ORIGINAL

BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 060038-EI
FLORIDA POWER & LIGHT COMPANY

IN RE: FLORIDA POWER & LIGHT COMPANY'S PETITION FOR ISSUANCE OF A STORM RECOVERY FINANCING ORDER

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JANUARY 13, 2006

DIRECT TESTIMONY & EXHIBITS OF:

K. MICHAEL DAVIS

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF K. MICHAEL DAVIS

DOCKET NO. XXXXX-EI

JANUARY 13, 2006

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

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

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

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

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

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

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

A. I graduated from the University of Florida in 1968 with a Bachelor of Science degree in Business Administration, with a major in Accounting. In that same year I was employed by Deloitte Haskins & Sells (DH&S), Independent Public Accountants, (presently Deloitte & Touche). I was promoted to manager in 1976 and was elected a Partner in 1981. During my tenure with DH&S I participated in engagements involving services to a number of diverse industry groups including the utility industry. In addition, I was responsible for handling accounting questions concerning the utility industry during a three-year assignment in the DH&S executive office in New York. In December 1988, I was employed by FPL as comptroller. On July 1, 1991, I accepted my current position as Vice President, Controller and Chief Accounting Officer. I am a Certified Public Accountant in the State of Florida, and a member of the American Institute of Certified Public Accountants and the Florida Institute of Certified Public Accountants. I am a member and past chairman of the Accounting Executive Advisory Committee of the Edison Electric Institute (EEI) which is composed of Chief Accounting Officers from utilities that are members of EEI. The Committee oversees the activities of the various accounting committees of EEI and advises senior EEI committees on accounting issues. It meets annually with the Financial Accounting Standards Board to discuss accounting issues of interest to the membership and approves all comment letters issued by EEI on accounting matters.

Q. Are you sponsoring an exhibit in this case?

A. Yes, I am sponsoring an exhibit consisting of nine documents, KMD-1 through KMD-9 which is attached to my direct testimony.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to:

- Provide the revenue requirement calculations for FPL's primary and alternative recommendations for storm cost recovery;
- Identify the total costs incurred for the 2004 and 2005 storms;
- Present the estimated amount of storm-recovery costs proposed for storm-recovery financing as of July 31, 2006;
- Discuss the amount of 2005 storm costs to be recovered for the Power Generation Division (FPL's fossil plant sites), and Other FPL Facilities (Corporate facilities and the Indiantown Central Distribution Facility);
- Discuss the methodology the Company recommends be used in determining the amount of 2005 storm-recovery costs to be recovered;
- Discuss the accounting processes and controls in place for capturing and recording the costs related to storm restoration activities;
- Propose a form to be used for the Storm Charge true-up mechanism; and
- Present the accounting entries that will be required for the proposed storm-recovery financing.

BACKGROUND

Q. What is the history of FPL's Storm Damage Reserve (the Reserve)?

A. The Reserve was created in 1946, and became a funded Reserve in 1958. The Reserve (Account 228.1) was established pursuant to Rule 25-6.0143, Florida Administrative Code. FPL has increased the Reserve by the amounts authorized by the Florida Public Service Commission (the Commission). In addition, the Reserve has been increased by the earnings from investments held in the related fund. The Reserve has been reduced by amounts associated with repairing damage caused by hurricanes and other named storms. Accordingly, FPL's customers have benefited from the existence of the Reserve. It was the catastrophic nature of the three hurricanes experienced in 2004 that depleted the entire Reserve and created a deficit.

Q. **How did FPL address the Reserve deficit resulting from the 2004 storm season?**

A. The Company petitioned the Commission for recovery of its prudently incurred storm costs that exceeded the then existing Reserve balance. The Commission approved the recovery of the deficit balance resulting from the 2004 storm season through the current storm restoration surcharge in Order No. PSC-05-0937-FOF-EI, Docket No. 041291-EI (the 2004 Storm Cost Recovery Order).

Q. **Since the 2004 storm season, have any other methods become available for recovering and financing storm costs?**

A. Yes. Effective June 1, 2005, the Florida Legislature enacted a comprehensive storm-recovery financing statute, Section 366.8260, Florida Statutes (2005), which provides another option for storm cost recovery through the issuance of storm-recovery bonds, as defined in Section 366.8260.

Q. Has any recent Commission decision addressed FPL's Reserve and recovery of storm costs?

A. Yes. The Stipulation and Settlement Agreement (the Agreement) approved in Docket Nos. 050045-EI and 050188-EI by the Commission in Order No. PSC-05-0902-S-EI issued on September 14, 2005, suspended FPL's annual accrual of $20.3 million to the Reserve effective January 1, 2006. The Agreement permits FPL to petition the Commission for recovery of prudently incurred storm costs and replenishment of the R eserve through Section 366.8260, Florida Statutes (2005), and/or through a separate surcharge that is independent of and incremental to retail base rates. In addition, FPL committed to address replenishment of its Reserve within six months of the Order.

Q. Has the company incurred storm costs subsequent to the 2004 storm season?

A. Yes. FPL has incurred costs as a result of four storms that affected FPL's service territory in 2005. The nature of these storms is discussed further in Ms. Williams' testimony.

PROPOSED METHOD OF STORM COST RECOVERY

Q. What method of storm cost recovery is FPL requesting in this proceeding?

A. As Mr. Dewhurst discusses in his testimony, FPL is requesting to issue bonds to reimburse the Company for storm costs incurred as a result of the 2004 and 2005 storm seasons in accordance with Section 366.8260, Florida Statutes (2005). As discussed further in Dr. Morley's and Mr. Olson's testimonies, these bonds will be structured to result in a projected stable cents/kWh factor. The proceeds of the storm-recovery financing will be used to provide recovery of all unrecovered

2004 and 2005 storm-recovery costs and replenish the Reserve to a level of approximately $650.0 million.

In order to implement this recovery method, FPL proposes to establish a Special Purpose Entity (SPE), a wholly-owned subsidiary of FPL, to issue the bonds. The SPE will have a servicing agreement with FPL under which FPL will act as a collection agent and will forward certain revenues collected from customers to the SPE. Further details of these transactions are discussed later in my testimony and in Mr. Olson's testimony.

Q. **Mr. Dewhurst's testimony discusses FPL's primary and alternative recommendations for storm cost recovery. Would you please describe the revenue requirements for FPL's primary recommendation?**

A. Yes. FPL is proposing to securitize the costs incurred for the 2004 and 2005 storms through storm-recovery bonds. Page 1 of my Document No. KMD-1 shows the annual revenues required to repay these bonds, including interest, income taxes, and ongoing costs, over the expected bond life of approximately twelve years. These revenue requirements will be updated to reflect the outcome of the Financing Order, and the actual costs associated with the issuance of bonds. The proceeds from the bonds will be applied to the following:

- Jurisdictionalized Unrecovered 2004 Storm-Recovery Costs;
- Jurisdictionalized Unrecovered 2005 Storm-Recovery Costs;
- Replenishment of the Reserve to approximately $650.0 million; and
- Upfront Bond Issuance Costs.

The unrecovered storm-recovery costs are discussed later in my testimony, and the replenishment of the Reserve and details of the upfront bond issuance costs are further discussed in Mr. Dewhurst's testimony.

Q. What are the revenue requirements for the recovery of costs through the Company's alternative recommendation?

A. Page 2 of my Document No. KMD-1 shows the annual revenues required for the Company's alternative recommendation over a three-year period. The revenue requirements are comprised of the following:

- Continuation of the 2004 storm cost recovery over the remaining two years through the existing storm restoration surcharge authorized in the 2004 Storm Cost Recovery Order, including an interest charge;
- Recovery of the 2005 storm costs, including an interest charge, over a three-year period starting in year one; and
- Approximately $650.0 million to replenish the Reserve over a three-year period starting in year one.

Q. How were the interest charges calculated on the 2004 and 2005 storm costs in the alternative recommendation?

A. The interest charges included in the recovery of the 2004 and 2005 storm costs were calculated by multiplying the average monthly unrecovered balance by the current estimated after-tax commercial paper rate. Therefore, these charges represent the interest expense associated with the debt the Company would incur or has incurred to cover the net-of-tax storm costs.

STORM CHARGE

Q. Please describe the Storm Charge the Company is proposing.

A. As discussed in Mr. Dewhurst's testimony, FPL is seeking approval from this Commission to establish a per kWh storm charge (the Storm Charge) to be collected on customer bills over the expected twelve-year life of the bonds. The Storm Charge is comprised of two components:

- The Storm Bond Repayment Charge, and
- The Storm Bond Tax Charge.

Q. What is the Storm Bond Repayment Charge?

A. The Storm Bond Repayment Charge is the portion of the Storm Charge collected from customers to make the necessary payments to service the bonds. These amounts will be remitted to the SPE and are defined as a storm-recovery charge in Section 366.8260(1)(m), Florida Statutes (2005). The accounting entries associated with these transactions are further detailed in my Document No. KMD-9.

Q. What is the Storm Bond Tax Charge?

A. The Storm Bond Tax Charge, which is also a storm-recovery charge under the statute, covers the income taxes associated with the revenues collected to repay the storm-recovery bonds and will be collected and retained by the Company.

Although the SPE will be structured to be a separate bankruptcy-remote entity, it will be treated as a division of FPL for tax purposes. Therefore, FPL will be responsible for the payment of all income taxes due on the Storm Bond

Repayment Charge. As such, FPL will need to collect from its customers an amount that after payment of income taxes is sufficient to yield an amount equal to the Storm Bond Repayment Charge. In addition, FPL will be required to collect and remit amounts sufficient to pay gross receipts taxes, sales taxes, and regulatory assessment fees as well as pay the franchise fees and revenue taxes imposed by the cities and counties in which its customers receive service. The entries associated with these transactions are further detailed in my Document No. KMD-9.

Q. Has the U.S. Treasury Department issued any guidance on accounting for storm-recovery financing and related income taxes?

