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June 27, 2005

Blanca S. Bayo, Director
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Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

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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 Patricia W. Merchant, C.P.A.

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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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

PATRICIA W. MERCHANT, C.P.A.

On Behalf of the Citizens of the State of Florida

Harold McLean
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of the State of Florida

DIRECT TESTIMONY

OF

PATRICIA W. MERCHANT, C.P.A.

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket Nos. 050045-EI & 050188-EI

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Patricia W. Merchant. My business address is Room 812, 111 West Madison Street, Tallahassee Florida, 32399-1400.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am a Certified Public Accountant licensed in the State of Florida and employed as a Senior Legislative Analyst with the Office of Public Counsel (OPC). I began my employment with OPC in March, 2005.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. In 1981, I received a Bachelor of Science degree with a major in accounting from Florida State University. In that same year, I became employed with the Florida Public Service Commission (PSC) as an auditor in the Division of Auditing and Financial Analysis. In 1983, I joined the PSC's Division of Water and Sewer as an analyst in the Bureau of Accounting. From May 1989

to February 2005, I was a regulatory supervisor in the Division of Water and Wastewater which evolved into the Division of Economic Regulation.

Q. ARE YOU SPONSORING AN EXHIBIT IN THIS CASE?

A. Yes. I am sponsoring an exhibit consisting of 3 documents, PWM-1 through PWM-3, which is attached to my direct testimony.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS?

A. Yes. I have attached Exhibit PWM-1, which is a summary of my regulatory experience and qualifications.

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

A. Yes. I have also testified before the Division of Administrative Hearings as an expert witness.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. The purpose of my testimony is to provide an opinion on the proper amount of annual storm damage accrual to be included in base rates. I will also provide testimony on the inclusion of GridFlorida Regional Transmission Organization (RTO) costs to be included in FPL's test year operating income.

STORM DAMAGE ACCRUAL

Q. HAVE YOU REVIEWED THE ANNUAL STORM ACCRUAL REQUESTED BY FPL?

A. Yes. FPL has requested that its annual storm damage accrual be increased from $20.3 million to $120 million. The $120 million is made up of the expected annual uninsured damage estimate of $74.7 million, with the remaining $45.3 million to replenish the reserve for storm damage. FPL

Witness Harris provided testimony regarding the determination of the expected annual damage estimate and the likelihood that the storm reserve will be sufficient for a five-year simulated period. FPL Witness Dewhurst provided testimony about the proper level of the annual storm accrual to be included in base rates and FPL's requested $500 million target reserve level.

Q. WHAT IS THE MAIN POINT THAT YOU BELIEVE THE COMMISSION SHOULD CONSIDER IN PROVIDING FOR RECOVERY OF STORM DAMAGES?

A. The crucial point for determining the storm damage accrual is to find the proper mix of recovery through base rates and other tools so that the storm reserve will be sufficient to provide recovery of a normal level of storm damage while concurrently not providing for unbounded growth in the storm reserve. In addition to base rate recovery, the Commission has a myriad of other tools available to address any insolvency in the reserve. My testimony also addresses the inputs into Mr. Harris' loss analysis, the relationship between base rate recovery and the use of other tools for recovery of storm costs, and the amount of historical storm damage costs that FPL has incurred. After this analysis, I will recommend an amount to be included in base rates for the annual storm accrual.

Q. CAN YOU PROVIDE AN OVERVIEW OF THE COMMISSION'S POLICY ON THE FPL'S STORM ACCRUAL SINCE 1992?

A. Yes. Prior to Hurricane Andrew in 1992, FPL had sufficient insurance to cover its transmission and distribution (T&D) system. After Hurricane Andrew, insurance coverage became inadequate and extremely expensive. As a result, FPL petitioned the Commission for permission to implement a self-

insurance mechanism to recover the costs of restoring its T&D system in the event of major storm damage. By Order No. PSC-93-0918-FOF-EI, issued June 17, 1993, in Docket No. 930405-EI, the Commission approved the self-insurance plan and authorized FPL to resume and increase its contribution to the Storm and Property Insurance Reserve Fund by $7.1 million annually, net-of-tax. The Commission also ordered FPL to submit a study to determine the annual amount to contribute to the reserve and declined to authorize the implementation of a Storm Loss Recovery Mechanism that would guarantee 100% recovery of storm expenses from ratepayers, over and above the base rates in effect at the time of implementation.

On October 1, 1993, FPL submitted its study addressing the costs to be charged to the storm reserve. It also estimated that the expected annual damage from storms in 1992 dollars would be $20.3 million and included an analysis of four policies that could be used to determine the method of recovery of storm damages. The four policies are detailed below, with FPL's analysis of benefits:

1) Provide an annual accrual equal to the expected annual loss of $20.3 million, with no additional action taken if losses exceed the storm reserve. This method had the highest risk of intergenerational wealth transfer and storm insolvency.

2) Provide an accrual equal to FPL's expected annual loss of $20.3 million plus allow any additional payments necessary to return the reserve to the target level of $74 million recovered over a 5-year period without changing the annual accrual. This method had the

highest probability of reserve solvency but shifts the burden of future costs to current customers with high positive storm reserve balances.

3) Provide an annual accrual equal to $7.1 million and allow any assessment necessary to return the reserve to the target level of $74 million over a 5-year period without changing the annual accrual. This method was requested by FPL and was based on the consideration of fairness to stockholders as well as ratepayers as that was the current amount included in rates for insurance premiums at that time. This method also lessened the intergenerational inequities associated with the constant reserve growth associated with policy 2.

4) Provide no annual accrual with reserve deficiencies corrected with special assessments sufficient to return the reserve to the target level of $74 million over 5-year. This method was considered "pay-as-you-go" and illustrated that the amount chosen for annual accrual could be relatively arbitrary so long as it is within a range low enough so as not to result in unbounded growth in the storm reserve.

Q. DID THE COMMISSION APPROVE FPL'S STORM DAMAGE STUDY IN DOCKET NO. 930405-EI?

A. Yes. By Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, the Commission approved FPL's storm study but made adjustments to its annual accrual. In analyzing the study, Commission staff agreed with FPL that policies 1 and 2 created intergenerational equity issues and suffered in areas regarding weather forecasting. Regarding Policy 3, Commission staff believed that special assessments put the burden of self-insurance on FPL's customers because the accrual was only 35% of the expected storm damages.

Staff believed that both FPL and its customers would be better insured if the annual accrual were increased and the reserve allowed to grow, which in turn would decrease the likelihood of implementing special assessments for material storm damage. After meetings with Commission staff and other parties, FPL submitted a proposed annual accrual of $10.1 million, or 50% of the expected annual storm loss. In its Order, the Commission approved the proposed agreement but found that the annual accrual and the solvency of the storm fund should be monitored in future proceedings.

