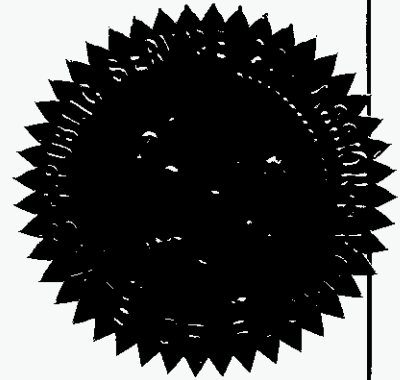


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION FOR INCREASE IN RATES DOCKET NO. 080677-EI
BY FLORIDA POWER & LIGHT COMPANY.

2009 DEPRECIATION AND DISMANTLEMENT DOCKET NO. 090130-EI
STUDY BY FLORIDA POWER & LIGHT
COMPANY.



VOLUME 25

Pages 3455 through 3598

ELECTRONIC VERSIONS OF THIS TRANSCRIPT ARE
A CONVENIENCE COPY ONLY AND ARE NOT
THE OFFICIAL TRANSCRIPT OF THE HEARING,
THE .PDF VERSION INCLUDES PREFILED TESTIMONY.

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Thursday, September 3, 2009

TIME: Commenced at 9:30 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
(850) 413-6732

PARTICIPATING: (As heretofore noted.)

DOCUMENT NUMBER-DATE

09209 SEP 08

FPSC-COMMISSION CLERK

I N D E X

WITNESSES

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

NAME:	PAGE NO.
Christopher A. Bennett	
Cross-Examination by Mr. Moyle	3458
Cross-Examination by Mr. Wright	3465
Cross-Examination by Ms. Hartman	3470
Redirect Examination by Mr. Anderson	3477
Steven Harris	
Direct Examination by Mr. Anderson	3487
Prefiled Direct Testimony Inserted	3490
Errata Sheet to Prefiled Testimony	3505
Cross-Examination by Mr. Moyle	3510
Cross-Examination by Mr. Wright	3525
Redirect Examination by Mr. Anderson	3545
Armando J. Olivera (Rebuttal)	
Direct Examination by Ms. Clark	3550
Prefiled Rebuttal Testimony Inserted	3552
Errata Sheet to Prefiled Testimony	3566
Cross-Examination by Mr. Mendiola	3570
Cross-Examination by Mr. Moyle	3571
Cross-Examination by Mr. Wright	3589

EXHIBITS

	NUMBER:	ID.	ADMTD.
1			
2			
3	113 and 114		3485
4	464		3485
5	465		3485
6	85, 86 and 87		3544
7	127, 128, 129		3549
8			
9	Exhibit 35 on Comprehensive Exhibit List,		3544
10	Number 13, FPL's Response to OPC's First Set of Interrogatories Number 85, Number 86, and Number 88.		
11	Exhibit 35 on Comprehensive Exhibit List,		3486
12	Item 41, Number 110		
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

P R O C E E D I N G S

1
2 (Transcript follows in sequence from
3 Volume 24.)

4 **CHAIRMAN CARTER:** We are back on the record,
5 and when we left we were on cross-examination.

6 Mr. Moyle, you're recognized.

7 **MR. MOYLE:** Thank you, Mr. Chair. And I
8 appreciate FPL's courtesy. Ms. Kaufman had to attend a
9 deposition in another rate case, so I am going to finish
10 up the last line of questions, and I appreciate FPL's
11 courtesy in allowing me to do so.

CROSS EXAMINATION

12
13 **BY MR. MOYLE:**

14 **Q.** The last line of questions relates to -- I
15 believe it was a witness last week was asked some
16 questions about aircraft and aircraft use by Florida
17 Power and Light. Do you have information about that?
18 Are you the best witness to talk to about FPL's aircraft
19 and aircraft use?

20 **A.** Yes.

21 **Q.** Okay. And how is it that you have that
22 information, how does that kind of fall within your
23 duties and responsibilities?

24 **A.** Security and aviation is one of the functions
25 that I oversee.

1 **Q.** All right. And what do you make use of the
2 helicopter -- you have two helicopters, is that right?

3 **A.** That is correct.

4 **Q.** And what use is made of the helicopters?

5 **A.** The helicopters are used primarily to
6 transport employees between our different facilities to
7 power plants, to the nuclear facilities, and to the main
8 offices -- between the main offices of FPL Group.

9 **Q.** Okay. Now, your president, he lives in Dade
10 County, isn't that right, Mr. Olivera?

11 **A.** I do not know where he lives.

12 **Q.** Okay. Does he have kind of first call on the
13 helicopters?

14 **A.** No, he does not.

15 **Q.** Who does?

16 **A.** There is an approval list for use of the
17 helicopters. It is by reserving them in advance, and it
18 is typically a first come, first served basis by
19 executives and other employees who need to travel.

20 **Q.** Has your aviation expense -- it hasn't come
21 down any or projected to come down in the 2010 or 2011
22 test years, has it?

23 **A.** I believe it is flat in the next two years.

24 **Q.** And do you have information about how those
25 costs get allocated, the aviation costs?

1 **A.** Yes, I do. Are you speaking specifically
2 about helicopters now, or all aviation?

3 **Q.** Well, I presume that -- how are the
4 helicopters allocated?

5 **A.** The helicopters are allocated on the basis of
6 the charge for the flight itself. There is a certain
7 per hour flight charge, and that charge is then
8 allocated to the number of passengers on board and
9 whatever the business unit or business purpose is that
10 they are traveling for. So if it is an FPL traveler
11 traveling on FPL business, a portion of that flight hour
12 is attributed and allocated back to the FPL passenger.
13 For other passengers on board it will be allocated
14 similarly.

15 **Q.** Okay. So it is not -- you are not allocating
16 on the helicopters on a 70/30 or 50/50 basis?

17 **A.** No, it is not.

18 **Q.** It is on a specific per trip basis, what was
19 the reason for the trip, is that kind of the way?

20 **A.** Correct, for the actual cost of the helicopter
21 trip itself. For any of the fixed expenses associated
22 with the helicopters or the aircraft, those are
23 allocated on the basis of passenger miles that are used
24 by any of the entities.

25 **Q.** And with respect to the fixed-wing aircraft,

1 you have a Falcon jet and two Citations, is that right?

2 **A.** That is correct.

3 **Q.** Okay. And how are those costs allocated?

4 **A.** They are allocated largely the same way. The
5 traveler on the trip states a business purpose and who
6 the trip should be charged to. The variable costs
7 associated with that trip are allocated, or charged
8 back, I should say, directly to the user, the traveler
9 on the aircraft, and then any other fixed charges are
10 charged back to the respective affiliate on the basis of
11 passenger miles.

12 **Q.** And, in response to a staff question, I think
13 there was a response that said that if somebody was
14 going to use it for personal use, then they would pay
15 the first class ticket, is that correct?

16 **A.** I need to clarify that. I know that there was
17 a statement made, I think on the first or second day.
18 The use, the personal use of the aircraft is only
19 allowed by three named executives. It is the CEO of FPL
20 Group, the Chief Operating Officer of FPL Group, and the
21 President of FPL.

22 When they do use the aircraft for personal
23 use, they travel on what we call a time share agreement.
24 We actually -- FPL actually has to lease the plane to
25 the respective individual for the trip. And then the

1 reimbursement for all personal trips is by the executive
2 back to FPL, and it is at the rate of actually three
3 times the standard industry fare level, which is
4 approximately what the first class fare would be. That
5 is for the smaller of the two aircraft, the Citation
6 aircraft. For the larger aircraft, which is the Falcon,
7 it is actually four times the civil rate or
8 approximately four times first class rate.

9 Q. So when you do the multiplier, it is times the
10 regular ticket or first class rate?

11 A. There is what is called a standard industry
12 fare level, which I believe is set by the IRS for travel
13 between any two city pairs that tends to parallel what
14 the first class rate is. I don't think it is identical
15 to the first class rate, but that is the rate which is
16 generally accepted and used in the business aviation
17 industry, and that is what we charge those executives
18 when they do use the aircraft.

19 Q. Do the executives as part of their
20 compensation, do they have use of the aircraft so many
21 hours per year?

22 A. No, they do not. However, if we go back and
23 look at the proxy that we filed at the end of 2008,
24 there were approximately -- in fact, there are
25 identically 86 flight hours of what is called by the SEC

1 personal use of the aircraft. The majority of that, or
2 approximately 72 hours, were for the three named
3 executives that I mentioned before traveling on --
4 traveling to other company board meetings, which, again,
5 is reimbursed by the executive at the multiplier of the
6 civil rate that I just mentioned and then reimbursed by
7 the company to the executive? In other words, the other
8 company of which they are a board member to the
9 executive.

10 That accounted for about 72 hours of the
11 86 hours of what the SEC considers personal use. So
12 there is approximately 14 hours remaining of what we
13 consider pure personal use or use not associated with
14 travel to board meetings.

15 Q. What are intra-FPL flights?

16 A. I'm not familiar with that term.

17 Q. Have you reviewed the testimony of Kim
18 Ousdahl?

19 A. I have. I'm not familiar with that
20 terminology, though.

21 Q. There is an aviation -- FPL has an aviation
22 policy, correct?

23 A. Yes, it does.

24 Q. Okay. And attached to Ms. Ousdahl's testimony
25 is an Exhibit KO-9 that contains an aviation policy and

1 the term intra-FPL flights. It says intra-FPL flights
2 are not charged back to the business unit. Do you know
3 what that means?

4 **A.** I'm not familiar with that, no.

5 **Q.** And so you probably wouldn't be familiar if it
6 says that on the airlines or with respect to variable
7 costs that they do it on a statutory mile? Do you have
8 any information about that?

9 **A.** Can you repeat that, please?

10 **Q.** Sure. With respect to allocation of variable
11 costs --

12 **A.** Yes.

13 **Q.** -- is it your understanding that it is done on
14 a per mile basis?

15 **A.** Yes, it is. For the aircraft it is done on a
16 statutory -- yes, a statute mile basis.

17 **Q.** And on the helicopter it is done --

18 **A.** It is done on flight hours.

19 **Q.** If the operating expense of, say, your Falcon
20 exceeded the recovery amount, the three times the first
21 class fare, how would that excess money be addressed,
22 that excess cost?

23 **A.** If there is an excess over and above what the
24 reimbursement rate is by the executive, the difference
25 is charged to FPL Group, and is not flown through to the

1 business units.

2 Q. Is that part of the rate case with respect to
3 the flow through to FPL Group?

4 A. I'm not sure I understand that question.

5 Q. Well, I guess when you say you charge it to
6 FPL Group, I am wondering whether that is then
7 ultimately picked up by shareholders or by ratepayers?

8 A. It is picked up by shareholders.

9 Q. Do you update the aviation costs?

10 A. Yes, we do. We do that on about an every
11 six-month basis.

12 MR. MOYLE: Okay. I appreciate it, Mr.
13 Chairman. That's it.

14 CHAIRMAN CARTER: Thank you.

15 Mr. Wright.

16 MR. WRIGHT: Thank you, Mr. Chairman.

17 CROSS EXAMINATION

18 BY MR. WRIGHT:

19 Q. Good afternoon, Mr. Bennett.

20 A. Good afternoon, Mr. Wright.

21 Q. My name is Schef Wright, and I am an attorney
22 representing the Florida Retail Federation in this case,
23 and I just have a few questions for you regarding your
24 rebuttal testimony at Pages 11 and 12, where you are
25 talking about renewable energy.

1 Beginning on Line 12, you make the statement
2 that in 2008, FPL provided its customers with a total of
3 1,627,407 megawatt hours from renewable resources,
4 correct?

5 **A.** That is correct.

6 **Q.** Do you know what percentage that represented
7 of FPL's total sales to ultimate customers in that year?

8 **A.** I don't know the exact number, but it is a
9 relatively small percentage. It is probably on the
10 order of 2 to 4 percent.

11 **MR. WRIGHT:** Mr. Chairman, I would like to
12 hand the witness a copy of an exhibit that is already in
13 evidence.

14 **CHAIRMAN CARTER:** Okay.

15 **MR. WRIGHT:** Exhibit 396.

16 **CHAIRMAN CARTER:** You may approach.

17 **BY MR. WRIGHT:**

18 **Q.** Mr. Bennett, I just handed you an excerpt from
19 FPL's Ten-Year Site Plan, which has already been
20 admitted into evidence. I directed your attention to a
21 table there that is out of FPL's site plan that purports
22 to show the total sales to ultimate customers. Will you
23 agree that the sales shown to ultimate customers shown
24 in that table is 102,919,000 megawatt hours, or 102,919
25 gigawatt hours?

1 **A.** It looks like it is 102,919 gigawatt hours in
2 2008.

3 **Q.** Right. And that is the same as the
4 102,919,000 megawatt hours, right?

5 **A.** That is correct.

6 **Q.** Okay. So I will make a proposition to you
7 that if you divide the 1,627,000 number in your
8 testimony by the sales to ultimate customers there it
9 comes out to about 1.6 percent. Does that look about
10 right to you?

11 **A.** That would be about correct.

12 **Q.** Okay. I wanted to ask you a question about
13 the projected generation from your solar facilities. I
14 note in your testimony it starts further down on 11 and
15 continues on to 12, that you are projecting about 51,000
16 megawatt hours per year from the DeSoto solar project
17 and about 17,000 megawatt hours per year from the Space
18 Coast solar project, correct?

19 **A.** Yes.

20 **Q.** Do you have a comparable number in terms of
21 megawatt hours equivalent from the solar component of
22 the Martin solar project?

23 **A.** I thought we had it in here, but if not, I
24 believe the total for the three projects is about
25 215,000 megawatt hours. So that would be -- it looks

1 like there is about 68,000 here. So the balance between
2 the 215 and 68 I believe would be for Martin.

3 Q. Thank you. That is consistent with my
4 recollection from the solar contract approval -- or
5 solar project approval dockets. Thank you.

6 Are you familiar with -- you are testifying
7 about renewable energy. Are you familiar with the study
8 that is commonly known as the Navigant study of
9 technical potential renewable energy for Florida?

10 A. No, I'm not.

11 Q. Have you heard of it?

12 A. No, I have not.

13 Q. Do you know what the percentage of renewable
14 energy in -- electrical energy from renewable sources in
15 Florida is today?

16 A. Today, including the waste and biomass, which
17 we discussed earlier, again, I would believe it is
18 probably in the 2 to 3 or 4 percent range.

19 Q. Thank you. I just have a couple more
20 questions, Mr. Bennett. Ms. Kaufman asked you some
21 questions about NextEra, and I understand NextEra is
22 essentially the successor to FPL Energy?

23 A. Correct.

24 Q. And you all produce a whole lot of energy from
25 renewable resources throughout the United States. I

1 think you said 26 states?

2 A. Yes.

3 Q. Could you just tell me what the three biggest
4 states are in terms of your energy production?

5 A. I don't know if I will be able to name them
6 all off the top of my head, but I think Texas, New
7 Hampshire would probably be in there, and then Wisconsin
8 or Iowa.

9 Q. Thank you. Do you know what percentage of the
10 sales, say, in Texas, what percentage of the energy, the
11 total energy used in Texas is represented by NextEra's
12 production in Texas?

13 A. I do not.

14 Q. The same question for New Hampshire?

15 A. No, I do not.

16 Q. Iowa?

17 A. No.

18 MR. WRIGHT: Okay. Thanks. That's all I
19 have. Thank you, Mr. Chairman.

20 CHAIRMAN CARTER: Thank you.

21 Staff.

22 MS. HARTMAN: We have some questions for the
23 witness, and we also have a couple of exhibits to
24 distribute. They are already in Staff's Composite 35.

25 CHAIRMAN CARTER: Are you wanting to introduce

1 them prior to the cross-examination, or you just want it
2 for the record? What's the plan?

3 **MS. HARTMAN:** We are just going to ask that
4 they be marked now after -- I'm sorry. We are going to
5 ask that they be marked after testimony is complete.

6 **CHAIRMAN CARTER:** Okay.

7 **MS. HARTMAN:** Thanks.

8 CROSS EXAMINATION

9 **BY MS. HARTMAN:**

10 **Q.** Good afternoon, Mr. Bennett.

11 **A.** Good afternoon.

12 **Q.** My name is Jean Hartman and I am an attorney
13 with the Commission. I've got some follow-up questions
14 on the personal use of FPL aircraft for you. And the
15 first thing I want to ask you is just to clarify what I
16 think I heard you tell Mr. Moyle earlier. Did you say
17 that for FPL Group there are only three individuals who
18 are -- who are allowed to use FPL aircraft?

19 **A.** Who are allowed to use FPL aircraft for
20 personal usage, correct.

21 **Q.** Okay. Did I hear you say anything about who
22 from FPL is allowed personal use of the aircraft?

23 **A.** Armando Olivera, the President and CEO of FPL.

24 **Q.** And that's it?

25 **A.** That's it.

1 **Q.** Okay. Can you also tell me a little bit about
2 FPL's helicopters, are they used for just transporting
3 people or do you also use them for maintenance?

4 **A.** They are used for transporting employees, as I
5 mentioned before, between FPL facilities and power
6 plants, nuclear plants within the state. They are also
7 used many times particularly during storms or hurricanes
8 to transport materials and supplies between different
9 sites within the state.

10 **Q.** Okay. I think you have before you now FPL's
11 Response to OPC's First Set of Interrogatories,
12 Interrogatory Number 22. Do you have that in front of
13 you?

14 **A.** Yes, I do.

15 **Q.** Okay. Are you familiar with these
16 calculations and amounts charged for aviation costs
17 broken out by fixed and variable costs?

18 **A.** I'm not familiar with these. These are
19 accounting charges, including depreciation, insurance,
20 and return on investment, which I don't see in terms of
21 operating the actual -- the service for the aircraft and
22 the helicopters themselves. I think Witness Ousdahl
23 would be the one who would be more familiar with these
24 figures.

25 **Q.** Okay. Would you be familiar with, if you

1 would look to the second line from the bottom, the
2 information regarding charge to affiliates?

3 **A.** Yes.

4 **Q.** Okay. So you are familiar with -- you would
5 be familiar with that line?

6 **A.** Again, I don't know the total charge in terms
7 of all of the costs labeled here A plus B, because that
8 total that is listed there is not all within my purview.
9 I have the operations budget for aviation, not the
10 accounting charges like depreciation, return on
11 investment, or insurance.

12 **Q.** Well, let me ask this way. For Line D, are
13 you the right person to talk about Line D, or is that
14 Ms. Ousdahl?

15 **A.** I can give you just a general overview of Line
16 D and how it works, but when it comes to the specific
17 numbers, it would be Ms. Ousdahl.

18 **Q.** Okay, thank you. Can you tell me if FPL has
19 performed any cost studies to show whether the use of
20 private aircraft is more cost-effective than commercial
21 aircraft?

22 **A.** I am not aware of any cost studies that we
23 have done on that, and the answer to that question is
24 really very specific to any specific flight. So, for
25 example, depending on the destination, the origin and

1 destination, what the competitive fare would be in that
2 city pair or in that market, and the load factor on the
3 aircraft for any specific flight, that number would vary
4 depending on those factors.

5 Q. Okay. Have you or do you know if anyone in
6 FPL has performed any analysis to see if the
7 reimbursement for personal use covers the actual cost of
8 the private use?

9 A. I believe Ms. Ousdahl has looked at that
10 specifically, and, again, the mechanism for that would
11 be as I described earlier, and if there is any
12 difference, that is charged to FPL Group.

13 Q. Okay. And do you know if employees are
14 allowed to take the aircraft outside of the continental
15 U.S. on personal travel?

16 A. For the most part, other than Canada, there
17 really is no ability for the aircraft to perform, you
18 know, those types of flights. If we are talking the
19 Caribbean or someplace nearby, but the range of the
20 aircraft is not such that it is able to travel
21 trans-Pacific. Trans-Atlantic it could, but it would
22 have to hop multiple times. So the aircraft is not
23 designed for that. It is designed for much shorter haul
24 types of flights.