A. Yes. Revenue Procedure 2005-62 provides a safe harbor for public utility companies that, pursuant to specified cost recovery legislation, receive an irrevocable Financing Order permitting the utility to recover certain specified costs through a qualifying securitization. Under the revenue procedure, FPL will not recognize taxable income upon 1) the receipt of the Financing Order; 2) the transfer of FPL's rights under the Financing Order to the SPE; or 3) the issuance of the storm-recovery bonds.

Q. Does the storm-recovery financing FPL is proposing meet the requirements of this revenue procedure?

A. Yes.

Q. What storm-related costs are proposed for storm-recovery financing?

A. As shown on Document No. KMD-2, the following storm-related costs are proposed for storm-recovery financing:

- Jurisdictionalized Unrecovered 2004 Storm-Recovery Costs;
- Jurisdictionalized Unrecovered 2005 Storm-Recovery Costs; and
- Replenishment of the Reserve to approximately $650.0 million.

The above-referenced costs are estimated as of July 31, 2006, as allowed by Section 366.8260(2)(a)2., Florida Statutes (2005), and are net of insurance proceeds, normal capital replacement costs, including cost of removal, and costs that have already been recovered through the existing storm restoration surcharge. These storm-related costs plus upfront bond issuance costs represent the total amount of costs subject to storm-recovery financing.

Q. Why did FPL use July 31, 2006 to estimate the amount of storm-recovery costs to be financed?

A. If the proposed storm-recovery financing is approved by the Commission, the Company intends to conduct the storm-recovery financing in 2006 as soon as practicable following the issuance of a Financing Order and will work to do so prior to August 1, 2006 to ensure funding is in place during the next storm season. Thus, the Company believes a date of July 31, 2006 is reasonable.

Q. If the actual issuance date of the storm-recovery bonds is different than what is estimated, does FPL propose to adjust the amount of storm-recovery costs to be financed?

A. No. If the actual issuance date is not on or about August 1, 2006, FPL proposes to charge or credit any difference in the amount of storm-recovery costs to be financed to the Reserve.

STORM-RECOVERY COSTS

Q. What is the definition of storm-recovery costs?

A. As defined in Florida Statute (2005) §366.8260(1)(n):

> "'Storm-recovery costs' means, at the option and request of the electric utility, and as approved by the commission pursuant to sub-subparagraph (2)(b)1.b., costs incurred or to be incurred by an electric utility in undertaking a storm-recovery activity. Such costs shall be net of applicable insurance proceeds and, where determined appropriate by the commission, shall include adjustments for normal capital replacement and operating costs, lost revenues, or other potential offsetting adjustments. Storm-recovery costs shall include the costs to finance any deficiency or deficiencies in storm-recovery reserves until such time as storm-recovery bonds are issued, and costs of retiring any existing indebtedness relating to storm-recovery activities."

Q. Do the amounts for 2004 and 2005 storm-recovery costs FPL is proposing to finance meet this criteria?

A. Yes, for the reasons explained below.

Q. What is the jurisdictional amount of unrecovered pre-tax 2004 storm-recovery costs to be included in the amount of storm-recovery financing?

A. As shown on Document No. KMD-3, FPL's jurisdictional unrecovered pre-tax 2004 storm-recovery costs as of July 31, 2006 are estimated to total $213.3 million.

Q. Please describe how the amount of unrecovered pre-tax 2004 storm-recovery costs was determined.

A. The total amount incurred for the 2004 storms after deducting insurance proceeds was approximately $890.0 million. In the 2004 Storm Cost Recovery Order, the Commission approved collection of $442.0 million in 2004 storm cost by FPL from its retail customers. The $442.0 million represents the total amount less the then existing Reserve balance, normal capital replacement costs and the $21.7 million that I discuss below. FPL has been collecting the current restoration surcharge for these costs since February 2005 and as shown on my Document No. KMD-3, FPL estimates $212.0 million of this amount will remain to be collected as of July 31, 2006. This amount was calculated by adding monthly interest at the commercial paper rate to the unrecovered balance (as allowed in the 2004 Storm Cost Recovery Order) and subtracting the estimated billed revenues based on the average retail surcharge factor approved by the Commission times forecasted kWh sales detailed in Dr. Green's testimony.

In addition to the costs to be recovered, as a result of the 2004 Storm Cost Recovery Order , the Commission also approved an adjustment to the 2004 storm costs of $21.7 million (jurisdictional amount of $21.6 million) which was included in the Reserve. My Document No. KMD-3 shows that the net jurisdictional amount remaining after considering FPL's jurisdictional 2005 storm accrual of $20.2 million (total system amount of $20.3 million) and fund earnings from January through September 2005 of $0.1 million, is $1.3 million. This amount has been included in the amount of unrecovered 2004 storm-recovery costs.

The sum of the 2004 storm cost deficiency as of July 31, 2006 of $212.0 million, plus the net adjustment of $1.3 million, totals $213.3 million of unrecovered 2004 storm-recovery costs.

Q. **Does the Company propose to true-up the estimate of unrecovered 2004 storm-recovery costs?**

A. Yes. FPL included in the existing restoration surcharge an estimate for identified projects that were not yet completed. However, the actual costs for such projects may be more or less than what was estimated. An example of this type of work was described in detail in Commission Order No. PSC-95-1588-FOF-EI on page 4:

> "FPL suffered extensive salt water damage to underground facilities as a result of Hurricane Andrew and the March 1993 Storm. It is the Company's intent to repair these facilities as they fail, or during any normal upgrading of the facilities. Certain of these facilities are expected to fail in the near future. Based on engineering estimates of anticipated future repair costs, an insurance settlement of $6.7 million was reached. This is a final settlement; if the repairs exceed this amount the Company will not be able to file for additional insurance reimbursement.

> It appears from FPL's petition that the Company wishes to establish a separate liability for the $6.7 million, rather than placing it in the reserve. The $6.7 million received by the Company represents a settlement of claims for which neither the actual total amount nor the timing of the replacement can be accurately determined. <u>This is exactly the situation a storm reserve is designed to cover.</u> Therefore, we find that this amount shall be added to the reserve and the after tax amount added to the fund. By doing so, the amount can be invested and accrue interest. This will help to mitigate any costs for repairs should they exceed the Company's original estimates. As the repairs are actually completed, the reserve shall be charged for the cost of the repairs." (emphasis added)

Therefore, FPL proposes that once these projects are completed, if the actual amount is lower than the estimated amount, the difference would be credited to the Reserve. If the actual amount is higher than the estimated amount, FPL proposes to charge the difference to the Reserve.

Q. What is the jurisdictional amount of unrecovered pre-tax 2005 storm-recovery costs to be included in the amount of storm-recovery financing?

A. As shown on Document No. KMD-4, FPL's total system amount of unrecovered 2005 storm-recovery costs is estimated at $827.5 million and the jurisdictional unrecovered pre-tax 2005 storm-recovery costs is estimated to total $826.9 million. These amounts are after deducting capital and insurance proceeds from the total estimated amount of costs incurred and include interest incurred prior to July 31, 2006.

Q. Has the Commission established a specific methodology with regards to storm cost recovery as a result of its decision in Docket No. 041291-EI?

A. No. The Commission made it very clear in that docket that it has the latitude to determine what costs are to be recovered on a case-by-case basis. My Document No. KMD-5 contains excerpts from the discussion at the agenda conference held on July 19, 2005 during which Commissioners Deason and Baez clearly articulated this position.

Q. What methodology does FPL recommend the Commission adopt to determine the amount of unrecovered 2005 storm-recovery costs?

A. FPL recommends that the Commission adopt the Actual Restoration Cost Method addressed in Docket No. 930405-EI with an adjustment to remove normal capital costs. This method, excluding an adjustment to capital costs, was utilized by the Company between 1993 and 2003 to determine the storm restoration costs to be charged against the Reserve. For this proceeding, FPL's proposed method includes all costs which are incurred to safely restore electric service or return plant and equipment to its pre-storm condition. The adjustment to remove capital costs will be at "normal cost" and recorded to rate base. What is left after adjusting for insurance recoveries represents the operations and maintenance expenses the Company has incurred to restore service to its customers. This amount plus interest incurred as of the expected date of securitization, as allowed in Section 366.8260, Florida Statutes (2005), results in the amount proposed for storm-recovery financing.

Q. Please explain why the methodology FPL is recommending this Commission adopt is appropriate.

A. FPL believes that its proposed method should be adopted for several reasons. First and foremost, this method is by far the most accurate way to account for storm restoration costs. Also, it is totally consistent with sound and commonly accepted cost accounting principles, procedures and practices. Accordingly, it results in accounting and recovery of the actual costs incurred to restore electric service.

Q. Why is FPL's proposed method the most accurate way to account for storm restoration costs?

A. FPL's proposed method is the most accurate way to account for all of FPL's storm restoration costs because it properly utilizes the normal cost accounting practices, processes and procedures that are relied upon by the Company in the ordinary course of its business. Also, it avoids the necessity of making estimates for year-end budget variances that are inconsistent with the stringent financial reporting requirements imposed on public companies by the Sarbanes-Oxley Act of 2002.

Q. Can you please elaborate why these estimates are a financial reporting concern?

A. To apply the incremental cost approach to interim financial statements, FPL will have to estimate the amount of year-end variances and deduct that amount from the amounts determined using the Company's proposed method. There is simply no basis for making such an estimate until the actual variance is known.

FPL is a public company and must publicly report its financial information on a quarterly basis. Using estimates in preparing those financial statements is not permitted. At the same time, making no adjustment shrouds FPL's financial statements with uncertainties that can create disadvantages for FPL as it competes for capital.

Q. Why should the Commission and the public have confidence that adopting FPL's proposed method will ensure that the right amount of storm restoration costs are properly recorded, reported and recovered?

