ONE BARNETT PLAZA • 101 E. KENNEDY BOULEVARD • SUITE 3200 • TAMPA, FLORIDA 33602 • (813) 224-9000 • FAX (813) 221-8811 • E-MAIL SSN@SSNLAW.COM

(42)

ORIGINAL

SSN

SALEM, SAXON & NIELSEN
ATTORNEYS AT LAW
Professional Association

C. GRAHAM CAROTHERS, JR.
J. FRAZIER CARRAWAY
LISA M. CASTELLANO
BETH M. COLEMAN
KEVIN W. DORNAN
ROY J. FORD, JR.
RICARDO L. GILMORE
ASTRID GUARDADO
MARILYN MULLEN HEALY
W. TODD LAX
TROY M. LOVELL
EVIN L. NETZER
RICHARD A. NIELSEN
BOARD CERTIFIED CIVIL TRIAL LAWYER
MICHAEL J. PALERMO
MARIAN B. RUSH
RICHARD J. SALEM
BERNICE S. SAXON
SUSAN K. S. SCARCELLI
JACQUELINE M. SPOTO
DAVID J. TONG
TARA M. WALL
JOHN CRIDER
OF COUNSEL

October 10, 1997

VIA HAND DELIVERY

Blanca S. Bayo, Director
Florida Public Service Commission
Division of Records & Recording
2540 Shumard Oak Blvd. - Room 110
Tallahassee, FL 32399

Re: Docket No. 970410-EI
Proposal to Extend Plan for the Recording of Certain Expenses for the Years 1998 and 1999 for Florida Power & Light Company

Dear Ms. Bayo:

Enclosed please find for filing with the Public Service Commission the original pre-filed testimony of Mark Cicchetti for filing in the above-referenced docket.

ACK
AFA
Thank you for your assistance in filing the above. Should you have any questions, please do not hesitate to contact the undersigned.

Very truly yours,

SALEM, SAXON & NIELSEN, P.A.

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5+org
Marian B. Rush

Marian B. Rush

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Enclosure
cc: Attached Service List
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DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

SERVICE LIST
(PSC DOCKET NO. 970410-EI)

Robert Elias, Esq.
Florida Public Service Commission
Gerald L. Gunter Building
2540 Shumard Oak Blvd.
Room 301
Tallahassee, FL 32399-0850
Telephone: 904-413-6212
Facsimile: 904-413-6250

Matthew M. Childs, Esq.
Steel, Hector & Davis
215 South Monroe
Suite 601
Tallahassee, FL 32301-1804
Telephone: 904-222-2300
Facsimile: 904-222-7510

William Feaster
Florida Power & Light Company
215 S. Monroe
Suite 810
Tallahassee, FL 32301-1859
Telephone:
Facsimile: 904-224-7197

Jack Shreve, Esq.
Roger Howe, Esq.
Office of Public Counsel
111 West Madison Street
Room 812
Tallahassee, FL 32399
Telephone: 904-488-9330
Facsimile: 904-488-4491

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CERTIFICATE OF SERVICE
(PSC DOCKET NO. 970410-EI)

I HEREBY CERTIFY that a true and correct copy of the Direct Testimony of Mark A. Cicchetti on behalf of AmeriSteel Corporation has been furnished via Federal Express (Saturday delivery only to FPL's counsel) this 10th day of October, 1997, to the following:

Robert Elias, Esq.
Florida Public Service Commission
Gerald L. Gunter Building
2540 Shumard Oak Blvd.
Room 301
Tallahassee, FL 32399-0850
Facsimile: 904-413-6250

Matthew M. Childs, Esq.
Steel, Hector & Davis
215 South Monroe
Suite 601
Tallahassee, FL 32301-1804
Facsimile: 904-222-7510

William Feaster
Florida Power & Light Company
215 S. Monroe
Suite 810
Tallahassee, FL 32301-1859
Facsimile: 904-224-7197

Jack Shreve, Esq.
Roger Howe, Esq.
Office of Public Counsel
111 West Madison Street
Room 812
Tallahassee, FL 32399
Facsimile: 904-488-4491

Marian B. Rush
MARIAN B. RUSH, ESQ.

Dated: October 10, 1997

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ORIGINAL

FLORIDA POWER AND LIGHT

DOCKET NO. 970410-EI

DIRECT TESTIMONY OF MARK A. CICCHETTI

ON BEHALF OF AMERISTEEL CORPORATION

FILED OCTOBER 10, 1997

DIRECT TESTIMONY OF MARK A. CICCHETTI

Q Please state your name and address.

A My name is Mark Anthony Cicchetti and my business address is 2947 N. Umberland Drive, Tallahassee, Florida 32308.

Q By whom are you employed and in what capacity?

A I am President of Cicchetti & Company, a financial research and consulting firm. I am also employed by the Division of Bond Finance, Florida State Board of Administration, where I am the Manager of Arbitrage Compliance.

Q Please outline your educational qualifications and experience.

A I received a Bachelor of Science degree in Business Administration in 1980 and a Master of Business Administration degree in Finance in 1981, both from Florida State University.

Upon graduation I accepted a planning analyst position with Flagship Banks, Inc., a bank holding company. As a planning analyst my duties included merger and acquisition analysis, lease-buy analysis, branch feasibility analysis, and special projects.

