

**BEFORE THE FLORIDA  
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 050045-EI  
FLORIDA POWER & LIGHT COMPANY**

**MARCH 22, 2005**

**IN RE: PETITION FOR RATE INCREASE BY  
FLORIDA POWER & LIGHT COMPANY**

**TESTIMONY & EXHIBITS OF:**

**K. MICHAEL DAVIS**

1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                   **FLORIDA POWER & LIGHT COMPANY**

3                   **TESTIMONY OF K. MICHAEL DAVIS**

4                   **DOCKET NO. 050045-EI**

5                   **MARCH 22, 2005**

6

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

8    A.    My name is K. Michael Davis, my business address is 9250 West Flagler Street,  
9           Miami, Florida 33174.

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

11   A.    I am employed by Florida Power & Light Company (FPL or the Company) as  
12           Vice President, Controller and Chief Accounting Officer.

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

14   A.    As Vice President, Controller and Chief Accounting Officer, I am responsible for  
15           the development, interpretation and implementation of FPL's accounting policies,  
16           procedures and related internal accounting controls, and for maintaining the  
17           accounting records in compliance with financial and regulatory accounting  
18           requirements.

19 **Q.    Please describe your educational background and professional experience.**

20   A.    I graduated from the University of Florida in 1968 with a Bachelor of Science  
21           degree in Business Administration, with a major in Accounting. In that same year  
22           I was employed by Deloitte Haskins & Sells (DH&S), Independent Public  
23           Accountants, (presently Deloitte & Touche). I was promoted to manager in 1976

1 and was elected a Partner in 1981. During my tenure with DH&S I participated in  
2 engagements involving services to a number of diverse industry groups including  
3 the utility industry. In addition, I was responsible for handling accounting  
4 questions concerning the utility industry during a three-year assignment in the  
5 DH&S executive office in New York. In December 1988, I was employed by FPL  
6 as comptroller. On July 1, 1991, I accepted my current position as Vice President,  
7 Controller and Chief Accounting Officer. I am a Certified Public Accountant in  
8 the State of Florida, and a member of the American Institute of Certified Public  
9 Accountants and the Florida Institute of Certified Public Accountants. I am a  
10 member and past chairman of the Accounting Executive Advisory Committee of  
11 the Edison Electric Institute (EEI) which is composed of Chief Accounting  
12 Officers from utilities that are members of EEI. The Committee oversees the  
13 activities of the various accounting committees of EEI and advises senior EEI  
14 committees on accounting issues. It meets annually with the Financial  
15 Accounting Standards Board to discuss accounting issues of interest to the  
16 membership and approves all comment letters issued by EEI on accounting  
17 matters.

18 **Q. Are you sponsoring an exhibit in this case?**

19 A. Yes. I am sponsoring an exhibit consisting of eight documents, KMD-1 through  
20 KMD-8, which are attached to my direct testimony.

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

22 A. The purpose of my testimony is to support the calculation of the rate relief  
23 requested by FPL for 2006. I also support the calculation of FPL's requested 2007

1 rate relief as a result of the costs associated with Turkey Point Unit 5 being placed  
2 into service in 2007, and I provide key 2007 financial forecast results in  
3 connection with that request. Finally, I will present and discuss accounting,  
4 ratemaking and tax policy issues which impact the determination of FPL's rate  
5 base, working capital, rate of return, capital structure and net operating income.

6  
7 **SPONSORSHIP OF MFRs,**

8 **2007 TURKEY POINT UNIT 5 ADJUSTMENT SCHEDULES AND**

9 **FPL's 2007 FORECAST SCHEDULES**

10 **Q. Are you sponsoring or co-sponsoring any MFRs in this case?**

11 A. Yes. My Document No. KMD-1, pages 1 through 4, list the MFRs that I am  
12 sponsoring or co-sponsoring.

13 **Q. Are you sponsoring or co-sponsoring any 2007 Turkey Point Unit 5**  
14 **Adjustment or any of FPL's 2007 Forecast schedules in this case?**

15 A. Yes. My Document No. KMD-1, page 5, lists the 2007 Turkey Point Unit 5  
16 Adjustment and FPL's 2007 Forecast schedules that I am sponsoring or co-  
17 sponsoring.

18 **Q. What are the basis and time periods covered by the MFRs and schedules that**  
19 **FPL is filing in this proceeding?**

20 A. As further described in the testimony of Mr. Stamm, FPL is filing MFRs based  
21 upon the forecast completed in late 2004 and is utilizing a 2006 test year as the  
22 basis for its overall jurisdictional revenue requirement calculation. Generally, the  
23 periods covered in FPL's MFRs are a 2004 historical year, 2005 prior year, and a

1 2006 test year. Additionally, FPL has prepared a set of schedules for 2007 that  
2 follow the format of certain MFRs and show FPL's proposed adjustment to reflect  
3 Turkey Point Unit 5 being placed into service on June 1, 2007. These 2007  
4 Turkey Point Unit 5 Adjustment schedules cover the year ending May 31, 2008,  
5 the first year of operations after Turkey Point Unit 5 is scheduled to be in service.  
6 Finally, FPL is filing FPL's 2007 Forecast schedules, which follow the format of  
7 certain MFRs and contain key financial forecast results for calendar year 2007.

8  
9 **2006 AND 2007 REVENUE INCREASE CALCULATIONS**

10 **Q. Do you have a Document that shows the calculation of the base revenue**  
11 **increase that FPL is requesting for 2006?**

12 **A.** Yes. My Document No. KMD-2, which is MFR A-1 for the 2006 test period,  
13 shows the calculation of our requested base revenue increase for 2006 of \$385  
14 million.

15 **Q. The revenue requirement increase for base rates in 2006, as reflected in MFR**  
16 **A-1, is \$385 million. However, this amount is net of adjustments made to the**  
17 **recovery of certain costs in the Capacity Cost Recovery Clause (Capacity**  
18 **Clause) and the Fuel Cost Recovery Clause (Fuel Clause), as reflected in**  
19 **MFR C-2. As stated in Note 2 to MFR A-1, FPL's total requested base rate**  
20 **increase, without those adjustments, would be \$430 million. Please explain**  
21 **how the Capacity Clause and Fuel Clause adjustments affect FPL's requested**  
22 **base rate increase.**

1 A. As I will discuss later in my testimony, FPL proposes certain Company  
2 adjustments to the 2006 test year net operating income (NOI). The proposed  
3 Company adjustments are summarized on page 3 of MFR C-2, my Document No.  
4 KMD-3. Three of those adjustments relate to the Capacity Clause and Fuel  
5 Clause: (1) FPL proposes to transfer its 2006 projected incremental power plant  
6 security costs from Capacity Clause recovery to base rate recovery (an increase in  
7 base rate expenses that yields a reduction in test year NOI of approximately \$7  
8 million as shown in Column 4); (2) FPL proposes to transfer certain St. Johns  
9 River Power Park (SJRPP) capacity costs and associated revenues that are  
10 currently embedded in base rates to the Capacity Clause (an increase in test year  
11 NOI of approximately \$35 million as shown in Column 7); and (3) FPL proposes  
12 to transfer its 2006 projected incremental hedging costs from Fuel Clause  
13 recovery to base rate recovery (an increase in base rate expenses that yields a  
14 reduction in test year NOI of \$134,000 as shown in Column 8).

15  
16 The net impact of these three adjustments is to transfer the recovery of costs to the  
17 Capacity Clause that, if the adjustments were not made and the costs were  
18 recovered instead through base rates, would reduce FPL's test year NOI by \$28  
19 million. Multiplying that NOI deficiency times the NOI multiplier shown on Line  
20 14 of MFR A-1 (1.61971) would yield an additional \$45 million of test year  
21 revenue requirements. Adding those additional revenue requirements to FPL's  
22 requested revenue increase of \$385 million shown on Line 16 of MFR A-1 would  
23 result in the total revenue increase of \$430 million that is referenced in Note 2 to

1 MFR A-1. The calculation described above is shown on my Document No.  
2 KMD-4.

3  
4 To be clear, the 2006 base rate increase that FPL is requesting in this docket is  
5 \$385 million. FPL has presented the total revenue increase of \$430 million in  
6 Note 2 in order to remind the Commission that FPL will seek recovery of a  
7 portion of its total test year revenue requirements through the Capacity Clause  
8 rather than base rates.

9 **Q. Which MFRs directly support the 2006 revenue increase calculation on**  
10 **Document No. KMD-2?**

11 A. Page 1 of my Document No. KMD-5, lists the MFRs that directly support the  
12 overall 2006 jurisdictional revenue requirement increase of \$385 million  
13 requested by FPL. Those MFRs include schedules that support our adjusted  
14 jurisdictional rate base of \$12.4 billion, adjusted jurisdictional net operating  
15 income of \$783 million and the calculation of the jurisdictional revenue  
16 expansion factor of 1.61971 to arrive at our requested overall jurisdictional  
17 revenue requirement. Additionally, I present the jurisdictional adjusted capital  
18 structure which reflects FPL's requested return on equity of 12.30% and an overall  
19 rate of return of 8.22% which is further discussed in the testimony of Messrs.  
20 Dewhurst and Avera. Related FPSC and Company adjustments to the above  
21 schedules are in the MFRs filed in this case.

1 **Q. What would be the resulting ROE for the 2006 test year absent the requested**  
2 **rate relief?**

3 A. Absent the requested rate relief, the 2006 ROE would be 8.47%.

4 **Q. Do you have a Document that shows the calculation of the annualized**  
5 **revenue increase that FPL is requesting as a result of Turkey Point Unit 5**  
6 **being placed into service?**

7 A. Yes. My Document No. KMD-6, which is 2007 Turkey Point Unit 5 Adjustment  
8 schedule A-1, shows the calculation of our requested annual revenue requirement  
9 of \$123 million associated with the costs of Turkey Point Unit 5 being placed into  
10 service in 2007.

11 **2007 KEY FINANCIAL FORECAST RESULTS**

12 **Q. Please describe the 2007 Turkey Point Unit 5 Adjustment schedules that**  
13 **support the 2007 incremental revenue requirements resulting from placing**  
14 **Turkey Point Unit 5 into service in 2007.**

15 A. Page 2 of my Document No. KMD-5 lists the schedules supporting the 2007  
16 Turkey Point Unit 5 Adjustment. The schedules include the revenue requirement  
17 calculation as well as the net operating income and rate base impacts due to the  
18 additional Turkey Point Unit 5 capital and annual operating costs. As a result of  
19 Turkey Point Unit 5 which is scheduled to be placed into plant in service on June  
20 1, 2007, FPL is requesting an additional \$123 million in revenue requirements to  
21 be effective 30 days from the date the unit is placed in service. Mr. Yeager's  
22 testimony discusses Turkey Point Unit 5 in further detail. Ms. Morley discusses  
23 the proposed tariff sheets in her testimony.



1 **Q. Please describe the impacts of FPL's requested revenue increases on the 2007**  
2 **calendar year forecast results.**

3 A. My Document No. KMD-7, FPL's 2007 Forecast schedule A-SUM page 2, shows  
4 that without the requested relief sought by FPL in 2006 and 2007, FPL's ROE will  
5 decline to 7.77% in 2007. Assuming FPL's 2006 rate increase is granted as  
6 requested, FPL's ROE for 2007 is still forecasted to be only 11.50%. Even after  
7 including the full rate relief as requested for 2006 and the Turkey Point Unit 5  
8 Adjustment in 2007, FPL is forecast to earn 12.12% in 2007, which is still below  
9 our requested midpoint. Mr. Dewhurst discusses this in his testimony.

10

11

#### TEST YEAR ASSUMPTIONS

12 **Q. In your Document No. KMD-1, you are shown as a co-sponsor of MFR F-8,**  
13 **for the test year assumptions. Which of those assumptions are you**  
14 **sponsoring?**

15 A. I am sponsoring the assumptions in Section IX, Items A through F.1. of MFR F-8  
16 which appear on pages 7 and 8. For convenient reference, MFR F-8 for the 2006  
17 test period is attached as my Document No. KMD-8.