25 Q. Well, can you tell me if there is any cap on

1 travel distance that individuals are allowed for
2 personal use. And you are kind of telling me what the
3 plane is capable of, but I'm asking you is there any
4 policy that would cap distance?

5 **A.** Specifically for personal use?

6 **Q.** Yes.

7 **A.** No, there is no cap. But, again, the personal
8 use is always reimbursed, so there is no net impact to
9 FPL customers.

10 **Q.** And I assume there is no minimum occupancy
11 requirement for the plane, one person flying would be --

12 **A.** We do have -- there is no requirement, but we
13 do have guidelines. And the director that reports to me
14 and myself do monitor the destinations, the flight
15 itineraries, which we see every week what the plans are,
16 and we do make determinations on the basis of that.

17 If there is a better competitive commercial
18 service available, based on our knowledge of fares in
19 those markets, the distance, and, again, the load
20 factor. So, for example, if we have individuals
21 traveling to the west coast, who desire to travel to the
22 west coast on the aircraft, that is not generally a very
23 cost-effective means of doing that. If they are
24 traveling in a market which is well-served by commercial
25 service, we do generally disapprove that.

1 **Q.** Okay. Let me turn your attention towards
2 reliability. Can you tell me if you review or if you
3 are made aware of reliability complaints filed by FPL
4 customers with the Commission?

5 **A.** Generally not.

6 **Q.** Okay. Are you aware of a recent outage
7 complaint filed by a customer in Palm Bay, Florida?

8 **A.** No, I'm not.

9 **Q.** Okay. Would Ms. Santos be the better witness
10 for this line of questioning on reliability complaints?

11 **A.** Probably Ms. Santos or Mr. Spoor.

12 **Q.** Mr. Spoor. Okay, thank you.

13 If I could ask you to look at the second
14 document that you have been provided with. It should
15 read FPL, Florida Power and Light Company, depreciation,
16 Staff's 8th Set of Interrogatories, Interrogatory Number
17 110.

18 **A.** Yes.

19 **Q.** Okay. Can you tell me, was this prepared --
20 this response prepared by you or under your supervision?

21 **A.** It wasn't prepared by me, but I am aware of
22 the response, and I am aware of the terms of the
23 contract related to this, related to climate conditions
24 and performance.

25 **Q.** Okay. Could you briefly summarize the

1 question and response to this interrogatory?

2 **A.** Yes. Well, there is two questions here. The
3 first was related to the in-service dates, which I think
4 are well described here. The second one related to the
5 climate conditions and what the impact of climate
6 conditions may be on the life and performance of solar
7 panels.

8 We are not aware of any studies, as it is
9 indicated in the answer here to Part B, that have been
10 done on addressing those conditions on life performance.
11 However, we do have from the vendor of the contractor
12 and the vendor of the solar panels themselves for these
13 projects, we do have a -- it is a 25-year life warranty
14 that has a specific performance agreement built in that
15 states that even at the 25-year point, or after 25
16 years, there must be an 85 percent continued performance
17 of the minimum peak specified for the solar panels. So,
18 in other words, performance is guaranteed to not degrade
19 by more than 15 percent over the 25-year period of the
20 warranty.

21 **MS. HARTMAN:** Thank you. That's all the
22 questions we have for the witness.

23 **CHAIRMAN CARTER:** Thank you. Anything from
24 the bench?

25 Redirect.

1 **MR. ANDERSON:** A few questions.

2 REDIRECT EXAMINATION

3 **BY MR. ANDERSON:**

4 **Q.** Mr. Bennett, South Florida Hospital's counsel
5 asked you some questions about the stimulus bill. Could
6 you tell us the overall purpose of that stimulus bill,
7 was it focused on funding existing projects or doing new
8 ones?

9 **A.** The focus of the stimulus bill, the American
10 Reinvestment and Recovery Act, was really to fund
11 incremental projects in the area -- there are several
12 areas that are specified there, but the one in
13 particular that we are still in the running for on the
14 Smart Grid Investment Grant was meant to fund, as it was
15 defined, incremental investments to what has already
16 been done. And that is why our focus has been on a
17 cross-cutting end-to-end project for Smart Grid, and not
18 simply an AMI project.

19 I might also point out that it was our belief
20 when we actually wrote the grant proposal for that
21 application that the probability of success, our
22 probability of winning was going to be much higher if we
23 did actually go in with a cross-cutting end-to-end
24 proposal for Energy Smart Florida. And, in fact, it
25 seems that that has been borne out, because there are

1 now at least 41 that we are aware of grant applications
2 that have been submitted for the Smart Grid Investment
3 grant program. It is about 2.5X oversubscribed, which
4 means that essentially not everyone is going to win.
5 And we believe that our chances or our probability of
6 success is much greater because we did specify an
7 end-to-end Smart Grid project rather than simply an AMI
8 project.

9 Q. If FPL is fortunate enough to get additional
10 funds from the Department of Energy for the grant you
11 talked about, will that increase any costs to FPL's
12 customers?

13 A. No, it will not.

14 Q. Will it decrease any costs for FPL's
15 customers?

16 A. No, it will not.

17 Q. OPC asked you some questions concerning future
18 greenhouse gas legislation and the like. Could you
19 comment on whether there are any uncertainties or
20 potential risks from climate legislation for FPL?

21 A. There is uncertainty --

22 MR. MOYLE: Objection, calls for speculation
23 on the witness' part.

24 CHAIRMAN CARTER: Overruled.

25 THE WITNESS: There is uncertainty surrounding

1 that. As we have seen in the past with, for example,
2 the Clean Air Act with respect to sulfur dioxide and
3 nitrogen oxide emissions, we felt that, and the intent
4 of that act was to essentially punish the polluters for
5 emitting into the air, into the atmosphere, sulfur
6 dioxide and nitrogen oxides.

7 When the act was actually enacted it turned
8 out that there were some fuel adjustment factors
9 included in the Clean Air Act, which were actually
10 detrimental to clean energy companies like ourselves.
11 And, in fact, favored the dirtier companies, companies
12 that emit more sulfur dioxide and nitrogen oxides, like
13 coal and oil generators.

14 So there is always the risk that if we don't
15 continually advocate for clean energy companies really
16 receiving the benefits and the incentives for what they
17 have already done, that customers can be hurt, and that
18 is why we continue to advocate and fight very hard to
19 ensure that the rules and the legislation are targeted
20 in that direction.

21 Q. Ms. Kaufman had given you one of
22 Ms. Slattery's discovery responses about compensation
23 and asked you some questions about the role of FPL
24 financial performance in your own compensation. Will
25 you comment on the key factors that drive your

1 compensation?

2 **A.** Yes. My compensation is based on primarily
3 individual performance, as well as performance of the
4 area, the business unit that I run. There is also a
5 component that is based on how the company does. But
6 with regard to the factors that are primarily built into
7 my incentives and objectives, they are objectives around
8 the area that I specifically run.

9 So, for example, in information technology, I
10 have objectives around implementing three major projects
11 on budget on time. That is a major piece of my
12 compensation.

13 Within environmental it is with -- incentives
14 are around permitting and siting the projects that we
15 have in the pipeline. Again, on schedule, on budget, on
16 time.

17 In operational excellence it has to do with
18 savings and improving reliability. I have specific
19 objectives around those. Those are the things that
20 actually flow up to improving company performance,
21 earnings per share and ROE for FPL Group. But I don't
22 directly impact those individually. It is my individual
23 performance on those types of projects in the areas I
24 oversee that I am really incented to perform on.

25 **Q.** And my last question is there were some

1 questions about the six sigma quality programs for
2 reducing cost and reducing errors and that type of
3 thing. Are the cost savings benefits, if any, reflected
4 from that in the MFRs in this case?

5 **A.** I'm sorry, I couldn't hear the last part of
6 that, Mr. Anderson.

7 **Q.** Are the cost savings associated with your six
8 sigma activities and like reflected in the MFRs in this
9 case?

10 **A.** Not directly, but the way that we work our
11 budgeting and the reason that we have been so successful
12 as a company in driving down O&M expense over so many
13 years is that we set stretch targets as we go forward in
14 our forecast. We don't always know how we are going to
15 achieve those results, and that is why this program of
16 operational excellence and six sigma is so important,
17 because we really rely on this, the discipline, the
18 rigor, and the statistical methodology to go out and
19 achieve those savings. Which at this point, if we
20 looked at 2010 and 2011, many of us don't know how we
21 are going to get those numbers, but we are confident
22 enough that we have the rigor and the discipline around
23 that program to be able to go off and deliver those
24 results similar to what we have done in the past.

25 **MR. ANDERSON:** We have nothing else. Thanks.

1 **CHAIRMAN CARTER:** Commissioner Skop.

2 **COMMISSIONER SKOP:** Thank you, Mr. Chair.

3 This is out of sequence, so I'll allow Mr. Anderson to
4 redirect if he needs to. But two quick questions to the
5 witness. With respect to the aviation discussion, who
6 is the appropriate witness to discuss the allocation of
7 the salaries of aviation personnel?

8 **THE WITNESS:** I can give you some insight into
9 that if you would like.

10 **COMMISSIONER SKOP:** Okay.

11 **THE WITNESS:** The salaries, other than crew
12 members who are associated and some maintenance costs
13 associated with the actual flights themselves, the
14 majority of salaries are considered fixed costs and are
15 allocated out to the affiliate and to FPL on the basis
16 of passenger miles flown.

17 **COMMISSIONER SKOP:** With respect to, I believe
18 the director that you mentioned, I guess he has
19 functional responsibility for aviation in another area.

20 **THE WITNESS:** That is correct.

21 **COMMISSIONER SKOP:** As well as the chief
22 pilot. It seems to me that those aviation services are
23 shared amongst regulated, unregulated, and group. If I
24 am understanding this correctly, why would those two
25 respective salaries be 100 percent allocated to Florida

1 Power and Light?

2 **THE WITNESS:** The salaries of the chief pilot
3 and the director?

4 **COMMISSIONER SKOP:** Yes.

5 **THE WITNESS:** Well, the chief pilot's salary,
6 I believe, again, is allocated on the basis of passenger
7 miles. I don't know for certain about the director of
8 that.

9 **COMMISSIONER SKOP:** Okay. I guess -- staff,
10 do we have the additional information, or would
11 Ms. Ousdahl be the appropriate person? I mean, I guess
12 we can get out the confidential documents if we needed
13 to.

14 **THE WITNESS:** I think Ms. Ousdahl would be the
15 one that could answer the question.

16 **COMMISSIONER SKOP:** Okay. I will reserve my
17 question there. Getting back to a discussion of six
18 sigma, is that initiative being applied to vegetation
19 management practices in light of some of the customer
20 concerns that have been expressed?

21 **THE WITNESS:** Yes, it is. In fact, when we
22 looked at the -- this 80/20, as I mentioned before about
23 the worst performing feeders and lines, one of the root
24 causes that we found for the ones which were the worst
25 performers were the result of poor vegetation

1 management. And as a result of that, practices were
2 adopted to ensure that we go through and improve that
3 area.

4 **COMMISSIONER SKOP:** And I know that you
5 mentioned the feeders in that regard, but, again, we
6 have heard some recent complaints, so maybe that would
7 also lay into that. And then, finally, with respect to
8 the IT investment on Page 17 of your prefiled testimony,
9 I guess they have made the migration finally to
10 Microsoft Suite and other IT initiatives?

11 **THE WITNESS:** Yes.

12 **COMMISSIONER SKOP:** All right. Thank you.

13 **CHAIRMAN CARTER:** Mr. Anderson.

14 **MR. ANDERSON:** Nothing further. Thanks.

15 **CHAIRMAN CARTER:** Exhibits. I think there are
16 two. Okay. 113 and 114, Mr. Anderson.

17 **MR. ANDERSON:** I believe they are 114 and 115,
18 CAB-1 and CAB-2, FPL offers them in evidence.

19 **CHAIRMAN CARTER:** Okay. On Staff's Composite
20 Exhibit List I am showing 113 and 114.

21 **MR. ANDERSON:** Then I defer to yours. I don't
22 have it in front of me.

23 **CHAIRMAN CARTER:** CAB-1 and CAB-2?

24 **MR. ANDERSON:** Yes, sir. Thank you.

25 **CHAIRMAN CARTER:** Okay. You move those,

1 right?

2 **MR. ANDERSON:** I do, sir.

3 **CHAIRMAN CARTER:** Any objections? Without
4 objection, show it done.

5 (Exhibit Numbers 113 and 114 admitted into the
6 record.)

7 **CHAIRMAN CARTER:** Let's go to the back pages.
8 Okay. I think you are up, Ms. Griffiths.

9 **MS. GRIFFITHS:** SFHHA would move for the
10 admission of Exhibit Number 464.

11 **CHAIRMAN CARTER:** Are there any objections?

12 **MR. ANDERSON:** No.

13 **CHAIRMAN CARTER:** Without objection, show it
14 done.

15 (Exhibit Number 464 admitted into the record.)

16 **CHAIRMAN CARTER:** Mr. Moyle, Exhibit 465.

17 **MR. MOYLE:** We would move it in, please.

18 **CHAIRMAN CARTER:** Are there any objections?

19 **MR. ANDERSON:** No.

20 **CHAIRMAN CARTER:** Without objection, show it
21 done.

22 (Exhibit Number 465 admitted into the record.)

23 **CHAIRMAN CARTER:** Okay. This witness has done
24 direct and rebuttal. Thank you, sir, have a nice day.

25 **THE WITNESS:** Thank you, Mr. Chairman.

1 **MS. HARTMAN:** Mr. Chairman.

2 **CHAIRMAN CARTER:** Oh, staff, sorry about that.

3 **MS. HARTMAN:** We have got one exhibit.

4 **CHAIRMAN CARTER:** Well, we don't need him for
5 that, do we?

6 You can still have a nice day.

7 Staff.

8 **MS. HARTMAN:** Okay. Of the two exhibits we
9 passed out, we would only ask that one be marked at this
10 time, and that shows up in Staff's Composite Exhibit 35.

11 **CHAIRMAN CARTER:** Is that the --

12 **MS. HARTMAN:** Pink sheet.

13 **CHAIRMAN CARTER:** Okay. The pink sheet.

14 **MS. HARTMAN:** It is Item 41, and within Item
15 41 it is Number 110.

16 **CHAIRMAN CARTER:** Is that the only one or do
17 you have more?

18 **MS. HARTMAN:** That's it.

19 **CHAIRMAN CARTER:** Any objections? Without
20 objection, show it done. Okay.

21 (Exhibit 35 on Comprehensive Exhibit List,
22 Item 41, Number 110 admitted into the record.)

23 **CHAIRMAN CARTER:** Have a nice day,
24 Mr. Bennett.

25 Okay. Call your next witness.

1 **MR. ANDERSON:** FPL calls Steve Harris as its
2 next witness, please. While we have a second, Mr.
3 Harris, have you been sworn already?

4 **THE WITNESS:** No, I have not.

5 **CHAIRMAN CARTER:** Okay. Mr. Harris, would you
6 please stand and raise your right hand. If there are
7 any other witnesses that will be testifying this
8 afternoon, and you are here in the room, would you
9 please stand also and raise your right hand. Okay. I
10 don't see any.

11 (Witness sworn.)

12 **MR. ANDERSON:** May we proceed, Mr. Chairman?

13 **CHAIRMAN CARTER:** One second.

14 **MR. ANDERSON:** Okay.

15 **CHAIRMAN CARTER:** You may proceed,
16 Mr. Anderson.

17 STEVEN P. HARRIS

18 was called as a witness on behalf of Florida Power and
19 Light Company, and having been duly sworn, testified as
20 follows:

21 DIRECT EXAMINATION

22 **BY MR. ANDERSON:**

23 **Q.** Good afternoon, Mr. Harris.

24 **A.** Good afternoon.

25 **Q.** I see you have been sworn as a witness. Would

1 you tell us your name and your business address?

2 **A.** Yes. My name is Steven Harris and my business
3 address is 475 14th Street, Oakland, California.

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

5 **CHAIRMAN CARTER:** Pull your mike a little
6 closer to you, Mr. Harris.

7 **THE WITNESS:** Is that better, Chairman?

8 **CHAIRMAN CARTER:** That's much better, much
9 better. Thank you.

10 **THE WITNESS:** Yes. I am employed by ABS
11 Consulting, EQECAT, both of which are subsidiaries of
12 the ABS Group of Companies.

13 BY MR. ANDERSON:

14 **Q.** Have you prepared and caused to be filed 15
15 pages of prefiled direct testimony in this proceeding?

16 **A.** Yes, I have.

17 **Q.** And we have just passed around an errata also
18 here?

19 **A.** That is correct. There is an errata to my
20 testimony.

21 **Q.** Other than the errata, do you have any changes
22 or revisions to your prefiled direct testimony?

23 **A.** No, there are none others.

24 **Q.** If I asked you the same questions contained in
25 your prefiled direct testimony, would your answers be

1 the same?

2 **A.** Yes, they would.

3 **MR. ANDERSON:** FPL asks that the prefiled
4 direct testimony be inserted into the record as though
5 read.

6 **CHAIRMAN CARTER:** The prefiled testimony of
7 the witness will be inserted into the record as though
8 read.

9 **MR. ANDERSON:** Thank you.

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **DIRECT TESTIMONY OF STEVEN P. HARRIS**

4 **DOCKET NO. 080677-EI**

5

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

7 A. My name is Steven P. Harris. My business address is ABSG Consulting, Inc.
8 (ABS Consulting), 475 14th Street, Oakland, California 94612.

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

10 A. I am a Vice President with ABS Consulting, an affiliated company of
11 EQECAT, Inc., both of which are subsidiaries of the ABS Group of
12 Companies, Inc. Together these two companies are leading global providers
13 of catastrophic risk management services, including software and consulting
14 to major insurers, reinsurers, corporations, governments and other financial
15 institutions. In addition, these companies develop and license catastrophic
16 underwriting, pricing, risk management and risk transfer models that are used
17 extensively in the insurance industry. The companies provide the financial,
18 insurance and brokerage communities with a science and technology-based
19 source of independent quantitative risk information.

20 **Q. Please describe your educational background and business experience.**

21 A. I hold Bachelors and Masters Degrees in engineering from the University of
22 California at Berkeley. I am a licensed civil engineer in the State of
23 California. Over the past 26 years, I have conducted and supervised

1 independent risk and financial studies for public utilities, insurance companies
2 and other entities both regulated and unregulated. My areas of expertise
3 include natural hazard risk analysis, operational risk analysis, risk profiling
4 and financial analysis, insurance loss analysis, loss prevention and control,
5 business continuity planning and risk transfer.

6
7 A significant portion of my consulting experience has involved the
8 performance of multi-hazard risk studies including earthquake, ice storm and
9 windstorm perils for electric, water and telephone utility companies as well as
10 insurance companies.

11
12 I have performed or supervised hurricane, tropical storm loss and/or reserve
13 performance analyses for utilities including Florida Power & Light Company
14 (“FPL” or the “Company”), Progress Energy, Tampa Electric, Gulf Power
15 Company, South Carolina Gas and Electric Company, CenterPoint Energy,
16 Mississippi Power Company, Alabama Power Company, and others.

17
18 Additionally, for energy companies that have assets in a wide array of
19 geographic locations, I have performed or supervised multi-peril analyses for
20 all natural hazards, including earthquakes, windstorms and ice storms.

