

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **SUPPLEMENTAL DIRECT**

4 **TESTIMONY OF K. MICHAEL DAVIS**

5 **DOCKET NO. 041291-EI**

6

7 **Q. Please state your name and business address.**

8 A. My name is K. Michael Davis. My business address is 9250 West Flagler Street,
9 Miami, Florida 33174.

10

11 **Q. Did you previously submit direct testimony in this proceeding?**

12 A. Yes.

13

14 **Q. What is the purpose of this supplemental direct testimony?**

15 A. I am updating the estimate of storm damage costs that was provided in my direct
16 testimony.

17

18 **Q. Are you sponsoring any exhibits?**

19 A. Yes. I am sponsoring Revised Exhibit KMD-1 which shows updated estimated storm
20 damage costs by hurricane and cost category, net of expected insurance
21 reimbursement. This revised exhibit was provided to Staff and the parties at my
22 deposition on January 28, 2005. I also am sponsoring Exhibit KMD-2 which shows

1 the portion of each storm cost category that is based on actual invoices and the
2 amount that still represents an estimate.

3
4 **Q. Please describe the updated estimate of storm damages and describe what has**
5 **changed.**

6 A. My direct testimony provided an estimate of storm damages of approximately \$818
7 million. The Company estimated insurance reimbursement of \$108 million for non-
8 transmission and distribution property. Consequently, the total amount charged to the
9 reserve was \$710 million on a total system basis.

10
11 The estimate for total storm damages has increased by \$180 million. The Company
12 estimates total storm damages at \$998 million. The insurance reimbursement
13 estimate is unchanged at \$108 million. The total amount charged to the reserve is
14 now \$890 million. Revised Exhibit KMD-1 shows the breakdown of the \$890
15 million by category and by storm.

16
17 Further detail regarding the \$890 million storm damage cost is provided in Exhibit
18 KMD-2. This exhibit shows the portion of each storm cost category that is based on
19 actual invoices and the amount that still represents an estimate. As shown in KMD-2,
20 approximately 93% of the total estimated cost of \$890 million is based on actual
21 payments, invoices or direct contact with the applicable vendor.

22

1 The \$890 million storm damage cost, net of the storm reserve positive balance of
2 \$354 million at December 31, 2004, results in a deficiency of \$536 million on a total
3 system basis (an increase of \$180 million from the estimated system deficiency of
4 \$356 million in my direct testimony). The jurisdictional portion of the deficiency is
5 approximately \$533 million (an increase of \$179 million from the estimated
6 jurisdictional deficiency of \$354 million in my direct testimony).

7

8 **Q. What has caused the change in estimated storm damages?**

9 A. The severity of the hurricanes required the Company to request assistance from
10 foreign utilities located well beyond the usual geographic area for which the
11 Company had past cost data. Invoices received have exceeded the projections for
12 foreign utility expense underlying the October 31, 2004 estimate. In addition,
13 contractor expenses exceeded original estimates because the follow-up work was
14 greater than originally estimated. The combined effect of these two categories is the
15 primary reason for the increase in total estimated storm damages.

16

17 **Q. Is FPL proposing a change in the level of the surcharge?**

18 A. No. As described in FPL's original petition, FPL proposed that the Commission enter
19 an order allowing FPL to recover over a two-year period, subject to true-up, an
20 amount equal to the difference between the amount in the Storm Reserve as of August
21 31, 2004, adjusted for the monthly storm fund accruals and the storm fund earnings
22 through the period September 1, 2004 to December 31, 2004, and the actual amount
23 of prudently incurred storm restoration costs associated with storms occurring during

1 the calendar year 2004, net of insurance proceeds, (the “Storm Reserve Deficit” or
2 “Deficit”). With the updated estimate provided in this testimony, FPL anticipates the
3 deficiency at the end of the two years will approximate the annual amount recovered
4 by the Storm Restoration Surcharge. For this reason, FPL is proposing the
5 continuation of the Storm Restoration Surcharge, at the current level, for an additional
6 year or such shorter period as is necessary to recover the Storm Reserve Deficit.

7

8 **Q. Does this conclude your supplemental direct testimony?**

9 A. Yes, it does.

10

Hurricane Restoration Costs by Storm and Cost Category*

<u>Cost by Category</u>	<u>Charley</u>	<u>Frances</u>	<u>Jeanne</u>	<u>TOTAL</u>
FPL Payroll	\$ 33,338,041	\$ 46,266,674	\$ 30,255,959	\$ 109,860,674
Contractor & Foreign Utility	155,981,630	199,366,783	225,306,045	580,654,459
Vehicle & Fuel	6,241,375	5,602,003	7,696,463	19,539,841
Materials	21,068,954	20,310,709	12,319,157	53,698,820
Logistics	25,974,555	28,306,822	37,529,899	91,811,276
Other	9,046,761	16,176,197	9,211,972	34,434,931
TOTAL	\$ 251,651,317	\$ 316,029,188	\$ 322,319,495	\$ 890,000,000 **

* These costs are net of the expected insurance reimbursement of \$108 million.

** represents update of the estimated costs. Amounts reflected per storm may vary as contractors and foreign utility invoices are paid. Also, totals may not add due to rounding.

FPL Storm Cost Estimate Combined for Charley, Frances, and Jeanne ^(Notes 1,2)

(\$ Millions)

Resource Deltas by Category:

	12/31/04 Actuals ^(Note 3)	Invoices ^(Note 4)	Pending ^(Note 5)	Remaining Work ^(Note 6)	1/19/05 Estimate
FPL Payroll	\$ 108.7	\$ 0.1	\$ -	\$ 1.0	\$ 109.9
Contractor & Foreign Utility	\$ 341.5	\$ 176.3	\$ 22.2	\$ 40.6	\$ 580.7
Vehicle & Fuel	\$ 19.2	\$ 0.3	\$ -	\$ -	\$ 19.5
Material	\$ 52.5	\$ 1.2	\$ -	\$ -	\$ 53.7
Logistics - Non Contractor	\$ 76.3	\$ 15.5	\$ -	\$ -	\$ 91.8
Other	\$ 31.7	\$ 1.0	\$ -	\$ 1.8	\$ 34.4
Total ^(Note 7)	\$ 629.9	\$ 194.5	\$ 22.2	\$ 43.4	\$ 890.0

¹ Analysis is as of 1/19/05, including actual amounts recorded as of 12/31/04.

² Totals may not add due to rounding.

³ Represents actual amounts paid or scheduled for payment to employees and vendors for goods and services already consumed in storm restoration activities, as of 12/31/04.

⁴ Represents accruals for actual invoices received, but not entered into the accounting systems, or balances due confirmed with the applicable vendor through 1/19/05.

⁵ Represents estimates of remaining amounts due for work performed through 12/31/04.

⁶ Represents estimates of post-storm corrective work not completed before 12/31/04 (e.g. lines reconnected through temporary means immediately following storm; permanent or corrective work required thereafter).

⁷ Actuals and Invoices represent 93% of the total estimate.