**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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| In Re: Petition for Rate Increase by Florida Power & Light Company | ) ) ) | DOCKET NO. 050045-EI |
| In Re: 2005 Comprehensive Depreciation Studies by Florida Power & Light Company | ) ) ) ) | DOCKET NO. 050188-EI<br>FILED: July 28, 2005 |

# THE FLORIDA RETAIL FEDERATION'S PREHEARING STATEMENT

The Florida Retail Federation ("FRF"), pursuant to the Order Establishing Procedure in this case, hereby files its Prehearing Statement.

## A. APPEARANCES:

**ROBERT SCHEFFEL WRIGHT**, Landers & Parsons, P.A., 310 West College Avenue, Tallahassee, Florida 32301, and

**JOHN T. LAVIA, III,** Landers & Parsons, P.A., 310 West College Avenue, Tallahassee, Florida 32301.

**On Behalf of the Florida Retail Federation.**

## B. WITNESSES:

Sheree L. Brown will testify on behalf of the Florida Retail Federation regarding numerous accounting and regulatory policy issues, including FPL's projected test year sales and revenues, the proper level of FPL's labor expenses, the proper level of FPL's bad debt expense, the proper level of expenses associated with the possible implementation of the GridFlorida Regional Transmission Organization, FPL's proposed 50 basis point "adder" to its authorized rate of return on equity, the proper level of FPL's postage expenses, the proper level of FPL's rate case expense to be allowed for inclusion in FPL's base rate revenue requirement, the proper level of FPL's requested increase in accruals to its storm damage reserve, FPL's request to include of CWIP in rate base, accumulated deferred income taxes, accruals to certain Nuclear reserves, and whether charitable contributions should be allowed in determining FPL's base rate revenue requirement,

## C. EXHIBITS:

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| SLB-1 | Florida Power & Light Company Monthly Customer Growth & Revenue Adjustment for Customer Growth |
| SLB-2 | Florida Power & Light Company Payroll Adjustment |
| SLB-3 | Florida Power & Light Company Bad Debt Expense |
| SLB-4 | Florida Power & Light Company Rate Case Expense Adjustment |
| SLB-5 | Florida Power & Light Reported Hurricane Damage & Impact of Removing ADIT Associated with the Storm Damage Fund from the Cost of Capital |
| SLB-6 | Florida Power & Light Company Last Core Nuclear Fuel |
| SLB-7 | Florida Power & Light Company End of Life Materials and Supplies Inventory |
| SLB-8 | Florida Power & Light Company Nuclear Maintenance Reserve |

The Florida Retail Federation also reserves its rights to introduce appropriate exhibits through the witnesses of the other parties to this proceeding.

## D. STATEMENT OF BASIC POSITION:

FPL's base rates and charges should be reduced by an aggregate of at least $679 million per year, and FPL's request for a base rate increase should be denied in its entirety. The Citizens of the State of Florida, the Florida Retail Federation, AARP, the Federal Executive Agencies, the South Florida Hospital and Healthcare Association, and the Florida Industrial Power Users Group have petitioned the Commission to reduce FPL's retail base rates by at least $679 million per year, based upon their analyses of FPL's Minimum Filing Requirements ("MFRs"), FPL's testimony and exhibits, discovery responses submitted by FPL in these cases, and as explained by the testimony and exhibits of the 18 witnesses for the Consumer Petitioners in these cases.

The Consumers' positions are based on a careful and thorough analysis of FPL's MFRs, testimony, exhibits, and discovery responses, and are summarized here as follows:

1. FPL's requested rate of return on equity ("ROE") is grossly excessive relative to the risks that FPL actually bears in its Florida operations. Significantly, more than 64% of FPL's total operating expenses is recovered through pass-through surcharges and tax adders, for which FPL bears effectively zero risk. An ROE of 8.8%, after-tax, is more than double the current rate paid on Certificates of Deposit and long-term U.S. Treasury bonds, and will provide a fair, reasonable, and generous return to FPL's investors relative to the minimal risks that they bear.

2. FPL's request for $104 million of additional revenues for its selected 2006 Test Year for alleged expenses associated with the GridFlorida Regional Transmission Organization ("GridFlorida") is speculative and, even by FPL's own admission, is almost double the expenses that FPL (speculatively) claims it will incur in the Test Year. Accordingly, the entire amount of $104 million ($102.6 million jurisdictional) per year should be disallowed.

3. FPL has understated its customer growth, relative to actual experience so far in 2005. Adjusting for this forecasting error, the Commission should reduce FPL's requested rate increase by $34 million per year.

4. FPL has accumulated aggregate depreciation reserves of approximately $2.4 billion since its last depreciation study in 1997. To provide fair treatment to the customers who have paid in the monies that created this surplus and to provide treatment for customers in this depreciation surplus situation that is consistent and symmetric with the treatment afforded FPL and other utilities in depreciation deficit situations, the Commission should amortize at least a substantial amount of this surplus over 4 to 10 years. The result of this adjustment, together with corrections in FPL's depreciation expenses, will reduce FPL's retail base rates by approximately $264 million per year.