Q. IS THE ACCRUAL LEVEL THAT FPL HAS REQUESTED IN THE CURRENT RATE CASE CONSISTENT WITH ANY OF THE POLICIES ADDRESSED BY FPL IN ITS STORM DAMAGE STUDY?

A. Yes, I believe that FPL's requested accrual in this rate case is most similar to policy 3 described in its study. I would note that this is the policy that FPL stated had the highest probability of reserve solvency and corresponding high reserve balances. Thus, this policy increased the likelihood of intergenerational inequities by shifting future costs to current customers.

Q. DID THE COMMISSION SUBSEQUENTLY ADDRESS ANY REQUESTS BY FPL TO INCREASE THE ANNUAL STORM ACCRUAL?

A. Yes. By Order No. PSC-95-1588-FOF-EI, issued December 27, 1995, in Docket No. 951167-EI, the Commission approved FPL's request to increase the storm accrual to $20.3 million to recognize the unavailability of insurance and that self-insurance was the only cost effective way to provide insurance to FPL and its customers.

FPL also petitioned the Commission to increase the storm reserve by $35 million in Docket No. 971237-EI. FPL stated that the expected annual damage estimate was $42.3 million at that time and the highest reasonable risk in any single year within the next 50 years was approximately $559 million. No inclusion in the expected damage estimate was provided for nuclear events. By Order No. PSC-98-0953-FOF-EI, issued July 14, 1998, the Commission denied FPL's request and found that FPL's financial resources from lines of credit and the storm fund were sufficient to cover most storm emergencies. Further, if FPL incurred catastrophic losses which caused a negative balance in the reserve, the Commission reiterated that the company could petition for emergency relief, as reflected in Order No. PSC-95-1588-FOF-EI. The Commission also found that the reserve could be used to cover the possibility of retrospective insurance assessments associated with FPL's nuclear facilities, but noted that the risk of incurring these assessments was low.

In Docket No. 001148-EI, which was opened to review FPL's level of earnings, FPL submitted minimum filing requirements which requested an increase in its storm accrual by $30 million, for a total of $50.3 million. This docket was resolved by the Commission's approval of a settlement agreement, which included a correction to the fuel clause adjustment and provided for rate reductions and a revenue sharing plan. In another component of the settlement, FPL agreed to withdraw its requested $30 million increase in the storm accrual, with an agreement that FPL could petition for recovery if it incurred storm costs which caused insufficient funds in the storm reserve. By

Order No. PSC-02-0501-AS-EI, issued April 11, 2002, the Commission approved the settlement agreement reached by several parties in the docket.

Q. HOW DID THE 2004 STORM SEASON IMPACT FPL'S STORM RESERVE BALANCE?

A. Prior to 2004, the only other catastrophic storm to impact FPL's territory in recent history was Hurricane Andrew, which hit in 1992. In 2004, four storms directly hit the State of Florida, with 3 causing combined levels of catastrophic damage in FPL's territory. Taken individually in one season, the damage sustained in each storm would have been higher than an average season but the storm reserve most likely would have remained solvent. The 2004 storm season was monumental and nothing like this has happened in America in the last 100 years with regard to hurricanes. The last time so many storms struck the same state in one season was in Texas with 4 direct hits from hurricanes in 1886. (See FPL's response to OPC Interrogatory No. 241).

As reflected in its current storm case, Docket No. 041291-EI, FPL estimated that it incurred $890 million in damages that caused the storm reserve to drop from a positive level of $354 million to a negative balance of $536 million at the end of 2004. The final vote on the regulatory treatment of those losses incurred is currently scheduled to be addressed by the Commission at its July 5, 2005, Agenda Conference.

Q. WHAT IS YOUR OPINION ON MR. HARRIS' TESTIMONY REGARDING THE DETERMINATION OF THE ANNUAL STORM DAMAGE ESTIMATE?

A. Mr. Harris has used a computer software program that uses input provided from many sources to determine the probabilities of the amount of expected damage that might be incurred in any given year. The model also projected how solvent the reserve would be in 5 years with FPL's requested $120 million annual storm accrual. Predicting the many variables that will impact FPL's territory is a difficult science and no one knows with certainty what the damage or costs will be until after the damage occurs. What is certain, however, is that storm damage in FPL's territory has occurred and is very likely to be incurred in the future.

Q. WHAT ARE THE COMMENTS THAT YOU WOULD LIKE TO MAKE REGARDING MR. HARRIS' LOSS ANALYSIS?

A. First, let me point out that I am not addressing the adequacy of the USWIND™ model. I do, however, have some comments that I would like the Commission to consider when it evaluates the reasonableness of the annual expected storm damage presented by Mr. Harris and requested by FPL.

First, Mr. Harris' model considers damage from all categories of storms including hurricanes, tropical storms and winter storms, as well as storm staging costs, windstorm insurance deductibles for non-T&D assets and potential retrospective assessments associated with FPL's insurance of its nuclear facilities. (Harris direct, page 4, lines 12-20). The model's damage estimate appears to be all inclusive and does not distinguish between the annual damages that are less costly and those that are extraordinary and catastrophic.

Q. DO SMALLER STORMS TYPICALLY IMPACT THE STORM RESERVE?

A. No. As evidenced in the past, FPL has recorded regularly recurring damage for less costly storms or staging costs related to storms that do not materially impact the service territory as normal operating expenses which would not flow through the storm reserve. Further, other than Hurricane Andrew in 1992 and the 3 hurricanes in 2004, FPL's storm reserve has been sufficient to allow recovery of the actual storm damages incurred and prior to 2004 had never been negative.

In its response to OPC's Interrogatory No. 11, FPL asserts that 20% to 30% of the expected annual damage of $73.7 million comes from large and high intensity storms that produce damage in excess of a billion that are extraordinary and less likely to occur. Thus, on a conservative basis, at least $14 million of the $73.7 million annual storm damage estimate is deemed by Mr. Harris as being extraordinary and not normally recurring.

Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING THE INPUT OF INFORMATION INTO THE STORM LOSS ANALYSIS?

A. Yes. Although I am unable to provide any specifics regarding the method of estimating the amount of storm damage losses, FPL's method of charging damage to the storm reserve has been based on the full cost recovery methodology basis as outlined in FPL's recent storm recovery case in Docket No. 041291-EI. I believe that the charges to the storm reserve should be from those costs incurred above the normal level of budgeted labor and expenses.

