

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 060038-EI
FLORIDA POWER & LIGHT COMPANY**

**IN RE: FLORIDA POWER & LIGHT COMPANY'S PETITION FOR
ISSUANCE OF A STORM RECOVERY FINANCING ORDER**

APRIL 10, 2006

REBUTTAL TESTIMONY & EXHIBITS OF:

K. MICHAEL DAVIS

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6
7 **INTRODUCTION AND SUMMARY**

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

9 A. My name is K. Michael Davis. My business address is 9250 West Flagler Street,
10 Miami, Florida 33174.

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

12 A. Yes.

13 **Q. Are you sponsoring an exhibit in this case?**

14 A. Yes. I am sponsoring an exhibit consisting of nine documents, KMD-10 through
15 KMD-18, which is attached to my rebuttal testimony.

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

17 A. The purpose of my rebuttal testimony is to:

- 18 • Rebut the positions taken by OPC Witnesses DeRonne and Larkin
19 concerning FPL's storm accounting and recovery methodology;
- 20 • Support the Company's proposed methodology, the Actual Restoration
21 Cost Approach with an adjustment to remove capital costs;
- 22 • Provide an exhibit listing adjustments FPL proposes to its 2004 and 2005
23 storm costs;

- 1 • Address adjustments proposed by OPC Witnesses DeRonne and Larkin
2 to FPL's 2004 and 2005 storm costs; and
3 • Address the Audit Findings contained in the Commission Staff's Audit
4 Report issued on February 14, 2006 and the Supplemental Audit Report
5 issued on March 10, 2006.

6

7

STORM ACCOUNTING METHODOLOGY

8 **Q. On page 13 of Ms. DeRonne's direct testimony, she states the following: "It**
9 **is not appropriate to potentially inflate the costs being requested under the**
10 **attitude or premise that it will be trued-up later and excess estimates will be**
11 **used to increase the reserve." Do you agree with this statement?**

12 **A.** No. FPL is not trying to inflate these estimates. FPL is using sound estimating
13 processes to develop the best estimate it can. At the same time FPL believes it is
14 prudent to minimize the risk of having to come back to this Commission and
15 request an increase in storm recoveries. Also, it is important to note that to the
16 extent the storm reserve is increased as a result of the estimates being higher than
17 the actual costs, then there will be additional funds available to cover future
18 storm costs. This would help mitigate future storm cost recovery from our
19 customers.

20

21 Each Business Unit is responsible for preparing estimates for storm damages
22 they have incurred that have not been actualized on the Company's books at the
23 end of each month. In preparing their estimates, it is the Company's requirement

1 that they use the best, most accurate, information available at the time of
2 preparing their estimates, such as known costs, bids, quotes, contracts, invoices,
3 subject matter experts, etc. In addition, they are responsible for considering the
4 uncertainty associated with their estimates and including an appropriate
5 contingency factor to address that uncertainty.

6

7 It is important to remember that a contingency is included to quantify a risk that
8 is more often than not asymmetrical. Cost estimates are often understated
9 because the severity of the damage is underestimated, there is damage that has
10 yet to be identified, or the resources required to repair the damage or their cost is
11 underestimated. If the cost is overestimated, it is readily addressed in the final
12 true-up process; however, the same may not be said for costs that have been
13 underestimated.

14 **Q. On page 14 of Ms. DeRonne's direct testimony, she states that "If the**
15 **amounts are over-estimated, it is the ratepayers who will be locked in to**
16 **paying higher amounts over the next twelve years under FPL's proposal."**
17 **What is your response to her statement?**

18 A. The amounts proposed by FPL for securitization are not higher than necessary.
19 Also, what Ms. DeRonne does not point out is that because any amounts
20 securitized in excess of the ultimate actual costs are added to the storm reserve,
21 they will reduce the risk of future storm surcharges or securitizations, and the
22 resulting rate instability that would accompany layered surcharges.

23

1 FPL can not use these funds for any purpose other than storm restoration so there
2 is no advantage to FPL in purposefully overstating the estimates. However, it is
3 clearly in the best interests of FPL and its customers to avoid significant
4 understatements.

