ORIGINAL

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Matthew M. Childs, P.A.

October 10, 1997

Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
4075 Esplanade Way, Room 110
Tallahassee, FL 32399

RECEIVED
OCT 10 1997
FPSC - Records/Reporting

RE: **DOCKET NO. 970410-EI**

Dear Ms. Bayó:

In accordance with the directives of Order No. PSC-97-1035-PCO-EI, enclosed for filing please find the original and fifteen (15) copies of the direct testimony and exhibits of Hugh Gower filed on behalf of Florida Power & Light Company in the above referenced docket.

Very truly yours,

Matthew M. Childs, P.A.

MMC:ml

ACK
Stemkewicz
Enclosure

cc: All Parties of Record

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Miami
305 577 7000
305 577 7001 Fax

West Palm Beach
561 650 7200
561 655 1509 Fax

Key West
305 292 7272

DOCUMENT NUMBER-DATE
10436 OCT 10 5
FPSC-RECORDS/REPORTING

CERTIFICATE OF SERVICE
DOCKET NO. 970410-EI

I HEREBY CERTIFY that a true and correct copy of Florida Power & Light Company's Direct Testimony and Exhibits of Hugh Gower has been furnished by Hand Delivery (*), U.S. Mail and Federal Express (**), and U.S. Mail (***)this 10th day of October, 1997, to the following:

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Matthew M. Childs, P.A.

ORIGINAL

BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 970410-EI
FLORIDA POWER & LIGHT COMPANY

OCTOBER 10, 1997

IN RE: PROPOSAL TO EXTEND PLAN FOR
THE RECORDING OF CERTAIN EXPENSES
FOR THE YEARS 1998 AND 1999 FOR
FLORIDA POWER & LIGHT COMPANY

TESTIMONY & EXHIBITS OF:

H. A. GOWER

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF HUGH A. GOWER

DOCKET NO. 970410-EI

OCTOBER 10, 1997

Q. Please state your name, address and occupation.

A. My name is Hugh Gower and my address is 195 Edgemere Way, S., Naples, Florida 34105. I am self employed and a consultant on public utility financial, economic regulation and cost containment and control matters. I also provide expert testimony on topics related to public utility economics and rate regulation in cases before public service commissions and courts.

Q. Please state your educational and professional background.

A. I received a Bachelor of Science degree in Accounting and Economics from the University of Florida, and I am, or have been, registered as a Certified Public Accountant in several states. I am a member of the American Institute of Certified Public Accountants and the Florida Institute of CPA's. I engaged in the practice of public accounting continuously for more than 30 years with Arthur Andersen & Co., with whom I was a partner for more than twenty years.

Q. What was your particular experience with Arthur Andersen & Co?

A. Arthur Andersen is among the largest international firms of independent public accountants and it serves as auditors for a major share of the electric, gas and telephone companies, as well as numerous other utilities operating in the United States and other parts of the world. In addition to audits of financial statements, its work includes tax work, design and installation of accounting and other information systems and other consulting assignments for businesses of all types. Representatives of the firm also provide expert testimony in connection with public utility regulatory proceedings before federal and state regulatory authorities on a variety of accounting, financial and rate-making topics.

I was a partner in the utilities and telecommunications division of the Atlanta office of Arthur Andersen & Co., which serves as the concentration office for the firm's regulated industries practice for the Southeastern United States. This area of the practice includes work for electric, gas, telephone, water & sewer utilities, motor carriers and airlines. For 17 years I served as the Southeastern Area Director for this practice. I had responsibility for supervising the work done for clients, the training of firm personnel, and administrative matters. I also had direct responsibility for work done by the firm for numerous clients in this area of the practice and in others.

Q. **What was the nature of the work you did with Arthur Andersen & Co?**

A. By far, the greatest portion of my work was with public utilities and telecommunications companies, but I also had substantial experience with other industries. I performed independent audits of public utilities and other companies, as a result of which Arthur Andersen & Co., issued reports on the financial statements of such companies. I participated in and supervised audits of the various statements and schedules and other data required either annually or in connection with rate applications before federal or state regulatory authorities. I have also supervised work in connection with the issuance of billions of dollars of securities by public utilities. I participated in the development of accounting and management information systems designed to promote close control over utility resources, such as materials, fuel and construction costs. In addition, I directed the preparation of financial projections and forecasts, conducted independent reviews of financial forecasts and directed the development of financial forecasting models.