21 **Q. Are you sponsoring exhibits in this case?**

22 **A.** Yes. I am sponsoring the following exhibits:

- 23
 - SPH-1 – Storm Loss Analysis and Reserve Performance Analysis

- 1 • SPH-2 – FPL Distribution Asset Concentration by County and
2 Hurricane Strikes by County 1900-2007
- 3 • SPH-3 – Category 3 Hurricane Landfalls and Mean Damage to T&D
4 Compared to \$150 Million Annual Accrual Case

5 **Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements**
6 **in this case?**

7 A. No.

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

9 A. The purpose of my testimony is to present the results of ABS Consulting's
10 independent analyses of risk of uninsured loss to FPL assets. Exhibit SPH-1
11 presents the result of two analyses: the Storm Loss Analysis and the Reserve
12 Performance Analysis.

13 **Q. Please briefly describe these studies performed for the Company.**

14 A. ABS Consulting performed two studies relative to FPL's reserve established
15 pursuant to Account 228.1 – Accumulated Provision for Property Insurance:
16 the Storm Loss Analysis (the "Loss Analysis") and the Reserve Performance
17 Analysis (the "Performance Analysis"). The Loss Analysis is a probabilistic
18 storm analysis that uses proprietary software to develop an estimate of the
19 uninsured expected annual loss from windstorms to which FPL is exposed.
20 The Performance Analysis is a dynamic financial simulation analysis that
21 evaluates the performance of the reserve in terms of its expected balance and
22 the likelihood of having a negative balance over a five-year period, given the

1 potential uninsured losses determined from the Loss Analysis at various
2 annual accrual levels.

3 **Q. Please summarize the results of your analyses.**

4 A. The Loss Analysis concluded that the total expected annual loss to FPL's
5 system from all hurricane and tropical storms is estimated to be \$153.3
6 million. The Performance Analysis demonstrated that, assuming any negative
7 reserve balances would be recovered over a period of two years, an accrual
8 level of \$150 million would result in an expected reserve balance of \$382
9 million and a probability of having a negative balance of 33 percent at the end
10 of the five-year simulation time horizon. Based on a \$150 million annual
11 accrual and recovery of any reserve deficit over a two-year period, there is a
12 42 percent chance that the reserve fund balance could be greater than \$650
13 million at the end of five years.

14

15

LOSS ANALYSIS

16

17 **Q. Please describe the Loss Analysis.**

18 A. The Loss Analysis estimates how large and how often possible hurricane and
19 tropical storm losses will be. Hurricanes and tropical storms are low
20 frequency and high severity events. Actuarial analysis is not possible due to
21 their infrequent nature but potentially extreme damage. The risk of damage to
22 FPL's Transmission and Distribution (T&D) assets and costs to restore service
23 is determined by:

- 1 • The values and location of the assets at risk;
- 2 • The likelihood and intensity of possible storms that affect these assets,
- 3 or “storm hazard”; and
- 4 • The susceptibility to damage and cost to repair and restore service
- 5 when damaged.

6 The Loss Analysis determined the expected annual loss from windstorms to
7 FPL’s T&D system and other storm-related costs. Windstorm losses include
8 costs associated with service restoration and repair of FPL’s T&D system as a
9 result of hurricanes, tropical storms and winter storms. Other storm-related
10 costs include estimates for the pre-positioning of personnel and equipment
11 (staging) in anticipation of storm restoration activities, windstorm insurance
12 deductibles attributable to non-T&D assets, and potential retrospective
13 assessments associated with FPL’s insurance of its nuclear facilities.

14 **Q. Please describe the computer software used to perform the Loss Analysis.**

15 A. The Loss Analysis is performed using the EQECAT proprietary probabilistic
16 computer storm analysis model USWIND™. The model simulates thousands
17 of possible years of storm losses using the known science to estimate the
18 expected annual damage to FPL’s T&D assets. USWIND is one of only four
19 models evaluated and determined acceptable by the Florida Commission on
20 Hurricane Loss Projection Methodology (FCHLPM) for projecting hurricane
21 loss costs.

1 Probabilistic annual damage and loss are computed using the results of over
2 100,000 random variable storms. Annual damage and loss estimates are
3 developed for each individual site and aggregated to overall portfolio damage
4 and loss amounts. The storm database used by USWIND is a combination of
5 historical and random variable storms. The version of USWIND currently
6 accepted by the FCHLPM includes hurricanes affecting Florida during the
7 period 1900 through 2007. The model utilizes the National Hurricane Center
8 HURDAT file starting at 1900. The file is compiled through June 1, 2007, to
9 which data has been added for the 2007 hurricane season.

10 **Q. Does USWIND take into account hurricane frequency and severity?**

11 A. Yes, it does. The analysis is based on hurricane frequency and severity
12 distributions developed from the entire 107-year historical record.

13 **Q. Do the storm frequency assumptions include the possibility of having
14 multiple hurricane landfalls within Florida in any given year?**

15 A. Yes. The current version of USWIND does include the possibility of having
16 multiple hurricane landfalls within Florida in any given year, including the
17 impact of such landfalls on aggregate losses, consistent with the 2004
18 hurricane season.

19 **Q. What were the results of the Loss Analysis?**

20 A. I concluded that the total expected annual loss to FPL's system from
21 hurricanes and tropical windstorms is estimated to be \$153.3 million.

1 **Q. What does this expected annual loss estimate represent?**

2 A. The expected annual loss estimate represents the average annual cost
3 associated with damage to T&D assets, insurance deductibles for damage to
4 other assets, and service restoration activities resulting from windstorms over
5 a long period of time.

6 **Q. Your 2005 study estimated an expected annual loss of \$73.7 million.**
7 **Please explain why you now estimate the expected annual loss to be**
8 **\$153.3 million.**

9 A. The significant increase in the expected annual loss over the results reported
10 in our 2005 study for FPL's T&D assets is the result of two factors: a large
11 increase in the values at risk, and changes to the modeled Florida hurricane
12 hazard. Of these two, the predominant factor has been the increase in
13 replacement values for FPL's T&D assets. The replacement values in the
14 2005 study were \$11.8 billion versus the current \$20.2 billion. This
15 represents more than a 70 percent increase in the value of assets at risk. This
16 increase in replacement values is due to both cost escalation of all existing
17 assets, as well as additions of assets into service. The second but significantly
18 smaller factor causing the loss estimate to increase from the 2005 study is the
19 incorporation of the hurricane storm data for the very active 2004 through
20 2007 hurricane seasons.

21

22 Exhibit SPH-2 of this testimony illustrates both the assets at risk and the storm
23 hazard for FPL's T&D system. The highest concentrations and total values of

1 FPL assets at risk are located in Dade, Broward and Palm Beach Counties.
2 These asset concentrations coincide with the highest hurricane hazard in
3 Florida, as shown by the numbers of hurricane landfalls by County in Exhibit
4 SPH-2. This coincidence of both high values of assets at risk and high
5 hurricane hazard creates a high risk exposure for FPL's T&D system.

6 **Q. Did your calculation of the expected annual loss take into account**
7 **potential reductions in storm damage due to the infrastructure storm**
8 **hardening that FPL has begun to implement?**

9 A. No. The calculation of the expected annual loss is based on the T&D system
10 prior to implementation of the storm hardening activities. However, FPL has
11 supplied me information on the reduction in expected annual loss that it
12 believes may be achieved as a result of the hardening projects it will complete
13 by the end of 2010. FPL estimated that the average annual reduction could
14 range up to about \$6.7 million. Subtracting \$6.7 million from the expected
15 annual loss of \$153.3 million results in a net expected annual loss of \$146.6
16 million. The range from \$146.6 million to \$153.3 million represents a
17 reasonable spectrum of the expected annual loss net of storm hardening
18 benefits, based on the information FPL supplied.

19 **Q. Is the Loss Analysis performed for FPL the same type of analysis**
20 **performed for insurance companies to price an insurance premium?**

21 A. Yes. The natural hazards loss modeling and analysis would be similar for an
22 insurance company, electric utility or other entity. Insurers rely on simulation
23 modeling for the purpose of estimating likely damage. Computer modeling is

1 the most reliable basis for estimating hurricane losses and is the current
2 standard of care and method utilized by insurance and re-insurance companies
3 to estimate hurricane loss exposures for underwriting, and aggregation of their
4 business. The expected annual loss is also known as the "Pure Premium"
5 which, when insurance is available, is the insurance premium needed to
6 provide an insurer with just enough revenues to cover the expected losses.
7 Insurance companies add their expenses and profit margin to the Pure
8 Premium to develop the premium charged to customers.

9

10 **PERFORMANCE ANALYSIS**

11

12 **Q. Please summarize the Performance Analysis.**

13 A. ABS Consulting performed a dynamic financial simulation analysis of the
14 impact of the estimated windstorm losses on FPL's reserve for specified levels
15 of annual funding. The starting assumption for the Performance Analysis was
16 a reserve balance of \$215 million. This conservatively reflects the initial
17 reserve replenishment amount per Financing Order No. PSC-06-0464-FOF-
18 EI, adjusted for earnings and securitization costs. It does not reflect charges
19 against the reserve since this replenishment occurred. The Performance
20 Analysis performed 10,000 simulations of storm losses within FPL's service
21 territory, each covering a five-year period, to determine the effect of the
22 charges for loss on the reserve. Monte Carlo simulations were used to
23 generate loss samples consistent with the expected \$153.3 million annual Loss

1 Analysis results. The analysis provides the expected balance of the reserve in
2 each year of the simulation accounting for the annual accrual, investment
3 income, expenses, and losses using a financial model.

4 **Q. What is a Monte Carlo simulation?**

5 A. Monte Carlo analysis is a technique used to model multiple storm seasons and
6 simulate variable storm losses consistent with the results of the Loss Analysis.
7 Because storm seasons and losses are highly variable, 10,000 five-year
8 simulations are performed to estimate the performance of the reserve with
9 various accrual levels.

10 **Q. Are the results of the Loss Analysis incorporated in the Performance**
11 **Analysis?**

12 A. Yes. Both the likelihoods and amounts of uninsured annual losses determined
13 in the Loss Analysis are used to simulate losses in each of the five years in the
14 Performance Analysis in order to determine the likelihood of the reserve
15 having a negative balance.

16 **Q. Were the 2004 through 2007 storm seasons included in the Performance**
17 **Analysis?**

18 A. Yes. The costs of FPL storm restoration activities from the 2004 through
19 2007 storm seasons are reflected in the Loss Analysis and are included in the
20 expected annual losses. These results are inputs to the Performance Analysis.
21 Each year of the five-year Performance Analysis uses these projected losses to
22 simulate the cost of annual storm restoration from the reserve. These costs

1 reflect past FPL storm restoration experience including those from the most
2 recent seasons.

3 **Q. Please describe the assumptions that were included in the Performance**
4 **Analysis.**

5 A. All computations were performed with the FPL provided initial reserve
6 balance of \$215 million. Further, all results are shown in constant 2008
7 dollars. Investment earnings were assumed to grow at a rate of 3.45 percent,
8 and negative reserve balances were assumed to be financed with an unlimited
9 line of credit costing four percent. Also, the analysis performed included
10 certain assumptions regarding loss exposures. These include assumptions
11 regarding future FPL system growth, and future increased cost for system
12 restoration due to inflation.

13 **Q. Please describe the assumptions regarding future inflation and FPL**
14 **system growth.**

15 A. The analysis assumed that FPL's system asset values and therefore storm
16 losses would increase by five percent per year in each year of the reserve
17 performance simulations. This growth in system values and storm losses in
18 the analysis reflects both increases in existing asset values due to cost inflation
19 as well as future growth of the FPL customer base with the addition of new
20 system assets.

21 **Q. Please summarize the results of the Performance Analysis.**

22 A. Reserve performance can be viewed in terms of the expected balance of the
23 reserve and the likelihood of insolvency occurring in any year of the five-year

1 periods. Based on the simulated loss distributions, there is some likelihood of
2 the reserve having a negative balance for each of the annual accrual levels
3 analyzed. Higher accrual levels will result in a lower probability of the
4 reserve having a negative balance, and will have a higher probability of a
5 positive reserve balance at the end of the five-year simulation period. If the
6 annual accrual levels are smaller, there is a much greater chance of having a
7 negative balance.

8 **Q. Do you feel FPL's selection of a \$650 million target level for the reserve is**
9 **adequate?**

10 A. Based on the current value of FPL's T&D assets, a reserve balance of \$650
11 million would be adequate to cover uninsured losses during most, but not all,
12 storm seasons.

13 **Q. Did you analyze a range of annual accrual levels in your evaluation?**

14 A. Yes. My evaluation included analyses of the likelihood of the reserve having
15 a negative balance at the annual accrual level of \$150 million, as well as at a
16 \$100 million and \$175 million annual accrual level.

17 **Q. What is the likelihood of reserve having a negative balance at an annual**
18 **accrual level of \$150 million?**

19 A. At the annual accrual level of \$150 million, the likelihood of having a
20 negative balance occurring in any year over a five-year period is 33 percent.
21 At an annual accrual level of \$150 million, it is projected that the reserve
22 would have an expected balance of \$138 million at the end of five years,
23 without recovery of any negative reserve balances as they occur. With

1 recovery of any negative storm reserve balances over a two-year period, the
2 reserve balance is projected to be \$382 million at the end of five years.

3 **Q. What did your evaluation show with respect to \$100 million and \$175**
4 **million accruals?**

5 A. At an annual accrual level of \$100 million, the expected balance of the reserve
6 at the end of five years would decline from the initial \$215 million to \$135
7 million with recovery of negative storm balances over a two-year period, and
8 negative (\$117 million) without such recovery. There would be a 42 percent
9 probability of a negative balance at the end of the five-year simulation time
10 horizon with and without recovery of negative balances respectively. Based
11 on a \$100 million annual accrual and recovery of any reserve deficits over a
12 two-year period, there is also only a six percent chance that the reserve fund
13 balance could be greater than \$650 million at the end of five years.

14
15 At an annual accrual level of \$175 million, the expected balance of the reserve
16 at the end of five years would be \$475 million with recovery of negative storm
17 balances over a two-year period, and \$266 million without such recovery.
18 There would be a 30 percent probability of a negative balance at the end of the
19 five-year simulation time horizon with and without recovery of negative
20 balances respectively. Based on a \$175 million annual accrual and recovery
21 of any reserve deficits over a two-year period, there is also a 56 percent
22 chance that the reserve fund balance could be greater than \$650 million at the
23 end of five years.

1 **Q. FPL is requesting an accrual of \$150 million. What is the likelihood of**
2 **reaching the \$650 million target level for the reserve during the five-year**
3 **period?**

4 A. The ABS Consulting reserve Performance Analysis estimates that an annual
5 accrual level of \$150 million and two-year recovery of negative storm reserve
6 balances would result in a 42 percent probability of reaching or exceeding the
7 reserve target level of \$650 million. Without recovery of negative storm
8 reserve balances, an annual accrual of \$150 million would result in a 41
9 percent probability of reaching or exceeding the reserve target level of \$650
10 million.

11 **Q. What is your conclusion with respect to the \$150 million annual level of**
12 **accrual selected by FPL?**

13 A. A \$150 million dollar annual accrual is a reasonable level intended to achieve
14 over time a \$650 million reserve balance, as well as reducing the risk of
15 exhausting the reserve. My analysis indicates that, with an expected annual
16 loss of \$153.3 million, an annual accrual of \$150 million and the ability to
17 recover any negative reserve balances over a two-year period, the balance of
18 the reserve at the end of five years would grow from the initial \$215 million to
19 an expected balance of \$382 million. Keep in mind, however, that actual
20 events will dictate the amount of the reserve balance over time. For example,
21 there is a 33 percent chance that storm losses will create a deficit in the
22 reserve in any year of the five-year period. Additionally, there is a 42 percent

1 chance that the balance of the reserve may exceed \$650 million at the end of
2 the five year period.

3
4 An illustration of the level of protection afforded by the \$150 million accrual
5 is provided in Exhibit SPH-3. Exhibit SPH-3 shows a comparison of the
6 expected reserve balance results for the \$150 million accrual case selected by
7 FPL with the potential mean damage from Category 3 storms making landfall
8 at various locations along the Florida coast. The exhibit shows that the initial
9 balance of \$215 million affords protection against some but not all of these
10 single Category 3 landfalls in FPL's service territory. The Performance
11 Analysis case with recovery of negative reserve balances over a two year
12 period results in a \$382 million balance at the end of five years and provides
13 adequate funds for many Category 3 storms, but not for the most severe events
14 affecting Dade, Broward and Palm Beach Counties. The case without
15 recovery of negative balances results in a \$138 million balance at the end of
16 five years and can fund significantly fewer of the Category 3 hurricane
17 landfalls.

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

19 A. Yes.

ERRATA SHEET

(X) DIRECT TESTIMONY, OR () REBUTTAL TESTIMONY (PLEASE MARK ONE WITH "X")
WITNESS: Steven P. Harris

PAGE #
Exhibit SPH-2

LINE #

CHANGE
Last column in red, change amount noted from \$44,350,000 to
\$4,350,000

1 **BY MR. ANDERSON:**

2 Q. You are sponsoring some exhibits?

3 A. Yes, I am.

4 Q. Forty pages labeled as SPH-1 to SPH-3?

5 A. That is correct.

6 **MR. ANDERSON:** Mr. Chairman, I have those
7 noted as 127 to 129 on Staff's Composite Exhibit List.

8 **CHAIRMAN CARTER:** For the record, 127 through
9 129 on the staff's composite. You may proceed.

10 **BY MR. ANDERSON:**

11 Q. Have you prepared a summary of your testimony?

12 A. Yes, I have.

13 **CHAIRMAN CARTER:** Mr. Harris, before you go,
14 were you here when I talked about the timing of the
15 lights?

16 **THE WITNESS:** I have heard that on prior days,
17 yes.

18 **CHAIRMAN CARTER:** Okay. All righty.

19 **THE WITNESS:** Thank you.

20 **BY MR. ANDERSON:**

21 Q. Please provide your summary.

22 A. Yes. Good afternoon, Commissioners. My
23 testimony presents the results of the study performed by
24 ABS Consulting relative to FPL's storm reserve. ABS
25 Consulting is an independent risk management firm and

1 provides catastrophic loss modeling to utilities,
2 insurers, and government agencies. My storm loss study
3 estimates how large and often possible hurricanes and
4 tropical storms will be. Hurricanes and tropical storms
5 are low frequency and high severity events. An
6 actuarial analysis of these loss events are not possible
7 due to their infrequent nature.

8 The risk of damage to FPL's T&D assets and the
9 cost to restore service is determined largely by three
10 things. First, the value and locations of the assets at
11 risk. Secondly, the likelihood and the intensity of
12 possible storms affecting these assets, which we call
13 storm hazard. And the susceptibility of these T&D
14 assets, the damage and the cost to repair and restore
15 service when they are damaged.

16 If I could direct your attention to Figure 1
17 of my testimony, which is behind me, and I think you all
18 have handouts for, this illustrates both the assets at
19 risk and the storm hazard for FPL's T&D system. You
20 will note that the highest concentrations of assets,
21 approximately \$10 billion worth in the red counties of
22 Dade, Broward, and Palm, which represents over
23 50 percent of FPL's total T&D assets at risk. These
24 asset concentrations coincide with the highest hurricane
25 hazard in Florida as shown in the figure representing 65

1 hurricane strike over the last one hundred-plus years in
2 these three counties.

3 This coincidence of both high values of assets
4 and high hurricane hazard create a very high risk
5 exposure to FPL's T&D system. Damage from a single
6 Category 3 storm making landfall in one of these
7 counties would exceed the balance of FPL's storm
8 reserve, its current storm reserve. A Category 4 or 5
9 storm making landfall in one of these counties could
10 result in restoration costs up to 2 to \$3 billion.

11 My loss analysis performed using a proprietary
12 probabilistic computer storm model, which simulates
13 thousands of possible years of storm losses using the
14 known science to estimate the expected annual damage to
15 FPL's T&D assets. The model is one of only four models
16 that has been evaluated and determined acceptable by the
17 Florida Commission on Hurricane Loss Projection
18 Methodology for projecting hurricane loss costs.

