BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 050045-EI
FLORIDA POWER & LIGHT COMPANY

MARCH 22, 2005

IN RE: PETITION FOR RATE INCREASE BY
FLORIDA POWER & LIGHT COMPANY

TESTIMONY & EXHIBITS OF:

ARMANDO J. OLIVERA

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DIRECT TESTIMONY OF ARMANDO J. OLIVERA

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Q. Please state your name and business address.

A. My name is Armando J. Olivera. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (FPL or the Company) as President.

Q. Please describe your duties and responsibilities in that position.

A. I have overall responsibility for the operations of the Company.

Q. Please describe your educational background and business experience.

A. I have a Bachelor of Science degree in electrical engineering from Cornell University and a Master of Business Administration from the University of Miami. I am also a graduate of the Professional Management Development program of the Harvard Business School. I was named President of FPL in 2003. My professional background is described in more detail in Document No. AJO-1.

Q. Are you sponsoring an exhibit in this case?

A. Yes. I am sponsoring an exhibit consisting of one document, AJO-1, which is attached to my direct testimony.

Q. Are you sponsoring or co-sponsoring any MFRs in this case?

A. Yes, I am co-sponsoring the following MFR:

C-18, "Lobbying Expenses, Other Political Expenses and Civic/Charitable Contributions."

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to introduce the witnesses who have filed testimony on FPL's behalf, and to provide an overview of the Company's filing and its position in this case.

Q. Please identify FPL's witnesses and summarize the purpose of the testimony filed on FPL's behalf in this proceeding.

A. The testimony submitted by the other witnesses on behalf of FPL in this proceeding is offered to explain and support:

1) FPL's Minimum Filing Requirements (MFRs) which demonstrate the need for an increase in base rates for 2006;

2) The 2007 Turkey Point Unit 5 Adjustment schedules and FPL's 2007 Forecast schedules that reflect the need for a further base rate increase in 2007 to take into account the completion and placement into service of Turkey Point Unit 5;

3) An authorized rate of return on equity (ROE) based on a midpoint of 12.30 percent which includes a performance incentive of 50 basis points;

4) Adjustments that the Florida Public Service Commission (FPSC or the Commission) requires the Company to make or should allow to be made in establishing FPL's rates; and

5) The proposed rate schedules that implement the requested rate relief and which improve the differences among the rates of return of various rate classes.

Following is a listing of the Company's witnesses and the areas addressed in the testimony of each of those witnesses:

- Moray P. Dewhurst – Need for requested revenue increase, ROE, capital structure, adjustment to ROE to reflect superior performance, insurance costs and storm fund requirements;
- K. Michael Davis – Calculation of the 2006 and 2007 revenue requirements and requested revenue increase, accounting issues and Company adjustments;
- Leonardo E. Green, Ph. D. – Sales and load forecast;
- J. A. Stall – Nuclear cost and performance;
- William L. Yeager – Power Generation cost and performance and new generation capital and operating costs;
- C. Martin Mennes – Power Systems Transmission cost and quality of service;
- Geisha J. Williams – Power Systems Distribution cost and quality of service;
- Marlene M. Santos – Customer Service cost and quality of service;
- Robert H. Escoto – Human Resources costs and benefits;
- John H. Landon, Ph. D., Analysis Group Inc. – FPL's operational and financial performance relative to industry benchmarks;
- Solomon L. Stamm – FPL's financial forecast;
- Michael E. Barrett, Ernst & Young, LLP – Independent review of FPL's forecast and validity of forecasting methods and results;

- Steven P. Harris, ABS Consulting – Storm reserve;
- William E. Avera, Ph. D., Financial Concepts and Applications, Inc. – ROE, capital structure and adjustment to ROE to reflect superior performance; and
- Rosemary Morley – Cost of service and rate design.

Q. Please summarize the Company's position in this case.

A. FPL has worked extremely hard over the years to avoid a base rate increase while providing safe and reliable electric service. At the same time, FPL has invested billions of dollars in new generating facilities, transmission lines, distribution lines and other infrastructure necessary to meet huge increases in demand for electricity associated with Florida's burgeoning population and expanding economy. FPL's accomplishments in this respect have been remarkable. As Ms. Morley discusses, FPL has reduced base rates in the last six years by $600 million per year, and provided customers additional refunds of more than $200 million, for total savings of nearly $4 billion (through the end of 2005). Mr. Yeager's testimony reflects that FPL has been able to successfully defer the need for new generating units by improving the performance and availability of the Company's existing fossil fleet. Ms. Williams addresses the superior reliability, customer service and effective cost management provided by the Distribution business unit. And Mr. Stall's testimony reflects that FPL's performance in operating its nuclear units has ranked among the best in the U.S.