I participated in management audits, the purpose of which was to assess whether management systems and procedures promoted economy and efficiency in utility operations. I have directed deprecation studies which, based on the analysis of utility plant investments, retirement transactions, salvage and cost of removal, developed equitable depreciation rates with which to effect capital recovery during the service lives of the assets. I also developed plans which were accepted by regulators to equitably assign the future outlays for spent nuclear fuel disposal, nuclear plant decommissioning and fossil plant dismantlement costs to customers receiving service, considering the effects of inflation, the time value of money and other variables.

I have directed revenue requirements studies involving the analysis of rate base, operating revenues and expenses as well as the analysis of specific transactions or alternative rate-making proposals for various cost-of-service components. I have also directed studies to determine the proper assignment of cost of service between customer classes, regulatory jurisdictions or between regulated and unregulated operations.

I was a representative of the American Institute of Certified Public Accountants on the Telecommunications Industry Advisory Group which advised the Federal Communications Commission on certain matters in connection with the development of its new Uniform System of Accounts (Part 32). In this connection, I chaired the Auditing and Regulatory Subcommittee which dealt with issues regarding compliance with generally accepted accounting principles ("GAAP") when regulatory rate-setting practices were based on methods other than GAAP.

Q. **What is the purpose of your testimony in this proceeding?**

My testimony will show that the proposed agency action detailed in the Florida Public Service Commission's ("Commission" or "FPSC") April 29, 1997 Order No. PSC-97-0499-FOF-EI extending the plan to record additional expenses in 1998 and 1999 to correct cost underrecoveries is reasonable and appropriate, will be beneficial to customers who will be served by Florida Power & Light Company ("FPL" or "the Company") for the longer term, and represents good regulatory policy. This proposed agency action is a continuation of the Commission's policy of addressing prior underrecoveries of costs in the manner established in Docket No. 950359-EI.

Q. Have you prepared or caused to be prepared under your supervision, direction and control Exhibits in this proceeding?

A. Yes. Exhibit Nos. HAG-1 and HAG-2 are attached to my testimony.

Q. What is the purpose of the proposed agency action contained in Order No. PSC-97-0499-FOF-EI?

A. The purpose of the Commission's proposed agency action is to mitigate "...past deficiencies with Commission prescribed depreciation, dismantlement, and nuclear decommissioning accruals..." and to eliminate "...regulatory assets such as deferred refinancing costs and ... previously flowed through taxes."

The items addressed in the proposed agency action represent capital investments made by FPL and other costs previously incurred to provide service to its customers, but which were not fully recovered by FPL in prior years. These were prudently incurred costs which FPL is entitled to recover by inclusion in its regulated cost of service and the accounting directives contained in the Commission's proposed agency action deal only with the timing of the recovery of these costs.

An additional purpose of the proposed agency action is to facilitate establishing "...a level "accounting" playing field between FPL and possible non-regulated competitors." Correction of prior cost underrecoveries will result in lower future cost of service by reducing the amount of investor-supplied capital needed to finance the business and by reducing future uncertainties which may increase the Company's costs. Most significantly, the Commission proposes to accomplish these corrections without increasing FPL's rates to current customers.

Q. What are the Commission's proposed accounting directives with respect to these capital and other costs?

A. Order No. PSC-97-0499-FOF-EI directs FPL to record additional expense in 1998 and 1999 equal to the difference between FPL's "most likely" 1996 base rate revenues forecast and its "low band" 1996 revenue forecast and at least 50% of actual base rate revenues for 1998 and 1999 in excess of the "most likely" 1996 revenue forecast.

The amounts of additional expense recorded pursuant to this directive are to be applied to depreciation reserve deficiencies, prior year income tax flow through amounts, debt refinancing costs, fossil plant dismantlement reserve deficiencies, and nuclear plant decommissioning reserve deficiencies. Any additional amount would be credited to an unspecified portion of the production plant depreciation reserve.

Q. Don't the accounting directives contained in Order No. PSC-97-0499-FOF-EI represent a departure from the commission's normal exercise of its authority?