19 The state performs annual reviews of all
20 models used in Florida for insurance rating purposes to
21 ensure that they are appropriate and are not biased.
22 Insurers rely on these simulation models to estimate
23 likely damage. Computer modeling is the most reliable
24 basis for estimating hurricane losses and is the current
25 standard of care and method utilized by the insurance

1 industry to estimate losses, exposures for underwriting,
2 and aggregation. My loss analysis estimated the total
3 expected uninsured cost to Florida Power and Light from
4 all wind storms to be \$153 million.

5 My second analysis is a dynamic simulation of
6 the reserve itself. It looks at the likelihood and
7 amounts of uninsured storm losses over a five-year
8 period. And analyses were run using 100, 150, and
9 175 million assumed accruals. The reserve analysis
10 demonstrates that 150 million accrual level, assuming a
11 starting balance of 215 and recovery of negative
12 balances within two years, would result in a reserve
13 balance of 382 million at the end of five years.

14 If you would look at Figure 2 of my testimony,
15 it shows a comparison of the reserve balance results for
16 the 150 million accrual case selected by FPL with mean
17 damage values from Category 3 storms making landfalls at
18 various locations along the Florida coast. It can be
19 seen that the initial balance of 215 million for its
20 protection against some, but not all of these single
21 Category 3 landfalls in FPL's service territory.

22 The case with recovery of negative balances
23 over a two-year period results in a 382 million balance
24 at the end of five years and provides adequate funds for
25 more storms, but not the most severe storms affecting

1 Dade, Broward, and Palm Beach. The case without
2 recovery of negative balances in five years can fund
3 significantly fewer of these hurricane landfalls. And
4 this concludes my summary.

5 **MR. ANDERSON:** Mr. Harris is available for
6 cross-examination.

7 **CHAIRMAN CARTER:** Thank you. Is it Mr.
8 Wiseman or Mr. McGlothlin? Who is on first?

9 **MR. MCGLOTHLIN:** OPC has no questions for this
10 witness.

11 **CHAIRMAN CARTER:** Mr. Wiseman.

12 **MR. WISEMAN:** No questions.

13 **CHAIRMAN CARTER:** Ms. Bradley?

14 **MS. BRADLEY:** No questions.

15 **CHAIRMAN CARTER:** Mr. Moyle?

16 **MR. MOYLE:** I am the sticky wicket.

17 **CHAIRMAN CARTER:** You're recognized.

18 CROSS EXAMINATION

19 **BY MR. MOYLE:**

20 **Q.** Let me refer you back to this chart that was
21 distributed, this FPL distribution asset concentration
22 by county. And I think in your summary you said that
23 the red reflects that there were 65 hurricanes hitting
24 in the red area, is that right?

25 **A.** That is correct.

1 **Q.** So then what is the total hits in the yellow
2 area, what is that?

3 **A.** The table -- I assume you are referring to the
4 table to the left of the figure.

5 **Q.** Yes, sir.

6 **A.** And these are broken down into counties by
7 values of transmission and distribution assets that are
8 owned by FPL in those counties. So if you look at the
9 red counties, which is Miami-Dade/Broward the values at
10 risk are 1.5 billion to 4.3 billion in those counties.

11 If you look at the dark yellow counties, they
12 are 500,000 to 1.5 billion -- I'm sorry, 500 million to
13 \$1.5 billion in assets in the dark yellow counties. And
14 then for each of those counties there are numbers of
15 hurricane strikes in each of those counties over the
16 last 107 years.

17 **Q.** So this doesn't include any hurricanes that
18 have struck the area that is not in FPL's service
19 territory?

20 **A.** That is correct.

21 **Q.** You are aware that hurricanes have struck
22 areas not in FPL's service area, correct?

23 **A.** Yes, that's correct.

24 **Q.** So, if I wanted to find out how many
25 hurricanes have hit FPL's service territory, would I add

1 up all of these numbers under total hits?

2 **A.** You could do that, yes. This is, again,
3 historical over 107 years. This is a National Weather
4 Service diagram that I have borrowed for this
5 illustration.

6 **Q.** Florida has a lot of hurricanes, you would
7 agree with that, wouldn't you?

8 **A.** Yes, I would.

9 **Q.** The attachment to your -- to your exhibit,
10 wind storm hazard in Florida, 3-1, could you go to that,
11 Page 12 of 38?

12 **A.** Yes, sir, I'm there.

13 **Q.** Would you read the second sentence into the
14 record, please?

15 **A.** "For example, since 1900 there have been over
16 60 hurricanes of SSI intensity one or greater."

17 **Q.** Okay. Your chart reflects a lot more than 60,
18 doesn't it, if you add all of those numbers up?

19 **A.** That is correct. Those are not hurricanes,
20 those are hurricane strikes. And if you look at the
21 chart, you will see that there are inland counties that
22 have hurricane strikes listed for them. So there is
23 some double-counting going on here by the National
24 Weather Service in this particular diagram.

25 **Q.** I just couldn't figure out the numbers.

1 Because, you know, a lot of the panhandle is not
2 counted, but, anyway.

3 Let me ask you, what is the design criteria,
4 if you know, for transmission lines that FPL employs?

5 **A.** I am not an expert in that area. You might
6 ask one of FPL's engineering representatives.

7 **Q.** So you don't have any information about the
8 design criteria?

9 **A.** Not with me. I mean, anecdotally I can tell
10 you that the transmission system has a very long
11 duration and it has been built over a long period of
12 time. I think that the design criteria has actually
13 evolved over time, so there is no single design criteria
14 that applies to the entire system.

15 **Q.** And in Florida after some hurricanes, the
16 state legislature and others got involved about
17 strengthening codes. Do you know to what level the FPL
18 transmission system is designed in terms of wind force?

19 **A.** No, I do not. I think one of the FPL
20 witnesses would be a better person to answer that
21 question.

22 **Q.** So you didn't make any assumptions with
23 respect to that issue at all in preparing your
24 testimony, correct?

25 **A.** We did review some of the information which

1 they have. Our loss study is based primarily on
2 historical damage to their system, and transmission
3 damage tends to be a smaller portion of the total losses
4 than does distribution.

5 **Q.** How about the same question with respect to
6 design criteria for distribution? Do you know if the
7 distribution system is designed to a tropical force
8 wind, a Level 3? Do you have any information about the
9 design criteria for distribution as we sit here today?

10 **A.** No, I'm not an expert on their design
11 criteria. And, again, I believe it is a historical kind
12 of question.

13 **Q.** And as an expert, wouldn't that -- to the
14 extent that design information was available, wouldn't
15 that be useful to inform you as to the amount of damage
16 that you might expect from a hurricane?

17 **A.** The most useful information to inform us of
18 the damage to expect is the damage that has been
19 experienced by past events.

20 **Q.** And are you aware of any efforts to increase
21 the resiliency of FPL's transmission or distribution?

22 **A.** I am aware that there is a hardening program
23 that is underway, yes.

24 **Q.** And you didn't take that into account in
25 preparing your report, did you?

1 **A.** No, we did not. There was no data available
2 to us to incorporate into our study. Perhaps in future
3 studies.

4 **Q.** You would agree that FPL's distribution system
5 to the extent that it is overhead poses a greater risk
6 of being damaged from hurricanes as compared to
7 underground distribution systems, correct?

8 **A.** That depends on the exposure. In general, I
9 think that may be true, but there are unique exposures
10 to underground systems that are not posed to aerial
11 systems, such as flooding, inundation, coastal storm
12 surge.

13 **Q.** Do you have any information about the
14 percentage of FPL's distribution system that is overhead
15 as compared to underground?

16 **A.** I believe it is about 50 percent. It is about
17 half overhead and underground.

18 **Q.** The same question with respect to
19 transmission?

20 **A.** I believe transmission is mostly aerial. I
21 think there are very small segments of underground
22 transmission.

23 **Q.** Are you aware or did you consider in
24 performing your analysis or preparing your report any
25 changes in vegetation management that may have been

1 adopted by FPL in recent years?

2 **A.** There was no information available to us on
3 vegetation management to incorporate in the study.

4 **Q.** Is vegetation management something that is an
5 important consideration in trying to ascertain the
6 likely damages that may be impacted onto a distribution
7 or transmission system?

8 **A.** It could well be. I don't believe there are
9 any definitive studies on what those effects are,
10 though.

11 **Q.** Okay. But you didn't ask for any of that
12 information from FPL?

13 **A.** We have had discussions with FPL people in the
14 past on vegetation management, and there isn't data that
15 is in suitable format to incorporate into our analytic
16 work.

17 **Q.** How about with respect to increasing pole
18 inspections? Did you have any information about
19 frequency of pole inspections, and would that effect
20 your results with respect to the expected damage that
21 you would expect to see from a storm?

22 **A.** We have no information on any correlations
23 between pole inspections and damageability of poles.

24 **Q.** You have expertise in general insurance
25 matters, correct, reinsurance as well?

1 **A.** We work for insurers and reinsurers, yes, that
2 is correct.

3 **Q.** Let me refer you, if I could, to Table 2-3 of
4 your testimony?

5 **A.** Yes, sir, I'm there.

6 **Q.** If I am reading this table correctly, it shows
7 that there is approximately 60 percent of FPL's assets
8 that are in generation, both the nuclear and the general
9 plant, is that correct?

10 **A.** I would accept that. It is in the general
11 ranges.

12 **Q.** And then the transmission and distribution is
13 40 percent?

14 **A.** That's right.

15 **Q.** Now, FPL, they have insurance to cover their
16 general plant, do they not?

17 **A.** That is my understanding, yes.

18 **Q.** Do you know what the annual premium that they
19 pay for the general plant and the nuclear plant is?

20 **A.** I couldn't tell you that. I understand there
21 are multiple policies that are involved in the coverage
22 of those assets. Some of the other FPL witnesses might
23 be able to provide you specifics on that.

24 **Q.** Did you ask that question of them?

25 **A.** Did we ask the question?

1 **Q.** Yes.

2 **A.** No, it is not relevant to our study.

3 **Q.** So you weren't asked to take a look at FP&L's
4 overall insurance portfolio and give them advice as to
5 whether this storm recovery was cost-effective vis-a-vis
6 maybe buying insurance like was done on the general
7 plants, that wasn't part of what you were asked to do,
8 correct?

9 **A.** No, we are not -- let me explain. We are not
10 insurance brokers. We don't actively participate in
11 placements with clients like FPL. We are a risk
12 management firm and a software firm. We write software
13 that we license to insurance companies to analyze their
14 risk exposures and to use in management of their
15 insurance business. We also consult directly with
16 companies like FPL, or government agencies, or other
17 people with insurance and risk interests. So what we
18 provided here, we believe, is decision quality risk
19 information that FPL can use with respect to this
20 particular hazard.

21 **Q.** Am I correct in assuming that if you can get
22 insurance for a nuclear power plant, you can also --
23 there is a market for insurance for distribution and
24 transmission systems?

25 **A.** I don't know if you are correct in that

1 assumption or not.

2 Q. You just don't have any information one way or
3 the other on that?

4 A. I think anecdotally I could tell you that
5 affordable insurance and adequate capacity has not been
6 available since Hurricane Andrew for T&D coverage. I
7 mean, that has been a general -- that is a general
8 statement about the market that I can tell you
9 anecdotally.

10 But, we are not brokers. I mean, we wouldn't
11 be able to advise FPL on whether a specific insurer or
12 reinsurer would offer them specific terms and capacity
13 for this exposure.

14 Q. And you didn't look at that, that wasn't part
15 of what you were tasked to do, correct?

16 A. That is correct.

17 Q. And most of the reinsurance comes out of
18 where, Bermuda and London these days?

19 A. Bermuda and London are the two primary
20 reinsurance markets, that is correct.

21 Q. Did you have any conversations with the
22 reinsurance markets about whether transmission and
23 distribution could be covered and for what price?

24 A. As I said before, we are not brokers, and that
25 is not part of our core business.

1 Q. On Page 11 of your testimony, 11-5?

2 A. Of the testimony, or my --

3 Q. I'm sorry. Your prefiled testimony, Page 11?

4 A. Page 11, yes.

5 Q. I have it marked as Sentence 5. I'm sorry,

6 you are talking about a growth rate of 3.4 percent.

7 It's Page 11, Line 7. Do you see that?

8 A. Yes, I do.

9 Q. Why did you assume that growth rate?

10 A. We did not assume that. That was a growth
11 rate that was provided to us by FPL as input to our
12 study.

13 Q. And this looks at negative balance reserves.
14 You assumed that there would be financed with an
15 unlimited line of credit costing 4 percent. Why did you
16 assume 4 percent?

17 A. Again, the 4 percent number was provided to us
18 as input to our study.

19 Q. Was the fact -- you talk about an unlimited
20 line of credit. Is it your understanding that FPL has
21 an unlimited line of credit?

22 A. It is our understanding that FPL in past storm
23 events has fixed all the damage to their system and
24 financed that in some way. So, yes, there needs to be
25 credit available to perform those activities at some

1 point when an event occurs.

2 Q. Do you know that FP&L has over 2.5 billion in
3 credit facilities currently in place?

4 A. No, I do not know that.

5 Q. On Page 9, you talk about a pure premium.
6 What is a pure premium?

7 A. Pure premium is the risk cost of an insured
8 peril. And what that means is that if there is an event
9 that is going to occur with some frequency and some
10 loss, that is the pure cost of that loss. In other
11 words, whatever damage is done over whatever frequency,
12 that is the cost. And typically insurers work on the
13 basis of calculating pure premium using software like
14 ours for catastrophic perils for underwriting, and they
15 will add to that both their general administrative cost,
16 plus profit and other factors to determine a premium
17 that they will charge insureds.

18 Q. And the pure premium in this case is
19 150 million, is that right?

20 A. That's correct.

21 Q. So if I understand your explanation,
22 essentially 150 million a year covers the cost, correct?

23 A. That is exactly right.

24 Q. And so if there is not a storm event like,
25 say, if we went back for the last three years, then I

1 guess that 150 million would be going to the good of
2 whoever was collecting it, correct?

3 **A.** No, that is not exactly what the expected
4 annual loss means. The expected annual loss is taking
5 all loss events that could occur over some long period
6 of time and dividing it by the number of years that you
7 are using as a basis and getting an average cost per
8 year.

9 So, for example, if you had three years of no
10 storm losses, and in the fourth year had a storm loss
11 that was \$100 million, you would say that the average
12 annual cost for that peril is 25. It would be the
13 \$100 million divided by four years.

14 **Q.** It is also true that part of what FPL is
15 seeking with this storm accrual is to cover losses in
16 excess of insurance coverage from nuclear accidents at
17 FPL's nuclear plants, correct?

18 **A.** That is my understanding of the function of
19 the reserve is to fund unrecovered losses.

20 **Q.** And this money that is being asked from
21 ratepayers is also -- also would be available for
22 insurance assessments from industry nuclear accidents,
23 correct?

24 **A.** That is another risk exposure. It is a very
25 low probability one, but it is one.

1 **Q.** You did a study in 2005, and the number you
2 came up with with respect to the annual cost that should
3 be accrued was half of the number that you are here
4 today testifying about, correct?

5 **A.** That is correct. And I believe in my
6 testimony there are a number of explanations as to the
7 change in that basis.

8 **MR. MOYLE:** One final line of questions,
9 Mr. Chairman, if I could just briefly.

10 **BY MR. MOYLE:**

11 **Q.** There is this Monte Carlo analysis that, you
12 know, is done. Am I correct in understanding a Monte
13 Carlo analysis is a term given to an analysis that has
14 uncertain inputs that go into the model?

15 **A.** No, that is not the meaning of Monte Carlo.
16 Monte Carlo is a simulation method that is used. It is
17 an analytic technique that is used in a lot of different
18 venues. Accountants and economists use Monte Carlo
19 simulations, for example, in looking at variability of
20 outcomes.

21 Monte Carlo in this context is used to
22 randomly sample the probability of hurricane events
23 striking and looking at the losses that they might
24 incur, and that is based on the scientific data with
25 respect to the frequencies of hurricanes. It is based

1 on the historical data with respect to the losses that
2 FPL has sustained in past events.

3 Q. Did you -- were you -- in part of preparing
4 your testimony, did you factor in and consider this
5 Commission's past treatment of companies that have
6 suffered damage as a result of hurricanes in terms of
7 permitting recovery?

8 A. I'm not sure what your question is. Perhaps
9 you could rephrase that.

10 Q. I guess in terms of putting the number at
11 150 million per year that should be accrued, did you
12 consider things like the -- I guess you didn't in the
13 extent of FPL's line of credit or credit facilities.
14 You didn't consider that, did you?

15 A. No, those were not considerations in this
16 analysis. This is strictly a technical analysis of the
17 exposure.

18 Q. And so it follows that you didn't consider
19 either the Commission's treatment of companies that have
20 suffered damage from hurricanes and their request to
21 recover that in some type of a rate proceeding, correct?

22 A. No, sir. I mean, this is a risk profile, and
23 on the other side of the equation you have risk
24 management, and that, I believe, is in the category of
25 risk management how this risk will be dealt with.

1 **MR. MOYLE:** That's all I have. Thank you.

2 **CHAIRMAN CARTER:** Thank you.

3 Mr. Wright.

4 **MR. WRIGHT:** Thank you, Mr. Chairman.

5 CROSS EXAMINATION

6 **BY MR. WRIGHT:**

7 Q. Good afternoon, Mr. Harris.

8 A. Good afternoon, Mr. Wright.

9 Q. It is nice to see you again.

10 A. It is always nice to be back in Tallahassee.

11 Q. I am glad to hear you say that. As you know,
12 I am Schef Wright, and I, again, represent the Florida
13 Retail Federation in this case as I have in previous
14 cases. Thanks.

15 A couple of follow-up questions from your
16 summary and from Mr. Moyle's questioning before I go on
17 to my prepared questions.

18 At a couple of places in your testimony you
19 refer to recovering negative balances in two years. I
20 just want to make sure I am understanding what you are
21 talking about there. Does that mean, for example, if
22 FPL were to sustain a substantial loss greater than the
23 then current balance, they might then come to the
24 Commission for a storm surcharge to recover that
25 resulting negative balance over the succeeding two

1 years?

2 **A.** That is correct. That is the basic assumption
3 that is in the reserve performance analysis. We are
4 doing 10,000 five-year simulation periods. And in any
5 one of those years if the balance becomes negative,
6 whatever that negative balance is is assumed to be
7 recovered through some special assessment process over
8 the preceding, the following two years.

9 **Q.** Thank you. In response to questions by Mr.
10 Moyle regarding your testimony at Page 11, you talked
11 about the assumption made in your study, albeit not by
12 you or ABS, that the investment earnings would grow at
13 3.5 percent -- 3.45 percent, and that FPL has an
14 unlimited line of credit available at a 4 percent
15 interest rate. Is that accurate so far?

16 **A.** Those are assumptions that are embedded in the
17 analysis, that is correct.

18 **Q.** And those assumptions were given to you by
19 someone at Florida Power and Light?

20 **A.** That is correct. Those were inputs to our --
21 to our work.

22 **Q.** And my question for you is by whom were you
23 given those assumptions to use your study?

24 **A.** Well, directly the person that provided that
25 to us is our contact in the risk management department.

1 I understand that those numbers are actually provided by
2 other people in financial areas of FPL.

3 Q. And I think in your brief response to
4 Mr. Moyle you said that those assumptions kind of get
5 over into the area of risk management?

6 A. No. These assumptions are simply -- perhaps I
7 could step back, if you will, to explain a little bit
8 what the performance analysis is. It is taking a
9 five-year chunk of time and looking at the cash balance
10 of the reserve. So, it has some starting balance, it
11 has some accrual value to it, and it has some earnings.