We are proud of our record in these and other areas and, therefore, do not take lightly the decision to request an increase in base rates. However, as Dr. Green describes, the needs of FPL's customers for electricity have dramatically expanded since 1985, the last time FPL sought an increase in its base rates. Since 1985, FPL has added 1.6 million new customers. Further, customer usage itself has increased, with today's residential customer consuming approximately 30% more electricity on average than a customer in 1985, even taking into account the efficiency improvements in today's household appliances and other electronic devices. As Mr. Stamm testifies, FPL has invested more than $18 billion in new plant and infrastructure to meet these growing needs. It is this continued growth in the demand for electricity and the infrastructure needs associated with meeting that growth in the manner customers expect that require the Company to seek such an increase at this time -- the first such request in 20 years.

In establishing an appropriate rate of return for FPL, the testimonies of Dr. Avera and Mr. Dewhurst reflect that a fair ROE is 11.8%. This assessment is based on the various capital market oriented analyses described in Dr. Avera's testimony, and also considers the potential exposures faced by FPL as well as the economic requirements necessary to maintain access to capital even under adverse circumstances. In addition, the Commission should also consider FPL's significant accomplishments in meeting sustained customer growth with safe, reliable, and reasonably priced electric service. As discussed in the testimony of several FPL witnesses, the Company's performance has been strong over an extended period, and in many instances it has been among the very best in the industry. To recognize the superior performance that FPL has provided and continues to provide, and to send an appropriate message that such performance will be rewarded, thus encouraging continued efforts to maintain operational excellence and efficiencies, the Commission should provide FPL a performance incentive in the form of 50 additional basis points to the midpoint and the range of the Company's authorized ROE; specifically, the Commission should establish a midpoint of 12.3% with a range of 11.3% to 13.3%.

Because of FPL's strong track record and continued commitment to provide safe and reliable electric service at reasonable rates, even with the requested base rate increases in 2006 and 2007, FPL's base rates will remain below what they were in 1999 prior to making the first of two significant base rate reductions, and, in fact, below what they were in 1985, the last time FPL's base rates were increased.

Q. **What specific rate relief is the Company requesting?**

A. FPL is requesting an increase in base rates effective January 1, 2006, to address the need for additional annual base revenues of $385 million. The testimony of Mr. Davis reflects that this amount is net of adjustments made to the recovery of certain costs in the capacity and fuel cost recovery clauses. Thus, as Mr. Davis explains, the total requested increase, taking into account the effect of these proposed company adjustments on the clauses, is $430 million. FPL also is requesting a further base rate adjustment in 2007 to produce an additional $123 million (on an annualized basis) effective upon Turkey Point Unit 5 being placed in service, currently projected to occur June 1, 2007. The testimony of Mr. Davis explains the calculation of the requested increases and adjustments.

Summarized below are the significant cost drivers that have resulted in the need for an increase at this time. These and other areas will be addressed by various witnesses in this case, but the following list provides a sense of the scope of issues and challenges the Company faces:

- The addition of the new Martin and Manatee fossil generating units in 2005 and Turkey Point Unit 5 in 2007;
- Nuclear plant upgrades including the reactor vessel head replacements at St. Lucie and Turkey Point;
- Transmission and Distribution infrastructure needed to serve new customer growth and maintain reliability;
- Increase in the storm reserve accrual;
- Implementation of a peninsular Florida Regional Transmission Organization (RTO); and
- Increases in employee benefit costs such as healthcare.

Q. **How long has it been since FPL last received a base rate increase?**

A. FPL's last increase was in 1985; thus, it will have been over 20 years since FPL last increased base rates until the requested increase takes effect in January 2006. In fact, as Ms. Morley testifies, FPL's current retail base rates are 16% lower than they were in 1985, the last time its base rates were increased, while consumer prices as measured by the Consumer Price Index have increased over 80% during the same period.