In 1983, I accepted a regulatory analyst position with the Florida Public Service Commission. As a regulatory analyst, I provided in-depth analysis of the cost of equity and required overall rate of return in numerous major and minor rate cases. I reviewed and analyzed the current and forecasted economic conditions surrounding those rate cases and applied financial integrity tests to determine the impacts of various regulatory treatments. I also co-developed an integrated spreadsheet model which links all elements of a rate case and calculates revenue requirements. I received a meritorious service award from the Florida Public Service Commission for my contributions to the development of that model.

In February 1987, I was promoted to Chief of the Bureau of Finance. In that capacity I provided expert testimony on the cost of common equity, risk and return, corporate structure, capital structure, and industry structure. I provided technical guidance to the Office of

General Counsel regarding the development of financial rules and regulations. In addition, I authored the Commission's rules regarding diversification and affiliated transactions, chaired the Commission's Committee on Leveraged Buyouts, supervised the finance bureau's regulatory analysts, co-developed and presented a seminar on public utility regulation to help educate the Florida Public Service Commission attorneys, and provided technical expertise to the Commission in all areas of public utility finance for all industries.

In February 1990 I accepted the position of Chief of Arbitrage Compliance in the Division of Bond Finance, Department of General Services. The Division of Bond Finance is now under the Florida State Board of Administration, and my title is Manager, Arbitrage Compliance. As Manager of the Arbitrage Compliance Section, I am responsible for assuring that over $14 billion of State of Florida tax-exempt securities remain in compliance with the federal arbitrage requirements enacted by the Tax Reform Act of 1986. I provide investment advice to trust fund managers on how to maximize yields while remaining in compliance with the federal arbitrage regulations. I designed and implemented the first statewide arbitrage compliance system which includes data gathering, financial reporting, and computation and analysis subsystems.

In July 1990 I founded Cicchetti & Company. Through Cicchetti & Company I provide financial research and consulting services, including the provision of expert testimony, in the areas of public utility finance and economics.

Topics I have testified on include cost of equity, capital structure, corporate structure, regulatory theory, cross-subsidization, industry structure, the overall cost of capital, incentive regulation, the establishment of the leverage formula for the water and wastewater industry, reconciling rate base and capital structure, risk and return, and the appropriate regulatory treatment of construction work in progress, used and useful property, construction cost recovery charges, and the tax gross-up associated with contributions-in-aid-of-construction.

In 1985, I was certified by the Florida Public Service Commission as a Class B Practitioner in the areas of finance and accounting.

In June, 1985, I published an article in *Public Utilities Fortnightly* titled "Reconciling Rate Base and Capital Structure: The Balance Sheet Method." In September, 1986, I was awarded third place in the annual, national, Competitive Papers Session sponsored by Public Utilities Reports, Inc., in conjunction with the University of Georgia and Georgia State University, for my paper titled "The Quarterly Discounted Cash Flow Model, the Ratemaking Rate of Return, and the Determination of Revenue Requirements for Regulated Public Utilities." An updated version of that paper was published in the June, 1989 edition of the *National Regulatory Research Institute Quarterly Bulletin*. I have since served twice as a referee for the Competitive Papers Sessions. On June 15, 1993, I published an article on incentive regulation in *Public Utilities Fortnightly* titled "Irregular Incentives."

I am a past President and past member of the Board of Directors of the Society of Utility and Regulatory Financial Analysts (SURFA). I was awarded the designation Certified Rate of Return Analyst by the SURFA in 1992. I am a member of the Financial Management Association International and I am listed in *Who's Who in the World* and *Who's Who in America*.

I have made public utility and finance related presentations to various groups such as the Southeastern Public Utilities Conference, the Society of Utility and Regulatory Financial Analysts, the National Association of State Treasurers, and the Government Finance Officers Association.

Q Have you previously testified before this Commission?

A Yes, I have.

Q For whom are you testifying in this proceeding?

A I am testifying on behalf of AmeriSteel Corporation ("AmeriSteel").

Q What is the purpose of your testimony?

A The purpose of my testimony is to address the issues in this docket listed in Order No. PSC-97-1035-PCO-EI.

Q Please summarize your conclusions.

A The proposal to extend the Plan for recording certain expenses for the years 1998 and 1999 for Florida Power & Light Company ("FPL") as set forth in Order No. PSC-97-0499-FOF-EI is not in the public interest and should be denied.

The Plan allows FPL to accelerate expenses that are appropriately attributable to future periods, removes incentives for management efficiency inherent in traditional ratemaking practices, and allows additional charges without addressing decreased costs and imprudently incurred costs. The Plan results in unreasonable rates, excessive compensation, and intergenerational inequity.

Absent the expenses allowed in the Plan, FPL will be in a significant overearnings situation given existing base rates. Absent the expenses allowed in the Plan, FPL's return on common equity will likely approach 16.00% in 1997. Based on staff's estimates, FPL could write-off up to $841.2 million in 1998 and 1999 under the sales-related portion of the Plan alone.

The proposed extension of the Plan allows additional expenses that deviate from Uniform System of Accounts guidelines and the Commission's normal accounting practices. However, the record in this docket provides no evidence to support deviating from the Uniform System of Accounts or normal Commission practice.

Q Should the Plan be extended for 1998 and 1999 as set forth in Order No. PSC-97-0499-FOF-EI? (Issue 6).

A No. To put this issue in the proper perspective, I believe it would be helpful to provide some case background.