A. No, not at all. The Commission's prior decisions contain ample precedents for correcting prior cost underrecoveries without affecting rates. Further, the Commission's authority in Sec. 350.115 of the Florida Statutes is quite broad and the Commission has routinely exercised that authority. In addition to adopting the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts and setting depreciation rates, the Commission has given accounting direction to its jurisdictional utilities on numerous occasions. For example, it has directed accrual accounting for unbilled revenues, and has, from time-to-time, directed several methods of accounting for the costs of reacquiring long-term debt. In yet another instance, the Commission directed the deferral of actual revenues collected in one year and disposition of such deferred revenues in subsequent years.

There are numerous instances in which the Commission has directed the recovery of invested capital over relatively short periods without affecting rates, recognizing that this benefits customers who will be served by utilities for the longer term. In previous cases involving FPL, the FPSC has directed the recovery of costs "...as quickly as is economically practicable" particularly where the costs did not provide future benefits. The Commission directed this type of recovery for major overhaul and asbestos abatement project costs as well as for Martin reservoir and Turkey Point steam generator repair costs in Order No. PSC-95-0340-FOF-EI issued March 13, 1995 and in Order No. PSC-94-1199-FOF-EI issued September 30, 1994. Similar directions for the recovery of reserve deficiencies associated with generating units at Ft. Lauderdale, Palatka and St. Lucie were provided in Order Nos. PSC-95-1532-FOF-EI and Order No. PSC-94-1199-FOF-EI. Further, in Order No. PSC-96-1421-FOF-EI issued November 21, 1996, the Commission authorized FPL to amortize $35.8 million of nuclear outage maintenance expenses "...at least one-fifth..." annually.

The Commission has not limited this type of accounting direction to FPL. In Order Nos. PSC-95-1230-FOF-EI and PSC-96-0843-FOF-EI, finding it to be "...in the public interest...", it authorized Florida Power Corporation to increase the amortization of the costs of a canceled transmission line project and certain other regulatory assets "...as long as its earnings were sufficient to absorb the increased expense."

Q. How did the items which are the subject of the Commission's accounting directives in this docket come to the Commission's attention?

A. Each of the items came to the Commission's attention in connection with routine filings in compliance with the Commission's rules and regulations. For example, the latest comprehensive depreciation studies filed by FPL were approved by Order No. PSC-94-1199-FOF-EI dated September 30, 1994. Based on these approved studies, the FPSC staff calculated the reserve deficiencies to be $175,304,000 and $60,338,000 for nuclear and other generation facilities, respectively. Similarly, the nuclear plant decommissioning and fossil plant dismantlement costs studies filed by FPL were approved in Order Nos. PSC-95-1531-FOF-EI and PSC-95-1532-FOF-EI dated December 12, 1995. Calculations based on these approved studies indicate nuclear decommissioning and fossil dismantlement reserve deficiencies of $484,440,000 and $34,437,000, respectively.

The costs of refinancing high cost debt ($397,029,000 for the years 1984 through 1996) come under the Commission's scrutiny when FPL makes applications from time to time for authority to issue new securities to fund such as those affected by previous studies.

Q. Should the depreciation, decommissioning and dismantlement reserve deficiency recoveries directed in Order No. PSC-97-0499-FOF-EI be delayed until new studies are filed in 1997 and 1998?

A. No, these reserve deficiency recoveries should not be delayed. Previous studies approved by the Commission have established the existence of the reserve deficiencies and future studies will only remeasure the amount of the deficiencies. Further, even though the recovery program was begun in 1995 under Docket No. 950359-EI, current calculations indicate that the remaining under recovery of costs is substantial. In the current dynamic environment it is not reasonable to suspend the plan for correction of these substantial underrecoveries begun in Docket No. 950359-EI until new studies are filed.

Q. Should the Commission order the transfer of depreciation reserve surpluses to offset the depreciation reserve deficits for nuclear and fossil production?

A. No, reserve transfers do not offer a viable solution to the problem of short-falls in capital recovery. Transfers across functional categories have pricing implications which may be unacceptable because different classes of service provided to customers involve usage of the several functional categories of plant to a different extent. In addition, the FERC (which exercises jurisdictional authority over the books and records and annual reports of investor owned electric utilities) proscribes such depreciation reserve transfers. (When the South Carolina Public Service Commission recently directed South refinancings. (For example, see Order No. PSC-96-1457-FOF-EI dated December 2, 1996 and Order No. 13847 dated November 14, 1984)

Q. **What do the "reserve deficiencies" indicated by the depreciation, dismantlement and decommissioning studies you cited really mean in connection with FPL's accounting and service pricing?**

These reserve deficiencies mean that FPL should have been recording and recovering substantially higher depreciation expenses in prior years to recover the cost of using up the generating plant assets serving customers and the cost of retiring those assets at the end of their useful lives in compliance with regulatory or other requirements.

