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August 6, 2018

-VIA ELECTRONIC FILING -

Ms. Carlotta S. Stauffer
Division of the Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 20170235-EI – Florida Power & Light Company’s Petition for Authority to Charge FPL Rates to Former City of Vero Beach Customers and for Approval of FPL’s Accounting Treatment for City of Vero Beach Transaction

Dear Ms. Stauffer:

Please find enclosed, for electronic filing in the above docket, the prefiled supplemental Direct Testimony and Exhibits of Florida Power & Light Company witnesses Scott R. Bores, Tiffany C. Cohen and Terry Deason.

If you should have any questions regarding this transmittal, please contact me at (561) 691-2512.

Sincerely,

s/ Kenneth M. Rubin
Kenneth M. Rubin
Florida Bar No. 349038

cc: Counsel for parties of record (w/encl.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
SUPPLEMENTAL DIRECT TESTIMONY OF SCOTT R. BORES
DOCKET NO. 20170235-EI
AUGUST 6, 2018

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

2 A. My name is Scott R. Bores. My business address is Florida Power & Light
3 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Florida Power & Light Company (“FPL” or the
6 “Company”) as the Senior Director of Financial Planning and Analysis.

7 **Q. Did you previously file testimony in this case?**

8 A. Yes, I filed direct testimony on November 3, 2017, as part of FPL’s original
9 petition. In that testimony I presented the results of the economic analysis
10 which demonstrated that FPL’s purchase of the City of Vero Beach
11 (“COVB”) electric system is beneficial to existing FPL customers. My
12 testimony also described the key assumptions utilized in developing the
13 economic analysis.

14 **Q. Are you sponsoring any exhibits in support of your supplemental direct
15 testimony?**

16 A. Yes. I am sponsoring two exhibits which are attached to my supplemental
17 direct testimony:

- 18 • Exhibit SRB-2 – Updated Summary of CPVRR Impact for the City of
19 Vero Beach Transaction;
- 20 • Exhibit SRB-3 – Comparison of CPVRR Benefits

21 **Q. What is the purpose of your supplemental direct testimony?**

22 A. The purpose of my supplemental direct testimony is to update the Cumulative
23 Present Value Revenue Requirements (“CPVRR”) analysis for the latest

1 assumptions, demonstrate and reconfirm that there are substantial benefits for
2 existing FPL customers as a result of the transaction, and compare the change
3 in CPVRR benefit to that presented in my direct testimony.

4 **Q. What assumptions were updated in the latest CPVRR analysis performed**
5 **by FPL?**

6 A. There are several assumptions that were updated in support of the latest
7 CPVRR analysis, including:

- 8 1) Incorporating the effects of the Tax Cuts and Jobs Act of 2017 (“Tax
9 Reform”), including the deferral of new projected base rates until
10 January 1, 2022;
- 11 2) Updating the transaction close date to January 1, 2019 from the
12 previous anticipated close date of October 1, 2018. The postponement
13 of the closing date to January 1, 2019 triggers several adjustments to
14 the CPVRR analysis. First, the amount of the transaction payment will
15 decrease by \$3.3 million as the amount due to the Florida Municipal
16 Power Agency (“FMPA”) is reduced as a result of the passage of time.
17 As a result of the reduction in the FMPA transaction payment, the
18 overall amount of the acquisition adjustment will also decrease by the
19 same amount. Second, FPL is not obligated to begin making payments
20 under the purchase power agreement (“PPA”) with the Orlando
21 Utilities Commission (“OUC”) until such time as the transaction
22 closes, thereby avoiding \$2.5 million of energy payments associated
23 with the PPA for three months. Third, the net book value of COVB

1 assets will further depreciate, which will lead to a slight increase in the
2 acquisition adjustment. Finally, FPL will delay a portion of O&M and
3 capital spend that it had previously projected to spend in 2018 until
4 after the assumed transaction close date of January 1, 2019;

5 3) Incorporating FPL’s official 2018 net energy for load forecast,
6 consistent with the net energy for load forecast utilized in FPL’s 2018
7 Ten-Year Site Plan (“TYSP”);

8 4) Updating FPL’s long-term incremental generation and purchased
9 power plan consistent with that presented in the 2018 TYSP. This
10 includes utilizing the long-term fuel and emissions forecast consistent
11 with the 2018 TYSP; and

12 5) Including the most recent 30-year long-term price of electricity
13 forecast for FPL.

14 **Q. Does the CPVRR analysis include the revenue requirements associated**
15 **with the updated acquisition adjustment?**

16 A. Yes, as in the prior CPVRR analysis, the updated CPVRR analysis includes
17 the revised estimated acquisition adjustment of approximately \$114 million.

18 **Q. What are the results of the updated CPVRR analysis?**

19 A. As shown on Exhibit SRB-2, the updated assumptions result in a \$99 million
20 CPVRR benefit for existing FPL customers over the 30-year period. This
21 demonstrates that the transaction provides substantial value to existing FPL
22 customers due to the economies of scale that exist in serving COVB
23 customers.

1 **Q. Please explain the differences between the \$99 million CPVRR**
2 **benefit in the updated analysis as compared to the \$105 million**
3 **CPVRR benefit in your direct testimony.**

4 A. As demonstrated on Exhibit SRB-3, the change of \$6 million in CPVRR
5 benefit is comprised of several items. As described in response to prior
6 discovery, the inclusion of the benefit of tax reform and the assumed one-year
7 delay in establishing new base rates increased the total CPVRR benefit from
8 \$105 million to \$127 million. Incorporating FPL's new net energy for load
9 forecast and long-term generation plan, including revised fuel and emissions
10 pricing, reduce the CPVRR benefit by \$31 million. This is primarily the
11 result of lower forecast fuel consumption and prices, combined with more
12 efficient generation in the FPL system, which reduce the amount of projected
13 revenues to be contributed by COVB customers to offset the overall system
14 fuel cost. The revised long-term price of electricity further reduces the
15 CPVRR benefit by \$8.1 million, mainly the result of a change in assumptions
16 for future rate increases as a result of tax reform. The deferral of the
17 transaction to an assumed closing date of January 1, 2019 helps partially
18 offset the reductions and increases the CPVRR benefit by \$7.5 million. This
19 benefit is being driven by lower payments to FMPA, a reduction in PPA
20 payments to OUC and a delay in spend by FPL as it relates to integrating
21 COVB customers into the FPL system. Finally, the revised cost of debt,
22 which takes into account FPL's actual debt issuances in 2017 as well as the

1 latest Blue Chip forecast of future interest rates, increases the CPVRR benefit
2 by \$3.2 million.