18 **Q. Are there any assumptions listed in Document No. KMD-8 that you would**  
19 **like to discuss?**

20 A. Yes. I would like to discuss the depreciation rates, nuclear decommissioning,  
21 fossil dismantlement and storm accruals included in calculating revenue  
22 requirements in the 2006 test year.

1 **Q. Please comment on the assumptions in the 2006 test year regarding FPL's**  
2 **depreciation rates.**

3 A. The depreciation rates used in the calculation of our 2006 test year results and  
4 described in MFR F-8 are the result of a depreciation study filed with the FPSC in  
5 March 2005. Filing this study satisfies the FPSC's requirement in Order No.  
6 PSC-02-1103-PAA-EI that FPL file a depreciation study by October 31, 2005 with  
7 an implementation date of January 1, 2006.

8 **Q. What is the basis for the plant balances used in FPL's new depreciation**  
9 **study?**

10 A. The new study is based on actual plant and reserve balances as of September 30,  
11 2004. These amounts have been adjusted for forecasted additions, retirements and  
12 depreciation to arrive at projected plant and reserve balances at December 31,  
13 2005. The composite depreciation rates based on the study are used to calculate  
14 monthly depreciation expense and the resulting reserves (at various plant levels as  
15 described in MFR F-8) in the 2006 test period.

16 **Q. Has the FPSC approved FPL's new depreciation study?**

17 A. Not at this time. The depreciation filing was made in compliance with Florida  
18 Administrative Code Rule No. 25-6.0436, to allow the FPSC time to review and  
19 approve the depreciation rates used in calculating 2006 test year depreciation  
20 expense and reserves prior to setting base rates in this proceeding. FPL asks that  
21 the final outcome of the FPSC's review and approval of the depreciation study be  
22 reflected in the 2006 test period results.

1 **Q. Please discuss the assumptions in MFR F-8 regarding FPL's fossil**  
2 **dismantlement accruals.**

3 A. FPL's current accrual for fossil dismantlement is \$18,674,395, which was  
4 approved by the FPSC in Order No. PSC-04-0086-PAA-EI issued on January 27,  
5 2004. FPL utilized this accrual and the resulting reserve in determining its 2006  
6 test year revenue requirements. FPL is required to file a dismantlement study  
7 every four years. The next study will be filed in 2007.

8 **Q. Please discuss the assumptions regarding FPL's nuclear decommissioning**  
9 **accrual.**

10 A. FPL's 2006 test year results are based on continuing the decommissioning  
11 expense accrual supported by the decommissioning studies that were approved by  
12 the FPSC in Order No. PSC-02-0055-PAA-EI. That order resulted in the  
13 establishment of the current annual accrual of \$78,516,937 on a jurisdictional  
14 basis, which became effective May 1, 2002.

15 **Q. When is FPL required to file its next nuclear decommissioning study?**

16 A. FPL's next nuclear decommissioning study must be filed by January 1, 2006.  
17 However, FPL will file the study later this year. If the FPSC completes its review  
18 and approval of the study before FPL's base rates are determined in this  
19 proceeding, FPL would support an adjustment, as necessary, to the nuclear  
20 decommissioning accrual reflected in the MFRs.

21 **Q. Please discuss FPL's storm damage accrual.**

22 A. FPL's storm damage reserve balance and projected accrual reflect a zero balance  
23 in the reserve at December 31, 2004, a \$20 million dollar accrual for 2005 and a

1 \$120 million dollar accrual for 2006. The annual accrual for 2006 is based on an  
2 analysis of FPL's reserve balance and recommended accrual level discussed in the  
3 testimony of Messrs. Dewhurst and Harris. FPL is requesting that any decision by  
4 this Commission regarding the surcharge recovery requested in Docket No.  
5 041291-EI that would impact the above assumptions be reflected in the  
6 Commission's decision in this docket.

7  
8 **TAX POLICY CHANGES**

9 **Q. Have there been any tax policy changes that you would like to discuss?**

10 **A.** Yes. On October 22, 2004, the President signed the American Jobs Creation Act  
11 of 2004 (the Act). The Act included tax relief for domestic manufacturers by  
12 providing a tax deduction (when fully phased-in) of the lesser of :

13 (a) up to nine percent of "qualified production activities income" as  
14 defined by the Act,

15 (b) up to nine percent of taxable income (after the deduction for  
16 utilization of any net operating loss carryforwards), or

17 (c) 50% of the W-2 wages paid by the utility.

18 I will refer to the lesser of these three amounts as the basis for the deduction.

19 **Q. How does the domestic manufacturer's tax deduction affect FPL?**

20 **A.** This deduction will be applied to reduce FPL's taxable income attributable to  
21 domestic production activities, which includes revenue from the production of  
22 electricity in the United States.

23

1 **Q. How will the domestic manufacturer's tax deduction be phased in?**

2 A. The deduction will be phased in over a five year period. For tax years beginning  
3 in 2005 and 2006, the deduction is equal to three percent of the basis for the  
4 deduction. For tax years beginning in 2007, 2008 and 2009, the deduction will  
5 equal six percent of the basis for the deduction. For tax years beginning in 2010  
6 and thereafter, the deduction will be nine percent of the basis for the deduction.

7 **Q. What is "qualified production activity income" for FPL?**

8 A. For FPL, the qualified production activities income is equal to our gross receipts  
9 attributable to domestic production activities, reduced by:

- 10 (a) the cost of goods sold that is attributable to those receipts,  
11 (b) other deductions, expenses and losses that are directly related to  
12 those receipts, and  
13 (c) a share of other deductions, expenses and losses which are  
14 allocated to the production activities.

15 **Q. Has FPL made any adjustments to its filing as a result of this Act?**

16 A. Yes. FPL has included a preliminary estimate of the effect this deduction will  
17 have on the forecasts for 2005, 2006 and 2007 including the Turkey Point Unit 5  
18 Adjustment schedules. We expect the Internal Revenue Service to issue guidance  
19 on how this deduction should be determined. FPL will reflect the effect of any  
20 guidance that it receives prior to the hearing through a Company adjustment.

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23

1                                   **PROPOSED ADJUSTMENTS TO TEST YEAR RESULTS**

2   **Q.    Are there any adjustments FPL is proposing at this time to rate base, net**  
3           **operating income or working capital in this proceeding that would better**  
4           **reflect 2006 test year results for ratemaking purposes?**

5   A.    Yes. These are detailed in MFR B-2 and MFR C-3.

6   **Q.    Would you please describe the adjustments FPL is proposing?**

7   A.    Below is a brief description of each adjustment and the FPL witness sponsoring  
8           the adjustment if not sponsored by me. Additional information regarding each  
9           adjustment can be found in the above mentioned MFRs.

- 10           ▪ Charitable Contributions—As further described by Mr. Olivera, this is an  
11           expense that the FPSC did not allow in FPL’s 1985 rate case. FPL  
12           supports a number of worthwhile charities and will continue to do so in  
13           the future. Mr. Olivera explains the benefits to FPL and its customers that  
14           result from these contributions. The FPSC should allow these ongoing  
15           costs to be included for all regulatory purposes.
- 16           ▪ Rate Case Expenses—FPL is requesting that rate case expenses be  
17           included in the calculation of FPL’s 2006 base rates through an  
18           amortization of the total cost of this proceeding over a two year period.  
19           Based on prior FPSC practice FPL believes this adjustment is appropriate.
- 20           • Adjustment Clause Overrecoveries—Whenever FPL is in an overrecovery  
21           position regarding the Fuel, Capacity, Environmental and Conservation  
22           clauses, the FPSC has not allowed FPL to remove the liability from  
23           working capital even though FPL compensates customers by paying

1 interest on the overrecovery through the cost recovery clause. This is  
2 inconsistent with the treatment of underrecoveries, where the FPSC  
3 requires FPL to remove the asset from working capital. To achieve equity  
4 and consistency, the FPSC should allow FPL to remove overrecoveries  
5 from working capital. If overrecoveries are not removed from rate base,  
6 FPL is paying a return on these amounts to customers twice, once as a  
7 return on the reduction of working capital included in rate base through  
8 base rates and, a second time through interest expense paid to customers  
9 on the overrecovery at the commercial paper rate through the cost  
10 recovery clause. FPL is not allowed to double recover from its customers  
11 and, likewise, customers should not be allowed to double recover from  
12 FPL.

- 13 • Orange Groves—In FPL's 1985 rate case, Docket No. 830465-EI, FPL  
14 made a Commission adjustment to impute the revenues it could have  
15 received had it rented the orange groves at its Manatee Plant site to a third  
16 party. FPL is now leasing the property at the Manatee Plant site to other  
17 parties for grove operations (orange, lime and avocado) and has included  
18 the rental revenues above the line in our 2006 test year forecast.  
19 Therefore, it is no longer necessary or appropriate to impute rental  
20 revenues, and this adjustment is no longer required.
- 21 • Gross Receipts Tax—Gross receipts tax is a tax imposed pursuant to  
22 Section 203.01 of the Florida Statutes on a utility receiving payment for  
23 electric light, heat or power. FPL is currently collecting a 2.5% gross

1 receipts tax, of which 1.5% is included in base rates and an additional 1%  
2 is shown as a separate line item on the customer's bill. Now that we are in  
3 the process of setting rates, the 1.5% gross receipts tax currently included  
4 in base rates should be combined with the 1% tax and shown separately as  
5 a 2.5% tax on the bill. This would allow the total amount of the gross  
6 receipts tax to be included in one place that is separately identified on the  
7 customer's bill and recovered outside of base rates. Ms. Morley addresses  
8 this in her testimony.

- 9 • Capacity Clause—Capacity charges and revenues associated with SJRPP  
10 that are currently in base rates should be removed from base rates and  
11 included in the Capacity Clause. This treatment is based on the FPSC  
12 decision in Order No. 25773, Docket No. 910794-EQ which stated in part  
13 “that capacity related purchased power costs not currently being recovered  
14 in any manner may be included in the capacity recovery factor. Those  
15 costs currently being recovered in base rates will remain in base rates until  
16 the utility's next general rate case.” A net amount of \$56,945,592 was  
17 included for recovery in 1988 base rates as explained in FPSC Order No.  
18 PSC-94-1092-FOF-EI. Therefore, FPL is requesting that this amount be  
19 transferred from base rates to the Capacity Clause.
- 20 • Dismantlement Costs—This adjustment is to include an additional  
21 \$880,000 to reflect the annual dismantlement costs for Fort Myers Unit  
22 No. 3 which went into service after 2003 (the period used in FPL's last  
23 dismantlement study) and Martin Unit 8 and Manatee Unit 3, both of



1           which will go into service in mid 2005. These costs are in addition to the  
2           \$18,674,395 current dismantlement accrual included in FPL's 2006 test  
3           year expenses. FPL is requesting Commission approval to include this  
4           additional amount of dismantlement costs in 2006 costs.

- 5           • Incremental Security Costs—This adjustment is to move into base rates  
6           the incremental security costs that FPL projects it would recover through  
7           the Capacity Clause in 2006. The Commission authorized FPL in Order  
8           No. PSC-01-2516-FOF-EI, issued December 26, 2001 to recover  
9           incremental security costs due to national security concerns after  
10          September 11, 2001 through the Fuel Clause. In Order No. PSC-02-1761-  
11          FOF-EI issued December 13, 2002, the Commission authorized recovery  
12          through the Capacity Clause. Now that base rates are being set, the  
13          projected level of these costs for 2006 (\$11,032,121, per MFR C-43)  
14          should be removed from the Capacity Clause and included in base rates.  
15          FPL will continue to seek recovery of incremental security costs above the  
16          amount included in base rates through the Capacity Clause.

