



**R. Wade Litchfield**  
**Vice President & General Counsel**  
**Florida Power & Light Company**  
**700 Universe Boulevard**  
**Juno Beach, FL 33408-0420**  
**(561) 691-7101**

FILED 7/14/2021  
DOCUMENT NO. 07902-2021  
FPSC - COMMISSION CLERK

July 14, 2021

**VIA ELECTRONIC FILING**

Adam Teitzman, Commission Clerk  
Division of the Commission Clerk and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Docket No. 20210015-EI  
Petition by FPL for Base Rate Increase and Rate Unification

Dear Mr. Teitzman:

Attached for filing on behalf of Florida Power & Light Company ("FPL") in the above-referenced docket are the Rebuttal Testimony and Exhibit of FPL witness John J. Reed.

Please let me know if you should have any questions regarding this submission.

(Document 14 of 15)

Sincerely,

A handwritten signature in black ink, appearing to read "Wade Litchfield", written in a cursive style.

R. Wade Litchfield  
Vice President & General Counsel  
Florida Power & Light Company

RWL:ec  
Attachment  
cc: Counsel of Record

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

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**REBUTTAL TESTIMONY OF JOHN J. REED**

**DOCKET NO. 20210015-EI**

**JULY 14, 2021**

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

**TABLE OF CONTENTS**

**I. INTRODUCTION..... 3**

**II. ROE PERFORMANCE INCENTIVE..... 4**

**III. RESERVE SURPLUS AMORTIZATION MECHANISM..... 15**

**IV. JEA CONSUMMATION PAYMENT ..... 20**

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is John J. Reed. I am Chairman and Chief Executive Officer (“CEO”)  
5 of Concentric Energy Advisors, Inc. (“Concentric”) and CE Capital, Inc.,  
6 which have their headquarters at 293 Boston Post Road West, Suite 500,  
7 Marlborough, Massachusetts 01752.

8 **Q. Did you previously file testimony in this proceeding?**

9 A. Yes. I submitted direct testimony to the Florida Public Service Commission  
10 (the “Commission” or “FPSC”) on behalf of Florida Power & Light Company  
11 (“FPL” or the “Company”), which is a wholly owned subsidiary of NextEra  
12 Energy, Inc., on March 12, 2021.

13 **Q. Are you sponsoring any rebuttal exhibits in this case?**

14 A. Yes. I am sponsoring the following rebuttal exhibit:

- 15 • JJR-16 – Combined Situational Assessment and Cost Efficiency  
16 Rankings.

17 **Q. What is the purpose of your rebuttal testimony?**

18 A. The purpose of my rebuttal testimony is to respond to arguments of:

- 19 (1) Walmart Inc. (“Walmart”) witness Steve Chriss, CLEO Institute  
20 and Vote Solar (“Vote Solar”) witness Melissa Whited, Florida  
21 Rising, League of United Latin American Citizens of Florida, and  
22 Environmental Confederation of Southwest Florida, Inc. (“Florida  
23 Rising”) witness Karl Rábago, Floridians Against Increased Rates,

1 Inc. (“FAIR”) witness John Thomas Herndon and Office of Public  
2 Counsel (“OPC”) witnesses Daniel Lawton and Kevin O’Donnell  
3 regarding FPL’s proposed ROE Performance Incentive;  
4 (2) FIPUG witness Jeffry Pollock, FAIR witness Timothy Devlin,  
5 Florida Retail Federation (“FRF”) witness Tony Georgis, Florida  
6 Rising witness Karl Rábago, Vote Solar witness Melissa Whited,  
7 and OPC witnesses Daniel Lawton and Ralph Smith, regarding  
8 FPL’s proposed RSAM and Four-Year Rate Plan; and  
9 (3) OPC witness Ralph Smith, FIPUG witness Billie LaConte, and  
10 Federal Executive Agencies (“FEA”) witness Michael Gorman  
11 regarding the JEA Consummation Payment.  
12

## 13 II. ROE PERFORMANCE INCENTIVE

14  
15 **Q. Please summarize your reaction to Intervenor positions regarding the**  
16 **FPL’s proposed ROE performance incentive.**

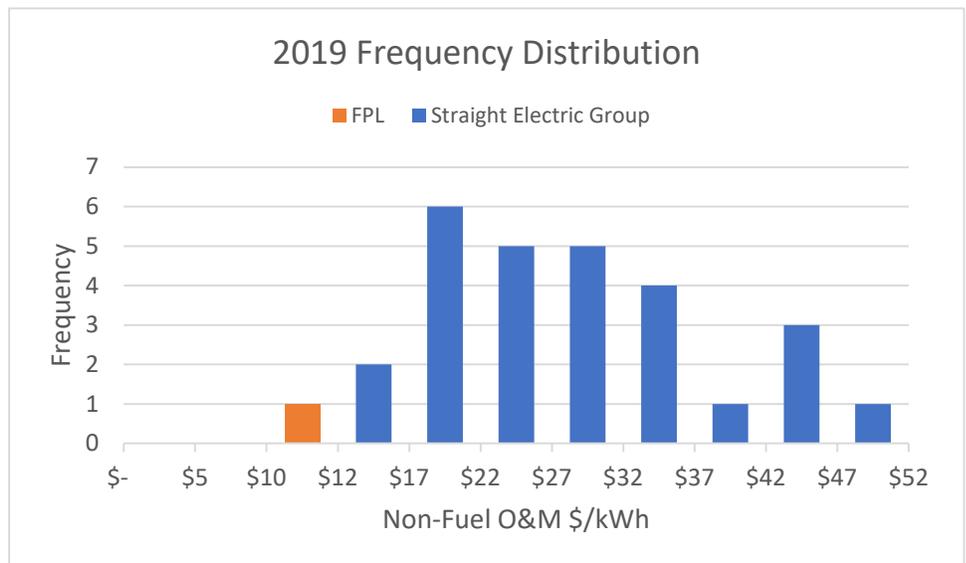
17 A. Intervenor contentions and recommendations on this topic are inconsistent with  
18 regulatory policy objectives of incenting utility behavior that improves cost  
19 efficiency and system reliability, providing lower bills and improved service to  
20 customers. Intervenors fail to recognize FPL’s exceptional performance; and  
21 attempt to discount it as a secondary result of FPL’s dependence on natural gas  
22 fired generators and system investments. Some also incorrectly contend that

1 superior performance is the appropriate regulatory standard. These claims are  
2 unsupported and baseless, as I describe below.

3 **Q. Do you agree with OPC witness Lawton and FAIR witness Herndon that**  
4 **exceptional service is the appropriate regulatory standard and should be a**  
5 **simple matter of routine operation?**

6 A. No. As a practical observation, if witness Lawton and Herndon's contention  
7 were true, we would see a very different, more uniform level of performance  
8 among FPL's peers. That has not been the case as illustrated in the 2019  
9 frequency distribution of Non-Fuel O&M per kWh for the Straight Electric Peer  
10 Group in Figure 1, below.

11 **Figure 1: Frequency Distribution of 2019 Non-Fuel O&M \$/kWh**



12

13 Figure 1 demonstrates significant cost performance differences among electric  
14 utilities, with FPL by far and away the low-cost leader. Referring to the  
15 benchmarking in my direct testimony, we likewise see very different levels of

1 performance in reliability and other key performance metrics even among  
2 similarly sized utilities.

3 Second, from a definitional standpoint, to claim that superior performance  
4 should be normal or routine is indefensible, as a matter of math and semantics.  
5 Definitionally, “superior” is neither normal nor routine. So to achieve superior  
6 performance, one would have to perform at least an above average level for  
7 electric rates, customer interruptions, and emission rates.

8  
9 For 2019 alone, if FPL had been merely an average performer, its non-fuel  
10 operational and maintenance costs and its annual fuel costs charged to  
11 customers would have been higher than its actual costs by \$2.6 billion<sup>1</sup> and  
12 \$595 million,<sup>2</sup> respectively. In addition, if FPL had been an average performer  
13 rather than an exceptional one, FPL’s customers would have experienced an  
14 average service interruption with twice as long of a duration.<sup>3</sup>

15  
16 As shown in Figure 1 above and by the results of my benchmarking study  
17 provided in Exhibits JJR-3 through JJR-14, FPL’s performance has been  
18 exemplary over each of the past ten years. Compared to electric utilities in the  
19 Southeastern U.S. Group, FPL has maintained some of the lowest, most stable  
20 residential rates as shown in Exhibit JJR-14.