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

4 **A. Yes.**

**COVB Transaction
Summary of Economic Analysis**

	Nominal Total	30 Year CPVRR	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029-2048
Discount Factor			0.96	0.89	0.83	0.77	0.71	0.66	0.62	0.57	0.53	0.49	0.46	
Base Rates: Incremental Revenue Requirements⁽¹⁾														
Operations and Maintenance ⁽²⁾	157.3	57.6	1.7	6.4	10.0	4.2	4.1	3.8	3.6	3.8	3.8	3.9	4.0	107.9
Property Tax and Insurance	113.6	33.6	0.1	1.4	1.7	1.9	2.0	2.3	2.4	2.5	2.7	2.9	3.0	90.7
Depreciation and Amortization ⁽³⁾	267.3	83.1	0.3	5.1	5.5	5.8	6.0	6.4	5.9	6.2	6.4	6.7	7.0	205.9
Interest Expense ⁽⁴⁾	141.6	49.6	0.1	3.8	3.9	4.0	4.1	4.2	4.3	4.3	4.4	4.5	4.5	99.5
Return on Equity ⁽⁵⁾	451.6	158.1	0.5	12.0	12.6	12.9	13.1	13.5	13.6	13.7	14.0	14.2	14.4	317.2
Income Tax ⁽⁶⁾	153.3	53.7	0.2	4.1	4.3	4.4	4.4	4.6	4.6	4.7	4.7	4.8	4.9	107.7
System Impact ⁽⁷⁾	614.9	118.2	-	-	-	-	-	-	-	-	-	-	-	614.9
Total Incremental Base Rate Revenue Requirements	1,899.5	553.9	3.0	32.7	38.0	33.1	33.8	34.8	34.4	35.2	36.1	37.0	37.9	1,543.7
Base Rate Revenue from COVB Customers ⁽⁸⁾	(1,967.9)	(645.8)	-	(43.2)	(44.2)	(44.6)	(49.5)	(53.3)	(54.3)	(55.3)	(56.4)	(57.4)	(58.9)	(1,450.8)
Base Rate (Savings)/Cost from COVB Customers⁽⁹⁾	(68.4)	(91.9)	3.0	(10.5)	(6.3)	(11.5)	(15.8)	(18.5)	(19.9)	(20.1)	(20.3)	(20.3)	(21.1)	92.9
Clause: Incremental Revenue Requirements⁽¹⁾														
OUC PPA Payments ⁽¹⁰⁾	21.1	18.1	-	9.9	11.2	-	-	-	-	-	-	-	-	-
System Impact ⁽¹¹⁾	1,061.3	316.3	-	19.9	15.7	20.4	18.1	19.8	20.6	22.5	27.8	30.8	25.6	840.1
Total Incremental Clause Revenue Requirements	1,082.4	334.4	-	29.8	26.9	20.4	18.1	19.8	20.6	22.5	27.8	30.8	25.6	840.1
Clause Revenue from COVB customers ⁽¹²⁾	(1,100.0)	(341.0)	-	(24.1)	(24.3)	(24.7)	(24.5)	(25.1)	(25.3)	(25.5)	(26.4)	(27.2)	(28.1)	(844.7)
Clause (Savings)/Cost from COVB Customers⁽¹³⁾	(17.6)	(6.6)	-	5.7	2.6	(4.3)	(6.4)	(5.3)	(4.7)	(3.1)	1.4	3.6	(2.5)	(4.6)
Total Net Customer (Savings)/Cost⁽¹⁴⁾	(86.0)	(98.6)	3.0	(4.8)	(3.7)	(15.8)	(22.2)	(23.8)	(24.7)	(23.2)	(18.9)	(16.8)	(23.5)	88.3

1) Incremental Revenue Requirement represents the difference between the Revenue Requirement with and without the Transaction.
2) Represents FPL's estimated incremental Operations and Maintenance cost for operating COVB's system.
3) Incremental D&A associated with the acquired COVB's assets, incremental capital expenditures to improve COVB's system and the asset acquisition adjustment.
4) Interest expense assumes 4.9% cost of debt and 40.4% debt to investor capital ratio.
5) Return on Equity assumes 10.55% cost of equity and 59.6% equity to investor capital ratio.
6) Income tax assumes blended state and federal tax rate of 25.345%.
7) Incremental fixed costs and capital for generation needed to serve Vero's load.
8) Base rate revenue from COVB's customers at FPL's forecasted rates.
9) Incremental revenue requirements netted against incremental revenue.
10) Expenses associated with power purchase agreement with Orlando Utilities Commission.
11) System impacts include incremental effects on fuel, emissions, variable O&M, short-term PPAs, and gas transportation.
12) Clause revenue from COVB's customers at FPL's forecasted rates.
13) Incremental clause revenue requirements netted against incremental clause revenue.
14) Total Net Customer Costs / (Savings) reflect the sum of base and clause net revenue requirement.

	Total Net Customer (Savings)/Costs CPVRR <u>in millions</u>
Original Petition	(105.3)
Tax Reform	(26.2)
Rate Case Deferral to 2022	4.6
Tax Reform Sensitivity	(127.0)
Update to System Plan	31.0
Revised Long-Term Price of Electricity	8.1
Deferral of Transaction to January 1, 2019	(7.5)
Revised Cost of Debt Estimate	(3.2)
Revised	(98.6)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
SUPPLEMENTAL DIRECT TESTIMONY OF TIFFANY C. COHEN
DOCKET NO. 20170235-EI
AUGUST 6, 2018

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

2 A. My name is Tiffany C. Cohen, and my business address is Florida Power &
3 Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Florida Power & Light Company (“FPL” or the
6 “Company”) as Director, Rates & Tariffs.

7 **Q. Please describe your duties and responsibilities in that position.**

8 A. I am responsible for developing the appropriate rate design and for
9 administration of the Company’s electric rates and charges. Additionally, I
10 am responsible for the Company’s cost of service and load research studies.

11 **Q. Did you previously file testimony in this case?**

12 A. Yes, I filed direct testimony on November 3, 2017, as part of FPL’s original
13 petition. In that testimony I provided FPL’s estimate of the potential bill
14 savings the current customers of the City of Vero Beach (“COVB”) would
15 realize once they became FPL customers.

16 **Q. Are you sponsoring any exhibits with your supplemental direct
17 testimony?**

18 A. Yes. I am sponsoring two updated exhibits to replace Exhibits TCC-1 and
19 TCC-2 filed with my direct testimony in this docket. The following exhibits
20 are attached to my supplemental direct testimony:

- 21 • TCC-3 – Typical Bill Comparisons – FPL vs. COVB
22 • TCC-4 – Historical Typical Residential Bill Comparison
23 • TCC-5 – Industrial Bill Comparisons

1 **Q. What is the purpose of your supplemental direct testimony?**

2 A. The purpose of my testimony is to provide FPL's updated estimate of the
3 projected bill savings the current customers of COVB, including members of
4 the Florida Industrial Power Users Group ("FIPUG"), will realize once they
5 become FPL customers.

6 **Q. Please explain any changes in the projected bill savings for current**
7 **customers of COVB when they transition to FPL that have developed**
8 **since you filed direct testimony.**

9 A. COVB customers now have even greater projected savings in their bills than
10 what was reflected in my direct testimony and on Exhibit TCC-1. FPL rates
11 decreased and COVB rates increased since the time TCC-1 was filed. See
12 Exhibit TCC-3 for a current rate comparison which shows that savings range
13 from 22% to 30% for typical residential and commercial customers at various
14 usage levels.

15 **Q. Are there significant differences in electric rates around the state?**

16 A. Absolutely. Depending on where customers live or operate a business, there
17 can be a significant difference in the amount customers pay for electric
18 service. For example, FPL is currently the lowest typical residential bill in the
19 state at \$98.87 for a 1,000 kWh residential customer. This is 26% lower than
20 the highest bill in the state, which is \$133.86. FPL's residential rate is 15%
21 below the Florida average and nearly 30% below the national average. FPL's
22 small commercial typical bill (1500 kWh) is currently the lowest in the state at
23 \$144.45. This is more than 20% below the Florida average and nearly 30%

1 below the national average. FPL’s low bill for the small commercial rate is
2 40% less than the highest bill in the state, which currently is \$242.61.

3 **Q. What savings will individual customers currently served by COVB**
4 **receive when this transaction closes and they become FPL customers?**

5 A. Exhibit TCC-3 illustrates the savings that typical residential and commercial
6 customers will receive as FPL customers. The bill changes are summarized as
7 follows:

- 8 • A typical residential customer will save 22% or \$330 per year under FPL
9 rates;
- 10 • a typical small store front will save 22% or \$410 per year;
- 11 • a typical office building or school will save 30% or \$7,600 per year; and
- 12 • a typical large retailer, such as a grocery store, “big box” store – inclusive
13 of FIPUG members currently served by COVB’s electric utility – or
14 hospital will save 27% or nearly \$80,000 per year.