On March 31, 1995, FPL petitioned the Commission to allow FPL to increase its expenses, effective January 1, 1995, to address the potential for stranded investment (Petition to establish amortization schedule for nuclear generating units to address potential for stranded investment by Florida Power & Light Company, Docket No. 950359-EI). In response to FPL's petition, the Commission approved a proposal by FPL that resolved the issues identified in FPL's petition. By Order No. PSC-96-0461-FOF-EI, FPL was required to book additional amortization expense including an annual $30 million for its nuclear generating units. According to the Plan approved by the Commission in Order No. PSC-96-0461-FOF-EI, the final accounting for the annual $30 million for the nuclear generating units remains "*subject to determination by the Commission in a future proceeding such as a generic stranded cost docket.*" (emphasis added)

The Plan approved in 1996 also required FPL to "record an additional expense in 1996 and 1997 equal to 100% of base revenues produced by retail sales between its "low band" and "most likely sales forecast for 1996 and at least 50% of the base rate revenues produced by retail sales above FPL's "most likely sales forecast" for 1996 as filed in this docket. Any additional expense recorded as a result of this provision will be first applied to correct the remaining reserve deficiency existing in nuclear production; second, to correct the reserve deficiency existing in FPL's other production facilities, which was calculated to be $60,338,330 as of January 1, 1994; third, to write off the net amount of book-tax timing differences that were flowed through in prior years and remain to be turned around in future periods; and, fourth, to write off the unamortized loss on reacquired debt."

In April 1997, the Commission approved a staff proposal to extend the Plan, with modifications, for an additional two years through 1999. The modifications included adding items to the list of additional expenses and changing the priority of the items on the list. The items added to the list included correction of fossil dismantlement and nuclear decommissioning reserve deficiencies, if any, and an unspecified depreciation reserve account for production plant to be used in the event any revenues associated with the difference between actual and forecasted revenues remain to be disposed of.

In the PAA in this docket, Order No. PSC-97-0499-FOF-EI, the Commission stated, "We believe this plan is appropriate because it mitigates past deficiencies with prescribed depreciation, dismantlement, and nuclear decommissioning accruals. *The plan also brings FPL's accounting in line with non-regulated companies by eliminating regulatory assets such as deferred refinancing costs and the assets associated with previously flowed through taxes. These accounting adjustments will facilitate the establishment of a level "accounting" playing field between FPL and possible non-regulated competitors."* (emphasis added)

On May 20, 1997, AmeriSteel protested the the Commission's Proposed Agency Action. Staff, in its recommendation dated August 14, 1997 addressing AmeriSteel's protest and petition to intervene stated, "*Staff believes, absent an extension of the plan, overearnings will exist on a prospective basis. For this reason, some action is necessary to protect ratepayer interests.* Staff believes it may be necessary to attach jurisdiction to overearnings effective January 1, 1998 or take some other action to protect ratepayer interests. Since the interim statute is based on historic (sic) earnings, it will not adequately protect against 1998 overearnings." (Emphasis added)

As of June 30, 1997, the amounts allowed in Order Nos. PSC-96-0461-FOF-EI and PSC-97-0499-FOF-EI associated with correction of any depreciation reserve deficiency resulting from an approved depreciation study order ($235.6 million), and the net amounts of book-tax timing differences that were flowed through in prior years and remained to be turned around in future periods ($79.5 million) (Items 1 and 2 in Order No. PSC-97-0499-FOF-EI) have been written-off and their treatment is a moot issue.

As mentioned above and shown on Exhibit 1, page 1 of 2, and on Exhibit 2, page 1 of 1, it is estimated that FPL could write-off approximately $273 million in 1997 under the Plan. FPL has written-off $130.6 million through July 31, 1997 and earned approximately 40 basis points above the mid-point of its allowed return (100 basis points is equal to approximately $70 million dollars). Assuming FPL earns only the midpoint of its allowed return after writing-off the estimated amount of additional expenses, FPL's earned return on common equity, absent the additional expenses, would approach 16.00% (\$273/\$70= 3.9, 12.00 + 3.9 = 15.9).

Further, as shown on Exhibit 1, page 2 of 2, which is FPL's 1997 Base Rate Revenue Forecast (exclusive of revenue taxes) and Accruals of Additional Amortization Expense (obtained through a Production of Public Documents Request by AmeriSteel), as of July 31, 1997, \$54.4 million of loss on reacquired debt has been written-off in 1997 with \$227.6 million remaining to be written-off in 1997 and 1998. Through July 31, 1997, total sales-related (variable) accruals of \$113.1 million have been written-off in 1997. The expected maximum amount of total accruals to be written-off in 1997 under the Plan is \$272.5 million (Exhibit 1, Page 1 of 2).

As shown on Exhibit 2, which is a staff workpaper (also obtained through a Production of Public Documents Request by AmeriSteel; the annotations on the document are staff annotations), staff estimates that $841.2 million could be written-off in 1998 and 1999 in addition to the amounts previously written-off under the Plan. The identified amounts to be written-off against the listed Plan items in 1998 and 1999 total $619.1 million, as shown on Exhibit 2, and is comprised of $101 million of remaining loss on debt, $33.5 million of fossil dismantlement deficiency, and $484.4 million of nuclear decommissioning reserve deficiency. The remaining difference ($222.1 million) between the total amount to be written-off against specific items ($619.1 million) and the total amount expected to be available ($841.2 million), would be applied to the unspecified depreciation reserve to be allocated at a later date, if FPL so chooses.

Q How does the plan deviate from traditional ratemaking?

