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 & EXHIBIT OF:

MARLENE M. SANTOS

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF MARLENE M. SANTOS

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JULY 28, 2005

Q. Please state your name and business address.

A. My name is Marlene M. Santos. My business address is 9250 W. Flagler Street, Miami, FL 33174.

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

A. I am employed by Florida Power & Light Company (FPL) as Vice President of Customer Service.

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

A. Yes.

Q. Are you sponsoring an exhibit to your rebuttal testimony?

A. Yes. I am sponsoring an exhibit consisting of four Documents, MMS-6 through MMS-9, which is attached to my rebuttal testimony.

Q. What is the purpose of your rebuttal testimony?

A. I will respond to portions of testimony submitted on behalf of the following intervenors:

- Florida Office of Public Counsel (OPC) by Donna DeRonne which addresses Automated Meter Reading (AMR) project expenses,
- OPC by Donna DeRonne and Florida Retail Federation (FRF) by Sheree L.

Brown which address bad debt expenses, and

- OPC by Kimberly H. Dismukes which addresses advertising expenses.

AUTOMATED METER READING

Q. On pages 18-19 of her testimony, Ms. DeRonne contends that FPL's AMR program is a pilot program. Do you agree?

A. No. FPL is currently in the first phase of the full deployment of AMR to our residential and small and medium commercial customers. This is a significant project that has the potential to transform the manner in which FPL interacts with its customers and produce significant benefits. FPL intends to fully deploy AMR meters over the next five to eight years. In this first phase, we are deploying approximately 50,000 meters, utilizing both power line carrier and radio frequency technology, to address any issues with a smaller scale deployment prior to the next phase of deployment. We currently have approximately 18,000 meters deployed and the remaining 32,000 meters will be deployed by the end of the third quarter of 2005. We have installed the communications software for both of the solutions deployed and are in the process of integrating the vendor's meter data management interface to our customer information system to use the readings for billing. The software enables the reading of the meter remotely and provides the readings for billing.

Q. Does the under budget condition of $4.653 million in 2004 as a result of the delay in the AMR project necessitate an adjustment to the 2006 test year?

A. No. The expenses not incurred in 2004 as a result of the delay will be incurred in

2005 as part of the deployment of the 50,000 meters. As mentioned previously, the project is on schedule to complete the deployment of these meters by the end of third quarter 2005. In 2006, the next phase of deployment of 100,000 meters will begin.

BAD DEBT EXPENSE

Q. Ms. DeRonne and Ms. Brown both propose that FPL use a three year historical average to forecast the 2006 bad debt rate. Is this methodology appropriate?

A. No. It is improper to use the average of three historical years (2001-2003) as a basis for forecasting 2006 when the data being utilized is out-dated and fails to acknowledge changing conditions. The most current period utilized in their average (2003) is already two years removed from the forecast period with the oldest experience (2001) being four years old. Additionally, their methodology fails to recognize the more current level of revenues that exist and the reality that they are continuing to trend higher consistent with an ever increasing customer base and higher fuel expense. By using an average, they are simplistically levelizing and ignoring more current revenue levels and the impacts of increased revenues and prices on bad debt. The use of more current data, such as 2004, on the other hand, would begin to take into account more current payment experiences and include other factors such as the effects of rising fuel prices at the pump, that place additional pressures on our customers' ability to pay. In summary, the most current bad debt experience and its relationship to revenues

should be used to develop a forward looking forecast.

Q. Is there justification for using a historical average simply because the bad debt factor has varied from year to year?

A. No, there is not, particularly when revenues, as mentioned previously, are trending higher and write-offs increase even more rapidly. OPC's and FRF's argument also fails to recognize that the noted variability in the bad debt factor as shown in FPL's MFR C-11 (the drop in 2003), is due to revenues being shown on an un-lagged basis. As write-offs typically occur approximately four months after they have been billed, the use of a lagged revenue approach provides a better representation of the actual bad debt factor for the period. If bad debt in MFR C-11 were matched with the period in which these revenues were billed (by lagging revenues four months), the resulting bad debt factors would have shown a more levelized upward trending pattern. As shown in Document MMS-6, these factors would have been as follows: 2001 - 0.135%, 2002 - 0.143%, 2003 - 0.141% and 2004 - 0.158%. The variability in 2002 is due to higher levels of bad debt as a result of the economic deterioration following the events of September 11, 2001 which materialized in 2002 due to the time lag between revenues and write-offs. Absent this economic condition, the bad debt factor would have shown an upward trend based on rising revenues.