12 So every year that the reserve has a positive
13 balance, it is earning at 3.45 percent. So those are
14 additional funds that are accrued to the reserve. In
15 any given year where there is a loss that is simulated,
16 those monies come out of the reserve. So you can see
17 the balance is going up and down. So that is what is
18 going on in the reserve analysis. So we are generating
19 10,000 samples of this process to develop statistics on
20 how the reserve would perform.

21 Q. Thank you. I've got a couple of financial
22 questions that I want to ask. I am reasonably certain
23 that you are not the witness to ask, and I was going to
24 ask if you think Mr. Pimentel might be the best witness
25 to ask those kind of questions?

1 **A.** Please, I would be happy to help you if I can.

2 **Q.** Okay. Do you know why two different rates
3 were used, i.e., the investment earnings would grow at
4 3.45 percent, but that the line of credit cost four
5 percent?

6 **A.** No, I don't know why the numbers are
7 different, but I suspect they are from different process
8 streams. I mean, when you borrow from a bank and when
9 you loan money to a bank, you have different rates,
10 there is a spread.

11 **Q.** And would I understand correctly that the
12 assumption regarding financing to recover negative
13 balances assumes that FPL would borrow the money at
14 4 percent and pay it off over two years?

15 **A.** That is the assumption in the analysis, that
16 is correct.

17 **Q.** Okay. On to the questions I had prepared for
18 you. You are not an FPL customer, are you?

19 **A.** I am not.

20 **Q.** You live in Oakland, is that right?

21 **A.** Oakland, California, that's right.

22 **Q.** And is Pacific Gas and Electric, or PG&E your
23 utility?

24 **A.** PG&E is the local IOU, that's correct.

25 **Q.** Right. Do you know how much you pay toward

1 Account 228.1 in your rates that you pay to PG&E?

2 **A.** I have no idea.

3 **Q.** Okay.

4 **A.** But if it is a lot, I hope you can tell me
5 about that later.

6 **Q.** Give me a call, we will see what we can do.

7 I noted on Page 9 of your testimony that you
8 assumed a starting balance for the fund of \$215 million?

9 **A.** That is correct. And, again, that was an
10 input provided by FPL at the time, and I believe that
11 was a June 2008 number. And the balance in the reserve
12 varies over time.

13 **Q.** Thank you.

14 **MR. WRIGHT:** I have a couple of questions for
15 the witness regarding Commission Order PSC 060464 and
16 they relate to a particular page. I have an extra copy
17 for the witness and a copy for FPL's counsel.

18 **CHAIRMAN CARTER:** Okay. That would be fine.
19 You may proceed.

20 **MR. WRIGHT:** Thank you, Mr. Chairman.

21 My questions are direct, and I don't think
22 they require everybody to have copies of the order,
23 which is why I didn't make them.

24 **CHAIRMAN CARTER:** That's fine.

25

1 **BY MR. WRIGHT:**

2 Q. Mr. Harris, I don't remember for sure, did you
3 testify or file testimony in Docket 060038?

4 A. I'm not sure I know what the -- I don't
5 recognize the docket number. If you could refresh my
6 memory as to what the subject was.

7 Q. Sure. It is the order that you cited at Page
8 9 of your testimony. Sorry. You cited Order
9 PSC-060464-FOF-EI in your testimony at Page 9. That is
10 the Commission's final order coming out of Docket
11 060038, which was the storm recovery financing order
12 proceeding that we had for Florida Power and Light
13 Company in 2006. Do you remember that case?

14 A. I do, yes.

15 Q. You were a witness in that case, were you not?

16 A. I was a witness, yes. I provided testimony.

17 Q. Thank you. I am going to ask you to read
18 aloud three sentences from the order, and then I am
19 going to ask you a few questions about them. If you
20 would, please, read the first paragraph of -- sorry, the
21 first sentence of Paragraph 57.

22 A. "FPL proposed that its reserve be replenished
23 to a level of 650 million to be financed through storm
24 recovery bonds authorized in this proceeding."

25 Q. Thank you.

1 **A.** Is that the sentence you were asking for?

2 **Q.** That is the one. Thank you.

3 That is the same value that FPL is seeking as
4 a target value for its reserve in this proceeding,
5 correct?

6 **A.** That is my understanding.

7 **Q.** Did you personally decide that that was the
8 right value, or did someone at FPL tell you that that
9 was the value that they believed is appropriate?

10 **A.** I'm not sure I understand your question.

11 **Q.** Was the \$650 million target reserve value
12 given -- that you are testifying relative to in this
13 docket today, was that a value given to you by FPL?

14 **A.** Yes, it was.

15 **Q.** Thank you. I would next like to ask you to
16 read the third sentence of Paragraph 57, which begins
17 with the words, "The record," on the third line of that
18 paragraph.

19 **A.** "The record clearly establishes that the level
20 of FPL reserve has no impact on FPL's exposure to
21 storms."

22 **Q.** Thank you. And next I would like to ask you
23 to read the following sentence that begins, "Further,
24 under," et cetera.

25 **A.** "Further, under the current approach to the

1 recovery of storm restoration costs, the risk associated
2 with lower reserve level, i.e., the possibility of storm
3 restoration costs exceeding the reserve leading to
4 subsequent customer charges and the risk associated with
5 a higher reserve level, i.e., paying charges now for
6 storm restoration costs that do not materialize is
7 completely borne by FPL's customers."

8 Q. Thank you. I do have a couple of questions
9 about that. First, do you disagree with the
10 Commission's conclusion articulated in the order that
11 the record establishes -- that the record in that docket
12 established that the level of FPL's reserve has no
13 impact on FPL's exposure to storms?

14 A. I'm sorry, could you restate your question?
15 Am I supposed to answer yes or no to that?

16 Q. You are, and that would be really great, but
17 your request for restatement is fair, and I will do so.
18 My question is do you disagree with the Commission's
19 conclusion set forth in the second sentence that I had
20 you read, i.e., that the record in that docket
21 established that the level of FPL's reserve has no
22 impact on FPL's exposure to storms?

23 A. I'm not sure what the Commission order means
24 by exposure to storms. If you mean the hazard from
25 storms, no. That is a natural phenomena. That hazard

1 is there, those assets are at risk, and in that respect,
2 there is no change. Now, with respect to ability to
3 finance storm cost-recovery, I think that is an entirely
4 different question.

5 Q. Do you disagree with the Commission's
6 conclusion articulated in the following sentence, which
7 I would paraphrase as: Under the current approach to
8 storm cost-recovery, the risk of a higher reserve or a
9 lower reserve is completely borne by FPL's customers.
10 Do you disagree with that?

11 A. I really am not an expert in that area, but my
12 understanding is that storm cost, storm damage costs are
13 a cost of doing business in Florida, number one. Number
14 two, that in its simplest form, it is really a pay me
15 now/pay later kind of question.

16 Those are really the two extremes and my
17 understanding from working with Florida Power and Light
18 over the years has been that the Commission's policy has
19 been someplace in the middle. That they have relied on
20 the reserve to finance and fund most, but not all, storm
21 seasons. So my understanding is the Commission has
22 taken some intermediate kind of position between those
23 two extremes.

24 Q. So following on your response, insofar as we
25 are talking about who pays now and who pays later, would

1 you agree that the who who pays now or later is FPL's
2 customers?

3 **A.** I'm really not the appropriate expert to know
4 exactly how all that financing works.

5 **Q.** Would you agree that the customers pay storm
6 recovery charges to the extent those are authorized by
7 the Commission?

8 **A.** Yes, I would agree to that.

9 **Q.** And would you agree that to the extent any
10 amount is included in FPL's base rates, that it is FPL's
11 customers who, in fact, pay those base rates, including
12 the authorized amount, if any, for storm reserve
13 accrual?

14 **A.** Yes. If the customers are paying for reserve
15 in base rates, yes, the customers are paying for storm
16 costs in advance.

17 **Q.** Now, will you agree that FPL's customers have
18 been paying into the reserve since sometime in 2007?

19 **A.** I don't really know.

20 **Q.** But is it your understanding of the outcome of
21 the earlier proceeding and the result of the financing
22 order issued in the docket, the order we are talking
23 about, is it your understanding that FPL issued bonds to
24 recover certain funds?

25 **A.** That is generally my understanding. I'm not

1 really an expert on how the bond financing worked for
2 that storm-recovery.

3 Q. And is it further your understanding that FPL
4 has a storm-recovery charge in its approved tariff that
5 customers pay to pay off those bonds?

6 A. That is my general understanding. I don't
7 really know the specifics of how that works.

8 Q. And is it further your understanding that the
9 proceeds from those bonds were used to pay off unpaid
10 costs from the '04 and '05 storms?

11 A. Unpaid costs. I am not sure what you mean by
12 unpaid costs.

13 Q. Unrecovered. Costs that the customers had not
14 already paid for when the order was issued.

15 A. I'm not sure about your terminology, but I
16 think what you are trying to get to is the costs that
17 were incurred by FPL to restore service after the
18 '04/'05 storms were recovered through that process.

19 Q. Thank you. And, yes, that's a good answer to
20 my inartful question.

21 Is it also your understanding that those storm
22 charges are paying off the \$215 million that is in FPL's
23 reserve, plus or minus, as of today?

24 A. That is my anecdotal understanding of where
25 those funds come from, yes, or will come from.

1 **Q.** Now, at Page 14 of your testimony, beginning
2 at Line 13, you state that a \$150 million annual accrual
3 is a reasonable level intended to achieve over time a
4 \$650 million reserve balance, correct?

5 **A.** That's correct.

6 **Q.** Okay. And we have already established that
7 FPL gave you the \$650 million number, correct?

8 **A.** That is correct.

9 **Q.** Are you recommending that the Commission
10 approve the \$150 million a year accrual for recovery in
11 FPL's base rates in this case?

12 **A.** No, sir. We are not making any
13 recommendations in this proceeding.

14 **Q.** So your testimony is really what it says, that
15 that is a reasonable level if you wanted to get to \$650
16 million?

17 **A.** It you want to get to 650, that is a
18 reasonable level to accrue. You have about a 40 percent
19 chance of doing that.

20 **Q.** And correspondingly, or in parallel, you are
21 not making any recommendation that Florida Power and
22 Light Company's shareholders make any contribution to
23 the reserve either, are you?

24 **A.** We made no recommendations in that direction,
25 that is correct.

1 **Q.** Thank you. Is there any evidence in your
2 testimony and exhibits presented in this docket today,
3 080677, that the Commission's findings in Order 060464
4 that we have been discussing, is there any evidence in
5 your testimony or exhibits that the Commission's
6 conclusions in that order are wrong as of today?

7 **MR. ANDERSON:** We would object to this line of
8 questioning.

9 **THE WITNESS:** I don't know.

10 **MR. ANDERSON:** We have been letting people go
11 on a long time. Really, questions of ultimate issues of
12 legal judgment are for others. The other thing I would
13 point out is Mr. Pimentel is really the witness on
14 behalf of our company who is making the actual
15 recommendation and is prepared to support those things.

16 Mr. Harris, quite appropriately is talking
17 about the quantification of risk. That is what he is
18 here for. But the ultimate recommendation for this
19 Commission, and the policy basis for it, that is really
20 other witnesses.

21 **CHAIRMAN CARTER:** To the objection,
22 Mr. Wright.

23 **MR. WRIGHT:** Mr. Chairman, the witness has
24 talked extensively about the accrual being designed to
25 meet the \$650 million reserve chosen by FPL. I believe

1 it is fair, probative, and appropriate to ask him
2 whether his evidence goes to the ultimate question. He
3 can say, no, you need to ask Mr. Pimentel. And if that
4 is his answer, that's fine.

5 **CHAIRMAN CARTER:** Ms. Helton, good afternoon.

6 **MR. WRIGHT:** If I may just briefly.

7 **CHAIRMAN CARTER:** Yes, sir.

8 **MR. WRIGHT:** The point is, I don't believe
9 there is any evidence in his testimony to contradict you
10 all's findings from the '06 order, but I want the record
11 to be clear from the witness's testimony that that is
12 the case.

13 **MR. ANDERSON:** And that is the point of my
14 objection, Chairman Carter, is that is not the witness'
15 function. He is here to talk about the quantification
16 of the amount, and that is not within the scope. It is
17 not his purpose. He is not here to weigh the evidence
18 in that record -- weigh the evidence in that record. He
19 is here to tell you what the quantification would be to
20 achieve a certain result and also acknowledge the
21 specific hazard risk and value at risk for Florida. So
22 this is not a correct line for this witness.

23 **MR. WRIGHT:** Mr. Chairman.

24 **CHAIRMAN CARTER:** Briefly.

25 **MR. WRIGHT:** I'm not asking Mr. Harris to

1 weigh any evidence. I am asking him whether there is
2 any factual evidence in his testimony or exhibits that
3 would contradict the Commission's findings in your prior
4 order. If FPL is willing to stipulate that there is
5 not, and that it is solely as Mr. Anderson suggests,
6 outside the scope of his testimony, I will move on.

7 **CHAIRMAN CARTER:** Ms. Helton.

8 **MS. HELTON:** Could we have Mr. Anderson answer
9 Mr. Wright's last question? That may help us move on.

10 **MR. ANDERSON:** Sure. We will not stipulate to
11 that. That is not the purpose of the witness. That is
12 what Mr. Pimentel is here -- will be here to talk about.
13 It is not right to take a fellow who has done a
14 scientific study and then ask him to make assessments
15 based upon evidence. That is what he is asking you to
16 do -- or asking the witness to do. And whether there is
17 evidence in this record or that record in relation to
18 these findings, that is not a proper question for this
19 witness.

20 We clearly have not offered him for that.
21 And, you know, this is how this proceeding has just
22 continued to go on and on, when people take a witness
23 for one purpose and use him for another, when we very
24 clearly indicate that we have our chief financial
25 officer here to speak to those points. So, pardon me, I

1 will calm now, but that has been kind of the story of
2 the proceeding for us. And I will stop now.

3 **CHAIRMAN CARTER:** Okay. Briefly, Ms. Bradley,
4 just ever so briefly.

5 **MS. BRADLEY:** I just want to add that these
6 are not 30(b)6 witness. And I don't think it's
7 appropriate for the other side to tell us who to ask
8 questions about once they have opened the door on
9 something. Thank you.

10 **CHAIRMAN CARTER:** Thank you.

11 You guys gave Ms. Helton some time.

12 Ms. Helton, we are back to you.

13 **MS. HELTON:** Well, I think Mr. Wright opened
14 the door asking about the securitization docket for
15 Florida Power and Light. And as I am understanding the
16 testimony that is described for this witness in this
17 proceeding, it is my understanding that he did not --
18 has not testified about what the Commission did in 2006.
19 So it seems to me that we have gone as far as we should
20 go in this line of questioning.

21 **CHAIRMAN CARTER:** Okay. Objection sustained.

22 Let's take a stretch break, everybody.

23 Everybody can calm down from that. Let me look at my \$8
24 watch. We will come back on the hour.

25 (Off the record.)

1 **COMMISSIONER EDGAR:** If everybody would
2 gather, we are going to get started again. And that
3 means we need a witness. Okay. You didn't make a run
4 for it, huh?

5 **THE WITNESS:** No run for the border.

6 **COMMISSIONER EDGAR:** Okay. We are back on the
7 record, and I believe when we took a short break that,
8 Mr. Wright, you were conducting your cross.

9 **MR. WRIGHT:** Yes, Madam Chairman, I was. I
10 have one more question for the witness. Before I do, I
11 just want to state on the record that if FPL
12 subsequently attempts to argue that there is evidence in
13 Mr. Harris's testimony that would contradict the
14 Commission's conclusions from the 2006 storm case, I
15 will protest vigorously and believe that our due process
16 rights have been violated. It sounds like they are not
17 going to do that, but I just want that to be clear.

18 **COMMISSIONER EDGAR:** A response to --
19 nevermind. Okay.

20 **MR. WRIGHT:** Okay. And with that, I just
21 wanted that on the record, and I do have one more
22 question for the witness.

23 **COMMISSIONER EDGAR:** So noted. Please
24 continue your cross.

25 **MR. WRIGHT:** Thank you.

1 **BY MR. WRIGHT:**

2 Q. Mr. Harris, earlier you answered me that your
3 contact in risk management, was the phrase you used, had
4 given you the financial assumptions that we talked
5 about?

6 A. That is correct.

7 Q. Can you tell me who that individual was?

8 A. Erica McNabb (phonetic), the risk manager.

9 Q. Thank you. Do you know if she ultimately
10 reports through the chain of command up to Mr. Pimentel?

11 A. I believe she does.

12 **MR. WRIGHT:** Thank you. And that is all the
13 questions I have. Thank you, Madam Chairman. Thank
14 you, Mr. Harris.

15 **COMMISSIONER EDGAR:** And I think we have had
16 all of the intervenors who had questions, but let me
17 just ask. Are there any intervenors who have questions
18 for cross for this witness who have not yet had the
19 opportunity to do so? Hearing none. Staff.

20 **MS. BROWN:** Madam Chairman, we have no
21 questions for this witness if the parties will stipulate
22 to three discovery responses we would like to have in
23 the record.

24 **COMMISSIONER EDGAR:** Okay. And are the --

25 **MS. BROWN:** I passed them around this morning.

1 **COMMISSIONER EDGAR:** Okay.

2 **MS. BROWN:** I have not heard any objections.

3 **COMMISSIONER EDGAR:** Okay. Let's go down the
4 line. FPL?

5 **MR. ANDERSON:** No objection.

6 **COMMISSIONER EDGAR:** AIF?

7 **MS. PERDUE:** No objection.

8 **COMMISSIONER EDGAR:** Hospital Association?

9 **MR. WISEMAN:** No objection.

10 **COMMISSIONER EDGAR:** FIPUG?

11 **MR. MOYLE:** Can I go last?

12 **COMMISSIONER EDGAR:** You may.

13 Retail Federation?

14 **MR. WRIGHT:** No objection, Madam Chairman.

15 **COMMISSIONER EDGAR:** Second row. I am seeing
16 no objection.

17 Okay. And so, Mr. Moyle, take a moment.

18 **MR. MOYLE:** We're fine.

19 **COMMISSIONER EDGAR:** Okay. Ms. Brown, why
20 don't you go ahead and read those off to us, please, for
21 the record.

22 **MS. BROWN:** I sure will. They are to be found
23 in Staff's Comprehensive Exhibit List Number 13, and
24 they are FPL's Response to OPC's First Set of
25 Interrogatories Number 85, Number 86, and Number 88.

1 **COMMISSIONER EDGAR:** Okay. And I do not --
2 Mr. Beck, I am going to -- I'm sorry.

3 **MR. BECK:** No objection.

4 **COMMISSIONER EDGAR:** We believe that we have
5 finished the cross of this witness from the intervenors.
6 Our staff has some interrogatories to admit, and we want
7 to make sure before I do that that there is no objection
8 to those from your office, otherwise, there will be
9 additional or some more questions.

10 **MR. BECK:** No objections.

11 **COMMISSIONER EDGAR:** Okay. Thank you very
12 much.

13 All right. With that we will go ahead and
14 enter the three documents that Ms. Brown read off to us.

15 (Exhibit 35 on Comprehensive Exhibit List,
16 Number 13, FPL's Response to OPC's First Set of
17 Interrogatories Number 85, Number 86, and Number 88.
18 admitted into the record.)

19 **COMMISSIONER EDGAR:** And I believe that takes
20 us -- let's see. Are there questions from the bench?

21 **COMMISSIONER McMURRIAN:** (Indicating no.)

22 **COMMISSIONER EDGAR:** Hearing none; redirect.

23 **MR. ANDERSON:** Thank you, Madam Chairman.

24 Can you hear me, Mr. Harris?

25 **THE WITNESS:** Yes, I can.

REDIRECT EXAMINATION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BY MR. ANDERSON:

Q. You were asked some questions about the storm hardening program that is in process, but I guess it is a long way from being done now, right?