15 These are significant savings for current COVB customers which help drive
16 economic benefits for the state. Additionally, as discussed by FPL witness
17 Bores, existing FPL customers, including members of FIPUG, will benefit
18 from the transaction.

19 **Q. Will FIPUG customers also see lower rates as a result of the COVB**
20 **transaction?**

21 A. Yes. FIPUG members in both COVB and FPL’s service territory will benefit
22 as a result of the transaction.

1 **Q. What rates do FPL customers who are members of FIPUG pay today?**

2 A. The specific bills of customers are considered confidential, and FPL treats
3 them as such. However, the majority of FIPUG member customers that we
4 are aware of take service under the Commercial Industrial Load Control
5 (“CILC-1T”) transmission rate schedule or participate in the Commercial
6 Industrial Demand Rider (“CDR”) program. Both rate schedules are
7 considered interruptible where the customer receives a credit (i.e., a discount)
8 for providing FPL the ability to curtail their load in the event of a system
9 emergency. The CILC-1T rate schedule is closed to new customers and the
10 discount is incorporated in the base bill. CDR is open to new customers and
11 provides a dollar per kilowatt credit for each kilowatt the customer makes
12 available to FPL for curtailment in the event of a system emergency.

13 **Q. What savings do FPL customers who are members of FIPUG typically
14 see based upon their ability to take advantage of these Commission-
15 approved programs?**

16 A. These options provide great savings to the FIPUG customers - even greater
17 than FPL’s standard rate offerings. The typical CILC-1T customer’s base bill
18 is 45% lower than the standard rate and the total bill is 22% lower than the
19 standard rate. The typical CDR customer’s base bill is 38% lower than the
20 standard rate and the total bill is 19% lower than the standard rate.

21

22 These large commercial and industrial bills benchmarked against Edison
23 Electric Institute (“EEI”) are 42% below the national average. These

1 significant cost savings are *only* available to customers that currently are
2 served by FPL (e.g., FIPUG members contesting this proposal). Our proposal
3 would make interruptible rates and savings available to others (in the current
4 COVB service territory), with no detriment to FIPUG members.

5 **Q. When rates for COVB customers decrease the day after the transaction**
6 **closes, what will happen to the rates for FPL's other customers, including**
7 **FIPUG's members?**

8 A. FPL's other customers, including FIPUG members, will continue to enjoy all
9 of the savings and service reliability that they enjoy today, as reflected on
10 Exhibits TCC-3 through TCC-5. In the long-term, all existing customers will
11 benefit from the economies of scale created by this transaction. Additionally,
12 as discussed by FPL witness Bores, this transaction is projected to provide
13 \$99 million cumulative present value revenue requirements benefit for
14 existing FPL customers, which overall will put downward pressure on future
15 rates. FIPUG members along with all other existing FPL customers will share
16 these additional benefits of the transaction.

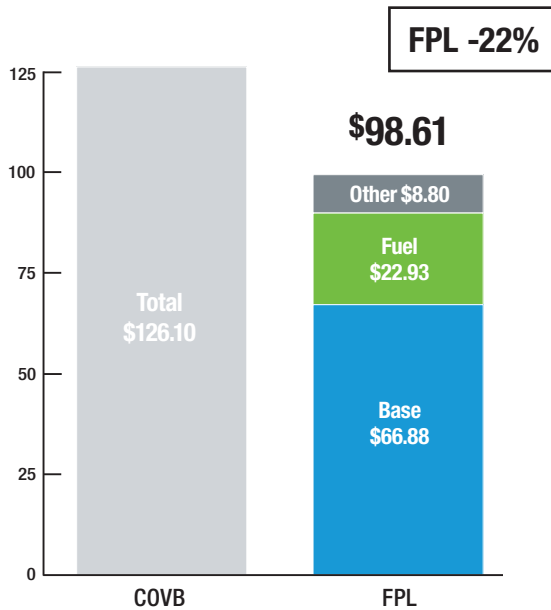
17 **Q. Does this conclude your testimony?**

18 A. Yes.

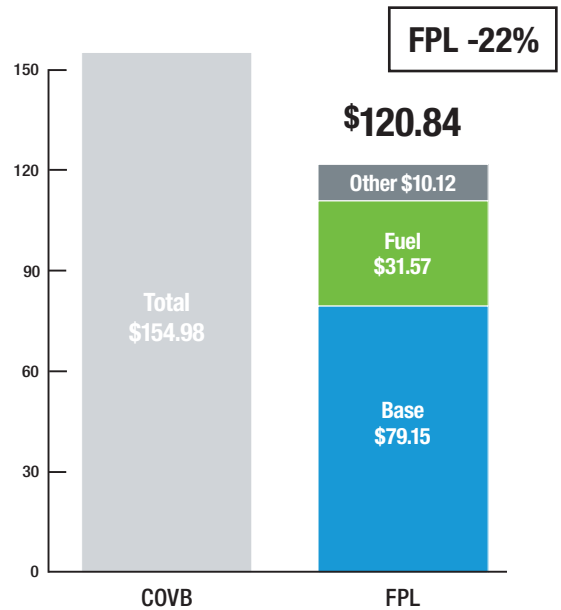


Typical Bill Comparisons — FPL vs. COVB

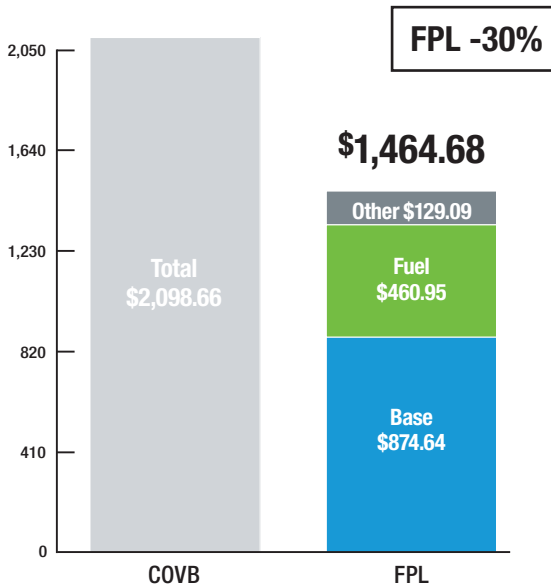
1,000 kWh Residential Bill Comparison



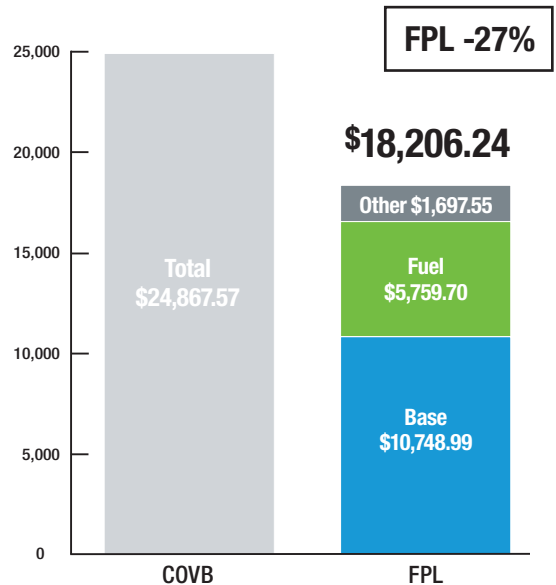
1,200 kWh Small Non-Demand Commercial Bill Comparison "Small Store Front"



17,520 kWh/50 kW Medium Demand Commercial Bill Comparison "Office Building or School"



219,000 kWh/600 kW Large Commercial Bill Comparison "Large Retailer or Hospital"



Notes:

FPL and COVB typical bills are as of September 1, 2018, and include gross receipts tax.