- 17          • Incremental Hedging Costs—Hedging Costs are currently being recovered  
18          through the Fuel Clause as authorized by the FPSC in Order No. PSC-02-  
19          1484-FOF-EI. That order also stated that this recovery would be allowed  
20          until December 31, 2006 or the time of the next rate proceeding whichever  
21          comes first. MFR C-3 reflects an adjustment to increase 2006 base rate  
22          expenses by \$218,000, the jurisdictional portion of the amount forecasted  
23          in the accounts FPL uses to track Fuel Clause recoverable incremental

1 hedging costs. However, FPL has subsequently determined that the 2006  
2 test year already reflects the proper amount of incremental hedging costs  
3 in base rate expenses (\$496,485, per MFR C-42) and that the amounts that  
4 were forecasted in the Fuel Clause recoverable accounts actually are for  
5 hedging finance expenses that should continue to be recovered through the  
6 Fuel Clause. Therefore, no adjustment for incremental hedging costs is  
7 necessary. FPL will continue to seek recovery of incremental hedging  
8 costs above the amount included in base rates through the Fuel Clause.

- 9 • GridFlorida RTO Incremental Costs—Mr. Mennes explains in his  
10 testimony the components of the \$59 million in GridFlorida O&M costs  
11 that are included in the 2006 test year forecast. Mr. Mennes also explains  
12 that these costs are expected to increase each year through 2010. As  
13 shown in Mr. Mennes' Document No. CMM-10, FPL's share of  
14 GridFlorida start-up costs, cost of operations and costs shifts start out at  
15 \$59 million in 2006 and increase to \$148 million by 2010. However,  
16 FPL's forecast for 2006 reflects only FPL's share of the Grid Florida costs  
17 in that year, \$59 million. This level is not representative of future years.  
18 Therefore, FPL is proposing a \$45 million increase to the O&M expense  
19 included in its test year forecast to more accurately reflect an average of  
20 the annual Grid Florida expenses FPL expects to incur over the next five  
21 years. The specifics of how the GridFlorida start up costs were  
22 determined and what they comprise are explained in Mr. Mennes'  
23 testimony.

1 **VARIABLE INTEREST ENTITIES**

2 **Q. Is there a new accounting interpretation that you would like to discuss?**

3 A. Yes. I would like to discuss FASB Interpretation No. 46, Consolidation of  
4 Variable Interest Entities (FIN 46R).

5 **Q. Please describe the requirements of FIN 46R.**

6 A. FIN 46R was issued in December 2003 as an interpretation of Accounting  
7 Research Bulletin 51 (ARB 51), Consolidated Financial Statements. Historically  
8 under ARB 51, the determination of whether or not another company should be  
9 included in an investor's consolidated financial statements was based on control  
10 through voting interests. FIN 46R broadens the number of situations where  
11 consolidation is required. Companies may now be required to consolidate entities  
12 based on contractual or other interests that provide those companies significant  
13 risks and rewards of ownership through means other than voting interests. FIN  
14 46R describes a new classification of entities as "variable interest entities" and  
15 requires an enterprise to assess its interests in a variable interest entity to decide  
16 whether it must consolidate that entity. The driving force behind the issuance of  
17 FIN 46R was to address the perceived abuses of companies structuring entities  
18 that they effectively controlled in such a way that they were not reported in their  
19 consolidated financial statements (e.g., off-balance sheet).

20 **Q. What is a variable interest entity?**

21 A. An entity is generally considered a variable interest entity under FIN 46R if  
22 either:

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a. The entity does not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support. Typically, an equity investment at risk of less than 10 percent of the entity's total assets is not considered sufficient; or,

b. As a group, the holders of the equity investment at risk lack any one of the following three characteristics of a controlling financial interest:

i. The ability through voting rights or similar rights to make decisions ;

ii. The obligation to absorb the "expected losses" of the entity. The investor(s) do not have that obligation if they are directly or indirectly protected from the expected losses or are guaranteed a return by the entity itself or by other parties involved with the entity;

iii. The right to receive the "expected residual returns" of the entity. The investor(s) do not have that right if their return is capped by the entity's governing documents or arrangements with other interest holders or the entity.

1 **Q. How does FIN 46R define a variable interest?**

2 A. Variable interests are “contractual, ownership or other pecuniary interests in an  
3 entity that change with changes in the fair value of the entity’s net assets  
4 exclusive of variable interests”. This definition is difficult to understand and  
5 apply: as a result, different methodologies of identifying variable interests have  
6 developed as FIN 46R has been implemented. The Emerging Issues Task Force  
7 (EITF) of the FASB is currently addressing this inconsistency in practice in EITF  
8 Issue 04-7. FPL has taken a “cash flow” approach and identifies as a variable  
9 interest an ownership or contractual interest that absorbs variability in an entity’s  
10 cash flows. For example, if FPL has a contract to purchase power from an entity,  
11 and that contract includes a variable energy payment that is tied to the entity’s  
12 cost of fuel, the power purchase contract would represent a variable interest in the  
13 entity because FPL will absorb some of the entity’s variability in cash flows.  
14 Pending resolution of EITF 04-7, the FASB has indicated that the cash flow  
15 approach is acceptable.

16 **Q. When is an enterprise required to consolidate a variable interest entity?**

17 A. An enterprise must consolidate a variable interest entity if that enterprise has a  
18 variable interest (or combination of variable interests) that will absorb a majority  
19 of the entity’s expected losses, receive a majority of the entity’s expected residual  
20 returns, or both. This determination considers the rights and obligations conveyed  
21 by its variable interest and the relationship of its variable interest with variable  
22 interests held by other parties. An enterprise that consolidates a variable interest  
23 entity under FIN 46R is called the primary beneficiary.

1 **Q. Does FIN 46R apply to all entities?**

2 A. FIN 46R applies to all entities that are not specifically excluded from its scope.  
3 There are nine listed scope exceptions, some of which apply to FPL. For  
4 example, enterprises should generally not consolidate employee benefit plans or  
5 governmental organizations. Additionally, some entities that are determined to be  
6 a business need not be evaluated under FIN 46R if certain criteria are met.  
7 Finally, an enterprise with an interest in a variable interest entity or potential  
8 variable interest entity created before December 31, 2003 is not required to apply  
9 FIN 46R to that entity if the enterprise, after making an exhaustive effort, is  
10 unable to obtain the information necessary to (1) determine whether the entity is a  
11 variable interest entity, (2) determine whether the enterprise is the primary  
12 beneficiary, or (3) perform the accounting required to consolidate the variable  
13 interest entity.

14 **Q. Has FPL consolidated any variable interest entities as a result of applying**  
15 **FIN 46R?**

16 A. Yes. FPL, in its financial statements filed with the Securities and Exchange  
17 Commission, began consolidating FPL Fuels, Inc. (FPL Fuels) effective July 1,  
18 2003. Although FPL has no direct ownership interest in FPL Fuels, the  
19 contractual provisions of its lease agreement result in FPL absorbing the majority  
20 of FPL Fuel's expected losses.

21  
22 FPL was also required to evaluate its power purchase contracts to determine if the  
23 contracts were variable interests in the entities from which FPL purchases power.

1 Of particular concern were those contracts where the term of the contract is for a  
2 significant portion of the estimated useful life of the power plant from which the  
3 power is generated, the power plant is the only significant asset held by the entity  
4 with which we had an agreement, and the contract contains a variable energy  
5 payment that is indexed to the commodity price of the fuel used by the power  
6 plant. Several of the national accounting firms have interpreted FIN 46R to say  
7 that entities holding contracts meeting these criteria are generally considered to be  
8 variable interest entities because the equity holders are protected from expected  
9 variability in a significant cash flow (i.e., the purchase price of fuel).

10  
11 Of the power purchase contracts evaluated by FPL, three had the characteristics  
12 described above which suggest that the entities could be variable interest entities.  
13 One of these entities files financial information with the Securities and Exchange  
14 Commission. Based on this publicly available information, FPL has determined  
15 that it is not the primary beneficiary and is therefore not required to consolidate  
16 the entity. Because FPL has no contractual access rights to the financial  
17 information of the other two entities selling power and those entities have not  
18 voluntarily provided the information, to date FPL has claimed a scope exception.  
19 This scope exception is due to FPL's inability to acquire the information  
20 necessary to determine all of the variable interests in the entities and which of  
21 those variable interests absorbs the majority of the expected losses, expected  
22 returns, or both.

23

1 **Q. What concerns does FPL have about the ongoing application of FIN 46R?**

2 A. FPL is concerned that as existing power purchase contracts are amended or new  
3 contracts entered, the scope exception for unavailability of the information needed  
4 to make the assessment about whether or not an entity is required to be  
5 consolidated will not be available (because the exception is provided only for  
6 entities created before December 31, 2003). The FASB has presumed that when  
7 negotiating a new contract a company would have the opportunity to achieve  
8 contractual rights to any information needed, or refuse to sign the contract.  
9 However, in the case of contracts with qualifying facilities entities (QFs), FPL is  
10 required to enter into contracts with any party willing to accept FPL's rate  
11 structure based on avoided costs. FPL does not believe that we would have the  
12 right to demand full access to the confidential financial information of the seller  
13 in the context of entering an agreement to purchase power from a QF.

14  
15 FPL disagrees with the fundamental concept that absorption of an entity's fuel  
16 cost creates control over the entity (such as the owner of a qualifying facility that  
17 sells power to FPL) that should require consolidation. We believe that the equity  
18 owners of those entities continue to retain significant risks and rewards of  
19 ownership as discussed below. However, application of the complex rules of FIN  
20 46R, as interpreted, could result in FPL being required to consolidate these  
21 entities from which it buys power, but over which it has no control. If FPL were  
22 required to consolidate an entity from which it purchases power, but over which it  
23 has no control, we would be very concerned about the potential effects on FPL's



1 financial statements. In the absence of full access to the entity's financial  
2 information, knowledge of accounting controls and policies, and access to key  
3 personnel, we could not have full confidence that the numbers were correctly  
4 presented.

5 **Q. What is FPL requesting from the FPSC?**

6 A. FPL requests that the FPSC state in the final order for this proceeding, that, even  
7 if FPL is required under FIN 46R to consolidate an entity in which FPL has no  
8 ownership interest, the entity should not be consolidated for purposes of  
9 regulatory accounting.

10

11 FPL further requests that the FPSC lend its support in asking the FASB to  
12 consider an exception for power purchase agreements with QFs and other non-  
13 affiliated entities. These agreements do not generally transfer any rights or  
14 obligations of plant ownership to the buyer of power. For example, the plant  
15 owner establishes the entity without input or involvement of the buyer, secures  
16 financing, selects the location for the facility, designs and constructs the facility,  
17 retains the risk for operational issues such as equipment failures, damage to the  
18 facility, environmental contamination, and asset retirement obligations. The  
19 equity holders typically make all decisions surrounding operation of the power  
20 plant and may have substantial fair value of equity in the entity. FPL and the  
21 Edison Electric Institute have asked the FASB to reconsider the conclusions  
22 reached with regard to when power purchase contracts should be identified as

1 variable interests. The FPSC's assistance in requesting a reasonable solution from  
2 the FASB would be appreciated.

3 **Q. Please summarize your testimony.**

4 A. I have presented and discussed those documents necessary to support the  
5 calculation of the rate relief requested by FPL using a 2006 test period and the  
6 additional rate relief that FPL has requested for 2007 as a result of the costs  
7 associated with placing Turkey Point Unit 5 into service. I have also presented  
8 and discussed accounting, ratemaking and tax policy issues which impact the  
9 determination of FPL's rate base, working capital, rate of return, capital structure  
10 and net operating income and resulting revenue requirements. With the  
11 adjustments that I have proposed, I believe that the MFRs fairly present FPL's  
12 financial condition and requested revenue increase based on the projected results  
13 for the 2006 test year, and that the 2007 Turkey Point Unit 5 Adjustment and  
14 FPL's 2007 Forecast schedules fairly present the 2007 revenue increase requested  
15 as a result of Turkey Point Unit 5 being placed into service.