Q. How has the Company's service environment changed since 1985?

A. As Dr. Green testifies, the state of Florida has seen significant growth over the past twenty years, and likewise the Company has also experienced tremendous customer and load growth since its last base rate increase in 1985. During the last 20 years, the Company has added 1.6 million new customers, an increase of more than 61%. During this same time frame, total annual peak load increased by 64% while customer kilowatt-hour (kWh) energy usage and summer peak kilowatt (kW) demand both grew by an astounding 93%. As Ms. Williams testifies, every year since 2002 FPL has added in excess of 100,000 customers, the size of an entire small utility. Dr. Green also states that in 2004 alone, FPL's customers set not just one, but six all-time peak records for electricity use on the Company's system.

This major change in the scope of the Company's obligation to serve, moving from a point at which FPL was serving 2.6 million customers in 1985 to meeting the needs of 4.2 million customers in 2004, has required an enormous commitment of resources and capital. To put this in perspective, consider that, as Dr. Landon testifies, there are only 12 electric utilities in the United States other than FPL that have 1.6 million or more customers (as of 2003). Essentially, therefore, since 1985 FPL has added to its system the equivalent of one of the nation's largest electric utilities. In order to support this tremendous increase in its customer base, Mr. Stamm's testimony reflects that the Company has invested over $18 billion in capital expenditures to increase its capability to service

Florida's growing needs, including $3 billion in the construction of new generating capacity and $8 billion in the expansion of FPL's transmission and distribution system. At the same time, the Company has made tremendous strides in productivity and decreased base rates. By any measure, this is a remarkable achievement.

The significance of this achievement is also evident when you compare the most recent twenty years (1985 - 2004) to the prior twenty-year period (1966 - 1985). As Dr. Green testifies, during each of the twenty-year periods, FPL added approximately the same number of customers (i.e., 1.6 million). During the 1966 – 1985 time period, FPL required eight different base rate increases totaling over $1.1 billion. However, during the most recent twenty years and while adding approximately the same number of customers, the Company did not request a single base rate increase. In fact, the Company reduced base rates 3 times during this time period. This is a truly remarkable accomplishment, and one which has ultimately benefited customers.

ACTIONS TAKEN TO AVOID THE NEED FOR AN INCREASE

Q. What actions has FPL taken in order to avoid the need for a base rate increase?

A. As Ms. Morley testifies, over the past twenty years FPL has not only avoided a retail base rate increase but has actually substantially lowered its retail base rates despite having made massive capital investments to meet the needs of a rapidly growing customer base. Various other witnesses will testify that FPL has improved efficiency and performance in all major areas of operations on an electric system that today serves an annual peak load of more than 20,500 megawatts (MW) compared to 12,500 MW served in 1985, an enormous increase in system requirements.

Q. Please describe in more detail some of FPL's actions and the resulting achievements that have enabled the Company to avoid a base rate increase since 1985.

A. As Mr. Yeager testifies, the performance of FPL's generating units has been a major contributor to FPL's ability to control its base rates. The Company has substantially improved the performance and availability of its existing generating units, thus deferring the need for new capacity. Mr. Yeager indicates in his testimony that FPL's fossil plant Equivalent Availability Factor (EAF) performance improved dramatically from 1990 to 2004. In 2003 (the latest year for which industry data are available), FPL's fossil fleet EAF was 90.1%, which was better than the industry average EAF of 84.9%. FPL's fossil EAF performance has been "Best-In-Class" for five out of the last six years since 1998, throughout the terms of the two revenue sharing plans approved by the Commission. Overall, as Dr. Landon states, FPL's fossil plants demonstrated superior performance, relative to the benchmark group.

Another key to lower base rates has been the initiative and effort of FPL's management and employees to control the Company's O&M expenses. From

1985 to 2003 the Company succeeded in lowering its non-fuel O&M expenses per kWh by approximately 29%, while the number of customers served increased by 57%. During the decade of the 1990s, FPL actually reduced total annual non-fuel O&M levels by over 15%. As Mr. Stamm discusses, FPL's 2006 O&M expenditures will be more than $800 million, or 35%, below the Commission's benchmark amount when compared to 1988 O&M levels.

