

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

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

JUNE 27, 2005

**In re: Petition for Rate Increase by
Florida Power & Light Company**

**DIRECT TESTIMONY AND EXHIBITS
OF STEPHEN A. STEWART**

ON BEHALF OF AARP

DOCUMENT NUMBER-DATE

06087 JUN 27 05

FPSC-COMMISSION CLERK

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2
3 TESTIMONY

4 OF

5 STEPHEN A. STEWART

6
7 **Q. Please state your name, address and occupation?**

8 A. My name Stephen A. Stewart. My address is 2904 Tyron Circle,
9 Tallahassee, Florida, 32309. I am testifying as a consultant for AARP in this
10 docket.

11 **Q. Please describe your educational background and business**
12 **experience?**

13 A. I graduated from Clemson University with a Bachelor of Science degree in
14 Electrical Engineering in December 1984. I received a Master's degree in
15 Political Science from Florida State University in August 1990.

16 From January 1985 until October 1988, I was employed by Martin
17 Marietta Corporation and Harris Corporation as a Test Engineer. In July 1989, I
18 accepted an internship with the Science and Technology Committee in the Florida
19 House of Representatives. Upon expiration of the internship I accepted
20 employment with the Office of the Auditor General in August 1990, as a program
21 auditor. In this position I was responsible for evaluating and analyzing public
22 programs to determine their impact and cost-effectiveness.

23 In October 1991, I accepted a position with the Office of Public Counsel
24 ("Public Counsel") with the responsibility for analyzing accounting, financial,

1 statistical, economic and engineering data of Florida Public Service Commission
2 (“Commission”)-regulated companies and for identifying issues and positions in
3 matters addressed by the Commission. I left the Public Counsel in 1994 and
4 worked as a consultant for the Florida Telephone Association for one year.

5 Since 1995 I have been employed by two privately held companies,
6 United States Medical Finance Company (“USMED”) and Real Estate Data
7 Services Inc. I worked with USMED for approximately four years as Director of
8 Operations. I founded Real Estate Data Services in 1999 and I am currently its
9 President and CEO.

10 Over the last ten years I have also worked for the Public Counsel on a
11 number of utility related issues.

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

13 A. I am appearing on behalf of AARP in opposition to FPL’s request for a
14 rate increase. More specifically, I address five issues, which, taken alone, I
15 believe demonstrate Florida Power & Light Company’s (“FPL’s”) requested
16 annual rate increase of \$430.2 million is unreasonable and should be denied. The
17 first FPL request that should be dismissed is the \$100 million a year it is asking
18 the Commission to require its customers to pay to support FPL’s participation in
19 the GridFlorida Regional Transmission Organization (“RTO”). Without regard
20 to whether GridFlorida will ever be implemented or whether it will be cost-
21 effective if implemented, GridFlorida is not now operational and FPL has failed
22 to support the “costs” it alleges it has in connection with the RTO as being
23 reasonable, necessary and prudent in producing electricity. Next, I believe

1 another large portion of FPL's increase should be dismissed because it is related
2 to an excessive requested return on equity ("ROE"). The excessiveness of FPL's
3 ROE request consists of two elements: (1) the base mid-point ROE request of
4 11.8 percent is excessive as compared to what this Commission has historically
5 granted, and (2) the additional 50 basis points requested as a "ROE Performance
6 Incentive" appears unwarranted. Eliminating the 50 basis point reward will
7 remove \$50 million of FPL's request and setting rates on a mid-point ROE of
8 10.38 percent (the maximum I believe supported by Commission precedent) will
9 reduce the annual revenue increase by approximately another \$140 million, for a
10 total annual revenue reduction related to ROE of \$190 million. I hasten to add
11 that my 10.38 percent recommendation is a maximum ROE (MROE) based on an
12 analysis of the relationship between public utility bond yields and the
13 Commission's ROE awards over the last 25 years. For purposes of an actual
14 current required ROE, AARP supports the 8.8 percent ROE testified to by Public
15 Counsel's cost of equity expert, Dr. Woolridge.

16 I next address the analysis of FPL witness Steven Harris, which is used to
17 support the utility's request for an annual storm accrual of \$120 million. I
18 provide an analysis using historic storm costs and various annual accrual levels to
19 evaluate the corresponding levels for FPL's Storm Reserve Fund. My analysis
20 indicates that an increase in the accrual is warranted but that a reasonable and
21 acceptable annual accrual for FPL would be \$40 million, not the \$120 million
22 requested by FPL.

1 Lastly, I believe the Commission should treat FPL's very significant
2 depreciation reserve surplus in a manner consistent with the way it has historically
3 handled depreciation reserve deficiencies. That is, the Commission should
4 rebalance, or correct, the depreciation reserve by flowing back the surplus to the
5 benefit of customers over five years – as it often has with deficiencies – as
6 opposed to over the remaining lives of the associated assets. Using just the
7 utility's reported surplus of \$1.6 billion and a five year rebalancing period, would
8 result in reducing FPL's requested annual revenues by hundreds of millions of
9 dollars, which, in conjunction with AARP's other suggested adjustments, would
10 defeat any revenue increase and result in a net reduction in FPL's retail rates.