Because of the importance of these capital costs, the Commission's rules and regulations require that depreciation and fossil plant dismantlement studies be updated at least once every four years, while nuclear plant decommissioning studies must be updated at least every five years.

Each periodic study produces useful life or removal cost estimates based upon the latest engineering observations, technical developments, system development or expansion plans and other factors. The Commission's orders approving the studies denote its concurrence with the key variables and the resulting useful life or removal cost estimates. The Commission's consistent practice of dealing promptly with the changes shown by the results of the periodic studies reflects not only the importance of capital recovery but also the fact that, by and large, the affected customers are very likely to be the same

Carolina Electric & Gas Company to make such a reserve transfer, the FERC required the entries to be reversed.)

Q. Isn't the approach to dealing with under-reco.:ries of capital and other costs inherent in the Commission's Order No. PSC-97-0499-FOF-EI different from the approach normally used to correct for such items?

A. No, not really. Basically, regulators can either spread corrections of prior underrecoveries over long periods of time or choose more aggressive approaches to making such corrections.

The FPSC has in this instance chosen shorter time periods to make the correction for prior underrecoveries, without affecting rates. The Commission has made such corrections over short time periods without affecting rates in numerous other cases as well. Since the corrections reduce the amount of investors' capital needed, it is in the customers' best interest to accomplish the corrections as soon as practicable.

Q. Are there other examples where the FPSC has corrected for prior underrecoveries over relatively short periods of time?

A. Yes, several instances are shown on Exhibit_____ (HAG-1). See, for example, the Southern Bell case (Order No. 12290, page 1, line 2) and the Central Telephone Company case (Order No. 12654, page 1, line 3). In both cases, the Commission ordered increased depreciation expenses booked to cover depreciation reserve deficiencies over 5 years and expected near-term retirements over shorter periods.

In still other cases, the Commission has directed additional depreciation be recorded to dispose of over-collections of revenue for one reason or another. For example, see United Telephone, Order No. 12148, page 1, line 1; Central Telephone, Order No. 13951, page 2, line 5; Southern Bell et al, Order No 16257, page 2, line 6. In Order No. 16257 the Commission directed twelve electric and telephone companies to credit the revenue effect associated with interest synchronization for Job Development Investment Credit to an unspecified portion of their respective depreciation reserves.

There are also numerous instances where other regulatory authorities have substantially shortened recovery periods to correct for prior under-recoveries. The FPSC's directives proposed in its Order No. PSC-97-0499-FOF-EI are very much in the regulatory "main stream" for dealing with prior underrecoveries of costs.

Q. **Is the method directed by the FPSC in Order No. PSC-97-0499-FOF-EI fair to customers?**

A. Yes. Customers have already received the service for which the capital was invested or costs were incurred. Through no fault of their own (or anyone's), the prices they paid for service just didn't cover the full cost of that service. All things being equal, they might prefer to postpone payment even longer. But "all things" are not equal. Not only will prompt correction lower costs in the long-run, but the vast majority --the customers who will be served by FPL for the longer term -- have little or no ability to avoid other possible future cost increases which might result from postponing the correction of past cost underrecoveries to a distant and uncertain future.

Q. Which method of correcting prior underrecoveries of costs offers the lowest long-run costs to customers?

A. As capital costs constitute a very high percentage of revenue requirements, the method which reduces invested capital the quickest would usually provide the lowest long-run cost to customers. This fact has been recognized by the Commission in previous cases in which it has directed the absorption of costs "...as quickly as economically practicable." (Order No. PSC-95-0340-FOF-EI dated March 13, 1995) and that increasing the reserve for depreciation "...is appropriate because a reduction in rate base can be more favorable to customers... because there will be less investment for the customers to support." (Order No. 12149 dated June 17, 1983). Clearly, the corrective measures outlined in Order No. PSC-97-0499-FOF-EI will result in a lower long-run total revenue requirement than delaying correction of underrecoveries for, say, 25 years or more.