A. While I discuss this in detail elsewhere in my testimony, in summary, all of FPL's storm restoration costs are charged to specific storm work orders and account numbers, which FPL's employees are trained and experienced in using. The work orders and account numbers are opened up at the time that storm-related work begins, and closed out when it ends. Simply put, the amounts that end up recorded under these work orders and in these accounts fairly and accurately state FPL's total costs of storm restoration.

Q. Are there other reasons supporting adoption of FPL's proposed method?

A. Yes. FPL's proposed method also has the advantage of replicating the cost recovery that FPL would receive under a hypothetical third party replacement cost insurance policy, were such coverage to be available in the insurance marketplace. This is consistent with the regulatory policy established by the Commission in its rules, such as Rule 25-6.0143, Accumulated Provision for Property Insurance, as well as discussed in prior Commission orders. For example, the express function of Rule 25-6.0143 is to facilitate provision of selfinsurance under the direction of the Commission for losses caused by risks, such as storm restoration costs not covered by insurance.

Q. How does the "modified incremental cost method" of accounting for storm costs provided for in the 2004 Storm Cost Recovery Order compare with FPL's proposed method?

A. First, it should be noted that FPL believes that the method provided in the 2004 Storm Cost Recovery Order and FPL's proposed method in this proceeding, would result in the same total amount of storm restoration costs for the 2005 storm season. FPL believes that as a policy matter, the Commission, customers and FPL would all be better served by using FPL's proposed method which relies upon cost accounting data, rather than the incremental cost approach's indirect and judgmental assessment of budget-related documents, as the measure for storm restoration costs. FPL notes that year-end financial data is only now beginning to become available that would enable performance of a final comparison of 2005 budgeted and actual figures, demonstrating an additional practical limitation on the usefulness of the incremental cost approach during the year when storm restoration costs are incurred.

Q. Please compare the incremental cost approach and FPL's proposed method from the perspective of accounting theory.

A. FPL's proposed method correctly applies cost accounting principles and data for capturing and measuring storm restoration costs. The incremental cost approach, in contrast, contaminates the results achieved through the Company's proposed method by improperly using managerial accounting tools for a purpose for which they are not intended. Moreover, instead of relying on readily available and accurate storm restoration cost data, the incremental cost approach relies upon measuring or estimating variances between budgeted and actual expenditures in the numerous budget line items making up the Company's budgeting and cost management process. The incremental cost approach's use of managerial accounting principles of budget variance analysis for cost accounting purposes uses the wrong set of accounting tools for the job of determining storm restoration costs.

Q. Why is a comparison of budgeted and actual expenditures, used in the incremental cost approach, the wrong financial and accounting tool for the job of computing storm restoration costs?

A. Quite simply, FPL's budgets are set for the purposes of allocating overall resources. This is a basic management process aided by the budgeting tools of managerial accounting. Budgets are monitored, and adjustments in expenditures are made over the course of the year, in order to help FPL's management measure and assess actual business resource requirements in the course of the year in comparison with the resources that were estimated to be needed in the budgeting process. This is a valid and indeed essential business process for FPL to use and follow. However, it is not a typical, common or even accepted accounting method for cost accounting. It is also an unnecessarily complicated and indirect method for measuring storm costs, especially when the Company already has in place accurate cost accounting methods for capturing and recording storm restoration costs directly.

Q. Why isn't using differences between budgeted and actual cost performance, as is involved in the incremental cost approach, as good a method as using accurate cost accounting records of actual storm restoration costs?

A. Using the managerial accounting tool of budget variance analysis is not nearly as good as using storm cost accounting records because budgeted and actual cost performance for individual line items, and for the Company as a whole, varies widely for a host of reasons having nothing to do with storm restoration costs. Unanticipated but necessary expenses continually arise, and other expenses are mitigated or avoided, in the course of routine business operations. Trying to gauge storm restoration costs indirectly by looking at budget variances is a difficult and highly judgmental process at best. It is also unwieldy because final variances are never known until the year's end, making use of the incremental cost approach for measuring storm costs exceedingly difficult in the course of the ordinary business year. Moreover, using such an indirect and unwieldy process is simply unnecessary when accurate, direct, measures of storm restoration costs are available through reference to the actual expenditure data that FPL routinely compiles in the course of its storm restoration work. Using the incremental cost approach results in laboriously improvising an imperfect cost measurement tool, instead of using well-established and existing cost accounting tools and data.

Q. Does using FPL's proposed method result in recovery of expenses through base rates and through a storm-recovery mechanism?

A. No. It results in only a proper single recovery of the correct amount of storm restoration costs.

Q. Please explain why FPL's proposed method results in only a single recovery of storm restoration costs.

A. In prior storm restoration cost recovery proceedings, others have urged the use of a so-called incremental cost approach instead of an actual restoration cost approach in order to avoid what they contend would be a recovery of storm costs through base rates and through a storm recovery mechanism. This theory claims that reimbursing FPL its actual costs for storm restoration is excessive because, the argument goes, such costs are already accounted for in the Company's base rates. One fatal weakness of this theory is that there is no provision for extraordinary storm restoration costs in base rates. In other words, even if, for example, a certain level of normal O&M expense is deemed to be implied in base rates, that level of expense neither includes nor contemplates any amount of cost contingency associated with the impact of a hurricane, which, among other things, results in normally scheduled work and the related costs being deferred or delayed to a subsequent period, not to mention widespread outages during which such costs are not recovered through sales of electricity. Therefore, FPL receives only a single recovery for its storm restoration costs when its proposed method is used.

Q. Please summarize your points supporting use of FPL's proposed method for determining storm restoration costs.

A. FPL urges the Commission to rely upon FPL's actual cost accounting data with respect to storm recovery costs, rather than trying to indirectly infer storm costs through use of the budget variance-based incremental cost approach. FPL's proposed method represents a correct use of accurate accounting data as a basis for achieving a single proper recovery of storm restoration costs. In addition, any method that only adjusts the expense side of the ratemaking equation, violates the basic concept of ratemaking. Therefore, there is no analytical, financial, rate or other logical basis for any assertion that reimbursing FPL for its actual costs of storm restoration constitutes double recovery and the alternative incremental cost approach should not be used.

Q. Please describe how the amount of unrecovered pre-tax 2005 storm-recovery costs was determined.

A. As allowed in Section 366.8260(2)(a)2., Florida Statutes (2005), FPL's total estimated amount of 2005 storm-recovery costs represents the sum of the following:

- Known storm-recovery costs;
- An estimate for storm restoration activities not yet completed; and
- An estimate for completed activities where the final costs are not yet known.

FPL's total estimated amount is based on a financial close date as of November 30, 2005 except for certain estimate updates received on or about December 15, 2005 (the final cut-off). Therefore, for purposes of determining the estimated amount of unrecovered pre-tax 2005 storm-recovery costs, I have utilized FPL's total system number provided in Ms. Williams' testimony as a starting point. This amount represents a reliable estimate of the costs incurred to restore service following the damages sustained from Hurricanes Dennis, Katrina, Rita, and

Wilma. These costs are consistent with the storm-recovery activities defined in Section 366.8260(1)(k), Florida Statutes (2005):

> "'Storm-recovery activity' means any activity or activities by or on behalf of an electric utility in connection with the restoration of service associated with electric power outages affecting customers of an electric utility as the result of a storm or storms, including, but not limited to, mobilization, staging, and construction, reconstruction, replacement, or repair of electric generation, transmission, or distribution facilities."

My Document No. KMD-4 details $90.4 million in adjustments to this amount in accordance with the Company's proposed method as well as an addition of $11.5 million for interest incurred through July 31, 2006, as allowed by Section 366.8260(1)(n), Florida Statutes (2005), to determine the total unrecovered pre-tax 2005 storm-recovery costs. This adjusted amount was then multiplied by a jurisdictional factor of 99.921% to come to a jurisdictional amount of $826.9 million. The jurisdictional factor applied is further detailed on page 2 of Document No. RM-1 in Dr. Morley's testimony.

Q. Does the Company propose to true-up the estimate of unrecovered 2005 storm-recovery costs?

A. Yes. Even though FPL is able to provide an estimate of the costs incurred to restore service for the 2005 storms, in accordance with Section 366.8260(2)(a)2., a portion of these costs are not yet finalized. Therefore, once all of the costs for the 2005 storms are finalized, any difference between the estimated amount and the actual amount of costs incurred, or due to the outcome of a staff audit or any

Commission proceeding, would be charged or credited to the Reserve. Thus, if the actual costs are lower than anticipated, the resulting balance in the Reserve will be higher and vice versa.

Q. What specific 2005 storm costs are you addressing in your testimony?

A. As indicated in Ms. Williams' testimony, I will be addressing the 2005 storm costs for the Power Generation Division (FPL's fossil plant sites) and Other FPL Facilities (Corporate facilities and the Indiantown Central Distribution Facility).

Q. What are the estimated 2005 storm costs eligible for recovery for the Power Generation Division (FPL's fossil plant sites)?

A. The total estimated 2005 storm costs for the Power Generation Division (FPL's fossil plant sites) are $19.4 million. The details for this amount are illustrated on my Document No. KMD-6 and represent the following types of activities: storm preparation and repairs to buildings and grounds, cooling ponds, cooling towers and basins, chimneys, electrical equipment, boilers, intake system, instruments and controls, insulation and lagging, mold remediation, and tanks. These activities are necessary to bring the Power Generation Division (FPL's fossil plant sites) facilities to their pre-storm condition.

Also, included in the total amount for the Power Generation Division (FPL's fossil plant sites) is $0.9 million of storm damage costs related to the fossil units at FPL's Turkey Point site. That site is insured under a Nuclear policy, NEIL, that is described by Mr. Warner in his testimony.

As illustrated on my Document No. KMD-6, the total estimated 2005 storm costs of $19.4 million for the Power Generation Division (FPL's fossil plant sites) less estimated capital costs of $2.1 million and estimated insurance proceeds of $2.4 million is $15.0 million. This amount represents the Power Generation Division (FPL's fossil plant sites) storm costs eligible for recovery. Later in my testimony, I will address the process FPL goes through to determine capital costs and insurance recoveries.

