

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Petition for approval of Storm
Cost Recovery Clause for Extraordinary
Expenditures Related to Hurricanes
Charley, Frances, Jeanne, and Ivan.**

DOCKET NO. 041272-EI
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**DIRECT TESTIMONY
OF STEPHEN A. STEWART**

**ON BEHALF OF
BUDDY L. HANSEN AND THE SUGARMILL WOODS CIVIC
ASSOCIATION, INC. (COLLECTIVELY "SUGARMILL WOODS")**

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1 responsible for evaluating and analyzing public programs to determine their impact and
2 cost-effectiveness.

3 In October 1991, I accepted a position with the Office of Public Counsel (“Public
4 Counsel”) with the responsibility for analyzing accounting, financial, statistical,
5 economic and engineering data of Florida Public Service Commission (“Commission”)-
6 regulated companies and for identifying issues and positions in matters addressed by the
7 Commission. I left the Public Counsel in 1994 and worked as a consultant for the Florida
8 Telephone Association for one year.

9 Since 1995 I have been employed by two privately held companies, United
10 States Medical Finance Company (“USMED”) and Real Estate Data Services Inc. I
11 worked with USMED for approximately four years as Director of Operations. I founded
12 Real Estate Data Services in 1999 and I am currently its President and CEO.

13 Over the last five years I have also worked for the Public Counsel on a number of
14 utility related issues.

15
16 **Q. What is the purpose of your testimony?**

17 A. I am appearing on behalf of the Sugarmill Woods in opposition to PEF’s request.
18 The purpose of my testimony is to explain why PEF’s request is fundamentally unfair and
19 why the Commission should reject it.

20
21 **Q. What is PEF asking for in the petition?**

22 A. PEF is seeking Commission approval of a storm cost recovery clause that will
23 allow it to collect \$251.9 million, plus interest, from its customers, over a two-year

1 period, to “recover extraordinary expenditures related to Hurricanes Charley, Frances,
2 Jeanne, and Ivan” during 2004. If approved by the Commission, these monthly
3 surcharges will be in addition to PEF’s base rates and other current cost recovery clauses
4 and will be allowed without regard to PEF’s profit levels.
5

6 **Q. What does PEF offer as support for this recovery?**

7 A. From my review of the testimony filed by PEF and its petition, the recovery is
8 based on the fact that the expenses are claimed to be prudent and are claimed to be
9 allowed pursuant to the Commission’s decision in 1993 that established a Storm Reserve
10 Fund.
11

12 **Q. Why is it your position the petition should be rejected?**

13 A. I believe the surcharge recovery sought by PEF in this case should be rejected
14 because it would effectively transfer all risk associated with storm damage directly to
15 ratepayers, thus completely insulating the utility and its shareholders from the clearly
16 foreseeable business risk of facing hurricanes in Florida. Additionally, the requested
17 surcharges should be denied because they do not take into account whether requiring the
18 utility and its shareholders to bear all or a portion of the storm damage recovery costs
19 would allow it to remain within the range of reasonableness on its allowed return on
20 equity.
21

1 **Q. Is it your position that PEF's customers should pay no portion of the utility's**
2 **expenses for the recovery for the four hurricanes that struck its service territory**
3 **during 2004?**

4 A. No, that is not my position. Rather, I believe the prior orders of this Commission
5 on the subject of storm damage recovery require the utility in question, and its
6 shareholders, to share in the business risk of hurricane exposure in Florida and to bear a
7 portion of the recovery costs, so long as doing so does not force the utility to fall below
8 the minimum of its last approved range on return on equity. Aside from being consistent
9 with the Commission's prior orders, such a result seems entirely fair to me given that
10 many of PEF's customers suffered not only a loss of electric service during these four
11 hurricanes, but the additional financial loss associated with loss of perishable foods and
12 other inventory, loss or damage to a residence or business, which, even if covered by
13 insurance, involved the payment of one or more deductibles. Few of PEF's customers
14 were completely isolated from the financial consequences of these hurricanes and it is
15 simply unfair to conclude that the customers should bear even greater expense solely so
16 PEF and its shareholders are completely insulated and suffer no financial loss. Again,
17 aside from being blatantly unfair, such an outcome appears to be clearly inconsistent with
18 the Commission's precedents on the subject.

