 and 2018, as shown on Schedule B-21. This is an increase in the expense
2 accruals for both years compared to present amounts. These are costs that the Company
3 projects will remain unrecovered when the Turkey Point and St. Lucie nuclear power
4 plants are retired. The Company reflects reserves of \$22.093 million for the EOL M&S
5 and \$100.649 million for the nuclear fuel last core as of January 1, 2017. These reserve
6 amounts reflect prior recoveries from customers for these potential end of life liabilities.

7 **Q. ARE THESE PROJECTED END OF LIFE NUCLEAR COSTS ANALOGOUS TO**
8 **THE PROJECTED COSTS OF THE UNRECOVERED MATERIALS AND**
9 **SUPPLIES INCLUDED IN THE COMPANY'S FOSSIL DISMANTLING STUDY?**

10 A. Yes. These are the projected costs that will remain unrecovered through depreciation,
11 fuel, or non-fuel O&M expense when the nuclear and fossil power plants are retired, all
12 else equal. The costs should be treated consistently for nuclear decommissioning and
13 fossil dismantling. However, the Company excluded these costs from the nuclear
14 decommissioning cost estimates, even though it included similar costs in the fossil
15 dismantling cost estimates as shown in the fossil dismantling study. Exhibit No. ____
16 (KF-4) to Mr. Ferguson's Direct Testimony.

17 **Q. WHY IS THAT RELEVANT IN THIS PROCEEDING?**

18 A. It is relevant because the nuclear decommissioning trust funds are presently significantly
19 overfunded, yet the nuclear decommissioning expense accruals are set at \$0 instead of at
20 a negative expense accrual like the negative pension expense accrual. The nuclear
21 decommissioning expense accruals are set at \$0, ostensibly because the excess funds
22 cannot be removed from the nuclear trust funds, although this is also the case with the

1 pension trust funds. However, the similarity ends there because customers receive the
2 benefit of negative pension expense accruals, which effectively amortize the excess
3 funding to customers even though funds are not removed from the trust funds.

4 **Q. WHAT IS THE FUNDING STATUS OF THE NUCLEAR DECOMMISSIONING**
5 **TRUST FUNDS?**

6 A. The nuclear decommissioning trust funds are overfunded by \$379.284 million at
7 December 31, 2015, according to the response to Staff 1-90 Attachment 2 in Docket No.
8 150265-EI. Turkey Point 3 is overfunded by \$83.295 million. Turkey Point 4 is
9 overfunded by \$94.949 million. St. Lucie 1 is overfunded by \$125.661 million. St.
10 Lucie 2 is overfunded by \$75.379 million. This excess funding will continue to grow in
11 the future, all else equal, because the rate of return on the trust fund assets is greater than
12 the annual escalation in the decommissioning liability. I have attached a copy of the
13 relevant pages from this response as my Exhibit No. ___ (LK-7).

14 **Q. IN LIEU OF SETTING NEGATIVE DECOMMISSIONING EXPENSE**
15 **ACCRUALS IN THIS PROCEEDING, COULD THE COMMISSION**
16 **ELIMINATE THE EOL M&S INVENTORY AND NUCLEAR FUEL LAST**
17 **CORE EXPENSE ACCRUALS IN THIS RATE CASE SIMPLY BY ADDING THE**
18 **LIABILITIES FOR THESE TWO RETIREMENT COSTS TO THE**
19 **DECOMMISSIONING LIABILITY?**

20 A. Yes. This would allow the Commission to “net” the excess funding in the nuclear
21 decommissioning trust fund with the unrecovered EOL M&S and nuclear fuel last core.
22 This netting would reduce the excess funding for nuclear decommissioning by increasing

1 the decommissioning liabilities to include the full estimated cost of the EOL M&S and
2 nuclear fuel last core. This will allow customers to recover some of the excess
3 decommissioning funding eliminating the expense accruals and amortizing the reserves
4 (already recovered from customers in prior years) for these two nuclear retirement costs.
5 This can be done without increasing the nuclear decommissioning expense, which has
6 been arbitrarily set at \$0 rather than at a negative expense.

7 **Q. WHAT IS YOUR RECOMMENDATION?**

8 A. I recommend that the Commission add the nuclear EOL M&S and nuclear fuel last core
9 to the nuclear decommissioning liability, eliminate the expense accruals for these two
10 retirement costs, and amortize the reserves already recovered from customers over a 4
11 year amortization period. This results in consistent treatment of the nuclear
12 decommissioning and fossil dismantling liabilities and expense accruals and allows the
13 Commission to combine the excess funding for nuclear decommissioning with these
14 additional costs related to the retirement of the nuclear units.

15 **Q. HAVE YOU QUANTIFIED THE EFFECTS ON THE REVENUE**
16 **REQUIREMENT OF YOUR RECOMMENDATION?**

17 A. Yes. The effect is a total company reduction in the EOL M&S and nuclear fuel last core
18 expense accruals of \$43.847 million in 2017 and 2018, consisting of \$13.161 million for
19 the elimination of the expense accruals and another \$30.686 million for the amortization
20 of the related reserves over 4 years. The total reduction in expenses on a jurisdictional
21 basis is \$41.592 million in 2017 and \$41.595 million in 2018. The calculations are

1 shown on my Exhibit No. ____ (LK-8). I address the related effect on the rate base in the
2 Rate Base Issues section of my testimony.

3 **C. Proposed Increases in Depreciation Rates Are Excessive**

4 **1. The Depreciation Study Date Does Not Comply with FAC 25-6.0436 and**
5 **Unreasonably Increases Depreciation Rates**

6 **Q. PLEASE DESCRIBE RULE 25-6.0436 F.A.C. DEPRECIATION.**

7 A. This Rule addresses the filing requirements established by the Commission for utility
8 depreciation studies, including the timing and content of such studies. The present
9 version of the Rule, presumably applicable in this proceeding, was proposed on March 7,
10 2016 and adopted on April 28, 2016. The prior version of the Rule was in effect since
11 May 29, 2009. I have attached a copy of the present version of the Rule as my Exhibit
12 No. ____ (LK-9) and a copy of the prior version of the Rule as my Exhibit No. ____ (LK-
13 10).

14 **Q. WHAT IS THE REQUIREMENT SET FORTH IN THE RULE FOR THE**
15 **DEPRECIATION STUDY DATE?**

16 A. The depreciation study date must be consistent with the effective date of the change in
17 depreciation rates. The depreciation study date is the valuation date for the gross plant
18 and accumulated depreciation reserves balances, together with net salvage, used to
19 calculate the depreciation rates. Rule 25-6.0436(4)(d) states that “The plant balances
20 may include estimates. Submitted data including plant and reserve balances or company
21 planning involving estimates shall be brought to the effective date of such rates.”

22 **Q. WHAT DATE DID THE COMPANY DIRECT GANNETT FLEMING TO USE**
23 **FOR THE DEPRECIATION STUDY IN THIS PROCEEDING?**

1 A. The Company directed Gannett Fleming to use a depreciation study date of December 31,
2 2017, the *end of the 2017 test year* in this proceeding, even though the depreciation rates
3 will be effective on January 1, 2017. This required Gannett Fleming to use projected
4 gross plant and accumulated depreciation at December 31, 2017. In the projections of
5 accumulated depreciation at December 31, 2017, Gannett Fleming assumed that there
6 was no change in depreciation rates or expense starting January 1, 2017.

7 **Q. IS A STUDY DATE OF DECEMBER 31, 2017 CONSISTENT WITH THE**
8 **REQUIREMENTS SET FORTH IN THE COMMISSION'S RULE?**

9 A. No. The Rule requires the Company to use a January 1, 2017 study date to match the
10 proposed effective date of January 1, 2017. Instead, the Company used a December 31,
11 2017 study date.

12 **Q. ARE THERE OTHER REASONS WHY THIS MISMATCH BETWEEN THE**
13 **EFFECTIVE DATE OF THE RATES AND THE STUDY DATE IS**
14 **PROBLEMATIC?**

15 A. Yes. This mismatch renders the depreciation study completely unreliable and
16 significantly overstates the proposed depreciation rates. The mismatch results in an
17 internal inconsistency in the rate case. Fundamentally, the Company simultaneously
18 assumed that depreciation rates and expense would change on January 1, 2017 for
19 purposes of test year depreciation expense and related rate base components, but that they
20 would not change on January 1, 2017 for purposes of the depreciation study. These
21 mutually exclusive assumptions arbitrarily and erroneously increased the proposed
22 depreciation rates, expense and the revenue requirement.

1 **Q. HOW DID THIS ARBITRARILY INCREASE DEPRECIATION RATES AND**
2 **EXPENSE AND THE REVENUE REQUIREMENT?**

3 A. It introduced multiple errors into the depreciation study. The most significant error was
4 shaving one year off the remaining service lives of each plant account compared to the
5 beginning of the test year when the depreciation rates will be implemented. This error
6 improperly increased the calculated depreciation rates. For example, if there is gross
7 plant of \$100 in account 343 with a service life of 20 years at the beginning of the year,
8 the depreciation rate would be 5.0%, all else equal. However, the service life would be
9 reduced to 19 years at the end of the year, and the depreciation rate would be 5.26%, all
10 else equal, under the depreciation study date. However, the depreciation rate based on
11 the 19 year life will be applied to the gross plant that still has a remaining 20 year life at
12 the beginning of the year to calculate the depreciation expense in the test year. In this
13 example, the result of this error will be that the gross plant is assumed then to have only
14 18 years remaining at the end of the test year, not the 19 years assumed in the
15 depreciation study. The gross plant will be fully depreciated after 19 years after the
16 beginning of the test year and there will be no depreciation expense in the final year of
17 the service life, all else equal.

18 Another significant error is that it increased the gross plant that must be recovered
19 over the service life to include all projected plant additions during 2017. By definition,
20 that plant was not in service or subject to depreciation at the beginning of the year. Yet
21 the depreciation rate was increased to recover the cost of that plant.

1 Yet another significant error is that it understated the accumulated depreciation at
2 the December 31, 2017 study date because the depreciation expense projected for 2017
3 and reflected in the accumulated depreciation was based on the old depreciation rates, not
4 the new rates that presumably will be in effect on January 1, 2017. This results in a
5 greater service value (gross plant less accumulated depreciation plus net salvage) to be
6 recovered and compounds the effect of the service life error and the gross plant in service
7 error.

8 **Q. IS THERE ANY WAY TO CREDIBLY MODIFY THE DEPRECIATION STUDY**
9 **TO OVERCOME THE FUNDAMENTAL PROBLEMS WITH THE MISMATCH**
10 **BETWEEN THE EFFECTIVE DATE OF THE RATES AND THE STUDY DATE?**

11 A. No. This depreciation study cannot not be completely reformed to correct the
12 depreciation study date and eliminate the mismatch and the attendant problems in this
13 proceeding. A new comprehensive depreciation study would have to be performed using
14 plant, accumulated depreciation, and related net salvage, as of the effective date of the
15 new rates, or January 1, 2017.

16 **Q. HOW CAN THE COMMISSION ADDRESS THIS FUNDAMENTAL PROBLEM**
17 **WITH THE DEPRECIATION STUDY?**

18 A. It is not possible to perform a new comprehensive depreciation study, review the study in
19 this or another proceeding, and incorporate the adjudicated results in new base rates on
20 January 1, 2017. The most appropriate response is to reject the depreciation study and
21 the proposed depreciation rates altogether, and retain the present depreciation rates. This

1 can be accomplished by removing the Company's adjustments to depreciation expense
2 and reducing the revenue requirements accordingly.

3 Another and far less appropriate alternative is to attempt to modify the
4 depreciation study to correct some of the numerous obvious errors, although not all of the
5 errors can be corrected without a new comprehensive depreciation study. One error that
6 can be corrected is to recalculate the proposed depreciation rates assuming that 1 year is
7 added to the service lives for each plant account; however, that still does not correct the
8 other significant errors that I described.

9 **Q. WHAT IS YOUR RECOMMENDATION?**

10 A. I strongly recommend that the Commission reject the Company's proposed depreciation
11 rates and expense and instead retain the present depreciation rates and the resulting
12 expense. On its face, the depreciation study does not comply with the relevant Rule and
13 creates a mismatch between the effective date of the new rates and the study date that
14 cannot be fully remedied without performing a new comprehensive depreciation study.

15 Alternatively, I recommend that the Commission make numerous adjustments that
16 only partially correct for the improper study date and other errors in the Gannett
17 Fleming study. These adjustments include shortening the service lives by 1 year,
18 rejecting the proposal to separate certain accounts into multiple accounts to increase the
19 depreciation rates, and using service lives for Scherer 4 and St. John's River Power
20 Project that are consistent with the operators' projected service lives for those facilities. I
21 address each of these alternatives in the following sections of my testimony. I reiterate
22 that it is not possible to correct the other errors in gross plant and accumulated

1 depreciation resulting from the erroneous study date without performing a new
2 comprehensive depreciation study.

3 **Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE**
4 **REQUIREMENTS OF YOUR PRIMARY RECOMMENDATION TO REJECT**
5 **THE PROPOSED DEPRECIATION RATES ALTOGETHER?**

6 A. Yes. The effect is a reduction in depreciation expense of \$195.144 million in 2017 and
7 \$198.276 million in 2018 and a corresponding increase in rate base of \$97.249 million in
8 2017 and \$294.242 million in 2018. The net of the expense and related rate base and cost
9 of capital effects results in a reduction in the revenue requirement of \$189.510 million in
10 2017 and \$180.513 million in 2018, utilizing the amounts supplied on Schedules B-02
11 and C-02. I reflect these quantifications in the tables in the Summary section of my
12 testimony.

13 **Q. HAVE YOU QUANTIFIED THE EFFECT OF YOUR ALTERNATIVE**
14 **RECOMMENDATION TO SHORTEN THE SERVICE LIVES FOR EACH**
15 **PLANT ACCOUNT BY ONE YEAR?**

16 A. Yes. The effect is a reduction in depreciation expense of \$67.551 million in 2017 and
17 \$70.509 million in 2018 and a reduction in the revenue requirement of \$65.501 million in
18 2017 and \$64.270 million in 2018. I do not reflect these alternative quantifications in the
19 tables in the Summary section of my testimony. The calculations are detailed in my
20 Exhibit No. ____ (LK-11).

1 **2. The Depreciation Study Improperly Increases Depreciation Rates by Separating**
2 **Account 343 into Two Subaccounts**

3 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL TO SPLIT ACCOUNT 343**
4 **INTO TWO SUBACCOUNTS.**

5 A. In the Gannett Fleming depreciation study, the Company proposes to split account 343
6 Prime Movers into two subaccounts, 343 *General* and 343.2 *Capital Spare Parts*. The
7 Company argues that certain components of its combined cycle units have shorter lives
8 than the service lives of the entire units. In the Gannett Fleming study, Mr. Allis split the
9 gross plant and accumulated depreciation between the two proposed subaccounts using
10 the theoretical depreciation reserve and applied different survivor curves, net salvage, and
11 service lives to each subaccount. The result was a minor reduction in the account 343
12 *General* subaccount for the various generating units, but a significant increase in the
13 depreciation rates for the 343.2 *Capital Spare Parts* subaccount. For example, the
14 present account 343 depreciation rate for Martin 8 is 4.30%. However, the Company
15 proposes an account 343 *General* depreciation rate of 3.62% and an account 343.2
16 *Capital Spare Parts* depreciation rate of 7.98% for that unit.

17 **Q. WHY SHOULD THE COMMISSION REJECT THIS COMPANY PROPOSAL?**

18 A. There are several reasons. First, the shorter lives of certain components are already
19 addressed in the average service lives and retirement survivor curves reflected in the
20 present depreciation rates. Second, and similarly, the interim net salvage is already
21 addressed in the net salvage rates reflected in the present depreciation rates. Third, the
22 depreciation study fails to properly separate the historic data between the two new
23 proposed subaccounts. Instead, it assumes that the historic interim retirements and net

1 salvage that have applied generally will continue to apply to account 343 *General*, which
2 is incorrect, and assumes that a different and more aggressive interim retirement curve
3 and different net salvage apply for account 343.2 *Capital Spare Parts*, which also is
4 incorrect due to the Company's accounting for Capital Spare Parts, which overstates both
5 parameters.

6 **Q. WHAT IS YOUR RECOMMENDATION?**

7 A. I recommend that the Commission reject the Company's proposal to split account 343
8 into two subaccounts and increase depreciation rates and expense in that manner. I note
9 that this is one of my alternative recommendations in the event that the Commission does
10 not adopt my primary recommendation to reject the depreciation study and the
11 Company's proposed depreciation rates altogether.

12 **Q. HAVE YOU QUANTIFIED THE EFFECT OF THIS ALTERNATIVE**
13 **RECOMMENDATION?**

14 A. Yes. The effect is to reduce the depreciation rates and reduce depreciation expense by
15 \$136.013 million in each of 2017 and 2018. This reduces the revenue requirement by
16 \$131.885 million in 2017 and by \$123.508 million in 2018. The resulting depreciation
17 rates and the calculation of the reduction in depreciation expense is detailed in my
18 Exhibit No. ___ (LK-12).

19 **3. The Depreciation Study Improperly Increases Depreciation Rates by Allocating**
20 **Depreciation Reserves for Existing Account 343 Into New Subaccounts 343 and**
21 **343.2 Using Theoretical Depreciation Reserves Instead of Gross Plant**

22 **Q. PLEASE DESCRIBE THE METHODOLOGY USED BY MR. ALLIS TO**
23 **ALLOCATE THE ACCUMULATED DEPRECIATION RESERVES BETWEEN**

1 **THE TWO PROPOSED SUBACCOUNTS, 343 GENERAL AND 343.2 CAPITAL**
2 **SPARE PARTS.**

3 A. Mr. Allis allocated the total projected accumulated depreciation at December 31, 2017 for
4 account 343 to the two subaccounts based on the theoretical reserves for each new
5 subaccount rather than the gross plant for each new subaccount, the manner in which the
6 present single account historically has been depreciated.

7 **Q. IS THIS ALLOCATION BASED ON THE THEORETICAL RESERVE**
8 **APPROPRIATE?**

9 A. No. This allocation results in an excessive allocation of the depreciation reserve to
10 subaccount 343, which has a longer service life, and an inadequate allocation to
11 subaccount 343.2, which has a shorter service life. Simply by shifting more of the
12 depreciation reserve to the subaccount with the longer life, Mr. Allis was able to increase
13 the net book value in account 343.2 recoverable over the shorter service life, and in that
14 manner, increase the overall depreciation expense for the two subaccounts on a combined
15 basis.

16 There presently is only a single depreciation rate for account 343 for each power
17 plant. That means that each dollar of plant in account 343 generated the same
18 depreciation expense and accumulated depreciation through the date of the depreciation
19 study or until account 343 is split into two subaccounts. In other words, if and when the
20 gross plant in account 343 is split into two subaccounts, then the accumulated
21 depreciation should be allocated between the two subaccounts in the same proportion as
22 the gross plant was allocated.

1 Instead, Mr. Allis calculated the theoretical accumulated depreciation for the two
2 subaccounts, which assumes that the parameters that he proposes for each subaccount
3 were in effect *all years historically* and will be in effect all years prospectively. That is a
4 false assumption historically. This false assumption resulted in more accumulated
5 depreciation allocated to account 343 *General* and less accumulated depreciation
6 allocated to the new account 343.2 *Capital Spare Parts*. This allocation
7 disproportionately increased the net book value of account 343.2 *Capital Spare Parts*,
8 which then is depreciated over a proposed shorter service life.