11 **Q. Are the revenue reductions you testify to intended to be the total**
12 **reductions supported by AARP?**

13 A. No. My testimony is intended to demonstrate to the Commission that
14 analysis of just five areas of FPL's request is sufficient to suggest that the utility
15 should be entitled to no permanent rate increase. It is my understanding that the
16 complete and thorough analysis of FPL's filing by Public Counsel will result in
17 Public Counsel recommending a substantial reduction in FPL's base rates and that
18 AARP will support all of Public Counsel's adjustments.

19
20 **GRIDFLORIDA**

21 **Q. What is AARP's position with regards to FPL's request to recover**
22 **expenses associated with GridFlorida?**

1 A. AARP's position is that it is premature for FPL to recover expenses
2 associated with GridFlorida. Mr. Mennes, the FPL witness on this issue, states
3 that GridFlorida is a "proposed RTO" for Florida and bases the utility's requested
4 cost recovery entirely on estimates. His "support" for this \$100 million a year
5 request is contained in just three pages of testimony and two one-page exhibits.
6 In addition, there are no formal documents provided by FPL indicating when this
7 proposed RTO will become operational. In fact, it has yet to be determined if the
8 proposed RTO is actually cost-beneficial and ever will be implemented. Despite
9 the eventual cost-effectiveness of GridFlorida, it is AARP's position that FPL has
10 simply failed to prove that expenses associated with the RTO are real and that any
11 known expenses are recurring and should properly be included in rates at this
12 time.

13 **Q. Do any other Florida investor-owned electric utilities have a**
14 **component of base rates allocated to expenses associated with GridFlorida?**

15 A. No, not that I am aware of. In fact, Progress Energy Florida ("PEF") has
16 filed for rate relief in Docket No. 050045-EI and GridFlorida cost recovery is not
17 a component of its requested increase. More specifically, at Page 10 of its
18 Petition, which was filed on April 29, 2005, PEF said the following with respect
19 to GridFlorida:

20 19. By this Petition, PEF has not requested the recovery of any
21 post commercial in-service costs resulting from its participation in
22 the GridFlorida regional transmission organization pursuant to the
23 Federal Energy Regulatory Commission ("FERC") transmission

1 independence initiative and this Commission's Order No. PSC-01-
2 2489-FOF-EI in Docket No. 000824-EI directing the investor-
3 owned utilities in Florida to file a proposed Independent System
4 Operator structure. The timing and nature of GridFlorida has not
5 enabled PEF to determine when and the extent to which
6 contributions will be required and, therefore, the Company has not
7 included any such costs in its MFRs. The Company reserves the
8 right to seek recovery of such costs at a later time and in any
9 manner appropriate for recovery, including this proceeding if
10 necessary, when the Company is better able to identify and
11 quantify the costs.

12 (Emphasis supplied.)

13 I am not aware that PEF has filed a supplemental request identifying GridFlorida
14 costs it is seeking in its base rates revenue request nor am I aware of any
15 proceedings in this Commission's GridFlorida docket that would make Grid
16 Florida's implementation a certainty justifying any rate increases associated with
17 the RTO, let alone in the amount of \$100 million a year.

18 19 RETURN ON EQUITY

20 **Q. Do you consider yourself to be an "expert" on either cost of capital or**
21 **return on equity and are you testifying to a recommended ROE number on**
22 **behalf of AARP?**

1 A. No, I do not consider myself to be an expert on either cost of capital or
2 return on equity matters and I am not offering an opinion on what the current
3 required ROE is. As I said earlier, AARP adopts the ROE recommendation of
4 Public Counsel witness Dr. Woolridge of 8.8 percent. The number I am offering,
5 10.38 percent, is what I believe should be the ceiling, or absolute maximum, the
6 Commission should grant FPL as a mid-point for setting rates in this case. This
7 recommendation is based on my analysis indicating that the Commission's ROE
8 awards over the last 25 years in major electric utility cases have had a strong and
9 consistent relationship to the average public utility bond yields at the time of the
10 Commission's ROE decisions. While I believe the Commission should consider
11 ROE testimony in the traditional manner, I also believe my analysis provides a
12 reasonable basis for determining the maximum ratesetting ROE (MROE) the
13 Commission should approve in this case if it is to remain consistent with its
14 precedents of the last 25 years.

15 **Q. Why do you believe your analysis provides a reasonable basis for the**
16 **ROE award the Commission should ultimately approve in this case?**

17 A. The Commission has never to my knowledge awarded a utility a ROE for
18 ratesetting purposes that was exactly what was testified to by an expert by either
19 the utility or customer intervenors. Rather, typically there is a relatively large
20 spread between the ROE testified to by the experts and usually the Commission
21 makes an award that is somewhere within the range testified to by the experts.
22 For example, in this case Mr. Avera for FPL has testified to an 11.8 percent ROE,
23 excluding the efficiency reward, and I am told Dr. Woolridge for the Public

1 Counsel will testify to a ROE of 8.8 percent resulting in a spread between these
2 two witnesses of 300 basis points.

3 Tracking the Commission's ROE awards over the years relative to the
4 experts' recommendations, I was curious as to whether the Commission's
5 decisions bore some discernable relationship to published economic or financial
6 indicators. I believe I found one that does.