5. FPL's request for a five-fold increase in its annual accrual to its Storm Damage Reserve is excessive, particularly in light of the Commission's recent decisions authorizing special storm cost surcharges in Docket No. 041291-EI, <u>In Re: Petition for Authority to Recover Prudently Incurred Storm Restoration Costs Related to 2004 Storm Season That Exceed Storm Reserve Balance, by Florida Power & Light Company</u>, and Docket No. 041272-EI, <u>In Re: Petition for Approval of Storm Cost Recovery Clause for Recovery of Extraordinary Expenditures Related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.</u>, and also particularly in light of the newly available tools created by Senate Bill 1366, commonly known as the "Securitization Legislation," enacted by the Florida Legislature and signed into law by Governor Bush. FPL's annual accrual to the storm damage reserve should be limited to $20 million and the requested increase in base rates should be reduced by $99.5 million.

6. FPL has improperly included Construction Work in Progress ("CWIP") in rate base, even though such inclusion is not necessary to satisfy the Commission's financial

integrity. Properly removing CWIP from rate base reduces FPL's Test Year revenue requirement by $69.585 million.

7. FPL's revenue requirements for the 2006 test year should be reduced by numerous other adjustments, including but not limited to the following:

a. FPL has overstated the number of employees for the Test Year. Correcting this overstatement reduces FPL's Test Year revenue requirement by $16.2 million.

b. The portion of FPL's projected incentive compensation that does not require actual cash outlay should be removed from the Test Year revenue requirement, which will thus be reduced by $17 million.

c. FPL has overstated its bad debt expense. Correcting for this overstatement reduces FPL's Test Year revenue requirement by $3 million.

d. FPL has overstated costs associated with an anticipated increase in postage rates. Correcting for this overstatement reduces FPL's Test Year revenue requirement by $1.32 million.

e. FPL has inappropriately requested deferral of out-of-Test-Year rate case expenses into the Test Year and inclusion of the unamortized balance in rate base. Properly eliminating rate case expenses reduces the Test Year revenue requirement by $5.001 million.

f. FPL has not adjusted its accruals to its Last Core Nuclear Reserve and its Nuclear End-of-Life Materials and Supplies Inventory to reflect the extension of the license lives of its nuclear plants. The Commission should suspend accruals to these reserves until FPL justifies the proper levels of such accruals, with the result that Test Year revenue requirements will be reduced by $7.597 million.

g. FPL's request to recover $1.538 million per year in charitable contributions should be disallowed.

h. FPL has understated its regulatory liability for nuclear maintenance reserves. Correction of this error reduces the Test Year revenue requirements by $7.2 million.

Finally, with regard to FPL's request for approval of new future rates to take effect when Turkey Point Unit 5 comes in-service, the FRF agrees with the Citizens of the State of Florida that proper ratemaking for any given time period (test year) requires thorough examination of all factors, including, without limitation, revenues, sales, capital costs, rate base costs, and operating costs, as those factors exist in that time period, as well as full consideration of all relevant regulatory policies and principles. FPL's request is thus inappropriate and premature. FPL may, of course, if it deems it necessary to ensure that its rates are fair, just, and reasonable, file a complete rate case for a future test period in which Turkey Point Unit 5 will be in-service, which will give the FRF and other affected consumers and the Commission a full opportunity to examine all relevant factors and thus allow the Commission to set fair, just, and reasonable rates accordingly.

## E. STATEMENT OF ISSUES AND POSITIONS:

The following are the FRF's positions at this time on the issues identified in the Staff's issue list distributed on July 22, 2005. The FRF reserves its rights to take different positions based on all of the evidence of record following the hearing in this case.

### TEST YEAR AND FORECASTING

ISSUE 1: Is FPL's projected test period of the twelve months ending December 31, 2006 appropriate?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 2: Are FPL's forecasts of customer growth, kWh by revenue class, and system KW for the 2006 projected test year appropriate?

**FRF:** No. FPL has understated its customer growth and sales revenue. To correct this error, FPL's revenue requirement should be reduced by at least $34 million per year.

ISSUE 3: Is the company's forecast adjustment to its growth and sales projections associated with the 2004 hurricanes appropriate and if not, what adjustments are appropriate to the test year?

**FRF:** No. FPL's revenue requirement should be reduced by between $34 million and $38 million per year.

ISSUE 4: Are FPL's forecasts of billing determinants by rate class for the 2006 projected test year appropriate?

**FRF:** No. The forecasts should be updated to reflect updated population forecasts and actual customer experience.

## QUALITY OF SERVICE

ISSUE 5: Is FPL's pole inspection, repair, and replacement program sufficient for the purpose of providing reasonable transmission and distribution system protection?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 6: Is FPL's vegetation management program sufficient for the purpose of providing reasonable transmission and distribution system protection?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 7: Is the quality and reliability of electric service provided by FPL adequate?

**FRF:** The quality and reliability of electric service provided by FPL is adequate, but only average. The quality and reliability of electric service provided by FPL is neither superior nor outstanding.

## DEPRECIATION STUDY

ISSUE 8: Is FPL's $329.75 million accrued unassigned discretionary balance allocation appropriate based upon the approved settlement agreement in Order No. PSC-02-0502-AS-EI?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 9: Has FPL correctly calculated net salvage ratios? If not, what method should be used, and what impact does this have?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 10: What are the amounts of FPL's reserve deficiencies and reserve surpluses?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 11: What are the appropriate recovery/amortization schedules for any depreciation reserve excess or surplus?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 12: What are the appropriate depreciation rates and recovery/amortization schedules?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 13: Should the current amortization of investment tax credits and flow back of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 14: What should be the implementation date for FPL's depreciation rates and recovery/amortization schedules?