**Florida Power & Light Company
 Historical Typical Residential Bill Comparison
 FPL and COVB (2008-2018)**

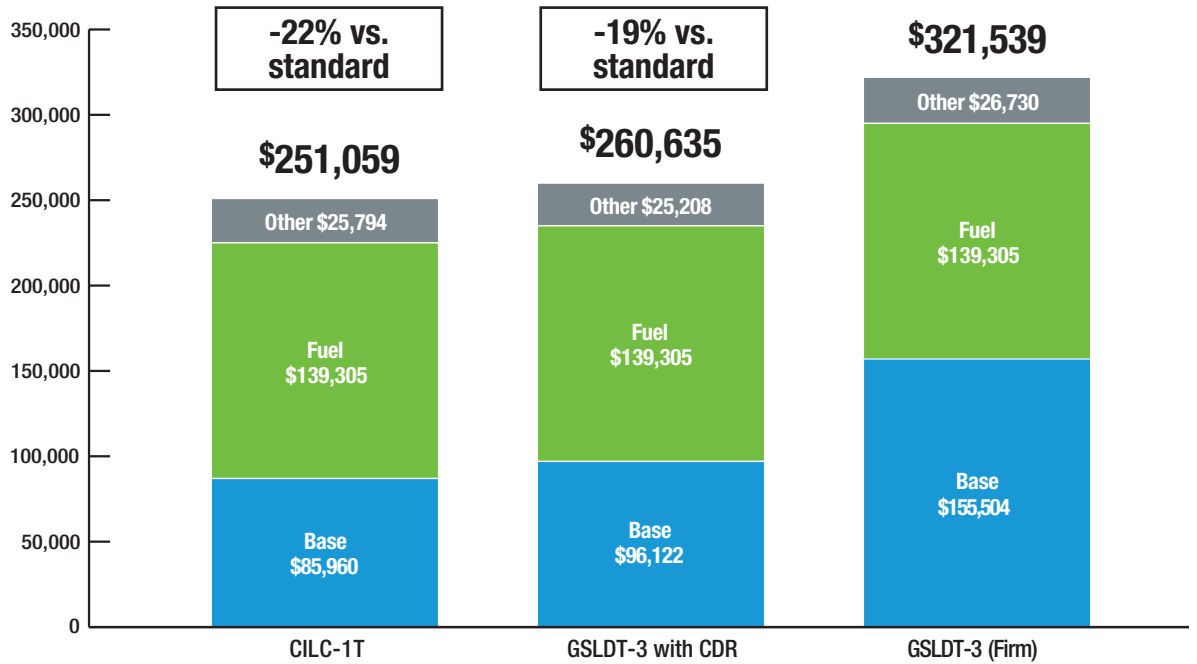
<u>1,000 kWh Typical Bill</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
FPL	\$102.49	\$109.55	\$95.43	\$95.01	\$100.30	\$94.25	\$99.95	\$99.57	\$93.38	\$99.02	\$102.72
COVB	\$127.36	\$138.13	\$129.18	\$116.04	\$124.54	\$131.72	\$134.29	\$127.11	\$122.65	\$119.06	\$126.10
Difference \$	-\$24.87	-\$28.58	-\$33.75	-\$21.03	-\$24.24	-\$37.47	-\$34.34	-\$27.54	-\$29.27	-\$20.04	-\$23.38
FPL % Lower	-20%	-21%	-26%	-18%	-19%	-28%	-26%	-22%	-24%	-17%	-19%

Notes:

- (1) Bills shown are as of January of each year.
- (2) Typical bills reported by Florida Municipal Electric Association were updated to include gross receipts tax.

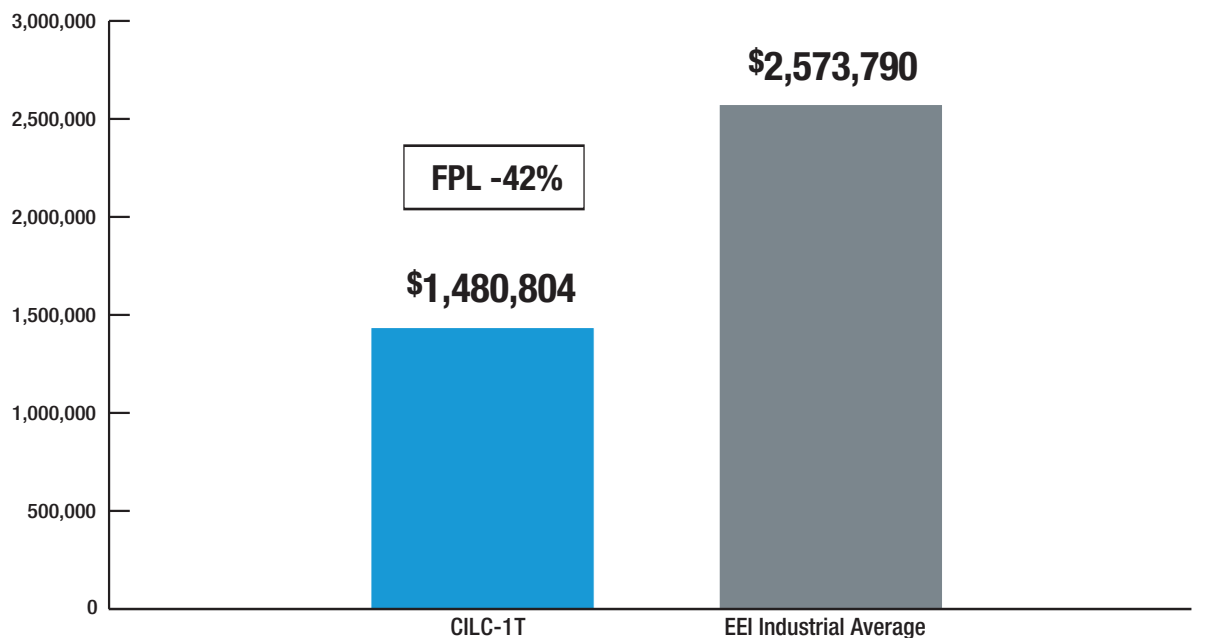


Typical FPL Industrial Bill Comparison



Notes: FPL bills are as of September 2018 and include gross receipts tax. FPL's typical bill for an industrial customer is calculated on 10 MW, 5,475,000 kWh, and 26% on-peak.

FPL Large Industrial Comparison to EEI National Average



Notes: Both FPL and EEI bills are as of January 2018 and include gross receipts tax. FPL bills and EEI's national comparison of a large industrial customer are calculated on 50 MW, 32,500,000 kWh, 27% on-peak.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
SUPPLEMENTAL DIRECT TESTIMONY OF TERRY DEASON
DOCKET NO. 20170235-EI
AUGUST 6, 2018

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1 **I. INTRODUCTION**

2

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

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

6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by Radey Law Firm as a Special Consultant specializing in the
8 fields of energy, telecommunications, water and wastewater, and public
9 utilities generally.

10 **Q. For whom are you appearing as a witness?**

11 A. I am appearing as a witness for Florida Power & Light Company (“FPL” or
12 “the Company”).

13 **Q. Did you previously file testimony in this case?**

14 A. Yes, I filed direct testimony on November 3, 2017, as part of FPL’s original
15 petition. In that testimony I address the regulatory policy considerations for
16 acquisition adjustments in general and how those policy considerations should
17 be applied to FPL’s proposed acquisition of the City of Vero Beach
18 (“COVB”) electric system.

