397

FPL's Response to Staff's Seventh Interrogatories Nos. 134-146.

QUESTION:
On March 12, 2021, FPL filed the MS Excel formatted files of its MFR Schedules B-7, B-8, B-9 and B-10, and it appears that each of these Excel MFR Schedules does not include formulas and links. For Schedule B-10, "Monthly Reserve Balances Test Year - 13 Months" (Consolidated), please explain how each account/sub-account's monthly reserve balance was derived from the application of the corresponding depreciation rate (shown in Schedule B-7) and the plant balance (shown in Schedule B-8). Please show the calculations by providing an Excel workbook that contains MFR Schedules B-7 through B-10, with formulas and inter-schedule links intact, for the 2022 Test Year and 2023 Subsequent Year, respectively, for both the "With RSAM" and "Without RSAM" scenarios.

RESPONSE:
MFR schedules B-7, B-8, B-9, and B-10 are generated from the Utilities International (UI) system and therefore excel spreadsheets with formulas do not exist.

Please refer to FPL's response to Staff's Seventh Set of Interrogatories No. 135(b) for explanation as to how the monthly reserve balances are calculated in UI and presented in Schedule B-10.

QUESTION:
Please refer to witness Ferguson's Direct Testimony, Exhibit KF-3(A), page 4 of 6, and its MS Excel version file titled "Support - Exhibit KF-3(A).xlsx," Tabs "Accum Deprec - Pg 4 - Comb (D)" and "Support - Pivot - Comb (D)," contained in FPL's response to OPC's First POD, No. 36, which provided the forecasted monthly "Book Depreciation" and "Ending Reserve Balance" (base rate portion) for the 2022 Test Year and 2023 Subsequent Year at the FERC Function level.

a. Referring to Exhibit KF-3(A), page 4 of 6, titled "Florida Power & Light Company (Consolidated Without RSAM) Change In Forecasted Accumulated Depreciation Resulting From The 2021 Depreciation Study," please clarify, with explanation, whether the information included under this title refers to, or means, the difference in the calculation of the Forecasted Accumulated Depreciation resulting from using FPL's proposed depreciation rates of the 2021 Depreciation Study, instead of using FPL's currently approved depreciation rates.

b. Please refer to "Support - Exhibit KF-3(A).xlsx," Tab "Support - Pivot - Comb (D)," which provided the forecasted monthly "Book Depreciation" and "Ending Reserve Balance" (base rate portion) for the 2022 Test Year and 2023 Subsequent Year at the FERC Function level. Please explain how the "Book Depreciation" and "Ending Reserve Balance" was derived for each plant function account presented on this Tab.

RESPONSE:
a. FPL witness Ferguson's Exhibit KF-3(A), page 4 of 6, presents the difference in Forecasted Accumulated Depreciation when comparing FPL's 2021 Depreciation Study versus the results when using FPL's currently approved depreciation rates.

b. FPL's Utilities International (UI) system calculates book depreciation by starting with the prior month's ending plant balance, plus fifty percent of current month additions and retirements, multiplied by the corresponding depreciation rate. There are certain deviations from the above calculation in UI as described by FPL in response to OPCs Fifteenth Set of Interrogatories No. 248 and shown in OPC's Thirteenth Request for Production of Documents No. 133.

The ending reserve balance is derived using the beginning reserve balance plus current month book depreciation, less: removal, dismantlement, reserve retirements, reserve transfers and salvage.

Support – Exhibit KF-3(A).xlsx Tab "Support – Pivot – Comb (D)" was derived as follows: (1) calculated book depreciation and ending reserve in UI using FPL's current approved depreciation rates, then (2) calculated book depreciation and ending reserve in UI using the proposed depreciation rates in the 2021 Depreciation Study, and (3) results from (2) were subtracted from the results in (1).