Q. On page 30 of her testimony, Ms. Brown asserts that "FPL's bad debt history shows that the bad debt factor does not always vary based on revenues...the bad debt factor rose in 2002, although revenues per customer decreased. Then, in 2003, the bad debt factor decreased, although revenues per

customer increased." Is her understanding and argument flawed?

A. Yes. Ms. Brown's examples fail to recognize, as mentioned earlier, that write-offs typically occur four months after they are billed and her comparisons do not reflect this lag. To properly perform this analysis, it is essential that bad debt be matched with their associated revenues (which were billed four months earlier). If we were to properly lag revenues for purposes of comparison, as shown in Document No. MMS-7, one could observe a more direct relationship between revenue per customer and the bad debt factor. As explained previously, the slight distortion seen in 2002 (higher than expected) is attributable to higher than normal bad debt associated with deteriorated conditions resulting from the September 11, 2001 terrorist attacks. While FPL agrees with Ms. Brown's assertion that "revenues are not the only factor impacting the level of bad debt expense", they are a major variable in its determination. The other major variable affecting the determination of bad debt is the use of current bad debt patterns (correlation/relationship between bad debt and revenues) to globally account for other changing conditions that ultimately affect a customer's ability to pay.

Q. Does the methodology employed by Ms. DeRonne and Ms. Brown have other short-comings?

A. Yes. As I alluded to earlier, their methodology minimizes the greater than 1:1 relationship that exists between revenues and bad debt, by averaging the lower historical relationships that existed between the two in prior years. Historically, a 1% increase in revenues has translated to an approximate 3% increase in bad debt. As revenues have continued to increase, this relationship (absent process

improvements) has continued to deteriorate. The simple reason for this deteriorating relationship is that it is harder for a customer, for example, to pay a $200 bill than it is to pay a $150 bill. Consequently, as average bills continue to rise, an increasing population of customers will inevitably also write-off, further deteriorating this relationship. As such, it would be improper to simplistically use an averaging methodology that dilutes this deteriorating relationship between revenues and bad debt.

Q. Is Ms. DeRonne's and Ms. Brown's proposal to exclude the 2004 revenue and bad debt experience appropriate?

A. No. Their proposal to exclude the 2004 experience, the most relevant of years, because of the "storm experience" should be rejected. The bad debt in 2004 included no incremental storm bad debt charges and as such should be included in any determination. Specifically, collection activities after the storms did not resume until late October 2004, therefore, incremental storm related bad debt would not have materialized until 90 + days later, that is, until 2005.

Q. Do you agree with Ms. DeRonne's recommendation on page 12 of her testimony to exclude from 2004 the effect of the $1.1 million charge for delayed bad debt?

A. No. The exclusion of this charge from 2004 would be improper. The $1.1 million charge was an accrual to normalize bad debt because of a delay in the issuance of final bills during the storms that pushed their eventual write-off into 2005. Its purpose was to properly accrue for bad debt in the proper period. Absent this accrual, bad debt levels would have been abnormal in 2004. Specifically, bad debt

in the month of December 2004 would have been $1.1 million lower than the historical 2003 level ($0.6 million vs. $1.7 million) and bad debt in 2005 would have been higher by the same amount.

Q. Is the bad debt factor of 0.135% proposed by OPC and FRF reasonable?

A. No. If OPC's and FRF's methodology were to be improperly adopted, bad debt in 2006 would actually be lower than what was experienced in 2004 (even if the $1.1 million accrual entry were incorrectly excluded). This is not reasonable given the fact that revenues are projected to grow 4.6% between 2004 and 2006. For this reason, it is not logical to use a historical average to calculate the bad debt factor.