Q. What are the estimated 2005 storm costs eligible for recovery for Other FPL Facilities (Corporate facilities and the Indiantown Central Distribution Facility)?

A. The total estimated 2005 storm costs for Other FPL Facilities (Corporate facilities and the Indiantown Central Distribution Facility) are $13.5 million. The details for this amount are illustrated on my Document No. KMD-7 and represent the following types of activities: repairs to roofing, fencing and gates, landscaping, Heating, Ventilating, and Air Conditioning (HVAC), and rollup doors. These activities are necessary to bring these facilities to their pre-storm condition. As illustrated on my Document No. KMD-7, this amount less estimated capital costs of $5.7 million and estimated insurance proceeds of $0.6 million results in $7.1 million of storm costs eligible for recovery for Other FPL Facilities (Corporate facilities and the Indiantown Central Distribution Facility). As previously mentioned, I will address the process FPL goes through to determine capital costs and insurance recoveries later in my testimony.

Q. As previously mentioned, FPL proposes to make adjustments to the total amount of unrecovered 2005 storm-recovery costs. What adjustments would be made using FPL's proposed methodology?

A. As shown on Document No. KMD-4, the proposed adjustments to be made to the 2005 storm-recovery costs for Hurricanes Dennis, Katrina, Rita, and Wilma consistent with this approach would be as follows:

1. Remove estimated capital costs of $63.9 million and include them in rate base;
2. Remove estimated insurance proceeds received or expected to be received of $26.5 million for Hurricane Wilma. The Company has not removed any insurance proceeds for Hurricanes Dennis, Katrina, or Rita as none have been received or are expected to be received; and
3. Add interest incurred through July 31,2006, which is estimated to be $11.5 million, as allowed in Section 366.8260(1)(n), Florida Statutes (2005).

Q. How are capital costs related to storm restoration activities determined?

A. Each Business Unit is responsible for preparing an estimate of capital work as a result of storm damage to its assets. FPL estimates storm damages related to its Transmission and Distribution assets at normal cost utilizing the Company's estimating systems. Storm damages to all other assets are estimated individually by each Business Unit. These estimates are then reviewed by FPL's Accounting Department (Accounting) to ensure these costs are capital costs, not operating or maintenance costs. Accounting also ensures the correct amount of additions, retirements, removal, and salvage will be recorded on the Company's books.

Based on the estimates developed, the capital costs are adjusted out of storm-recovery costs and are charged to rate base.

Q. Do you expect the capital estimates to change?

A. Yes. The capital estimates may change for various reasons, including but not limited to, true-up of material issuances/returns, true-up of actual costs for assets other than Transmission and Distribution, and/or true-up arising from subsequent processing required to allocate the capital costs at the county level for property tax purposes. Any difference between what was estimated and the actual capital costs will be charged or credited to the Reserve.

Q. How are insurance recoveries and deductibles related to storm damages handled?

A. Each Business Unit is responsible for estimating the damages to its infrastructure caused by storms. This estimate is then reviewed with the Risk Management organization to determine what portion of the estimated damages may be recoverable under the applicable insurance policies. Once this is determined, the appropriate deductibles for each insurance policy are charged to the Reserve as are any estimated storm damages which are excluded from coverage under the various insurance policies. The estimated insurance recoveries are not included in the total amount of storm-recovery costs charged to the Reserve.

Q. Do you expect the estimated insurance recoveries to change?

A. Yes. After a storm, our Risk Management department meets with the insurance adjusters who visit the damaged property to evaluate the extent and type of the damages. Following the inspection process, there is a review and finalizing process between our Risk Management personnel and representatives of the insurance companies to determine which damage elements are covered by insurance and the ultimate actual cost to complete repair or replacement. This results in an agreed to amount of insurance recovery. This process can take a prolonged period of time before the final amount covered by insurance is determined. Once a claim is finalized and the insurance adjuster makes a final determination as to the eligibility of the damaged facilities, the estimated insurance recoveries may change from the initial estimates. Therefore, at the time insurance recovery is finalized, any difference between the original estimate and the actual insurance recovery will be charged or credited to the Reserve. In addition, if any amount is recovered from third parties, adjustments to the Reserve would also be made.

Q. **Can you please explain FPL's insurance recoveries and deductibles for the 2005 storm damages in more detail?**

A. Yes. I will discuss the insurance recoveries related to the non-nuclear damages of $4.5 million and Mr. Warner will discuss the nuclear insurance recoveries of $23.0 million in his testimony. For 2005, FPL has estimated total storm damage which might be insured to be $29.5 million for its non-nuclear property with a deductible of $25.0 million, which yields an estimated insurance recovery of $4.5 million ($29.5 million less $25.0 million). Of this estimated insurance recovery, $1.0 million relates to capital expenditures and $3.5 million relates to recovery of operations and maintenance costs. The addition of the $3.5 million to estimated nuclear insurance recoveries of $23.0 million results in the $26.5 million insurance recovery adjustment shown on my Document No. KMD-4. I would like to point out that the recovery amount is determined using a "good faith" effort between the parties but as additional inspections or work is performed this number may be adjusted. The Company will charge or credit the Reserve with any true-up of the estimated amount.

Q. Did FPL derive tax benefits from the storm-recovery costs?

A. Yes. The Company has either received or will receive federal and state income tax benefits for the storm restoration costs incurred.

Q. How have these tax benefits been reflected in the proposed storm-recovery financing?

A. The Company has reduced the storm-recovery financing amount for the federal and state benefits at the statutory tax rate of 38.575% to reflect all tax benefits related to the storm-recovery costs.

Q. What is the total amount of storm-related costs proposed for storm-recovery financing?

A. As shown on my Document No. KMD-2, the aggregate storm costs incurred for 2004 and 2005 is $1.8 billion. Also shown on my Document No. KMD-2, the amount of storm-related costs proposed for storm-recovery financing is $1.7 billion, which includes replenishment of the Reserve. This amount less income tax benefits plus upfront bond issuance costs represents the aggregate amount of bonds FPL is proposing to issue. As the Storm Charge is collected from customers, that income tax benefit will reverse and income taxes will become payable as revenues are recorded. Therefore, the amounts ultimately paid by customers will include those taxes.

STORM ACCOUNTING AND CONTROLS

Q. Can you please explain the accounting process and controls that exist to ensure that storm-recovery costs are accurate?

A. Yes. When a storm is approaching and the Company activates the General Office Command Center, Accounting issues a unique storm work order to capture all costs for storm restoration activities related to the storm. Upon Business Unit request, additional work orders may be issued to further segregate costs. However, all storm-related work orders are accumulated in Account 186, Miscellaneous Deferred Debits, to facilitate reporting of the storm's total costs. Along with the set up of these work orders, Accounting also issues guidance to the organization on what costs are appropriate to charge to the storm work order. The use of work orders to capture costs is part of the Company's normal process for recording transactions and is supported by normal internal controls and processes. In Ms. Williams' testimony, she discusses the controls over the appropriate levels of resources, procurement, and logistical support, which are charged to the storm work order, and controls surrounding the procurement process. She also discusses Restoration Management's approval process relating to employee time sheets, contractor time sheets, receipt logs, and invoice processing. In addition to issuing the storm work orders, Accounting representatives (Site Controllers) will field questions during storm restoration efforts as to whether a particular cost can be charged to the storm work order. Because these individuals are trained on the costs eligible for storm and required supporting documentation, this provides an additional level of control. If uncertainty exists regarding a cost, Site Controllers or Accounting would review the specified cost with Site Management or Business Unit management to ensure the appropriate linkage between the expenditure and its reasonableness.

Q. **Do you have any additional comments regarding the accounting process and/or controls that exist to record the Company's storm costs?**

A. Yes. First of all, let me state that the accuracy of our financial records is very important to us. As I have already discussed, Accounting issues unique work orders and guidance on how to capture the storm costs. Also, in addition to the supervisory approvals required as part of our normal control environment, Site Controllers are deployed to the staging sites to further support Site Management in promoting effective internal controls during storm restoration. The Site Controllers are an integral part of the logistics team and provide guidance on eligible costs and record-keeping. Additionally, the Site Controllers observe the critical control processes, as discussed in Ms. Williams' testimony, to obtain confirmation that the control processes are working as intended. Some of the important functions the Site Controller performs are as follows:

- Ensure FPL personnel at staging sites understand the nature of their control activities and comply with the applicable control and documentation requirements;

- Review contractor time sheets for compliance with FPL approval procedures;
- Review expense reports approved by Site Management;
- Randomly sample FPL employee time sheets for approvals and accuracy;
- Prepare receipt documents for materials and services received on site, and forward contractor time sheets to a central location for further review and processing;
- Review account distribution on samples of FPL time sheets, expense reports, and procurement card purchases; and
- Provide guidance as questions arise in the field and seek any additional clarification from the General Office Command Center and/or Accounting as required.

Q. **Can you please explain the accounting process used to record the 2005 storm costs?**

A. Yes. Accounting sent a standard template to each Business Unit to estimate each Business Unit's storm costs. The template displays the actual storm costs recorded in the general ledger and requests each Business Unit to estimate the storm costs they have incurred that are not yet recorded on the Company's books. The templates and related supporting schedules are reviewed by each Business Unit's Management who evidences the review by signing the template. Once these schedules are returned to Accounting, the templates and supporting schedules are reviewed to determine whether the estimate is based on supporting documentation (i.e., storm purchase orders and receipt documentation, contractor time sheet summaries, payroll recorded, third party confirmations, vendor bids, engineering estimates or other supporting documentation.) Once the final estimates are prepared and reviewed, Accounting works with the Business Units to ensure they accrue for their portion of costs incurred but not yet actualized.