**FRF:** January 1, 2006.

## RATE BASE

ISSUE 15: Should any adjustments be made to the company's projected plant balances for differences between budgeted and actual amounts?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 16: Should any adjustments be made to the projected construction costs of Manatee Unit 3 and Martin Unit 8?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 17: Should adjustments to plant in service be made for the rate base effects of FPL's transactions with affiliated companies?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 18: Should the capitalized items currently approved for recovery through the Environmental Cost Recovery Clause (ECRC) be included in rate base?

**FRF:** No position at this time.

ISSUE 19: Should any portion of capital and expense items requested in the storm docket be included in base rates?

**FRF:** No position at this time pending further analysis.

ISSUE 20: Is FPL's requested level of Plant in Service in the amount of $23,394,793,000 ($23,591,644,000 system) for the projected test year appropriate?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 21: Should any adjustments be made to the company's projected accumulated provision for depreciation related to FPL's inclusion of dismantling costs for the Fort Myers Unit No. 3, Martin Unit No. 8 and Manatee Unit No. 3?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 22: Is FPL's requested level of Accumulated Depreciation and Accumulated Amortization in the amount of $11,700,179,000 ($11,803,581,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 23: Should any of the Company's 2006 projected construction work in progress (CWIP) balance be included in rate base?

**FRF:** No.

ISSUE 24: Is FPL's requested level of Construction Work in Progress (CWIP) in the amount of $522,642,000 ($525,110,000 system) for the projected test year appropriate?

**FRF:** No. FPL does not need CWIP in rate base to satisfy financial integrity criteria, and accordingly, all CWIP should be excluded from rate base.

ISSUE 25: Is FPL's requested level of Property Held for Future Use in the amount of $135,593,000 ($136,585,000 system) for the projected test year appropriate?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 26: Has FPL properly estimated its accumulated provision for uncollectibles?

**FRF:** No position at this time.

ISSUE 27: Is FPL's level of Account 151, Fuel Stock, in the amount of $138,686,000 ($140,930,000 system) for the 2006 projected test year appropriate?

**FRF:** No position at this time.

ISSUE 28: Should the Commission exclude from rate base the cost associated with FPL's $25 million purchase of a gas turbine from FPLE to be used for spare parts?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 29: Should unamortized rate case expense be included in working capital?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 30: Should the net overrecovery/underrecovery of fuel, capacity, conservation, environmental cost recovery clause and the storm damage surcharge recovery factor for the test year be included in the calculation of working capital allowance for FPL?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 31: Should derivative assets and derivative liabilities be included in working capital?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 32: Should the payable to the nuclear decommission reserve fund and the St. Johns River Power Park (SJRPP) accelerated recovery credit be included in the working capital calculation?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 33: Should an adjustment be made to working capital associated with the gain on sale of emission allowances regulatory liability?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 34: What is the appropriate level of balances in, and level of contribution to, balance sheet reserve accounts?

**FRF:** The storm damage reserve should include a Test year contribution of $20 million, with no balance in rate base, since this is a funded reserve. The Last Core Nuclear Fuel reserve should have a Test Year average balance of $20.203 million with no Test year contribution. The End-of-Life Materials and Supplies reserve should have a Test Year average balance of $8.961 million, with no Test Year contribution. The Nuclear Maintenance Reserve should have a Test Year average balance of $149.631 million. FRF has no position on the appropriate level of contributions to the Nuclear Maintenance Reserve and, if the Test Year accrual is changed from the $77.185 million assumed by the Company, the Test Year average balance of the reserve should be adjusted accordingly.

ISSUE 35: Is FPL's requested level of Working Capital Allowance in the amount of $57,673,000 (61,428,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

**FRF:** No. The Working Capital allowance should be reduced by $87.957 million to correct for an understatement of the regulatory liabilities associated with FPL's Nuclear maintenance reserves. In addition, the Working Capital allowance should be reduced by $6.438 million to eliminate unamortized rate case expenses in FPL's working capital allowance. Working Capital should be increased by $3.977 million to reflect adjustments to the annual accruals to the Last Core Nuclear Fuel and End-of-Life Materials and Supplies. The combined adjustments to the Working Capital allowance provide a reduction of $90.418 million.

ISSUE 36: Is FPL's requested level of rate base in the amount of $12,410,522,000 ($12,511,188,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

**FRF:** No. No position at this time as to total rate base.

## BENCHMARKING

ISSUE 37: How does FPL compare to other utilities in the provision of customer service in the areas of cost and quality of service?

**FRF:** FPL's quality of service is average. FPL's cost of service is significantly higher for residential, commercial, and industrial customers than for most other investor-owned utilities in the Southeast and also higher than that of all but one of the other investor-owned utilities in Florida, and accordingly, FPL compares unfavorably to other utilities in cost of service.

ISSUE 38: How does the reliability of FPL's service compare to other utilities in the areas of cost and quality of service?

