

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 041291-EI

In the Matter of

PETITION FOR AUTHORITY TO RECOVER
PRUDENTLY INCURRED STORM RESTORATION
COSTS RELATED TO 2004 STORM SEASON
THAT EXCEED STORM RESERVE BALANCE,
BY FLORIDA POWER & LIGHT COMPANY.



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THE .PDF VERSION INCLUDES PREFILED TESTIMONY.

VOLUME 5

Page 501 through 624

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN BRAULIO L. BAEZ
COMMISSIONER J. TERRY DEASON
COMMISSIONER RUDOLPH "RUDY" BRADLEY
COMMISSIONER CHARLES M. DAVIDSON
COMMISSIONER LISA P. EDGAR

DATE: Thursday, April 21, 2005

TIME: Commenced at 9:00 a.m.

PLACE: Betty Easley Conference Center
Hearing Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter
(850) 413-6732

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

NAME:

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P R O C E E D I N G S

(Transcript follows in sequence from Volume 4.)

CHAIRMAN BAEZ: Mr. Hoffman, you want to call your rebuttal witness.

MR. HOFFMAN: Thank you, Mr. Chairman. FPL would call Geisha J. Williams.

CHAIRMAN BAEZ: And if you can, just give me a moment until Jane gives me the high sign.

(Witness sworn.)

GEISHA L. WILLIAMS

was called as a rebuttal witness on behalf of Florida Power and Light Company, and having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. HOFFMAN:

Q Ms. Williams, will you please state your name and business address.

A Yes. My name is Geisha Williams. My business address is 9250 West Flagler Street, Miami, Florida 33174.

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

A I'm employed by Florida Power and Light Company, and I'm Vice-President of Distribution.

Q Ms. Williams, have you prepared and caused to be filed 13 pages of rebuttal testimony in this proceeding?

A Yes, I have.

1 Q Do you have any changes or revisions to your prefiled
2 rebuttal testimony?

3 A No.

4 Q So if I asked you the questions contained in your
5 rebuttal testimony today, would your answers be the same?

6 A Yes, they would.

7 MR. HOFFMAN: Mr. Chairman, I would ask that Ms.
8 Williams' prefiled rebuttal testimony be inserted into the
9 record as though read.

10 CHAIRMAN BAEZ: Without objection, show the prefiled
11 rebuttal testimony of Geisha Williams entered into the record
12 as though read.

13 BY MR. HOFFMAN:

14 Q Ms. Williams, are you also sponsoring two exhibits to
15 your testimony?

16 A Yes, I am

17 Q Could you briefly describe those exhibits?

18 A Exhibit GJW-1 is a listing of follow-up work not
19 completed as of December 31st, 2004, that exceed \$100,000. And
20 Exhibit 2 is a report from Davies Consulting summarizing their
21 findings as to our hurricane performance.

22 Q And was Exhibit GJW-1 prepared under your direction
23 and supervision?

24 A Yes, it was.

25 MR. HOFFMAN: Mr. Chairman, I believe that the two

1 exhibits that have been filed with Ms. Williams' rebuttal
2 testimony have been premarked for identification as Numbers 27
3 and 28.

4 CHAIRMAN BAEZ: They have.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **REBUTTAL TESTIMONY OF GEISHA J. WILLIAMS**

4 **DOCKET NO. 041291-EI**

5 **MARCH 8, 2005**

6

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

8 A. My name is Geisha J. Williams. My business address is Florida Power & Light
9 Company, 9250 W. Flagler Street, Miami, Florida, 33174.

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

11 A. I am employed by Florida Power & Light Company (FPL or the Company) as
12 Vice President, Distribution.

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

14 A. I am responsible for the planning, engineering, construction, operations,
15 maintenance, and restoration of FPL's Distribution infrastructure. During storm
16 restorations, I assume the additional role of FPL's Emergency Operations Officer.
17 In this capacity, I am responsible for the overall coordination of all restoration
18 activities to ensure the successful implementation of FPL's restoration strategy, to
19 restore service to our customers as quickly as possible.

20 **Q. Please describe your educational background and professional experience.**

21 A. I have a Bachelor of Science degree in industrial engineering from the University
22 of Miami and a Masters of Business Administration from Nova Southeastern
23 University. I joined FPL in 1983 and have served in a variety of positions in

1 distribution operations, customer service, and marketing. I have been manager of
2 commercial/industrial marketing, regional manager of customer service, and
3 manager of external affairs. I also am a member of the Dean's Advisory Council
4 for the College of Engineering at Florida International University, a member of
5 the Association of Edison Illuminating Companies' Power Delivery Committee, a
6 member of Leadership Florida Class XXIII, a former commissioner of the 11th
7 Circuit Judicial Nominating Commission, and a former director of the Florida
8 Chamber of Commerce Management Corporation.

9 **Q. Are you sponsoring an exhibit in this case?**

10 A. Yes. I am sponsoring an exhibit consisting of two documents, GJW-1 and
11 GJW-2, which are attached to my rebuttal testimony.

12 **Q. What is the purpose of your testimony?**

13 A. The purpose of my testimony is to rebut assertions made by the Office of Public
14 Counsel's (OPC) witness, Mr. Michael J. Majoros, Jr., that expenses for projects
15 identified by FPL in response to OPC's request for production of documents
16 (POD) No. 19 are being inappropriately charged to the Storm Damage Reserve. I
17 will also refute his speculation that facility replacements may not be a result of
18 hurricane damage, but instead "...are because the facilities are old and worn
19 out..."

20 **Q. Please describe the projects included in OPC POD No. 19.**

21 A. This POD requested a listing of all projects included in the storm recovery
22 expenses that exceed \$100,000 and were not complete as of December 31, 2004.

23 An updated version of that list is attached to my testimony as Document No.

1 GJW-1. The list includes a description of each project, a justification for charging
2 the cost to the Storm Damage Reserve, and any cost estimate updates, if
3 applicable.

4 **Q. Please summarize Mr. Majoros' assertions that are the subject of your**
5 **rebuttal testimony.**

6 A. On pages 16 through 17 of his testimony, Mr. Majoros contends that some costs
7 are inappropriate to be charged to the Storm Damage Reserve because they relate
8 to future Company operations and not to actual storm restoration efforts. He
9 therefore argues that they should not be charged to the Storm Damage Reserve.
10 He singles out two specific projects that he labels as "clearly inappropriate." For
11 the other projects, he insinuates that the costs may be inappropriate because they
12 occur after the time when all customers' service has been restored. In this
13 instance, his rationale is that since customers' service is already restored they
14 have no way of knowing whether these charges truly arise from hurricane

17 | **Q. Are Mr. Majoros' assertions reasonable and correct?**

20 expenses might possibly not be storm-related. He seems to be unaware that there
21 are always two distinct phases in any restoration effort following a major storm
22 event, restoration of customers' services and restoration of facilities to pre-storm

1 status. Further, he does not appear to understand the specific nature of the
2 individual projects nor FPL's operational practices.

3 **Q. Please describe the first phase of the storm restoration process and assess**
4 **FPL's performance.**

5 A. The first phase is the restoration of service to customers. Customers expect that
6 FPL will make every effort to get the power back on as quickly as possible. As
7 Mr. Dewhurst notes in his testimony, all levels of government in Florida also
8 expected no less and communicated this to FPL on a daily basis. Therefore,
9 FPL's primary mission is to safely restore the greatest number of customers in the
10 least amount of time so that the communities we serve are able to return to
11 normalcy as rapidly as possible. To accomplish this, we initially only do the work
12 required to restore electric service for our customers. Our focus and purpose is
13 devoted solely and exclusively to rapid restoration of service even where
14 accomplishment of that goal requires necessary increases in costs that would not
15 be needed under normal operations. One such example of a cost which is not
16 necessary during normal operations would be the preparation of airports used for
17 parking hundreds of trucks and distributing materials. Of course, under no
18 circumstances do we compromise safety for the sake of speed. This approach,
19 successfully implemented during the 2004 restorations, is consistent with industry
20 practice and the expectations of State and local governmental officials.

21
22 During last year's unprecedented hurricane season, even with three storms
23 making landfall in our territory back-to-back-to-back within six weeks, we

1 restored over 75% of the affected customers by the third day after each storm.
2 This was accomplished even during Hurricane Frances when 2.8 million customer
3 outages occurred – the most ever experienced by a single U.S. utility. Our ability
4 to scale up operations, effectively manage the extraordinary number of workers
5 we were able to procure for the restoration efforts, and manage more than twice as
6 many staging sites than ever before proved critical to restoring service quickly.

7 **Q. On pages 3 and 15 of his testimony, Mr. Majoros acknowledges that FPL**
8 **spent “enormous sums of money to repair its system and restore service” and**
9 **that “three major hurricanes in a single year is at best unusual for FPL and**
10 **its ratepayers.” Has an independent third party evaluated FPL’s**
11 **performance and the benefits realized by its customers as a result of these**
12 **expenditures?**

13 **A.** Yes. It has always been FPL’s practice following every hurricane season to
14 assess our restoration performance and search for any potential enhancement
15 opportunities. As a result of the unprecedented nature of this past year’s storm
16 season, Davies Consulting, Inc. (DCI) performed an independent assessment of
17 our restoration processes, implementation and infrastructure performance. DCI
18 has conducted similar analyses for utilities that have experienced major hurricanes
19 and/or ice storms, including Duke Power, Potomac Electric Power Company and
20 American Electric Power. In my experience, the facts and data utilized by DCI in
21 developing the assessment attached to my testimony as Document No. GJW-2 are
22 the type that are typically relied upon, and properly so, in evaluating post-
23 hurricane service restoration performance. I have reviewed their assessment of

1 FPL's performance and the assumptions underlying its findings and agree with the
2 conclusions and recommendations. DCI concluded that FPL met or exceeded
3 standard industry practices in virtually every facet of the restoration, particularly
4 in the areas of infrastructure performance, crew and logistics mobilization,
5 restoration planning and implementation, and FPL's ability to restore a large
6 percentage of customers within the first few days. In DCI's opinion, no other
7 U.S. utility could have addressed the restoration effort in a six-week period as
8 successfully as FPL did. The receipt earlier this year of the Edison Electric
9 Institute (EEI) award for emergency response (our third in the past four years)
10 provided further validation of FPL's recognized industry-leading expertise.

11 **Q. Can you explain the second phase of the storm restoration process and what**
12 **implications this has for the appropriateness of expenses being charged to the**
13 **Storm Damage Reserve?**

14 **A. Yes.** The purpose of the second phase of the restoration process is to return FPL's
15 facilities to their pre-storm condition. These permanent repairs go beyond the
16 minimum work initially needed just to restore customers' services. However, this
17 follow-up work is critical to ensuring full operational restoration of the network
18 including such matters as the network's stability and reliability. This phase also
19 includes remaining repairs to power plants, to communications infrastructure and
20 to other facilities. To determine what work is needed, we first conduct
21 inspections and then initiate the indicated repairs. As previously mentioned, to
22 minimize customers' inconvenience from restoration delays, these repairs are only
23 undertaken after all customers have been restored. In the industry, it is not

1 unusual for follow-up work to take many months to complete; in fact, more than a
2 year was required for this type of work after Hurricane Andrew.

3
4 One example of this follow-up type of repair would be installing new lightning
5 arrestors to replace those damaged by the storm. These devices are not vital to
6 getting customers' power back on initially. However, because they protect our
7 equipment from lightning damage, they are necessary to reestablish the system's
8 day-to-day reliability so these customers will remain in service. Such permanent
9 repairs could be done during the first phase of restoration. However, because this
10 approach would greatly slow down the speed of restoring customers' services, we
11 do not believe it to be in our customers' interests nor consistent with the public
12 policy of Florida. What is clear is that any costs incurred during this phase of the
13 restoration process, including an inspection or a repair, are a direct result of the
14 hurricanes and appropriately charged to the Storm Damage Reserve because they
15 would not be otherwise performed as part of normal business operations.

16 **Q. On pages 16 and 17 of his testimony, Mr. Majoros cites two programs as**
17 **examples of "clearly inappropriate" expenses to be charged to the Storm**
18 **Damage Reserve. Are his allegations correct?**

19 **A.** No. Mr. Majoros' assertions are without merit. He appears to be unaware of the
20 exact nature of these projects. Each is directly related to storm follow-up work,
21 not to present or future normal operations. The first project I will discuss is
22 identified on Document No. GJW-1, page 1 as "3rd Party Assessment of
23 Dangerous/Hazardous Vegetation Conditions." On page 17, line 2 of his

1 testimony, Mr. Majoros inaccurately characterizes this project as an
2 "...assessment to determine the relative state of vegetative conditions post storm."
3 He is wrong. The project's purpose is not to conduct a broad, general survey of
4 post-storm vegetation conditions, rather it is a targeted assessment of those
5 specific areas where vegetation removal was required as a result of the storm to
6 identify any remaining hazardous conditions to be addressed. In many instances
7 during the first phase restoration work, only the minimum vegetation removal is
8 performed to enable the immediate, necessary repairs to be made to restore
9 service. A follow-up assessment is required to determine what additional storm-
10 related removal may be necessary to facilitate the permanent repairs. The
11 expenses for this project are part of the storm restoration effort and are
12 appropriately charged to the Storm Damage Reserve.

13
14 The other project Mr. Majoros specifically mentions is identified in Document
15 No. GJW-1 as "Hurricane Salt Spray and Storm Surge Water Intrusion Damage."
16 The purpose of this project is to evaluate the impact of any water and salt
17 contamination to underground facilities stemming from the hurricanes. Mr.
18 Majoros questions whether this is in fact hurricane-related. Again, he seems to be
19 under the impression that this is a generic study FPL would conduct during the
20 normal course of business operations. In fact, as with the previous example, this
21 particular project was necessitated solely by the impact of the hurricanes on
22 particular coastal communities. It is specifically targeted to the areas affected by
23 the storms' high winds and waves – not just any coastal location served by FPL.
24 This practice is a result of experience from Hurricane Andrew when entire

1 subdivisions were impacted by storm surge requiring hundreds of transformers to
2 be washed and thousands of feet of cable to be injected to preserve their
3 remaining life. It is therefore prudent to investigate facilities in areas affected by
4 storm surge and salt spray and treat as warranted. As an aside, I can report that so
5 far the damage found has been much less than anticipated. As such, we have
6 updated the estimate to be approximately \$128,000. Contrary to Mr. Majoros'
7 speculation, this project is storm-related because there is no reason for FPL to
8 conduct this type of assessment absent a hurricane; therefore, it is appropriately
9 charged to the Storm Damage Reserve.

10 **Q. Do you agree with Mr. Majoros' contention that other projects from OPC**
11 **POD No. 19 may not be appropriate for charging to the Storm Damage**
12 **Reserve?**

13 A. No. Mr. Majoros again fails to offer any actual support for his conjecture. He
14 instead merely insinuates that these expenses may be improperly treated. First he
15 contends that some expenses may be inappropriate because they occurred after the
16 time when all customers have been restored. As I have previously explained, this
17 rationale fails to recognize that there will always be necessary follow-up work.
18 Mr. Majoros' second contention is that customers are unable to know whether
19 these charges are related to hurricane recovery. In Document No. GJW-1 I have
20 provided descriptions for each project and identified their linkage to the storm
21 restoration effort. As can be seen, Mr. Majoros' assertions regarding all of these
22 projects are not supported by any evidence. Based on this information, the
23 expenses for each are appropriately charged to the Storm Damage Reserve.

1 **Q. Are there any current updates to the original estimates provided in FPL's**
2 **response to OPC's POD No. 19 not previously described in your testimony?**

3 A. Yes. As is the case with any estimate, refinement occurs continuously as more
4 information becomes available and work progresses. A number of the projects
5 have had changes, all of which are detailed in Document No. GJW-1. Overall, the
6 updated aggregate estimate has decreased by about \$400,000 (or 1%) from the
7 original amount of about \$42.6 million to \$42.2 million. These updates are driven
8 by new information that has changed either the scope of the work (as with the
9 storm surge example described earlier) or due to actual cost data replacing
10 estimates. It is reasonable to expect further changes in individual project
11 estimates, both up and down, over the coming months.

12 **Q. Has there been any impact on operations as a result of resources being**
13 **diverted to the restoration efforts?**

14 A. Yes. Certain work needed to be postponed while the crews performed storm-
15 related repairs. One such example would be relocation of facilities due to a
16 customer-required road widening. This type of work would, of course, be
17 deferred until after the first restoration phase was complete. But typically, a road
18 project's overall deadline does not change. Catching up on this type of work
19 obviously impacts normal ongoing operations until the backlog is completed,
20 either through additional overtime hours or engaging additional contractors. The
21 incremental costs associated with catch up work are charged to normal operating
22 accounts, not the Storm Damage Reserve.

1 **Q. Is Mr. Majoros' contention that facilities are "old and worn out", and by**
2 **inference, inadequately maintained, reasonable and correct?**

3 A. No. Mr. Majoros offers no factual support for these inferences. He speculates
4 that replacements may not be a result of hurricane damage, but instead "...are
5 because the facilities are old and worn out..." FPL has no incentive to defer
6 system maintenance, and such an action would incur additional business risks.
7 Inadequate maintenance would cause day-to-day reliability to degrade, a situation
8 that would be unacceptable to our customers, the Florida Public Service
9 Commission, as well as the Company. Over the past several years, FPL has
10 invested about \$150 million annually for reliability enhancement projects. In fact,
11 our day-to-day reliability performance, which can be viewed as a reasonable
12 gauge of system integrity, is excellent. In 2003 and 2004, FPL's results for
13 average annual outage time, as measured by the System Average Interruption
14 Duration Index (SAIDI), were the best in Florida. Also, based on the EEI's 2003
15 Reliability Report, our performance ranks nationally among the industry leaders
16 and is 50% better than the industry average. A utility, such as FPL, located in a
17 region with one of the highest lightning exposures in the world and a year-round
18 growing season could not achieve such reliability performance if maintenance
19 was being deferred.

