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August 5, 1997

VIA FEDERAL EXPRESS

Blanca S. Bayo, Director
Florida Public Service Commission
Division of Records & Recording
2540 Shumard Oak Blvd. - Room 110
Tallahassee, FL 32399

Re: Docket No. **970410-EI**
Proposal to Extend Plan for the Recording of Certain Expenses for the Years
1998 and 1999 for Florida Power & Light Company

Dear Ms. Bayo:

Enclosed please find for filing with the Public Service Commission the original and fifteen copies of the following documents:

1. AmeriSteel Corporation's Motion for Continuance; *08022-97*
2. Motion for Leave to File an Amended and Supplemental Petition and Protest to Proposed Agency Action of AmeriSteel Corporation; *-08023-97*
3. Amended and Supplemental Petition and Protest to Proposed Agency Action of AmeriSteel Corporation; *08024-97*
4. AmeriSteel Corporation's Request for Oral Argument; and *-08025-97*
5. Direct Testimony of Mark A. Cicchetti on behalf of AmeriSteel Corporation. *-08026-97*

Thank you for your assistance in filing the above. Should you have any questions, please do not hesitate to contact the undersigned.

Very truly yours,

SALEM, SAXON & NIELSEN, P.A.

Marian B. Rush

Marian B. Rush

MBR/cb3

Enclosures

cc: Attached Service List
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(PSC DOCKET NO. 970410-EI)**

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FLORIDA POWER AND LIGHT

DOCKET NO. 970410-EI

DIRECT TESTIMONY OF MARK A. CICCETTI
ON BEHALF OF AMERISTEEL CORPORATION

FILED AUGUST 6, 1997

DOCUMENT NUMBER-DATE

08026 AUG-66

FPSC-RECORDS/REPORTING

DIRECT TESTIMONY OF MARK A. CICHETTI

1 Q Please state your name and address.

2 A My name is Mark Anthony Cicchetti and my
3 business address is 2947 N. Umlerland Drive,
4 Tallahassee, Florida 32308.

5 Q By whom are you employed and in what
6 capacity?

7 A I am President of Cicchetti & Company, a
8 financial research and consulting firm. I am also
9 employed by the Division of Bond Finance, Florida
10 State Board of Administration, where I am the
11 Manager of the Arbitrage Compliance Section.

12 Q Please outline your educational
13 qualifications and experience.

14 A I received a Bachelor of Science degree
15 in Business Administration in 1980 and a Master of
16 Business Administration degree in Finance in 1981,
17 both from Florida State University.

18 Upon graduation I accepted a planning
19 analyst position with Flagship Banks, Inc., a bank
20 holding company. As a planning analyst my duties
21 included merger and acquisition analysis, lease-buy
22 analysis, branch feasibility analysis, and special
23 projects.

24 In 1983, I accepted a regulatory analyst
25 position with the Florida Public Service

DIRECT TESTIMONY OF MARK A. CICHETTI

1 Commission. As a regulatory analyst, I provided
2 in-depth analysis of the cost of equity and
3 required overall rate of return in numerous major
4 and minor rate cases. I reviewed and analyzed the
5 current and forecasted economic conditions
6 surrounding those rate cases and applied financial
7 integrity tests to determine the impacts of various
8 regulatory treatments. I also co-developed an
9 integrated spreadsheet model which links all
10 elements of a rate case and calculates revenue
11 requirements. I received a meritorious service
12 award from the Florida Public Service Commission
13 for my contributions to the development of that
14 model.

15 In February 1987 I was promoted to Chief
16 of the Bureau of Finance. In that capacity I
17 provided expert testimony on the cost of common
18 equity, risk and return, corporate structure,
19 capital structure, and industry structure. I
20 provided technical guidance to the Office of
21 General Counsel regarding the development of
22 financial rules and regulations. In addition, I
23 authored the Commission's rules regarding
24 diversification and affiliated transactions,
25 chaired the Commission's Committee on Leveraged

DIRECT TESTIMONY OF MARY A. CICHETTI

1 Buyouts, supervised the finance bureau's regulatory
2 analysts, co-developed and presented a seminar on
3 public utility regulation to help educate the
4 Florida Public Service Commission attorneys, and
5 provided technical expertise to the Commission in
6 all areas of public utility finance for all
7 industries.