9 **Q. PLEASE PROVIDE AN EXAMPLE OF HOW THIS ERRONEOUS**
10 **ALLOCATION METHODOLOGY OVERSTATES THE DEPRECIATION**
11 **RATES FOR ACCOUNT 343.2.**

12 A. I will use Martin Unit 4 for this example. I have replicated the relevant pages from the
13 depreciation study as my Exhibit No. ___ (LK-13). Account 343, before the proposed
14 split, consisted of \$265.361 million in gross plant and \$77.998 million in accumulated
15 depreciation (or 29% of gross plant). After the proposed split, account 343 *General*
16 consisted of \$169.519 million in gross plant and \$64.562 million (or 38% of gross plant)
17 in accumulated depreciation, resulting in a net book value of \$104.957 million to recover
18 over the proposed remaining service life of 15.33 years, or \$6.847 million annually.
19 After the proposed split, account 343.2 *Capital Spare Parts* consisted of \$95.842 million
20 in gross plant and \$13.436 million (or only 14% of gross plant) in accumulated
21 depreciation, resulting in a net book value of \$82.406 million to recover over 6.88 years,
22 or \$11.978 million annually. The sum of the depreciation expense to recover the net
23 book value, disregarding net salvage, is \$18.824 million.

1 The proposed depreciation expense would be significantly less if account 343 had
2 been allocated properly on gross plant. Gross plant before the split is \$265.361 million
3 and accumulated depreciation is \$77.998 million. Using gross plant as the basis for
4 allocation assigns account 343 \$49.827 million in accumulated depreciation, a net book
5 value of \$119.692 million, and depreciation expense of \$7.808 million. It results in an
6 allocation of accumulated depreciation to account 343.2 of \$28.171 million, net book
7 value of \$67.671 million, and depreciation expense of \$9.836 million. The sum of the
8 annual depreciation expense to recover the net book value, disregarding net salvage, is
9 \$17.644 million, or \$1.181 million less than if the Company's incorrect allocation
10 methodology is used.

11 **Q. WHAT IS YOUR RECOMMENDATION?**

12 A. I recommend that the Commission reject the Company's proposal to split account 343
13 into two subaccounts thereby increasing depreciation rates and expense in that manner.
14 However, if the Commission adopts the Company's proposal, then it should properly
15 allocate the accumulated depreciation between the two subaccounts using gross plant, not
16 the Company's proposed theoretical depreciation reserves. As I noted with respect to the
17 proposal to split account 343, this recommendation is an alternative only in the event the
18 Commission does not adopt my primary recommendation to maintain the present
19 depreciation rates and then only in the event the Commission does not adopt my
20 recommendation to not split account 343 into two subaccounts.

21 **Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT**
22 **OF THIS ALTERNATIVE RECOMMENDATION?**

1 A. Yes. The effect is a reduction in depreciation expense of \$5.505 million and in the
2 revenue requirement of \$5.338 million for 2017 and in depreciation expense of \$5.505
3 million and in the revenue requirement of \$4.999 million for 2018. The calculations are
4 shown on my Exhibit No. ____ (LK-14).

5 **4. The Depreciation Study Fails to Use Operators' Probable Retirement Dates for**
6 **Scherer 4 and SJRPP Service Lives and Increases Depreciation Rates by**
7 **Unreasonably Shortening Remaining Service Lives**

8 **Q. WHAT PROBABLE RETIREMENT DATES DID FPL USE FOR THE SCHERER**
9 **4 AND SJRPP SERVICE LIVES?**

10 A. The Gannett Fleming study uses a probable retirement date of 2039 for the Company's
11 ownership share of Scherer 4 and its share of common facilities. Georgia Power
12 Company operates Scherer 4, along with Scherer 1, 2, and 3. The study uses a probable
13 retirement date of 2038 for SJRPP. Jacksonville Electric Authority ("JEA") operates
14 SJRPP. FPL owns 20% of SJRPP. These dates are shown on page III-6 of the study.
15 The probable retirement dates for Scherer 4 and SJRPP result in projected life spans, or
16 service lives, of 50 years.

17 **Q. HOW DO THE FPL PROBABLE RETIREMENT DATES AND LIFE SPANS**
18 **COMPARE TO THE PROBABLE RETIREMENT DATES AND LIFE SPANS**
19 **DETERMINED BY THE OPERATORS OF THE PLANTS?**

20 A. The probable retirement date assumed by FPL for Scherer 4 is much earlier than Georgia
21 Power Company assumes for the other 3 units and common facilities at the site. Georgia
22 Power Company assumes probable retirement dates for Unit 1 in 2047, Unit 2 in 2049,
23 and Unit 3 and common facilities in 2052, reflecting life spans of 65 years, according to

1 information filed in its 2016 IRP before the Georgia Public Service Commission in
2 Docket Nos. 40161 and 40162. FPL was asked to provide the probable retirement date
3 assumed by Georgia Power Company for Scherer 4, and cited the 65 year life span
4 reflected in Georgia Power Company's IRP, according to its response to SFHHA 162. I
5 have attached a copy of this response as my Exhibit No. ____ (LK-15).

6 The Operator of the Scherer units has spent significant sums to achieve
7 compliance with continually evolving environmental requirements, including MATS, and
8 FPL has incurred its share of those costs, all of which are recovered in base rates or the
9 environmental recovery clause.

10 I was unable to locate the probable retirement date for SJRPP in publicly
11 available information. FPL was asked to provide the probable retirement date assumed
12 by JEA for SJRPP, but it stated that it did not have that information, according to its
13 response to SFHHA 162. I have attached a copy of this response as my Exhibit No. ____
14 (LK-15).

15 **Q. WHAT PROBABLE RETIREMENT DATES AND LIFE SPANS SHOULD THE**
16 **COMMISSION USE FOR SCHERER 4 AND SJRPP?**

17 A. The Commission should use a probable retirement date of 2052 for Scherer 4 and
18 common facilities. In the depreciation study, FPL assumed a 50 year life span for
19 Scherer 4. However, it is highly unlikely that Scherer 4 will be retired before Scherer 3.
20 In contrast to FPL's proposed life span, Georgia Power Company uses a 65 year life span
21 for the Scherer units, which results in a probable retirement date for Unit 3 in 2052. It is
22 highly unlikely that Scherer 4, even if retired for some unusual reason before Scherer 3,

1 will be dismantled before the other three units at the site. Demolition of retired units is
2 normally delayed until all units are retired at the site. Georgia Power Company and FPL
3 have made significant investments in recent years to comply with federal and state
4 environmental regulations and, as the minority owner, FPL does not have the unilateral
5 right to shut down the facility in 2039.

6 In the absence of any credible information to the contrary from FPL or JEA, the
7 Commission should use a similar probable retirement date of 2052 for SJRPP, reflecting
8 a 65 year life span.

9 **Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT**
10 **OF YOUR RECOMMENDATIONS TO MODIFY THE SERVICE LIVES FOR**
11 **SCHERER 4 AND SJRPP?**

12 A. Yes. The effect is a reduction in the depreciation rates and in depreciation expense of
13 \$18.931 million in 2017 and 2018. This would reduce the revenue requirement by
14 \$18.357 million in 2017 and by \$17.191 million in 2018. The calculations are shown on
15 my Exhibit No. ____ (LK-16).

16 **D. Proposed Increases in Dismantlement Costs and Expense Are Excessive**

17 **1. Estimates of Fossil Dismantlement Costs Should Not Include Contingencies, Let**
18 **Alone An Increase In The Percentage from 16% to 20%**

19 **Q. PLEASE DESCRIBE THE CONTINGENCIES INCLUDED IN THE PROPOSED**
20 **DISMANTLING COST ESTIMATES AND HOW THEY COMPARE TO THE**
21 **CONTINGENCIES INCLUDED IN THE PRIOR DISMANTLING COST**
22 **ESTIMATE.**

1 A. The Company included contingencies of 20.0% in the present cost estimate reflected in
2 the dismantling cost study. Exhibit No. ____ (KF-4) attached to Mr. Ferguson's Direct
3 Testimony. The Company included contingencies of 16.0% in the prior dismantling cost
4 estimate.

5 The Company offered no support for the increase from 16.0% to 20.0% other than
6 that contingencies of this magnitude were appropriate and had been included in
7 dismantling cost estimates provided to the Commission by another utility in the state, and
8 that Burns McDowell had underestimated various dismantling projects in the past. None
9 of those claimed reasons justify contingencies of any magnitude at this early pre-
10 retirement date or an increase from 16.0% to 20.0%. At this stage, the dismantling cost
11 estimates remain cost estimates, with or without contingencies.

12 **Q. AS A STARTING POINT, DOES FPL'S PROPOSAL TO INCLUDE**
13 **CONTINGENCIES REPRESENT A BALANCED APPROACH?**

14 A. No. The dismantling cost estimates it presented are the best estimates based on the
15 requirements and information available when they were developed. However, as with
16 any estimate, the actual cost may be more or less. It is premature and unnecessary to
17 assume decades before retirement that the best estimate is insufficient. The best estimate
18 may be excessive. Only when the costs actually are incurred will there be certainty as to
19 the actual costs. If and when contractors are retained to actually dismantle and restore the
20 sites at some date in the future, it may be appropriate to add contingencies to contract
21 costs for management purposes, but it is entirely inappropriate to do so at this time as the
22 contingencies represent a one-way correction only.

1 The Commission should limit recovery to the best estimate in this and subsequent
2 rate proceedings. This provides an appropriate balance between the Company and its
3 customers. Customers are not required to pay excessive amounts in addition to the best
4 estimate and the Company is protected because it has the opportunity to periodically
5 update the cost estimates based on current costs, engineering, and technical processes.

6 **Q. EVEN IF THE COMMISSION ALLOWS CONTINGENCIES IN THE**
7 **DISMANTLING COST ESTIMATE, IS THERE ANY VALID REASON TO**
8 **INCREASE THE CONTINGENCIES FROM THE PRIOR 16.0% TO THE**
9 **PROPOSED 20.0%?**

10 A. No. The Company has provided no justification for changing the contingency from the
11 prior 16.0%, to 20.0%. As the industry has accumulated experience in dismantling (i.e.,
12 more actual dismantlements, providing additional information based on actual experience
13 compared to prior estimates) estimates should be increasingly accurate, not less accurate.
14 Yet, the proposed increase in contingencies suggests precisely the opposite.

15 **Q. WHAT IS YOUR RECOMMENDATION?**

16 A. I recommend that the Commission remove the entirety of the contingencies from the
17 dismantlement cost estimates and the calculation of the dismantlement expense. If it does
18 not remove the entirety of the contingencies, then it should reduce the contingencies to
19 10.0% of the dismantlement estimate, but in no event greater than the 16.0% included in
20 the prior dismantling estimate.

21 **Q. HAVE YOU QUANTIFIED THE EFFECT OF YOUR RECOMMENDATION?**

1 A. Yes. The effect removing the contingencies from the dismantlement cost estimate is to
2 reduce dismantlement expense by \$4.372 million in 2017 and \$4.375 million in 2018.
3 The calculations are shown on my Exhibit No. ____ (LK-17).

4 **2. Dismantlement Expenses Should Not Be Based On Four Year Average of Escalated**
5 **Expenses**

6 **Q. PLEASE DESCRIBE HOW THE COMPANY CALCULATED THE**
7 **DISMANTLEMENT EXPENSE INCLUDED IN THE 2017 AND 2018 REVENUE**
8 **REQUIREMENT.**

9 A. The Company calculated the annual dismantlement expense amortization based on the
10 remaining lives of each generating plant using the dismantling cost estimates in 2015
11 dollars for each plant, including the 20.0% contingencies. The Company then escalated
12 the annual amount by 3.5% for 2016, 3.7% for 2017, 3.9% for 2018, 3.9% for 2019, and
13 3.9% for 2020. These calculations are shown in Section 5 of the Dismantling Study. I
14 have attached a copy of the pages from Section 5 showing the annual escalation rates as
15 my Exhibit No. ____ (LK-18).

16 Finally, the Company summed the escalated annual amounts for the years 2017
17 through 2020 and divided the sum by 4 to determine the annual expense included in the
18 2017 and 2018 revenue requirement. This calculation is shown in Section 6 of the
19 Dismantling Study. I have attached a copy of the pages from Section 6 showing the
20 calculation of proposed expense accruals for 2017 and 2018 as my Exhibit No. ____ (LK-
21 19).

22 **Q. IS THE COMPANY'S METHODOLOGY APPROPRIATE?**

1 A. No. Among other problems, it fails to reflect the increase in the accumulated reserve for
2 dismantling over the same 4 year period. The expense accrual and the accumulated
3 reserve are interrelated. If it is appropriate to escalate the expense accrual over the four
4 year period 2017 through 2020, then it is necessary to include the increase in the
5 accumulated reserve over the same 4 year period. Otherwise, there is a mismatch
6 between the expense accruals and accumulated reserves.

7 **Q. WHAT IS THE BEST METHODOLOGY TO REFLECT THIS**
8 **INTERRELATIONSHIP?**

9 A. The best methodology is to calculate the annuitized or leveled expense, including the
10 offset due to the return on the annual expense accruals and to remove the increase in the
11 reserve from working capital in rate base in 2017 and 2018. In this manner, the expense
12 accruals and return on the accumulated reserve are synchronized over the 4 year period.

13 **Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT**
14 **OF YOUR RECOMMENDATION?**

15 A. Yes. The effect is a reduction in the revenue requirement of \$0.214 million in 2017 and
16 \$0.469 million in 2018. I calculated the monthly expense accruals based on the
17 Company's proposed annual expense accruals for the years 2017 through 2020. I then
18 calculated the return on the increase in the accumulated reserve each month and
19 discounted the return using the Company's proposed cost of capital, calculated the
20 monthly annuity, accumulated monthly annuity, and return on the accumulated monthly
21 annuity. I then subtracted the 13 month average of the return on the accumulated
22 monthly annuity from the 13 month average of the return on the accumulated monthly

1 reserve under the Company's approach for 2017 and 2018 to determine the reduction in
2 the revenue requirement for each year. The calculations are detailed on my Exhibit No.
3 ____ (LK-20).

4 **3. The Dismantlement Estimates Fail to Use Operators' Probable Retirement Dates for**
5 **Scherer 4 and SJRPP Service Lives and Increase Dismantlement Expense by**
6 **Unreasonably Shortening Remaining Service Lives**

7 **Q. SHOULD THE DISMANTLEMENT EXPENSE ACCRUALS REFLECT THE**
8 **SAME SERVICE LIVES AS THE DEPRECIATION RATES FOR SCHERER 4**
9 **AND SJRPP?**

10 A. Yes. The service lives used for depreciation and dismantlement expense should be
11 consistent.

12 **Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT**
13 **OF YOUR RECOMMENDATION TO MODIFY THE SERVICE LIVES FOR**
14 **SCHERER 4 AND SJRPP?**

15 A. Yes. The effect is a reduction in the dismantling expense of \$0.960 million in 2017 and
16 \$0.961 million in 2018. The calculations are shown on my Exhibit No. ____ (LK-21).

17 **E. The Proposed Capital Recovery Amortization of Retired Plant Costs Is Excessive**
18 **Due to An Unduly Short 4 Year Amortization Period; The Commission Should Use**
19 **A More Reasonable 10 Year Amortization Period**

20 **Q. PLEASE DESCRIBE THE COMPANY'S REQUEST FOR CAPITAL**
21 **RECOVERY AMORTIZATION OF RETIRED PLANT COSTS.**

22 A. The Company proposes recovery of these retired plant costs over a 4 year amortization
23 period, according to Mr. Ferguson and as shown on his Exhibit No. ____ (KF-3). The
24 retired plants include Turkey Point Unit 1; Putnam Units 1, 2 and common; Fort

1 Lauderdale gas turbines; Fort Myers gas turbines; Port Everglades gas turbines; and
2 Putnam transmission. Mr. Ferguson states that all of these assets will be retired by the
3 start of the 2017 test year. Mr. Ferguson separates the proposed capital recovery between
4 base rate and ECRC clause recovery.

5 **Q. WHAT IS THE COMPANY’S BASIS FOR THE PROPOSED 4 YEAR**
6 **AMORTIZATION PERIOD?**

7 A. In his testimony, Mr. Ferguson suggests that the 4 year amortization period is found in
8 Rule 25-6.0436 F.A.C., stating “. . . pursuant to Rule 25-6.0436 F.A.C., FPL has reflected
9 its proposed capital recovery schedules, all of which would be recovered over a four year
10 period.” Ferguson Direct at 11.

11 There is no such requirement in Rule 25-6.0436 F.A.C. I have attached a copy of
12 this Rule as my Exhibit No. ____ (LK-9). Nor could the Company identify any provision
13 in the Rule that requires a 4 year amortization period when asked to identify any such
14 provision in SFHHA Interrogatory No. 57. I have attached a copy of SFHHA
15 Interrogatory No. 57 as my Exhibit No. ____ (LK-22).

16 In response to SFHHA Interrogatory No. 57, the Company cited the Rule in
17 support of its request for recovery where there is a calculated deficiency and where the
18 “utility demonstrates that (1) replacement of an installation or group or installations is
19 prudent and (2) the associated investment will not be recovered by the time of retirement
20 through the normal depreciation process.” However, that provision of the Rule only
21 addresses the ability to recover, not the length of the recovery or amortization period.

1 Finally, in response to SFHHA Interrogatory No. 57, the Company cited the
2 settlements in Docket Nos. 080677-EI, 090130-EI, and 1200015-EI where it was allowed
3 to amortize such costs over a 4 year period. However, the settlements in those cases are
4 not precedent, and in any event, addressed only the capital recovery costs at issue in those
5 proceedings, not the capital recovery costs at issue in this proceeding.

6 **Q. IS THERE ANY COMPELLING REASON TO USE A 4 YEAR AMORTIZATION**
7 **PERIOD?**

8 A. No. All the plant subject to capital recovery is retired. Given that reality, the
9 amortization and recovery period is not dependent on the remaining service lives of the
10 assets. On that basis, the Commission has greater discretion to determine the appropriate
11 amortization and recovery period. In doing so, the Commission should consider that a
12 longer amortization and recovery period minimizes both the initial increase in costs and
13 revenue requirements, and the reductions in both after the amortization is completed. In
14 such cases, there should be a balance between the Company and its customers,
15 particularly when the utility earns a return on the unamortized balance, which the
16 Company has requested in this proceeding. On an economic basis, there is no harm to the
17 Company regardless of whether the amortization and recovery period is shorter, such as 4
18 years, or longer, such as 10 or 20 years. On the other hand, there is significant benefit to
19 customers from minimizing the annual rate effect through use of a longer amortization
20 and recovery period.

21 **Q. WHAT IS YOUR RECOMMENDATION?**

1 A. I recommend that the Commission adopt a 10 year amortization period. This strikes a
2 reasonable balance between the Company and its customers and avoids adding excessive
3 accelerated recovery on top of the costs for new generation that replaced the retired
4 generating plants.

5 **Q. HAVE YOU QUANTIFIED THE EFFECTS OF YOUR RECOMMENDATION?**

6 A. Yes. The effect is a reduction in amortization expense of \$22.543 million and \$22.561
7 million and in the revenue requirement of \$22.574 million and \$22.592 million in 2017
8 and 2018, respectively. There is a partially offsetting increase in the revenue requirement
9 due to an increase in the rate base, which I address in the Rate Base Issues section of my
10 testimony. The calculations are shown on my Exhibit No. ____ (LK-23).

11 **F. Rate Case Expenses Are Not Justified**

12 **Q. PLEASE DESCRIBE THE COMPANY'S REQUEST FOR RECOVERY OF**
13 **RATE CASE EXPENSE.**

14 A. The Company estimates that it will incur \$4.925 million in rate case expenses for this
15 proceeding and proposes a deferral and 4 year amortization of these expenses.