A. That is my understanding from discussions with FPL people, yes.

Q. Did you reflect in your direct testimony anything in your recommendations or quantifications based upon the status of the storm hardening to date?

A. No, we did not.

Q. Could you look at your testimony, Page 8, and look at Lines 6 through 18?

A. Yes, I am there.

Q. Okay. And there is some quantification there with respect to effects of storm hardening which were done by FPL, is that right?

A. That is correct. FPL had some studies that were done indicating that storm hardening over the period to completion would have something like a 6.7 million expected reduction in storm damage.

Q. So that 6.7 million figure didn't come from your studies, that was from FPL, right?

A. That is correct.

Q. And then you reflected it in your range stated

1 on Page 8, right?

2 **A.** Yes. The notion there basically is that the
3 program is in an early phase of implementation and over
4 some period when it is completed there will be a
5 reduction in storm damage. And it is pretty
6 straightforward math. I mean, it is going from where
7 you are today to some future point where you have a
8 lower amount of storm damage annually.

9 **Q.** Is your analysis in this case intended to be
10 conducted as a technical analysis without any assumed
11 constraints on availability of financing?

12 **A.** Yes. I think what you are referring to is
13 their earlier question about unlimited lines of credit.
14 That is correct. One has to assume something about
15 financing, either you have the money to fix the system
16 when you have damage or you don't. And really it
17 doesn't bear any relationship to our current situation.
18 I mean, this capital crisis and liquidity crisis perhaps
19 means that that is a poor assumption.

20 **Q.** But you needed to assume something?

21 **A.** We definitely needed to assume something, and
22 assuming that it was unconstrained with capital is what
23 we did.

24 **Q.** Is your analysis intended to convey the
25 impression that financing would be available in any and

1 all circumstances?

2 **A.** Yes. The assumption is that financing would
3 be available to repair whatever storm damage there was.

4 **Q.** And that is just an assumption for analysis
5 purposes, right?

6 **A.** That is correct.

7 **Q.** Okay. You were asked some questions about
8 your chart showing the various counties that FPL serves
9 and that it didn't show the rest of Florida. Just put
10 it in context, how does the Florida FPL hurricane risk,
11 storm risk, compare to the rest of Florida?

12 **A.** Well, I think as you know, Florida Power and
13 Light is the largest IOU in the state of Florida. It
14 serves about half of the state in physical geography.
15 It is certainly the largest utility in the state.

16 Perhaps a good comparison might be to TECO
17 where we have been through this proceeding a number of
18 months ago on TECO's docket. TECO is a much smaller
19 utility. It serves the Tampa area, primarily
20 Hillsborough Counties and Pinellas and other areas in
21 the general area. They are significantly smaller. They
22 have about \$3.4 billion worth of T&D assets compared to
23 Florida Power and Light's \$20 billion. So they are
24 seven -- Florida Power and Light is about seven times
25 the size.

1 If you compared the 5 percent risk from both
2 of our studies, what you would see -- 5 percent
3 aggregate risk means something like a one in 20 storm
4 loss, which is pretty common. Those are 1, 2, and 3
5 kind of storm losses. TECO's 5 percent exceedance
6 probability is about \$65 million, and FPL's is about
7 \$680 million. So it is about ten times the size in
8 terms of FPL's potential 20-year loss exposure.

9 If you compared some of the other metrics
10 between those two utilities, TECO's reserve has
11 \$22 million in it, and FPL has something less than
12 200 million. So, again, it is about nine times as large
13 as TECO.

14 The reserve target that TECO was awarded was
15 \$64 million, and FPL is asking for \$650 million,
16 approximately ten times the size. So in terms of
17 comparables, you might indicate --

18 **MR. MOYLE:** I am going to object. This is
19 beyond the cross. I mean, the question was related to
20 the chart, and I think it was used for the point of
21 showing the number of hurricanes. And now he is, you
22 know, putting in all of this stuff about TECO and
23 different things. It is just way beyond cross.

24 **COMMISSIONER EDGAR:** Mr. Anderson.

25 **MR. ANDERSON:** Yes. I think the question has

1 been adequately answered, and we don't need additional
2 information.

3 **COMMISSIONER EDGAR:** Okay. We will call it
4 asked and answered.

5 Mr. Anderson.

6 **MR. ANDERSON:** So we have no further questions
7 for the witness.

8 **COMMISSIONER EDGAR:** Okay. Exhibits.

9 **MR. ANDERSON:** We would offer Mr. Harris'
10 Exhibits 127 through 129 into evidence.

11 **COMMISSIONER EDGAR:** Any objection? Hearing
12 none, Exhibits 127, 128, and 129 are admitted into the
13 record at this time. And I believe that is it for the
14 exhibits for this witness, is that correct? Is that
15 correct, staff?

16 **MS. BROWN:** Yes, Madam Chairman, I think so,
17 because I think our discovery exhibits are already in.

18 **COMMISSIONER EDGAR:** Are in, yes, they are.

19 **MS. BROWN:** Thank you.

20 (Exhibit Number 127 through 129 admitted into
21 the record.)

22 **COMMISSIONER EDGAR:** Okay. You are excused.
23 Thank you very much.

24 **THE WITNESS:** Thank you.

25 **COMMISSIONER EDGAR:** And, Mr. Anderson, I

1 think that takes us to your next witness.

2 **MR. ANDERSON:** FPL calls Mr. Olivera.

3 **COMMISSIONER EDGAR:** And we will take just a
4 moment in place while everybody gets settled.

5 Ms. Clark, we are ready when you are.

6 **MS. CLARK:** Thank you, Madam Chairman.

7 **ARMANDO J. OLIVERA**

8 was called as a rebuttal witness on behalf of Florida
9 Power and Light Company, and having been duly sworn,
10 testified as follows:

11 **DIRECT EXAMINATION**

12 **BY MS. CLARK:**

13 **Q.** Mr. Olivera, I think you have been previously
14 sworn, correct?

15 **A.** I have.

16 **Q.** And you have stated your name and business
17 address, and by whom you are employed and in what
18 capacity, so let me get to the next question.

19 Have you prepared and caused to be filed 14
20 pages of rebuttal testimony in this proceeding?

21 **A.** I have.

22 **Q.** And did you also prepare and cause to be filed
23 one errata sheet with your rebuttal testimony?

24 **A.** I have.

25 **Q.** Do you have any changes other -- other changes

1 or revisions to your rebuttal testimony?

2 **A.** I do not.

3 **Q.** With the errata, if I asked you the same
4 questions contained in your rebuttal testimony, would
5 your answers be the same?

6 **A.** They would.

7 **MS. CLARK:** Madam Chairman, I would ask that
8 the rebuttal testimony of Mr. Armando Olivera be
9 inserted into the record as though read.

10 **COMMISSIONER EDGAR:** The prefiled rebuttal
11 testimony for this witness with the changes noted from
12 the errata shall be entered into the record as though
13 read.

14

15

16

17

18

19

20

21

22

23

24

25

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **REBUTTAL TESTIMONY OF ARMANDO J. OLIVERA**

4 **DOCKET NO. 080677-EI**

5 **AUGUST 6, 2009**

6

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

8 A. My name is Armando J. Olivera. My business address is Florida Power & Light
9 Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

10 **Q. Did you previously submit direct testimony in this proceeding?**

11 A. Yes.

12 **Q. Are you sponsoring a rebuttal exhibit in this case?**

13 A. Yes. I am sponsoring the following rebuttal exhibit:

14 • AJO-3, FPL Superior Performance and Value

15 **Q. What is the purpose of your rebuttal testimony?**

16 A. The purpose of my testimony is to rebut positions taken in testimony by various
17 intervenors regarding the Subsequent Year Adjustment, the Generation Base Rate
18 Adjustment (GBRA) mechanism and the recognition of FPL's (FPL or the
19 Company) superior performance as it relates to return on equity (ROE).

20

21 It is also worth noting a few things that the intervenor witnesses have chosen not
22 to address in their testimony. For example, while they may oppose in one respect

1 or another FPL's request in this proceeding, none of the witnesses appear to
2 disagree that:

- 3 ● FPL provides superior service as reflected in exhibit AJO-3 and has
4 outperformed similarly sized companies across an array of financial and
5 operational metrics,
- 6 ● FPL's typical residential bill is currently the lowest among Florida electric
7 companies, and even with the full base rate increase the 2010 bill will go
8 down for most customers,
- 9 ● FPL has not had a general base rate increase since 1985 and has base rates
10 today that are actually lower than in 1985,
- 11 ● FPL has continued the necessary investment of almost \$6 billion in its
12 infrastructure since the 2005 settlement agreement in spite of deteriorating
13 economic conditions and reduced revenues, and
- 14 ● FPL has projected capital expenditure requirements of approximately \$16
15 billion just over the next five years.

16
17 I believe that these facts provide an important frame of reference for the Commission's
18 decision in this proceeding.

SUBSEQUENT YEAR ADJUSTMENT

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. Intervenor witnesses oppose FPL's request for a Subsequent Year Adjustment in this proceeding. Why is a Subsequent Year Adjustment necessary?

A. Florida Industrial Power Users Group (FIPUG) witness Pollock states that the Commission should reject the subsequent year adjustment because it is unnecessary (page 5 lines 13-15). On the contrary, from a financial integrity perspective, the subsequent year adjustment is necessary as FPL must continue to make significant investments in its infrastructure even after the 2010 test year revenue requirements are determined. FPL witness Barrett's direct testimony addresses the drivers of the 2011 increase which include growth, infrastructure investment, regulatory commitments and inflation. FPL witness Pimentel's direct testimony indicates that the Company is planning to spend \$16 billion in capital over the next five years. Operating and maintenance (O&M) costs also will continue to increase in 2011. As a result of these factors, earnings will subsequently deteriorate in 2011 even with the full requested rate relief in 2010; therefore, it is fair and reasonable to ask that the Company be granted the opportunity to continue to earn its approved rate of return in 2011.

FIPUG witness Pollock also states that the Commission should reject the subsequent year adjustment because it is inappropriate (page 5 lines 13-15). I disagree. The subsequent year adjustment is an appropriate means by which the

1 Company can address continuing cost increases beyond the 2010 test year. In his
2 rebuttal testimony, FPL witness Deason explains that the subsequent year
3 adjustment is an accepted and recognized method of addressing forecasted
4 financial and operating conditions that affect a utility's opportunity to earn the
5 approved rate of return. And as stated in my direct testimony, the Subsequent
6 Year Adjustment will allow the Company, the Commission and all parties to
7 address in a single proceeding both the 2010 and 2011 needs, thereby addressing
8 this 2011 earnings deterioration, while at the same time avoiding the time,
9 expense and significant workload impact on FPL and the other parties of a
10 separate rate proceeding for 2011.

11
12 Witness Pollock (page 30 lines 19-21) and Office of Public Counsel (OPC)
13 witness Brown (page 3 lines 13-14) argue that revenues and costs cannot be
14 accurately projected for 2011; however, as FPL witnesses Barrett and Morley
15 demonstrate in their direct and rebuttal testimony, our projections for 2011 are
16 reasonable and reliable and fairly reflect expected conditions in 2011.

17
18 From a policy perspective, the subsequent year adjustment is a valuable and
19 useful regulatory tool that the Commission can and should use in deciding this
20 case. And from a practical perspective, this tool will allow the Company an
21 opportunity, not a guarantee, to continue to earn a fair and reasonable return in
22 2011 which in turn will support the needed investments in our infrastructure and
23 the other cost drivers that must be addressed in 2011.

GBRA MECHANISM

1

2

3 **Q. South Florida Hospital and Healthcare Association (SFHHA) witness Kollen**
4 **(page 9 line 16) takes the position that GBRA is a “radical” departure from**
5 **traditional ratemaking and should be rejected. Do you agree?**

6 **A. No. The GBRA is a progressive ratemaking mechanism that has been proven to**
7 **work in Florida, and it is similar to one that has been utilized successfully in at**
8 **least one other southeastern jurisdiction.**

9

10 The GBRA approach worked well for FPL and its customers as evidenced by its
11 use when Turkey Point Unit 5 went into service in 2007. As FPL witness Deaton
12 explains in her rebuttal testimony, the GBRA mechanism was used effectively to
13 incorporate Turkey Point Unit 5 into base rates, while customers simultaneously
14 received an offsetting reduction in their fuel expense due to the higher efficiency
15 of the new unit. And while not all GBRA applications will result in totally
16 offsetting rate changes, there are still significant offsets to fuel charges when new
17 higher efficiency generating units are placed into service. These are important
18 benefits to customers that should be recognized concurrently with the costs to
19 achieve those benefits.

20

21 Ms. Deaton also explains that without the GBRA alignment of the base rate
22 increase to the fuel price reduction, the price signal received by customers would
23 be too low as it would only reflect the fuel savings. The end result is that

1 customers benefit by receiving cleaner (greener) generation service that is more
2 efficient and reliable, with minimal impact to the monthly bill.

3 **Q. Has the regulatory policy underlying Florida's GBRA been adopted**
4 **elsewhere?**

5 A. Yes. Even though the GBRA is a relatively new regulatory mechanism, at least
6 one other jurisdiction has instituted a ratemaking approach that is very similar to
7 the GBRA. As addressed in the rebuttal testimony of Ms. Deaton, the Alabama
8 Public Service Commission has established a similar mechanism for the purpose
9 of recognizing the financial impact of new generating plants by allowing a rate
10 increase at such time as a unit that is "certified" (similar to Florida's need
11 determination process) is placed into service. It is clear that the GBRA is not at
12 all radical, as some of the intervenor witnesses are suggesting. It has proven to be
13 successful in Florida and Alabama, and should be approved by this Commission
14 on a going forward basis as an efficient enhancement to Florida's regulatory
15 ratemaking process.

16 **Q. What are your conclusions regarding Florida's GBRA?**

17 I concur with FPL witness Deason who explains that this progressive regulatory
18 tool provides a reasonable means, within established safeguards, to facilitate cost
19 recovery of prudent and cost effective Commission-approved generation
20 investments. For the reasons that I and other FPL witnesses have stated, and
21 particularly as discussed in the rebuttal testimony of FPL witness Deason, I
22 believe that it is important that this regulatory tool be available to the Commission
23 and it should be approved in this docket.

1 **FPL'S SUPERIOR PERFORMANCE AND RETURN ON EQUITY**

2

3 **Q. SFHHA witness Baudino alleges (page 34 lines 17-19) that "Increasing the**
4 **investor required return to recognize factors such as 'exemplary**
5 **management' would over compensate investors and result in excessive rates**
6 **to ratepayers." Do you agree?**

7 **A. No. In fact, recognizing the Company's performance in establishing an**
8 **appropriate rate of ROE would have the opposite effect on rates. When one**
9 **compares the very real and sizable benefits to customers of a well run, top**
10 **performing utility against the relatively modest portion of the overall revenue**
11 **requirement associated with even 50 basis points of ROE, it is hard to understand**
12 **how one could sustain such a view.**

13 **Q. How should FPL's superior performance be considered with regard to FPL's**
14 **cost of equity?**

15 **A. In answering this question, I will refer to the direct testimonies of FPL witnesses**
16 **Pimentel and Avera, both of whom state that FPL's superior performance and the**
17 **resulting benefits that are realized by customers should be a consideration in**
18 **approving the identified cost of equity of 12.5%. I would note that Dr. Avera's**
19 **recommended 12% to 13% range for establishing a fair ROE does not include an**
20 **"adder" for superior performance; rather, he states that "considering exemplary**
21 **performance in establishing a point estimate from within my (Dr. Avera's) ROE**
22 **range offers an appropriate incentive for FPL to continue to innovate and take**
23 **risks in pursuit of superior results." Consistent with this testimony, FPL witness**

1 Reed indicates that it would be appropriate to grant FPL an ROE at or above the
2 midpoint of Dr. Avera's range. In fact, FPL witness Pimentel selected the 12.5%
3 midpoint of Dr. Avera's recommended 12% to 13% range rather than select a
4 point at the upper end of the range, which would have been supported by FPL's
5 performance. The recommendations of intervenor witnesses in this proceeding,
6 on the other hand, could only be read as a penalty, in spite of FPL's performance
7 and the associated benefits to customers.

8 **Q. Mr. Baudino goes on to allege (page 34 lines 20-22) that "providing an**
9 **inflated return on equity to recognize exemplary management performance**
10 **undercuts the benefits of such performance, which should be lower costs and**
11 **greater efficiency." Do you agree?**

12 A. Absolutely not. I will defer to the direct and rebuttal testimony of FPL witnesses
13 Pimentel and Avera as to why Mr. Baudino's characterization of the requested
14 ROE as inflated is an inaccurate and skewed perspective. But that he also would
15 suggest that recognition of performance in establishing a reasonable ROE for a
16 utility undercuts the benefits of such performance is nonsensical. First, if the
17 benefits of performance warrant the recognition a company seeks in establishing
18 the return, i.e., the benefits outweigh the perceived cost, then Mr. Baudino's
19 concern is simply misplaced. Moreover, if the Commission believes that it is
20 sound public policy to acknowledge good performance in establishing a utility's
21 ROE because to do so will encourage continued good performance, then clearly
22 the Commission will have decided that such action *promotes* rather than
23 undercuts performance.

1 Q. What are the benefits to customers of FPL's strong performance?

2 A. I would refer to, rather than repeat here, the many benefits that are discussed at
3 length in the direct testimony of FPL witnesses. But, in particular, I will note the
4 direct and rebuttal testimony of FPL witness Reed. As he described in his direct
5 testimony, "My review of FPL's performance has demonstrated that the Company
6 has out-performed similarly sized companies across an array of financial and
7 operational metrics." He quantifies the customer benefits of this outstanding
8 performance as follows: "FPL's performance has translated into real cost savings
9 to its customers. In 2007 alone, this performance saved customers between \$700
10 million and \$1.3 billion as compared to costs that customers would have incurred
11 if FPL's non-fuel O&M expenses had been merely average."

12

13 The analysis in his rebuttal testimony demonstrates that FPL customers save
14 approximately \$1 billion annually over what an average utility might require.
15 Against that benefit, he then compares the estimated cost of 50 basis points in
16 FPL's ROE, which represents approximately \$60 million in revenue
17 requirements. Thus, even with an explicit recognition for performance equal to
18 50 basis points above the midpoint customers would still be better off by
19 approximately \$940 million. So, as I indicated in my previous answer, I don't
20 think there is any credible basis for a witness to allege that our customers are not
21 far better off given the Company's performance, even if the Commission
22 acknowledges that performance in approving 12.5% as an appropriate rate of
23 return on equity in this proceeding.

1 Q. What is the impact on customers of the requested ROE?

2 A. I disagree with SFHHA witness Baudino (page 4 lines 3-4) when he suggests that
3 FPL witness Avera's recommended ROE would result in "excessive rate levels"
4 for customers. First and foremost, rates cannot be excessive if they fairly reflect
5 costs, which is the case here. As FPL witness Pimentel states in his direct
6 testimony, 12.5% is an appropriate ROE taking into account the Company's risk
7 profile, market conditions and need for access to large amounts of capital. As he
8 states in his rebuttal testimony, this ROE is necessary to maintain financial
9 strength, which is especially important in the current economic environment, and
10 also to maintain access to capital given FPL's planned expenditures of \$16 billion
11 over the next five years.