7 Using public utility bond yield data from FPL witness Avera's testimony,
8 I have constructed a methodology, which I believe reveals a strong and consistent
9 relationship between average public utility bond yields and the equity awards the
10 Commission has made in major electric cases over the last 25 years.

11 **Q. Describe the methodology used to support your MROE**
12 **recommendation.**

13 A. There are four stages to the methodology I employed to analyze the
14 MROE for FPL. First, I developed a regression model of the relationship between
15 the average public utility bond yield and the allowed ROE in major rate case
16 decisions across the United States over the period 1980 to 2004. A table of this
17 data, the regression statistics, and the components of the regression model is in
18 Document SAS-1. As indicated on my exhibit, I took the "allowed ROE"
19 numbers in Column 2 and the "average public utility bond yields" in Column 3
20 from Mr. Avera's Document WEA-6, Page 1 of 2.

21 Second, I researched and tabulated the Commission's ROE decisions for
22 FPL since 1981. This tabulation is in columns 1, 2, & 3 in the table in Document
23 SAS-2.

1 Third, I used the regression model from the first stage of my analysis to
2 develop ROE estimates for the years that the Commission awarded an ROE to
3 FPL. These estimates are in column 5 (Model Generated ROE) of the table in
4 Document SAS-2. I compared the model estimates to the Commission's
5 decisions in columns 6 and 7 in the table in Document SAS-2.

6 Fourth, I used the model to estimate what the MROE would be based on
7 the average public utility bond yields for the most recent 6 months of reported
8 data. This calculation is located at the bottom of Document SAS-2 for FPL.

9 **Q. Please describe your findings?**

10 A. In the first stage, I developed a regression model using data between 1981
11 and 2004. The model, detailed in Document SAS-1, provides an algorithm which,
12 based on the R-square value (the closer the R-square is to 1.0, the more the
13 variation is explained by the model), demonstrates a strong relationship between
14 the average public utility bond yield and allowed ROE's. These findings indicate
15 the average public utility bond yield is a strong predictor of allowed ROE's over
16 the period of the analysis.

17 In the third stage I used the regression model to develop an estimate of the
18 ROE for FPL during the various time periods the Commission assigned an actual
19 allowable ROE. These estimates were based on the corresponding average public
20 utility bond yield when each of the awards was made. I compared these estimates
21 with the actual ROE's allowed by the Commission. The findings indicate that the
22 model does a remarkably good job of predicting the Commission-allowed ROE.
23 Column 6 in the table in Document SAS-2 shows the difference between the

1 model generated ROE and the FPSC allowed ROE. I have also included a chart
2 in Document SAS-3 that plots the Commission-allowed ROE's and the regression
3 model estimates. The plot supports the finding that the regression model was very
4 successful in predicting the ROE decisions of the Commission.

5 In the fourth stage I used the regression model to estimate the MROE,
6 using the available public utility bond yield data for the most recent six months.
7 The MROE was calculated to be 10.38%. In a variation of the chart in Document
8 SAS-4, I created another chart and added the MROE estimate and the FPL
9 requested ROE as data points. Referring to this chart in Document SAS-4, the
10 MROE estimate follows the downward trend line beginning in 1985. The FPL
11 requested ROE varies significantly from that trend line.

12 These findings indicate that for the Commission to be consistent with its
13 prior decisions, and absent other well-defined mitigating factors, the *maximum*
14 ROE that should be allowed for ratesetting purposes in this case is 10.38%.

15 **Q. Did you complete any other analysis?**

16 A. Yes. I wanted to verify that the regression model I used was reliable. So I
17 gathered ROE data for all of this Commission's ROE decisions over the last
18 twenty-five years for the four major Florida investor-owned electric utilities and
19 developed a model using the same average public utility bond yield data I
20 employed in the first model. The tabulation of the data, the regression statistics,
21 and the components of the regression model is in Document SAS-5. The results
22 were almost identical, although this model did have a higher R-squared value.

1 This result validates the first model I developed and provides additional support
2 for my recommendation.

3 **Q. Please summarize AARP's position on the appropriate ROE for FPL.**

4 A. AARP adopts the ROE recommendation of the Public Counsel witness
5 Woolridge of 8.8 percent. However, if the Commission should not accept this
6 recommendation, I have provided on behalf of AARP, an analysis based on prior
7 Commission decisions indicating that the *maximum* ROE the Commission should
8 consider allowing in this case is 10.38%. Such an adjustment would necessarily
9 reduce FPL's requested annual revenue increase by \$140 million (using FPL
10 witness Dewhurst's calculation that 50 basis points equates to approximately \$50
11 million in revenue requirements) as compared to the utility's base ROE request of
12 11.8 percent.