5 **Q. On page 4 of Mr. Larkin's direct testimony, he states that "The FPL**
6 **approach essentially is asking the Florida Public Service Commission to**
7 **hold the Company harmless from all business risk." Do you agree with his**
8 **statement?**

9 A. No. Mr. Larkin's statement is incorrect. As illustrated on my Document No.
10 KMD-10, hurricanes adversely affect FPL well beyond the cost recovery issues
11 being addressed in this proceeding. Specifically, the budgeted revenue not
12 realized due to the extensive outages caused by the 2005 storms even considering
13 any related cost savings still had an adverse impact on the Company. This is
14 apparent under both the incremental cost approach and FPL's proposed
15 methodology.

16
17 The risk of not realizing budgeted base rate revenues is a risk FPL has always
18 accepted. It is only when interveners seek to increase FPL's risk beyond lost
19 revenues that FPL has pointed to the fact that the existence of revenues not being
20 realized due to hurricane related outages proves conclusively that there is no
21 double recovery of costs. Under no circumstances has FPL requested
22 reimbursement for lost revenues in addition to costs determined using its
23 proposed methodology. However, if one were to utilize the approach proposed

1 by OPC, under which adjustments are based on the theory that certain storm
2 restoration costs have already been recovered through base rates, then base
3 revenues not achieved due to service interruptions from hurricanes must be
4 considered.

5 **Q. On page 5 of Mr. Larkin's direct testimony, he states that "It is not a**
6 **correct or accurate statement to say that the cost accumulated under the**
7 **Company's storm cost accounting method results in an accurate, reliable**
8 **accounting methodology which will result in the proper recovery of cost**
9 **from ratepayers." Do you agree with his statement?**

10 A. No. Mr. Larkin's statement is factually incorrect. The Company's method for
11 accumulating and recording storm costs in a work order is no different than
12 recording any other costs it incurs in the normal course of its business. In fact,
13 the use of a unique work order for storm costs enables the Company to better
14 identify and track its storm costs. This method has been utilized by the
15 Company for many years and refined over time to enable the Company to fine
16 tune its process of recording costs. Mr. Larkin's implication that it does not
17 provide accurate and reliable results is misleading, and it is revealing that he
18 offers no factual basis for making this allegation.

19 **Q. On page 6 of Mr. Larkin's direct testimony, he provides an example of**
20 **meter reading employees whose costs he alleges are already recovered**
21 **through base rates. Do you agree with his conclusion?**

22 A. No. Mr. Larkin has only addressed the expense side of the ratemaking equation.
23 He discusses how meter readers' payroll is in base rates and ignores the fact that

1 the Company has suffered extensive outages due to the 2005 storms resulting in
2 significant amounts of budgeted revenue not being realized. This is classic
3 example of not applying the entire ratemaking equation. The Company recovers
4 its base rate expenses through base rate revenues. If these base revenues are not
5 achieved, then recovery did not occur. The Commission discussion on page 16
6 of the 2004 Storm Cost Recovery Order (Commission Order No. PSC-05-0937-
7 FOF-EI) supports FPL's position:

8 "This Commission sets base rates on the basis of both projected expenses
9 and the expectation of the utility realizing certain revenues. As set forth
10 above, we have required various adjustments to the amounts FPL charged
11 to its storm reserve in order to preclude FPL from recovering normal
12 operating and maintenance (O&M) costs that are already recovered
13 through base rates. However, this does not take into account the fact that,
14 due to the outages that resulted from these storms, FPL has not realized
15 the level of base rate revenues expected to cover these normal O&M
16 costs."

17 In the case of Mr. Larkin's example of meter readers, the fact that the meters will
18 be read in the future, or were estimated during storm restoration, does not
19 support that the base revenues not achieved due to the 2005 storms will ever be
20 recovered. Therefore, his conclusion that these costs were recovered through
21 base rates is incorrect. Also, the estimated bills were adjusted to account for the
22 length of the outages and customer bills were trued-up to actual usage in the next
23 meter reading cycle. Therefore, contrary to what Mr. Larkin would have the

1 Commission believe, the subsequent reading of meters does not result in FPL
2 somehow realizing revenues for energy that was not delivered due to storm
3 related outages.

4
5 Furthermore, Mr. Larkin's comments appear designed to undermine the notion of
6 backfill and catch-up work. The only costs included in backfill and catch-up are
7 actual out of pocket costs, so they are real incremental costs the Company
8 incurred. In his example, if no backfill or catch-up was necessary, then no
9 overtime time costs would have been paid and FPL would not have claimed
10 backfill and catch-up costs were incurred. Backfill and catch-up costs are
11 discussed in detail later in my testimony.