19 I think it would be consistent with prior Commission orders for PEF to charge the
20 total storm recovery expense to the storm fund balance and then amortize the balance
21 over five years. However, I believe the more preferable course of action would be for the
22 Commission to address the portion of storm damages to be borne by the utilities'
23 shareholders and customers in PEF's base rates case, which will be filed shortly. In that

1 way, the appropriate amount for the annual accrual would be factored into base rates and
2 no surcharge would be required.

3 I should add that the obvious first step the Commission should take is a thorough
4 review of all of PEF's expenses claimed to be associated with storm recovery to ensure
5 that each dollar was spent solely for storm recovery and not operation and maintenance
6 expense or capital assets more properly included in base rates. Once the review to
7 determine that the expenses were "necessary" to storm recovery is accomplished, the
8 Commission should ensure that the amounts paid were reasonable and prudent under the
9 circumstances. My assignment did not include reviewing the necessity, reasonableness
10 and prudence of the claimed storm recovery expenses.

11
12 **Q. Do you believe there is any prior Commission order or rule cited by PEF that**
13 **warrants the surcharge recovery sought by PEF?**

14 A. No, I believe the Commission's rules and prior orders actually argue against the
15 utility-biased result requested. For example, in Order No. PSC-93-1522-FOF-EI, the
16 "Order Granting Request To Self-Insure," the Commission noted that PEF's storm
17 damage reserve balance had been entirely depleted on two occasions and was allowed to
18 recharge through base rates without dollar for dollar surcharges being levied on its
19 customers. Specifically, the Commission stated at Page 4 of that order:

20 Exhibit JS-1, Part C, attached to the testimony of John
21 Scardino, presents a summary of storm damage experience from
22 the period 1973-1993. The reserve balance remained at
23 \$1,643,000 from 1981 to 1985, when it was completely wiped out
24 by \$4,440,000 in storm damage from hurricanes Elena and Kate.
25 The reserve was rebuilt to \$4,244,000 by 1992, and was then
26 depleted by the October 1992 tornadoes followed by the March
27 1993 "storm of the century."

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Thus, it appears the storm damage reserve balance historically was funded by an annual accrual approved typically during the course of a base rate proceeding. Approved storm expenses were charged against the balance with the result that PEF's balance was "wiped out" on at least two occasions after which it was replenished at the rate of the approved annual accrual. In the case of Gulf Power Company, which I will discuss below, the storm damage reserve balance was allowed to go "negative" without that utility receiving a surcharge outside base rates. The Commission's overall decision in that Gulf Power Company case was clearly driven by a consideration of the impact of the storm expense on the utility's earnings. Furthermore, other Commission orders on the subject, particularly with respect to Florida Power & Light Company ("FPL"), state that the utility should not be isolated from the financial impacts of storms and that, consequently, their earnings must be taken into consideration.

Q. What conclusions do you draw from Order No. PSC-93-1522-FOF-EI with respect to the manner in which storm damage was paid for through the utility's rates?

A. First, it appears the storm damage reserve balance was "financed" through a charge to base rate revenues and not through a special surcharge to customers. After 1988, the effective date of Rule 25-6.0143, F.A.C., it appears that storm and other losses not covered by insurance would be charged to Account No. 228.1 Accumulated Provision for Property Insurance. With respect to the level and annual accrual rate for account, the rule provides:

1 (4)(a) The provision level and annual accrual rate for each
2 account listed in subsections (1) through (3) shall be evaluated at
3 the time of a rate proceeding and adjusted as necessary. However,
4 a utility may petition the Commission for a change in the provision
5 level and accrual outside a rate proceeding.
6

7 I interpret this rule to mean that a utility could seek a change in the provisional level and
8 annual accrual rate either during the course of a rate proceeding or outside of one. If
9 within a rate proceeding, the Commission would presumably allow the new annual
10 accrual rate in the total annual revenues approved during the rate proceeding. If changes
11 were sought and approved outside a rate proceeding, there is nothing in the rule to
12 suggest customer surcharges would be approved. Rather, as in the Gulf Power case, it is
13 likely that the increased accrual would be taken against the utility's profits.

