BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Proposal to extend plan for recording of certain expenses for years 1998 and 1999 for Florida Power & Light Company)	DOCKET NO. 970410-EI ORDER NO. ISSUED: November 14, 1997

MORNING SESSION

VOLUME I

Pages 1 through 163

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN JULIA JOHNSON

COMMISSIONER J. TERRY DEASON

COMMISSIONER SUSAN F. CLARK

DATE: Tuesday, November 25, 1997

TIME: Commenced at 9:10 a.m.

PLACE: Betty Easley Conference Center

4075 Esplanade Way, Room 148

Tallahassee, Florida

REPORTED BY: RAY D. CONVERY, Court Reporter

(904) 224-0728

APPEARANCES:

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RICHARD SALEM, Esquire, Salem, Saxon & Nielson, One Barnett Plaza, 101 E. Kennedy Boulevard, Suite 3200, Tampa, FL 33602, on behalf of AmeriSteel Corporation.

ROBERT ELIAS, Esquire, WM. COCHRAN KEATING, Esquire, and JORGE CRUZ-BUSTILLO, Esquire, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, on behalf of the Commission Staff.

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P R O C E E D I N G S

CHAIRMAN JOHNSON: Good morning. We're going to call the hearing to order. Counsel, could you read the notice?

MR. CRUZ-BUSTILLO: Thank you. The clerk's office has issued a notice in the -- for today's hearing, Florida Power & Light and AmeriSteel and all other interested persons in Docket No. 970410-EI. The docket is entitled Proposal to Extend Plan for Recording of Certain Expenses for Years 1998 and 1999 for Florida Power & Light Company. The notice was issued on November 14th, 1997. Notice is hereby given to the -- that the Florida Public Service Commission is holding a public hearing in the above docket today at nine a.m., Tuesday, November 25th, 1997, located at 4075 Esplanade Way, Room 148, Betty Easley Conference Center, Tallahassee, Florida.

CHAIRMAN JOHNSON: Thank you. Take appearances.

MR. BREW: Good morning, Chairman Johnson. For AmeriSteel Corporation, James W. Brew of the firm of Brickfield, Burchette & Ritts, Richard Salem from the firm of Salem, Saxon & Nielson, and Graham Carrothers from the same firm.

CHAIRMAN JOHNSON: Thank you.

MR. CHILDS: Commissioners, my name is Matthew Childs of the firm of Steel, Hector & Davis, and I'm appearing on behalf of Florida Power & Light Company.

MR. CRUZ-BUSTILLO: And, Commissioners, Jorge Cruz-Bustillo on behalf of Commission Staff, as well as Cochran Keating and Robert Elias.

CHAIRMAN JOHNSON: A couple of preliminary matters. I know that we had stated in the prehearing order for the parties to be prepared to make a bench decision today. We will not in fact issue a bench decision today. The panel make-up has changed from a five to a three member panel so that Commissioner Clark, Deason and I will be hearing this case in total. Commissioner Garcia had a family emergency and was unable to participate in this process and because of that and to ensure that we would have an odd number voting, I reassigned this case to the three member panel.

Are there any other preliminary matters?

MR. CRUZ-BUSTILLO: None that I'm aware of, Commissioner.

COMMISSIONER CLARK: Madam Chair, I just want to welcome Commissioner Deason to this hearing. We stayed last night until 9:30, and Julie and I just want to say it's great to be a Florida Gator.

COMMISSIONER DEASON: You caught me off guard. I'm sure it is great, but the tale's not told yet. Remember last year. Unusual things can happen.

COMMISSIONER CLARK: I have to say, I've been waiting since Saturday.

CHAIRMAN JOHNSON: I learned the hard way to stay quiet about those things because what comes around goes around.

COMMISSIONER CLARK: That's true, but it's great while it lasts.

CHAIRMAN JOHNSON: Okay. Then, no preliminary motions or are we going to have any opening statements?

MR. CRUZ-BUSTILLO: None that I'm aware of either.

CHAIRMAN JOHNSON: Great, great. Then, yes, sir.

Is your -- now, was it announced that we would have opening statements? I wasn't sure. I know with the bench decision, we were going to allow for some concluding comments, but if there's no objection to you speaking now.

MR. CRUZ-BUSTILLO: Commissioner, the subject wasn't addressed in the prehearing order or in the prehearing, so I guess that would be at the discretion of the Chair.

CHAIRMAN JOHNSON: Mr. Childs, is there any objection to any opening remarks?

MR. CHILDS: None at all.

MR. BREW: I will be very brief, Commissioner.

It's AmeriSteel position that whatever the merits of the plan as originally approved for 1995 through 1997, it would be a serious mistake to the detriment of the consumers to approve the plan particularly with respect to the addition proposed in the plan extension with respect to fossil dismantlement and nuclear decommissioning. They are about forward-looking estimates that are subject to substantial material change.

We would also -- with respect to the accelerated recovery of regulatory assets, we believe that that is inconsistent with the well established commission position on the proper rate accounting for those costs, and the magnitude of the dollars to be set aside under the rate formula is grossly disproportionate with any demonstrated need for such recovery here. Thank you.

CHAIRMAN JOHNSON: Any comments?

MR. CHILDS: Commissioners, I also will try to be brief in making some comments. Florida Power & Light Company over a period of years has been very active in reducing its costs to customers. As a result, for instance, in the years between 1990 through 1996, its operation and maintenance expenses have decreased by 15 percent. Its --

COMMISSIONER DEASON: Mr. Childs, what was that percentage again?

MR. CHILDS: A 15 percent decrease, a decrease from $1.2 billion in 1990 to 1.054 billion in 1996. The typical residential bill in 1997, that's January of '97, was approximately five percent lower than it was 12 years ago. Excluding local taxes, a residential bill was $83.39 in 1985, the year of FPL's last base rate increase. The bill in January of 1997 was $78.82. Had the bill been inflated for normal inflation, you would have expected a bill, based upon the '85 charge, in the area of $125 for the residential customer for that thousand kilowatt hours. And my point is is that some of the activities that we've talked about before by Florida Power & Light Company have had a substantial impact on the expenses.

The company has filed its financial statements in the past and indicated, for instance, that it took a write-off in 1991 of approximately $90 million, a restructuring. That was to reduce costs, not just in that year, but in the future, in future years like now. In 1993, it had a cost reduction program and it had a write-off in that year of $138 million. Neither of those years did FPL earn its authorized rate of return, and no one came to the Commission and said, don't let them spend the money because it's rate-making. We don't think it was then and we don't think it is now.

I think the point, though, is, that on a going-forward basis, there's an opportunity to follow through with the policy decision that this commission made earlier in its proposed agency action order and take some positive steps with respect to the balance sheet of Florida Power & Light Company and reduce its costs, address the reserve deficiencies for decommissioning -- there's substantial reserve deficiencies -- and reduce those all at the same time of your not increasing rates to the customers.

I think it's suggested, for instance, that -- I know it's suggested that the Commission should not authorize the expensing of the loss incurred by Florida Power & Light Company in reacquiring debt. Reacquired debt and its savings through actual savings in interest expense reduction is approximately $906 million. The total loss on reacquired debt is around $378 million. Now, the savings are going to -- they're already more than twice as large as the loss. The savings are that size. They're going to continue into the future because the debt's retired and the interest expense has been reduced, and the suggestion is, and you heard it again today, that it's not appropriate for this commission to let that item be expensed.

We think it is. We think that it reduces the company's costs. It reduces the return requirement on that, and when the savings have been of that magnitude already, it seems more than appropriate for this commission to exercise its policy decision and authorize the write-off.

You're going to hear lots of arguments, I think, about why you shouldn't do what you've already voted to do. I know this commission listens carefully, but there are many arguments that will be made. I think that. In listening to all the arguments, that you really ought to come back, however, to the fundamental question of, doesn't this action by the Commission result in an opportunity to reduce costs for customers in the long run, and isn't that consistent with the way this commission always makes its decisions, the benefit of all customers?

One of the arguments that you heard early on in this case was that you mistakenly were pursuing authorizing FPL to take action which would address stranded investment. We tried -- and the argument was you shouldn't do that because there wasn't going to be any competition, or it was too soon to know what was going to happen with the competition. Our response to you was, you know, that's what we filed for in 1995, and this commission in its wisdom elected not to pursue that and didn't grant that request and instead authorized write-offs on another basis. What you've done in this docket is to address items for reasons other than addressing stranded investment.

I think it potentially addresses competition, but it's not to address stranded investment. Well, now, after the argument in this docket this year about stranded investment, one of the witnesses that AmeriSteel will present is suggesting to you that, well, maybe you ought not to authorize the write-off of certain expenses because of competition, and if competition comes, then the future benefit the customers might receive won't be there. I make that point because I think there will be, as I said, many arguments, and I ask and suggest that we should come back to the fundamental again of isn't it in the best interests of the customers? Thank you, Commissioners.

CHAIRMAN JOHNSON: Thank you. At this time then those witnesses that will be testifying, if you could stand, I'll swear you all in at once, if you could raise your right hand.

(Witnesses sworn)

CHAIRMAN JOHNSON: Thank you. You may be seated.

MR. CHILDS: Call Mr. Gower.

MR. BREW: Chairman Johnson, while Mr. Gower is coming up, could I ask for clarification? You indicated that the Commission will not be making a bench ruling today.

CHAIRMAN JOHNSON: That's right.

MR. BREW: Does that mean that the Commission will by affording the parties an opportunity to submit briefs on these issues?

CHAIRMAN JOHNSON: Excuse me?

MR. BREW: Will the Commission be allowing us to submit briefs following the hearing?

CHAIRMAN JOHNSON: I believe that was contemplated, but let me -- Mr. Elias, because we aren't doing the bench decision, have we scheduled briefs?

MR. ELIAS: We've not established a briefing schedule, but that's part of the plan, yes.

CHAIRMAN JOHNSON: Okay.

MR. BREW: Thank you.

Whereupon,

HUGH GOWER

was called as a witness, having been first duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CHILDS:

Q Mr. Gower, are you ready?

A Yes, I'm ready.

Q And you have been sworn in this docket?

A Yes, I have.

Q Would you state your name and address, please?

A My name is Hugh Gower. The address is 195 Edgemere Way South, Naples, Florida 34105.

Q Do you have before you a document entitled Florida

Power & Light Company Direct Testimony of Hugh A. Gower, Docket No. 970410-EI, dated October 10, 1997?

A Yes, I do.

Q Was that prepared by you as your direct testimony for this proceeding?

A Yes, it was.

Q And you are sponsoring, I believe, two documents, your HAG-1 and HAG-2?

A Correct.

Q Were those prepared by you or under your supervision, direction or control?

A Yes, they were.

Q Do you have any changes or corrections to make either to your testimony or to the documents that you are sponsoring?

A I do not.

Q Do you adopt this as your testimony?

A I do.

MR. CHILDS: Commissioners, I ask that the prepared testimony of Mr. Gower be inserted into the record as though read.

CHAIRMAN JOHNSON: It will be so inserted.

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

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 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.

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 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

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-recoveries 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 COMP 1 (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 will 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 the 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?**

COMP

A. As shown on Exhibit 1 (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.

MR. CHILDS: And if you would mark, please, the two documents as exhibit for identification.

CHAIRMAN JOHNSON: The two documents attached to his direct, HAG-1 and 2, will be marked as Composite Exhibit 1.

MR. CHILDS: Thank you.

(Exhibit No. 1 marked for identification.)

Q (By Mr. Childs) Mr. Gower, would you please summarize your testimony?

A The purpose of my testimony in this proceeding today is to show that the Commission's proposed agency action to extend the plan to record additional expenses in 1998 and 1999 is reasonable and appropriate, and that it is beneficial to customers who will be served by Florida Power & Light for the longer term and represents good regulatory policy.

The items addressed by this plan represent costs previously incurred by Florida Power & Light Company which are reasonable and prudent, but for reasons beyond anyone's control, these costs were not fully recovered in prior years.

These costs should be recovered by Florida Power & Light. They're entitled to do so, and this proposed agency action deals with the timing of the recovery of those costs. The corrections proposed in the agency action will lower future cost of service because they will lower the amount of investor supplied capital needed to finance Florida Power & Light's business and it will reduce the future uncertainties which might be faced.

Importantly, the proposed agency action proposes to make these corrections without increasing Florida Power & Light's rates and charges to its customers. The directives contained in the Commission's order are consistent with numerous prior cases in which this commission has directed recovery and corrections of prior under-recoveries as fast as economically practicable. This recognizes that customers benefit from fast correction because there's less investor supplied capital which requires support with greater return.

The Commission's policies in this regard are also consistent with the policies and directives of other regulatory commissions.

This proposal is fair to customers. The customers have received the service in the past and they should pay the cost of that service. In doing so, in making these corrections, long run revenue requirements will be reduced, and this will benefit customers served by Florida Power & Light for the longer term.

The way the corrections are made in this propcsed agency action promotes rate stability, and Florida Power &

Light's rates are among the lowest in the state and the region, and that's a desirable thing to have and to preserve.

Making these corrections will enhance Florida Power & Light's ability to continue to provide safe, adequate and reliable service; and if there's any question about the need to do that, one only has to refer to the stock prices and senior security ratings of a number of utilities, electric utilities in particular, around the country today who are facing difficulties with full recovery of their costs, and that ought to confirm to the Commission the wisdom of the proposal that is made.

I think this proposal is beneficial to customers for other reasons as well. In benchmarking the amount of additional expense which Florida Power & Light would record under this plan, on additional revenues, on revenue growth, the Commission captures revenue growth for the benefit of the customers. This means that the company can't count on revenue growth to offset expense growth. So it continues to exert pressure on management to keep up its work in reducing and controlling their operating expenses.

Expense control has been the key in the past so far to Florida Power & Light's ability to absorb these additional expenses which the Commission has directed. As Mr. Childs pointed out earlier, the company's last base rate increase was 1985. In fact, base rates were reduced in 1990 on the basis of a 1988 test period, and since 1988, Florida Power & Light has served 20 percent more customers, produced 31 percent more kilowatt hours and yet reduced its O&M cost per customer 20 percent, and its also decreased its capital costs 12 percent. Those are the reasons why Florida Power & Light can absorb the additional expenses through 1996, at least, without an increase in rates. Mr. Childs mentioned that Florida Power & Light absorbed a total of 228 million in restructuring costs in order to achieve those cost reductions.

In summary, the plan proposed in this agency action is reasonable and prudent and FPL's investors are entitled to recover their capital, and the method of making these corrections is reasonable and fair. It's consistent with other cases that the Commission has decided and it helps avoid increasing risk and increasing costs. The customers served for the longer term benefit from this plan. Reasonable rates remain stable. Long run revenue requirements are lowered, and the plan mitigates the possible need for higher rates due to cost increases because of future risk.

That concludes my summary.

MR. CHILDS: We tender Mr. Gower for cross-examination.

CHAIRMAN JOHNSON: Thank you. Mr. Brew.

CROSS EXAMINATION

BY MR. BREW:

Q Thank you. Good morning, Mr. Gower.

A Good morning.

Q Mr. Gower, you didn't participate in the formation of this plan, did you?

A No, sir, I did not.

Q So you didn't have any involvement in how it was structured or the revenue growth formula or which expenses would be included, is that correct?

A I did not.

Q Would your recommendation that the plan is reasonable and appropriate be the same if the formula allowed that FPL would take an additional billion dollars per year in added expense?

A I think you're asking, if I understand your question properly, is there a need for an additional billion dollars a year of expense? I don't think there is, but if there were, then the plan would be reasonable and appropriate.

Q If the --

A There are far more expenses to be addressed -- I should say far more costs to be addressed to really level the accounting playing field between a regulated electric utility like Florida Power & Light and non-regulated competitors.

Q Define "level accounting playing field" for me, please.

A I'm sorry, I couldn't hear.

Q Define "a level accounting playing field" for me, please.

A I'm defining it in the sense that is mentioned in the order in this docket.

Q How would you define it?