8 In February 1990 I accepted the position
9 of Chief of Arbitrage Compliance in the Division of
10 Bond Finance, Department of General Services. The
11 Division of Bond Finance is now under the Florida
12 State Board of Administration, and my title is
13 Manager, Arbitrage Compliance. As Manager of the
14 Arbitrage Compliance Section, I am responsible for
15 assuring that over \$14 billion of State of Florida
16 tax-exempt securities remain in compliance with the
17 federal arbitrage requirements enacted by the Tax
18 Reform Act of 1986. I provide investment advice to
19 trust fund managers on how to maximize yields while
20 remaining in compliance with the federal arbitrage
21 regulations. I designed and implemented the first
22 statewide arbitrage compliance system which
23 includes data gathering, financial reporting, and
24 computation and analysis subsystems.

25 In July 1990 I founded Cicchetti &

DIRECT TESTIMONY OF MARK A. CICHETTI

1 Company. Through Cicchetti & Company I provide
2 financial research and consulting services,
3 including the provision of expert testimony, in the
4 areas of public utility finance and economics.

5 Topics I have testified on include cost
6 of equity, capital structure, corporate structure,
7 regulatory theory, cross-subsidization, industry
8 structure, the overall cost of capital, incentive
9 regulation, the establishment of the leverage
10 formula for the water and wastewater industry,
11 reconciling rate base and capital structure, risk
12 and return, and the appropriate regulatory
13 treatment of construction work in progress, used
14 and useful property, construction cost recovery
15 charges, and the tax gross-up associated with
16 contributions-in-aid-of-construction.

17 In 1985, I was certified by the Florida
18 Public Service Commission as a Class B Practitioner
19 in the areas of finance and accounting.

20 In June, 1985, I published an article in
21 *Public Utilities Fortnightly* titled "Reconciling
22 Rate Base and Capital Structure: The Balance Sheet
23 Method." In September, 1986, I was awarded third
24 place in the annual, national, Competitive Papers
25 Session sponsored by Public Utilities Reports,

DIRECT TESTIMONY OF MARK A. CICHETTI

1 Inc., in conjunction with the University of Georgia
2 and Georgia State University, for my paper titled
3 "The Quarterly Discounted Cash Flow Model, the
4 Ratemaking Rate of Return, and the Determination of
5 Revenue Requirements for Regulated Public
6 Utilities." An updated version of that paper was
7 published in the June, 1989 edition of the *National*
8 *Regulatory Research Institute Quarterly Bulletin*.
9 I have since served twice as a referee for the
10 Competitive Papers Sessions. On June 15, 1993, I
11 published an article on incentive regulation in
12 *Public Utilities Fortnightly* titled "Irregular
13 Incentives."

14 I am a past President and past member of
15 the Board of Directors of the National Society of
16 Rate of Return Analysts (NSRRA). I was awarded the
17 designation Certified Rate of Return Analyst by the
18 NSRRA in 1992. I am listed in *Who's Who in the*
19 *World* and *Who's Who in America*.

20 I have made public utility and finance
21 related presentations to various groups such as the
22 Southeastern Public Utilities Conference, the
23 National Society of Rate of Return Analysts, the
24 National Association of State Treasurers, and the
25 Government Finance Officers Association.

DIRECT TESTIMONY OF MARK A. CICCHETTI

1 Q Have you previously testified before this
2 Commission?

3 A Yes, I have.

4 Q For whom are you testifying in this
5 proceeding?

6 A I am testifying on behalf of Ameristeel
7 Corporation.

8 Q What is the purpose of your testimony?

9 A The purpose of my testimony is twofold.
10 The first part of my testimony will address
11 Florida Power and Light's (FPL) overearnings on a
12 pro forma basis absent the additional expenses
13 allowed in Order No. PSC-97-0499-FOF-EI. The
14 second part of my testimony will address the
15 adverse impacts on ratepayers if FPL is allowed to
16 inappropriately accelerate the recovery of certain
17 expense items listed in Order No. PSC-97-0499-FOF-
18 EI.

19 Q Please summarize your conclusions.

20 A First, absent the additional expenses
21 allowed in Order No. PSC-97-0499-FOF-EI, the
22 available evidence indicates FPL will substantially
23 overearn in 1998 and 1999.

24 Second, allowing FPL to accelerate
25 expenses that are appropriately attributable to

DIRECT TESTIMONY OF MARK A. CICCHETTI

1 future periods, as allowed in Order No. PSC-97-
2 0499-FOF-EI, adversely affects ratepayers
3 (Ameristeel, in particular, because Ameristeel is
4 one of the largest, if not the largest, customer of
5 FPL) by denying current ratepayers a refund or
6 whatever equivalent rate relief the Commission
7 determines to be appropriate.