Since agreeing to a $250 million base rate decrease in 2002, FPL has continued to pursue efficiency improvements and control costs in all aspects of its operations. For example, as Mr. Escoto testifies, FPL's annual rate of increase in healthcare costs has been held to well below the national average of 14% in 2003 and 2004. FPL has been successful in maintaining its rate of increase below the national average, however, we expect total annual healthcare costs in 2005 and beyond to increase at a rate nearer to that of the forecasted national trend, which is in the range of 13% per year.

In the Power Systems Distribution business unit, Ms. Williams testifies regarding the distribution reliability program which has had very impressive results. Since 1998, FPL has reduced customers' average annual outage time by 30%. In addition, based on the Edison Electric Institute's (EEI) 2003 Reliability Report, FPL's Distribution performance ranks among the industry leaders and is 50% better than the industry average. Since 1998, the Distribution business unit also has reduced the average number of outages (frequency) by more than 20% and has reduced average restoration time (duration) by more than 10%.

As Mr. Mennes testifies, FPL's Power Systems Transmission and Substation area has also improved its quality of service to customers. His testimony reflects that average transmission/substation interruption time improved by over 60% from 1998 to 2004. Further, FPL's Transmission and Substation operations performance was recently assessed by a National Electric Reliability Council (NERC) audit arising out of the August 2003 Northeast blackout. The findings were very positive, including a recommendation that several FPL practices be adopted as "best practices" for other NERC members.

As Mr. Stall testifies, FPL's nuclear plants have historically been a source of reliable, safe and cost effective energy for FPL's customers. The Nuclear Division's performance in the areas of nuclear safety and reliability has been a key factor in the Company's success, which in turn has enabled the Company to receive renewed operating licenses for all four nuclear units ensuring that they will continue to serve our customers well into the future.

The testimony of Ms. Santos reflects that FPL's Customer Service business unit provides customers with superior service. For example, FPL was recently awarded the Service One Award by PA Consulting Group. This award recognizes utilities that provide exceptional service to their customers based on a set of 18 different measures of excellence in the customer care area. FPL also was the first electric company in the nation to have its customer care centers certified as a Center of Excellence by Purdue University's Center for Customer Driven Quality. In 2000, FPL's customer care center was recognized as the top ranked center in the META Group benchmarking study. Overall, since 1985, FPL's Customer Service operations have been significantly enhanced to serve customers more effectively and efficiently while achieving an industry-leading overall quality of service.

Q. How does FPL's performance compare to the industry?

A. FPL has performed very well relative to the industry as addressed by Dr. Landon, who was asked by FPL to assess the Company's operational and financial performance relative to industry benchmarks. Following is a summary of Dr. Landon's results as discussed in his testimony.

- The benchmarking shows that FPL has been successful in reducing non-fuel O&M expenses per customer between 1998 and 2003, and that it has performed significantly better than the benchmark group in this regard.
- FPL's total non-fuel O&M expenses per customer declined from 1998 to 2003 and were 41% lower than the benchmark group over that six-year period, while O&M expenses per customer for the benchmark group increased during this time frame. FPL's non-fuel O&M expenses per customer are consistently well below the average for the comparison group throughout the six-year comparison period -- strong evidence of FPL's consistent record of success in controlling non-fuel O&M expenses.

FPL's non-fuel O&M expenses were also compared to the benchmark group with the expenses normalized on the basis of kWh sales rather than the number of customers, and again, FPL compares very favorably. On average, FPL's non-fuel O&M expenses per kWh were 22% lower than that of the benchmark group over the six-year period.

- FPL's success extends back beyond 1998 as well. Beginning in 1991, the first year of a major cost reduction initiative, and continuing through 2004, the Company achieved consistent and substantial reductions in non-fuel O&M expenses. Between 1991 and 2004, FPL's non-fuel O&M expenses per customer have fallen 31%.
- FPL's performance in controlling capital costs also compares very favorably to the benchmark group. In comparing the gross plant per customer and gross plant per kWh for FPL and the benchmark group over the period 1998-2003, FPL's capital costs are consistently below the benchmark group throughout this period by both measures, suggesting a more efficient employment of capital by FPL relative to the benchmark group.
- Overall, the Company's benchmarking indicates that it has improved service levels over the past several years and has delivered a higher level of service, on average, than other comparable utilities. At the same time, the Company has reduced both expense levels and capital costs compared to its peers.