Q. Do you expect material changes in the estimate of 2005 storm-recovery costs?

A. No. The Business Units review their estimates each month following the original estimate until all actual costs have been recorded on the Company's books. As part of this process, they check for payments and updated information received during the month (i.e., additional invoices, foreign utility confirmations/invoices, contractor time sheets/invoices) which would impact their estimate. In addition, FPL will continuously monitor the estimates and internally reclassify line items within the estimates as needed. Therefore, if the estimate needs to be revised, the Business Unit will provide a new estimate and work with Accounting to ensure the appropriate accrual has been recorded. However, in any event, we do not expect to change the amount of costs included in the storm-recovery financing, as I have previously discussed.

TRUE-UP MECHANISM

Q. Will FPL be required to true-up its Storm Charge?

A. Yes. According to Section 366.8260(2)(b)2.e., Florida Statutes (2005), if the Commission issues a Financing Order to FPL, the Commission will;

> "Include a formula-based mechanism for making expeditious periodic adjustments in the storm-recovery charges that customers are required to

pay under the financing order and for making any adjustments that are necessary to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of storm-recovery bonds and financing costs and other required amounts and charges payable in connection with the storm-recovery bonds."

This true-up mechanism helps to ensure that customers pay no more or less than what is required under storm-recovery financing. It also helps mitigate bondholders' exposure to differences in actual and estimated sales forecasts, uncollectible accounts receivable, and cash flow variability.

Q. How often will FPL file a true-up adjustment?

A. In accordance with Section 366.8260(2)(b)4., Florida Statutes (2005), FPL will file a petition or a letter applying the formula-based mechanism with the Commission at least every six months.

Q. How quickly will a requested true up adjustment to the Storm Bond Repayment Charge and Storm Bond Tax Charge become effective?

A. The Company requests that the Commission either approve the request or inform the Company of any mathematical error in its calculation within thirty days.

Q. Apart from the six month true-ups, does the Company seek authority to file a true-up at any other time?

A. Yes. FPL seeks authority to file for a true up as frequently as quarterly, if required by the rating agencies to achieve the highest possible rating, or at any time if necessary to more quickly accommodate changes resulting from regulatory actions. FPL would seek approval of such a true-up filing on the same basis as the six month true up (i.e., within thirty days of filing).

Q. What is FPL required to include in the true-up adjustment?

A. Section 366.8260(2)(b)4., Florida Statutes (2005) requires FPL to detail in its filing any adjustments made for the undercollection or overcollection of revenues as follows;

> "Such adjustments shall ensure the recovery of revenues sufficient to provide for the payment of principal, interest, acquisition, defeasance, financing costs, or redemption premium and other fees, costs, and charges in respect of storm-recovery bonds approved under the financing order."

In summary, the Storm Bond Repayment Charge will be reset to a level intended to recover the sum of the following costs:

- Principal of (in accordance with the Expected Amortization Schedule), and interest on the Storm Recovery Bonds;
- Costs of the Servicer for the Storm Recovery Bonds;
- Ongoing costs of administering the SPE and servicing the Storm Recovery Bonds, including, without limitation, trustee fees, expenses and indemnities and rating agency expenses. Details of these costs are illustrated on Document No. MPD-3 in Mr. Dewhurst's testimony;
- Amounts required to replenish any amounts drawn from the capital subaccount; and
- Other ongoing expenses of any other credit enhancement agreement, including any amount or termination payment that might become due and

payable by the SPE as a result of any interest rate swap agreement entered into in connection with floating rate Storm Recovery Bonds, if issued.

Q. How will the true-up mechanism work?

A. Document No. KMD-8 demonstrates how FPL proposes the true-up mechanism would work to address the overcollection or undercollection of the Storm Bond Repayment Charges or Storm Bond Tax Charges for the prior period. Once the total average retail Storm Charge per kWh is calculated for the upcoming remittance period, it is broken down to specific charges per rate class. This breakdown is addressed by Dr. Morley in her testimony.

Q. Will over or under recoveries of the Storm Charge be tracked on a class-by-class basis for determining future charges?

A. No. Any over or under recoveries for any prior period will simply be added to the periodic revenue requirement for the next period and such cost will be spread over all customers classes. This "cross collateralization" will strengthen the security for the bonds.

Q. Will FPL ever amend the true-up mechanism?

A. FPL will file an amendment to the true-up mechanism with the Commission if it deems it necessary or appropriate to address any material deviations between Storm Charge collections and periodic payment requirements. Any such change could not adversely affect the credit ratings on the Storm Bonds.

Q. How long will the Storm Charge be imposed and collected?

A. The Storm Charge will be imposed and collected until the Storm Bonds have been paid in full or legally discharged and the other financing costs, including the tax liabilities associated with such charges, have been paid in full or fully recovered.

Q. Will FPL reconcile Storm Bond Recovery Bond Collections and estimated remittances?

A. Yes. On or before March 1 of each year, the Company will reconcile Storm Bond Repayment Charge collections during the prior calendar year with amounts remitted. If Storm Bond Repayment Charges have been under-remitted, the Company will remit the shortfall to the bond trustee on the next servicer business day. If the Storm Bond Repayment Charges have been over-remitted, then the Company will reduce the next succeeding remittance(s) by the amount of the over-remittance. FPL will also update the data underlying the weighted average days outstanding and delinquency factors.

Q. What will happen with Storm Bond Repayment Charge collections following repayment of the Storm Bonds and any related financing costs?

A. Upon payment in full of the Storm Bonds and all related financing costs, any remaining amounts held by the SPE (exclusive of the amounts in the capital subaccount, representing the equity contribution, and any interest earnings thereon) will be remitted to FPL and added to the Reserve, or in the alternative, applied as a credit to customer rates.

ACCOUNTING FOR STORM-RECOVERY FINANCING

Q. Please describe the overall accounting treatment for storm-recovery financing.

A. As explained in Mr. Dewhurst's direct testimony, FPL will conduct storm-recovery financing through an SPE. The SPE will be created solely to facilitate storm-recovery financing and will be a subsidiary of FPL. The SPE and FPL will maintain separate accounting records. The accounting entries necessary to record storm-recovery financing activities, along with an explanation of each, are illustrated in my Document No. KMD-9.

Q. Is FPL requesting Commission approval for any specific accounting treatment associated with the proposed storm-recovery financing?

A. Yes. FPL is requesting that the Commission authorize replenishment of the Reserve to approximately $650.0 million to support future storm restoration and the establishment of a related regulatory asset. In addition, FPL is requesting that the Commission authorize the establishment of a regulatory asset for the 2005 storm-recovery costs and the remaining jurisdictional $1.3 million of 2004 storm-recovery costs charged to the Reserve as previously discussed. Finally, FPL is requesting authorization to sell these regulatory assets together with the remaining amount of unrecovered 2004 storm-recovery costs, which is already a regulatory asset, net-of-tax to the SPE. These regulatory assets on the SPE's books are to be classified as storm-recovery property as defined in Florida Statute (2005) §366.8260 (1)(o).

Q. Are the LLC Agreement, Administration Agreement, Storm-Recovery Property Sale Agreement, and Storm-Recovery Servicing Agreement considered affiliate transactions?

A. Yes. FPL has attached these agreements to Mr. Olson's testimony and requests that the Commission approve FPL entering into these agreements in substantially the form as they are being submitted to the Commission.

Q. What amount of regulatory assets is FPL proposing to sell to the SPE?

A. FPL is proposing to sell regulatory assets net-of-tax in the amount of approximately $1.0 billion to the SPE. FPL will assume responsibility for the income taxes payable when the Storm Charges are collected from the customer. As such, the deferred income taxes associated with the regulatory assets will remain on FPL's books along with an equivalent regulatory asset amount.

Q. How will the SPE amortize this storm-recovery property?

A. The SPE will amortize the storm -recovery property to expense based on the principal amount required for the repayment of the bonds over the expected life of the bonds.

Q. How will FPL amortize its regulatory assets?

A. FPL will amortize its regulatory assets to expense over the life of the bonds. As it is amortized, FPL will incur current tax obligations related to the revenues collected and will reverse the deferred tax liability related to it.

Q. What are the anticipated accounting entries to be recorded at the SPE?

A. As illustrated on pages 1 and 2 of my Document No. KMD-9, the accounting entries to be recorded by the SPE are as follows: (1) recording of capital subaccount from FPL's equity investment; (2) recording of proceeds from the issuance of bonds; (3) purchase of storm-recovery property net-of-tax from FPL; (4) receipt of cash from FPL for the Storm Bond Repayment Charges collected; (5) amortization of the storm-recovery property; (6) accrual of interest expense; (7) amortization of upfront bond issuance costs; (8) payment of bond principal and interest; (9) recording of on-going operating costs and servicing fees payable; (10) replenishment of capital subaccount, if needed; and (11) transfer of cash to the excess funds account in the event of excess Storm Bond Repayment Charges collected, if any.

Q. **What are the anticipated accounting entries to be recorded at FPL?**

A. As illustrated on pages 3 and 4 of my Document No. KMD-9, the accounting entries to be recorded by FPL are as follows: (1) recording of expenditure of cash to fund the capital subaccount at the SPE and a related investment; (2) establishment of regulatory assets consisting of unrecovered 2004 and 2005 storm-recovery costs, and the replenishment of the Reserve with related deferred income tax assets; (3) sale of regulatory assets net-of-tax to the SPE; (4) use of proceeds FPL receives from the sale of its regulatory assets to replenish the Reserve's related fund and to reimburse FPL for previously expended storm-recovery costs; (5) recognition and collection of Storm Charges; (6) amortization of the remaining regulatory assets; (7) reversal of deferred income taxes and payment of current income taxes; (8) earnings on the fund; and (9) payment of revenue taxes.

Q. How will Storm Charges collected from customers be recorded?

A. The Storm Bond Repayment Charge collections will be remitted to and recorded as revenues at the SPE. The collections of the Storm Bond Tax Charge (i.e. the component of the Storm Charge imposed to cover the associated income taxes) will be recorded at FPL.