19 **Q. Is there anything in your previously filed testimony that you wish to
20 change at this time?**

21 A. No, I adopt that testimony in its entirety.

22 **Q. Are you sponsoring an exhibit with your supplemental direct testimony?**

23 A. No.

1 **Q. What is the purpose of your supplemental direct testimony?**

2 A. The status of this case has changed since the original petition was filed back in
3 November 2017. After a series of comprehensive data requests by
4 Commission Staff and the Office of Public Counsel (“OPC”) and a
5 recommendation filed by Commission Staff on May 25, 2018, the
6 Commission issued a proposed agency action order on July 2, 2018, Order
7 No. PSC-2018-0336-PAA-EU (“PAA Order”). This order was protested by
8 the Florida Industrial Power Users Group (“FIPUG”) and others and the
9 matter has been set for an evidentiary hearing. The purpose of my
10 supplemental direct testimony is to provide further context on appropriate
11 acquisition adjustment policy and associated issues in light of the current
12 status of the case.

13

14

II. THE PAA ORDER

15

16 **Q. What did the Commission decide in its PAA Order?**

17 A. The Commission proposed to approve FPL’s petition for authority to charge
18 FPL rates to the former customers of COVB, to terminate its territorial
19 agreement with COVB, and to approve FPL’s accounting treatment for the
20 resulting positive acquisition adjustment.

1 **Q. Is the proposed accounting treatment of the acquisition adjustment a**
2 **necessary component to enable the transfer of COVB customers to FPL?**

3 A. Yes. This is explained in FPL’s petition, in direct testimony accompanying
4 the petition, and in responses to data requests from Commission Staff and
5 OPC. Without the proposed accounting treatment, the Asset Purchase and
6 Sale Agreement (“PSA”) between FPL and COVB would not be
7 consummated and all of its associated benefits would be lost to both FPL
8 existing customers and the current customers of COVB.

9 **Q. What was the Commission’s basis for its decision in its PAA Order?**

10 A. The Commission made two key determinations as the basis for its decision.
11 First, the Commission found that there are extraordinary circumstances that
12 warrant the approval of a positive acquisition adjustment. Second, the
13 Commission found that allowing FPL’s requested positive acquisition
14 adjustment will not harm FPL’s existing customers.

15 **Q. What standard did the Commission use in making its decision?**

16 A. The Commission correctly applied the public interest standard. In its PAA
17 Order, the Commission quoted from a series of court cases referencing the
18 public interest. One of the cases referenced by the Commission is *Gulf Coast*
19 *Electric Cooperative v. Johnson*, 727 So. 2d 259, 264 (Fla. 1999). In this
20 case, the Florida Supreme Court stated: “However, in the final analysis, the
21 public interest is the ultimate measuring stick to guide the PSC in its
22 decisions.” As I stated in my direct testimony, the ultimate test is whether the
23 acquisition is in the public interest. I went on to state that the Commission

1 should exercise its considerable discretion to encourage acquisitions that are
2 in the public interest and to discourage those which are not. In its PAA Order,
3 the Commission exercised its discretion in evaluating the facts and concluded
4 “unique problems require unique solutions, and under this particular set of
5 extraordinary circumstances as described in this order, we believe our
6 decision is in the public interest.”

7 **Q. Is the Commission’s decision in its PAA Order consistent with**
8 **Commission policy?**

9 A. Yes, it is. As I discuss in my direct testimony, Commission policy is to
10 evaluate positive acquisition adjustments on a case by case basis and to not
11 allow them unless there are extraordinary circumstances. In its PAA Order,
12 the Commission states: “Our policy with respect to acquisition adjustments
13 has been to evaluate the specific facts and circumstances on a case by case
14 basis and to determine whether there are extraordinary circumstances that
15 warrant the approval of a positive acquisition adjustment.” The Commission
16 evaluated the facts of the case and made a finding that extraordinary
17 circumstances exist which justify the positive acquisition adjustment. This is
18 consistent with Commission policy.

19 **Q. Is the Commission’s decision in its PAA Order consistent with**
20 **Commission precedent?**

21 A. Yes, it is. The only case addressing a major acquisition of a municipal system
22 by an investor-owned utility in Florida is the acquisition of the Sebring
23 Utilities system by Florida Power Corporation (“Florida Power”) in 1992 in

1 Docket No. 920949-EU. In its Order No. PSC-92-1468-FOF-EU (“Sebring
2 Order”) (page 11), the Commission stated “To those who would view our
3 decision here as precedent, we unconditionally state that this decision has no
4 precedential value.” Nevertheless, in its PAA Order, the Commission quoted
5 from the Sebring Order and stated that the Sebring case provides guidance in
6 addressing FPL’s petition. I too referenced the Sebring Order in my direct
7 testimony as support for a positive acquisition adjustment and concur that it
8 does indeed provide guidance.

9

10 **III. THE SEBRING ACQUISITION CASE**

11

12 **Q. Are you personally familiar with the Sebring acquisition case?**

13 A. Yes, I am. While I did not participate in that decision, I was serving on the
14 Commission at the time that my colleagues, Commissioners Beard and Easley,
15 made their decision.

16 **Q. The Commission stated that the Sebring decision should not be viewed as
17 precedent. Please comment.**

18 A. The Sebring Order itself describes the fact that the Sebring case presented a
19 unique set of facts and raised difficult questions of fairness and what
20 ultimately would be in the public interest. Based on my review of the
21 Commission’s transcript, it is apparent that Commissioners Beard and Easley
22 viewed their decision to be uniquely crafted to address the Sebring situation.
23 Herein lies the true essence of their decision though. Their decision stands for

1 the principle that every acquisition is unique and based upon facts specific to
2 it. Therefore, it only reinforces (and perhaps initially helped establish) the
3 Commission's policy to evaluate the specific facts and circumstances on a
4 case by case basis and to determine whether there are extraordinary
5 circumstances that warrant the approval of a positive acquisition adjustment
6 outside of a rate case. While the specific facts differ, the Sebring Order does
7 indeed provide guidance to the Commission in considering FPL's petition.

8 **Q. Beyond the need to evaluate each acquisition on its own unique facts, does**
9 **the Sebring Order provide any additional guidance?**

10 A. Yes, it does. The Sebring Order clearly establishes and emphasizes the
11 importance of weighing the benefits for all affected customers, both the
12 customers of the acquired system and the existing customers of the acquiring
13 company. This was perhaps the dilemma that weighed the heaviest on the
14 Commission. The Sebring Order identified the benefits for the former Sebring
15 customers, such as lower rates, improved customer service from a
16 professionally managed utility, and the opportunity to participate in Florida
17 Power's energy conservation and load management programs. The Sebring
18 Order also identified benefits for the existing Florida Power customers, such
19 as the increase in revenues to be paid by the former Sebring customers,
20 improved efficiencies, and the resolution of longstanding territorial conflict.
21 It is also interesting to note that all of these benefits identified in 1992 for the
22 customers of the two utilities involved in that transaction are applicable today
23 in regard to the proposed acquisition of COVB by FPL.

1 **Q. Why was the weighing of benefits between the Florida Power customers**
2 **and the Sebring customers such a dilemma for the Commissioners?**

3 A. The unique facts of the Sebring case made it clear that a rate rider on the
4 former Sebring customers was an inevitable outcome to allow the acquisition
5 to take place. It was Florida Power's position that the acquisition should be
6 approved but that only a portion of the acquisition costs should be allowed in
7 base rates. Their petition asked for the remaining acquisition costs to be
8 recovered from former Sebring customers by means of a rate rider. In fact, at
9 the time that the Commission voted on the Sebring acquisition on December
10 8, 1992, Florida Power's attorney addressed the Commission and stated:

11 You should approve the transaction as filed because rate basing
12 the entire cost of the Sebring transaction we don't think is a
13 good alternative. It will cause Florida Power's management to
14 walk away from this deal, because it will put too much pressure
15 on the rates of our general body of ratepayers. It will cause us
16 to come in for another rate case in the very near future.