Q. OTHER THAN STORM DAMAGE RISKS, MR. HARRIS HAS INCLUDED 3 OTHER STORM RESERVE FUND EXPOSURES TO HIS EXPECTED ANNUAL LOSS ESTIMATE. WHAT ARE THESE EXPOSURES?

A. In Exhibit SPH-1, Page 17 of 29, Mr. Harris lists three additional risks that FPL has requested to be included in the annual storm damage estimate. These are storm staging costs, retrospective insurance assessments from industry nuclear accidents, and losses in excess of insurance coverage from nuclear accidents at FPL plants.

Q. PLEASE DESCRIBE FPL'S REQUEST FOR STAGING COSTS FOR NON-LAND FALLING STORMS.

A. The requested staging costs are for pre-positioning personnel and equipment in anticipation of post hurricane storm restoration activities for storms that are forecasted to land inside but actually fall outside of FPL's territory. The requested staging costs were developed in 2000 using information provided by FPL, then updated to reflect FPL's recent 2004 hurricane experience and costs. The expected annual staging costs for non-land falling storms were estimated to be $3.5 million per year.

Q. DO YOU BELIEVE THAT THE STAGING COSTS FOR NON-LAND FALLING STORMS ARE EXTRAORDINARY COSTS?

A. Generally, no, I do not. Storm staging costs for storms that do not land in FPL's territory should be considered normal recurring events budgeted in operation and maintenance costs. Every year, during hurricane season, FPL must be monitoring all hurricane and tropical storms for the forecasted track. While certainly the decision of opening up a command center is crucial and involves incremental costs, these types of events often occur several times each hurricane season. However, in the event a command center is opened and the storm passes by FPL's territory, the overall cost of the staging with no

significant transmission and distribution system damages incurred should be considered normal and recurring.

Q. DOES THE NORMAL BUDGETING PROCESS CONSIDER THESE TYPES OF EXPENSES?

A. Yes. FPL's budget process includes normal recurring, and excludes extraordinary, storm damage. According to FPL's response to OPC Interrogatory 15, "An extraordinary storm event begins when company management opens the General Office Command Center (GOCC). Once the GOCC is opened, the Accounting department issues a unique storm work order. In general, eligible losses would be charged to the work order in instances where the severity of damages results in restoration efforts of longer than three days, and or where full activation of FPL's command center and service center Storm Organization is required." Thus if the GOCC is not in full activation or the restoration efforts were completed in less than 3 days, then the charges would be considered normal, not extraordinary. By the above description, the company's own budget process would consider these staging costs as normal budget operations.

Q. HAS FPL PREVIOUSLY CHARGED THE STORM RESERVE FOR ANY NON-LAND FALLING STORM STAGING COSTS?

A. FPL stated that it charged staging costs along with damage incurred associated with Hurricane Floyd in 1999. In FPL's response to OPC Interrogatory No. 159, the company stated that even though Hurricane Floyd made landfall in North Carolina, FPL sustained damage to its T&D system. In addition to the T&D damage, FPL stated that it also recorded the staging costs associated with that storm. Of the $21 million charged to the storm reserve for Hurricane

Floyd, FPL did not state the amount incurred for the storm staging costs. Other than Hurricane Floyd, it does not appear that FPL recorded storm staging costs for non-land falling storms to the storm reserve. In OPC's Interrogatory No. 12, FPL was requested to:

> Provide a list of all hurricanes, tropical storms, winter storms, and any other major weather events that impacted FPL's service territory and caused damage to the transmission and distribution system for 1991-2004. For each storm or weather event listed, provide the date, a description of the storm, the percentage of FPL's service territory impacted, the total amount of direct or indirect pre-storm and restoration damaged incurred, and the amount of insurance proceeds received, and the amount of the damages expensed, capitalized or charged to the storm reserve.

Based on my review of FPL's response to OPC's Interrogatory No. 12, FPL did not delineate any amounts it incurred for non-land falling pre-storm staging costs when the T&D system did not suffer significant damage.

Q. WHAT DATA HAS FPL PROVIDED TO SUPPORT ITS ESTIMATED $3.5 MILLION FOR ANNUAL STORM STAGING COSTS?

A. FPL has only provided a general description that the storm staging costs were based on 2000 amounts and updated for 2004 storm events. FPL has not provided any documentation to show how it estimated the 2000 amounts or a break out of the storm staging costs incurred in 2004 for any of the storms in 2004. In OPC Interrogatory No. 117, FPL was requested to provide the amounts of estimated and actual costs to date for pre-storm staging costs

incurred for each named storm in 2004. In its response, FPL stated that this information was not available and that it does not estimate or capture its actual pre-storm staging costs at this level of detail.

Q. WHAT IS YOUR RECOMMENDATION ON THE INCLUSION OF STORM STAGING COSTS IN THE EXPECTED ANNUAL ESTIMATE OF STORM DAMAGE?

A. I believe that these amounts should be considered normal and recurring operating costs which should have already been included in the budgeting process. Consistent with FPL's accounting policy, the storm reserve should account for the extraordinary costs associated with storm damage and accordingly, the storm staging costs from non-land falling storms should be removed from the expected annual estimate of storm damage. Further, if FPL does not maintain the support to estimate or account for these costs incurred for a major storm, I question the accuracy of FPL's estimate for any staging costs associated with a non-land falling storm. Last, since it appears that FPL has not recorded staging costs associated with non-land falling storms previously in the storm reserve account, I would assume that the costs have not been deemed extraordinary and have been flowed through normal operating accounts consistent with FPL's accounting policies.

Q. PLEASE DESCRIBE FPL'S REQUEST FOR RETROSPECTIVE INSURANCE ASSESSMENTS FROM INDUSTRY NUCLEAR ACCIDENTS, AND LOSSES IN EXCESS OF INSURANCE COVERAGE FROM NUCLEAR ACCIDENTS AT FPL PLANTS.

A. FPL included $1 million for losses from nuclear exposures. Mr. Harris stated that estimates of the frequency and the expected annual losses from these

events are very low in comparison with storm related exposures. Further, he stated that he did not include those losses in the solvency analyses due to the extremely low likelihood of risk. See Exhibit SPH-1, Page 18 of 29. According to its response to OPC Interrogatory No. 160, FPL stated that:

> Mr. Harris did not include the probability of retroactive assessments from industry nuclear accidents nor losses in excess of insurance from FPL nuclear losses in his Storm Reserve Solvency Analysis because the probability of occurrence is so small as to have a negligible impact in the five-year time frame used by Mr. Harris in the Solvency Analysis.