20

21 A further validation of whether maintenance practices have been adequate is how
22 well the infrastructure withstood the impact of the hurricanes. Based on the
23 modest amount of facilities requiring replacement, infrastructure performance was

1 excellent. Even after being impacted by three storms, ranging in strength from
2 Category 2 to 4, only 1% of FPL's one million plus poles required replacement.
3 Even in the worst hit areas, 96% of the poles did not fail. Additionally, only 1.5%
4 of transformers required replacement which was mostly due to physical damage
5 (e.g., debris impact or falling poles), not electrical failure. Few of the poles failed
6 due to wind stress alone and the amount of wire replaced was minimal (less than
7 1%) with most repairs accomplished by splicing.

8 **Q. Please summarize your testimony.**

9 **A. All of Mr. Majoros' assertions that the expenses for the projects included in**
10 **OPC's POD No. 19 are inappropriate to be charged to the Storm Damage**
11 **Reserve are unsupported by the evidence. Each of his contentions is a product of**
12 **incomplete information, speculation, faulty reasoning, or lack of understanding**
13 **of the restoration processes and the projects themselves. In no case does he offer**
14 **any facts to support his claims. As a result, his allegations are neither**
15 **reasonable, nor correct, nor valid.**

16
17 FPL has only included projects that represent actual repair or follow-up work to
18 repair damage resulting directly from the 2004 hurricanes. As such, all expenses
19 are clearly appropriate to be charged to the Storm Damage Reserve.

20
21 Finally, FPL's infrastructure has been demonstrated to be very resilient on both a
22 day-to-day basis and under the impact and duress of the three hurricanes
23 experienced last year. This excellent performance supports the clear conclusion

1 that FPL has been implementing effective and adequate maintenance practices all
2 along and that we are not embedding normal operational expenses in the
3 restoration costs charged to the Storm Damage Reserve.

4 **Q. Does this conclude your rebuttal testimony?**

5 **A. Yes.**

1 BY MR. HOFFMAN:

2 Q Have you prepared a summary of your rebuttal
3 testimony?

4 A Yes, I have.

5 Q Would you please provide that summary to the
6 Commission?

7 A My pleasure.

8 Good morning, Commissioners. My testimony rebuts the
9 assertions made by Mr. Majoros, a witness of Public Counsel,
10 who claims that expenses for projects not completed as of
11 December 2004 identified as follow-up projects are being
12 inappropriately charged to the storm damage reserve.

13 Additionally, my testimony refutes his speculation
14 that faulty replacements -- that facility replacements may not
15 be a result of hurricane damage, but instead, quote, are
16 because the facilities are old and worn out, end quote. Mr.
17 Majoros' assertions that the expenses for these projects are
18 inappropriately charged to the storm damage reserve are
19 unsupported by any evidence. Mr. Majoros seems to be unaware
20 that there are always two distinct phases in any restoration
21 effort following a major storm event.

22 First, restoring customer service, and, second,
23 restoring facilities to the required pre-storm state. The
24 projects that are included in my Exhibit GJW-1 are all
25 associated with the second phase, the restoration of our

1 facilities to their pre-storm conditions. These projects are
2 all associated with assessing and repairing storm damage to our
3 facilities, including our generating plants, corporate offices,
4 distribution and transmission facilities, and communication
5 towers. As such, these expenses are clearly appropriate to
6 charge to the storm damage reserve.

7 Finally, FPL's infrastructure demonstrated itself to
8 be very resilient under the duress of Hurricanes Charley,
9 Frances and Jeanne, all of which struck FPL's service territory
10 during the 2004 hurricane season. Over the past several years
11 FPL has made significant investments in reliability. Our
12 reliability performance ranks as an industry leader. Even
13 after being impacted by three major storms, FPL only had to
14 replace a small fraction of our infrastructure; approximately
15 one percent of our poles, wires, and transformers.

16 This excellent performance supports the clear
17 conclusion that FPL has been implementing effective and
18 adequate maintenance practices all along, and that we are not
19 embedding normal operating expenses in the restoration clause
20 charged to the storm damage reserve.

21 That concludes my summary.

22 MR. HOFFMAN: Thank you, Ms. Williams.

23 Mr. Chairman, Ms. Williams is available for cross.

24 CHAIRMAN BAEZ: Ms. Christensen.

25 MS. CHRISTENSEN: Thank you.

CROSS EXAMINATION

1
2 BY MS. CHRISTENSEN:

3 Q Good morning, Ms. Williams. I have some questions
4 regarding your rebuttal testimony, specifically regarding the
5 production of documents request Number 19, and the attachment
6 to your testimony.

7 Do you have copies of that in front of you? If not,
8 I have copies that I can pass around, if possible.

9 A I have copies of my GJW-1 exhibit.

10 Q Let me go ahead and --

11 A I'm sure I have copies of POD 19, too.

12 MS. CHRISTENSEN: If I can, Chairman, let me pass
13 around -- I have an excerpted page for the questions, relating
14 to my questions. It has already been marked and admitted into
15 evidence with Mr. Majoros' testimony.

16 BY MS. CHRISTENSEN:

17 Q Ms. Williams, am I correct that the main thrust of
18 your testimony is to rebut Mr. Majoros' testimony by clarifying
19 the nature of the projects FPL identified in its response to
20 Production of Document Request Number 19?

21 A That is the main focus, as well as also addressing
22 the maintenance issues.

23 Q And are you familiar with FPL's response to POD
24 Number 19?

25 A Yes, I am.

1 Q And are you familiar with Mr. Majoros' testimony
2 regarding the projects as he testified to them on Page 16,
3 Line 6, through Page 17, Line 3 regarding those products?

4 A Yes, I'm familiar.

5 Q And would you agree that Mr. Majoros in his testimony
6 identifies two projects that he believes were clearly
7 inappropriate for inclusion in the storm fund because they may
8 be in the existing budgets or are questionably related to the
9 storm restoration?

10 A I agree that that is his belief, but I do not agree
11 with him.

12 Q And would you agree that this conclusion was based on
13 FPL's response to Production of Document Number 19?

14 A No, I don't agree with that. I think it is more a
15 lack of knowledge on Mr. Majoros' part.

16 Q All right. You would agree that production of Number
17 19 was attached to his testimony?

18 A Yes, I would.

19 Q I passed out previously a copy of an excerpted
20 portion of the Production of Documents Number 19. Would you
21 agree that this represents the list of projects that were
22 provided to FPL? Not the total list, but a portion of the list
23 that was provided in response to Production of Document Number
24 19?

25 A Yes, it looks like a portion of what we submitted.

1 Q And I just want to refer to the two projects that
2 were identified in Mr. Majoros' testimony, which is why we have
3 only referred to the excerpted pages. Would you agree that
4 Project Number 6 is listed on your Production of Document
5 Request Number 19 is only identified as identify salt spray,
6 sand and water intrusion problems in coastal communities, am I
7 correct?

8 A That is correct.

9 Q Okay. In looking at your testimony, attached to that
10 there is also an updated list of projects, am I correct?

11 A Yes.

12 Q In looking at the updated version of Project
13 Number 6, you would agree that it is now titled in your
14 testimony, hurricane, salt spray and storm surge water
15 intrusion damage, is that correct?

16 A That is correct.

17 Q And you would also agree that the updated project
18 list contains a detailed explanation of what that project
19 entails?

20 A Yes. We are providing more detail.

21 Q And looking back on the Production of Document
22 Request Number 6, you would also agree that there is really no
23 detailed explanation of what that project was in the original
24 production of document request?

25 A That is correct.

1 Q Referring to Project Number 1, you would agree that
2 as it is listed in Production of Document Number 19 it states,
3 "Third-party system assessment to determine the relative state
4 of vegetative conditions post-storm," is that correct?

5 A That is correct.

6 Q And in your updated project list that was attached to
7 your rebuttal testimony, the title has now changed to
8 third-party assessment of dangerous and hazardous vegetative
9 conditions, am I correct?

10 A Yes, that's true.

11 Q And in your updated version it now contains a
12 detailed explanation of what the project is?

13 A That is correct.

14 Q And looking back on Production of Document Number 19,
15 there is no such detailed explanation of what the project was?

16 A That is also correct. And if I could add, when you
17 look at the specific question that was asked of us for
18 Production of Document Number 19, please provide a copy of all
19 individual work orders and projects included in the storm
20 recovery expenses that exceeded \$100,000 each, and that are
21 incomplete as of December 31st, 2004, include the project
22 number, name of the project, amount of the project, location of
23 the project, and a description of the work required. We
24 believe we did that. We also believed, and inferred, and
25 assumed that this was directly and specifically related with

1 storm damage, that any indication that any projects that were
2 listed in this production of document request would similarly
3 be viewed and understood to be hurricane-related. We did not
4 understand that we would -- that anyone would believe we would
5 be providing work or descriptions of work that were not
6 hurricane-related.

7 Q I would agree that you have provided a detailed
8 analysis of what the projects were in your rebuttal testimony,
9 is that correct?

10 A I provided considerably more information, because it
11 was obvious to me that Mr. Majoros was confused as to what the
12 nature of Production of Document Number 19 was all about. So
13 we provided more information to help him understand the nature
14 of the projects and why they were caused by the hurricanes, as
15 well as providing an update to the costs, since we now had more
16 information related to the specific nature of the work that
17 needed to be accomplished.

18 Q And am I correct that you were not the person that
19 actually provided the initial response to Production of
20 Document Number 19?

21 A That is correct. That was Don Martin, who was a
22 member of my organization.

23 Q And you would agree that, of course, it is FPL's
24 burden to prove the legitimacy of the costs it is seeking to
25 recover from the customers?

1 MR. HOFFMAN: I'm going to object, Mr. Chairman. I
2 think that that question calls for a legal conclusion.

3 CHAIRMAN BAEZ: Can you restate it another way, Ms.
4 Christensen?

5 BY MS. CHRISTENSEN:

6 Q You would agree that FPL has an obligation to provide
7 supporting documentation for all the costs that it asks the
8 Commission to reimburse it for from customers?

9 A I agree that we need to demonstrate that our costs
10 are reasonable and prudent.

11 Q Does FPL have an obligation to provide supporting
12 documentation and support its costs?

13 A We will provide whatever documentation anyone asks us
14 to regarding these costs, absolutely.

15 Q I'm not sure you answered my question. Is it FPL's
16 obligation to provide that documentation as opposed to having
17 to wait for somebody to come ask for them? Do you have an
18 affirmative obligation to support the costs you are asking?

19 A We should provide --

20 MR. HOFFMAN: Excuse me, Ms. Williams. Mr. Chairman,
21 I want to interpose an objection, because I think the question
22 essentially calls for a legal conclusion as to what our legal
23 obligations are in terms of burden of proof, the discovery
24 process and so forth.

25 CHAIRMAN BAEZ: I agree, Ms. Christensen. So if

1 there is another way, if you can ask her about her
2 understanding about -- what her understanding about her the
3 company's responsibilities are.

4 MS. CHRISTENSEN: Certainly.

5 BY MS. CHRISTENSEN:

6 Q What is your understanding regarding FPL's obligation
7 to provide support and documentation for the costs it asks the
8 Commission for reimbursement for?

9 A My understanding is that we should provide whatever
10 information is necessary to determine whether the recovery is
11 correct or not. And I think we have done that.

12 MS. CHRISTENSEN: Thank you.

13 CHAIRMAN BAEZ: And that is that. Everybody okay?

14 BY MS. CHRISTENSEN:

15 Q Am I correct that FPL has yet to complete a final
16 sweep of its distribution system to determine all the damage
17 that FPL claims are caused by the hurricane?

18 A That is correct. We have completed about -- we have
19 completed 100 percent of the assessment associated with our
20 overhead feeder system, and we have completed 60 percent of the
21 assessment for the laterals, as well, but we have not completed
22 the actual repairs in the field for neither the feeder work nor
23 the lateral work.

24 Q Do you know when that will be completed?

25 A Yes, ma'am. We are expecting to complete the

1 overhead feeder assessment and repair work by the end of June.
2 And the overhead lateral work is expected to be completed by
3 the end of July.

4 COMMISSIONER DEASON: I assume that answer is based
5 upon an assumption of no more hurricanes?

6 THE WITNESS: Absolutely. Assuming that there isn't
7 some unforeseen circumstances that diverts our work force to
8 have to do something else, then that is the schedule we are
9 planning to follow.

10 BY MS. CHRISTENSEN:

11 Q Am I correct that FPL conducts multiple sweeps of its
12 system until it brings its infrastructure back to pre-failure
13 state?

14 A That is correct. We begin sweeps almost immediately
15 after customers are essentially restored. The first aspect of
16 those sweeps are to make sure that, in fact, customers haven't
17 somehow been left behind and that we haven't connected a
18 service. That is the first proprietary. And then immediately
19 thereafter we are doing sweeps to begin to correct the
20 infrastructure that has been damaged by the hurricanes to its
21 pre-failure condition.

22 Q Let me just make sure I'm understanding. The first
23 initial sweep is done immediately after power is restored and
24 assesses the system to make sure that you haven't left anybody
25 off the system, is that correct?

1 A That is correct.

2 Q Do you know what date that first level sweep was
3 conducted?

4 A Well, it is not a date certain. It works in
5 conjunction with the restoration efforts. So as a particular
6 grid, or a particular neighborhood, or a particular area has
7 been restored, immediately thereafter we begin doing patrols as
8 well as field sweeps to make sure that we haven't left anyone
9 behind. And so it depends. It depends on the geography of
10 what has been restored. It is not like we have a date certain
11 where it is time to do the sweeps. No. It is done as part of
12 our restoration effort.

13 Q Well, if you don't have a date certain when the first
14 level sweeps were completed, do you have a month in which you
15 finished your final first sweeps?

16 A Well, I would say that for Hurricane Charley that we
17 would have finished the first sweep probably in August, and
18 that for Hurricane Frances we would have finished our first
19 level sweep in September, and for Hurricane Jeanne we would
20 have finished our first level sweep probably towards the end of
21 September, beginning of October.

22 Q And all of the first level sweeps for all three of
23 the hurricanes would have been completed by the end of
24 September/October time frame?

25 A The first level sweeps, yes, the ones to ensure that

1 there are no customers still without power.

2 Q And those are the sweeps that are done in closest
3 proximity to the hurricane, correct?

4 A Yes, that is correct.

5 Q For those sweeps that you are doing after the first
6 level sweeps that are done four to six months after the
7 hurricanes are still outstanding, would you agree that it
8 becomes more difficult to be assured that the damage that you
9 find during the sweeps is related specifically to the
10 hurricanes and not some intervening event?

11 A No, I don't think it is difficult at all. I think it
12 is very easy to determine whether the damage is caused by the
13 hurricanes versus normal conditions that that we find in the
14 field during the normal course of business.

15 Q Does FPL currently have any documentation that
16 identifies the outstanding damage that needs to be corrected as
17 related to the hurricanes for their system?

18 A Well, as I mentioned, we have completed the
19 assessment for all the overhead feeder work, and so we now have
20 specific work requests identifying specific work that must be
21 done, and are going to be sending that out for bids so we can
22 get the best possible cost to complete that work. And for the
23 lateral work, as I mentioned, we have done about 60 percent and
24 we are in the process of completing those work packages. The
25 remaining 40 percent has not been done yet. And as soon as we

1 have that we will similarly be putting those projects out for
2 bid so that we can do it in the most cost-effective manner.

3 Q When did you complete the actual overhead assessment?

4 A The overhead assessment, I don't recall. It would
5 have been fairly recently, but I don't have an exact date.

6 Q And do you have an estimated date when you are going
7 to actually complete the lateral assessment?

8 A Let's see if I have that. No, I really don't. I
9 know that, like I said, we are 60 percent of the way there, and
10 that our plan is to complete the work by the end of July.

11 Q Okay. If you know, is FPL currently continuing to
12 book regular salaries for its distribution people to the storm
13 accounts?

14 A I don't know for certain, but I don't think so. I
15 think at this point our employees are on catch-up work and
16 normal work.

17 Q Let me ask you a hypothetical question regarding pole
18 replacement. Let's assume that FPL has a million poles, a
19 million wooden poles to make this simple so it is the same type
20 of poles in service, and the average life of those poles is 50
21 years. As a matter of simple math, would it be correct that
22 approximately two percent of those poles would need to be
23 replaced on a per year basis?

24 A That is a difficult question for me to answer. May I
25 ask you a question? When were the poles installed?

1 Q Well, let's assume that -- let's assume for the sake
2 of argument that they are all installed in the same vintage
3 year group?

4 A If they were all installed in the same vintage year
5 group, and they were 50 years old, I might be replacing a heck
6 of a lot more than two percent.

7 Q No, I'm saying they have an average life of 50 years.

8 A If they have an average life of 50 years and the pole
9 is -- and by the way, the poles don't have an average life
10 expectancy of 50 years. But assuming that for a second, if the
11 entire pole population was 50 years old, I would be replacing a
12 lot more than two percent per year.

13 COMMISSIONER DEASON: Excuse me, are you saying 50 or
14 15?

15 MS. CHRISTENSEN: No, 50. I'm sorry, I'm just trying
16 to get a mathematical equation.

17 BY MS. CHRISTENSEN:

18 Q Let's assume then for sake of the argument that they
19 don't all have the same vintage year, that they have a normal
20 dispersion of life within and you are replacing approximately
21 two percent.

22 A I don't think so, because, in fact, we do have about
23 a million poles in place today, and we don't replace two
24 percent per year. What we actually replace is based on an
25 inspection program. We inspect poles and based on the findings

1 of that inspection, we either treat the pole, or we brace the
2 pole, or replace the pole, or we leave it alone because it is
3 fine. So, it is very dependent on the inspection and the
4 conditions of the pole. That will warrant what the appropriate
5 action will be.

6 Q Do you know what percentage of poles you replace on
7 average?

8 A On average we are replacing about one percent
9 annually.

10 Q Okay. And do you know -- and I assume from your
11 answer that that may vary from year to year?

12 A It is right around that. It is like 1, 1.1, 1.2,
13 again, dependent on the findings of the actual field
14 inspections.

15 Q Okay. Now, would you agree that newer equipment,
16 such as newer poles, or transformers, are generally made of
17 better materials and better engineered than equipment made 10
18 to 20 years ago?

19 A No, I can't agree to that. I am certainly not a
20 material engineering expert, and I'm not qualified to make that
21 conclusion.