Q. How have customers benefited from FPL's actions?

A. FPL's accomplishments have ensured that customers continue to receive safe, reliable electric service while actually seeing significant decreases in their base rates. In fact, as Ms. Morley testifies, taking into account these base rate reductions and the revenue sharing refunds under the terms of the last two revenue sharing plans approved by the Commission, FPL's customers will have realized direct savings of almost $4 billion as of December 31, 2005.

While additional examples of FPL's superior performance levels and quality of service are included in the testimony of various other witnesses, the examples mentioned above clearly reflect that FPL has been successful, not just in maintaining, but also in dramatically improving its quality of service to customers in recent years. These improvements have been achieved despite the demands of growth on our operations and during a period in which base rates were not increased, but in fact were reduced by a significant margin. During this same period of time, FPL was able to lower retail base rates two times by a total of $600 million annually. Clearly, customers have benefited from FPL's efforts. These and other measures, though part of FPL's continual focus to achieve superior performance at below industry average costs, are not sufficient to avoid the need for an increase in base rates. In reality, but for all of these measures, FPL's base rates would have had to increase long before now.

MAJOR FACTORS NECESSITATING AN INCREASE

Q. Given FPL's excellent track record of meeting growth without having to raise base rates, why is the Company now seeking an increase in base rates?

A. The Company has done a superior job of controlling cost while maintaining and even decreasing base rates since 1985. However, while customer growth in Florida and in FPL's service territory is expected to continue, further operational efficiencies alone will not be sufficient to meet the significant increase in costs the Company is facing over the next several years. Prior to reducing base rates so substantially in 1999 and again in 2002, FPL had been able to meet the increasing number and demands of customers without the need for a base rate increase. Arguably, the $600 million total base rate reduction resulting from the two revenue sharing agreements has altered what had been a relatively stable relationship between revenue growth and the incremental investment and cost associated with meeting the needs of Florida's growing population and economy. In order to safely and reliably meet the electric needs of existing as well as new customers, an increase in base rates, the first in twenty years for FPL, is necessary at this time. However, the requested increase is less than the total decrease in base rates customers have received since 1999.

Q. Please summarize the major factors, as documented by the Company's filing, that support the need for base rate relief in 2006.

A. FPL is responding to Florida's tremendous growth by making significant capital investments in various areas of the Company's operations between 2002, the last year in which base rates were set, and the projected 2006 test year. As Mr.

Stamm testifies, electric plant in service (FERC account 101) is forecasted to increase by over $5 billion from 2002 to 2006. Mr. Stamm and other witnesses explain that three areas in particular will increase significantly over this time frame, as follows:

- Transmission and Distribution (T&D) - Mr. Mennes and Ms. Williams address the increase in T&D plant in their testimony. For example, Ms. Williams addresses the capital investment needed to meet the impact of adding new customers to our system. She testifies that, every year since 2002, FPL has been adding in excess of 100,000 customers, the size of an entire small utility, and that level is forecast to continue through 2006.
- Other Production Plant - Mr. Yeager addresses the major drivers of this increase in his testimony. FPL's generation fleet is growing to keep pace with customer demand for electricity, and the cost of maintaining that fleet is also increasing.
- Nuclear Production Plant - Mr. Stall testifies regarding this area. A major driver is the replacement of the reactor vessel heads for St. Lucie Units 1 and 2 and Turkey Point Unit 4, which is scheduled to begin in the spring of 2005. Mr. Stall also addresses other areas, such as the long-term spent nuclear fuel storage problem which will have a significant impact on capital as well as O&M.

In addition to the capital investment directly related to growth and other factors, the Company also is experiencing cost increases in other areas. As Mr. Dewhurst testifies, for many years FPL has been able to hold the line on non-fuel O&M expenses and has achieved admirable performance. However, like most companies, FPL has been facing cost pressures in a number of areas. One such example is double-digit health care cost inflation which, as Mr. Escoto explains, is a national concern in business today. Such cost pressures were reflected in FPL's 2002 non-fuel O&M expenses, and represented the first significant increase in non-fuel O&M in over 10 years. There will continue to be upward pressure on O&M over the next several years due to the cumulative effects of inflation and operational requirements. As Mr. Stamm testifies, total company per book O&M expenses (excluding fuel, purchased power and deferred expenses) are projected to increase $388 million from 2002 to 2006. The major drivers of the forecasted increases between 2002 and 2006 are addressed by a number of witnesses and are summarized by Mr. Stamm as follows:

- Administrative & General (A&G) - Two of the major factors in this area are the increase in the annual accrual for storm costs, which will be addressed by Messrs. Dewhurst and Harris, and increased employee benefit costs, which will be addressed by Mr. Escoto. The impact of the annual storm accrual increase alone is approximately $100 million per year, the amount needed to ensure a reasonable storm reserve level. Based on FPL's experience with Hurricane Andrew in 1992 and with the three hurricanes in 2004, the proper level of the storm reserve is clearly critical. Mr. Dewhurst testifies that, even with this increased accrual, there is still a

33% chance that losses will exceed the value of the Storm Damage Reserve over a five year period.

- Nuclear - Principal cost drivers in the nuclear area include increased regulatory requirements and actions being taken to maintain plant reliability and performance. As Mr. Stall discusses, the aging of FPL's nuclear plants is resulting in an increase in the amount of work necessary to safely and reliably operate the units. In addition, the Nuclear Regulatory Commission has significantly increased regulatory requirements as a result of the Davis-Besse event and also as a result of the events of September 11, 2001. These increased regulatory requirements in turn result in significant increases in the Company's costs.
- Transmission - This increase is primarily a result of projected costs for the RTO. Mr. Mennes addresses this in his testimony.
- Steam and Other Production - Mr. Yeager addresses the major drivers of this increase in his testimony. As he discusses, O&M expenses are projected to increase significantly due to the addition of the Martin and Manatee units in 2005. Another factor driving O&M costs higher is the aging of FPL's conventional steam fleet. Mr. Yeager testifies that these units range in age from 23 to 50 years and, as a result, require additional structural and reliability maintenance since many components are at the end of their remaining useful life.

While not a comprehensive presentation of the operational and financial hurdles the Company is facing, the above overview reflects the major factors that have necessitated the Company's filing for base rate relief in 2006. These factors are discussed in more detail in the testimony of other witnesses.

RETURN ON EQUITY

Q. What is the appropriate ROE range for the Company in this docket?

A. The testimonies of Dr. Avera and Mr. Dewhurst establish that the range for ROE should be 11.30% to 13.30%, with a midpoint of 12.30%. This range and midpoint include a performance incentive of 50 basis points as recognition of the Company's superior overall performance and to encourage continued performance achievements. As Mr. Dewhurst notes, the proposed ROE range and midpoint assume that the Commission will continue its past policy and practice of allowing the recovery of prudent and reasonable storm restoration costs through base rates or special assessment. FPL is recommending that the Commission approve this midpoint of 12.30% and the corresponding range.

Q. Please summarize why the Company believes the ROE performance incentive of 50 basis points is appropriate.

A. As I have described above, and as reflected more fully in the testimony of various other witnesses, FPL has compiled an impressive record of providing superior and reliable electric service. FPL's performance levels generally have been well above industry averages and in many cases have been among the highest in the industry, while at the same time holding base rates at or below 1985 levels. As

Mr. Dewhurst testifies, a performance incentive serves to support and encourage FPL management's long-term efforts to continue improvement in quality of service and efficiency of operations, and sends an appropriate signal to public utilities in the state of Florida that superior performance will be recognized and rewarded.

Noted below are just a few of the significant accomplishments and measures that demonstrate the superior results achieved by FPL in its overall performance, and which we feel the Commission should take into consideration in this proceeding.

1) The level of FPL's base rates alone is a reflection of FPL's solid performance. Even with the requested increase, FPL's base rates will be lower than those set the last time they were increased twenty years ago. Rather than seeking increases in base rates over the last twenty years, FPL in fact has reduced base rates. In 1999 FPL agreed to reduce base rates by $350 million per year and in 2002 agreed to further reduce base rates by another $250 million. As Ms. Morley testifies, by the end of 2005 FPL's customers will have received nearly $4 billion in reduced base rates and refunds as a result of those two rate agreements. This has all been accomplished despite an increase of 1.6 million customers since 1985.