**FRF:** FPL's quality of service is average. FPL, with average quality and reliability of service but significantly higher costs, compares unfavorably to other utilities relative to cost of service.

ISSUE 39: How does the operational reliability and performance of FPL's Fossil Generation compare to other utilities in the areas of cost and quality of service?

**FRF:** No position at this time.

ISSUE 40: How does the operational reliability and performance of FPL's Nuclear Generation compare to other utilities in the areas of cost and quality of service?

**FRF:** No position at this time.

ISSUE 41: How does FPL's performance in controlling O&M costs in general compare to other utilities?

**FRF:** No position at this time.

ISSUE 42: What conclusions should the Commission draw from the benchmarking comparisons and analyses presented by FPL?

**FRF:** No position at this time.

## COST OF CAPITAL

ISSUE 43: Should debit accumulated deferred income taxes be included as a reduction to cost free capital?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 44: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

**FRF:** The accumulated deferred income tax balance included in the capital structure should be increased by $31.378 million to reflect the removal of the Account 190 accumulated deferred income taxes balance associated with the storm damage cost recovery clause.

ISSUE 45: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

**FRF:** No position at this time.

ISSUE 46: What is the appropriate cost rate for short-term debt for the projected test year?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 47: What is the appropriate cost rate for long-term debt for the projected test year?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 48: In setting FPL's return on equity (ROE) for use in establishing FPL's revenue requirements and authorized range, should the Commission make an adjustment to reflect FPL's performance? If so, what should be the amount of the adjustment?

**FRF:** No.

ISSUE 49: What is the appropriate cost rate for common equity to use in establishing FPL's revenue requirement for the projected test year?

**FRF:** 8.8%. Agree with the Citizens of the State of Florida.

ISSUE 50: What is the appropriate capital structure for FPL?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 51: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure? This is a calculation based upon the decisions in preceding issues.

**FRF:** Agree with the Citizens of the State of Florida.

## NET OPERATING INCOME

ISSUE 52: Are FPL's estimated revenues for sales of electricity by rate class appropriate? If not, what adjustments should be made?

**FRF:** No. FPL's total estimated revenues are understated by at least $34 million. No position at this time as to class-specific adjustments.

ISSUE 53: Should the Commission include gas margin revenue from FPL Energy Services in the test year?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 54: Should the Commission include the administrative fee revenue associated with margin trading performed by FPL on behalf of FPL Energy Services?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 55: Should revenues be adjusted to include profits, if any, from the FPLES Connect Services program?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 56: Has FPL made the appropriate adjustments to remove the storm damage surcharge revenues and related expenses recoverable through the Storm Damage Surcharge Cost Recovery Factor approved by the Commission in Order No. PSC-05-0187-PCO-EI, Docket 041291-EI?

**FRF:** No position at this time.

ISSUE 57: Has FPL made the appropriate adjustments to remove the revenues and related expenses and capital costs recoverable through the Retail Cost Recovery Clauses (Fuel, Capacity, Environmental and Conservation)?

**FRF:** No position at this time.

ISSUE 58: Is FPL's forecasted level of Total Operating Revenues in the amount of $3,888,233,000 ($3,913,736,000 system) for the projected test year appropriate?

**FRF:** No. FPL's forecasted level of Total Operating Revenues for the projected test year is understated by at least $34 million.

ISSUE 59: Should an adjustment be made to FPL's requested level of security expenses related to the increased threat of terrorist attacks since September 11, 2001?

**FRF:** No position at this time.

ISSUE 60: What are the appropriate management fee allocation factors for use by FPL for the test year?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 61: What adjustments, if any, should be made to the management fees included in FPL's test year expenses?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 62: Should an adjustment be made to allocate test year administrative and general expenses associated with the New England Division Seabrook substation assets purchased by FPL in 2004, and if so, how much?

**FRF**: Yes. Agree with the Citizens of the State of Florida.

ISSUE 63: Should an adjustment be made to adjust test year O&M expense charges from FiberNet to FPL?

**FRF**: Yes. Agree with the Citizens of the State of Florida.

ISSUE 64: Should any other adjustments be made for the net operating income effects of FPL's transactions with affiliated companies?

**FRF**: Yes. Agree with the Citizens of the State of Florida.

ISSUE 65: Is FPL's level of Generation/Power Supply O&M expense (Accounts 500-514, 517-532, 546-554 and 555-557) in the amount of $575,801,000 ($580,851,000 system) for the 2006 projected test year appropriate?

**FRF**: No position at this time.

ISSUE 66: Is FPL's requested expense for the GridFlorida RTO in Account 565 in the amount of $102,632,000 ($104,000,000 system) for the 2006 projected test year appropriate?

**FRF**: No. These projected costs are speculative, particularly in light of ICF Resources' benefit-cost study that shows that the GridFlorida RTO is not cost-effective. Additionally, the expenses requested by FPL for the test year are almost double FPL's actual projected test year expenses. No GridFlorida expenses should be allowed in determining FPL's test year revenue requirement.

ISSUE 67: Is FPL's level of Transmission O&M Expenses (Accounts 560-573) in the amount of $145,396,000 ($154,238,000 system) for the 2006 projected test year appropriate?

**FRF**: No. FPL's transmission O&M expenses are overstated by at least $102.32 million associated with GridFlorida RTO expenses.

