

**BEFORE THE FLORIDA  
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 120015-EI  
FLORIDA POWER & LIGHT COMPANY**

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

**REBUTTAL TESTIMONY & EXHIBITS OF:**

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**JOHN J. REED**

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**JULY 31, 2012**

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1 **I. INTRODUCTION**

2

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

4 A. My name is John J. Reed. My business address is 293 Boston Post Road  
5 West, Suite 500, Marlborough, Massachusetts 01752.

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

7 A. Yes.

8 **Q. Are you sponsoring any rebuttal exhibits in this case?**

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

- 10
  - JJR-13, Operational Metrics through 2011

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

12 A. The purpose of my rebuttal testimony is to comment on the testimony of the  
13 following witnesses:

- 14
  - Florida Executive Agencies (“FEA”) witness Gorman;
  - 15 • Florida Retail Federation (“FRF”) witness Chriss; and
  - 16 • Florida Office of Public Counsel (“OPC”) witness Lawton.

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18 Specifically, I will address issues raised by these witnesses related to the  
19 recognition of superior performance in authorizing and implementing a Return  
20 on Equity (“ROE”) adder.

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## II. SUMMARY

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**Q. Please summarize your rebuttal testimony.**

A. My rebuttal testimony provides the Commission with additional information on the topic listed above, including examples demonstrating how other regulators have addressed these issues. As discussed in my rebuttal testimony, the ROE adder that Florida Power and Light Company (“FPL” or the “Company”) proposes is appropriate to recognize FPL’s superior performance across a broad array of metrics and should be approved by the Commission. Specifically:

- FEA witness Gorman’s claim that FPL’s risk reduction mechanisms such as “an excessive common equity ratio” and various regulatory tracker mechanisms provide sufficient reward to the Company and nullify the reasonableness of an ROE adder are inaccurate and unsupported. In fact, the proposed ROE adder is completely unrelated to FPL’s risk profile. FPL is seeking an ROE adder solely on the basis of its superior performance as measured against various peer groups, as detailed in my direct testimony.
- FRF witness Chriss fundamentally misunderstands the basis for and the implementation of the proposed ROE adder. His concerns, which are generally limited to implementation issues, have been addressed in the direct testimony of witness Dewhurst and witness Deaton and are further discussed below.

1           • OPC witness Lawton mistakenly believes that a utility’s obligation to  
2           serve requires it to provide superior service in exchange for a  
3           monopoly franchise. The regulatory compact entered into by utilities  
4           and regulators provides for cost effective and efficient service. FPL  
5           believes that the Commission should incent all Florida utilities to go  
6           beyond this target to achieve superior performance through an  
7           incentive mechanism; in this case, the Commission should provide this  
8           incentive by approving a modest adder of 25 basis points to the ROE  
9           that it determines is proper for the Company. The rewarding of  
10          superior performance has precedent nationally, and well as in Florida,  
11          and is appropriate considering FPL’s impressive achievements in  
12          terms of cost of service and quality of service.

13

14                                   **III. REBUTTAL OF FEA WITNESS GORMAN**

15

16   **Q.   FEA’s witness Gorman recommends that the Florida Public Service**  
17   **Commission reject the recognition of superior performance in**  
18   **authorizing an ROE adder. Do you agree with this recommendation?**

19   A.   No, I do not. FEA witness Gorman bases his recommendation that the Florida  
20   Public Service Commission (“Commission”) reject the proposed ROE adder  
21   on the erroneous assumption that the adder is being proposed in recognition of  
22   the Company’s financial and operating risk profile. Based on this erroneous  
23   assumption, witness Gorman concludes that i) the Company’s financial risk is

1 mitigated through an “excessive common equity ratio” and ii) the Company’s  
2 operating risk is reduced through the implementation of several regulatory  
3 tracker mechanisms (*See* Direct Testimony and Exhibits of Michael P.  
4 Gorman, at page 68 lines 3 – 9).