A The Plan proposes to correct reserve deficiencies and to accelerate the write-off of regulatory assets. Normally, reserve deficiencies are corrected over the remaining life of the associated facilities. Likewise, the generally accepted ratemaking treatment for recovery of regulatory assets, such as the unamortized loss on reacquired debt, is to spread the cost over a period of years to match the costs and benefits over time. The Commission has routinely followed this approach when setting electric utility rates. Extension of the plan proposes significant departures from accepted ratemaking and established Commission practice for which there is no record evidence. As noted previously, the identified depreciation reserve deficiencies that were addressed in the Plan approved for 1995-1997 have been corrected.

Q Please continue.

A The Plan should not be extended for 1998 and 1999 because it is not in the public interest. Given the write-offs that have already occurred, extension of the Plan now addresses accelerated regulatory asset recovery, claimed deficiencies for fossil dismantlement, nuclear decommissioning accruals, and an unspecified depreciation reserve for which there is no record justification. The Plan allows FPL to accelerate expenses that are appropriately attributable to future periods, removes incentives for management efficiency inherent in traditional ratemaking practices, and addresses additional charges without addressing decreased costs and imprudently incurred costs. The Plan results in unreasonable rates, excessive compensation, and intergenerational inequity. There is no record evidence in this docket to support additional expenses for FPL for the purpose of eliminating potential stranded costs.

As shown on Exhibit 3, which is from FPL Group's August 1997 Presentation to Security Analysts (also obtained through the Production of Public Documents Request by AmeriSteel), the book value of FPL's fossil units and nuclear units are, respectively, 51% and 62% below industry averages — one of several indications that FPL is comparatively well-suited to meet competition, even though retail competition in the electric utility industry in Florida is not expected in the near term. Furthermore, there is evidence that FPL's assets will be worth more in a deregulated environment, and not less. A Resource Data International, Inc. ("RDI") study titled "Power Markets in the U. S." estimated that FPL assets are undervalued by nearly $900 million compared to their expected value in a competitive generation market ("Power Markets in the U.S.," Resource Data International, Inc., 1994). For purposes of the study, RDI defined stranded costs as the net of any stranded generation assets, regulatory assets, purchased power contracts, and wholesale sales contracts. Furthermore, recent auctions of generating assets help establish proxies for the value of such assets. New England Electric System recently announced the sale of 4,000 MW of fossil and hydro generation assets for approximately \$400/kw. FPL owns about 13,500 MWs of fossil generation that, as shown on Exhibit 3, is on the books at \$180/kw. At an average market value of \$400/kw, FPL's fossil generating assets have an indicated market value of almost \$3 billion over their book value. Additionally, FPL's regulatory assets represent only 8% of common equity while the industry average is 19% (See Exhibit 3, Page 3 of 3).

Other factors that strengthen FPL's competitive position include low residential rates relative to Florida and the southeast region, low industrial load, high residential load, geographic isolation from the continental U.S., lack of excess capacity, and cross-state transmission capacity limitations, especially to FPL's major load centers in South Florida. Furthermore, Florida's sensitive environment is likely to hamper attempts to increase transmission capacity into and within the state.

The marketplace is well aware of the threat of competition in the electric utility industry. Yet, FPL Group's stock price has increased approximately 40% over the last five years and FPL's bond ratings were increased by Standard and Poor's to AA- in 1995 and to Aa3 by Moody's in 1996.

Q Why is it inappropriate to allow FPL to write-off costs that are attributable to future periods?

A The concept of intergenerational equity, that lies at the core of traditional ratemaking, holds that each generation of customers should pay its share of the costs related to the service from which they are benefitting. For example, the costs associated with reacquired debt should be distributed over appropriate future periods. It is inappropriate, under the concept of intergenerational equity, to force current ratepayers to bear the costs of reacquired debt so that future ratepayers can enjoy a cost of debt below the "net" cost of debt. I will address FPL's unamortized loss on reacquired debt in greater detail in Issue 4.

Q How does the Plan remove incentives for management efficiency inherent in traditional ratemaking practices?

A Under traditional ratemaking, regulated utilities are not guaranteed recovery of costs but instead are given the *opportunity* to recover their costs including a return on their investment commensurate with the risk of their investment. This is accomplished by setting rates that are expected to recover the utilities expected costs. Under this approach, a utility has an incentive to keep expenses at a level that will allow it to recover its costs including its allowed return on common equity. The utility has a further incentive to lower costs to take advantage of the regulatory lag related to the time necessary to reset rates to recognize lowered costs. In Florida, regulated utilities have the additional incentive to lower costs because they can earn up to 100 basis points over their allowed return on common equity without being subject to overearnings, all other things being equal.

However, in this docket FPL's rates are set at a point that will generate overearnings absent additional allowed expenses. Consequently, the management incentives for efficiency associated with traditional ratemaking practices are removed. Under the Plan, FPL can manipulate its earnings and achieved return.

It has been over ten years since FPL's last rate case and, absent additional allowed expenses, FPL will overearn by hundreds of millions of dollars. Under the Plan, FPL has complete discretion with regard to 50% of the base revenues produced by retail sales above FPL's "most likely sales forecast" forecasted for 1996. Because the revenue level is based on 1996 revenues, the Plan gives FPL discretion over tens of millions of dollars of expenses. This provides the opportunity to "manage" the earned return. For example, FPL could forego writing-off certain expenses allowed under the Plan and instead incur an expense the Commission might not normally allow. The result being that there is still a "legitimate" expense that can be claimed and the earned return is the same as if the "legitimate" expense had been taken.