16 **Q. WAS IT NECESSARY FOR FPL TO FILE THIS RATE CASE?**

17 A. No. This case never should have been filed. No rate increase is justified for the 2017 test
18 year. The proposed additional 2018 test year for "subsequent year adjustments" and the
19 proposed additional May 2020 test year for the Okeechobee "limited scope adjustment"
20 are inappropriate, as I previously explained. The rate increases are driven in part by
21 adjustments that are contrary to Commission policy or represent inappropriate departures
22 from FPL's past practices or applicable rules.

1 **Q. IF FPL HAD NEVER FILED THIS CASE, WOULD IT HAVE INCURRED RATE**
2 **CASE EXPENSES?**

3 A. No.

4 **Q. WHAT IS YOUR RECOMMENDATION?**

5 A. I recommend that the Commission deny recovery of the Company's rate case expenses.
6 This case never should have been filed and the rate case expenses never should have been
7 incurred. The Commission should make it clear that the utility is at risk for its expenses
8 if it cannot justify the relief sought. This is an essential component of regulatory
9 accountability. The Company is unjustified filing, as it is not entitled to a rate increase.
10 Given this circumstance, it is only equitable that the Company bear its own costs in this
11 proceeding.

12 **IV. COMMISSION SHOULD ADJUST VARIOUS RATE BASE COMPONENTS AND**
13 **AMOUNTS**

14 **A. All Nuclear Fuel in Process Should Be Qualified for AFUDC and Removed from**
15 **Rate Base**

16 **Q. PLEASE DESCRIBE THE COMPANY'S REQUEST FOR NUCLEAR FUEL IN**
17 **PROCESS IN RATE BASE.**

18 A. The Company included \$406.621 million of nuclear fuel in process ("NFIP") in rate base
19 in 2017 and \$412.137 million in 2018, ostensibly based on the criteria set forth in FPSC
20 Rule 25-6.0141 for the accrual of AFUDC, according to its response to SFHHA
21 Interrogatory No. 175. I have attached a copy of this response as my Exhibit No. ____
22 (LK-24).

23

1 **Q. PLEASE DESCRIBE THE TWO ALTERNATIVES THAT PROVIDE THE**
2 **UTILITY RECOVERY OF COSTS INCURRED TO FINANCE CONSTRUCTION**
3 **PROJECTS?**

4 A. There are two alternatives for the recovery of the costs incurred to finance projects during
5 construction. One alternative is to provide the utility current recovery of the financing
6 costs by including the NFIP in rate base during construction. The other alternative is to
7 add the financing costs to the NFIP in the form of allowance for funds used during
8 construction (“AFUDC”) and to provide the utility recovery of the AFUDC through a
9 return of (depreciation) and a return on the AFUDC included in plant in-service over the
10 lives of the underlying assets. Thus, the recovery is a matter of timing because the net
11 present value generally is considered to be equivalent if the return on rate base, the
12 AFUDC rate, and the discount rate are equivalent.

13 **Q. GIVEN THAT THE RECOVERY IS A MATTER OF TIMING, SHOULD THE**
14 **RECOVERY OF THE FINANCING COSTS BE UPFRONT OR OVER THE**
15 **LIVES OF THE UNDERLYING ASSETS?**

16 A. The recovery generally should be over the lives of the underlying assets for several
17 reasons. First, the financing cost during construction is a cost of the asset, similar to all
18 the other costs included in NFIP. There is no compelling reason to provide upfront
19 recovery of one component of the asset’s cost. The Rule itself explicitly recognizes that
20 the Commission may establish different approaches than set forth in the Rule.

21 Second, there is the issue of intergenerational equity. If the recovery is upfront
22 through NFIP in rate base, then today’s customers pay for a component of the asset’s cost

1 before it provides any service and then future customers are relieved of a cost of service
2 that should be allocated to and borne by them as the nuclear fuel is used and amortized.
3 This is particularly true when the customer demographics reflect transient and older
4 residential customers as well as significant customer growth over the lives of the assets.
5 In other words, NFIP in rate base provides an unnecessary and inappropriate subsidy
6 from today's customers, many of whom will not continue taking service from FPL years
7 into the future, to future generations of customers, many of whom will be new customers
8 of FPL in the future.

9 Third, by definition, assets have lives that extend beyond the test year. Thus, all
10 costs associated with the construction or completion of an asset that is constructed or
11 acquired to provide service should be recovered from customers over the period that the
12 asset provides service to those customers. This is the concept underlying the
13 capitalization of plant costs and the depreciation and recovery of those costs over the
14 assets' estimated service lives.

15 **Q. PLEASE DESCRIBE THE COMMISSION'S RULE CONCERNING AFUDC.**

16 A. FAC Rule 25-6.0141(1)(a) sets forth certain criteria for the accrual of AFUDC for NFIP
17 and construction work in progress ("CWIP") projects that "involve gross additions to
18 plant in excess of 0.5 percent of the sum of the total balance in Account 101-Electric
19 Plant in Service, and Account 106, Completed Construction not Classified, at the time the
20 project commences" and "are expected to be completed in excess of one year after
21 commencement of construction." I have attached a copy of this Rule as my Exhibit No.
22 ____ (LK-25) for ease of reference.

1 **Q. DOES THE RULE PROVIDE THE COMMISSION DISCRETION TO**
2 **CONSIDER THE POTENTIAL IMPACT OF NFIP ON RATES AND FOR THE**
3 **ELIGIBILITY OF COSTS FOR AFUDC?**

4 A. Yes. FPSC Rule 25-6.0141(1)(g) states that “On a prospective basis, the Commission,
5 upon its own motion, may determine that the potential impact on rates may require the
6 exclusion of an amount of CWIP from a utility’s rate base that does not qualify for
7 AFUDC treatment per paragraph (1)(a) and to allow the utility to accrue AFUDC on that
8 excluded amount.”

9 **Q. SHOULD THE COMMISSION EXCLUDE THE NFIP FROM RATE BASE?**

10 A. Yes. This case provides an opportunity for the Commission to ensure that these nuclear
11 fuel costs are removed from base rates. The financing costs are a legitimate component
12 of the nuclear fuel costs and are properly borne by the customers that are served by these
13 assets. The Commission can achieve this objective by removing these NFIP costs from
14 rate base in this proceeding and authorizing the Company to use AFUDC instead.
15 Providing a current return on the cost of these NFIP projects in this proceeding
16 inappropriately forces today’s customers to pay a portion of the cost of the assets before
17 they are placed in-service rather than allocating the financing costs on these projects
18 during construction to the customers who will be served by the assets.

19 **Q. WHAT IS YOUR RECOMMENDATION?**

20 A. I recommend that the Commission remove the NFIP from rate base and direct the
21 Company to accrue AFUDC during construction.

1 **Q. HAVE YOU QUANTIFIED THE EFFECT ON FPL'S REVENUE**
2 **REQUIREMENT OF YOUR RECOMMENDATION?**

3 A. Yes. The effect is to reduce the Company's claimed revenue requirement by \$40.176
4 million (\$406.621 million times 9.88%) in 2017 and by \$41.125 million (\$412.137
5 million times 9.98%) in 2018.

6 **B. I&D Reserve and EOL M&S and Last Core Nuclear Reserves Should be Reduced to**
7 **Reflect SFHHA Recommendations to Reduce the Expenses**

8 **Q. IN THE OPERATING INCOME SECTION OF YOUR TESTIMONY, YOU**
9 **RECOMMEND VARIOUS REDUCTIONS TO I&D EXPENSE AND EOL M&S**
10 **AND LAST CORE NUCLEAR FUEL EXPENSES. HAVE YOU REFLECTED**
11 **THE RELATED REDUCTIONS IN THE RESERVES?**

12 A. Yes. The reductions in the reserves increase rate base and the revenue requirement, and
13 partially offset the reductions in these expenses and the revenue requirements. The
14 increases in the revenue requirements are shown on the tables in the Summary section of
15 my testimony for 2017 and 2018.

16 **Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT**
17 **DUE TO THE INCREASE IN RATE BASE RESULTING FROM THIS SFHHA**
18 **RECOMMENDATION?**

19 A. Yes. The effect is an increase in the revenue requirement of \$2.055 million in 2017 and
20 \$6.226 million in 2018. The calculations are shown on my Exhibit No. ____ (LK-8).

21 **C. Accumulated Depreciation and Accumulated Fossil Dismantling Should be Reduced**
22 **to Reflect SFHHA's Recommendations to Reduce Depreciation and Dismantling**
23 **Expense**

1 **Q. IN THE OPERATING INCOME SECTION OF YOUR TESTIMONY, YOU**
2 **RECOMMEND VARIOUS REDUCTIONS TO DEPRECIATION AND FOSSIL**
3 **DISMANTLING EXPENSE. HAVE YOU REFLECTED THE RELATED**
4 **REDUCTIONS IN ACCUMULATED DEPRECIATION AND ACCUMULATED**
5 **DISMANTLING?**

6 A. Yes. The reductions in accumulated depreciation and accumulated dismantling increase
7 rate base and the revenue requirement, and partially offset the reductions in depreciation
8 and dismantling expenses and the revenue requirement. The increases in the revenue
9 requirements resulting from my primary recommendation on depreciation rates and
10 expense and my recommendations on dismantling are shown on the tables in the
11 Summary section of my testimony for 2017 and 2018.

12 **D. Accrued Utility Revenues Should Not be Included in Cash Working Capital Because**
13 **There Is No Financing Cost**

14 **Q. IS THERE A PROBLEM WITH THE COMPANY'S WORKING CAPITAL**
15 **CALCULATION?**

16 A. Yes. The Company improperly included \$228.510 million in 2017 and \$229.795 million
17 in 2018 in account 173 Accrued Utility Revenues (unbilled revenues) in working capital.
18 The amount in this account consists of the unbilled revenues related only to the
19 Company's base tariffs. These unbilled revenues represent the estimated revenues that
20 will be billed for service that was provided during the month, but that were not yet billed
21 at the end of the month. Each month, the unbilled revenues for the prior month are
22 reversed because the prior month's unbilled revenues are billed in the current month and
23 then a new estimate for the current month is recorded.

1 **Q. DOES THE COMPANY ACTUALLY INCUR A FINANCING COST ON**
2 **UNBILLED REVENUES?**

3 A. No. The unbilled revenues represent an estimate of revenues that were earned during the
4 month, but that were not yet billed. The unbilled revenues are an accounting placeholder
5 for a future receivable, but do not represent a cost that the Company must finance at the
6 end of each month. There are no carrying costs on the unbilled revenues for several
7 reasons. First, the Company did not incur incremental costs to earn these estimated
8 revenues. That is because the unbilled revenues recognized by the Company are for base
9 rates only. The unbilled revenues do not include revenues for recovery of the variable
10 costs that are recovered through clauses, such as the fuel adjustment clause. If the
11 Company does not accrue unbilled revenues for fuel clause recovery revenues, then it
12 also does not accrue accounts payable for the related fuel expense and there is no
13 incremental amount in the accounts payable account to offset the nonfuel unbilled
14 revenues.

15 Second, the billed revenues actually provide contemporaneous recovery of the
16 Company's fixed costs each month that do not vary based on sales from month to month.
17 These costs include the return on the Company's rate base investment, depreciation
18 expense, non-fuel O&M expense, and other operating expenses. This is particularly true
19 when the revenue requirement is based on a projected test year that corresponds to a
20 calendar year and not to a lagged test year that corresponds to the Company's unbilled
21 service periods.

22 **Q. WHAT IS YOUR RECOMMENDATION?**

1 A. I recommend that the Commission remove the accrued revenues from the cash working
2 capital in rate base.

3 **Q. WHAT IS THE EFFECT ON THE REVENUE REQUIREMENT OF YOUR**
4 **RECOMMENDATION?**

5 A. The effect is to reduce the Company's revenue requirement by \$22.578 million in 2017
6 and \$22.930 million in 2018. I computed these amounts by multiplying accrued utility
7 revenues (jurisdictional) shown on Schedule B-17 times the Company's proposed
8 grossed-up rates of return of 9.88% in 2017 and 9.98% in 2018.

9 **E. Unamortized Rate Case Expense Should Not Be Included In Rate Base**

10 **Q. DID THE COMPANY INCLUDE ESTIMATED RATE CASE EXPENSES FOR**
11 **THIS PROCEEDING IN WORKING CAPITAL?**

12 A. Yes. The Company included \$4.309 million in working capital as shown on Schedule B-
13 2 page 3 line 23 for the estimated rate case expenses in this proceeding.

14 **Q. SHOULD THE COMMISSION ALLOW UNAMORTIZED RATE CASE**
15 **EXPENSE IN RATE BASE?**

16 A. No. First, I recommend that the Commission deny recovery of rate case expenses, as I
17 explained in the Operating Income section of my testimony.

18 Second, even if it allows the Company recovery of rate case expenses, the
19 Commission historically has not allowed unamortized rate case expenses in rate base.
20 The Commission rejected similar requests in the Company's last adjudicated base rate

1 proceeding and by Gulf Power Company in Docket No. 110138-EI. Order No. PSC-12-
2 0179-FOF-EI.

3 Third, the exclusion of these expenses from rate base results in a sharing of the
4 costs and an equitable balance between the Company and its customers. The Company is
5 allocated the carrying costs and customers are allocated the principal, which is the greater
6 share of the costs. Such a sharing is appropriate in a typical case because the rate case
7 expenses are incurred by the Company for the benefit of the Company and its
8 shareholder, not its customers. The Commission affirmed the concept of sharing between
9 the utility and its customers in the Gulf Power Company Order that I previously cited as
10 follows:

11 As noted above, we have a long-standing practice in electric and
12 gas rate cases of excluding unamortized rate case expense from
13 working capital, as demonstrated in a number of prior cases. The
14 rationale for this position is that ratepayers and shareholders
15 should share the cost of a rate case; *i.e.*, the cost of the rate case
16 would be included in O&M expense, but the unamortized portion
17 would be removed from working capital. This practice
18 underscores the belief that customers should not be required to pay
19 a return on funds spent to increase their rates.

20 Fourth, the amortization period proposed by the Company is sufficiently short that
21 the actual carrying costs on the unamortized rate case expense will be relatively minor.

22 Fifth, such costs are short-lived assets, which typically are financed with short-
23 term debt, further reducing the actual carrying costs on the unamortized rate case expense
24 to relatively minor amounts.

25 Sixth, if the estimated costs are included in rate base, the Company will over-
26 recover each year after the test year because revenues recovered will not decline even

1 though the revenue requirement declines as the costs are amortized. That will occur
2 because there is no true-up of the recoveries with the actual costs. The Commission
3 recognized this concern in the Gulf Power Company Order that I previously cited as
4 follows:

5 While unamortized rate case expense does not earn a return in
6 working capital for electric and gas companies, it is offset by the
7 fact that rates are not reduced after the four year amortization
8 period ends. Thus, the amount in O&M expense continues to be
9 collected after total rate case expense has been recovered.

10 **Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION?**

11 A. The effect is a reduction in the revenue requirement of \$0.426 million (\$4.309 million
12 times the Company's proposed 9.88% grossed-up rate of return) for the 2017 test year
13 and \$0.307 million (\$3.078 million times the Company's proposed 9.98% grossed-up rate
14 of return) for the 2018 test year. In addition, there is a related reduction in ADIT for each
15 test year that I address and quantify in the Rate of Return Issues section of my testimony.
16 This adjustment would apply only if the Commission does not exclude the entirety of
17 FPL's rate case expense.

18 **F. The Deferred Pension Debit Is Incorrect and Overstated**

19 **Q. HAVE YOU REFLECTED THE COMPANY'S CORRECTION TO THE**
20 **DEFERRED PENSION DEBIT FOR 2017 AND 2018?**

21 A. Yes. The Company included \$1,290.218 million (jurisdictional), or \$1,333.623 million
22 (total Company), in rate base for 2017, and \$1,355.225 million (jurisdictional), or
23 \$1,399.731 million (total Company) in rate base for 2018 in its filing. These amounts are
24 shown on Schedule B-6 for each year, respectively. In response to SFHHA
25 Interrogatories 132 and 133, FPL acknowledged that the deferred pension debts were

1 overstated in 2017 and 2018. In those responses, the Company provided corrected
2 deferred pension debits of \$1,329.977 million (total Company) for 2017 and \$1,390.849
3 million (total Company) for 2018. I have attached a copy of the responses to SFHHA
4 Interrogatories 132 and 133 as my Exhibit No. ____ (LK-26).

5 **Q. WHAT IS THE EFFECT ON THE REVENUE REQUIREMENTS OF**
6 **CORRECTING THESE ERRORS?**

7 A. The effect is a reduction in the revenue requirement of \$0.349 million in 2017 and \$0.858
8 million in 2018. I calculated these amounts by multiplying the reduction in the deferred
9 pension asset (jurisdictional) times the Company's requested grossed-up rate of return in
10 each year.

11 **G. Summary of SFHHA Rate Base Adjustments**

12 **Q. PLEASE PROVIDE A SUMMARY SHOWING ALL RECOMMENDED SFHHA**
13 **ADJUSTMENTS TO RATE BASE.**

14 A. I summarize all recommended rate base adjustments and reconcile the Company's
15 requested rate base with the SFHHA recommended rate base on my Exhibit No. ____
16 (LK-27). I use the SFHHA recommended rate base to quantify all the recommended
17 SFHHA adjustments to the cost of capital in the following Rate of Return Issues section
18 of my testimony.

19 **V. RATE OF RETURN ISSUES**

20 **A. The Rate of Return Authorized in This Proceedings Also Affects Recovery Clauses**
21 **and AFUDC**

22 **Q. DOES THE COST OF CAPITAL AUTHORIZED BY THE COMMISSION IN**
23 **THIS PROCEEDING AFFECT CLAUSE RECOVERIES IN ADDITION TO**

1 **CWIP AND PLANT COSTS THAT INCLUDE AFUDC AFTER JANUARY 1,**
2 **2017?**

3 A. Yes. The cost of capital approved in this proceeding will be used in all clause recoveries
4 that include rate base investment and a rate of return, except for the nuclear cost
5 recovery, which uses a prescribed fixed cost of capital.

6 In addition, the cost of capital authorized in this proceeding also will affect the
7 AFUDC rate, which in turn will affect customer rates for decades into the future. The
8 greater the AFUDC rate, the greater the cost of plant in-service included in rate base and
9 the related depreciation included in future revenue requirements over the lives of the
10 assets. The Company used the AFUDC rate most recently approved by the Commission
11 in Docket No. 140035-EI to calculate the AFUDC included in CWIP and additions to
12 plant in service in its filing in this proceeding. Thus, the AFUDC rate reflected in this
13 case is not based on the Company's requested cost of capital, nor does it or will it reflect
14 the Commission's determination of the cost of capital in this proceeding.

15 **Q. IF THE COMMISSION ADOPTS THE COST OF CAPITAL**
16 **RECOMMENDATIONS OF SFHHA OR OTHER NON-FPL PARTICIPANTS,**
17 **WHAT GENERAL EFFECTS WILL THAT HAVE IN THIS PROCEEDING AND**
18 **ON THE CLAUSE RECOVERIES?**

19 A. In this proceeding, it will result in a reduction to the Company's claimed revenue
20 deficiency (or the level of the Company's over-collection) and a reduction in the base rate
21 increases, including the Okeechobee increase, all else equal. It also will result in a

1 reduction to the Company's clause recoveries, all else equal, and the reductions in the
2 clause recoveries will partially offset any base rate increases in this proceeding.