QUESTION:
Please refer to witness Ferguson's Direct Testimony, Exhibit KF-3(A), page 4 of 6, titled "Florida Power & Light Company (Consolidated Without RSAM) Change In Forecasted Accumulated Depreciation Resulting From The 2021 Depreciation Study." Does the Forecasted Accumulated Depreciation presented therein include the depreciation information (base rate portion) associated with the following FPL proposed new projects for the instant rate case?

North Florida Resiliency Connection project;

Solar generation additions;

938 MW Northwest combustion turbine additions;

469 MW of battery storage projects;

Combined cycle generation upgrade projects; and

Hydrogen Storage project.

a. If your response to this question is negative, please explain why the new project-related depreciation expenses and reserves were not included in FPL's calculation of its rate base depreciation-related adjustments.

b. If your response to this question is affirmative, please provide a worksheet to identify all of the depreciation accounts/sub-accounts that are affected by each proposed new project (and the individual depreciation rate for each, if applicable); and show the corresponding forecasted monthly plant balance (base rate portion) for each of the identified account/sub-account, by project, for the 2022 Test Year and 2023 Subsequent Year.

RESPONSE:
Yes. The Forecasted Accumulated Depreciation includes the projects mentioned above.

a. Not applicable.

b. FPL does not forecast monthly plant balances nor depreciation by account/sub-account for future projects. The monthly plant balances for the proposed new projects are presented in "Attachment 1" of FPL's response to Staff's Sixth Request for Production of Documents No. 26.

QUESTION:
Please refer to Staff's First Set of Interrogatories No.35. Will the theoretical reserve and book reserve be "brought into line" with each other on January 1, 2022, the date that the new rates go into effect?

a. If the answer is yes, please explain how that is accomplished.

b. If your answer is no, please explain your response to Staff's Interrogatory No. 35 given the fact that the two reserves will not be equal at the time that the new depreciation rates are calculated and go into effect?

c. Based on FPL's proposed use of the RSAM, does accumulated depreciation grow at the same rate whether or not FPL amortizes part of the reserve? In other words, does amortization of the reserve act as an off-set to the amount of depreciation expense that is booked to accumulated depreciation?

RESPONSE:
a. N/A

b. If FPL fully amortizes the RSAM by the end of 2025, this will effectively bring the book reserve in line with the calculated theoretical reserve based on the RSAM depreciation parameters. If remaining life depreciation rates were used in conjunction with the RSAM, the resultant depreciation rates would not recover the service value (original cost less net salvage) of the Company's assets over their service lives. Instead, the depreciation rates would recover the service value less the amortized amount of the RSAM. If instead, the whole life depreciation rates based on RSAM parameters are used, and FPL fully amortizes the RSAM by 2025, then the resultant whole life depreciation rates would recover the service value of the Company's assets.

To further illustrate this concept, consider an example in which a utility has $1,000,000 of plant in service with no net salvage expected and an estimated 16-year service life when the assets are placed in service. The resultant annual depreciation expense would be $1,000,000 / 16 = $62,500. If after year 10 the service life estimate is revised to 20 years, then the book reserve would be $625,000, the theoretical reserve would be $500,000, and the reserve surplus would be $125,000. The resultant annual whole life depreciation expense would be $1,000,000 / 20 = $50,000 and the resultant annual remaining life depreciation expense would be ($1,000,000 - $625,000) / 10 = $37,500. Over the remaining 10-years of service, the total whole life accruals would be $500,000 and the total remaining life accruals would be $375,000.

If the year 10 reserve imbalance of $125,000 is amortized over four years, the result would be a reduction in depreciation expense of $125,000 over this four-year period. Thus, when used in conjunction with an amortization of the reserve imbalance, the remaining life depreciation rates would result in the recovery of $375,000 - $125,000 over the 10-year remaining life, producing total depreciation accruals over the full 20-year service life of $625,000 + $375,000 - $125,000 = $875,000. As a result, using the remaining life depreciation rates in conjunction with the amortization of the reserve imbalance recovers $125,000 less than the service value of the assets. This occurs because the remaining life depreciation rates effectively amortize the reserve imbalance over the remaining life and, as a result, using the remaining life depreciation rates in conjunction with a separate amortization of the reserve imbalance effectively double-amortizes the reserve imbalance.