13
14 **ROE PERFORMANCE INCENTIVE**

15 **Q. What is your understanding of the ROE Performance Incentive**
16 **requested by FPL in this case?**

17 A. FPL witness Mr. Moray Dewhurst states at Page 20 of his testimony that
18 "the purpose of the incentive is to recognize FPL's past superior performance and
19 to encourage continued strong operational performance over the long-term." He
20 adds at Pages 25-26 that the 50 basis performance incentive FPL is seeking
21 "equates to approximately \$50 million in revenue requirements."

22 **Q. What is AARP's position on the Commission granting FPL an**
23 **additional \$50 million a year through higher customer rates in order to**

1 **recognize its past superior performance and to encourage its strong**
2 **operational performance in the future?**

3 A. AARP's position is that the Commission should deny the requested \$50
4 million incentive. First, as Mr. Dewhurst noted in his testimony, FPL has been
5 receiving an incentive for its past performance through the "revenue-sharing"
6 plans included in the settlement agreements approved by the Commission in 1999
7 and 2002. It would appear unfair to customers for FPL to be rewarded a second
8 time for its past performance if, indeed, it has already been recognized through
9 the revenue-sharing plans. Secondly, AARP takes the position that FPL has a
10 statutory obligation to provide "efficient" service to its monopoly customers and
11 that the Commission's traditional equity awards are more than adequate to
12 compensate the utility's shareholders, especially given the continuing reduction of
13 risks they are exposed to.

14 **Q. What is the statutory obligation you refer to?**

15 A. Section 366.03, Florida Statutes, provides, in part:

16 366.03 General duties of public utility.--Each public utility shall
17 furnish to each person applying therefore reasonably sufficient,
18 adequate, and efficient service upon terms as required by the
19 commission. **(Emphasis supplied.)**

20 **Q. What are you referring to with respect to the basic equity return**
21 **being adequate especially given the reduced level of risk exposure?**

22 A. What I am referring to is that electric utilities regulated by this
23 Commission now have a very large percentage of their revenues that are subject

1 to 100 percent cost recovery through rates with the result that shareholders are not
2 subject to risk of loss when these various costs experience increases. Examples
3 include fuel cost expenses, conservation cost recovery expenses, environmental
4 compliance costs, many security related costs and an apparently strong likelihood
5 now that electric utilities will be held entirely harmless for storm damage
6 occurring between rate cases when the costs of repairs exceed their storm damage
7 reserves. In short, the “risk” of utility shareholders seeing their profits diminished
8 by increases in a large number of the costs of providing service is substantially
9 less than it was previous to these cost recovery clauses. Arguably FPL’s
10 requested ROE should be lower to account for the reduced risks but I do not recall
11 that Mr. Avera recommended such a reduction. AARP’s position is that the
12 Commission should not give FPL a \$50 million a year incentive over and above
13 what it would consider fair and reasonable rates to spur it to operate efficiently.

14 **STORM ACCURAL**

15
16 **Q. Please summarize Mr. Harris’s recommendation for the annual storm**
17 **accrual.**

18 A. Mr. Harris’ Loss Analysis concluded that the expected annual uninsured
19 cost to FPL’s system from all windstorms is estimated to be \$73.7 million. In
20 addition, the analysis indicates that an accrual level of \$120 million would result
21 in an expected Storm Reserve Balance of \$367 million and a probability of
22 insolvency of 8% at the end of a five-year time horizon. The current annual
23 accrual to the Storm Reserve Fund is approximately \$20 million.

1 **Q. Did you complete an analysis on the issue of the proper level of the**
2 **annual accrual for the Storm Reserve Fund?**

3 A. Yes. I developed a table, shown in Document SAS-6, to determine what
4 the impact on the Storm Reserve Fund would have been if Mr. Harris' proposal
5 had been implemented in 1990. In column 2 of the table I have listed the annual
6 storm costs incurred by FPL due to storms. Column 3 in the table shows the
7 actual balance of the Storm Reserve Fund for every year since 1990. Column 4 in
8 the table shows the balance of the Storm Reserve Fund for every year since 1990
9 assuming a \$120 million annual accrual and the recovery of a negative balance
10 over a two year period. The table shows that the balance after the hurricane
11 season of 2004 would have been \$ 745.5 million.

12 **Q. What other analysis did you complete.**

13 A. Using the same approach, I calculated what the balance in the Storm
14 Reserve Fund would be given various annual accrual amounts. For example,
15 Column 5 shows that an annual accrual of \$80 million would have resulted in a
16 Storm Reserve Balance at the end of 2004 of \$150.9 million. For an annual
17 accrual of \$40 million, the Storm Reserve Balance at the end of 2004 is
18 calculated to have a deficit of \$369.7 million.

19 **Q. How do you think this Commission should determine the proper**
20 **annual accrual for FPL in this case?**

21 A. The decision made by this Commission should be based on what is viewed
22 as an acceptable balance in the Storm Reserve Fund. It is my view that the annual
23 accrual should not be set so that the Storm Reserve Fund will cover expenses

1 associated with extraordinary events, such as Hurricane Andrew and the hurricane
2 season of 2004. Rather, the accrual should be set to cover normal recurring storm
3 costs.