Based on the negligible risk level, I believe that the nuclear costs should not be included in the annual average expected losses. However, I do believe that in the event that some nuclear loss arises, any prudent and material costs incurred should be charged the storm reserve, consistent with Rule 25-6.0143, Florida Administrative Code.

Q. DO YOU HAVE ANY GUIDELINES THE COMMISSION SHOULD CONSIDER WHEN DETERMINING THE AMOUNT OF THE ANNUAL STORM ACCRUAL?

A. Yes. Setting the proper storm accrual is crucial to balancing the long- and short-term goals of cost recovery while minimizing potential intergenerational inequities between customers over time. Intergenerational equities exist when each generation of customers pays for the costs related to the service from which they are benefiting. Another important consideration is to provide sufficient recovery of expenses in the most cost-effective manner. If the

annual accrual is too high and storm damages are modest, the risk is that the current ratepayers assume more of the cost for future storm recovery costs. If you set the accrual too low and storm damages continue to exceed the reserve balance, then you are faced with the increased costs and regulatory lag associated with special assessments. Overall, the determination of the storm accrual will be somewhat arbitrary as we cannot know the actual storm events or damages that will impact the storm reserve in the future. The best regulatory policy is one that allows the Commission to estimate what a reasonable level for the storm accrual should be and periodically monitor the accrual and reserve balance to determine the success of the process.

Q. HOW SHOULD CATASTROPHIC STORM EVENTS BE HANDLED?

A. I believe that the annual storm accrual should be sufficient to cover the annual average cost of losses from moderate to extraordinary storm damage over time and provide for special assessments for catastrophic storms or years in which the storm reserve is depleted. As such, I believe that it is reasonable for the annual storm accrual in base rates to be set using an amount less than the average storm damage for minimal to above average cost storms but leaving the catastrophic storm damage to be recovered through a special assessment mechanism. This treatment is consistent with the method that FPL agreed to when the Commission established the accrual at its current level of $20.3 million in 1995.

Q. DO YOU AGREE WITH THE COMPANY'S POSITION REGARDING THE ANNUAL ACCRUAL LEVEL?

A. No I do not. Mr. Dewhurst testified, on page 40, lines 7-8, that "The current storm accrual is not, and has not been for some time, sufficient to cover

expected annual storm losses." My reading of the prior Commission orders on this issue is that the annual accrual has been less than the damage estimate by design. The process contemplated that catastrophic and extraordinary damages would be recovered through special assessments. Accordingly, I disagree with Mr. Dewhurst that the storm accrual should be set to recover the annual expected storm damage plus an additional allowance to replenish the reserve.

Q. SHOULD THE ANNUAL ACCRUAL IN BASE RATES BE USED TO REPLENISH THE RESERVE THAT WAS DEPLETED BY THE 2004 STORMS?

A. No, I do not think it should. The damage incurred in 2004 was certainly catastrophic but I believe that the replenishment of the reserve should be on a more short-term basis rather than through base rate recovery. I believe that a more appropriate vehicle would be the use of a special assessment, such as the new securitization statute, which was signed into law on June 1, 2005. This method could allow the utility to replenish the reserve quickly, particularly in case another storm causes extraordinary damage before the storm reserve grows to a reasonable level. Using only base rates to replenish the reserve, even at the company's requested accrual level of $120 million, could still require the use of a special assessment if storm damage occurs in the next 1-2 years and exceeds the balance in the storm reserve. Another benefit of using securitization is that the repayment of the storm bonds would be borne by the current generation of customers instead of being spread over a longer period of base rate recovery.

Q. WHAT OTHER MECHANISMS ARE AVAILABLE TO FPL TO REPLENISH ITS RESERVE OUTSIDE OF BASE RATES?

A. In addition to securitization, the utility has other mechanisms available outside of base rates for extraordinary recovery and storm reserve replenishment. One mechanism is a storm proceeding to recover a reserve deficiency, consistent with FPL's request in Docket 041291-EI. FPL also can petition the Commission for recording some level of storm costs during a given year as normal operating costs, to offset earnings in excess of the FPL's authorized range. This last mechanism has been used by FPL on several occasions to reflect otherwise recordable storms costs as normal operating costs.

Q. DO YOU HAVE ANY CONCERNS ABOUT HOW THE RESERVE REPLENISHMENT AMOUNT SHOULD BE SET?

A. Yes. I would urge caution in determining what amount should be allowed to replenish the storm reserve either in this docket or through some other mechanism. If the amount added back to the storm reserve is too high and the storm damage in the next few years is less than average, the storm reserve could grow to become quite large in a short time.

Q. HOW DO YOU PROPOSE TO SET THE ANNUAL ACCRUAL LEVEL?

A. I have looked at two different ways in determining the level of the annual accrual. The first was to compare the level of historical damage incurred by FPL since 1992. This analysis has been provided in Exhibit PWM-2, entitled *Comparison of FPL's Average Historical Storm Costs*. In this exhibit, I have compiled the historical costs of storm damage incurred for each storm event for FPL from 1992 through 2004 and calculated several different average

storm damage estimates. The source of this data was provided by FPL in OPC's Production of Document (POD) Request No. 25, Bate No. FPL019471. I first took the total accumulated storm damage and calculated an average storm cost per year of $106 million. This average included the catastrophic years of 1992 and 2004 and, accordingly, generated the greatest annual average cost. It should be noted that the majority of the storm damages incurred for Hurricane Andrew were covered by traditional insurance and did not flow through the storm reserve.

Q. HAVE YOU CALCULATED ANY OTHER HISTORICAL AVERAGE LEVELS OF STORM DAMAGES?

A. Yes, I did. For my second average, I removed the catastrophic events from 1992 and 2004 and calculated an average cost of $15 million, which was the lowest average cost on an annual basis. For a third approach, I took the damage from the non-catastrophic years of 1993-2003 and added back the cost for Hurricane Charley, the lowest cost storm in 2004. This generated an average of $31 million. The fourth average was similar to the third, but I instead used the damages from Hurricane Frances, which was the highest cost storm in 2004. This last comparison calculated an average annual cost of $41 million.

Q. ARE YOU RECOMMENDING AN ACCRUAL BASED ON ONE OF THESE AVERAGE ANNUAL COSTS?

A. Not completely. I am using these numbers for comparison purposes to reflect the range of damages that FPL has incurred in the past. I would like to point out that the use of historical costs, while useful to see what has occurred, does not necessarily reflect the pattern that will occur in the future. Another

consideration is that these historical costs do not reflect the current replacement costs for storm restoration, nor do the averages account for the customer growth that has occurred in FPL's system.

