

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

**DOCKET NOS. 050045-EI AND 050188-EI
FLORIDA POWER & LIGHT COMPANY**

JULY 28, 2005

**IN RE: PETITION FOR RATE INCREASE BY FLORIDA
POWER & LIGHT COMPANY
AND
IN RE: 2005 COMPREHENSIVE DEPRECIATION STUDY
BY FLORIDA POWER & LIGHT COMPANY**

REBUTTAL TESTIMONY OF:

JOHN H. LANDON

DOCUMENT NUMBER 050188-EI

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FPSC-COMMISSION CLERK

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6

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

8 A. My name is John H. Landon, and my business address is Two Embarcadero
9 Center, Suite 1750, San Francisco, California, 94111.

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

11 A. Yes.

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

13 A. I will respond to portions of the testimony submitted by the following
14 witnesses:

- 15 • Teresa Civic and Jess Galura on behalf of the Commercial Group;
- 16 • David E. Dismukes, Ph.D. and Hugh Larkin, Jr. on behalf of the Florida
17 Office of Public Counsel (OPC);
- 18 • Matthew Kahal on behalf of the Federal Executive Agencies; and
- 19 • Sidney W. Matlock on behalf of Staff.

20 My testimony addresses four issues raised by the intervenors and staff
21 witnesses mentioned above:

- 22 1. FPL's distribution reliability performance over the period 1992-2004.
- 23 2. FPL's cost performance.

1 3. Comparisons of FPL's future expected expenses to those of other utilities in
2 the benchmark group.

3 4. Comparisons of FPL's retail rates to the rates of other utilities.
4

5 **FPL'S DISTRIBUTION RELIABILITY**
6

7 **Q. Please describe Staff witness Mr. Matlock's testimony regarding FPL's**
8 **distribution reliability.**

9 A. Mr. Matlock examines FPL's distribution reliability over the period 1992-
10 2004. In contrast, I have reviewed the Company's benchmarking of
11 distribution reliability over the period 1998-2004. Mr. Matlock observes that
12 although "FPL has shown improvements in [reliability] performance since
13 1998", reliability worsened between 1992 and 1997.¹ He concludes that
14 reliability is "practically the same" as it was in 1992.²

15 **Q. Does Mr. Matlock's testimony change the conclusions you drew in your**
16 **direct testimony regarding FPL's distribution reliability?**

17 A. It does not, for several reasons. First, because Mr. Matlock has not compared
18 FPL's reliability to any benchmark group, he cannot draw any conclusions
19 about FPL's reliability relative to peer utilities prior to 1998. Thus my
20 conclusion that FPL's distribution reliability has improved relative to
21 comparable utilities remains unrebutted. Second, although Mr. Matlock
22 asserts that "FPL has basically returned to its 1992 reliability level", he does

¹ Direct Testimony of Sidney W. Matlock, at 3:6, 7; 3:10-11.

² Matlock Direct at 5:12-13.

1 not criticize the Company's reliability in the 1998-2004 period. In fact, he
2 refers to the Commission's acknowledgement in 2000 that FPL's reliability
3 had been improving since 1996.³ Third, Mr. Matlock fails to acknowledge
4 that over the period 1998-2004 FPL has delivered a high level of reliability at
5 the same time that it has reduced total non-fuel O&M expenses per customer
6 and held total distribution O&M expenses relatively constant⁴ in the face of
7 approximately 15 percent growth in the number of customers. Fourth, Mr.
8 Matlock's conclusion is based entirely on a comparison of FPL's reliability in
9 a single year, 1992, to the Company's performance over the most recent
10 seven-year period. However, he has not examined reliability prior to 1992
11 and he presents no direct evidence that FPL's reliability performance in 1992
12 was representative of earlier performance. Mr. Matlock cannot draw
13 reasonable conclusions regarding the Company's reliability performance over
14 the past several years through a comparison with its performance in a single
15 year, thirteen years earlier.