In contrast, if the whole life depreciation rates are used in conjunction with the four-year amortization of the reserve imbalance, the result is total depreciation accruals over the full 20-year service life of $625,000 + $500,000 - $125,000 = $1,000,000. Thus, the whole life depreciation rates, when used in conjunction with the amortization of the reserve imbalance, recover the full service value of the assets.

c. No. The use of the RSAM would decrease accumulated depreciation and depreciation expense. FPL would continue to record the normal depreciation expense in accordance with the rates proposed in Exhibit KF-3(B) whether or not it uses RSAM in a given period.

QUESTION:
Does amortization expense associated with the use of the RSAM have any effect on the company's revenue requirement calculation?

RESPONSE:
No, FPL has not included amortization of the Reserve Amount associated with the proposed RSAM under its four-year rate plan in either the 2022 Test Year or 2023 Subsequent Year. See response to Staffs Seventh Set of Interrogatories, No. 140 which provides an overview of how the Reserve Amount would function during FPL's proposed four-year rate plan. Note, FPL will utilize the RSAM during 2024 and 2025 in order to recover additional revenue requirements expected during those periods, thus serving as one of the predicates of the four-year plan and FPL's ability to avoid additional general base rate increases until January 2026 at the earliest. Otherwise, it will be necessary for FPL to petition for an increase in base rates effective January 1, 2024 to recover the expected increase in revenue requirements for 2024 and 2025.

QUESTION:
Please refer to page 8, lines 5 through 8, of your testimony. Please provide examples of how FPL's proposed capital recovery schedules are consistent with Commission practice when that decision was not part of a settlement agreement.

RESPONSE:
Consistent with the capital recovery schedules presented by FPL on FPL witness Ferguson's Exhibit KF-3 filed in the 2016 Retail Rate Case in Docket 20160021-EI, which were approved by the Commission in Order No. PSC-16-0560-AS-EI ("2016 Order"), FPL is requesting recovery of unrecovered investment of retired assets over a ten-year period.

As reflected by the 2016 Order, the Commission's approval of capital recovery schedules is based on the totality of the circumstances in each proceeding and the determination of what is reasonable, prudent, and in the public interest, without regard to whether the capital recovery schedules are or are not part of a settlement agreement.

QUESTION:
Please provide a hypothetical example of a full amortization of the proposed RSAM $1.48 B reserve amount for the period 2022 through 2025, to include the series of sequential accounting entries that would be made based on a several identified hypothetical causations (e.g. earnings adjustment, hurricane/pandemic event, shortfall in sales, etc.). Please show the impact of such entries on the running balance of the Reserve Amount (the mechanism). Include in this example all optional uses of the RSAM as FPL views this mechanism (i.e. replenishments of the RSAM, etc.).

RESPONSE:
Subject to and without waiving FPL's specific objections served on June 16, 2021 and general objections served contemporaneously with this response, FPL responds as follows:

FPL has proposed the RSAM as a necessary component of the four-year rate plan given the increasing base rate revenue requirements in both 2024 and 2025, for which FPL is not seeking a general base rate increase. FPL's base rate revenue requirements are projected to grow in excess of $500 million per year in both 2024 and 2025. After accounting for additional base revenues projected to be received under FPL's proposed SoBRA mechanism, FPL will still require incremental base revenue in the amounts of approximately $400 million in 2024 and $800 million in 2025 (inclusive of the $400 million needed in 2024) to earn at the established mid-point return on equity, or a total of $1.2 billion. Thus, it would take approximately $1.2 billion of the proposed $1.48 billion Reserve Amount simply to allow FPL to earn the mid-point return on equity in both 2024 and 2025 without new incremental rates being established. As context, the remaining approximately $280 million of the Reserve Amount, which represents approximately 0.8% of total base revenues over the four-year rate plan time period, would be available for FPL to utilize to manage uncertainty and risk in the business during that time period, including rising interest rates and IHS Markit's latest projection of higher inflation as compared to assumptions included in our filing.