2) As Mr. Yeager explains in his testimony, FPL's improvements in fossil plant availability and reliability performance over the years have helped defer the need for new capacity. Having high availability also means that the most efficient

generating units will be available to operate a greater part of the time, thus minimizing fuel costs which in turn results in customer savings. Mr. Yeager further demonstrates that from 1998 to 2004, total operating costs for the fossil fleet were reduced 23% on a cents per kWh basis while plant availability and reliability performance improved to an industry "best in class" level.

3) As previously discussed, the testimony of Ms. Santos reflects the superior performance of FPL's customer care centers and the various awards and recognition received as a result of that performance.

4) Dr. Landon provides an independent assessment of FPL's operational and financial performance relative to industry benchmarks, as well as the resulting benefits that have accrued to customers. He states that the Company's costs are significantly below industry average and have been for many years. For example, FPL's non-fuel O&M expenses per customer were consistently below the average for the comparison group throughout the six-year comparison period. This is strong evidence of FPL's consistent record of success in controlling these expenses. Dr. Landon concludes that FPL has a history of controlling and reducing operating expenses that has persisted for a period of more than 13 years. At the same time that FPL has been successful in keeping its costs low, it also has provided customers with a level of electric reliability that exceeds industry averages. For example, FPL has demonstrated considerably higher distribution reliability relative to the comparison group. Over the most recent three-year

period (2001-2003), the benchmark average outage time was 140.9 minutes whereas FPL's average time was only 68.7 minutes, less than half that of the benchmark group average.

FPL has achieved these superior results as a result of management initiative and employee commitment. In order to encourage the company to continue to achieve such results in the future, I believe the ROE performance incentive is appropriate.

2007 TURKEY POINT UNIT 5 ADJUSTMENT

Q. Why does FPL propose that the Commission grant the Company additional base rate relief in 2007 in addition to the relief requested for 2006?

A. As Mr. Dewhurst testifies, the addition of Turkey Point Unit 5 represents a known and measurable investment of considerable size that, upon being placed into service in 2007, will represent a significant cost impact for the Company that is incremental to its 2006 cost projections and that will produce an immediate negative impact on earnings. Mr. Dewhurst further explains that FPL proposes to base the amount of the increase on the incremental revenue requirements for Turkey Point Unit 5, resulting in annualized revenue requirements of $123 million. While this adjustment is a conservative proxy for the full increase in revenue requirements that FPL expects for 2007, FPL is prepared to accept this understated measure of the additional rate relief in the interest of administrative efficiency. The approval of the Turkey Point Unit 5 Adjustment, along with the requested rate relief for 2006, would avoid the potential for another full rate proceeding for 2007 immediately following the current review process.

OTHER ISSUES FOR CONSIDERATION

Q. Are there any other issues in this docket that you would like to address?

A. Yes. The issues are 1) the differences in the rates of return (ROR) between FPL's various rate classes and 2) inclusion of certain charitable contributions in base rates.

Q. Please discuss the rate class ROR issue.

A. As Ms. Morley testifies, FPL's proposed rates and rate design include steps that will address the differences between the RORs achieved for various rate classes. Ideally, the revenue for each individual rate class would be set at a level that results in a rate of return index of 100%, i.e., the ROR for each rate class would be equivalent to the overall ROR for the Company. However, that is currently not the case. The RORs for some rate classes are higher than the Company ROR while other rate classes are much lower than the Company ROR. This proceeding provides an opportunity to effect a substantial improvement in the achieved RORs among the various rate classes.

Q. Why is FPL proposing to include charitable contributions in base rates?

A. FPL's commitment to service goes well beyond supplying safe and reliable energy to its customers. By providing civic and charitable contributions, FPL and its employees help improve the quality of life in each of the communities we serve. The Company's support is highly focused toward specific community issues that are directly related to the Company's business objectives that, in turn, ultimately benefit customers.

Furthermore, as an active partner in the communities we serve, there are expectations by those communities that FPL and other local businesses should provide such support. For other companies, this support is considered as a cost of doing business or a "cost of goods sold," and must be recovered through the price paid by customers for its good and services. FPL's proposal to include such expenses in base rates would reflect like treatment for like expenses.