17 [Transcript – Docket No. 920949-EU, Vol. IV, page 395, lines 15-22]

18 So the Commissioners were faced with this reality—a negotiated deal with
19 benefits for both groups of customers – together with their strong desire to
20 minimize the impact of a rate rider on the Sebring customers. To achieve that
21 outcome, the Commission identified and determined values for four discrete
22 items: the Sebring customer base; the value of Sebring's maps and records;
23 the value of trained and experienced Sebring personnel; and the avoidance of

1 the costs of further territorial and annexation disputes. The Commission
2 summed these items to determine a “going concern” value of \$5,741,000. The
3 Commission recognized this amount as a positive acquisition adjustment.

4 **Q. Why did the Commission not recognize a higher going concern value?**

5 A. There were three reasons. First, the Commission did not want to jeopardize
6 the transaction with too high of a going concern value that may have caused
7 Florida Power to walk away from it. Second, the Commission was cognizant
8 that it had an obligation to protect existing Florida Power customers. And
9 third, the Commission was limited to what was presented to it in the record
10 and all it had was evidence concerning the discrete items identified. In the
11 Sebring Order, the Commission stated: ... “we cannot find reasonable support
12 for a higher amount in the record, and we must insure that the amount we
13 approve for recovery from FPC’s general body of ratepayers is related to the
14 benefits that they receive.”

15 **Q. Is this the factual situation with the proposed acquisition of COVB by**
16 **FPL?**

17 A. The proposed COVB acquisition is the same as the Sebring acquisition in one
18 very important way. However, it lies in sharp contrast to the Sebring
19 acquisition in two significant ways.

20 **Q. How is the proposed COVB acquisition the same as the Sebring**
21 **acquisition?**

22 A. Like the management of Florida Power in the case of the Sebring acquisition,
23 the management of FPL does not want to consummate an acquisition that

1 would put upward pressure on the rates of its existing customers. This was a
2 principal requirement in pursuing the COVB acquisition and in the
3 negotiations that resulted in the PSA. The principal requirement to cause no
4 harm to its existing customers is identified and further explained in FPL's
5 petition and the testimony that accompanies it.

6 **Q. What are the two ways in which the proposed COVB acquisition is in**
7 **contrast to the Sebring acquisition?**

8 A. First, in the Sebring case the Commission did not have the benefit of a
9 comprehensive fair value study. In determining the amount of going concern
10 value and the resulting justified amount of the positive acquisition adjustment
11 in the Sebring acquisition, the Commission was very limited in the amount
12 and type of record evidence before it. As I stated earlier, in the Sebring
13 acquisition the Commission was limited to an evaluation of only four discrete
14 items to determine a going concern value. In contrast, FPL has provided a fair
15 value study conducted by an internationally recognized firm in the field, Duff
16 & Phelps LLC. This study concludes that the highest and best use of the
17 acquired Vero electric system would be realized by its acquisition by another
18 utility which would allow the acquired assets to continue to be operated as
19 part of a going concern utility. This study and FPL witness Herr's direct
20 testimony corroborate the purchase price as representative of the COVB
21 electric system's going concern value.

1 **Q. How is it used by decision makers?**

2 A. Decision makers compare the cumulative present value of the competing
3 alternatives to determine which alternative has the lower value and by how
4 much. All other things being equal, the alternative with the lower cumulative
5 present value is judged to be more economic and/or cost effective and thus is
6 deemed to be the preferred alternative.

7 **Q. Has the Commission evaluated and used the results of a CPVRR analysis**
8 **in other cases?**

9 A. Yes, the Commission has consistently done so over many years in various
10 types of cases where competing alternatives were being considered. For
11 example, the setting of conservation goals, determining recoverable costs in
12 nuclear cost recovery proceedings, the evaluation of potential buyouts of
13 power purchase agreements (“PPAs”), and need determinations for new
14 generation capacity, are all cases in which the Commission has evaluated and
15 accepted the results of CPVRR analyses.

16 **Q. Can you cite any specific cases that were recently decided by the**
17 **Commission?**

18 A. Yes, there are two. First, is the Commission’s consideration of FPL’s
19 proposed buyout of the Indiantown Cogeneration Plant PPA in Docket No.
20 20160154-EI. In its Order No. PSC-2016-0506-FOF-EI approving the
21 requested accounting treatment of the transaction, the Commission determined
22 that the buyout was cost-effective based on a CPVRR analysis. It is
23 interesting to note that this order also referenced and gave credence to the fact

1 that the buyout purchase price was determined by negotiations between
2 independent, unrelated parties and that the fair value of the purchased
3 cogeneration plant was substantiated by an evaluation conducted by Duff &
4 Phelps. This is exactly the same situation for FPL's proposed acquisition of
5 the COVB system.

6
7 Second is the need determination for FPL's Dania Beach Clean Energy Center
8 Unit 7, Docket No. 20170225-EI. In its Order No. PSC-2018-0150-FOF-EI,
9 the Commission determined the Dania Beach Unit 7 was the most cost
10 effective alternative that maintained system reliability and was more cost
11 effective than the alternative of continuing the operation of the Lauderdale
12 Units 4 and 5. The Commission's cost-effectiveness determination was based
13 on a CPVRR analysis.

14 **Q. Should the results of a CPVRR analysis be the only evidence considered**
15 **and dictate the outcome of the choice between competing alternatives?**

16 A. No. While a CPVRR analysis certainly constitutes meaningful, and hopefully
17 persuasive evidence, it should not dictate the choice between competing
18 alternatives. The Commission has great discretion and has a responsibility to
19 make choices that are in the public interest. As such, all relevant evidence
20 should be carefully considered and weighed. For example, in a need
21 determination, the Commission must weigh cost-effectiveness as shown by
22 the CPVRR analysis with other public policy considerations, such as fuel

1 diversity, system reliability, impacts on conservation, and economic
2 development.

3 **Q. How should a CPVRR analysis be used in an acquisition case?**

4 A. The ultimate test in an acquisition case is whether the acquisition is in the
5 public interest. This overriding principle and test established by the
6 Commission is a crucial consideration in the determination of whether the
7 regulatory treatment associated with the negotiated transaction should be
8 approved, including the allowance of a positive acquisition adjustment in rate
9 base. Two important considerations in making the public interest
10 determination are whether existing customers are protected (at least not
11 harmed) and whether there are extraordinary circumstances. These two
12 considerations are directly linked and a CPVRR analysis can and should be
13 used to make informed judgements on both.

14 **Q. In its PAA Order, the Commission stated that the CPVRR analysis did
15 not demonstrate extraordinary circumstances. Do you disagree?**

16 A. I do not disagree that it is within the Commission's discretion to find in a
17 particular case that customer savings alone may not be sufficient to
18 demonstrate extraordinary circumstances. At the same time, I also believe
19 that the Commission should not foreclose itself to opportunities to approve
20 negotiated transactions that would deliver customer savings and which
21 otherwise are in the public interest, but which are predicated on the need to
22 approve an acquisition adjustment. A categorical statement that CPVRR
23 value could never support a finding of extraordinary circumstances is

1 tantamount to suggesting that the public interest could never be served solely
2 by providing customers (both new and existing) with savings. That in my
3 judgment is not a good result as a matter of public policy and, therefore, I do
4 not read this part of the PAA Order as a policy pronouncement that a CPVRR
5 analysis cannot be used as competent evidence and a relevant component
6 supporting a finding of extraordinary circumstances.