12 **Q. On pages 7 and 8 of Mr. Larkin's direct testimony, he states that FPL's**
13 **accounting process "does not account or attempt to account for the portion**
14 **of the cost charged to storm work orders that are incremental to the**
15 **Company's normal operating expense." What is your response to his**
16 **statement?**

17 A. FPL accounts for its costs in accordance with the Uniform System of Accounts
18 (USOA) prescribed by the Federal Energy Regulatory Commission and adopted
19 by this Commission. As such, it accumulates costs based on the activity that
20 caused or benefited from that cost. Only through this process can the full cost of
21 performing an activity be determinable.

22

1 Since restoring service following a hurricane is not contemplated in base rates
2 and requires an extraordinary effort, all costs associated with such effort are both
3 incremental and extraordinary. As provided in FPL's response to OPC's Second
4 Set of Interrogatories, Question No. 27 in Docket No. 060038-EI:

5 "FPL does not budget for extraordinary storm costs and such costs are not
6 provided for in base rates. In addition, FPL does not budget for 'normal
7 storm operation and maintenance costs' and accordingly does not have
8 any record keeping or reporting capabilities to separate normal storm
9 operation and maintenance and capital costs from extraordinary storm
10 costs. FPL does accumulate and report storm costs, as defined in the
11 context of this proceeding, consistent with the basic concept of cost
12 accounting by associating activities and their related costs. These costs
13 are a result of storm restoration activities, an extraordinary event, and are
14 accumulated in unique work orders."

15
16 Any attempt to segregate what is in base rates from what is incremental would be
17 extremely difficult and subjective when accumulating and reporting the
18 Company's storm costs. From the standpoint of the work performed, none of the
19 costs are reflected in base rates. From the standpoint of dollars, irrespective of
20 activities performed, any determination would have to be made based on
21 estimates and only done after the fact if one can be made at all. This position is
22 supported by Staff's response to FPL's Third Set of Interrogatories, Question
23 No. 49 in Docket No. 060038-EI:

1 “Because base rates were last reset based on a negotiated stipulation
2 among the various parties, it is unclear what specific costs of any kind are
3 included in base rates.”

4
5 Finally, even if one were to address whether a budgeted cost is reflected in base
6 rates, the issue of whether actual cost recovery occurred would still remain. As I
7 have previously discussed, the 2005 storms caused extensive outages resulting in
8 significant amounts of budgeted revenue not being realized. So the question of
9 whether actual recovery occurred, is very real and very relevant to the issues in
10 this docket.

11
12 If the Company is required to segregate these costs, it will have to develop and
13 implement a tracking system to do so. This additional cost would be borne by
14 our customers and would only be used for storm recovery purposes.

15 **Q. On pages 8 and 9 of Mr. Larkin’s direct testimony, he alleges that FPL only**
16 **uses estimates when it benefits them. What is your response to his**
17 **allegation?**

18 A. FPL does not agree with Mr. Larkin’s allegation. The question used by Mr.
19 Larkin to introduce his criticism focuses on the correct issue, using budget
20 variances without adequate analysis, which he then ignores in his response.

21
22 FPL objects to anyone measuring the difference between the budgeted amount
23 and the actual amount, and without further analysis concluding that the whole

1 difference is due to storm. A variance only identifies the amount of a difference;
2 it does not in and of itself indicate why the variance occurred. These variances
3 can and do result from a variety of causes that can only be determined from a
4 critical analysis of business activities and costs, both planned and actual. For
5 example, if a business unit is able to save costs due to improvements that are
6 made during the normal course of business, and as a result comes in under
7 budget, the use of that budget variance to make an adjustment for storm costs
8 makes an incorrect assumption that the under run for that business unit was due
9 to savings from working on storm restoration. This assumption is improper and
10 provides a disincentive to the business unit to make improvements during the
11 normal course of business. This results in bad policy and is not in the best
12 interest of our customers.

13
14 Furthermore, FPL simply has no basis for determining the amount of a year-end
15 budget variance until, at, or very close to the year-end. As such, any estimate of
16 the year-end variance would lack the requisite degree of substantiation that
17 would enable it to be used in financial statements filed with the Securities &
18 Exchange Commission.