FPL's participation in such efforts also provides direct and tangible benefits to the utility's operations and its ability to provide high quality service. Thus, FPL's customers also benefit. For example: 1) Contributions to environmental organizations help to promote a spirit of cooperation between FPL and such groups and also afford FPL the opportunity to have meaningful dialogue and to team with such groups on issues and projects of common concern, including the permitting of new facilities and other matters that affect current operations; 2) The siting of facilities and occasional inconveniences caused by the construction and/or improvement of the Company's infrastructure often are more easily understood in communities where FPL is seen as an active partner and participant in community interests and affairs; and 3) Contributions made to help less fortunate customers, such as the Company's Care-to-Share program, accomplish an important humanitarian objective and also reduce receivables and write-offs.

ALTERNATIVE REGULATION

Q. Please discuss how the Commission's alternative approach to regulation in recent years has benefited customers.

A. The Commission and the Office of Public Counsel in the past have supported FPL in its efforts to continually improve service and manage costs through their willingness to consider and implement progressive approaches to regulation. Incentive-based regulation has been highly effective in producing the intended results, and has provided an incentive to manage expenses as evidenced by FPL's success in measurably lowering its O&M and capital costs over the past decade. In turn, customer savings realized from the 1999 and 2002 revenue sharing agreements will be nearly $4 billion by the end of 2005. As a result of these progressive policies favoring incentive-based regulation, FPL's customers have ultimately benefited.

The revenue sharing agreements of the past several years have produced substantial benefits for customers and generally have worked well. However, because of the significant cost pressures in today's environment, agreements structured in the manner in which the two prior agreements were structured are less likely to provide an acceptable frame work going forward. Nevertheless, consistent with past Commission expressions favoring resolution of rate cases through settlement, FPL remains receptive to appropriately structured, alternative regulatory regimes in lieu of traditional ROR regulation that would defer the need for future rate cases, thus avoiding the cost and resource impact on the Company, Commission and other parties, and improving rate stability -- a benefit to customers for planning and budgeting electric costs.

SUMMARY

Q. Please summarize your testimony.

A. FPL has worked very hard to establish itself as a low-cost provider of superior electric service. The Company's accomplishments reflect the efforts of a strong management team and a quality-driven work force, efforts that have been facilitated through progressive and responsible regulation. Collectively, these efforts have succeeded in delaying as long as possible increases in FPL's retail base rates while keeping pace with Florida's rapid growth and demand for energy. Although price increases routinely are seen in insurance, healthcare, and other sectors of the economy, FPL has managed its operations in a way that has resulted in significant actual price decreases and substantial customer savings. Indeed, were it not for the base rate decreases implemented by the Company in recent years, FPL would not be in need of an increase at this time. In addition, even with the full requested increase, FPL's base rates will still be lower than they were in January 1999 prior to the implementation of the first revenue sharing agreement, and also lower than they were over 20 years ago in January 1985. After many years, an increase in retail base rates is now necessary to ensure that FPL can continue to provide safe and reliable electric service at the levels its customers have come to expect and that are consistent with the Company's past record of performance.

Q. Does this conclude your direct testimony?

A. Yes.

Florida Power & Light Company

Biographical
Information

Armando J. Olivera
President

Armando Olivera is president of Florida Power & Light Company (FPL), the principal subsidiary of FPL Group, Inc., and one of the largest investor-owned electric utilities in the nation with more than four million customer accounts. He was appointed president in June, 2003.

Mr. Olivera joined FPL in 1972 and has served in a variety of management positions in the areas of transmission and distribution operations, fuels management, and strategic planning and resource allocation. Most recently he served as senior vice president of Power Systems.

During his leadership of Power Systems, FPL significantly increased service reliability, placing its performance within the top 20 percent of the industry. At the same time, the company's operations and maintenance costs per kilowatt hour were well below the industry average. Over that five-year period, FPL added 350,000 new customers, and Mr. Olivera oversaw a multi-billion dollar capital expansion program to meet that growth and enhance overall system reliability.

Mr. Olivera holds a bachelor of science degree in electrical engineering from Cornell University and a master of business administration degree from the University of Miami. He also is a graduate of the professional management development program of the Harvard Business School.

Mr. Olivera is chairman of the Florida Reliability Coordinating Council (FRCC) Executive Board, a member of the Board of the Southeastern Electric Exchange and Enterprise Florida, and a member of Cornell University Engineering Council and Cornell University Council.