A I would define it as having the same accounting rules apply between one company and another, and the same accounting rules clearly do not apply. There is -- I don't mean this to be pejorative, but there has been for many years a bias in the regulated industry field towards capitalizing costs that would be expensed by companies which are not regulated, and in that sense, there isn't a level accounting playing field when two companies, one regulated and one competitive, compete, for example, for generating capacity.

Q Are you saying that -- recommending that the Commission should change its system of accounts so that the regulated companies are -- keep their accounts exactly the same way as unregulated companies?

A I think over time that probably will come to pass, and over time that probably will be necessary.

Q Are you suggesting that that's a policy that's going to be articulated in this docket?

A No, I'm not. I'm pointing out that this docket only begins to approach the differences in accounting.

Q If the costs to be recovered, according to your exhibit, were not changed, were exactly as you show them on HAG-2, and the revenue formula would produce a billion dollars per year of added expense, would your recommendation be the same?

A No, and I probably wouldn't be here because I doubt the Commission would adopt a plan like that.

Q Okay.

A The Commission recognizes the need of prior cost under-recoveries which are identified on that document and the plan addresses that need.

Q No, you didn't answer my question.

A I'm sorry.

Q My question was, if the revenue formula portion of the plan were to provide a billion dollars of additional expense per year, but the total under-recoveries that you've identified amount to $700 million a year, are you suggesting that the Commission should allow two billion dollars of recovery --

A No.

Q -- to cover $700 million of added expense?

A No, and I didn't mean to be unresponsive to your question, Mr. Brew. I was trying to say that I wouldn't have to recommend it because I don't believe the Commission would, and I would not recommend it, nor do I believe would the Commission.

Q So are you suggesting then that there should be some link between the amount of expense available under this plan and the demonstrated need for it?

A Yes, and I think there is a link, and that's spelled out in the Commission's order.

Q Okay. If the amount of available expense would be as we're showing in the exhibits today, and the demonstrated need for recovery were $10 million, should the Commission approve the plan as is?

A Could you restate that? I'm sorry, I didn't quite catch all that.

Q If under the revenue formula that we're talking about under the PAA, FPL would be -- would have available to take $360 million of additional expense in 1998, but the demonstrated under-recoveries amounted to no more than $10 million, would the plan still be reasonable?

A All other things being equal, the answer would be no.

Q Thank you.

Would a revenue set-aside be reasonable if there were no dollars for under-recovery?

MR. CHILDS: Excuse me. I ask that we identify what "revenue set-aside" means.

Q (By Mr. Brew) Okay. If the amount available for expense under the plan were $100 million and there was no identified under-recovery, would the plan be reasonable?

A No, but, of course, there are identified under-recoveries substantially greater than the amounts of revenues that would likely be booked for '98 and '99.

Q Mr. Gower, are you familiar with the plan approved previously for the years 1995 to 1997?

A Yes, I am.

Q Did that plan address accruals for fossil dismantlement or nuclear decommissioning?

A No, I don't see that in that order.

Q Okay. Thank you.

Can I refer you to your Exhibit HAG-2, please? Do you have it?

A I do.

Q Can we agree that that exhibit purports to summarize the amount of under-recoveries to be allowed in this docket by categories in the PAA?

A Yes.

Q Okay. With respect to Item No. 1, Depreciation

Reserve Deficiencies, you show an amount of $250 million. Do you see that?

A Yes, I do.

Q Is the amount to be recovered in 1998 for that amount zero?

A You're asking, has recovery already been recorded under the plan?

Q Yes, sir.

A All but 14 and a half million dollars of it has been recorded under the plan.

Q Was the 14 and a half million dollars added after the plan was announced in April?

A It was -- the 14 and a half million dollars is a result of a subsequent depreciation study, and I can't remember the exact date of that. So it may have been or it may not have been. I don't know.

Q So, as far as you know, the -- all known depreciation reserve under-recoveries identified at the time the plan was filed have been fully recovered prior to 1998?

A Other than the 14 and a half million.

Q Okay.

A Let's say the same thing about Item 2 as well.

Q Well, Item 2 as well is zero, right? That's been fully written off?

A Yes, it has.

Q With respect to Item 3, the Unamortized Loss on Reacquired Debt, do you see that?

A Yes, I do.

Q You show a balance of 292,119,000, is that right?

A That's correct.

Q And does that amount represent the cumulative unamortized balance of 15 years' worth of debt reacquisitions?

A That represents the balance on the company's books as of the beginning of 1995, and it is cumulative. I don't know how many years, but that could be correct. I can check that if that number of years is important.

Q That's the cumulative balance from the time that the Commission first authorized FPL to amortize the loss?

A I don't know whether that would be exactly accurate to describe it because FPL has done debt reacquisitions over many, many years, but I think this balance has arisen -- well, I'll just look up the number of years.

I think that goes back to 1985.

Q Okay. Would you agree with me that the Commission allowed FPL to employ the primary method for accounting for these losses at FPL's request back in 1983 and '84?

A You're referring to the primary method under the system of accounts?

Q That's correct.

A And I believe it is correct that the Commission did issue an order authorizing amortization of the cost of those reacquisitions.

Q In response to an FPL request?

A I believe that's correct, but I haven't seen FPL's petition.

Q Okay. Of the 292 --

COMMISSIONER DEASON: Mr. Brew, let me interrupt you for just a second. Mr. Gower, could you review the primary method, what that means?

THE WITNESS: The primary method under the system of accounts, Commissioner, is the one in which the cost of reacquiring debt, premiums paid on reacquisition and so forth, are amortized over the remaining life of the security which is redeemed. The alternative method is to expense it as incurred, but, of course, the system of accounts also would accommodate the split method such as the Commission directed in the Southern Bell case in which part was written off immediately and part amortized.

COMMISSIONER DEASON: So the Uniform System of Accounts gives the regulatory entity, in this case the Florida Commission, the discretion to do one or the other or something in between?

THE WITNESS: Absolutely. It accommodates almost anything you can think of.

MR. BREW: Commissioner Deason, just to clear up this point, I'd like to distribute a document to be marked for identification, and for the record, this is a letter consisting of five pages to Timothy J. Devlin from K. M. Davis, Vice-President and Comptroller of Florida Power & Light.

CHAIRMAN JOHNSON: I'll mark this as Exhibit 2, the short title, K. M. Davis July 11 letter to Devlin.

(Exhibit No. 2 marked for identification.)

Q (By Mr. Brew) Mr. Gower, have you seen this document before?

A Yes, I have.

Q Are you familiar with Florida Power & Light's proposed accounting for the plan?

A As decribed in this letter, is that what you're asking?

Q Yes.

A This letter discusses the -- if you will, the bookkeeping mechanics of how the entries would be made on the company's books and reported in its financial statements to shareholders or to the Commission on Form 1.

Q Okay. Well, fine, thank you.

Would you agree with Mr. Davis' statement at the last sentence of page 3, where he states, quote, "However, the Uniform System of Accounts requires the unamortized loss on reacquired debt to be amortized in accordance with General Instruction No. 17"?

A Well, it says that in the context of a lot of other statements.

Q But you agree that's what Mr. Davis wrote?

A Yes, among quite a few other words.

Q Okay. On the next page, the top of the page, does he describe exactly what is required under General Instruction 17?

A Yes.

Q And if I could refer you to the second to last paragraph, where Mr. Davis writes, quote, "Since the write-off of unamortized loss on reacquired debt based on the level of retail sales is not in compliance with the general requirements of the Uniform System of Accounts, any write-offs pursuant to this docket should be recorded as a credit to a unique sub-account of Account 182.3, Other Regulatory Assets, and charged to Account 407.3, Regulatory Debt." Do you see that?

A Yes, I do.

Q Is that an accurate statement of the proper accounting in light of the non-compliance with the general requirements of the Uniform System of Accounts?

A Well, I wouldn't interpret it quite so literally. I think what the statement in Mr. Davis' letter means is that the system of accounts does not contemplate in its instructions the write-off as directed by the Commission. It goes on to explain how the system of accounts will accommodate that, however, by the use of several other accounts, which he cites here, including the regulatory assets and liabilities.

Q Do you agree that he stated that the write-off is not in compliance with the general requirements of the uniform systems of accounts?

A No, I don't agree.

Q I'm just asking if that's what he said.

A No. I'm sorry. You have to take it in context. You're taking it out of context.

Q Are you saying that Mr. Davis' statement in that paragraph is in any way inaccurate?

A If taken out of context as you have, yes, sir, I do. If taken in context, it explains how the system of accounts accommodates the accounting, and he's describing the bookkeeping mechanics.

Q Okay. In the next paragraph Mr. Davis states that the write-off of FPL's loss from reacquired debt will not affect its amortization of loss on reacquired debt as allowed by General Instruction 17 of the Uniform System of

Accounts. In other words, FPL's amortization of its loss on reacquired debt will continue as though there were no write-off pursuant to the docket. Do you see that?

A Again --

Q Is that accurate?

A It explains the bookkeeping mechanics. When you wrap all of this up and put the numbers all together, the company's books and the company's financial statements and report to this commission reflect the write-offs as directed by the Commission, and there is no deferral beyond what has been allowed by the Commission, and the reason there's no deferral is because there cannot be a deferral under generally accepted accounting principles unless there is assurance of recovery in the future.

If the Commission directs the write-off, it will not allow the recovery of those amounts in the future, and so the company's books and the financial statements properly have to reflect that write-off.

Q And the company's books filed at FERC will show the amortization occurring as though the write-off had never taken place, is that right?

A No, I don't believe that's accurate.

You have to read the whole letter and look at all of the bookkeeping entries that are outlined in that letter, and when you do that, you can see that, even though there's some mechanical gyrations to comply with the system of accounts which didn't contemplate this specific situation, the write-offs are made on the company's books and in the reports to this commission and in the reports to FERC and in the reports to its shareholders just as directed by the Commission.

Q If FPL were to file a rate filing at FERC, they would need to show it as still being amortized, not written off; isn't that right?

A There would be a difference between the Florida jurisdiction and the FERC jurisdiction.

Q To repeat my question, if the FPL were to file the rate filing --

MR. CHILDS: Let him finish.

THE WITNESS: There would be a difference in the treatment between the Florida jurisdiction and the federal jurisdiction, and the bookkeeping mechanics would allow those differences to be reported. And would the company report to the FERC the write-offs in Florida? Yes, to the extent of the Florida jurisdiction. Would it report write-offs in the federal jurisdiction? No, because those write-offs have not occurred.

The amounts not written off which are allocable to the federal jurisdiction would remain on the company's books. Only the amounts directed by this commission would be written off following this Commission's plan.

Q (By Mr. Brew) And in addition to the primary method, there's an alternate method, is that right?

A Yes, there is.

Q And that's available to the company only if the Commission were to disallow some portion of the unamortized loss?

A I don't read the instructions that way, Mr. Brew. I think any company which redeems debt can elect the alternative method of expensing those redemption costs as incurred.

Now, if the Commission directs something else, then they'd have to change their accounting, but I think that the company could always elect to expense as incurred.

Q Is Mr. Davis' statement on page 5 accurate that, once the PSC jurisdictional amounts match the balance of the unamortized loss, the company would go back to accounting for the future reacquisitions of debt in accordance with General Instruction 17?

A I've read the statement in Mr. Davis' letter.

Could you please repeat your question?

Q I'll make it simple. The last sentence on -- the second to last paragraph on page 5 says, "If this occurs," meaning that the amounts balance out, "any loss on future reacquisitions of debt will be accounted for as allowed by

General Instruction 17 of the Uniform System of Accounts." In other words, once the current unamortized balance is written off, the company would then go back to the method -- to the primary method for future reacquisitions. Is that right?

A I don't know whether it will or not.

I see what this says, but that will depend on the direction of this commission. If that's what the Commission directs, that's what they'll do. If the Commission directs immediate write-off, that's what they'll do.

Q But Mr. Davis is indicating the intent to go back to General Instruction 17.

A I don't quite read it that way.

Q Do you have any information to indicate that Mr. Davis' statement that "Any loss on future reacquisitions of debt will be accounted for as allowed by General Instruction 17 of the Uniform System of Accounts" is inaccurate?

MR. CHILDS: Excuse me. I would object to the question about it being inaccurate in the sense that I'm not sure what -- I think there are several bases for someone to conclude that it's inaccurate, and I think the answer -- the question ought to specifically state the basis of potential inaccuracy. Is it because it's inaccurate representation of the Uniform System of Accounts, or is it inaccurate characterization of what Mr. Davis said or what?

Q (By Mr. Brew) I'll rephrase.

Mr. Gower, with respect to that statement in that -- in the letter on page 5, do you have any information that is at odds with the statement made by Mr. Davis?

A No.

What was troubling me, Mr. Brew, was the way you phrased the question. The statement you read was preceded by a phrase, "If this occurs," and that refers to the whole previous discussion relative to the accounting for the directions by this commission. So I think, again, it has to be taken in context, and I'm sure Mr. Davis' statement is accurate.

Q Okay. Back to your exhibit HAG-2, the 292,119,000, according to your footnote, is the balance at 1-1-95; is that right?

A That's correct.

Q What's the expected balance at the end of this year? Or let me make it quicker for you.

Would you accept that, according to the company's response to Interrogatory -- Staff Interrogatory No. 39, the expected balance at the end of this year is approximately $98,523,000?

A That sounds very familiar. I'll take that subject to check.

Q Okay. So that will be -- if we were to look at the amounts to be recovered for that amount for the years '98 and '99, the correct balance would be the $98 million provided in the company's interrogatory response?

A As of what date?

Q As of 12-31-97.

A Yes.

Q Okay. Meaning that, over the course of 1997, the company will have amortized or have written off over $194 million of that amount?

A In round numbers, yes.

Q Okay. What was the amortization last year?

A From memory, it was approximately $19,500.

Q Do you mean 19 million, nineteen million, five hundred --

A I'm sorry, 19,500,000. Thank you.

Q So if we were to call that 20 million, if the plan is not approved, would the company be amortizing $20 million in both years of that 98 million?

A I would presume so.

Q So if the plan is not approved, we would be down to around $55 million of unamortized loss on reacquired debt left?

A I didn't follow that number. Could you do that again, please?

Q If you continue the amortization schedule without the plan so that you're amortizing roughly $20 million a year for each of the two years, would your $98 million be down to about 57, 58 million dollars?

A I don't follow that. The -- let me go through that again. You're starting from the projected balance at December 31, '97.

Q Yes. I'm speaking to '98 and '99.

A Okay. All right. Now I follow your balance. Yes, that's approximately correct.

Q So if the Commission did nothing in that regard, the $58 million would be roughly the amount that would be left to amortize?

A Assuming no further debt reacquisitions.

Q Based on the known figures that we're working from here. Thank you.

COMMISSIONER DEASON: Mr. Gower, while Mr. Brew's looking through his notes, let me ask a question. The 20 million which Mr. Brew referred to in his previous question, is that the amount of yearly amortization under the Uniform System of Accounts?

THE WITNESS: Yes, sir. Before the effect of the Commission's plan, yes, sir.

COMMISSIONER DEASON: So the effect -- he's -- to get to his suggested number then, if there were no continuation of the plan, that 20 million would take place regardless, and that's how he gets down to his suggested 47 or 48 million at the end of '98?

THE WITNESS: That's correct.

MR. BREW: Excuse me. That would be at the end of '99. We took $20 million each year.

COMMISSIONER DEASON: I stand corrected, the end of '99.

THE WITNESS: Correct.

Q (By Mr. Brew) Mr. Gower, if I could just step back for a minute to the Commission's initial action back in the early '80s, would you agree that the Commission found in 1983 that the primary method should be used by the company, meaning FPL, in accounting for the reacquisition expenses associated with reacquisition of debt?

A Are you referring to the order which I cited in my testimony?

Q Yes, sir, I am. The order of twelve-seven -- or twelve-seven, one-seven, dated December 1, 1983.

A I don't remember the date, but I do remember the approximate time frame that --

Q Let me show you a document which is a copy of that order, and if I could -- again, Chairman Johnson, if I could have this one marked for identification.

CHAIRMAN JOHNSON: It will be marked as Exhibit 3, and short title, Order Authorizing Security Transactions.

(Exhibit No. 3 marked for identification.)