Q Does the Plan allow for additional costs to be charged while ignoring decreased costs and imprudently incurred costs?

A Yes. In my opinion, FPL's allowed return on equity (See staff's Quarterly Report on Equity Cost Rates) and FPL's equity ratio used to monitor earnings are seriously outdated and should be reduced because they are excessive and are adding substantially and unnecessarily to the revenue requirement being borne by ratepayers.

Q Please explain.

A By reacquiring substantial amounts of debt, FPL replaced a tax deductible source of financing with a higher cost, non-tax deductible source of financing that increases FPL's after-tax overall cost of capital relative to what it would be otherwise, increases the dollar return to investors, and reduces the amount of potential overearnings. Furthermore, as noted above, the Plan allows the unamortized loss on the reacquired debt ($283 million) to be written-off against earnings in 1997 and 1998.

FPL's equity ratio has increased substantially since the last time rates were set. The equity ratio used in the 1985 test year in the last rate case was 42.3% of investor capital. FPL's average equity ratio for the period ending July 31, 1997, per the July 1997 Surveillance Report, was 61.1% of investor capital. Generally, increasing the amount of equity in the capital structure, all other things being equal, decreases the required return on common equity. However, FPL's allowed return on common equity has not changed since 1990 while, over the same period, its equity ratio has significantly increased. Additionally, FPL's equity ratio has risen to a level much greater then that required for a AA-rated electric utility with FPL's business position, per Standard and Poor's guidelines (See Exhibit 4). FPL's Business Position is rated 1, above average (See Standard and Poor's, Utility Credit Report, June 1996). FPL significantly exceeds the equity ratio benchmark for a AA rated electric utility with a Business Position of 1, 61.1% versus 53%. By not addressing these factors, the Plan is allowing FPL to increase allowed expenses while disregarding decreased costs and imprudently incurred costs.

Q Should FPL be authorized to accelerate the write-Off of Unamortized Loss on Reacquired Debt? (Issue 4)

A No. The amount of unamortized loss on reacquired debt that the Commission believes was prudently incurred should be amortized over the remaining life of the original debt if there was not a refunding, or if there was a refunding, amortized over the remaining life of the original debt or spread over the life of the new issue. This is the Commission's normal practice, the Uniform System of Accounts requirement, and the way FPL must account for these costs for financial reporting purposes. There is no evidence in this docket to support accelerated recovery for any other purpose.

Ratepayers in the future will enjoy the benefits of reduced interest expense associated with the prudently reacquired debt. Under the concept of intergenerational equity, it is inappropriate to force current ratepayers to bear the costs of reacquiring the debt so that future ratepayers can enjoy a cost of debt below the "net" cost of debt. Ratepayers bear the cost to the extent that the expenses taken under the Plan reduce overearnings. For other than insignificant amounts, the Uniform System of Accounts requires the unamortized loss on reacquired debt to be amortized in the manner I am recommending. Moreover, for financial reporting purposes, the amortization of the loss on reacquired debt will continue as if there is no write-off per the Plan. In other words, even though the Commission has allowed FPL to accelerate the write-off of $283 million of unamortized loss, the Uniform System of Accounts does not allow this treatment to be used for financial reporting. These Uniform System Of Accounts' requirements support the conclusion that, to achieve intergenerational equity, the loss on reacquired debt should be amortized as I am recommending.

Recovery of regulatory assets, such as the unamortized loss on reacquired debt, that are considered potential stranded costs, should be addressed through established means such as a request for increased rates, a generic Commission ruling on stranded costs, or a request for a limited proceeding to allow for additional costs. Such proceedings provide the opportunity to examine both increased and decreased costs as well as generally applicable Commission policy on stranded costs. This would provide all parties due process and preserve the public interest. This is particularly true when the utility is in an overearnings situation.

Q What is the appropriate revenue forecast to be used to determine the level of additional expenses allocated to this Plan? (Issue 1)

A Allowance of accelerated amortization should be based on need and should not be a function of FPL's growth in revenue. If the Commission allows recovery of the expenses allocated to the Plan, the Commission should simply direct FPL to write-off those amounts over an appropriate period. The Commission should not allow FPL to manipulate its earnings and achieved return for the reasons previously stated regarding appropriate management incentives for efficiency.

Q Should the Commission defer a decision to allow any additional decommissioning or dismantlement expense until there has been a full examination of FPL's nuclear decommissioning and fossil plant dismantlement studies? (Issue 2)

A Yes. There is no demonstrated need to allow the write-off of these claimed theoretical reserve deficiencies in 1998 and 1999. FPL's annual allowance for decommissioning costs was increased as recently as 1995 from $38 million to $85 million. The magnitude of the additional expenses to be allowed under the Plan ($33.5 million for fossil dismantlement and $484.4 million for nuclear decommissioning) and the potential to address offsetting and decreased costs that have been identified or that may be identified in the upcoming studies (for example, possible decreased inflation expectations) indicate the comprehensive dismantlement and decommissioning studies, due to be filed by October 1, 1998, need to be reviewed to determine if there actually is a need to book additional amortization expense. There is no record evidence indicating whether or not the claimed reserve deficiencies are life-related and if there are intergenerational equity concerns relating to accelerated amortization of these expenses.