---

<sup>1</sup> See page 50 of Reed direct testimony and Exhibit JJR-8, page 1 of 2.

<sup>2</sup> See page 81 of Reed direct testimony.

<sup>3</sup> Metric comparison is for FPSC Distribution Only SAIDI. Florida Utility Group five-year average distribution SAIDI of 107 minutes includes Florida Public Utilities and excludes FPL and Gulf. See page 77 of direct testimony.

1 **Q. Is OPC witness O'Donnell correct in his assertion that FPL's low customer**  
2 **bills and best-in-class non-fuel O&M performance are primarily due to low**  
3 **natural gas prices and the fact that gas plants require fewer employees?**

4 A. Absolutely not. I benchmarked FPL's cost performance across each major  
5 function including Non-Fuel Production O&M, Transmission O&M,  
6 Distribution O&M, A&G Expense, Customer Expense, Uncollectible Expense,  
7 Days Sales Outstanding, Labor Efficiency, Total Non-Fuel O&M, Gross Asset  
8 Base and Additions to Plant per Incremental Customer as provided in Exhibit  
9 JJR-6 and FPL stands as best-in-class. Further, when comparing FPL, Duke  
10 Florida, and Tampa Electric regarding the percent of generation from natural  
11 gas, FPL's percentage is the lowest (OPC witness O'Donnell, Table 12).  
12 Accordingly, it should follow from witness O'Donnell's contention that both  
13 Duke Florida and Tampa Electric would have lower bills and lower non-fuel  
14 O&M. That is not the case.

15

16 Duke Energy Florida's 2019 typical residential bill<sup>4</sup> is \$128.68, Tampa Electric  
17 is \$101.56 and FPL is \$100.85. Duke Energy Florida's 2019 non-fuel O&M  
18 is \$24.70/MWh, Tampa Electric is \$19.71/MWh, and FPL is \$11.81/MWh.<sup>5</sup>  
19 FPL's track record on cost management is unparalleled, consistently  
20 demonstrated across all areas of the business and across many years.

---

<sup>4</sup> Average of 2019 summer and 2019 winter typical 1,000 kWh residential total bill as reported by Edison Electric Institute and presented in Exhibit JJR-14, page 1 of 3.

<sup>5</sup> Exhibit JJR-6, page 29 and Confidential Exhibit JJR-6 workpaper provided in response to OPC First Request for Production of Documents No. 36.

1 **Q. Florida Rising witness Rábago and Vote Solar witness Whited present**  
2 **utility rankings for average residential electric bills, with Rábago even**  
3 **disagreeing with the use of a 1,000 kWh per month typical bill comparison.**  
4 **How do you respond?**

5 A. I disagree with their contentions; bill comparisons need to be made on some  
6 normalized basis, and we have used the typical residential 1,000 kWh/month  
7 bill, which is the industry-accepted benchmark utilized and reported by the EEI  
8 to compare a residential bill at a certain usage level to other utilities. There are  
9 many significant variables that affect residential electrical load characteristics  
10 much more so than the availability of utility sponsored energy efficiency  
11 programs, which is the factor Ms. Whited focused on. Most notable are regional  
12 differences in weather that drive large differences in summer air conditioning  
13 and winter heating load. In addition, regional differences in availability and  
14 penetration level of natural gas, heating oil and/or propane and building  
15 characteristics also drive average residential use per customer.

16  
17 Comparison of all-in \$/kWh energy rates allow for a comparison of a utility's  
18 production cost against another. In addition to production cost efficiency,  
19 differences in regional system load factor and fuel supply infrastructure will  
20 drive regional differences in production costs. For this reason, I benchmarked  
21 FPL's energy rate against only southeastern large investor-owned utilities. For  
22 these same reasons, the average residential customer bill comparisons presented  
23 in Whited's and Rábago's testimonies do not allow for a meaningful

1 comparison of production cost efficiency benchmarks as the rankings are  
2 skewed by large regional differences. Customer load characteristics, service  
3 area demographics, and fuel infrastructure in New York are very different from  
4 those in Florida. For these reasons, Mr. Rabago's and Ms. Whited's analyses  
5 are basically meaningless.

6 **Q. Florida Rising witness Rábago's characterizes FPL's plant investments**  
7 **and prior investment decisions as "excessive" and "unwise." How do you**  
8 **respond?**

9 A. Mr. Rábago's generalization of FPL's "excessive plant investments and early  
10 retirements of uneconomic plants and unwise prior investment decisions" is not  
11 accurate and is entirely unsupported. FPL has been consistent throughout by  
12 making informed decisions based on most up to date cost projections used to  
13 evaluate the CPVRR of various scenarios. Retiring an uneconomic power plant  
14 in a manner that can generate customer savings is a "wise" decision. Doing  
15 nothing and continuing to operate an uneconomic power plant without making  
16 any attempt to mitigate costs overmarket, would be an "unwise" decision. The  
17 fact that the plant is retired early does not mean the original decision to build it  
18 was "unwise." As stated by the Commission, "Conditions, Company plans, and  
19 regulatory requirements change."<sup>6</sup> Some companies are considered more  
20 proactive than others in responding to, and even anticipating, change; FPL has  
21 been one of the industry leaders in this regard and its customers are  
22 demonstrably better off as a result.

---

<sup>6</sup> Order No. PSC-10-01530FOF-EI

1 **Q. OPC witness Lawton seems unconvinced as to the level of FPL's**  
2 **performance, questioning whether there has been a complete review of**  
3 **FPL's historical performance. How do you respond?**

4 A. Although witness Lawton makes the statement, his testimony did not include  
5 any reference to my direct testimony or exhibits, where I discuss and show the  
6 results of my benchmarking study. I benchmarked FPL's financial and  
7 operational performance over the past ten years relative to four peer groups, the  
8 results of which shows that FPL has consistently and substantially out-  
9 performed similarly sized companies across a wide array of financial and  
10 operational metrics including:

- 11 • cost efficiency – the ability to maximize output and minimize costs,
- 12 • service quality and system reliability,
- 13 • operational performance including emissions, and
- 14 • rate level and stability.

15

16 This performance has put customers of FPL in a highly favorable position in  
17 terms of the level and value of service they receive.

18 **Q. OPC witness Lawton claims that customers have been paying rates based**  
19 **on a 35% federal income tax rate rather than the statutory 21% tax rate**  
20 **as added profits at the expense of customers.” How do you respond?**

21 A. He is wrong factually and also wrong as a matter of basic ratemaking. He also  
22 appears to be attempting to re-argue an issue pursued by OPC in 2018 that has  
23 already been decided by the Commission First, Lawton fails to mention that

1 FPL used the tax savings resulting from the Tax Cut and Jobs Act of 2017 to  
2 partially restore the reserve amortization after FPL did not seek cash recovery  
3 from customers for approximately \$1.3 billion in storm restoration costs for  
4 Hurricane Irma that caused damage throughout much of FPL's service territory  
5 in September 2017. Instead of collecting \$1.3 billion from customers through a  
6 storm surcharge, FPL used available reserve amortization to offset the book  
7 expenses related to Hurricane Irma storm restoration<sup>7</sup>, and used the tax savings  
8 to fund the restoration cash costs. The use of these funds for these purposes did  
9 not result in “added profits.” This is the issue previously decided by the  
10 Commission.

11

12 Second, when rates are established by Commission order, whether as a litigated  
13 outcome or in the context of approving a settlement agreement, those rates  
14 remain in place until modified by Commission order. Costs and revenues of  
15 course vary during the rate effective or settlement agreement period and utilities  
16 report their earnings (as FPL did with this Commission) based on those actual  
17 costs and revenues. Any change in tax obligations, or any other cost or  
18 component of revenue, naturally flows through such earnings reports. Thus,  
19 where a regulator reviews such reports and, as in this case, confirmed that FPL  
20 was earning within its authorized range, witness Lawson’s contention is  
21 meritless.