19
20 FPL recognizes that estimates must be utilized in determining storm costs to be
21 recovered since the final costs of some completed projects are not known and not
22 all work related to storm restoration has been completed. In fact, Section
23 366.8260, Florida Statutes, allows for the use of estimates in determining the

1 amount of storm costs to be securitized. The critical difference between these
2 estimates and those that FPL objects to are that the estimates used in storm
3 accounting and elsewhere in FPL's financial statements are based on sufficiently
4 definitive information to make the estimate appropriate rather than
5 unsubstantiated predictions of the future. Using these unsubstantiated estimates,
6 would violate Generally Accepted Accounting Principles and would cause FPL
7 to be in violation of the Sarbanes-Oxley Act.

8 **Q. On pages 10 and 11 of Mr. Larkin's direct testimony, he alleges that FPL**
9 **utilizes an incremental cost approach when recording capital costs related to**
10 **the 2005 storms but uses an actual cost approach for expense items. What is**
11 **your response to his allegation?**

12 A. FPL does not agree with Mr. Larkin's allegation. First of all, the costs that FPL
13 capitalized represent the full cost of those property additions and retirements
14 under normal circumstances. The system used to estimate these dollars is the
15 same standard costing system FPL utilizes to calculate and record actual plant
16 costs. As provided in FPL's response to Staff's Second Set of Interrogatories,
17 Question No. 83 in Docket No. 060038-EI, FPL believes it is appropriate to
18 remove capital costs from a storm recovery mechanism since it is provided an
19 opportunity to recover those costs through base rates in the future. However,
20 such recovery is not guaranteed and therefore, the actual risk of recovery now
21 resides with FPL. At a minimum, the capitalized costs will reduce earnings until
22 base rates are adjusted in conjunction with a future rate case.

23

1 Secondly, the Company believes its proposed methodology, the Actual
2 Restoration Cost Approach with an adjustment to remove capital costs, is
3 straightforward, less costly to administer, and in the end yields the same answer
4 as the incremental cost approach when the appropriate adjustments are made.
5 Support for why FPL believes its proposed method is the appropriate approach is
6 included in FPL's response to OPC's Second Set of Interrogatories, Question
7 No. 28 in Docket No. 060038-EI:

8 "FPL's proposed approach accurately captures the cost of repairing
9 damage to the electrical system caused by a hurricane that are neither
10 included nor otherwise provided for in FPL's base rates, follows
11 Generally Accepted Accounting Principles, uses verifiable and reliable
12 cost data, uses well-established FPL cost reporting and cost allocation
13 processes, is auditable, does not unduly increase distribution or other rate
14 base as a result of storm restoration activities, and mirrors an insurance
15 replacement approach."

16
17 The Actual Restoration Cost Approach measures the full cost of repairing the
18 damages caused by the hurricanes. The capital adjustment measures the full
19 normal cost of capital additions and retirements. Reducing the actual restoration
20 costs by the capital adjustment does not create an inconsistency as alleged by Mr.
21 Larkin.

22
23

1 Q. On page 13 of Mr. Larkin's direct testimony, he indicates that the
2 Company's methodology does not replicate cost recovery under a third
3 party replacement cost insurance policy because there is no deductible. Do
4 you agree?

5 A. No. While FPL agrees that a third party replacement cost insurance policy
6 would have a deductible, Rule No. 25-6.0143, Florida Administrative Code
7 (Rule No. 25-6.0143), requires FPL to charge that deductible and uninsured costs
8 to Account 228.1, Accumulated Provision for Property Insurance. FPL's
9 proposed methodology, the Actual Restoration Cost Approach with an
10 adjustment to remove capital costs, complies with this Rule as the net amount
11 charged to this account is exclusive of any insurance recovery and only costs
12 directly related to storm restoration are included. Accordingly, except for the
13 capital adjustment, FPL's proposed methodology produces exactly the same
14 result as would a replacement cost insurance policy where any deductible would
15 be charged to the storm reserve and ultimately recovered from customers.

16
17 If FPL had commercial insurance to cover damages associated with storms, as it
18 did in Hurricane Andrew, it would have charged the associated deductibles to the
19 storm reserve per Rule No. 25-6.0143. In fact, FPL charged \$21.0 million of
20 deductibles associated with Hurricane Andrew to the storm reserve in 1992 as
21 required by the Rule discussed above.

22

1 In addition, what Mr. Larkin does not tell the Commission is that a replacement
2 cost insurance policy does not use an incremental approach. Thus, his statement
3 regarding backfill and catch-up costs is factually accurate but totally misleading.
4 When the Actual Restoration Cost Approach is used, backfill, catch-up, and
5 related costs are not charged to the storm reserve and the costs presented by FPL
6 in this proceeding do not include those costs. Also, while an insurance policy
7 might not directly cover advertising and employee assistance costs, they are
8 often subsumed within the overhead costs allowed in the policy. If not, because
9 there is an obvious customer benefit, they would still be chargeable to the storm
10 reserve.