QUESTION:
Staff's requested Admission 1 is as follows: "[c]ustomers should pay their fair share of costs associated with prudent utility plant investments in-service, less accumulated reserve, from which the customers are receiving the associated utility service." If FPL denies Staff's requested Admission 1, please explain, in detail, why customers shouldn't pay their fair share of costs associated with prudent utility plant investments in-service, less accumulated reserve, from which the customers are receiving the associated electric service?

RESPONSE:
FPL conditions its admission to Staff's Request for Admission 1 as follows. The phrase "fair share" is vague and subject to multiple interpretations. Additionally, the phrase "less accumulated reserve" is vague as used in the request. Furthermore, the phrase "from which the customers are receiving the associated utility service" is vague and subject to multiple interpretations. Finally, to the extent that Request for Admission 1 is intended to be a reflection of a global policy that Staff contends applies in every circumstance, FPL does not agree.

QUESTION:
Staff's requested Admission 2 is as follows: "[t]he matching principle can be defined as matching revenues with expenses for services rendered by a utility." If FPL denies Staff's requested Admission 2, please explain, in detail, why this isn't an appropriate definition of the matching principle?

RESPONSE:
FPL conditions its admission to Staff's Request for Admission 2 as follows. FPL generally agrees that the matching principle "can" be defined in this manner but does not agree that the language used in Request for Admission 2 is the only definition of the matching principle. For example, the phrase "services rendered by a utility" is vague and subject to varying interpretations. Further, to the extent that Staff's Request for Admission 2 is intended to imply a global policy that applies in all circumstances, FPL does not agree.

QUESTION:
Staff's requested Admission 3 is as follows: "[r]ecovery of prudent utility plant investments in-service, less accumulated reserve, from customers should match the service lives of those plant investments in-service in order to not violate the matching principle." If FPL denies Staff's requested Admissions 2 and 3 or affirms Staff's requested Admission 2 but denies Staff's requested Admission 3, please explain, in detail, why recovery of prudent utility plant investments in-service, less accumulated reserve, from customers shouldn't match the service lives of those plant investments in-service in order to not violate the matching principle?

RESPONSE:
FPL denies this admission, not because of a disagreement with the characterization of the matching principle but instead because this requested admission does not fully incorporate the prospective nature of making estimates in a depreciation study. FPL agrees that depreciation estimates should represent an effort to match the recovery of prudent investments with the service lives of those plant investments. However, service life estimates in a depreciation study are, by their nature, estimates of the future and, as NARUC explains on page 189 of *Public Utility Depreciation Practices*, "[i]t should be noted that only after plant has lived its entire useful life will the true depreciation parameters become known." FPL does not agree that it is a violation of the matching principle if a service life estimate in a depreciation study ends up being different from the actual experienced service life, at least as long as the estimates are made in good faith and are reasonable based on the information available at the time. One of the reasons for periodic depreciation studies is to update depreciation parameters to incorporate current information and refine life and net salvage estimates as appropriate. Service life estimates often change each time a depreciation study is performed, but this does not mean that the matching principle has been violated. In fact, this is one of the reasons why the Commission requires utilities to file depreciation studies every four years.

For example, in FPL's 2009 rate case, FPL proposed a 40-year life span for its coal plants. Other parties, such as OPC, proposed longer life spans (as long as 60-years) for FPL's coal plants and the Commission adopted a 50-year life span for SJRPP and Scherer. The actual life spans of these plants ended up being less than 40 years. However, FPL does not believe that the Commission was attempting to violate much less violated the matching principle by adopting a longer life span in the 2009 rate case than the actual life span of these facilities.