4 **Q. How does your analysis help the Commission reach their decision?**

5 A. The analysis I have provided will allow the Commission to review the
6 yearly balances based on varying levels of annual accrual. For example the
7 Commission can look at the levels of the Storm Reserve Fund in 2003 to get an
8 idea of what accrual level would be the most appropriate. In 2003, the Storm
9 Reserve Fund balance would have been \$1.480 billion assuming an accrual of
10 \$120 million, \$953.7 million for an accrual of \$80 million and \$497 million for an
11 accrual of \$40 million. I believe the analysis indicates that the FPL request of
12 \$120 million would result in an over funding of the Storm Reserve Fund.

13 **Q. Based on this analysis, what is your recommendation for an annual**
14 **accrual level?**

15 A. I would recommend an annual accrual of \$40 million. Absent
16 extraordinary events, history shows that this annual accrual coupled with the
17 recovery of a negative balance over a two-year period will adequately fund the
18 FPL Storm Reserve.

19
20 **DEPRECIATION RESERVE SURPLUS**

21 **Q. What is your understanding of FPL's depreciation reserve surplus**
22 **and what position does AARP take on how it should be addressed?**

1 A. First, let me state that AARP supports the Office of Public Counsel's
2 determination that the depreciation reserve surplus is significantly larger than
3 reported in FPL's depreciation study. Specifically, AARP adopts the Office of
4 Public Counsel's position that the depreciation reserve surplus is, in fact, \$2.4
5 billion. However, even if the Commission were to accept the FPL-reported
6 surplus of \$1.6 billion, treating that surplus consistently with the Commission's
7 prior treatment of depreciation deficiencies would necessarily result in a
8 substantial reduction of the utility's expenses and a net rate decrease if AARP's
9 other requested adjustments are accepted.

10 **Q. How are you recommending that the Commission address the**
11 **depreciation reserve surplus?**

12 A. As I said, I am recommending that the Commission treat the depreciation
13 reserve surplus in the same manner it has historically addressed depreciation
14 reserve deficits. From my review of this Commission's prior orders addressing
15 adjustments to depreciation reserve accounts, it appears that the Commission has
16 repeatedly allowed the electric utilities to recover depreciation reserve
17 deficiencies over as few as three to five years and not made the utilities wait to
18 collect the deficiencies over the remaining lives of the related assets. This
19 treatment necessarily caused a greater increase in allowable expenses as compared
20 to the remaining life option. So, if a utility were requesting rate relief in
21 conjunction with a depreciation reserve "correction," rebalancing, or correcting
22 the reserve, over three to five years would increase allowable expenses and with
23 them the revenue requirement and rates. Between rate cases, an adjustment over

1 three to five years would, as opposed to the remaining life option, pull down
2 reported earnings without affecting cash flow. Obviously increasing depreciation
3 expense and reported profits would be more important during periods in which a
4 utility was over earning or close to its profit ceiling. Simple fairness should
5 require the Commission to use the shorter period of years to reduce revenue
6 requirements to the advantage of FPL's customers if it has repeatedly used the
7 shorter term to increase required revenues to the advantage of the utility.

8 **Q. Aside from consistency with its treatment of past depreciation reserve**
9 **deficiencies, what advantages do you see from correcting the reserve position**
10 **over a shorter period of years?**

11 A. I think the advantage to consumers is that it gives current customers the
12 benefit of the return of the depreciation expense overpayments they have made
13 and avoids the intergenerational inequity necessarily associated with correcting
14 the reserve over the remaining lives of the related assets. Fundamentally,
15 however, the Commission should be consistent in its treatment of this issue
16 regardless of what direction a correction is required.

17 **Q. Why are you suggesting correcting the depreciation reserve surplus**
18 **over five years?**

19 A. To be consistent with the number of years often used by this Commission
20 when addressing depreciation reserve deficiencies. It appears that five years is
21 the longest period of years typically used by the Commission when correcting
22 depreciation reserve deficiencies.

1 **Q. Are you recommending a specific revenue adjustment related to the**
2 **depreciation reserve surplus?**

3 A. No I am not. I have not attempted to calculate the overall revenue impact,
4 which necessarily would include a related increase in rate base. The adjustment
5 would depend on the surplus found by the Commission based on the record, as
6 well as the number of years used to make the correction. Again, I am
7 recommending a five year correction because it is consistent with this
8 Commission's precedents in treating reserve deficiencies.

9 **Q. What is the total revenue reduction you are recommending from your**
10 **five adjustments?**

11 A. A total of \$370 million from the first four, consisting of \$100 million
12 requested for FPL's RTO participation, \$50 million associated with the ROE
13 Performance Incentive, \$140 million associated with the recommended reduction
14 from 11.8 percent to my MROE of 10.38 percent and \$80 million for the
15 reduction in FPL's requested annual storm accrual. The depreciation reserve
16 surplus adjustment will necessarily reduce FPL's allowable expenses by an
17 additional several hundred million dollars a year and, thus, turn its remaining
18 positive revenue increase case into a rate reduction case.