16 **Q. Does this conclude your direct testimony?**

17 A. Yes.

**MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY  
 K. MICHAEL DAVIS**

<b>SOLE SPONSORSHIP:</b>		
B-1	2004 Historic 2005 Prior 2006 Test	ADJUSTED RATE BASE
B-3	2004 Historic	13 MONTH AVERAGE BALANCE SHEET – SYSTEM BASIS
B-4	2004 Historic	TWO YEAR HISTORICAL BALANCE SHEET
B-18	2004 Historic	FUEL INVENTORY BY PLANT
B-19	2006 Test	MISCELLANEOUS DEFERRED DEBITS
B-20	2006 Test	OTHER DEFERRED CREDITS
B-21	2004 Historic	ACCUMULATED PROVISION ACCOUNTS – 228.1, 228.2 AND 228.4
B-25	2006 Test & 2005 Prior	ACCOUNTING POLICY CHANGES AFFECTING RATE BASE
C-1	2004 Historic 2005 Prior 2006 Test	ADJUSTED JURISDICTIONAL NET OPERATING INCOME
C-2	2004 Historic 2005 Prior 2006 Test	NET OPERATING INCOME ADJUSTMENTS
C-3	2004 Historic 2005 Prior 2006 Test	JURISDICTIONAL NET OPERATING INCOME ADJUSTMENTS
C-9	2004 Historic	FIVE YEAR ANALYSIS-CHANGE IN COST

**MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY  
 K. MICHAEL DAVIS**

<b>MFR #</b>	<b>Period</b>	<b>TITLE</b>
<b>SOLE SPONSORSHIP:</b>		
C-13	2004 Historic	MISCELLANEOUS GENERAL EXPENSES
C-15	2004 Historic	INDUSTRY ASSOCIATION DUES
C-18	2004 Historic	LOBBYING EXPENSES, OTHER POLITICAL EXPENSES AND CIVIC/CHARITABLE CONTRIBUTIONS
C-20	2004 Historic	TAXES OTHER THAN INCOME TAXES
C-22	2004 Historic 2006 Test	STATE AND FEDERAL INCOME TAX CALCULATION
C-24	2004 Historic 2006 Test	PARENT(S) DEBT INFORMATION
C-25	2006 Test, 2005 Prior, 2004 Historic	DEFERRED TAX ADJUSTMENT
C-26	2004 Historic	INCOME TAX RETURNS
C-27	2006 Test	CONSOLIDATED TAX INFORMATION
C-28	2004 Historic	MISCELLANEOUS TAX INFORMATION
C-30	2006 Test	TRANSACTIONS WITH AFFILIATED COMPANIES
C-31	2006 Test & 2004 Historic	AFFILIATED COMPANY RELATIONSHIPS
C-32	2006 Test & 2004 Historic	NON-UTILITY OPERATIONS UTILIZING UTILITY ASSETS
C-38	2006 Test	O&M ADJUSTMENTS BY FUNCTION
C-39	2002 Historic	BENCHMARK YEAR RECOVERABLE O&M EXPENSES BY FUNCTION
C-44	2006 Test	REVENUE EXPANSION FACTOR

**MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY  
 K. MICHAEL DAVIS**

D-1b	2006 Test, 2005 Prior, 2004 Historic	COST OF CAPITAL – ADJUSTMENTS
D-4a	2004 Historic	LONG-TERM DEBT OUTSTANDING
F-1	2004 Historic	ANNUAL AND QUARTERLY REPORT TO SHAREHOLDERS
F-2	2004 Historic	SEC REPORTS
A-1	2006 Test	FULL REV REQUIREMENTS INCREASE REQUESTED
B-2	2004 Historic 2005 Prior 2006 Test	RATE BASE ADJUSTMENTS
B-6	2004 Historic 2006 Test	JURISDICTIONAL SEPARATION FACTORS – RATE BASE
B-15	2005 Prior & 2006 Test	PROPERTY HELD FOR FUTURE USE – 13 MONTH AVG
B-17	2005 Prior & 2006 Test	WORKING CAPITAL – 13 MONTH AVG
B-22	2006 Test & 2004 Historic	TOTAL ACCUMULATED DEFERRED INCOME TAXES
B-23	2006 Test, 2005 Prior, 2004 Historic	INVESTMENT TAX CREDITS – ANNUAL ANALYSIS
C-4	2004 Historic 2006 Test	JURISDICTIONAL SEPARATION FACTORS – NET OPERATING INCOME
C-6	2006 Test, 2005 Prior, 2004 Historic	BUDGETED VERSUS ACTUAL OPERATING REVENUES AND EXPENSES
C-8	2005 Prior & 2006 Test	DETAIL OF CHANGES IN EXPENSES

Docket No. 050045-EI  
 K. Michael Davis, Exhibit No. \_\_\_\_  
 Document No. KMD-1, Page 4 of 5  
 MFRs & Schedules Sponsored and  
 Co-sponsored By K. Michael Davis

**MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY  
 K. MICHAEL DAVIS**

<b>MFR #</b>		
<b>JOINT OR CO-SPONSORSHIP:</b>		
C-10	2006 Test	DETAIL OF RATE CASE EXPENSES FOR OUTSIDE CONSULTANTS
C-12	2006 Test & 2004 Historic	ADMINISTRATIVE EXPENSES
C-16	2004 Historic	OUTSIDE PROFESSIONAL SERVICES
C-18	2006 Test	LOBBYING EXPENSES, OTHER POLITICAL EXPENSES AND CIVIC/CHARITABLE CONTRIBUTIONS
C-21	2006 Test, 2005 Prior, 2004 Historic	REVENUE TAXES
C-23	2006 Test & 2004 Historic	INTEREST IN TAX EXPENSE CALCULATION
C-29	2006 Test, 2005 Prior, 2004 Historic	GAINS AND LOSSES ON DISPOSITION OF PLANT AND PROPERTY
C-33	2006 Test, 2005 Prior, 2004 Historic	PERFORMANCE INDICES
C-36	2006 Test, 2005 Prior, 2004 Historic	NON-FUEL OPERATION AND MAINTENANCE EXPENSE COMPARED TO CPI
C-37	2006 Test	O&M BENCHMARK COMPARISON BY FUNCTION
C-41	2006 Test	O&M BENCHMARK VARIANCE BY FUNCTION
C-42	2006 Test, 2005 Prior, 2004 Historic	HEDGING COSTS
C-43	2006 Test, 2005 Prior, 2004 Historic	SECURITY COSTS
D-1a	2004 Historical 2005 Prior 2006 Test	COST OF CAPITAL - 13 MONTH AVG
D-4b	2006 Test & 2005 Prior	REACQUIRED BONDS
F-5	2006 Test	FORECASTING MODELS
F-8	2006 Test	ASSUMPTIONS

**MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY  
 K. MICHAEL DAVIS**

A-1	2007 Turkey Point Unit 5 Adjustment	FULL REV REQUIREMENTS INCREASE REQUESTED
B-1	2007 Turkey Point Unit 5 Adjustment	ADJUSTED RATE BASE
B-6	2007 Turkey Point Unit 5 Adjustment	JURISDICTIONAL SEPARATION FACTORS – RATE BASE
C-1	2007 Turkey Point Unit 5 Adjustment	ADJUSTED JURISDICTIONAL NET OPERATING INCOME
C-4	2007 Turkey Point Unit 5 Adjustment	JURISDICTIONAL SEPARATION FACTORS – NET OPERATING INCOME
C-22	2007 Turkey Point Unit 5 Adjustment	STATE AND FEDERAL INCOME TAX CALCULATION
C-44	2007 Turkey Point Unit 5 Adjustment	REVENUE EXPANSION FACTOR
D-1a	2007 Turkey Point Unit 5 Adjustment	COST OF CAPITAL – 13 MONTH AVG
<b>FPL'S 2007 FORECAST SCHEDULES SPONSORED OR CO-SPONSORED:</b>		
A-SUM	FPL's 2007 Forecast	FPL's 2007 FORECAST REVENUE REQUIREMENTS AND RATES OF RETURN CALCULATIONS
B-1	FPL's 2007 Forecast	ADJUSTED RATE BASE
B-2	FPL's 2007 Forecast	RATE BASE ADJUSTMENTS
C-1	FPL's 2007 Forecast	ADJUSTED JURISDICTIONAL NET OPERATING INCOME
C-2	FPL's 2007 Forecast	NET OPERATING INCOME ADJUSTMENTS
C-3	FPL's 2007 Forecast	JURISDICTIONAL NET OPERATING INCOME ADJUSTMENTS
D-1a	FPL's 2007 Forecast	COST OF CAPITAL – 13 MONTH AVG
D-1b	FPL's 2007 Forecast	COST OF CAPITAL – ADJUSTMENTS
F-8	FPL's 2007 Forecast	ASSUMPTIONS

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: FLORIDA POWER & LIGHT COMPANY  
AND SUBSIDIARIES

EXPLANATION:  
PROVIDE THE CALCULATION OF  
THE REQUESTED FULL REVENUE  
REQUIREMENTS INCREASE.

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR ENDED 12/31/06  
 PRIOR YEAR ENDED \_\_\_/\_\_\_/\_\_\_  
 HISTORICAL TEST YEAR ENDED \_\_\_/\_\_\_/\_\_\_  
WITNESS: K. MICHAEL DAVIS, MORAY P. DEWHURST

DOCKET NO. 050045-EI

LINE NO.	(1) DESCRIPTION	(2) SOURCE	(3) AMOUNT (\$000)
1			
2	JURISDICTIONAL ADJUSTED RATE BASE	SCHEDULE B-1	\$ 12,410,522
3			
4	RATE OF RETURN ON RATE BASE REQUESTED	SCHEDULE D-1a	x 8.22%
5			
6	JURISDICTIONAL NET OPERATING INCOME REQUESTED	LINE 2 X LINE 4	\$ 1,019,999
7			
8	JURISDICTIONAL ADJUSTED NET OPERATING INCOME	SCHEDULE C-1	782,562
9			
10	NET OPERATING INCOME DEFICIENCY (EXCESS)	LINE 6 - LINE 8	\$ 237,438
11			
12	EARNED RATE OF RETURN	LINE 8 / LINE 2	6.31%
13			
14	NET OPERATING INCOME MULTIPLIER	SCHEDULE C-44	x 1.61971
15			
16	REVENUE INCREASE (DECREASE) REQUESTED (Note 2)	LINE 10 X LINE 14	\$ 384,580
17			
18			
19			
20			
21			
22			
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27			
28			
29			
30			
31			
32			
33			
34			
35	NOTE 1: TOTALS MAY NOT ADD DUE TO ROUNDING.		
36	NOTE 2: TOTAL REQUESTED INCREASE, EXCLUDING THE EFFECT OF THE PROPOSED COMPANY ADJUSTMENTS RELATED TO THE CAPACITY AND FUEL COST RECOVERY CLAUSES		
37	SHOWN ON MFR C-2, IS \$430.2 MILLION.		
38			
39			
40			
41			

SUPPORTING SCHEDULES: B-1, C-1, D-1a, C-44

RECAP SCHEDULES:

Docket No. 050045-EI  
 K. Michael Davis, Exhibit No. \_\_\_\_\_  
 Document No. KMD-2, Page 1 of 1  
 MFR A-1 for the 2006 Test Period



FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: FLORIDA POWER & LIGHT COMPANY  
 AND SUBSIDIARIES

EXPLANATION: PROVIDE A SCHEDULE OF NET OPERATING INCOME ADJUSTMENTS FOR THE TEST YEAR, THE PRIOR YEAR AND THE MOST RECENT HISTORICAL YEAR. PROVIDE THE DETAILS OF ALL ADJUSTMENTS ON SCHEDULE C-3.