22 Q Would you agree that newer equipment adds value to
23 FPL's system?

24 A I can't agree with that, as well. From an operations
25 perspective, if a pole is sound and performing its function to

1 hold up the conductor, it doesn't matter to me whether it is 20
2 years old or whether it is 10 years old. It is performing its
3 stated purpose. The same thing with transformers, the same
4 thing with insulators, and all the other aspects of our
5 infrastructure. So, from my perspective, from an operating
6 perspective, it makes no difference. I don't see a value to
7 operations.

8 MS. CHRISTENSEN: Okay. I have no further questions.

9 MR. McWHIRTER: No questions.

10 CHAIRMAN BAEZ: MR. WRIGHT.

11 MR. WRIGHT: Thank you, Mr. Chairman. I have a few
12 questions.

13 CROSS EXAMINATION

14 BY MR. WRIGHT:

15 Q Good morning, Ms. Williams.

16 A Good morning.

17 Q My name is Schef Wright. I represent the Florida
18 Retail Federation.

19 A Pleased to meet you.

20 Q Likewise; thank you. I have a few questions for you.
21 If you could, please, summarize what the nature of your
22 participation in this proceeding has been?

23 A Well, I am a rebuttal to Mr. Majoros' testimony, and
24 at this point that's it.

25 Q I have been told by one of my colleagues that you

1 attended the customer service hearings that were held in
2 connection with this docket?

3 A Actually, that is true. I attended the customer
4 service, quality of service hearings throughout the state.

5 Q And do I understand correctly that you actually made
6 presentations on behalf of FPL at those hearings?

7 A I provided opening comments at each one of those six
8 hearings, that is correct.

9 Q Thank you. Did you review documents that were
10 provided by customers either at or as follow-up to the service
11 hearings?

12 MR. HOFFMAN: I am going to object, Mr. Chairman.
13 This is clearly outside the scope of her prefiled rebuttal
14 testimony.

15 MR. WRIGHT: I think she talks about what a great job
16 her company did and I have some questions for her about that
17 based on follow-up documentation that has been submitted to the
18 correspondence side of the file in this case.

19 COMMISSIONER DEASON: Ask your first couple of
20 questions and I am going to reserve the objection. I want to
21 see where this goes.

22 BY MR. WRIGHT:

23 Q I do understand correctly that your testimony goes to
24 the effect that your company did a great job in restoring
25 service?

1 A Yes.

2 Q What, if any, responsibility do you have for customer
3 elations?

4 A Well, as the person that ultimately is responsible
5 or the infrastructure that delivers electricity to the homes
6 and businesses around the state, I would say pretty
7 significant, since reliability of service is so important to
8 our customers.

9 Q In the Davies Consultants study there is an acronym
10 used that I do not recognize. It is ETR. What is an ETR?

11 A We do that in the utility. We have a lot of
12 cronyms. It is estimated time of restoration.

13 Q Thank you.

14 MR. WRIGHT: Mr. Chairman, I am going to ask my
15 colleague, Mr. Twomey, to distribute copies of correspondence
16 that are already in the correspondence side of the file. They
17 are part of the documents that the staff handed out at the
18 beginning of the hearing yesterday.

19 CHAIRMAN BAEZ: I'm sorry, they are part of --

20 MR. WRIGHT: They are part of a packet of
21 correspondence that the staff distributed to everyone, I
22 believe, or at least all the parties at the beginning of the
23 hearing yesterday.

24 CHAIRMAN BAEZ: Is that an exhibit?

25 MR. WRIGHT: It is not an exhibit, although I would

1 like to ask that the copies that I have excerpted here be
2 marked as Exhibit 44, I think. And ultimately, Mr. Chairman,
3 just so you know where I am going, I am going to ask some
4 questions about the Davies study and about the relation of this
5 correspondence to some points made in the Davies study.

6 CHAIRMAN BAEZ: I'm showing two pieces of
7 correspondence, one with a top date of April 13th, and another
8 with a top date of April 7th, and show them together marked as
9 Exhibit 44.

10 (Exhibit 44 marked for identification.)

11 BY MR. WRIGHT:

12 Q Ms. Williams, do you know Don Wilson?

13 A No, I do not.

14 Q Have you ever seen these documents before?

15 A No, I have not.

16 Q Do you know who Chuck Goodman is?

17 A I remember Chuck Goodman from one of the quality of
18 service hearings, yes.

19 Q Did he make comments at the quality of service
20 hearing?

21 A Yes, he did.

22 Q Were his comments to the same effect as in his e-mail
23 to Mr. Wilson dated April 7th, that is shown on the first page
24 of the two pages that were handed to you?

25 A I'm trying to remember exactly what his comments

1 were, but I recall -- if he was the same gentleman, I'm trying
2 to picture him, but I recall one gentleman and maybe it was
3 him, saying how he believed that the line clearing, there was
4 an issue with his property, and something to the effect of give
5 them everything they want, but make them do line clearing. Is
6 that the same gentleman that you are referring to?

7 Q I don't know. I was not at that service hearing, so
8 I am asking you what you know.

9 A I think that is who it is. I'm trying to calibrate.

10 Q Do you recall whether he said anything about having
11 asked that lines be cleared prior to the hurricane season?

12 A I can't recall exactly that. I didn't take copious
13 notes of each of the other folks that testified, but I do
14 remember Mr. Goodman and his comments generally.

15 Q Okay. Did other customer representatives make
16 comments to that effect, if you recall?

17 A I think there might have been one or two other
18 customers that made comments about line clearing, and, yes.

19 Q I have a few questions about the study by Davies
20 Consulting, Incorporated. Will it be okay with you if I just
21 call that the Davies study?

22 A Certainly.

23 Q Thank you. What was your involvement in the Davies
24 study?

25 A Well, initially not much at all. They were

1 contracted by a different person in the organization, not me.
2 And my involvement, my department's involvement was in
3 providing data, providing information to them early on. And
4 then in, I would say the end of January, beginning of February,
5 the Davies study became Davies recommendations, if you will,
6 and at that point there was a transition to me to be
7 responsible for putting whatever improvements, if you will,
8 enhancements to our hurricane processes in before the storm
9 season. So I now have that responsibility, but initially I had
10 very little involvement with the Davies study.

11 Q How did you come to include the Davies study as an
12 exhibit to your testimony?

13 A Well, I thought it was important to point out that,
14 in fact, there was a third-party consultant that had had an
15 opportunity to review our hurricane performance, both in terms
16 of our restoration performance, as well as how the
17 infrastructure performed, as well as our communications with
18 our stakeholders. And since that was available, I thought it
19 was important to attach to my testimony as corroborating proof,
20 I guess, of the fact that we did an excellent job of restoring
21 service to our customers.

22 Q Did the Davies folks do any independent field
23 analysis of FPL's tree trimming activities either pre or
24 post-storm?

25 A I don't know the answer to that.

1 Q If I could direct you to Page 4 of 17 of your Exhibit
2 BJW-2?

3 A Page 4 of 16, yes.

4 Q That appears to be a listing of the basis of DCI's
5 conclusions. I note the third bullet underneath the main
6 header is analysis of FPL provided data. That is accurate, is
7 it not?

8 A I believe so.

9 Q I don't see any indication in that table to indicate
10 that they looked at any data that they gathered or developed
11 themselves. Are you aware of any such data?

12 A Again, I don't know whether they did or didn't use
13 their own data. I do know they have their own databases, which
14 is also shown on this page.

15 Q Do you know whether their analyses included -- their
16 work included any interviews or surveys of FPL customers?

17 A I don't know.

18 Q Do you know whether their evaluation included any
19 study of FPL's plans for installing underground electric
20 distribution facilities, or FPL's policies relating to
21 undergrounding?

22 A They did review undergrounding, and I do believe they
23 have a comment related to underground in their conclusions,
24 which is further ahead in this. Let me see, I think that --

25 Q I found one on Page 11 of 16.

1 A Yes. It says, "In general, overhead is more
2 cost-effective than underground. Further study in process."

3 Q And that is the segue to my next question is what is
4 the status of such further study, if you know?

5 A We have completed our underground study and it
6 continues to appear to be that overhead is more cost-effective
7 than underground.

8 Q Ms. Christensen asked you a couple of questions
9 regarding sweeps and field assessments. I just want to make
10 sure we are clear on what you were talking about. You said
11 that you had completed 100 percent of the feeder assessment and
12 60 percent of the lateral?

13 A The assessment, not the work, yes.

14 Q Fine. That is not where I was going. I just want to
15 make sure we are talking about the same thing. When you say
16 the lateral assessment, are you talking about service laterals?

17 A I am talking about the primary circuit that leads
18 from the main circuit into the neighborhoods that provides
19 service to our homes, the laterals. They are still at primary
20 voltage.

21 Q So a feeder is one type of primary voltage
22 distribution line, and as you use the term, laterals is another
23 type of primary voltage distribution line?

24 A No. Let me see if I can help out with this one.
25 Feeders bring the power out from our substations. They are

1 main trunk lines.

2 Q I am aware of that, thank you.

3 A And they are typically along arterial roads, they are
4 three phases, and they are in our case either 13,000 kilovolt
5 or 23,000 kilovolt.

6 Q Yes.

7 A Laterals are branches, if you will, off the feeder
8 that can be single phase, two phase, or three phase that
9 typically serve much smaller numbers of customers. Think of a
10 feeder as being able to serve about 2,000 customers, and a
11 lateral serves about 100 customers. So if you can think of it
12 almost as a tree with the laterals being branches that come out
13 and go into the neighborhoods, where we then are able to
14 provide service to the customers.

15 Q I've got it. Are you familiar with the term service
16 lateral as being the wire that comes from the transformer to
17 the customer's house?

18 A Correct, and that is not what I'm talking about.

19 Q That is all I wanted to clarify.

20 A Okay.

21 MR. WRIGHT: Thank you. I don't have any more
22 questions. Thanks, Mr. Chairman.

23 CHAIRMAN BAEZ: Mr. Twomey.

24 MR. TWOMEY: Yes, sir, Mr. Chairman. Thank you.

25 CROSS EXAMINATION

1 BY MR. TWOMEY:

2 Q It's still good morning, Ms. Williams.

3 A Good morning.

4 Q I see from your testimony that in addition to being
5 the Vice-President for Distribution, you had the additional
6 storm title of -- and this is at Page 1 of your testimony --
7 FPL's Emergency Operations Officer, is that correct?

8 A That is correct.

9 Q I wanted to ask you, you say in that capacity you are
10 responsible for the overall coordination of all restoration
11 activities to ensure the successful implementation of FPL's
12 restoration strategy to restore service to our customers as
13 quickly as possible, correct?

14 A Yes.

15 Q Now, included in those responsibilities, is there a
16 responsibility to see that only the reasonable and prudent
17 costs associated with hurricane restoration are included as
18 charges to the storm reserve account?

19 A My responsibility is to restore the power as safely
20 and as quickly as possible, and when we seek recovery we are
21 only seeking those costs that we deem to be reasonable and
22 prudent.

23 Q Yes, and I see from the prehearing order that you are
24 listed as one of the company's witnesses that supports the
25 company's position on Issue 17?

1 A That is correct.

2 Q And that issue has stated were the costs FPL has
3 booked to the storm reserve reasonable and prudently incurred,
4 and you support the company's position that they are, correct?

5 A Absolutely, yes.

6 Q And so what I would like to try and find out is what
7 role you had as VP for distribution, as well as your additional
8 responsibilities as the storm coordinator for seeing that only
9 hurricane-related charges went to the storm damage reserve?

10 A Well, first of all, let me start off by emphasizing
11 that there is two phases to hurricane restoration. The first
12 phase is about restoring the customers backs to electric
13 service, and we do that as safely and as quickly as possible.
14 And the second phase is about the follow-up work, about
15 restoring the infrastructure to its pre-failure state. So, let
16 me first comment on the first.

17 In my capacity, the overarching goal, the primary
18 objective that we have is to restore power to our customers as
19 safely and as quickly as possible. And we will bring
20 additional resources on the property, we will open up staging
21 sites, we will get additional contractors, we will do
22 everything that is humanly possible to bring resources to bear
23 to get the lights back on as quickly as possible, because as a
24 matter of principal that is what we have got to do. Our
25 customers are counting on it, the community is counting on it.

1 And from my perspective those costs that make that happen are
2 reasonable and prudent, because we know that our customers are
3 expecting it from us, we also know that government officials
4 are expecting it from us, we expect it from ourselves. So if
5 it speeds up the restoration, Mr. Twomey, it is reasonable and
6 prudent, because it is all about getting the customers' lights
7 back on.

8 The second piece, which goes to how do we make
9 sure -- I guess if you can maybe rephrase the question, the
10 second piece, about how do we know that we are not adding
11 additional costs?

12 Q Yes, exactly. And I understood from your testimony
13 about the two phases, and I appreciate the additional emphasis.
14 My point is, and it probably is not exclusive to the second
15 phase, because it could occur in the first, but my concern in
16 understanding what the company does is more confined to the
17 second phase. And that is how do you ensure when you send your
18 people out on the sweeps, we have assessments you have
19 testified to, to try and fix the system, bring it up to snuff,
20 pre-storm condition as I understand your testimony. How do you
21 ensure that the people that are conducting the assessment and
22 then the follow-up actual repairs only designate repairs that
23 were, in fact, occasioned by the hurricane, and that don't
24 involve revenue work, or deferred maintenance, or otherwise
25 maintenance that is not hurricane. Do you understand my

1 question?

2 A I do, and let me try to clarify that for you if I
3 could. After we completed the first level sweeps, which was
4 just about making sure that no customers were left behind, and
5 we began our follow-up sweeps, it was about clearing up
6 hazardous conditions. Making sure that we didn't have wire
7 that was too low, that we didn't have something dangerous out
8 there. So, that was the initial sort of second phase.

9 When we were at a position of identifying what is the
10 follow-up work necessary to bring the infrastructure back to
11 its pre-failure state, we did a sample in the most effected
12 areas, the hardest hit areas by these hurricanes. And we did,
13 as a matter of fact, several samples. One sample spoke to
14 thermographic comparisons, and we did thermal vision, which is
15 what we call it, of our feeders in Toledo Blade, which is where
16 Charlotte, Arcadia, DeSoto, which really got hard hit by
17 Hurricane Charley, and we looked at the condition of our
18 feeders, the main circuits with thermographic equipment to
19 identify hot spots. The connections themselves. Is the feeder
20 electrically sound, and we compared the findings post-hurricane
21 to the findings we typically get when we do it on a normal
22 business basis, because we do thermal vision every year. And
23 what we found was really terrific. We found that as a matter
24 of fact the thermal vision study post-hurricane did not have
25 significantly different results than pre-hurricane. So that

1 was great news. Electrically sound.

2 But we also did a sample that showed a visual
3 inspection, if you will, identifying visual items, issues with
4 our system. And we found, again, pre-storm findings versus
5 post-storm findings significant differences in the visual
6 inspections. There were missing lightning arrestors, there
7 were missing capacitor banks, there were guy problems, there
8 were a number of very specific items that were significantly
9 worse. I mean, just a real problem than pre-storm.

10 So now we have information that is pre-storm and
11 post-storm, and it is the basis of that sample that drew us to
12 12 specific items. Nothing deteriorated. Missing pieces of
13 equipment, damaged pieces of equipment. So we have provided a
14 check list to our organization, and we have said go forth, and
15 as do you this assessment on our feeders and on our laterals,
16 make sure that you are only looking for these 12 items, which
17 we found again on the basis of that sample, and only repair and
18 only charge to storm reserve for these 12 items.

19 Now, should you find deterioration, should you find a
20 problem that appears to be regular maintenance type stuff, we
21 want you to do it, charge it to a separate work order. And we
22 have the procedures and processes and the accounting in place
23 to be able to differentiate that work and charge direct
24 hurricane caused damage to the storm reserve, and regular
25 deterioration maintenance to our regular business. That is in

1 place. We are controlling it through our work management
2 system. We have work requests in place, we have scheduled the
3 work, and we are placing the work out for bid to make sure we
4 can do it in the least cost possible.

5 Q Let me ask you with respect to your first thermal
6 study, that just shows electrically generated hot spots?

7 A Correct. It shows hot spots that you visually can't
8 see with the naked eye.

9 Q But it wouldn't show heat differences or anything in
10 poles, or --

11 A Well, not in poles. It would show heat differences,
12 the differences between ambient temperature and the connection,
13 it would show as bright spots.

14 Q Now, with respect to the -- and you described what
15 the scope was of that study. With respect to the second visual
16 study, what was the scope of that study pre-hurricane season,
17 post-hurricane season?

18 A Well, we also have -- we annually do thermal vision
19 and visual inspections of our feeders, so we have a lot of
20 documentation about what is typically found. And so we were
21 able to compare pre-hurricane what the visual results were
22 versus post-hurricane, and it is that significant difference
23 that drew us in the direction of doing these 12 items on this
24 check list that we are using for both our feeder follow-up work
25 as well as our lateral follow-up work.

1 Q Are those 12, is that check list in the record
2 anyplace that you are aware of?

3 A I don't know. It might be, I'm not sure.

4 MR. TWOMEY: Mr. Hoffman, by chance do you know?

5 MR. HOFFMAN: I know it is not in her prefiled
6 testimony and exhibits. Whether it is in a discovery response,
7 I couldn't say.

8 CHAIRMAN BAEZ: That's a good one.

9 MR. TWOMEY: Mr. Chairman, I just wanted to ask if it
10 would be convenient if we could have that.

11 CHAIRMAN BAEZ: As a late-filed?

12 MR. TWOMEY: Yes, sir.

13 CHAIRMAN BAEZ: Ms. Williams?

14 THE WITNESS: Absolutely. I have no problem with it.

15 MR. TWOMEY: Thank you. So it would be --

16 CHAIRMAN BAEZ: I have 45.

17 MR. TWOMEY: Thank you, sir.

18 CHAIRMAN BAEZ: And that will be, as Ms. Williams had
19 described it, the 12-point check list?

20 THE WITNESS: 12-point check list for follow-up work
21 for overhead, feeder, and laterals.

22 (Late-filed Exhibit 45 marked for identification.)

23 BY MR. TWOMEY:

24 Q So, if I understand your testimony on that point, the
25 company's employees, as well as your contract employees would

1 have this checklist. They would go out, they would see damage,
2 if it met something on the 12-point check list, it would
3 qualify for a charge to storm restoration. If it was
4 deterioration, as you said, and wasn't included on the 12
5 points, then it would not qualify for storm damage and it would
6 have another code?