11

2004 STORM-RECOVERY COSTS

12
13 **Q. Does FPL propose any adjustments to its 2004 storm costs?**

14 A. Yes. The adjustments to the 2004 storm costs that FPL believes are appropriate
15 are shown on my Document No. KMD-11. In addition, page 2 of this document
16 addresses revisions to Ms. DeRonne's proposed adjustments. Each of these
17 adjustments will be discussed in detail later in my testimony.

18 **Q. What does FPL suggest that the Commission do with these adjustments?**

19 A. FPL recommends that the Commission address the adjustments through a final
20 true-up process. There are still uncertainties relative to the 2004 and 2005 storm
21 costs. Also, there will be differences between other estimates used in this
22 proceeding and the actual costs as discussed below.

1 **Q. In Audit Finding No. 11 of the Commission Staff's Audit Report issued on**
2 **February 14, 2006, it states the amount of unrecovered 2004 storm costs on**
3 **Document No. KMD-3 of your direct testimony is different than what is**
4 **recorded in the general ledger as of December 31, 2005. Do you agree with**
5 **this finding?**

6 A. Yes. However, as discussed below, FPL does not believe any action is required
7 at this time.

8 **Q. Please explain why this difference exists and how FPL proposes to handle it.**

9 A. As provided in FPL's response to Staff's 3rd Set of Interrogatories, Question No.
10 149 in Docket No. 060038-EI, the amount recorded for unrecovered 2004 storm
11 costs in the General Ledger as of December 31, 2005 of \$293,930,364 and the
12 amount shown on Document No. KMD-3 of \$294,680,000 are different for the
13 following reasons:

- 14 1. The beginning deficiency balance on the General Ledger was
15 \$441,634,351, while the amount shown on Document No. KMD-3 of
16 \$441,990,525 equals what was approved in the 2004 Storm Cost
17 Recovery Order;
- 18 2. The amount of interest shown on Document No. KMD-3 is based on
19 actuals through November 30, 2005, and an estimate for December 31,
20 2005; and
- 21 3. The amount of billed revenues shown on Document No. KMD-3 is based
22 on actuals through November 30, 2005, and an estimate for December 31,
23 2005.

1 The beginning deficiency balance reflected in Document No. KMD-3 in my
 2 direct testimony is different than what was recorded on the general ledger due to
 3 the rounding of actual storm funds available to offset the amount of 2004 storm
 4 costs approved for recovery from \$354,357,874 to \$354,000,000. The
 5 explanation of this difference is explained below:

	<u>Order</u>	<u>G/L</u>	<u>Difference</u>
6 Storm Costs Approved for Recovery	\$798,100,000	\$798,100,000	\$0
7 Storm Funds Available	<u>354,000,000</u>	<u>354,357,874</u>	<u>357,874</u>
8 Amount to Recover from Customers	<u>\$444,100,000</u>	<u>\$443,742,126</u>	<u>\$(357,874)</u>
9 Jurisdictional Amount (99.525%)	<u>\$441,990,525</u>	<u>\$441,634,351</u>	<u>\$(356,174)</u>

11
 12 The amounts of interest incurred and billed revenues recorded on the general
 13 ledger reflect actual amounts whereas the petition reflected estimated amounts as
 14 shown on Document No. KMD-3. These amounts will continue to be different
 15 since the amounts recorded in the general ledger each month will be based on the
 16 actual activity. FPL believes that any difference in the estimated unrecovered
 17 2004 storm recovery costs and the actual amounts should be addressed as part of
 18 the final true-up process.

19 **Q. In Audit Finding No. 5 of the Commission Staff's Audit Report issued on**
 20 **February 14, 2006, it states that FPL has not prepared billings to other**
 21 **companies for repairing the other companies' poles during the 2004 storm**
 22 **restorations. What is FPL's response to this finding?**

23 A. The provisions of the joint use agreements between FPL and other companies
 24 that own poles provide that when FPL replaces another owner's pole, FPL is

1 entitled to be reimbursed for all reasonable costs and expenses that would not
2 otherwise have been incurred if the owner had made the replacement. As of
3 March 31, 2006, FPL has completed its survey of the poles replaced in 2004 and
4 has billed the other party a total of \$7.4 million. As a result of issuing the bill,
5 FPL has credited the normal costs charged to capital for these poles of \$2.0
6 million and credited the difference of \$5.4 million to the storm reserve. In the
7 event the amount received by FPL is different than the billed amount, FPL
8 believes it should be addressed through a final true-up process.