TYPE OF DATA SHOWN  
 PROJECTED TEST YEAR ENDED 12/31/06  
 PRIOR YEAR ENDED \_\_\_/\_\_\_/\_\_\_  
 HISTORICAL YEAR ENDED \_\_\_/\_\_\_/\_\_\_  
 WITNESS: K. MICHAEL DAVIS

DOCKET NO. 050045-EI

(\$000)

LINE NO.	DESCRIPTION	JURISDICTIONAL AMOUNT SCHEDULE C-1 COL 5	COMMISSION ADJUSTMENTS									
			(1) ATRIUM EXPENSES	(2) CAPACITY COST RECOVERY	(3) CONSERVATION COST RECOVERY	(4) GAIN ON ECONOMY SALES	(5) ECONOMIC DEVELOPMENT 5%	(6) ENVIRONMENTAL COST RECOVERY (A)	(7) FINANCIAL PLANNING SERVICES	(8) FRANCHISE EXPENSE	(9) FRANCHISE REVENUE	(10) FUEL COST REC
1												
2	REVENUE FROM SALES	9,245,408	0	(571,594)	(74,233)	0	0	(221,668)	0	0	(392,524)	(4,077,852)
3												
4	OTHER OPERATING REVENUES	142,457	0	0	1,017	0	0	0	0	0	0	(12,266)
5												
6	TOTAL OPERATING REVENUES	<u>9,387,865</u>	<u>0</u>	<u>(571,594)</u>	<u>(73,216)</u>	<u>0</u>	<u>0</u>	<u>(221,668)</u>	<u>0</u>	<u>0</u>	<u>(392,524)</u>	<u>(4,090,119)</u>
7												
8	OTHER	1,603,846	(19)	(18,143)	(61,081)	0	(11)	(14,126)	(227)	0	0	(340)
9												
10	FUEL & INTERCHANGE	3,680,621	0	0	0	0	0	0	0	0	0	(3,659,860)
11												
12	PURCHASED POWER	910,318	0	(497,422)	0	0	0	0	0	0	0	(350,008)
13												
14	DEFERRED COSTS	189,545	0	(10,295)	0	0	0	(179,865)	0	0	0	614
15												
16	DEPRECIATION & AMORTIZATION	<u>983,508</u>	<u>0</u>	<u>(35,155)</u>	<u>(9,695)</u>	<u>0</u>	<u>0</u>	<u>(5,856)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(9,345)</u>
17												
18	TAXES OTHER THAN INCOME TAXES	913,072	0	(8,974)	(1,166)	0	0	(3,485)	0	(382,428)	(10,096)	(62,552)
19												
20	INCOME TAXES	302,577	7	(619)	(491)	0	4	(7,273)	88	147,522	(147,522)	(3,328)
21												
22	(GAIN/LOSS ON DISPOSAL OF PLANT	(1,485)	0	0	0	0	0	518	0	0	0	0
23												
24	TOTAL OPERATING EXPENSES	<u>8,582,002</u>	<u>(12)</u>	<u>(570,608)</u>	<u>(72,433)</u>	<u>0</u>	<u>(7)</u>	<u>(210,087)</u>	<u>(139)</u>	<u>(234,907)</u>	<u>(157,617)</u>	<u>(4,084,819)</u>
25												
26	NET OPERATING INCOME	<u>805,864</u>	<u>12</u>	<u>(985)</u>	<u>(789)</u>	<u>0</u>	<u>7</u>	<u>(11,581)</u>	<u>139</u>	<u>234,907</u>	<u>(234,907)</u>	<u>(5,300)</u>
27												
28												
29												
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32												
33												
34												
35												
36												
37												
38												
39	NOTE: TOTALS MAY NOT ADD DUE TO ROUNDING											
40												

(A) INCLUDES AMOUNTS RELATED TO FPL'S STORM DAMAGE SURCHARGE RECOVERY FACTOR APPROVED BY THE COMMISSION IN ORDER NO. PSC-05-0187-PCO-EI, DOCKET NO. 041291-EI

NOTE: TOTALS MAY NOT ADD DUE TO ROUNDING

FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: FLORIDA POWER & LIGHT COMPANY  
 AND SUBSIDIARIES  
 DOCKET NO. 050045-EI

EXPLANATION PROVIDE A SCHEDULE OF NET OPERATING INCOME ADJUSTMENTS FOR THE TEST YEAR, THE PRIOR YEAR AND THE MOST RECENT HISTORICAL YEAR. PROVIDE THE DETAILS OF ALL ADJUSTMENTS ON SCHEDULE C-3.

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR ENDED 12/31/06  
 PRIOR YEAR ENDED \_\_\_/\_\_\_/\_\_\_  
 HISTORICAL YEAR ENDED \_\_\_/\_\_\_/\_\_\_  
 WITNESS: K. MICHAEL DAVIS

LINE NO.	DESCRIPTION	COMMISSION ADJUSTMENTS							(18) TOTAL COMMISSION ADJUSTMENTS	(19) JURISDICTIONAL ADJUSTED PER COMMISSION
		(11) GAIN ON SALE LAND (PROPERTY)	(12) GROVE OPERATIONS	(13) GROSS RECEIPTS TAX REVENUES	(14) INDUSTRY ASSOCIATION DUES	(15) INTEREST SYNCHRONIZATION	(16) INTEREST TAX DEFICIENCIES	(17) RTP COST RECOVERY		
1										
2	REVENUE FROM SALES	0	0	(86,021)	0	0	0	0	(5,423,892)	3,821,516
3										
4	OTHER OPERATING REVENUES	0	47	0	0	0	0	0	(11,202)	131,255
5										
6	TOTAL OPERATING REVENUES	0	47	(86,021)	0	0	0	0	(5,435,095)	3,952,770
7										
8	OTHER	0	0	0	(535)	0	99	0	(94,383)	1,509,484
9										
10	FUEL & INTERCHANGE	0	0	0	0	0	0	0	(3,659,860)	20,761
11										
12	PURCHASED POWER	0	0	0	0	0	0	0	(847,430)	62,888
13										
14	DEFERRED COSTS	0	0	0	0	0	0	0	(189,545)	0
15										
16	DEPRECIATION & AMORTIZATION	0	0	0	0	0	0	0	(60,051)	923,456
17										
18	TAXES OTHER THAN INCOME TAXES	0		(86,021)	0	0	0	0	(554,722)	358,349
19										
20	INCOME TAXES	0	18	0	206	2,078	(38)	0	(9,349)	293,228
21										
22	(GAIN)/LOSS ON DISPOSAL OF PLANT	0	0	0	0	0	0	0	518	(967)
23										
24	TOTAL OPERATING EXPENSES	0	18	(86,021)	(328)	2,078	61	0	(5,414,822)	3,167,179
25										
26	NET OPERATING INCOME	0	29	0	328	(2,078)	(61)	0	(20,273)	785,591
27										
28										
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32										
33										
34										
35										
36										
37										
38										
39	NOTE: TOTALS MAY NOT ADD DUE TO ROUNDING									
40										

FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: FLORIDA POWER & LIGHT COMPANY  
 AND SUBSIDIARIES

EXPLANATION: PROVIDE A SCHEDULE OF NET OPERATING INCOME ADJUSTMENTS FOR THE TEST YEAR, THE  
 PRIOR YEAR AND THE MOST RECENT HISTORICAL YEAR. PROVIDE THE DETAILS OF ALL  
 ADJUSTMENTS ON SCHEDULE C-3.

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR ENDED 12/31/06  
 PRIOR YEAR ENDED \_\_\_/\_\_\_/\_\_\_  
 HISTORICAL YEAR ENDED \_\_\_/\_\_\_/\_\_\_  
 WITNESS: K. MICHAEL DAVIS

DOCKET NO 050045-EI

(\$000)

LINE NO.	DESCRIPTION	ADJUSTED PER COMMISSION SCHEDULE C-2 COL. 19	COMPANY ADJUSTMENTS									TOTAL COMPANY ADJUSTMENTS	JURISDICTIONAL ADJUSTED PER COMMISSION AND COMPANY	
			(1) CHARITABLE CONTRIBUTIONS	(2) RATE CASE EXPENSE	(3) ORANGE GROVE OPERATIONS	(4) INCREMENTAL SECURITY COSTS	(5) LEVELIZED RTO COSTS	(6) DISMANTLEMENT EXP. NEW PLANT	(7) SJRPP CAPACITY IN BASE RATES	(8) INCREMENTAL HEDGING COSTS	(9) GROSS RECEIPTS TAX - BASE RATES			
1														
2	REVENUE FROM SALES	3,821,516	0	0	0	0	0	0	(5,940)	0	(58,551)	(64,491)	3,757,025	
3														
4	OTHER OPERATING REVENUES	131,256	0	0	(47)	0	0	0	0	0	0	(47)	131,208	
5														
6	TOTAL OPERATING REVENUES	3,952,770	0	0	(47)	0	0	0	(5,940)	0	(58,551)	(64,538)	3,888,233	
7														
8	OTHER	1,509,464	1,538	3,925	0	10,878	44,408	0	0	218	0	60,966	1,570,430	
9														
10	FUEL & INTERCHANGE	20,761	0	0	0	0	0	0	0	0	0	0	20,761	
11														
12	PURCHASED POWER	62,888	0	0	0	0	0	0	(62,888)	0	0	(62,888)	0	
13														
14	DEFERRED COSTS	0	0	0	0	0	0	0	0	0	0	0	0	
15														
16	DEPRECIATION & AMORTIZATION	923,456	0	0	0	0	0	866	0	0	0	866	924,322	
17														
18	TAXES OTHER THAN INCOME TAXES	358,349	0	0	0	0	0	0	0	0	(58,551)	(58,551)	299,798	
19														
20	INCOME TAXES	293,228	(583)	(1,514)	(18)	(4,196)	(17,130)	(334)	21,968	(84)	0	(1,902)	291,326	
21														
22	(GAIN)/LOSS ON DISPOSAL OF PLANT	(967)	0	0	0	0	0	0	0	0	0	0	(967)	
23														
24	TOTAL OPERATING EXPENSES	3,167,179	945	2,411	(18)	8,882	27,278	532	(40,820)	134	(58,551)	(61,506)	3,105,671	
25														
26	NET OPERATING INCOME	785,591	(945)	(2,411)	(28)	(6,062)	(27,278)	(532)	34,980	(134)	0	(3,029)	782,562	
27														
28														
29														
30														
31														
32														
33														
34														
35														
36														
37														
38														
39	NOTE: TOTALS MAY NOT ADD DUE TO ROUNDING													
40														

Docket No. 050045-EI  
 K. Michael Davis, Exhibit No. \_\_\_  
 Document No. KMD-3, Page 3 of 3  
 MFR C-2 for the 2006 Test Period

Docket No. 050045-EI  
 K. Michael Davis, Exhibit No. \_\_\_\_  
 Document No. KMD-4, Page 1 of 1  
 Calc of Total Annual Rev Increase  
 Requested

**Calculation of Total Annual Revenue Increase Requested**

	ADJUSTMENTS (\$000)	REVENUE INCREASE (\$000)
MFR A-1: 2006 BASE REVENUE INCREASE REQUESTED		\$384,580
MFR C-2: NOI EFFECT OF COMPANY CLAUSE ADJUSTMENTS (SEE NOTE 2)		
INCREMENTAL SECURITY COSTS FROM CLAUSE TO BASE	(6,682)	
SJRPP CAPACITY COSTS FROM BASE TO CLAUSE	\$34,980	
INCREMENTAL HEDGING COSTS FROM CLAUSE TO BASE	<u>(134)</u>	
NET EFFECT ON BASE NOI	\$28,164	
MFR C-44: REVENUE EXPANSION FACTOR	1.61971	
BASE REVENUE IMPACT OF CLAUSE ADJUSTMENTS	\$45,618	<u>45,618</u>
TOTAL ANNUAL REVENUE INCREASE REQUESTED		<u>\$430,198</u>

**NOTES:**

- (1) TOTALS MAY NOT ADD DUE TO ROUNDING.
- (2) THE CALCULATION OF THE NOI IMPACT OF THESE ADJUSTMENTS IS SHOWN ON DOCUMENT NO. KMD-3, PAGE 3, COLUMNS 4, 7, AND 8.