Q. Has FPL provided the calculation for the bad debt forecast?

A. Yes. Contrary to Ms. DeRonne's assertion on page 12 of her testimony, in our response to OPC's Request for Production of Documents No. 47, FPL provided all of the work-papers used to calculate the 2006 bad debt forecast. FPL's methodology for forecasting bad debt is a proven statistical method utilizing regression analysis. The methodology used to forecast bad debt makes use of a twelve-month historical relationship (on a lagged basis) between bad debt and revenues. This relationship, established using regression analysis, is applied to forecasted revenues in order to obtain the forecast of bad debt expected to materialize during the period. This bad debt forecast is then reduced for planned process improvements. Document MMS-8 provides an overview of FPL's methodology and calculation of bad debt expense for 2006.

Q. Is it appropriate for the 2006 projected annual bad debt rate to be higher than the historical levels?

A. Yes. FPL's methodology uses the latest relationship and experience between actual bad debt and lagged revenues to project the anticipated levels of bad debt in 2006. It also utilizes forecasted revenues to properly account for their increasing level, a 4.6% increase between 2004 and 2006 (6% on a lagged basis). The result is a projected bad debt that is 12% higher than the 2004 level, but that has been partially mitigated by the benefits of continued process improvements. It does not erroneously take a simple average of out-dated levels and relationships as recommended by Ms. DeRonne and Ms. Brown.

Q. Is it reasonable to expect that FPL's process improvements will lead to a decrease in bad debt expenses as suggested by Ms. Brown on page 31 of her testimony?

A. No. It is not reasonable to expect that process improvements can always out-pace the growth in bad debt. As disclosed in our response to OPC POD No. 47, FPL has been diligent in identifying and planning for implementation of process improvements totaling $1.6 million in savings (between 2005 and 2006) to directly offset projected bad debt increases for 2006. FPL continuously implements process improvements in an effort to minimize bad debt expense. As a result of our continued effort, FPL is consistently ranked among the "best in class" in bad debt as a percentage of revenues. Document MMS-9 provides supporting benchmarking data from the 2004 PA Consulting study and a phone survey conducted in 2005 with peer utilities. This data clearly demonstrates

FPL's superior performance in minimizing bad debt expense.

ADVERTISING

Q. What advertising expense is FPL proposing to recover in the test year?

A. FPL has included $3.399 million for advertising expenses in the 2006 test year. Advertising expenses are attributed to two FERC sub-accounts: 909.999 – Base Initiatives ($2.296 million) and 909.300 – Informational & Customer ($1.103 million.) Expenses associated with Base Initiatives include TV, radio and print advertisements designed to educate customers about staying safe around power lines and communicating pre-hurricane season preparedness. Expenses associated with Informational & Customer are for publications, such as the Energy News newsletter and billing inserts, included in customers' monthly bills.

Q. Did FPL provide copies of advertising during discovery to support the projected advertising expenses, contrary to Ms. Dismukes assertion that the only documents provided were newsletters and inserts upon which she based her calculation for the adjustment in advertising expenses?

A. Yes. FPL provided copies of TV and radio scripts, 2004 Hurricane specific advertising and other marketing materials in response to OPC POD No. 69.

Q. In analyzing FPL's historical advertising spending, Ms. Dismukes comments that 2004 may be higher due to advertising expenses associated with the hurricanes that impacted Florida last year. Did FPL include advertising expense related to the 2004 hurricanes in FERC account 909?

A. No. The expenses shown in FERC account 909 for 2004 do not include any

incremental advertising expenses attributable to the hurricanes that impacted FPL's territory.

Q. Does FPL agree with Ms. Dismukes' recommendation of reducing FPL's advertising request by 14% or $475,860?

A. No. Ms. Dismukes' recommendation is based on her interpretation that 14% of the information in the Energy News newsletter was devoted to information that was not "either of an informational or instructional nature regarding customers' bills and service." Ms. Dismukes then applied this factor as a reduction to the total amount of $3.399 million included in the test year. However, her assertion and methodology are not accurate.