3 **Q. IF THE COMMISSION ADOPTS THE COST OF CAPITAL**
4 **RECOMMENDATIONS OF SFHHA OR OTHER NON-FPL PARTICIPANTS,**
5 **WHAT EFFECTS WILL THAT HAVE ON THE AFUDC ACTUALLY**
6 **RECORDED BY FPL COMPARED TO WHAT IT HAS REFLECTED IN ITS**
7 **FILING IN THIS PROCEEDING?**

8 A. The AFUDC rate will be less and the AFUDC actually recorded will be less than what
9 FPL reflected in its filing in this proceeding. In other words, the revenue requirement in
10 the filing is greater than the actual costs and AFUDC that FPL will record on its
11 accounting books starting January 1, 2017.

12 **Q. DO YOU HAVE A RECOMMENDATION ON HOW TO CORRECT THIS**
13 **MISMATCH AND AVOID EXCESSIVE RECOVERIES?**

14 A. Yes. The Commission should direct the Company to calculate the difference in the
15 revenue requirement using the approved cost of capital for each of the test years
16 compared to its filing and then use that reduction to reduce the revenue requirements that
17 it otherwise determines are appropriate for the test years.

18 **Q. PLEASE DESCRIBE HOW YOU QUANTIFIED THE REVENUE**
19 **REQUIREMENT EFFECTS OF THE RATE BASE AND COST OF CAPITAL**
20 **ADJUSTMENTS THAT YOU AND SFHHA WITNESS MR. RICHARD**
21 **BAUDINO RECOMMEND.**

1 A. I calculated the revenue requirement effects of these adjustments in a sequential manner.
2 I calculated the revenue requirement effect of each SFHHA rate base adjustment for each
3 year using the Company's requested grossed up rate of return. The Company's requested
4 grossed-up rate of return is shown in Section I of Exhibit No. ____ (LK-28) for 2017,
5 Exhibit No. ____ (LK-29) for 2018, and Exhibit No. ____ (LK-30) for Okeechobee. I used
6 the Company's requested rate of return from Schedule D-1a for each year and then
7 calculated the grossed-up rate of return using the gross-up factor for each capitalization
8 component from Schedule C-44 for each year.

9 I then sequentially calculated the grossed up rate of return and revenue
10 requirement effects of each SFHHA capitalization and cost adjustment in each of the
11 subsequent Sections of Exhibit No. ____ (LK-28) for 2017, Exhibit No. ____ (LK-29) for
12 2018, and Exhibit No. ____ (LK-30) using the rate base after all SFHHA adjustments for
13 each of those test years.

14 In each Section, I calculated the reduction in the grossed up rate of return for the
15 issue and then multiplied that reduction by the SFHHA adjusted rate base to quantify the
16 revenue requirement effect of each adjustment. I previously calculated the effects on the
17 revenue requirements of each SFHHA rate base adjustment using the Company's
18 proposed grossed-up rate of return. In the calculations of the effects of the SFHHA
19 adjustments to cost of capital, I assumed that the Commission adopted all of the SFHHA
20 adjustments to rate base to ensure that I did not double count the effects of any of the
21 SFHHA recommendations.

1 **B. Adjustments to ADIT in Capital Structure Are Necessary to Correspond to Rate**
2 **Base Adjustments**

3 **Q. HAVE YOU ADJUSTED THE ADIT IN THE CAPITAL STRUCTURE TO**
4 **CORRESPOND TO THE RATE BASE ADJUSTMENTS YOU RECOMMEND?**

5 A. Yes. The rate base adjustments affect the amount of ADIT, a source of funds to FPL
6 which does not cost FPL anything, included in the capital structure and thus, affects the
7 rate of return applied to the rate base.

8 **Q. HAVE YOU QUANTIFIED THE EFFECT OF THESE ADIT ADJUSTMENTS IN**
9 **THE COST OF CAPITAL AND THE REVENUE REQUIREMENTS FOR THE**
10 **2017 AND 2018 TEST YEARS?**

11 A. Yes. The effect is to increase the ADIT included in the capital structure by \$48.836
12 million and \$151.932 million, decrease the grossed-up cost of capital slightly from 9.88%
13 to 9.87% and from 9.98% to 9.93% and to reduce the revenue requirement by \$4.742
14 million and \$14.982 million in 2017 and 2018, respectively. The effects on the cost of
15 capital are detailed in Section II of Exhibit No. ____ (LK-28) and Exhibit No. ____ (LK-
16 29) for 2017 and 2018, respectively.

17 **C. The Company's Adjustment to Reduce ADIT Based On Treasury Regulation**
18 **1.167(l)-1(h)(6) Is Incorrectly Calculated and Excessive**

19 **Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT TO REDUCE ADIT**
20 **BASED ON TREASURY REGULATION 1.167(l)-1(h)(6).**

21 A. This Treasury Regulation sets forth a "proration" methodology for use with a projected
22 test year that effectively reduces the ADIT that may be treated as cost-free capital. It
23 does so by assuming that ADIT is increased only once per month when the deferred tax
24 expense is recorded and that the increase is outstanding only for the remaining days in the

1 test year. I have attached a copy of this Treasury Regulation as my Exhibit No. ___ (LK-
2 31).

3 Although this Treasury Regulation has been in effect for more than 40 years, FPL
4 never has sought to reduce the 13 month average ADIT calculated for the test year based
5 on this “proration” methodology. Instead, FPL has consistently synchronized the
6 deferred tax expense recorded and recovered during the test year with the ADIT included
7 as cost-free capital to FPL in the cost of capital applied to rate base. That ratemaking
8 treatment reflects the economic reality that the deferred income tax expense is recovered
9 throughout the month, not at the end of the month, and that customers are entitled to a
10 carrying charge on the average amount of the deferred tax expense recoveries in the form
11 of ADIT at 0% cost.

12 FPL never has self-reported a “normalization violation” and the IRS never has
13 found a “normalization violation,” according to its response to SFHHA Interrogatory
14 171, a copy of which I have attached as my Exhibit No. ___ (LK-32).

15 **Q. PLEASE DESCRIBE THE COMPANY’S CALCULATION OF THIS**
16 **“PRORATION” METHODOLOGY ADJUSTMENT.**

17 A. FPL witness Ms. Kim Ousdahl calculated the effect of this “proration” methodology on
18 her Exhibit No. ___ (KO-8) page 1 for 2017 and page 2 for 2018. The prorated monthly
19 activity is shown in Column E on each page and sums to \$143.670 million for 2017 and
20 \$78.836 million for 2018. Ms. Ousdahl calculated the monthly prorated accumulated
21 activity monthly in Column F and then calculated a 13 month average of this column.
22 Finally, Ms. Ousdahl calculated the difference between the actual 13 month average and

1 the 13 month average that she calculated in Column F to determine the reduction in
2 ADIT.

3 **Q. IS MS. OUSDAHL'S CALCULATION OF THE REDUCTION IN THE ADIT**
4 **CONSISTENT WITH THE METHODOLOGY AND EXAMPLES SET FORTH IN**
5 **THE TREASURY REGULATION?**

6 A. No. The Treasury Regulation requires that the amounts in Column E be summed and
7 added to the beginning balance of ADIT in the test year. The amounts in Column E are
8 the changes in ADIT each month weighted for the number of days to the end of the year.
9 These weighted amounts are then summed to determine the 13 month average pursuant to
10 the Treasury Regulation. Inexplicably, Ms. Ousdahl added another step in Column F that
11 is inconsistent with and nowhere shown in the Treasury Regulation or the examples
12 provided therein. This extra step dilutes the 13 month average pursuant to the Treasury
13 Regulation by taking another 13 month average of the monthly accumulated activity.

14 **Q. WHAT IS THE CORRECT CALCULATION OF THE ADIT PURSUANT TO**
15 **THE PRORATION METHODOLOGY SET FORTH IN THE TREASURY**
16 **REGULATION?**

17 A. The 13 month average using the "proration" methodology set forth in the Treasury
18 Regulation through multiple examples is calculated as the sum of the prorated monthly
19 activity amounts in Column E (\$143.670 million) and the beginning balances at January
20 1, 2017 (\$8,110.356 million), or \$8,254.026 million for 2017. The 13 month average
21 using the proration methodology is calculated as the sum of the prorated monthly activity

1 in Column E (\$78.836 million) and the beginning balance at January 1, 2018 (\$8,410.630
2 million), or \$8,489.466 million for 2018.

3 These 13 month averages using the corrected “proration” methodology are less
4 than the actual 13 month averages shown in Column B by only \$10.674 million for 2017
5 and only \$5.791 million for 2018 compared to the proposed reductions of \$57.553
6 million for 2017 and \$43.476 million for 2018 calculated by Ms. Ousdahl.

7 **Q. IS THERE A SIMPLE WAY TO CONFIRM THAT FPL’S EXTRA STEP**
8 **RESULTS IN AN UNREASONABLY LARGE ADJUSTMENT?**

9 A. Yes. FPL’s proposed reduction in the ADIT is a multiple of the average deferred income
10 tax expense during each test year rather than a fraction as is the case in each of the
11 examples provided in the Treasury Regulation. The Company’s proposed reduction in
12 ADIT is \$57.553 million in 2017, nearly 2 and a half months of the average monthly
13 deferred tax expense of \$25.023 million (\$300.274 million divided by 12). The reduction
14 following the methodology set forth in the Treasury Regulation results in a reduction of
15 only \$10.674 million for 2017 and \$5.791 million for 2018, or somewhat less than a half
16 month of the average monthly deferred tax expense of \$25.023 million.

17 **Q. WHAT IS THE REVENUE REQUIREMENT EFFECT OF CORRECTING THE**
18 **ERROR IN FPL’S CALCULATIONS FOR 2017 AND 2018?**

19 A. The revenue requirement should be reduced by \$5.975 million for 2017 and \$4.887
20 million for 2018. The calculations are shown in Section III of my Exhibit No. ___ (LK-
21 28) and my Exhibit No. ___ (LK-29) for 2017 and 2018, respectively, as adjustments to
22 the ADIT included in the capitalization used for the rate of return. I increased the ADIT

1 in 2017 by \$46.879 million (\$57.553 million adjustment calculated by Ms. Ousdahl less
2 the \$10.674 million corrected amount) and in 2018 by \$37.685 million (\$43.476 million
3 less the \$5.791 million corrected amount).

4 **D. Quantification of Short Term Debt Interest Rates**

5 **Q. HAVE YOU QUANTIFIED THE EFFECTS OF MR. BAUDINO'S**
6 **RECOMMENDATION TO EXCLUDE THE COMMITMENT FEES FROM THE**
7 **COST OF SHORT TERM DEBT AND INCLUDE THE FEES AS AN**
8 **OPERATING EXPENSE?**

9 A. Yes. Although there is no net effect on the revenue requirement in either test year, I
10 show increases of \$3.974 million and \$4.735 million in operating expenses for 2017 and
11 2018, respectively, and reductions of the same amounts in the return component of the
12 revenue requirements on the tables in the Summary section of my testimony.¹ The
13 calculations are shown in Section IV of my Exhibit No. ____ (LK-28) for 2017 and
14 Exhibit No. ____ (LK-29) for 2018.

15 **Q. HAVE YOU QUANTIFIED THE EFFECTS OF MR. BAUDINO'S**
16 **RECOMMENDATION TO USE A SHORT-TERM DEBT INTEREST RATE OF**
17 **0.56% FOR 2017 AND 2018?**

¹ FPL included commitment fees in the calculation of the short term debt interest rate of \$4.589 million in the 2017 test year and \$4.572 million in the 2018 test year, according to Schedule D-3. This contributes 0.66% of the 1.85% short term debt interest rate in 2017 and 1.23% of the 2.68% short term debt interest rate in 2018. This contributes 0.01% of the 0.03% weighted short term debt interest rate in 2017 and 0.02% of the 0.03% weighted short term debt interest rate in 2018.

1 A. Yes. Mr. Baudino's recommendations reduce the revenue requirements by \$3.793
2 million in 2017 and \$2.002 million in 2018. The calculations are shown in Section V of
3 my Exhibit No. ____ (LK-28) for 2017 and Exhibit No. ____ (LK-29) for 2018.

4 **E. Quantification of Long Term Debt Interest Rates**

5 **Q. HAVE YOU QUANTIFIED THE EFFECTS OF MR. BAUDINO'S**
6 **RECOMMENDATIONS FOR THE COSTS OF THE LONG TERM DEBT**
7 **ISSUES IN 2017 AND 2018?**

8 A. Yes. Mr. Baudino's recommendations reduce the revenue requirements by \$12.986
9 million in 2017 and \$35.680 million in 2018. The calculations are shown in Section VI
10 of my Exhibit No. ____ (LK-28) for 2017 and Exhibit No. ____ (LK-29) for 2018.

11 **F. Quantification of Return on Equity Incentive**

12 **Q. HAVE YOU QUANTIFIED THE EFFECTS OF MR. BAUDINO'S**
13 **RECOMMENDATION TO REJECT THE COMPANY'S REQUEST FOR A 50**
14 **BASIS POINT ADDER TO THE REQUIRED RETURN ON EQUITY IN 2017**
15 **AND 2018?**

16 A. Yes. The elimination of this adder reduces the revenue requirement by \$117.402 million
17 in 2017 and \$122.941 million in 2018 based on the Company's proposed capital
18 structure. The calculations are shown in Section VII of my Exhibit No. ____ (LK-28) for
19 2017 and Exhibit No. ____ (LK-29) for 2018.

20 **G. Quantification of Return on Equity**

21 **Q. HAVE YOU QUANTIFIED THE EFFECTS OF MR. BAUDINO'S**
22 **RECOMMENDATION TO SET THE COMPANY'S REQUESTED RETURN ON**

1 **EQUITY, EXCLUDING THE ADDER, AT 9.0%, RATHER THAN FPL'S**
2 **REQUESTED 11.0%?**

3 A. Yes. The reduction in the return on equity to 9.0% from the requested 11.0% reduces the
4 revenue requirement by \$469.607 million in 2017 and \$491.766 million in 2018. The
5 calculations are shown in Section VIII of my Exhibit No. ____ (LK-28) for 2017 and
6 Exhibit No. ____ (LK-29) for 2018.

7 **Q. HAVE YOU QUANTIFIED THE EFFECT OF EACH 1.0% RETURN ON**
8 **EQUITY?**

9 A. Yes. The effect of each 1.0% return on equity on the revenue requirement is \$234.804
10 million in 2017 and \$245.883 million in 2018 based on the Company's proposed capital
11 structure. The calculations are shown in Section VIII of my Exhibit No. ____ (LK-28) for
12 2017 and Exhibit No. ____ (LK-29) for 2018.

13 **H. Quantification of Reduction of Common Equity in Capital Structure**

14 **Q. HAVE YOU QUANTIFIED THE EFFECT OF MR. BAUDINO'S**
15 **RECOMMENDATIONS TO MODIFY THE CAPITAL STRUCTURE %?**

16 A. Yes. The effect is to reduce the revenue requirement by \$135.869 million in 2017 and
17 \$156.470 million in 2018. The calculations are shown in Section IX of my Exhibit No.
18 ____ (LK-28) for 2017 and Exhibit No. ____ (LK-29) for 2018.

19 **VI. THE COMPANY FAILED TO REFLECT THE SECTION 199**
20 **MANUFACTURER'S DEDUCTION IN THE CALCULATION OF**
21 **THE REVENUE EXPANSION FACTOR**

22 **Q. PLEASE DESCRIBE THE SECTION 199 DEDUCTION REFLECTED BY THE**
23 **COMPANY IN ITS FILING.**

1 A. The Company reflected the Section 199 (“Manufacturer’s”) deduction in the calculation
2 of income tax expense on Schedule C-22. This is a permanent deduction that reduces
3 federal and state taxable income in each year and is equal to 9% of the production
4 component of taxable income. The Company calculated the amount reflected on
5 Schedule C-22 before any rate increases in 2017 and 2018.

6 **Q. IS THERE AN ADDITIONAL SECTION 199 DEDUCTION THAT THE**
7 **COMPANY FAILED TO REFLECT IN ITS FILING?**

8 A. Yes. If there is additional revenue, there is additional taxable income, and an additional
9 Section 199 deduction equal to 9% of the production component of the increase in
10 taxable income. The Section 199 deduction normally is reflected in the revenue
11 expansion conversion factor to ensure that the additional income tax resulting from the
12 gross-up of the operating income deficiency is correctly calculated. The revenue
13 expansion factor calculates the revenue deficiency by grossing-up the operating income
14 deficiency for income taxes and other revenue-based expenses.

15 However, the Company did not reflect the Section 199 deduction in the
16 calculation of the revenue expansion factor shown on Schedule C-44. This error had the
17 effect of increasing the revenue expansion factor and improperly increasing the revenue
18 deficiency.

19 **Q. WHAT IS YOUR RECOMMENDATION?**

20 A. I recommend that the revenue expansion factor be corrected to include the Section 199
21 deduction if the Commission finds that the Company has a revenue deficiency in any of
22 the test years.

1 **Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT**
2 **OF YOUR RECOMMENDATION FOR THE 2017 AND 2018 TEST YEARS?**

3 A. No. There are no effects for 2017 and 2018 given the reduction in the revenue
4 requirements resulting from the SFHHA adjustments and recommendations. The
5 Company used its revenue expansion factor to convert the claimed operating income
6 deficiency to a revenue deficiency. Thus, it was necessary to use the same revenue
7 expansion factor for all adjustments to the claimed revenue requirement deficiencies.

8 If the Commission determines that there is an operating income deficiency in
9 either test year, then it should modify the revenue expansion factor to reflect the Section
10 199 deduction because the Section 199 deduction will increase as taxable income
11 increases due to the revenue increase(s).

12 **Q. HAVE YOU CALCULATED THE REVENUE EXPANSION FACTOR TO**
13 **INCLUDE THE SECTION 199 DEDUCTION?**

14 A. Yes. I started with the calculation shown on Schedule C-44. I calculated the deduction
15 as 9% of the taxable income allocable to production. I calculated the allocation to
16 production based on the ratio of net production plant divided by net total plant, as
17 depicted in Schedule E-3a. This is reasonable because income tax expense is equivalent
18 to the gross-up on the equity return on rate base. The net production plant ratio is a proxy
19 for the net production rate base ratio. The calculations are shown on my Exhibit No. ____
20 (LK-33).

21 **VII. THE OKEECHOBEE REVENUE REQUIREMENT IS OVERSTATED**

22 **A. If the Commission Allows the Okeechobee Limited Scope Adjustment in this**
23 **Proceeding, It Should Reject The Company's Proposed GBRA Form of Recovery**

1 **And Replace It with A Modified Rider that Tracks the Actual Revenue**
2 **Requirement Until Base Rates Are Reset**

3 **Q. IS THE COMPANY’S GBRA PROPOSAL FOR OKEECHOBEE A BALANCED**
4 **APPROACH TO RATEMAKING?**

5 A. No. The Company’s proposed base rate increase for Okeechobee is a selective single
6 issue rate increase that is not balanced against potential reductions in the revenue
7 requirement from other sources and does not reflect future reductions in costs as
8 Okeechobee is depreciated for book and income tax purposes.

9 In addition, the proposed base rate increase for Okeechobee is not a cost recovery
10 mechanism or tracker that relies on actual costs, but rather, is an increase based on the
11 Company’s estimate of the first year revenue requirement when the Okeechobee plant
12 and related transmission are placed in service on or about June 1, 2019. That increase
13 will remain in effect and the Company’s revenue recovery will grow as its customers and
14 usage continue to grow even as its costs decline.

15 Further, the proposed base rate increase is never trued-up to reflect the actual cost
16 of the Okeechobee plant and related transmission, despite the fact that the Company has a
17 history of completing projects below budget, according to Mr. Silagy’s testimony in this
18 case. Mr. Silagy states: “During the term of the agreement, FPL completed its
19 modernization of the Cape Canaveral and Riviera Beach plants on time and on or under
20 budget. The modernization of the Port Everglades plant also is nearing completion and is
21 expected to be operational ahead of schedule and under budget.” Silagy Direct Testimony at
22 10.