Q (By Mr. Brew) Very quickly, Mr. Gower, I've highlighted a sentence on the second page of that order. Do you see that?

A Yes, I do.

Q And does that state that, "We find --" quote, "We find that the primary method should be used by the company in accounting for reacquisition expenses associated with security transactions consummated pursuant to this order"?

A Yes, I see that.

Q Okay. Thank you.

Mr. Gower, on the company's response to interrogatory -- Staff Interrogatory No. 14, the company shows a net cumulative savings of interest expense less refinancing costs of $510 million. Are you familiar with that?

A Yes, I have that.

Q How much of that $510 million was returned to rate payers?

A All of it reduced the cost of service.

Q How much of it was returned to rate payers?

A All of it reduced the cost of service.

Q That wasn't my question.

Were there any refunds of that amount to consumers?

A You're asking, did the company reduce its rates?

Q Yes.

A Well, I can't tell you how much, but there was a rate reduction in 1990.

Q How much of the $510 million was realized after 1990?

A I can't give you an exact figure, but I can scan the figures and tell you that the majority of the savings occurred after 1990.

Q Would you agree that the majority of the savings occurred after 1993, or 1993 and thereafter?

A Yes.

Q Thank you.

Has there been a rate reduction or refund of base rates since 1993?

A No, there hasn't, and there hasn't been any need to. The company has not exceeded its authorized return. In fact, in some years it has achieved less than its authorized return; but the fact is these savings do reduce cost of service which are reported to this commission under surveillance reports, just as it did the reductions in O&M expenses.

Q In which of those years did their earned return fall below the floor of the Commission's authorized return?

A Which years are you asking about, post '93?

Q Yes.

A The company failed to earn authorized returns in '91 and '93, not since then.

Q And '94, '95 and '96, was the reported regulatory return between 12.0 and 12.4 in each of those years?

A Between 12.09 and 12.3.

Q Okay. It's even closer. And that's including the effect of any additional expenses or early accelerated amortizations the Commission may have authorized? That's net of any of those write-offs, right?

A For '95 and '96, that would be correct.

Q Okay. Mr. Gower, back to your Exhibit HAG-2, the next item is Fossil Dismantlement Reserve Deficiencies. Do you see that?

A Yes, I do.

Q And you show an amount of $34.4 million?

A Correct

Q Can you tell me how many of the company's fossil units have a defined useful life?

A Have a defined useful life?

Q Uh-huh, or a stated retirement date may be a better way to put it.

A Each of the units has an estimated service life, and the end of the estimated service life varies from unit to unit. Whether that means that a generating unit will retire in that specific year or not is unknown at this time. Units could be repowered. They could be put on cold standby and shut down. Any number of things can happen to those units.

Q Okay. How many of Florida Power & Light's fossil units are scheduled to be dismantled in the next ten years, do you know?

A The answer would be the same as I just previously gave. I don't know, and it would vary and it would probably change from year to year depending on the company's generation expansion plans that are developed in response to changing needs.

Q Do you know if in the company's ten-year site plan it specifies a retirement date for any of its fossil units?

A I do not.

Q Okay. Mr. Gower, this is an item that's mentioned in your rebuttal, but I want to focus it on your exhibit in direct. Are you aware of utilities around the country that are conducting auctions or have issued RFPs to sell off their fossil units?

A Yes, in fact, there was an article in the paper this morning about the sale of I believe some Southern Cal Edison units, and Pacific Gas & Electric was doing the same thing, and the New England Electric System was doing the same thing.

Q Central Maine Power?

A I haven't seen that one specifically, but a number of them are doing that in response to plans for deregulation in their service territories.

Q Boston Edison?

A I haven't seen that one, but that may or may not -- I mean, if you say so, I accept that.

Q New England Electric System?

A New England Electric System is -- I'm familiar with that one.

Q Did Duquesne Light announce the sale of a portion of its interest in a coal plant, do you know?

A It might have, I didn't see that in the paper.

Q Okay. Do you know if in these initial sales the utilities have received substantially more than book value for the assets?

A I don't know, but that wouldn't -- that wouldn't imply anything to this proceeding because we're not dealing with deregulation. We're dealing with the recovery of historical original cost.

Q Okay. Can we agree that, with respect to fossil dismantlement reserves, we're talking about an accrual to cover the cost of dismantling FPL's fossil units sometime in the future?

A Yes. It's kind of like the accrual to cover the retirement of employees sometime in the future. It's called pensions or other post-employment benefits.

Q If FPL sometime in the next ten years sells any of its fossil units and gets at least book value for the units, will they incur one dime of dismantlement costs for the units?

A Yes. That cost is going on right now. It's being incurred right now. If FPL were to sell a unit, or any utility were to sell a generating unit which had attached to it the obligation to retire, dismantle, restore the site, things of that nature, no purchaser would pay a price which did not take that into account. But the cost is going on right now, just like pension costs are going on for employees who are currently alive and well and working full-time.

Q If somebody's selling off a power plant today and they're conducting an auction, they're looking to get a market value for the plant, right?

A I think that's what they would expect, yes.

Q Okay. And if that market value was at least the book cost that FPL is carrying on the plant, aren't they transferring all responsibility for dismantlement to the new owner?

A You have to see the contract to know what those obligations are.

Q Okay. Let's assume that they do. Let's assume that it's a clean break. They sell off the Manatee units to a California affiliate of a power company, and so FPL has no ownership interest or a continuing responsibility for the plant. Will -- FPL will have accrued amounts for dismantlement. Will they incur any actual costs to dismantle the unit?

A I think I've already answered that and the answer is yes. They are incurring the costs now. They are accruing the costs now, and if they sell the unit that you mentioned, that will be taken into account in accordance with the terms of the contract, and if the new owner takes on that obligation, then the new owner will adjust the price and there will be an economic transfer there.

Q Okay.

A I think further that, when you're talking about a power plant, environmental regulations make any company or person who ever owned such a site partially responsible for any further clean-up that may be necessary, but -- so, I don't think they can actually get rid of all their liability, but they're incurring the costs now and if they sell a unit, there will be an economic transfer that will compensate the new owner who assumes that obligation.

Q Well, let's just try to go through it a little bit more slowly. If you accept my basis that the sale price fully recovers the book value to the company of the asset, where will FPL experience any cash outlays for fossil dismantlement?

A I'm trying to answer your question clearly, and I'm apparently not succeeding very well. I'll try one more time.

The book value of the plant is cost less accrued depreciation. The depreciation includes a factor, in fact, a separately identified subset of the reserve for the dismantlement; therefore, if the plant costs a dollar and the reserve for depreciation is 50 cents, for a net book value of 50 cents, the book value has been reduced for the liability. If the purchaser then pays FPL 50 cents, it has offset the price it has paid FPL for that liability which FPL has accrued, so that out of -- if the 50 cents depreciation accrual includes a dime for the dismantlement, then the 50-cent proceeds of the sale takes a dime out of FPL's pocket for that cost. It just works out.

Q You're accruing that dime in a reserve, aren't you?

A FPL is, yes.

Q Are you going to withdraw from that reserve if you've sold off the unit and somebody else assumes responsibility for dismantling it?

A The purchaser takes that dime and reduces the price they pay under the hypothetical which you posed. It takes the money out of FPL's hands, just as if they kept the plant and actually went through the process of dismantling it.

Q Are you saying that the -- well, I'm trying to figure out if we disagree here or if you're just changing my question.

Are you suggesting that the reserve would be transferred to the new owner?

A I'm suggesting that the new owner will be aware of the obligation to dismantle at the end of the service life and will adjust the purchase price it's willing to pay downward to compensate for assuming that obligation. That, therefore, takes the cash out of FPL's till just the same as if they they'd kept the plant and actually dismantled and removed it and paid the money out for that activity itself.

Q And I'm asking you to assume that the buyer, a knowing and willing buyer factors in and discounts everything that they think are appropriate in terms -- to figure out the market value of the plant, and what I'm asking you to assume is the purchase price is at least the book value of the unit, and you're not transferring the reserve over to the buyer, is FPL, once it transfers the plant away, going to experience any cash outlays for dismantling a plant it no longer owns?

A And I'm trying to answer that a knowing buyer would reduce the purchase price, and that takes the cash out of FPL's treasury just the same as if it had kept the unit and actually carried out the dismantlement process itself and spent the money for that activity.

Q Okay. But if you'll just -- if we could just cut this short. If the purchase price takes all of that into account and the company -- excuse me, Mr. Childs -- if the company does not transfer the reserve, the reserve stays with FPL; is that right?

MR. CHILDS: Excuse me. I will object to the question. I think we've pursued this line at great length. I think -- number one, my objection is that the witness was asked and answered the question.

Number two, the introduction to the line of questioning was that it was not directed to direct anyway.

Number three, I would suggest that the plan in this docket is not to and never was based upon some predetermined fossil dismantlement cost. It was the fossil dismantlement cost, if any, to be determined by this commission, and I don't think we determine it today. I think you -- it's an understood that you would determine it at the appropriate time. So I would object to the continuation of those questions.

MR. BREW: I would suggest that the witness has simply been arguing with the hypothetical rather than answering the question.

The question was simply, if the company gets out of a plant that it sells at least what it has into it, whether it has any continuing obligation with respect to bearing the costs of dismantling it. And what I've been hearing is that, assuming that the buyer discounted that, that it would be reflected in a discount to FPL; and what I asked him to assume was that the buyer reflected all of those and other considerations in the purchase price, which is at least book value, and I still haven't gotten an answer to my question.

CHAIRMAN JOHNSON: I'm going to allow the question. I don't believe it's been -- it's been asked, but I'm not certain its been answered directly. Let's try one more time.

THE WITNESS: If I failed to answer Mr. Brew's question, I apologize. I assure Mr. Brew and the Commission that I've been trying.

The thrust of the question was, would a sale at book value relieve FPL in any way from the need for the reserve which it had accrued for dismantlement, and the answer is --

CHAIRMAN JOHNSON: And is that the question? I know he rephrased it, but -- because that's what you've -- I know that is what you've been trying to answer. I am just getting now confused on what your question is.

COMMISSIONER DEASON: Let's see if we can get to the meat of the matter. You keep focusing on the question of cash outlay, and, Mr. Gower, I think you would agree that FPL would not actually have to make a cash outlay because they would no longer have the liability.

MR. BREW: Exactly.

COMMISSIONER DEASON: The plant would have been transferred, but in essence, also the economics of it have already been captured in the transaction. The costs have been incurred. They've been recognized. The buyer is aware of that and is taking that into consideration of what he or she is willing to for pay for that. Therefore, it's not that FPL is escaping any costs, it's captured in the economics of the transaction between the negotiated purchase price of the unit. Would we agree with that?

THE WITNESS: Thank you, Commissioner. You said it a lot better than I did, but that's what I was trying to say.

MR. BREW: Close enough.

Q (By Mr. Brew) Mr. Gower, I want to show you another document for just a moment, please, and again, Chairman Johnson, I'd like to ask that it be marked for identification.

Mr. Gower, are you familiar with Florida Power & Light's periodic reports to the SEC?

A I have not seen this one before, but I am familiar with the fact they file annual and quarterly reports with the SEC as well as other reports.

Q Okay. Thank you.

This is a 10-Q dated September 30, 1997, and I'd like to refer you to the highlighted paragraphs on the second page. Do you see that

A Yes, I do.

Q And specifically the statement that, quote, "Any forward-looking statement speaks only as of the date on which such statement is made." Do you see that?

A Yes, I do.

Q And further down, the middle of the paragraph, the company statement that "New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any such factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statement." Do you see that?

A Yes, I do.

Q Do you agree with it?

A Well, I guess I'd have to practice law to agree with that.

This appears to me to be one of the typical statements one finds in SEC filings, called Safe Harbor Statements.

Q That's exactly right.

A And these statements are made to avoid litigation or to protect management by having disclosed that they are not omniscient and can't predict the future.

Q That's exactly right. The company routinely files this disclaimer indicating that things may change in the future, is that right?

A As does every company that does SEC filings.

Q I would expect so.

And in the second paragraph and the paragraph after that says "The company include among the factors that may change are regulatory treatment with respect to the acquisition and disposal of assets and facilities and decommissioning costs."

A Well, that among other things. They also cite potential government regulations, environmental regulations, NRC regulations, rates of return, the structure of the industry, many things that are uncertainties about the future which, as we have discussed before in deposition, creates the risk which investors face in making long-term commitments, and it's just a generic discussion.

Q Okay. But we can agree, can't we, that there's a recognition that's explicit that, with respect to forward-looking statements, circumstances may change?

MR. CHILDS: Excuse me. I don't understand what this relates to in cross-examination of Mr. Gower.

MR. BREW: It relates directly to his position with respect to nuclear decommissioning.

CHAIRMAN JOHNSON: I'm sorry. I didn't hear that.

MR. BREW: It relates directly to his position with respect to the recovery of the nuclear decommission deficiency reserve.

CHAIRMAN JOHNSON: How so?

MR. BREW: If I could just move on to my next question, I think it will become apparent.

CHAIRMAN JOHNSON: I'll allow you some latitude.

Q (By Mr. Brew) Mr. Gower, would you agree that the decommissioning studies periodically filed by Florida Power & Light are forward-looking projections of the future cost of decommissioning nuclear units?

A I don't know that that's an accurate characterization. Let me tell you my understanding of how these studies are done, and maybe it's responsive to your question or not.

My understanding is that the consultant that does nuclear decommissioning studies identifies the actual quantities of physical material contained in a nuclear plant, and based upon those physical quantities and the known radiation characteristics and the estimated cost to protect the environment from those radiations, makes a calculation of the cost in current dollars to decommission that plant. Those costs are then escalated to the future date, and this may be what you're referring to as forward-looking, and then discounted back to the present on the basis of the anticipated earnings of the money put in the decommissioning funds, and that then is used to develop a level annuity which is the basis for the accrual.

I don't know whether that was responsive, but I think that's what happens.

Q Let me make it simple. Can we agree that the decommissioning estimates are an estimate of what it will cost to decommission the units sometime out into the future?

A Yes.

Q And that based on that estimate of decommissioning the units out 2013, 2018 or beyond, we develop an annual accrual to get there by then?

A Exactly.

Q Okay. Can we agree that there are lots of inputs, both on the engineering side and otherwise, that are taken into account in those studies and by the Commission in developing that annual accrual?

A Yes, there are.

Q Would you agree that any of those major inputs that go into those studies or the estimation can change?

A "Any" may be too broad a characterization, Mr. Brew. Some of those factors can change, but I don't think any is correct.

Q Mr. Gower, if Florida Power & Light asked for and received a ten-year extension on its nuclear license for the St. Lucie units, would that change the equation?

A The assumption in your question, I presume, also changes the date at which the plant is shut down and, therefore, the on-site storage period and the actual date when the decommissioning activity would take place, and if that assumption is correct, then --

Q Well, no. Let me clarify that then, with respect to on-site storage.

A Okay.

Q Are you aware that two weeks ago the U.S. District

Court of Appeals determined that the Department of Energy was responsible for the cost of accepting nuclear waste, beginning in 1998?

A Yes, I saw that.

Q Okay. So, if we can just take that out of the equation and assume that the federal government will be responsible for on-site storage, if the licensed life of the unit was extended ten years, would that have a material effect on the accrual?

COMMISSIONER CLARK: I don't think you can assume that. I don't think the federal government is that reliable.

Q (By Mr. Brew) Let me try it differently then.

Is a major cost driver in decommissioning labor man hours?

A It's certainly one of them.

Q Is a significant concern health -- radiation health exposure to workers doing that work?

A Absolutely.

Q If decommissioning techniques evolved to use increased use of robotics to lower man hours and health exposures, could that have a material effect on decommissioning costs?

A Yes, as would the investment in the equipment.

Q Okay. Fine.

Mr. Gower, I've just shown you a document --

CHAIRMAN JOHNSON: Did you want this marked?

MR. BREW: Yes, I asked that it be marked for identification, and for identification, it's a Commission Amendatory Order, dated December 19, 1995, in Docket Number 941352-EI.