7 A Yes, but let me clarify that before we go out and do
8 this work we are sending out engineers who have this
9 information, who are familiar with our infrastructure, and are
10 designing a work request to specifically target the work that
11 needs to be done. That is how we are controlling it. And then
12 that work is executed either by contractors or by FPL depending
13 on work load management issues.

14 Q So if any work was charged improperly categorized and
15 charged to the storm that was otherwise revenue or otherwise
16 non-hurricane maintenance, that would be contrary to the
17 company's policy for conducting the restoration?

18 A It would be contrary to our policy for doing so, and,
19 again, by having a very tight control over these 12 items and
20 having a work request and having it checked, et cetera, we
21 believe that it limits the possibility of that happening.
22 Because, again, a contractor is only going to get paid for the
23 work he is authorized to do and he is only authorized to do the
24 work on that work request.

25 Q In fact, on Page 12, in summarizing your testimony,

1 you say at 17 that all of the dollars you are requesting here
2 are, in fact, associated only with restoration of the 2004
3 hurricane season, correct?

4 A Line 17, Page 12?

5 Q Yes, ma'am.

6 A Yes.

7 Q Now, on the previous page, 11, you rebut Mr. Majoros'
8 contention that the facilities are quote, old and worn out,
9 close quote, and that by inference they are inadequately
10 maintained reasonable and correct, is that right?

11 A That is correct.

12 Q Now, you say at Line 5, starting at Line 5, that FPL
13 has no incentive to defer system maintenance and then you go
14 on. And what I want to ask you is not to suggest that you have
15 done this, but in terms of incentives, if you did, in fact,
16 defer system maintenance, wouldn't that in the periods that the
17 maintenance was deferred save the company labor costs?

18 A Well, I mean, we have not deferred maintenance, so, I
19 can't really answer that question without -- we haven't done
20 it.

21 Q Well, let me change the nature of the question.
22 Let's say, for example, if there were a pole that needed to be
23 replaced, and you didn't replace it, the actual replacement,
24 the failure to replace it when it needed to be replaced would
25 defer a labor charge, correct?

1 A It could.

2 Q And assuming that it took people to take the old pole
3 down and dispose of it, and people to install the new pole and
4 hardware, and so you would have a labor savings, and you would
5 also have a capital savings in terms of the pole and the
6 associated hardware that had to be replaced, is that correct?

7 A It you didn't do the work, certainly.

8 Q Now, that is my only point.

9 A But if I could add, that is where the business risk
10 comes in. By not replacing that pole in a timely manner, I am
11 facing the risk of that pole falling down and having to do so
12 at a much higher cost on restoration, not to mention the
13 potential danger associated with it because of our customers
14 and everything else.

15 So, you have to take both pieces together. We have
16 no incentive to defer system maintenance and, therefore, take
17 on the additional risks of not doing things on a timely manner.
18 That's why I mentioned both in the same sentence.

19 Q Yes, but follow me with this line. If you had a --
20 hypothetically you had a pole that was not just deteriorated,
21 but rotten, okay, on the verge of falling down, and it would
22 cost -- in period one it would cost the company labor expense
23 in real dollars, labor expense, replacement cost of the pole,
24 and so forth, and a charge against the reserve for pole
25 retirement built into the depreciation allowance, and you don't

1 do it. And then in period two, which could be the next day, a
2 hurricane, a named storm comes through and at whatever wind
3 level knocks that same pole down. Are you following me so far?

4 A Uh-huh.

5 Q Now, the pole has to be replaced to restore service
6 in my hypothetical. Isn't it true that in the second period
7 that the company would benefit at least theoretically by being
8 able to charge the cost of the repair or the replacement of the
9 pole even if it is a higher cost to the storm damage reserve?

10 MR. HOFFMAN: Excuse me, Mr. Chairman. I'm going to
11 object, because I think this type of accounting-driven question
12 is outside the scope of her testimony.

13 CHAIRMAN BAEZ: That's a little bit too much detail
14 than what she is testifying to, Mr. Twomey. I mean, you got at
15 30,000 feet, but if you are going any deeper than that, there
16 was an accounting witness.

17 COMMISSIONER DEASON: Mr. Chairman, it is certainly
18 the correct ruling. This witness probably can answer that
19 better than some accountant.

20 CHAIRMAN BAEZ: She probably can, but I have to
21 respond to an objection.

22 COMMISSIONER DEASON: She has fielded every question
23 so far.

24 CHAIRMAN BAEZ: I would be loath to limit her
25 responses in any case, but the attorney has correctly entered

1 in objection.

2 MR. TWOMEY: And I'm not going to fight the ruling or
3 the objection. Let me try something else, because I think --

4 CHAIRMAN BAEZ: If you want to characterize it like
5 that, go ahead.

6 MR. TWOMEY: Let me shift gears.

7 CHAIRMAN BAEZ: Or try something else, you know,
8 however you want to put it.

9 MR. TWOMEY: Mr. Chairman, I have asked Counsel to
10 pass out a four-page document that I would like to have at
11 least identified as an exhibit, and what it consists of, Mr.
12 Chairman, as you can see from the third page, this is a -- I
13 took this off of the Internet. And the first two, two and a
14 half pages are a Friday, September 17th, 2004, story by Thomas
15 Cordy of the Palm Beach Post, and captions of the photographs
16 that appeared with the original story, but the photographs are
17 not included in my handout.

18 CHAIRMAN BAEZ: What was the date, Mr. Twomey?

19 MR. TWOMEY: It was Friday, September 17th, 2004. It
20 appeared in the Palm Beach Post. The author was apparently
21 Thomas Cordy, C-O-R-D-Y. And the second remaining text is a
22 letter to the editor titled article on rotten poles raises red
23 flag on FPL maintenance, and that was dated Thursday, September
24 30th, 2004.

25 CHAIRMAN BAEZ: Show them together marked as

1 Composite 46.

2 (Composite Exhibit 46 marked for identification.)

3 MR. TWOMEY: Thank you, sir.

4 BY MR. TWOMEY:

5 Q Now, Ms. Williams, I will tell you that as a person
6 interested in utility regulation, I use Google News to follow
7 your company and others in terms of daily newsclips. And would
8 I be correct in assuming that your management has a service or
9 follows articles dealing with the company in periodicals and
10 newspapers?

11 A Yes, we have a newsclip service.

12 Q And do you receive those?

13 A I do.

14 Q Have you seen this, do you recall seeing this article
15 before?

16 A This one with the war, no, I have not.

17 Q Well, this one that talks about out of state contract
18 employees during your restoration allegedly seeing a number of
19 poles that were rotten, and according to the article fallen as
20 a result of being rotten?

21 A I have never seen this before.

22 Q The article discusses -- we can treat this
23 hypothetically if you -- because I don't know if it is true,
24 but this article says, Ms. Williams, that FPL also uses Osrose
25 to inspect its poles, is that true?

1 A Osmose is part of our inspection program, yes.

2 Q And that is current?

3 A Yes.

4 Q How often do they inspect your poles?

5 A Well, they annually go out and inspect a portion of
6 the poles because, of course, we have a million poles in our
7 service territory. So they inspect a portion of the poles, and
8 again based on the findings, the assessment of that inspection,
9 they are either treated, braced, replaced, or left alone,
10 depending on the condition.

11 Q If you know, how often would -- on an annual basis,
12 what percentage of the systems poles would be inspected by
13 Osmose?

14 A I don't have that information. I don't know.

15 Q Aside from contract inspectors like Osmose, do you
16 have a position within the company for employees called a
17 distribution inspector?

18 A For specifically pole inspection?

19 Q For inspecting poles and hardware and the like?

20 A Well, no, not specifically for that, but as part of
21 any kind of work we do in our infrastructure, while we are out
22 there getting ready to either connect new customers or do any
23 kind of preventative maintenance, we do obviously take a look
24 at our facilities, and do identify poles in some instances that
25 do need to be replaced or braced.

1 So our inspection program is not just Osmose, but it
2 is also a combination of the regular work we do in connection
3 with new service, in connection with planned maintenance, and
4 everything else. Thermal vision and visual inspections, while
5 we are out there thermal visioning our facilities and doing
6 visuals, we also check out the condition of the poles. And if
7 we find poles that are deteriorated, then we replace those as
8 part of follow-up work. That's why we replace about one
9 percent of our poles annually.

10 Q Yes, ma'am. But the thermal vision, as I understood
11 your previous testimony, was a sampling program?

12 A No, we thermal vision 100 percent of our feeders on
13 an average four-year cycle.

14 Q Okay. But accepting that, thermal vision won't
15 reveal rotten poles, correct?

16 A When you are thermal visioning, you are also at the
17 same time doing a visual inspection. So you have got the
18 thermographic inspection and the visual inspection, and the
19 visual inspection includes the condition of the poles.

20 Q So it is your testimony that -- do I understand it is
21 your testimony that you visually inspection your poles every
22 four years?

23 A We visually inspect our circuits, our feeder circuits
24 every four years, and that includes the poles for our feeders.

25 Q And did you say that you don't have a position in

1 distribution called a distribution inspector?

2 A Not that I am aware of.

3 Q You may have answered this, but I don't recall, but
4 do you have employees, not contract employees, but company
5 employees that are responsible -- whose sole responsibility is
6 to go around and inspect the condition of the distribution
7 system?

8 A Well, yes. We have employees, the folks that do the
9 thermal vision and the visual inspections whose sole job is
10 exactly to do that, to thermal vision our facilities and
11 inspect the facilities. I don't think they are called
12 inspectors, but that is their job. That's what they do.

13 Q And are all of those positions filled?

14 A Yes, sir.

15 Q As you acknowledged to Mr. Wright, you gave the
16 company's opening remarks at the customer service hearings.
17 And I think you were present by my recollection when I believe
18 it was a Mr. William Cline (phonetic) got up, and I think he
19 was the witness or there was a witness that I recall that
20 testified that he was a former engineer with the company, and
21 the thrust of his testimony was in part that the company had
22 had 16,000 employees at some time in the early to mid-1990s,
23 and now that it was down to 10,000 or in that neighborhood, and
24 that as a consequence he believed the company was incapable of
25 performing preventive maintenance to the extent it was earlier.

1 Do you recall his testimony?

2 A I do recall his testimony, and I wish I could have
3 rebutted it, because frankly we are doing more maintenance now
4 on our infrastructure than we were 15 years ago. We are doing
5 thermal vision now, we were not doing it then. We are doing a
6 higher level of vegetation management than we were doing then.
7 We are doing an incredible amount of work on our
8 infrastructure, which is why it is not a coincidence that our
9 reliability is the best in the state, and among the best top 25
10 percent in the country. You don't get results like that when
11 you are not adequately maintaining your infrastructure, when
12 you don't have plans in place, and execute those plans to make
13 sure that your infrastructure is delivering the kind of
14 electricity and the reliability that our customers expect. So
15 it was not the time or place, but I disagreed with his
16 testimony completely.

17 Q Did you disagree with the numbers he gave in terms
18 of -- at least in the generality that the company had 16,000 or
19 thereabout employees at one point and that it was down now to
20 some 10,000?

21 A I don't recall. I mean, I honestly don't remember
22 what the numbers that he quoted or what the real numbers were,
23 but we have had a downsizing and we did have downsizing in the
24 '90s, absolutely.

25 Q And isn't it also true that because of the growth

1 that has been experienced in your service territory that you
2 have in that same time period roughly experienced the growth of
3 customers probably in excess of a million system-wide?

4 A We have more customers now, that is correct. We also
5 have better technology and systems in place that allow our
6 employees to do more than they have ever been able to do in the
7 past. And, again, I would go back to the results. The results
8 of our infrastructure are hard to argue with. There is
9 excellent reliability. The best in the state, top 25
10 percentile in the country.

11 Q This article, you haven't seen it before and you
12 haven't had time to read it, have you?

13 A The X article?

14 Q Yes.

15 A No, I have not seen it before.

16 Q Let me just make this be a hypothetical. What this
17 article says in part is that the out of state crew was
18 repairing a shattered or broken pole which they claimed to the
19 author of the report or the resident was shattered because it
20 was rotten. And then the article goes along and says that the
21 next morning, apparently the lights were out after restoration,
22 the lights were out again for the purpose of putting in four
23 additional brand new poles in the easement. And my question is
24 if you accept that, and if the company's employees came across
25 a shattered pole without regard to why it fell, without being

1 rotten or whatever, and fixed that immediately, and then saw
2 four other poles that, let's say, were rotten hypothetically,
3 and replaced them in connection with the restoration of
4 immediate service, would that go to storm damage?

5 MR. HOFFMAN: Excuse me, Mr. Chairman. And I don't
6 have any objection to Ms. Williams answering this question, but
7 I do want to note for the record to the extent Mr. Twomey's
8 questions recite to this article, I want it make it clear on
9 the record that we object to that if they are offered for the
10 truth of what is purportedly in these documents.

11 CHAIRMAN BAEZ: And we may very well get a chance to
12 discuss that at the end of Ms. Williams' answer.

13 MR. TWOMEY: And I'm not suggesting that it is true,
14 Mr. Chairman.

15 MR. HOFFMAN: And apart from that, I have no
16 objection to her trying to answer it.

17 THE WITNESS: Would you repeat the question, please?

18 BY MR. TWOMEY:

19 Q Yes. The article suggests that a pole was replaced,
20 and the article says it was replaced because it was shattered
21 due to being rotten and that service was restored, and
22 gratefully so as I read the article. And then the next morning
23 the service was off again, but for the reason -- it says, "And
24 then at 9:30, joy of joys, there was light, but not for long.
25 The power was out again on Friday morning. This time it is

1 because four brand spanking new poles are being installed along
2 the easement, not exactly scheduled maintenance, but an outage
3 we can live with."

4 And my question related to that is if they came in
5 and replaced the pole because it was down, shattered clearly
6 for hurricane restoration, and they found -- if your company
7 under your 12 checklist thing found 12 poles that weren't
8 shattered, but found being there that they were rotten and
9 replaced them, would those four additional poles and the
10 associated charges go to storm damage?

11 A Well, let me set this up a little bit, because it is
12 a pretty long question. One percent of our poles had to be
13 replaced. Of that one percent, which we are talking about 11
14 or 12,000 poles, about half of those poles came down because of
15 trees or debris bringing them down. So, I say that because I
16 think it is important for the Commission to understand that we
17 did not have a significant part of our poles being brought down
18 or failing because they were deteriorated. That is not the
19 case. So that is an important point to make.

20 Second, under your hypothetical -- first of all, we
21 did not have a 12-point check sheet when we were in the process
22 of restoring power. So in your case the out of state crew
23 replaced the pole that was shattered and then left. It is
24 highly probable -- and, again, I am speculating, because I
25 don't know anything about this particular case, and who knows

1 what they actually found out there -- that when that crew left,
2 the service or possibly the condition that they didn't take
3 care of right on the spot that they believed was an imminent
4 danger for the customers in that community that could not wait,
5 and so they appropriately took care of replacing those poles.

6 And the poles probably were damaged, the insulators
7 could possibly have been blown off for all I know. The
8 conductor could have been sagging. Who knows. It could have
9 been any number of reasons why they chose to replace those
10 poles, including and this happened all the time, you had, we
11 had multiple interruptions of the same customers. Many times
12 what would happen is we would go out there, we would restore
13 service, we had trees that were shaking up significantly. A
14 tree that possibly had not fallen that caused the interruption
15 or the pole to be shattered in the first place could have the
16 next day blown over and brought poles down.

17 There are a myriad numbers of scenarios that can be
18 played out here without knowing the specifics, without knowing
19 whether this is even true, I would be speculating. But if they
20 found poles that were a danger to those customers because they
21 were so damaged by the hurricane, they absolutely were
22 appropriately charged to the storm reserve.

23 Q Okay. With respect to the cause of poles coming
24 down, did the company as part of its restoration process take
25 or require reports or was there time to do this, whether there

1 were poles that were deteriorated that could have led to them
2 coming down easier than they otherwise would have? My question
3 is was that something that your people, whether they are
4 employees or contract employees, would report to you in the
5 process of bringing the system back up?

6 A We did not capture that information when we were
7 restoring power. But, again, we do know that at least half
8 came down because of trees and because of debris, flying
9 objects bringing them down, and not deterioration.

10 Q Just to be clear, when you say not deterioration --

11 A At least half for certain.

12 Q Yes, but my question is when you say trees falling
13 and not deterioration, are you saying that the poles were not
14 deteriorated and were knocked over by trees?

15 A That is correct, that is what I'm saying.

16 Q Now, on your Exhibit GJW-1, what I would like to
17 know -- I'm sorry, do you have it?

18 A I do.

19 Q What I would like to know, if you are aware, is
20 whether any of these projects -- is it safe to call them
21 projects?

22 A Follow-up work.

23 Q Pardon me?

24 A Follow-up work.

25 Q Follow-up work. Are any of these follow-up work

1 categories, were any of them scheduled prior to the hurricanes?

2 A No, they were not.

3 Q Because it is all follow-up work?

4 A It is all follow-up work directly caused by the
5 hurricanes.

6 MR. TWOMEY: Thank you. That's all.

7 CHAIRMAN BAEZ: Staff?

8 MR. KEATING: No questions.

9 CHAIRMAN BAEZ: Redirect. Or, Commissioners?

10 Commissioner Davidson.

11 COMMISSIONER DAVIDSON: A couple of questions, and I
12 apologize if this is very basic, and I am asking you to repeat.

13 What was or is FPL's rule or practice, if that is
14 more accurate, for booking base salaries to the storm account?

15 THE WITNESS: The direction that I have been given is
16 to apply to charge all the direct costs associated with
17 hurricane restoration to the storm reserve, including normal
18 salaries if the employees were solely working on hurricane
19 restoration.

20 COMMISSIONER DAVIDSON: If cost was not an issue, and
21 I understand it is, and if the only focus was on reliability
22 during storms and during storm recovery, and I understand that
23 can't be the only focus, you have got day-to-day ordinary
24 activities. But with those two parameters, does FPL have any
25 data as to the reliability of overground verse underground

1 distribution just as it relates to storms?