8 Q Would FPL have overearned in 1996 absent
9 the additional expenses allowed in Order No. PSC-
10 96-0461-FOF-EI?

11 A Yes. As shown on FPL's Earnings
12 Surveillance Report for the period ending December
13 31, 1996, FPL earned a FPSC adjusted return on
14 common equity of 12.09% after writing-off \$188
15 million of additional expenses allowed in Order No.
16 PSC-96-0461-FOF-EI. As of December 1996, 100 basis
17 points (1 percentage point) on common equity was
18 equivalent to approximately \$69 million.
19 Consequently, absent the additional expenses, and
20 allowing FPL to earn at the top of its range, FPL
21 would have overearned by approximately \$125 million
22 (\$188 million minus the \$63 million necessary to
23 get to the top of the allowed range, 13%).

24 Q Based on the available evidence, will FPL
25 overearn, on a pro forma basis, absent the

DIRECT TESTIMONY OF MARK A. CICHETTI

1 additional expenses allowed in Order No. PSC-97-
2 0499-FOF-EI7

3 A Yes. As shown on Attachment 1, which was
4 taken from Schedule 1: Page 1 of 1 of FPL's
5 Earnings Surveillance Report for the period ending
6 April 30, 1997, FPL Earned a FPSC adjusted return
7 on common equity of 12.34% while continuing to
8 write-off additional expenses allowed in Order No.
9 PSC-96-0461-FOF-EI. Furthermore, FPL has reported
10 substantial increases in actual revenues and
11 earnings for the six-month period ending June 30,
12 1997. FPL Group, which receives virtually all its
13 earnings and revenues from FPL, reported an
14 increase in operating revenues of \$200 million and
15 an increase in net income of \$21 million for the
16 six months ending June 30, 1997 versus the same
17 period a year ago. FPL attributed the improved
18 financial results to higher sales from customer
19 growth and warmer weather. On July 8, 1997, FPL
20 set a new summer peak load of 16,329 megawatts.
21 Given that FPL is one of the largest and fastest
22 growing electric utilities in the nation and is
23 earning above the midpoint of its allowed return
24 while writing-off hundreds of millions of dollars
25 of expenses above those included in its rates, it

DIRECT TESTIMONY OF MARK A. CICCHETTI

1 is highly likely that FPL will be in a significant
2 overearnings situation absent the additional
3 expenses allowed under the Plan for Recording
4 Certain Expenses for 1998 and 1999.

5 It is important to note that this
6 analysis does not incorporate a reduction to FPL's
7 allowed return on equity or the equity ratio used
8 to monitor earnings, both of which, in my opinion,
9 should be reduced because they are excessive and
10 are adding substantially and unnecessarily to the
11 revenue requirement being borne by ratepayers (See
12 staff's Quarterly Report on Equity Cost Rates).

13 Q In your opinion, does Order No. PSC-97-
14 0499-FOF-EI allow FPL to inappropriately write-off
15 expenses currently that are properly attributable
16 to future periods?

17 A Yes. the generally accepted concept of
18 intergenerational equity holds that each
19 generation of customers should pay the costs
20 related to the service from which they are
21 benefitting. In Order No. PSC-96-0461-FOF-EI and
22 Order No. PSC-97-0499-FOF-EI, the Commission has
23 approved \$283 million of unamortized loss on
24 reacquired debt and \$59 million of book-tax timing
25 differences (generally referred to as regulatory

DIRECT TESTIMONY OF MARK A. CICCHETTI

1 assets) to be written-off against earnings derived
2 from current ratepayers and ratepayers in 1998 and
3 1999. Under the concept of intergenerational
4 equity it is inappropriate to force current
5 ratepayers to bear the costs of reacquired debt so
6 that future ratepayers can enjoy a cost of debt
7 below the 'net' cost of debt. For example, FPL pays
8 for plant and equipment today but does not write
9 the total cost off against current earnings, excess
10 or otherwise. For ratemaking purposes the cost of
11 the plant and equipment is systematically spread
12 over the period the plant is providing service.
13 Likewise, the unamortized loss on reacquired debt
14 should be spread over the life of the remaining
15 debt or amortized over the remaining life of the
16 original debt. The same concept applies to the
17 book-tax timing differences that were flowed
18 through in prior years and remain to be turned
19 around in future years. It should be noted, as
20 shown on Attachment 2 which was taken from FPL's
21 website on August 1, 1997 and also stated in FPL's
22 most recent 10-k filed with the Securities and
23 Exchange Commission, that the amortization of the
24 regulatory assets has begun because the approved
25 amounts for nuclear and fossil generating assets

DIRECT TESTIMONY OF MARK A. CICHETTI

1 have been completely amortized.