5 **Q. Is the Company proposing an ROE adder based on the Company’s risk  
6 profile?**

7 A. No, it is not. In fact, the Company’s basis for seeking an ROE adder is  
8 completely unrelated to risk profile. Witness Dewhurst explicitly states in his  
9 direct testimony that FPL is requesting the ROE adder of 25 bps to create an  
10 incentive for all utilities regulated by the FPSC to achieve superior customer  
11 value and to recognize that FPL provides superior customer value. (*See* Direct  
12 Testimony and Exhibits of Moray Dewhurst, at page 47, lines 11 through 13)  
13 Witness Dewhurst goes on to define the factors that the Commission should  
14 consider in defining superior customer value - reliability of service, cost or  
15 affordability, and customer service quality. These performance measures  
16 provide the basis for FPL’s proposal and not the Company’s risk profile, as  
17 witness Gorman suggests.

18 **Q. Witness Gorman further states that a performance adder will incent the  
19 Company to shift costs to non-residential customers in order to keep  
20 residential rates low and ensure the adder is realized. Is this concern  
21 justified?**

22 A. No, it is not. The base rates charged by the Company to each of its customer  
23 classes are subject to the jurisdiction of the Commission. Any change in the

1 base rates charged to any customer class, including costs allocated to a  
2 particular customer class, must be presented to, justified to, and approved by  
3 the Commission. The Company has no way of modifying its cost allocations  
4 to favor residential customers at the expense of non-residential customers  
5 without explicit regulatory approval. The base rates approved as part of this  
6 proceeding will have been fully investigated by the Commission and will  
7 remain in place until the next rate proceeding.

8

9

#### IV. REBUTTAL OF FRF WITNESS CHRISS

10

11 **Q. Does witness Chriss recommend that the Commission reject the proposed**  
12 **ROE adder?**

13 A. No. Witness Chriss does not express any opposition to the concept of  
14 awarding the Company an ROE adder for the superior performance it  
15 currently exhibits and has sustained over the past ten years. Furthermore, he  
16 acknowledges the authority of the Commission to consider non-cost factors in  
17 setting rates. Witness Chriss' concerns with the ROE adder are limited to  
18 implementation and policy issues.

19 **Q. Has the Commission approved ROE adders in the past and, if so, were**  
20 **these adders cost based?**

21 A. The Commission has approved ROE adders in the past that were not cost-  
22 based. For example, the Florida Commission exercised its discretion to  
23 reward a utility's superior management and efficiency by approving an



1 upward adjustment to Gulf Power Company's authorized rate of return in its  
2 2002 rate case. In Gulf Power Company's petition for a rate increase in  
3 2002, the Commission explained the factors leading to approval of a reward  
4 adjustment as follows:

5  
6 The testimony of Gulf witnesses Labrato and Fisher  
7 demonstrates that Gulf's service is excellent. In addition,  
8 testimony of customers at the customer service hearings was  
9 very favorable. We find that Gulf's past performance has been  
10 superior and we expect that level of performance to continue  
11 into the future. In recognition of this, we find that Gulf  
12 deserves to have 25 basis points added to the mid-point ROE of  
13 11.75%. Thus, a 12% ROE shall be used for all regulatory  
14 purposes, including, for example, implementing the cost  
15 recovery clauses and allowances for funds used during  
16 construction (Docket No. 010949-EI; Order No. PSC-02-0787,  
17 FPSC June 10, 2002).

18 **Q. What are witness Chriss' specific concerns with the ROE adder?**

19 A. Witness Chriss details concerns with i) the lack of any basis for the amount of  
20 the ROE adder, ii) the interaction between cost of service rates and incentive  
21 rates, iii) implementation issues, and iv) policy issues.

1 **Q. Please explain witness Chriss' concerns regarding the lack of a cost basis**  
2 **for the amount of the proposed ROE adder and the interaction between**  
3 **cost of service rates and incentive rates.**

4 A. Witness Chriss does not provide any further detail about these concerns.

5 **Q. What are witness Chriss' concerns regarding implementation of the**  
6 **proposed ROE adder?**

7 A. Witness Chriss expresses concern about the use of the lowest typical customer  
8 bill as an appropriate metric on which to base the approval of the ROE adder:

9 "the lowest typical customer bill in the state"

10 benchmark is not necessarily a transparent, cost-based

11 metric appropriate for use in this context – any

12 comparisons should provide a level playing field among

13 Florida's regulated utilities. (See Direct Testimony and

14 Exhibits of Steve W. Chriss, at page 9, lines 15 through

15 18)

16

17 In addition, witness Chriss claims that the Company fails to address how the

18 ROE adder would be removed from rates if the Company were no longer

19 eligible for the adder at some point in the future. Furthermore, witness Chriss

20 expresses concerns about the rate classes included in a typical bill calculation,

21 the rate of return for each rate class in relation to the utility's overall rate of

22 return, and the rate design for each included rate class. Witness Chriss asserts

23 that differences in these factors would play a significant role in typical bill

1 comparisons between utilities. Finally, witness Chriss believes the proposed  
2 metric would incent a utility to shift costs away from the included rate class or  
3 classes to lower the rates for these rates classes and achieve the ROE adder.