QUESTION:
Staff's requested Admission 4 is as follows: "[t]he purpose of the depreciation and dismantlement studies that the Commission requires electric regulated utilities to file periodically is to enable the Commission to gauge whether a utility is on-course with respect to collecting the appropriate amount of capital costs from customers over time and to take remedial action to achieve fairness between generations of customers if an imbalance is identified." If FPL denies Staff's requested Admission 4, please explain, in detail, why FPL disagrees with this requested admission.

RESPONSE:
FPL does not dispute that a general purpose of depreciation and dismantlement studies is to reasonably estimate depreciation parameters and resulting rates at the time it is conducted. However, FPL disagrees that the purpose stated above is "the" purpose and FPL further notes that the language used above is vague and subject to multiple interpretations. For example, another purpose of a depreciation study is to determine the appropriate depreciation rates to use for book and ratemaking purposes.

QUESTION:
Staff's requested Admission 5 is as follows: "[i]nter-generational inequity in utility regulation can be defined as one generation of customers subsidizing another generation of customers." If FPL denies Staff's requested Admission 5, please explain, in detail, why this isn't an appropriate definition of inter-generational inequity in utility regulation arena.

RESPONSE:
FPL conditions its admission to Staff's Request for Admission 5 as follows. FPL generally agrees that intergenerational inequity "can" be defined in this manner but does not agree that the language used in Request for Admission 5 is the only definition of intergenerational inequity. For example, the term "subsidizing" is vague and subject to varying interpretations. Further, to the extent that Staff's Request for Admission 5 is intended to imply a global policy that applies in all circumstances, FPL does not agree. Additionally, to the extent that Request for Admission 5 implies that some part of FPL's request in this matter creates intergenerational inequity, FPL also disagrees.

QUESTION:
Please refer to Direct Testimony of Ned W. Allis, page 47, lines 9-13. Isn't correct that the NARUC depreciation manual states that if a reserve imbalance is material, common methods for correcting the imbalance are either through an amortization over an abbreviated period of time or remaining life depreciation rates?

RESPONSE:
Yes, the above statement paraphrases a portion of the discussion on pages 188 and 189 of NARUC's *Public Utility Depreciation Practices*. The full discussion in the section titled "Treatment of Reserve Imbalances" is as follows:

> A reserve imbalance exists when the theoretical reserve is either greater or less than the actual reserve. If changes are made to the estimated service life and net salvage, creating a reserve imbalance, a decision must be made as to whether and how to correct the reserve imbalance. Should the imbalance be amortize (debited or credited) to the current depreciation expense over a short period of time; or should a remaining life depreciation rate be used to spread the imbalance over the future remaining life of the plant; or should future depreciation rates be adjusted to reflect the current estimated service life of the plant leaving the decision to adjust the reserve for the future? Further analysis will provide additional information to assist in making these decisions.
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> When a depreciation reserve imbalance exists, one should investigate why past depreciation rates, average service lives, salvage, or cost of removal amounts differ from current estimates. Care should be taken to analyze these effects before correcting for the reserve imbalances. Instances will occur where subsequent experience shows the original estimates no longer to be appropriate. It should be noted that only after plant has lived its entire useful life will the true depreciation parameters become known. Recognizing the nature of depreciation and its requirement for future estimations, no adjustment in annual depreciation accruals to reflect a reserve requirement, based on current rates, should be made unless there is a clear indication that the theoretical reserve is materially different from the book reserve.
>
> Whereas the judgment of materiality is subjective, if further analysis confirms a material imbalance, one should make immediate depreciation accrual adjustments. The use of an annual amortization over a short period of time or the setting of depreciation rates using the remaining life technique are two of the most common options for eliminating the imbalance. The size of the plant account, the reserve ratio, the account remaining life, the technology of the plant in the account, and the account reserve imbalance in relationship to the account annual accrual all have a bearing on the chosen course of action.