ISSUE 68: Is FPL's level of Distribution O&M Expenses (Accounts 580-598) in the amount of $254,987,000 ($254,995,000 system) for the 2006 projected test year appropriate?

**FRF**: No position at this time.

ISSUE 69: Is the amount of postage projected in the 2006 test year in Account 903, Customer Records and Collection Expenses, appropriate? If not, what are the appropriate system and jurisdictional adjustments?

**FRF:** No. FPL has overstated the amount of increase in postage expenses that will be incurred due to an increase in postage rates. The jurisdictional amount for test year postage expense should be reduced by $1.32 million.

ISSUE 70: Is FPL's level of Account 904 - Uncollectible Accounts expense in the amount of $14,569,000 ($14,569,000 system) for the 2006 projected test year appropriate?

**FRF:** No. FPL has overstated uncollectible expense for the 2006 projected test year by $3 million.

ISSUE 71: Is FPL's level of Automatic Meter Reading pilot project expense for the test year appropriate, and if not, what adjustments should be made to plant in service, accumulated depreciation, depreciation expense and O&M expense?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 72: Is FPL's level of Total Customer Accounts Expense (Accounts 901-905) in the amount of $124,248,000 ($124,262,000 system) for the 2006 projected test year appropriate?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 73: Should an adjustment be made to remove image building or other inappropriate advertising expenses?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 74: Is FPL's level of Total Customer Service and Information Expense (Accounts 907-910) in the amount of $14,302,000 ($14,302,000 system) for the 2006 projected test year appropriate?

**FRF:** No.

ISSUE 75: Is FPL's level of Total Demonstrating and Selling expenses (Accounts 911-916) in the amount of $18,585,000 ($18,585,000 system) for the 2006 projected test year appropriate?

**FRF:** No position at this time.

ISSUE 76: Is FPL's requested $120,000,000 annual accrual for storm damage for the projected test year appropriate?

**FRF:** No. FPL's requested $120 million annual storm damage accrual is excessive, particularly in light of the Commission's decision in Docket No. 041291-EI and also in light of the recently enacted Securitization Legislation. FPL's storm damage accrual should remain at $20 million per year.

ISSUE 77: Is $500,000,000 an appropriate reserve goal for Account 228.1, Accumulated Provision for Property Insurance – Storm Damage?

**FRF:** No. Such a high storm reserve is not necessary, reasonable, or prudent in light of the general availability of surcharge type relief under the Commission's general statutes and under the recently enacted Securitization Legislation.

ISSUE 78: Is FPL's level of Account 920 - Administrative and General Salaries expense in the amount of $145,276,000 ($145,942,000 system) for the 2006 projected test year appropriate?

**FRF:** No.

ISSUE 79: Should an adjustment be made to Account 928, Regulatory Commission Expense, for rate case expense for the projected test year and what is the appropriate amortization period?

**FRF:** Yes. FPL's requested rate case expenses should be disallowed, because they have been almost entirely incurred outside the test year, because FPL's rates since the 2002 Settlement was approved have included rate case expense, and because FPL has earned sufficient returns in the periods in which it has incurred rate case expenses, even without deferral of such expenses.

ISSUE 80: Is FPL's level of Account 928 - Regulatory Commission Expense in the amount of $7,741,000 ($7,741,000 system) appropriate for the 2006 projected test year?

**FRF:** No position at this time, pending further analysis. Consistent with the FRF's position on Issue 79, FPL's rate case expense should be reduced by $4.475 million. No other increases to test year Regulatory Commission Expense are supported by the record.

ISSUE 81: Is FPL's proposed recovery of charitable contributions in the amount of $1,538,000 ($1,545,000 system) for the 2006 test year appropriate?

**FRF:** No.

ISSUE 82: Is FPL's level of medical insurance expense in the amount of $79,612,000 for the test year appropriate, and if not, what adjustment should be made?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 83: Is FPL's level of pension credit expense in the amount of negative ($68,663,000) for the test year appropriate, and if not, what adjustment should be made?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 84: Is FPL's level of Nuclear Passport Replacement expense in the amount of $6,940,000 for the test year appropriate, and if not, what adjustment should be made?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 85: Is FPL's level of Directors and Officers Liability insurance expense in the amount of $8,468,340 for the test year appropriate, and if not, what adjustment should be made?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 86: Is FPL's level of Executive Department contingencies expense in the amount of $1.7 million for the test year appropriate, and if not, what adjustment should be made?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 87: Is FPL's level of Total Administrative and General Expense (Accounts 920-935) in the amount of $457,872,000 ($462,252,000 system) for the 2006 projected test year appropriate?

**FRF:** No.

ISSUE 88: Should the O&M expense items currently approved for recovery through the Environmental Cost Recovery Clause be included in base rates?

**FRF:** No position at this time.

ISSUE 89: Is FPL's level of salaries for the 2006 projected test year appropriate? If not, what adjustments are necessary?

**FRF:** No. FPL's level of salaries for the 2006 project test year is overstated by $16.2 million. In addition, FPL's incentive compensation should be reduced by $17 million associated with stock-based compensation.