12
13 From a customer's perspective, FPL's proposed ROE and indeed its overall
14 requested increase will not result in "excessive" rates. Customers care first and
15 foremost about their total bill, and in 2010 most customers will see an overall
16 decrease in their bills. As of June 2009, FPL is the lowest cost provider in
17 Florida, based on the typical residential bill, and the bill will likely continue to be
18 among the lowest in Florida even with the full base rate increase. Rather than
19 experiencing "excessive" rates customers will actually continue to enjoy rates that
20 are very competitive within Florida and nationally. While it is true that lower fuel
21 prices have contributed to this situation, it is also FPL's efforts to improve
22 efficiency by making prudent investments that have resulted in current base rates
23 that are lower than they were 25 years ago after FPL's last general base rate

1 increase. For example, as FPL witness Hardy states in his direct testimony, FPL's
2 investments in its fossil fleet have resulted in an improvement in the net heat rate,
3 a reflection of generating efficiency, of almost 19 percent from 1990 to the
4 present (and by 10 percent over the five year period from 2002-2007 alone). To
5 put this all into perspective:

- 6 ● FPL base rates are 17% lower in 2009 than 1985 despite inflation of
7 nearly 100% since 1985; a gallon of gas has more than doubled since
8 1985, and a loaf of bread and a gallon of milk have nearly tripled in price
9 in the same time,
- 10 ● There have been no general base rate increases in 25 years, and base rate
11 reductions have saved customers nearly \$7 billion since 1999 as reflected
12 in the direct testimony of FPL witness Deaton, and
- 13 ● As Ms. Deaton states in her rebuttal testimony, FPL's fossil generation
14 efficiencies have saved customers approximately \$3 billion in fuel costs
15 since 2002, and savings will reach \$1 billion per year in 2014.

16 **Q. Is it reasonable for the intervenors to be claiming that FPL's requested ROE**
17 **is too high?**

18 I understand that it is their right to make that claim, but I do not think it is
19 reasonable. As FPL witness Pimentel discusses in his rebuttal testimony, it is
20 helpful in putting FPL's requested ROE of 12.5% in perspective by contrasting it
21 with current returns on equity for some of the other major businesses operating in

1 Florida. For example:

- 2 ➤ ROE for Publix of 19.3%
- 3 ➤ ROE for Wal-Mart of 20.6%
- 4 ➤ ROE for Tenet Healthcare of 31.8%
- 5 ➤ ROE for PraxAir of 26.5%

6 While these companies are not electric utilities, and may not be directly
7 comparable for investors, there are at least a few observations that can be made
8 with regard to these businesses and their rates of return on equity. First of all, it is
9 clear that the prices charged for the goods and services by each of these
10 enterprises includes a profit margin that is calculated to yield a sufficient rate of
11 return for their investors. Second, there is no one to tell any of these institutions
12 that they are earning above a “fair” rate of return on equity. Third, unlike FPL,
13 they do not have FPL’s obligation to serve which requires our company to
14 maintain and even expand its capital investment in infrastructure even in times of
15 economic downturns while other business have more flexibility in deciding when
16 and how they expand and contract their businesses. And they do so based on their
17 assessment of where it will be the most profitable, taking into account the degree
18 of competition that exists, the labor market, demand for their product, and other
19 such factors.

20

21 FPL, on the other hand, simply has to continue to provide highly reliable electric
22 service to each and every customer that asks for it. This requires billions of
23 dollars in new capital investment each year, which requires steady access to the

1 capital markets. If FPL is granted a below-market rate of return on equity in the
2 ranges being proposed by intervenors in this case, our capacity to access to those
3 markets on reasonable terms will be diminished, if not impaired. This is
4 discussed at length by FPL witnesses Pimentel and Avera.

5 **Q. Why is the overall Rate of Return, as opposed to just Return on Equity,**
6 **significant?**

7 A. The intervenors in this case talk about the return on equity without acknowledging
8 one simple fact: rates are not set solely on ROE. Rather, they are based on the
9 total overall rate of return (ROR). FPL witness Pimentel also explains that the
10 overall ROR is important because it fully reflects the costs from all sources of
11 capital and that the overall ROR is what is used for the purpose of setting rates.
12 FPL's requested 2010 ROR of 8.0% is below that recently approved for the
13 Tampa Electric Company in its base rate proceeding. Furthermore, as FPL
14 witness Pimentel notes, our requested ROR will be even lower after factoring in
15 the adjustments reflected in FPL witness Ousdahl's Exhibit KO-16.

16

17

CONCLUSION

18

19 **Q. What conclusions should be drawn from your testimony?**

20 A. Even after the 2010 base increase, FPL's costs will continue to rise, with O&M
21 increases and projected capital expenditures of \$16 billion over the next five
22 years. The Subsequent Year Adjustment and the GBRA are reasonable, efficient
23 and appropriate ways to deal with these cost increases both from a customer's and

1 the Company's perspectives. Furthermore they are important regulatory tools that
2 the Commission should use to enhance the overall effectiveness and fairness of
3 the regulatory ratemaking process.

4
5 FPL's projected costs, including its overall ROR, will not result in "excessive
6 rates;" in fact, just the opposite is true. FPL's typical residential bill is currently
7 the lowest in Florida, and even with the full requested base rate increase most
8 customer bills will go down in 2010.

9
10 Our customers expect affordable, reliable clean energy solutions now and in the
11 future, and FPL must continue to work to meet these expectations by making its
12 infrastructure stronger, smarter, cleaner, more efficient and less reliant on any
13 single source of fuel. In meeting these needs, FPL provides superior service at
14 rates that are currently the lowest in Florida and below the national average. FPL
15 ranks among the best in the industry in many categories, including low emissions,
16 conservation and fossil generation availability. FPL is mindful of the scope of the
17 projected base rate increase, however we also have a responsibility for making
18 prudent, long lead-time investments in our infrastructure, and it is in our
19 customers' long term best interests to implement this base rate increase now, at a
20 time when the result will be lower overall bills for most customers.

21 **Q. Does this conclude your rebuttal testimony?**

22 **A. Yes.**

ERRATA SHEET

(X) DIRECT TESTIMONY, OR () REBUTTAL TESTIMONY (PLEASE MARK ONE WITH "X")

WITNESS: Armando J. Olivera

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
24	5	Change amount from \$27 million to \$23 million
AJO-2	Entire	Changes consistent with errata changes to the FPL witness Deaton exhibit RBD-2

DOCUMENT NUMBER-DATE

08766 AUG 21 8-

FPSC-COMMISSION CLERK

1 **BY MS. CLARK:**

2 Q. And, Mr. Olivera, are you also sponsoring any
3 exhibits to your rebuttal testimony?

4 A. I will be sponsoring one exhibit.

5 Q. And that exhibit consists of AJO-3?

6 A. Correct.

7 **MS. CLARK:** Madam Chairman, I would note that
8 Mr. Olivera's exhibit has been premarked for
9 identification as 332.

10 **COMMISSIONER EDGAR:** Thank you.

11 **BY MS. CLARK:**

12 Q. Mr. Olivera, have you prepared a summary of
13 your rebuttal testimony?

14 A. Yes, I have a brief summary.

15 Q. And would you give that summary now?

16 A. Surely. Good afternoon, Commissioners. I
17 filed a brief rebuttal, and I would like to briefly
18 summarize it for you this afternoon.

19 Let me begin by noting those areas that the
20 intervenors in this case have chosen not to address.
21 FPL provides superior service and has outperformed
22 similarly sized companies across many financial and
23 operational metrics. FPL's typical residential bill is
24 currently the lowest among the Florida electric
25 companies, and even with the full base rate increase,

1 the 2010 bill will go down for most customers. FPL has
2 not had a general rate base increase since 1985. In
3 fact, our base rates are lower today than they were in
4 1985. FPL has invested almost \$6 billion in its
5 infrastructure since 2005, despite reduced revenues, and
6 we need to invest approximately \$16 billion over the
7 next five years. We believe these facts provide an
8 important frame of reference for this proceeding.

9 Now let me turn to those areas where we must
10 rebut the intervenors. First, the subsequent year
11 adjustment is necessary to allow FPL to continue to make
12 significant investments in its infrastructure beyond the
13 2010 test year. This is an accepted method of ensuring
14 a utility's financial integrity while avoiding the
15 significant expense to FPL and other parties of another
16 rate proceeding for 2011.

17 Second, the generation base rate adjustment,
18 or GBRA, should be approved by the Commission. GBRA is
19 an efficient and proven tool for addressing the impact
20 of large additions to the rate base that occur when a
21 new power plant is brought on line. For example, West
22 County 3, which will go on line in mid-2011 represents a
23 capital investment of over \$800 million. The plant has
24 already undergone a rigorous review and approval process
25 by this Commission. The failure to recognize this new

1 plant in rates would effectively penalize FPL for
2 delivering the least cost alternative for meeting
3 customer needs.

4 Finally, FPL's requested return on equity is
5 fair and reasonable. FPL's request of 2.5 percent (sic)
6 is the midpoint of the recommended range of 12 to
7 13 percent, and does not include an adder for
8 performance. Moreover, FPL needs to raise significant
9 capital for \$16 billion of plant investments over the
10 next five years, and the requested ROE is necessary to
11 maintain financial strength and steady access to the
12 capital markets.

13 Lastly, we cannot overlook the fact that rates
14 are set on the overall rate of return, not just ROE.
15 FPL's requested 2010 rate of return is 7.8 percent,
16 which would be the second lowest in the state.

17 Let me close by saying that FPL is proud to
18 provide superior service at rates that are the lowest in
19 Florida. We are mindful of the scope of our rate
20 request. That is why we believe it is in the best
21 interest of our customers to implement the request now
22 when the result will be overall lower bills.

23 Thank you for the opportunity to speak to you
24 today.

25 **MS. CLARK:** Madam Chairman, we tender the

1 witness for cross-examination.

2 **COMMISSIONER EDGAR:** Thank you.

3 Who is going first?

4 **MR. MENDIOLA:** Thank you, Madam Chairman.

5 Lino Mendiola on behalf of the South Texas -- excuse me,
6 South Florida Hospital and Health -- I knew I was going
7 to say that at some point.

8 **COMMISSIONER EDGAR:** Thank you. Go right
9 ahead.

10 **MR. MENDIOLA:** That is what I get for
11 practicing in Texas for so long.

12 CROSS EXAMINATION

13 **BY MR. MENDIOLA:**

14 **Q.** Good afternoon, Mr. Olivera. How are you?

15 **A.** I'm fine, thank you. Good afternoon.

16 **Q.** You mentioned in your summary and you
17 mentioned it at least three times in your rebuttal
18 testimony that FPL will invest \$16 billion over the next
19 five years in capital expenditures, is that correct?

20 **A.** Yes, that is correct.

21 **Q.** But you don't include a table or a chart
22 describing the categories of capital expenditures that
23 FPL will make, isn't that correct?

24 **A.** In my testimony, I do not have a chart that
25 those shows that. I believe Witness Barrett has in his

1 capital expenditures forecast the various categories.

2 Q. And my question to you, sir, if you know, is
3 what portion, what percentage, either by dollar or by
4 percentage amount, of that \$16 billion of capital
5 expenditures will be recovered through automatic
6 recovery clauses?

7 A. Can you elaborate on what you mean by
8 automatic recovery clauses?

9 Q. Sure. For example, the nuclear recovery
10 clause, or the environmental recovery clause, or the
11 conservation recovery clause?

12 A. I can't give you a number off the top of my
13 head.

14 Q. Do you know any percentages, half, more than
15 half, less than half?

16 A. I don't know. I don't want to speculate.

17 MR. MENDIOLA: Thank you. Nothing further.

18 COMMISSIONER EDGAR: OPC?

19 MR. BECK: No questions.

20 COMMISSIONER EDGAR: Ms. Bradley.

21 CROSS EXAMINATION

22 BY MS. BRADLEY:

23 Q. Mr. Olivera, you talk about the exemplary
24 management performance and all of that in your rebuttal
25 testimony, correct?

1 **A.** Correct.

2 **Q.** Do you have a copy of Exhibit 465?

3 **A.** No, I do not.

4 **MS. BRADLEY:** May I approach?

5 **COMMISSIONER EDGAR:** Yes, ma'am.

6 **BY MS. BRADLEY:**

7 **Q.** I looked at this exhibit this morning, and it
8 talks about the targets that you all look at for your
9 managers. And on, I guess it is Page 2, it has a number
10 of targets listed. Do you see those?

11 **A.** Page -- you are on --

12 **Q.** Page 204. It's labeled at the top.

13 **A.** This is Interrogatory Number 33, Page 204?

14 **Q.** Correct. Are those targets weighted in any
15 way?

16 **A.** The targets are sort of general guidelines.
17 At the business unit, there are -- we show them weights,
18 but at the company level, they are kind of looked at in
19 aggregate. If you will look -- if you read closely the
20 proxy statement, it talks about the fact that while we
21 have a number of metrics, the compensation committee of
22 the board retains discretion in how they allocate, how
23 they decide on -- ultimately how they decide on the
24 overall payouts for each of the entities. I'm sure that
25 Ms. Slattery can give you a lot more details on the

1 specifics, but it is fairly clearly laid out in the
2 proxy how these indicators fit into the specific
3 targets.

4 **Q.** Well, I am assuming you don't just arbitrarily
5 assign numbers to different ones, that there has got to
6 some formula involved?

7 **A.** There is. We look at each one. We then
8 decide, you know, how -- you have to factor in the
9 target, how difficult the target was, and by that you
10 look at benchmarking data and you say, you know, if you
11 are a top decile performer, as we are in the fossil
12 plants, for example, to get better than that is very,
13 very difficult. So, that is a tough target to meet. So
14 we factor into the analysis the relative difficulty of
15 each item. We will then kind of look at the total.

16 But then for each individual, you know, there
17 are other dimensions that are looked at, including how
18 strategic is this person, their business acumen. So it
19 is not a purely mechanical exercise.

20 **Q.** Would it be fair to say looking at this list
21 of targets that there is more emphasis put on the
22 company than there is on the customers?

23 **A.** No, I don't think that is fair at all. At the
24 end of the day if we don't do the right things for our
25 customers, the company is not going to do well. So I

1 would argue that every item in here is for -- ultimately
2 for the benefit of FPL customers.

3 **Q.** Other than in general, the way you have worded
4 it, things like net income, and regulatory return on
5 equity, and business value surveys are going to be aimed
6 at the company, are they not?

7 **A.** I disagree with you. I think those -- to the
8 extent that you have a healthy company, to the extent
9 that you are able to show appropriate regulatory
10 returns, return on equity, I think the record shows that
11 our customers have benefited from that. And that is one
12 of the reasons why our rate of return is low, one of the
13 reasons why we have been able to be a low cost provider
14 is because of that.

15 **Q.** You would have to agree, though, that that is
16 only an indirect benefit to the customers rather than a
17 direct as it is to the company, correct?

18 **A.** No, I don't agree with that. I think those
19 have direct benefits. If overnight the return on equity
20 for FPL got to, say, 4.7 percent, that would very
21 quickly have an impact on customers. It would raise our
22 cost of debt, it would raise the cost that we pay for
23 virtually all financing activities, so it has a direct
24 impact on customers. The financial health of the
25 company ultimately benefits or hurts customers.

1 **Q.** On the next page, Page 3 of 4, you would also
2 be subject to those two targets, as well, would you not?

3 **A.** When you say Page 3 of 4 --

4 **Q.** I'm sorry, the top of the page, there is two
5 there, additional financial performance targets for
6 Florida Power and Light Group.

7 **MS. CLARK:** I -- that's all right. Never mind.

8 **THE WITNESS:** You are referring to the return
9 on equity and earnings per share?

10 **BY MS. BRADLEY:**

11 **Q.** Those would be two of your targets, correct?

12 **A.** Yes. Those are also additional performance
13 targets.

14 **Q.** When coming to Tallahassee for this hearing
15 and attending things like that, do you take the company
16 jet or do you fly commercially?

17 **A.** I generally take a company plane.

18 **Q.** Did you today?

19 **A.** I didn't come up today.

20 **Q.** Well, whenever you came up?

21 **A.** I did.

22 **Q.** And I assume you will be returning using the
23 company jet?

24 **A.** Hopefully soon, yes.

25 **MS. BRADLEY:** No further questions.

1 **COMMISSIONER EDGAR:** FIPUG.

2 **MR. MOYLE:** Thanks.

3 **BY MR. MOYLE:**

4 **Q.** I have a few questions, Mr. Olivera, and I
5 will follow up on the aviation question. There were
6 some questions staff had asked of some of your earlier
7 witnesses, but you live in Dade County, isn't that
8 right.

9 **A.** I live in the Juno Beach area.

10 **Q.** And you are not a resident of Coral Gables or
11 Dade County?

12 **A.** I have a home in Coral Gables. I spend most
13 of the week, if I'm not traveling for business, in Juno
14 Beach.

15 **Q.** Okay. And you also use the company helicopter
16 to go back and forth between Miami and Juno Beach?

17 **A.** Not all the time, but generally.

18 **Q.** Your previous witness talked about they
19 consider cost. And some people may say --

20 **MS. CLARK:** Madam Chairman, I am going to
21 object to this question. I think it is outside the
22 scope of the testimony, and as Mr. Moyle has indicated,
23 the previous witness has answered questions along this
24 line.

25 **COMMISSIONER EDGAR:** Mr. Moyle.

1 **MR. MOYLE:** I don't think I got my question
2 out.

3 **COMMISSIONER EDGAR:** Actually, I'm not sure
4 what the question was, either. I do think it was part
5 way through the question. So, Mr. Moyle, if you would
6 ask your question, and I would ask the witness to hold
7 in case we need to hear from Ms. Clark again.

8 **BY MR. MOYLE:**

9 **Q.** And I was going to preface it with, I don't
10 know, were you -- were you here to listen to your
11 previous witnesses that took the stand today? Were You
12 able to hear it in the watch room?

13 **A.** I didn't hear all the testimony of Mr.
14 Bennett.

15 **Q.** Okay. I will tell you that Mr. Bennett
16 indicated that with respect to the question asked of you
17 by the Attorney General about flights, that FPL
18 typically does a review and a comparison of flight costs
19 to make a decision as to whether it is, you know,
20 reasonable. Do you know how much the hourly cost of the
21 plane you took up to this proceeding is?

22 **MS. CLARK:** Madam Chairman, I object to this
23 question. It is outside the scope of Mr. Olivera's
24 rebuttal testimony.

25 **MR. MOYLE:** Well, I don't think it is in that

1 if you look at Page 13, Line 20, you know, there he is
2 asking for O&M and projected capital expenses of over
3 \$16 billion over the next five years, and I think, you
4 know, this, while it may in the grand scheme of things
5 not be a huge amount of dollars, I think it is probative
6 as to mindset and how FPL, you know, handles the
7 ratepayers' money.

8 And the question is simply going to be, as
9 Mr. Bennett testified previously, that FPL checks and
10 compares commercial rates of travel to noncommercial,
11 whether he did that.

12 **COMMISSIONER EDGAR:** Ms. Helton.

13 **MS. CLARK:** Madam Chairman, if I could just --
14 by that line of logic there is no limit to the questions
15 that can be asked.

16 **COMMISSIONER EDGAR:** Ms. Helton.

17 **MR. MOYLE:** It is a yes/no.

18 **COMMISSIONER EDGAR:** Just a moment, Mr. Moyle.

19 **MS. HELTON:** This is another one of those
20 tough ones, Madam Chairman. There has been a lot of
21 discussion today, and I guess actually over the course
22 of the last two weeks about the use of private
23 airplanes, for lack of a better technical term, by
24 Florida Power and Light and its employees. And it is
25 obvious that Mr. Olivera has already testified today

1 that he takes advantage of that and probably for very
2 good reasons. I'm sure it's -- well. However, as I
3 understand it, that is outside the scope of his
4 testimony. I think Ms. Clark does have a good point. I
5 do think there probably is some legitimate reason,
6 though, to have him answer the question. It's within
7 your discretion if you do so, but it is outside the
8 scope of his testimony.

9 **COMMISSIONER EDGAR:** Mr. Moyle, you have got
10 one get-out-jail free card.

11 **MR. MOYLE:** Is this my opportunity to use it,
12 or --

13 **COMMISSIONER EDGAR:** That's why you make the
14 big bucks.

15 Overruled.

16 **BY MR. MOYLE:**

17 **Q.** Sir, do you know approximately the cost of a
18 commercial flight from Miami to Tallahassee as we sit
19 here today?