16 **Q. Do you have any other comments regarding Mr. Matlock's testimony on**
17 **distribution reliability?**

18 A. Yes. Mr. Matlock concludes that "the [reliability] index values are practically
19 the same as they were thirteen years ago."⁵ My concerns, as discussed earlier,
20 with respect to a comparison of performance in one year to performance over
21 a multi-year period notwithstanding, the data do not support Mr. Matlock's
22 conclusion. In fact, FPL's distribution SAIDI over the five-year period 2000-

³ Matlock Direct at 4:9-13.

⁴ See Direct Testimony of Geisha J. Williams, Document No. GJW-3.

⁵ Matlock Direct at 5:12-13.

1 2004 has been consistently lower than the 1992 level, and 3.8 percent lower
 2 on average. Average distribution CAIDI and SAIFI values over the period
 3 2000-2004 have been 2.1 percent lower and 1.6 percent lower, respectively,
 4 than the 1992 levels. Even Mr. Matlock's fatally flawed comparison approach
 5 suggests that FPL has improved distribution reliability performance.

Table 1: FPL Distribution Reliability

	SAIDI	CAIDI	SAIFI
1992	71.8	56.30	1.28
2000	70.3	58.30	1.21
2001	69.1	56.60	1.22
2002	68.2	52.80	1.29
2003	68.2	50.50	1.35
2004	69.7	57.30	1.22
Average 2000-2004	69.1	55.10	1.26
Relative Change 1992 to 2000-2004 Average	-3.8%	-2.1%	-1.6%

Source: Matlock Direct Exhibit SWM-1

6

7

FPL'S COST PERFORMANCE HAS BEEN SUPERIOR

8

9 **Q. Please describe Mr. Larkin's testimony regarding FPL's declining cost**
 10 **per customer.**

11 A. Mr. Larkin testifies that it is not "legitimate" for FPL to claim credit for the
 12 reductions in cost, on a per customer basis, over the past several years.⁶ Mr.

⁶ Direct Testimony of Hugh Larkin, Jr., at 6:2-4.

1 Larkin argues that FPL's success in reducing cost per customer should be
2 attributed to customer growth, rather than the Company's cost management
3 programs.

4 **Q. On what basis does Mr. Larkin argue that customer growth, not cost**
5 **management, is responsible for declining cost per customer?**

6 A. Mr. Larkin's argument is based on the assumption that a utility always can
7 supply new customers at or below average cost. Mr. Larkin asserts that:

8 The cost for providing electric service does not increase
9 proportionately with the addition of more customers. Except
10 for fuel, there is a tendency for the cost of providing utility
11 service to be predominantly fixed.⁷

12 **Q. Do you agree with Mr. Larkin's testimony regarding FPL's per customer**
13 **cost of service?**

14 A. I strongly disagree. Mr. Larkin presents no evidence to support his assertion
15 that the Company's expense achievements have been due to customer growth,
16 rather than management. For certain types of non-fuel expenses, generation,
17 transmission, or distribution, the cost of providing service is fixed, only to the
18 extent that a utility can add customers without adding additional capacity. To
19 the extent a utility's customer base is growing rapidly, it will have to add
20 additional capacity more frequently. Rapid growth also will tend to increase
21 per customer costs, because it is generally more expensive to serve new
22 customers through newly constructed infrastructure than to serve existing

⁷ Larkin Direct at 6:8-11.

1 customers through infrastructure that is already in place. That is, the
2 incremental cost of serving new customers with new facilities, constructed
3 under current environmental, zoning, and safety rules tends to be greater than
4 the average embedded cost.

5
6 FPL has experienced very rapid customer growth over the past decades.
7 Between 1998 and 2004, FPL's customer base has grown 15 percent, as more
8 than 500,000 customers have been added to the system. By way of
9 comparison, in 2003 there were more than 230 utilities with less than 500,000
10 customers. FPL has been able to serve its rapidly growing customer base at
11 the same time that it has reduced per customer costs, primarily by offsetting
12 the higher cost of serving new customers through cost management efforts.⁸

13
14 In my experience, the ability that FPL has demonstrated to manage costs and
15 deliver a high level of service in the face of rapid customer growth is unique.
16 The Company's achievements represent superior management.

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⁸ See, for example, Williams Direct at 17:17-18; Direct Testimony of C. Martin Mennes at 12:10-15.