---

<sup>7</sup> FPL 2019 FERC Form 1

1 **Q. OPC witness Lawton also raises gas hedging as a criticism of FPL's**  
2 **performance. How do you respond?**

3 A. Witness Lawton's comment that "hedging is a costly practice" is a matter of  
4 him misapplying the purpose of hedging and (recent) history. Lawton's  
5 comment suggests he is looking for the Company to outperform the market on  
6 fuel procurements, which is not consistent with hedging. He therefore will see  
7 any unfavorable deviations to the option of "not hedging" as "expensive." This  
8 comparison is both unfair, based on 20/20 hindsight, and reflects a complete  
9 lack of understanding as to the nature and purpose of hedging. Hedging is not  
10 about outguessing the market. Those utilities who implement fuel price hedges  
11 and regulators who approve fuel hedging for utilities do so for the purpose of  
12 reducing price volatility, not to try to outguess where fuel prices will be.  
13 Hedging decisions are made well in advance of natural gas flow and therefore  
14 at the time a hedging decision is made, the Company doesn't know and doesn't  
15 pretend to predict what the actual market settlement price will be. Mr. Lawton  
16 purports to hold FPL to a standard that does not exist and never existed with  
17 respect to a bona fide fuel hedging program.

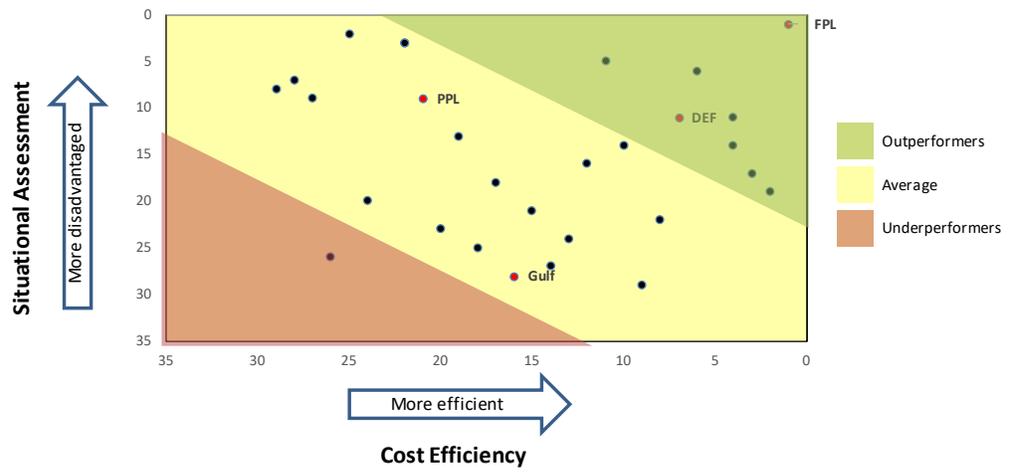
18 **Q. Walmart witness Chriss contends that the requested ROE performance**  
19 **incentive "appears to be arbitrary in its derivation and much higher than**  
20 **the comparable adders cited" for Gulf Power and PPL. How do you**  
21 **respond?**

22 A. I disagree. There are few utilities of FPL's size that are in such a challenging  
23 position like FPL, as illustrated by my situation assessment, that establishes the

1 “degree of difficulty” that a utility’s management faces in achieving top  
2 performance. By arraying the situational assessment rankings or “degree of  
3 difficulty” on one axis and cost efficiency rankings on a second axis, we can  
4 evaluate whether management has outperformed or under-performed relative to  
5 peer group companies. In Figures 2 and 3 shown below, I have updated the  
6 combined situational assessment and cost efficiency rankings for the Straight  
7 Electric Group from Exhibit JJR-9 to include PPL and present the results for  
8 years 2012, reflecting when PPL was authorized a 12 basis point performance-  
9 based adder and 2019. Similar comparisons for ten years (2010 through 2019)  
10 are provided in Exhibit JJR-16. As shown in these charts, PPL has not achieved  
11 cost efficiency levels that even come close to FPL’s performance. FPL’s stand-  
12 alone position in the far upper right quadrant in Figures 1 and 2 below and  
13 Exhibit JJR-16 indicate that FPL has significantly outperformed all other  
14 utilities in the nation, including PPL and Gulf Power. FPL’s relative  
15 performance to PPL and Gulf Power, supports the Company’s request for a  
16 performance-based incentive that is greater than those previously provided to  
17 PPL and Gulf Power, to maintain and improve FPL’s current level of  
18 management performance, which includes continuing to integrate Gulf into  
19 FPL’s electric power system and business model.

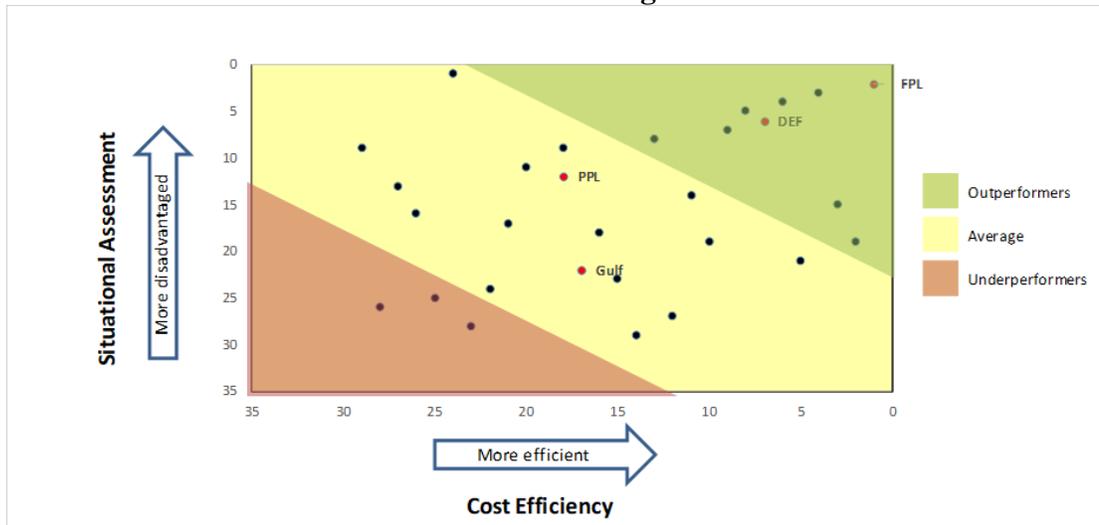
1  
2

**Figure 2: 2012 Combined Situational Assessment & Cost Efficiency Ranking**



3  
4  
5  
6  
7

**Figure 3: 2019 Combined Situational Assessment & Cost Efficiency Ranking**



8  
9  
10  
11

1           **III. RESERVE SURPLUS AMORTIZATION MECHANISM**

2

3   **Q. Please summarize the intervenor witnesses' contentions regarding FPL's**  
4   **RSAM proposal, which you respond to in the Section III.**

5   A. The intervenor arguments fail to acknowledge that FPL's proposed RSAM is a  
6   core part of the Company's proposed multi-year rate plan, and that rejecting  
7   RSAM would incapacitate the Company's Four-Year Rate Plan. Intervenor  
8   contentions illustrate their misunderstandings regarding how the proposed  
9   RSAM and revenue requirements work and that depreciation parameters, the  
10   pace of reserve amortization and allowed return must be part of an integrated  
11   depreciation study. Intervenors' myopic zero-sum thinking fails to see how  
12   FPL's proposed Four-Year Rate Plan, as enabled by RSAM would benefit both  
13   FPL's customers and its investors; and ignores FPL's superior management  
14   performance and resulting cost efficiencies allowed through longer stay outs  
15   from general base rate case proceedings as enabled by RSAM.