4 **Q. Does witness Chriss have any basis for these concerns?**

5 A. No, he does not. Witness Chris fundamentally misunderstands the mechanism  
6 that the Company is proposing and how the mechanism would be  
7 implemented. FPL is not proposing that the Commission base its decision to  
8 grant an ROE adder on the lowest typical residential bill. Witness Dewhurst  
9 clearly explains in his testimony that the Commission should consider a broad  
10 array of metrics and the Company's overall performance in assessing whether  
11 or not it is appropriate to grant the Company an ROE adder. In maintaining  
12 the adder, FPL is proposing that the continuation of the adder be made  
13 contingent on FPL maintaining the lowest typical bill in the state. (See Direct  
14 Testimony and Exhibits of Moray Dewhurst, at page 49, lines 3 through 16)

15  
16 Furthermore, regarding the concern raised by witness Chriss that the  
17 Company will be incented to shift costs away from residential customers  
18 under the Company's proposed mechanism, this fear is totally unfounded. As  
19 previously stated, the base rates charged by the Company to each of its  
20 customer classes are subject to the jurisdiction of the Commission. The base  
21 rates approved as part of this proceeding will have been fully investigated by  
22 the Commission and will remain in place until the next rate proceeding.

1           Therefore, no cost shifting can take place without another rate proceeding and  
2           approval by the Commission.

3

4           In addition, witness Chriss questions how the ROE adder would be removed  
5           should the Company not achieve the lowest typical bill metric at some point in  
6           the future. FPL witness Deaton clearly explains how this mechanism is  
7           proposed to work in her direct testimony. Specifically, witness Deaton  
8           explains that each September, in conjunction with FPL's annual fuel filing,  
9           FPL will prepare and submit to the Commission a comparison of its typical  
10          residential bill to the other Florida utilities for the prior 12 months. If the  
11          comparison shows that FPL's typical residential bill is not the lowest on  
12          average over the past 12 months, FPL would reduce rates by 0.040¢ per kWh  
13          effective January 1 of the following year.

14          With regard to witness Chriss' confusion about the rate classes included in the  
15          typical bill calculation on which the proposed ROE adder is based, FPL  
16          witness Deaton clearly indicates that the proposal is based on lowest typical  
17          residential bill, and includes several exhibits demonstrating the typical bill  
18          comparison based on typical monthly residential customer usage of 1,000  
19          kWh.

1 **Q. Witness Chriss equates the proposed ROE adder mechanism to**  
2 **performance-based ratemaking and suggests that a separate proceeding**  
3 **would be appropriate to consider the Company's proposed ROE adder.**  
4 **Do you agree with this suggestion?**

5 A. No, I do not. As stated above, the Commission awarded Gulf Power  
6 Company an upward adjustment to their rate of return in their general rate  
7 case. FPL is merely seeking the same consideration here and suggesting that  
8 this type of incentive be considered for all Florida investor-owned utilities.  
9 The application of this type of incentive mechanism to other Florida utilities  
10 should be considered on a case-by-case basis, as suggested by the Company in  
11 the direct testimony of witness Dewhurst.

12

13 **V. REBUTTAL OF OPC WITNESS LAWTON**

14

15 **Q. Witness Lawton states that monopolies such as FPL have a duty to**  
16 **provide superior service and that this obligation does not require an**  
17 **incentive or bonus to fulfill. Do you agree with this statement?**

18 A. No, I do not. Electric utility companies have imposed on them a legal and  
19 societal "obligation to serve." This obligation requires a utility to serve on  
20 reasonable terms all those who desire the service it renders. If a customer has  
21 applied for and made the necessary arrangements to receive service, and has  
22 paid for or offered to pay the applicable rate and abide by the rules of the  
23 company, it is the duty of a utility to render adequate and reasonably efficient

1 service at reasonable rates. In exchange for fulfilling this obligation, the  
2 utility is entitled to recover its costs of providing service, plus an opportunity  
3 to earn a reasonable return or profit.