Q. WHAT WAS THE OTHER ANALYSIS THAT YOU USED TO DETERMINE THE ANNUAL ACCRUAL FOR STORM DAMAGE?

A. I have compiled Exhibit No. PWM-3, entitled *Adjustments to Expected Annual Losses to FPL's Storm Reserve.* In this exhibit, I started with Mr. Harris' amount of Expected Annual Storm Losses of $74.7 million as shown on SPH-1, Page 19 of 29. I then removed the $3.5 million for the storm staging costs for storms that did not land in FPL's territory and $1 million for the nuclear damage estimates. This left an adjusted total of $70.2 million. I then remove 20% of the remaining costs ($14 million), which was FPL's conservative estimate of the costs related to the extraordinary and less likely levels of storm damage. This left an adjusted expected annual storm loss of $56.2 million. So even using Mr. Harris' storm analysis, the range of storm damage can vary from the requested $74.7 million to an adjusted level for normal, non-catastrophic storm damage of $56.2 million.

For considering what the prospective accrual level should be, I reduced each of the 3 expected storm damage estimates that I discussed in the above paragraph by 50%. This is consistent with the philosophy that FPL used in its settlement agreement to determine the appropriate annual accrual, which was approved by the Commission in Order No. PSC-95-0264-FOF-EI. As shown on Exhibit PWM-3, the storm accrual levels using the 50% ratio range from a low of $28.1 to a high of $37.4 million.

Q. BASED ON THE ABOVE ANALYSIS, WHAT IS YOUR RECOMMENDED LEVEL OF THE ANNUAL STORM ACCRUAL?

A. I believe that the proper level for the annual storm accrual should be $35 million, which results in a reduction to test year expenses of $85 million. This level recognizes that the costs for storm damage restoration have increased, and provides for a $14.7 million increase above the current accrual. This accrual level also reflects the 50% level of the adjusted storm damage estimate of $70.1 million, after removal of the staging costs and nuclear risks. I would note that this level falls between the normalized level of historical storm damage incurred from 1993 to 2004 with only one storm included in 2004 ($31 million for Hurricane Charley and $41 million for Hurricane Frances).

Q. WHAT IS YOUR OPINION ON MR. HARRIS' TESTIMONY REGARDING HIS SOLVENCY ANALYSIS?

A. Mr. Harris' solvency analysis was based on his estimates included in the storm loss estimate and the approval of an annual accrual of $120 million. His solvency analysis does not contemplate that the annual accrual might be lowered by the Commission or that the utility might utilitize another vehicle to replenish the storm reserve in a shorter timeframe. Unless you agree 100% with the assumptions included in his analysis, I do not believe that his solvency analysis should be relied upon.

GRIDFLORIDA RTO

Q. IN ITS MFRS, FPL HAS REQUESTED RECOVERY OF COSTS ASSOCIATED WITH FPL'S PARTICIPATION IN THE GRIDFLORIDA RTO. CAN YOU SUMMARIZE WHAT AMOUNTS HAVE BEEN INCLUDED IN THE TEST YEAR?

A. Yes. FPL has included $59 million as part of the 2006 budget with an adjustment to add $45 million, or a total test year expense of $104 million. FPL witness Mennes testifies to the inclusion of these amounts and how the estimates were derived.

Q. DOES MR. MENNES STATE WHY FPL IS REQUESTING RECOVERY OF THESE COSTS?

A. Yes. On page 20, lines 14-18, of his direct testimony, Mr. Mennes states that FPL will be required to buy transmission service from GridFlorida to serve its customers and the charges FPL will incur will only be partially offset by GridFlorida's payment to FPL for the use of FPL's transmission system. Mr. Mennes states that the remaining charges will be incremental transmission costs to FPL.

Q. WHAT TYPES OF COSTS HAS FPL REQUESTED TO BE RECOVERED THROUGH BASE RATES IN THIS PROCEEDING?

A. FPL has requested recovery of start-up costs, annual operating costs and cost shifting. The major costs associated with cost shifting are the revenue requirements associated with the Florida Municipal Power Authority and Seminole Electric Cooperative's existing transmission facilities located in FPL's zone, and the portion of revenue requirements associated with the transmission facilities of all the other transmission owners participating in the RTO. FPL has forecasted that the 2006 level of RTO costs will increase from the $59 million in 2006 to $148 million in 2010, an increase of $89 million. To request recovery of this, FPL has averaged the difference over 5 years and made an adjustment to add $45 million to the test year.

Q. CAN YOU PROVIDE AN OVERVIEW OF THE STATUS OF THE GRIDFLORIDA RTO?

A. Yes. Docket No. 020233-EI was opened by the Commission to review the GridFlorida RTO Proposal. In December, 1999, the Federal Energy Regulatory Commission (FERC) issued Order No. 2000, which required all public utilities that own, operate, or control interstate transmission facilities to file a proposal to participate in a RTO. By Order No. PSC-02-1199-PAA-EI (Order 02-1199), issued September 3, 2002, the Commission addressed the myriad of proposals submitted by the GridFlorida Applicants (FPL, Florida Power Corporation/Progress Energy, and Tampa Electric Company) as well as comments submitted by the numerous parties to the docket. The primary issues addressed were the structure and governance, planning and operations, transmission rate structure, cost shifting, recovery of incremental transmission costs, and the modified market design. Additionally, the Commission ordered that an expedited hearing would be held on the merits of the revised market design proposal submitted by the GridFlorida Applicants. Several protests and requests for hearing were filed with respect to Order No. 02-1199.

The hearing was scheduled to be held late-October, 2002. However, on October 3, 2002, OPC filed a notice of appeal of Order No. 02-1199. On October, 15, 2002, the Commission abated its proceedings pending the disposition of OPC's appeal of the order. On June 2, 2003, the Supreme Court of Florida dismissed OPC's appeal stating that it was "opposed to piecemeal review of single orders, especially when, as in this cause, the final and non-final actions contained in Order No. 02-1199 are intertwined." As

such, the Court dismissed the appeal until all portions of that order are final. Citizens v. Jaber, 847 So. 2d 975 (Fla. 2003).

Q. WHAT ACTION DID THE COMMISSION TAKE SUBSEQUENT TO THE ISSUANCE OF THE COURT'S DECISION?

A. By Order No. PSC-03-1006-FOF-EI, issued September 8, 2003, the Commission addressed the outstanding motions for reconsideration, clarified one aspect of Order 02-1199, and left the docket open to "permit final disposition of this matter." By Order No. PSC-03-1414-PCO-EI, issued December 15, 2003, Chairman Jaber, as Prehearing officer, outlined the procedural posture for the case and encouraged the parties to continue to collaborate on moving the case forward. As such, she scheduled a series of workshops and requested that the parties file drafts of their respective positions and prepare written comments on other parties' positions. At the conclusion of each workshop, Commission staff would file a status report summarizing the workshop results, including the resolution of any issues and identification of specific outstanding issues. At the conclusion of all of the workshops, the Chairman would schedule the final hearing to resolve any outstanding issues to the extent any remained.