2 THE WITNESS: I can tell you about 2004, if that
3 would help.

4 COMMISSIONER DAVIDSON: Sure.

5 THE WITNESS: We found -- and, of course, every storm
6 is different, and in 2004 the three storms that hit our area
7 were very much high wind storms, and they were not high flood
8 storms. So if they has been Hurricane Camille type storms
9 where you had an enormous surge, the information, the
10 conclusions might be different. But from these three storms
11 that were primarily wind, we found much more damage on the
12 overhead facilities than we did on the underground. As a
13 matter of fact, I think I even have some specifics on that. We
14 found -- I might have brought it.

15 COMMISSIONER DAVIDSON: That's okay.

16 THE WITNESS: But we did find that generally wind is
17 going to have more of an impact on our overhead facilities than
18 it will on the underground. And, when an overhead facility is
19 damaged, it is damaged more often, the frequency is higher of
20 an interruption on a per mile basis of the overhead. It is
21 faster to restore. It is the opposite in the underground.
22 While the frequency of interruption in the high wind storm
23 might be lower, the duration, the length of interruption
24 associated with an underground failure tends to be longer
25 because you don't know exactly where the fault is. It takes

1 digging. It takes a different set of equipment. So from a
2 reliability perspective, overhead performs worse in high wind,
3 better in floods, and on a duration perspective overhead -- you
4 are able to restore power in your overhead systems faster than
5 you are in your underground.

6 COMMISSIONER DAVIDSON: Final question, if you can
7 answer this. If FPL determined that a pole was going to be
8 replaced in the next six months according to some schedule, but
9 then a hurricane hit and that one pole had to be replaced, do
10 you know whether the cost of that replacement would be booked
11 to the storm reserve or to the pole retirement reserve?

12 THE WITNESS: It would have been booked to the storm
13 reserve, my understanding is that, and then we would replace a
14 different pole. You are never done with your maintenance and
15 your replacement. I think there is a perception that if you
16 replaced 1,000 poles as part of hurricane storm recovery that,
17 well, now you don't have -- somehow that that work is
18 evaporated, you don't have 1,000 poles to replace the
19 following year. You still are going to replace 1,000 poles,
20 you just go to the next level.

21 You still have an enormous infrastructure out there,
22 a million plus poles, of which we know which ones need to be
23 replaced. We have an inspection program and so forth and so
24 on. So it is not a one for one, and I think that is an
25 important comment to make. Just because it was replaced as

1 storm recovery does not remove the need for me to replace
2 potentially a different set of 1,000 poles the following year.

3 COMMISSIONER DAVIDSON: Thank you.

4 CHAIRMAN BAEZ: Ms. Williams, I have one quick
5 question, and it is on the unfinished or the not completed
6 projects. These numbers are still included in -- I just want
7 to understand, maybe they asked you this. There is a big
8 number out there, 998 or whatever it is, this is included in
9 that?

10 THE WITNESS: It is included in that, that is
11 correct.

12 CHAIRMAN BAEZ: So none of these projects that are
13 unfinished, even though the numbers are updated, I guess I'm
14 trying to fix where the line is if there is one?

15 THE WITNESS: There is a line. I think although this
16 work, some of it -- by the way, of this Exhibit GJW-1, only \$26
17 million remain not to be completed at this point. We have done
18 a lot of work. But, I think we have made a commitment not to
19 seek more than the initial -- my number is 890.

20 CHAIRMAN BAEZ: There are so many numbers floating
21 around. I'm sure it is hard to keep track of it.

22 THE WITNESS: But I think my 890 translates to your
23 980.

24 CHAIRMAN BAEZ: You understand my question?

25 THE WITNESS: Yes, I do. No, we are not going to be

1 seeking in excess of that. I think we have made a commitment
2 not to do that.

3 CHAIRMAN BAEZ: Very well. If there is no other
4 questions, Commissioners? Mr. Hoffman, you can go ahead and
5 redirect.

6 MR. HOFFMAN: Thank you, Mr. Chairman.

7 REDIRECT EXAMINATION

8 BY MR. HOFFMAN:

9 Q First, Ms. Williams, Ms. Christensen and then others
10 asked you questions regarding the sweeps that the company has
11 conducted, do you recall those questions?

12 A I do.

13 Q Are those sweeps part of your normal mode of
14 distribution operations, or are they part of your storm mode of
15 operations?

16 A Yes, there are two differences modes of operation.
17 Normal mode is a day-to-day business that we engage in
18 providing service to our customers, new customers, preventative
19 maintenance and the like. The work that I have identified here
20 in GJW-1, the sweeps that I have discussed are in no way part
21 of normal work. They are only and uniquely needed when your
22 infrastructure has had damage caused to it directly by the
23 hurricanes, so it is part of our storm mode. We always do
24 operate in two different modes.

25 Q So that if, for example, you had an individual who

1 say, for example, was a planner or designer within
2 distribution, would that person have the same responsibilities
3 in your normal mode of operations as well as in your storm mode
4 of operations?

5 A No, they would have different responsibilities. And
6 using exactly the designer classification, designers are the
7 field engineers or the folks that are dealing primarily with
8 developers and contractors to put in new infrastructure. They
9 are also designing system expansion, they are designing
10 infrastructure improvements. They are field engineers.

11 During a storm they are primarily patrollers. Ers
12 they are out there patrolling the lines and assessing the
13 damage to the infrastructure. So it is a very different task.

14 Q You were asked many questions about poles. Can you
15 first explain the difference, if there is any, between FPL's
16 normal pole inspection and replacement program and the type of
17 pole replacement work that was conducted as a result of the
18 three hurricanes?

19 A Yes. Our pole inspection program is really
20 three-pronged. First, you have an actual inspection of a
21 portion of our poles annually. Based on that assessment, we
22 either treat, brace, replace, or leave alone. And that is a
23 small population. Then you have the thermal vision and the
24 visual patrols that I talked about that we do on an average of
25 every four years for every circuit, every feeder circuit. And,

1 again, poles that are identified as needing to be replaced are
2 similarly addressed through thermal vision, so that is a
3 different population.

4 And then in the normal business of expanding our
5 infrastructure, adding customers to the infrastructure that
6 causes us to have to reconfigure the infrastructure when we
7 come across any facilities, poles and otherwise that need to be
8 replaced, we similarly do that. That is normal business.

9 During the storms it is about getting the lights
10 restored. It is about doing the necessary work to immediately
11 replace poles that have been damaged, poles that have been
12 destroyed. It is uniquely related to service restoration. Or
13 in the second phase, about restoring the infrastructure to the
14 pre-failure state.

15 So, a good example of what can happen in that second
16 phase is during the first phase we brace the pole, made a
17 temporary repair, got the lights back up. But in the second
18 phase that pole is damaged and needs to be replaced. We will
19 take care of that. So, one, you know, the poles that we
20 replace under a hurricane condition during storm mode are not
21 really the same population of poles that we are dealing with
22 typically on our inspection and other business, if you
23 understand what I mean.

24 Q In other words, your normal pole replacement
25 requirements do not go away, they are not diminished?

1 A That is correct. They do not go away. The work does
2 not evaporate. You continue to have to take care of your
3 infrastructure, and you continue with your inspection and your
4 pole replacement program regardless of the hurricane.

5 Q You recall a hypothetical question that Ms.
6 Christensen posed to you regarding pole replacements?

7 A Yes.

8 Q What concerns, if any, do you have with that
9 hypothetical question?

10 A Well, it is very simplistic. The reality is that the
11 population of poles that we have out there is very diverse. We
12 have poles that are two years old, poles that are seven years
13 old. We have poles that are concrete, poles that are wood. We
14 have poles that are Class II, and they tend to be stronger, and
15 poles that are Class V that tend to be weaker. You have
16 multiple populations, and it was a very simplistic approach
17 that I don't think is the way we do business, and it is not a
18 good business practice. So it was hypothetical, but it is not
19 a practical way of looking at the pole population.

20 Q You were asked a number of questions, I believe, by
21 Mr. Twomey, hypothetical questions regarding deteriorated poles
22 or rotten poles. Do you recall that general line of
23 questioning?

24 A Regarding the article?

25 Q Yes.

1 A Yes.

2 Q As part of the company's follow-up work, did the
3 company have an opportunity to do any sort of study or sampling
4 study of the poles?

5 A Well, the only thing I can -- I don't know that I
6 have a sample, but I can state that, you know, only one percent
7 needed to be replaced, and of that one percent, more than half
8 were brought down for nondeterioration reasons. They were, in
9 fact, wind or tree related. And so from my perspective, I did
10 not feel that we had a large portion of our facilities coming
11 down, if you will, or being damaged because of deterioration.
12 The data doesn't support that.

13 Q In the beginning of Ms. Christensen's line of
14 questions she asked you a few questions about the company's
15 response to Public Counsel Document Request Number 19. Do you
16 recall that?

17 A Yes.

18 Q And Public Counsel's Document Request Number 19 asks
19 for a description of the work required, it did not ask for a
20 detailed explanation, is that correct?

21 A That is correct.

22 Q Could you explain briefly for the Commission the
23 difference between the information that was provided in the
24 response to Public Counsel Document Request Number 19 and the
25 information provided in your Exhibit GJW-1?

1 A Sure. In GJW-1 we provided more detailed
2 information, more description to really address the fact that
3 from our perspective Mr. Majoros was confused and not entirely
4 aware of what we were doing or why. So we provided more
5 information to help clarify the need for the follow-up work.

6 And the other differences between GJW-1 and POD 19
7 has to do with the cost estimates themselves. We now had a lot
8 more information. We had completed some of the work and so,
9 therefore, we updated the cost estimates.

10 Q Why are the projects that you have outlined in
11 Exhibit GJW-1 important to the company's distribution
12 operations?

13 A Well, you know, there is a wide misconception out
14 there that somehow we have a brand new infrastructure as a
15 result of these three hurricanes and that is not the case. As
16 I have mentioned repeatedly today, only one percent of our
17 poles came down or had to be replaced, excuse me. Only about
18 one and a half percent of our transformers, so what we are
19 dealing with today is materially the same infrastructure that
20 we had pre-hurricanes.

21 So, therefore, the follow-up work is critical for us
22 to make sure that we can return the same infrastructure to its
23 preexisting condition. Not to do that would mean an
24 infrastructure that was weaker and not as resilient as what we
25 had going into the storm season last year.

1 Q You were also asked some questions regarding, I
2 believe it was by Mr. Twomey, his recollection perhaps of some
3 statements made at a customer service hearing. Do you recall
4 that?

5 A Yes.

6 Q Were you present at all of the customer service
7 hearings?

8 A Yes, I was.

9 Q Could you generally describe the response that the
10 company received in terms of the quality of its performance
11 from individual customers and local governments?

12 A Yes. It was very gratifying to hear directly from so
13 many of our customers about how pleased they were with our
14 efforts, and how pleased they were with our employees. I mean,
15 in many instances they talked about their efforts in terms of,
16 you know, being heroes or the incredible amount of work that
17 they did. Many times even leaving their own families, the fact
18 that they had damage in their own homes to come to work and
19 help the customers.

20 It was very moving and very gratifying to hear that,
21 and to see so many of our customers not just talk about the
22 fact that they were extraordinarily pleased with our efforts,
23 but also so many of them also talked about specifically the
24 surcharge and how they would be very willing to pay the
25 surcharge. So from my perspective it was overwhelming. Many

1 more positive comments and very few negative comments.

2 Q You also were asked some questions purportedly
3 arising from the customer service hearings regarding FPL's tree
4 trimming practices. Do you recall that?

5 A I do.

6 Q Could you explain in your judgment what role FPL's
7 vegetation maintenance and tree-trimming practices played in
8 terms of the damage to FPL's infrastructure that arose as a
9 result of the three hurricanes?

10 A Yes, I would be happy to. I think that our
11 vegetation management practices and our maintenance practices
12 not only result in the excellent reliability we provide on a
13 day-to-day basis, but also resulted in less damage to our
14 infrastructure than would otherwise have been experienced if we
15 did not have the vegetation management practices in place that
16 we do. And we saw that repeatedly throughout our service
17 territory.

18 Having said that, though, and I have said this
19 throughout to anyone, whoever wants to listen to me, there is
20 no level of vegetation management that can be done that is
21 going to prevent every single tree related outage. Now, why is
22 that? When you have hurricanes, Category 4 hurricanes,
23 Category 3 hurricanes, especially back to back ones where the
24 soil gets saturated, and you have trees out there and you have
25 high winds, many, many times we saw trees actually uprooted and

1 thrown into our facilities. There is no level of vegetation
2 management that is going to prevent that from happening. But I
3 do think that our vegetation management practices actually
4 prevented some outages in many of the service territory,
5 throughout the service territory that we serve.

6 Q I have just a few more questions, Ms. Williams. Mr.
7 Twomey asked you a line of questions concerning the
8 reasonableness and prudence of what you have characterized as
9 the company's follow-up costs. Do you recall those questions?

10 A Yes, I do.

11 Q Do you have an opinion as to whether these phase two
12 restoration follow-up costs are reasonable and prudent?

13 A Very much so. I have reviewed the back up document
14 for every single one of these projects. I have looked at the
15 cost. I have looked at the specific descriptions of the damage
16 that was caused by the hurricanes in each one of these, and
17 they appear very reasonable. And I am talking about the
18 distribution projects, as well as all the other projects on
19 this list.

20 For example, the radio towers. That is not within my
21 area of responsibility, but I happen to know firsthand that
22 those radio towers came down because we were unable to
23 communicate the way we do on normal business during storms, and
24 those radio towers are critical to our ability to perform the
25 way we do on a normal day basis, let alone a hurricane. So in

1 looking at this information, looking at specifically the
2 acilities that are identified as needing to be repaired, I
3 ind them to be both reasonable and prudent.

4 Q You earlier in response to a question of mine talked
5 about the different roles and tasks that, say, a designer would
6 play in terms of that designer's normal activities versus storm
7 restoration duties. Do you recall that?

8 A I do.

9 Q When the designer in your example is engaged in storm
10 restoration activities, are those activities charged to the
11 storm reserve?

12 A Yes, they are.

13 Q And what is the type of normal work, if you will,
14 that is left behind?

15 A Well, that designer who is doing patrols during the
16 storm, his normal work or her normal work is not being
17 completed, and that normal work is all the engineering that has
18 to be done for our new service connect customers, for system
19 expansion projects, for reliability projects and the like. So,
20 after the storm is over and that designer goes back to their
21 work site, they have a tremendous amount of catch up work that
22 they have got to do. Because those customers, now you have
23 pent up demand, and those customers are clamoring for service.
24 And then, of course, he is going to have to work extended hours
25 to be able to catch up on that work load.

1 Q And is there generally overtime associated with that
2 scope of work?

3 A Yes, there is.

4 Q And is the scope of work that you just described
5 charged to the storm reserve?

6 A No, it is not.

7 MR. HOFFMAN: No further questions.

8 CHAIRMAN BAEZ: Exhibits.

9 MR. HOFFMAN: Mr. Chairman, I would move Exhibits 27
10 and 28.

11 MR. WRIGHT: 44.

12 CHAIRMAN BAEZ: Without objection, show 27 and 28
13 admitted.

14 (Exhibits 27 and 28 admitted.)

15 MR. HOFFMAN: Mr. Chairman, I am going to impose an
16 objection to Exhibit 44. This is a piece of correspondence
17 that is part of the correspondence side of the docket. I think
18 that Commission practice is to keep service hearing
19 documentation on the correspondence side of the docket. I
20 believe that a similar effort was made in the Progress
21 proceeding a few weeks ago, and that request was denied to
22 place that type of correspondence into the record of the
23 technical hearing. So we would object.

24 CHAIRMAN BAEZ: Mr. Hoffman, while normally I would
25 agree with you, I have to overrule the objection and admit this

1 one in particular. It was established that the gentleman that
2 wrote these letters had testified, and there is sworn testimony
3 and this falls under that exception. It corroborates sworn
4 testimony, so I am going to allow Exhibit 44 to be admitted.
5 We have Late-filed 45.

6 Ms. Williams, I'm sorry, before you go, don't leave
7 the jurisdiction just yet.

8 THE WITNESS: Sorry.

9 CHAIRMAN BAEZ: Your time is coming. There is a
10 late-filed for the checklist, if you can give us an estimate of
11 when you can have it ready for us?

12 THE WITNESS: I think we could have that maybe today,
13 if not tomorrow.

14 CHAIRMAN BAEZ: Okay. Today or tomorrow, that will
15 be fine. And we will admit it subject to objection as we do
16 with the late fileds. So 44 and 45 are admitted into the
17 record.

18 (Exhibit 44 and 45 admitted.)

19 CHAIRMAN BAEZ: 46.

20 MR. TWOMEY: I would move 46, Mr. Chairman.

21 MR. HOFFMAN: Mr. Chairman, I am going to object to
22 this as well. There has been no authentication of this four
23 page piece of paper other than what Mr. Twomey has represented.
24 These four pages contain statements by individuals outside of
25 this hearing room, they are hearsay statements and they cannot

1 be tested today. This discussion in these four pages refer to
2 pictures that are not attached, and so, my position is that
3 whatever is alleged in these purported newspaper articles is so
4 unreliable the way that it has been presented that it cannot
5 form anything proper for the Commission to rely on in a record
6 in this proceeding.

7 CHAIRMAN BAEZ: Mr. Twomey.

8 MR. TWOMEY: May I respond? Yes, sir, Mr. Chairman.
9 First of all, as to the hearsay nature of it, as the Chair will
10 know and as Mr. Hoffman certainly knows, hearsay is admissible
11 under the Administrative Procedures Act if it is corroborative,
12 not the sole basis for testimony, a point in the case. And
13 this goes to support, although hearsay, Mr. Majoros's testimony
14 that Ms. Williams was rebutting to the extent that the -- I
15 forget the quote that she had in her testimony that the system
16 was worn, and to that extent. So, I think the hearsay, you
17 could take it for what it is worth in terms of the hearsay
18 nature.

19 As far as the authentication of it, I would offer
20 to -- I accept that there is limitations of what I have, but I
21 would offer -- I would ask to be allowed to obtain a copy of
22 the actual paper with the photographs and submit it in lieu of
23 this.

