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June 27, 2005

Blanca S. Bayo, Director
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Re: Docket Nos. 050045-EI & 050188-EI

Dear Ms. Bayo:

Enclosed for filing, on behalf of the Office of Public Counsel, are the original and 25 copies of the Direct Testimony of Hugh Larkin, Jr.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Charles J. Beck
Deputy Public Counsel

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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by
Florida Power & Light Company.)
_____)

Docket No. 050045-EI

In re: 2005 comprehensive depreciation
study by Florida Power & Light
Company.)
_____)

Docket No. 050188-EI

Dated: June 27, 2005

DIRECT TESTIMONY

OF

HUGH LARKIN, JR.

On Behalf of the Citizens of the State of Florida

Harold McLean
Public Counsel

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c/o The Florida Legislature
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06075 JUN 27 05
FPSC-COMMISSION CLERK

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1 DIRECT TESTIMONY OF HUGH LARKIN, JR.
2 ON BEHALF OF THE CITIZENS OF FLORIDA
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 FLORIDA POWER & LIGHT COMPANY
5 DOCKET NOS. 050045-EI & 050188-EI

6 I. INTRODUCTION

7 Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

8 A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the
9 States of Michigan and Florida and the senior partner in the firm Larkin &
10 Associates, PLLC, Certified Public Accountants, with offices at 15728
11 Farmington Road, Livonia, Michigan 48154.

12
13 Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

14 A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory
15 Consulting Firm. The firm performs independent regulatory consulting primarily
16 for public service/utility commission staffs and consumer interest groups (public
17 counsels, public advocates, consumer counsels, attorneys general, etc.) Larkin &
18 Associates, PLLC has extensive experience in the utility regulatory field as expert
19 witnesses in over 600 regulatory proceedings, including numerous electric, water
20 and wasterwater, gas and telephone utility cases.

21
22 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC
23 SERVICE COMMISSION?

24 A. Yes. I have testified before the Florida Public Service Commission on numerous
25 occasions during the past 29 years. I have also testified before Public

1 Service/Utility Commissions in 35 state jurisdictions, United States District
2 Courts, the Federal Energy Regulatory Commission and the Canadian Natural
3 Energy Board.

4
5 Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR
6 QUALIFICATIONS AND EXPERIENCE?

7 A. Yes. I have attached Appendix I, which is a summary of my regulatory
8 experience and qualifications.

9
10 Q. ON WHOSE BEHALF ARE YOU APPEARING?

11 A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel
12 (OPC) to review the rate request of Florida Power & Light Company (FPL or
13 Company). Accordingly, I am appearing on behalf of the Citizens of Florida
14 (Citizens).

15
16 Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE
17 FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?

18 A. Yes. Kim Dismukes, David Dismukes, J. Randall Woolridge, Michael Majoros,
19 Patricia Merchant and Helmuth W. Schultz, III and Donna M. DeRonne, of my
20 firm, are also presenting testimony.

21
22 Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

23 A. I will address in order Overall Financial Summary; Policy Issues; and Rate Base.
24

1 II OVERALL FINANCIAL SUMMARY

2 Q. WOULD YOU PLEASE SUMMARIZE THE RESULTS OF THE IMPACT OF
3 ALL OPC WITNESSES ON THE PROJECTED 2006 TEST YEAR AND THE
4 RECOMMENDATION REGARDING THE CHANGE IN RATES WHICH
5 RESULTS FROM THOSE RECOMMENDATIONS?

6 A. Yes. As shown on the summary presented by OPC's witness Donna DeRonne,
7 the rates currently in affect for FPL should be reduced by \$724,725,000. This
8 includes the impact of each of the witnesses for OPC's recommended adjustments
9 and the amortization of the surplus reserved for depreciation and amortization. In
10 addition, it is my recommendation that the requested increase for the year 2007 is
11 not known and measurable and too speculative for the Commission to decide at
12 this time.

13

14 III. POLICY ISSUES

15 Q. WHAT ISSUES WILL BE DISCUSSED UNDER THE HEADING "POLICY
16 ISSUES"?

17 A. I will be addressing the following policy issues: Bonus Rate of Return, 2007 Rate
18 Increase-Turkey Point Unit 5; Surplus Accumulated Reserve for Depreciation and
19 Amortization; and Deferred Income Taxes debts included as a reduction of cost
20 free capital provided by ratepayers.

21 A. Bonus Rate of Return

22 Q. FPL HAS REQUESTED THAT THE COMMISSION AWARD THE
23 COMPANY WHAT IT HAS TERMED A "PERFORMANCE INCENTIVE OF
24 50 BASIS POINTS." DO YOU THINK THAT THE COMMISSION SHOULD

1 ADD AN ADDITIONAL 50 BASIS POINTS TO THE COMPANY'S RATE OF
2 RETURN, AS REQUESTED BY FPL?

3 A. No. First, I do not feel that the Company's terminology is correct. It has labeled
4 this as an "incentive;" however, the purported justification for the 50 basis point
5 increase is not action that the Company intends to take in the future to reduce
6 rates. FPL claims that action taken in the past should be rewarded. The
7 dictionary defines incentive as "...the expectation of reward, that incites to action
8 or effort." The arguments that FPL sets forth supposedly justifying the
9 "incentive" is based on past performance and is not based on goals or future
10 standards which FPL will meet in order to justify the so called incentive. I would
11 term the request for a 50 basis point increase in the rate of return as being a bonus
12 based on past performance and, therefore, it is retroactive in nature. Just as the
13 Commission could not recover for the benefit of ratepayers overearnings which
14 took place in the past and pass those onto ratepayers in future rates, neither can
15 the Commission look to past performance and use that performance to enhance or
16 increase future rates.

17
18 To merely add 50 basis points to an authorized rate of return is not an incentive
19 because it requires no performance to achieve the additional earnings. Therefore,
20 it must be termed as a bonus based on past performance.

21
22 Q. DOES DENIAL OF FPL'S PROPOSED "INCENTIVE" MEAN THAT FPL IS
23 NEVER REWARDED FOR GOOD PERFORMANCE OR DECLINING COST
24 PER CUSTOMER?

1 A. No. FPL is and has been rewarded for controlling costs and for declining the
2 costs per customer.

3
4 Q. HOW DOES THAT OCCUR?

5 A. There are at least two mechanisms that allowed FPL to benefit from cost control
6 and declining average cost per customer. The first mechanism is the bandwidth
7 authorized by the Florida Public Service Commission, which allows FPL to earn
8 up to 100 basis points above the authorized rate of return without the triggering of
9 a rate case. The second mechanism occurred via the settlements entered into with
10 the Office of Public Counsel, which allowed for sharing of incremental revenue
11 increases between the Company and ratepayers. Both of these are reward
12 mechanisms which incent the Company to contain costs and increase
13 productivity.

14
15 Q. WHAT LEVEL OF REVENUE SHARING DID THE COMPANY
16 PARTICIPATE IN RESULTING FROM THE TWO SETTLEMENTS
17 ENTERED INTO WITH THE OPC IN ORDER NOS. PSC-99-0519-AS-EI, IN
18 DOCKET NO. 990067-EI AND PSC-02-051-AS-EI, IN DOCKET NO. 001148-
19 EI?

20 A. FPL was rewarded through these revenue sharing mechanisms by approximately
21 \$113,032,000. FPL was rewarded through the revenue sharing mechanism as a
22 result of increasing revenues. The revenue sharing mechanism allowed FPL to
23 gain earnings to shareholders as a result of the additional revenues through its
24 agreement with the OPC.

25

1

2 Q. IS IT LEGITIMATE FOR FPL TO CLAIM FULL CREDIT FOR DECLINING
3 AVERAGE COST PER CUSTOMER?

4 A. In my opinion, it is not. There are many factors which affect the cost per
5 customer. One of those factors is actual growth in customers. The Southern
6 Florida area has experienced phenomenal growth. It is estimated that 700
7 individuals per day migrate to Florida. Clearly, average cost per customer
8 declines when the density of customers increases. The cost for providing electric
9 service does not increase proportionately with the addition of more customers.
10 Except for fuel, there is a tendency for the cost of providing utility service to be
11 predominately fixed. That is, if customers increase by 10% a year, the cost of
12 serving those customers does not increase by 10% per year. The result will be
13 declining average cost per customer because of growth, not because of particular
14 steps taken by the utility.

15

16 Q. DOESN'T THE COMPANY HAVE TO ADD ADDITIONAL CAPACITY AT
17 SOME POINT IN TIME?

18 A. Yes, but the Florida Public Service Commission has provided FPL and other
19 Florida utilities with a capacity clause. That means that FPL can purchase
20 capacity from other systems and both the capacity and energy will be passed onto
21 ratepayers automatically through the capacity adjustment clause and the fuel
22 adjustment clause. Therefore, two major components of serving additional
23 customers, i.e., capacity and energy, are covered with automatic adjustment
24 clauses. Unless and until FPL adds additional capacity for which the cost exceeds

1 the average cost included in rates, then the rates would continue to be
2 compensatory for the additional capacity.

3
4 Q. WOULDN'T FPL HAVE TO ADD ADDITIONAL TRANSMISSION AND
5 DISTRIBUTION CAPACITY IN ORDER TO SERVE ADDITIONAL
6 CUSTOMERS?

7 A. Only if the transmission system serving additional customers had reached its
8 maximum capacity. The same would hold true for the distribution system. If
9 additional capacity is available on that distribution lines and additional capacity is
10 available through substations, no incremental cost is incurred. Therefore, the
11 average cost is driven downward by the additional customers.

12
13 Q. ISN'T THERE ADDITIONAL INVESTMENT IN SUBDIVISION
14 DISTRIBUTION SYSTEMS AND METERS WHEN NEW CUSTOMERS ARE
15 ADDED?

16 A. There is a hook up charge to each new customer, and in many instances the
17 distribution system in subdivisions are installed by the developer and included in
18 the price of lots. Therefore, additional customers may not cause incremental costs
19 to be incurred by the Company for providing additional services.

20
21 Q. ARE THERE OTHER CLAUSES THE FLORIDA PUBLIC SERVICE
22 COMMISSION HAS AUTHORIZED WHICH PROTECT THE COMPANY
23 FROM INCREASED AVERAGE COST?

24 A. Yes. The environmental cost recovery clause allows the Company to make
25 investments in facilities which do not result in increased kilowatt hour production

1 or improved maintenance costs and to recover those costs from ratepayers
2 automatically without the necessity for filing for a base rate case. Also, for
3 conservation, franchise and gross receipts, the recovery of increase costs are
4 allowed through automatic adjustment clauses. In the month of February 2005,
5 total retail revenues were **BEGIN CONFIDENTIAL** [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED] **END
9 CONFIDENTIAL**

10

11 Q. SHOULD THE COMMISSION ACCEPT AT FACE VALUE THE AVERAGE
12 COST PER CUSTOMER USED BY FPL AS A BASIS FOR JUSTIFYING
13 WHAT YOU HAVE TERMED A BONUS ADD ON TO THE COMPANY'S
14 REQUESTED RATE OF RETURN?

15 A. No. Dr. Dismukes' testimony addresses the extent to which the Company's O&M
16 costs will actually deteriorate, given current industry trends. As Dr. Dismukes
17 notes, providing an incentive for worse, as opposed to better O&M cost
18 performances is counterintuitive.

19

20 Q. HASN'T THE COMPANY ALSO POINTED OUT THAT IT HAS DONE
21 SIGNIFICANTLY BETTER THAN THE COMMISSION'S BENCHMARK
22 ANALYSIS, WHICH WAS UTILIZED IN JUDGING O&M EXPENSES IN
23 THE 1980s?

24 A. Yes, it has. In my opinion, the benchmark analysis utilized by the Commission in
25 the 1980s is not reliable in analyzing future costs or past performance.

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The benchmarking procedure which the FPSC used in the 1980s was used as a guide to limit the amount of increases in operating and maintenance costs for certain accounts. The Commission utilized a factor which multiplied customer growth times inflation and stated that any increase over that calculation required an explanation or would be disallowed. This was essentially used as a tool by the Commission to judge the level of projected expense increases, but not as a tool to determine actual performance. Clearly, the consumer price index, which included gasoline, food, housing and clothing, could not be used as a surrogate for costs necessary to maintain and operate generating stations, transmission lines or distribution systems. Nor could customer growth be used as a surrogate for these costs. As I have previously explained, customer growth will have the effect of driving down costs when the density of customers increases in an established area, as is occurring in many parts of Florida.

Another factor which increases consumption but does not necessarily cause increases in operating and maintenance expense is the tendency to construct larger homes with more electric appliances. This increases consumption without increasing the distribution and transmission serving those larger homes.

Additional energy consumption which results from density in population and larger homes increase the load over the entire load curve increasing the utilization of facilities and thus driving down the average cost per customer and kWh.

The old benchmarking system had no way of accounting for productivity increases, especially those occasioned by the tremendous increase in the

1 utilization of computers to perform functions which were either manually
2 performed or performed through a series of mathematical tasks by numerous
3 individuals. It is also interesting to point out that the benchmarking analysis
4 performed by the Commission of multiplying customer growth times inflation in
5 order to determine increases in costs was never utilized by any state agency to
6 judge its own performance. In other words, the State of Florida never determined
7 that a good measure of salary increases or increases in departments size could be
8 judged or limited by multiplying the increase in the population of Florida times
9 inflation. While the benchmarking tool utilized by the Commission in the 1980s
10 might have been of use during that time period, it clearly cannot be brought
11 forward on an annual basis to draw any conclusion regarding FPL's current or
12 recent past performance.

13
14 Q. ARE YOU AWARE OF ANY OTHER JURISDICTION THAT HAS GIVEN A
15 UTILITY A BONUS FOR PAST PERFORMANCE?

16 A. No, I am not. As far as I am aware, only Florida has increased a utility rate of
17 return for past performance, which occurred only once in the most recent Gulf
18 Power rate case and that increase was 50% of what FPL is asking for.

19
20 B. 2007 Rate Increase - Turkey Point Unit 5

21 Q. IN ADDITION TO THE \$385 MILLION INCREASE THAT FPL HAS
22 REQUESTED BECOME EFFECTIVE JANUARY 1, 2006, THE COMPANY IS
23 REQUESTING THAT THE COMMISSION ALSO AUTHORIZE AN
24 ADDITIONAL INCREASE OF \$123 MILLION EFFECTIVE WITH THE IN
25 SERVICE DATE OF TURKEY POINT UNIT 5, WHICH IS CURRENTLY

1 PROJECTED TO BE JUNE 1, 2007. SHOULD THE COMMISSION
2 APPROVE OR CONSIDER THIS REQUEST?

3 A. No. First of all, the test year chosen by the Company is the 12-months ended
4 December 31, 2006. All of the Company's analyses, adjustments and projections
5 in the MFRs relate to that test period. That test period was projected in late 2004,
6 over 12 months before the first day of the test year and over two years before the
7 last day of projected test year. It is very unlikely that many of the Company's
8 projections for that test year will be accurate. However, the 2006 test year does
9 include every element of a rate filing, that is, every balance sheet, revenue and
10 O&M account. The effects that the operation of each generating station will have
11 on kWh sales, expenses, working capital and net income are represented in the
12 2006 test year.

13
14 The Company's request for an increase for a year beginning June 1, 2007 and
15 culminating May 31, 2008 is well over three years beyond the date that the
16 Company first made these projections. It is highly unlikely that these projections
17 could be relied upon by the Commission in determining whether any revenue
18 requirement increase exists beyond what might be justified by the test year ending
19 December 31, 2006. FPL's request for a \$123 million rate increase for the fiscal
20 year ended May 31, 2008, does not reflect any of the elements of an acceptable
21 test year for ratemaking purposes.

22
23 Q. IS FPL'S 2007 REQUESTED INCREASE CONSISTENT WITH YOUR
24 UNDERSTANDING OF RATEMAKING PRINCIPLES IN GENERAL AND

1 SPECIFICALLY YOUR UNDERSTANDING OF THE PRINCIPLES APPLIED
2 IN THE STATE OF FLORIDA?

3 A. No, they are not. The underlying principle of utility ratemaking is in order to set
4 rates on a going forward basis, one must examine all of the impacts which go into
5 the ratemaking formula. In other words, one must examine the entire rate base
6 and any offsetting reductions to that rate base. One must consider all sales and all
7 expenses. What the Company is requesting is a single issue rate case. That is, it
8 is requesting that the Commission focus on its estimate of what the revenue
9 requirements would be for the addition of a single plant, which has not been
10 constructed, which has not been placed in operation, and which has not been
11 included in the Company's production modeling. Clearly, the Company's request
12 only deals with the capital cost and operating expense of a future plant, Turkey
13 Point Unit 5, and no other cost or revenue on the FPL system. In other words, the
14 FPL rate request only deals with Turkey Point Unit 5's capital costs, operating
15 expenses (excluding fuel), and tax impacts. The fiscal year ending, May 31, 2008
16 request of \$123 million ignores every other element of the ratemaking process.

17
18 Q. HASN'T FPL UTILIZED 2007 TO JUSTIFY THE \$123 MILLION RATE
19 INCREASE REQUESTED AT THE IN SERVICE DATE OF TURKEY POINT
20 UNIT 5?

21 A. It appears from the Company's filing that it has taken a forecast 2007 year and
22 attempted to show that it would still have a revenue deficiency for 2007 even with
23 an additional mid-year increase in rates of \$123 million.

24
25 Q. WHAT IS WRONG WITH THAT PROCESS?

1 A. The 2007 forecast is just that, a forecast. It is not a test year, it will incorporate all
2 of the problems and inaccuracies which flow from the underlying assumptions
3 which FPL inputted in late 2004. As I have previously pointed out, it is difficult
4 to project revenues and expenses even one or two months in advance, let alone
5 attempting to project plant in service, operating expenses, capital costs and every
6 other element of financial operations some three years in advance of their
7 occurrence. The 2007 year is not a test year, is not being analyzed, and cannot be
8 used to justify a rate increase for a fiscal year starting June 1, 2007 and ending
9 May 31, 2008.

10

11 Q. CAN YOU GIVE EXAMPLES OF WHAT MAKES THE COMPANY'S
12 REQUEST DEFICIENT AND UNRELIABLE?

13 A. Yes. In response to Citizens Interrogatory No. 132 proposed to Mr. Yeager in
14 regards to his testimony related to Turkey Point Unit 5, he stated that: "Staffing
15 assumptions are based on twenty-four hours per day, seven days per week
16 operational coverage and eight hours per day, five days per week maintenance
17 and management coverage."

18

19 This means that the Company intends to operate this unit as a base load unit (as
20 would be consistent with a combined cycle unit) and will generate approximately
21 8 million megawatt hours, assuming an 80% capacity factor in its first year of
22 operation. $(1,150 \text{ mw} \times 8,760 \text{ hours} = 10,074,000 \text{ mwhs} \times 80\% = 8,059,200$
23 $\text{mwhs})$. The Company's request does not account for or discuss what will happen
24 to this over 8 million megawatt hours of generation. If one assumes that FPL
25 needs this additional generation for retail sales, then the Company has not

1 accounted for that revenue in its projections related to Turkey Point Unit 5. The
2 average base revenue generated per kilowatt hour, in the year 2004, was \$0.0358

3 **BEGIN CONFIDENTIAL** [REDACTED]

4 [REDACTED] **END

5 CONFIDENTIAL** If FPL sold this additional generation of 8,059,500,000
6 kilowatt hours at the average base revenue per mwh in 2004, it would generate
7 \$288,519,360 of additional revenue. This exceeds the revenue requirements
8 postulated for Turkey Point Unit 5 by over \$165 million. (\$288 million - \$123
9 million = \$165 million)

10
11 If one assumes that the generation available from Turkey Point Unit 5 were used
12 to offset or eliminate generation from other units on the Company's system, then
13 one must question why the adjustments proposed by Company witnesses Davis,
14 Dewhurst, and Yeager did not reflect reductions in O&M costs, labor cost, etc.
15 from the removal of those units or reduction of use of those units, which would be
16 replaced by Turkey Point Unit 5.

17
18 Q. COULD THE ADDITION OF TURKEY POINT UNIT 5 ALSO BE USED TO
19 REPLACE PURCHASE CAPACITY AND ENERGY OR PROVIDE
20 ADDITIONAL CAPACITY AND ENERGY IN SOUTHEAST FLORIDA?

21 A. Yes, it could. However, it will still generate approximately eight million mwh's.
22 That additional generation will have an impact on costs and sales. It will replace
23 purchase energy, be available for increased sales, or cause other generation to be

1 available for sales off system. However, the Company's request for an increase
2 of \$123 million does not account for any of these possibilities.

3
4 Q. DOESN'T THE 2007 FORECAST ACCOUNT FOR GENERATION FROM
5 TURKEY POINT UNIT 5?