CHAIRMAN JOHNSON: It will be marked Exhibit 5, and the SEC -- FPL September 30th Quarterly Report to the SEC was marked 4.

MR. BREW: Thank you.

(Exhibit Nos. 4 and 5 marked for identification.)

Q (By Mr. Brew) Mr. Gower, have you seen this document before?

A No, I have not.

Q Would you agree that that's the Amendatory Order to the 1995 Decommissioning Accrual Order cited in your testimony?

A This appears to apply to both Florida Power Corporation as well as Florida Power & Light Company.

Q Yes, it does.

A And, yes, that's the title of the order.

Q Okay. Can I refer you to the second page of the document that I handed to you?

A Yes.

Q And just to make sure we're looking at the same thing, are you looking at a document that says in the left-hand corner, "FPL St. Lucie Unit No. 1, Annual Accrual Schedule"?

A Yes.

Q Okay. And can we agree that the numbers in the very bottom of the page show the required annual accrual for that particular unit?

A The 24,241,000, yes.

Q That's what I see, yes.

And that's the accrual for St. Lucie?

A Well, that's what this schedule shows, yes.

Q Okay. Thank you.

Do you see the upper right-hand corner? There are references to an earnings rate and an escalation rate.

A Yes, as well as the cost in '94 dollars.

Q Okay. If -- the earnings rate is 4.9 percent --

A Yes.

Q -- as determined by the Commission?

A I don't want to quibble with words. I don't know whether that was determined by the Commission or not.

The earnings rates which are reflected in these studies are normally cited in the Commission's orders, but I don't know whether the Commission determines that or the company determines that and the Commission agrees with it, and I don't mean to quibble with words.

Q Just so -- just to eliminate any quibbling, could we agree that earnings rate was reflected in this schedule to get that annual accrual?

A That's what it indicates.

Q And the escalation rate is 5.9 percent?

A That's what it shows.

Q And, similarly, the escalation rate was employed in this schedule to develop the annual accrual?

A I assume it was. I haven't checked these figures, obviously.

Q And the escalation rate is what? Is that the rate for growing the current estimate -- 1994 costs up to the date of decommissioning?

A I would believe that to be true.

Q And the earnings rate would be the rate applied to the reserve fund to effectively grow the amounts already included in the reserve?

A Yes, that's the assumed rate of earnings.

Q Okay. The 1998 study in the company files, assume for a moment that those numbers were flipped and the escalation rate were 4.9 percent and the earnings rate was 5.9 percent, but the nominal cost was the same. Would there be a reduction in the estimated annual accrual?

A Yes, there likely would.

Q Okay.

A But the reverse could also be true, and -- I mean, this is really know different than making an estimate for a pension cost or other post-employment benefits or for that matter the basic rate of depreciation. It involves estimating costs to be incurred in the future, to be applied now because now is when the costs are being incurred.

Q Do you know now whether or not the earnings rate and escalation rates to be filed in 1998 will be the same or different from these numbers?

A Not anymore than I know now how long Mr. Elias, who's sitting over there, is going to live and, therefore, how long the State of Florida is going to have to provide his pension, but, nonetheless, in order fund Mr. Elias' pension, the State has to make some studies and make some estimates, and they do that and they fund that pension and they recognize that cost while Mr. Elias is over there working. That's how it supposed to be done.

Q So could we agree that those factors could change, may change, and we don't know how they will change?

COMMISSIONER CLARK: Mr. Brew, I don't mean to interrupt you, but I think we can stipulate we can't predict the future.

MR. BREW: Thank you.

MR. CHILDS: Commissioners, could we take a brief recess?

CHAIRMAN JOHNSON: Yes. Let's take a ten-minute recess.

We're going to need to recess for lunch at 11:45, but we'll take a ten-minute break now.

(Whereupon, a recess was had in the proceedings.)

CHAIRMAN JOHNSON: We're going to go back on the record.

MR. BREW: Mr. Gower, are you ready?

THE WITNESS: Yes, sir.

Q (By Mr. Brew) Thank you.

Mr. Gower, are you aware that in 1983 the Commission concluded that the utilities owning nuclear assets should begin to develop a funded reserve for that expense?

A Yes, I'm aware of that.

Q And prior to that order, did the companies account for decommissioning costs through a negative salvage value?

A Yes, I believe that's correct

Q In deciding to move to a funded reserve, did the Commission recognize that the previous method was insufficient to cover decommissioning costs?

A Insufficient as to amount, but as to the funded aspect of the Commission's direction, my recollection is that there was a greater concern with the financial assurance that the companies operating nuclear plants would have those dollars available in the future, because the dollars are very, very large when the decommissioning actually takes place.

Q Did you say "insufficient as to amount"?

A Yes. The prior accruals were not sufficient. That's one aspect. So the accruals were increased, and, secondly, the Commission ordered that the reserves be funded so that there would be financial assurance that the amounts would be available when needed.

Q And would you agree that the approach adopted by the Commission was in part that the Commission would develop an equal annual accrual designed to recover estimated decommissioning costs over the remaining life of the assets and that there should be periodic reexamination of that cost?

A Yes, both of those aspects are true.

Q Okay. So any prior under-recovery at the time the Commission began the annual accrual would be reflected in those accruals as they were developed and recovered over the remaining life of the assets, is that right?

A Yes, and I expect that, when that decision was made, the rate of escalation in the decommissioning costs was not anticipated. The date of the last study reflected an increase of 77 percent over the previous study, which had been six years earlier, and I've forgotten the percentage increase from the original studies back in '81. So the increases in those estimated costs have been very dramatic, and that suggests that some correction needs to be made.

Q That wasn't my question.

My question was, did we agree that the Commission's procedure was to develop an annual accrual of equal amounts to recover the estimated costs over the life of the assets and to periodically reassess that?

A And I thought I answered yes with the following comments, which I will not repeat.

Q Thank you.

Are you familiar with the Commission's 1995 order setting new annual accrual rates for decommissioning?

A Yes, I've seen that order.

Q Okay. And was the overall result of that order to increase Florida Power & Light's annual accrual from roughly $38 million a year to approximately $85 million a year?

A Yes.

Q And would you agree that, in doing so, the Commission determined that the new annual accruals were the amounts necessary to recover future decommissioning costs over the remaining life of each nuclear power plant?

A Yes. There were separate accruals for each of the four nuclear generating units which totalled to the figure you cited a moment ago.

Q But the Commission determined that the accrual for each was designed to recover the estimated decommissioning costs over the remaining life?

A Yes, that's the idea.

Q Okay. Now, on your Exhibit HAG-2, you show a nuclear decommissioning reserve deficiency of $484.4 million, is that right?

A That's correct.

Q Now, that $484 million, does that represent amounts that would have been charged if FPL had begun accruing $85 million per year back from the initial commercial operation date of the plant?

A I don't think that's the way the arithmetic would work out. The $484 million is the reserve deficiency, and that is derived by comparing what accrual would have been booked had the now-current estimates been applied to each nuclear unit from its original in-service date to the date of the study upon which this is calculated. That then is compared to the book accrual, and it shows that they're $484 million short at the date of that study.

Q Can we agree that the term "a theoretically correct reserve position" simply means an accrual that reflects our best estimate of what that future cost is going to be for decommissioning?

A As of the date of the study, yes.

Q As of the date of the study.

If in the company's 1998 studies to be filed the collective changes in estimation and escalation rates and everything else used to develop the accrual schedules results in a required annual accrual of 60 million rather than 85 million, how would that affect your perceived deficiency of 484 million today?

A Well, it obviously would reduce it.

Q Okay. So which estimate should we use for determining a theoretically correct reserve position?

A The best information currently available, which is that contained in the last study filed with and approved by the Commission.

Q And the next time the company files a study, that would then become the best estimate, and if the accrual changed, we would then recalculate what your reserve deficiency would be?

A That's the only way I know how to do it.

Q And if the -- in my example, the annual accrual was $60 million, rather than 85, should there be a one-time credit to customers to correct for that difference, too?

A Not unless there's a plan in place like this.

You're asking, should there be an offset? Well, if there's still other perceived deficiencies, if you look at my Exhibit 2, theoretically, it's possible that one of those numbers would be negative, and if that were the case, then sure, it would be appropriate to offset those; but they're not negative, they're positive, and there's a substantial under-recovery of costs. That's why this docket is now pending.

Q So what we would really be doing then is, rather than having an annual accrual designed to recover the future costs over the remaining life of the assets, we would be keeping our -- basically our estimate constant and then adjusting based upon the new estimates, or we'd be keeping the base accrual constant, and then having surcharges of credits to reflect the changes in the estimates.

A I'm sorry. I don't understand the hypothetical you're posing.

Q Let me try it again.

If the -- the estimate shown on your exhibit of 484 million reflects the information contained in the most recent decommissioning study, the one the Commission passed on in 1995, is that correct?

A Correct.

Q That number, you would agree, would change if the estimates are at all different the next time the Commission does a study; is that right?

A Well, it certainly could, yes.

Q If the Commission has authorized under the plan the $484 million to be written off, by how much should we adjust the annual accrual to avoid a double count? Do you know?

A Well, I won't -- we won't know until a new study is done, but if the $484 million is in fact recovered, then that will enter into the calculation of the book reserve as well as the theoretical reserve, and if that suggests a change, then it suggests a change. But the fact that it may change in the future doesn't mean it doesn't exist now. The history has shown from the very first time these studies were done that the costs were more significant than anticipated and keep going up, and it doesn't make much sense to postpone the recovery.

Florida Power & Light's nuclear plants on average are 20 years old. That's 50 percent of their useful life. The reserve is only about 12 percent of the estimated cost. I mean, it seems fairly obvious that their recovery is behind the schedule.

Q The '95 order, I thought we had agreed earlier states that it was -- the annual accrual of 85 million was designed to be sufficient to fully recover the estimated cost by the end of the useful life, is that correct?

A We agree on that.

Q The 484 million is in there, it's reflected in the calculation of the annual accrual of 85 million a year; correct?

A Correct.

Q If we take the $484 million out, we have to adjust the 85 million at the same time or we have a double count, don't we?

A Well, it will be adjusted in the new study if in fact the 484 million is recovered.

Q But we would be adjusting under the plan the $484 million now without having ever seen the new study, isn't that right?

MR. CHILDS: Objection. I don't think that's a correct characterization of the plan. The plan quite clearly talks about the beginning of 1998, not now.

MR. BREW: If the company can show me where the plan provides for adjusting the annual accrual, I'd accept the objection.

MR. CHILDS: Well, I'm not posing it for acceptance. I'm posing it for the characterization. We're not talking about the plan. The plan nowhere calls for an expense of any item now. It calls clearly for expensing over a period of two years starting in 1998 So my objection is as to the characterization of what the plan calls for.

CHAIRMAN JOHNSON: Mr. Brew?

MR. BREW: If it will help, I'll simply restate the question.

CHAIRMAN JOHNSON: Please, thank you.

Q (By Mr. Brew) The $484 million reserve deficiency shown in your exhibit is reflected in the annual accrual required to fully recover estimated decommissioning costs that the Commission passed on when it adopted the annual accrual in 1995, isn't that right? So if I take $284 million out of that annual accrual schedule because I no longer have to accrue it on an annual basis because I've paid it up now, aren't I double collecting that $484 million, unless -- even for one year or two years, unless I've adjusted my annual accrual at the same time?

A Well, I think what you're asking is, two years worth of that deficiency is built into the accrual over the remaining life, and so maybe it's $10 or $20 million.

Q Yes.

A Yeah, that's -- I don't know that that s the correct number, but let's just say it is for purposes of discussion.

To that extent, there may be a double-up that may offset other mis-estimations which -- or various variables which you point out. Whatever recovery takes place, the 84 million per annum accrual plus the 484 million, to the extent it is recovered, will be accounted for correctly in the new study that's going to be filed at the end of -- is it '97 or '98 -- whatever the date it's going to be filed. It will be accounted for properly and the accrual will be adjusted. If the deficiency is recovered pursuant to this plan, it will be removed from future annual accruals.

Q But for customers of FPL in 1998, they would be charged an 85 million annual accrual, they would be charged six times that for the 484 deficiency, and they'd be charged whatever the amount, $10, $20 million, for a double recovery of that amount because the accrual's not reflected, not adjusted to reflect it?

A They would be charged in the sense that these expenses would be recorded in cost of service, but, of course, as you know, rates won't be changed.

Q Okay. Mr. Gower, your first exhibit, HAG-1, do you have that?

A Yes, sir.

Q That lists special recoveries approved by the Commission for various telephone companies, is that right?

A Except for line 6 on page 2, the order there applied to about a dozen or more companies, which included all of the electric companies as well as several telephone companies.

Q Okay. Would you agree that in each of those cases the Commission considered an appropriate amortization period for a known and verified cost?

A A known and verified cost. Well, the cost of the plant in question was known, but the actual useful life of the items making up the plant investment is not known anymore than Mr. Elias informed me on break that the State needs to accrue a lot for his pension because he's going to live to 94, and I certainly hope that turns out to be right, but we won't know until the event actually occurs.

The useful life of a plant is not known until the retirement actually take place. All of these are estimates, but should we go to cash-basis accounting because we have to estimate depreciation, we have to estimate pensions, we have to estimate other employment benefits, we have to estimate accrued revenue and all of these things? I don't think so.

Q In column 5 of that exhibit, for each of the items shown, you show a specific dollar amount to be recovered; is that right?

A Yes. These were cited in the orders.

Q That's right. And were any of those amounts subject to being re-estimated in the future?

A Yes. If you look on line 2, the Southern Bell order, there's a $123 million depreciation reserve deficiency. It's the same type item as the nuclear decommissioning reserve deficiency. Also on line 3 -- yeah, I mean -- yeah, some of those are definitely estimates of the same type.

Q On page 8 of your -- excuse me. On page 7 of your direct filed testimony, you refer to special recoveries authorized on the electric side for major overhaul and asbestos abatement project costs --

A Yes.

Q -- do you see that on line 17?

Were those specific dollar amounts?

A They were specific dollar amounts, although some of them may have been estimates at the time the orders were issued.

Q What about the Turkey Point steam generator repair cost; was that a specific dollar amount, somewhere around $111 million?

A Yes. The Turkey Point steam generator repair costs were known, they were expended, they were passed, and they were the subject of litigation is the reason why they were deferred initially.

Q With reference to the depreciable plant that you talked about earlier, was the total amount of the depreciable plant known?

A Yes, that's identifiable every month on each company's books as they close the books. It's the useful life which is the subject of the estimate.

Q Okay.

COMMISSIONER CLARK: Mr. Gower, just so I'm clear, but the useful life is part of the calculation of the depreciation reserve?

THE WITNESS: Yes. It is useful life plus or minus a cost-of-removal or net-salvage figure, and both are estimates.

COMMISSIONER CLARK: Okay.

Q (By Mr. Brew) And on the decommissioning side, the total cost is something that's re-estimated every five years?

A Every time a study's done.

Q That's correct. Okay.

Mr. Gower, I'd like to show you another document and, Chairman Johnson, I ask that it be marked for identification.

Very briefly, this is a Notice of Proposed Agency Action, dated October 3, 1995, issued by the Commission in relation to the accounting treatment for funds extended on Lake Tarpon-Kathleen Transmission Line. It involves Florida Power Corporation.

CHAIRMAN JOHNSON: That will be identified as

Exhibit 6.

MR. BREW: Thank you.

MR. CHILDS: Six?

CHAIRMAN JOHNSON: Six.

(Exhibit No. 6 marked for identification.)

Q (By Mr. Brew) Mr. Gower, can I ask you to refer to the second page of that document and the paragraph towards the bottom of the page that I've highlighted?

A I see that.

Q Would you agree that this was a case in which the Commission considered the proper amortization for a deferred transmission line project -- the costs associated -- the deferred costs associated with a transmission line project?

A Yes, and the interesting thing about this is that in making that decision, the Commission considered the effect on Florida Power Corporation's achieved return, and I think it's an excellent illustration of the Commission's policy of providing for recoveries as quick as economically practical, which means that the Commission recognizes there is a need for companies to realize a reasonable return and to avoid fluctuations in those earnings because fluctuations send a very strong risk signal to investors, which drives up the cost of capital. So this an excellent example.