**MFR Listing  
2006 Test Year**

MFR #	MFR Description	Comment(s)
A-1	Full Revenue Requirements Increase Requested	Derivation and calculation of our full revenue requirement increase requested of \$385 Million and resulting jurisdictional rate of return at December 31, 2006
B-1	Adjusted Rate Base	Projected December 31, 2006 thirteen month average jurisdictional adjusted rate base of \$12.4 Billion
B-2	Rate Base Adjustments	Includes those necessary, in the opinion of the company, to fairly present rate base and working capital
B-17	Working Capital - 13 Month Average	Adjusted working capital calculation using the balance sheet approach approved by the FPSC (adjustments are explained on MFR B-2)
C-1	Adjusted Jurisdictional Net Operating Income	Projected adjusted net operating income of \$783 Million for the year ended December 31, 2006
C-2	Net Operating Income Adjustments	Explanations are on MFR C-3. Includes details of net operating income adjustments on MFR C-1.
C-3	Jurisdictional Net Operating Income Adjustments	Explanations of net operating income adjustments found on MFR C-2
C-44	Revenue Expansion Factor	Calculation of the factor used for the 2006 revenue requirement calculation. The factor as of December 31, 2006 is 1.61971.
D-1a	Cost of Capital - 13 Month Average	Includes Jurisdictional Capital Structure and Required Rate of Return by Class of Capital. The overall rate of return and requested ROE as of December 31, 2006 is 8.22% and 12.30%, respectively.
D-1b	Cost of Capital - Adjustments	Includes Details for Cost of Capital Adjustments listed on MFR D-1A

**2007 Turkey Point Unit 5 Adjustment Schedules**

Schedule	Schedule Description	Comment(s)
A-1	Revenue Requirements Increase Requested for Turkey Point Unit 5	Derivation and calculation of our revenue requirement increase requested of \$123 Million and resulting jurisdictional rate of return for Turkey Point Unit 5. This calculation is based on the annualized costs of Turkey Point Unit 5 for the year ended May 31, 2008.
B-1	Turkey Point Unit 5 Adjusted Rate Base	Projected thirteen month average jurisdictional adjusted rate base of \$556 Million for Turkey Point Unit 5. This calculation is based on the annualized costs of Turkey Point Unit 5 for the year ended May 31, 2008.
C-1	Turkey Point Unit 5 Adjusted Jurisdictional Net Operating Income	Projected adjusted net operating loss of \$21 Million for Turkey Point Unit 5. This calculation is based on the annualized costs of Turkey Point Unit 5 for the year ended May 31, 2008.
C-44	Revenue Expansion Factor	Calculation of the factor used for the Turkey Point Unit 5 revenue requirement calculation. The factor is as of May 31, 2008 is 1.58273.
D-1a	Cost of Capital - 13 Month Average	Includes Jurisdictional Capital Structure and Required Rate of Return by Class of Capital. The overall rate of return and requested ROE for the thirteen month average as of May 31, 2008 is 10.13% and 12.30%, respectively.

FLORIDA PUBLIC SERVICE COMMISSION  
COMPANY: FLORIDA POWER & LIGHT  
COMPANY AND SUBSIDIARIES

EXPLANATION: Provide the calculation of the requested full revenue requirements increase for the new Turkey Point Unit 5.

Type of Data Shown:  
X Projected Year Ended 5/31/08  
Witness: K. Michael Davis, Moray P. Dewhurst

DOCKET NO. 050045-EI

Line No.	(1) Description	(2) Source	(3) Amount (\$000)
2	Jurisdictional Adjusted Rate Base - Turkey Point 5	Schedule B-1	\$ 555,740
3			
4	Rate of Return on Rate Base Requested - Turkey Point 5	Schedule D-1a	10.13%
5			
6	Jurisdictional Net Operating Income Requested - Turkey Point 5	Line 2 x Line 4	\$ 56,320
7			
8	Jurisdictional Adjusted Net Operating Income (Loss) - Turkey Point 5	Schedule C-1	(21,240)
9			
10	Net Operating Income Deficiency (Excess) - Turkey Point 5	Line 6 - Line 8	\$ 77,560
11			
12	Earned Rate of Return - Turkey Point 5	Line 8/Line 2	N/A
13			
14	Net Operating Income Multiplier - Turkey Point 5	Schedule C-44	1.58273
15			
16	Revenue Increase (Decrease) Requested - Turkey Point 5	Line 14 x Line 10	\$ 122,757
17			
18			
19			
20			

NOTES:

(A) MFR shows revenue requirement for projected 12-month period starting with Turkey Point 5 in-service date of 6/1/2007.  
(B) Totals may not add due to rounding.

Supporting Schedules: B-1, C-1, D-1a, C-44

Recap Schedules:

Docket No. 050045-EI  
 K. Michael Davis, Exhibit No. \_\_\_\_\_  
 Document No. KMD-6, Page 1 of 1  
 2007 Turkey Point Unit 5  
 Adjustment Schedule A-1

FLORIDA PUBLIC SERVICE COMMISSION  
COMPANY: FLORIDA POWER & LIGHT COMPANY  
AND SUBSIDIARIES

Explanation: Summary of FPL 2007 Revenue  
Requirements and Return on Equity  
Calculations

Type of Data Shown:  
 Projected Year Ended 12/31/07 FPL Total

Witness: K. Michael Davis

DOCKET NO. 050045-EI

Line No	(1) Description		(2) Source	(3) Amount
1	<b><u>FPL's 2007 REVENUE REQUIREMENT CALCULATIONS</u></b>			
2				
3	Jurisdictional Adjusted Rate Base - 2007 Forecast	(\$000)	Schedule B-1 (FPL'S 2007 Forecast)	13,114,547
4				
5	Rate of Return on Rate Base - 2007 Forecast (Midpoint)		Schedule D-1a (FPL's 2007 Forecast)	<u>8.36%</u>
6				
7	Calculated Jurisdictional Net Operating Income	(\$000)	Line 3 x Line 5	1,095,774
8				
9	Jurisdictional Adjusted Net Operating Income - 2007 Forecast	(\$000)	Schedule C-1 (FPL's 2007 Forecast)	<u>797,019</u>
10				
11	Net Operating Income Deficiency (Excess) - 2007 Forecast	(\$000)	Line 7 - Line 9	298,755
12				
13				
14				
15	Net Operating Income Multiplier - 2006 Test Year		MFR C-44 (2006 Test Year)	<u>1.61971</u>
16				
17	2007 Revenue Requirements (No Rate Relief)	(\$000)	Line 11 x Line 15	483,896
18				
19	2006 Revenue Increase Requested	(\$000)	See Note A	<u>398,314</u>
20				
21	Projected 2007 Revenue Deficiency (After Full 2006 Rate Increase)	(\$000)	Line 17 - Line 19	85,582
22				
23	2007 Turkey Point Adjustment Revenue Request	(\$000)	See Note B	<u>66,096</u>
24				
25	2007 Projected Revenue Deficiency with Full Rate Relief	(\$000)	Line 21 - Line 23	<u>19,487</u>
26				

**NOTES:**

(A) 2006 Revenue Increase Requested on MFR A-1, \$384,580,000 adjusted for 2007 sales growth.

(B) Represents the estimated July - December 2007 revenues associated with the Turkey Point 5 Adjustment request (\$000).

Annualized Revenue Increase Requested on Schedule MFR A-1, 2007 Turkey Point 5 Adjustment	\$ 122,757
% of Annual Revenues Estimated for July 1 - December 31, 2007	<u>53.84%</u>
Estimated Revenues for July 1 - December 31, 2007	<u>\$ 66,096</u>

Note: Totals may not add due to rounding.

Supporting Schedules: FPL's 2007 Forecast, Schedules B-1, C-1, D-1a; MFR C-44 (Test Year)

Recap Schedules:

Docket No. 050045-EI  
 K. Michael Davis, Exhibit No. \_\_\_\_\_  
 Document No. KMD-7, Page 1 of 2  
 FPL's 2007 Forecast schedule A-SUM



FLORIDA PUBLIC SERVICE COMMISSION  
COMPANY: FLORIDA POWER & LIGHT COMPANY  
AND SUBSIDIARIES  
DOCKET NO. 050045-EI

Explanation: Summary of FPL 2007  
Revenue Requirements and  
Return on Equity Calculations

Type of Data Shown:  
 X  Projected Year Ended 12/31/07 FPL Total  
Witness: K. Michael Davis

Line No	(1) Description	(2) 2007 FPL Forecast (C)	(3) 2006 Revenue Increase (D)	(4) 2007 Forecast Adjusted for '06 Increase (E)	(5) 2007 Revenue Increase (F)	(6) 2007 Forecast Adjusted (G)
1	<b><u>FPL's 2007 RATE OF RETURN AND RETURN ON EQUITY CALCULATIONS</u></b>					
2						
3						
4	Jurisdictional Adjusted Net Operating Income	(\$000) 797,019	245,917	1,042,936	40,807	1,083,743
5						
6	Jurisdictional Adjusted Rate Base	(\$000) 13,114,547	0	13,114,547	0	13,114,547
7						
8	Earned Rate of Return	<u>6.08%</u>		<u>7.95%</u>		<u>8.26%</u>
9						
10	Return on Common Equity	<u>7.77%</u>		<u>11.50%</u>		<u>12.12%</u>
11						
12						
13						
14						
15						

NOTES:

- (C) Without 2006 and 2007 requested rate relief.
- (D) 2007 NOI impact of rate relief if full amount of revenue increase requested for 2006 is granted. Reflects impact of projected sales growth for 2007.
- (E) 2007 FPL Forecast adjusted for the 2006 Rate Increase Request assuming full relief is granted in 2006.
- (F) 2007 NOI impact of rate relief if the Turkey Point 5 Adjustment revenue increase is granted as requested. Amount shown is the estimate for the period July 1 - December 31, 2007.
- (G) Assumes full rate relief is granted as requested for 2006 and 2007.

Note: Totals may not add due to rounding.

FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: FLORIDA POWER & LIGHT COMPANY  
 AND SUBSIDIARIES  
 DOCKET NO. 050045-EI

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. As a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:  
 Projected Test Year Ended 12/31/06  
 Prior Year Ended \_\_\_\_/\_\_\_\_/\_\_\_\_  
 Historical Test Year Ended \_\_\_\_/\_\_\_\_/\_\_\_\_  
 Witness: Leonardo E. Green, K. Michael Davis,  
 Solomon L. Stamm

Line No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	<b>I. SALES, CUSTOMERS, NET ENERGY FOR LOAD</b>								
2	<b>GENERAL ASSUMPTIONS</b>								
3	<b>A. Population of FPL Service Territory</b>								
4								2006	
5								8,565,263	
6	<b>B. Florida Non-Agricultural Employment (000's)</b>								
7								7,829	
8	<b>C. Florida Total Real Personal Income (Billions of Dollars)</b>								
9								553	
10	<b>D. FPL Service Territory Cooling Degree Days</b>								
11								1,647	
12	<b>E. FPL Service Territory Heating Degree Days</b>								
13								314	
14	<b>F. FPL Service Territory Minimum Temperature (Fahrenheit)</b>								
15								36	
16	<b>G. FPL Service Territory Maximum Temperature (Fahrenheit)</b>								
17								92	
18	<b>H. 2006 Sales by Revenue Class - Most likely (in Million KWH)</b>								
19	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Street &amp; Highway</u>	<u>Other Authority</u>	<u>Railway</u>	<u>Total Retail</u>	<u>Sales For Resale</u>	<u>Total</u> <sup>1</sup>
20									
21	57,848	43,668	3,958	423	63	103	106,064	1,586	107,650
22	<b>I. 2006 Customers by Revenue Class</b>								
23	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Street &amp; Highway</u>	<u>Other Authority</u>	<u>Railway</u>	<u>Total Retail</u>	<u>Sales For Resale</u>	
24									
25	3,875,161	477,484	16,239	2,811	234	23	4,371,953	4	4,371,957
26	<b>J. 2006 Net Change in Customers by Revenue Class</b>								
27	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Street &amp; Highway</u>	<u>Other Authority</u>		<u>Total Retail</u>	<u>Sales For Resale</u>	<u>Total</u> <sup>2</sup>
28									
29	66,041	9,273	-351	37	-1	0	74,999	0	74,999
30									
31									
32									
33									
34									
35									
36									
37									

<sup>1</sup> Totals may not add-up due to rounding.  
<sup>2</sup> Average customers - sum of the projected customers for each month divided by twelve.