16   **Q. Does RSAM as proposed by FPL create intergenerational inequities?**

17   A. Absolutely not. Because amortization of the reserve surplus may only be made  
18   prospectively as no correction can be made to the accounts of prior customers,  
19   it is unavoidable that there will be some difference in treatment among  
20   generations should depreciation parameters change during an asset's life.  
21   However, this in no way suggests any unfair or inequitable treatment of those  
22   customers. Given that FPL's assets in service span vintages with in-service  
23   dates at least as far back as the 1970s, a reserve surplus is not the result of an  
24   over-collection from current customers. As a theoretical estimate at the current

1 point in time, based on current depreciation assumptions, the reserve surplus is  
2 very different from the deferred incremental variations in fuel costs that are  
3 recovered from, or refunded to, ratepayers through a fuel adjustment clause  
4 mechanism. For such fuel overcollections, the fuel has been consumed and its  
5 cost can be fully reconciled and addressed. For assets in service, the service  
6 life is still uncertain, and no permanent reconciliation and disposition is  
7 possible. For these reasons, there is no customer refund obligation associated  
8 with a depreciation reserve surplus.

9

10 If there is a reserve surplus, we would expect that current and future customers  
11 will pay less in depreciation expense than prior customers did for the same use  
12 of the asset, regardless of the time period over which the surplus is amortized  
13 (or whether or not FPL's RSAM proposal is approved).

14 **Q. Intervenor witnesses Devlin, Lawton and Pollock argue that the**  
15 **Company's RSAM proposal will cause future customers to "pay more" for**  
16 **the assets in rate base. How do you respond?**

17 A. Intervenor witnesses appear to misunderstand how the revenue requirements  
18 work. As discussed above, the existence of a theoretical reserve surplus  
19 necessarily means that future customers will pay less in depreciation expense  
20 over the remaining life of the assets than they otherwise would as that surplus  
21 is returned over whatever amortization period is utilized, i.e., future  
22 depreciation expense will be reduced by the amortization. Because  
23 depreciation expense must be non-negative, amortizing the surplus does not

1           “add to rate base,” but rather slows the reduction in rate base. More  
2           importantly, amortizing the surplus restores rate base to where it theoretically  
3           should be, had the current depreciation parameters always been in place. The  
4           fact that the reserve surplus is being amortized prospectively means current and  
5           future customers always will pay no more than their ratable share of the assets  
6           and will in fact receive a share (over some period) of the benefit of that surplus  
7           as it is amortized. Further, in any event, the conclusion of these witnesses takes  
8           far too narrow a view of this issue, completely ignoring the multi-year benefits,  
9           including the deferral of future base rate increases, produced through an  
10          RSAM-enabled plan.

11

12          The intervenor arguments also fail to acknowledge that the depreciation reserve  
13          surplus relates to investor supplied capital, and not customer supplied capital.  
14          How the reserve surplus is returned, and how it is used by the Company should  
15          reflect this. It is therefore appropriate to use the reserve surplus as a balancing  
16          buffer, and other uses that relate to investor capital.

17

18          Under a traditional ratemaking framework, the reserve surplus is typically  
19          amortized over the remaining life of the assets. However, there is more than  
20          one just and reasonable method to amortize a reserve imbalance, such that the  
21          actual reserve is in balance at the end of life of the assets. FPL’s RSAM  
22          proposal only shapes the pace at which the reserve surplus is amortized and the  
23          remaining balance for assets in rate base is corrected to reflect current

1 depreciation parameters. In FPL's Four-Year Rate Plan that amortization  
2 benefit is the deferral of near-term base rate increases in 2024 and 2025,  
3 resulting in earnings stability, longer rate case stay-out durations, reduced  
4 customer bill impacts and increased rate stability and predictability.

5 **Q. Intervenors criticize the Company for proposing a different set of**  
6 **depreciation parameters for an outcome where RSAM and the Four-Year**  
7 **Plan are not approved. How do you respond?**

8 A. Intervenor witnesses Devlin, Rábago, Georgis, Lawton, and McCuller are  
9 inconsistent in their views on how to handle a depreciation reserve surplus. As  
10 I have discussed above, there is more than one just and reasonable method to  
11 amortize a reserve imbalance, such that the actual reserve is in balance at the  
12 end of life of the assets. It is perfectly acceptable to use the reserve surplus as  
13 proposed by the Company to support its Four-Year Rate Plan. As an example  
14 of aligning timing of amortization with plan objectives, FPL's proposed Four-  
15 Year Rate Plan assumes non-cash amortization of the reserve surplus to be used  
16 to avoid the need to increase base rates in 2024 and 2025. FPL's proposed  
17 Four-Year Rate Plan is reasonable and an appropriate policy choice.

18  
19 In the event RSAM is not accepted, the Commission would approve new base  
20 rates for 2022 and 2023 in this proceeding, and FPL likely would file another  
21 base rate petition in 2023 for new cash-based rates effective in 2024 and 2025,  
22 as described in rebuttal testimony of FPL witness Barrett. From a ratemaking

1 and rate stability standpoint, the Company’s proposal to avoid this future rate  
2 case makes sense.

3 **Q. Please describe the overall value proposition of FPL’s proposed Four-Year**  
4 **Plan, enabled by RSAM.**

5 A. While the flexibility afforded to FPL by its prior RSAM and multi-year rate  
6 plans have resulted in favorable financial analysts and credit rating reports  
7 supporting an ability for FPL to continue to access capital at favorable rates, it  
8 has also provided equally important and substantial benefits to its customers.

9  
10 In the event FPL’s proposed RSAM and Four-Year Rate Plan are rejected in  
11 this proceeding, FPL witness Barrett estimates that \$2 billion more in cash  
12 revenues would need to be collected from ratepayers over the four years 2022  
13 through 2025.<sup>8</sup> Additionally, if FPL were to petition for another base rate  
14 increase in 2023, inflation risk and interest rate risk would shift to the customer.  
15 Utility costs have been increasing faster than inflation, as observed through  
16 recent approval of negative “X-Factors” or Productivity Growth Indices by the  
17 Massachusetts Department of Public Utilities for National Grid and  
18 Eversource’s Annual Performance Based Ratemaking Adjustment proceedings  
19 in Dockets D.P.U. 20-68 and D.P.U. 20-96.

20  
21 The Company’s proposed use of the amortization of the reserve surplus to  
22 mitigate bill impacts in the latter half of its Four-Year Rate Plan, provides the

---

<sup>8</sup> Rebuttal Testimony of Robert E. Barrett at 12.

1 near-term benefit to customers of deferring the need for FPL to file another  
2 petition in 2023 for base rate increases in 2024 and 2025.

3 **Q. Are you aware of any other utilities that use a mechanism similar to FPL's**  
4 **proposed RSAM?**

5 A. Yes. FAIR witness Devlin's claim to the contrary is incorrect as evidenced by  
6 prior decisions of this Commission. Both Duke Florida (FPSC Order No. PSC-  
7 13-0598-FOF-EI and FPSC Order No. PSC-10-0398-S-EI) and Tampa Electric  
8 (FPSC Order No. PSC-2017-0456-S-EI) have employed mechanisms that are  
9 similar to FPL's proposed RSAM. In addition, Duke Florida's recently  
10 approved settlement agreement, FPSC Order No. PSC-2021-0202-AS-EI,  
11 employed a similar mechanism as FPL's proposed RSAM related to the  
12 discretionary use of Department of Energy reimbursements related to the Dry  
13 Cask Storage.

14

15 **IV. JEA CONSUMMATION PAYMENT**

16

17 **Q. Intervenor witnesses Smith, LaConte, and Gorman argue that the**  
18 **amortization of consummation payment to JEA for Scherer Unit 4**  
19 **retirement should be disallowed. How do you respond?**

20 A. FPL's proposed cost recovery of the \$100 million JEA Consummation  
21 Payment, which is described in FPL witness Forrest's rebuttal testimony, is part  
22 of a negotiated agreement between FPL and JEA to retire Scherer Unit 4. As  
23 discussed in the direct testimony of FPL witness Bores, the early retirement of

1 Scherer Unit 4 is projected to result in \$583 million of CPVRR savings for  
2 customers. The JEA Consummation Payment falls under the same policy  
3 framework as power purchase agreement (“PPA”) buyouts and buy-downs; and  
4 power project participation termination agreements.