7
8 A CPVRR analysis nonetheless is relevant in assessing whether an acquisition
9 is in the public interest – the “ultimate test.” In Sebring, an acquisition
10 adjustment was approved in an amount sufficient to hold Florida Power
11 customers harmless and a surcharge on Sebring customers was imposed to
12 recover the balance of the purchase price paid. In this case, as I noted earlier,
13 the constraints of the negotiated transaction were that COVB customers
14 receive FPL rates and, similar to the FPC constraint, FPL’s customers were
15 held harmless. In fact, based on the CPVRR analysis, FPL’s customers are
16 expected to benefit, not just be held harmless, and *without* the need to impose
17 any surcharge on COVB customers. This is the kind of result that is clearly
18 in the public interest, extraordinary, and which supported the approvals
19 reflected in the Commission’s PAA Order.

1 **V. EXTRAORDINARY CIRCUMSTANCES**

2

3 **Q. What does the PAA Order say about extraordinary circumstances?**

4 A. The PAA Order succinctly and accurately describes how rates in Florida are
5 based on the original cost of utility assets less accumulated depreciation, or
6 net book value, and how this typically results in fair rates. Any amounts in
7 rate base above net book value, such as an acquisition premium, must be
8 scrutinized and allowed only when extraordinary circumstances exist
9 indicating that it is in the best interest of customers to allow the acquisition
10 adjustment.

11 **Q. What are some of the considerations that could demonstrate that an
12 acquisition is in the customers' best interest?**

13 A. Historically, the Commission has used a broad range of considerations, such
14 as greater efficiencies through economies of scale, lower (or at least not
15 higher) rates for all customers, improved quality of service, a greater access to
16 capital at lower rates, more professional and experienced management, and
17 the end of territorial disputes and accompanying litigation. Usually the
18 Commission uses a combination of these or other case-specific considerations
19 to find extraordinary circumstances and that an acquisition is in the best
20 interest of customers. However, of all these considerations, a showing of
21 lower (or at least not higher) rates has been the most pervasive and perhaps
22 the most extraordinary.

1 **Q. Are there any specific cases to which you can refer?**

2 A. Yes, I refer to three acquisition cases involving gas utilities in my direct
3 testimony. In all of these cases, the Commission acknowledged its policy of
4 extraordinary circumstances before approving a positive acquisition
5 adjustment. They all identify specific criteria to help make that determination
6 and chief among them is that there would be customer savings, even after
7 considering the impacts of the positive acquisition adjustments. In the most
8 recent of these cases, in re: Petition for approval of positive acquisition
9 adjustment to reflect the acquisition of Indiantown Gas Company by Florida
10 Public Utilities Company (“FPUC”), Docket No. 120311-GU, the
11 Commission analyzed five enumerated factors and concluded: “FPUC has
12 demonstrated that there will be sufficient future savings to offset the
13 amortization of the acquisition adjustment over 15 years.” [Order No. PSC 14-
14 0015-PAA-GU, page 11]. On page 3 of this order, the Commission cited a
15 long list of cases in support of its factors and the need to find customer
16 benefits, including net customer savings. One of the older cases cited and in
17 which I participated is in re: Application for a rate increase by Florida Public
18 Utilities Company, Docket No. 040216-GU. In this rate case was an issue of
19 a positive acquisition adjustment resulting from the acquisition of South
20 Florida Natural Gas (“SFNG”). The Commission analyzed several factors
21 including, improved quality of service, lower cost of capital, and lowered
22 operating costs, to conclude that the acquisition was in the public interest and

1 resulted in savings to both the former SFNG customers and to the existing
2 customers of FPUC. [Order No. PSC-04-1110-PAA-GU, pages 8-11]

3 **Q. In its PAA Order addressing FPL's petition to acquire COVB, the**
4 **Commission stated that the gas cases are not determinative. Do you**
5 **disagree?**

6 A. No, I do not disagree. All acquisition cases are fact specific and unique in
7 their own ways. Also, when you consider that the ultimate test is one of the
8 public interest and that the Commission has great discretion in determining
9 the public interest, I agree that these gas cases are not determinative.
10 Nevertheless, they are extremely informative and go directly to the heart of
11 the Commission's policy on acquisitions. I also believe that the Commission
12 should attempt to reconcile and harmonize its decisions to the greatest extent
13 possible. The three gas cases I identified in my direct testimony, plus the
14 older case I just referenced, all support the same policy and support the
15 decision in the Commission's PAA Order. Even though these cases are gas
16 cases, the fundamental policy of acquisitions transcends industry boundaries.
17 I firmly believe the Commission can benefit from these gas acquisition cases
18 in helping it judge what is in the public interest for electric company
19 acquisitions in general and specifically in regard to FPL's acquisition of
20 COVB.

1 **Q. Why has a finding of lower rates been pervasive throughout these gas**
2 **cases as well as the Sebring case?**

3 A. Higher rates for the existing customers of the acquiring utility would simply
4 be a non-starter. This was readily apparent in the Sebring case. The only way
5 that higher rates for the acquired customers would be accepted is if the
6 acquired utility was in financial jeopardy or that the quality of service was so
7 dismal that customers accepted higher rates to obtain quality service. Either
8 situation would be exceedingly rare.

9 **Q. Why should a finding of lower rates be a relevant consideration in**
10 **determining whether there are extraordinary circumstances associated**
11 **with and arising from a particular negotiated acquisition?**

12 A. Recall that Florida is an original cost jurisdiction, i.e., ratemaking in Florida is
13 based on net book value. The presumption of this regulatory approach is that
14 rates are considered fair by allowing a return only on net book value, plus the
15 recovery of all necessary and reasonable expenses. This would be the
16 presumption for all regulated utilities whose rates are set by a regulatory
17 authority using original cost ratemaking. The corollary presumption (or the
18 ordinary expected outcome) is that disturbing this equilibrium by one utility
19 acquiring another utility at a premium could only result in unfair rates, i.e., the
20 rate base of the combined utility would be higher than the sum of the two
21 stand-alone rate bases and cause rates to increase. This ordinary outcome is
22 based on the assumption that all other things are equal, for example that the
23 expense side of ratemaking stays the same for the combined utility, as if there

1 were still two stand-alone utilities. However, we know that rarely are all other
2 things equal. This is the reason the Commission uses a standard of
3 extraordinary circumstances to evaluate acquisitions. If an acquisition (even
4 with an acquisition premium added to rate base) can result in lower rates for
5 all customers, it would be extraordinary and worthy of the Commission’s
6 consideration and most likely its approval.

7 **Q. Does the CPVRR analysis presented by FPL support a finding of**
8 **extraordinary circumstances and no customer harm?**

9 A. Yes, it does. The CPVRR analysis presented by FPL witness Bores
10 demonstrates that FPL’s acquisition of COVB is expected to result in lower
11 rates, even with the inclusion of the positive acquisition. This is an
12 extraordinary outcome. The CPVRR analysis, along with the direct testimony
13 of FPL witness Forrest, also demonstrates that there would be no customer
14 harm. This supports the Commission’s finding of no customer harm in its
15 PAA Order.

16 **Q. Please summarize the considerations present with this transaction that**
17 **support a determination of extraordinary circumstances.**

18 A. I begin by reiterating the foundational determination reached by the
19 Commission in the PAA Order: “we believe our decision is in the public
20 interest.” That determination informs all aspects of the proposed transaction
21 including the presence of extraordinary circumstances. In this case, there are
22 numerous benefits supporting such a determination and the individual weight
23 given to each certainly lies in the discretion of the Commission. But taken

1 together, in their totality, the following factors and considerations
2 overwhelmingly support the Commission's preliminary determination of
3 extraordinary circumstances:

- 4 1. Lower rates for both COVB and FPL customers;
- 5 2. Improved quality of service, reliability and storm restoration;
- 6 3. Improvements and modernization of the grid in the former COVB
7 territory;
- 8 4. Greater access to capital;
- 9 5. More experienced operations and management;
- 10 6. An end to years of litigation before this Commission, Indian River
11 County circuit courts and The Florida Supreme Court;
- 12 7. An end to the disenfranchisement of approximately 60% of the COVB
13 customers who reside outside the city limits;
- 14 8. The availability of the Office of Public Counsel to provide
15 representation of these citizens on electric utility matters before this
16 Commission; and
- 17 9. The unique, pervasive nature of the beneficiaries of this transaction:
18 specifically, citizens and electric customers of the COVB, FPL,
19 Orlando Utilities Commission and the nineteen municipalities who
20 receive power from Florida Municipal Power Agency each of whom
21 approved this transaction.