ISSUE 90: Is FPL's level of employee benefits for the 2006 projected test year appropriate? If not, what adjustments are necessary?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 91: Are FPL's O&M Expenses of $1,591,191,000 ($1,609,486,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

**FRF:** No. Adjustments should be made in accordance with the FRF's positions on the relevant preceding issues.

ISSUE 92: Is FPL's level of nuclear decommissioning expense in the amount of $78,179,000 ($78,523,000 system) for the test year appropriate, and if not, what adjustment should be made?

**FRF:** No position at this time.

ISSUE 93: What adjustments, if any, should be made to the fossil dismantlement accrual?

**FRF:** No position at this time.

ISSUE 94: Is FPL's Depreciation and Amortization Expense of $924,323,000 ($931,710,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 95: What is the appropriate amount of gain on sales and disposition of properties for the test year?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 96: Is FPL's adjustment to remove Gross Receipts Tax from base rates appropriate and should Gross Receipts Tax be shown as a separate line item on the customer's bill?

**FRF:** No position at this time.

ISSUE 97: Is FPL's Taxes Other Than Income of $299,798,000 ($301,922,000 system) for the projected test year appropriate?

**FRF:** No. Agree with the Citizens of the State of Florida.

ISSUE 98: Should a Parent Debt Adjustment be made for the projected test year and if so, what is the appropriate amount of the adjustment?

**FRF:** No position at this time.

ISSUE 99: Has FPL appropriately calculated the adjustment to taxable income to reflect the domestic manufacturer's tax deduction which was attributable to the American Jobs Creation Act?

**FRF:** Yes. Agree with the Citizens of the State of Florida.

ISSUE 100: What adjustments, if any, are appropriate to account for interest synchronization?

**FRF:** Agree with the Citizens of the State of Florida.

ISSUE 101: Is FPL's Income Tax Expense of $291,326,000 ($289,545,000 system) which includes current and deferred income taxes and interest reconciliation for the projected test year appropriate?

**FRF:** No.

ISSUE 102: Is FPL's projected Total Operating Expenses of $3,105,671,000 ($3,140,480,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

**FRF:** No. Adjustments should be made consistent with the FRF's positions on other issues.

ISSUE 103: Is FPL's Net Operating Income (NOI) of $782,562,000 ($782,041,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

**FRF:** No. Adjustments should be made consistent with the FRF's positions on other issues.

## REVENUE REQUIREMENTS

ISSUE 104: What is the appropriate projected test year revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FPL?

**FRF:** FPL's net operating income multiplier should be 1.61917, after adjusting to correct the bad debt factor. Additional adjustments may be required to reflect the manufacturers' deduction under the American Jobs Creation Act of 2004.

ISSUE 105: Is FPL's requested annual operating revenue increase of $384,580,000 for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

**FRF:** No. Not only is FPL's requested annual increase in base rate operating revenues entirely unjustified, the Commission should reduce FPL's base rates by at least $679 million (comparable to the $384.58 million value stated in this issue) per year.

## COST OF SERVICE AND RATE DESIGN

ISSUE 106: Is FPL's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate?

**FRF:** No position at this time.

ISSUE 107: What is the appropriate cost of service study to be used in designing FPL's rates?

**FRF:** No position at this time.

ISSUE 108: How should a change in revenue requirements be allocated among the customer classes?

**FRF:** No position at this time.

ISSUE 109: What is the appropriate adjustment to account for the increase in unbilled revenue due to any recommended rate increase?

**FRF:** No position at this time.

ISSUE 110: What are the appropriate demand charges?

**FRF:** No position at this time.

ISSUE 111: What are the appropriate energy charges?

**FRF:** No position at this time.

ISSUE 112: How should FPL's time-of-use rates be designed?

**FRF:** No position at this time.

ISSUE 113: What are the appropriate customer charges?

**FRF:** No position at this time.

ISSUE 114: What are the appropriate service charges?

**FRF:** No position at this time.

ISSUE 115: What are the appropriate lighting rate schedule charges?

**FRF:** No position at this time.

ISSUE 116: Is FPL's proposal to eliminate the option allowing lump-sum payment for time of use metering equipment appropriate?

**FRF:** No position at this time.

ISSUE 117: What is the appropriate monthly fixed charge carrying rate to be applied to the installed cost of customer-requested distribution equipment for which there are no tariffed charges?

**FRF:** No position at this time.

ISSUE 118: What is the appropriate Monthly Rental Factor to be applied to the in-place value of customer-rented distribution substations to determine the monthly rental fee for such facilities?

**FRF:** No position at this time.

ISSUE 119: What are the appropriate termination factors to be applied to the in-place value of customer-rented distribution substations to calculate the termination fee?

**FRF:** No position at this time.

ISSUE 120: What are the appropriate termination factors to be applied to the total installed cost of facilities when customers terminate their lighting agreement prior to the expiration of the contract term?

**FRF:** No position at this time.

ISSUE 121: What is the appropriate Present Value Revenue Requirement multiplier to be applied to the installed cost of premium lighting facilities under rate schedule PL-1 to determine the lump sum advance payment amount for such facilities?

**FRF:** No position at this time.

ISSUE 122: What are the appropriate per-month facilities charges under FPL's PL-1 and SL-3 rate schedules?

**FRF:** No position at this time.

ISSUE 123: What is the appropriate monthly per kW credit to be provided customers who own their own transformers pursuant to the Transformation Rider?