4  
5 Nothing in this regulatory compact obligates the utility to provide “superior  
6 service”. Superior performance goes beyond the commitment made by the  
7 utility to reliably and efficiently serve its customers in exchange for a  
8 monopoly franchise. In this case, FPL is requesting recognition of its long-  
9 standing track record of providing excellent service to its customers while  
10 exercising exemplary cost control, consistent with the long-standing latitude  
11 regulators possess to recognize superior performance in setting an appropriate  
12 return. In this case, the Company has outperformed similarly sized companies  
13 across an array of financial and operational metrics, even while faced with  
14 externalities that challenge its efficiency and cost structure. FPL has sustained  
15 this above average performance over the past decade, and this trend has  
16 continued into 2011, as shown in Exhibit JJR-13. FPL’s distribution system  
17 continues to be the most reliable delivery system in the state as compared to  
18 all other Florida investor-owned electric utilities.

19  
20 As stated in my direct testimony, FPL customers have benefited directly from  
21 this level of performance. If the Company had been an average performer, its  
22 non-fuel operation and maintenance costs charged to customers would have  
23 been approximately \$1.6 billion higher than its actual costs in 2010 alone.

1 **Q. Can you provide recent examples of regulators recognizing superior**  
2 **performance through the use of ROE adders?**

3 A. Yes. In addition to the Gulf Power Company example cited above, there are a  
4 number of cases from the late 1970's to the mid-1990's where commissions  
5 reviewed utility efficiency and either explicitly or implicitly reflected their  
6 findings in setting an allowed rate of return. For example, the Rhode Island  
7 Public Utilities Commission ("RIPUC"), as part of a general rate case for  
8 Narragansett Electric Company, took note of corporate performance in setting  
9 ROE. The RIPUC noted:

10 In establishing a reasonable return from within a range, the  
11 commission has in the past given consideration to the service  
12 record of the company and the general attitude of management  
13 in meeting its public service obligations. In recognition of the  
14 company's performance the Commission finds the fair rate of  
15 return to be 13.75 which is the upper end of the range  
16 proposed ..... (Rhode Island Public Utilities Commission,  
17 November 8, 1980. Re Narragansett Electric Company,  
18 Docket No. 1499)

19

20 In addition, the Utah Commission, in two cases, noted that various elements  
21 of utility performance warranted recognition in setting the ROE for a  
22 company. Specifically, a 1990 order in a Utah Power and Light general rate  
23 case, the Utah Commission noted:

1           We recognize that management performance is an appropriate  
2           factor for the Commission to consider in setting the return on  
3           equity within a reasonable range (Public Service Commission  
4           of Utah, February 9, 1990. Re Utah Power and Light  
5           Company, Docket No. 89-035-10).

6           Later, in a 1995 case for Mountain Fuel Supply Company, the Commission  
7           echoed that perspective:

8           The Commission agrees that the Company's gas procurement  
9           performance merits recognition and is a factor contributing to  
10          the stipulated return-on-rate base (Public Service Commission  
11          of Utah, October 17, 1995 Re Mountain Fuel Supply Company,  
12          Docket No. 95-057-02).

13   **Q.   Witness Lawton suggests that the additional revenue that FPL would**  
14   **realize through the requested 25 basis point adder is unnecessary for the**  
15   **Company to earn a reasonable return or provide efficient service to its**  
16   **customers. Is the Company requesting this ROE adder on the basis that**  
17   **it is needed to provide adequate service to its customers?**

18   A.   No, it is not. The Company is not suggesting that the proposed adder is  
19   necessary to provide adequate and efficient service to its customers. Rather,  
20   the company is proposing that the Commission consider a broad array of  
21   performance metrics in its decision to award an ROE adder for superior  
22   service. While all utilities strive to provide efficient service through adequate  
23   management performance, consistently superior service can only be achieved