Docket No. 050045-EI  
 K. Michael Davis, Exhibit No. \_\_\_\_\_  
 Document No. KMD-8, Page 1 of 9  
 MFR F-8 for the 2006 Test Period

Supporting Schedules: \_\_\_\_\_

Recap Schedules: E-10, C-40

FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: **FLORIDA POWER & LIGHT COMPANY**  
 AND SUBSIDIARIES  
 DOCKET NO 050045-EI

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. As a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:  
 Projected Test Year Ended 12/31/06  
 Prior Year Ended \_\_\_/\_\_\_/\_\_\_  
 Historical Test Year Ended \_\_\_/\_\_\_/\_\_\_  
 Witness: Leonardo E. Green, K. Michael Davis,  
 Solomon L. Stamm

Line No	(1)	(2)
1	I. K.	<b>Most Likely Forecast of Monthly Net Energy for Load (Million KWH)</b>
2		<u>2006</u>
3	January	8,483
4	February	7,835
5	March	8,530
6	April	8,878
7	May	9,771
8	June	10,736
9	July	11,183
10	August	11,364
11	September	11,065
12	October	9,931
13	November	8,928
14	December	<u>8,760</u>
15		115,483
16		
17	L.	<b>Most Likely Forecast of System Monthly Peaks (Megawatts)</b>
18		<u>2006</u>
19	January	21,336
20	February	17,588
21	March	16,564
22	April	17,631
23	May	19,560
24	June	20,356
25	July	20,746
26	August	21,178
27	September	20,557
28	October	19,127
29	November	18,144
30	December	18,522
31		
32	II.	<b>INFLATION RATE FORECAST</b>
33		<b>Most Likely Annual</b>
34		<b>Rates of Change</b>
35		<u>2006</u>
36	A.	1.47% <b>Consumer Price Index (CPI)</b>
37		The CPI Measures the price change of a constant market basket of goods and services over time.
38		For company purposes it is a useful escalator for determining trends in wage contracts and income
39		payments, excluding construction work (see E above).
40		
41	B.	1.64% <b>GDP Deflator</b>
42		The GDP deflator is the broadest of all categories and captures price trends for the four major
43		macro-economic sectors in the nation, which are: the household sector, the business sector, the
44		government sector and the foreign sector. The GDP deflator tends to be more stable than the
45		other indices and is used where very broad price trends are needed.
46		
47	C.	0.28% <b>Producer Price Index</b>
48		<b>(PPI): Materials &amp; Supplies</b>
49		The PPI for all goods (formerly the Wholesale Price Index) is a comprehensive measure of the
50		average changes in price received in primary markets by producers of commodities in all stages
51		of processing. This index represents price movements in the manufacturing, agriculture, forestry,
52		fishing, mining, gas and electricity, and public utilities sector of the economy.

Supporting Schedules:

Recap Schedules:

E-10, C-40

Docket No. 050045-EI  
 K. Michael Davis, Exhibit No. \_\_\_\_\_  
 Document No. KMD-8, Page 2 of 9  
 MFR F-8 for the 2006 Test Period

FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: FLORIDA POWER & LIGHT COMPANY  
 AND SUBSIDIARIES  
 DOCKET NO. 050045-EI

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. As a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:  
 Projected Test Year Ended 12/31/06  
 Prior Year Ended \_\_\_/\_\_\_/\_\_\_  
 Historical Test Year Ended \_\_\_/\_\_\_/\_\_\_  
 Witness: Leonardo E. Green, K. Michael Davis,  
 Solomon L. Stamm

Line No.	(1)	(2)	(3)
1	II. D. Producer Price Index		0.76%
2	(PPI) Finished Producer Goods		
3	PPI for Capital Goods reflects changes in the prices of capital equipment such as motor trucks,		
4	furniture, generators, hand tools, fans and blowers, machine tools, and construction equipment.		
5			
6	II. E. Compensation Per Hour (Non-FPL)		4.21%
7	Index: All workers, including pension and benefits		
8	The average Hourly Earnings Index for construction workers reflects percent wage changes in		
9	hourly earnings for construction workers.		
10			
11	III. FINANCING AND INTEREST RATE ASSUMPTIONS		
12	<u>General Assumptions</u>		
13	A. Target Capitalization Ratios		
14	During the projected test year, Florida Power & Light Company's		
15	capitalization is projected to be as follows: equity approximately 55%,		
16	and debt approximately 45%, adjusted for off-balance sheet obligations.		
17			
18	B. Preferred Stock Premium and Underwriting Discount		
19	It is assumed that no preferred stock will be issued.		
20			
21	C. First Mortgage Bond Prices and Underwriting Discount		
22	It is assumed that first mortgage bonds will be issued to the public		
23	at par with an underwriting commission of .875%.		
24			
25			
26	<u>Interest Rate Assumptions</u>		
27		<u>2006</u>	
28	D. Long Term Debt	7.20%	
29			
30	Short Term Debt	Although the company maintains several lines of credit, the company forecasts them at zero.	
31			
32	E. Pollution Control Bonds	3.8%	
33			
34	F. Preferred Stock	All outstanding preferred stock will be reduced to zero as of 12/31/2005.	
35			
36	G. 30-Day Commercial Paper	4.2%	

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 Document No. KMD-8, Page 3 of 9  
 MFR F-8 for the 2006 Test Period

FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: FLORIDA POWER & LIGHT COMPANY  
 AND SUBSIDIARIES

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. As a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:  
 Projected Test Year Ended 12/31/06  
 Prior Year Ended \_\_\_/\_\_\_/\_\_\_  
 Historical Test Year Ended \_\_\_/\_\_\_/\_\_\_  
 Witness: Leonardo E. Green, K. Michael Davis,  
 Solomon L. Stamm

DOCKET NO. 050045-EI

Line No.	(1)	(2)	(3)
1	<b>IV. IN SERVICE DATES OF MAJOR PROJECTS</b>		
2			
3	<b>A.</b>		
4	<b>BUDGET</b>		<b>IN SERVICE</b>
5	<b>ITEM #</b>	<b>PROJECT DESCRIPTION</b>	<b>DATE *</b>
6		<b>Nuclear Generation Projects</b>	
7	871	St. Lucie Unit 1 Thimbles Project	06/2008
8	896	St. Lucie Unit 1 Pressurizer Replacement Project	06/2006
9	278	Turkey Point Common Cask Crane Project	12/2006
10	346	St. Lucie Common Spent Fuel Cask Pit Rack Project	12/2006
11	278	Turkey Point Common Boraflex Remedy Project	12/2007
12	278	Turkey Point Common Independent Spent Fuel Storage Facility Project	12/2007
13	661	St. Lucie Unit 2 Steam Generator Replacement Project	12/2007
14	683	St. Lucie Unit 2 Reactor Head Replacement Project	12/2007
15	346	St. Lucie Common Independent Spent Fuel Storage Facility Project	01/2008
16	346	St. Lucie Unit 2 Spent Fuel Pit Rerack Project	12/2008
17		<b>Fossil Generation Projects</b>	
18	749	Port Everglades Unit 4 Precipitator Project	11/2006
19	610	Manatee Unit 2 Reburn Project	12/2006
20	749	Port Everglades Unit 3 Precipitator Project	04/2007
21	736	Turkey Point Unit 5 Project	06/2007
22		<b>Transmission Projects</b>	
23	357	Corbett-Germantown-Yamato Line	06/2006
24	356	Malabar-Wabasso Line Project	12/2006
25	728	Overtown-Miami Beach 138/230kv Lines	05/2007
26	365	Indiantown-Riviera 230kv Line	06/2007
27	297	Osteen Injection Project	12/2007
28	256	Carstrom-Orange River Line	06/2006
29	349	Hobe-Sandpiper #2 Transmission Line	06/2006
30	291	Bunnell-St.Johns 230kv Line	12/2006
31	268	Sweatt Area Project	06/2009
32	* Projects which have a foreseeable monetary impact in fiscal year 2006.		
33			

Docket No. 050045-EI  
 K. Michael Davis, Exhibit No. \_\_\_  
 Document No. KMD 8 Page 4 of 9  
 MFR F-8 for the 2006 Test Period

FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: **FLORIDA POWER & LIGHT COMPANY**  
 AND SUBSIDIARIES  
 DOCKET NO. 050045-EI

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. As a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:  
 Projected Test Year Ended 12/31/06  
 Prior Year Ended \_\_\_/\_\_\_/\_\_\_  
 Historical Test Year Ended \_\_\_/\_\_\_/\_\_\_  
 Witness: Leonardo E. Green, K. Michael Davis,  
 Solomon L. Stamm

Line No	(1)	(2)	(3)
1	<b>V. MAJOR GENERATING UNIT OUTAGE ASSUMPTIONS</b>		
2			
3	<b>A. Nuclear Maintenance Schedules (Including outage period and reason)</b>		
4			
5		<b>2006</b>	<b>2006</b>
6	<u>Unit</u>	<u>Outage Period</u>	<u>Outage Description</u>
7	St Lucie 2	04/24/06-5/23/06	Refueling & Reactor Head Inspection outage
8	Turkey Point 3	03/4/06-03/28/06	Refueling outage
9	Turkey Point 4	10/07/06-10/31/06	Refueling outage
10			
11	<b>B. Fossil Units Outage Schedule (including outage period and reason)</b>		
12			
13		<b>2006</b>	<b>2006</b>
14	<u>Unit</u>	<u>Outage Period</u>	<u>Outage Description</u>
15	Cutler 5	10/30/06 - 12/11/06	REWEDGE/BOILER/MAJOR TURBINE
16	Cutler 6	10/30/06 - 11/29/06	BOILER MAINTENANCE
17	Fort Myers 2	05/13/06 - 05/19/06	A COMB INSP
18	Fort Myers 2	05/20/06 - 05/26/06	B COMB INSP
19	Fort Myers 2	09/02/06 - 09/08/06	C COMB INSP
20	Fort Myers 2	09/09/06 - 09/15/06	D COMB INSP
21	Fort Myers 2	09/16/06 - 09/22/06	E COMB INSP
22	Fort Myers 2	05/06/06 - 05/12/06	F COMB INSP
23	Fort Myers 3	12/05/06 - 12/17/06	HGP
24	Lauderdale 4	02/11/06 - 02/23/06	A CT HOT PATH/ B CT COMB INSP
25	Lauderdale 5	09/23/06 - 10/05/06	A/B COMB INSP
26	Manatee 2	02/19/06 - 05/01/06	ESP/REBURN/TURBINE VLVS
27	Martin 2	02/11/06 - 04/24/06	HP/IP/LP TURBINE/ ROTOR CHANGE OUT / BOILER
28	Martin 3	03/18/06 - 03/24/06	A CT COMB INSP
29	Martin 3	10/14/06 - 12/02/06	HGP/ST/BEN REWEDGE
30	Martin 4	09/02/06 - 09/08/06	CI
31	Martin 4	09/02/06 - 10/21/06	HGP/ST/BEN REWEDGE
32	Martin 8	03/04/06 - 03/09/06	CI
33	Martin 8	03/11/06 - 03/15/06	CI
34	Martin 8	11/18/06 - 11/23/06	COMB. INSP
35	Martin 8	11/25/06 - 11/30/06	COMB. INSP
36	Port Everglades 4	10/02/06 - 12/12/06	EPS / HP / IP / LP / GSR / /PENTHOUSE
37	Putnam 1	11/18/06 - 12/22/06	1 GT 2 MAJOR
38	Putnam 1	03/18/06 - 03/24/06	COOLING TOWER
39	Putnam 2	03/18/06 - 03/24/06	COOLING TOWER
40	Riviera 4	10/16/06 - 11/06/06	CHEM CLEAN, RAD WALL, APH BASKETS
41	Saint Johns River Power Park 2	02/25/06 - 04/25/06	SCR TIE IN/BOILER/BFPT/FGD
42	Sanford 3	11/25/06 - 01/28/07	GENERATOR STATOR REWIND (GSR)
43	Sanford 4	04/15/06 - 04/25/06	CT HOT PATH INSPECTION
44	Sanford 4	04/27/06 - 05/07/06	CT HOT PATH INSPECTION
45	Sanford 5	11/04/06 - 11/09/06	A CT COMB INSP
46	Sanford 5	11/11/06 - 11/16/06	B CT COMB INSP
47	Sanford 5	11/18/06 - 11/23/06	D CT COMB INSP
48	Turkey Point 1	03/01/06 - 05/10/06	GSR / SH PENDENT/MAJOR BOILER/TURB VLVS/LP/CHEM CLN

Supporting Schedules:

Recap Schedules:

E-10, C-40

Docket No. 050045-EI  
 K. Michael Davis, Exhibit No. \_\_\_  
 Document No. KMD-8, Page 5 of 9  
 MFR F-8 for the 2006 Test Period

FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: FLORIDA POWER & LIGHT COMPANY  
 AND SUBSIDIARIES  
 DOCKET NO. 050045-EI

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. As a minimum, state assumptions used for balance sheet, income statement and sales forecast.