14 It is worth noting that PEF filed a letter on January 28, 2005 advising the
15 Commission that it would shortly file a base rate increase case for new rates to become
16 effective January 1, 2006. It is not clear to me why the storm damage surcharge issue
17 should not be rolled into the full rate case so that the Commission might consider the
18 implications of each in the same proceeding.
19

20 **Q. Why is it important that the Commission consider PEF's earnings in**
21 **evaluating the petition?**

22 A. Citing from Commission Order Number PSC-93-1522-FOF-EI:

23 If FPC experiences significant storm related damage, it can petition for
24 appropriate regulatory action. In the past, this Commission has allowed recovery
25 of prudent expenses and has allowed amortization of storm damage expenses.
26 Extraordinary events such as hurricanes have not caused utilities to earn less than
27 a fair rate of return. FPC shall be allowed to defer storm damage loss over the
28 amount in the reserve until we act on any petition filed by the company.
29 (Emphasis supplied)

1 This language is rather clear in indicating that PEF has not only the burden of proving
2 storm expenses incurred were necessary, prudent and reasonable in their amount, but that
3 the financial accounting for those expenses would result in less than a fair rate of return
4 for the utility if it was not allowed to surcharge its customers for the total. PEF does not
5 address this point in its petition. Rather PEF is seeking to have the storm expense item
6 considered in isolation from any of its other financials.

7 Additionally, the above language of the order indicates that the main goal of the
8 Commission was to assure PEF that any extraordinary expenses associated with storm
9 damage would not cause it to earn less than a fair rate of return. The goal was not to
10 provide a dollar for dollar pass through that would insulate PEF from the financial effects
11 of the storms and maintain its earnings to the sole benefit of its shareholders.

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14 **Q. Are you aware of other Commission orders stating that utilities should not**
15 **be provided with a dollar for dollar pass through that transfers the complete risk**
16 **for extraordinary storm damage losses to their customers?**

17 A. Yes, there are the FPL and Gulf Power Company orders I mentioned
18 above. PEF cites the FPL order in its petition, but neglects to quote Commission
19 language that argues against the full relief it seeks. Specifically, in Order No. PSC-93-
20 0918-FOF-EI, issued June 17, 1993, the Commission authorized FPL to begin a self-
21 insurance plan for storm damage and to re-establish annual funding of its storm damage
22 reserve. In rejecting a specific Storm Loss Recovery Mechanism proposed by FPL, the
23 Commission stated its unwillingness to shift storm damage costs fully on the backs of
24 customers, saying:

1 FPL seeks approval for a Storm Loss Recovery Mechanism that
2 would guarantee 100% recovery of expense from ratepayers, over
3 and above the base rates in effect at the time of implementation.
4 This would effectively transfer all risk associated with storm
5 damage directly to ratepayers, and would completely insulate the
6 utility from risk. We decline to approve such a mechanism at this
7 time. (Emphasis supplied.)
8
9

10 **Q. By stating “decline to approve such a mechanism at this time” it appears the**
11 **Commission left the door open for completely insulating utilities from storm risks in**
12 **the future. Do you think that is the case?**

13 A. No. While the above quote may appear ambiguous on the issue of subsequently
14 insulating electric utilities completely from business risks, including those associated
15 with storms, the statement should be considered in the context of the rest of language of
16 the order and subsequent Commission orders on the subject. For example, the text
17 immediately following the quote above makes clear, in my view: (1) that the Commission
18 has never contemplated completely insulating utilities from business risks, including
19 storm damages; and (2) that it was unlikely to approve recovery of storm damage
20 expenses through an ongoing cost recovery clause. Specifically, the Commission stated:

21 FPL’s cost recovery proposal goes beyond the substitution
22 of self-insurance for its existing policy. The utility wants a
23 guarantee that storm losses will have no effect on its earnings. We
24 believe it would be inappropriate to transfer all risk of storm loss
25 directly to ratepayers. The Commission has never required
26 ratepayers to indemnify utilities from storm damage. Even with
27 traditional insurance, utilities are not free from this risk. This type
28 of damage is a normal business risk in Florida.
29

30 FPL’s proposal does not take into account the utility’s
31 earnings or achieved rate of return. If the company was already
32 earning an adequate return on equity, its storm-related expenses
33 could be amortized in whole or in part over five years. If the
34 magnitude of the loss is great, the utility could draw on its line of

1 credit and then petition the Commission to act quickly to allow
2 expense recovery from ratepayers.

3
4 Storm repair expense is not the type of expenditure that the
5 Commission has traditionally earmarked for recovery through an
6 ongoing cost recovery clause. Conservation, oil backout, fuel and
7 environmental costs are currently recoverable under Commission
8 created cost recovery clauses. These expenses are different from
9 storm repair expense in that they are ongoing rather than sporadic
10 expenditures.