6 A. One cannot tell from the limited information provided in the filing. In any case,
7 2007 is not the test year and the MFRs do not support that year. It cannot be used
8 to justify a rate increase.

9
10 Q. WHAT DOES FPL'S ANNUAL REPORT TO STOCKHOLDERS SAY
11 REGARDING TURKEY POINT UNIT 5?

12 A. The Company's annual report states the following:

13 "The company also received approvals to build a 1,150-megawatt
14 natural gas-fired power unit at its existing Turkey Point site south
15 of Miami. This will help FPL meet the rapidly increasing demand
16 for electricity in Southeast Florida. Construction began in March
17 2005."

18
19 FPL is telling its stockholders that the addition of Turkey Point Unit 5 is
20 necessary for growth in Southeast Florida. Given that fact, revenues will certainly
21 be generated as a result of this plant addition and must be considered in any
22 revenue requirements.

23
24 Q. GIVEN THE FACT THAT THE COMPANY'S REQUEST DOES NOT
25 ACCOUNT FOR THE EIGHT MILLION MWH OF GENERATION, WHAT

1 OTHER ASSUMPTION COULD ONE MAKE REGARDING TURKEY POINT
2 UNIT 5?

3 A. The only other assumption that one could assume is that Turkey Point Unit 5 will
4 be surplus capacity and will not either generate additional sales or eliminate the
5 need for less efficient units. If that is the case, then clearly the Commission
6 cannot accept revenue requirements which reflect surplus capacity.

7
8 In summary, what FPL is proposing is a single issue rate case which violates
9 ratemaking principles and must be rejected on that basis alone. Even if one were
10 to overlook that stigma to granting a 2007 year rate increase, the Company has
11 not and cannot justify this additional capacity based on its filings.

12

13 C. Surplus Accumulated Reserve for Depreciation and Amortization

14 Q. BOTH THE DEPRECIATION STUDY FILED BY FPL WITH THE
15 COMMISSION AND THE ANALYSIS OF THAT STUDY BY SNAVELY,
16 KING, MAJOROS, O'CONNOR & LEE ("SNAVELY KING") SHOW THAT
17 THE RESERVE FOR DEPRECIATION AND AMORTIZATION HAS AN
18 ACCUMULATED BALANCE WHICH EXCEEDS THE RESERVE WHICH
19 NEEDS TO HAVE BEEN ACCUMULATED. GIVEN THE REMAINING
20 LIVES, DEPRECIATION RATES AND CURRENT BALANCE IN THE
21 ACCUMULATED RESERVE, WHAT SHOULD HAPPEN TO THIS
22 SURPLUS RESERVE BALANCE?

23 A. The Commission should follow its prior precedent which FPL has endorsed
24 related to reserve deficiencies of depreciation and amortization.

25

1 Q. WHAT POLICY HAS THE COMMISSION FOLLOWED IN THE PAST
2 REGARDING DEFICIENCIES IN THE ACCUMULATED RESERVE FOR
3 DEPRECIATION AND AMORTIZATION?

4 A. The Commission has ordered that deficiency in the reserve for depreciation and
5 amortization should be eliminated as quickly as possible. It would only be
6 appropriate that the Commission follow that same policy regarding reserve
7 sufficiencies that it found to be appropriate regarding reserve deficiencies. That
8 is, that the surplus should be eliminated from the reserve as soon as possible. The
9 Commission has on a number of occasions ordered that reserve deficiencies be
10 amortized over a four or five year period.

11

12 Q. HAS FPL ALSO ADVOCATED THE ELIMINATION OF RESERVE
13 DEFICIENCIES AS SOON AS POSSIBLE WHEN A RESERVE DEFICIENCY
14 EXISTED IN THE PAST?

15 A. Yes, it has.

16

17 Q. WOULD YOU PLEASE DISCUSS WHAT FPL HAS ADVOCATED
18 REGARDING RESERVE DEFICIENCIES IN THE PAST?

19 A. Yes. In Docket No. 970410-EI, FPL sponsored witness Hugh Gower, a
20 consultant. Mr. Gower's testimony on behalf of FPL supported a Proposed
21 Agency Action which continued an amortization of cost underrecoveries. The
22 amortization of the underrecoveries commenced in 1996. The Proposed Agency
23 Action would continue the amortization through 1998 and 1999 with the total
24 recovery amounting to approximately \$1,140,392,000. The majority of these

1 amortizations related to nuclear decommissioning reserve deficiencies and
2 depreciation reserve deficiencies. Mr. Gower stated that:

3 "...extending the plan to record additional expenses in 1998 and
4 1999 to correct cost underrecoveries is reasonable and appropriate,
5 will be beneficial to customers who will be served by Florida
6 Power & Light Company ("FPL" or "the Company") for the longer
7 term, and represents good regulatory policy."²

8
9 "The items addressed in the proposed agency action represent
10 capital investments made by FPL and other costs previously
11 incurred to provide service to its customers, but which were not
12 fully recovered by FPL in prior years. These were prudently
13 incurred costs which FPL is entitled to recover by inclusion in its
14 regulated cost of service and the accounting directives contained in
15 the Commission's proposed agency action deal only with the
16 timing of the recovery of these costs."³

17
18 Mr. Gower, and therefore FPL, supported the recovery of certain additional
19 expenses including reserve deficiencies because such costs were incurred in
20 providing prior service to ratepayers. The same principles should apply regarding
21 reserve sufficiencies when they result from a study performed and accepted by the
22 Commission. That is, these funds should be returned to ratepayers in the same
23 manner that a reserve deficiency was collected from ratepayers, i.e., over a
24 relatively short period of time.

² Gower Direct Testimony, lines 19-23, p. 4.

³ Gower Direct Testimony, lines 12-18, p. 5.

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Mr. Gower further stated that:

“Correction of prior cost underrecoveries will result in lower future cost of service by reducing the amount of investor-supplied capital needed to finance the business and by reducing future uncertainties which may increase the Company’s cost.”⁴

Mr. Gower, as stated above, thought it important to return underrecoveries to investors over a short period of time and that the return of these funds will result in lower future costs by reducing investor supplied capital needed to finance the business. By amortizing overrecoveries back to ratepayers rates will also be reduced. Lower rates will stimulate sales and thus increase returns to stockholders.

Investor supplied funds will be positively affected because earnings will increase as a result of decreasing depreciation expense due to the flow back to ratepayers of funds collected in excess of the cost of providing service in prior years.

Q. HAS THE COMMISSION CONSISTENTLY FOLLOWED A PRACTICE OF DEALING PROMPTLY WITH RECOVERING FROM RATEPAYERS DEFICIENCIES IN RESERVES AND THE UNDERRECOVERY OF OTHER EXPENSES?

A. Yes.

⁴ Gower Direct Testimony, lines 22-25, p. 5.

1 Mr. Gower also pointed out that:

2 “The Commission’s consistent practice of dealing promptly with
3 the changes shown by the results of periodic studies reflect not
4 only the importance of capital cost recovery but also the fact that,
5 by in large, the affected customers are very likely to be the same as
6 those affected by previous studies.”⁵

7
8 As Mr. Gower points out in the quote from his direct testimony in Docket No.
9 970410-EI, the Commission has followed a practice of promptly reflecting results
10 of periodic studies by recovering any deficiency over a short period of time. Mr.
11 Gower also states that following this procedure would more than likely affect the
12 same customers who receive the service which resulted from the deficiencies in
13 the reserves. If the Commission were to follow its policy by flowing back
14 sufficiencies over a short period of time, such as the four year period of the
15 recovery in Docket No. 970410-EI, it would achieve the same results, i.e., it
16 would flow back the overcharge of depreciation and amortization to mostly the
17 same ratepayers who had made such overpayments.

18
19 Q. HAS THE FLORIDA PUBLIC SERVICE COMMISSION FOLLOWED THE
20 SAME PROCEDURE OF RECOVERING DEFICIENCIES OVER A
21 RELATIVELY SHORT PERIOD OF TIME?

22 A. Yes. Again, Witness Gower verified this when he stated:

23 “There are numerous instances in which the Commission has
24 directed the recovery of invested capital over relatively short

⁵ Gower Direct Testimony, lines 22-25, p. 9, line 1, p. 10.

1 periods without affecting rates, recognizing that this benefits
2 customers who will be served by utilities for the longer term. In
3 previous cases involving FPL, the FPSC has directed the recovery
4 of costs ‘...as quickly as is economically practicable’ particularly
5 where the costs did not provide future benefits.”⁶

6
7 In addition to allowing FPL to recover deficiencies over a short period of time
8 there are numerous instances where the Commission followed the same procedure
9 in other electric, gas and telephone cases.

10
11 In each of the following dockets the Commission determined that the recovery of
12 a deficiency in a reserve was appropriate over a short period of time:

<u>Company</u>	<u>Docket No.</u>	<u>Order No.</u>	<u>Date</u>
General Telephone Co.	840049-TL	14929	09/11/85

15 The Commission stated in regards to a depreciation reserve deficit:

16 “We believe that it is in the interest of both Gentel’s customers and
17 its stockholders that the Company’s \$32,138,000 deficit written off
18 in as short a time as practicable. In this case we find that a five-
19 year period is appropriate.”

<u>Company</u>	<u>Docket No.</u>	<u>Order No.</u>	<u>Date</u>
United Telephone Co.	871269-TL	18736	01/26/88

23 The Commission stated in regards to acceleration of an amortization:

⁶ Gower Direct Testimony, lines 10-15, p. 7.

1 "Upon review, we will approve United's proposal to make a one-
2 time charge to depreciation of \$14,589,704 in 1987"

3 -----

4 "This action, as modified, will comply with our policies of
5 correcting reserve imbalance as rapidly as possible..."

6

<u>Company</u>	<u>Docket No.</u>	<u>Order No.</u>	<u>Date</u>
Gulf Power	880053-EI	19901	08/30/88

9

10 "For the year 1988, the approved amortization expense shall be
11 applied to the write-off of the deficit."

12

<u>Company</u>	<u>Docket No.</u>	<u>Order No.</u>	<u>Date</u>
City Gas Company	890203-GU	22115	10/31/89

15 The Commission approved the continuation of a reserve deficit amortization to be
16 applied to "prospective" reserve deficits.

17 "Order that the \$47,934 of expense which had been applied to the
18 'Historic' reserve deficit through the year 1988 be added in 1989
19 and subsequently to the \$28,166 expense associated with the write-
20 off of the 'prospective' reserve deficit,"

21

<u>Company</u>	<u>Docket No.</u>	<u>Order No.</u>	<u>Date</u>
Alltel Florida, Inc.	891026-TL	23833	12/04/90

24 The Commission stated in regards to reserve deficiency:

1 "A five year write-off period for this deficiency appears to be as
2 fast as economically practicable for this Company."

3

<u>Company</u>	<u>Docket No.</u>	<u>Order No.</u>	<u>Date</u>
Gulf Telephone Company	900599-TL	24004	01/22/91

6 The Commission authorized a write-off a reserve imbalance.

7 "This imbalance is based on our present expectation for the
8 replacement of copper cable by fiber and should be written off as
9 fast as practicable. We find a two year period to be appropriate for
10 the write-off of this deficiency."

11

<u>Company</u>	<u>Docket No.</u>	<u>Order No.</u>	<u>Date</u>
Southern Bell	820449-TP	12290	07/22/83

14 In this docket, the Commission noted that Southern Bell's reserve deficit was
15 \$265.6 million on a composite basis. The Commission order stated:

16 "That portion of the deficit that is attributable to past incorrect
17 estimates of life and salvage factors and historic technological
18 change and growth should be recovered over a shorter period.
19 Therefore, we are ordering a 5 year amortization period for this
20 portion of the deficit." The Company recovered \$123 million over
21 the 5 year amortization.

22

<u>Company</u>	<u>Docket No.</u>	<u>Order No.</u>	<u>Date</u>
United Telephone Co.	830870-TP	12857	01/10/84

24

1 The Commission ordered elimination of a \$36 million reserve deficit by ordering
2 two amortization schedules. The second was as follows:

3 "That portion of the deficit that is attributable to past incorrect
4 estimates of life and salvage factors and historic technological
5 change and growth should be recovered over a shorter period" ". .
6 the amount to be amortized over a 5-year period is \$32,435,000."

7

8 <u>Company</u>	<u>Docket No.</u>	<u>Order No.</u>	<u>Date</u>
9 North Florida Telephone	820477-TP	12864	01/12/84

10 The Commission authorized the following:

11 The Commission orders a 13 year amortization of \$608,002 and a
12 5 year amortization of \$3,721,295.

13

14 <u>Company</u>	<u>Docket No.</u>	<u>Order No.</u>	<u>Date</u>
15 Gulf Telephone	870964-TP	18642	01/04/88

16 The Commission approved the following:

17 "Initially, the prospective reserve imbalance was to be amortized
18 over a 14-year term; however, we now believe its entire balance
19 should be written off over the period 1987-1989."

20

21 As can be seen from the above quoted dockets, the Commission followed a policy
22 of returning to stockholders in the shortest time possible any reserve deficiency as
23 long as it did not affect an increase in rates.

24

1 The Commission also followed that policy in the docket regarding FPL discussed
2 above. In Docket No. 970410-EI, the Commission agreed with the Company
3 witness that eliminating the deficiency in the shortest time possible was
4 beneficial. The Commission stated:

5 "We believe it is good regulatory policy to eliminate these types of prior
6 period items when the funds are available to do so without raising current
7 rates. Once these items have been addressed, we may then evaluate FPL's
8 earnings on a going forward basis and decide on an appropriate course of
9 action."

10
11 I have attached the decision in Docket No. 970410-EI as Exhibit A to my
12 testimony.

13
14 In the current docket FPL is asking for a change in rates. It would be appropriate
15 for the Commission to eliminate the reserve sufficiency based on its past policy
16 and affect rates to the benefit of ratepayers. There are a number of adjustments to
17 the Company's filing being recommended by OPC witnesses which will result in
18 a reduction of FPL's current rates. If the Commission were to agree with OPC on
19 the major adjustments being recommended it would be reasonable to amortize the
20 reserve sufficiency over a 10 year period. However, if the Commission does not
21 adopt the major adjustments recommended by OPC then the Commission should
22 follow its past policy and amortize the sufficiency over a shorter period of time.

23

1 D. Accrued Deferred Income Taxes

2 Q. ARE THE DEFERRED INCOME TAXES SHOWN IN THE CAPITAL
3 STRUCTURE PROPERLY STATED FOR RATEMAKING PURPOSES?

4 A. No. They are not.

5

6 Q. WHAT IS IMPROPER ABOUT THE LEVEL OF COST FREE CAPITAL
7 SHOWN IN THE CAPITAL STRUCTURE ON SCHEDULE D-1a AND IN
8 THE COMPANY'S SURVEILLANCE REPORT?

9 A. The deferred income tax credits represent income taxes paid by ratepayers that
10 have not been paid to the United States Treasury as an income tax liability. These
11 have been improperly reduced by FPL by deferred income tax debits, which
12 represent income taxes paid to the United States Treasury as a result of expenses
13 taken on the books which are not recognized for income tax purposes.

14

15 Q. WOULD YOU PLEASE EXPLAIN IN MORE DETAIL HOW DEFERRED
16 INCOME TAX LIABILITIES AND DEFERRED INCOME TAX ASSETS
17 ARISE ON THE BOOKS OF FPL AND HOW THEY SHOULD BE TREATED
18 FOR RATEMAKING PURPOSES?

19 A. Yes. Let's start first with an explanation of deferred income tax liabilities. These
20 are credit balances on the Company's balance sheet, and they represent funds
21 collected from ratepayers for income tax expenses prior to those taxes being due
22 to the Treasury Department. In other words, ratepayers are paying income tax
23 expenses in rates prior to the Company actually being required to make those
24 payments to the U.S. Treasury Department.

25

1 Q. CAN YOU GIVE AN EXAMPLE OF HOW DEFERRED INCOME TAX
2 LIABILITIES ARISE ON THE COMPANY'S BALANCE SHEET?

3 A. Although there are many sources of deferred income tax liabilities, the primary
4 source is depreciation expense. Depreciation expense for tax purposes is
5 calculated on a much different basis than depreciation expense for book purposes
6 or for purposes of inclusion in rates paid by ratepayers. As an example, the
7 nuclear plants on the Company's books, St. Lucie and Turkey Point, are
8 approximately 70% depreciated for book purposes. That is, their cost has been
9 charged as depreciation expense and recovered from ratepayers to the extent of
10 approximately 70% of the cost. However, for income tax purposes, these plants
11 have been fully depreciated for a number of years. This is so because the
12 depreciable life allowed for income tax purposes for nuclear plants is 15 years.
13 That depreciation, computed for income tax purposes, was based on accelerated
14 methods which allowed the Company to depreciate a greater portion of those
15 facilities in the beginning years for tax purposes than in the latter years of the 15
16 year period. However, for book purposes, depreciation expense has been
17 calculated on a straight line basis over the license period of the nuclear unit,
18 which was 30 years. As you can see, there is a difference in depreciation for book
19 and tax purposes. Ratepayers paid income tax expense in rates based on the
20 longer lives of the nuclear plants, while the Company was paying income tax to
21 the U.S. Treasury based on the shorter life of 15 years and accelerated
22 depreciation. Thus, ratepayers were prepaying income tax expense prior to it
23 being due to the U.S. Treasury Department. Since FPL had the use of these funds
24 in its operations they had a zero cost to the Company and are, therefore, included
25 in the Company's capital structure as zero cost capital. Many commissions

1 deduct zero cost capital directly from the rate base, which has the same effect of
2 including them in the capital structure at zero cost.

3

4 Q. WON'T THE INCOME TAX EXPENSE PREPAID BY RATEPAYERS
5 EVENTUALLY BE PAID TO THE U.S. TREASURY DEPARTMENT?

6 A. No, there will always be some balance in the deferred income tax liability
7 account. This occurs because plant investment is not stagnate, but is dynamic,
8 with new plant is being added as old plant reaches the end of its depreciable life
9 both for tax and book purposes. This tends to insure that there is a prepayment by
10 ratepayers, and thus, cost free capital is available to the Company on an ongoing
11 basis.

12

13 Q. THAT EXPLAINS DEFERRED INCOME TAX LIABILITIES, WHAT IS A
14 DEFERRED INCOME TAX ASSET AND HOW DOES IT ARISE?

15 A. Deferred income tax assets are payments to the U.S. Treasury Department of
16 taxes on deductions which are not recognized by the Internal Revenue Code as
17 deductions for income tax purposes when they are recognized as expenses on the
18 books of FPL.

19

20 Q. CAN YOU GIVE EXAMPLES OF EXPENSES WHICH ARE RECOGNIZED
21 FOR RATEMAKING AND BOOK PURPOSES, BUT ARE NOT
22 RECOGNIZED FOR INCOME TAX PURPOSES?

23 A. Yes. Two of the major expenses which are recognized for book purposes and
24 included in rates, but not recognized for income tax purposes as deductions in the
25 year booked, are storm damage accruals and nuclear decommissioning accruals.

1 While these expenses are recognized in the ratemaking process and included as
2 deductions in the ratemaking process, they are not utilized as deductions for
3 income tax purposes.

4
5 Q. WHY IS THAT SO?

6 A. Since no storm expense has been incurred and no loss experienced when an
7 accrual is made, the IRS, therefore, does recognize that as a deduction since no
8 loss was incurred. The same is true of nuclear decommissioning costs. No
9 decommissioning expense has been incurred as a result of accruing the future
10 expenses, therefore, the IRS does not recognize this as a current income tax
11 deduction.

12
13 Q. PLEASE EXPLAIN HOW FPL IS REFLECTING THE DEFERRED INCOME
14 TAX LIABILITIES AND THE DEFERRED INCOME TAX ASSETS IN THE
15 CURRENT FILING AND THE SURVEILLANCE REPORT.

16 A. FPL is offsetting the deferred income tax assets against the deferred income tax
17 liabilities. This has the effect of reducing the cost free capital reflected in the
18 capital structure, thus, raising the overall cost of capital and, in effect, allowing
19 the Company to earn a rate of return on the deferred income tax asset.

20
21 FPL stated how it treats all deferred income tax debit balances in response to
22 OPC's Fifth Set of Interrogatories, Interrogatory No. 181, as follows:

23
24 The deferred tax debit balances that result from the storm fund
25 reserve accruals are treated like any other deferred tax balances in

1 FPL's earning surveillance report filed with the Commission each
2 month. They are included in FPL's total company per book
3 deferred tax balance which, along with FPL's other per book
4 capital structure components, are used to develop FPL's retail
5 adjusted capital structure and overall cost of capital (see Schedule
6 4, page 1 of FPL's Surveillance Report). The cost rate for the
7 deferred tax capital structure component in calculating the overall
8 cost of capital is zero.