Q. Is the information identified by Ms. Dismukes and communicated in the Energy News newsletter utility-related and informational, educational, or related to consumer safety?

A. Yes. FPL occasionally runs articles in Energy News about subjects or events that affect all or a majority of its customers such as:

- Calling attention to Earth Day as part of FPL's continuing environmental outreach.
- Helping seniors, a significant percentage of FPL's customers, who are viewed as a vulnerable population. For example, the company has trained its field employees such as meter readers to be alert to, and to report, suspected neglect or abuse of seniors. A newsletter article on how to report suspected elder abuse is consistent with FPL's sensitivity to seniors' needs and vulnerabilities.

- Helping fellow Floridians recover from the unprecedented 2004 storm season through articles about the Red Cross Storm Relief Fund were timely and of great interest to FPL's customers.

The Company believes it is important and appropriate to include communications such as these in the Energy News.

Q. Setting aside Ms. Dismukes' assertion regarding the appropriateness of the information in Energy News, is the methodology she used to adjust advertising expense accurate?

A. No. Ms. Dismukes analyzed only the content of the Energy News which accounts for approximately 31% or $1.1 million of the total advertising expenses. Advertising related to Base Initiatives (69% of the $3.399 million) is solely related to promoting safety and communication for pre-hurricane season preparedness and should not be considered in Ms. Dismukes' recommended 14% reduction. As such and stated previously, FPL does not believe any reductions should be made in advertising expenses.

Q. Please summarize your testimony.

A. The recommendations made by OPC and FRF to reduce or remove expenses in the test year related to AMR, bad debt and advertising are not based on valid arguments and should be rejected. FPL's AMR project is not a pilot, but a full deployment program. Ms. DeRonne is incorrect in basing her recommendations on the opinion that it is only a pilot. The recommendation by both Ms. DeRonne and Ms. Brown to reduce bad debt expense is overly simplistic and does not account for current trends. FPL's bad debt forecast is based on a statistical

methodology to forecast bad debt that has been validated over the years. And lastly, the recommendations to reduce advertising expenses are based on partial analysis of FPL advertising and Ms. Dismukes' incorrect assertion that the content of the advertising materials is not utility-related and not informational, educational, or related to consumer safety.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BAD DEBT FACTOR COMPARISON BETWEEN UNLAGGED AND LAGGED REVENUES

	As shown on MFR C-11			Lagged Basis	
Year	Write-Offs Jan - Dec	Revenues Jan - Dec	Bad Debt Factor	Lagged Revenues [1]	Lagged Bad Debt Factor
2001	$ 9,358,982	$ 7,293,225,743	0.128%	$ 6,941,177,761	0.135%
2002	$ 10,140,606	$ 7,035,177,384	0.144%	$ 7,088,195,281	0.143%
2003	$ 10,675,767	$ 7,958,720,135	0.134%	$ 7,551,534,169	0.141%
2004	$ 13,173,982	$ 8,341,481,390	0.158%	$ 8,323,510,451	0.158%

[1] Lagged revenues are for the fiscal periods September through August

HISTORICAL REVENUE PER CUSTOMER COMPARISON

Year	Lagged Average Customer Count [1]	Lagged Revenues [1]	Lagged Revenues Per Customer	Lagged Bad Debt Factor
2001	3,907,904	$ 6,941,177,761	$ 1,776	0.135%
2002	3,989,076	$ 7,088,195,281	$ 1,777	0.143% [2]
2003	4,083,185	$ 7,551,534,169	$ 1,849	0.141%
2004	4,191,989	$ 8,323,510,451	$ 1,986	0.158%

[1] Lagged customers and revenues are for the fiscal periods September through August

[2] Distortion in 2002 write-offs is due to the economic deterioration following the 9/11 terrorist attacks.

BAD DEBT FORECAST

SUMMARY OF FORECAST METHODOLOGY

Overall, the methodology used to forecast bad debt makes use of a twelve-month historical relationship (on a lagged basis) between bad debt and revenues. This relationship, established using regression analysis, is applied to forecasted revenues in order to obtain the bad debt forecast expected to materialize during the period. This forecast is then reduced for planned process improvements, resulting in projected bad debt.