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12 * * *

13
14 Therefore, we decline to authorize the implementation of a
15 Storm Loss Recovery Mechanism, in addition to the base rates in
16 effect at the time, for the recovery, over a period of five years, of
17 all prudently incurred costs in excess of the reserve to repair or
18 restore T&D facilities damaged or destroyed by a storm.

19
20 If a hurricane strikes, FPL can petition at that time for
21 appropriate regulatory action. In the past, we have acted
22 appropriately to allow recovery of prudent expenses and allowed
23 storm damage amortization. We do not believe that regulated
24 utilities should be required to earn less than a fair rate of return
25 because of extraordinary events such as hurricanes or storms.
26

27 Pages 5-6, Order No. PSC-93-0918-FOF-EI (Emphasis supplied.)

28
29 **Q. Aside from making clear that the Commission would not transfer all risks of**
30 **storm loss directly to ratepayers so that there would be no effect on a utility's**
31 **earnings, the Commission appears to also state directly that earnings must be**
32 **considered when allowing a utility to pass all or a portion of storm costs on to its**
33 **customers. Is this conclusion consistent with your view?**

34 A. Yes, while the quoted language above clearly states that a utility should not "be
35 required to earn less than a fair rate of return because of extraordinary events such as
36 hurricanes or storm," the requirement to consider earnings when determining what

1 portion of storm expenses to pass along to customers was clearly stated as well. While
2 the Commission did not have to reach a decision on the point in the FPL case, it said, at
3 Page 6 of Order No. PSC-93-0918-FOF-EI:

4 Given our decision not to authorize implementation of a Storm
5 Loss Recovery Mechanism, we find that the issue of whether FPL
6 should [be] authorized to increase customer rates if its earned
7 return on equity is within the allowed range is moot.
8 (Emphasis supplied.)

9 Furthermore, aside from being fundamentally fair, requiring a utility's shareholders to
10 bear storm expenses, so long as its return on equity would remain within the allowed
11 range, is merely the flip side of the advantage the Commission gave FPL in the reported
12 case when its expenses were reduced by the Commission for a specific cause.

13
14 **Q. What are you referring to?**

15 A. As reflected on Page 7 of Order No. PSC-93-0918-FOF-EI, the Commission had
16 earlier, in Order No. 24728, issued July 1, 1991, allowed FPL to discontinue its annual
17 charge to its storm reserve fund in the amount of some \$3 million, while it declined at the
18 same time to require FPL to reduce its annual revenues by the same \$3 million. The
19 result, of course, was that the Commission specifically allowed FPL to continue to
20 recover from its customers revenues for a \$3 million expense it no longer would incur by
21 virtue of Commission action. Within the context of that one issue, the utility's profits, or
22 return on equity, would necessarily have to increase. Requiring utilities and their
23 shareholders to bear the business risks of hurricanes in the State of Florida by absorbing
24 the costs of such storms is fair in my view, so long as the utility will still earn within its
25 authorized range on equity.

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Q. How does the Commission’s treatment of Gulf Power Company’s 1995 storm recovery request support your view of the limits on surcharges that should be borne by customers?

A. In 1995, after experiencing over \$25 million in damages from Hurricanes Erin and Opal, Gulf Power sought permission to increase its annual accrual from \$1.2 million to \$3.5 million beginning in 1996 and to amortize approximately \$9 million of the hurricane related expenses to the accumulated provision account over the five-year period from 1996-2000. It also sought permission to apply any earning over 12.75 percent return on equity for calendar year 1995 to the accumulated provision account. The Commission approved the request to increase the annual accrual to \$3.5 million but denied Gulf Power’s request to increase the annual accrual effective January 1, 1996 and instead required it to make the change effective January 1, 1995 (that is to backdate it to the first of the then current year) because the storm recovery costs would not be “expensed” to that year, as feared by Gulf Power, but merely charged to the accumulated provision account. Specifically, the Commission said:

The Company is not required to expense the \$9 million in 1995 because the Commission Rule 25-6.0143(4)(b), Florida Administrative Code, entitled “Use of Accumulated Provision Accounts 228.1, 228.2, and 228.4” states that:

. . . Charges shall be made to accumulated provision Accounts regardless of the balance in those accounts.

When the Commission considered this rule, we realized that there could be times when charges to the accumulated provision account could exceed the balance in the account, resulting in a negative balance.