9
10 The deferred tax debit balances associated with the storm fund
11 reserve accruals were treated the same way in FPL's earnings
12 review Docket 001148-EI in 2001, the Surveillance Reports and in
13 our current filing.

14

15 Q. WHAT IS WRONG WITH OFFSETTING THE DEFERRED INCOME TAX
16 ASSETS AGAINST THE DEFERRED INCOME TAX LIABILITIES?

17 A. What is inappropriate about offsetting deferred income tax assets against the
18 deferred income tax liabilities is that ratepayers are paying the tax which is
19 represented by the deferred income tax asset in most instances. For instance, in
20 the Commission's orders related to storm damage accruals, the Commission
21 requires a trust fund be set aside so that funds are available when a storm actually
22 occurs. However, the amount of dollars actually deposited in the trust fund is net
23 of tax. In other words, ratepayers are paying a specific dollar amount, part of
24 which is set aside in a trust fund for future storm damage and part of which is
25 used to pay the income tax on the storm damage accrual because the accrual is not

1 deductible for income tax purposes. This is demonstrated in the following
2 response by FPL to OPC's Fifth Set of Interrogatories, Interrogatory No. 180:
3

4 Q. Storm & Property Insurance Reserve. Please explain, in detail,
5 how the Company has accounted for the accrual to the storm
6 damage reserve of \$20,300,000, which has been authorized by the
7 Florida Commission to be recovered in rates. State each account
8 (by FERC account number and title) which is impacted by the
9 accrual, explain the amount added to each account, and describe
10 how the amount charged to each account is calculated.

11 A. The following entries reflect the accounting treatment
12 associated with the accrual of the storm damage reserve:

13 Debit Account 924, Property Insurance, for \$20,300,000
14 reflecting the annual accrual approved by the FPSC.

15 Credit Account 228.1, Accumulated Provision for property
16 insurance, for \$20,300,000 for the annual accrual

17
18 Debit Account 190, Accumulated Deferred income taxes, for
19 \$7,830,725 for the deferred tax on the storm accrual

20 Credit Account 411.1, Provision for deferred income taxes
21 credit, for \$7,830,725 for the deferred tax expense related to
22 the nondeductibility of the storm reserve accrual

23 (\$20,300,00*38.575%=\$7,830,725)
24

1 Debit Account 409, Income tax, utility operation income, for
2 \$7,830,725 for the current liability for the non deductibility of
3 the storm fund reserve accrual.

4 Credit Account 236, Taxes accrued, for \$7,830,725 for the
5 current liability for Federal and state income taxes related to
6 the nondeductibility of the storm fund accrual.

7
8 Debit Account 236, Taxes accrued, for \$7,830,725 for the
9 payment of Federal and state income taxes.

10 Credit Account 131, Cash, for \$7,830,725 for the payment of
11 Federal and state income tax liabilities.

12
13 Debit Account 128, Other special funds, for \$12,469,275 to
14 reflect the deposit in the storm fund reserve based on the
15 accrual of the storm damage reserve accrual of \$20,300,000
16 (\$20,300,000-\$7,830,725=\$12,469,275).

17 Credit Account 131, Cash, for \$12,469,275 for the payment of
18 cash for the funded storm damage reserve.

19
20 Although this response is rather lengthy, it clearly shows that rates reflect a total
21 cost of \$20,300,000, which is the amount authorized by the Commission in Order
22 No. PSC-95-1588-FOF-EI issued December 27, 1995 in Docket No. 95-1167-EI.

23
24 The response indicates that part of the funds collected from ratepayers are set
25 aside in Account 128 – Other Special Funds net of tax, which is \$12,469,275 and

1 that the remainder \$7,830,725 is set aside in Account 190 – Accumulated
2 Deferred Income Taxes. This, of course, complies with the Commission’s orders
3 which state that the funding be net of tax. However, one can see that ratepayers
4 are paying the deferred income tax asset which is used to reduce the deferred
5 income tax liability, and thus, increases the overall rate of return paid by
6 ratepayers. Thus, ratepayers are required to pay a rate of return on income taxes
7 which they themselves have paid.

8

9 Q. WHAT ADJUSTMENT SHOULD BE MADE TO CORRECT THE COST FREE
10 CAPITAL SHOWN IN THE CAPITAL STRUCTURE?

11 A. Any deferred income tax debit balance or asset should be removed as a reduction
12 of the cost free capital when such deferred income tax debits have been funded by
13 ratepayers.

14

15 Q. WHAT BALANCES SHOULD BE REMOVED?

16 A. I am not aware of all the balances or their genesis, but I do know that the storm
17 deferred income tax balance has been funded by ratepayers and it appears that the
18 nuclear decommissioning balance also has. The Company has reflected the same
19 level of deferred income tax debit balance which was reflected in Account 190 –
20 Accumulated Deferred Income Taxes at August 2004. That balance was
21 \$877,656,000. I have estimated that the deferred income taxes in Account 190
22 related to the storm reserve was \$136,693,000 ($\$354,350,874 \times 38.575\% =$
23 $\$136,693,000$). Since the Company carried forward the August 2004 balance into
24 2006, this is the amount reflected in the 2006 capital structure. The December
25 2004 trial balance reflects deferred income taxes in Account 190 related to the

1 decommissioning fund to be \$252,776,000. The total to be added to deferred
2 income tax is \$389,469,000.

3

4 IV. RATE BASE

5 Q. ARE YOU PROPOSING ADJUSTMENTS TO THE COMPANY'S
6 PROJECTED TEST YEAR RATE BASE FOR THE TEST YEAR ENDING
7 DECEMBER 31, 2006?

8 A. Yes, I am.

9

10 Q. ON WHAT SCHEDULE ARE YOUR PROPOSED RATE BASE
11 ADJUSTMENTS SHOWN?

12 A. Schedule B-1, page 1 of 7, shows all of the rate base adjustments which I am
13 proposing. Other OPC witnesses are recommending adjustments to the rate base
14 which are not reflected on this schedule.

15

16 Line No. 1 of that schedule is the Company's proposed rate base from their MFR
17 Schedule B-1, line 14. This is the adjusted rate base on which the Company
18 proposes to earn a rate of return.

19

20 Q. WOULD YOU PLEASE DISCUSS EACH OF THE ADJUSTMENTS YOU
21 ARE PROPOSING AND WHY THEY ARE APPROPRIATE?

22 A. Yes.

23

1 A. Plant in Service

2 Q. WHAT ADJUSTMENTS ARE YOU PROPOSING TO THE COMPANY'S
3 PLANT IN SERVICE?

4 A. The rate base requested by the Company utilizes a projected test year ending
5 December 31, 2006. That means the Company must project each balance by
6 month of each component of the rate base, i.e., plant in service, accumulated
7 depreciation, plant held for future use and working capital. It is unlikely that
8 anyone could project balances almost two years into the future without
9 inaccuracies affecting the balances. The best method of testing the Company's
10 projection methodologies is to compare actual results to projections and draw a
11 conclusion regarding whether the balance will be over or understated based on
12 comparisons of actual to projected.

13
14 Q. HAVE YOU DONE SUCH AN ANALYSIS?

15 A. Yes. I have been able to compare the Company's projections of plant in service
16 balances for the first four months of the 13-month average for the year ending
17 December 31, 2005, which is the year prior to the projected test year.

18
19 Q. HAVE YOU PREPARED A SCHEDULE THAT SHOWS THE RESULTS OF
20 YOUR COMPARISON?

21 A. Yes, I have. On Schedule B-1, page 2 of 7, I have compared the FPL projected
22 plant in service balance to the actual plant in service balance as shown on FPL's
23 surveillance report filed with the Florida Public Service Commission (FPSC).

24

1 Q. WOULD YOU DISCUSS THOSE COMPARISONS AND YOUR PROPOSED
2 ADJUSTMENT TO PLANT IN SERVICE?

3 A. On Schedule B-1, page 2 of 7, I have compared the actual balances of electric
4 plant in service to the Company's Schedule B-3, page 1 of 4, for the prior year
5 ended December 31, 2005. This comparison of actual balances, as reported to the
6 Commission in surveillance reports, to the Company's projected balances will
7 indicate whether there is a trend in the Company's projection methodology. In
8 other words, if all of the projections exceed the actuals in months in which the
9 Company only had to project expenditures and retirements for two or three
10 months into the future, then it is likely that same trend of over projecting plant
11 balances would continue into the future and would affect the test year 13-month
12 average ending December 31, 2006.

13
14 Looking at the results shown on Schedule B-1, page 2 of 7, each month,
15 December 2004 through March 2005, show that the Company's projected plant in
16 service balance exceeded the actual in each and every month. Actual data is only
17 available at this time through March 2005.

18
19 Q. DIDN'T THE COMPANY HAVE THE ACTUAL DECEMBER 2004
20 BALANCE WHEN IT MADE THE PROJECTION FOR THE PRIOR YEAR
21 ENDED DECEMBER 31, 2005?

22 A. Yes, it did. In fact, FPL used the actual balance for the historical test year ended
23 December 31, 2004 for the month of December 2004. However, when making
24 the projection for the year 2005, FPL did not use the actual balance for December

1 2004; rather, FPL used a projected balance which exceeded the actual by
2 \$74,391,000.

3

4 Q. WHAT RELEVANCE DOES THE YEAR 2005 HAVE TO THE PROJECTED
5 TEST YEAR 2006?

6 A. The Company utilized the same projection methodology for both the prior year
7 ended December 31, 2005 and the test year ended December 31, 2006. The 13-
8 month average for the plant in service balance for the test year ended December
9 31, 2006 starts out with the same balance for December resulting from the
10 projections for the prior year ended December 31, 2005. Any inaccuracies in
11 2005 are carried forward into the 2006 test year because the December 31, 2005
12 balance becomes the first month in the 13-month future test year average, and the
13 same projection methodology is used.

14

15 Q. WHAT ADJUSTMENT ARE YOU PROPOSING?

16 A. I have calculated the difference between the actual plant in service balance and
17 the projected plant in service balance for each of the actual months available. I
18 have also calculated the percentage difference that the projected balance exceeded
19 the actual balance. I then took the average percentage overstatement of the
20 balance of plant in service to projected and applied it to the 13-month average
21 plant in service balance projected by the Company on Schedule B-1 for the 13-
22 months average ending December 31, 2006. This results in an adjustment to plant
23 in service for the projected test year 2006 of \$132,739,000 on a total Company
24 basis. The jurisdictional adjustment is \$131,636,000. This amount is carried
25 forward to Schedule B-1, page 1 of 7 and is deducted from the plant in service

1 projections recommended by the Company for the test year ended December 31,
2 2006.

3
4 Q. DOES THE ADJUSTMENT TO PLANT IN SERVICE, IN YOUR OPINION,
5 ACCOUNT FOR ALL OF THE POSSIBLE OVERSTATEMENTS IN THE
6 PLANT IN SERVICE BALANCE?

7 A. No. The first four months comparison would reflect normal construction projects,
8 which FPL would complete on a normal on-going basis. Major generation plant
9 additions, such as Manatee Unit 3 and Martin Unit 8, would not have been
10 reflected as additions either in the projected plant in service balance or in the
11 actual in service balance in those months because these units are scheduled to be
12 in service later in 2005, and their costs are still reflected in Construction Work In
13 Progress.

14
15 Since FPL's projections are based on construction budgets, any positive or
16 negative variance from those construction budgets would affect future plant in
17 service balances to be utilized in the 13-month average for the year ended
18 December 31, 2005 and carry over into the projected December 31, 2006 13-
19 month average.

20
21 Q. HOW DO THE CONSTRUCTION COSTS OF MANATEE UNIT 3 AND
22 MARTIN UNIT 8 COMPARE TO ACTUAL CONSTRUCTION COSTS?

23 A. FPL's Operating Performance Report and Board of Director's Report for the
24 month of February 2005 indicate that **BEGIN CONFIDENTIAL**

25 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED] **END

6 CONFIDENTIAL I recommend this adjustment be made.

7

8 B. Accumulated Provision for Depreciation and Amortization

9 Q. ARE YOU PROPOSING ADJUSTMENTS TO THE BALANCE PROJECTED
10 BY THE COMPANY FOR THE ACCUMULATED PROVISION FOR
11 DEPRECIATION AND AMORTIZATION?

12 A. Yes, I am.

13

14 Q. WHAT ARE THOSE ADJUSTMENTS AND WHY ARE THEY
15 APPROPRIATE?

16 A. The Company followed the same methodology in projecting the accumulated
17 provision and depreciation as it did for plant in service. It started out using a
18 projected balance for the month ended December 31, 2004 rather than using the
19 actual balance, which it did use for the historical test year ended December 31,
20 2004. The Company, therefore, again starts out with an error by using a projected
21 balance which overstates the actual results. The comparison of projected to actual
22 balances for the accumulated provision for depreciation and amortization is
23 shown on my Schedule B-1, page 3 of 7. December 2004 is overstated by
24 \$74,851,000. Each month, January through March 2005, exceeds the actual by as
25 much as \$166 million. Since this methodology and these balances ultimately

1 effect the test year ended December 31, 2006, it is appropriate to adjust the
2 provision for depreciation and amortization for this overstatement. I have shown
3 the over stated balance on Schedule B-1, page 3 of 7, for each month that actual
4 data is available, I have calculated the overstated percentage and taken an average
5 and applied that to the 13-month average projected balance used by the Company
6 in its rate base calculation. The adjustment to the projected balance is
7 \$140,465,000. Applying a jurisdictional factor, the jurisdictional adjustment is
8 \$139,266,000.

9

10 Q. ARE THERE ANY OTHER ADJUSTMENTS THAT YOU ARE PROPOSING
11 TO THE ACCUMULATED PROVISION FOR DEPRECIATION AND
12 AMORTIZATION?

13 A. Yes. The Company is proposing an adjustment to the accumulated provision and
14 depreciation expense for dismantling costs for the Fort Myers Unit No. 3, which
15 went into service after 2001 and Martin Unit No. 8 and Manatee Unit 3, which are
16 projected to go into service in 2005. Each of these plants have or will be placed
17 in service after the period used in FPL's last dismantlement study which was
18 2001. This adjustment to Accumulated Provision is \$433,000 on a jurisdictional
19 basis. The adjustment to dismantlement expense proposed by the Company for
20 these three plants is \$866,000 (\$852,000 jurisdictional). These adjustments
21 should be eliminated because the plant lives of many of FPL's units have been
22 extended and the dismantlement cost of these units, whose lives have been
23 extended, has been over recovered in prior years. It would be inappropriate to add
24 additional dismantlement costs in rates when it is clear that an adjustment
25 downward in total depreciation expense and dismantlement cost is justified.

1 Q. WHAT AFFECT DOES YOUR ADJUSTMENT TO THE ACCUMULATED
2 PROVISION FOR DEPRECIATION AND AMORTIZATION HAVE ON
3 DEPRECIATION EXPENSE?

4 A. Since an overstatement of the accumulated provision for depreciation and
5 amortization results from the over accrual of depreciation expense then
6 depreciation expense must be adjusted for the overstatement of the provision for
7 depreciation and amortization. Since other OPC witnesses will be recommending
8 the appropriate depreciation rates the adjustment to depreciation will be adjusted
9 based on their study. However, I am recommending that the \$852,000 of
10 dismantlement cost associated with Fort Myers No. 3, Martin No. 8 and Manatee
11 No. 3 be removed from expense as previously discussed.

12
13 C. Construction Work In Progress

14 Q. SHOULD THE COMMISSION ALLOW ANY CONSTRUCTION WORK IN
15 PROGRESS (CWIP) IN RATE BASE?

16 A. No, it should not. Construction Work In Progress (CWIP), as the titles
17 designates, is not plant that is completed and providing service to ratepayers. It is
18 neither used nor useful in generating, transmitting, or delivering current service to
19 ratepayers. The ratemaking process is predicated on an examination of the
20 operations of a utility to insure that the assets upon which ratepayers are required
21 to provide the utility with a rate of return are, in fact, reasonably priced and are
22 both used and useful in providing services on a current basis to ratepayers.
23 Facilities in the process of being constructed cannot be used or useful. Their total
24 cost and the basis on which they were constructed cannot be examined in the
25 context of providing service to ratepayers. The ratemaking process therefore

1 excludes, in most instances, all CWIP from earning a current rate of return or
2 being included in rate base until such time as projects are completed and
3 providing services to ratepayers.

4
5 For a public service commission to allow CWIP in rate base is to predetermine
6 that costs are reasonable and that the project will be used and useful in providing
7 service to ratepayers. As a general ratemaking principle, CWIP should be
8 excluded from rate base and excluded from the ratemaking process until such time
9 that it is actually providing service to ratepayers.

10
11 Q. HAS THE FLORIDA PUBLIC SERVICE COMMISSION INCLUDED CWIP
12 IN RATE BASE IN SOME INSTANCES?

13 A. Yes, it has. However, in those instances of which I am aware, the particular
14 utility was in the midst of a large construction program, and there was a
15 likelihood that the interest coverage ratio would decline below the coverage ratios
16 required by bond indenture covenants. In FPL's last litigated rate case, Docket
17 No. 830465-EI, the Florida Public Service Commission stated the following:

18 "As announced repeatedly in our more recent electric rate cases,
19 our decision to include CWIP in rate base has been founded on our
20 overriding concern of providing the particular utility with an
21 opportunity to achieve and maintain adequate financial integrity.
22 In this case, we have determined that even without the inclusion of
23 any CWIP in rate base, FPL should be able to maintain its financial
24 integrity in 1984 and 1985. Accordingly, we find that it is not
25 necessary to include any CWIP or Nuclear Fuel in Process (NFIP)

1 in rate base in either 1984 or 1985 in order to maintain FPL's
2 financial integrity."⁷

3
4 The March 31, 2005 surveillance report indicates that the times interest earned
5 ratio for FPL is 6.96 (including AFUDC) and 6.69 (excluding AFUDC) for that
6 12-month period. The surveillance report also indicates that funds generated
7 internally are 112.33%. In other words, for the year ended March 31, 2005, FPL
8 has been able to generate 112.33% of all construction funds from internal sources.

9
10 It should also be pointed out that the construction program completed in 2004 was
11 approximately \$1.4 billion and FPL, according to the earning surveillance report,
12 was able to generate 109.36% of construction funds internally. The times interest
13 earned ratio was 7.09 with AFUDC and 6.84 without AFUDC. The projected
14 construction program for 2005 is approximately \$400 million greater than 2004.

15 It does not appear that FPL's coverage ratios, which have ranged from 6.75 times
16 interest in 2001 and about seven times interest in the years 2002, 2003, 2004 and
17 just under seven times for the 12-month ended March 31, 2005 would be
18 detrimentally effected to the point where CWIP would need to be included in
19 rates in order to maintain a coverage ratio above the requirements of bond
20 covenants.

21
22 Q. DOES THE COMMISSION RULE 25-6.0141 ON THE ALLOWANCE FOR
23 FUNDS USED DURING CONSTRUCTION DETERMINE WHETHER
24 PROJECTS ARE INCLUDED IN RATE BASE OR NOT?

⁷ Docket No. 830465-EI, p. 14. Decision Nos. 13537 and 13948.

1 A. No, it does not. The rule determines that long-term projects of a certain
2 magnitude will accrue AFUDC and that shorter term projects will not. In my
3 opinion, the rule recognizes the fact that projects which are completed over a
4 shorter period of time, i.e., less than one year, will provide the Company a return
5 by either increasing sales or decreasing operating costs and, therefore, do not
6 require an AFUDC return. Other more long-term projects may require the accrual
7 of AFUDC because of the length it takes to complete these projects. However,
8 that does not dictate that these projects should be considered for inclusion in rate
9 base. Obviously, if a company repowers facilities or constructs new facility as
10 FPL is or has done, there is an economic need for this capacity. If that is the case,
11 then the return should be provided through the capacity as it is added, which will
12 either increase sales or reduce costs. For these reasons, I have excluded CWIP
13 from the rate base.

14 D. Plant Held for Future Use

15 Q. FPL HAS INCLUDED \$136,585,000 OF PLANT HELD FOR FUTURE USE
16 (PHFFU) ON A TOTAL COMPANY BASIS IN THE PROJECTED TEST
17 YEAR ENDED DECEMBER 31, 2006. DOES THE AMOUNT APPEAR TO BE
18 AN ACCURATE PROJECTION OF WHAT LEVEL OF PLANT HELD FOR
19 FUTURE WILL BE REALIZED BY FPL IN THE FUTURE TEST PERIOD?