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 Projected Test Year Ended 12/31/06  
 Prior Year Ended \_\_\_\_/\_\_\_\_/\_\_\_\_  
 Historical Test Year Ended \_\_\_\_/\_\_\_\_/\_\_\_\_  
 Witness: Leonardo E. Green, K. Michael Davis,  
 Solomon L. Stamm

Line No.	(1)	(2)	(3)	(4)
1	<b>VI. INTERCHANGE AND PURCHASED POWER ASSUMPTIONS</b>			
2				
3	<b>A. Contractual Commitments for Scheduled Interchange/Purchased Power</b>			
4				
5	<b>1 Unit Power Purchase (UPS) - Southern Companies</b>			
6	a. Capacity (MW) based on 2004 Net Dependable Capacity Unit Ratings:			
7	2005	931		
8	2006	931		
9				
10	b. Minimum (MW) scheduling requirements			
11	2005	378		
12	2006	378		
13				
14	c. Capacity and energy costs based on Southern's estimate, subject to true up and audit.			
15				
16	d. Energy costs recovered through Fuel Cost Recovery Clause (FCRC) and capacity costs recovered through Capacity Cost Recovery Clause (CCRC).			
17				
18				
19	<b>2 Unit Power Purchase - St Johns River Power Park</b>			
20	a. 30% of rated net capacity of each unit is considered purchased power.			
21	b. All energy scheduled by FPL in excess of 20% (FPL owned generation) is considered purchased energy.			
22				
23	c. Capacity costs are recovered through CCRC and base rates. Energy costs are recovered through FCRC.			
24				
25				
26	<b>3 Power Sold and Economy Energy Purchases (Schedule "OS")</b>			
27	a. Schedule OS sales based upon projected market prices and expected available generation relative to FPL's projected incremental cost of sale (generation and transmission)			
28				
29	b. Schedule OS purchases based upon FPL's projected incremental generation cost relative to projected market prices plus incremental costs and transmission.			
30				
31	c. Energy & transmission costs of OS purchases recovered through the FCRC. For OS sales, FCRC credited for incremental generation cost, CCRC credited for FPL transmission incurred to make sale, Base credited for incremental costs of running gas turbines, if applicable, and FCRC credited for gain on sale			
32				
33				
34				
35				
36				
37	<b>4 Interchange related to St Lucie Unit 2 Reliability Exchange agreement</b>			
38	a. Based on PMONTH projection for PSL 1 and PSL 2 output as applied to the contract formula.			
39				
40	<b>5 Schedule of New and Expiring Interchange/Purchase Power Contracts for the period.</b>			
41	a. Florida Crushed Stone 138 MW, expiring October 31, 2005.			
42	b. Bioenergy 10 MW, expiring January 1, 2005.			
43				
44	<b>6 Purchased Power from Qualifying Facilities:</b>			
45	a. Firm	Capacity (MW)	Energy (MWH)	
46		2005	874	6,730,226
47		2006	738	5,769,943
48	b. As Available			
49		2005		322,392
50		2006		322,392

Supporting Schedules:

Recap Schedules:

E-10, C-40

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 Solomon L. Stamm

Line No.	(1)	(2)	(3)
1	VI.	7	Schedule of Sales and Purchased Power Contracts for the Period (contracts impact 2006)
2		a. Sales:	NONE.
3		b. Purchases:	Oleander Power Project, LP dated April 30, 2001 (6/02 to 5/07)
4			Reliant Energy Services dated June 15, 2001 (3/02 to 2/07)
5			Desoto County Generating Company, LLC dated August 6, 2001 (6/02 to 5/07)
6			Reliant Energy Services dated December 8, 2004 (1/06 to 12/09)
7			
8	VII.		FUEL ASSUMPTIONS
9			
10	A.		Fuel Related Assumptions
11		1	Fossil Fuel
12			The current real and nominal fuel price forecast for light and heavy fuel oil, natural gas, coal,
13			and petroleum coke, and the projection for the availability of natural gas to the FPL system
14			for 2005 and 2006 were issued on June 9, 2004 and were based on current and projected
15			market conditions, and existing supply and transportation contracts. This forecast was
16			used as input into the PMONTH production costing model for development of forecasted information.
17			
18		2	Nuclear Fuel
19			The Nuclear Fuel Forecast model was used to project fuel costs. The 2006 Fuel Cost Projections used in
20			the impending rate case filing are consistent with the Approved Operating Schedule dated October 27, 2004.
21			
22	VIII.		OPERATIONS AND MAINTENANCE AND CAPITAL EXPENDITURES FORECAST ASSUMPTIONS
23	A.		INFLATION RATE FORECAST
24			
25			See Section II. Inflation Rate Forecast
26			
27	B.		PAY PROGRAMS
28		1	Merit Pay Program Increases
29			3.5% - 4% depending on pay classifications.
30		2	Performance Excellence Rewards Program (PERP) Incentive.
31			Exempt employees only are eligible. Payout calculation is determined by Corporate performance,
32			Business Unit performance and individual performance.
33			
34	IX.		OTHER ASSUMPTIONS
35	A.		Amount of CWIP and NFIP in Rate Base - FPSC
36			CWIP: All Construction Work In Progress (CWIP) which does not meet the criteria for the accrual
37			of Allowance for Funds Used During Construction (AFUDC) are included in CWIP for rate base
38			in accordance with Rule 25-6.0141.
39			NFIP: No Nuclear Fuel In Process.
40			
41	B.		Amount of CWIP and NFIP in Rate Base - FERC
42		1	CWIP: None.
43		2	NFIP: None.
44			
45	C.		AFUDC RATES FOR CAPITAL EXPENDITURES (FPSC & FERC)
46			FPL's current AFUDC rate is 7.29% as approved by the Florida Public Service Commission in
47			Order No PSC-04-0416-PAA-EI, in Docket No. 040180-EI issued on April 22, 2004.
48			
49	D.		AFUDC DEBT/EQUITY SPLIT - FPSC AND FERC
50			FPSC Ratio FERC Ratio
51	1	Debt %	21.26% 22.91%
52	2	Equity %	78.74% 77.09%

Supporting Schedules:

Recap Schedules:

E-10, C-40

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 Solomon L. Stamm

Line No	(1)	(2)	(3)
1	IX E.	DEPRECIATION RATES	
2	1	For the Year 2005, depreciation rates are as approved by the Florida Public Service Commission in Docket 971860-EI	
3		(Order No. PSC-99-0073-FOF-EI). Depreciation rates specifically applicable to the FL Myers Combined Cycle Units	
4		were approved in Docket No. 001437-EI (Order No. PSC-00-2434-PAA-EI), and for the Martin Simple Cycle Units	
5		approved in Docket No. 020332-EI, Order No. PSC-02-1103-PAA-EI issued on August 12, 2002 and in Docket No. 03139-EI,	
6		Order No. PSC-03-0634-PAA-EI, issued on May 23, 2003, respectively.	
7	2	For projection purposes, composite rates are developed to calculate depreciation expense.	
8	3	The following composite rates were calculated based on September, 2004 plant balances:	
9		a. For steam, nuclear and other production, the composite rate is at the site level.	
10		b. For transmission plant, the composite rate is at the function level.	
11		c. For distribution plant, the composite rate is calculated at the plant account level.	
12		d. For general plant, the composite rate is calculated for Account 390, structures; Account 392, transportation	
13		and all other general plant accounts.	
14		e. For intangible plant, the rate is calculated at the function level	
15	4	For year 2006, the composite depreciation rates were developed based on the depreciation study	
16		filed in early 2005. The depreciation study used plant and reserve balances as of September 30, 2004 and	
17		adjusted the plant balance and reserve balances to December 31, 2005, based on forecasted additions, retirements and	
18		estimated depreciation.	
19	5	The Company has filed the current Depreciation Study as required in Order No. PSC-02-1103-PAA-EI, Docket	
20		No. 020332-EI, issued on August 12, 2002. The Commission required FPL to file a depreciation study by October 31, 2005,	
21		with rates effective January 1, 2006.	
22	6	The Company is accruing \$18,674,395 annually for the Dismantlement of Fossil-Fueled Generating Stations. The current amount was	
23		approved by the Commission in Order No. PSC-04-0086-PAA-EI in Docket No. 030558-EI issued on January 27, 2004.	
24			
25	F.	RESERVE FUND REQUIREMENT AT TIME OF EXPENDITURE	
26	1	Decommissioning	
27		a. Nuclear Decommissioning Reserve accruals are based on amounts last authorized by	
28		Order No. PSC-02-0055-PAA-EI issued in Docket No. 981246-EI which resulted in monthly accruals of	
29		\$6,543,602 (annual \$78,523,219) effective May 1, 2002.	
30		b. No change in the level of accrual was forecasted for the period 2005 and 2006. Any change in the	
31		authorized accrual approved by the Commission prior to the conclusion of the rate filing	
32		will need to be reflected in the test year cost of service.	
33	2	Storm and Property Damage Reserve	
34		The annual storm damage accrual in the filing has been increased to \$120 million beginning in 2006 to both replenish the reserve and reflect increased annual storm expense	
35			
36	G.	Total Line Losses	2006
37			6.49% of Net Energy for Load
38			
39	H.	Company Usage	2006
40			0.13% of Net Energy for Load
41			
42	I.	35% FEDERAL INCOME TAX RATE (REGULAR)	
43			
44	J.	5.5% STATE INCOME TAX RATE	
45			
46	K.	0.00072 REGULATORY ASSESSMENT FEE RATE (FPSC)	
47		Per Rule 25.0131, "Investor Owned Electric Company Regulatory Assessment Fee" in the Florida Administrative Code.	
48			
49	L.	2.50% GROSS RECEIPTS TAX RATE	
50		1.5% of the rate is included in base rates.	
51		1.0% is provided as a pass through to customers as provided in Florida Statute Chapter 203.	
52		The Company is proposing to combine the 1.5% and 1% Gross Receipts Tax Rate and separately report it on the customers bill.	

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 Solomon L. Stamm

Line No	(1)	(2)
1	IX M.	<b>4.49% FRANCHISE FEE RATE</b>
2		Percentage represents composite rate.
3		
4	N.	<b>PRIOR YEAR</b>
5		Year 2005 Forecast
6		
7	O.	<b>TEST YEAR</b>
8		Year 2006 Forecast
9		
10	P.	<b>HISTORICAL YEAR</b>
11		Year 2004
12		
13	Q.	<b>LAST MONTH OF HISTORICAL DATA</b>
14		August 2004
15		
16	R.	<b>MILLAGE RATE FOR PROPERTY TAXES</b>
17		2.048% is the overall millage rate used for historical, prior and test year.
18		
19	S.	<b>STATUTORY SALES TAX RATE</b>
20		6.0% is the statutory sales tax rate. This may be coupled with a sur-tax that is levied by the County from 1/2% up to 1 1/2%.
21		6.12% is the blended forecasted rate, based on 2003 actual payments.
22		
23	T.	<b>FEDERAL AND STATE UNEMPLOYMENT TAX RATES</b>
24		8.0% FUTA on the first \$7,000 of wage base per employee
25		26.0% SUTA on the first \$7,000 of wage base per employee
26		
27	U.	<b>FICA TAX RATES</b>
28		6.2% Social Security Tax on \$87,900 wage base for 2004 and on \$90,000 wage base for 2005, 2006, 2007.
29		1.5% Medicare tax on total compensation.

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