Q. What impact will the directives in Order No. PSC-97-0499-FOF-EI have on rate stability?

A. The Commission's directives will have a positive impact on rate stability because the prior cost underrecoveries will be corrected without affecting rates. By contrast, if these corrections were not taking place, it is likely that if rate reductions were ordered, they would be followed by rate increases in the future. This could promote customer misunderstanding and resentment as many customers place a high value on stable prices. Better to preserve rates which are among the lowest in the state and allow the necessary corrections of capital recovery to take place rather than creating a situation that increases the likelihood of future rate increases. This will be particularly important if the current customer growth rate continues since the costs required to serve new customers will exert enough upward pressure on prices without being burdened by prior service costs.

Q. What effect do the corrections directed in Order No. PSC-97-0499-FOF-EI have on FPL's ability to provide safe, adequate and reliable service?

A. Making these corrections over a relatively short period of time has a positive effect on FPL's ability to provide safe, adequate and reliable service. By facing these cost underrecovery issues promptly, compounding the risk of future uncertainties is avoided and the Company's financial integrity and ability to attract capital is not further diminished. Taking notice of the stock prices and senior security ratings of a number of utilities for which capital recovery is in doubt confirms that the steps taken by the Commission are positive in terms of FPL's ability to continue to render safe, adequate and reliable service.

Q. Will the additional expenses recorded by FPL pursuant to the Commission's directives generate more cash flow which FPL will be free to use in its business operations?

A. Only partially. To the extent that the additional expense recorded by FPL relates to nuclear plant decommissioning reserve deficiencies ($484,440,000 as of December 31, 1996), the Commission requires such amounts to be funded. Consequently, correction of prior nuclear decommissioning reserve deficiencies results in no cash flow benefit to FPL.

On the other hand, investing decommissioning accrual amounts in an external trust fund provides assurance to the Commission and to FPL's customers that the financial resources to meet the decommissioning cost obligations wil' be available when needed.

Q. But doesn't the need for "intergenerational equity" suggest that the costs which Order No. PSC-97-0499-FOF-EI directs be charged to cost of service should be recovered from customers over a longer period of time?

A. The basic notion of "intergenerational equity" is that, to th extent possible, customers should pay the costs to produce the service or benefits they receive. By and large, the costs being recovered in this case were incurred to produce service in prior years and "intergenerational equity" suggests those costs be recovered quickly so that the cost of service in the future is not burdened with prior service costs ... or before some who received the prior service depart and avoid their fair share of the costs.

Q. What justifies the more rapid absorption of the capital invested in refinancing high cost debt?

A. The same basic reasons which support the corrections of prior years' cost underrecoveries over relatively short periods of time also apply to the costs of refinancing high cost debt. Deferral of the recovery of the capital investors have provided to fund refinancing of high cost debt over the remaining life of the securities refinanced adversely affects the regulated cost of capital in the same manner that insufficient capital recoveries through depreciation inflates rate base. Although deferral and amortization does allow recovery of the capital investors provided to achieve the interest cost savings from refinancing, the long amortization period affects FPL's cost of capital for years beyond the time when the interest savings has "recovered" the cost of the refinancings.

Q. What interest cost savings has resulted from FPL's refinancings?

A. To illustrate more clearly, the interest cost savings realized from refinancings undertaken by FPL from 1984 through 1996 aggregated $907,722,000 for that time period, while the cost of the refinancings totaled $397,029,000 (including the $282,756,000 unamortized balance at December 31, 1996). Although the savings have "recovered" the costs and yielded additional savings in excess of $500,000,000 ($907,722,000 - $397,029,000 = $510,693,000), for ratemaking purposes $282,756,000 at December 31, 1996 burdens the future cost of service. Earlier recovery of the capital investors supplied to achieve the savings would obviate this need. This will benefit customers who will be served by FPL for the longer term, but their benefit would be realized much sooner.

Q. How much of the underrecoveries of capital and other costs addressed in Docket No. 970410-EI have been corrected pursuant to the FPSC's plan initiated in its earlier docket?

A. As shown on Exhibit____ (HAG-2), the cost recovery deficiencies addressed by the plan in Docket No. 970410-EI totaled in excess of $1.1 billion. Pursuant to the Docket No. 950359-EI directives, FPL recovered $126,123,847 and

$129,622,284 in 1995 and 1996, respectively. Through June 1997, FPL has recovered an additional $100,126,668, leaving more than $780,000,000 of cost underrecoveries to be addressed.