19 **Q. Do you believe that these are the only downward adjustments**
20 **necessary to FPL's request?**

21 A. No. This total is only related to the five items I have discussed in my
22 testimony. AARP plans to adopt the other downward adjustments proposed by
23 the Office of Public Counsel.

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

2 A. Yes.

REGRESSION MODEL – UNITED STATES

YEAR	ALLOWED ROE	AVE. PUBLIC UTILITY BOND YIELD
1980	14.23	13.15
1981	15.22	15.62
1982	15.78	15.33
1983	15.36	13.31
1984	15.32	14.03
1985	15.20	12.29
1986	13.93	9.46
1987	12.99	9.98
1988	12.79	10.45
1989	12.97	9.66
1990	12.70	9.76
1991	12.55	9.21
1992	12.09	8.57
1993	11.41	7.56
1994	11.34	8.30
1995	11.55	7.91
1996	11.39	7.74
1997	11.40	7.63
1998	11.66	7.00
1999	10.77	7.55
2000	11.43	8.14
2001	11.09	7.72
2002	11.16	7.50
2003	10.97	6.61
2004	10.73	6.20

Regression Statistics

Multiple R	0.95367
R-Square	0.90949
Adjusted R-Square	0.90556
Standard Error	0.51289
Observations	25

Regression Model

	<u>Coefficient</u>	<u>Standard Error</u>
Intercept	7.0766	0.3801
X Variable	0.578	0.0380

NOTES:

Data on authorized rates of return and average public utility bond yield taken from Document WEA-6, Page 1 of 2 of W. Avera's exhibit in this case.

ANALYSIS OF FPL ROE DECISIONS

1	2	3	4	5	6	7
YEAR	DATE OF ORDER	FPSC ALLOWED ROE (a)	PUBLIC UTILITY BOND YIELD(b)	MODEL GENERATED ROE	DIFF. BETWEEN FPSC & MODEL	PERCENT DIFF. BETWEEN FPSC & MODEL
1981	9/23/81	15.85	15.62	16.10	-0.255	-1.61%
1982	12/22/82	15.85	15.33	15.94	-0.087	-0.55%
1984	7/24/84	15.60	14.03	15.19	0.414	2.65%
1985	1/16/85	15.60	14.03	15.19	0.414	2.65%
1991	1/16/91	12.80	9.76	12.72	0.082	0.64%
1993	7/16/93	12.00	7.56	11.45	0.554	4.61%
1999	3/17/99	11.00	7.00	11.12	-0.123	-1.10%

MAXIMUM RETURN ON EQUITY ESTIMATE (MROEE)

$$\text{MROEE} = 7.0766 + 0.578 * (\text{APUBY})(c)$$

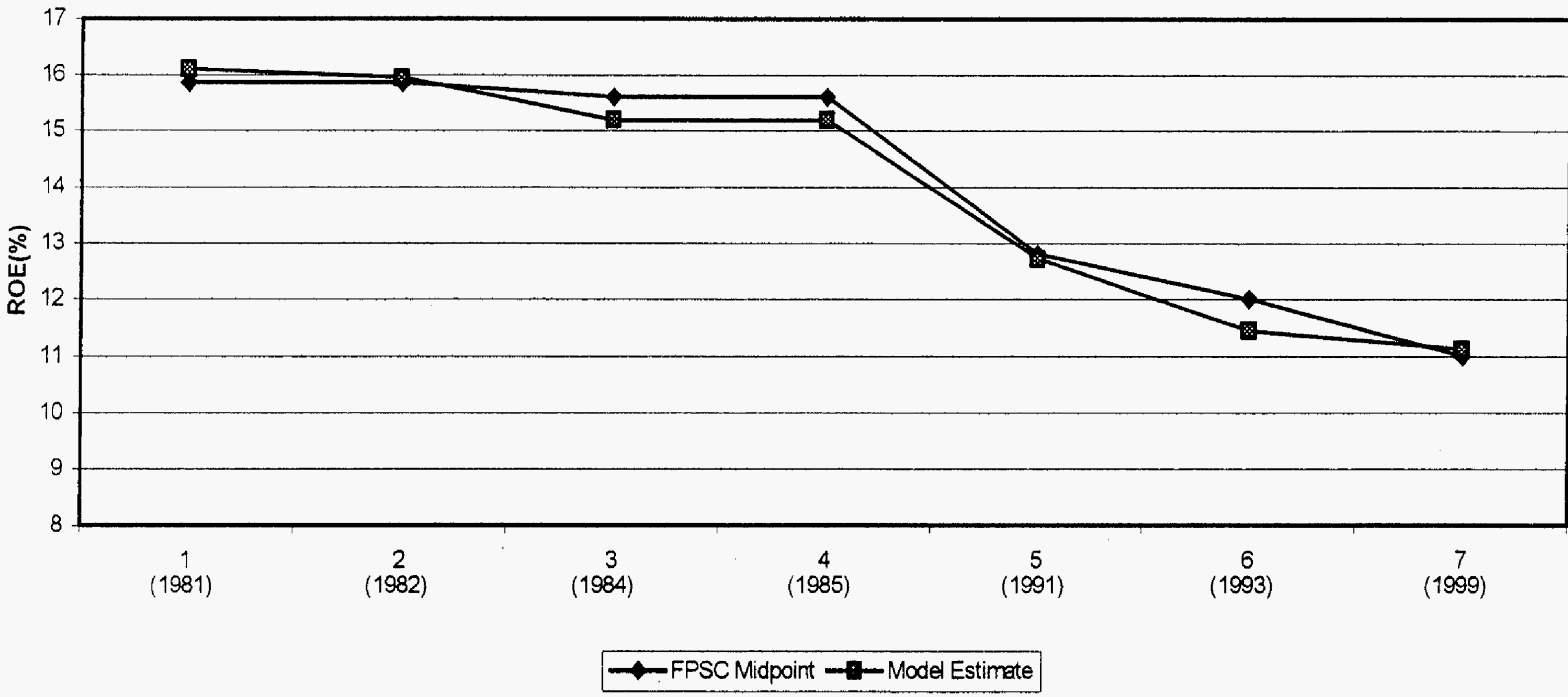
$$\text{MROEE} = 7.0766 + 0.578 * (5.8)$$