Step 1: Most Current Twelve-Month Data on Bad Debt and Revenues

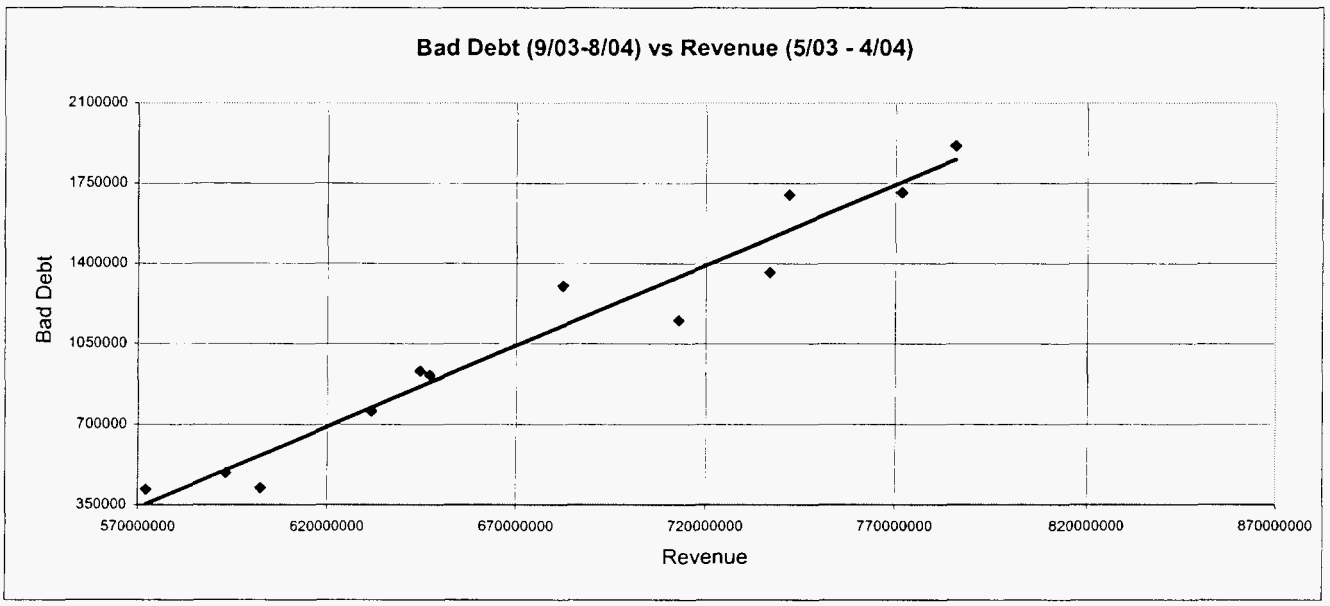
During the budget-cycle in September 2004, the most current bad debt experience was captured (September 2003 - August 2004) along with the associated revenues on a four-month lag (May 2003 - April 2004).

Month	Bad Debt	Revenues
May-03	771,610	631,709,993
Jun-03	347,098	712,904,828
Jul-03	342,705	736,853,342
Aug-03	466,995	771,643,482
Sep-03	755,340	785,699,543
Oct-03	1,150,274	742,087,927
Nov-03	1,360,544	682,293,484
Dec-03	1,709,596	647,326,949
Jan-04	1,911,964	644,764,905
Feb-04	1,698,887	602,387,158
Mar-04	1,299,578	593,241,952
Apr-04	911,382	572,218,636
May-04	929,395	642,645,446
Jun-04	423,138	782,855,345
Jul-04	489,162	850,584,712
Aug-04	417,262	777,404,394

BAD DEBT FORECAST

Step 2: Regression Analysis

Using the regression function, the relationship line was plotted and the associated statistics were obtained. The R-square shows that 95% of the variation in bad debt is explained by the variation in revenues. In addition, the coefficients are provided for the slope and intercept of the plotted line. These coefficients are applied to y = mx + b which mathematically applies the relationship between revenues (x) and bad debt (y) to forecast bad debt.