1 FPL's proposed GBRA mechanism ignores fundamental principles against
2 piecemeal ratemaking by permitting the utility to collect amounts in excess of what it
3 otherwise would be entitled to collect while depriving ratepayers of the benefit of rate
4 reduction mechanisms.

5 Further, the GBRA mechanism is not even a proposed tariff even though it is self-
6 implementing. There is no proposed tariff to review. There is no detailed description of
7 the mechanism or revenue requirement computations in the testimony of any FPL
8 witness. Company witness Ms. Ousdahl simply refers to the existing GBRA (a product
9 of a settlement) in her testimony.

10 Finally, based on the Company's computation of the proposed Okeechobee
11 revenue requirement, there are serious computational problems in the Company's
12 proposed GBRA, which improperly increase the Company's revenue requirement.

13 **Q. PLEASE DESCRIBE THE COMPUTATIONAL PROBLEMS WITH THE**
14 **COMPANY'S PROPOSED GBRA.**

15 A. There are numerous problems that are evident from a review of the Company's separate
16 computation of the Okeechobee revenue requirement for the first year of its operation
17 that the Company provided in this proceeding. The Commission should not allow the use
18 (or misuse) of a GBRA to provide the Company with excessive revenues. First, the
19 depreciation expense is overstated for the reasons that I address in the Depreciation issues
20 section of my testimony. Second, the ADIT subtracted from rate base is understated
21 because it does not reflect bonus depreciation and is improperly allocated to the months
22 within the test year. Third, the proposed rate of return is overstated due to an excessive

1 common equity ratio. Fourth, the proposed rate of return is overstated due to the
2 Company's use of the so-called "incremental" cost of debt rather than the weighted
3 average cost of debt outstanding. Fifth, the proposed rate of return is overstated due to
4 the excessive return on common equity, including a so-called performance award. I
5 address each of these problems in the following sections of my testimony.

6 **B. Depreciation Rates and Expense for Okeechobee Are Overstated**

7 **Q. PLEASE DESCRIBE THE DEPRECIATION RATE PROPOSED FOR**
8 **OKEECHOBEE.**

9 A. The Company proposes an overall depreciation rate of 3.60% for Okeechobee based on
10 the proposed depreciation rate for the Port Everglades Energy Center.

11 **Q. IS THE COMPANY'S PROPOSED DEPRECIATION RATE FOR**
12 **OKEECHOBEE APPROPRIATE?**

13 A. No. It is excessive for several reasons. First, the depreciation study reflected a remaining
14 life of 39 years for the Port Everglades Energy Center based on the depreciation study
15 date of December 31, 2017. The Company has assumed that new combined cycle plants
16 have a service life of 40 years. Thus, the Okeechobee depreciation rate should reflect a
17 service life of 40 years.

18 Second, the Company proposed splitting account 343 into two subaccounts in its
19 depreciation study. This inordinately increased the depreciation rates for the combined
20 cycle plants, as I previously described.

1 Third, a new power plant will have relatively minimal interim retirements. The
2 Company can use actual statistical retirement data in its next depreciation study after the
3 plant has operated for a few years.

4 **Q. WHAT IS YOUR RECOMMENDATION?**

5 A. I recommend that the Commission use a 2.5% depreciation rate. This rate is based on the
6 Company's assumption of a 40 year service life for new combined cycle plants and
7 assumes no initial interim retirements or net salvage.

8 **Q. HAVE YOU QUANTIFIED THE REVENUE REQUIREMENT EFFECT OF**
9 **YOUR RECOMMENDATION?**

10 A. Yes. This results in a reduction in the Okeechobee depreciation expense of \$11.974
11 million and a net reduction in the revenue requirement of \$11.500 million after
12 consideration of the effects on accumulated depreciation and ADIT on rate base. The
13 calculations are shown on my Exhibit No. ___ (LK-34).

14 **C. ADIT Subtracted from Rate Base Is Significantly Understated**

15 **Q. DID THE COMPANY CALCULATE AND SUBTRACT THE CORRECT**
16 **AMOUNT OF ADIT FROM RATE BASE?**

17 A. No. It is significantly understated. The Company failed to reflect the fact that bonus
18 depreciation is available in its entirety the day that the asset is placed in service for tax
19 purposes. The Company assumed that it would be able to deduct \$396.117 million in tax
20 depreciation. This is equal to the \$417.482 million shown on Schedule C-22 times the
21 94.88% jurisdictional allocation factor. The combined federal and state income tax rate
22 is ~~38.58%~~ ^{34.80% LB}. Thus, the ADIT should be at least \$152.822 million (\$396.117 million times

1 38.58%). The ADIT used by the Company to reduce rate base on Schedule B-1 is only
2 \$85.747 million. The difference is ~~\$75.296~~ ^{59.520 JB} million on a total Company basis, or ~~\$71.443~~ ^{56.474 JB}
3 million on a jurisdictional basis.

4 **Q. WHAT IS THE EFFECT OF USING THE CORRECT ADIT AMOUNT AS A**
5 **RATE BASE REDUCTION IN THE OKEECHOBEE INCREASE?**

6 A. The effect is a reduction in the Okeechobee revenue requirement of \$9.469 million due to
7 the additional ADIT (\$71.443 million times 13.25%, the Company's proposed grossed-up
8 cost of capital for Okeechobee, as shown in Section I on my Exhibit No. ____ (LK-30)).

9 **Q. HAVE YOU SUMMARIZED THE RATE BASE FOR OKEECHOBEE AS THE**
10 **RESULT OF THE SFHHA RECOMMENDATIONS?**

11 A. Yes. The calculations are shown on my Exhibit No. ____ (LK-35).

12 **D. The Cost of Capital for Okeechobee Is Separately Calculated and Significantly**
13 **Overstated**

14 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED COST OF CAPITAL TO**
15 **APPLY TO THE OKEECHOBEE RATE BASE.**

16 A. The Company proposes a capital structure consisting of 60.39% common equity and
17 39.61% long-term debt for the proposed Okeechobee increase, according to Schedule D-
18 1a. The Company included no other capital components for the Okeechobee cost of
19 capital. The Company included the ADIT as a reduction to the Okeechobee rate base
20 rather than in the cost of capital at zero cost.

1 **Q. HAVE YOU QUANTIFIED THE EFFECT ON THE CLAIMED OKEECHOBEE**
2 **REVENUE REQUIREMENT OF MR. BAUDINO'S RECOMMENDATIONS FOR**
3 **THE COSTS OF THE LONG TERM DEBT?**

4 A. Yes. It reduces the revenue requirements by \$1.333 million. I assumed that the cost of
5 debt would be the same in 2019 as in 2018 after reflecting Mr. Baudino's
6 recommendations for the costs of long term debt issues in 2017 and 2018. The
7 calculations are shown in Section II of my Exhibit No. ___ (LK-30).

8 **Q. HAVE YOU QUANTIFIED THE EFFECT ON THE CLAIMED OKEECHOBEE**
9 **REVENUE REQUIREMENT OF MR. BAUDINO'S RECOMMENDATION TO**
10 **REJECT THE COMPANY'S REQUEST FOR A 50 BASIS POINT ADDER TO**
11 **THE REQUIRED RETURN ON EQUITY?**

12 A. Yes. The elimination of this adder reduces the revenue requirement by \$4.865 million.
13 The calculations are shown in Section III of my Exhibit No. ___ (LK-30).

14 **Q. HAVE YOU QUANTIFIED THE EFFECT ON THE CLAIMED OKEECHOBEE**
15 **REVENUE REQUIREMENT OF THE RETURN ON EQUITY RECOMMENDED**
16 **BY MR. BAUDINO?**

17 A. Yes. The effect is to reduce the Okeechobee revenue requirement by \$19.458 million.
18 The effect is to reduce the revenue requirement by \$9.729 million for each 1.0% change
19 in the return on equity. These effects on the revenue requirement depend on other
20 adjustments that the Commission makes to the Okeechobee rate base and capital
21 structure. I have assumed that the Commission adopts all of the SFHHA adjustments to
22 the rate base and capital structure so that there is no double counting in my

1 quantifications. I quantified each adjustment sequentially in the order shown on the table
2 in the Summary section of my testimony.

3 **Q. HAVE YOU QUANTIFIED THE EFFECT ON THE CLAIMED OKEECHOBEE**
4 **REVENUE REQUIREMENT OF USING THE SAME CAPITAL STRUCTURE**
5 **RECOMMENDED BY MR. BAUDINO FOR THE 2017 AND 2018 TEST YEARS?**

6 A. Yes. The effect is to reduce the Okeechobee increase by \$7.366 million, based on a
7 capital structure for Okeechobee that reflects short-term debt, long-term debt, and
8 common equity in the same proportion as recommended by Mr. Baudino for the 2017 and
9 2018 test years. The calculations are detailed in Section V on my Exhibit No. ___ (LK-
10 30).

11

12 **VIII. THE STORM COST RECOVERY FRAMEWORK ADOPTED IN THE 2010**
13 **SETTLEMENT SHOULD NOT BE EXTENDED**

14 **Q. DOES THE COMPANY SEEK RECOVERY OF A STORM DAMAGE EXPENSE**
15 **ACCRUAL IN THIS PROCEEDING?**

16 A. No.

17 **Q. DOES THE COMPANY MAKE ANY PROPOSALS FOR STORM COST**
18 **RECOVERY?**

19 A. Yes. The Company proposes that the Commission continue the framework set forth in
20 the 2010 rate case settlement adopted in Docket No. 090130-EI and continued in the
21 2012 rate case settlement adopted in Docket No. 120015-EI, according to Company
22 witness Mr. Moray Dewhurst. Dewhurst Direct Testimony at 32. Mr. Dewhurst also

1 provides a summary description of the relevant terms of the 2010 settlement that would
2 continue in effect under the Company's proposal. *Id.*

3 **Q. DOES MR. DEWHURST PROVIDE A COMPREHENSIVE DESCRIPTION OF**
4 **THE TERMS OF THE 2010 SETTLEMENT THAT ADDRESS STORM**
5 **DAMAGE RECOVERY?**

6 A. No. It is important to adequately understand the operation and consequences of the terms
7 that would remain in effect if the Company's proposal is adopted. The 2010 settlement
8 framework provides for recovery, on an interim basis, to begin 60 days following the
9 filing of a cost recovery petition and tariff with the Commission, and is based on a 12-
10 month recovery period if the storm costs do not exceed \$4.00/1,000 kWh on monthly
11 residential customer bills. In the event that storm costs exceed that level, any additional
12 costs in excess of \$4.00/1000 kWh may be recovered in a subsequent year or years as
13 determined by the Commission.

14 In addition, under the terms of the 2010 Settlement Agreement the Company may
15 petition the Commission to increase the \$4.00/1,000 kWh charge during the initial 12-
16 month recovery period in the event that the Company incurs storm recovery costs in
17 excess of \$800 million in a given calendar year, inclusive of the amount necessary to
18 replenish the storm damage reserve to the level that existed as of the date the settlement
19 was implemented.

20 Finally, the settlement precludes any offset to the Company's storm damage
21 recovery based on a "rate case" type of inquiry, or the use of any form of earnings test or

1 measure, or consideration of previous or current base rate earnings or the level of
2 theoretical depreciation reserve.

3 **Q. SHOULD THE COMMISSION ADOPT THE COMPANY'S PROPOSAL FOR**
4 **FUTURE STORM DAMAGE RECOVERY?**

5 A. No. The Commission should reject this proposal. It not only is unnecessary, it also is
6 harmful to customers. It should be noted that the storm damage recovery was an element
7 in the 2010 and 2012 settlement agreements. The Commission did not adjudicate the
8 merits of the recovery process in those proceedings, but should do so in this proceeding.

9 The storm damage recovery process is flawed when considered on its own merits.
10 First, it allows recovery of storm damage costs of any amount regardless of whether there
11 remains an amount in the storm reserve. The Company projects a balance in the storm
12 damage reserve of \$120.462 million at the end of the test year, according to Schedule B-
13 21. No recovery should be allowed unless the reserve first is exhausted. The purpose of
14 the reserve is to provide storm damage recovery, not to exist in perpetuity or to be
15 ignored at the very time when it is needed.

16 Second, the recovery FPL proposes is effectively self-executing on an expedited
17 basis without Commission review and the opportunity of the various parties to participate
18 in a recovery proceeding. There is no need and no other valid reason for such recovery to
19 be self-executing or to occur on an expedited basis. The Company has available lines of
20 credit to finance such costs if necessary, the costs of which (commitment and other fees)
21 are included in base rates.

1 Third, the 12-month recovery period is inordinately and unnecessarily short. If
2 the costs of a storm are hundreds of millions of dollars, then the recovery should be over
3 a longer period, perhaps three to ten years depending on the magnitude of the costs and
4 the frequency of named storms. Some of the recovery costs will provide benefits that
5 continue beyond 12 months, such as rebuilding or repairing plant that is not otherwise
6 capitalized and the clearing of vegetation. Moreover, if storm hardening is effective, then
7 in the future, the cost impact of major storms should be significantly less, thus
8 prospectively reducing the amount of incremental cost that must be recovered.

9 Fourth, there is no need and no other valid reason to intentionally restore the
10 reserve to its prior level if in fact it is fully depleted. The appropriate and least cost level
11 is \$0. That is because the Company can petition the Commission for deferral of storm
12 costs if and when they are incurred and petition the Commission for recovery of the
13 deferred costs, including the issuance of low-cost securitized debt.

14 Fifth, premature recovery before costs are incurred imposes an income tax cost on
15 the recovery that is unnecessary and harms customers by adding costs compared to
16 recovery after actual costs are incurred and are deducted for income tax purposes.

17 Sixth, Section 366.8260, Florida Statutes, permits FPL to recover its reasonable
18 and necessary storm restoration costs and to replenish its storm damage reserve through a
19 surcharge pursuant to securitization funding. This mechanism of storm damage financing
20 guarantees cost recovery for FPL and provides ratepayers the benefits of low-cost
21 securitization financing. That is a more cost effective means of recovering storm damage
22 costs than the storm damage recovery mechanism FPL proposes here.

1 Seventh, earnings in excess of the Company's authorized return and other
2 alternatives should be considered by the Commission as potential offsets to the deferral
3 and recovery of storm damage costs. Over-recovery is the collection of excessive
4 revenue from ratepayers, regardless of the label FPL would like to affix to that excessive
5 collection. The Commission should not preclude these options from consideration in
6 future proceedings.

7 Finally, there is no need for the Commission to take any action in this proceeding.
8 The storm damage process adopted via settlement expires without further Commission
9 authorization. The storm damage reserve is substantially funded at this time. In the
10 event that the reserve is depleted, the Company can petition the Commission for deferral
11 of additional costs and recovery of those costs.

12 **Q. DOES THE EXPOSURE TO STORMS THAT FPL USES TO JUSTIFY ITS**
13 **REQUESTED EQUITY RETURN (SEE E.G., HEVERT DIRECT, AT 37-38)**
14 **COMPORT WITH FPL'S REQUEST TO CONTINUE THE STORM COST**
15 **RECOVERY PROVISION?**

16 A. No. The Company has significantly reduced its risk exposure to storm damage costs. It
17 has expended hundreds of millions of dollars and plans to expend additional hundreds of
18 millions of dollars to harden its facilities in order to reduce future damage from storms.
19 It already has more than \$100 million in reserve available for future storm costs, can
20 apply to the Commission to defer and recover costs in excess of the reserve balance, has
21 short term credit facilities that will allow it to temporarily finance storm damage costs at

1 very low interest rates, and has the ability to securitize storm damage costs and recover
2 the debt service associated with the securitization through surcharge.

3 **IX. THE REDUCTIONS IN FPL COSTS AFTER ADDITIONAL NEXTERA**
4 **ACQUISITIONS SHOULD BE REFLECTED IN SURCREDIT RIDER**

5 **Q. NEXTERA ENERGY HAS ENTERED INTO A PLAN OF MERGER WITH**
6 **HAWAIIAN ELECTRIC INDUSTRIES AND IS WIDELY REPORTED TO BE**
7 **INVOLVED IN ATTEMPTS TO ACQUIRE ONCOR ELECTRIC DELIVERY**
8 **COMPANY THROUGH A REORGANIZATION PLAN IN THE PENDING EFH**
9 **BANKRUPTCY PROCEEDINGS. HAS THE COMPANY REFLECTED ANY**
10 **REDUCTIONS IN COSTS AND THE REVENUE REQUIREMENT TO**
11 **REFLECT REDUCTIONS IN SHARED OR COMMON COSTS IF NEXTERA**
12 **ENERGY IS SUCCESSFUL IN EITHER OR BOTH OF THESE ACQUISITIONS?**

13 A. No. Nevertheless, these acquisitions could result in significant reductions in costs
14 presently incurred by FPL due to greater allocations to these new affiliates.

15 **Q. WHAT IS YOUR RECOMMENDATION?**

16 A. I recommend that the Commission adopt a merger savings surcredit rider. The
17 Commission should direct the Company to make an initial filing and annual filings
18 thereafter that quantify the expected savings and to provide those annual savings to
19 customers through the rider within 90 days after the consummation of any such
20 acquisition or merger. Alternatively, the Commission should use those savings to reduce
21 the 2018, Okeechobee, or other rate increases if and when they are implemented.

1 **X. REMOVAL OF WOODFORD AND OTHER GAS RESERVE COSTS**
2

3 **Q. HAS THE COMPANY RECENTLY FILED A THIRD NOTICE OF IDENTIFIED**
4 **ADJUSTMENTS TO REFLECT A FLORIDA SUPREME COURT RULING**
5 **THAT AFFECTS THE COLLECTION OF WOODFORD AND OTHER GAS**
6 **RESERVE COSTS THROUGH BASE RATES?**

7 A. Yes. In that Third Notice, the Company admitted that certain ADIT amounts included in
8 the cost of capital for the test year 2017 and 2018 and in rate base for Okeechobee were
9 understated because it failed to remove all ADIT effects of these gas reserves, as if it had
10 never invested in the projects.

11 **Q. WHAT IS THE EFFECT OF THESE CORRECTIONS?**

12 A. The effect is a reduction in the revenue requirement of \$7.300 million in the 2017 test
13 year, a reduction of \$5.700 million in the 2018 test year, and an increase of \$0.065
14 million in the Okeechobee test year.

15 **Q. HAVE YOU REFLECTED THESE CORRECTIONS IN THE TABLES IN THE**
16 **SUMMARY SECTION OF YOUR TESTIMONY AND IN YOUR REVENUE**
17 **REQUIREMENT RECOMMENDATIONS?**

18 A. Yes.

1 **XI. FSC AND SABAL TRAIL**

2 **Q. FPL WITNESS BARRETT REQUESTS THAT THE COMMISSION “APPROVE**
3 **THE CONCEPTUAL FRAMEWORK FOR THE TRANSFER OF THE MR-RV**
4 **LATERAL FROM FPL TO FSC.” PLEASE DESCRIBE FPL’S REQUEST.**

5 A. The MR-RV Lateral is a natural gas pipeline that originates at the Martin Next
6 Generation Clean Energy Center and terminates at the Riviera Beach Clean Energy
7 Center. As Mr. Barrett explains, “the base revenue requirements for the MR-RV Lateral
8 were included in the Commission-approved GBRA for the Riviera Plant implemented on
9 April 1, 2014 and are currently being recovered from retail customers through base
10 rates.” Barrett Direct Testimony at 45.