BENCHMARKING PROJECTED FUTURE O&M EXPENSES

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Q. Please describe Dr. Dismukes' testimony regarding FPL's 1998-2003 O&M expenses.

A. Dr. Dismukes reviews the benchmarking of FPL's non-fuel O&M expenses that I presented in my direct testimony. He concludes that "the Company has performed relatively well" and that "FPL has ranked in the top ten in terms of the lowest overall non-fuel O&M costs relative to the peer group defined by Dr. Landon."⁹

Q. Does Dr. Dismukes comment on FPL's forecasted O&M expenses?

A. Yes. Dr. Dismukes states that it is important to evaluate "how well the Company is forecasted to perform relative to its peers..."¹⁰ For the industry peer group presented in my benchmarking study, Dr. Dismukes presents projections of total non-fuel O&M expenses per kWh sold for the period 2004-2007. Dr. Dismukes projections for the companies in the peer group are based on 2003 expense levels escalated by the average annual change in total non-fuel O&M expenses per kWh sold over the five-year period 1999-2003. He also projects FPL's total non-fuel O&M expenses per kWh for 2004-2007, using the same approach. Dr. Dismukes then compares FPL's forecasted total non-fuel O&M expenses, based on the Company's budgeting and forecasting process, to his projections. In addition to total non-fuel O&M, Dr. Dismukes also presents comparisons of other, more detailed FPL expense forecasts to

⁹ Direct Testimony of David E. Dismukes, Ph.D., at 18:6-12.

¹⁰ Dismukes Direct at 19:4-5.

1 similarly derived projections for the benchmark group. He compares the
2 following expense measures: administrative and general O&M per kWh, non-
3 fuel nuclear production O&M per kWh, transmission O&M per kWh, and
4 non-fuel steam and "other" production O&M per kWh.

5 **Q. What are Dr. Dismukes' conclusions regarding FPL's forecasted O&M**
6 **expenses.**

7 A. He concludes that FPL's forecasted expenses are higher than his projections
8 for the Company and compare less favorably to his projections for companies
9 in the benchmark group.

10 **Q. Are Dr. Dismukes' conclusions regarding FPL's forecasted expenses**
11 **reasonable?**

12 A. No. Dr. Dismukes' analysis is inappropriate and unreliable because he has
13 violated a basic principle of benchmarking: performance of companies in the
14 comparison group and the company of interest must be measured in the same
15 way. The expense projections he presents for the benchmark companies are
16 not comparable to FPL's expense forecasts. FPL's forecasted expenses are
17 based on operational-level budgeting and management expectations about
18 future expense patterns. Dr. Dismukes' simplistic projections for the
19 companies in the benchmark group are based entirely on past expense levels
20 and do not incorporate, in any fashion, the expectations of the companies'
21 management regarding future expenses. Moreover, Dr. Dismukes makes no
22 attempt to incorporate managerial expectations about future expenses in his
23 projections for the benchmark companies.

1 In addition to violating a basic principle of benchmarking—that performance
2 be measured comparably across all companies—Dr. Dismukes’ comparison
3 does not consider the impact of differing growth rates between FPL and the
4 comparison companies. FPL is growing more rapidly than the benchmark
5 group, on average. In fact, only 5 of the 34 companies in the industry peer
6 group experienced higher customer growth than FPL over the study period.
7 Consequently, the simplistic comparison Dr. Dismukes presents is badly
8 biased. This is because higher growth rates, all else equal, tend to increase
9 incremental current dollar investments relative to average embedded costs.

10
11 It is not appropriate to compare FPL’s detailed, bottom-up forecast of future
12 expenses to projections based on a simple average of past performance.
13 Because his analysis is inappropriate and unreliable, the conclusions Dr.
14 Dismukes draws are not reasonable. The Commission should disregard Dr.
15 Dismukes’ “benchmarking” of O&M forecasts and the conclusions he draws.