Regression Statistics	
Observations	12
R Square	95%
Coefficients	
Intercept (b)	-3797942
Slope (m)	0.007

y = mx + b

∑ (Monthly Bad Debt Projection = (.007 X monthly forecast revenues) + (-3797942)

y = $15,800,119 (please refer to Step 3 for detailed calculation of 2005)

BAD DEBT FORECAST

Step 3: Detail of 2005 Bad Debt Forecast Calculation

Following is the monthly detailed calculation:

Forecasted Lagged Revenues for 2005	x independent variable revenues	m Slope from Regression	mx	b Intercept from Regression	mx + b equating to y Bad Debt	
Sep-04	$ 751,819,779	0.007	5,263,774.24	-3,797,942	1,465,832	
Oct-04	$ 748,928,984	0.007	5,243,534.69	-3,797,942	1,445,592	
Nov-04	$ 674,306,829	0.007	4,721,076.80	-3,797,942	923,135	
Dec-04	$ 675,396,275	0.007	4,728,704.42	-3,797,942	930,762	
Jan-05	$ 689,072,711	0.007	4,824,458.31	-3,797,942	1,026,516	
Feb-05	$ 669,724,466	0.007	4,688,993.94	-3,797,942	891,052	
Mar-05	$ 641,455,401	0.007	4,491,071.54	-3,797,942	693,129	
Apr-05	$ 654,587,943	0.007	4,583,017.43	-3,797,942	785,075	
May-05	$ 686,663,572	0.007	4,807,591.02	-3,797,942	1,009,649	
Jun-05	$ 819,397,787	0.007	5,736,913.39	-3,797,942	1,938,971	
Jul-05	$ 856,752,389	0.007	5,998,447.07	-3,797,942	2,200,505	
Aug-05	$ 898,086,526	0.007	6,287,842.97	-3,797,942	2,489,901	
	$ 8,766,192,665				**$ 15,800,119**	(y) = mx + b
					$ (575,300)	process improvements
					$ 15,224,819	2005 Bad Debt Forecast

The 2005 regression forecast of $15.8 million was reduced by $575,000 in planned process improvements, resulting in a bad debt forecast of $15.2 million.

Sensitivity of a 1% Change in Revenues:

- A 1% change in the level of revenues, equates to a new revenue level of $8,853,854,592 ($8,766,192,665 X 1.01)

- Inserting this new revenue level into the regression formula, calculates a new bad debt level of $16,437,094 (revenues of $8,853,854,592 X slope of 0.007) + (intercept -3,797,942 X 12 months). The resulting change in the bad debt level is equivalent to a 4% increase.

- Therefore, a 1% change in revenues translates to a 4% increase in bad debt.

BAD DEBT FORECAST

Step 4: 2006 Bad Debt Forecast

For 2006, revenues increased by 0.9% from 2005 and based on the established relationship (in Step 3), translates to a 3.5% increase in bad debt. This results in a projected bad debt of $15.8 million for 2006. This forecast was reduced for anticipated process improvements of $1.1million, resulting in a bad debt forecast in 2006 of $14.7 million.

2006 Lagged Revenues	$8,842,245,680
2005 Lagged Revenues	$8,766,192,665
Increase in Lagged Revenues Between Years	$76,053,015
% Change in Lagged Revenues	0.9%
Bad Debt to Revenue Relationship Sensitivity (from Step 3)	4.03
Effective % Change in Bad Debt	3.5%
2005 Bad Debt Forecast (from Step 3)	$15,224,819
Effective % Change in Bad Debt	1.035
Projected Level of Bad Debt in 2006 (before Process Improvements)	$15,756,773
Planned Process Improvements	($1,065,400)
2006 Bad Debt Projection	**$14,691,373**