24 MR. HOFFMAN: If I may briefly respond? Just one
25 item, Mr. Chairman.

1 CHAIRMAN BAEZ: Yes.

2 MR. HOFFMAN: The rule of law under Chapter 120
3 states that irrelevant, immaterial, or unduly repetitious
4 evidence shall be excluded, but all other evidence of a type
5 relied upon by reasonably prudent persons in the conduct of
6 their affairs shall be admissible. And the gravamen of my
7 proposition and my argument is that what Mr. Twomey has presented
8 would not be relied upon by reasonably prudent persons to make
9 a finding of fact or even corroborate a finding of fact in this
10 proceeding.

11 CHAIRMAN BAEZ: Mr. Twomey, I have a bunch of
12 problems with this exhibit. First of all, I will agree with
13 Mr. Hoffman that it is impossible to authenticate. I mean,
14 there is no masthead or anything else. On top of that,
15 although you try to make the argument that it is buttressing
16 Mr. Majoros's testimony, if it had been Mr. Majoros' hearsay or
17 correspondence much like the prior, I may have been inclined to
18 accept it, but this is a story in a newspaper at the end of the
19 day, and a letter to the editor at that. There is no
20 corroboration. I don't know what it is corroborating other
than the fact that people had problems or complaints.

MR. TWOMEY: Well, sir, I, of course, will accept
your ruling, but let me point out --

CHAIRMAN BAEZ: I know you will. I know you will.

25 MR. TWOMEY: The witness, part of her testimony was

1 specifically directed toward rebutting Mr. Majoros's statement
2 that the system was old and worn, which she put in quotes in
3 the answer, old and worn. We could find it, but it was there.
4 I asked her about it. She is rebutting Majoros's testimony to
5 that effect. The newspaper article, which I can show with
6 masthead and so forth, came from the Palm Beach Post, and
7 apparently was written by one of their staff photographers. It
8 states -- whether it is true or not, certainly it is hearsay --
9 states that the pole in question was rotten, that it had been
10 rotten for over a year, and was recognized as being rotten over
11 a year by FPL's supervisor, and that --

12 CHAIRMAN BAEZ: Go ahead, finish.

13 MR. TWOMEY: That's it. I mean, I think the fact
14 that it talks about a rotten pole that had been allegedly
15 rotten -- hearsay, of course -- for over a year goes to the
16 point of whether the system in any part was worn and old.

17 CHAIRMAN BAEZ: You know, that hearsay opening is a
18 little too wide for my taste, so I'm going to disallow
19 acceptance of Exhibit 46, and let the corroboration of what the
20 conditions are based on the testimony that we heard at this
21 customer service hearing speak for itself. I don't have any
22 more exhibits. Did I miss one?

23 MR. KEATING: I believe you have covered all the
24 exhibits.

25 CHAIRMAN BAEZ: All right.

1 Ms. Williams, you are now excused. Thank you very
2 much.

3 THE WITNESS: Thank you.

4 CHAIRMAN BAEZ: And this is a good time to break for
5 lunch. We will come back at 2:00 o'clock. And I think we have
6 two witnesses left by my count.

7 (Lunch recess.)

8 CHAIRMAN BAEZ: We will go back on the record.

9 Ms. Smith, you have a witness.

10 MS. SMITH: FPL would ask that rebuttal witness
11 Doctor William E. Avera be called to the stand, and he has not
12 been sworn.

13 (Witness sworn.)

14 CHAIRMAN BAEZ: Go ahead, Ms. Smith.

15 WILLIAM E. AVERA

16 was called as a rebuttal witness on behalf of Florida Power and
17 Light Company, and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. SMITH:

20 Q Please state your name and business address?

21 A William E. Avera, 3907 Red River Street, Austin,
22 Texas 78751.

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

24 A FINCAP, Incorporated, and I am the president.

25 Q Doctor Avera, have you prepared and caused to be

1 filed 22 pages of rebuttal testimony in this proceeding?

2 A Yes, Ms. Smith, I have.

3 Q Do you have any corrections or revisions to your
4 rebuttal testimony?

5 A I have a few minor corrections beginning on Page 1,
6 at Line 21, inside the quote, the second word on that line
7 should be recovery. A Y should be added to recover.

8 Q Do you have any others?

9 A The other corrections are all on Page 8 beginning at
10 Line 7. The date appearing on Line 7 of June 2002 should be
11 June 2003. Then on Line 8 of the same page, the number in the
12 left-hand side, the 11.75 should be 11.25. And, finally, at
13 Line 9, the date that appears in the middle of that line of
14 August 2003 should be corrected to be February 2004. That
15 completes my corrections, Ms. Smith.

16 Q If I asked you the questions contained in your
17 rebuttal testimony today, would your answers be the same?

18 A Yes, they would be.

19 MS. SMITH: I would ask that Doctor Avera's prefiled
20 rebuttal testimony be inserted into the record as though read.

21 CHAIRMAN BAEZ: Without objection, show the prefiled
22 rebuttal testimony of Doctor Avera entered into the record as
23 though read.

24 BY MS. SMITH:

25 Q Doctor Avera, did you also prepare Exhibit WEA-1

1 attached to your rebuttal testimony?

2 A I did.

3 MS. SMITH: Mr. Chairman, WEA-1 has previously been
4 identified as Exhibit 29.

5 CHAIRMAN BAEZ: Yes, it has.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **REBUTTAL TESTIMONY OF WILLIAM E. AVERA**

4 **DOCKET NO. 041291-EI**

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

6 A. William E. Avera, 3907 Red River, Austin, Texas, 78751.

7 **Q. By whom are you employed and in what capacity?**

8 A. I am a principal in Financial Concepts and Applications, Inc. (“FINCAP”), a firm
9 engaged in financial, economic, and policy consulting to business and government.

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. On November 4, 2004, Florida Power & Light Company (“FPL”) initiated this
12 proceeding to recover extraordinary storm-related costs, in excess of insurance
13 proceeds and reserves. The purpose of my testimony is to respond to the direct
14 testimony of Mr. James A. Rothschild, on behalf of the Office of Public Counsel
15 (“OPC”). As Mr. Rothschild noted, his testimony was premised on OPC’s
16 interpretation of the Revenue Sharing Agreement arising from the stipulation in
17 Docket No. 001148-EI:

18 My starting point is OPC’s position that there is a requirement flowing
19 from the stipulation that FPL first has to experience an earnings drop
20 to no more than 10.0% on equity before it is entitled to request
21 incremental recover of any expenses. (p. 4)

22 I refute Mr. Rothschild’s assertions regarding the impact of this interpretation on
23 FPL’s ability to earn a fair rate of return on equity (“ROE”) and its implications for

1 FPL's ongoing ability to attract capital. Specifically, my rebuttal testimony
2 demonstrates that:

- 3 • *The interpretation of the Revenue Sharing Agreement assumed by Mr.*
4 *Rothschild is inconsistent with sound regulatory policy and the*
5 *expectations of the investment community;*
- 6 • *Mr. Rothschild has provided no meaningful support for his conclusion*
7 *that a 10 percent ROE is "conservatively high," with other objective*
8 *benchmarks confirming the inadequacy of this threshold return; and,*
- 9 • *OPC's recommendation to effectively disallow reasonable and*
10 *necessary expenses would send an alarming signal to investors and*
11 *would have a negative impact on FPL's financial flexibility and the*
12 *cost of capital.*

13 **Q. Please describe your educational background and professional experience.**

14 A. A description of my background and qualifications, including a resume containing the
15 details of my experience, is attached as Exhibit No. WEA-1.

16 **Q. Are there established regulatory policies related to FPL's application to recover**
17 **the accumulated storm restoration costs?**

18 A. Yes. A fundamental tenet of the regulatory compact is that the utility is entitled to an
19 opportunity to recover from customers all reasonable and necessary costs incurred in
20 providing service, including a fair return on investment, and that these costs should be
21 borne by those for whose benefit they were incurred. In exchange, the utility agrees
22 to provide safe, reliable service to customers at a reasonable cost.

1 **Q. Is FPL's request to recover storm-related costs, net of insurance proceeds and**
2 **reserves, through a monthly surcharge consistent with regulatory policy?**

3 A. Absolutely. The inclusion of all reasonable and necessary costs in rates is the essence
4 of public utility regulation. Not only is this obligation related to the control of natural
5 monopolies, it is also essential to encourage efficient utility operations and assure
6 reliable utility service to consumers. Apart from maintaining adequate utility service,
7 the opportunity to recover reasonable and necessary expenditures, such as those
8 associated with FPL's extraordinary storm restoration efforts, is central to the cost-of-
9 service approach to regulation adopted in Florida and elsewhere in this country.

10 **Q. Are the extraordinary costs at issue in this proceeding analogous to other**
11 **expenses that might be deferred and recovered through future rates?**

12 A. Yes. Perhaps the most directly comparable example would be the regulatory
13 treatment typically afforded to fuel and purchased power costs, with expenses in
14 excess of the amount recovered from customers routinely being capitalized after-the-
15 fact and recovered through future rates. In fact, unexpected weather conditions,
16 capacity shortages, or fuel cost volatility can produce power market conditions that
17 share many of the characteristics that distinguish catastrophic events, such as natural
18 disasters.

19 In the aftermath of the unprecedented storm season in 2004, FPL has been
20 forced to incur significant costs in meeting its commitment to provide reliable service
21 that have not been considered in existing rates. Obviously, FPL has no control over
22 acts of nature and no ability to control or influence the events that have conspired to
23 drive storm-related costs considerably above the amounts available through insurance
24 and existing reserves.

1 **Q. Is there any merit to Mr. Rothschild's position that FPL's investors have already**
2 **been compensated for bearing the risks associated with the unprecedented storm**
3 **season in 2004?**

4 A. No. Mr. Rothschild wrongly claims that, because the terms of the stipulation imply
5 an ROE for FPL that exceeds the yield on risk-free Treasury bonds, investors are
6 already compensated for FPL's "entire risk profile, including the risk of storm
7 damage" (p. 8). In fact, however, regulators routinely shield utilities and their
8 investors from exposure to business variability and unforeseen events, including
9 factors such as fluctuations in fuel and purchased power costs or the impact of natural
10 disasters. As discussed earlier, investors' required rates of return for utilities are
11 premised on this regulatory compact that allows the utility an opportunity to recover
12 reasonable and necessary costs. And by sheltering utilities from exposure to
13 extraordinary or catastrophic events that are beyond the control of management,
14 ratepayers benefit from lower capital costs than they would otherwise bear. Of
15 course, the corollary is also true – shifting the burden of extraordinary risks to
16 shareholders would have the effect of considerably increasing investors' required rate
17 of return and, in turn, the cost of equity. As discussed in Mr. Dewhurst's testimony,
18 contrary to Mr. Rothschild's allegation, there is little to indicate that shareholders
19 included exposure to the costs of recovering from an unprecedented storm season in
20 their assessment of FPL's investment risks or their required rate of return. Rather, the
21 published opinions of bond rating agencies and others in the investment community
22 support a finding that FPL's request in this proceeding is entirely consistent with a
23 straightforward interpretation of the terms of the 2002 stipulation.

1 **Q. Does the fact that allowed rates of return may exceed the yields on risk-free**
2 **government debt provide any support for Mr. Rothschild's position?**

3 A. No. The fact that allowed rates of return – including the bottom-end benchmark
4 specified in the stipulation – exceed the yields on risk-free Treasury bonds says
5 nothing about whether investors are being compensated for assuming the risks of
6 unforeseen or catastrophic events, as Mr. Rothschild now argues. While the
7 regulatory compact allows for the recovery of prudently incurred expenses necessary
8 to provide customers with reliable service, investors nonetheless remain exposed to a
9 broad spectrum of other risks that fully warrant a cost of equity considerably in
10 excess of a risk-free rate of return. Moreover, because existing rates do not
11 incorporate a return on storm costs in excess of insurance proceeds and reserves,
12 shareholders have already assumed additional risk, and borne part of the burden,
13 associated with FPL's recovery efforts. Contrary to Mr. Rothschild's assertions, the
14 fact that investors require a premium significantly above the yields on risk-free
15 government debt provides no reason to believe that FPL's cost of equity includes
16 compensation for the extraordinary risks associated with the unprecedented storm
17 season in 2004. While the stipulation expressly concluded that "FPL will no longer
18 have an authorized [ROE] range for the purposes of addressing earnings levels," the
19 10 to 12 percent range retained "for all other purposes" is generally in line with
20 returns allowed for other electric utilities across the country. Accordingly, it includes
21 a risk premium commensurate only with the normal business and operating risks
22 facing FPL; it clearly does not include a risk premium adequate to compensate
23 investors for bearing the extraordinary risks of absorbing the financial impact of
24 catastrophic weather.

1 **Q. Did Mr. Rothschild provide any meaningful support for his assertion (p. 8) that a**
2 **10 percent ROE is “more than adequate” for FPL?**

3 A. No. First, it is important to note that Mr. Rothschild’s opinion was not based on any
4 independent analyses of investors’ required rate of return for FPL. Rather, Mr.
5 Rothschild’s “support” consisted of selected half-truths that paint an incomplete – and
6 **inaccurate – picture of investors’ risk perceptions and return requirements for electric**
7 **utilities in today’s capital markets.**

8 **Q. What was Mr. Rothschild’s first piece of “evidence”?**

9 A. Mr. Rothschild claimed that the 10 percent bottom threshold of the ROE sharing
10 range is now generous because there have been instances of authorized rates of return
11 that fall below this benchmark. As Mr. Rothschild stated:

12 Since the date of the stipulation, there have been some electric
13 companies that have been awarded a cost of equity of less than 10%.

14 (pp. 8-9)

15 Of course, what Mr. Rothschild’s statement ignores is the fact that, since the
16 stipulation, the vast majority of authorized ROEs for electric utilities have been well
17 in excess of the 10 percent lower bound. The rates of return on common equity
18 authorized for utilities by regulatory commissions across the U.S. are compiled by
19 Regulatory Research Associates (“RRA”) and published in its Regulatory Focus
20 report. In the thirty years since RRA began reporting this information, average
21 annual authorized rates of return for electric utilities have *never* fallen to the 10
22 percent threshold that Mr. Rothschild now characterizes as “more than adequate.”

23 Moreover, the fact that there have been isolated instances in which utilities
24 have been awarded lower returns says nothing about FPL’s specific risks and

1 circumstances. For example, the four companies specifically referenced by Mr.
2 Rothschild – Public Service Electric and Gas Company, Jersey Central Power &
3 Light Company (“JCPL”), Atlantic City Electric Company, and Connecticut Light
4 and Power Company – all operate in states that have undergone industry
5 restructuring. As part of this restructuring, the operations of formerly integrated
6 electric utilities have been disaggregated into three primary components – generation,
7 transmission, and distribution. As a result of this unbundling, authorized returns for
8 these utilities are predicated on a set of circumstances that differs markedly from
9 those currently faced by FPL.

10 Consider JCPL, for example. In August 2002 the New Jersey Board of Public
11 Utilities (“BPU”) authorized a rate of return on equity for JCPL of 9.5 percent. But
12 as the BPU made clear in its order, this ROE was premised on its belief that JCPL had
13 experienced a “significant reduction in the risks it faces” as a result of the divestiture
14 of its generating assets brought about by restructuring. [Final Order, Docket No.
15 ER02080506]. As the BPU summarized:

16 Most notably, the Board believes that the overall risks facing the
17 electric utility distribution companies in New Jersey have decreased as
18 a result of the various provisions of [the Electric Discount and Energy
19 Competition Act]. Foremost is the Basic Generation Service Auction
20 process that the Board has adopted for the procurement of power for
21 the electric companies in New Jersey. The BGS process eliminates the
22 risks associated with the companies’ planning, construction and
23 operation of generation facilities. The resulting “wires only”
24 distribution companies should therefore require a lower cost of capital

1 that ratepayers are required to support in their retail rates. [Final
2 Order, Docket No. ER02080506 at p. 38]

3 Under the BPU's reasoning, the risks of FPL would imply a significantly higher cost
4 of equity; a fact that was lost in Mr. Rothschild's flawed comparison.

5 **Q. What other data concerning allowed rates of return disproves Mr. Rothschild's**
6 **conclusions?**

7 A. **Closer to home**, in June 2002 the FPSC authorized an ROE for Peoples Gas System
8 of 11.75 percent (D-020384-GU), with City Gas Company of Florida being granted a
9 return on equity of 11.25 percent in August 2003 (D-030569-GU). Given that
10 investors are likely to perceive the investment risks of integrated electric utilities as
11 exceeding those of a gas distribution company, these findings also contradict Mr.
12 Rothschild's conclusion that a 10 percent ROE is "conservatively high."

13 **Q. Do the earned rates of return cited by Mr. Rothschild (p. 9) provide any insight**
14 **as to investors' required ROE for FPL?**

15 A. No. In an effort to buttress his position, Mr. Rothschild observes that, for the 23
16 companies in the Electric Utility (East) industry group of The Value Line Investment
17 Survey ("Value Line"), more than half of the earned rates of return reported for 2004
18 are less than 10 percent, "with some companies ... expected to earn 8.0% or less on
19 equity" (p. 9). Once again, however, Mr. Rothschild's comparison paints an
20 incomplete and erroneous picture.

21 First, earned rates of return on book equity based on past accounting data do
22 not reflect the forward-looking rates of return actually required by investors in the
23 capital markets. Investors capitalize expected future cash flows and not historical
24 accounting earnings, and what was earned on book value is not directly related to

1 current market requirements. Moreover, the comparable earnings standard is based
2 on the notion that the allowed return should be commensurate with returns on other
3 investments *having comparable risks*. Not only is the earned return on book equity
4 divorced from the actual expectations of investors in the capital markets, Mr.
5 Rothschild has presented no evidence that would support a finding that a group
6 composed of all utilities in Value Line's Electric Utility (East) industry are risk-
7 comparable to FPL.

8 Second, there is considerable evidence that the single-period earned returns
9 cited by Mr. Rothschild are downward-biased. Specifically, if rates of return are
10 based on end-of-year book values, as are those reported by Value Line, they will
11 understate actual returns because of growth in common equity over the year.
12 Consider a hypothetical firm that begins the year with a net book value of common
13 equity of \$100. During the year the firm earns \$13 and pays out \$3 in dividends, with
14 the ending net book value being \$110. Using the year-end book value of \$110 to
15 calculate the rate of return results in a value of 11.8 percent, while the average annual
16 return is actually 12.4 percent – earnings of \$13 divided by the *average* net book
17 value over the year (\$105).