Q Well, I'm glad you agree.

If we can look on exactly that point, towards the middle of the highlighted paragraph, it states that, "Per the forecasted earnings surveillance reports submitted for 1995, the projected ROE --" and here we're dealing with Florida Power Corp -- "for 1995 is 12.20." Do you see that?

A Yes, I see that.

Q Okay. Can you tell me where in the plan here the Commission has estimated a projected ROE for the company for the plan years and the effect on earnings of the proposed plan?

A You won't find that spelled out in the Commission's proposed agency action order, but I would suggest to you that it has been considered because the order directs the company to book additional expense in certain amounts which are equal to revenue growth, and if you have a dollar of revenue growth and a dollar of expense, the effect on the company's achieved return is zero.

Q So if, in the Florida Power & Light Turkey Point steam generator case, if you recall that -- do you remember reviewing that order?

A Yes.

Q And do you recall that the amounts of deferred costs to be amortized was roughly $111 million?

A Yes.

Q And there was a question as to the appropriate amortization period. Do you recall that?

A I remember the Commission directed amortization. I don't recall the question, but I can look up the order, if you like.

Q Would you agree that the Commission determined there that the amortization should be basically over five years, although the company could take it sooner if they wished?

A That rings a bell in my memory, yes.

Q And would you agree that the Commission determined that writing the full amount off over one year while -- was essentially too much because the $111 million would have roughly a two percent effect on regulated earnings?

A Do you mean 200 basis points or --

Q Yes.

A I vaguely recall some discussion of that type, and I think it's perfectly consistent with the order that is now Exhibit 6.

Q Okay. So, if -- the revenue offset approach in this plan would have no particular effect on regulated earnings because we're dealing with revenue growth, is that what you said earlier?

A That's my understanding of it.

Q And if the amount to be expensed under the plan were $350 million, and we assume along the lines of what the Commission looked at for Turkey Point that roughly $70 million equates to about 100 basis points on return on equity, we're talking about an earnings effect of about five percent, 500 basis points?

A Is your question directed to the plan now and your reference to the $350 million?

Q Yes.

A Maybe I misunderstood the question, but my understanding is there will be no effect on net earnings because the revenue growth is offset by an identical amount of expense, and that's how the corrective capital recovery is achieved.

Q Just so we're clear, taking the charge has an effect on reported earnings, doesn't it?

A Not if it's offset by an identical amount of revenues.

Q Okay. Exactly.

But taking the expense reduces net income by the amount of that expense?

A Well, all other things being equal.

Q That's right.

And so what we're talking about is a reduction in the earnings that matches the growth in the earnings?

A Yes.

Q Okay. And if the growth in the earnings and revenues were $350 million, that would be a rough equivalent of 500 basis points on their regulated return?

A Well, you're doing the before-tax amount, but --

Q Yes, very simple --

A Okay.

Q -- back of the envelope.

Mr. Gower, very quickly, on page 9 of your direct testimony, the paragraph and your answers beginning at line 13, do you mind taking a look at that, please?

A I have that.

Q And you say, "Because of the importance of these capital costs --" meaning fossil dismantlement and nuclear decommissioning -- "the studies are important because those costs need to be updated every five years."

A In the case of depreciation and dismantlement, it's every four years. Decommissioning is every five.

Q But the reason why you endorse requiring the updated studies is because of the importance of those capital costs, is that right?

A I think they're important, yes.

Q Which has a greater effect on -- does either have a greater effect on revenue requirements than the cost of equity?

A Well, we can make that calculation, and there -- I want to check this, but my recollection is that the provisions for depreciation, decommissioning, dismantlement are greater than the return on equity. That may be wrong, but that's my recollection.

Q Would you agree that the cost of equity is also a very important cost in the revenue requirement?

A Absolutely.

Q On a par with those in terms of effect on the revenue requirement?

A Importance, absolutely.

MR. BREW: Thank you.

That's all I have. Thank you very much.

CHAIRMAN JOHNSON: Staff?

MR. CRUZ-BUSTILLO: Good morning, Mr. Gower.

THE WITNESS: Good morning.

MR. CRUZ-BUSTILLO: At this time, Madam Chairman, I'd like to move in -- we provided the Commissioners with a book of all the exhibits that the Staff is going to be using today, either demonstratively or submitting into evidence, and we also provided a stack in the same order to counsel for FPL and counsel for AmeriSteel.

The second index card is -- we would like labeled as Composite Exhibit 2, and we would like to have it marked for identification because I'm going to be using some of those documents and subsequently submitting them into evidence, and I'm also going -- I'm also going to use Composite Exhibit 3.

CHAIRMAN JOHNSON: Hold on for a second.

MR. CRUZ-BUSTILLO: Madam Chairman?

CHAIRMAN JOHNSON: What would you like for us to do?

MR. CRUZ-BUSTILLO: Oh, it's the second stack, but we want to have it marked as Composite Exhibit 1.

CHAIRMAN JOHNSON: Do you want to direct us to the big notebook or is there another --

MR. CRUZ-BUSTILLO: No. Okay. I've got it now.

The notebook that I gave you, I want to use the second section and I want to have it marked consecutively and composite -- I'm assuming the next consecutive number would be Composite Exhibit 7.

CHAIRMAN JOHNSON: So we should go to the second tab --

MR. CRUZ-BUSTILLO: That's correct.

CHAIRMAN JOHNSON: -- and that has a sheet with several documents delineated. You'd like to have this entire second tab marked as Composite Exhibit 7?

MR. CRUZ-BUSTILLO: That is correct. That is the one with Mr. Gower on the first line, his name appears there.

CHAIRMAN JOHNSON: Yes, sir. It says Gower, late-filed deposition.

MR. CRUZ-BUSTILLO: That's the one. That stack, we would like to have it marked the next consecutive exhibit number, and we would like to have it as a composite, AND I'll identify -- each document in that composite is Bates-stamped, and I'm going to go ahead and reference those documents according to their Bates number, and I will mention the composite number.

CHAIRMAN JOHNSON: Thank you. So we will identify this as Staff Composite Exhibit 7, and you're going to go down through the list for me to say what's in that composite exhibit?

MR. CRUZ-BUSTILLO: Not right now. As I guess -- unless the Chairman requests so. Do you want me to identify them?

CHAIRMAN JOHNSON: Let's go ahead and do that just so we'll be sure as to what is in this composite exhibit.

MR. CRUZ-BUSTILLO: Inside Composite Exhibit No. 7, we have Mr. Gower's late-filed deposition and we also have -- and that's marked -- that's Bates-stamped 001.

We also have FPL's responses to staff interrogatory questions No. 1, 2 and 6, and that's Bates-stamped 002 through 0010; and we have FPL's responses to staff interrogatory questions 3, 4 and 5, and that's Bates-stamped 011 through 016. Then we have FPL's responses to staff's interrogatory questions No. 16 through 40, and that's Bates-stamped 017 through 036. Next we have FPL's responses to staff interrogatory questions No. 41 and 42. That is Bates-stamped 037 through 041. Next we have FPL's responses to staff's informal data request No. 1, Bates-stamped 042. Next we have FPL's responses to staff's interrogatories, questions Nos. 8, 9 and 11, 12, 13 and 14, Bates-stamped 043 through 050. Next we have an excerpt from FPL's 1997 Forecasted Earnings Surveillance Report, Bates-stamped 051 through 052. Next we have an excerpt from the Florida Public Service Commission's 1997 Forecasted Earnings Surveillance Report, Bates-stamped 053 and 054. Next we have an excerpt from Gulf Power Company's Forecasted Earnings Surveillance Report, Bates-stamped 055 and 056. Next we have an excerpt from Tampa Electric Company's Forecasted Earnings Surveillance Report, Bates-stamped 057, 058. Next we have spreadsheets supporting FPL's response to staff interrogatory question No. 3, Bates-stamped 059 through 069. Next we have spreadsheets supporting FPL's responses to staff interrogatory question No. 4, Bates-stamped 070 through 083. Next we have spreadsheets supporting FPL's responses to staff interrogatory question No. 5, Bates-stamped 084 through 099. And the last two items are, first is FPL's depreciation studies filed in Docket No. 960527-EI, Bates-stamped 100 through 113, and, finally, FPL's depreciation studies filed in Docket No. 970785-EI, Bates-stamped 114 through the remainder.

CHAIRMAN JOHNSON: Thank you. And all of the parties have been provided with these documents?

MR. CRUZ-BUSTILLO: They were provided those documents yesterday.

CHAIRMAN JOHNSON: Great.

(Exhibit No. 7 marked for identification.)

MR. CRUZ-BUSTILLO: And I also have one other request at this time. I would also like to have marked for identification the next consecutive exhibit number, what is in your third section, and it's headed -- it has four little columns or lines, and it's entitled AmeriSteel Corporation's Responses to Staff's Interrogatory Questions Nos. 1 through 35. Do you see that, Madam Chairman, and other commissioners?

CHAIRMAN JOHNSON: Yes, sir.

MR. CRUZ-BUSTILLO: At this time I would like to have this marked for identification.

CHAIRMAN JOHNSON: We'll identify that as Composite Exhibit 8, and that consists of the AmeriSteel Corporation's responses to Staff's interrogatories Nos. 1

through 35, Staff's prepared Exhibit No. 1-A, Staff's prepared Exhibit No. 1-B, and Staff's prepared Exhibit No. 1-C.

(Exhibit No. 8 marked for identification.)

MR. CRUZ-BUSTILLO: Okay. And I think we'll be ready to begin.

CHAIRMAN JOHNSON: Okay.

CROSS EXAMINATION

BY MR. CRUZ-BUSTILLO:

Q Mr. Gower, do you see those documents over there?

A Yes, I do.

Q Were you able to pull out the two sections I was talking about?

A I think I have identified those, yes.

Q You did? He did? Okay. Good.

What I'd like you to do is I'd like you to turn to Composite Exhibit 2, I mean -- I've got it -- Composite Exhibit No. 7.

A Yes.

Q And a document Bates-stamped 001. That is your late-filed Exhibit No. 1 to your late-filed deposition.

A Yes, I have that.

Q My first question is, does this document show -- would you agree that -- does this document show that -- actual accruals for 1995 and 1996, as well as the forecasted minimum variable accruals for 1997, 1998 and 1999 associated with Dockets 950359-EI and 970410-EI?

A Yes, it does.

Q Are FPL's forecasted 1998 and 1999 accruals shown on this document calculated based upon forecasted 1998 and 1999 base revenues and 1996 most likely revenues, and the 1996 low band revenues?

A Yes, that's correct.

Q Thank you.

Looking at the same document, is a portion of the forecasted 1998 and 1999 accruals calculated as simply the difference between the 1996 most likely revenue and the 1996 low band revenue?

A Yes. That's the fixed portion, which, as I recall, was about $83 million.

Q Thank you.

According to the plan, is the remaining portion of the 1998 and 1999 accrual amounts calculated by first taking the difference between each year's forecasted base revenue and the 1996 most likely revenue and then multiplying this result by 50 percent?

A Yes, that's the minimum amour.- which the company must book if those revenues actually eventuate.

Q Mr. Gower, could you speak up because I couldn't hear you?

A I said, yes, that's the minimum amount that the company would have to book if the revenues projected actually come and take place.

Q Okay. Thank you.

Did FPL's estimate -- did FPL estimate this portion of the 1998 and 1999 accrual amounts as 50 percent as the difference between forecasted base revenue and the 1996 most likely revenue?

A Yes, 50 percent of the difference.

Q Why did FPL estimate accruals at the 50 percent level than -- rather than some higher percentage level, rather than some higher level?

A The numbers you see on this late-filed exhibit were taken from interrogatory responses, and I believe they were responsive to the questions asked, but these amounts shown would be what the plan requires to be recorded as additional expense if the underlying revenue numbers actually develop as the projections show.

Q All right.

No. My question was, do you know why the FPL under the plan has decided to book or estimate the accruals at 50 percent rather than some higher amount? I'm just asking you whether you know why.

A My only answer is because that's what the plan requires. If you're looking for something else, I'm sorry, I just can't answer it.

Q Oh, one moment, please.

For the 1998 and the 1999 accrual forecasts, I had asked you earlier whether your forecasted minimum variable accruals were 203 and 261, and you said yes; is that correct?

A Yes, I think I said yes.

Q Okay. Would you agree that all -- even though you have stated that's your forecasted minimum variable accruals, that that is also your expected accruals for 1998 and 1999, is that correct? Is that correct?

A Yes, I think it is, based on the projected revenues, yes.

Q Okay. Let's go on. Okay.

Is FPL's estimate of accruals for Docket 950359-EI the sum of the amounts shown on this document that we're still referring to for 1995, 1996 and 1997?

A Yes, that would be correct.

Q Subject to check, would you agree that that amount is 418 million?

A That looks right to me.

Q I'm sorry, I didn't hear you.

A That looks right to me.

Q Okay. Thank you.

Is FPL's estimate of accruals for Docket 970410-EI

-- dash EI, the sum of the accrual amounts shown on this document for 1998 and 1999?

A Yes, and that totals 464 million.

Q Okay. One moment.

Okay. Mr. Gower, on pages 13 and 14 of Mr. Cicchetti's direct filed testimony, or let's just say page 14, lines 1 through 3, he indicates that Staff estimates 841.2 million could be accrued --

MR. CHILDS: Could we wait just a minute for -- he's looking for it and --

MR. CRUZ-BUSTILLO: Absolutely, Mr. Childs. Sure, absolutely.

MR. CHILDS: I'm sorry. He has it.

THE WITNESS: This was on his rebuttal or --

Q (By Mr. Cruz-Bustillo) No, this was his direct testimony, the top of the page, line 1, page 14, and I guess the sentence is a continuation of the bottom of page 13.

A Yes, I see that.

Q My question is, Mr. Cicchetti indicates in this direct testimony, page 14, line 1, that Staff, Florida Public Service Commission Staff estimates 841.2 million could be accrued in Docket 970410-EI; is that correct?

A That's what it says.

Q Would you accept subject to check that Mr.

Cicchetti referenced estimate of Docket 970410-EI's accruals exceeds your estimate of accruals by roughly 375 million?

A That's correct.

Q Why do you believe there is a disparity of over 375 million, or roughly 375 million, between Mr. Cicchetti's accruals and your accruals?

A Well, he had to assume in making that statement that the company booked an amount of expense beyond the minimum required under the plan.

Q Is it correct that -- would you agree that there are two reasons for the large disparity in these estimates, primarily different assumptions regarding the percent of future-based revenues in excess of 1996 most-likely revenues applied to accrual expenses and, secondarily, different assumptions regarding the rate of growth and revenues?

A Well, that could be, but I'm looking at Mr. Cicchetti's Exhibit 2, and the annotation there indicates a larger '96 forecast and booking 100 percent of the revenue growth. At least that's the way I understand it.

Q So you would agree that it's a different percentage of booking and also a different rate of growth?

A That appears to be the case.

Q Okay. What would you say is the approximate average annual growth in forecasted base revenues for FPL for 1998 and 1999?

A I don't have that number off the top of my head. I can get it and provide it to you.

Q Would you go ahead and do that? Would you say, subject to check, that it's roughly 2.9 percent?

Go ahead and take a look, Mr. Gower.

A That looks approximately correct.

Q Okay. I'd like you to refer to -- strike that.

Mr. Gower, what is the assumed average annual revenue growth -- what is the assumed average annual revenue growth rate reflected in Mr. Cicchetti's reference estimate of accruals for 1998 and 1999 that --

A I have not calculated that figure, but I'm sure it's substantially greater than FPL's estimate.

Q Okay. In your opinion, is FPL likely to accrue revenues of 841.2 million in this docket?

A I think that unlikely.

Q Now I'd like you to turn to Staff's Composite Exhibit No. 8, Bates-stamped document 023.

A I have that.

MR. CRUZ-BUSTILLO: Mr. Childs, are you looking at that?

MR. CHILDS: 023?

MR. CRUZ-BUSTILLO: 023.

MR. CHILDS: I have it.