**FRF:** No position at this time.

ISSUE 124: What is the appropriate level and design of the charges, and terms and conditions, under the Standby and Supplemental Service (SST-1) rate schedule?

**FRF:** No position at this time.

ISSUE 125: What is the appropriate level and design of the charges under the Interruptible Standby and Supplemental Service (ISST-1) rate schedule?

**FRF:** No position at this time.

ISSUE 126: What are the appropriate curtailment credits?

**FRF:** No position at this time.

ISSUE 127: Should the curtailable rate schedule remain open and what credit, if any, should be provided under curtailable rate schedule?

**FRF:** No position at this time.

ISSUE 128: What are the appropriate administrative charges under the Commercial/Industrial Demand Reduction rider?

**FRF:** No position at this time.

ISSUE 129: Should the Commission approve FPL's proposal to change the breakpoint applicable to its inverted residential rate from 750 to 1,000 kilowatt hours?

**FRF:** No position at this time.

ISSUE 130: Should the GSD-1, GSLD-1, GSLD-2, CS-1, and CS-2 rate schedules (and their TOU equivalents) have the same demand and energy charges?

**FRF:** No.

ISSUE 131: Should the 10 kW exemption for the GSD-1, GSD(T)-1 and CILC-G rate schedule be eliminated?

**FRF:** No position at this time.

ISSUE 132: Should the Wireless Internet Rate (WIES-1) be closed to new customers effective January 1, 2006 and existing customers transferred to the otherwise applicable rate effective January 1, 2007?

**FRF:** No position at this time.

ISSUE 133: Should FPL's proposal to close its Premium Lighting rate schedule to new customers and replace it with a new Decorative Lighting rate schedule be approved?

**FRF:** No position at this time.

ISSUE 134: Should FPL's proposal to offer an optional GS-1 constant usage rate be approved and what should be the methodology used for determining the rate?

**FRF:** No position at this time.

ISSUE 135: Should FPL's proposal to offer an optional high load factor TOU rate including the load factor breakeven point and the methodology for determining the rate be approved?

**FRF:** FRF supports FPL's proposal to offer an option high load factor TOU rate. FRF has no position at this time on the load factor breakeven point.

ISSUE 136: Should FPL's proposal to offer an optional seasonal demand TOU rider be approved, and what should be the methodology used for determining the rate to be approved?

**FRF:** No position at this time.

ISSUE 137: What is the appropriate effective date for new base rates and charges established based on the 2006 projected test year?

**FRF:** January 1, 2006.

## INCREMENTAL REVENUE REQUIREMENT FOR THE 2007 TURKEY POINT UNIT 5 ADJUSTMENT

ISSUE 138: Should the Commission approve FPL's request to allow an additional base rate increase in 2007 to correspond with the in-service date of the Turkey Point Unit 5?

**FRF:** No. Agree with the Citizens of the State of Florida that proper ratemaking for any given time period (test year) requires thorough examination of all factors, including, without limitation, revenues, sales, capital costs, rate base costs, and operating costs, as those factors exist in that time period. FPL's request is thus inappropriate and premature. FPL may, of course, if it deems it necessary to ensure that its rates are fair, just, and reasonable, file a complete rate case for a test period in which Turkey Point Unit 5 will be in-service, which will give the FRF and other affected consumers and the Commission a full opportunity to examine all relevant factors and thus allow the Commission to set fair, just, and reasonable rates accordingly.

ISSUE 139: Are FPL's forecasts of customers, kWh by revenue class, and system KW for the 2007 Turkey Point 5 Adjustment reasonable?

**FRF:** No. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it. See the FRF's position on Issue 138 above.

ISSUE 140: Are FPL's forecasts of billing determinants by rate class for the Turkey Point 5 Adjustment appropriate?

**FRF:** No. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it. See the FRF's position on Issue 138 above.

ISSUE 141: Is FPL's level of Plant in Service in the amount of $571,312,000 ($580,300,000 system) for the projected year ended May 31, 2008, for the 2007 Turkey Point 5 Adjustment appropriate?

**FRF:** No. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it. See the FRF's position on Issue 138 above.

ISSUE 142: Is FPL's level of Accumulated Provision for Depreciation and Amortization in the amount of $15,572,000 ($15,818,000 system) for the projected year ended May 31, 2008, for the 2007 Turkey Point 5 Adjustment appropriate?

**FRF:** No. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it. See the FRF's position on Issue 138 above.

ISSUE 143: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for FPL's 2007 Turkey Point 5 Adjustment?

**FRF:** No. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it. The appropriate weighted average cost of capital for 2007-2008 cannot properly or appropriately be determined in this proceeding, but rather must be determined based on the conditions at the time. See the FRF's position on Issue 138 above.

ISSUE 144: Is FPL's level of Total Operation and Maintenance Expenses for the new 2007 Turkey Point 5 unit in the amount of $4,448,000 ($4,519,000 system) for the 2007 Turkey Point 5 Adjustment appropriate?

**FRF:** No. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it. See the FRF's position on Issue 138 above.

ISSUE 145: Is FPL's Depreciation and Amortization Expense of $31,143,000 ($31,635,000 system) for the 2007 Turkey Point 5 Adjustment appropriate?