20 A. No, it does not. Apparently FPL is assuming that future growth will require large
21 investment in Plant Held For Future Use. There does not appear to be any basis
22 for that assumption. Historically, FPL has experienced substantial customer
23 growth and has not had any significant growth in PHFFU. The following table
24 shows the level for PHFFU FPL has experienced in the past several years:

25 Year End Dollar Amount

1	1998	\$69,700,000
2	1999	\$66,000,000
3	2000	\$63,800,000
4	2001	\$58,211,268
5	2002	\$61,370,003
6	2003	\$55,158,472
7	2004	\$57,828,861

8

9 As can be seen by the above chart, the PHFFU balance has been trending
10 downward since 1998 even though kWh growth has increased each year since
11 2000 above the national average for the industry by about 45% (2% industry
12 average, 2.9% FPL, see Annual Report 2004, page 12).

13

14 Q. HOW DID FPL PROJECTIONS OF PHFFU COMPARE TO ACTUAL FOR
15 THE 2002 TEST YEAR FILED IN DOCKET NO. 001148-EI?

16 A. FPL projects the 13-month average balance to be \$68,266,000. The surveillance
17 report showed the actual to be \$62,769,849.

18

19 Q. HAVE YOU COMPARED FPL'S PROJECTIONS FOR THE MONTHS
20 AVAILABLE FOR THE 13 MONTH AVERAGE YEAR ENDING
21 DECEMBER 31, 2005 WITH THE ACTUAL BALANCES?

22 A. Yes I have.

23

24 Q. WHAT DOES THAT COMPARISON INDICATE REGARDING FPL'S
25 PROJECTIONS?

1 A. The comparison of the first four months of projections to the actuals is as follows:

2	Month/Year	Projected Balance	Actual Balance
3	December 2004	\$99,822,000	\$57,829,000
4	January 2005	\$98,310,000	\$56,685,000
5	February 2005	\$99,293,000	\$57,407,000
6	March 2005	<u>\$103,906,000</u>	<u>\$57,172,000</u>
7	Total	<u>\$401,331,000</u>	<u>\$229,093,000</u>
8	Average	<u>\$100,333,000</u>	<u>\$ 57,273,000</u>

9

10 FPL's projections are 75% above actuals for the four months for which actual
11 data is available.

12

13 Q. FPL'S PROJECTIONS INDICATE THAT THE COMPANY WOULD HAVE
14 PURCHASED \$47,975,000 OF PROPERTY HELD FOR FUTURE USE BY
15 THE END OF APRIL 2005, AND THAT SAID PROPERTY WOULD HAVE
16 BEEN HELD IN THIS ACCOUNT TO SOME FUTURE DATE WHEN IT
17 WOULD BE NEEDED FOR THE EXPANSION OF FPL'S GENERATION,
18 TRANSMISSION OR DISTRIBUTION SYSTEM. HAS FPL ACTUALLY
19 PURCHASED APPROXIMATELY \$48 MILLION OF PROPERTY HELD FOR
20 FUTURE USE?

21 A. No. In response OPC's 10th set of interrogatories, Interrogatory 309, FPL was
22 asked to provide the balance in the Property Held for Future Use account by date
23 of purchase and description of asset. That interrogatory has been summarized by
24 me by year of purchase on Schedule B-1, paged 4, 5 and 6 of 7, by date. It shows
25 that from January 2005 to the end of April 2005, FPL had purchased one piece of

1 property with a value of \$644,987.51. This means that FPL's projections for the
2 first four months of 2005 were overstated by \$47.3 million.

3
4 Q. WHAT DOES THE PURCHASE DATE OF PHFFU INDICATE REGARDING
5 THE AGE OF PROPERTY INCLUDED IN THIS ACCOUNT?

6 A. Approximately \$18 million, or 31% of the balance, was purchased over 30 years
7 ago and has not been used in the Company's expansion plans. Over 25% of the
8 balance in the PHFFU is between 10 and 30 years old. Approximately 75% of all
9 property held for future use was purchased before January of 2003. The history
10 of this account indicates that it does not experience dynamic growth.

11
12 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?

13 A. PHFFU should be adjusted to a level which reflects what the Company is actually
14 experiencing. I am recommending that the average for the first four months of the
15 2005 year be used as an appropriate on going level. This would reduce the 13-
16 month average by \$79,312,000 (\$136,585,000 less \$57,273,000 = \$79,312,000).
17 The jurisdictional adjustment would be \$78,735,481. This would leave amount of
18 PHFFU at about \$56,857,519.

19
20 E. Working Capital

21 Q. WOULD YOU PLEASE START YOUR DISCUSSION OF WORKING
22 CAPITAL BY COMMENTING UPON MR. DAVIS' PROPOSAL ON PAGE
23 13, LINE 20 THROUGH LINE 12 ON PAGE 14, THAT BOTH
24 UNDERRECOVERIES AND OVERRECOVERIES OF REVENUES

1 COLLECTED THROUGH ADJUSTMENT CLAUSES SHOULD BE
2 EXCLUDED FROM WORKING CAPITAL?

3 A. This issue has been litigated on numerous occasions before the Florida Public
4 Service Commission and Mr. Davis' position has been correctly rejected by this
5 Commission.

6
7 The reasons for including overrecoveries as a reduction of working capital are
8 fairly straightforward. The Company has collected excess funds from ratepayers
9 through operation of various recovery clauses. The Company has those funds in
10 its possession, and has use of those funds in the day-to-day operations of its
11 business until such time as they are returned to ratepayers, with interest. If the
12 overrecovery is excluded from the working capital, that effectively increases the
13 rate base. The result is that ratepayers effectively pay the rate of return on the
14 overrecovery. Thus, instead of the ratepayer receiving a return on the funds it has
15 provided to the Company and are used in the operation of the Company, the
16 ratepayer is paying his/her own interest. Thus, the overrecovery must be included
17 as a reduction of working capital in order for ratepayers to receive a return on the
18 overrecovery without paying for that return themselves. The Commission states
19 this clearly in a number of orders. The following is an example of one such
20 comment by the Commission in Docket No. 830465-EI, at page 18 of Order No.:

21 8. Conservation Clause Overrecovery

22 In this case, FPL has excluded from its calculation of working
23 capital a \$240,000 net overrecovery in its energy conservation cost
24 recovery (ECCR) clause. FPL contends that both overrecoveries
25 and underrecoveries should be excluded from working capital

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because it receives interest on underrecoveries and pays interest on overrecoveries. During his cross-examination, FPL witness H. Williams acknowledged that, if overrecoveries were excluded, working capital would be increased and the Company would earn a return on the amount of the underrecovery that was excluded.

Stated simply, the ratepayers would provide the interest that the Company return to them in the conservation (sic) clause proceedings for overrecoveries.

In Order No. 9273, Docket No. 74680-CI, we determined that interest should be applied to over/underrecoveries in order to counter any incentive to bias projections in either direction. If the ratepayer has to provide the interest on both over/underrecoveries, the Company will have no incentive to make its projections as accurate as possible.

In FPL's last rate case and in subsequent rate cases involving other electric utilities, we have consistently determined that adjustment clause overrecoveries should be included as a reduction to working capital. The appropriate adjustment is to reduce working capital by \$240,000 in 1984. No adjustment is necessary for 1985 because the Company has properly excluded its projected 1985 underrecovery of \$36,000. (Emphasis added.)

1 Mr. Davis is wrong when he states FPL is paying “a return on these amounts to
2 customers twice, once as a return on the reduction of working capital included in
3 rate base through base rates and, a second time through interest expense paid to
4 customers on the overrecovery at the commercial paper rate through the cost
5 recovery clause.”

6
7 As can be seen, the Commission clearly understands that excluding
8 overrecoveries from the working capital calculation effectively forces ratepayers
9 to pay a rate of return to themselves.

10
11 Q. WHY SHOULD UNDERRECOVERIES BE EXCLUDED FROM THE RATE
12 BASE?

13 A. Essentially, if underrecoveries were included in the rate base, the Company would
14 receive a double return on the underrecovery. This would occur because one the
15 underrecovery is in working capital, the Company earns a rate of return on that
16 underrecovery. However, when the underrecovery is collected from ratepayers,
17 that underrecovery carries a rate of return at the commercial paper rate, thereby
18 allowing the Company to receive a rate of return on the underrecovery when it is
19 collected from the ratepayers through the adjustment clause. There is no need to
20 include it in working capital; the adjustment clause itself collects the return for the
21 Company.

22
23 Mr. Davis’ recommendation to exclude both under and overrecoveries from the
24 rate base should be rejected. It does not appear that the Company’s projected

1 working capital includes any overrecoveries, therefore, no adjustment to working
2 capital is required.

3
4 Q. WHAT SPECIFIC ADJUSTMENTS ARE YOU RECOMMENDING BE MADE
5 TO THE COMPANY'S WORKING CAPITAL CALCULATION?

6 A. My recommended adjustments to the Company's requested working capital are
7 shown on Schedule B-1, page 7 of 7. The starting point to my adjustments is the
8 Company's working capital calculation which is shown on Schedule B-17,
9 totaling \$61,429,000 total Company and \$57,673,000 jurisdictional. As shown on
10 my Schedule B-1, page 7, the Company's request should be reduced by
11 \$112,038,000 on a total Company basis and \$110,471,000 on a jurisdictional
12 basis. The jurisdictional working capital is (\$52,798,000).

13
14 The first adjustment shown on Schedule B-1, page 7 of 7 is sponsored by Larkin
15 & Associates, PLLC's witness Donna DeRonne and removes rate case expense
16 from the working capital requirement. A discussion of that adjustment is
17 contained in her testimony.

18
19 The next adjustment that I am sponsoring removes from the working capital
20 requirement the Company's inclusion of derivative asset – not hedged and
21 derivative liabilities – not hedged. The Company's Form 10-K for December 31,
22 2004 states on page 38 the following regarding derivative instruments:

23 Derivative instruments, when required to be marked to market
24 under FAS 133, as amended, are recorded on FPL Group's and
25 FPL's consolidated balance sheets as either an asset or liability (in

1 derivative assets, other assets, other current liabilities and other
2 liabilities) measured at fair value. At FPL, substantially all
3 changes in fair value are deferred as a regulatory asset or liability
4 until the contracts are settled. Upon settlement, any gains or losses
5 are passed through the fuel clause and the capacity clause.

6
7 It appears that the asset and liability included by FPL in working capital are the
8 results of marking to market derivative instruments. This asset and liability do
9 not appear to be actual cash expenditures and liabilities which resulted from cash
10 transactions. As the above quote from the Company's 10-K indicates, any
11 subsequent gain or loss are passed through the fuel or capacity clauses. Unless
12 the Company can show that there is an outflow of dollars related to the derivatives
13 they should not be included in working capital requirements. The adjustment I
14 am recommending is a reduction of working capital by \$56,038,000 on a total
15 Company basis and a reduction of \$55,146,000 on a jurisdictional basis.

16
17 Q. ON LINE FOUR OF SCHEDULE B-1, PAGE 7 OF 7, YOU HAVE INCLUDED
18 THE PAYABLE TO THE NUCLEAR DECOMMISSIONING RESERVE FUND
19 WHICH THE COMPANY HAS REMOVED. WOULD YOU PLEASE
20 EXPLAIN THAT ADJUSTMENT?

21 A. The Company collects through rates an amount which will be contributed to a
22 nuclear decommissioning reserve fund. The amount is collected from ratepayers,
23 but is not immediately deposited to the nuclear decommissioning reserve fund.
24 The Company has use of the money for the period of time between when the
25 funds are collected and when they are deposited in the nuclear decommissioning

1 trust fund. This represents a source of funds which can be used in the operation
2 of the Company's business between the time such funds are collected and when
3 they are deposited in the nuclear decommissioning trust fund. It is, therefore, a
4 source of funds for working capital purposes and should be used to reduce the
5 working capital requirement. My adjustment decreases working capital for this
6 source of funds by \$5,708,000 on a total Company basis and \$5,680,000 on a
7 jurisdictional basis.

8

9 Q. PLEASE DISCUSS THE ADJUSTMENT FOR THE ST. JOHNS RIVER
10 POWER PARK ("SJRPP") ACCELERATED RECOVERY.

11 A. The Company has removed a credit which would reduce working capital related
12 to the St. Johns River Power Park ("SJRPP") accelerated recovery. This credit
13 apparently represents a liability due to the SJRPP which FPL collects through the
14 capacity adjustment clause. Service is provided by SJRPP each month and the
15 liability for the service provided is recorded on FPL's books. Ratepayers are
16 charged for the service on a monthly basis. Unless FPL can show that the liability
17 to SJRPP is not a source of funds to the Company, it should be recognized as a
18 reduction of working capital. The adjustment is \$42,757,000 on a total Company
19 basis and \$42,127,000 on a jurisdictional basis.

20

21 Q. WHAT IS THE ADJUSTMENT FOR GAIN ON THE SALE OF EMISSION
22 ALLOWANCES?

23 A. The Company has removed from other regulatory liabilities \$1,097,000
24 (\$1,080,000 jurisdictional) for the gain on sale of emission allowances. The
25 emission allowances are flowed back to ratepayers through the fuel adjustment

1 clause. The Company has the use of the funds during the period that they have
2 not been flowed back to ratepayers. It is, therefore, a working capital adjustment
3 which is not reflected as a reduction of the fuel adjustment clause immediately,
4 and should reduce working capital.

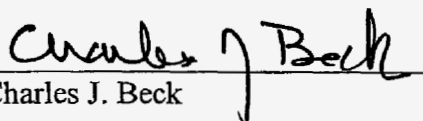
5

6 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

7 A. Yes, it does.

**DOCKET NOS. 050045-EI and 050188-EI
CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail or hand-delivery to the following parties on this 27th day of June, 2005.


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Docket Nos. 050045-EI &
050188-EI

APPENDIX I

QUALIFICATIONS OF HUGH LARKIN, JR.

APPENDIX I

QUALIFICATIONS OF HUGH LARKIN, JR.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and a partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated from Michigan State University in 1960. During 1961 and 1962, I fulfilled my military obligations as an officer in the United States Army.

In 1963 I was employed by the certified public accounting firm of Peat, Marwick, Mitchell & Co., as a junior accountant. I became a certified public accountant in 1966.

In 1968 I was promoted to the supervisory level at Peat, Marwick, Mitchell & Co. As such, my duties included the direction and review of audits of various types of business organizations, including manufacturing, service, sales and regulated companies.

Through my education and auditing experience of manufacturing operations, I obtained an extensive background of theoretical and practical cost accounting.

I have audited companies having job cost systems and those having process cost systems, utilizing both historical and standard costs.

I have a working knowledge of cost control, budgets and reports, the accumulation of overheads and the application of same to products on the various recognized methods.

Additionally, I designed and installed a job cost system for an automotive parts manufacturer.

I gained experience in the audit of regulated companies as the supervisor in charge of all railroad audits for the Detroit office of Peat, Marwick, including audits of the Detroit, Toledo and Ironton Railroad, the Ann Arbor Railroad, and portions of the Penn Central Railroad Company. In 1967, I was the supervisory senior accountant in charge of the audit of the Michigan State Highway Department, for which Peat, Marwick was employed by the State Auditor General and the Attorney General.

In October of 1969, I left Peat, Marwick to become a partner in the public accounting firm of Tischler & Lipson of Detroit. In April of 1970, I left the latter firm to form the certified public accounting firm of Larkin, Chapski & Company. In September 1982 I re-organized the firm into Larkin & Associates, a certified public accounting firm. The firm of Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. I am a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. I testified before the Michigan Public Service Commission and in other states in the following cases:

U-3749	Consumers Power Company - Electric Michigan Public Service Commission
U-391	Detroit Edison Company Michigan Public Service Commission
U-4331	Consumers Power Company - Gas Michigan Public Service Commission
U-4332	Consumers Power Company - Electric Michigan Public Service Commission
U-4293	Michigan Bell Telephone Company Michigan Public Service Commission
U-4498	Michigan Consolidated Gas sale to Consumers Power Company Michigan Public Service Commission
U-4576	Consumers Power Company - Electric Michigan Public Service Commission
U-4575	Michigan Bell Telephone Company Michigan Public Service Commission
U-4331R	Consumers Power Company - Gas - Rehearing Michigan Public Service Commission
6813	Chesapeake and Potomac Telephone Company of Maryland, Public Service Commission, State of Maryland

Formal Case
No. 2090

New England Telephone and Telegraph Co.
State of Maine Public Utilities Commission

Dockets 574, 575, 576

Sierra Pacific Power Company,
Public Service Commission, State of Nevada

U-5131

Michigan Power Company
Michigan Public Service Commission

U-5125

Michigan Bell Telephone Company
Michigan Public Service Commission

R-4840 & U-4621

Consumers Power Company
Michigan Public Service Commission

U-4835

Hickory Telephone Company
Michigan Public Service Commission

36626

Sierra Pacific Power Company v. Public
Service Commission, et al, First Judicial
District Court of the State of Nevada

American Arbitration Assoc.

City of Wyoming v. General Electric
Cable TV

760842-TP

Southern Bell Telephone and Telegraph
Company,
Florida Public Service Commission

U-5331

Consumers Power Company
Michigan Public Service Commission

U-5125R

Michigan Bell Telephone Company
Michigan Public Service Commission

770491-TP

Winter Park Telephone Company,
Florida Public Service Commission

77-554-EL-AIR

Ohio Edison Co.,
Public Utility Commission of Ohio

78-284-EL-AEM

Dayton Power and Light Co.,
Public Utility Commission of Ohio

0R78-1	Trans Alaska Pipeline, Federal Energy Regulatory Commission (FERC)
78-622-EL-FAC	Ohio Edison Co., Public Utility Commission of Ohio
U-5732	Consumers Power Company - Gas, Michigan Public Service Commission
77-1249-EL-AIR, et al	Ohio Edison Co., Public Utility Commission of Ohio
78-677-EL-AIR	Cleveland Electric Illuminating Co., Public Utility Commission of Ohio
U-5979	Consumers Power Company, Michigan Public Service Commission
790084-TP	General Telephone Company of Florida, Florida Public Service Commission
79-11-EL-AIR	Cincinnati Gas and Electric Co., Public Utilities Commission of Ohio
790316-WS	Jacksonville Suburban Utilities Corp., Florida Public Service Commission
790317-WS	Southern Utility Company, Florida Public Service Commission
U-1345	Arizona Public Service Company, Arizona Corporation Commission
79-537-EL-AIR	Cleveland Electric Illuminating Co., Public Utilities Commission of Ohio
800011-EU	Tampa Electric Company, Florida Public Service Commission
800001-EU	Gulf Power Company, Florida Public Service Commission

U-5979-R	Consumers Power Company, Michigan Public Service Commission
800119-EU	Florida Power Corporation, Florida Public Service Commission
810035-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
800367-WS	General Development Utilities, Inc., Port Malabar, Florida Public Service Commission
TR-81-208**	Southwestern Bell Telephone Company, Missouri Public Service Commission
810095-TP	General Telephone Company of Florida, Florida Public Service Commission
U-6794	Michigan Consolidated Gas Company, 16 refunds Michigan Public Service Commission
U-6798	Cogeneration and Small Power Production - PURPA, Michigan Public Service Commission
0136-EU	Gulf Power Company, Florida Public Service Commission
E-002/GR-81-342	Northern State Power Company Minnesota Public Utilities Commission
820001-EU	General Investigation of Fuel Cost Recovery Clauses, Florida Public Service Commission
810210-TP	Florida Telephone Corporation, Florida Public Service Commission
810211-TP	United Telephone Co. of Florida, Florida Public Service Commission
810251-TP	Quincy Telephone Company, Florida Public Service Commission

810252-TP	Orange City Telephone Company, Florida Public Service Commission
8400	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-6949	Detroit Edison Company - Partial and Immediate Rate Increase Michigan Public Service Commission
18328	Alabama Gas Corporation, Alabama Public Service Commission
U-6949	Detroit Edison Company - Final Rate Recommendation Michigan Public Service Commission
820007-EU	Tampa Electric Company, Florida Public Service Commission
820097-EU	Florida Power & Light Company, Florida Public Service Commission
820150-EU	Gulf Power Company, Florida Public Service Commission
18416	Alabama Power Company, Public Service Commission of Alabama
820100-EU	Florida Power Corporation, Florida Public Service Commission
U-7236	Detroit Edison-Burlington Northern Refund Michigan Public Service Commission
U-6633-R	Detroit Edison - MRCS Program, Michigan Public Service Commission
U-6797-R	Consumers Power Company - MRCS Program, Michigan Public Service Commission
82-267-EFC	Dayton Power & Light Company, Public Utility Commission of Ohio