Q. Please describe how the Company, as Servicer, proposes to remit Storm Bond Repayment Charges to the SPE.

A. As FPL does not track its customer charges on a daily basis, FPL will remit Storm Bond Repayment Charges based on estimated daily collections using a weighted average balance of days outstanding on FPL's retail bills. Collections remitted daily will represent the estimated charges per the servicing agreement. For example, if FPL's retail bills are outstanding, on a weighted average basis, for a period of thirty days, then FPL will remit to the SPE the Storm Bond Repayment Charges billed on a particular date, less an assumed delinquency rate, thirty days thereafter.

Q. How will FPL allocate partial payments on a bill to the Storm Bond Repayment Charge?

A. When doing the annual reconciliations, partial payments will be allocated to Storm Bond Repayment Charges in the same proportion that such charges bear to the total bill. The first dollars collected would be attributed to past due balances, if any. Once those balances are paid in full, if cash collections are not sufficient to pay a customer's current bill, then the cash would be prorated between the different components of the bill.

Q. Assuming the Commission approves the replenishment of FPL's Reserve through the proposed Financing Order, what types of charges does FPL expect to apply against?

A. FPL requests that the Reserve be used for all of the purposes provided for in and consistent with Rule 25-6.0143, Florida Administrative Code for Account No. 228.1, Accumulated Provision for Property Insurance. FPL also requests the Company be allowed to adjust the Reserve for any differences in actual and estimated costs as previously discussed in my testimony.

Q. In the event of a storm loss, what would be the anticipated accounting entries that would occur?

A. Storm losses would continue to be recorded on FPL's books. FPL would charge the pre-tax jurisdictionalized storm costs to the Reserve and would withdraw cash from the fund on an after-tax basis. In addition, a proportional amount of the deferred income tax liability associated with the Reserve will be reversed and a current tax benefit for storm losses incurred will be established.

SUMMARY

Q. Please summarize your testimony.

A. I have presented and discussed the total amount of costs incurred for the 2004 and 2005 storms as well as the amounts of storm-recovery costs FPL is requesting the Commission to approve for recovery through a Storm Charge to its customers. I have presented the revenue requirements for the Company's primary and alternative recommendations for storm cost recovery. I have also discussed the controls in place for capturing and recording the costs related to storm restoration activities. In addition, I have proposed a true-up mechanism to be filed at least every six months to adjust the Storm Charge for any over or under recoveries. Finally, I have presented and discussed the necessary accounting entries to record the proposed storm-recovery financing, including special accounting treatment for the set up and sale of regulatory assets which FPL is requesting the Commission to authorize, and the types of charges FPL expects to charge against the replenished Reserve.

Q. Does this conclude your direct testimony?

A. Yes.

Revenue Requirements for Primary Recommendation
($ millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Bonds												
Opening Balance	$ 1,050.00											
Principal Payment (1)	50.10	63.66	69.61	75.07	80.22	85.09	90.24	95.65	101.24	107.02	113.00	119.10
Ending Balance	$ 999.90	$ 936.24	$ 866.63	$ 791.55	$ 711.33	$ 626.24	$ 536.00	$ 440.35	$ 339.11	$ 232.10	$ 119.10	$ -
Storm Bond Repayment Charge												
Principal Payment (1)	50.10	63.66	69.61	75.07	80.22	85.09	90.24	95.65	101.24	107.02	113.00	119.10
Interest (2)	51.97	49.32	46.19	42.78	39.03	35.03	30.78	26.19	21.24	15.97	10.40	4.52
Ongoing Costs (3)	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Total Cash Collected	102.93	113.82	116.65	118.70	120.11	120.98	121.87	122.69	123.32	123.84	124.25	124.47
Charges Billed & Uncollected (4)	14.12	0.62	0.49	0.49	0.36	0.37	0.40	0.39	0.38	0.39	0.39	(18.21)
Total Billed Charges	$ 117.04	$ 114.44	$ 117.15	$ 119.20	$ 120.48	$ 121.35	$ 122.28	$ 123.09	$ 123.72	$ 124.24	$ 124.63	$ 106.28
Storm Bond Tax Charge												
Income Taxes (5)	30.87	39.38	43.12	46.55	49.78	52.84	56.07	59.47	62.98	66.61	70.36	74.20
Total	$ 30.87	$ 39.38	$ 43.12	$ 46.55	$ 49.78	$ 52.84	$ 56.07	$ 59.47	$ 62.98	$ 66.61	$ 70.36	$ 74.20
Total Revenue Requirements (6)	$ 147.91	$ 153.82	$ 160.26	$ 165.74	$ 170.25	$ 174.19	$ 178.34	$ 182.55	$ 186.68	$ 190.84	$ 195.00	$ 180.46

Notes:

(1) Principal payments based on estimated cash collections, which is further detailed in Mr. Olson's testimony.

(2) Applied interest rate of 5.056% is further detailed in Mr. Olson's testimony.

(3) Details of the ongoing costs are illustrated on Document No. MPD-3 in Mr. Dewhurst's testimony.

(4) Represents the difference between storm bond repayment charges billed and cash collected. Assumes customer payment lag of 30 days. In year one, 12 months are billed, but only 11 months are collected.

(5) Income taxes on revenues collected for principal payment, net of deduction for amortization of upfront bond issuance costs, at 38.575%.

(6) Totals may not add due to rounding.

Revenue Requirements for Alternative Recommendation
($ millions)

Line No.		Year 1	Year 2	Year 3
1	**Estimated 2004 Storm Deficit as of July 31, 2006**			
2				
3	Beginning Balance	$ (212.02)	$ (58.68)	
4	Current Surcharge (1)	156.80	59.43	
5	Interest Charge (2)	(3.46)	(0.75)	
6				
7	Ending Balance	$ (58.68)	$ (0.00)	
8				
9	**Estimated 2005 Storm-Recovery Costs as of July 31, 2006**			
10				
11	Beginning Balance	(828.14)	(570.39)	(294.83)
12	Collect through Surcharge	275.60	286.61	298.59
13	Interest Charge (2)	(17.85)	(11.04)	(3.76)
14				
15	Ending Balance	$ (570.39)	$ (294.83)	$ (0.00)
16				
17	**Replenishment of Reserve**			
18				
19	Collect through Surcharge	$ 208.11	$ 216.42	$ 225.47
20				
21				
22				
23	**Total Storm Charge**			
24				
25	Existing 2004 Storm Restoration Surcharge	156.80	59.43	-
26	2005 Storm Restoration Surcharge	275.60	286.61	298.59
27	Replenishment of Reserve	208.11	216.42	225.47
28	**Total Revenue Requirements (3)**	$ 640.50	$ 562.46	$ 524.07
29				
30				
31				
32				
33				

34 **Notes:**

35 (1) Surcharge approved in Commission Order No. PSC-05-0937-FOF-EI in Docket No. 041291-EI. For purposes of calculating this
36 schedule, it is assumed the 2004 deficit balance will reach zero at the end of the recovery period. Any under or over collection
37 of this surcharge will be addressed in the final filing of actual 2004 storm costs and the total amount collected through the
38 surcharge as required in the same Order.

39 (2) Interest charge is based on the average unrecovered after-tax balance times the Company's current commercial paper rate of 4.21%.

40 (3) Totals may not add due to rounding.

Docket No. ______
K. Michael Davis, Exhibit No. ___-
Document No. KMD-2, Page 1 of 1
Summary of Storm Costs

FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
Summary of Storm Costs*
($000's)

Cost Component	System Amount	Jurisdictional Amount	Reference
Aggregate of 2004 and 2005 Storm Costs:			
2004 Storm Costs (Net of Insurance Proceeds)	$ 890,000	$ 885,773	
2005 Storm Costs (Net of Insurance Proceeds)	879,871	879,176	
Total	1,769,871	1,764,948	
Income Taxes at 38.575%	(682,728)	(680,829)	
After-Tax Storm Costs**	**$ 1,087,143**	**$ 1,084,119**	
Storm-Related Costs Proposed for Storm-Recovery Financing:			
Unrecovered 2004 Storm-Recovery Jurisdictional Costs as of July 31, 2006		$ 213,307	Document No. KMD-3
Unrecovered 2005 Storm-Recovery Jurisdictional Costs as of July 31, 2006		826,853	Document No. KMD-4
Replenishment of the Reserve		650,000	Mr. Dewhurst's Testimony
Total Storm-Related Costs Proposed for Storm-Recovery Financing		1,690,160	
Less: Income Taxes at 38.575%		(651,979)	
After-tax Storm-Related Costs Proposed for Storm-Recovery Financing**		**$ 1,038,181**	

*The objective of this schedule is to show the maximum amount of costs eligible for financing under the IRS Safe Harbor provisions and the actual amount FPL proposes to finance.

**Totals may not add due to rounding.

Docket No. ______
K. Michael Davis, Exhibit No. ___-
Document No. KMD-3, Page 1 of 1
Unrecovered 2004 Storm-Recovery Costs

FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
Unrecovered 2004 Storm-Recovery Costs (1)
($000's)

Line No.	Date	Beginning Deficiency Balance	Interest on Outstanding Balance (2)	Actual/Estimated Billed Revenues (3)	Ending Deficiency Balance
1	Jan-05	$ 441,991	$ 548		$ 442,538
2	Feb-05	442,538	580	5,680	437,438
3	Mar-05	437,438	599	12,903	425,134
4	Apr-05	425,134	617	13,274	412,477
5	May-05	412,477	627	13,985	399,119
6	Jun-05	399,119	633	16,829	382,923
7	Jul-05	382,923	641	18,567	364,997
8	Aug-05	364,997	643	19,271	346,369
9	Sep-05	346,369	642	17,557	329,454
10	Oct-05	329,454	645	13,977	316,122
11	Nov-05	316,122	655	10,671	306,106
12	Dec-05	306,106	647	12,073	294,680
13	Jan-06	294,680	622	12,449	282,852
14	Feb-06	282,852	597	11,227	272,223
15	Mar-06	272,223	574	11,281	261,517
16	Apr-06	261,517	551	11,499	250,569
17	May-06	250,569	527	11,840	239,256
18	Jun-06	239,256	501	13,903	225,854
19	Jul-06	225,854	471	14,302	212,024

2004 Storm-Recovery Cost Deficiency as of July 31, 2006	$ 212,024
Add: 2004 Commission Adjustment per Docket No. 041291-EI (System Amount of $21.7 million)	21,597
Less: 2005 Storm Accrual (suspended as of January 1, 2006 per Docket No. 041291-EI)	(20,204)
Less: Year-to-Date September 30, 2005 Storm Fund Earnings Added to the Reserve (4)	(110)
Net Adjustment	1,283
Unrecovered 2004 Storm-Recovery Costs as of July 31, 2006 (1), (5)	**$ 213,307**

Notes:
(1) Reflects jurisdictional total.