Q. WHEN DID THE COMMISSION HOLD THE WORKSHOPS?

A. The Commission held a workshop on March 17-18, 2004, to address pricing issues, cost recovery, cost shifting and a continued review of cost and benefits of the RTO. At this workshop, the Applicants proposed that an independent study be performed by ICF Consulting to review the costs and benefits of the GridFlorida RTO. On May 19-21, 2004, the Commission held a second workshop on the market design issues and also continued to review the costs

and benefits of the RTO and the current regulatory/legislative benefits. A third workshop was held on June 30, 2004, to allow ICF to present the parameters of its study and to obtain comments from the parties. The scheduled August 5, 2004, workshop, which was designed to be the final workshop session, was cancelled to allow sufficient time for ICF to complete its cost/benefit analysis.

Q. HAS THE ICF COST BENEFIT ANALYSIS STUDY BEEN ISSUED?

A. No, but a draft of the study was released on April 27, 2005.

Q. WHAT WERE THE PRELIMINARY FINDINGS OF THE STUDY REGARDING THE COSTS AND BENEFITS?

A. For the Day 1 preliminary draft, ICF stated that the GridFlorida costs exceeded the benefits by as much as $700 million. For the Day 2 scenario, the costs exceeded the benefits by approximately $375 million. On May 23, 2005, the Commission held another workshop to allow ICF to present its draft report and to allow the parties to comment on ICF's preliminary results.

Q. WHAT COMMENTS DID FPL'S REPRESENTATIVE MAKE AT THE WORKSHOP?

A. Mr. Robert Croes concurred with Progress Energy's comments that the cost estimates were understated and the benefits were significantly overstated. Mr. Croes stated the model had no demand uncertainty and removed the inefficiencies associated with over and undercommittment, which does not exist in the real world. He also stated that the model overstated the benefits by using marginal cost bids. Further, "the bid markets that exist in today's RTO and ISO competitive markets were not modeled by ICF.

Q. WOULD YOU LIKE TO ADDRESS ANY OTHER COMMENTS MADE AT THE WORKSHOP?

A. Yes. Chairman Baez commented that he was receiving a general message from the Applicants that based on the ICF study, the GridFlorida RTO was not cost-effective and he questioned whether the pursuit of a Florida RTO should be continued. He also expressed concern about the utilities' compliance with FERC even when the current RTO project appeared to be cost-ineffective. Even the FERC representative at the workshop communicated that the costs were much too high and need to be reduced. The FERC representative suggested spreading some costs over a longer period of time and wanted to see a more reasonable analysis of the costs and benefits of a Florida RTO.

Q. HOW DID THE COMMISSION CONCLUDE THE WORKSHOP?

A. The Chairman addressed the need to have a final report issued. He also requested that the parties consider alternatives and left it to Commission staff to consider the procedural steps that need to be set up to complete the docket. Commission Staff communicated that they would like to review the transcript of the workshop prior to setting up a definitive schedule. The ending comments made were to take some time to gather more information, study other benefits that may be achieved by individual utilities that were not part of the cost benefit study, and to think about a process going forward.

Q. WHAT IS YOUR ANALYSIS OF THE COMMENTS MADE AT THE MAY 23, 2005, WORKSHOP??

A. I believe that the implementation of the GridFlorida RTO is unlikely in its present form and questionable as to whether it will be implemented at all. FPL's own representative stated that the costs would exceed the benefits even more that those projected by ICF.

Q. HAS PROGRESS ENERGY FLORIDA, INC. REQUESTED RECOVERY OF ANY PROJECTED RTO COSTS IN ITS PENDING RATE CASE APPLICATION IN DOCKET NO. 050078-EI?

A. No. It has not.

Q. WHAT IS YOUR CONCLUSION ABOUT INCLUDING THE PROJECTED RTO COSTS IN FPL'S TEST YEAR?

A. What costs might be incurred by FPL or the other Applicants at this time are unknown and any implementation date, if any, is too far in the future to make a reasonable estimate of prospective costs. I believe that including any costs for the GridFlorida RTO in FPL's rate case is speculative and certainly not known and measurable. Based on the above, I recommend that the requested $104 million for RTO costs be removed from test year expenses. Further, if any other costs are later shown to be included in the test year related to RTO costs, those amounts should also be removed.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

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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INDEX OF EXHIBITS

DIRECT TESTIMONY—PATRICIA W. MERCHANT, C.P.A.

DOCKET NOS. 050045-EI & 050188-EI

EXHIBIT NAME	**EXH. NO.**	
CURRICULUM VITAE	PWM-1	_____
COMPARISON OF FPL'S AVERAGE HISTORICAL STORM COSTS	PWM-2	_____
ADJUSTMENTS TO EXPECTED ANNUAL LOSSES TO FPL'S STORM RESERVE	PWM-3	_____

Curriculum Vitae

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Professional Experience:

March, 2005 to Present

Office of Public Counsel – Senior Legislative Analyst

In my current position, I perform financial and accounting analysis and reviews, and provide testimony, as required, involving utility filings before the Florida Public Service Commission (or other jurisdictions) as an advocate for the Citizens of the State of Florida.

1981 to February, 2005 - Florida Public Service Commission

2000 to February, 2005

Public Utilities Supervisor – File and Suspend Rate Case Section, Bureau of Rate Filings, Division of Economic Regulation

In this capacity I was responsible for the supervision of 5 to 8 regulatory professionals. This section was responsible for the financial, accounting, engineering and rate review and evaluation of rate proceedings for Class A and B water and wastewater utilities, as well as electric and gas utilities regulated by the Commission. The types of cases included file and suspend rate cases, limited proceedings, overearning investigations, annual report reviews, service availability and tariff filings, rulemaking, and customer complaints. The analysts in this section reviewed utility filings, requested and reviewed Commission staff audits, and generated and analyzed discovery requests. Each analyst coordinated and prepared staff recommendations to the Commission for agenda conferences. As a supervisor, I reviewed the analytical work and edited the written documents of all analysts in this section for proper regulatory theory, grammar and accuracy. I also made presentations to customer groups at Commission staff customer meetings for the rate proceedings to which I was assigned. Staff recommendations were presented at agenda conferences with an introduction of each item, providing a response to comments raised by other parties and addressing the questions of Commissioners. The section also prepared and presented testimony, and assisted in the preparation of cross-examination questions for depositions and formal hearings. In addition to other duties, I provided training in regulatory accounting for new staff in my section as well as training on regulatory and accounting issues for other analysts at the Commission.