U-5510-R	Consumers Power Company - Energy Conservation Finance Program, Michigan Public Service Commission
82-240-E	South Carolina Electric & Gas Company, South Carolina Public Service Commission
8624	Kentucky Utilities, Kentucky Public Service Commission
8648	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-7065	The Detroit Edison Company (Fermi II) Michigan Public Service Commission
U-7350	Generic Working Capital Requirements, Michigan Public Service Commission
820294-TP	Southern Bell Telephone Company, Florida Public Service Commission
Order RH-1-83	Westcoast Gas Transmission Company, Ltd., Canadian National Energy Board
8738	Columbia Gas of Kentucky, Inc., Kentucky Public Service Commission
82-168-EL-EFC	Cleveland Electric Illuminating Company, Public Utility Commission of Ohio
6714	Michigan Consolidated Gas Company Phase II, Michigan Public Service Commission
82-165-EL-EFC	Toledo Edison Company, Public Utility Commission of Ohio
830012-EU	Tampa Electric Company, Florida Public Service Commission
ER-83-206**	Arkansas Power & Light Company, Missouri Public Service Commission

U-4758	The Detroit Edison Company (Refunds), Michigan Public Service Commission
8836	Kentucky American Water Company, Kentucky Public Service Commission
8839	Western Kentucky Gas Company, Kentucky Public Service Commission
83-07-15	Connecticut Light & Power Company, Department of Utility Control State of Connecticut
81-0485-WS	Palm Coast Utility Corporation, Florida Public Service Commission
U-7650	Consumers Power Company - (Partial and Immediate), Michigan Public Service Commission
83-662**	Continental Telephone Company, Nevada Public Service Commission
U-7650	Consumers Power Company - Final Michigan Public Service Commission
U-6488-R	Detroit Edison Co. (FAC & PIPAC Reconciliation), Michigan Public Service Commission
Docket No. 15684	Louisiana Power & Light Company, Public Service Commission of the State of Louisiana
U-7650 Reopened	Consumers Power Company (Reopened Hearings) Michigan Public Service Commission
38-1039**	CP National Telephone Corporation Nevada Public Service Commission

83-1226	Sierra Pacific Power Company (Re application to form holding company) Nevada Public Service Commission
U-7395 & U-7397	Campaign Ballot Proposals Michigan Public Service Commission
820013-WS	Seacoast Utilities Florida Public Service Commission
U-7660	Detroit Edison Company Michigan Public Service Commission
U-7802	Michigan Gas Utilities Company Michigan Public Service Commission
830465-EI	Florida Power & Light Company Florida Public Service Commission
U-7777	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7779	Consumers Power Company Michigan Public Service Commission
U-7480-R	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7488-R	Consumers Power Company - Gas Michigan Public Service Commission
U-7484-R	Michigan Gas Utilities Company Michigan Public Service Commission
U-7550-R	Detroit Edison Company Michigan Public Service Commission
U-7477-R	Indiana & Michigan Electric Company Michigan Public Service Commission
U-7512-R	Consumers Power Company - Electric Michigan Public Service Commission
18978	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission

9003	Columbia Gas of Kentucky, Inc. Kentucky Public Service Commission
R-842583	Duquesne Light Company Pennsylvania Public Utility Commission
9006*	Big Rivers Electric Corporation Kentucky Public Service Commission *Company withdrew filing
U-7830	Consumers Power Company - Electric (Partial and Immediate) Michigan Public Service Commission
7675	Consumers Power Company - Customer Refunds Michigan Public Service Commission
5779	Houston Lighting & Power Company Texas Public Utility Commission
U-7830	Consumers Power Company - Electric - "Financial Stabilization" Michigan Public Service Commission
U-4620	Mississippi Power & Light Company (Interim) Mississippi Public Service Commission
U-16091	Louisiana Power & Light Company Louisiana Public Service Commission
9163	Big Rivers Electric Corporation Kentucky Public Service Commission
U-7830	Consumers Power Company - Electric - (Final) Michigan Public Service Commission
U-4620	Mississippi Power & Light Company - (Final) Mississippi Public Service Commission
76-18788AA & 76-18788AA	Detroit Edison (Refund - Appeal of U-4807) Ingham County Circuit Court Michigan Public Service Commission

U-6633-R	Detroit Edison (MRCS Program Reconciliation) Michigan Public Service Commission
19297	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9283	Kentucky American Water Company Kentucky Public Service Commission
850050-EI	Tampa Electric Company Florida Public Service Commission
R-850021	Duquesne Light Company Pennsylvania Public Service Commission
TR-85-179**	United Telephone Company of Missouri Missouri Public Service Commission
6350	El Paso Electric Company The Public Utility Board of the City of El Paso
6350	El Paso Electric Company Public Utility Commission of Texas
85-53476AA & 85-534855AA	Detroit Edison-refund-Appeal of U-4758 Ingham County Circuit Court Michigan Public Service Commission
U-8091/ U-8239	Consumers Power Company-Gas Michigan Public Service Commission
9230	Leslie County Telephone Company, Inc. Kentucky Public Service Commission
85-212	Central Maine Power Company Maine Public Service Commission
850782-EI & 850783-EI	Florida Power & Light Company Florida Public Service Commission

ER-85646001
& ER-85647001

New England Power Company
Federal Energy Regulatory Commission

Civil Action *
No. 2:85-0652

Allegheny & Western Energy Corporation,
Plaintiff, - against - The Columbia Gas
System, Inc. Defendent

Docket No.
850031-WS

Orange Osceola Utilities, Inc.
Before the Florida Public Service
Commission

Docket No.
840419-SU

Florida Cities Water Company
South Ft. Myers Sewer Operations
Before the Florida Public Service
Commission

R-860378

Duquesne Light Company
Pennsylvania Public Service Commission

R-850267

Pennsylvania Power Company
Pennsylvania Public Service Commission

R-860378

Duquesne Light Company - Surrebuttal
Testimony - OCA Statement No. 2D
Pennsylvania Public Service Commission

Docket No.
850151

Marco Island Utility Company
Before the Florida Public Service
Commission

Docket No.
7195 (Interim)

Gulf States Utilities Company
Public Utility Commission of Texas

R-850267 Reopened

Pennsylvania Power Company
Pennsylvania Public Service Commission

Docket No.
87-01-03

Connecticut Natural Gas Corporation
Connecticut Department of Public Utility
Control

Docket No. 5740

Hawaiian Electric Company
Hawaii Public Utilities Commission

1345-85-367

Arizona Public Service Company
Arizona Corporation Commission

Docket 011	Tax Reform Act of 1986 - California No. 86-11-019 California Public Utilities Commission
Case No. 29484	Long Island Lighting Company New York Department of Public Service
Docket No. 7460	El Paso Electric Company Public Utility Commission of Texas
Docket No. 870092-WS*	Citrus Springs Utilities Before the Florida Public Service Commission
Case No. 9892	Dickerson Lumber EP Company - Complainant vs. Farmers Rural Electric Cooperative and East Kentucky Power Cooperative - Defendants Before the Kentucky Public Service Commission
Docket No. 3673-U Commission	Georgia Power Company Before the Georgia Public Service
Docket No. U-8747	Anchorage Water and Wastewater Utility Report on Management Audit
Docket No. 861564-WS Commission	Century Utilities Before the Florida Public Service
Docket No. FA86-19-001	Systems Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 870347-TI	AT&T Communications of the Southern States, Inc. Florida Public Service Commission
Docket No. 870980-WS	St. Augustine Shores Utilities Inc. Florida Public Service Commission
Docket No. 870654-WS*	North Naples Utilities, Inc. Florida Public Service Commission

Docket No.
870853

Pennsylvania Gas & Water Company
Pennsylvania Public Utility Commission

Civil Action*
No. 87-0446-R

Reynolds Metals Company, Plaintiff, v.
The Columbia Gas System, Inc.,
Commonwealth Gas Services, Inc.,
Commonwealth Gas Pipeline Corporation,
Columbia Gas Transmission Corporation,
Columbia Gulf Transmission Company,
Defendants - In the United States District
Court for the Eastern District of Virginia -
Richmond Division

Docket No.
E-2, Sub 537

Carolina Power & Light Company
North Carolina Utilities Commission

Case No. U-7830

Consumers Power Company - Step 2
Reopened
Michigan Public Service Commission

Docket No.
880069-TL

Southern Bell Telephone & Telegraph
Florida Public Service Commission

Case No.
U-7830

Consumers Power Company - Step 3B
Michigan Public Service Commission

Docket No.
880355-EI

Florida Power & Light Company
Florida Public Service Commission

Docket No.
880360-EI

Gulf Power Company
Florida Public Service Commission

Docket No.
FA86-19-002

System Energy Resources, Inc.
Federal Energy Regulatory Commission

Docket Nos.
83-0537-Remand &
84-0555-Remand

Commonwealth Edison Company
Illinois Commerce Commission

Docket Nos.
83-0537 Remand &
84-0555 Remand

Commonwealth Edison Company
Surrebuttal
Illinois Commerce Commission

Docket No.
880537-SU

Key Haven Utility Corporation
Florida Public Service Commission

Docket No.
881167-EI***

Gulf Power Company
Florida Public Service Commission

Docket No.
881503-WS

Poinciana Utilities, Inc.
Florida Public Service Commission

Cause No.
U-89-2688-T

Puget Sound Power & Light Company
Washington Utilities & Transportation
Committee

Docket No.
89-68

Central Maine Power Company
Maine Public Utilities Commission

Docket No.
861190-PU

Proposal to Amend Rule 25-14.003, F.A.C.
Florida Public Service Commission

Docket No.
89-08-11
Utility Control

The United Illuminating Company
State of Connecticut, Department of Public

Docket No.
R-891364

The Philadelphia Electric Company
Pennsylvania Public Utility Commission

Formal Case
No. 889

Potomac Electric Power Company
Public Service Company of the District of
Columbia

Case No. 88/546*

Niagara Mohawk Power Corporation, et al
Plaintiffs, v. Gulf+Western, Inc. et al,
defendants
(In the Supreme Court County of Onondaga,
State of New York)

Case No. 87-11628*

Duquesne Light Company, et al, plaintiffs,
against Gulf + Western, Inc. et al,
defendants
(In the Court of the Common Pleas of
Allegheny County, Pennsylvania Civil
Division)

Case No.
89-640-G-42T*

Mountaineer Gas Company
West Virginia Public Service Commission

Docket No. 890319-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. EM-89110888	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 891345-EI	Gulf Power Company Florida Public Service Commission
BPU Docket No. ER 8811 0912J	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 6531	Hawaiian Electric Company Hawaii Public Utilities Commissioners
Docket No. 890509-WU	Florida Cities Water Company, Golden Gate Division Florida Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone Company Florida Public Service Commission
Docket Nos. F-3848, F-3849, and F-3850	Northwestern Bell Telephone Company South Dakota Public Utilities Commission
Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 5428	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 90-10	Artesian Water Company, Inc. Delaware Public Service Commission
Case No. 90-243-E-42T*	Wheeling Power Company West Virginia Public Service Commission
Docket No. 900329-WS	Southern States Utilities, Inc. Florida Public Service Commission
Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. (Surrebuttal) Federal Energy Regulatory Commission
Application No. 90-12-018	Southern California Edison Company California Public Utilities Commission

Docket No. 90-0127

Central Illinois Lighting Company
Illinois Commerce Commission

Docket No.
FA-89-28-000

System Energy Resources, Inc.
Federal Energy Regulatory Commission

Docket No.
U-1551-90-322

Southwest Gas Corporation
Before the Arizona Corporation
Commission

Docket No.
R-911966

Pennsylvania Gas & Water Company
The Pennsylvania Public Utility
Commission

Docket No. 176-717-U

United Cities Gas Company
Kansas Corporation Commission

Docket No. 860001-EI-G

Florida Power Corporation
Florida Public Service Commission

Docket No.
6720-TI-102

Wisconsin Bell, Inc.
Wisconsin Citizens' Utility Board

(No Docket No.)

Southern Union Gas Company
Before the Public Utility Regulation Board
of the City of El Paso

Docket No. 6998

Hawaiian Electric Company, Inc.
Before the Public Utilities Commission of
the State of Hawaii

Docket No. TC91-040A

In the Matter of the Investigation into the
Adoption of a Uniform Access Methodology
Before the Public Utilities Commission of
the State of South Dakota

Docket Nos. 911030-WS
& 911067-WS

General Development Utilities, Inc.
Before the Florida Public Service
Commission

Docket No. 910890-EI

Florida Power Corporation
Before the Florida Public Service
Commission

Docket No. 910890-EI	Florida Power Corporation, Supplemental Before the Florida Public Service Commission
Case No. 3L-74159	Idaho Power Company, an Idaho corporation In the District Court of the Fourth Judicial District of the State of Idaho, In and For the County of Ada - Magistrate Division
Cause No. 39353*	Indiana Gas Company Before the Indiana Utility Regulatory Commission
Docket No. 90-0169 (Remand)	Commonwealth Edison Company Before the Illinois Commerce Commission
Docket No. 92-06-05	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission
Cause No. 39498	PSI Energy, Inc. - Surrebuttal testimony Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 7287	Public Utilities Commission - Instituting a Proceeding to Examine the Gross-up of CIAC Before the Public Utilities Commission of the State of Hawaii
Docket No. 92-227-TC	US West Communications, Inc. Before the State Corporation Commission of the State of New Mexico
Docket No. 92-47	Diamond State Telephone Company Before the Public Service Commission of the State of Delaware
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. Before the Florida Public Service Commission

Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket Nos. EC92-21-000 & ER92-806-000	Entergy Corporation Before the Federal Energy Regulatory Commission
Docket No. 930405-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. UE-92-1262	Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission
Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation, Supplemental State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01	Mountain Fuel Supply Company Before the Utah Public Service Commission
Cause No. 39353 (Phase II)	Indiana Gas Company Before the Indiana Utility Regulatory Commission
PU-314-92-1060	US West Communications, Inc. Before the North Dakota Public Service Commission
Cause No. 39713	Indianapolis Water Company Before the Indiana Utility Regulatory Commission
93-UA-0301*	Mississippi Power & Light Company Before the Mississippi Public Service Commission

Docket No. 93-08-06

SNET America, Inc.
State of Connecticut, Department of Public
Utility Control

Docket No. 93-057-01

Mountain Fuel Supply Company -
Rehearing on Unbilled Revenues - Before
the Utah Public Service Commission

Case No. 78-T119-0013-94

Guam Power Authority vs. U.S. Navy
Public Works Center, Guam - Assisting the
Department of Defense in the investigation
of a billing dispute.
Before the American Arbitration
Association

Application No.
93-12-025 - Phase I

Southern California Edison Company
(Before the California Public Utilities
Commission)

Case No.
94-0027-E-42T
West Virginia)

Potomac Edison Company
(Before the Public Service Commission of

Case No.
94-0035-E-42T
West Virginia)

Monongahela Power Company
(Before the Public Service Commission of

Docket No. 930204-WS**

Jacksonville Suburban Utilities Corporation
(Before the Florida Public Service
Commission)

Docket No. 5258-U

Southern Bell Telephone and Telegraph
Company
(Before the Georgia Public Service
Commission)

Case No. 95-0011-G-42T*

Mountaineer Gas Company
(Before the West Virginia Public Service
Commission)

Case No. 95-0003-G-42T*

Hope Gas, Inc.
(Before the West Virginia Public Service
Commission)

Docket No. 95-02-07	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 95-057-02*	Mountain Fuel Supply Before the Utah Public Service Commission
Docket No. 95-03-01	Southern New England Telephone Company State of Connecticut, Department of Public Utility Control
BRC Docket No. EX93060255 OAL Docket PUC96734-94	Generic Proceeding Regarding Recovery of Capacity Costs Associated with Electric Utility Power Purchases from Cogenerators and Small Power Producers Before the New Jersey Board of Public Utilities
Docket No. U-1933-95-317	Tucson Electric Power Before the Arizona Corporation Commission
Docket No. 950495-WS	Southern States Utilities Before the Florida Public Service Commission
Docket No. 960409-EI	Prudence Review to Determine Regulatory Treatment of Tampa Electric Company's Polk Unit 1
Docket No. 960451-WS	United Water Florida Before the Florida Public Service Commission
Docket No. 94-10-05	Southern New England Telephone Company State of Connecticut Department of Public Utility Control
Docket No. 96-UA-389	Generic Docket to Consider Competition in the Provision of Retail Electric Service Before the Public Service Commission of the State of Mississippi

Docket No. 970171-EU

Determination of appropriate cost allocation and regulatory treatment of total revenues associated with wholesale sales to Florida Municipal Power Agency and City of Lakeland by Tampa Electric Company Before the Florida Public Service Commission

Case No. PUE960296 *

Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission

Docket No. 97-035-01

PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah

Docket No.
G-03493A-98-0705*

Black Mountain Gas Division of Northern States Power Company, Page Operations Before the Arizona Corporation Commission

Docket No. 98-10-07

United Illuminating Company
State of Connecticut
Department of Public Utility Control

Docket No. 98-10-07

Connecticut Light & Power Company
State of Connecticut
Department of Public Utility Control

Docket NO. 99-02-05

Connecticut Light & Power Company
State of Connecticut
Department of Public Utility Control

Docket No. 99-03-36

Connecticut Light & Power Company
State of Connecticut
Department of Public Utility Control

Docket No. 99-03-35

United Illuminating Company
State of Connecticut
Department of Public Utility Control

Docket No. 99-03-04	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 99-08-02	Yankee Energy System, Inc. State of Connecticut Department of Public Utility Control
Docket No. 99-08-09	CTG Resources, Inc. State of Connecticut Department of Public Utility Control
Docket No. 99-07-20	Connecticut Energy Corporation / Energy East State of Connecticut Department of Public Utility Control
Docket No. 99-09-03 Phase II	Connecticut Natural Gas State of Connecticut Department of Public Utility Control
Docket No. 99-09-03 Phase III	Connecticut Natural Gas State of Connecticut Department of Public Utility Control
Docket No. 99-04-18 Phase II	Southern Connecticut Gas Company State of Connecticut Department of Public Utility Control
Docket No. 99-057-20*	Questar Gas Company Public Service Commission of Utah
Docket No. 99-035-10	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. T-1051B-99-105	U.S. West Communications, Inc. Arizona Corporation Commission
Docket No. 01-035-10*	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utha
Docket No. 991437-WU	Wedgefield Utilities, Inc. Before the Florida Public Service Commission

Docket No. 991643-SU	Seven Springs Before the Florida Public Service Commission
Docket No. 98P55045	General Telephone and Electronics of California California Public Utilities Commission
Docket No. 00-01-11	Consolidated Edison, Inc. and Northeast Utilities Merger State of Connecticut Before the Department of Public Utility Control
Docket No. 00-12-01	Connecticut Light & Power Company State of Connecticut Before the Department of Public Utility Control
Docket No. 000737-WS	Aloha Utilities/Seven Springs Utilities Before the Florida Public Service Commission
Consolidated Docket Nos. EL00-66-000 ER00-2854-000 EL95-33-000	Entergy Services, Inc. Before the Federal Energy Regulatory Commission
Docket No. 950379-EI	Tampa Electric Company Before the Florida Public Service Commission
Docket No. 010503-WU	Aloha Utilities, Inc. – Seven Springs Water Division Before the Florida Public Service Commission
Docket No. 01-07-06*	The Towns of Durham and Middlefield State of Connecticut Before the Department of Public Utility Control
Docket No. 99-09-12-RE-02	Connecticut Light & Power/Millstone State of Connecticut Before the Department of Public Utility

Control

Civil Action No. C2-99-1181

The United States et al v. Ohio Edison et al
U.S. District Court, S.D. Ohio

Docket No. 001148-ET****

Florida Power & Light Company
Before the Florida Public Service
Commission

Civil Action No. 99-833-Per

The United States et al v. Illinois Power
Company
U.S. District Court, S.D. Illinois

Civil Action No. IP99-1692-C-M/s

The United States et al v. Southern Indiana
Gas and Electric Company
U.S. District Court, S.D. Indiana

Docket No. 02-057-02*

Questar Gas Company
Public Service Commission of Utah

Docket No. EL01-88-000

Entergy Services, Inc. et. al.
Mississippi Public Service Commission

Docket No. 9355-U

Georgia Power Company
Before the Georgia Public Service
Commission

Case No. 1016

Washington Gas Light Company
Before the Public Service Commission of
the District of Columbia

Civil Action Nos. C2 99-1182
C2 99-1250 (Consolidated)

The United States et al v. American Electric
Power Company, ET, AL

Docket No. 030438-EI *

Florida Public Utilities Company
Before the Florida Public Service
Commission

Docket No. EL01-88-000

Entergy Services, Inc., et al
Before the Federal Energy Regulatory
Commission

Civil Action No. 1:00 CV1262

The United States et al v. Duke Energy
Company

*Case Settled
**Issues Stipulated
***Testimony Withdrawn
****Case Settled, Testimony Not Filed

Docket Nos. 050045-EI &
050188-EI

EXHIBIT A

FINAL ORDER IN DOCKET NO. 970410-EI

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Proposal to extend plan
for recording of certain
expenses for years 1998 and 1999
for Florida Power & Light
Company.