4 **Q. Aside from the Commission clearly recognizing that the accumulated**
5 **provision account could have a negative balance, what other Commission**
6 **precedents do you find in that order?**

7 A. The Commission stated that a utility, Gulf Power in that case, could address the
8 negative balance by giving it the flexibility to increase its annual accrual above the \$3.5
9 million already approved, when it believed its earnings would allow it to do so. That is,
10 Gulf Power could bring its accumulated provision account positive and to a more
11 reasonable level, but by use of its profits, not by either raising its base rates immediately
12 or by surcharging its customers. Specifically, the Commission addressed the point at

13 Page 4, Order No. PSC-96-0023-FOF-EI:

14 After charging the accumulated provision account for
15 actual hurricane related expenditures, a negative balance will
16 result. Even with the approval of the increase in the annual accrual
17 to \$3.5 million, effective October 1, 1995, the accumulated
18 provision account will have a negative balance until late 1997,
19 assuming no further charges are made due to future storm activity.
20 This obviously is not desirable since the Company is in a self-
21 insurance position. Therefore, we find it appropriate to allow the
22 Company the flexibility to increase its annual accrual to the
23 accumulated provision account when the Company believes it is in
24 a position, from an earnings standpoint, to do so. Once the
25 accumulated provision account balance reaches \$12 million or
26 such other level approved by us, the Company shall not increase its
27 accrual above the annual accrual amount last approved by the
28 Commission. (Emphasis supplied.)
29

30 If the lesson, or holding, of the above Gulf Power Company case were applied to PEF's
31 petition, it strikes me that the Commission would properly allow PEF to determine the
32 level of accrual to accumulated provision for 2004 and 2005 that it believes it is in a

1 position to support, “from an earnings standpoint,” and without any surcharges to its
2 customers.

3
4 **Q. When would the Commission determine the appropriate level of annual**
5 **accrual on a going forward basis?**

6 A. I believe the most appropriate time would be in connection with the base rates
7 case PEF has announced it will file shortly and which necessarily must be heard before
8 the end of 2005 for the new rates to become effective January 1, 2006. Considering the
9 annual accrual level in the context of revenue or expense factors that might benefit the
10 customers would be fair for the customers and utility and a most efficient use of the
11 Commission’s time.

12
13 **Q. How does the regulatory action requested in PEF’s petition differ from the**
14 **comprehensiveness review of a utilities financial condition, which takes place during**
15 **a rate case?**

16 A. In PEF’s petition, its seeks to avoid a comprehensive review of the utility’s
17 financial condition and have just one expense, which is unfavorable to ratepayers,
18 evaluated in isolation without review of other factors that may be favorable to ratepayers.

19
20 **Q. Is this fair to ratepayers?**

21 A. No. It is blatantly unfair to ratepayers.

22

2 **Q. Are there any examples of where the Commission considered a company's**
3 **earnings to determine how an extraordinary base rate expense item should be**
4 **treated?**

5 **A. Yes.** As mentioned briefly above, in 1986 the Federal Government lowered the
6 corporate tax rate from 46% to 34%. This change took effect in 1987 by lowering the tax
7 expense of utilities across the nation. In Florida, the Commission issued Order No.18340,
8 which addressed this issue. Specifically, the Commission stated:

9 As with many other utilities, the currently authorized rates of these
10 three electric utilities reflect federal income tax expense at the 46%
11 rather than at the 34% rate effective since July 1, 1987. Rule 25-
12 14.003, Florida Administrative Code (the tax savings rule) allows
13 utilities to keep "tax savings" resulting from reduced corporate
14 income tax rates so as their retention does not cause a utility's
15 earned rate of return to exceed the "midpoint" of the overall rate of
16 return approved by the Commission in that utility's last rate case.

17 **Q. Did the action by the Commission result in a dollar for dollar pass through of**
18 **the reduction in tax expense to the ratepayer?**

19 **A. No.** As mentioned above, the regulatory action ordered by the Commission took
20 into account the overall earnings by the utilities and refunded only the amount of expense
21 reduction that would allow the utilities to continue to earn the midpoint of a fair rate of
22 return on equity.

23
24 **Q. How was the tax expense reduction handled for PEF?**

25 **A. In Order No. 16862, the FPSC approved a settlement between the parties that**
26 **based a refund to the consumers on the midpoint of a fair return on equity, not on a dollar**
27 **for dollar pass through.**

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Q. What are the differences between the extraordinary change in expenses as a result of the reduction in taxes in 1986 and extraordinary change in expenses as result of the hurricanes in 2004?