11 Mr. Barrett states that FPL is “proposing to transfer the MR-RV Lateral and all
12 related equipment, working capital and operations, to its FERC-regulated affiliate,
13 Florida Southeast Connection (“FSC”) at net book value on the transaction date, currently
14 contemplated to be May 1, 2017.” FSC also is the owner and operator of a natural gas
15 pipeline interconnected with the Sabal Trail Transmission, LLC (“Sabal Trail”) interstate
16 pipeline.

17 **Q. DOES THE FSC TRANSACTION AFFECT RETAIL BASE ELECTRIC RATES?**

18 A. Yes. *Id.*, 45-46.

1 **Q. DO YOU AGREE THAT THE COMMISSION SHOULD APPROVE THE**
2 **TRANSFER WITHOUT CONDITION?**

3 A. No. As Mr. Barrett notes in his testimony, FPL is affiliated with FSC and Sabal Trail.
4 That affiliate relationship raises issues regarding the rates FPL will pay for natural gas
5 transportation service.

6 **Q. DOES FPL'S AFFILIATED RELATIONSHIPS WITH THE PIPELINES RAISE**
7 **ANY ISSUES REGARDING THE APPROPRIATENESS OF THE PIPELINES'**
8 **RATES?**

9 A. Yes. Typically, an unaffiliated customer of interstate natural gas pipelines is incentivized
10 to lower the rates that it pays the interstate pipeline for service in order to reduce its costs
11 and the rates of its own retail customers. This can be done by initiating an investigation
12 of the pipeline's rates under Natural Gas Act Section 5. However, because FPL is
13 affiliated with FSC, FPL does not have that typical incentive. Instead, NextEra is
14 incentivized to direct FPL to allow FSC to charge higher rates, reimbursed to FPL by its
15 retail electric customers, in order to boost NextEra's consolidated earnings. In other
16 words, FPL is incentivized to allow NextEra Energy shareholders to benefit at the
17 expense of FPL customers, rather than file a complaint under NGA Section 5 to reduce
18 the pipeline's rates.

1 **Q. WHAT IS THE APPROPRIATE REMEDY TO ADDRESS FPL'S CONFLICTING**
2 **ROLE AS BOTH AFFILIATED LONG TERM CONTRACTING PIPELINE**
3 **SHIPPER AND AN AFFILIATE OF THE PIPELINE OWNER?**

4 A. In this proceeding, the Commission could condition the transfer of the MR-RV lateral
5 from FPL to FSC by requiring FPL to commence a Section 5 action against FSC, or any
6 other affiliated pipeline where FPL is a shipper, when the pipeline's earnings reported in
7 FERC Form 2 exceed the last FERC-determined median ROE applicable to interstate
8 pipelines. As part of that condition, FPL would be obligated to cooperate fully with the
9 FPSC Staff and/or outside counsel and other advisors to the Staff to attain a reduction in
10 the pipeline's rates.

11 **Q. HOW WOULD THAT BE CALCULATED?**

12 A. The calculation should correspond with the format used by FERC to assess whether to
13 initiate a NGA Section 5 investigation. I have attached a schedule providing an example
14 of the calculations used by FERC when it reviews the rates of an interstate natural gas
15 pipeline as my Exhibit___ (LK-36). At the bottom of the schedule, FERC calculates an
16 estimated ROE. Using the same methodology for FSC, or any other affiliated pipeline, if
17 the resulting ROE is greater than the most recent median ROE determined by FERC for
18 an interstate pipeline in an NGA Section 4 proceeding (based upon the capital structure of
19 the proxy group used in determining the most recent median ROE),² then FPL should
20 commence a Section 5 action against the pipeline.

² Opinion No. 528, *El Paso Natural Gas Co.*, 145 FERC ¶ 61,040, at P 2 (2013). Opinion No. 528 is currently the most recent available finally decided FERC case establishing the median ROE (e.g., 10.55%) for an interstate pipeline.

1 **Q. IS FSC THE ONLY PIPELINE WITH WHICH FPL IS AFFILIATED?**

2 A. No, It also is a part owner of Sabal Trail.

3 **Q. PLEASE DESCRIBE SABAL TRAIL AND ITS AFFILIATION WITH FPL.**

4 A. Sabal Trail is another natural gas pipeline company regulated by FERC, 33% of which is
5 owned by NextEra Energy.³

6 **Q. OTHER THAN SABAL TRAIL BEING AN AFFILIATE OF FPL, HOW IS FPL
7 INVOLVED WITH SABAL TRAIL?**

8 A. FPL is one of Sabal Trail's two foundation shippers. FPL has committed to ship 400,000
9 Dth/d beginning in Phase 1 and an additional 200,000 Dth/d beginning in Phase 2 of the
10 project. The minimum duration of the contract that FPL entered into was 25 years.

11 **Q. SHOULD THE PROCEDURE OUTLINED ABOVE FOR FSC ALSO APPLY TO
12 SABAL TRAIL?**

13 A. Yes. In fact, given the costs of Sabal Trail, it is at least as important that FPL make the
14 filing for that pipeline as it is with regard to FSC. The Commission in Order No. PSC-
15 13-0505-PAA-EI has indicated that a prudence review of FPL's contracting practices
16 with its affiliated pipelines can take place in FPL's fuel clause proceedings. Thus, the
17 comparison I have described should be filed annually in that docket.

18 **Q. HOW WILL THIS ADDITIONAL REVENUE, PAID BY FPL'S RETAIL
19 CUSTOMERS, BENEFIT NEXTERA ENERGY SHAREHOLDERS?**

20 A. It will benefit NextEra shareholders in at least two ways.

³ *Sabal Trail Transmission, LLC*, 154 FERC ¶ 61,080 (2016).

1 First, the additional revenue stream will be paid by FPL's ratepayers to FPL
2 affiliates, above and beyond what they would pay if FPL was taking service from an
3 unaffiliated pipeline system, as explained above.

4 There is a second level of benefit to the NextEra Energy shareholders, however,
5 which can be thought of as the "yieldco multiplier." NextEra Energy is actively
6 promoting to the investment community its affiliate NextEra Energy Partners, a
7 "yieldco," namely an entity that seeks to provide a high yield to investors. NextEra
8 Energy has repeatedly advised investors that it anticipates the ability to add more assets
9 with stable revenue streams to its yieldco. Prominent among these projects are its Sabal
10 Trail and FSC investments.

11 **Q. HOW DOES THE YIELDCO STRUCTURE PROVIDE ADDITIONAL BENEFIT**
12 **TO FPL'S OWNER AND NEXTERA ENERGY SHAREHOLDERS?**

13 A. According to Moody's Investors Service:

14 With good access to capital already, [NextEra Energy or "NEE"]
15 did not have to create a yieldco. However, NEE found the yieldco
16 to be an attractive financing option given its intent to improve its
17 credit metrics while outspending its operating cash flow by almost
18 \$1 billion this year. Roughly half of the \$6 billion-\$7 billion
19 capital expenditures this year will be on its regulated side, which
20 NEE wants to grow, but NEE also plans to spend over \$2 billion
21 on renewable projects. NEP provides an avenue for raising equity
22 capital more cheaply, since *demand from yield-oriented investors*
23 *is running up the value of yieldco stocks. In fact, just the*
24 *anticipation of NEP's IPO has contributed to a 25% appreciation*
25 *in NEE's share price over the past year.*⁴ [B/S 008086, "NextEra
26 Energy, Inc.: A Deep Dive into the Yieldco," p. 4, 2nd para.
27 (emphasis added)]

⁴ Bloomberg.com, accessed 11 June 2014.

1 In other words, whatever the value of the cash stream from the pipeline contracts
2 in the hands of NextEra Energy, that value is significantly increased in the hands of NEP,
3 because “demand from yield-oriented investors is running up the value of yieldco stocks”
4 as Moody’s noted.

5 **Q. DOES THIS COMPLETE YOUR PREPARED DIRECT TESTIMONY?**

6 **A. Yes.**

1 **BY MR. RAPPOLT:**

2 Q Mr. Kollen, you attached exhibits to your
3 direct testimony identified as LK-1 through LK-36 and
4 pre-identified in staff's Comprehensive Exhibit List as
5 Exhibits 282 through 317. Were these exhibits prepared
6 by you or under your direction and supervision?

7 A Yes.

8 **MR. RAPPOLT:** And I believe staff has some
9 exhibits in their Comprehensive Exhibit List that they
10 need to address.

11 **CHAIRMAN BROWN:** Ms. Brownless.

12 **MS. BROWNLESS:** Yes, ma'am.

13 **EXAMINATION**

14 **BY MS. BROWNLESS:**

15 Q Good morning, Mr. Kollen. How are you?

16 A Good morning. I'm fine. Thank you.

17 Q Have you had an opportunity to look at what's
18 been marked on the staff's Comprehensive Exhibit List as
19 542, 543, 546, and 547?

20 A Yes.

21 Q And did you prepare these exhibits or were
22 they prepared under your custody and control?

23 A Yes.

24 Q And are they true and correct to the best of
25 your knowledge and belief?

1 **A** Yes.

2 **Q** And would your answers be the same today as
3 they were when you prepared these exhibits?

4 **A** Yes.

5 **Q** Okay. Are any portions of your listed
6 exhibits confidential, sir?

7 **A** I don't believe so.

8 **MS. BROWNLESS:** Thank you.

9 **EXAMINATION**

10 **BY MR. RAPPOLT:**

11 **Q** Mr. Kollen, would you provide a summary of
12 your direct testimony for the Commission?

13 **A** Yes. Good morning, Madam Chair and
14 Commissioners. I filed two separate testimonies: One
15 addressing the company's three proposed base rate
16 increases, and the other one addressing the company's
17 incentive mechanism that affects the cost recovery
18 through the fuel adjustment clause, or the FAC.

19 In my testimony addressing the three proposed
20 rate increases, I recommend that the Commission limit
21 this proceeding to a single increase or reduction using
22 a 2017 test year. I recommend that the Commission
23 reject the additional rate increase proposed by the
24 company using a 2018 test year and the third increase
25 using a test year ending in May 2020 for Okeechobee.

1 FPL can file cases in the future when it believes it has
2 or will have a revenue deficiency.

3 A significant problem with the two additional
4 rate increases is that the projected costs and revenues
5 used to develop those increases require projections some
6 four years into the future. The further out the
7 projections, the greater the uncertainty and the greater
8 the ability to bias the forecast results to increase the
9 rate increases based on those future years.

10 The Commission should retain the ability to
11 knowledgeably investigate the revenues and costs in
12 future proceedings closer to the dates when the new
13 rates would become effective. This is especially true
14 given that FP&L's costs likely will decline
15 significantly if NextEra Energy or NextEra, the parent
16 company of FPL, is successful in acquiring Oncor
17 Delivery Company. It plans to do so. As I understand
18 it, its plan has been filed before the bankruptcy court
19 and approved. And it then plans to file before the
20 Texas Public Utility Commission for -- in a joint
21 application for approval of its plan to acquire Oncor.
22 Such acquisitions will result in reduced costs to FP&L
23 in those years, in the future years after acquisitions
24 such as the Oncor Delivery Company acquisition are
25 actually implemented. And the reason for that is that

1 all of the shared and common costs are incurred by FP&L
2 and then allocated out or driven out to NextEra
3 affiliates. And in the case of the Oncor acquisition,
4 some of those costs would go to Oncor, so the costs
5 remaining for FP&L would be reduced. So this is a
6 significant issue and one that impacts --

7 **MR. BUTLER:** Excuse me. I'm going to object.
8 I don't believe that the detail that Mr. Kollen is
9 referring to about Oncor acquisition are in his direct
10 testimony, and summaries are supposed to be limited
11 closely to the scope of the filed testimony.

12 **CHAIRMAN BROWN:** Hospitals? And can you
13 please pause his time?

14 **MR. RAPPOLT:** His testimony does address
15 potential savings from mergers and acquisitions.

16 **CHAIRMAN BROWN:** Can you direct me to the line
17 and page?

18 Sorry, Mr. Kollen. Just one moment.

19 **THE WITNESS:** Sure.

20 **MR. RAPPOLT:** Mr. Kollen, do you have a page
21 number for --

22 **THE WITNESS:** I do. I think if you refer to
23 page 75 in the July testimony, I talk there about a
24 pending acquisition at that time of Hawaiian Electric
25 Industries and the plan of NextEra to acquire Oncor

1 Electric Deliver Company.

2 **MR. BUTLER:** And to be clear, I'm not
3 objecting to his mentioning Oncor, but he's been going
4 on for about a minute of the details of Oncor, which is
5 pretty clearly not in his filed testimony.

6 **CHAIRMAN BROWN:** Mary Anne, have you turned to
7 page -- have you seen it? He does talk about merger
8 savings.

9 **MS. HELTON:** Madam Chair, I've been slacking.
10 I don't have the book in front of me. Just one second,
11 please.

12 **MR. RAPPOLT:** Madam Chair, there's also
13 additional testimony on page 3.

14 **MS. HELTON:** I mean, Madam Chairman, the
15 question asks about the company's attempt to acquire
16 Oncor Electric Delivery, so I think -- I mean --

17 **MR. BUTLER:** And, again, I'm not objecting to
18 referring to that potential acquisition, but he's going
19 into some considerable detail. And I thought the rules
20 of the road here were that you limit your oral summary
21 strictly to the four corners of the testimony.

22 **CHAIRMAN BROWN:** And that's the proper rule.

23 **MS. HELTON:** I think that is our practice,
24 Madam Chairman.

25 **CHAIRMAN BROWN:** I'll give him a little bit of

1 latitude. Objection overruled.

2 And, Mr. Kollen, if you could kind of move
3 along from the merger, potential acquisition, and
4 address the rest of your summary.

5 **THE WITNESS:** Yes, Madam Chair.

6 **CHAIRMAN BROWN:** You can proceed.

7 **THE WITNESS:** Yes. I also address the amounts
8 of the three proposed rate increases and the various
9 issues that unnecessarily or inappropriately increase
10 those requests. I have included tables in the summary
11 section of my testimony, one for each test year, in the
12 rate increase requested that identify each adjustment
13 that I recommend and the effect on the rate increases,
14 including the effects of SFHHA witness Mr. Baudino on
15 the various cost of capital issues.

16 I recommend that the Commission reduce the
17 company's base rates on January 1, 2017, by at least
18 \$213 million. If the company does not deny the
19 company's request for a second increase on January 1,
20 2018, then I recommend a reduction of \$1 million
21 compared to the present rates.

22 If the Commission does not deny the request
23 for a third rate increase on or about June 1, 2019, for
24 the Okeechobee Clean Energy Center, then I recommend an
25 increase of no more than \$155 million.

1 I also recommend that the Commission reject
2 the company's proposed generation base recovery
3 adjustment rider or the form of recovery for Okeechobee
4 costs, and instead I recommend the Commission adopt the
5 cost-based rider that would capture the declining rate
6 base effects of the additional accumulated depreciation
7 and additional accumulated deferred income taxes.

8 In addition, I recommend that the Commission
9 implement a cost-based surcredit rider to timely flow
10 through reductions in FP&L costs due to future NextEra
11 acquisitions that result in the reduction of FP&L's
12 shared and common costs due to the greater allocations
13 to the new affiliates.

14 Further, I recommend that the company
15 reject -- or Commission reject the company's
16 self-implementing storm cost recovery proposal. The
17 company has other lower cost options available,
18 including securitization, and still has a funded storm
19 damage reserve that should be used first to fund storm
20 damage.

21 In my second testimony, I address the
22 company's request to make permanent the incentive
23 mechanism adopted in the settlement of the last case. I
24 propose various adjustments, including the recognition
25 of economy purchased power costs directly in the fuel

1 adjustment clause, the revenues from economy sales
2 directly, along with the cost to generate for those
3 economy sales without any sharing of so-called net
4 gains.

5 I also recommend that the asset optimization
6 activities be retained within the incentive mechanism
7 and that the net gains on those activities be shared
8 from the first dollar with no threshold 10 percent to
9 FP&L, 90 percent to customers. That concludes my
10 summary. Thank you.

11 **CHAIRMAN BROWN:** Thank you.

12 **MR. RAPPOLT:** Madam Chair, Mr. Kollen is
13 available for cross-examination.

14 **CHAIRMAN BROWN:** Thank you.

15 Mr. Rehwinkel.

16 **MR. REHWINKEL:** I have no friendly questions
17 for this witness.

18 **CHAIRMAN BROWN:** No friendly questions.

19 Mr. Moyle, a reminder.

20 **MR. MOYLE:** Yes. I may have a couple of
21 friendly questions. No.

22 **EXAMINATION**

23 **BY MR. MOYLE:**

24 Q Just a couple of questions, sir.

25 Your recommendation of an over \$200 million

1 rate decrease, is it in any way tied to or dependent
2 upon or linked to the depreciation testimony of OPC
3 Witness Pous?

4 **A** No, that was not a consideration. I have my
5 own testimony with respect to various depreciation
6 issues. I did not rely on Mr. Pous at all.

7 **Q** So the basis for your finding for the
8 recommended rate decrease is yours and yours alone?

9 **A** Yes. It's independent of anything that OPC
10 recommended.

11 **MR. MOYLE:** That's all I have. Thank you.

12 **CHAIRMAN BROWN:** Thank you.

13 Retail Federation.

14 **MR. WRIGHT:** No questions, Madam Chairman.
15 Thank you.

16 **CHAIRMAN BROWN:** Thank you, Mr. Wright, and
17 welcome back.

18 FEA.

19 **CAPTAIN ZIEMAN:** None from FEA, ma'am.

20 **CHAIRMAN BROWN:** Welcome.

21 **CAPTAIN ZIEMAN:** Thank you.

22 **CHAIRMAN BROWN:** All right. Sierra Club is
23 not here.

24 AARP.

25 **MR. COFFMAN:** No questions, Your Honor.

1 **CHAIRMAN BROWN:** Florida Power & Light.

2 **MR. BUTLER:** Thank you, Madam Chair.

3 **EXAMINATION**

4 **BY MR. BUTLER:**

5 **Q** Good morning, Mr. Kollen.

6 **A** Good morning, Mr. Butler.

7 **Q** A couple of questions, first of all, on the
8 changes that you had made to your July testimony on the
9 stand.

10 **A** Yes.

11 **Q** Could you turn to pages 67, 68 of your
12 testimony.

13 **A** Yes.

14 **Q** Would you please explain why you've reduced
15 the combined federal and state income tax rate from the
16 35 -- or, I'm sorry, 38.58 percent that was in your
17 testimony originally to the 34.80 percent?

18 **A** Yes. Florida does not recognize bonus
19 depreciation in the same manner that the federal tax
20 code recognizes it. Instead, it defers it and amortizes
21 it. And so this was brought to my attention by
22 Ms. Ousdahl or Ousdahl in her rebuttal testimony, and so
23 I corrected the calculation, the minimal effect on the
24 revenue requirement of about \$2 million.

25 **Q** Okay. Now this is -- in this section, you are

1 addressing application of this to the Okeechobee limited
2 scope adjustment; is that right?

3 **A** Yes, that's correct.

4 **Q** Okay. So what is the point in time at which
5 you calculated your 34.80 percent?

6 **A** I don't understand the question. Could you
7 repeat it or --

8 **Q** Well, let me try it this way. What I'm trying
9 to ask is was there a point in time at which you
10 measured the tax rates and the effect of the available
11 bonus depreciation for the purpose of doing this
12 weighted average calculation of 34.80 percent?

13 **A** Yes. Essentially what I did was I used the
14 company's information for the state income tax effects
15 and I used the federal bonus depreciation as of the date
16 that Okeechobee was placed into service.

17 **Q** Okay. So that would be assumed to be June 1,
18 2018?

19 **A** Yes.

20 **Q** Okay. And your testimony doesn't include any
21 information on what the effective rate would be in
22 subsequent periods, does it?

23 **A** It does not.