(2) The interest rate is based on actual commercial paper rate January - November 2005 and 4.21% for remainder of recovery period. Per staff recommendation Issue No. 23 in Docket No. 041291-EI, interest carrying charges are calculated on a net-of-tax balance for the period January 2005 through June 2006.

(3) Estimated billed revenues for January 2006 through June 2006 are based on the average retail surcharge factor approved by the Commission times forecasted kWh sales detailed in Mr. Green's testimony, less applicable revenue taxes.

(4) The Storm Fund was liquidated as of September 30, 2005.

(5) Totals may not add due to rounding.

Docket No. ______
K. Michael Davis, Exhibit No. ___-
Document No. KMD-4, Page 1 of 1
Unrecovered 2005 Storm-Recovery Costs

FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
Unrecovered 2005 Storm-Recovery Costs
($000's)

	Hurricanes				Total	Jurisdictional
Cost Component	**Dennis**	**Katrina**	**Rita**	**Wilma**	**Amount**	**Amount (5)**
Estimated 2005 Storm-Recovery Costs, per Ms. Williams' Testimony (1)	$ 10,388	$ 162,100	$ 12,195	$ 721,721	$ 906,404	
Adjustments in accordance with the Actual Restoration Cost Approach in Docket No. 930405-EI, with an adjustment to remove normal capital costs:						
(2) Estimated Capital Expenditures	(397)	(6,291)	(532)	(56,634)	(63,855)	
(3) Estimated Insurance Proceeds	-	-	-	(26,533)	(26,533)	
Total Adjustments	(397)	(6,291)	(532)	(83,168)	(90,388)	
Net 2005 Storm-Recovery Costs	**$ 9,991**	**$ 155,809**	**$ 11,662**	**$ 638,554**	**$ 816,016**	**$ 815,372**
Adjustment in Accordance with Florida Statute §366.8260:						
(4) Interest	141	2,194	164	8,991	11,490	11,481
Unrecovered 2005 Storm-Recovery Costs (6)	**$ 10,132**	**$ 158,003**	**$ 11,826**	**$ 647,545**	**$ 827,507**	**$ 826,853**

Notes:

(1) Includes uncollectible write-off expense.

(2) Capital amounts represent normal capital costs as determined using FPL's estimating system and includes cost of removal of the assets replaced. These costs are to be recovered through rate base.

(3) FPL expects to receive insurance proceeds for Hurricane Wilma, but not for Hurricanes Dennis, Katrina, or Rita. This amount excludes insurance proceeds related to estimated capital expenditures.

(4) Florida Statute (2005) §366.8260(1)(n) permits the inclusion of costs to finance the 2005 storm-recovery activities in the amount to recover through storm-recovery financing. Interest has been calculated by applying an after-tax commercial paper rate on estimated actual costs incurred for December 2005 through July 2006. Estimated actual costs incurred are based on a historical percentage of actual costs incurred for the months following the 2004 storms.

(5) Jurisdictional factor of 99.921% has been applied. Further details of the factor are included in Dr. Morley's testimony.

(6) Totals may not add due to rounding.

Docket No. ___________
K. Michael Davis, Exhibit No. ___
Document No. KMD-5, Page 1 of 4
Excerpts from July 19, 2005 Agenda
for Docket No. 041291-EI

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 041291-EI

In the Matter of:

PETITION FOR AUTHORITY TO RECOVER PRUDENTLY INCURRED STORM RESTORATION COSTS RELATED TO 2004 STORM SEASON THAT EXCEED STORM RESERVE BALANCE, BY FLORIDA POWER & LIGHT COMPANY.
_______________________________________/

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PROCEEDINGS:	AGENDA CONFERENCE ITEM NO. 17
BEFORE:	CHAIRMAN BRAULIO L. BAEZ COMMISSIONER J. TERRY DEASON COMMISSIONER RUDOLPH "RUDY" BRADLEY COMMISSIONER LISA POLAK EDGAR
DATE:	Tuesday, July 19, 2005
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	JANE FAUROT, RPR Official FPSC Hearings Reporter (850) 413-6732

knowledge it was not questioned by our staff, it was not questioned by any of the consumer advocates.

But at the same time, those were, while significant storms, they were not catastrophic storms and not to the extent of the storms that we experienced in 2004. And as a result of the 2004 storm season, we have had a very thorough review by our staff and all of the intervenors and the company as to what is the appropriate accounting mechanism.

I apologize for taking so long and in a round-about way of getting to the conclusion that while I think it would have been preferable to have had a very specific determination made in the '93/'94 time frame, I don't think we made that determination, I don't think the Commission locked itself in. I think the Commission voted to retain its discretion, and in that discussion period it was very evident to me that the treatment of total replacement costs versus incremental costs was an issue, and that there was a concern expressed by the Commission as to how we were going to treat that. And that incremental costs may be the best approach to take, but that we would review that on a case-by-case basis.

So what I'm saying is I agree with staff's position on Issue 1, that we have the discretion and the latitude, that we are not locked in. And while that gives me some pause and some concern because I'm a firm believer in providing regulatory certainty and having the rules of the game, so to speak, out there and everybody understands it and follows it, the Commission just didn't do that in that vote.

And while I wish we had, maybe, taken the time and gone through that exercise so that we would not be having the debate now, for whatever reason I believe the Commission's vote was to retain the discretion and review that on a case-by-case basis. And so that is why we find ourselves here, and I don't think that we are locked into the methodology in this case that has been followed for storms between Andrew and 2004.

CHAIRMAN BAEZ: Thank you, Commissioner.

And that begs the question, is there any part of our decision today that actually -- I detect a level of lament in your statement, and perhaps my question would be does our decision today remedy that by saying this is the methodology that we are going to be using, or is it still, or does it still continue with the flexibility that I think forms the basis of the recommendation? I don't know if it is an appropriate question to be asking on this issue necessarily, but --

COMMISSIONER DEASON: No, I think it is an appropriate question, and I will be glad to share my views on that. I think until this Commission sets out a policy, preferably in a rulemaking as to what the specific accounting treatment is going to be, we retain our case-by-case flexibility. And that whatever decisions we make on the subsequent issues that follow Issue 1, that that is case-specific, based upon the facts of this record, and that we are not in the process of trying to establish an in-concrete procedure, accounting mechanisms, or whatever you want to call it that are going to be adhered to in the future. I think that really needs to be done in a rulemaking docket.

And I think at the time of the '93 docket, I think that was actually contemplated that the Commission would ultimately do that. For whatever reason it never happened. And, maybe I'm partly to blame for that. But it never happened. And I think that we -- to answer your question, the vote is case specific, facts here, we are not establishing an in-concrete mechanism to be adhered to on a going-forward basis, in my opinion.

CHAIRMAN BAEZ: Commissioners, other questions or a motion?

COMMISSIONER DEASON: I move staff on Issue 1.

COMMISSIONER BRADLEY: Second.

CHAIRMAN BAEZ: Moved and seconded. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN BAEZ: Issue 2, Commissioners.

COMMISSIONER DEASON: Issue 2 is really kind of an adjunct to Issue 1. I would move staff on Issue 2, as well.

COMMISSIONER BRADLEY: Second.

CHAIRMAN BAEZ: Moved and seconded. All those in

Power Generation (FPL's Fossil Plant Sites)
2005 Storm Costs*
($000's)

	Dennis	Katrina	Rita	Wilma	Total
Payroll					
Regular	$ 6	$ 53	$ 2	$ 280	$ 340
Overtime	12	116	16	743	887
Contractor & Line Clearing					
External Line & Contractor	-	2,108	76	15,778	17,963
Line Clearing	-	-	-	-	-
Vehicle & Fuel					
Vehicles & Equipment	0	-	-	-	0
Fuel	-	-	-	-	-
Material					
Material & Supplies	-	9	0	159	168
Reserve Equipment	-	-	-	-	-
Logistics					
Lodging	-	-	-	3	3
Equipment Rentals	-	-	-	-	-
Meals	-	-	-	5	5
Busing & Vehicle Rental	-	-	-	-	-
Other	2	14	1	33	50
TOTAL	**$ 20**	**$ 2,300**	**$ 95**	**$ 17,000**	**$ 19,415**

Actual Costs	20	509	19	1,754	2,302
Estimated Costs	-	1,791	76	15,246	17,113
TOTAL	**$ 20**	**$ 2,300**	**$ 95**	**$ 17,000**	**$ 19,415**

Capital Expenditures	-	-	-	(2,088)	(2,088)
Insurance Recoveries	-	-	-	(2,376)	(2,376)
AMT ELIGIBLE FOR RECOVERY	**$ 20**	**$ 2,300**	**$ 95**	**$ 12,537**	**$ 14,952**

*Actual and estimated costs are based on a financial close date as of November 30, 2005, except for certain estimate updates received on or about December 15, 2005.