1989 – 2000

Regulatory Analyst Supervisor, Accounting Section, Bureau of Economic Regulation, Division of Water and Wastewater

I supervised 5-7 regulatory accounting analysts. This section performed the same job activities as above specifically for the larger Commission regulated Class A and B water and wastewater companies.

1983 - 1989

Regulatory Analyst – Accounting Bureau, Division of Water and Wastewater

As an accounting analyst, I performed the same job activities as described above for water and wastewater companies in a non-supervisory role.

1981 – 1983

Public Utilities Auditor, Division of Auditing and Financial Analysis

As an auditor in the Tallahassee district of the Commission, I performed financial and accounting audits of electric, gas, telephone, water and wastewater utilities under the Commission's jurisdiction.

Education and Professional Licenses

1981 Bachelor of Science with a major in accounting from Florida State University

1983 Received a Certified Public Accountant license in Florida

Attachments

1 List of Cases in which Testimony was Submitted

2 List of Analytical and Supervisory Rate Case Work Performed at the Public Service Commission

Attachment 1

Patricia W. Merchant
Submitted Testimony in the Following Cases:

Dockets Before the Florida Public Service Commission:

991643-SU	Application for Increase in Wastewater Rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.
971663-WS	Application of Florida Cities Water Company, Inc. for a limited proceeding to recover environmental litigation costs.
940847-WS	Application of Ortega Utility Company for increased water and wastewater rates.
911082-WS	Water and Wastewater Rule Revisions to Chapter 25-30, Florida Administrative Code.
881030-WU	Investigation of Sunshine Utilities of Central Florida rates for possible over earnings.
850151-WS	Application of Marco Island Utilities, Inc. for increased water and wastewater rates.
850031-WS	Application of Orange/Osceola Utilities, Inc. for increased water and wastewater rates in Osceola County
840047-WS	Application of Poinciana Utilities, Inc. for increased water and wastewater rates

Cases Before the Division of Administrative Hearings:

97-2485RU	Aloha Utilities, Inc., and Florida Waterworks Association, Inc., Petitioners, vs. Public Service Commission, Respondents, and Citizens of the State of Florida, Office of Public Counsel, Intervenors.

Attachment 2

Patricia W. Merchant

Analytical and/or Supervisory Work Performed at the PSC On Water and Wastewater Rate Case Dockets

Docket No.	Utility Name	Hearing	PAA	PAA Protested	Comments
840047-WS	Poinciana Utilities, Inc.		X	Yes	PCW testified
850031-WS	Orange/Osceola Utilities, Inc.		X	Yes	PCW testified
850100-WS	Dulay Utility Company		X	No	
850151-WS	Marco Island Utilities, Inc.		X	Yes	PCW testified
870166-WS	Palm Cost Utility Corp.	X			
870239-WS	GDU - Silver Springs Shores	X			Stipulated Before Hearing
870981-WS	Miles Grant Water and Sewer Co.	X			
871134-WS	Orange Osceola Utilities, Inc.	X			
871177-WU	St. George Island Utility Co.	X			
871249-SU	Fla. Cities Water - Golden Gate	X			
871262-WS	Ortega Utility Company	X			
880446-WS	Beauclerc Utilities		X	No	
880520-WS	Southern States - Martin County	X			
881030-WU	Sunshine Utilities		X	Yes	
881098-WU	Ocala Oaks Utilities, Inc.		X	Yes	Protest Withdrawn
880882-WU	Hydratech Utilities	X			
881503-WS	Poinciana Utilities, Inc.	X			
890277-WS	Palm Coast Utility Co.	X			Appealed to DCA
890360-WS	South Broward Utility	X			
890468-WS	Miles Grant Water and Sewer				Rate Case Withdrawn
890509-WU	Fla. Cities Water Company		X	Yes	
890951-WS	Southern States - Duval County		X	Yes	
891114-WS	Sailfish Point Utility Company	X			Case Dismissed by FPSC
891202-WU	Hobe Sound Water Company				Rate Case Withdrawn
891302-WS	Magnolia Valley Services, Inc.				Rate Case Withdrawn
900338-WS	Sanlando Utilities Corporation		X	No	
900329-WS	Southern States Utilities, Inc.	X			Dismissed/appealed to DCA
900386-WU	Sunshine Utilities		X	Yes	Remanded by DCA
900521-WS	FFEC-Six, Incorporation		X	Yes	Protest Withdrawn
900552-WS	Magnolia Valley Services, Inc.				Rate Case Withdrawn
900656-WU	Hobe Sound Water Company		X	No	
900718-WU	Gulf Utility Company		X	No	
900757-SU	Naples Sewer Company	X			Dismissed/appealed to DCA
900816-WS	Sailfish Point Utility Company	X			
900916-SU	S-W Disposal System, Inc				Rate Case Withdrawn
910020-WS	PPW Water and Sewer Company	X	X	Yes	
911082-WS	Water and Wastewater Rulemaking	X			PWM Testified
910093-WS	Continental Utility, Inc.		X	No	
910477-SU	Florida Cities - S. Ft. Myers	X			
910540-SU	Aloha Utilities		X	No	
910560-WS	Tamiami Village Utilities, Inc.	X			
910637-WS	Mad Hater Utility		X	Yes	
910683-SU	Rookery Bay Utility Company				Rate Case Withdrawn
910756-SU	Florida Cities - N. Ft. Myers	X			
910976-WS	Florida Cities - Barefoot Bay		X	No	
911030-WS	General Dev. - Pt. Malabar	X			Rate Case Withdrawn
911067-WS	General Dev. - West Coast	X			Rate Case Withdrawn
911188-WS	Lehigh Utilities, Incorporation	X			
911194-WS	Florida Cities - Golden Gate		X	No	
920148-WS	Jasmine Lakes Utilities, Corp.		X	Yes	
920199-WS	Southern States Utilities	X			Appealed to DCA
920200-WS	Poinciana Utilities, Inc.		X		Rate Case Withdrawn
920361-WS	Kingsley Service Company		X		Rate Case Withdrawn
920540-WU	St. George Island Utility Co.				MFRs never filed

Attachment 2

Patricia W. Merchant

Analytical and/or Supervisory Work Performed at the PSC On Water and Wastewater Rate Case Dockets