24 **Q** Okay.

25 **A** And that's because we're dealing with only a

1 single issue ratemaking analysis with a defined test
2 year with a defined asset.

3 Q Okay. On page 40 of your July testimony, you
4 argue that FPL should not recover rate case expenses
5 because, in your view, no rate increase is justified for
6 2017; is that right?

7 A Yes.

8 Q Okay. Are you aware of any instance in which
9 this Commission has denied recovery of rate case
10 expenses based on whether or not the utility's rate
11 increase request was granted?

12 A No, but I haven't reviewed -- done any legal
13 research with respect to that. This is a stand-alone
14 issue given the circumstances of this case.

15 Q Are you aware that Duke Energy Florida
16 received no rate increase in its 2009 rate case in
17 Docket No. 090079-EI?

18 **MR. REHWINKEL:** I want to object to the
19 characterization of that. To the form of the question,
20 I think it assumes facts not in error (sic), and I
21 submit that it is incorrect because Duke received at
22 least \$130 million related to Hines.

23 **CHAIRMAN BROWN:** Mr. Butler.

24 **MR. BUTLER:** I don't think it's worth
25 disputing that in the record. We can point to the

1 orders. I'll move on.

2 **BY MR. BUTLER:**

3 **Q** So your proposal would essentially make
4 recovery of rate case expenses contingent upon FPL's
5 success in this case; correct?

6 **A** Well, I think it goes beyond that, and so I
7 can't just say yes or no. But basically in my
8 assessment, based upon the analysis that I had in my
9 testimony, pushing up the depreciation rates, advancing
10 it by one year, the study date to December 31, 2017, the
11 various other issues that were introduced by FP&L and I
12 believe to increase the revenue requirement I think made
13 this case unnecessary when you strip that all back and
14 you move those things back to appropriate levels. So
15 it's not necessarily the result, but that's certainly a
16 factor.

17 **Q** Would your recommendation be that FPL should
18 not recover its rate case expenses if FPL is, in fact,
19 granted a rate case -- I mean, a rate increase in this
20 case?

21 **A** No. In that case, my recommendation would be
22 to allow recovery of the rate case expenses in the form
23 of amortization but to exclude those costs from rate
24 base, consistent with the Commission's precedent.

25 **Q** Wouldn't you agree that between the answers to

1 the last couple of questions that you are essentially
2 acknowledging that your proposal is for recovery of the
3 rate case expenses to be contingent upon FPL's success
4 in being awarded a rate increase?

5 **A** Well, I think it depends on the Commission's
6 determinations on the various issues that I've raised.
7 In my assessment, many of these issues are pushing the
8 envelope. They are unnecessary increases in costs and
9 changes in assumptions that have no merit. But if the
10 Commission finds otherwise, then -- and grants the
11 company an increase, then the rate case expenses could
12 be included for recovery as amortization expense but not
13 in rate base.

14 **Q** Is that a yes?

15 **A** I don't think I could answer the question yes
16 or no as it was posed. That's why I gave the
17 explanation.

18 **Q** Are you prepared to accept the same success
19 contingency for your compensation as an expert witness
20 in this proceeding; the hospital association pays you
21 only if all of your recommendations are adopted?

22 **A** No. As I appreciate it, experts are not to be
23 paid contingent upon the outcome of their work.

24 **Q** Let me move to a different topic, Mr. Kollen,
25 and ask you about your testimony regarding the

1 Martin-Riviera lateral. Am I correct that you recommend
2 if the Commission approves FPL's proposal to transfer
3 the Martin-Riviera pipeline lateral to Florida Southeast
4 Connection, it should be conditioned upon an obligation
5 that FPL bring a Section 5 rate case at FERC if the
6 pipeline's ROE exceeds the last FERC-determined
7 midpoint?

8 **MR. RAPPOLT:** Madam Chair, can we get a page
9 and line number citation?

10 **CHAIRMAN BROWN:** Mr. Butler, June or July
11 testimony?

12 **MR. BUTLER:** It's the July testimony. This
13 would be his testimony starting on page 77 concerning
14 the FSC and Sabal Trail pipelines.

15 **CHAIRMAN BROWN:** Okay. Please proceed.

16 **BY MR. BUTLER:**

17 **Q** Did you understand the question, Mr. Kollen?

18 **A** I did, but I don't recall it. How convenient;
19 right?

20 **Q** All right. It was pretty long. Let me
21 just -- I'll read it -- I'll give it to you again.

22 **A** I'd appreciate that. Thank you.

23 **Q** Is it correct that you recommend if the
24 Commission approves FPL's proposal to transfer the
25 Martin-Riviera pipeline lateral to Florida Southeast

1 Connection, it should be conditioned upon an obligation
2 that FPL bring a Section 5 rate case at FERC if the
3 pipeline's ROE exceeds the last FERC-determined
4 midpoint?

5 **A** Yes. I think that's a very summarized version
6 of my recommendation, but it's correct, yes.

7 **Q** If FPL were to have that sort of relationship
8 with Florida Southeast Connection, would you agree that
9 similarly any time the pipeline's ROE fell below the
10 FERC-authorized midpoint, the pipeline should be
11 entitled to bring a rate case to increase its rates to
12 FPL?

13 **A** Well, I think it has that right to do under
14 Section 4 of the Natural Gas Act.

15 **Q** Would that be the case if FPL and FSC agreed
16 to a contract rate?

17 **MR. RAPPOLT:** I'm going to object. It's --
18 that is a very vague question about what kind of
19 contract they might have.

20 **CHAIRMAN BROWN:** Mr. Butler.

21 **BY MR. BUTLER:**

22 **Q** Mr. Kollen, are you familiar with the concept
23 of pipelines and shippers on pipelines entering into
24 contract rates that would be different than whatever
25 the, sort of, filed default rate is for the pipeline to

1 charge shippers?

2 **A** Yes, that is done on occasion.

3 **Q** Okay. Would you agree that on occasion
4 pipelines and shippers enter into such contracts where
5 essentially the prices that would be charged the shipper
6 would be locked in under contract rather than being
7 subject absent extraordinary circumstances to rate cases
8 on either side to change that rate?

9 **MR. RAPPOLT:** Madam Chair, we still -- it's
10 still very vague. We don't know if this is a discounted
11 rate contract, if it's a negotiated rate contract. We
12 don't know enough information to answer the question.

13 **CHAIRMAN BROWN:** I would tend to agree. Can
14 you restate the question in a more general but specific
15 way?

16 **MR. BUTLER:** That's going to be hard. I mean,
17 it seems like the objection is that it's not specific
18 enough. I'll try again. But Mr. Kollen hasn't
19 indicated yet whether he does or doesn't understand the
20 question, so I'll try again. But I would appreciate it
21 if counsel would allow him to at least try to answer it
22 or state that he doesn't understand it.

23 **BY MR. BUTLER:**

24 **Q** So, Mr. Kollen, are you familiar with
25 instances in which pipeline companies and shippers will

1 agree to a contract rate that is pursuant to the terms
2 of the contract, you know, locked in over a period of
3 time such that neither the pipeline nor the shipper
4 would be entitled to bring a rate proceeding to change
5 that rate absent extraordinary circumstances?

6 **MR. RAPPOLT:** I'm now going to object based on
7 legal conclusion. He asked whether they were entitled
8 to bring a rate proceeding. That is a legal argument.

9 **MR. BUTLER:** I did not ask entitled --

10 **CHAIRMAN BROWN:** I'm going to allow the
11 question, and if the witness is able to answer it, he
12 can.

13 **MR. BUTLER:** Thank you.

14 **THE WITNESS:** There are any number of pricing
15 terms that could be included in a contract, including
16 pricing terms such as you have described. And there may
17 be exceptions to whether or not the shipper can bring a
18 complaint under certain circumstances regardless of the
19 terms of the contract, but those are all legal
20 questions.

21 **BY MR. BUTLER:**

22 **Q** Okay. Do you know what percentage of FERC
23 Section 5 rate cases result in decreased pipeline rates?

24 **A** I don't. I don't know of anybody who tracks
25 that, but -- there probably is some source for it, but I

1 don't know.

2 Q Okay. Would you agree that having a
3 negotiated rate or a contract rate, as I've been
4 describing it, with a pipeline places the risks of cost
5 overruns and increases in O&M costs on the pipeline
6 rather than on the shipper?

7 MR. RAPPOLT: Again, I'm going to object to --
8 this is a -- it requires a legal conclusion whether a
9 pipeline can recover the costs related to a negotiated
10 rate agreement, and there's specific guidelines that
11 FERC uses to determine that.

12 MR. BUTLER: I'm sorry. Counsel is testifying
13 at this point. I'm asking Mr. Kollen a question.
14 They're sort of the similar types of questions --

15 CHAIRMAN BROWN: Objection overruled.

16 MR. BUTLER: Thank you.

17 CHAIRMAN BROWN: If he can answer the
18 question, then he can -- the witness may answer the
19 question.

20 Go ahead, Mr. Kollen.

21 THE WITNESS: If the pipeline's costs are more
22 or less than the negotiated rate allocated to that
23 shipper, then that would be at the risk of the pipeline,
24 whether it was greater or less.

25 BY MR. BUTLER:

1 **Q** Okay. Now your testimony here starting on
2 page 77 applies to transportation charges FPL will pay
3 to Sabal Trail as well as to FSC; is that correct?

4 **A** Yes.

5 **Q** Are you aware of anything in FPL's base rate
6 case request here that relates to transportation charges
7 FPL will pay to Sabal Trail?

8 **A** Well, there's a discussion, of course, in
9 Mr. Barrett's testimony about the company's request to
10 transfer the lateral to FSC, and there's a purported
11 economic evaluation of the savings for retail ratemaking
12 purposes, which would appear to me to inherently not
13 involve a base rate cost other than the fact that it's
14 being moved out -- onto the company's proposal from the
15 company's revenue requirement in this case.

16 **Q** I think maybe we're talking past each other.
17 What I'm asking is the distinction between Sabal Trail
18 and FSC. I think what you just described is the
19 testimony of Mr. Barrett regarding proposed transfer to
20 FSC, and I'm asking you whether you're aware of anything
21 in this case that relates to transportation charges to
22 be paid to the separate pipeline named Sabal Trail.

23 **A** I don't know that there are any separate
24 transportation charges in the base revenue requirement.
25 The point is, is that the circumstance exists, not only

1 with the lateral but with also the Sabal Trail
2 transportation charges, to effectively engage in these
3 affiliate type transactions and inappropriately increase
4 the cost to FP&L's customers.

5 Q And I'm asking about whether you're aware of
6 anything in this case that relates to transportation
7 charges or any other form of compensation to Sabal Trail
8 pipeline. Yes or no?

9 A And I already answered that question.

10 MR. RAPPOLT: Madam Chair, it --

11 CHAIRMAN BROWN: (Not on microphone.)

12 MR. BUTLER: Thank you.

13 BY MR. BUTLER:

14 Q I'd like to turn to a different topic,
15 Mr. Kollen, pages 19 to 23 of your July testimony. And
16 here you discuss the topic of FPL's proposed use of
17 year-end plant balance -- or plant and reserve balances
18 for the purpose of setting depreciation rates; is that
19 correct?

20 A Yes. That's not the only aspect of it, but
21 it's using a depreciation study date of December 31,
22 2017.

23 Q Are you aware that FPL has filed, as part of
24 what we refer to as the second notice of identified
25 adjustments, depreciation calculations that were based

1 on the use of year-end 2016 plant and reserve balances?

2 **A** Yes. There was no witness that sponsored that
3 study, I don't believe, until Ms. Ousdahl's rebuttal
4 testimony where she attached a depreciation study. But
5 interestingly enough, Mr. Allis, the company's
6 depreciation witness, never addressed that study in his
7 testimony, either direct or rebuttal.

8 **Q** Have you reviewed the calculations that were
9 filed on June 16, 2016, with the second notice of
10 identified adjustment?

11 **A** I've reviewed the filing, the second proposed
12 notice of adjustments. I have not reviewed the
13 calculations. I've looked at some of the net salvage
14 rates, I've looked at the interim retirement curves, and
15 I've looked at the remaining lives that were used in
16 calculating those revised or adjusted depreciation
17 rates. And there are some changes that were not noticed
18 and there were other changes that should have been made
19 if you're going to perform a comprehensive depreciation
20 study at a different study date. So I continue to
21 recommend that the Commission simply reject the
22 depreciation study. Not only the one dated December 31,
23 2017, but the supplemental one that has no depreciation
24 witness supporting it as of December 31, 2016.

25 **Q** Did you identify any errors in the

1 calculations that were made in the June 16, 2016,
2 depreciation calculations?

3 **A** I did not look at that study to identify
4 errors because my focus had been on the study that the
5 company filed, and that was addressed by its
6 depreciation expert. The company filed that
7 supplemental depreciation study three weeks before
8 intervenor testimony was due. Quite frankly, there was
9 no way to assess that study before the testimony was
10 filed.

11 **Q** Now on page 22 of your testimony, you say that
12 the Commission should address what you're calling the
13 inappropriate use of 2017 year-end plant balances by
14 rejecting FPL's filed depreciation study and retaining
15 the existing depreciation rates; is that right?

16 **A** Yes. There's not a valid depreciation study,
17 in my assessment, in the record.

18 **Q** And what you're referring to is a study that
19 was presented in FPL's 2009 rate case; is that right?

20 **A** The rates that were adopted in that case, yes.

21 **Q** Okay. Are you aware that the last year of
22 actuals data that was available to determine life spans,
23 net salvage, and other depreciation parameters in that
24 2009 depreciation study was 2007?

25 **MR. RAPPOLT:** I'm going to object. It's a

1 fact not in evidence.

2 **CHAIRMAN BROWN:** Mr. Butler, can you restate
3 the question?

4 **BY MR. BUTLER:**

5 **Q** Do you know what was the last year of
6 available actuals data on life spans, net salvage, and
7 other depreciation parameters that were used in the
8 2009 depreciation study?

9 **A** I don't. But the company's -- and I'm not
10 sure that that's relevant because the company's practice
11 has been to use projected plant balances and projected
12 information for whatever depreciation studies they use.
13 For example, in 2012, I believe that the -- with the
14 2013 test year the company filed a depreciation study
15 with a study date of 12/31/2012. That was using
16 forecasted data. And that has been the company's
17 practice historically.

18 **Q** Do you know what the year was of the
19 projections for the plant and reserve balances used in
20 the 2009 depreciation study?

21 **A** I don't know with certainty. I could
22 speculate based on experience, but I don't know.

23 **Q** Would you accept, subject to check, that it
24 was 2009?

25 **A** I would accept it, subject to check, for

1 whatever that's worth.

2 Q Would you agree that FPL's electric system has
3 grown a great deal since then?

4 A It certainly has, yes.

5 Q And would you agree that the mix of property
6 in FPL's electric system has changed a great deal since
7 then?

8 A Yes.

9 Q Would you agree that over 70 percent of the
10 increase in depreciation accrual in FPL's 2016
11 depreciation study relates to FPL's nuclear function?

12 A I don't know. And when you refer to the 2016
13 study, you're referring to the study with a date of
14 12/31/2017. Even though you're referring to it as the
15 2016, it is not the supplemental study; correct?

16 Q That's right. To the study as filed using the
17 year-end 2017 plant and reserve balances.

18 A Okay. Yes. Yes.

19 Q Okay. But the answer is still you don't know?

20 A I did not make that assessment to stratify the
21 causes of the proposed increase in depreciation expense.

22 Q Would you agree that FPL's nuclear plants have
23 a finite life tied to their respective operating
24 licenses?

25 A Yes.

1 **Q** Would you agree that FPL has made significant
2 investments in nuclear plant since the 2009 depreciation
3 study?

4 **A** Yes. The company has made significant
5 investments across the board in all types of plant.

6 **Q** Staying with depreciation but moving to a
7 different topic, capital spare parts, are you familiar
8 with combined cycle power plant technology?

9 **A** Well, first of all, I'm not an engineer, so
10 let me just preface my comments with that.

11 Other than that, I would say the answer is,
12 yes, I have a basic understanding of the technology and
13 the components.

14 **Q** So would you agree a typical combined cycle
15 plant will have one or more combustion turbines,
16 generally speaking, use combustion natural gas or
17 another fuel to generate electricity, and then that
18 couples up to a heat recovery steam generator and steam
19 turbine?

20 **A** Yes.

21 **Q** Okay. Are you familiar with any -- are you
22 familiar with any of the components of a combustion
23 turbine?

24 **A** Again, not as an engineer, but, yes,
25 generally.

1 **Q** Okay. Are you familiar with the fuel nozzles
2 in combustion turbine?

3 **A** I'm aware that they have them.

4 **Q** Okay. Do you know how frequently fuel nozzles
5 need to be replaced in combustion turbines?

6 **A** I do not.

7 **Q** Okay. Are you familiar with what is referred
8 to as a transition nozzle?

9 **A** No.

10 **Q** Okay. How about turbine blades? Are you
11 familiar with turbine blades?

12 **A** Yes.

13 **Q** Do you know how frequently turbine blades have
14 to be replaced?

15 **A** I do not.

16 **Q** Are you familiar with what compressor blades
17 are in the combustion turbines?

18 **A** Yes.

19 **Q** And same question, do you know how frequently
20 they have to be replaced?

21 **A** I do not. But having said I do not know
22 specifically with respect to these components, the
23 historical data that the depreciation analyst uses
24 reflects all of the retirements, all of the what are
25 called interim retirements, the fact that some equipment

1 has shorter lives, some equipment has longer lives. And
2 it's that average life of all of the components of the
3 equipment that gets factored into the remaining life.
4 And so it's not a situation where every part of the
5 power plant is simply depreciated over, let's say, 40
6 years because certain components wear out more quickly.
7 That's reflected in the interim retirement curve. The
8 remaining life reflects that.

9 Q The parts, the types of parts I've just
10 described, the turbine blades, compressor blades, do you
11 know, do the manufacturers specify replacement intervals
12 for those types of parts?

13 A Generally that's true.

14 Q Okay. Are you familiar with what the, sort of
15 the external casing for a combustion turbine is that all
16 of these rotatable parts are mounted into?

17 A Yes.

18 Q Okay. Are you aware of any CT combustion
19 turbine manufacturer that specifies a replacement
20 schedule for the combustion turbine casings?

21 A I don't know. I'm not an engineer and I
22 haven't studied that. And, again, the actual data is
23 what drives the remaining life. That's what the
24 depreciation analyst works from, the history of interim
25 retirements. In other words, those interim retirements

1 necessarily reflect the shorter lives of certain
2 components of the equipment because certain components
3 need to be replaced more quickly. And that is reflected
4 in the remaining life, and it's reflected properly in my
5 assessment in a single account, the prime movers
6 account, 343.

7 **Q** Okay. Mr. Kollen, I'd like you to turn to
8 your incentive mechanism testimony, the June testimony,
9 please.

10 In pages 8 and 9 of your incentive mechanism
11 testimony, would it be fair to characterize your
12 testimony as saying that no incentive should be provided
13 for wholesale purchases because -- or sales because in
14 both instances the utility has a prudence obligation to
15 enter into those transactions?

16 **A** Yes.

17 **Q** Okay. Are you aware of any Florida statute
18 that requires utilities to maximize wholesale purchases
19 or sales in order to be found prudent?

20 **A** I am not. But my general experience in the
21 industry is that utilities very seldom are incentivized
22 through the fuel adjustment clause mechanisms with a
23 share of so-called savings on economy purchases because
24 it's just simply another option in lieu of their own
25 generation. And similarly, with excess generation

1 available, there's a prudence obligation to sell it and
2 maximize the value for customers.