18 Additionally, the single-period earned returns referenced by Mr. Rothschild
19 are colored by Value Line's lukewarm assessment of near-term prospects in the
20 electric utility industry. Specifically, Value Line has reduced its Timeliness ranking (a
21 relative measure of year-ahead stock price performance for the 98 industries it covers)
22 for the electric utility industry groups to between 84 and 90, noting that "[t]he electric
23 utility industry carries one of our lowest industry Timeliness ranks." [Dec. 31, 2004
24 at 695]. While this cautious outlook may explain the fact that Mr. Rothschild's

1 earned returns on book value are below investors' required rate of return, it is not
2 necessarily indicative of long-term expectations or investors' actual returns. Indeed,
3 Value Line noted in its February 11, 2005 edition that "Edison Electric Institute's
4 index of electric utility stocks posted a 22.8% total return last year."

5 **Q. Does Mr. Rothschild's discussion of earned rates of return tell the whole story?**

6 A. No. As with his comparison to allowed rates of return, Mr. Rothschild's review of
7 Value Line's earned rates of return is incomplete. Indeed, while Mr. Rothschild
8 focuses on a single historical period – 2004 – Value Line's most recent projections for
9 the electric utility industry indicate an expected return on book equity for their 2007-
10 2009 forecast horizon of 11 percent. [Feb. 11, 2005 at 1775]. The average of Value
11 Line's book returns for the 23 utilities in the Electric Utility (East) industry group
12 exceed the 10 percent threshold in 2004, 2005, and for the 2007-2009 period, with
13 earned returns for FPL Group ranging from 11.0 to 12.0 percent. Similarly, a
14 February 10, 2005 research report by A.G. Edwards noted that "[o]ur 2006 and 2007
15 EPS estimates assume Florida Power and Light earns an 11.75% ROE in 2006 and a
16 12.0% ROE in 2007."

17 Finally, Mr. Rothschild's observation that certain electric utilities, "including
18 Allegheny Energy, Central Vermont, Northeast Utilities, and TECO," (p. 9) have
19 earned returns at or below 8 percent only serves to illustrate the illogical nature of his
20 conclusions. The financial turmoil surrounding Allegheny Energy, which completely
21 omitted common dividend payments in 2003, has been well publicized. While Value
22 Line reports an earned return on equity of 5.0 percent for Allegheny Energy for 2004,
23 no one could credibly claim that this is in any way related to investors' required rate
24 of return for a utility with "junk" bond ratings. Indeed, the average 2004 earned

1 return on book equity for the four firms specifically cited by Mr. Rothschild is 5.1
2 percent. The fact that this average earned return falls below the yields available on
3 far less risky senior debt illustrates the lack of economic logic underlying Mr.
4 Rothschild's position.

5 **Q. Does Mr. Rothschild's comparison of financial risks (pp. 9-10) support his**
6 **conclusion regarding the reasonableness of a 10 percent ROE for FPL?**

7 A. No. While the uncertainties inherent in financial leverage are certainly one element
8 considered by investors in their assessment of relative risks and required returns,
9 there are a host of other factors that are integral to their evaluation. Consider the
10 example of bond ratings, which are widely regarded as an objective measure of
11 overall investment risks. The analyses of ratings agencies, such as Standard & Poor's
12 Corporation ("S&P"), encompass a thorough review of a plethora of considerations
13 that impact investment uncertainties. As S&P noted, this review:

14 ... includes analysis of the nature of the company's business and its
15 operating environment, evaluation of the company's strategic and
16 financial management, financial analysis, and a rating
17 recommendation. ...The many factors assessed include industry
18 prospects for growth, stability, or decline, and the pattern of business
19 cycles (*see Cyclical*ity). It is critical to determine vulnerability to
20 technological change, labor unrest, or regulatory interference.
21 Industries that have long lead times or that require a fixed plant of a
22 specialized nature face heightened risk. [*Corporate Rating Criteria*,
23 2004]

1 By focusing on a single factor – FPL’s equity ratio – to the exclusion of all other
2 considerations, Mr. Rothschild’s comparison presents a distorted and inaccurate view
3 of overall investment risks.

4 **Q. What other considerations invalidate Mr. Rothschild’s financial risk arguments?**

5 A. Apart from the fact that financial leverage alone does not accurately capture
6 investors’ risk perceptions, the 65.1 percent equity ratio referenced by Mr. Rothschild
7 (p. 10) is not representative of the financial risk associated with FPL. A significant
8 portion of FPL’s power requirements are obtained through long-term purchased
9 power contracts that obligate FPL to make certain capacity and minimum contractual
10 payments. Investors perceive these commitments as akin to those associated with
11 traditional debt financing, and consider them in evaluating FPL’s financial risks.

12 The implications of purchased power commitments for a utility’s financial
13 risks have been repeatedly cited by major bond rating agencies. Consequently, it has
14 been necessary for FPL to maintain a relatively greater proportion of equity capital in
15 order to maintain its credit standing. Incorporating the debt equivalent of FPL’s
16 obligations under its purchased power contracts in the Company’s capital structure
17 would have the effect of increasing its financial leverage and reducing its common
18 equity ratio well below the 65.1 percent calculated by Mr. Rothschild. Indeed, after
19 adjusting for the off-balance sheet financial impact of purchased power commitments,
20 FPL has an adjusted common equity ratio at December 31, 2004 of approximately 55
21 percent. This falls within the range of 2004 capitalizations reported by Value Line for
22 the Electric Utility (East) group referenced by Mr. Rothschild.

1 **Q. Should the FPSC place any reliance on Mr. Rothschild's quantification of the**
2 **impact of financial risk on investors' required rate of return?**

3 A. No. Because the cost of equity is inherently unobservable, there is no way to
4 precisely quantify the impact of specific factors, such as a change in financial risk, on
5 investors' required rate of return. Apart from the fact that Mr. Rothschild provides no
6 support or explanation of his determination that an equity ratio of 65.1 percent
7 implies a reduction in the cost of equity vis-à-vis the Value Line Electric Utility (East)
8 group of 75 basis points, this conclusion is meaningless for two reasons.

9 First, while I agree that *other things equal*, a higher common equity ratio
10 would imply lower investment risks and a lower required return, Mr. Rothschild has
11 not demonstrated that to be the case here. As noted earlier, there is no evidence to
12 suggest that the 23 firms referenced by Mr. Rothschild constitute a valid basis for
13 comparison with FPL. Meanwhile, the investment community has recognized that
14 FPL faces other risks, including exposure to nuclear uncertainties, economic
15 volatility, and burdensome capital spending requirements, which distinguish it from
16 other utilities. Second, because Mr. Rothschild has conducted no market-based
17 analyses of the cost of equity for the firms in the Electric Utility (East) group, there is
18 no basis to conclude that applying his 75 basis point adjustment would produce an
19 implied return at or below 10 percent. Thus, even if Mr. Rothschild's unsupported
20 supposition were correct, it provides no insight as to the reasonableness of the
21 bottom-end ROE specified in the stipulation.

1 **Q. Does a decline in interest rates imply a corresponding change in the cost of**
2 **equity, as Mr. Rothschild represents (p. 10)?**

3 A. No. While interest rate trends are directly observable in the capital markets, the
4 impact of such changes on investors' required rate of return on equity is not as readily
5 determined. While the cost of equity generally moves in the same direction as
6 interest rates, it is widely accepted that the cost of equity does not increase or
7 decrease in lockstep with changes in bond yields. Indeed, there is substantial
8 evidence that equity risk premiums tend to move inversely with interest rates. Thus,
9 when interest rates are relatively low, the spread between the cost of equity and the
10 interest rate on debt is greater than when interest rates are higher.

11 It is generally thought that this "inverse relationship" between interest rates
12 and equity risk premiums is caused by investors' inflation expectations. As Eugene F.
13 Brigham, formerly with the Public Utility Research Center at the University of
14 Florida, explained in a 1985 *Financial Management* article, when inflation
15 expectations are low, so are interest rates and the inherent inflation hedge of stocks
16 does little to offset the higher risks associated with holding common equity. When
17 interest rates rise because of increasing fears of inflation, the inflation hedge of stocks
18 becomes more valuable, offsetting part of the returns required to bear the greater risks
19 of stocks – thereby lowering the spread between interest rates and investors' required
20 rate of return on equity.

21 Because equity risk premiums widen when interest rates fall, the cost of
22 equity declines less than the level of bond yields. This inverse relationship has been
23 recognized in the financial literature and by regulators. Based on a review of the
24 financial literature, *Regulatory Finance: Utilities Cost of Capital* concluded that:

1 These studies imply that the cost of equity changes only half as much
2 as interest rates change. (p. 292)

3 **Q. Is there evidence that suggests investors expect interest rates will increase going**
4 **forward?**

5 A. Yes. The general expectation is that interest rates will begin to rise with
6 strengthening economic growth, with Value Line citing “the strong possibility of
7 rising interest rates in 2005” in its December 17, 2004 report (p. 459). Indeed, the
8 Federal Reserve on February 2, 2005 raised interest rates for the sixth time since June
9 2004 and signaled it was likely to continue to act at a "measured" pace. The latest
10 quarter-point increase raised the federal funds rate to 2.5 percent; more than double
11 the 46-year low of 1.00 percent in effect when the Fed began its credit-tightening
12 campaign in 2004. Meanwhile, the Wall Street Journal reported (Jan. 5, 2005 at A2)
13 expectations of a steady rise in rates:

14 The minutes suggest that the Fed is less likely to pause in its interest-
15 rate increases this year than the markets may have expected. In the
16 wake of the minutes’ release, long-term bond prices fell sharply, and
17 yields, which move in the opposite direction, rose.

18 Consistent with these general expectations for higher interest rates, the February 1,
19 2005 edition of Blue Chip Financial Forecasts anticipates that the yields on 20-year
20 Treasury bonds will climb to 5.6 percent by the fourth quarter of 2005. Given that
21 this is essentially equal to the 5.64 percent benchmark yield for March 2002 cited by
22 Mr. Rothschild (p. 10), this implies no change in capital market requirements since
23 the time of the stipulation.

1 **Q. Do the 75-year projections of the Social Security Administration (“SSA”)**
2 **provide a sound basis on which to evaluate or establish rates of return for**
3 **electric utilities?**

4 A. No. Mr. Rothschild cites a January 2005 article in Business Week, reporting that the
5 SSA’s chief actuary “has determined that the total return on the stock market will be
6 6.5% over the inflation rate during the next 75 years” (p. 11). But real-world
7 investors in the capital markets, not the SSA, determine the cost of equity and as
8 Business Week noted, “no one can really project anything over 75 years.” The SSA is
9 not an investment advisory service and their projections do not typically serve as a
10 resource for stock market investors. Indeed, the issue of fundamentally changing the
11 social security system, and the projections that surround the evaluation of the
12 Administration’s proposals, are perhaps the most controversial and politically charged
13 issue in recent history. This atmosphere of political jockeying and controversy
14 provides no meaningful basis on which to establish or evaluate the rate of return on
15 **equity that investors require** to commit capital to an electric utility, such as FPL.

16 **Q. Is the 9.35 percent market rate of return that Mr. Rothschild derives from the**
17 **SSA’s projections consistent with other accepted benchmarks for investors’**
18 **required rate of return?**

19 A. No. Mr. Rothschild’s market rate of return departs significantly from the findings of
20 well respected, published sources concerning the returns that investors expect from an
21 investment in common stocks. For example, in an article entitled “The Market Risk
22 Premium: Expectational Estimates Using Analysts’ Forecasts,” published in the
23 Journal of Applied Finance (Vol. 11, No.1, 2001), Robert S. Harris and Felicia C.

1 Marston found that investors' required rate of return on the S&P 500 averaged 15.67
2 percent.

3 Similarly, historical realized rates of return also imply a cost of equity to the
4 market as a whole that exceeds Mr. Rothschild's measure by a considerable margin.
5 Perhaps the most exhaustive and widely referenced annual study of realized rates of
6 return is published by Ibbotson Associates. In their *2004 Yearbook, Valuation*
7 *Edition*, Ibbotson Associates reported that, over the period 1926 through 2003, the
8 arithmetic mean realized rate of return on the S&P 500 was 12.4 percent.

9 **Q. What other evidence indicates that a 9.35 percent market return falls far short of**
10 **investors' requirements?**

11 A. The reasonableness of Mr. Rothschild's conclusions can be evaluated under the
12 Capital Asset Pricing Model ("CAPM"), which is a theory of market equilibrium that
13 measures risk using the beta coefficient. Beta reflects the tendency of a stocks price
14 to follow changes in the market, with the CAPM being mathematically expressed as:

$$15 \quad R_j = R_f + \beta_j(R_m - R_f)$$

16 Where: R_j = required rate of return for stock j ;

17 R_f = risk-free rate;

18 R_m = expected return on the market portfolio; and,

19 β_j = beta, or systematic risk, for stock j .

20 Based on SSA's projections and his 4.58 percent government bond yield, Mr.
21 Rothschild apparently predicts that equity returns will exceed the yields on Treasury
22 bonds by 477 basis points. After multiplying this market equity risk premium by a
23 representative beta value of 0.75 and incorporating Mr. Rothschild's 4.58 percent
24 risk-free rate, this implies an expected return for FPL of 8.2 percent. This result,

1 which falls some 180 basis points below even Mr. Rothschild's meager 10 percent
2 benchmark, is simply illogical and provides further evidence that Mr. Rothschild's
3 evidence and conclusions are unrelated to the requirements of real-world investors in
4 the capital markets.

5 **Q. Can the FPSC take comfort in Mr. Rothschild's assertion (p. 12) that**
6 **"enforcing" an ROE of 10 percent will not lead to ratings downgrades or a**
7 **higher cost of capital for FPL?**

8 A. Hardly. As support, Mr. Rothschild cavalierly observes that the terms of the
9 stipulation "are not new news" to the investment community, before reasserting his
10 position that the 10 percent bottom-end threshold ROE of the stipulation is "fully
11 adequate." But as Mr. Dewhurst documents, while the stipulation may not be "new
12 news," OPC's novel interpretation of this agreement is diametrically exposed to the
13 expectations of investors.

14 Moreover, in the wake of the crisis in western power markets in 2000-2001,
15 investors' sensitivity to regulatory uncertainties has increased dramatically. For many
16 utilities, cost recovery was either prevented or postponed. As a result, they were
17 denied the opportunity to earn risk-equivalent rates of return and access to capital was
18 cut off. In the aftermath, perhaps the preeminent issue of concern to investors is the
19 potential that regulators will prevent utilities from recovering reasonable and
20 necessary expenses incurred to provide customers with reliable service.

21 Investors recognize that constructive regulation is a key ingredient in
22 supporting utility credit ratings and financial integrity, particularly during times of
23 adverse conditions. While investors view the regulatory environment in Florida as
24 supportive, in some circumstances regulatory uncertainty can eclipse all of the other

risk factors facing particular utilities. Given the negative outlook currently assigned to FPL's long-term debt ratings, the perception of a lack of regulatory support would almost certainly lead to further downgrades.

2
3
4 **Q. Are there indications that the investment community is not apt to be as sanguine**
5 **as Mr. Rothschild?**

6 A. Yes. Contrary to Mr. Rothschild's assurances, Moody's Investors Service noted in a
7 February 1, 2005 *Credit Opinion* report that "[r]egulatory risk this year related to the
8 12/31/05 expiration of current rate agreement and hurricane cost recovery" posed
9 challenges and observed that a "negative regulatory development" could lead to a
10 ratings downgrade. Thus, while FPL's conservative posture and ongoing regulatory
11 support have benefited customers and provided a strong platform for continued
12 success, actions that serve to erode financial strength or impair financial flexibility
13 could have swift and damaging consequences.

14 **Q. Why is the recovery of extraordinary storm costs of particular significance to**
15 **investors?**

16 A. In addition to the immediate issue of unrecovered storm-related expenditures,
17 investors perceive the expiration of the current stipulation and the resulting rate
18 proceeding as one of the key risks confronting FPL. Because of the overhang of this
19 impending rate case, investors' sensitivity to regulatory risks are particularly
20 heightened, with the FPSC's actions being interpreted as a gauge of future regulatory
21 support. Indeed, the investment community has cited the FPSC's January 18, 2005
22 decision to permit the collection of deferred storm repair costs on an interim basis as
23 a supportive and reassuring development for FPL's financial position.

1 On the other hand, OPC's proposal to engineer a backdoor reduction in FPL's
2 ROE through a novel reinterpretation of the stipulation would send an alarming
3 message to investors at the very time when FPL must attract the capital necessary to
4 meet the needs of a growing service area. Considering investors' preoccupation with
5 utilities' exposure to regulatory risk, Mr. Rothschild's assertion that the investment
6 community "would have no reason to be concerned" if FPL is denied the opportunity
7 to recover storm related costs is clearly nonsensical.

8 **Q. Should regulators and customers be concerned about investors' perceptions?**

9 A. Absolutely. Investors' assessment of regulatory support and risk has a direct impact
10 on FPL's financial strength and ability to attract capital. FPL faces a number of
11 potential challenges that might require the relatively swift commitment of
12 considerable capital resources in order to maintain the high level of service to which
13 its customers have become accustomed. For example, while FPL's nuclear program
14 is universally regarded as exemplary, mandated shutdowns in response to security
15 threats or a catastrophic event elsewhere in the U.S. would impose significant reliance
16 on wholesale power markets to meet energy shortfalls. FPL's reliance on purchased
17 power for a significant portion of its power requirements also imposes increased
18 vulnerability to supply disruptions, especially in light of its relative geographic
19 isolation on the Florida peninsula.

20 Similarly, any interruption of gas supplies due to deliverability constraints
21 imposed on FPL's suppliers could also result in the need for a considerable financial
22 commitment for an alternative fuel source or replacement power. Given the potential
23 for significant volatility in wholesale energy markets and FPL's lack of control over
24 the timing of such events, FPL must have the wherewithal to meet these challenges

1 even when capital and energy market conditions are unfavorable. Apart from this
2 exposure to the vagaries of capital and energy market conditions, FPL must
3 simultaneously meet the needs of a fast-growing service area, with Fitch noting (Sep.
4 23, 2004) that “significant ongoing capital expenditure requirements for new
5 generating resources to meet customer and usage growth” were a credit concern for
6 FPL.