Docket No.	Utility Name	Hearing	PAA	PAA Protested	Comments
920655-WS	SSU - Marco Island	X			
920733-WS	GDU - Silver Springs Shores	X			Appealed to DCA
920734-WS	GDU - Port Labelle	X			Appealed to DCA
920808-WS	Florida Cities - S. Ft. Myers	X			
921261-WS	Harbor Utilities Company, Inc.		X	Yes	Protest withdrawn
921293-SU	Mid-County Services, Inc.		X	Yes	Appealed to DCA
930640-WS	Jacksonville Suburban Utilities				Test year withdrawn
930770-WU	St. George Island Utility Co.	X			Case dismissed
930826-WS	Utilities, Inc. of Florida		X	Yes	
930912-WS	Poinciana Utilities, Inc.	X			
931052-SU	Highlands Utilities, Corp.				
940109-WU	St. George Island Utility Co.	X			
940299-SU	Key Haven Utility Corporation	X			Settled before hearing
940475-WU	Hobe Sound Water Company	X			
940687-WU	Florida Cities - Barefoot Bay		X	No	
940765-WU	Ferncrest Utilities, Inc.		X	No	
940847-WS	Ortega Utility Company	X			PWM Testified
940917-WS	Utilities, Inc. of Florida		X	No	
941108-WS	Florida Cities - Golden Gate		X	No	
941280-WS	Betmar Utilities, Inc.		X	No	
950336-WS	Rotonda West Utility Corp.		X	No	
950387-SU	Florida Cities- N. Ft. Myers		X	Yes	Appealed to DCA
950495-WS	Southern States Utilities, Inc.	X			Appealed to DCA
950828-WS	Rainbow Springs Utilities, Inc.		X	No	
951027-WS	Lake Placid Utility, Inc.		X	No	
951056-WS	Palm Coast Utility Corporation	X			Appealed to DCA
951238-WS	Econ Utilities Corporation				Test year withdrawn
951258-WS	Florida Cities - Barefoot	X			
960329-WS	Gulf Utility Company, Inc.	X			
960444-WU	Lake Utility Services, Inc.		X	Yes	Settled before hearing
960451-WS	United Water Florida	X			
970164-WU	Hobe Sound Water Company		X	No	
971065-SU	Mid-County Service, Inc.		X	Yes	
980214-WS	United Water Florida		X	Yes	Settled before hearing
990535-WU	Florida Public Utilities, Inc.		X	No	
990939-WS	Indiantown Company, Inc.		X	No	
991437-WU	Wedgefield Utilities, Inc.		X	Yes	Settled before hearing
991643-SU	Aloha Utilities, Inc.	X			
000295-WU	Placid Lakes Utilities, Inc.		X	No	
010492-SU	Zellwood Station Co-op, Inc.	X			Potential Sale to County
010503-WU	Aloha Utilities, Inc.	X			Currently on appeal
011073-WS	Ferncrest Utilities, Inc.	X			Rate Case Withdrawn
020071-WS	Utilities, Inc. of Florida	X			
020344-SU	Key Haven Utilities, Inc.		X	Yes	Protest withdrawn
020407-WS	Cypress Lakes Utilities, Inc.		X	No	
020408-SU	Alafaya Utilities, Inc.		X	No	
020409-SU	Sandalhaven Utilities, Inc.		X	No	
030443-WS	Labrador Utilities, Inc.		X	No	
030444-WS	Bayside Utility Services, Inc.		X	Yes	Settled before hearing
030445-SU	Utilities, Inc. of Eagle Ridge		X	No	
030446-SU	Mid-County Service, Inc.		X	No	
040450-WS	Indiantown Company, Inc.		X		

Florida Power and Light Company
Comparison of FPL's Average Historical Storm Costs

Year	Storm	Total Costs (000)
1992	Andrew	$393,000
1993	Winter Storm	$11,100
1994	Gordon (1)	$5,172
1995	Erin (1)	$6,071
1998	Groundhog Day Storm	$13,200
1998	Hurricane Georges	$11,900
1999	Hurricane Dennis (1)	$105
1999	Hurricane Floyd	$21,100
1999	TS Harvey	$2,550
1999	Hurricane Irene	$58,500
2000	Hurricane Debby (1)	$1,296
2000	Gordon (1)	$4,604
2001	Gabriel	$30,644
2001	Michelle (1)	$827
2004	Hurricane Charley (2)	$209,000
2004	Hurricane Frances (2) & (3)	$321,000
2004	Hurricane Jeanne (2) & (3)	$288,000
Total Cost		$1,378,069
Total number of years		13
Average Annual Cost 1992-2004		$106,005
Total Cost Minus 2004 and Andrew		$167,069
Number of Years - 1993 to 2003		11
Normal Average Cost of Storms-Non-extraordinary		$15,188
Total Cost of 1993-2003 Plus Lowest 2004 Storm Charley		$376,069
Number of Years 1993-2004		12
Normal Average Cost 1993-2003 Plus Lowest Cost 2004 Storm		$31,339
Total Cost 1993-2003 Plus Highest 2004 Storm Frances		$488,069
Number of Years 1993-2004		12
Normal Average Cost 1993-2004 Plus Highest Cost 2004 Storm		$40,672

Notes: (1) Not recovered through storm fund
(2) FPL Estimated Costs
(3) FPL estimated nuclear damages of $108 million were allocated equally between Hurricanes Frances & Jeanne
(4) Source: FPL Response to OPC POD No. 25, Bate FPL019471

Florida Power and Light Company
Adjustments to Expected Annual Losses to FPL's Storm Reserve

Expected Annual Losses in Millions	Expected Storm Loss	Storm Accrual 50% Ratio
Transmission & Distribution Asset-Hurricane & Tropical Storm	$63	
Distribution Assets-Winter Storm	1.2	
Storm Staging Costs- Non Land Falling in FPL Territory	3.5	
Non-T&D Assets-Hurricane & Tropical Storm	5.8	
Retrospective Assessments from Industry Nuclear Accidents	0.5	
Losses in Excess of Insurance from FPL Nuclear Accidents	0.5	
Mr. Harris' Recommended Level of Damages	$74.7	$37.4
Recommended Adjustments		
Remove Staging Costs for Storms not Landing in FPL Territory	$3.5	
Remove Extremely Low Risk Nuclear Losses	$1.0	
Subtotal Adjustments	$4.5	
Adjusted Subtotal Expected Annual Loss Including Extraordinary	$70.2	$35.1
Remove 20% for Catastrophic Storms Damage Not Recommended to be included in Storm Accrual	$14.0	
Adjusted Total Expected Annual Loss Excluding Extraordinary	$56.2	$28.1