9 **Q. On page 36 of Ms. DeRonne's direct testimony, she proposes that an**
10 **adjustment be made to FPL's 2004 storm recovery costs for these**
11 **reimbursements. Do you agree with the \$5,564,858 she is proposing to**
12 **exclude from recovery?**

13 A. No. The amount to remove from the 2004 storm costs should be \$5,432,966.
14 This amount was determined by subtracting the normal cost of capital for these
15 poles of \$1,986,844 from the total amount billed of \$7,419,810. FPL utilized its
16 standard work management system to calculate what the normal cost of these
17 poles would be and as discussed above, has made an adjustment to capital for
18 these amounts. When the normal cost of capital for these poles were removed
19 from the 2004 storm costs per the 2004 Storm Cost Recovery Order, they were
20 recorded to plant-in-service. Therefore, the effect of this adjustment results in
21 the elimination of the capital costs associated with these third party poles from
22 FPL's books and records. As such, they will not be included in FPL's rate base

1 in future rate proceedings. The necessary adjustment to the 2004 storm costs is
2 shown on my Document No. KMD-11.

3 **Q. On page 32 of Ms. DeRonne's direct testimony, she recommends an**
4 **adjustment to remove for all claims outstanding and pending lawsuits FPL**
5 **had estimated and accrued as of July 31, 2005. She goes on to state that**
6 **these costs do not directly relate to storm restoration and are considered**
7 **when base rates are determined. Do you agree with her recommendation?**

8 **A.** No. Any litigation costs that are directly related to storm restoration should be
9 recoverable. In other words, but for the restoration effort associated with the
10 2004 storms, these costs would not have been incurred. If the Company
11 determines that any of these costs are not a result of storm restoration activities,
12 it will remove them from storm cost recovery.

13

14 FPL is a member of the Edison Electric Institute (EEI), and the Southeastern
15 Electric Exchange (SEE), where the members of these organizations have a
16 mutual aid agreement to help each other when disasters such as hurricanes occur.
17 These organizations have guidelines as to what they can charge each other for
18 this assistance as well as the timing of submitting their costs for recovery via
19 invoices once assistance has been provided. The general framework of the
20 mutual aid assistance agreement is that each company is entitled to recover all
21 reasonable costs incurred for providing assistance to the host utility. It is not a
22 profit making venture.

23

1 Support for including litigation costs in FPL's storm costs is provided in
2 principle 11 of the Edison Electric Institute's "Suggested Governing Principles
3 Covering Emergency Assistance Arrangements Between Edison Electric
4 Institute Member Companies":

5 "Requesting Company shall indemnify, hold harmless and defend the
6 Responding Company from and against any and all liability for loss,
7 damage, cost or expense which Responding Company may incur by
8 reason of bodily injury, including death, to any person or persons or by
9 reason of damage to or destruction of any property, including the loss of
10 use thereof, which result from furnishing emergency assistance and
11 whether or not due in whole or in part to any act, omission, or negligence
12 of Responding Company except to the extent that such death or injury to
13 person, or damage to property, is caused by the willful or wanton
14 misconduct and / or gross negligence of the Responding Company.
15 Where payments are made by the Responding Company under a
16 workmen's compensation or disability benefits law or any similar law for
17 bodily injury or death resulting from furnishing emergency assistance,
18 Requesting Company shall reimburse the Responding Company for such
19 payments, except to the extent that such bodily injury or death is caused
20 by the willful or wanton misconduct and / or gross negligence of the
21 Responding Company."

1 Therefore, if an employee of an assisting utility causes an accident or injury
2 during storm restoration, the Company is obligated to reimburse the assisting
3 utility for those costs. Since not all of the cases have been resolved, FPL must
4 maintain an accrual for the ultimate cost of these accidents. If the ultimate costs
5 incurred differ from the estimates, the difference will be reflected in the final
6 true-up process.

7
8 Removal of these costs from storm recovery would in effect attribute them to
9 base rates. Since these litigation costs are extraordinary in nature, it is highly
10 unlikely they would be recognized for recovery when setting base rates. It has
11 been the Commission's practice in setting base rates to eliminate non-recurring
12 costs. To disallow these costs for both storm recovery purposes and in a base
13 rate proceeding would prohibit FPL from recovering prudently incurred costs.