DOCKET NO. 970410-EI
ORDER NO. PSC-98-0027-FOF-EI
ISSUED: January 5, 1998

The following Commissioners participated in the disposition
of this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK

APPEARANCES:

MATTHEW M. CHILDS, Esquire, Steel Hector & Davis, 215 South
Monroe Street, Suite 601, Tallahassee, Florida 32301
On behalf of Florida Power & Light Company.

JAMES W. BREW, Esquire, Brickfield, Burchette & Ritts, 1025
Thomas Jefferson Street, N.W., Suite 800 - West, Washington,
DC 20007, and RICHARD SALEM, Esquire, Salem Saxon & Nielson,
One Barnett Plaza, 101 E. Kennedy Boulevard, Suite 3200,
Tampa, Florida 33602
On behalf of AmeriSteel Corporation.

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

FINAL ORDER EXTENDING PLAN TO RECORD ADDITIONAL
EXPENSES THROUGH 1998 AND 1999

BY THE COMMISSION:

CASE BACKGROUND

In Docket No. 950359-EI, this Commission approved a proposal
by Florida Power & Light Company ("FPL" or "Company") that
resolved all of the identified issues regarding FPL's petition to
establish a nuclear amortization schedule. Pursuant to Order No.
PSC-96-0461-FOF-EI, issued April 2, 1996, FPL was required: (1)

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DOCKET NO. 970410-EI
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to book additional 1995 depreciation expense to the historic reserve deficiency in nuclear production; (2) to record, commencing in 1996, an annual \$30 million in nuclear amortization, subject to final determination by the Commission as to the accounts to which it is to be booked; and (3) to record an additional expense in 1996 and 1997 based on differences between actual and forecasted revenues, to be applied to specified items in a specific order. We voted to extend the Plan for 1998 and 1999 through Proposed Agency Action ("PAA") Order No. PSC-97-0499-FOF-EI, issued April 29, 1997. The proposed Plan, as approved in the PAA Order, is presented in Attachment A. AmeriSteel Corporation ("AmeriSteel") protested our proposed action.

On November 25, 1997, we conducted an evidentiary hearing on the following substantive issues in this docket: (1) the appropriate revenue forecast to be used in the proposed Plan; (2) whether to authorize any additional decommissioning or dismantlement expense as part of the proposed Plan; (3) whether to consider the use of reserve depreciation surplus balances for any plant accounts to offset depreciation reserve deficiencies; (4) whether to authorize the accelerated write-off of unamortized loss on reacquired debt as part of the proposed Plan; (5) whether to authorize FPL to record certain revenues in an unspecified depreciation reserve as part of the proposed Plan; and (6) whether to approve the proposed Plan. Having considered the evidence presented at hearing, the posthearing briefs of the parties, and the recommendations of our staff, our findings, made at our December 16, 1997, agenda conference, are set forth below.

Appropriate Revenue Forecast

This docket was established to address FPL's underrecoveries for depreciation reserve deficiencies, book-tax timing differences, unamortized loss on reacquired debt, fossil dismantlement reserve deficiencies, and nuclear decommissioning reserve deficiencies. The proposed Plan requires an annual write-off (expense) to address these underrecoveries, based upon a two-part calculation. The first part is the difference between the 1996 Most Likely Revenue Forecast (\$3,224.1 million) and the 1996 Low Band Forecast (\$3,140.9 million); this amount is \$83.2 million. The second part is identified as at least half the difference between the actual annual revenue during the period of the Plan (1998-1999) and the 1996 Most Likely Revenue. Thus, the 1996 Revenue Forecast serves as a benchmark in determining

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write-offs under the proposed Plan. This benchmark could feasibly be replaced with any number of other benchmarks, such as the 1997 or 1998 Revenue Forecast, or any other discreet revenue amount selected for purpose of comparison to actual 1998 and 1999 revenue.

At hearing, FPL witness Gower stated that the use of the 1996 Revenue Forecast as a benchmark for determining write-offs in this docket is reasonable. He warned that the use of revenue forecasts for years later than 1996 as a benchmark could decrease the amount of write-offs in 1998 and 1999. He argued that this would delay and increase the risk of recovery of the costs in question.

AmeriSteel witness Cicchetti indicated that accelerated amortization should be based upon need and should not be a function of FPL's growth in revenue. He argued that the proposed Plan allows FPL to accelerate expenses that are appropriately attributable to future periods or are subject to revision, reestimation, or changed assumptions. He stated, "If the Commission allows recovery of the expenses allocated to the Plan, the Commission should simply direct FPL to write-off those amounts over an appropriate period." Based on witness Cicchetti's argument, using the 1996 Revenue Forecast as a benchmark for determining write-offs is unnecessary.

While there are many revenue benchmarks which could potentially be used to determine write-offs in this docket, it is important to identify the criteria for selecting the appropriate benchmark. We believe the appropriate revenue benchmark is one which: (1) allows the Company to address the remaining underrecoveries as expeditiously as possible; (2) provides incentive for the Company to control expenses; and (3) assumes minimal impact upon existing customer rates. We address each of these criteria below.

First, the appropriate benchmark should allow the Company to write-off the remaining underrecoveries as expeditiously as possible. In order to determine whether the proposed Plan is expeditious, it is necessary to compare the size of the problem (the amount of underrecoveries) to the size of the proposed solution (the forecasted write-offs). The total underrecoveries as of January 1, 1998, as detailed later in this Order, will be approximately \$768.4 million. Based on FPL's forecasted 1998 and 1999 revenue and the 1996 Revenue Forecast benchmark, the forecasted 1998-99 minimum write-off amount is \$464.0 million.

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DOCKET NO. 970410-EI
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While the forecasted minimum write-offs are considerably less than the total underrecoveries, it is evident that more than half of the total underrecoveries will be written off during 1998 and 1999, the period during which the proposed Plan would be in effect. If the projected minimum write-offs were the amount actually expensed rather than some higher write-off amount, the proposed Plan would be expected to partially address the underrecovery problem, leaving \$304.4 million in remaining underrecoveries by the end of 1999.

If the Company wrote off expenses based, in part, upon one-hundred percent of the difference between the forecasted annual revenue and the 1996 Most Likely Revenue Forecast, so that total write-offs were increased to \$761.6 million for 1998 and 1999, such expenses would still be less than the identified underrecoveries by \$6.8 million (\$768.4 million less \$761.6 million). Thus, while FPL is required to write off at least half of the identified underrecovery amount under the proposed Plan, it appears unlikely that the Company will write off all of the underrecoveries during the period (1998 and 1999). According to the proposed Plan, any required write-off amount in excess of the approved underrecoveries must be credited to an unspecified depreciation reserve. It appears unlikely that a large amount would be credited to the reserve. We find that the proposed Plan is expeditious in addressing the forecasted underrecoveries. However, additional time beyond the period of the proposed Plan may be required to completely address all remaining underrecoveries.

Second, the use of an appropriate revenue benchmark should result in an incentive for FPL to control operational expenses. Witness Cicchetti asserted that the proposed Plan removes management incentives for efficiency associated with traditional ratemaking practices. He claimed that FPL may choose to forego writing-off certain expenses allowed under the proposed Plan and instead incur certain operational expenses that this Commission might not normally allow. Witness Gower countered that the requirement of the proposed Plan is for FPL to record significant additional Plan-related expenses each year of the Plan. He claimed that this requirement is achieved by capturing potential revenue growth for write-off purposes and is therefore not available to offset operational expense increases. According to witness Gower, "This heightens -- not eliminates -- the pressure to control expenses or suffer earnings below authorized levels."

We find that basing write-offs on the 1996 Revenue Forecast

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benchmark gives FPL an incentive to write-off as much of the approved expenses as possible, as soon as possible. Using the 1996 revenue forecast benchmark, the Company projects that it must write off, at a minimum, \$203 million in 1998 and \$261 million in 1999, compared to the 1997 expected write-off of \$162 million. This means that FPL's base revenues must increase at least \$41 million more than FPL's operational expenses in 1998 compared to 1997 in order to satisfy the required minimum write-off. This assumes that (1) the Company books total write-offs during 1997 of approximately \$162 million as witness Gower has asserted, (2) annual revenue increases are realized based upon normal customer growth and normal use-per-customer growth pursuant to the Company's forecast, and (3) FPL experiences no reduction in current earnings in 1998. Under the proposed Plan, the Company has an incentive to minimize its operational expenses in order to achieve the forecasted minimum write-off requirement while still protecting its current earnings level. In this respect, the Company's current earnings may be in jeopardy if it fails to sufficiently control operational expenses.

Finally, the use of an appropriate revenue benchmark should not be based upon significant increases or decreases in customer rates. By basing write-off requirements on the 1996 Revenue Forecast, the proposed Plan requires no change in existing customer rates. The write-offs are a fall-out of the existing rates. According to witness Gower, the proposed Plan would "accomplish these corrections without increasing FPL's rates to current customers."

In summary, because the 1996 Revenue Forecast benchmark allows expeditious recovery of underrecovered costs, offers an incentive to minimize operational expenses, and requires no change in existing rates, we find that it is an appropriate benchmark to use to determine the additional expenses, or write-offs, allocated to the proposed Plan.

Decommissioning and Dismantlement Expense

FPL's witness Gower testified that FPL determined the nuclear decommissioning and fossil dismantlement reserve deficiencies by comparing what accrual would have been booked if the now-current estimates had been known and applied to each unit from its original in-service date to December 31, 1996. That amount was then compared to the book reserves which resulted in

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reserve deficiencies for nuclear decommissioning and fossil dismantlement. Witness Gower also acknowledged that the decommissioning and dismantlement annual accruals should be adjusted at the time these deficiencies are corrected, in the course of the review of the 1998 decommissioning and dismantlement studies.

Witness Gower testified that the identified reserve deficiencies associated with nuclear decommissioning and fossil dismantlement meant that FPL should have recorded and recovered higher expenses in prior years. According to witness Gower, the importance of correcting these deficiencies is evidenced by our orders approving the annual decommissioning and dismantlement accruals. He asserts that FPL's units have, on average, been in service for 50% of their estimated useful lives. However, as of December 31, 1996, the decommissioning reserve amounted to less than 12% of the estimated total future expenditures to be made for decommissioning costs. Further, the provision for fossil dismantlement was not begun until 1987, while the in-service dates of many of the units in question date back 20 years prior to 1987. Witness Gower concluded that these facts demonstrate that the reserves should be corrected. For this reason, he recommended that we not delay the recovery of these deficiencies until new dismantlement and decommissioning studies are filed in 1998.

Witness Gower further testified that correction of the nuclear decommissioning and fossil dismantlement reserve deficiencies over a time period shorter than the remaining life of the associated plants is consistent with this Commission's prior actions. He explained that reserve deficiencies can be recovered over the remaining life of the associated plant or over a much faster period of time. He referenced various orders in which we corrected reserve deficiencies over relatively short periods of time. Witness Gower asserted that because the corrections reduce the amount of required investor capital, it is in the customers' best interest to accomplish the corrections as soon as possible.

Because the reserve deficiencies represent costs that should have been recovered in prior years, intergenerational equity suggests that these deficiencies be recovered quickly so that future ratepayers are not burdened with an unfair share. The primary purpose of the proposed Plan is to correct past deficiencies. This correction is not an acceleration of expenses appropriately attributable to future periods but, in fact, is

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remedial because it addresses expenses appropriately attributable to prior years and therefore corrects intergenerational inequities. The intergenerational inequity has already occurred and, if not corrected by the proposed Plan, will only be exacerbated.

Witness Gower testified that prompt correction of these deficiencies is fair to FPL's customers because it will lower costs in the long-run and allow rates to remain stable. He cited Order No. 12149, issued June 17, 1983, in which this Commission stated that increasing the reserve for depreciation ". . . is appropriate because a reduction in rate base can be more favorable to customers . . . because there will be less investment for the customers to support." In making these corrections, witness Gower asserted that long run revenue requirements will be reduced, benefitting customers served by FPL for the longer term.

Witness Gower also explained that the correction of the nuclear decommissioning reserve deficiency will not result in any cash flow benefit to FPL because the nuclear decommissioning reserve is required to be funded. Placing additional expense in the external fund will provide assurance to this Commission and FPL's customers that the financial resources necessary to meet the decommissioning cost obligations will be available when needed.

AmeriSteel's witness Cicchetti testified that there is no demonstrated need to allow the write-off of the nuclear decommissioning and fossil dismantlement reserve deficiencies in 1998 and 1999. In its Brief, AmeriSteel argues that such a write-off represents a dramatic, fundamentally unsound and unexplained departure from well established Commission policy. Witness Cicchetti asserted that the magnitude of the additional expenses and the estimation of these expenses indicates that a comprehensive review of the 1998 studies should be made to determine if there actually is a need. Additionally, he testified that there is no evidence that FPL's claimed deficiencies are life-related or that there are intergenerational equity concerns.

Witness Cicchetti submitted that FPL's nuclear decommissioning accrual prescribed in 1995 was designed to correct any deficiencies over the remaining life of the nuclear units. He stated that the decommissioning and dismantlement studies to be filed in 1998 will allow us to determine if any further changes in the annual accruals are necessary. Witness

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Cicchetti submitted that there is no indication that periodically adjusting the decommissioning and dismantlement annual accruals will not adequately ensure recovery over the remaining lives of the associated units.

AmeriSteel argues that the decommissioning and dismantlement deficiencies are not significant amounts of known and verifiable costs that should be addressed in any other fashion than recovery over the remaining life. Witness Cicchetti asserted that such long range estimates of future costs are inherently inaccurate and that regulatory, technological, and other factors may materially change. He concluded that this Commission's long established policy correctly requires periodic updates of those studies and adjustments as appropriate to the annual accruals to assure full recovery over the remaining lives of the assets.

Further, witness Cicchetti submitted that a one-time recovery of the perceived nuclear decommissioning and fossil dismantlement reserve deficiencies is unfair to current ratepayers, based on the magnitude of the amounts and the fact that decommissioning and dismantlement costs are subject to periodic revision. He testified that there is no evidence that FPL is in danger of not earning its authorized rate of return and no evidence that recovery of the costs identified in the proposed Plan are in jeopardy. He concluded that absent such a showing, we should reassess the reasonableness of aggregating these expenses in 1998 and 1999.

AmeriSteel argues in its Brief that this Commission has routinely assessed the effect of special amortizations or accelerated recovery on the utility's earnings, usually in the context of determining the appropriate period. AmeriSteel cites Order No. PSC-95-0340-FOF-EI, issued March 13, 1995, in Docket No. 931231-EI and Order No. PSC-95-1230-FOF-EI, issued October 3, 1995 in Docket No. 950270-EI as support for this proposition. In the instant case, AmeriSteel surmises that no effort has been made to address the effect of the proposed Plan on FPL's earnings because the revenue growth offset approach ensures that only earnings near or above the top of FPL's authorized range are affected.

As further support for its position, AmeriSteel cites Order No. PSC-95-1531-FOF-EI, issued December 12, 1995, in Docket No. 941350-EI. This Order established revised nuclear decommissioning annual accruals for FPL and Florida Power Corporation effective January 1, 1995. At page 15, the Order

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states:

Based on the current dollar cost to decommission each nuclear plant, the plant-specific contingency allowances, the plant-specific escalation rates, the cost of extended storage for spent fuel, and a fund earnings rate of 4.9%, we have determined the appropriate jurisdictional annual accrual amounts necessary to recover future decommissioning costs over the remaining life of each nuclear power plant....

AmeriSteel contends that because no party in the instant case has argued that our determination in Order No. PSC-95-1531-FOF-EI was insufficient, no further action is necessary or justified until new decommissioning studies are submitted to the Commission for review. AmeriSteel argues that recovery over the remaining life of each nuclear unit is our established policy and that adjustments to the annual accruals, when needed, assure FPL of full funding of the reserve by the time decommissioning begins.

In its Brief, AmeriSteel also argues that the proposed Plan contains no provision for removing the effect of the calculated deficiency from the currently approved annual accrual for nuclear decommissioning and fossil dismantlement. AmeriSteel submitted that FPL witness Gower was unable to state whether the revised calculated accrual shown in Composite Exhibit 7, pg. 14, was correct. Without a recalculated accrual on a going-forward basis, witness Gower agreed that customers would continue to be charged for the deficiency until new studies are filed in 1998 and we determine a new annual accrual amount.

AmeriSteel believes that it is arbitrary and fundamentally unfair to charge customers in 1998 and 1999 for the reserve deficiencies unless we have determined that the 1995 decommissioning studies were perfect and no inputs to those studies will change in the future. In its Brief, AmeriSteel admits that it is impossible to back-bill customers served by FPL in prior years; however, it believes it is also unsound ratemaking to charge current customers the full amount of the deficiencies based on a 1995 estimate that will become obsolete when the next studies are filed next year. AmeriSteel argues that there is no basis for imposing the full burden of past recovery on customers served in 1998 and 1999; these customers carry all of the risk that the 1995 estimates will change materially in the future and have no opportunity to be reimbursed

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if subsequent studies show that the perceived deficiencies were overstated.

Concerning FPL's fossil generating units, witness Cicchetti pointed out that fossil generating stations around the country are being sold as part of companies' restructuring plans. These sales have tended to be in excess of the net book value of these plants. According to AmeriSteel, as long as the purchase price exceeds book value, the utility will not incur any cost penalty for any future liabilities it is shifting to the buyer, including ultimate dismantlement costs. AmeriSteel concludes, therefore, that if FPL were to sell any of its fossil units, they would sell for at least net book value, in which case the amounts accumulated in the dismantlement reserve would become surplus because FPL would no longer have the liability of dismantlement. In summary, AmeriSteel contends that recovery of the dismantlement reserve deficiency in 1998 and 1999 is unfair and results in intergenerational inequity especially in light of possible sales or auctions.

Witness Gower stated that, due to environmental regulations, he did not believe that the sale of a plant site would allow its owner to escape further liability. He claimed that environmental regulations make a plant site's owner partially responsible for any clean-up that may be necessary. Witness Gower asserted that a new owner would adjust the purchase price he or she is willing to pay to compensate for assuming the removal obligation. Therefore, he concludes, FPL would not escape environmental costs by selling a plant because those costs would be captured in the economics of the negotiated purchase price of the unit.

If FPL sells any of its generating stations, we may determine at that time the appropriate accounting treatment for the gain or loss on the sale; this is not an issue that needs to be addressed in this proceeding. In addition, we agree with FPL that its relative position in the industry insofar as exposure to competition is irrelevant to proper depreciation accounting as long as FPL remains subject to cost-based price regulation.

AmeriSteel witness DeWard argued that if any alleged decommissioning reserve deficiency is allowed to be charged against what appears to be overearnings, ratepayers may never benefit because the rates will remain at the current levels. He testified that where reserve deficiencies are identified, the appropriate response is to adjust the annual accrual for decommissioning to ensure that the deficiency is remedied over

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time. According to witness DeWard, no additional corrections are required unless the next decommissioning studies demonstrate that the accrual levels established in 1995 are insufficient. He contended that given the unknowns -- potential technology changes and the potential for changes in decommissioning requirements -- there is no guarantee that the perceived deficiency could not turn into an excess in the future. Upon cross examination by FPL, however, witness DeWard acknowledged that if there is a currently existing reserve deficiency and the accrual had been larger in prior years, the amount of the deficiency would necessarily be lower.

In its Brief, AmeriSteel claims that our staff used a retrospective method for calculating the perceived reserve deficiencies for fossil dismantlement and nuclear decommissioning. It quotes a passage which states that the retrospective theoretical reserve is generally used when remaining life cannot be estimated. AmeriSteel's conclusion is that the retrospective theoretical reserve method does not apply to nuclear decommissioning reserve studies where each unit's 40 year operating license defines its useful life.

We note that the passage cited by AmeriSteel as authority for its claim is not part of the record. Further, our staff did not calculate the reserve deficiencies submitted in this proceeding; FPL submitted these calculations in response to discovery requests propounded by our staff. We have reviewed these calculations and found them to comport with the traditional method of calculating a theoretical reserve. Basically, FPL assumed that the base cost estimates and other assumptions underlying its currently approved accrual had always been known and determined what the decommissioning and dismantlement reserves theoretically should be as of December 31, 1996. This is not a retrospective reserve calculation. It is a traditional prospective calculation. As with any depreciable investment, this calculation is a reasonable approach in determining the reserve that theoretically should have accrued given what is known today. The difference between the theoretically correct reserve and the book reserve constitutes a reserve imbalance that can either be a surplus or a deficit.

This issue is one of timing: whether reserve deficiencies associated with nuclear decommissioning and fossil dismantlement should be recovered over the remaining life of the respective units, as is currently being done, or whether these deficiencies should be written-off over a shorter period of time. We must

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determine whether there is sufficient evidence showing the existence of reserve deficiencies and the appropriate recovery pattern. A recalculation of the annual accruals recognizing the correction of these deficiencies will be made as part of the 1998 decommissioning and dismantlement studies. There will be less in the future to recover translating into a lesser annual accrual. If the accrual is not recalculated to account for the reserve correction, customers will not have the benefit of the correction.