Q (By Mr. Cruz-Bustillo) Line H is entitled Total Maximum -- Commissioners, are you there, too? Okay.

Line H is entitled Total Maximum Variable Accrual for 1998 -- well, actually it's entitled Total Maximum Accrual. It's projected for 1998 and 1999, and the sum total is shown to be 761.6 million.

A I see that.

Q This is representative of the company accruing at 100 percent of the difference between the estimated 1998 and 1999 base revenue and the 1996 most-likely revenue.

Do you believe that this is the correct estimate of 1998 and 1999 accruals if the company were to book accruals at the 100-percent level, if they were to book it at the 100-percent level?

A Well, that looks correct to me based on a cursory review here, yes.

Q In your opinion, is FPL likely to accrue revenues of 761.6 million in this docket?

A A couple of times you've asked a similar question. You say "accrue revenues." I think you mean accrue additional expense under the plan, don't you?

Q That's correct, yes.

A I don't know whether they would do that or not.

The plan requires the amount shown on Line G, assuming these revenues develop.

Q Thank you. Okay.

Please refer back to Composite Exhibit 8, Bates-stamped document 001, which is the first document that we were utilizing. Composite Exhibit -- what did I say? Composite Exhibit 7, Bates-stamped 001.

A Yes, I have that.

Q Okay. One moment, please.

Mr. Gower, would you accept subject to check that the accruals forecasted for 1998 and 1999 on lines 5 and 6, combined with the cost remaining to be recovered on line 8, would equal 722 million?

A That's exactly correct.

MR. CRUZ-BUSTILLO: Okay. Mr. Brew, would you like me to repeat that?

MR. BREW: Yes.

Q (By Mr. Cruz-Bustillo) Sure.

Would you accept, Mr. Gower, subject to check, that the accruals forecasted for 1998 and 1999 on lines 5 and 6, combined with the costs remaining to be recovered on line 8, equal to 722 million?

A That is correct. I don't have to accept it subject to check. That arithmetic is perfect.

Q Okay. Mr. Gower, does FPL estimate its total under-recoveries as of January 1st, 1998, to be 722 million?

A No. I think they estimate it to be 258 million, if I understood your question properly. I'm sorry. Ask the question again. I think I got the dates confused. I'm sorry.

Q Does FPL estimate its total under-recoveries as of January 1st, 1998, to be 722 million?

A Key date, key date, yes. I'm sorry. I blew past your date. The answer is yes.

Q Okay. Now I need one moment, please.

Mr. Gower, as of January 1st, 1998 -- I'm trying to understand your prior testimony, and I'm not sure what you said.

A Okay.

Q With respect to the unamortized loss on reacquired debt, is the amount of the under-recovery 98 million or -- I'm not sure what your answer was previously on cross-examination by AmeriSteel. Would you care to elaborate?

A That figure is -- sticks in my mind as being the correct projected amount, yes.

MR. BREW: Excuse me, are you calling this an under-recovery?

MR. CRUZ-BUSTILLO: One moment.

Yes, I am characterizing it as an under-recovery because it is an unamortized loss on reacquired debt, so, for the record, I am characterizing it as an under-recovery.

MR. BREW: Under-recovery from a prior period?

MR. CRUZ-BUSTILLO: One moment.

Let me recharacterize it for this question as the balance that needs to be recovered.

THE WITNESS: Ninety-eight million dollars, as of January 1, 1998.

Q (By Mr. Cruz-Bustillo) Thank you.

Is that amount based upon a minimum or maximum accrual for 1997 -- for 1997?

A I believe it's based upon the accrual shown on my late-filed Exhibit 1 of 162 million. I'll check that, and if that's not correct, I'll inform you after the break

Q Okay. Thank you.

Okay. Mr. Gower, I'm going to be referring to the document that has been marked as Composite Exhibit Number 1, and it is HAG-2, Exhibit HAG-2, which was attached to your direct filed testimony.

A I have that.

Q Okay. I'm not necessarily going to be referring to it, but you could use it to refresh your recollection on some of the questions. Okay.

Is it correct that FPL's estimated

under-recoveries as of January 1st, 1998, can be summarized by adding together the following under-recovery amounts: A, depreciation reserve deficiencies in the amount of 14,500,000; B, fossil dismantlement reserve deficiencies in the amount of 34,437,000; C, nuclear decommissioning reserve deficiencies in the amount of 484,440,000; and with respect to the unamortized loss on reacquired debt in the amount of 98 million, would you agree that that total would be, subject to check, 631,377,000?

A That looks correct.

Q Mr. Gower, could you tell me why there is a difference between 631,377,000 and the 722 million that would be reflected in your late-filed exhibit?

A Not off the top of my head, but I can get that for you and furnish it to you after the break.

Q Thank you, Mr. Gower. Yeah, we would like you to present a response.

One moment, Mr. Gower. One moment.

Mr. Gower, would you agree that FPL is not likely to accrue the 631,377,000 that we just discussed or, asked the other way, is it your opinion that the company is likely to accrue 631,377,000 for the purposes of this docket?

A Over what period of time?

Q Over the two-year period of time that the plan is expected to be extended to?

A No, the number looks more like 464 million to me.

MR. CRUZ-BUSTILLO: Okay. Commissioner Johnson, at this time we do have more series of questions, but it's 11:45. I don't know what the Chair wants -- this is a good place for a break.

CHAIRMAN JOHNSON: Okay. Then we'll go ahead and break for lunch. We will return at 1:15.

(Whereupon, a recess was had in the proceeding, and the proceeding resumed as follows with Commissioner Deason presiding as acting chairman.)

ACTING CHAIRMAN DEASON: Call the hearing back to order.

Staff, you may continue your cross-examination, but we need a witness.

MR. CRUZ-BUSTILLO: Thank you, Commissioner Deason. Yes, we need a witness, any witness will do.

ACTING CHAIRMAN DEASON: Yeah, cross-examination probably would go faster without a witness.

MR. CRUZ-BUSTILLO: I can ask and answer them myself.

ACTING CHAIRMAN DEASON: Mr. Gower, are you ready?

THE WITNESS: Yes, sir.

ACTING CHAIRMAN DEASON: Staff, you may proceed.

Q (By Mr. Cruz-Bustillo) Mr. Gower, I want to go back to a question I had asked you earlier, and you had said that you would try to get an answer during the break, and it had to do with my last line of questioning with respect to the total amount of imbalances that would exist as of January 1st, 1998, and I believe that you had stated that it would be 722 million.

A Yes. We are still working on tying down that number, but it appears to be related to the assumptions concerning the forecast of the remaining loss on reacquired debt. We're still trying to tie down that number.

Q Well, let me ask you this and see if your answer will be that you'll provide it later on in this hearing: The 722 million, as I was preparing for these questions, I had calculated as the sum of the depreciation reserve deficiencies, the fossil dismantlement reserve deficiencies, the nuclear decommissicning reserve deficiencies and the unamortized loss on reacquired debt. If you sum up the first three and subtract that from 722 million, the figure that I had left as an imbalance as of January 1st, 1998, for the unamortized lost and reacquired debt would have been 188,623,000. Then you had stated in your first cross-examination by AmeriSteel that you calculated it as an existing imbalance as of January 1st for the unamortized loss on reacquired debt to be 98 million. My question to you is, is the imbalance as of January 1st, 1998, for the unamortized loss on reacquired debt 98 million or 188,623,000?

A That's the answer we're working on.

Q Okay. And let me ask you this next question because you'll get back to me with that answer sometime today.

A Yes.

Q Okay. For -- as of January 1st, 1998, is FPL booking the maximum or minimum allowed with respect to the unamortized loss on reacquired debt, and can you tell me what that amount is?

A The information contained in my late-filed exhibit assumes that the company will book the minimum required under the plan, the fixed 83 million, plus 50 percent of the difference between actual revenues and the most likely.

Q That's for the over -- that's for the plan, the entire plan in its entirety, the plan in its entirety?

A Yes, for '98 and '99.

Q My question specifically has to do with the expense -- my question has to do specifically with the expense of -- for the category of unamortized loss on reacquired debt. My question is, I believe, what is FPL intending to book through the end of the year? Is it the maximum or minimum with respect to that account?

A Is the question related to 1997?

Q Through the end of 1997. Yes, that's my question.

A I don't know the answer to the -- specifically, but I can tell you that through August the bookings have been $156 million in round numbers, which is already approaching the minimum. I'm sorry. Make that 126 million.

Q And that is approaching the minimum or maximum? That's approaching the minimum?

A I meant to say minimum. If I said maximum, I misspoke.

Q No, no, you said minimum.

A The minimum shown on my late-file was 162, and we're already at roughly 126, so it will approach the minimum rapidly.

Q Okay.

A Depending on revenues.

Q We had asked you a question earlier, what FPL expected to book in 1998 and 1999, and your response was the minimum, right?

A That's what's shown on my late-filed Exhibit 1, which is -- merely summarizes information from interrogatories posed by staff.

Q Now, again --
A As far as I know that's what they plan to book.
Q Does FPL -- would FPL expect to book more than the minimum?
A Not to my knowledge. They may under the plan, as you know.
Q Do you know why they would book more than the minimum?
A Well, the only reason I can think of is if there were under-recoveries to be addressed and earnings were sufficient to absorb the charge, it would be an opportunity not likely forgone.
ACTING CHAIRMAN DEASON: But that's within management's discretion under the plan, is that correct?
THE WITNESS: Yes. The -- they must book at least the minimum plus the 50 percent difference, but they may book more, as I understand the plan.
Q (By Mr. Cruz-Bustillo) Okay. You'll get back with me with the answer with respect to the 98 and the 188, correct, later on?
A Yes, I will.
Q Okay. I'm going to go on to other questions.
You've stated earlier that you have testified as a witness for FPL and Florida Power Corporation in the early 1980s, is that correct?

A You're referring to the generic docket on spent nuclear fuel disposal?

Q I believe so, which you referenced to in your deposition.

A Yes.

Q Were site-specific studies performed for nuclear decommissioning at the time, with respect to the dockets that you testified in, to your knowledge?

A Your previous question I thought dealt with spent nuclear fuel disposal, not decommissioning.

Q Well, let me ask it -- let me state it the way that I have it in my notes.

A Okay.

Q In your deposition you had referenced that your testimony had to do with respect to how to project nuclear decommissioning costs, given input from engineering people on how to come up with an appropriate accrual.

A Okay. I understand the question. I'm sorry. I thought your first question dealt with spent nuclear fuel disposal.

The quote that you just made had to do with the nuclear plant decommissioning, and my recollection is that the engineering studies which were the basis of the accruals presented in that docket were not site-specific. They were site-spacific in subsequent studies.

Q Would you agree that the first site-specific nuclear decommissioning studies that FPL performed were in 1987, subject to check?

A Well, I can check it very quickly.

That is correct.

Q Okay. And to your knowledge how does the site-specific study compare to the costs made prior to that time?

A Compared to the estimates made prior to that time?

Q That is correct. The prior cost estimates made and then the subsequent conclusions arrived at by the site-specific studies, how would they compare in your opinion?

A The first set of studies represented an attribution of the results of some generic studies that I think were called the Batelle studies in the early '80s, and some adjustments were made, and the decommissioning costs were imputed to the FPL units on the basis of the generic study, and that resulted in the initial annual accrual of about $19 million. The '87 studies were site-specific and that resulted in an accrual of $38 million, so it was almost double the original study.

Q One moment.

What did the site-specific study entail?

A Well, it entails a study of the actual physical units that go into the construction of a nuclear unit and the calculation of what it takes to dismantle so many cubic yards of concrete, so many tons of steel, feet of wire, et cetera, et cetera. So it's far more detailed than a non site-specific study.

Q Which would you say is more accurate?

A Well, the site-specific studies are obviously more accurate.

Q FPL has identified $484.4 million in reserve deficiencies associated with its nuclear decommissioning reserve, is that correct?

A That's correct.

(Whereupon, Chairman Johnson rejoined the proceedings.)

Q (By Ms. [illegible]-Bustillo) This reserve deficiency, would you agree, was measured by using the traditional theoretical reserve calculation in which it was assumed that the current cost estimates to decommission had always been known since the nuclear units had been in service? Would you agree with that?

A Yes, and from that information, the calculation is made as to what the accrual would have been at the study date. That is then compared to the book reserve, and the difference is the reserve deficiency.

Q Thank you.

FPL has also provided an updated -- has also provided updated accrual calculations using the same base cost estimates, contingency factors and fund earning rates that underlie the currently-approved nuclear decommissioning and fossil dismantlement and accrual. I need to ask that again. Strike that.

Okay. Would you agree that FPL, in its updated accrual calculations, used the same base cost estimates, contingency factors, fund earnings rate which underlie the currently-approved nuclear decommissioning and fossil dismantlement accruals, and these were used with an update to reflect the current DRI forecasts? Would you agree with that?

A The DRI forecasts of the inflation rate?

Q Yes, that's correct.

A Yes, I believe that's true.

Q Okay. I would now like you to turn to what has been marked for identification as Composite Exhibit 7 and specifically Bates-stamped document 012.

A I have that.

Q And actually, please refer to the document Bates-stamped 013.

A One-three?

Q One-three. At the top of that document, the top of that page, it will be a No. 4 in the left-hand corner, and this is, in fact, FPL's response to Staff's interrogatory No. 4.

My question to you is, the results as calculated in document Bates-stamped 013 in Composite Exhibit 7 illustrates the conclusion that we were just discussing, is that correct? If you don't understand, I'll ask it again.

A The calculation that -- to which your question is addressed shown on page 004, is that the one that I'm supposed to focus on?

Q No, 014.

A Okay. I'm sorry.

Q 013, my mistake, 013.

And my question is, using the DRI forecasts, the new updated DRI forecasts, would you agree or isn't it correct that the results of the calculation as demonstrated in Composite Exhibit 7, Document 013, that that calculation is correct?

A Well, I think you've correctly described it.

I haven't personally reviewed these calculations, so I'm not in a position to tell you that the numbers are correct.

Q Okay. Let's move on. Would you agree that the update here, the numbers we were just looking at on Document 013 -- would you agree or isn't it correct that the update shows that an updated DRI forecast would result in a decrease in the current approved nuclear decommissioning accrual from 84.7 million to 83.9 million?

A Yes, that's what it shows.

Q Okay. And if this updated accrual information were used in a theoretical reserve calculation, is there still a reserve deficiency for nuclear decommissioning and fossil dismantlement?

A Yes, there is.

Q And if these deficiencies were to be corrected immediately, shouldn't the currently-approved decommissioning and dismantlement annual accruals be recalculated to take this action into consideration?

A If they were corrected immediately?

Q If they were corrected -- wait.

I'm defining "immediately" as within the scope of the plan of two years.

A If it were corrected within the next two years, then I would expect the new studies to account for that correction, yes.

Q Okay. And please take a look at Composite Exhibit 7, Document 01 -- Document 014, which is the next page, and I'm looking at -- these numbers -- and I'm looking at the two numbers underneath the heading Nuclear Decommissioning in the top right-hand corner of that document, the 014.

A Yes.

Q And my question is, has FPL provided information in Composite Exhibit 7, Document 014, in response to Staff interrogatories Question No. 5, has FPL in fact provided that information to us to recalculate the accrual, given the circumstances discussed?

A My understanding is that it has.

Q Okay. Next question. I understand the testimony that has been filed by you and the depositions, and please tell me if this is correct, it is my understanding that your testimony is that reserve transfers made across functional categories have pricing implications, is that correct?

A Yes, that's true.

Q Can you give me an example of such a pricing implication?

A Yes, I think so. There is a customer class called commercial industrial load control class. It is industrial interruptible customers, primarily. As a matter of fact, AmeriSteel is in that customer class. That class is served at the transmission voltage level. So if a reserve transfer were made say reducing the reserve for depreciation on transmission plant, it would automatically cause the price to those customers, including AmeriSteel, to be increased. That's a pricing implication of the type that I referred to.

Q My next question is, are revenue rates designed -- would you agree that revenue rates are designed by a specific class of service and/or a specific class of customer? Are those taken into consideration in establishing revenue rates?