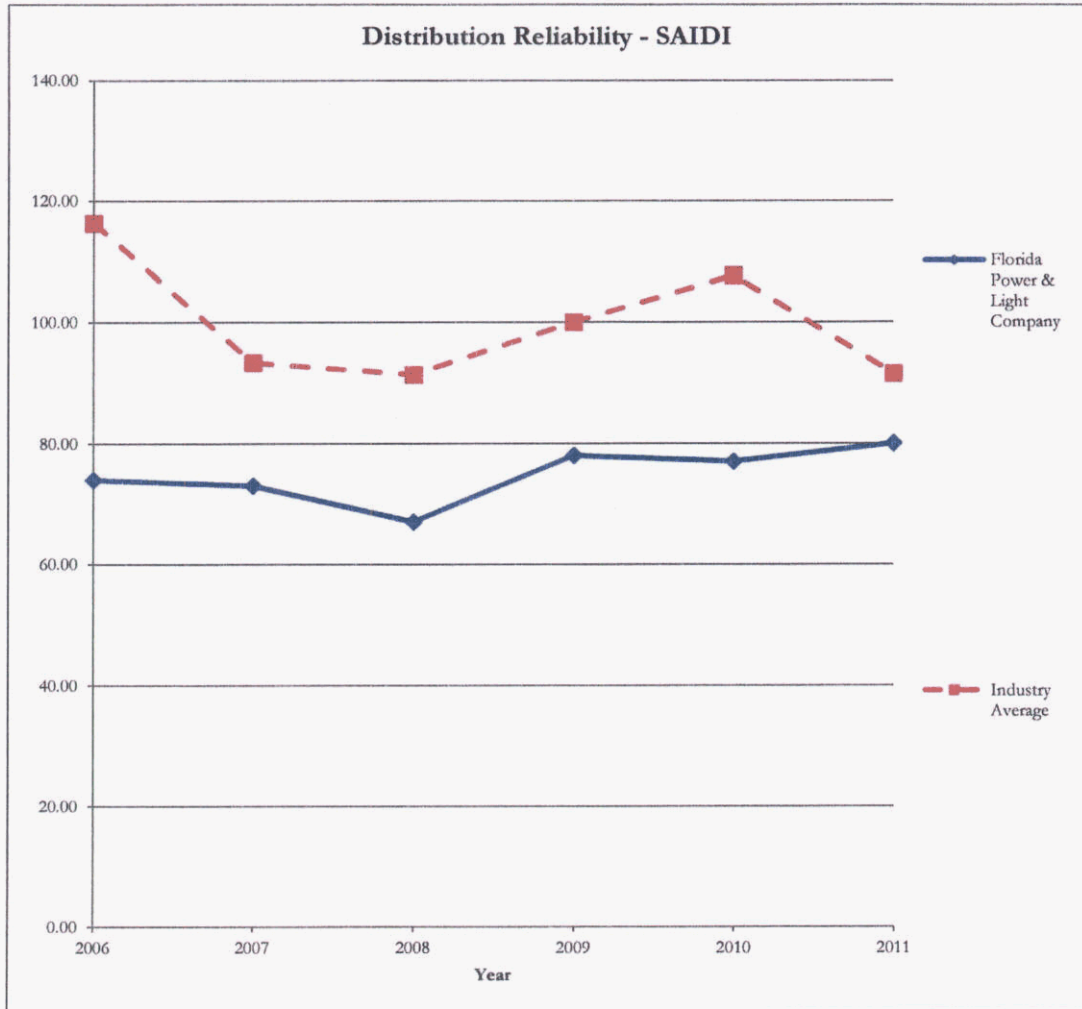


1 through a commitment to excellence by management. As discussed in my  
2 direct testimony, FPL has continuously and consistently demonstrated a  
3 commitment to excellence in service. FPL's performance controlling its non-  
4 fuel O&M expenses has been strong in every year over the past ten years,  
5 ranking as the top performer or in the top quartile of comparable companies.  
6 This demonstrated excellence in controlling costs, combined with  
7 achievements in system reliability, customer service quality, and clean  
8 generation supports an incentive for continued operational excellence.

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

10 **A. Yes.**

### Benchmarking Workpapers Operational Metrics through 2011



Distribution Reliability - SAIDI						
<i>Annual Values</i>						
	2006	2007	2008	2009	2010	2011
Florida Power & Light Company	74.00	73.00	67.00	78.00	77.00	80.00
Industry Average	116.33	93.33	91.33	100.00	107.67	91.44

Source: Florida Public Service Commission, 2010 and 2011 Service Reliability Reports