Q. Is it reasonable regulatory policy to allow FPL to charge these amounts to its regulated cost of service when exclusion of these amounts could mean FPL would exceed its authorized rate of return?

A. The investments and expenses incurred by FPL in meeting customers' needs are prudent and reasonable costs which investors are entitled to recover. The fact that ignoring the need for these costs to be recovered might create the appearance of overearnings relative to authorized returns, doesn't justify postponement of recovery to an indefinite future because of the unwarranted risk this may create. The financial news abounds with examples of depressed stock prices and lowered ratings of senior securities for utilities with significant capital recovery risks. Good regulatory policy avoids such situations wherever possible because of the adverse impacts on the costs of providing customers with service. Effecting the correction of cost underrecoveries while preserving rate stability and avoiding additional business risks is a "win-win" result for both customers and investors.

Q. Is it reasonable to use FPL's 1996 revenue forecast in connection with the extension of the plan to record additional expenses to 1998 and 1999?

A. Inasmuch as the 1996 revenue forecast is merely a benchmark against which actual revenue amounts will be compared to determine the additional expense to be recorded under the plan, its use is reasonable. The 1996 revenue forecast was also the benchmark used in Docket No. 950359-EI in which the plan to record additional expenses was first approved by the Commission.

Q. What would be the effect of using revenue forecasts for years later than 1996 as the benchmark for recording additional expenses for 1998 and 1999?

A. Importantly, it could decrease the amount of additional expenses recorded in 1998 and 1999, slowing the process of correction for underrecoveries of costs in prior years. While this might result in higher reported earnings for FPL in those years, it would delay and increase the risk of recovery of the costs in question which is beneficial to neither customers nor the Company.

In addition, use of the 1996 forecasts (as opposed to later years' forecasts) means the Commission has "captured" a larger portion of revenue increases for the benefit of customers. Further, use of the 1996 revenue benchmark as opposed to higher amounts means that because FPL must record greater amounts of expense as directed by the Commission, FPL is at risk to a greater extent insofar as the need to control its other expenses to avoid earnings below authorized levels. In fact, the additional expenses recorded under the plan in 1995 and 1996 reduced FPL's earnings below its maximum authorized return on equity level and were partially absorbed by FPL's stockholders. This underscores both the importance placed by FPL on correcting the cost under-recoveries and the additional incentive to management to control costs which the plan provides.

Q. Isn't it just high rates that allow FPL to absorb the additional depreciation expenses recorded at the Commission's direction?

A. No, the facts don't show that. Not only are FPL's rates among the lowest in the state, although there have been changes in cost recovery clauses, FPL has not had an increase in its base rates since 1985. Further, in 1990 FPL's base rates were <u>reduced</u> based on a 1988 test period. And since 1988, FPL has absorbed the costs to serve a 20% greater number of customers who consumed 31% more electricity. To do so, since 1988 FPL has constructed more than $7 billion of new plant facilities (45% of current total plant investment) with substantial consequent increases in depreciation and related costs. These and other cost increases were absorbed without a rate increase because during the same period of time FPL reduced its per customer operations and maintenance expenses more than 20% and decreased its capital costs 12% saving millions annually. Notably, FPL absorbed the reduction in earnings from more than $228,000,000 of costs (primarily reductions-in-force costs) incurred in 1991 and 1993 to achieve lower operations and maintenance costs. Had FPL not undertaken its efforts to reduce expenses, inflation alone (based on the CPI) might have increased operations and maintenance expenses more than $450,000,000 since 1988.

Q. How do customers who will be served by FPL for the longer term benefit from the FPSC's approach in this docket?

A. First, reasonable rates remain stable. Secondly, prompt correction of these cost recovery issues lowers the amount of investor capital needed to finance service to customers resulting in lower total revenue requirements. Prompt correction also avoids increasing the risks of future uncertainties which could lead to higher capital costs as it has for some other utilities. Preserving FPL's financial integrity benefits customers because avoiding risks and potentially higher capital costs mitigates the need for possible future rate increases and protects customers against having to shoulder the load of costs incurred in prior years to serve customers who may depart the system. Finally, to the extent that additional expenses recorded relate to nuclear plant decommissioning costs, customers have greater assurance of FPL's financial ability to cover those expenditures when required because of the appropriate funding of those reserves.