A In the typical cost of service by class study, which is one of the factors considered in rate design, yes. The usage characteristics of each class of customer leads to the cost allocation which in turn feeds into the rate design.

Q Okay. As part of the Commission's decision in Docket No. 950359-EI, isn't it correct and wouldn't you agree that FPL was ordered in that docket to record approximately 126 million in 1995 to help correct the existing reserve deficiency in nuclear -- in the nuclear production plant?

A Yes, that's correct.

Q Wasn't it also ordered that additional expense would be recorded in 1996, based on FPL's sales forecast, to first complete the correction of the nuclear production reserve deficiency and then to correct the existing 60.3 million reserve deficiency in the non-nuclear production accounts?

A Yes, that's consistent with my memory. Let me just double check that.

Yes, that's correct.

Q Since that time, isn't it correct that FPL has filed two depreciation studies, one regarding revised depreciation rates for its combined-cycle units in Docket No. 960527-EI, and another addressing revised depreciation rates for six of its fossil generating plants in Docket 970785-EI?

A The first part is correct, and that reserve deficiency is reflected on my Exhibit 2.

I understand that a subsequent study which you referenced has been filed, but I don't know the docket number and have no knowledge of the study itself.

Q Okay. Subject to check, will you agree that Commission's approved FPL -- excuse me. Subject to check, will you agree that the Commission's approved -- that the Commission approved FPL's proposed rates for its combined-cycle units without modification?

A That's my understanding, yes.

Q I'd now like you to refer to Composite Exhibit No. 7, document Bates-stamped 100.

A I have that.

Q Commissioners? Okay. Mr. Childs?

Would you agree that this is part of the depreciation study FPL filed, and specifically that this is

Schedule 3?

A Yes, I see Schedule 3, December 31, 1995.

Q That's correct.

Would you agree that this is a part of the depreciation study filed by FPL?

A It appears to be, yes.

Q Now I'd like you to turn to page 9 of that Schedule 3, but it is document -- specifically document 102, Bates-stamped document 102, part of Composite Exhibit 7.

A Okay.

Q Specifically, I would like you to look at the second column entitled "Reserve Balance."

A It's column B?

Q Column B, yeah, a better way to reference it, and Column I, FPL's theoretical reserve, and starting with Column B -- oh, it's J. Oh, yeah, the other column I want you to look at is J, B and J. With respect to Column B, can you tell me what is the calculated reserve imbalance for the Fort Lauderdale Common shown -- let me ask it this way: Do you agree based upon this document that the calculated reserve imbalance for the Fort Lauderdale Common shown is a deficiency of 6.7 million, roughly thereabouts? That's the calculated book reserve, would you agree with that?

A Being the difference between B and J?

Q Well, actually just for the record, I'm just trying to establish what that figure is in Column B, and in fact, that's where I'm going, the difference between the two, but I just want -- for the record --

A The reserve balance is shown in Column B, that's the book reserve.

Q And what is that amount in the document?

A 2.9 million.

Q For the Fort Lauderdale Common?

A Yes.

Q And what's that amount?

A 2.9 million.

Q Actually, I'm looking for the total down at the bottom.

A Oh, I'm sorry.

Q The bottom of the column.

A Okay. You're right. I'm sorry. 6.7 million.

Q Okay. And now would you turn to the theoretical reserve in this document under Column J, and down at the bottom, the total. Can you give me that figure for the record?

A 18.2 million.

Q Okay. And can you tell me what is the difference between those two amounts?

A It's 11-point-something million, and it would indicate a reserve deficiency.

Q Okay. Give me one moment.

Mr. Gower, please turn to document Bates-stamped 103.

A I have that.

Q And again, please, for the record -- and we can go through these. I just have two others I just want to have for the record so we can -- so I can continue to follow this theme here. Please, at the bottom of the page, the total for the Fort Lauderdale Unit No. 4, can you tell me what the book reserve balance is at the bottom of Column B?

A It's 23 million.

Q Can you tell me at the bottom of the Column J, what the theoretical calculation reserve amount is?

A 33 million.

Q And can you estimate roughly what the difference is between those two?

A Ten million.

Q Okay. Now, let's go on to -- okay.

FPL provided a theoretical reserve calculation for each of its combined cycle plants, isn't that correct?

A Yes.

Q Okay. Give me one moment, please.

Okay. Mr. Gower, please turn to Bates-stamped document 114 in Composite 7, and when you get to that page, can you tell me what that document is?

A This is titled "Update of Depreciation Study Filed on June 30, 1997, to Reflect Book Reserves."

Q Would you agree that --

A It lists six sites.

Q Okay. Now I'd like you to turn to -- now I'd like you to turn to what has been Bates-stamped as 1-2-0, 120.

A I have that.

Q Okay. Again, I'm going to go through this rather quickly. Please look at Column B and Column H. Please tell me the actual book reserve balance as of 12-31-96 for the Cape Canaveral site. Can you give me that number, please?

A Yes, that's 63.9 million.

Q And can you give me the number for the FPL's theoretical reserve under --

A 85.7 million.

Q Can you give me roughly what the difference is, for the record?

A About 22 million, in round numbers.

Q Thank you.

And would you agree that this type of calculation is shown for each of the six fossil sites?

A Yes, including some would show the opposite of a reserve deficiency I noticed as I was paging through.

Q Okay. Based on this information and to the extent that these site imbalances are in excess of the reserve adjustments ordered in Docket No. 950359-EI, wouldn't you agree that there are additional reserve imbalances existing now for these sites?

A Yes, these studies show that.

MR. CRUZ-BUSTILLO: Okay. At this time I'd like to take like a two-minute break so I can --

CHAIRMAN JOHNSON: I'm sorry?

MR. CRUZ-BUSTILLO: I just need like two minutes, not really a break.

CHAIRMAN JOHNSON: Let's go off the record.

(Whereupon, a pause was had in the proceeding.)

Q (By Mr. Cruz-Bustillo) Okay. Mr. Gower, why is it appropriate to accelerate the write-off of the -- on the -- of the unamortized loss on reacquired debt as specified in FPL's proposal rather than allow the amortization already in place to run its course?

A I think the cost of reacquiring-high cost debt is very analogous to what happens when one of us as individuals purchases a home and chooses to finance that with mortgage money. My personal experience has been that the mortgage company offers -- sometimes they offer an array of choices. It usually involves the payment of up-front discount points plus interest on the loan balance, and if there is an option and the payment of up-front discount points is avoided, then the interest rate on the loan balance is much higher. It's sort of pay me now or pay me later.

It is fair to -- in this instance, because the investors have supplied the capital and the interest rate savings goes to the customers in the form of lower cost of service, and if the customers get the interest rate savings, then the investors are entitled to recover the capital they've invested. Why now? Well, because that's a lower cost to the customers in the long run, and I think there's nothing wrong with that.

Q Okay. Give me one second. One moment.

Okay. Mr. Gower, I would like you to turn now to Composite Exhibit No. 7 and I'm going to be dealing with -- starting with Bates-stamped 053, and the question's going to be dealing with the 1997 Surveillance Reports for Florida Power Corp, TECO and Gulf, so -- and I believe that starts in 053.

A I have Florida Power, yes.

Q And you have Gulf's and TECO's, or does it start start with Florida Power? Let's start with Document 053.

A All right, Florida Power.

Q Would you accept -- with respect to Composite Exhibit 7, document Bates-stamped 053, would you accept subject to check that Florida Power Corporation's projected embedded cost of debt for 12-31-97 is 7.12 percent?

Oh, I need to make a correction. For the record, it is 054, the specific document that I'm referencing to, but that is inclusive in the surveillance report itself.

A I have 054, and it's titled Schedule 3, and I see long-term debt, fixed rate, 7.31, and variable rate, 5.89. That might --

Q Would you agree subject to check that combining 7.31 and 5.89 weighted would be roughly 7.12 percent?

A Yes, I would accept that subject to check.

Q Okay. Let's go on to the next question. Would you please refer to what has been Bates-stamped 058, and this is the surveillance report having to do with TECO, and while you are getting there, my question for the record is, subject to check, would you agree that TECO's projected embedded cost of debt for 12-31-97 would be 6.83 percent?

A Could you point me to the proper line? I'm having a little difficulty reading this document.

Q It is the first line, seventh column.

A First line, long-term debt. My copy isn't very clear.

Q Well, would you agree that subject to check, subject to a clearer copy, and -- so I'm just going to lead you right here. Would you agree subject to check that TECO's projected embedded cost of debt for 12-31-97 is 6.83, based on your best eyesight?

A Based on my best eyesight, that looks correct.

Q Okay. The last one is please refer to what has been Bates-stamped as Document 056, which is Gulf Power's surveillance report, and you'd be looking at the seventh column, first line. My question for the record is, would you accept subject to check that Gulf's projected embedded cost of debt for 12-31-97 is 6.87 percent?

A Yes, that's what this document shows.

Q Thank you.

Okay. Mr. Gower, I would ask you to refer to what has been Bates-stamped as Document -- again, within Composite No. 7, Document 043. And this is in fact FPL's response to staff interrogatory question No. 9, and is it specifically -- okay. The next document that I want you to refer to with respect to my question would be 044. FPL's response begins on 043.

A I have that.

Q Okay. My question is, do you see that FPL's projected embedded cost of debt as of 12-31-97, without the accelerated recovery of unamortized loss on reacquired debt, is 8.29 percent?

A Yes, I see that.

Q Okay. And based on the same page, do you also see that the projected embedded cost of debt as of 12-31-97, with the accelerated recovery of unamortized loss on reacquired debt, is 6.67 percent?

A Yes, that's Response C, which assumes that the entire balance has been written off as of December 31, 1997.

Q Okay.

A And I think that clearly illustrates the effect that the deferral has on the cost of debt, which is included in the weighted cost of capital.

Q Okay.

MR. BREW: Excuse me. Are you referring to a specific portion of his direct testimony?

MR. CRUZ-BUSTILLO: Am I referring to a specific portion of his direct testimony?

MR. BREW: Yes, is this cross of his direct testimony?

MR. CRUZ-BUSTILLO: Give me one moment to respond to that.

One moment, Chairman Johnson.

My response for the record, Mr. Brew, would be, in his direct testimony on page 15, beginning on line 19, what justifies the more rapid absorption of the capital invested in refinancing of a high cost of debt, and it's also implicit in the fact that we're here today in today's hearing of what is the benefit or non-benefit of accelerating it or not accelerating it. It's completely within the scope of his direct testimony and why we're having the hearing today.

COMMISSIONER DEASON: Well, let me ask a question at this point. I understand how it relates to his testimony, but are you asking him to verify what you've got in interrogatory responses, or are you just trying to get information to lay a basis for further questions concerning his bottom-line recommendation on the policy before this commission?

It seems to me that if you're going to have the interrogatories entered in the record, you've got the facts already there. It seems to me you can go ahead and get to the policy questions, and I understand you may need to lay some foundation. I guess -- are you asking these questions of this witness to authenticate the veracity, the correctness, of these factual responses to interrogatories?

MR. CRUZ-BUSTILLO: No. The reason we're doing it is in order to provide a nice, a good -- in order to follow our questioning to the point that we want to make, these questions bring you along. Now, when these are entered into the record, yes, they're in the record so this can be examined later on, however, for today's proceedings, for the issues and the conclusions that we ultimately want to make before the Commission in assisting the Commission through our role of cross-examining them, we want to bring these things out.

These points will be reflected at the conclusion of the questioning and it will all make sense, and I think it was -- I think it's important to bring these points out for the purposes of the cross-examination of Mr. Gower, but it's not to verify the veracity of them because obviously they've already responded to them and sworn to them under oath. These are their responses.

MR. BREW: Commissioner Deason, that's precisely my concern. This is an unusual case, by Staff's own admission, where there's no petition, the plan was developed by Staff with the company, there's no Staff testimony. We've been listening to a while of what is openly friendly cross. It seems to be designed to get at a point that Staff wants to reach, but we've never gotten a position from Staff. I'd like to know, rather than slip information through -- ostensibly through cross that's not really going after Mr. Gower's testimony, if Staff is prepared to put on a witness to explain its position so that it can be addressed on the record.

MR. CRUZ-BUSTILLO: It's -- right, right, I -- let me make a point here, which is that all we're trying to do is, there are issues here that have been outlined, six issues. All the questions relate around those issues. The benefit or non-benefit, they all go directly to that. There is no position on behalf of Staff. It is merely providing its advisory role in cross-examining and asking the most obvious questions. Whether or not counsel on either side believes that they're softballs or non-softballs, the questions and Staff's role in assisting the Commission must be asked, because we need -- this is a de novo proceeding and, therefore, those questions need to be asked, to be put on the record and, therefore, whether or not they think it or not, they need to be brought out, and it is in our role in assisting the Commission that we're doing that.

And then I just have two more questions with respect to Mr. Gower, and then I think I have a total of five more and that will be it. With respect to this line of questioning, I only have two more questions.

CHAIRMAN JOHNSON: Go ahead.

Q (By Mr. Cruz-Bustillo) Would you agree, Mr. Gower, that rate payers will benefit from the lower embedded cost of debt that results from the accelerated write-off of the unamortized loss on reacquired debt because the overall cost of capital for surveillance purposes will be lower?

A Yes, and in addition, of course, it reduces the amount of investor-supplied capital needed to finance the business.

Q And my last question is, won't the company have to come in for a rate case for the benefit of a lower cost of debt to be reflected in lower rates?

A If I understood your question correctly, is it won't the company have to come in for a rate change proceeding to reflect these?

Q Okay. Let me re-ask it for you.

Won't the company have to come in for a rate case for the benefit of a lower cost of debt to be reflected in lower rates?

COMMISSIONER CLARK: You can't change the rates without a rate case, can you?

THE WITNESS: I've never known it to happen.

What I was reflecting on is, you know, what happens to all the other costs. Other costs may go up, may not. It's going to reduce the cost of service. If the cost of service is reduced and the company's earnings suggest that rates ought to lowered, either the company would do that on its own initiative, or I'm sure we could count on the Commission to suggest it pointedly.

Q (By Mr. Cruz-Bustillo) So the answer is yes?

A With that explanation, yes.

Q Okay. I just -- I just have eight questions for you.

My first question is, does the plan contemplate treating the debit-balance deferred income taxes related to nuclear decommissioning below the line?

A I guess that's one way to describe it.

As I understand what happens on a surveillance report, to arrive at costs applicable to base rates, the nuclear decommissioning reserve, as well as the decommissioning fund, is removed from -- by commission adjustments or pro forma adjustments, removed from rate base and expense and so forth; and the plan requests or directs that the deferred tax debit balance, which is a prepaid tax associated with the payment of taxes on the fund earnings, also be removed, and that's an entirely reasonable adjustment to make.

Q Maybe you might have just explained this, maybe not. Please explain how these debit balance deferred income taxes arise.

A To the extent that the decommissioning funds are not qualified under the Internal Revenue code, taxes have to be paid on the income earned on those funds, and since the income is not reflected in Florida Power & Light's income statement, a tax allocation entry is made to reflect the taxes paid on those earnings as a prepaid tax, and that goes in -- that's the deferred tax debit that you asked about.

Q Would you say that the debit-balance deferred income tax is related to the qualified decommissioning funds? Or let me ask it this way: Are these debt -- are these debit-balance deferred income taxes related to qualified decommissioning funds? Are they related?

A Partially. The earnings of the qualified portion of the decommissioning funds is taxed at a lower rate, I think it's 20 percent, but some tax does have to be paid in advance, and so the tax allocation entries properly exclude that from operating expenses when paid, and that's how the deferred-tax debit balances arise.

Q Did FPL propose to treat these debit-balance deferred taxes below the line in the plan?

A Well, that's part of the terms of the plan. I don't know whether it's proper to say FPL proposed to do it, but they certainly agreed to do it and, in my opinion, that's a perfectly appropriate allocation.

Q Did FPL -- to your knowledge, did FPL testify before the Federal Energy Regulatory Commission, FERC, that below-the-line treatment was the appropriate treatment of these debit-balance deferred income taxes?