3 Q All right. Are you aware of any rule of this
4 Commission that requires utilities to maximize wholesale
5 purchases or sales in order to be found prudent? And
6 I'd appreciate a yes or no here. You just explained
7 your view, but you don't need to do that again.

8 A Yeah. No, I'm not aware of any rule. Again,
9 this goes to the prudence obligation to minimize costs
10 to customers who are paying for the fixed costs of those
11 assets.

12 Q Are you aware of any decision of this
13 Commission that says utilities are required to maximize
14 wholesale purchases or sales in order to be found
15 prudent?

16 **MR. RAPPOLT:** Madam Chair, we're going to
17 object as to a legal conclusion.

18 **CHAIRMAN BROWN:** Objection overruled. You may
19 answer it.

20 **THE WITNESS:** No, I'm not aware of a rule that
21 would maximize economy or require the utility to
22 maximize economy purchases or economy sales; however,
23 there is a prudence obligation to maximize the
24 utilization of the company's equipment. The fix costs
25 are paid by the customers. If there is excess

1 generation available that can be sold, the utility has a
2 prudence obligation to maximize that. And similarly,
3 with respect to economy purchases, if on the margin the
4 company's generators, it costs maybe \$20 per megawatt
5 hour, all-in dispatch costs, if the company can buy for
6 \$19, then the economic decision is to buy economy back
7 down the operation of their own generation. This is a
8 normal manner of business throughout the utility
9 industry. And, believe me, I've been around a long time
10 and I know this to be true.

11 Q I appreciate your views, but getting --
12 cutting to the chase for my line of questions on this,
13 you would agree that you're not aware of any statute,
14 rule, or commission order that has -- all right. I'll
15 move on.

16 Are you aware that this Commission has had an
17 incentive mechanism since 1980 to encourage efficient
18 operation of generating units?

19 A I was not aware of -- unless you can give me
20 more details, I'm not aware of that.

21 Q Are you familiar with -- I'm sorry.

22 A I am -- well, my understanding of the
23 mechanism that the company has had is that prior to the
24 adoption of the incentive mechanism, economy purchases
25 were recovered at cost through the fuel adjustment

1 clause. There was no incentive specifically nor
2 recognition of revenues in -- from economy sales in the
3 fuel clause. That's my understanding of where this
4 utility was prior to the adoption of the incentive
5 mechanism.

6 **Q** What I was referring to, Mr. Kollen, is the
7 generating performance incentive factor. Are you
8 familiar with that?

9 **A** I have heard of it. I am not familiar with
10 the factor itself.

11 **Q** Okay. Just give me one minute. Thank you.

12 (Pause.)

13 Mr. Kollen, are you aware that Mr. Allis, our
14 depreciation witness, cosponsored Exhibit KO-19, which
15 is the -- includes the second notice of identified
16 adjustments?

17 **A** I was not aware of that. I thought that was
18 sponsored solely by Ms. Ousdahl.

19 **MR. BUTLER:** Okay. Thank you. That's all the
20 questions I have. Thank you for your time, Mr. Kollen.

21 **CHAIRMAN BROWN:** Thank you.

22 Staff.

23 **EXAMINATION**

24 **BY MS. BROWNLESS:**

25 **Q** Good evening, Mr. Kollen -- or morning or

1 whatever it is.

2 **A** I hope -- I really hope it's morning.

3 **Q** When you provided the responses to staff's
4 interrogatories and POD requests associated with your
5 subject areas as they became available?

6 **MR. REHWINKEL:** Madam Chairman, I would like
7 to object for the record for the reasons stated earlier.

8 **MS. BROWNLESS:** Right. And --

9 **MR. REHWINKEL:** To the relevancy of this line
10 of cross. Thank you.

11 **CHAIRMAN BROWN:** Hold on. Hold on. I just
12 want to make sure that people aren't -- attorneys are
13 not talking over each other, which we all like to do.
14 So when there's an objection, just a reminder to the
15 parties, please allow the attorney an opportunity to
16 make it, and then I'll ask for a response, if necessary.

17 **MS. BROWNLESS:** Well, I would state for the
18 record at this time that we are not seeking to introduce
19 Mr. Pous' exhibits in the Comprehensive Exhibit List,
20 and, therefore, would be -- as my -- my understanding of
21 Mr. Rehwinkel's previous objection was that if that were
22 the case, he would allow us to proceed.

23 **MR. REHWINKEL:** Then I withdraw the objection.
24 Thank you.

25 **CHAIRMAN BROWN:** Beautiful. Please proceed.

1 **BY MS. BROWNLESS:**

2 **Q** Okay. I'll start over, Mr. Kollen.

3 Were you provided the responses to staff's
4 interrogatories and POD requests associated with your
5 subject areas as they became available?

6 **A** I would have had them available if I had asked
7 for them. I don't think they were routinely provided by
8 counsel.

9 **Q** Okay. Is that also true for any responses
10 associated with the -- associated with your subject
11 areas for FIPUG's or FEA's or AARP's or OPC's discovery?

12 **A** I don't recall that I reviewed any discovery
13 requests or responses from OPC, FEA, or the other
14 intervenors that you mentioned.

15 **Q** Okay. During the course of your engagement in
16 this proceeding, did you prepare discovery questions for
17 any of the parties or for FP&L?

18 **A** Directed toward FP&L, yes, not for FP&L.

19 **Q** Well, directed toward them.

20 **A** Okay.

21 **Q** For your client directed toward them.

22 **A** I understood. I just wanted to make sure it
23 was clear.

24 **Q** Sure. And you did that?

25 **A** I wrote discovery questions, yes.

1 **Q** Okay. And did you receive and review the
2 responses to the discovery that you requested?

3 **A** Yes.

4 **Q** Okay. Thank you. Oh, and I just have one
5 other question. When I was listening to your responses
6 to Mr. Butler, is it your position that there should be
7 absolutely no incentive associated with the sale of
8 wholesale power?

9 **A** You're referring, I think, to economy sales.

10 **Q** Yes, sir.

11 **A** And it is my recommendation that there be no
12 incentive provided to the company for that. I believe
13 that's part of the utility's prudence obligation to
14 minimize cost to customers.

15 **Q** So to the extent that the Commission has in
16 place at this time incentives, you believe those are
17 unnecessary.

18 **A** I don't know what other incentives there may
19 be other than those that are included presently in the
20 incentive mechanism, so I would have to see what else is
21 there. I don't know what you're referring to.

22 **Q** Okay. So you're -- you've only analyzed the
23 incentive mechanism which was the result of the
24 settlement agreements; is that correct?

25 **A** Yes, that's correct.

1 **MS. BROWNLESS:** Thank you.

2 **EXAMINATION**

3 **BY MS. LEATHERS:**

4 **Q** Good morning, Mr. Kollen. I'm Margo Leathers
5 also with Commission staff. We did previously
6 distribute an exhibit.

7 **CHAIRMAN BROWN:** We are going to mark that as
8 722, and that will be entitled FPL's Responses to
9 Staff's 33rd Set of Interrogatories, No. 405,
10 Attachment 1. So that's 722.

11 (Exhibit 722 marked for identification.)

12 Mr. Kollen, do you have a copy of that in
13 front of you?

14 **THE WITNESS:** I do.

15 **MS. LEATHERS:** Thank you, Madam Chair.

16 **BY MS. LEATHERS:**

17 **Q** Mr. Kollen, could you please refer to your
18 prefiled Exhibit LK-33, which shows a recalculation of
19 the revenue expansion factor adjusted for the Section
20 199 production tax deduction of 9 percent?

21 **A** Yes.

22 **Q** In that calculation, you used a production
23 allocation factor of 50.18 percent. Was that your
24 estimate of the production allocation factor based on
25 data from MFR Schedule E-3A?

1 **A** It did come out of the company's filing. I
2 don't recall what schedule it was. Basically what it
3 is, it's the ratio of the production rate base to the
4 sum of production transmission and distribution rate
5 base.

6 **Q** Okay. Thank you. And if you could please
7 refer to the exhibit that was just marked as 722.

8 **MR. RAPPOLT:** Madam Chair, before we get into
9 questions about this exhibit, I'd just request that a
10 foundation be made regarding this.

11 **CHAIRMAN BROWN:** Yes. She's working on it.

12 **MS. LEATHERS:** I apologize.

13 **BY MS. LEATHERS:**

14 **Q** Mr. Kollen, did you prepare the response to
15 this or was it prepared under your supervision?

16 **MR. RAPPOLT:** This is -- I believe it's FPL's
17 response, so --

18 **CHAIRMAN BROWN:** It looks like that to me as
19 well.

20 **THE WITNESS:** My read of it is that it's a
21 request by staff to FP&L and FP&L's response to a staff
22 interrogatory.

23 **BY MS. LEATHERS:**

24 **Q** Right. I apologize. Are you familiar with
25 this exhibit?

1 **A** No, I have not seen it before.

2 **Q** Okay. Could you please take a moment and look
3 at the line entitled Production % of PTBI?

4 **A** Yes.

5 **MR. RAPPOLT:** Madam Chair, we're just going to
6 lodge an ongoing objection about this exhibit.

7 **CHAIRMAN BROWN:** Well, it is apparent that
8 this is the first time he has seen it. But I will allow
9 staff an opportunity to, with a little leeway, ask a
10 question on it, although I don't see the relevancy since
11 he hasn't seen this up until this point.

12 **BY MS. LEATHERS:**

13 **Q** Okay. And based on your view -- your brief
14 review, Mr. Kollen, would you agree that FPL provided
15 production allocation factors of 53.67 percent and
16 51.11 percent for 2017 and 2018 respectively?

17 **A** That's what the schedule shows. Now my
18 understanding from just now reviewing this analysis is
19 that this is a Section 199 deduction that was included
20 in the company's filing. Now there's two pieces to
21 this, and the piece that I address is the Section
22 199 deduction that goes into the revenue expansion
23 factor, so that the company's calculation of the Section
24 199 deduction assumed no rate increases in 2017 and '18.
25 But when there is a rate increase, the revenues go up,

1 the taxable income goes up, and the Section
2 199 deduction goes up. And that's what I addressed in
3 my testimony, that second piece of the calculation tied
4 to the rate increase. So I did not dispute or quarrel
5 with FP&L in its calculation of the Section
6 199 deduction in 2017 and '18. That's why I didn't
7 focus on it.

8 What I did have difference with FP&L on was
9 that there would be an increase in that Section
10 199 deduction tied to the amount of the rate increase.
11 So that's why the revenue expansion factor needs to be
12 modified. I'm not suggesting that '17 and '18 before
13 the rate increase needs to be modified.

14 **Q** Okay. Thank you. And would you agree that
15 the FPL calculated production allocation factors could
16 be substituted in your calculation if your methodology
17 for calculating the revenue expansion factor is adopted?

18 **A** Yes. I think they're relatively similar.

19 **Q** Okay. And moving to the storm cost recovery.
20 Could you please refer to your July direct testimony on
21 page 73, lines 10 through 11.

22 **A** Yes.

23 **Q** And would it be accurate to say that it's your
24 testimony that the appropriate storm reserve for FPL
25 should be zero dollars?

1 **A** Yes, that would be an appropriate target
2 reserve level except in the circumstance where the
3 company undertakes securitization financing, which is
4 authorized by statute not only to -- to cover the cost
5 of actual storm damage but also to create a reserve for
6 future storm damage costs, and I think that there are
7 economies in doing that. But just in the abstract, the
8 appropriate storm damage reserve should be zero.

9 **Q** And to your knowledge, are there any Florida
10 investor-owned utilities that currently operate with a
11 storm reserve of zero?

12 **A** I don't know. I haven't reviewed that.

13 **MS. LEATHERS:** Okay. Thank you. We have no
14 further questions.

15 **CHAIRMAN BROWN:** Thank you, staff.

16 Commissioners? Yes, Commissioner Edgar.

17 **COMMISSIONER EDGAR:** Thank you.

18 Good morning.

19 **THE WITNESS:** Hey, good morning.

20 **COMMISSIONER EDGAR:** So I'm focusing, for the
21 moment, on pages 22 through 24-ish of your July
22 testimony. So is it correct to say that your
23 recommendation is that on a go-forward basis, the
24 Commission not rely on the company's depreciation study?

25 **THE WITNESS:** Yes, that is my recommendation.

1 The two thousand -- what the company refers to as the
2 2016 study is really a depreciation study with a date of
3 12/31/17, and yet the depreciation rates would go into
4 effect as of January 1, 2017. So there's a real --

5 **COMMISSIONER EDGAR:** Wasn't that -- I'm sorry.
6 Wasn't that addressed in a subsequent submission?

7 **THE WITNESS:** Well, the company submitted a
8 new result of a new depreciation study using a
9 December 31, 2016, study date. But three weeks before
10 intervenors had to file testimony, there was really no
11 way to analyze that and to go through the reams of data
12 necessary to evaluate a depreciation study. There were
13 significant --

14 **COMMISSIONER EDGAR:** That's based on -- based
15 on what?

16 **THE WITNESS:** Well, a depreciation study
17 requires a projection of plant cost, it requires a
18 projection of retirements, additions, accumulated
19 depreciation.

20 **COMMISSIONER EDGAR:** Okay. I'm sorry. What
21 I'm trying to understand is -- I thought from reading
22 your testimony that your concern with the depreciation
23 study was that the dates didn't line up, for lack of a
24 better term, but yet a subsequent submittal was made
25 addressing that. Is it that you have concerns about

1 that information or that you haven't had time to review
2 that information?

3 **THE WITNESS:** Well, both. And the reason for
4 that is a depreciation study isn't just simply a
5 mathematical exercise. It requires a lot of projected
6 data and a lot of analysis in terms of what you think
7 the interim retirement curve -- you know, in other
8 words, what portion of those assets will retire more
9 quickly than over the life of the plant, and there's a
10 whole set of analyses that are done with respect to
11 that; what it will cost to remove those assets or what
12 salvage income will be received and all of that. And,
13 quite frankly, there's just no way to get inside of that
14 to see what had been done. And on the surface, it
15 appeared to come up with results that were inconsistent
16 with what I expected. The results indicated a reduction
17 in the company's proposed increase in depreciation
18 expense of about \$20 million, and I had estimated it at
19 closer to 70 million. And so I did look at certain of
20 the what are called assumptions or parameters in the
21 depreciation study, and, for example, I noticed that the
22 retirement curves, the interim retirement curves were
23 not changed at all. They were the same ones as were
24 used as of December 31, 2017. And that may not sound
25 like a big deal, but it significantly moves those

1 depreciation rates. And the same thing with the net
2 salvage, there were some changes made there that were
3 not disclosed and --

4 **COMMISSIONER EDGAR:** So it does sound like you
5 have looked at the -- obviously you have looked at the
6 subsequent submission.

7 **THE WITNESS:** I have, and I found disturbing
8 results.

9 **COMMISSIONER EDGAR:** So moving on, within your
10 testimony, since you have raised concerns about the
11 depreciation study, I think you're recommending that on
12 a go-forward basis the Commission rely on the rates that
13 were previously set, depreciation rates.

14 **THE WITNESS:** Yes.

15 **COMMISSIONER EDGAR:** And what would be the
16 rationale for that?

17 **THE WITNESS:** Well, the rationale is that
18 there's no reason to change them. We don't have
19 anything reasonable to change them to.

20 **COMMISSIONER EDGAR:** So you're saying that the
21 subsequent submission is not reasonable?

22 **THE WITNESS:** That's correct. The
23 December 31, 2017, rates are absolutely not reasonable.
24 And the --

25 **COMMISSIONER EDGAR:** Say that again. The

1 which rates?

2 **THE WITNESS:** The 12/31/17 rates are
3 absolutely not reasonable. The 12/31/16 rates, quite
4 frankly, no way to analyze the study in the time
5 available. I noticed some disturbing --

6 **COMMISSIONER EDGAR:** Okay. All right. Thank
7 you.

8 **THE WITNESS:** -- problems with it.

9 **COMMISSIONER EDGAR:** Thank you.

10 **CHAIRMAN BROWN:** Okay. Redirect.

11 **MR. RAPPOLT:** Madam Chair --

12 **CHAIRMAN BROWN:** Yes.

13 **MR. RAPPOLT:** -- we had some testimony just
14 now regarding the supplemental depreciation study, and
15 I'd just ask the witness to complete his answer, and if
16 he wants to provide additional information in response
17 to Commissioner Edgar's questions, to please do so.

18 **THE WITNESS:** The only thing I would say is
19 that, you know, this is a pretty substantial issue in
20 the case, the depreciation rates, it's worth over
21 \$200 million, and I think it deserves more extensive
22 scrutiny than simply dumping something into the record
23 three weeks before intervenor testimony was due.

24 **EXAMINATION**

25 **BY MR. RAPPOLT:**

1 **Q** And can you describe some of the problems with
2 the study that you noticed?

3 **A** Well, for one thing, you know, the studies,
4 based upon the way the company's depreciation analyst
5 performs them, require projections of plant and at a
6 certain date in time, whether that's December 31, '16,
7 or December 31, '17, in this proceeding, and this is --
8 and then there are retirements, interim retirements, the
9 history, the application of that history to the data.
10 There are hundreds of thousands, if not millions, of
11 data points, and there just was no way to analyze that
12 December 31, '16, study.

13 **MR. RAPPOLT:** We have no further questions.

14 **CHAIRMAN BROWN:** Okay. Exhibits. This
15 witness has 282 through 317.

16 **MR. RAPPOLT:** That's correct, Madam Chair, and
17 we would like to move them into evidence.

18 **CHAIRMAN BROWN:** Are there any objections to
19 282 through 317?

20 **MR. BUTLER:** No, not from FPL.

21 **CHAIRMAN BROWN:** See no objections, we will
22 move 282 to 317.

23 (Exhibits 282 through 317 admitted into the
24 record.)

25 Staff, I'm assuming you're not going to be

1 submitting 722.

2 **MS. LEATHERS:** No, ma'am. Thank you.

3 **CHAIRMAN BROWN:** Good choice. All right.

4 Would you like this witness excused?

5 **MR. RAPPOLT:** Yes, please.

6 **CHAIRMAN BROWN:** Okay. Mr. Kollen, safe
7 travels back to Georgia.

8 **THE WITNESS:** Thank you very much.

9 **CHAIRMAN BROWN:** Thank you.

10 All right. For all of those who are present
11 today who are going to be testifying, can you please
12 stand and raise your right hand with me.

13 (Witnesses collectively sworn.)

14 At this time, my understanding is Mr. Baron
15 will be called to the stand. Is that correct?
16 Hospitals?

17 **MR. RAPPOLT:** Yes, Madam Chair. And
18 Mr. Wiseman will be coming up to the table. I apologize
19 for the delay.

20 **CHAIRMAN BROWN:** Okay. Just to let everybody
21 know, I'm hoping that we can take a lunch break
22 somewhere around 12:30 when there's a natural break. So
23 just to give you a heads-up. And we will be recessing
24 tonight before dinnertime, as a reminder.

25 (Transcript continues in sequence in Volume

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1 STATE OF FLORIDA)
2 COUNTY OF LEON) : CERTIFICATE OF REPORTER

3
4 I, LINDA BOLES, CRR, RPR, Official Commission
5 Reporter, do hereby certify that the foregoing
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8 IT IS FURTHER CERTIFIED that I
9 stenographically reported the said proceedings; that the
10 same has been transcribed under my direct supervision;
11 and that this transcript constitutes a true
12 transcription of my notes of said proceedings.

13 I FURTHER CERTIFY that I am not a relative,
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15 am I a relative or employee of any of the parties'
16 attorney or counsel connected with the action, nor am I
17 financially interested in the action.

18 DATED THIS 31st day of August, 2016.

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LINDA BOLES, CRR, RPR
FPSC Official Hearings Reporter
(850) 413-6734