5  
6 The use of power plant retirement consummation payments, PPA buyouts and  
7 buy-downs and power project termination agreements by utilities for power  
8 supply arrangements that are no longer economic are common in the energy  
9 industry and should be encouraged by regulators as they are often in the public  
10 interest, resulting in savings to ratepayers compared to costs of continued  
11 performance under the terms of the existing arrangements. Many regulators  
12 have approved these types of reformative termination or reassignment  
13 payments with the understanding that these types of agreements and associated  
14 payment amounts are a result of negotiations between arms-length parties that  
15 allow significant value to be unlocked for the benefit of customers through  
16 CPVRR savings. Many regulators have allowed a fair rate of return on these  
17 types of payments as investments in the public interest. The following are  
18 examples of early retirement consummation and PPA buyout agreements that  
19 received regulatory approval, including allowed cost recovery.

- 20 • FPL’s purchase of Cedar Bay and Indiantown Cogeneration power  
21 plants in 2015 and 2016, respectively, to terminate above-market  
22 payments under existing PPAs

- 1                   • FPL’s 2017 consummation payment to JEA for early retirement of  
2                   St. Johns River Power Park and early termination of associated Joint  
3                   Operating Agreement.
- 4                   • NSTAR Electric’s Auction of PPAs and resulting 2004 PPA  
5                   termination and buyout agreements for Ocean State Power and  
6                   Pittsfield/Altresco
- 7                   • Western Massachusetts Electric Company’s negotiated  
8                   MASSPOWER PPA buyout in 2000
- 9                   • Niagara Mohawk’s negotiated 1998 buyout of its New York “six-  
10                  cent” PURPA contracts with Independent Power Producers (IPPs)
- 11                  • Connecticut Light and Power’s negotiated 1998 Hartford Hospital  
12                  Cogen PPA buyout

13   **Q.    Please describe FPL’s purchases of Cedar Bay in 2015 and Indiantown**  
14       **Cogen in 2016; and FPL’s 2017 consummation payment to JEA for early**  
15       **shutdown of St. Johns River Power Park.**

16   A.    In Order No. PSC-15-0401-AS-EI, the FPSC approved FPL’s purchase of  
17       Cedar Bay, a coal-fired power plant, for \$520.5 million as being more cost  
18       effective than continuing the existing purchased power contract, with a term  
19       that extended through 2024. In an August 27, 2015 news release, PSC  
20       Commissioner Lisa Edgar stated, “Today the Florida PSC found that the

1 Settlement Agreement is in the public interest. It will save FPL customers  
2 money and reduce CO2 emissions in Florida.”<sup>9</sup>

3

4 In Order No. PSC-16-0506-FOF-EI, the FPSC approved FPL’s purchase of  
5 Indiantown Cogeneration, a 330 MW coal-fired plant, for \$451 million. The  
6 Commissioners agreed that the purchase was more cost effective than  
7 continuing above-market payments under the existing power purchase contract  
8 through 2025.<sup>10</sup>

9

10 In Order No. PSC-2017-0145-AS-EI, the FPSC approved FPL’s \$90.4 million  
11 payment to JEA in exchange for agreeing to early shutdown of St. Johns River  
12 Power Park and early termination of the associated Joint Operating Agreement  
13 with co-owner JEA. The termination agreement was estimated to save FPL’s  
14 customers \$183 million and improved FPL’s emissions profile.

15 **Q. Please describe NSTAR Electric’s 2004 PPA buyout agreements that**  
16 **received regulatory approval in Massachusetts.**

17 A. In D.P.U./D.T.E. 96-23 and D.P.U./D.T.E. 97-111, the Massachusetts  
18 Department found that Boston Edison Company’s (BECo, d/b/a NSTAR  
19 Electric) restructuring settlement and its affiliate, Cambridge Electric Light  
20 Company and Commonwealth Electric Company’s (Cambridge/  
21 Commonwealth, also d/b/a NSTAR Electric) restructuring plan, which both

---

<sup>9</sup> “PSC Approves Cedar Bay Agreement between FPL and OPC,” State of Florida Public Service Commission, News Release dated 8/27/2015.

<sup>10</sup> “PSC Approves FPL’s Purchase of Indiantown Cogeneration L.P.,” State of Florida Public Service Commission, News Release dated 10/3/2016.

1 provided for the buyout of above-market purchase power obligations, were  
2 consistent with the 1997 Restructuring Act.

3  
4 My firm, Concentric Energy Advisors was selected to manage the divestiture  
5 of NSTAR Electric's 24 PPAs, which began in 2003. A "reverse auction" was  
6 conducted in which bids included two pricing options: (1) a lump-sum payment  
7 and (2) energy only pricing per MWh to be paid by bidder to NSTAR Electric  
8 for energy delivered under the specific PPA entitlement. Twelve bids were  
9 received, including three portfolio bids and nine contract-specific bids. Some  
10 of the bids submitted were from PPA counterparties.

11  
12 Under the termination agreements that resulted from the auction of  
13 Cambridge/Commonwealth's PPAs and BECo's PPAs, these companies agreed  
14 to reformation and termination payments that totaled 1.45 billion. After  
15 hearings on the process, results and estimated customer savings, all of the  
16 payments were approved for collection from customers.

17 **Q. Are you aware of an example where the regulator did not align utility and**  
18 **customer interests in deciding to not allow cost recovery of the requested**  
19 **full PPA buyout payment? If so, please describe what happened.**

20 A. Yes. In February 2017, Consumers Energy filed an application with the  
21 Michigan Public Service Commission ("MPSC") seeking a financing order  
22 authorizing the issuance of securitization bonds covering qualified costs related  
23 to early termination of its PPA with Entergy for energy and capacity from

1           Entergy’s Palisades nuclear power plant, located in Covert Township,  
2           Michigan. In its application, Consumers testified that the cost of equivalent  
3           energy on the open market for remaining term of contract, June 1, 2018 through  
4           April 11, 2022, was less than that of the remaining contract value of the PPA  
5           by \$344 million. Entergy had first informed Consumers that it did not intend to  
6           terminate the Palisades PPA for economic reasons. Consumers thereafter  
7           negotiated with Entergy for early termination of the PPA, which resulted in an  
8           agreement where Consumers would provide a one-time payment of \$172  
9           million to Entergy as a buyout payment to terminate the PPA. The \$172 million  
10          buyout payment was equal to half of the estimated \$344 million savings  
11          associated with early termination of the PPA. Consumers contended that the  
12          remaining \$172 million of savings would be realized by Consumers’  
13          customers.<sup>11</sup> Entergy announced its intentions to shut down Palisades  
14          permanently in October 2018, assuming regulatory approvals were obtained for  
15          the PPA termination.<sup>12</sup> In September 2017, the MPSC approved Consumers’  
16          request to terminate the PPA early but granted recovery of only \$136.6 million  
17          rather than the full \$172 million that Consumers had requested for the PPA  
18          buyout payment. In its decision to only grant recovery for \$136.6 million, the  
19          MPSC stated the following:

---

<sup>11</sup> Michigan Public Service Commission, Case No. U-18250, Opinion and Order, September 22, 2017.  
“In the matter of the application of Consumers Energy Company for a financing order  
approving the securitization of qualified costs and related approvals”

<sup>12</sup> “Entergy to Shut Down Palisades Nuclear Power Plant,” Reliable Plant (Available online at  
<https://www.reliableplant.com/Read/30690/entergy-power-plant>)

1                   “Faced with this degree of uncertainty, the Commission is not  
2                   persuaded that the proposed figure of \$172 million is sufficiently  
3                   supported in the record – which, the Commission acknowledges,  
4                   would be difficult to do since it is the product of a negotiation  
5                   and thus, in general, not appropriate for ratemaking purposes in  
6                   a financing order.”

7  
8                   As a result of the MPSC’s Order, Consumers and Entergy did not complete the  
9                   proposed buyout transaction. Palisades continues to operate under the existing  
10                  PPA through 2022.<sup>13</sup>

11   **Q.    What takeaway points can be learned from the Michigan Public Service**  
12   **Commission’s decision to reduce Consumers Energy’s allowed recovery of**  
13   **its Palisades buyout payment to \$136.6 million?**

14   A.    As a result of not evaluating whether the PPA buyout option in its totality, as  
15           negotiated, was better or worse for Consumer Energy’s customers compared to  
16           alternative options, the Commission’s decision did not achieve alignment of the  
17           interests of the Company with that of its ratepayers. As a result of not  
18           incentivizing the behavior that would have been in the best customers’ interest,  
19           the original power purchase agreement contract remained in effect until end of  
20           its effective term and Consumer Energy’s customers saw no benefit. Here is  
21           textbook example of Voltaire’s aphorism, “The perfect is the enemy of good.”  
22           Customers would have benefited as long as the consummation payment was

---

<sup>13</sup> “Palisades to operate to 2022,” World Nuclear News, September 29, 2017. (Available online at <https://www.world-nuclear-news.org/C-Palisades-to-operate-to-2022-2909177.html>)

1 lower than the estimated customer savings associated with the early termination  
2 of the PPA. In circumstances where the agreement was negotiated on an arms-  
3 length basis, the result should be approved if it is found to benefit customers.