Other FPL Facilities
(Corporate Facilities & Indiantown Central Distribution Facility)
2005 Storm Costs*
($000's)

	Dennis	Katrina	Rita	Wilma	Total
Payroll					
Regular	$ 0	$ 6	$ 3	$ 84	$ 92
Overtime	7	12	2	3	24
Contractor & Line Clearing					
External Line & Contractor	-	4	-	11,932	11,937
Line Clearing	-	-	-	-	-
Vehicle & Fuel					
Vehicles & Equipment	-	-	-	-	-
Fuel	-	-	-	-	-
Material					
Material & Supplies	-	-	-	1	1
Reserve Equipment	-	-	-	-	-
Logistics					
Lodging	-	-	-	-	-
Equipment Rentals	-	-	-	-	-
Meals	-	-	-	0	0
Busing & Vehicle Rental	-	-	-	-	-
Other	12	1,206	74	124	1,415
TOTAL	**$ 19**	**$ 1,227**	**$ 78**	**$ 12,144**	**$ 13,468**

Actual Costs	19	762	39	166	986
Estimated Costs	-	465	39	11,978	12,482
TOTAL	**$ 19**	**$ 1,227**	**$ 78**	**$ 12,144**	**$ 13,468**

Capital Expenditures	-	-	-	(5,680)	(5,680)
Insurance Recoveries	-	-	-	(641)	(641)
AMT ELIGIBLE FOR RECOVERY	**$ 19**	**$ 1,227**	**$ 78**	**$ 5,823**	**$ 7,147**

*Does not include damages to Nuclear or fossil power plants. Actual and estimated costs are based on a financial close date as of November 30, 2005, except for certain estimate updates received on or about December 15, 2005.

Docket No. _______
K. Michael Davis, Exhibit No. ___-
Document No. KMD-8, Page 1 of 1
Storm Charge True-Up Mechanism Form

FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
Storm Charge True-Up Mechanism Form

Line No.	Description	Calculation of the True-Up (1)	Current Factors to be Billed through the End of the Current Remittance Period (2)	Factors to be Billed in the Upcoming Remittance Period (1) - (2) = (3)
1	**Storm Bond Repayment Charge (remitted to SPE)**			
2				
3				
4	True-up for the Current Remittance Period Beginning _____ and Ending _____:			
5	Current Remittance Period Bond Revenue Requirements			
6	Current Remittance Period Actual Daily Cash Receipt Transfers and Interest Income:			
7	Daily Cash Receipts Transferred to the SPE (1)			
8	Interest Income on Subaccounts at the SPE			
9	Total Current Period Actual Daily Cash Receipts Transfers and Interest Income (Line 7 + 8)			
10	(Over)/Under Collections of Current Remittance Period Requirements (Line 5 - 9)			
11				
12	Upcoming Remittance Period Beginning _____ and Ending _____			
13	Principal			
14	Interest			
15	Servicing Costs			
16	Other On-Going Costs			
17	(Over)/Under Collections of Current Remittance Period Requirements (Line 10)			
18	Total Periodic Bond Revenue Requirements to be Billed During Upcoming Remittance Period (Line 13+14+15+16-/+17)			
19				
20	Forecasted kWh Sales for the Upcoming Remittance Period (adjusted for uncollectibles)			
21	Average Retail Storm Bond Repayment Charge (Current and Forecasted) per kWh (Line 18 / 20)			
22				
23				
24	**Storm Bond Tax Charge (retained at FPL)**			
25				
26				
27	True-up for the Current Remittance Period Beginning _____ and Ending _____:			
28	Current Remittance Period Revenue Requirements			
29	Current Remittance Period Revenue			
30	(Over)/Under Collections of Current Remittance Period Requirements (Line 28 - 29)			
31				
32	Upcoming Remittance Period Beginning _____ and Ending _____:			
33	Principal Payment (Line 13) less Amortization of Debt Issuance Costs * (1-Tax Rate) * Tax Rate			
34				
35	Total Periodic Tax Requirement to be Billed During Upcoming Remittance Period (Line 30 + 33)			
36	Forecasted kWh Sales for the Upcoming Remittance Period (adjusted for uncollectibles)			
37	Average Retail Storm Bond Tax Charge (Current and Forecasted) per kWh (line 35 / 36)			
38				
39				
40	**Total Average Retail Storm Charge (Current and Forecasted) per kWh (Line 21 + 37) (2)**			
41				
42				
43				
44				
45				
46	Notes:			
47	(1) Includes estimated daily cash transfers between measurement date and the end of the current remittance period.			
48	(2) Allocation of this amount to each rate class is addressed by Dr. Morley in her testimony.			
49				
50				

FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
Accounting Entries to Record Storm-Recovery Financing by the Special Purpose Entity (SPE)

Description	Debit	Credit	Income Statement	Balance Sheet
Entries for the Set-up of the SPE				
To record the initial investment and establish a restricted cash account in the SPE by FPL.				
Cash/Capital Subaccount	X			X
Shareholder's Equity		X		X
Entries Related to the Issuance of Storm-Recovery Bonds				
To record the issuance of storm-recovery bonds.				
Cash	X			X
Upfront Bond Issuance Costs	X			X
Bonds Payable		X		X
Entries Related to the Purchase of Regulatory Assets from FPL				
To record the purchase of the Regulatory Assets net of tax from FPL related to storm-recovery financing.				
Storm-Recovery Property	X			X
Cash		X		X
Monthly Entries Related to Storm-Recovery Financing				
To record revenues from the collection of Storm Bond Repayment Charges from customers.				
Accounts Receivable from FPL	X			X
Revenues		X	X	
To record the proceeds of Storm Bond Repayment Charges collected by FPL and to be remitted to SPE.				
Cash/General Subaccount	X			X
Accounts Receivable from FPL		X		X
To record the amortization of the storm-recovery property.				
Amortization Expense	X		X	
Storm-Recovery Property		X		X

FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
Accounting Entries to Record Storm-Recovery Financing for the Special Purpose Entity (SPE)

Description	Debit	Credit	Income Statement	Balance Sheet
Monthly Entries Related to Storm-Recovery Financing (continued)				
To record interest expense on the storm-recovery bonds.				
Interest Expense	X		X	
Interest Payable		X		X
To record on-going operating costs and servicing fees.				
Admin & General Expense	X		X	
Cash/General Subaccount		X		X
To record amortization of the upfront bond issuance costs.				
Interest Expense - Issuance Costs	X		X	
Upfront Bond Issuance Costs		X		X
To record payment of principal and interest on the storm-recovery bonds.				
Bonds Payable	X			X
Interest Payable	X			X
Cash/General Subaccount		X		X
To record payment of principal and interest on the storm-recovery bonds if revenues received from the Storm Bond Repayment Charge are insufficient..				
Bonds Payable	X			X
Interest Payable	X			X
Cash/Capital Subaccount		X		X
To record replenishment of the capital subaccount through the true-up mechanism, if funds are used.				
Cash/Capital Subaccount	X			X
Cash/General Subaccount		X		X
To record excess proceeds from the Storm Bond Repayment Charges remitted to the SPE after payments for principal, interest, on-going operating costs and servicing fees, and replenishment of the capital subaccount.				
Cash/Excess Funds Subaccount	X			X
Cash/General Subaccount		X		X

FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
Accounting Entries to Record Storm-Recovery Financing
for
Florida Power & Light Company (FPL)

Description	Debit	Credit	Income Statement	Balance Sheet
Entries for the Set-up of the SPE				
To record the initial investment in the SPE by FPL.				
Investment in SPE	X			X
Cash		X		X
Entries Related to the Sale of Regulatory Assets to the SPE				
To record $650 million to replenish the Reserve as approved by the Commission.				
Regulatory Asset	X			X
Deferred Income Tax Asset	X			X
Reserve		X		X
Deferred Income Tax Liability		X		X
To record the sale of the Regulatory Assets (unrecovered 2004 and 2005 storm-recovery costs and $650 million Reserve) net of tax to the SPE.				
Cash	X			X
Regulatory Assets		X		X
Entries Related to the Issuance of Storm-Recovery Bonds				
To establish the fund thereby creating a funded Reserve.				
Fund (net of tax)	X			X
Cash		X		X
Monthly Entries Related to Storm-Recovery Financing				
To record the revenues of Storm Bond Repayment Charges collected by FPL on behalf of the SPE.				
Customer Accounts Receivable	X			X
Accounts Payable to SPE		X		X
To record the revenues of Storm Bond Tax Charges collected by FPL.				
Customer Accounts Receivable	X			X
Revenue Taxes and Fees (GRT, RAF, franchise fees, etc.)	X		X	
Revenues		X	X	
Revenue Taxes and Fees Payable (GRT, RAF, franchise fees, etc.)		X		X

FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
Accounting Entries to Record Storm-Recovery Financing
for
Florida Power & Light Company (FPL)

Description	Debit	Credit	Income Statement	Balance Sheet
Monthly Entries Related to Storm-Recovery Financing (continued)				
To record collection of cash received from customers.				
Cash	X			X
Customer Accounts Receivable		X		X
To record the payment of Storm Bond Repayment Charges to the SPE.				
Accounts Payable to SPE	X			X
Cash		X		X
To record amortization of Regulatory Asset associated with the Storm Bond Tax Charge.				
Amortization Expense	X		X	
Regulatory Asset		X		X
To record current and deferred income taxes related to the amortization of Regulatory Assets.				
Deferred Income Tax Liabilities	X			X
Deferred Income Tax Expense		X	X	
Current Income Tax Expense	X		X	
Current Income Tax Payable		X		X
To record payment of revenue and income taxes.				
Revenue Taxes and Fees Payable (GRT, RAF, franchise fees, etc.)	X			X
Current Income Tax Payable	X			X
Cash		X		X
To record fund earnings and recognize the future deductibility of current earnings and related deferred income taxes.				
Fund (net of tax)	X			X
Earnings on the Fund (net of tax)		X	X	
Expense (Transfer Fund Earnings to Reserve)	X		X	
Deferred Income Tax Asset	X			X
Reserve		X		X
Deferred Income Tax Expense		X	X	