At hearing, witness Gower was asked if each of the cases he cited in Exhibit 1, as support for the proposed Plan, considered an appropriate amortization period for a known and verified cost. Asked specifically if any of the amounts were subject to being re-estimated in the future, he responded that some of the estimates were definitely of the same type as the nuclear decommissioning reserve deficiency.

Witness Cicchetti agreed that, based on a finding of a material imbalance, it would be in accordance with normal regulatory practice for the Commission to accelerate the recovery. He also agreed that the fact that very precise answers cannot be obtained should be no deterrent from making determinations of depreciation. Further, he agreed that reasonably accurate results in both cases are all that should be expected and these can usually be achieved. However, he did not wholly agree with the following passage from Exhibit 19, page 10 and 11:

. . . if the annual accrual for depreciation is understated, there is a corresponding overstatement or inflation of net income and earned surplus. If past deficiencies and depreciation accruals were substantial, it may be necessary to make up the back accruals by an appropriate adjustment of existing or future earned surplus and, in extreme cases, of the capital account itself . . .

Witness Cicchetti testified that he believes adjustments of existing or future overearnings to make up material past deficiencies and depreciation accruals may or may not be appropriate accounting from a regulatory perspective. He stated that the important thing is that the Company recover its total cost; he further stated that there is nothing to indicate that any of the items or the amounts listed in the proposed Plan are in jeopardy of not being recovered. Witness Cicchetti pointed

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out that the existence of a depreciation reserve deficiency is not the fault of the ratepayers, this Commission, or the Company. To take a reserve deficiency accumulated over 15 or 20 years and recover it from the ratepayers in 1998 and 1999, according to witness Cicchetti, is not fair. He testified that ratepayers, in the years 1998 and 1999, will be paying much more than their fair share of the cost. He contended that the period of recovery of the depreciation reserve balance is not as important as ensuring that the imbalance is recovered in total by the end of its useful life.

However, on page 10 of Exhibit 19, paragraph 14, it states the following:

If depreciation policies or practices were to be determined solely with concern for the level of revenue requirements, the actual measure of depreciation might be misstated. Such distortion of the measure of depreciation would in turn lead to a misstatement of the results of operations for the period and would also misstate the relative position of the enterprise as shown by its balance sheet . . . a failure to properly measure by understating these costs would, in the long run, probably be offset by higher costs of capital without any real avoidance of the ultimate need to provide full recovery for the capital.

Witness Cicchetti stated that the magnitude of the deficiencies accentuate the intergenerational inequity. Even though nuclear decommissioning reserve deficiencies are currently being recovered over the remaining life of the nuclear units, Witness Cicchetti admitted that there have been instances where the Commission has allowed deficiencies to be written off over shorter periods. There are times, he agreed, that it would be appropriate to write off deficiencies over a shorter period of time, but he claimed that the magnitude of the deficiencies in this case makes a shorter write-off unfair. Witness Cicchetti also agreed that reserve deficiencies are attributable to the past. He agreed that the goal of intergenerational equity is that each generation of customers pays for the costs related to the service from which they are benefitting. However, he testified that the recovery of the nuclear decommissioning and fossil dismantlement deficiencies are in conflict with the definition of intergenerational equity.

Witness Cicchetti agreed that, theoretically, the costs for

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decommissioning and fossil dismantlement should be recovered equitably over the life of each unit and each generation of customers should pay for the costs related to the nuclear or fossil generating plant from which they are benefitting. To the extent customers of the past did not pay their fair share of the costs, he agreed that customers of the future will have to make up that shortfall by paying a higher accrual than they would otherwise have to pay. He recognized that this Commission cannot go back and charge past ratepayers for those costs. Witness Cicchetti testified that it is fair to continue spreading material costs over the remaining life. Notwithstanding this, he admitted that if there's an identified shortfall, there will be a greater amount to recover in the future than there would be if there was no shortfall. He also admitted that correcting the deficiency over a shorter period of time will reduce the spread of the shortfall into the future.

Witnesses Cicchetti and DeWard argued that correction of the deficiencies as quickly as economically practicable exacerbates an intergenerational unfairness to the ratepayers of 1998 and 1999. However, the record evidence demonstrates that intergenerational unfairness already exists due to the existence of these reserve deficiencies.

With respect to this issue, there are certain thresholds required to be met by record evidence. The first threshold is whether there is sufficient evidence showing the existence of reserve deficiencies. The record evidence demonstrates that based on the base cost estimates and assumptions that underlie FPL's currently prescribed nuclear decommissioning and fossil dismantlement annual accruals, FPL has identified and quantified an existing reserve deficiency for nuclear decommissioning and for fossil dismantlement as of December 31, 1996. The record evidence demonstrates that the fact that very precise answers cannot be obtained should be no deterrent in identifying these reserve imbalances. It can fairly be stated that the future cannot be predicted. Therefore, it is reasonable for this Commission to rely upon estimates in the determination of the calculation of reserve imbalances.

The second threshold is whether the correction of reserve deficiencies over a shorter period of time than the remaining life is in accordance with normal regulatory accounting practice. The record evidence demonstrates that the correction of reserve deficiencies over a shorter period of time than the remaining life is in accordance with normal regulatory accounting practice.

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Moreover, the record evidence demonstrates that the correction of reserve deficiencies over a shorter period of time than the remaining life is in accordance with past Commission practice.

The remaining threshold is whether the record demonstrates that correcting a reserve deficiency over a shorter period of time is more reasonable or fair than correcting the reserve deficiency over the remaining life. The record evidence demonstrates that the tenet of intergenerational equity dictates that, in this docket, correcting reserve deficiencies over a shorter period of time is more reasonable or fair than correcting the reserve deficiency over the remaining life.

In conclusion, in accordance with the foregoing, there is ample record evidence for us to find that it is not necessary to defer a decision to allow any additional decommissioning or dismantlement expense to correct historic reserve deficiencies. Therefore, we find that this portion of the Plan should be approved.

Reserve Depreciation Surplus Balances
to Offset Depreciation Reserve Deficiencies

This issue was originally raised by AmeriSteel and was addressed in the testimony of FPL witness Gower and AmeriSteel witness Cicchetti. The record evidence, while limited, is sufficient to address this issue.

Witness Gower testified that reserve transfers across functional categories have pricing implications which may be unacceptable because different classes of service provided to customers involve usage of the several functional categories of plant. If, for example, a reserve transfer were made from the transmission plant reserve to some other function (distribution, production, or general), it could automatically cause an increase in the price to a commercial interruptible customer. In addition, Mr. Gower asserted, the Federal Energy Regulatory Commission prohibits such transfers.

Witness Cicchetti testified that we should consider offsetting reserve surpluses and deficiencies in related plant accounts, where applicable. However, he admitted that such transfers of reserve could, in fact, have pricing implications.

In its Brief, AmeriSteel offers two orders in support of its

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position. First, AmeriSteel attempts to distinguish the facts of this case from a Federal Energy Regulatory Commission (FERC) order that overturned a South Carolina Public Service Commission decision in which a transfer of surplus reserve from the transmission function to the generation function to mitigate generation-related stranded costs was approved. We note that FPL witness Gower mentioned both the FERC and the South Carolina decisions in his prefiled direct testimony as support for his testimony. AmeriSteel, however, failed to offer a rebuttal to witness Gower's testimony either through its prefiled rebuttal testimony or at hearing. We believe that it is inappropriate for AmeriSteel to attempt rebuttal through its post-hearing Brief.

Second, AmeriSteel refers to Order No. PSC-94-1199-FOF-EI, issued September 30, 1994, in Docket No. 931231-EI, as illustration of and support for Commission authorized surplus reserve transfers. Specifically this Order states:

Due to the effect reserve transfers may have on jurisdictional separations, purchase power agreements, or other lease arrangements, our approach to reserve reallocations is that they should, ideally, be made between accounts of a given unit or function.

This Order clearly shows that our approach to reserve transfers is to make them between accounts within the same function and not between accounts across functions. This approach is in agreement with the approach put forward by FPL witness Gower.

FPL's calculation of the decommissioning and dismantlement reserve deficiencies do consider the various reserve imbalances for each nuclear unit and each fossil generating unit. This is also in accord with the Commission's approach to reserve transfers as stated above.

In conclusion, we will not consider reserve transfers between functions because they may result in pricing issues. Further, we will continue to consider reserve transfers between plant accounts within the same production unit and between units within the same production site.

Write-Off of Unamortized Loss on Reacquired Debt

The loss on a reacquired debt balance represents the amounts associated with reacquisitions of debt. When a debt issue is

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reacquired, the call premium, the unamortized expense of the original issue, and any unamortized discount or premium is written off to loss on reacquired debt. The associated loss on reacquired debt is then amortized over the remaining life of the original issue and the detail of unamortized expense, discount, or premium is no longer maintained.

According to FPL witness Gower, "[d]eferral of the recovery of the capital investors have provided to fund refinancing of high cost debt over the remaining life of the securities refinanced adversely affects the regulated cost of capital in the same manner that insufficient capital recoveries through depreciation inflates rate base. Although deferral and amortization does allow recovery of the capital investors provided to achieve the interest cost savings from refinancing, the long amortization period affects FPL's cost of capital for years beyond the time when the interest savings has 'recovered' the cost of the refinancings."

Witness Gower testified that the "interest cost savings realized from refinancings undertaken by FPL from 1984 through 1996 aggregated \$907,722,000 for the period, while the cost of the refinancings totaled \$397,029,000 (including the \$282,756,000 unamortized balance at December 31, 1996). Although the savings have 'recovered' the costs and yielded additional savings in excess of \$500,000,000 ($\$907,722,000 - \$397,029,000 = \$510,693,000$), for ratemaking purposes \$282,756,000 at December 31, 1996 burdens the future cost of service. Earlier recovery of the capital investors supplied to achieve the savings would obviate this need. This will benefit customers who will be served by FPL for the longer term, but their benefit would be realized much sooner."

In response to an interrogatory propounded by our staff, FPL initially indicated that the forecasted balance of unamortized loss on reacquired debt at December 31, 1997, was \$98.5 million. At the hearing, however, witness Gower indicated that the balance of unamortized loss on reacquired debt would be the \$98 million plus the \$79 million discretionary additional expense recognition, which now "does not appear likely to be recorded" in 1997. As a result, the unamortized balance as of January 1, 1998, will be approximately \$177 million. The interest savings is forecasted to be approximately \$142 million for 1998. Therefore, the balance of unamortized loss on reacquired debt could be recovered over the two years of the proposed Plan without the amortization in either year exceeding the interest

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savings for that year.

AmeriSteel witness Cicchetti recommended that the amount of unamortized loss on reacquired debt should be amortized over the remaining life of the original debt or spread over the life of the new issue. He testified that this will result in future ratepayers paying their fair share of the costs associated with the prudently reacquired debt. He stated that "[u]nder the concept of intergenerational equity, it is inappropriate to force current ratepayers to bear the costs of reacquiring the debt so that future ratepayers can enjoy a cost of debt below the 'net' cost of debt. Ratepayers bear the cost to the extent that the expenses taken under the Plan reduce overearnings."

Witness Cicchetti further stated that "FPL has reacquired significant amounts of debt resulting in an excessive amount of equity in its capital structure. By reacquiring substantial amounts of debt, FPL has replaced a tax deductible source of financing with a higher cost, non-tax deductible source of financing that: 1.) Increased FPL's after-tax overall cost of capital relative to what it would have been otherwise; 2.) Increased the dollar return to investors, and; 3.) Reduced the amount of potential overearnings."

Finally, witness Cicchetti testified that, with respect to the balance of unamortized debt costs associated with reacquisition, there is no valid justification for ratepayers to have to pay such a high amount. He concluded that writing off costs associated with the reacquired debt is inappropriate because the ratepayers, over the two year period, will pay the costs associated with reacquiring the debt while the benefits are given to ratepayers in the future.

AmeriSteel witness DeWard also testified that losses on reacquired debt "are generally amortized over the remaining life of the debt that has been paid off or over the life of the debt issued to pay off the old debt." He indicated that "[t]his makes sense because the benefits of reducing debt costs are realized by ratepayers over time as well. Of course, this must be tempered to ensure that the capital structure is appropriate for ratemaking purposes and that the debt/equity ratio is appropriate."

Witness Cicchetti raised concerns about the appropriateness of the capital structure and intergenerational equity. In Order No. PSC-97-1070-PCO-EI, issued September 10, 1997, the prehearing

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officer for this docket determined that the issue of the appropriateness of FPL's capital structure is outside the scope of this proceeding. As for the issue of intergenerational equity, witness Gower testified that "[b]y and large, the costs being recovered in this case were incurred to produce service in prior years and 'intergenerational equity' suggests those costs be recovered quickly so that the cost of service in the future is not burdened with prior service costs . . . or before some who received the prior service depart and avoid their fair share of the costs."

The issue before us is whether the details and results of the Plan for recording certain expenses in 1998 and 1999 are in the public interest. With respect to the record developed in this proceeding regarding the issue of accelerating the write-off of the remaining balance of unamortized loss on reacquired debt, there are three reasons that have persuaded us to find that this treatment be allowed.

First, the Uniform System of Accounts (USoA) allows this Commission discretion in the treatment of these costs. Although AmeriSteel does not agree with this proposed methodology for writing off these costs, it admits in its Brief that we have the authority to do so. In addition, the Accounting Principles Board (APB), in adopting APB 26, concluded that call premiums and other costs associated with the refunding and extinguishment of old debt could not be a source of benefit to new debt issues. In other words, the Board viewed refunding and early extinguishment as completed transactions and as such, gains or losses have to be recognized. Thus, the USoA and APB allow (the APB actually requires) the write-off of refunding and early extinguishment costs in the period they are incurred.

Second, there is precedent found in several cases where this Commission has deviated from the USoA for the recovery of loss on reacquired debt and debt issuance costs. The USoA (Part 32) for the telephone industry specifies that loss on reacquired debt be recognized in the same period in which the debt was refinanced rather than amortized, as stated in Order No. 22793, issued April 10, 1990. However, in Order No. PSC-94-0172-FOF-TL, issued February 11, 1994, we approved a stipulation and agreement which allowed Southern Bell to amortize the costs of refinancing as rapidly as possible as long as the amortization in any year did not exceed the interest savings for that year. As previously discussed, witness Gower testified that the unamortized balance as of January 1, 1998, will be approximately \$177 million. The interest savings is forecasted to be approximately \$142 million

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for 1998. Therefore, the balance of unamortized loss on reacquired debt can be recovered over the two years of the proposed Plan without the amortization in either year exceeding the interest savings for that year.

In contrast to the USoA for the telephone industry, the USoA regarding the electric and gas industry specifies that loss on reacquired debt be amortized over the remaining life of the original debt or over the life of the new issuance, as Witness Cicchetti discussed in his testimony. However, in Order No. PSC-95-0964-FOF-GU, issued on August 8, 1995, in the case of West Florida Natural Gas, we approved an accelerated recovery of unamortized issuance cost. In this Order, we found the utility's proposal to apply excess earnings from fiscal years 1994 and 1995 toward the reduction of its balance of unamortized issuance costs to be reasonable and in the interests of both the utility and the ratepayers.

Finally, the accelerated write-off of unamortized loss on reacquired debt will significantly reduce FPL's embedded cost of debt. All other things constant, the reduction in the cost of debt will result in a lower overall cost of capital. The lower cost of capital will be used for measuring earnings in any future proceeding. This result could lead to a rate decrease or a rate increase being deferred to the future.

In conclusion, based on the record in this proceeding, we find that the accelerated write-off of unamortized loss on reacquired debt is reasonable and in the interests of both FPL and its ratepayers. Therefore, this portion of the proposed Plan should be approved.

Recording Excess Expenses in Unspecified
Depreciation Reserve

The purpose of the proposal to record any amounts in an unspecified depreciation reserve is to allow this Commission to retain jurisdiction over any additional expenses recorded over and above the amounts necessary to fully recover the reserve deficiency deferred items that have been specifically identified in the proposed Plan. FPL witness Gower agreed that we have the authority to consider various options for disposing of any amounts recorded in this reserve, including a refund. Based on the discussion of prior issues in this recommendation, it appears unlikely that FPL will record additional expenses in 1998 or 1999

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that will exceed the specifically identified items. Instead, Witness Gower stated that the additional expenses to be recorded will be less than the total amount that is available to be written off.

AmeriSteel witness Cicchetti contended that because no depreciation reserve deficiency has been identified, there is no reason to create such a reserve. Instead, he testified, some type of rate relief should be provided.

Witness Gower cited several orders of this Commission directing that additional depreciation expense be recorded to dispose of over-collections of revenue for various reasons. Order No. 16257, issued June 19, 1986, directed companies to credit the revenue effect associated with interest synchronization for Job Development Investment Credit to an unspecified depreciation reserve account. This action was taken without any specific quantified or identified reserve deficiency. In each case, we stated that these amounts would be made account specific at the next depreciation prescription.

Further, as part of Order No. 20162, issued October 13, 1988, in Docket Nos. 880069-TL and 870832-TL, we set aside certain revenues for depreciation. This Order states:

In its testimony, Southern Bell proposed to set aside certain revenues to fund depreciation. The company requested \$50,000,000 for 1989 and \$156,000,000 for 1990. The effect of our previous decisions is that \$17,114,281 remains for 1989 and \$147,743,082 for 1990. We will hold these funds subject to disposition by the Commission when Southern Bell files its next depreciation study. If the company justifies additional depreciation, these amounts can be applied to that end. If the amounts are not proven to our satisfaction, we can otherwise dispose of those amounts.

Witness Cicchetti testified that no depreciation reserve deficiency has been identified and, therefore, there is no reason to create an unspecified depreciation reserve for the excess revenues rather than providing rate relief. If expenses are recorded to the reserve and we later decide that there are no deficiencies and the money should be refunded to the customers, witness Cicchetti questioned whether this would constitute retroactive rate-making. In any event, he agreed that we would maintain jurisdiction over the monies if they are booked to an

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unspecified reserve. Additionally, in its Brief, AmeriSteel expresses concern that recording excess revenues to an unspecified reserve would simply ensure that a cash refund or a reduction in rates to offset any excess revenues would not be made under any circumstance.

FPL agrees that in the event no additional reserve deficiencies exist, adjustments to the reserve should not be made simply to "accelerate" recovery. If this is the case, another option available for us to consider for the disposition of any excess revenues recorded to the reserve would be a cash refund to the customers. The point is that this Commission retains jurisdiction over these excess revenues until final disposition is determined. FPL contends that while a refund would provide customers a short-term benefit, additional capital recovery treatment provides lower long-run revenue requirements by reducing investor supplied capital on which a return must be paid.

Composite Exhibit 7, pages 100-156, identifies reserve deficiencies associated with FPL's combined-cycle units and six of its steam production sites. When FPL files its comprehensive depreciation study later this month, a review of FPL's current depreciation rates and its reserve position can be made. Based on that review, monies directed to be recorded to the Production Plant reserve as a result of the Plan approved in Docket 950357-EI will be made account specific. In the event additional deficiencies exist, they should be candidates for correction. Witness Gower testified that he believed the proposed Plan contemplates the Commission considering future depreciation studies that are filed on behalf of FPL.

We agree with AmeriSteel that the proposed Plan should be more specific regarding the disposal of any excess revenues booked. If FPL justifies the need for additional depreciation expense to correct additional reserve deficiencies, and there are additional revenues, these monies should be used to that end. However, if the need for the additional depreciation expense is not proven to our satisfaction or if there are no reserve deficiencies to correct, we shall otherwise dispose of the monies recorded in the non-account specific reserve.

Based on the record, we believe that no expenses are likely to be recorded in the unspecified depreciation reserve. We also believe that a "safety net" should be established to allow us to retain jurisdiction if FPL is in a position to record any

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additional expenses in excess of the specifically identified items. Because we have the discretion to consider various options to dispose of any amounts recorded in this reserve, we may order a refund or other type of rate relief. Therefore, we find that it is appropriate to allow FPL to record expense amounts in an unspecified depreciation reserve after all of the other items in the proposed Plan have been recovered.

Conclusion

We have discussed the merits of each individual element of the proposed Plan and have approved each element for inclusion in the Plan. However, the question of whether or not to approve the extension of the Plan still remains.

The overall purpose of the proposed Plan is to mitigate past reserve deficiencies, deferred regulatory assets, and previously flowed through taxes. All of these items relate to prior periods but are affecting current periods because they are being amortized or charged over future periods. The elimination or reduction of these items will result in lower future revenue requirements because rate base and expenses will be reduced.