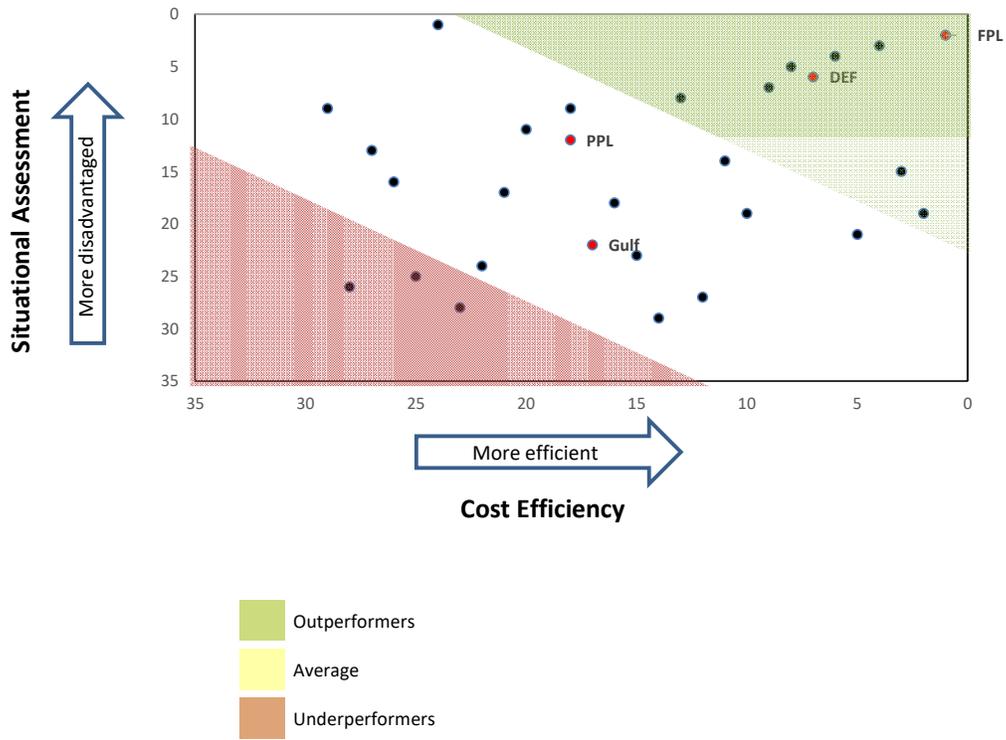
4 **Q. Please summarize the early retirement a consummation and PPA buyout**  
5 **examples described above and how they relate to the JEA consummation**  
6 **payment for the retirement of Scherer 4.**

7 A. The JEA consummation payment for early retirement of Scherer 4 is in the  
8 public interest and cost recovery of it should be allowed by the Commission. It  
9 is very similar to FPL's prior consummation payment to JEA in 2017 for the  
10 early shutdown of St. Johns River Power Park and FPL's purchases of the Cedar  
11 Bay and Indiantown Cogeneration coal plants as cost saving alternatives to  
12 continuing over-market PPAs at the respective facilities. In these three prior  
13 cases, the Commission agreed it was in the public interest to approve and allow  
14 cost recovery for the consummation payments associated with the early  
15 shutdown and asset purchases, citing customer savings and improved emission  
16 profiles. In other jurisdictions, the use of PPA buys has been common and cost  
17 recovery of buyout payments has been allowed by regulators as being in the  
18 public interest, as they provide customer savings. Important lessons can be  
19 learned from the one exception described above, where the Michigan  
20 Commission did not approve cost recovery for Consumer Energy's requested  
21 full amount for its Palisades PPA buyout payment and as a result, Consumer  
22 Energy's customers saw no benefit from cost mitigating alternatives to their  
23 existing over-market PPA.

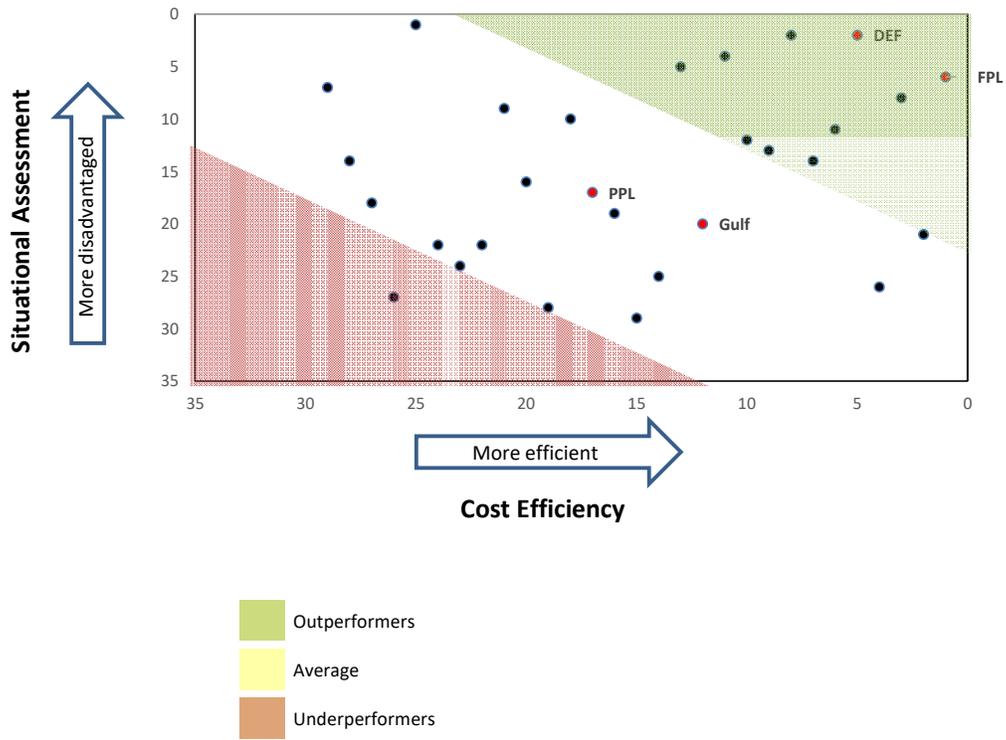
1 Q. Does this conclude your Rebuttal Testimony?

2 A. Yes.

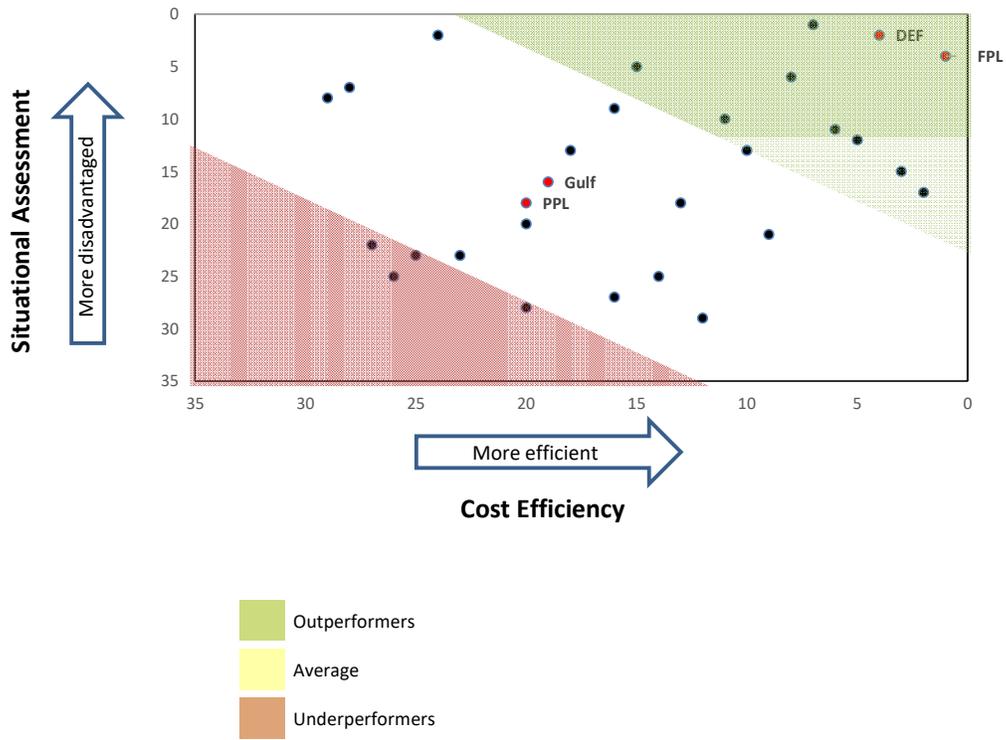
### 2019 Combined Situational Assessment And Cost Efficiency Rankings