1 **VI. NET BOOK VALUE**

2

3 **Q. What is net book value?**

4 A. Simply stated, it is the amount of investment actually expended to build or
5 obtain utility assets at the time that they were first devoted to public service,
6 less accumulated depreciation. Since Florida is an original cost jurisdiction, it
7 is an integral part of rate base.

8 **Q. What is the role of net book value in consideration of an acquisition
9 adjustment?**

10 A. As I explain in my direct testimony, it is the foundation for the calculation of
11 the amount of any acquisition adjustment and is used to determine the
12 appropriate accounting for the acquisition on the books of the acquiring entity.
13 A positive acquisition adjustment is the difference between the purchase price
14 and net book value, when the purchase price is greater than net book value. It
15 also establishes the amount of property, plant, and equipment that will be
16 transferred over to the acquiring utility in the appropriate FERC accounts and
17 continues to be depreciated on a going forward basis. The positive acquisition
18 adjustment is booked into a separate FERC account and is subject to
19 amortization, not depreciation.

20 **Q. What role does net book value have in determining the economic value of
21 an acquired system?**

22 A. Little, if any. Net book value is simply a number reflecting historical
23 accounting, not the current economic value of an asset or system.

1 **Q. What role does net book value have in determining whether an**
2 **acquisition is in the public interest?**

3 A. Again, little if any. Net book value only determines the amounts to be booked
4 in the appropriate accounts, not whether the acquisition price is fair or
5 whether the acquisition is in the public interest. For example, a purchase price
6 far in excess of book value may be entirely reasonable, prudent, and in the
7 public interest, if the accompanying benefits justify it. Likewise, an
8 acquisition at less than book value does not necessarily mean that the purchase
9 price is reasonable, prudent, and in the public interest. Rather, the use of a
10 fair value study and a CPVRR analysis can be used as relevant and
11 meaningful tools to make those determinations.

12

13 **VII. OTHER POLICY CONSIDERATIONS**

14

15 **Q. In addition to extraordinary circumstances and no customer harm, does**
16 **the CPVRR analysis support other policy considerations?**

17 A. Yes, it does. From a broad perspective, the CPVRR analysis highlights the
18 fact that FPL is a very efficient utility that provides quality service at low
19 rates. The fact that FPL can make the acquisition at a premium and still
20 provide service to all customers at lower rates is a testament to FPL's
21 economies of scale, overall efficiency, and the quality of its management and
22 employees. Such efficient providers should be afforded the opportunity to

1 serve additional customers when reasonable opportunities present themselves.
2 This is both good public policy and good regulatory policy.

3 **Q. How is this good regulatory policy?**

4 A. Let me be clear, I support Florida’s regulatory framework in which there are
5 delineated service territories with utilities that are accountable to either the
6 Commission, municipal governments, or boards elected by cooperative
7 members. I served on Florida’s Energy 20/20 Study Commission in the years
8 2000-01 when fundamental questions of Florida’s regulatory approaches and
9 the potential for more competition were discussed and recommendations were
10 made to not abandon Florida’s basic regulatory approach. Florida’s approach
11 has and continues to serve Florida well.

12
13 Nevertheless, the proposed acquisition of COVB by FPL is a rare occurrence
14 that can capture the efficiencies and benefits that a competitive model would
15 theoretically achieve. Regulation is often thought of as a substitute for
16 competition and that regulation should mimic competition when it is
17 compatible with other regulatory goals and constraints. Certainly, the
18 acquisition of COVB by FPL is an outcome that competitive forces would
19 encourage, if not demand. By approving the positive acquisition adjustment
20 and enabling the COVB acquisition, the Commission would not only be
21 consistent with its acquisition policy and precedent, it would also be taking an
22 action that competitive forces would advance. Where the Commission is able

1 to support market-based results within the existing regulatory framework, it
2 should do so.

3 **Q. Are there other overall public policy considerations of the COVB**
4 **acquisition by FPL?**

5 A. There are several. First, FPL would be paying a myriad of taxes such as ad
6 valorem, federal and state income taxes, gross receipts taxes, and regulatory
7 assessment fees, all at lower rates to customers. Neither would FPL be
8 dependent on tax free bonds as a source of low-cost financing. In addition,
9 with lower rates for public entities such as schools and law enforcement
10 agencies, lower energy budgets could put downward pressure on taxes.

11 Lower rates also unleash the tremendous forces of economic development and
12 the rippling effect that such development has on a community and region. For
13 example, a large retail grocery chain may wish to build a store in a location
14 that it had previously shunned because of high electric rates. This would
15 benefit the grocery chain's profits and serve new customers that perhaps did
16 not have that grocer as an option. In addition, the grocer would also be paying
17 taxes just like FPL. Customers would also greatly benefit by the deployment
18 of smart meters, have access to a myriad of energy conservation programs, be
19 protected by the Commission's regulation of rates and service, and have the
20 benefits of OPC advocacy on their behalf.

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VIII. TERMINATION OF TERRITORIAL AGREEMENT

Q. In the event that the Commission approves FPL’s petition for authority to charge FPL rates to former COVB customers, should the Commission also approve the Joint Petition to Terminate Territorial Agreement?

A. Yes. In order for FPL to charge FPL rates to former COVB customers, the area previously served by COVB will need to become part of FPL’s service territory.

Q. Is it in the public interest to approve of the termination of the existing territorial agreement between FPL and COVB?

A. Yes. Assuming approval of the main petition, it would be both necessary and in the public interest to approve the petition related to the territorial agreement.

IX. CONCLUSION

Q. What are your conclusions with regard to FPL’s proposed acquisition of the COVB electric system?

A. I accept the conclusions of my direct testimony and make the following supplemental conclusions:

- The Commission’s decision in its PAA Order is consistent with Commission policy and precedent.

- 1 • While the specific facts differ, the Sebring Order provides
2 guidance to the Commission in considering FPL’s petition and
3 reinforces the Commission’s policy to evaluate the specific
4 facts and circumstances on a case by case basis and to
5 determine whether there are extraordinary circumstances that
6 warrant the approval of a positive acquisition adjustment
7 outside of a rate case. The four cited gas company acquisitions
8 are also informative and helpful in this determination.
- 9 • Two important considerations of a positive acquisition
10 adjustment are whether existing customers are protected (at
11 least not harmed) and whether there are extraordinary
12 circumstances. These two considerations are directly linked
13 and a CPVRR analysis can and should be used to make
14 informed judgements on both.
- 15 • Net book value is used to determine the amount of an
16 acquisition adjustment and the appropriate accounting entries
17 subsequent to an acquisition. It has little or no relevance to the
18 questions of whether a purchase price is reasonable and
19 whether an acquisition is in the public interest.
- 20 • Based on the totality of factors and considerations arising from
21 this transaction, the Commission should approve FPL’s petition
22 for its requested treatment of the positive acquisition
23 adjustment resulting from its proposed acquisition of COVB.

1 Doing so would be consistent with precedent and would
2 constitute good regulatory and public policy.

3 **Q. Does this conclude your supplemental direct testimony?**

4 **A. Yes, it does.**