20 **A.** It is -- generally, what I have learned, that
21 it is all over the map. It can be anywhere from 300 to
22 \$1,200. One of my fellow employees told me last week
23 that it was a \$1,200 trip to come from West Palm here.

24 **Q.** Do you know what the -- did you take the
25 Citation or the Falcon today or yesterday?

1 **MS. CLARK:** Madam Chairman.

2 **COMMISSIONER EDGAR:** Ms. Clark.

3 **MS. CLARK:** I object to this question. I
4 think he used his one get-out-of-jail free card.

5 **MR. MOYLE:** I thought it was for a line.

6 **COMMISSIONER EDGAR:** Mr. Moyle, let me ask
7 you --

8 **MR. MOYLE:** All I want to do is ask him what
9 the cost, if he knows -- yes.

10 **COMMISSIONER EDGAR:** Let me ask you this:
11 About how many more questions do you have along this
12 line?

13 **MR. MOYLE:** Two or three. I want to ask -- I
14 will tell you, I want to ask him if he knows the cost.

15 **COMMISSIONER EDGAR:** I am going to allow, but
16 it has been a long day. We are going to need to get
17 moving.

18 **MR. MOYLE:** I appreciate it.

19 **COMMISSIONER EDGAR:** Okay.

20 **BY MR. MOYLE:**

21 **Q.** Which type of aircraft did you come up here
22 on?

23 **A.** Yesterday it was Citation.

24 **Q.** Do you know the hourly cost of that?

25 **A.** I don't personally oversee the calculation of

1 the costs. That is really the responsibility for Mr.
2 Bennett, who doesn't report to me. But as a general
3 rule -- and I have to tell you, I don't know exactly
4 what he testified to on this, and I have not read his
5 testimony anytime recently, so I'm really not the guy to
6 certify. As a rule of thumb, it is about \$3 per mile,
7 and sometimes it is a little lower, sometimes it's a
8 little -- but as a general guideline, that's the number
9 that I think about when looking at the cost of the
10 plane.

11 Q. And you were asked questions about your
12 salary. I mean, this is part of a ratemaking process,
13 so it was an issue that was put in by Staff last week,
14 so I appreciate you taking the time to answer a couple
15 of questions.

16 MR. MOYLE: I will move on, Madam Chairman.

17 BY MR. MOYLE:

18 Q. And I wanted to explore just a minute about
19 the 16 billion spend that you have in the next five
20 years. That is capital and O&M, correct?

21 A. No, that is capital.

22 Q. So, the language on Page 13 on Line 20, where
23 it says, even after -- and I quote, even after the
24 210 base increase, FPL's costs will continue to rise,
25 with O&M increases and projected capital expenses at

1 16 billion. The 16 billion only refers to the capital?

2 **A.** Correct.

3 **Q.** Okay. I don't know if you saw the front page
4 of the New York Times this week on Sunday, but it
5 indicated that for the first time since the '20s Florida
6 is losing population, losing people. You would
7 generally agree with that statement, correct, that we
8 are seeing a negative out migration?

9 **A.** No. I read the article, actually, and I
10 didn't agree with everything that the article said.
11 They took a tiny little snapshot of Hollywood, Florida
12 and projected that for the whole state of Florida. And,
13 frankly, it is the kind of reporting that I really have
14 problems with sometimes. If you look at our numbers, it
15 is true, we have lost customers in Broward County. We
16 have lost customers in our system, in our overall
17 territory, but we have actually gained customers in
18 Miami-Dade County, and so we continue to see customer
19 additions in Miami-Dade County.

20 And I will give you my personal view. I love
21 Florida. I think Florida is a great place to live. And
22 when people can sell their homes elsewhere, you know,
23 they are going to come back to Florida. So I am off the
24 record -- I mean, I am off my topic, but I disagreed
25 with the article. And I think -- I think I am very

1 bullish on the state.

2 **Q.** If you assume that the article was right in
3 the reference with respect to the Florida -- demographic
4 organization in Florida was losing population, and we
5 were kind of at a sea change right here, wouldn't you
6 agree that it would be reasonable and prudent as you go
7 forward to continue to take a look at that spend, that
8 16 billion spend that you are projecting over the next
9 five years?

10 **A.** Well, can you clarify your premise, because
11 are you saying no growth, little growth, drop in
12 customers?

13 **Q.** Why don't we just call it stagnant.

14 **A.** We rely primarily on the University of Florida
15 population forecast, and as Rosemary Morley has
16 testified, they continue to project growth in Florida.
17 That is the scenario that I rely on primarily.

18 But, to be responsive in your hypothetical
19 scenario, if we said no growth, zero growth, we would
20 have to go back and look at some of these. But most of
21 these projects have been cost justified with, frankly,
22 very little customer growth, because most of these
23 projects are driven by fuel savings and/or bringing in
24 fuel diversity.

25 **MR. MOYLE:** Madam Chair, I have just two more

1 brief lines of inquiry. There was an exhibit that was
2 used earlier today. It is 462. It was a staff exhibit.
3 I would like to see if we can get the witness a copy of
4 that. It was the rate case, major electric rate case
5 decisions, January 2009 to August 2009.

6 **COMMISSIONER EDGAR:** Mr. Moyle, are you going
7 to give that to the witness?

8 **MR. MOYLE:** Well, I have a copy. I think
9 maybe the court reporter has a copy.

10 **COMMISSIONER EDGAR:** If you have a copy that
11 you can give to the witness, please do so. If not, we
12 will ask our staff to see if they can help us with a
13 copy. Mr. Moyle, does that mean you have a copy?

14 **MR. MOYLE:** I did.

15 **COMMISSIONER EDGAR:** Thank you.

16 **MR. MOYLE:** And this was -- this is already in
17 evidence, this is already in, so I didn't make a bunch
18 of additional copies.

19 **COMMISSIONER EDGAR:** Give him a moment to look
20 at it.

21 **THE WITNESS:** Thank you.

22 (Pause.)

23 **COMMISSIONER EDGAR:** Mr. Moyle.

24 **BY MR. MOYLE:**

25 **Q.** Have you had a chance to review this document?

1 **A.** I scanned it.

2 **Q.** Okay. You would agree with me, would you not,
3 that the return being sought by Florida Power and Light
4 is higher than any return on equity that has been
5 approved by any Commission as set forth in this exhibit?

6 **A.** Yes, but I would also say that that is not a
7 relative benchmark. And both Mr. Pimentel and Mr. Avera
8 will go into a lot more detail on this, but you have to
9 look beyond these numbers and look at the kind of
10 company it is.

11 You have got companies here, for example, that
12 are primarily what we call in the business poles and
13 wires. They are T&D companies. They have one set of
14 returns. You have to look at FPL on its own merits,
15 where it is, the relative risk profile of the company,
16 having the majority of our customers on hurricane alley,
17 having nuclear generation, having high exposure to
18 natural gas. Those are all very, very relevant factors
19 when you look at ROE.

20 Furthermore, you can't look at ROE without
21 looking at the other components in the company. And I
22 think you have to look at equity ratios. You have to
23 look at the overall picture of the company. So to just
24 focus on this one dimension and one that it is not
25 appropriate, I think the better measure is to look at

1 the peer group that Mr. Avera is going to present and
2 Mr. Pimentel will also present, and they have spent a
3 lot more time than I have looking at what is the
4 appropriate peer group and what is the relevant
5 comparison for FPL.

6 Q. I appreciate that, and we will do that. I
7 just wanted to have you confirm for the record that the
8 asked, the sought return on equity that FP&L is seeking
9 in this case is higher than any other return on equity
10 that was sought by any of the other companies listed in
11 this exhibit. And you can just agree with me or
12 disagree with me.

13 A. I believe I have already answered the
14 question, but if you want I will be happy to go through
15 it. Yes, but this is not a relevant comparison group,
16 and you have to look at the relative peer group to be
17 able to make any meaningful conclusions.

18 MS. CLARK: Madam Chairman, he has just
19 indicated he just looked at it and the exhibit speaks
20 for itself.

21 COMMISSIONER EDGAR: Mr. Moyle, further
22 questions?

23 MR. MOYLE: No, I think he answered it.

24 BY MR. MOYLE:

25 Q. Mr. Olivera, you stated in your summary that

1 you believe it is in your customers' best interest to
2 implement this base rate increase now, is that your
3 view?

4 **A.** Yes, that is correct.

5 **Q.** Okay. And you are aware that that view is not
6 shared by a lot of your consumers, correct, a lot of
7 your customers?

8 **A.** I am aware that there are a number of
9 consumers that disagree.

10 **Q.** Okay. And are you aware that -- well, I guess
11 you are. The Attorney General opposes your request, you
12 are aware of that?

13 **A.** I am aware that the Attorney General has made
14 comments, yes.

15 **Q.** Okay. They have intervened in this case and
16 that the Governor and the Chief Financial Officer also
17 oppose your request at this point?

18 **A.** I believe that the Governor said that they
19 were opposed to excessive rates.

20 **Q.** And you know FIPUG doesn't believe this is the
21 right time for the rate increase, correct?

22 **A.** Correct. I wonder if there will ever be a
23 right time for any kind of a rate increase. But, again,
24 I have to remind you that the bills will go down next
25 year and a lot of the rhetoric gets lost. The average

1 customer will see a significant drop in their bills in
2 2010.

3 Q. And that is the result of the decrease in gas
4 prices, isn't that right?

5 A. It is a combination of the decrease in fuel
6 prices, but it is also helped by the improvements that
7 we have made in making the system more efficient. A lot
8 of this rate case is about being able to continue to do
9 what we have been doing in the past.

10 Q. Isn't it true that the reduction is realized
11 in a greater sense from the reduction of fuel prices as
12 compared to efficiencies? And if you could answer yes
13 or no, I would appreciate it.

14 A. Can you repeat the question?

15 Q. Sure. You said -- you said that peoples'
16 rates are going to go down for two reasons, the price of
17 fuel is going down and you have greater efficiencies
18 because you have new equipment coming on line. It is
19 kind of like replacing the old gas guzzler with a new
20 car that has greater gas mileage. And I'm just asking
21 you to tell me, isn't it true that the decrease in
22 prices is more a result of the lowering of the natural
23 gas price than it is the efficiency?

24 A. Yes, that is correct, because as the price
25 goes down on a percentage basis you get a lesser

1 contribution. But the reverse is true. I mean, as
2 prices begin to climb, the improvements in efficiency
3 have a far bigger impact on the bill than when the
4 prices are low.

5 And, again, that is part of the strategy that
6 we have been talking about is to -- what else can we
7 protect customers for the inevitable day, and I don't
8 know when, when gas prices will come up again. And
9 having a very efficient system and one that continues to
10 improve has significant benefit to customers, more so
11 when gas prices are high.

12 **MR. MOYLE:** That's all I have. Thank you.

13 **COMMISSIONER EDGAR:** Mr. Wright.

14 **MR. WRIGHT:** Thank you, Madam Chairman.

15 CROSS EXAMINATION

16 **BY MR. WRIGHT:**

17 **Q.** Good afternoon, Mr. Olivera.

18 **A.** Good afternoon.

19 **Q.** I have a -- to be precise, I think I have four
20 lines of questioning for you today.

21 The first one relates to the early part of
22 your testimony where you talk about the subsequent year
23 adjustment being necessary and appropriate, and that is
24 at Page 3 of your testimony. Among other things, you
25 say that from a financial integrity perspective the

1 subsequent year adjustment is necessary, even after --

2 **MS. CLARK:** Mr. Wright, could you tell us
3 where you are, please?

4 **MR. WRIGHT:** Sure. What I was just talking
5 about begins at Line 8 on Page 3 of Mr. Olivera's
6 rebuttal testimony.

7 **BY MR. WRIGHT:**

8 **Q.** For starters, you make the statement that from
9 a financial integrity perspective the subsequent year
10 adjustment is necessary to support your future
11 investments in effect.

12 **A.** Yes, I do.

13 **Q.** Okay. And you go on at the bottom of the
14 page, near the bottom of the page in your statement
15 beginning at Line 16 and continuing to Line 19, you talk
16 about -- it appears to me you are talking about the need
17 for the increase, because earnings would otherwise
18 deteriorate in 2011, even with the full requested rate
19 relief in 2010. Correct so far?

20 **A.** Correct.

21 **Q.** Thank you. So you have explicitly stated that
22 the 2011 increase is necessary. Do I correctly infer
23 from the testimony we have just gone over that it is
24 also your opinion that your requested 2010 increase is
25 necessary?

1 **A.** Correct.

2 **Q.** Is it your testimony that if FPL does not get
3 its entire requested increase in 2010, that FPL would
4 not be able to provide safe, adequate, and reliable
5 service in 2010?

6 **A.** So the assumption in your question is zero
7 increase?

8 **Q.** I think that is a good example to use. Let's
9 use that.

10 **A.** Well, I think as the MFRs show, with a zero
11 increase in 2010, FPL's return on equity falls to
12 4.7 percent. And I think both Mr. Barrett and I know
13 Mr. Pimentel will be prepared to address that. So, at
14 that level, there are really -- we will do our best to
15 provide safe reliable service, but we clearly would not
16 be able to fund the capital expansion projects we have.
17 I'm not sure to what extent whether we would be able to
18 spend any capital, including capital that is part of
19 kind of maintaining the business. So, it is not a
20 sustainable scenario for us. Very clearly not a
21 sustainable scenario.

22 **Q.** Okay. To be clear, in your response you just
23 said your earnings would deteriorate given all the
24 assumptions in the company's MFRs to 4.7 percent.
25 Correct so far?

1 **A.** Correct so far.

2 **Q.** That calculated return would be after the
3 company had recovered all of its O&M expenses, all of
4 its debt service -- and all of its debt service costs
5 and recorded all of its depreciation and amortization
6 expenses, correct?

7 **A.** Not necessarily. Again, you are keying in --
8 if you are just talking about 4.7 percent, you are
9 keying in only one piece of this. And so you would have
10 to look at the quality of the earnings. I mean you can
11 make -- you can report 4.7 percent and have a company
12 that has negative cash flows; and, therefore, you don't
13 have enough cash to meet your payroll, to pay for all of
14 the expenses. You would have to go out and borrow it.
15 And if you are making 4.7 percent, you are going to have
16 a very high cost of debt and you are not going to be
17 able to raise equity. So do I think that you could do
18 that for very long? No.

19 **Q.** Well, in your initial answer to my question
20 you said the return would go down to 4.7 percent. My
21 question was, isn't it true that that return is after
22 paying your O&M expenses, after recording your
23 depreciation and amortization expense, and after paying
24 your interest expense?

25 **A.** Right. And I believe I answered that. You

1 amplified the question to cover a lot of other financial
2 metrics beyond the 4.7 percent, and I am telling you
3 that I can't answer that in absolute terms. The quality
4 of the earnings will deteriorate significantly, and when
5 you are in that situation you would be managing for cash
6 flow. You would be managing to figure out how do you
7 raise cash just to stay above water because your ability
8 to go out and get cash in would be very limited.

9 I just want to add one more point, if I may.
10 And, again, Mr. Pimentel can elaborate. If you look at
11 Florida Power and Light, even at the returns that we
12 have had for the last six years, and we have been
13 bopping around between 11 and change, we are now down to
14 10.6. But in four of the last six years, FPL has been
15 negative cash flow, which means even at those returns we
16 haven't raised enough cash internally to pay all of our
17 bills and to cover all of the capital expenditures.

18 So, the reason I am answering the question
19 that I am, you are giving me an ROE that is less than
20 half of what we have made even in kind of the lowest ROE
21 years. I guarantee you there isn't enough cash to pay
22 all of our bills.

23 Q. And I'm sure you are aware that we are not
24 advocating that you sustain an ROE of 4.7 percent. That
25 is not the position of anybody in this case, right?

1 **A.** I was trying to be responsive.

2 **Q.** You talked about longer term considerations --
3 I'm trying to move this along. Doesn't your longer term
4 concern really go to whether the Commission sets rates
5 that allow FPL to access capital in the capital markets
6 at market rates of return?

7 **A.** Yes, that is one part of it. The other part
8 is ensuring that the investments that have already been
9 made get proper returns, as well. So you have got to
10 look at both parts of it. You have got to look at what
11 you have invested and you have to look at what you want
12 to invest in the future.

13 **Q.** And at the end of the day on this issue we
14 disagree about what the required returns are in the
15 market, correct?

16 **A.** Yes, I think we are in complete agreement on
17 that.

18 **Q.** We are in complete agreement that we disagree.

19 **A.** That we disagree.

20 **Q.** Okay. That is the end of that line of
21 questioning. I just have a -- the next line I hope will
22 be brief. In your rebuttal testimony and in your
23 summary you said that the Commission should focus on the
24 7.8 percent overall rate of return, correct?

25 **A.** Correct.

1 **Q.** Isn't it true that that 7.8 percent includes
2 the equity percent assumed by the company at a
3 12.5 percent after tax rate of return?

4 **A.** I believe that is right.

5 **Q.** Isn't it true that to get to the before tax
6 rate of return you would multiply that after tax rate of
7 return by what we call the net operating income
8 multiplier?

9 **A.** You are getting beyond what I am prepared to
10 testify here to. I did not oversee those calculations.

11 **Q.** Okay. Conceptually, wouldn't you agree that
12 the 12.5 percent after tax rate of return includes
13 recovery of a provision for income taxes in the revenue
14 requirement requested?

15 **A.** I would agree that taxes are factored into the
16 calculation.

17 **Q.** Thank you. Was that a yes with the --

18 **A.** Yes, the taxes would be -- would be a
19 consideration in the calculation.

20 **Q.** Thank you. The next line of questioning I
21 have for you relates to your testimony that begins at
22 the bottom of Page 11 and continues on to Page 12, in
23 which you talk about putting FPL's requested ROE of
24 12-1/2 percent in perspective by contrasting it with
25 current returns on equity for some of the major

1 businesses that operate in Florida. And you include
2 four right there, Publix, Wal-Mart, Tenet Health Care,
3 and Praxair (phonetic). That is an accurate
4 characterization of your testimony, is it not?

5 A. Yes.

6 Q. With regard to perspective, I would like to
7 ask you about some other companies. You will agree that
8 Winn-Dixie stores is a large customer of FPL, will you
9 not?

10 A. Yes.

11 Q. Okay. Are you aware that Winn-Dixie just
12 emerged from bankruptcy protection after several years
13 therein?

14 A. I am.

15 Q. Okay. And during the time they were in
16 bankruptcy protection, you would agree their ROE was
17 zero or something a lot like it, wouldn't you?

18 A. I assume that is the case.

19 Q. Okay. I will bet that FPL had a good number
20 of Circuit City stores on its system until a few months
21 ago, isn't that true?

22 A. That is correct.

23 Q. Okay. They are out of business now, right?

24 A. Correct.

25 Q. Okay. So can we conclude from that that their

1 ROE was zero or negative?

2 A. Yes.

3 Q. Okay. The same question for Rex Appliances?

4 A. Yes. But we are not talking about companies
5 that are going bankrupt. We are talking about companies
6 that have to go out -- we are comparing ourselves to
7 companies that have to go out and attract investors.
8 And although I caveated by saying that, you know, we may
9 not be talking directly about comparable investors, the
10 reference and the context of that comment was to say we
11 are competing for investors who look at the equity of
12 these companies when they are making a decision. That
13 was the sole purpose of showing that and to really make
14 that point.

15 And, again, both Mr. Pimentel and Avera can go
16 into a lot more detail about what equity investors are
17 looking in when they decide to buy -- to invest in our
18 company as opposed to another company in another
19 industry.

20 (Transcript continues in sequence with
21 Volume 26.)

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief; Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 8th day of September, 2009.



JANE FAUROT, RPR
Official FPSC Hearings Reporter
(850) 413-6732