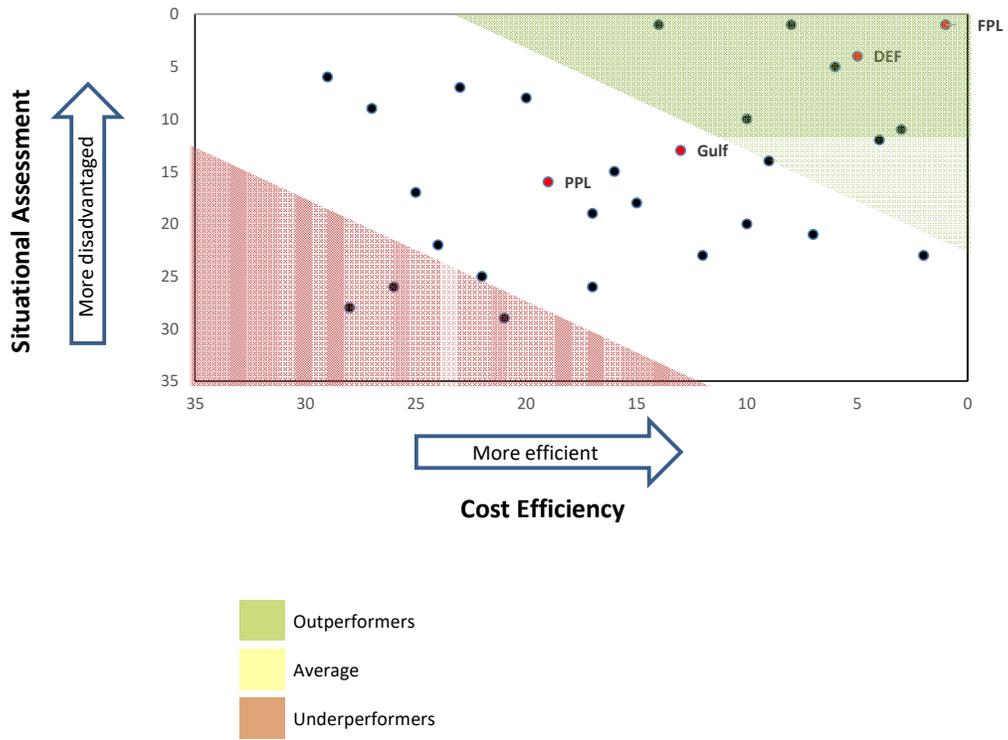
### 2018 Combined Situational Assessment And Cost Efficiency Rankings



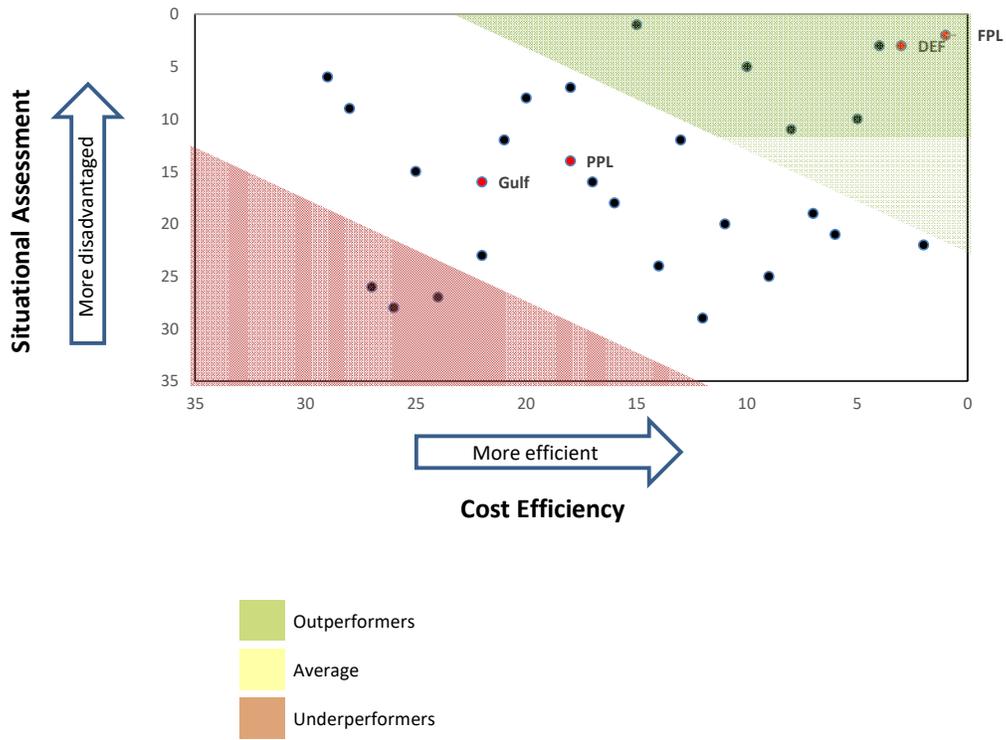
### 2017 Combined Situational Assessment And Cost Efficiency Rankings



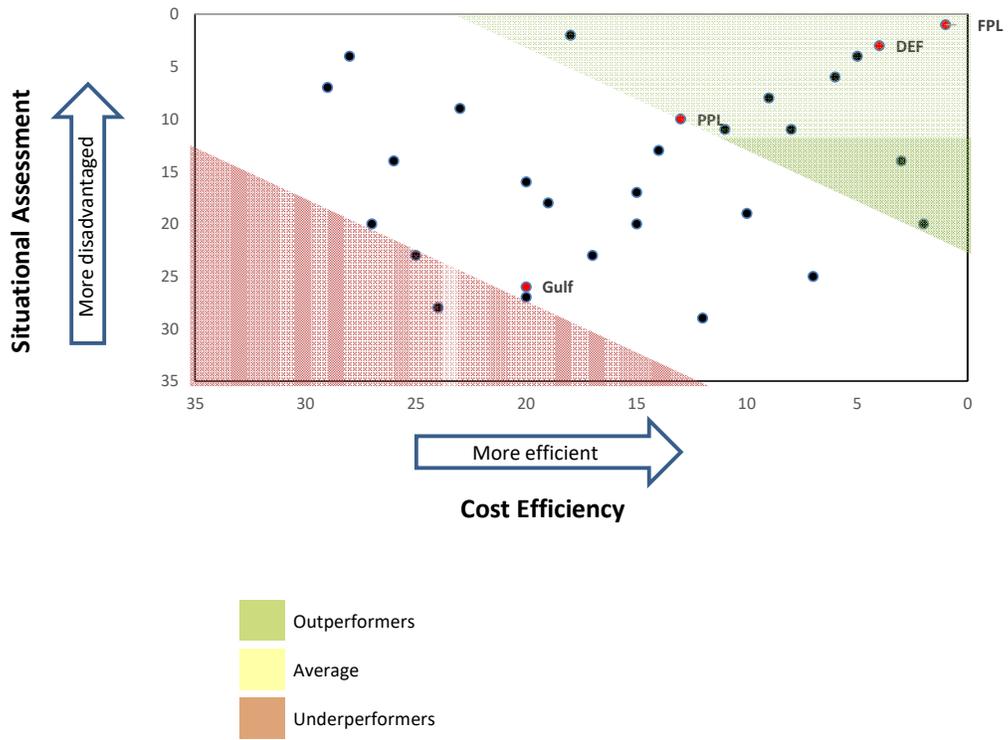
### 2016 Combined Situational Assessment And Cost Efficiency Rankings