By any measure, the amounts associated with the claimed fossil and nuclear decommissioning reserve deficiencies are tremendous. In my opinion, it would be prudent to have comprehensive studies, in hand, that demonstrate that a significant theoretical reserve deficiency exists before overearnings are reduced to offset the claimed deficiency.

Q Should the Commission consider whether FPL has reserve depreciation surplus balances for any of its plant accounts to offset depreciation reserve deficiencies? (Issue 3)

A Yes. Where applicable, the Commission should apply any depreciation reserve surplus balances for plant accounts against depreciation reserve deficiencies.

Q Should FPL be authorized to record, in an unspecified depreciation reserve, an expense amount greater than the amounts to correct any depreciation reserve deficiency, write-off the unamortized loss on reacquired debt, correct any fossil dismantlement reserve deficiency, and correct any nuclear decommissioning reserve deficiency? (Issue 5)

A No. There is no identified depreciation reserve deficiency. Consequently, there is no sound regulatory reason (other than for potential stranded costs for which there is no record evidence in this docket) to create an unspecified depreciation reserve rather than providing rate relief.

Q Please summarize your testimony.

A The Plan should not be extended because it is not in the public interest. It allows FPL to accelerate expenses that should be attributed to future periods, it removes incentives for management efficiency inherent in traditional ratemaking practices, and it allows additional charges without addressing decreased costs and imprudently incurred costs. The Plan results in unreasonable rates, excessive compensation, and intergenerational inequity.

Recovery of regulatory assets, such as the unamortized loss on reacquired debt, that could be considered potential stranded costs, should be addressed through established means such as a request for increased rates, a generic Commission ruling on stranded costs, or a request for a limited proceeding to allow for additional costs. Such proceedings provide the opportunity to examine both increased and decreased costs. This would provide all parties due process and preserve the public interest.

The additional amortization expense allowed under the Plan for fossil dismantlement and decommissioning reserve deficiencies should be delayed until the upcoming comprehensive studies can be reviewed to determine if there actually is a need to book additional amortization expense.

Finally, it appears a major element of the Plan is to permit FPL to offset growth in revenues and earnings by accelerating the recovery of regulatory assets to minimize FPL's potential stranded costs. There is no basis in the record to allow accelerated asset recovery in contemplation of competition or to mitigate the potential for stranded costs.

The Commission approved Plan cited in Order No. PSC-96-0461-FOF-EI indicated the Commission would address the final determination of the fixed $30 million of additional nuclear amortization in a future proceeding such as a generic stranded cost docket. I believe the Commission should establish a defined regulatory policy in such a docket or in a rulemaking proceeding before authorizing further accelerated amortization of, potentially, over $840 million.

Q Does this conclude your testimony?
A Yes, it does.

EXHIBITS

Docket No. 970410-EI
Mark A. Cicchetti, Exhibit 1
FPL Revenue Forecast
Page 1 of 2

FLORIDA POWER & LIGHT COMPANY
Docket #950359-EI
1997 Base Rate Revenue Forecast (exclusive of revenue taxes) and Accruals of Additional Amortization Expense
Actuals through July, 1997
(Millions Of Dollars)

Line		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total (Note 4)	YTD (Note 5)	Remaining
	REVENUE															
1																
2	Low Band	$241.3	$207.8	$279.5	$235.4	$262.8	$292.4	$310.8	$315.9	$298.8	$257.1	$248.7	$240.4	$3,140.9	$1,779.9	$1,361.0
3	Most Likely	$253.1	$220.8	$237.9	$236.7	$269.4	$301.8	$310.9	$325.2	$312.8	$271.7	$249.4	$234.5	$3,224.1	$1,830.6	$1,393.5
4	Actuals and Budget (Note 1)	$252.4	$224.7	$261.0	$256.2	$285.2	$313.6	$324.4	$331.9	$327.1	$294.8	$260.4	$251.7	$3,383.4	$1,917.5	$1,465.9
5	Budget	$255.7	$235.2	$245.2	$258.6	$283.6	$310.2	$327.1	$331.9	$327.1	$294.8	$260.4	$251.7	$3,381.6	$1,915.7	$1,465.9
6	Actual Less Budget	($3.4)	($10.5)	$15.8	($2.4)	$1.7	$3.4	($2.7)	$0.0	$0.0	$0.0	$0.0	$0.0		$1.8	
7																
8	MINIMUM ACCRUAL															
9	VARIABLE ACCRUAL (Notes 2A and 2B)															
10	BASE: Most Likely less Low Band	$11.9	$13.0	$8.4	$1.4	$6.6	$9.4	$0.1	$9.3	$13.9	$14.6	$0.7	($8.0)	$83.2	$50.7	$32.5
11	ADD-ON: (Act./Bud. less Most Likely)*0.5	($0.4)	$2.0	$11.5	$9.7	$7.9	$5.9	$6.8	$3.3	$7.2	$11.5	$5.5	$8.8	$79.7	$43.5	$36.2
12	TOTAL VARIABLE (Lines 10 & 11)	$11.5	$15.0	$19.9	$11.1	$14.5	$15.3	$6.9	$12.6	$21.1	$26.2	$6.2	$2.7	$162.9	$94.2	$68.7
13	FIXED ACCRUAL (Note 3)	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$30.0	$17.5	$12.5
14	TOTAL ACCRUAL (Lines 12 & 13)	$14.0	$17.5	$22.4	$13.6	$17.0	$17.8	$9.4	$15.1	$23.6	$28.7	$8.7	$5.2	$192.9	$111.7	$81.2
15																
16	MAXIMUM ACCRUAL															
17	VARIABLE ACCRUAL (Notes 2A and 2B)															
18	BASE: Most Likely less Low Band	$11.9	$13.0	$8.4	$1.4	$6.6	$9.4	$0.1	$9.3	$13.9	$14.6	$0.7	($8.0)	$83.2	$50.7	$32.5
19	ADD-ON: (Act./Bud. less Most Likely)*1.0	($0.8)	$3.9	$23.1	$19.5	$15.8	$11.8	$13.6	$6.7	$14.4	$23.1	$11.0	$17.3	$159.4	$84.5	$74.9
20	TOTAL VARIABLE (Lines 18 & 19)	$11.1	$17.0	$31.4	$20.8	$22.5	$21.2	$13.6	$16.0	$28.3	$37.7	$11.6	$11.3	$242.5	$135.2	$107.4
21	FIXED ACCRUAL (Note 3)	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$2.5	$30.0	$17.5	$12.5
22	TOTAL ACCRUAL (Lines 20 & 21)	$13.6	$19.5	$33.9	$23.3	$25.0	$23.7	$16.1	$18.5	$30.8	$40.2	$14.1	$13.8	$272.5	$155.1	$117.4