16
17 **COMPARING FPL’S RATES**

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19 **Q. Please summarize the testimony of Ms. Civic and Mr. Galura regarding**
20 **FPL’s rates.**

21 **A.** Ms. Civic and Mr. Galura testify that “with respect to electric bills that we
22 receive from FPL, the Company’s rates are substantially higher than many

1 similar electric utilities, particularly those in the Southeast.”¹¹ They assert, as
2 an example, that the “fuel rates that FPL charges us are nearly double those of
3 Georgia Power Company...”¹²

4 **Q. Does FEA witness Mr. Kahal also discuss FPL’s retail rates?**

5 A. Yes. Mr. Kahal presents some results from an EEI survey of residential
6 customer bills, which he characterizes as “retail rates” or “residential rates.”¹³
7 Mr. Kahal concludes that “FPL’s residential retail rates are well above
8 average,” compared to companies in my industry peer group and “other major
9 electric utilities in the Southeast (SERC) region of the U.S.”¹⁴

10 **Q. How do you respond to the criticism of FPL’s rates?**

11 A. The testimony of Ms. Civic, Mr. Galura, and Mr. Kahal regarding FPL’s rates
12 is misleading and irrelevant to this proceeding. It is misleading because
13 although they claim to be discussing FPL’s rates, their testimony, in fact, is
14 based, all or in part, on the results of an EEI survey of “typical” bills. Their
15 testimony is irrelevant to this proceeding because the EEI survey of typical
16 bills reports what customers pay as a result of utilities’ base rate structure and
17 fuel charges. Fuel costs should not be a consideration in the Commission’s
18 evaluation of FPL’s base rates in this proceeding.

¹¹ Direct Testimony of Teresa Civic and Jess Galura at 2:19-21. Ms. Civic and Mr. Galura testify on behalf of the Commercial Group, which is composed of BJ’s, Lowe’s Home Centers, JC Penney, and Wal-Mart.

¹² Civic and Galura Direct at 2:23-3:1.

¹³ Direct Testimony of Matthew I. Kahal at 42:6-18 and Schedule MIK-7.

¹⁴ Kahal Direct at 42:2-4.

1 **Q. Are there legitimate reasons why the average or “typical” bill of an FPL**
2 **customer may be higher than that of other utilities?**

3 A. Yes. There are many reasons why customer bills may differ across utilities
4 that should not affect the Commission’s evaluation of FPL in this proceeding,
5 including ratemaking and fuel costs. Rate schedules for a particular customer
6 class may differ across utilities due to different regulatory treatment. Fuel
7 costs, as I mentioned earlier, are not a valid performance measure in this
8 proceeding. Fuel costs, while a component of the typical bill measure, reflect
9 factors such as fuel mix, the structure of long term power purchase contracts,
10 and demand profiles. Utilities tend to have differing fuel options and
11 transmission costs. FPL is on a peninsula and is likely to have higher
12 transmission and fuel transportation costs than many other utilities. Mr.
13 Kahal, Ms. Civic, and Mr. Galura do not address these factors in their
14 analyses.

15

16 **SUMMARY**

17

18 **Q. Please summarize your rebuttal testimony.**

19 A. I have reached the following conclusions:

- 20 1. In his testimony regarding FPL’s distribution reliability performance Mr.
21 Matlock does not rebut my conclusion that FPL has provided customers
22 with much higher reliability than companies in the benchmark group, on
23 average.

- 1 2. Mr. Matlock does not criticize FPL's recent reliability performance.
- 2 3. Mr. Matlock's comparison of reliability in 1992 to reliability over the
3 period 1998-2004 is not reasonable. Therefore, the conclusions he draws
4 from this discussion also are not reasonable.
- 5 4. Mr. Larkin's assertion that FPL's cost reductions result from customer
6 growth, rather than superior management, is based on unsupportable
7 assumptions and is unreliable.
- 8 5. Dr. Dismukes' comparisons of FPL's forecasted expenses to his
9 projections based on average past performance are inappropriate and
10 unreliable.
- 11 6. Mr. Kahal, Ms. Civic, and Mr. Galura do not testify regarding FPL's rates,
12 but rather "typical" bills, including fuel costs, of FPL customers.
- 13 7. Mr. Kahal's, Ms. Civic's, and Mr. Galura's testimony is misleading and
14 irrelevant to this proceeding

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

16 **A. Yes.**