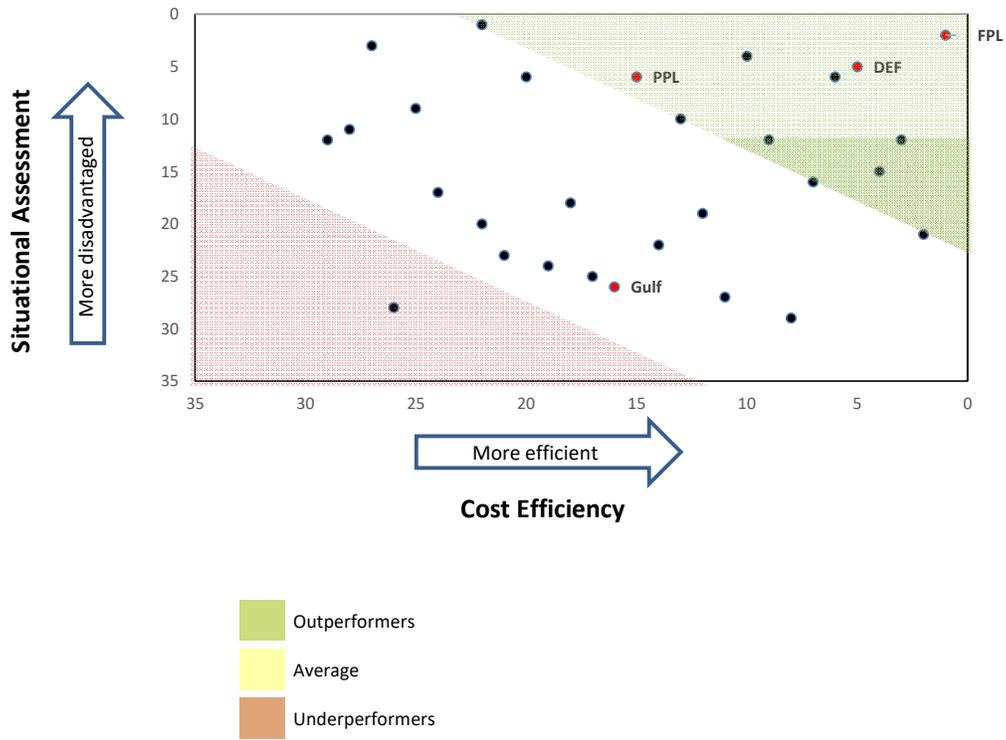
### 2015 Combined Situational Assessment And Cost Efficiency Rankings



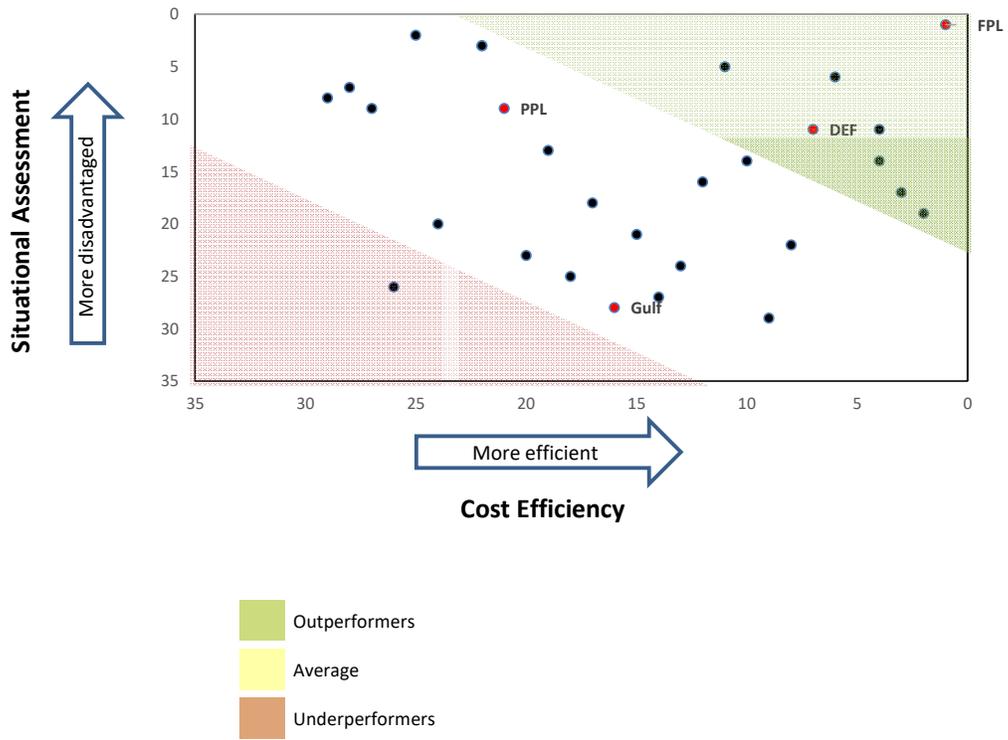
### 2014 Combined Situational Assessment And Cost Efficiency Rankings



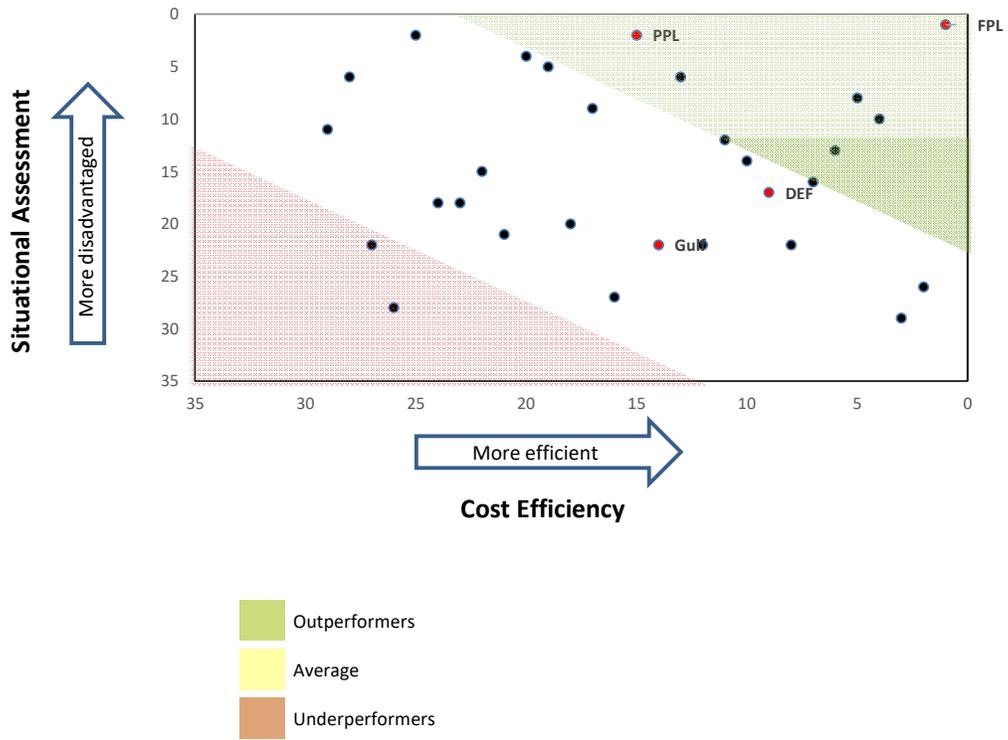
### 2013 Combined Situational Assessment And Cost Efficiency Rankings



### 2012 Combined Situational Assessment And Cost Efficiency Rankings



### 2011 Combined Situational Assessment And Cost Efficiency Rankings



### 2010 Combined Situational Assessment And Cost Efficiency Rankings