2 Allowing FPL to accelerate expenses that
3 are appropriately attributable to future periods
4 results in unreasonable rates, excessive
5 compensation, and intergenerational inequity.

6 Q Is it true that Ameristeel will not be
7 harmed if the Commission allows FPL to
8 inappropriately accelerate the recovery of
9 regulatory assets because Ameristeel can file for
10 rate relief in the future?

11 A No. Even putting aside the issue of
12 FPL's need to accelerate the recovery of regulatory
13 assets due to possible future retail competition in
14 Florida, Ameristeel is harmed by the Commission's
15 decision in this docket. First, all ratepayers
16 have an interest in ensuring that the timing and
17 amount of FPL's cost recovery is just and
18 reasonable, particularly when the amounts in
19 question are in the hundreds of millions of
20 dollars. Individual instances of inappropriate
21 cost recovery must be addressed to determine
22 correctly the cumulative impact. Second, if the
23 inappropriate accelerated cost recovery is denied,
24 FPL's overearning situation will require action by
25 the Commission. It is not fair or logical to deny

DIRECT TESTIMONY OF MARK A. CICCHETTI

1 a ratepayer the opportunity to challenge the
2 appropriateness of a material expense in the docket
3 where it is allowed with the justification that the
4 ratepayer can bear the burden of proving the
5 expense inappropriate in a subsequent docket.

6 Q Please summarize your testimony..

7 A Absent the additional expenses allowed in
8 Order No. PSC-97-0499-FOF-EI, the available
9 evidence indicates FPL will substantially overearn
10 in 1998 and 1999.

11 Allowing FPL to accelerate expenses that
12 are appropriately attributable to future periods,
13 as allowed in Order No. PSC-97-0499-FOF-EI,
14 adversely affects ratepayers by denying ratepayers
15 a refund or whatever equivalent rate relief the
16 Commission determines to be appropriate.

17 Finally, it is not fair or logical to deny a
18 ratepayer the opportunity to challenge the
19 appropriateness of a material expense in the docket
20 where it is allowed with the justification that the
21 ratepayer can bear the burden of proving the
22 expense inappropriate in a subsequent docket.

23 Q Does this conclude your testimony?

24 A Yes, it does.

Florida Power and Light Company
and Subsidiaries
Earnings Surveillance Report Summary
April 30, 1997

<u>Average Rate of Return (jurisdictional)</u>		<u>FPSC Adjusted</u>
Net Operating Income	\$	<u>834,653,657</u>
Average Rate Base:	\$	<u>9,291,862,328</u>
Average Rate of Return		<u>8.97%</u>

Financial Integrity Indicators

TIE with AFUDC	4.92	(system per books)
TIE without AFUDC	4.93	(system per books)
AFUDC to Net Income	-0.54	(system per books)
Internally Generated Funds	69.92%	(system per books)
LTD to Total Investor Funds	35.35%	(FPSC Adjusted Basis)
STD to Total Investor Funds	0.07%	(FPSC Adjusted Basis)
Return on Common Equity	12.34%	(FPSC Adjusted Basis)

SOURCE: FPL Earnings Surveillance Report for the Period Ending April 30, 1997

Florida Power and Light Company
Web Page for Analysts and Investors

Accelerating Asset Recovery

To reduce exposure to potential stranded costs, in 1995 FPL began accelerated depreciation of generating assets and amortization of regulatory assets.

- Accelerated depreciation: In 1995 and 1996, most of FPL's accelerated depreciation was applied to nuclear and fossil generating units. In 1997, sales-related depreciation will be applied to certain regulatory assets (\$59 million of book-tax timing differences and \$283 million of unamortized debt reacquisition costs.)
- Deferred Plant Costs: This asset consists largely of the deferred cost of replacing the Turkey Point nuclear unit's steam generators in the early 1980s. Originally \$111 million, the balance at year-end 1996 was \$46 million, which FPL will fully amortize by no later than 1999.

Accelerated depreciation has two components:

- a permanent \$30 million per year, recorded as depreciation on nuclear units; and
- amounts recorded through 1997 under a formula that produces higher depreciation as sales increase.

FPL will fully amortize certain *deferred plant costs* by no later than 1999.

	(\$ millions)	
	96	95
Accelerated depreciation:		
permanent	\$30	\$30
sales-related	130	96
Deferred plant costs	<u>28</u>	<u>37</u>
TOTAL	\$188	\$163

SOURCE: FPL Website, August 1, 1997