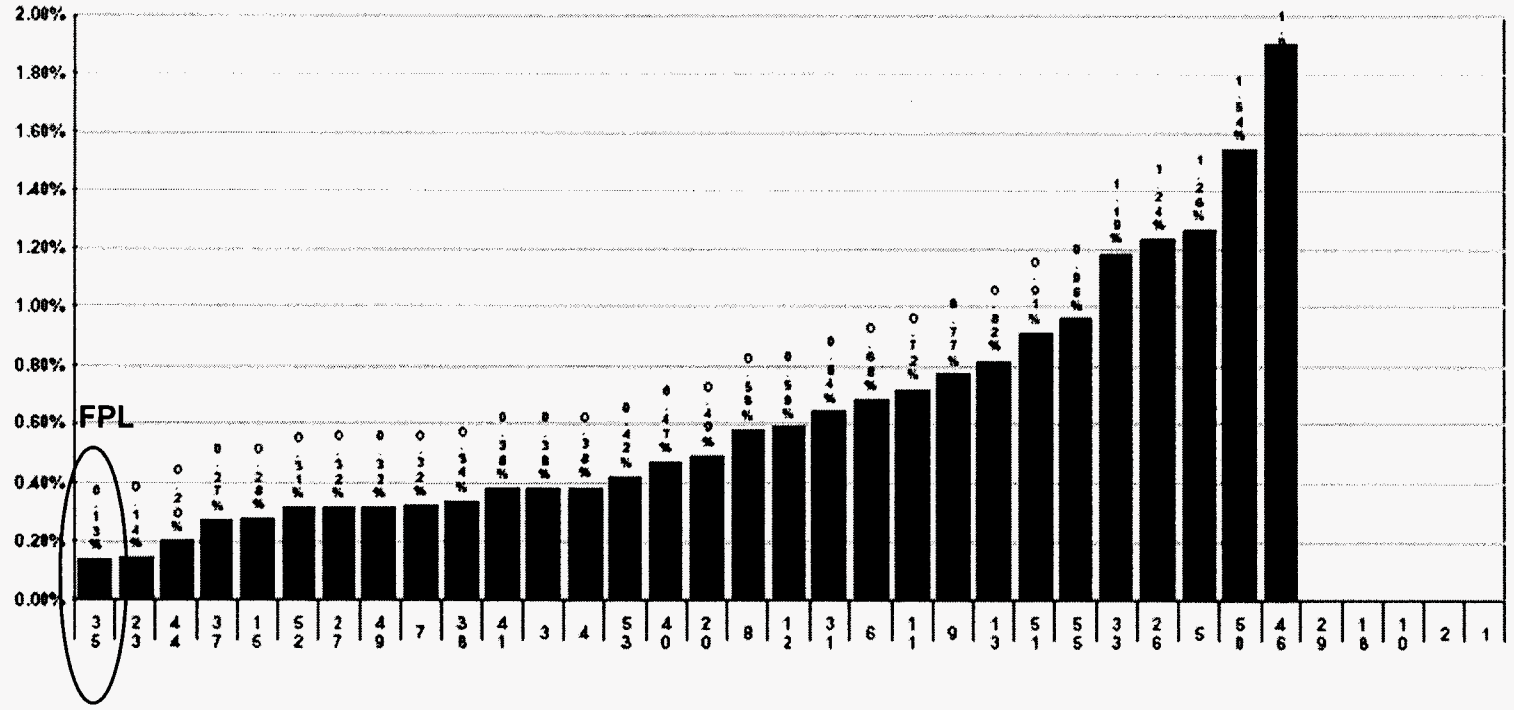
ID Number Used: Regular

Bad Debt Expense

As a Percent of Total Revenue

Mean	Quartile 1	Quartile 2	Quartile 3	Quartile 4
0.63%	0.13% <= 0.32%	0.32% <= 0.48%	0.48% <= 0.81%	0.81% <= 1.90%

Expense per Revenue



Source/Calculation: SUM(BD.2)/(SUM(A.13)+SUM(A.14)+SUM(A.15))