**FRF:** No. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it. See the FRF's position on Issue 138 above.

ISSUE 146: Is FPL's level of Taxes Other Than Income Taxes in the amount of $11,367,000 ($11,546,000 system) for the 2007 Turkey Point 5 Adjustment appropriate?

**FRF:** No. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it. See the FRF's position on Issue 138 above.

ISSUE 147: Are FPL's Income Tax expenses in the amount of negative $25,719,000 (negative $26,124,000 system) for the 2007 Turkey Point 5 Adjustment appropriate? (This is a fallout issue.)

**FRF:** No. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it. See the FRF's position on Issue 138 above.

ISSUE 148: What are the appropriate revenue expansion factors including the appropriate elements and rates for FPL for the 2006 projected test year and the 2007 Turkey Point 5 Adjustment?

**FRF:** This issue is neither appropriate nor applicable in this proceeding. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it, and also accordingly, the Commission cannot properly or appropriately determine revenue expansion factors for 2007 without a full examination of all relevant factors and variables based on a forecasted 2007 test year. See the FRF's position on Issue 138 above.

ISSUE 149: What is the appropriate incremental annual operating revenue requirement for the 2007 Turkey Point 5 Adjustment?

**FRF**: Zero; no "Turkey Point 5 Adjustment" is appropriate. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it. See the FRF's position on Issue 138 above.

ISSUE 150: Is FPL's proposed method for the recovery of the costs of Turkey Point Unit 5 appropriate?

**FRF**: This issue is neither appropriate nor applicable in this proceeding. At this time, FPL's forecasts are speculative and almost certainly bound to be inaccurate. Accordingly, FPL's request that the Commission approve rates now for 2007 or 2008 is inappropriate and speculative, and the Commission should reject it. See the FRF's position on Issue 138 above.

ISSUE 151: What is the appropriate effective date for an adjustment to FPL's base rates to reflect the addition of Turkey Point Unit 5?

**FRF**: There is no appropriate effective date for a "Turkey Point 5 Adjustment." This issue is neither appropriate nor applicable in this proceeding.

ISSUE 152: Should unrecovered AFUDC costs resulting from the mismatch between the time Turkey Point Unit 5 goes into service and customers are billed for service from the unit be recovered through the fuel adjustment clause?

**FRF**: No. This issue is neither appropriate nor applicable in this proceeding.

## OTHER ISSUES

ISSUE 153: Should the Commission approve FPL's request to move into base rates the security costs that result from heightened security requirements since September 11, 2001, from the Capacity Cost Recovery Clause?

**FRF**: Yes.

ISSUE 154: Should FPL continue to seek recovery of incremental security costs above the amount included in base rates through the Capacity Cost Recovery Clause? If so, what mechanism should be used to determine the incremental security costs?

**FRF**: No. After base rates are adjusted to reflect FPL's current security costs, recovery of incremental security costs through the Capacity Cost Recovery Clause should be discontinued, as sales growth will cover any changes in cost.

ISSUE 155: Should the Capacity charges and revenues associated with SJRPP that are currently in base rates be removed from base rates and included in the Capacity Clause?

**FRF**: No position at this time.

ISSUE 156: Should the Commission approve FPL's request to transfer its 2006 projected incremental hedging costs from Fuel Clause recovery to base rate recovery?

**FRF**: No. The Commission should deny FPL's request and continue to review the prudence and reasonableness of FPL's hedging costs during the annual Fuel Clause proceeding.

ISSUE 157: Should FPL be allowed to recover incremental hedging costs in excess of its base rate amount through the Fuel and Purchased Power Cost Recovery Clause, and if so, should netting be required in the clause for these costs?

**FRF**: No position at this time.

ISSUE 158: Should any annual under-spending from the amount of distribution vegetation management expenses ultimately approved the Commission be deferred and returned to the ratepayers in the future?

**FRF**: Yes. Agree with the Citizens of the State of Florida.

ISSUE 159: Should FPL be required to report to the Commission on a regular basis on its actual vegetation management expenditures?

**FRF**: Yes. Agree with the Citizens of the State of Florida.

ISSUE 160: Should FPL be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records that will be required as a result of the Commission's findings in this rate case?

**FRF**: Yes.

ISSUE 161: Should this docket be closed?

**FRF**: No position at this time.

**F.** **STIPULATED ISSUES:**

None at this time.

**G.** **PENDING MOTIONS:**

The Joint Motion to Consolidate filed on July 19, 2005 by the Citizens, the FRF, AARP, the Federal Executive Agencies, the SFHHA, and FIPUG to consolidate these dockets with Docket No. 050494-EI, In Re: Joint Complaint and Petition of the Citizens of the State of Florida, Florida Retail Federation, AARP, Federal Executive Agencies, South Florida Hospital and Healthcare Association, and Florida Industrial Power Users Group for a Decrease in the Rates and Charges of Florida Power & Light Company, is presently pending.

**H.** **OTHER MATTERS:**

None at this time.

Respectfully submitted this 28th day of July, 2005.

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**CERTIFICATE OF SERVICE**

**I HEREBY CERTIFY** that a true and correct copy of the foregoing has been furnished by electronic mail (*) and U.S. Mail this 28th day of July, 2005, on the following:

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