NOTES
(1) "Actuals and Budget" includes the monthly actuals through the most current month (appears in bold type) and the Company's November 1996 Budget Forecast for all remaining months.
(2) A. In 1996, FPL applies the variable amount first to reserve deficiencies for nuclear production plant ($47.9 M), then to the reserve deficiencies in other production plant ($59.3 M), then wrote off a portion of the net amount of book-tax timing differences that were flowed through in prior years ($20.1 M of $78.8 M).
B. In 1997, FPL will apply the variable accrual amount first to the remainder of book-tax timing differences ($58.7 M), then the Company will apply the remaining accrual to unamortized loss on reacquired debt ($282 million at 12-96).
(3) FPL will record $30 M again in 1997 in nuclear amortization in an account to be determined in a future docket.
(4) In the event that Total Actual Revenue (annual) is less than the Most Likely Revenue (annual), then the Variable Base Revenue Accrual (annual) is reduced by the difference of the two amounts, and the Variable Add-on Revenue (annual) becomes zero.
(5) In the event that Actual Revenue (YTD) is less than the Most Likely Revenue (YTD), then the Variable Base Revenue Accrual (YTD) is reduced by the difference of the two amounts, and the Variable Add-on Revenue (YTD) becomes zero.
(6) This spreadsheet is produced to reflect the implementation of the amortization schedule for FPL nuclear generating units consistent with Order No. PSC-95-0872-FOF-EI in Docket No. 950359-EI.

Responsive to
Request #1

DOCKET NO. 950359-EI
ACCRUALS-TO-DATE
Actuals through July, 1997
(millions of dollars)

		Accrual Targets, 1996-7 (See Note)	1996 Accruals	1997 Accruals (to date)	Total Accruals, 1996 and 1997 (to date)	Accrual Balance
1	FIXED ACCRUALS					
2	Nuclear Amortization	$60.0	$30.0	$17.5	$47.5	$12.5
3						
4	VARIABLE ACCRUALS					
5	Reserve Deficiencies (nuclear)	$49.2	$49.2	$0.0	$49.2	$0.0
6	Reserve Deficiencies (other)	$60.3	$60.3	$0.0	$60.3	$0.0
7	Book-tax Timing Diff.	$78.7	$20.1	$58.6	$78.7	$0.0
8	Loss on Reacquired Debt ($282 M at 12-96)	$282.0	$0.0	$54.4	$54.4	$227.6
9	Subtotal (Variable only)	$470.2	$129.6	$113.1	$242.7	$227.6
10	(Sum of Lines 5-8)					
11						
12	TOTAL ACCRUALS					
13	Fixed plus Variable	$530.2	$159.6	$130.6	$290.2	$240.1
14	(Line 2 + Line 9)					

Note: Accrual Targets include amounts consistant with the amortization schedule for FPL nuclear generating units as described in Order No. PSC 95-0672-FOF-EI in Docket No. 95039-EI.