Year: 2003

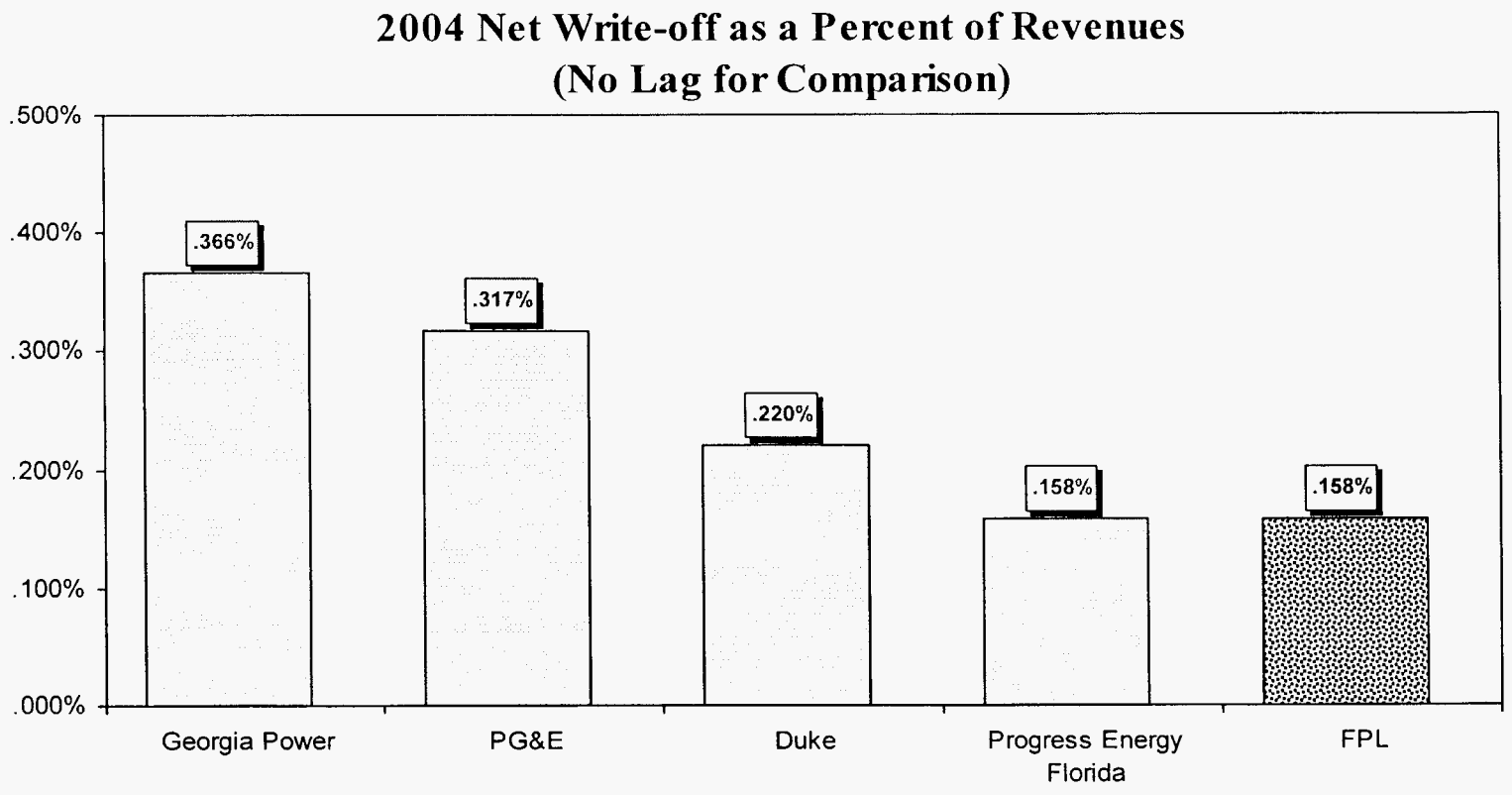
Final Report
1389

©US, Dollars

50293

PA Consulting Group

Docket No. 050045-EI, 050188-EI
Marlene M. Santos Exhibit No. ___
Document No. MMS-9, Page 1 of 2
Write-offs as a Percent of Revenues Benchmarking



Source: The above utilities represent the best regional & national utilities with at least 1 million customers. Based on 2005 phone surveys conducted by FPL.