Q. **How do investors benefit from the FPSC approach in this docket?**

A. Prompt correction of prior cost under-recoveries reduces the amount of investors' capital needed to finance the utility operation and avoids increasing risk. Avoiding increasing FPL's business risks means investors will not need to demand additional risk-related premiums on the capital they supply.

Q. **Please summarize your testimony.**

A. The costs subject to the Commission's accounting directives in this docket represent reasonable and prudent investments and expenses incurred by FPL to meet the customers' service requirements. FPL's investors are entitled to recover the capital they have provided to fund such costs.

The Commission's directives facilitating prompt corrections of prior underrecoveries and reductions in invested capital without affecting rates is consistent with its practices in numerous other cases and is reasonable and prudent in the circumstances. Postponement of recovery, on the other hand, could lead to adverse consequences resulting from increased risk and higher capital costs.

Customers who will be served by FPL for the longer term benefit from the Commission's providing for prompt corrections of prior underrecoveries and reductions of invested capital rather than postponing recoveries to an uncertain future. Not only do reasonable rates remain stable, but long-run revenue requirements are lowered, and the need for possible future rate increases is mitigated by avoiding higher risks and future capital cost increases.

Q. Does this conclude your testimony?

A. Yes, it does.

FLORIDA POWER & LIGHT COMPANY
EXAMPLES OF COSTS SUBJECT TO SPECIAL RECOVERY
APPROVED BY THE FLORIDA PUBLIC SERVICE COMMISSION

LINE NO.	(COL.1) DATE	(COL. 2) DOCKET/ ORDER NO.	(COL. 3) COMPANY	(COL. 4) COSTS SUBJECT TO SPECIAL RECOVERY	(COL. 5) RECOVERY TERMS
1	06-17-83	12148	United Telephone Company of Florida	Attrition Allowance	$1,029,190 excess attrition allowance collections :redited to depreciation reserve
2	07-22-83	12290	Southern Bell Telephone and Telegraph Company	Depreciation Reserve Deficiency and Near-Term Retirements	$123,000,000 depreciation reserve deficiency amortized over 5 years; $99,564,000 near term retirements amortized over 3 years
3	11-03-83	12654	Central Telephone Company	Depreciation Reserve Deficiency and Near Term Retirements	$9.1 million depreciation reserve deficiency amortized over 5 years; $13 million near term retirements amortized over 1 to 5 years
4	08-27-84	13624	United Telephone Company of Florida	Central Office Equipment	$8,650,000 of 1984 excess earnings credited to depreciation reserve

LINE NO.	(COL.1) DATE	(COL. 3) COMPANY	(COL. 4) COSTS SUBJECT TO SPECIAL RECOVERY	(COL. 5) RECOVERY TERMS	
5	12-31-84	13951	Central Telephone Company	Central Office Equipment and Station Connections	$16,223,000 of 1984 excess earnings credited to depreciation reserve
6	06-19-86	16257	Southern Bell Telephone and Telegraph Company; General Telephone Company, et al	JDIC Interest Synchronization Revenue Requirements	$48 million of over-collections credited to reserves for depreciation

Docket No. 970410-EI
Exhibit____(HAG-1)___

FLORIDA POWER & LIGHT COMPANY
COST UNDERRECOVERIES
ADDRESSED BY DOCKET NO. 970410-EI

LINE NO.	(COL. A) DESCRIPTION		(COL. B) AMOUNT (000'S)
1	Depreciation Reserve Deficiencies (1)	$	250,142
2	Book-Tax Timing Differences That Were Flowed Through in Prior Years (2)		79,254
3	Unamortized Loss on Reacquired Debt (2)		292,119
4	Fossil Dismantlement Reserve Deficiencies (3)		34,437
5	Nuclear Decommissioning Reserve Deficiencies (3)		484,440
6	Total		1,140,392
7	Amounts Recovered Pursuant to Docket No. 950359-EI (4)		355,873
8	Remaining Cost Underrecoveries at June 30, 1997	$	784,519

NOTES:
(1) $235,642 based on Staff calculations from FPL's last comprehensive depreciation studies, plus $14,500 based on FPL's latest combined cycle depreciation studies.

(2) Balance at 1/1/95

(3) Estimated amounts at 1/1/97 based on FPL's calculations using the last approved studies.

(4) Amounts recorded through June 30, 1997