A. First, from a financial perspective, the tax rate reduction should have favored the consumers more and the proposed storm expense recovery favors PEF. Second, the tax reduction was a recurring expense, while the storm expense is a non-recurring expense. One characteristic that is common with both expenses is that they were out of the control of the utilities.

Q. If the Commission granted PEF's petition could this be interpreted as a double standard with regards to addressing the regulatory action concerning extraordinary changes in base rate expenses?

A. Yes. Based on prior cases, a double standard would exist. This double standard could be summed up this way: When regulatory action is sought to address extraordinary changes in a base rate expense, utility earnings are evaluated to limit the amount of the refund when the change benefits the ratepayer, but utility earnings are not evaluated to limit the amount of expense recovered by a utility when the change benefits the utilities. Layman might think of it in a "Heads the utilities win, tails the customer lose" perspective.

1 **Q. Does a review of the complete financial picture of PEF’s operations indicate**
2 **there are other factors that are favorable to ratepayers that should be considered in**
3 **any proceeding addressing the recovery of storm expenses?**

4 A. Yes. In this case, PEF seeks to have the recovery of just one expense, which is
5 unfavorable to ratepayers, evaluated in isolation without review of other factors that may
6 be favorable to ratepayers. There are a number of financial conditions that exist, if
7 considered in this case would favor the ratepayers. They are as follows:

- 8 1. According to financial reports filed by PEF with the Commission, PEF is
9 currently earning a 13.6% return on equity. I am not a cost of capital expert,
10 however, I think most observers would agree that a 13.6% return on equity in
11 the current economic environment is high.
- 12 2. Over the period of the July 1, 2004 to September 30, 2004, PEF revenues,
13 excluding recoverable fuel and other pass through revenues, increased \$22
14 million over the same period in 2003. The increase was attributed to favorable
15 customer growth and – interestingly enough – “favorable weather.” The report
16 did indicate the increase was offset by \$12 million in lost sales due to the
17 hurricanes. (Source: FORM 10-Q FLORIDA POWER CORP/-FLPWO,
18 Filed: November 9, 2004 (period: September 30, 2004))
- 19 3. For the nine months ending September 30, 2004, PEF revenues increased \$40
20 million over the same period in 2003. (Source: FORM 10-Q FLORIDA
21 POWER CORP/-FLPWO, Filed: November 9, 2004 (period: September 30,
22 2004))

1 4. PEF is engaged in franchise litigation that could result in significant gains on
2 sale as early as the summer of 2005. (Source: FORM 10-Q FLORIDA
3 POWER CORP/-FLPWO, Filed: November 9, 2004 (period: September 30,
4 2004))

5
6 **Q. For the Commission to be consistent in handling extraordinary changes to**
7 **base rate expenses, what would have to happen in this case?**

8 A. To be consistent and fair to consumers, the storm expense incurred by PEF would
9 have to be amortized over an appropriate time period (perhaps five years) and then the
10 amount of the recovery would be determined, not based on the amount that PEF spent,
11 but the amount that would result in PEF earning at the minimum, or floor, of a fair rate of
12 return on equity.

13
14 **Q. If the Commission resolves this issue based on the principle you described**
15 **above, what would be the result?**

16 A. PEF would recover enough prudently incurred expenses to earn a fair rate of
17 return. The decision would balance the interests of the consumers and utilities and
18 effectively result in a sharing arrangement in handling the extraordinary expenses
19 associated with the storms of 2004.

20
21 **Q. Is appropriate for PEF to share in the costs of the recovery?**

22 A. Most definitely. PEF takes huge advantage of the benefits of operating a
23 monopoly in the State of Florida. These benefits include high customer growth rates, low

1 labor costs, and favorable weather. It is only fair that PEF share in the costs of hurricane
2 recovery efforts.

3
4 **Q. If the Commission grants the request by PEF, what would be the result from**
5 **the consumer perspective?**

6 A. First, consumers would rightly argue the Commission has a double standard when
7 it comes to evaluating extraordinary changes in base rate expenses. Second, the
8 Commission could put PEF in an over earnings condition. Third, consumers would
9 question why the Commission did not ask PEF to share in some of the costs of the
10 recovery.

11
12 **Q. Does this conclude your testimony?**

13 A. Yes.