$$\text{MROEE} = 10.4\%$$

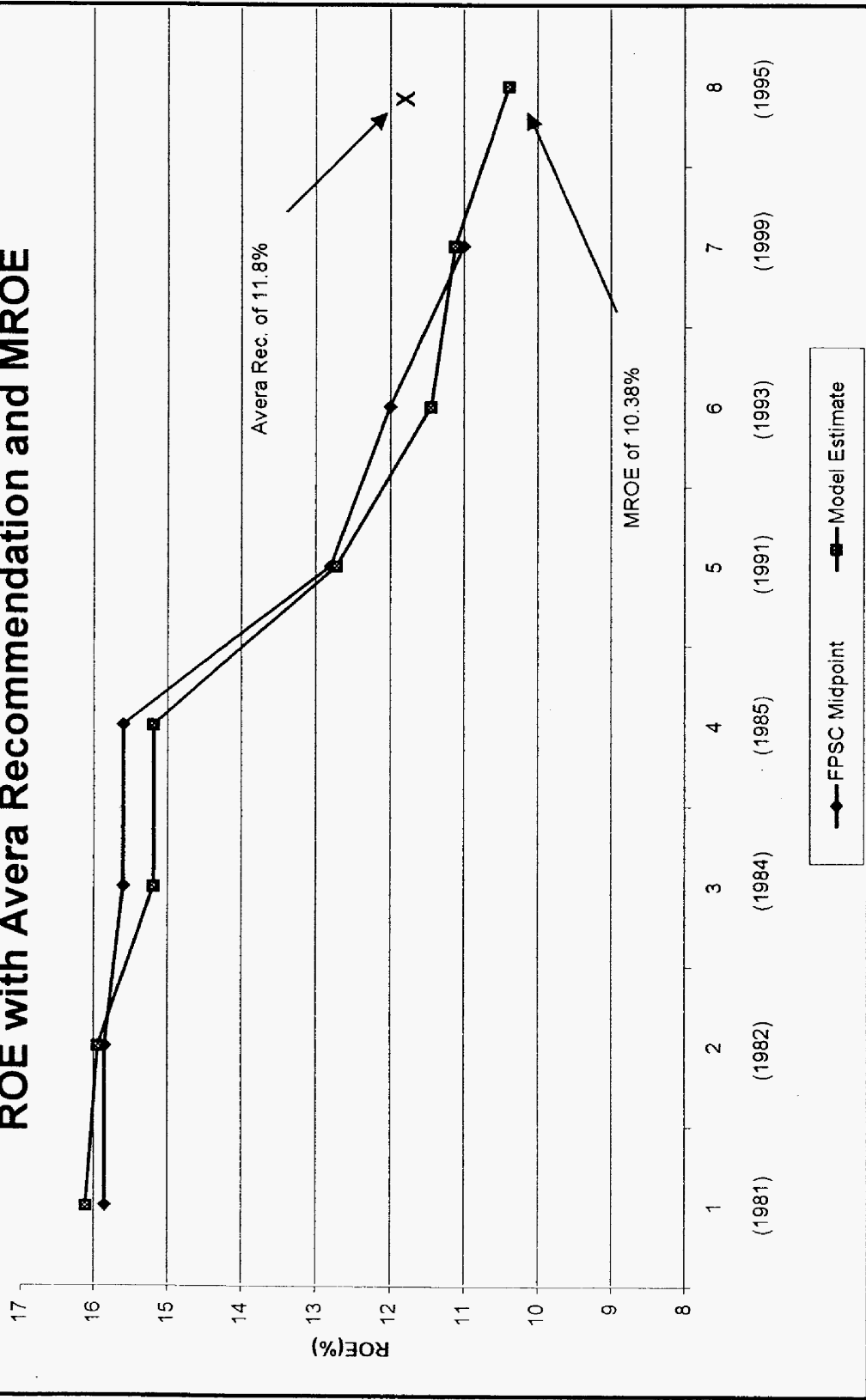
Notes:

- (a) FPSC ALLOWED ROE taken from FPSC orders.
- (b) A six-month lag was employed to determine the appropriate APUBY.
- (c) Average Public Utility Bond Yield used in MROEE model was 5.8%.