FPL witness Gower stated that one purpose of the PAA Order was to help facilitate the establishment of a "level accounting playing field". However, he did not advocate an immediate change in our policies in this docket to achieve such an end. On this point, we agree with the assertion in AmeriSteel's Brief that this is not an appropriate reason to adopt the proposed Plan. There is no basis in the record for attempting to revise the accounting rules for FPL to treat it as though it was an unregulated company. As previously stated, the purpose of the proposed Plan is to accelerate the recovery of past underrecoveries.

Based on our findings above, we find that the proposed Plan, as set forth in the PAA Order, should be approved. We also find, however, that two modifications to the proposed Plan are appropriate. The first modification is to eliminate Item 2 of the proposed Plan, concerning the book-tax timing differences. The record demonstrates that the entire amount of the book-tax timing differences will be written-off during 1997. Therefore, it is not necessary to include this item in the Plan extension. The second modification concerns Item 6 of the proposed Plan, related to the recording of additional expense amounts in an

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unspecified depreciation reserve. The language in Item 6 should be modified to reflect that we have the authority to consider a variety of options for the disposition of any amounts included in the unspecified depreciation reserve. The approved Plan, as modified, is incorporated in this Order as Attachment B.

We believe it is good regulatory policy to eliminate these types of prior period items when the funds are available to do so without raising current rates. Once these items have been addressed, we may then evaluate FPL's earnings on a going forward basis and decide on an appropriate course of action.

We note that no witness, in direct or rebuttal testimony, specifically addressed the treatment of the debit deferred income tax balances related to the decommissioning of FPL's nuclear units. However, witness Gower indicated that his testimony was intended to show that the Plan is reasonable and appropriate, benefits FPL's customers for the longer term, and represents good regulatory policy. He stated that the Plan requires the debit balance deferred income taxes related to decommissioning the nuclear units be treated below the line for ratemaking purposes and that such treatment is an entirely reasonable adjustment to make. Witness Gower testified that this treatment is appropriate in order to make the books balance.

The funded reserves may be either qualified or unqualified. Witness Gower explained that, to arrive at base rates, the reserve for decommissioning and the funds for decommissioning are removed from rate base and expense. We agree that below the line treatment of the debit balance deferred income taxes related to decommissioning the nuclear units is consistent with the treatment given the other elements of decommissioning. Accordingly, we find that this portion of the proposed Plan should be approved.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that each and all of the specific findings herein are approved in every respect. It is further

ORDERED that the proposal to extend the Plan for Florida Power & Light Company to record certain expenses for 1998 and 1999, as set forth in Attachment B to this Order, is approved. It is further

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ORDERED that Florida Power & Light Company's 1996 Revenue Forecast is the appropriate revenue forecast to use to determine the level of additional expenses allocated to the Plan. It is further

ORDERED that Florida Power & Light Company is authorized to correct deficiencies in its fossil dismantlement and nuclear decommissioning reserves as set forth in the Plan. It is further

ORDERED that this Commission will not consider requiring Florida Power & Light Company, as part of the approved Plan, to transfer reserve depreciation surplus balances for any of its plant accounts to offset depreciation reserve deficiencies. It is further

ORDERED that Florida Power & Light Company is authorized to accelerate the write-off of unamortized loss on reacquired debt as set forth in the Plan. It is further

ORDERED that Florida Power & Light Company is authorized to record, as an expense to a non-account specific reserve account in Production Plant, any revenues remaining after correction of any depreciation reserve deficiency, writing off unamortized loss on reacquired debt, and correction of fossil dismantlement and nuclear decommissioning reserve deficiencies. These revenues shall either be allocated to specific accounts during a comprehensive depreciation rate review or otherwise disposed of by this Commission. It is further

ORDERED that the Plan neither precludes an earnings review nor a review of the Plan during the context of a proceeding to reset base rates. It is further

ORDERED that this docket shall be closed.

By ORDER of the Florida Public Service Commission this 5th
day of January, 1998.

/s/ Blanca S. Bayó
BLANCA S. BAYO, Director
Division of Records and Reporting

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This is a facsimile copy. A signed copy of the order may be obtained by calling 1-850-413-6770.

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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ATTACHMENT A
PAGE 1 OF 1

FPL 1998 and 1999 Plan

FPL shall record an additional retail expense in 1998 and 1999 equal to 100% of the base rate revenues produced by retail sales between its "low band" (\$3.1409 billion) and "most likely sales forecast" (\$3.2241 billion) and at least 50% of the base rate revenues produced by retail sales above FPL's "most likely sales forecast" forecasted for 1996 as filed in Docket No. 950359-EI. Any additional retail expense recorded as a result of this provision will be applied to the retail portion of the following listed in priority order:

1. Correction of any depreciation reserve deficiency resulting from an approved depreciation study order;
2. Writing off the net amounts of book-tax timing differences that were flowed through in prior years and remain to be turned around in future periods;
3. Writing off the Unamortized Loss on Reacquired Debt;
4. Correction of the reserve deficiency, if any, existing in FPL's fossil dismantlement reserves;
5. Correction of the reserve deficiency, if any, existing in FPL's nuclear decommissioning reserves. Any additional expenses recorded under this plan for nuclear decommissioning shall be funded on an after tax basis. Effective January 1, 1998, all debit deferred taxes resulting from amounts contained in decommissioning funds shall be excluded for surveillance purposes;
6. In the event revenues from the forecast bands are greater than the expenses identified herein, the remaining expenses shall be recorded in an unspecified depreciation reserve to be allocated at a later date.

A comprehensive fossil dismantlement study and a comprehensive nuclear decommissioning study shall be filed by October 1, 1998.

Upon the Commission's own motion or a petition filed with the Commission, the recording of the additional expense under this plan may be altered or terminated by the Commission in the event that legislative, administrative or judicial action authorizing retail wheeling or deregulating the retail electric market is approved for Florida.

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ATTACHMENT B
PAGE 1 OF 1

FPL 1998 and 1999 Plan

FPL shall record an additional retail expense in 1998 and 1999 equal to 100% of the base rate revenues produced by retail sales between its "low band" (\$3.1409 billion) and "most likely sales forecast" (\$3.2241 billion) and at least 50% of the base rate revenues produced by retail sales above FPL's "most likely sales forecast" forecasted for 1996 as filed in Docket No. 950359-EI. Any additional retail expense recorded as a result of this provision will be applied to the retail portion of the following listed in priority order:

1. Correction of any depreciation reserve deficiency resulting from an approved depreciation study order;
2. Writing off the Unamortized Loss on Reacquired Debt;
3. Correction of the reserve deficiency, if any, existing in FPL's fossil dismantlement reserves;
4. Correction of the reserve deficiency, if any, existing in FPL's nuclear decommissioning reserves. Any additional expenses recorded under this plan for nuclear decommissioning shall be funded on an after tax basis. Effective January 1, 1998, all debit deferred taxes resulting from amounts contained in decommissioning funds shall be excluded for surveillance purposes;
5. In the event revenues from the forecast bands are greater than the expenses identified herein, the remaining expenses shall be recorded in an unspecified depreciation reserve to be subject to the Commission's disposition at a later date.

A comprehensive fossil dismantlement study and a comprehensive nuclear decommissioning study shall be filed by October 1, 1998.

Upon the Commission's own motion or a petition filed with the Commission, the recording of the additional expense under this plan may be altered or terminated by the Commission in the event that legislative, administrative or judicial action authorizing retail wheeling or deregulating the retail electric market is approved for Florida.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Proposal to extend plan
for recording of certain
expenses for years 1998 and 1999
for Florida Power & Light
Company.

DOCKET NO. 970410-EI
ORDER NO. PSC-98-0027A-FOF-EI
ISSUED: January 22, 1998

AMENDATORY ORDER

On January 5, 1998, the Commission issued Order No. PSC-98-0027-FOF-EI, in Docket No. 970410-EI, approving extension of a plan for Florida Power & Light Company to record additional expenses through 1998 and 1999. After issuance, two scrivener's errors were noted. To correct these errors, Order No. PSC-98-0027-FOF-EI is amended as follows:

1. On page 20, third full paragraph, third sentence, the word "recommendation" will be replaced with the word "order."
2. On page 25, third ordering paragraph, the phrase "in Production Plant" will be deleted.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Order No. PSC-98-0027-FOF-EI is amended as set forth in the body of this Order. It is further

ORDERED that PSC-98-0027-FOF-EI is reaffirmed in all other respects.

By ORDER of the Florida Public Service Commission this 22nd day of January, 1998.

/s/ Blanca S. Bayó
BLANCA S. BAYÓ, Director
Division of Records and Reporting

This is a facsimile copy. A signed copy of the order may be obtained by calling 1-850-413-6770.

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Docket Nos. 050045-EI &
050188-EI

SCHEDULE B-1

PAGES 1 through 7

Florida Power & Light Company
 Projected Test Year Ended December 31, 2006

Docket Nos. 050045-EI & 050188-EI
 Hugh Larkin, Jr. Exhibit No. ____ (HL-B-1)
 Adjusted Rate Base

Adjusted Rate Base
 (Thousands of Dollars)

Schedule B-1
 Page 1 of 7

LINE NO.		(A) PLANT IN SERVICE	(B) ACCUMULATED DEPRECIATION & AMORTIZATION	(C) NET PLANT IN SERVICE (1 - 2)	(D) CWIP	(E) PLANT HELD FOR FUTURE USE	(F) NUCLEAR FUEL	(G) NET UTILITY PLANT	(H) WORKING CAPITAL ALLOWANCE	(I) OTHER RATE BASE ITEMS	(J) TOTAL RATE BASE
1	JURIS ADJ UTILITY PER COMPANY	\$23,394,793	\$11,700,179	\$11,694,614	\$522,642	\$135,593	\$0	\$12,352,849	\$57,673	\$0	\$12,410,522
2	OPC ADJUSTMENT - Schedule B-1, page 2 of 7	(131,636)		(131,636)				(131,636)			(131,636)
3	OPC ADJUSTMENT - Testimony Larkin, Direct, page 38	(52,262)		(52,262)				(52,262)			(52,262)
4	OPC Adjustment - Testimony Larkin, Page 40		(433)	(433)				(433)			(433)
5	OPC ADJUSTMENT - Schedule B-1, page 3 of 7		(139,699)	139,699				139,699			139,699
6	CWIP - Testimony				(522,642)			(522,642)			(522,642)
7	PHFFU - Testimony					(78,735)		(78,735)			(78,735)
8	Working Capital - Schedule B-1, page 7 of 7								(110,471)		(110,471)
9	Total	\$23,210,895	\$11,560,047	\$11,649,982	\$0	\$56,858	\$0	\$11,706,840	(\$52,798)	\$0	\$11,654,042 (1)

Line No. 1 - Company MFR Schedule B-1, line 14.

(1) Other OPC witnesses are recommending additional adjustments to the rate base which are not reflected on this schedule.

Adjustments to Plant In Service
 (Thousands of Dollars)

Line No.	Month and Year	FP&L Projected Plant In Service Balance (1)	Actual Plant In Service Balance (2)	Amount of Difference Over Actual	Percentage Difference Over Actual
1	December 2004	\$21,870,236	\$21,795,845	\$74,391	0.341%
2	January 2005	\$21,936,490	\$21,800,544	\$135,946	0.624%
3	February 2005	\$21,997,828	\$21,858,812	\$139,016	0.636%
4	March 2005	\$22,060,773	\$21,932,194	\$128,579	0.586%
5	Total				<u>2.187%</u>
6	Average Percentage Over Stated				0.547%
7	13-Month Average Projected Plant In Service (PIS) (MFR's Schedule B-1, 12/31/06)				<u>\$24,266,661</u>
8	Adjustment to PIS (Line 6 x Line 7)				\$132,739
9	Jurisdictional Percentage (MFR's Schedule B-1 12/31/06)				0.991691
10	Jurisdictional Adjustment to PIS (Line 9 x Line 8)				<u>\$131,636</u>

(1) Schedule B-3, page 1 of 4, lines 4 and 9 for 2005.
 (2) Surveillance Report Schedule 3, page 1 of 3.

Adjustment to Accumulated Provision for Depreciation & Amortization
 (Thousands of Dollars)

Schedule B-1
 Page 3 of 7

Line No.	Month and Year	FPL Projected Accumulated Provision (1)	Actual Accumulated Provision Balance (2)	Amount of Difference Over Actual	Percentage Difference Over Actual
1	December 2004	\$11,352,672	\$11,277,821	\$74,851	0.664%
2	January 2005	\$11,406,744	\$11,263,505	\$143,239	1.272%
3	February 2005	\$11,461,057	\$11,294,849	\$166,208	1.472%
4	March 2005	\$11,515,613	\$11,381,877	\$133,736	1.175%
5	Total				4.582%
6	Average Percentage				1.141%
7	13-Month Average Projected Accumulated Provision (MFR's Schedule B-1, 12/31/06)				\$12,310,717
8	Adjustment to Accumulated Provision (Line 6 x Line 7)				\$140,465
9	Jurisdictional Percentage (MFR's Schedule B- 1, 12/31/06)				99.1462%
10	Jurisdictional Adjustment to Accumulated Provision (Line 9 x Line 8)				\$139,266
11	Dismantlement Cost-Jurisdictional				\$433 (3)
12	Total				\$139,699

(1) Schedule B-3, page 1 of 4, lines 8 and 10 for 2005.
 (2) Surveillance Report, Schedule 3, page 1 of 3.
 (3) Schedule B-2, page 7 of 7, Projected Test Year, December 31, 2006.

Property Held for Furture Use
April, 2005

Asset Location	Date Purchased	Balance
HICKSON SUB Total for 1965	May-65	<u>1,829.72</u> <u>1,829.72</u>
LEVEE SUBSTATION Total for 1970	December-70	<u>789,029.68</u> <u>789,029.68</u>
MARYMOUNT Total for 1971	February-71	<u>9,383.81</u> <u>9,383.81</u>
SOUTH DADE POWER PLANT COMMON MANOR SUB (FKA - MIDDLE RIVER) REDLANDS Total for 1972	February-72 April-72 November-72	<u>3,650,985.31</u> <u>65,543.30</u> <u>20,135.00</u> <u>3,736,663.61</u>
AEROJET TOWNSHIP T ENGLEWOOD-PLACIDA-MY AKKA R/W (SARASOTA CO) APOLLO BARNES Total for 1973	June-73 July-73 September-73 October-73 November-73	<u>10,070.20</u> <u>14,519.70</u> <u>142,190.69</u> <u>276,588.83</u> <u>45,352.01</u> <u>488,721.43</u>
ADMINISTRATIVE SERVICES T ENGLEWOOD-PLACIDA-MY AKKA (CHARLOTTE CO) WELLEBY RYE DISTRIBUTION SUB CHALLENGER T LEVEE-SO. DADE PLANT R/W WRIGHT Total for 1974	January-74 March-74 April-74 June-74 October-74 October-74 October-74	<u>\$524,013.04</u> <u>145,223.31</u> <u>788,112.46</u> <u>95,703.97</u> <u>251,660.71</u> <u>1,485,841.62</u> <u>15,910.64</u> <u>3,306,465.75</u>
OVERBROOK DE SOTO POWER PLANT COMMON Total for 1975	May-75 August-75	<u>21,585.93</u> <u>9,571,774.61</u> <u>9,593,360.54</u>
CENTER Total for 1976	July-76	<u>92,469.88</u> <u>92,469.88</u>
T FT MYERS-ORANGE RIVER Total for 1978	February-78	<u>900,792.09</u> <u>900,792.09</u>
MELALEUCA Total for 1981	March-81	<u>28,494.58</u> <u>28,494.58</u>
RIMA Total for 1983	May-83	<u>249,332.68</u> <u>249,332.68</u>
T RIMA-VOLUSIA 230K V Total for 1986	March-86	<u>370,528.32</u> <u>370,528.32</u>

HAMPTON	November-90	300,810.21
OAKFORD	December-90	69,701.77
Total for 1990		<u>370,511.98</u>
OSTEEN	April-91	32,015.89
Total for 1991		<u>32,015.89</u>
HIGHRIDGE	December-92	78,780.80
Total for 1992		<u>78,780.80</u>
T CELERGY-GENEVA LOOP TO OSTEEN (SEMINOLE)	March-93	468,768.85
T LEVEE-CONSERVATION 500K V (BROWARD CO)	April-93	3,800,064.20
T LEVEE-CONSERVATION 500K V (DADE CO)	April-93	1,871,673.47
T EDGEWATER-SCOTSMORE 115K V	May-93	585,187.56
ARCH CREEK - TRANS	June-93	682,809.49
T CELERGY-GENEVA LOOP TO OSTEEN (VOLUSIA)	July-93	468,768.81
T CORTEZ-RINGLING/JOHNSON-RINGLING DBL CKT	October-93	1,679,159.03
T DELTONA-OSTEEN 230 K V	November-93	381,259.24
CHESTER	December-93	374,695.16
Total for 1993		<u>10,312,385.81</u>
RINKER	February-94	601,807.93
CONGRESS	March-94	151,381.89
T EAU GALLIE-MELBOURNE LOOP TO APOLLO	June-94	52,760.59
TERMINAL	June-94	283,268.49
SARTORI	September-94	117,958.01
PACETTI	December-94	204,487.15
Total for 1994		<u>1,411,664.06</u>
LINE TO PORTSAID SUBSTATION	December-95	27,177.02
PORT SAID	December-95	487,193.81
Total for 1995		<u>514,370.83</u>
SILVERLAKES	February-00	443,987.69
BROADMOOR	November-00	924,294.25
Total for 2000		<u>1,368,281.94</u>
EAGLE	May-01	243,231.64
FARMERS	May-01	202,878.87
VOLUSIA-SMYRNA #2 115K V	October-01	566,375.75
SPEEDWAY	October-01	520,184.92
ELY	November-01	507,655.71
Total for 2001		<u>2,040,326.89</u>
ZILADEN	May-02	1,659,443.68
GREEN FROG	September-02	232,103.88
RATTLESNAKE SUB	September-02	187,328.04
BUTTERFLY	December-02	2,652,951.42
POWERLINE SUBSTATION	December-02	1,058,223.03
POWERLINE SUBSTATION	December-02	1,449,311.82
Total for 2002		<u>7,239,361.87</u>

FIREHOUSE	January-03	1,677,023.88
GRAPELAND	March-03	350,259.27
PANACEA DIST SUB	March-03	484,592.34
DURBIN	May-03	679,248.00
WOLFSON	September-03	759,442.08
HENRY	October-03	970,021.95
GATEWAY DIST SUB - LEE COUNTY	November-03	406,262.84
GARVEY	December-03	215,736.78
AIRPORT-RIVERSIDE (FRONTON-LEJEUNE SECTION)	December-03	366,607.03
MCCALL DIST SUB	December-03	870,340.98
WILCOX SUB-DADE COUNTY	December-03	1,025,623.83
Total for 2003		<u>7,805,158.98</u>
HYPERNAP	May-04	3,156,226.74
ALTON	July-04	768,594.12
OYSTER	August-04	468,604.85
SOUTHWEST SUB	August-04	219,910.39
DERBY	October-04	934,010.08
WELLBORN	October-04	72,836.09
PELICER	November-04	255,112.39
RIVERBEND	December-04	192,667.63
Total for 2004		<u>6,067,962.29</u>
KORONA (TRAN)	January-05	644,987.51
Total for 2005		<u>\$644,987.51</u>
TOTAL FOR ALL YEARS		<u>\$57,452,880.94</u>

Florida Power & Light Company
 Working Capital
 Test Year Ended December 31, 2006
 (000)

Docket Nos. 050045-EI & 050188-EI
 Hugh Larkin, Jr. Exhibit No. ___(HL-B-1)
 Adjusted Working Capital
 Schedule B-1
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Line No.	Description	Reference	Total Company Adjusted Working Capital	Jurisdictional Adjusted Working Capital
1	FPL Working Capital	MFR B-17, page 6 of 6	\$62,429	\$57,673
2	OPC Adjustment to Remove Rate Case Expense	Donna DeRonne Testimony	(6,438)	(6,438)
3	OPC Adjustment to Remove Derivatives (Net)	Hugh Larkin Testimony	(56,038)	(55,146)
4	OPC Adjustment to Deduct Payable to Nuclear Decommissioning Fund	Hugh Larkin Testimony	(5,708)	(5,680)
5	OPC Adjustment to Deduct SJRPP from Working Capital	Hugh Larkin Testimony	(42,757)	(42,127)
6	OPC Adjustment to Deduct Sale of Emission Allowance from Working Capital	Hugh Larkin Testimony	(1,097)	(1,080)
7	Total Adjustments		<u>(\$112,038)</u>	<u>(\$110,471)</u>
8	Adjusted Working Capital		<u>(\$49,609)</u>	<u>(\$52,798)</u>