Florida Power & Light

Write-Off Activity Summary

Based on '97 FP&L Budget

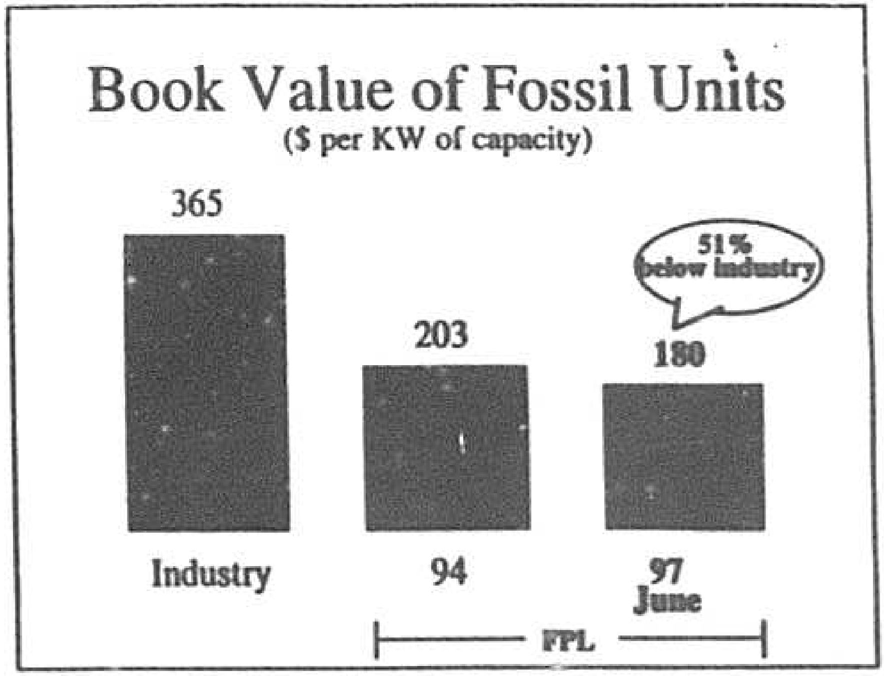
	1994	1995	1996	1997 Projected	1998 Projected	1999 Projected	TOTAL
				(In Millions)			
950359-EI:							
Nuclear Reserve Deficit ($175.3)		$126.0	$49.3				$175.3
Nuclear Plant Amortization			30.0	30.0	30.0	30.0	120.0
Other Production Plant ($60.3)			60.3				60.3
Prior Flow Through ($79.5)			20.3	59.2			79.5
Loss on Reacquired Debt ($282.7 est.)				141.5			141.5
SUBTOTAL Docket 950359-EI		$126.0	$159.9	$230.7	$30.0	$30.0	$576.6
970410-EI:							
Depreciation Reserve Deficiency (?)					($xxx)	?	?
Remaining Debt Loss ($101.2)					101.2	0.0	101.2
Dismantlement Deficiency ($33.5)					?	?	?
Decommissioning Deficiency ($484.4)					?	?	?
SUBTOTAL Docket 970410-EI					$361.2	$480.0	$841.2

Estimate: FPL could actually book ≈ $40 mill additional in '97

Staff estimate:
A) grossed up '96 forecast
B) 100% booking

Please note that the total annual accrual amt is growing by an <u>average</u> of ≈ $90 m/yr. This is because the forecast that is the benchmark has remained fixed, yet FPL's total revenues continue to grow by about ≈ 3%/yr.

FPL GROUP



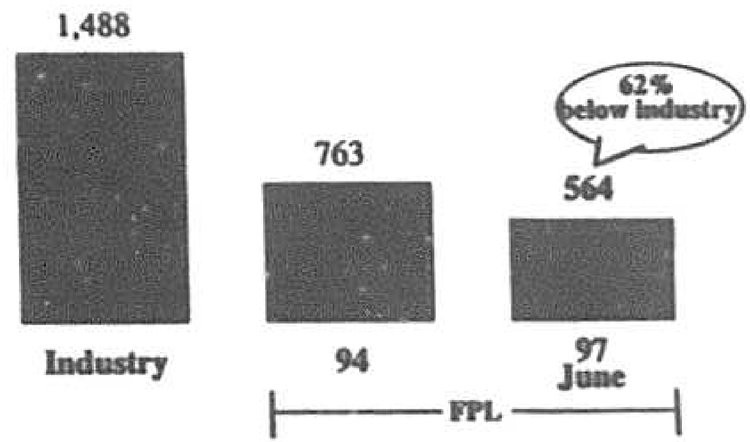
Notes:

Docket No. 970410-EI
Mark A. Cicchetti, Exhibit 3
FPL Asset Book Values
Page 1 of 3

FPL GROUP

Book Value of Nuclear Units

($ per KW of capacity)

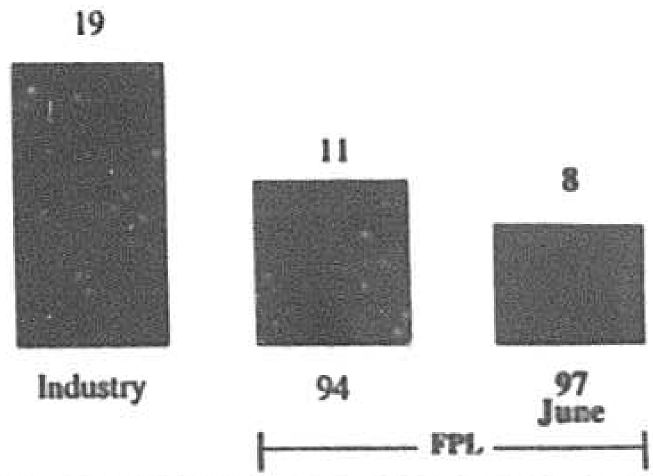


Notes:

Docket No. 970410-EI
Mark A. Cicchetti, Exhibit 3
FPL Asset Book Values

FPL GROUP

Regulatory Assets
(percent of common equity)



Notes:

STANDARD AND POOR' FINANCIAL BENCHMARKS FOR AA RATING

BUSINESS POSITION	TOTAL DEBT/TOTAL CAPITAL	EQUITY RATIO*
1	47.0%	53.0%
2	45.5%	54.5%
3	44.0%	56.0%
4	42.0%	58.0%

*The complement of the total debt to total capital benchmark.

BUSINESS POSITION	PRETAX INTEREST COVERAGE
1	3.50X
2	3.65X
3	3.80X
4	4.00X

BUSINESS POSITION

1	Above Average
2	Somewhat Above Average
3	High Average
4	Average

Source: Standard and Poor's Utility Financial Statistics