7 Ultimately, it is customers and the service area economy that enjoy the
8 rewards that come from ensuring that the utility has the financial wherewithal to take
9 whatever actions are required to ensure a reliable energy supply. The unprecedented
10 storm season in 2004 illustrates the benefits that accrue from a utility that has the
11 financial wherewithal to respond to unforeseen events. Despite the extent of the
12 damage and lack of sufficient reserves, FPL’s strong financial and liquidity position
13 ensured its ability to respond quickly and effectively to these unprecedented events,
14 restoring service to over 5.4 million customers. To meet such challenges successfully
15 **and economically**, it is crucial that investors remain confident that FPL will continue
16 **to receive constructive** regulatory support.

17 **Q. What is your conclusion regarding the impact of OPC’s proposals on investors’**
18 **risk perceptions?**

19 A. The investment community is intensely focused on the actions of the FPSC, and a
20 perceived lack of regulatory support will undoubtedly have ramifications far beyond
21 the more limited issues at hand in the present case. While a combination of strong
22 finances and a history of supportive regulation allowed FPL the financial flexibility to
23 respond quickly to the catastrophic impact of the 2004 hurricane season, attempts to
24 reinterpret the stipulation so as to deny FPL the opportunity of earning a fair ROE

1 will have profound consequences for investors' assessment of the risks associated
2 with committing capital to FPL. Denying utilities the ability to recover abnormal
3 costs, such as those related to the extreme storm season in 2004, would imply a
4 dramatic increase in investment risk and required rate of return to FPL and other
5 utilities operating in Florida, with the end-result being a substantially greater cost of
6 utility service for customers throughout the state.

7 **Q. Does this conclude your rebuttal testimony?**

8 A. Yes.

1 BY MS. SMITH:

2 Q Doctor Avera, have you prepared a summary of your
3 rebuttal testimony?

4 A Yes, I have.

5 Q Please provide your summary.

6 A I will. Good afternoon, Commissioners. My testimony
7 rebuts Mr. Rothschild's claim that a 10 percent return on
8 equity is more than adequate as a fair rate of return and
9 should be used to limit FPL's recovery of storm-related costs.

10 I demonstrate that limiting FPL's recovery using the
11 10 percent is contrary to sound regulatory policy and
12 inconsistent with investor's expectations. Mr. Rothschild's
13 recommendation is not based on an independent analysis of
14 investors' required return for FPL. Instead, he makes a series
15 of casual observations about the allowed ROE in four rate cases
16 in New Jersey and Connecticut where he was certainly a witness;
17 the estimated 2004 return on equity for those parent utilities
18 listed in the Value Line Eastern edition; three, changes in the
19 interest rates since 2002; and, four, an article in Business
20 Week about Social Security.

21 My testimony shows that none of those observations
22 support Mr. Rothschild's inference that a 10 percent ROE is
23 generous. Mr. Rothschild's recommendation to disallow
24 reasonable and necessary expenses would send an alarming signal
25 to investors at a time when they are focused on the regulatory

1 risk here in Florida.

2 I document the expectations of investors in my
3 testimony using recent reports from investment advisory
4 services and bond rating agencies. The ultimate losers from
5 alarming investors would be FPL's customers. Not only would
6 FPL's cost of capital increase, but their utility would lose
7 the vital financial flexibility that is needed in meeting the
8 challenges of serving the growing Florida economy. That
9 completes my summary.

10 MS. SMITH: Thank you. Mr. Chairman, FPL tenders
11 Doctor Avera for cross-examination.

12 COMMISSIONER DEASON: Thank you. Mr. McGlothlin.

13 MR. MCGLOTHLIN: Yes. Chairman Baez, at the outset I
14 took the deposition of Doctor Avera on the 14th. Florida Rules
15 of Court provide that the deposition of an expert may be used
16 for any purpose if it meets the test of admissibility. I
17 propose to mark that as an exhibit, and in doing so would be
18 able to shorten my cross-examination considerably.

19 CHAIRMAN BAEZ: Is there any objection, Ms. Smith?

20 MS. SMITH: No objection.

21 CHAIRMAN BAEZ: Very well. Show the deposition of
22 Doctor Avera marked as Exhibit 47.

23 (Exhibit 47 marked for identification.)

24 MR. MCGLOTHLIN: We do have copies that we will
25 distribute. And pardon me, sir, the number you assigned was

1 what?

2 CHAIRMAN BAEZ: 47.

3 MR. McGLOTHLIN: 47. Thank you. And next, I am
4 going to distribute a composite exhibit consisting of
5 late-filed exhibits to Doctor Avera's deposition. The
6 composite exhibit includes some recent credit agency documents
7 from Standard and Poor's and Moody's.

8 CHAIRMAN BAEZ: Mr. McGlothlin, I'm afraid I didn't
9 hear the first part of your comment, it was some exhibits that
10 were attached to the deposition?

11 MR. McGLOTHLIN: These were late-filed exhibits to
12 the deposition that I wish to make exhibits for the hearing.

13 CHAIRMAN BAEZ: Assuming no objection, we can mark
14 them as Exhibit Number 48. And that is a composite?

15 MR. McGLOTHLIN: Yes.

16 CHAIRMAN BAEZ: Okay.

17 (Exhibit 48 marked for identification.)

18 BY MR. McGLOTHLIN:

19 Q Doctor Avera, for purpose of the first question, I
20 refer you to the second document of this composite exhibit, and
21 the title is research, Florida Power and Light Company, dated
22 2005.

23 A Yes, sir, I have that.

24 Q And as I understand it, the top document is a summary
25 of the second one, is that correct?

1 A That is correct. S&P issues kind of a short version
2 and a long version having substantially the same information at
3 the same time.

4 Q And I direct you to Page 2 of 5. Preliminarily, do I
5 understand correctly that this report addresses Florida Power
6 and Light Company, the utility, as opposed to FPL Holding
7 Group?

8 A That is correct.

9 Q I will refer you to the first paragraph captioned
10 rationale, which says the ratings on Florida Power and Light
11 Company (FPL), reflect the consolidated credit profile of its
12 parent diversified energy company, FPL Group, Inc. So do I
13 understand correctly that in assessing the utility, the rating
14 agency takes into account not only the utility, but the
15 financial aspects of the holding company of which the utility
16 is a part?

17 A S&P does that as we discussed in my deposition. That
18 is not true of all the bond rating agencies, but as I discussed
19 with you, Mr. McGlothlin, S&P has over time changed their
20 policy a number of times, and at present they regard a utility
21 and the holding company together when they consider their
22 rating actions.

23 Q Now, further in the same paragraph, it states
24 concerns include the higher risk cash flows from FPL Energy's
25 portfolio of merchant generation, the utility's increased

1 exposure to natural gas, uncertainty regarding pending
2 regulatory proceedings, and the consolidated companies slightly
3 weak financial profile for the rating. And the reference to
4 the consolidated company is FPL Group, is it not?

5 A Yes, that is my understanding.

6 Q So, would you agree with me that in assessing the
7 utility, the rating agency takes into account far more than
8 just the issue of the disposition of the petition for storm
9 cost recovery?

10 A Yes, sir. They consider all of what they consider to
11 be the relevant parameters of the risk profile, both for the
12 utility and to some extent for the parent company.

13 Q Now, I want to refer you to the fifth paragraph that
14 begins, "FPL's credit protection measures are mixed." Are you
15 there?

16 A Yes, sir.

17 Q And focus on the sentence that says, "Standard and
18 Poor's expects that FFO to average debt will improve
19 substantially to about 28 percent over the next three years,
20 assuming the majority of storm costs are recovered." Do you
21 see that?

22 A Yes, sir.

23 Q Would you agree with me that this indicates that
24 Standard and Poor's is not basing its rating on the expectation
25 necessarily that FPL receives the dollar-for-dollar

1 indemnification that it seeks in this docket?

2 A Well, I'm not sure I agree with your characterization
3 of what FPL is seeking. I'm not sure that I would agree it is
4 an indemnification. I think what the words say here are pretty
5 clear that Standard and Poor's realizes that the costs are
6 subject to review by this Commission, and their expectation is
7 that a majority will be allowed to be recovered from customers.

8 Q Let me refer you now to Page 4 of your rebuttal
9 testimony. I beg your pardon, it is Page 14, not 4. At Line 5
10 you make this statement, "While the cost of equity generally
11 moves in the same direction as interest rates, it is widely
12 accepted that the cost of equity does not increase or decrease
13 in lockstep with changes in bond yields. Indeed, there is
14 substantial evidence that equity risk premiums tend to move
15 inversely with interest rates."

16 And I want to make sure that I understand the thrust
17 of that statement correctly. Assume that long-term interest
18 rates are 6 percent, and that at a later point in time they
19 have fallen to 4.5 percent. Would you agree with me that if
20 that is the case it would be reasonable to expect that the cost
21 of equity would also decrease?

22 A I think all else being equal you would expect a cost
23 of equity decrease unless there is some change in the relative
24 risk of the equity you are focussing on.

25 Q So, as I understand it, the point of your statement

1 there is not to dispute that if long-term rates decrease the
2 cost of equity would also decrease, but rather whether the
3 decrease would be exactly the same amount, is that correct?

4 A Well, I think it is a little stronger than that, Mr.
5 McGlothlin. I'm saying that they generally move together, but
6 they do not move in lockstep. You can't do as Mr. Rothschild
7 did, and look only at the change in interest rates and assume
8 that translates automatically into a change in the cost of
9 equity. You have to look more carefully. And one of the
10 conclusions that has been documented to effect the relative
11 changes is the prevailing level of interest rates, because at
12 very low level of interest rates the spread between cost of
13 equity and the observable yield on bonds tends to widen.

14 Q I understand you assert that that spread tends to
15 widen, but you do not dispute the general direction, which is
16 that if long-term rates are decreasing the cost of equity is
17 also decreasing?

18 A That is correct. As a general principle that is
19 true, but it is hard to make quantitative statements about the
20 movement in the cost of equity simply by referencing the
21 movement in the cost of debt as reflected in the interest
22 rates, as Mr. Rothschild has done.

23 Q Have long-term interest rates fallen since 2002?

24 A Yes, sir, they have.

25 Q Would you agree with me that the 2004 storm episodes,

1 storm events were extraordinary in nature?

2 A Well, I think the event of a hurricane is not
3 unusual. That is a normal part of life and doing business in
4 Florida. I think that so many hurricanes struck the same
5 approximate geographic area in a relatively compressed span of
6 time was unusual and extraordinary and hopefully will not often
7 be repeated here or anywhere else.

8 Q That was the situation that I was intending to
9 describe. Not that there was a hurricane, but that there were
10 three devastating hurricanes in a short time frame resulting in
11 a significant negative balance in the storm reserve.

12 A Yes, that is unusual and I think unexpected.

13 Q And would you agree with me that with respect to the
14 potential outcomes of this proceeding from FPL's perspective,
15 FPL's worst-case is that it may be required to absorb a portion
16 of those storm costs through earnings?

17 A Well, I can't speak from FPL's perspective as an
18 insider. I am an outsider. I think one of the outcomes of
19 this case would be that there is not full recovery of all the
20 expenditures. Some have been offset against the storm reserve,
21 but the expenditures were far in excess of the storm reserve,
22 and I think one of the outcomes would be that not all of those
23 monies are ultimately collected from customers.

24 MR. MCGLOTHLIN: At this point I need to distribute a
25 document.

1 BY MR. MCGLOTHLIN:

2 Q Doctor Avera, at Page 11 of your testimony you refer
3 to the Standard and Poor's corporate ratings criteria, do you
4 not?

5 A Yes, sir.

6 Q I am providing you with an excerpt of the 2005
7 version of that document. I noted that staff has included the
8 2004 document as part of the composite exhibit that has been
9 made part of the record, and I have a copy of the complete 2005
10 document for you and your counsel if you want to make sure that
11 what I have shown you is an excerpt from it.

12 MR. MCGLOTHLIN: Could I have an exhibit number,
13 please, sir?

14 CHAIRMAN BAEZ: We have Exhibit 49, and that is
15 Standard and Poor's corporate ratings criteria excerpt.

16 MR. MCGLOTHLIN: Yes. 2005 excerpt.

17 (Exhibit 49 marked for identification.)

18 BY MR. MCGLOTHLIN:

19 Q And I will ask you to turn to Page 33, and I will
20 direct you to the paragraph on the left column that states,
21 "There is no point in assigning high ratings to a company
22 enjoying peak prosperity if their performance level is expected
23 to be only temporary. Similarly, there is no need to lower
24 ratings to reflect poor performance as long as one can reliably
25 anticipate that better times are just around the corner."

1 Now, don't you think that principle is applicable to
2 a situation in which a utility that is enjoying healthy results
3 has a temporary set back in the form of unique and
4 extraordinary storm events?

5 A No, I don't think that would apply, because I think
6 in this case, where you have a regulated utility, the
7 expectation of investors, as I explained in my rebuttal
8 testimony and we discussed in length in my deposition, that
9 investors expect the utility to be able to recover its
10 reasonable and necessary expenses. Storm recovery is a
11 reasonable and necessary expense, so I think if the reaction of
12 this Commission were to upset that expectation of investors, I
13 think that would be a fundamental change in the regulatory risk
14 that the utility experiences.

15 This is not the case of a cyclical firm. This is a
16 case of something happening which has happened before and will
17 happen again in Florida, and that is a hurricane, and the
18 necessity of recovering storm related damages. And I think
19 were this Commission to follow the suggestion of Mr. Rothschild
20 and OPC and have these expenses not recovered from customers, I
21 think that would be a material and fundamental change that the
22 rating agencies would notice and respond accordingly.

23 Q You have said in an earlier part of an answer to me
24 that you agreed that the confluence of the three storms in a
25 compressed time frame was an extraordinary event, did you not?

1 A Yes, I did.

2 Q As opposed to the possibility of a hurricane
3 happening in the future. In the first part of your answer you
4 said that the inability of the utility to recover those
5 storm-related costs would send some kind of message to the
6 investors. But you understand that OPC's position is that the
7 utility would expense its storm-related costs only to the point
8 where it continues to realize a 10 percent return on equity?

9 A I understand that.

10 Q And isn't it true that if the utility is provided, if
11 the utility has sufficient revenues to pay all of its cost of
12 service and have a 10 percent return on equity, that it has, in
13 fact, recovered those storm-related costs?

14 A No, sir, I do not agree with that. It has a positive
15 profit, but those particular costs have been specifically
16 excluded from the utility's opportunity to earn. As I
17 understand the framework that has been established here in
18 Florida after Hurricane Andrew and has subsequently been
19 articulated in different orders, there is a storm reserve fund
20 which there is an accumulation added each year. When there is
21 a hurricane event, the costs are taken out of that storm
22 reserve fund.

23 When an event occurs, or a series of events as in
24 this case, that exhaust the storm reserve, the utility comes to
25 this Commission and asks for some resolution about restoring

1 the reserve and paying the cost. I think that format of
2 handling cost is well established and well understood by
3 investors. I think if we went to the suggestion of OPC and
4 said that somehow we would limit the recovery based on the 10
5 percent, I think that would be a fundamental change which would
6 color how investors in general and bond rating agencies
7 particularly look at FPL, and I think the bottom line would be
8 harmful to FPL's customers.

9 Q Your contention is that in that scenario FPL would
10 not have recovered its storm-related costs?

11 A Yes, sir, that is my contention, because they would
12 have been explicitly excluded from recovery based on the theory
13 that somehow the 10 percent is okay and is a fair rate of
14 return. And my testimony, I think, goes to the point that 10
15 percent is not okay and it is not a fair rate of return.

16 Q Let's assume for a moment that with the storm costs
17 having been deferred, FPL was showing a return on equity of 14
18 percent. And let's assume for the purpose of the question that
19 there is no disagreement, everybody concurs that 10 percent is
20 a reasonable return on investment under any standard you want
21 to apply. And that the decision is to require FPL to expense
22 storm costs to the point where it realizes not 10, but 11
23 percent. In that instance has it recovered its storm-related
24 costs?

25 MS. SMITH: I would like for a clarification. Does

1 Mr. McGlothlin's scenario include a stipulation and settlement
2 agreement or not?

3 MR. MCGLOTHLIN: The hypothetical doesn't take into
4 account a stipulation. The hypothetical is that a reasonable
5 rate of return is 10 percent. They are earning 14 percent and
6 they are required to expense a portion of the storm costs, but
7 that the resulting return on equity is above what is agreed as
8 reasonable.

9 THE WITNESS: Well, given all the conditions of your
10 hypothetical, which vary significantly from what we have here
11 as facts, I still hold to the position that the utility would
12 not have been allowed to recover a reasonable and necessary
13 expense. Now, how investors might react to that in your
14 hypothetical might be different from how they might react to it
15 given the facts and circumstances of the stipulation and the 10
16 percent not being agreed by all as a fair rate of return.

17 BY MR. MCGLOTHLIN:

18 Q Do you recall the discussion during your deposition
19 in which you characterized the return component of the
20 calculation as a residual?

21 A I don't know if I characterized the return component,
22 I think -- and we talked about this a lot, Mr. McGlothlin, and
23 I don't know if I remember every exchange, but I think I said
24 that as a matter of accounting, your net income is what is left
25 over after you have paid your expenses. But that doesn't say

1 that you have in a regulatory sense recovered all of your
2 expenses. One of the important expenses in a regulatory
3 expense or framework is the cost of capital, and the company
4 doesn't have an opportunity to recover its cost of capital
5 unless earnings reach that level which is a fair rate of
6 return.

7 Q Okay. I believe you said in your answer that the
8 utility cannot realize its cost of capital unless it earns a
9 fair rate of return. Was that your answer?

10 A That was an example of the fact that you observe a
11 utility with positive earnings, positive net income. That
12 doesn't tell you in and of itself that it has recovered its
13 reasonable and necessary costs. And I gave an example of one
14 cost that may not have been recovered, which is a fair rate of
15 return on invested capital.

16 (Transcript continues in sequence with Volume 6.)

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STATE OF FLORIDA)

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COUNTY OF LEON)

CERTIFICATE OF REPORTER

I, JANE FAUROT, RPR, Chief, Office of Hearing Reporter Services, FPSC Division of Commission Clerk and Administrative Services, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 21st day of April, 2005.



JANE FAUROT, RPR
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