14 **Q. Ms. DeRonne also states on page 32 of her direct testimony that 2004**
15 **litigation costs "were not presented as outstanding storm related costs at the**
16 **time of the prior case." Do you agree with her assertion?**

17 **A.** No. When FPL presented its 2004 storm costs, it had included an estimate for
18 these costs as part of the \$890.0 million it requested in Docket No. 041291-EI.
19 Nothing has or even could be added to that amount since FPL agreed that \$890.0
20 million was an amount it would not exceed. As shown on my Document No.
21 KMD-12, FPL has not exceeded the total amount of 2004 storm costs of \$890.0
22 million at any point in time.

1 **Q. Has FPL determined if any of the litigation costs related to the 2004 storms**
2 **should be removed from storm cost recovery?**

3 A. Yes. In a supplemental response to OPC's Fifth Set of Interrogatories, Question
4 No. 108 in Docket No. 060038-EI, FPL stated that upon further review of its
5 2004 litigation costs charged to the storm reserve, it has removed \$0.6 million
6 associated with claims that were not a direct result of the restoration effort. This
7 adjustment was made in March 2006. As a result, all of the remaining 2004
8 litigation costs that have been charged to the storm reserve are costs that FPL is
9 required to indemnify foreign utilities for the uninsured portions of any claims
10 that result from their assistance in FPL's storm restoration efforts and would not
11 have been incurred but for the restoration effort associated with the 2004 storms.
12 This adjustment to the 2004 storm costs is shown on my Document No. KMD-
13 11.

14 **Q. On page 32 of Ms. DeRonne's direct testimony, she asserts that FPL is not**
15 **projected to incur the \$21.7 million of 2004 storm costs the Commission**
16 **ordered FPL to charge to its storm reserve in the 2004 Storm Cost Recovery**
17 **Order and, therefore, that amount should be removed from the amount of**
18 **2004 storm recovery costs. Do you agree with this assertion?**

19 A. No. The \$21.7 million is not in addition to the total amount of storm costs FPL
20 requested in Docket No. 041291-EI. Rather, it was included in the total amount
21 of uninsured storm costs requested of \$890.0 million. As such, the \$21.7 million
22 was incurred in 2004.

23

1 The Commission did not include the \$21.7 million in the amount being
2 recovered through the 2004 storm restoration surcharge and ordered FPL, as
3 shown on page 20 of the 2004 Storm Cost Recovery Order, to charge this
4 amount to the storm reserve:

5 "The fifth, and last, entry is a debit to the storm reserve to transfer
6 \$21,700,000 from restoration costs that are recoverable through the
7 surcharge to restoration costs that are not recoverable through the
8 surcharge."

9
10 The following schedule reconciles FPL's total 2004 total system storm costs to
11 the net system amount approved by the Commission in the 2004 Storm Cost
12 Recovery Order:

13		
14	Total 2004 Storm Costs Identified in Docket No. 041291-EI	\$ 999.0
15	Insurance Proceeds	<u>(109.0)</u>
16	Total 2004 Uninsured Storm Costs	\$ 890.0
17	Commission Adjustments per Order – Recorded in 9/05:	
18	Storm Costs Charged to Capital	(70.2)
19	Storm Costs Charged to Storm Reserve	<u>(21.7)</u>
20	Net System Amount of 2004 Storm Damage Costs	<u>\$ 798.1</u>

21
22 Since the \$21.7 million was approved but not included in amount of costs being
23 recovered in the 2004 storm restoration surcharge, FPL believes that this amount

1 should be included for recovery at this time. Therefore, it has appropriately
2 included the remaining balance of \$1.3 million of the \$21.7 million, as shown on
3 my Document No. KMD-3, as part of the total costs to be securitized in this
4 proceeding.

5 **Q. Did FPL stop charging 2004 storm costs to the storm reserve by July 31,**
6 **2005 as required in the 2004 Storm Cost Recovery Order?**

7 A. Yes, only the costs resulting from 2004 storm restoration activities that had been
8 identified as of July 31, 2005 are included in the amount of 2004 storm costs. As
9 of that date and as shown on my Document No. KMD-12, the total storm costs of
10 \$890.0 million were charged to the storm reserve in FPL's accounting records.