A I simply don't know what they presented to FERC.
Q I just need one moment, please.
COMMISSIONER DEASON: While Staff is conferring, Mr. Gower, let me ask you a question. The fact that there are debit deferred taxes associated with the funded reserve, does that have the effect of a lesser effective earnings rate of return on the fund, or how does that affect the earned rate of return on the fund?
THE WITNESS: It means that less dollars are available to put in the fund to generate more earnings. It's just like an individual. Say, if you or I have a passbook savings account at the local savings and loan and we intend to reinvest the interest but have to pay tax on the interest that we earn on the fund, we have less to reinvest, and it operates just like that.
MR. CRUZ-BUSTILLO: Commissioner, can I go ahead and ask my last -- I've got three questions left.
Q (By Mr. Cruz-Bustillo) Mr. Gower, would you please explain why this treatment is appropriate, and I'm referring to the line of questioning that I just -- we just went over?
A The deferred-tax-debit line of questioning?
Q Yes.
A Well, if the reserve, that is, the accrual for nuclear decommissioning is excluded from rate base and the

fund in which those accruals are invested is excluded from rate base, then it's appropriate to also pull out the prepaid taxes relating to those funds, in effect, make the books balance.

The alternative would be to leave the reserve as a reduction of rate base and the fund as an increase of rate base and the prepaid taxes as an increase in rate base. They'd probably come out to the same answer.

Q Okay. My final two questions are -- and this is for the record again. Is it correct that one element of the plan is to record any revenues in excess of the specifically identified expenses in an unspecified depreciation reserve to be allocated at a later date?

A Yes. If the amount of expense generated by comparing the benchmark revenues to actual revenues were to result in FPL having to book more expense than the identified deficiencies which are shown on my Exhibit 2, and as may be identified subsequently, then the direction is to credit the difference to the unspecified production plant depreciation reserve. So it would be reflected as an additional capital recovery.

Q Okay. And the final question is, if there were no reserve deficiencies to be offset in the future, would you agree that the Commission has the discretion to consider other disposition options, such as a refund or additional capital recovery or other balance items -- or other balance items, et cetera?

A Yes, I do agree, and the Commission has exercised that discretion in several other cases.

MR. CRUZ-BUSTILLO: I have no further questions for you, Mr. Gower.

CHAIRMAN JOHNSON: Commissioners? Redirect?

MR. CHILDS: I have some. I take it the microphone is on, my little red light apparently doesn't work at all.

REDIRECT EXAMINATION

BY MR. CHILDS:

Q Mr. Gower, you were asked some questions about your document HAG-2. Would you refer to that, please?

A Yes, sir.

Q And specifically you were asked about the depreciation reserve deficiencies balance as of the end of 1997. Do you recall those questions?

A Yes, how much would be left at the end of 1997?

Q Sure.

A Yes.

Q Is it your understanding that the plan which has been approved by this commission so far in this docket does not contemplate the Commission considering future depreciation studies that are filed with it by Florida

Power & Light Company?

A No, sir, that's not my understanding.

Q Okay. You were asked a question about Commission Order No. 12717. I don't recall what that was marked for for identification. Do you have that order?

A Yes, I do.

Q This order addressed the -- it was dated December 1, 1983, having to do with an application for issuance of securities, and you were asked questions about the highlighted language concerning the use of the primary method of accounting. Do you know what the purpose of this order was?

A Yes. As indicated in the order, the use of the primary method of accounting in this particular docket, that is, the one referred to in the order, was to allow the investors to recover the amount of capital they invest in reacquiring high-cost debt, and as I indicated earlier in response to some questions, that's fair, since the interest savings goes to the customers.

Q Would you draw a conclusion from the fact that the Commission made the decision as to what was the appropriate treatment that the Commission considered, itself, to have authority to make that decision?

A I would draw that conclusion, yes.

Q You were asked a series of questions about the bidding of utility generation assets around the country. Do you recall the questions in that area?

A Yes, I do.

Q And then that followed up with questions having to do with the dismantlement liability, if any, as a result of selling the power plant at market value or a price above book value. Do you recall the questions along that line?

A Yes, I do.

Q Are you familiar with the term "gain on sale" as it's used in Florida?

A I'm familiar with that, yes.

Q Would you explain what this commission has said about the treatment of gain on the sale of an asset by a regulated utility?

A Well, again, the treatment has varied from case to case.

In some cases, the Commission has directed that the gain be amortized above the line; in other cases, it has directed that it not be amortized above the line, be recorded as income when it occurs.

COMMISSIONER DEASON: When you say not amortized above the line, do you mean that it would be recognized currently as income and not be amortized?

THE WITNESS: Currently -- I should have made that clear, Commissioner. Currently as income below the line and not amortized.

COMMISSIONFR DEASON: So it's your understanding that the Commission has allowed gains on sale to be recognized below the line?

THE WITNESS: Yes, sir. A number of water and sewer cases that I could look up if we needed the numbers. In a lot of cases, though, small miscellaneous gains were amortized above the line.

It depended on the facts in each case, as I understand it.

COMMISSIONER DEASON: Has this commission ever allowed a gain on sale involving Florida Power & Light to be amortized below the line?

THE WITNESS: I don't know. I don't know the answer to that.

Q (By Mr. Childs) You were asked some questions about extending the licensed life of the nuclear power plants. Do you have a view as to whether that would, all other things being equal, increase or decrease the decommissioning costs for the nuclear power plants?

A All other things being equal, I don't think it would have any effect on it.

Q Okay. You were asked a series of questions about whether this commission had ever authorized the recovery of costs if they were not known or verified. Do you recall those questions?

A In connection with the nuclear decommissioning there was a line of questioning like that, yes.

Q Do you consider the costs that are associated with implementing SFAS 106 to be known and verified?

A Well, they're known to the extent that we know the cost as being incurred, not verifiable to the extent that they are estimates which are very complicated estimates that will go on perhaps for years before they are resolved.

Q Do you know whether when that standard SFAS 106 was adopted that the fact that estimates would be required and that the consequences of using estimates on the numbers selected, do you know whether that was known when SFAS 106 was adopted?

A Yes, and that accounting rule has provisions that deal with the variations and changes in those estimates which will arise from time to time.

MR. CHILDS: I want to show a document at this time. It is a copy of Commission Order PSC 92-0708-FOF-TL, and what I have is the cover page and page 35 of that order, and I'd like to have that marked for identification.

CHAIRMAN JOHNSON: It will be marked as Exhibit 9.

(Exhibit No. 9 marked for identification.)

MR. CHILDS: Thank you.

Q (By Mr. Childs) Would you look to the first full paragraph on page 35 that is the second page of this Exhibit 9, Mr. Gower?

A I have that.

Q Are you aware that this commission considered the adoption and implementation for accounting purposes of SFAS 106?

A Yes, I believe there was a generic proceeding that may have preceded this case or it could have been afterward.

Q Do you draw the conclusion from this case that in applying, excuse me -- applying SFAS 106 that it was treated as a cost for setting rates in this proceeding?

A Yes. When one reads the entire order, it's pretty clear that the estimated other-post-employment-benefits costs were allowed to be included in United Telephone's cost of service in this case.

Q Now, the order specifically states that, "In response to an argument made by the Office of Public Counsel about the certainty of SFAS 106 costs --" this is about five or six lines from the bottom -- "that OPC's argument could also be applied to depreciation expense, the cost of equity and nuclear decommissioning and any other expenses based on estimates," and it also goes on to adopt SFAS 106. Do you agree with this observation stated in the order that I just read?

A With regard to the comparability to depreciation and nuclear decommissioning and so forth, yes.

Q That's correct.

A Yes, do I agree with that.

Q And would you agree that at anytime costs are accrued, that you are by necessity dealing with estimates?

A Absolutely. The alternative is to go to cash-basis accounting.

Q Okay. You were asked a series of questions about the estimates associated with decommissioning specifically and what would happen if the costs, perhaps, turned out at a later date to be lower than the current estimate on which the reserve deficiency is based. Do you recall questions along that line?

A Yes, I do.

Q If in fact the Commission takes no action now and the reserve deficiency becomes even greater, will that represent an improvement of the situation in your view?

A Not at all. It just will mean that the costs will be higher, much higher in the long run.

Q As to the deficiency and the treatment proposed in this docket, are you aware of whether the treatment proposed would be consistent with the treatment of all recoveries or all expenses for nuclear decommissioning funds? Is there any difference in your mind?

A No, there is not because whatever costs of decommissioning FPL recovers pursuant to the directions in this docket or otherwise will be invested in the funds on an after-tax basis as the Commission has directed. The more funds invested, the lower the cost in the long run.

Q And that fund is not something that is appropriatable by the company or someone else, is it, or do you know?

A It is not. The funds are held under a trust, I think it's State Street Trust in Boston, and that is an irrevocable trust. FPL cannot rescind that agreement and get that money back.

Q You were asked questions in the same area about, if there were a change in the estimate of decommissioning costs, couldn't that be addressed by changing their accrual? Do you recall questions in that area?

A Yes, I do.

Q Would you agree that that potential change to the accrual could address both under-recoveries and over-recoveries?

A Yes, I would.

Q Okay. But do you believe that the treatment of the reserve deficiency as proposed in this docket is nevertheless appropriate?

A Yes, I do. It clearly relates to prior service. It's fair that that be recovered and, furthermore, recovery will lower costs in the long run.

Q Okay. I want to refer you to what has been marked for identification as Exhibit No. 6, which is the two pages from Commission Order No. PSC 95-1230-FOF-EI. Do you have that?

A Yes, I do.

Q You were asked some questions about this by counsel for AmeriSteel. Are you familiar with whether this commission addressed considering the treatment of the deferral here as being rate-making?

A I've read this order and I see no reference to it in this order.

Q Okay. You were also asked some questions about, I believe it was Interrogatory No. 14, and whether the cumulative -- excuse me -- the total net savings associated with the refinancing of debt had been -- let me see my notes here -- had been passed on to customers through rates.

What I want to ask you is, do you know how many -- how much of the costs associated with the Commission's change to the accrual for decommissioning has been passed on to the customers through rates?

A Well, there have been no changes in base rates.

MR. CHILDS: Thank you. That's all I have.

CHAIRMAN JOHNSON: Okay. Exhibits? Exhibits?

MR. CHILDS: I would move Exhibit 1, and you assigned a number to the two pages from order -- Exhibit 9, excuse me.

CHAIRMAN JOHNSON: Show Exhibits 1 and 9 admitted without objection.

(Exhibit Nos. 1 and 9 received in evidence.)

MR. BREW: Your Honor, I would move exhibits, I guess, 2 through 6.

CHAIRMAN JOHNSON: Show 2 through 6 admitted without objection.

(Exhibit Nos. 2, 3, 4, 5 and 6 received in evidence.)

MR. CRUZ-BUSTILLO: Staff would move Composite Exhibit 7 at this time, but not 8.

CHAIRMAN JOHNSON: Okay. We'll show 7 admitted without objection.

Thank you, sir. You're excused.

(Exhibit No. 7 was received in evidence.)

MR. BREW: Excuse me, could I have just one moment?

CHAIRMAN JOHNSON: A preliminary matter or is it related to this witness?

MR. BREW: It just relates to this witness, if I could have just one minute just to see if there's an additional question.

CHAIRMAN JOHNSON: You may have a question for the witness?

MR. BREW: Yes, that's what I'm trying to say. I just need one minute to check my notes.

CHAIRMAN JOHNSON: Okay. I'll do that and if you could explain to me what the question might be, and then we'll entertain any motions to that effect or allow re-redirect.

MR. CRUZ-BUSTILLO: Chairman Johnson, while he's doing that, I just want to mention that we had asked Mr. Gower for a response to a question, and we just want to say that, you know, we'll wait until rebuttal, but we want to get an answer to the question that he was going to answer. When he steps down now, I just want to make sure that we can go ahead and ask it on rebuttal, even though it might be outside the scope.

CHAIRMAN JOHNSON: Certainly.

MR. CRUZ-BUSTILLO: I don't know if it is or not, I'm just assuming if there was.

CHAIRMAN JOHNSON: Is he prepared to answer it now?

MR. CRUZ-BUSTILLO: I don't think so

THE WITNESS: No, sorry.

CHAIRMAN JOHNSON: Okay.

MR. CRUZ-BUSTILLO: I just wanted to mention it for the record.

MR. BREW: I'm ready, just a very quick clarification if I may.

RECROSS EXAMINATION

BY MR. BREW:

Q Mr. Gower, do you have the late-filed Exhibit 1 that was provided to you by Staff, that's Bates-stamped 001?

CHAIRMAN JOHNSON: You said this was a part of Composite Exhibit 7 or --

MR. BREW: Yes, yes, it was part of the Staff Composite.

CHAIRMAN JOHNSON: And it was 001?

MR. BREW: That's correct, that page number.

THE WITNESS: Yes, sir, I have that.

Q (By Mr. Brew) The 1995 actuals of $126 million, do you see that?

A Yes, I do.

Q Do you know if that was more or less than the minimum amount required by the 1995 plan?

A I do not know. I'd have to check that for you.

Q For 1996, do you know if the amount actually charged was more or less than the minimum directed to be charged under the plan?

MR. CHILDS: I'm going to object. I think this is beyond -- I didn't ask anything about this on redirect.

CHAIRMAN JOHNSON: I'm sorry, I didn't hear you.

MR. CHILDS: I didn't ask anything about this on redirect. I don't think it's appropriate additional cross-examination.

CHAIRMAN JOHNSON: Sir?

MR. BREW: I was just trying to get a clarification as to the numbers that the Staff was using so there's no confusion.

CHAIRMAN JOHNSON: So this is a clarification of some of the questions that Staff asked?

MR. BREW: That's correct.

CHAIRMAN JOHNSON: I'm going to allow that clarification, and if prompts you, Mr. Childs, to have another question, I'll entertain that also.

Q (By Mr. Brew) The question, Mr. Gower, was, with respect to the '96 actuals, was that the minimum amount under the '95 plan or was it something greater than that?

A I don't know the answer to that, Mr. Brew. I'll have to check that and provide you that information.

Q Thank you.

And also for '97, do you know if the company --

the 162 million I understand it is the minimum amount to be taken under the plan?

A I believe that is, that's right.

Q And that's the variable component?

A No, it would be both the fixed and the variable.

Q Both the 30 million fixed and the variable?

A No, the 83 plus 50 percent of the difference between actual and most likely.

Q That's why I wanted to ask the clarification. When we referred to the fixed component in the '95 plan, there was a $30 million fixed amortization. There was a -- and the variable part was two parts, is that correct, the $83 million part between the low band and the most-likely forecast and at least 50 percent above the most-likely forecast?

A I may not have described it correctly, but the 83 million, the difference between the low band and most-likely, I also considered that to be fixed.

Q Okay. So I'm just trying to clarify -- the numbers shown here, they are the variable component including the 83 million or not including the 83 million?

A Including the 83.

Q Okay. And is the 162 for the '97 forecast the variable component including the 83 at the 50 percent level?

A Yes, sir.

Q Okay. Do you know if the company's expected write-offs are in excess of that number?

A No --

MR. CHILDS: Objection. I don't think that's a clarification. We've been through it at length.

CHAIRMAN JOHNSON: I'm going to allow the question. Go ahead.

MR. BREW: I heard some confusion based on the discussion with Staff, and I'm just trying to clarify.

MR. CHILDS: Well, I don't want to belabor it, but I thought you got the one chance, and that's why I was commenting.

CHAIRMAN JOHNSON: Okay. Go ahead and ask the question.

Q (By Mr. Brew) It was very simple.

Was the 162 the -- is the expected charges under the plan in '97 expected to be greater than the amounts shown there?

A Not to my knowledge.

MR. BREW: Okay.

CHAIRMAN JOHNSON: Mr. Childs, any questions?

MR. CHILDS: (Mr. Childs shakes his head.)

CHAIRMAN JOHNSON: You're excused.

I'm sorry. Staff, did you have -- you were --

MR. CRUZ-BUSTILLO: No, Commissioner.

CHAIRMAN JOHNSON: Okay.

MR. CRUZ-BUSTILLO: No, ma'am.

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(Transcript continues in sequence in Volume II.)