Comparison of Approved FPSC and Model Generated ROE



Comparison of Approved FPSC and Model Generated ROE with Avera Recommendation and MROE



REGRESSION MODEL – FLORIDA SPECIFIC

ORDER DATE	ALLOWED ROE	AVE. PUBLIC UTILITY BOND YIELD
10/1/80	14.5	13.15
3/1/81	14.75	13.15
4/1/81	15.85	15.62
7/1/82	15.85	15.33
11/1/82	15.75	15.33
12/1/82	15.85	15.33
1/1/83	15.85	15.33
2/1/83	15.85	15.33
11/1/83	15.5	13.31
10/1/84	15.55	14.03
12/1/84	15.6	14.03
1/1/85	15.6	14.03
1/1/85	15.6	14.03
12/1/85	14.5	12.29
11/1/86	12.5	9.46
1/1/88	12.6	9.98
10/1/90	12.05	9.76
1/1/91	12.8	9.76
3/1/92	12.5	9.21
10/1/92	12	8.57
2/1/93	12	8.57
5/1/93	12	8.57
7/1/93	12	7.56
3/1/94	11.35	7.56
5/1/95	11.75	8.3
3/1/99	11	7.55
6/2/02	12	7.5

Regression Statistics

Multiple R	0.98368
R-Square	0.96764
Adjusted R-Square	0.96635
Standard Error	0.33262
Observations	27

Regression Model

	<i>Coefficient</i>	<i>Standard Error</i>
Intercept	7.0437	0.2559
X Variable	0.5852	0.0214

ANALYSIS OF STORM RESERVE FUND

STORM RESERVE BALANCE SCENARIOS

1	2	3	4	5	6
YEAR	ACTUAL EXPEND.	ACTUAL BALANCE	\$120 MILL. ANN. ACC.	\$80 MILL. ANN. ACC.	\$40 MILL. ANN. ACC.
1990	\$0.0	\$62.1	\$145.0	\$116.0	\$86.9
1991	\$1.3	\$87.3	\$261.4	\$200.6	\$139.8
1992	\$445.0	\$72.1	-\$99.2	-\$194.2	-\$289.3
1993		\$81.7	\$40.6	-\$45.4	-\$95.2
1994		\$96.4	\$191.5	\$111.6	\$77.2
1995		\$178.0	\$360.9	\$243.1	\$173.1
1996	\$4.0	\$221.2	\$484.1	\$330.1	\$226.4
1997	\$1.1	\$251.2	\$614.2	\$416.9	\$272.2
1998	\$27.6	\$258.5	\$724.6	\$481.2	\$293.1
1999	\$57.8	\$218.3	\$811.3	\$518.7	\$284.1
2000	\$17.6	\$230.2	\$948.2	\$602.7	\$318.1
2001	\$27.2	\$234.7	\$1,085.2	\$683.0	\$344.8
2002	\$3.4	\$296.3	\$1,292.6	\$830.3	\$435.2
2003		\$327.6	\$1,480.0	\$953.7	\$497.9
2004	\$890.0	-\$535.9	\$745.5	\$150.9	-\$369.7

NOTES:

YEARLY BALANCES REFLECTED IN COLUMNS 4,5, & 6 TAKE INTO ACCOUNT INFLATION, FUND EARNINGS, AND OTHER ADJUSTMENTS DOCUMENTED BY FPL.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing

Document has been furnished electronically and by United States Mail this 27th day of June,

2005, to the following:

Wm. Cochran Keating, IV, Esquire
Katherine E. Fleming, Esquire
Florida Public Service Commission
Division of Legal Services
Gerald L. Gunter Building
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Harold A. McLean, Esquire
Charles J. Beck, Esquire
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400

John W. McWhirter, Esquire
c/o McWhirter Reeves, P.A.
400 North Tampa Street, Suite 2450
Tampa, Florida 33602

Timothy J. Perry, Esquire
McWhirter Reeves, P.A.
117 South Gadsden Street
Tallahassee, Florida 32301


David Brown, Esquire
McKenna Long & Aldridge LLP
One Peachtree Center
303 Peachtree Street, N.E., Suite 5300
Atlanta, Georgia 30308

R. Wade Litchfield, Esquire
Natalie F. Smith, Esquire
Florida Power & Light Company
700 Universe Boulevard
Juno Beach, Florida 33408

Robert Scheffel Wright, Esquire
John T. LaVia, III, Esq.
Landers & Parsons, P.A.
310 West College Avenue
Tallahassee, Florida 32301

Major Craig Paulson, Esquire
AFCESA/ULT
139 Barnes Drive
Tyndall Air Force Base, Florida 32403

Mark F. Sundback, Esquire
Gloria J. Halstead, Esquire
Andrews & Kurth LLP
1701 Pennsylvania Avenue, NW
Suite 300
Washington, D.C. 20006


Attorney