11 This amount consisted of the following (in millions) as of July 31, 2005:

12		
13	Actual Expenditures	\$ 852.6
14	Accruals - Work Completed but Not Billed	8.8
15	Accruals - Work to be Performed after 7/31/05	<u>28.6</u>
16	Total 2004 Uninsured Storm Costs	<u>\$ 890.0</u>

17

18 FPL has committed to limit its 2004 storm costs to \$890.0 million. Therefore, if
19 the actual amount is greater than what was charged to the storm reserve as of
20 July 31, 2005, the difference will be absorbed by the Company, and if the actual
21 amount is less than the amount charged to the storm reserve, FPL recommends
22 the difference be addressed as part of a final true-up process.

1 **Q. Why did FPL include accruals for 2004 storm costs not actualized as of July**
2 **31, 2005?**

3 A. FPL acted with due diligence in completing as many projects as possible before
4 July 31, 2005; however, FPL had to balance its obligation to serve its customers
5 with available resources and the proper utilization of those resources. Therefore,
6 FPL made every effort to evaluate and accurately estimate the costs associated
7 with the remaining work to be completed as of July 31, 2005, and to ensure that
8 these costs were appropriately associated with the 2004 storms.

9
10 For example, if a power plant has been brought back online after a storm without
11 any safety concerns but is still in need of repairs due to storm damage, it is more
12 cost efficient for customers if FPL makes necessary repairs during the plant's
13 next scheduled outage. If FPL were to bring that power plant down to make
14 repairs by an arbitrary cut-off date, then the load the plant serves would have to
15 be met from an alternate source of generation, possibly with higher fuel costs,
16 which would adversely affect customers.

17 **Q. Ms. DeRonne asserts that \$21.5 million related to Nuclear storm damages**
18 **were not identified for recovery by FPL during the prior case and should be**
19 **removed from the 2004 storm costs. Do you agree with this assertion?**

20 A. No. When FPL presented its 2004 storm costs, it had included an estimate for
21 these costs as part of the \$890.0 million it requested in Docket No. 041291-EI.
22 As shown on my Document No. KMD-12, FPL has not exceeded the total
23 amount of 2004 storm costs of \$890.0 million at any point in time.

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The \$21.5 million amount was reduced in February 2006 due to the correction of an error in recording storm costs in 2005. A storm related payment was incorrectly charged to a non-storm work order due to a transposition error in the work order number. The effect of correcting this error is to reduce the balance available for uninsured nuclear costs to \$20.5 million.

The \$20.5 million represents a net uncertainty due to the possibility that a portion of the gross costs associated with repairing damage at the St. Lucie Nuclear Plant will not be covered by insurance. When FPL estimated and removed \$109.0 million in insurance proceeds from its total amount of 2004 storm costs, there still was an uncertainty regarding the recovery of storm costs associated with the St. Lucie Nuclear Plant. This uncertainty still exists today because there is still a question of resolving both the total costs and insurance reimbursements associated with this plant. As a result, all remaining 2004 contingency amounts have been assigned to nuclear to address this uncertainty. FPL is currently in the claim process with the insurance carrier and the amount of any loss will not be known until the claim is resolved. Further details of this estimate are addressed by Mr. Warner in his rebuttal testimony.

In the event the Commission determines an adjustment should be made to remove this amount from storm recovery, FPL requests that the Commission

1 make specific provision for charging any amount not recovered through
2 insurance to the storm reserve.

3 **Q. Has FPL revised its estimate for uninsured 2004 storm costs related to the**
4 **St. Lucie Plant?**

5 A. Yes. FPL met with Nuclear Electric Insurance Limited (NEIL) on March 9,
6 2006 and has estimated that \$15.4 million of storm damages associated with the
7 2004 storms will not be insured. This revised estimate was recorded on FPL's
8 books in March 2006 and is further addressed by Mr. Warner in his rebuttal
9 testimony. The necessary adjustment of \$5.1 million (\$20.5 million less \$15.4
10 million) is shown on my Document No. KMD-11. Since this estimate is still
11 subject to uncertainty, FPL will address any difference between the \$15.4 million
12 estimate and actual costs in a final true-up process.

13 **Q. What is the amount of 2004 storm costs that have not been actualized as of**
14 **March 31, 2006?**

15 A. At the end of each month, each Business Unit evaluates the actual charges
16 related to the 2004 storms for their department and accrues for any remaining
17 work to be completed. As of March 31, 2006, the 2004 storm costs that have not
18 been actualized relate solely to the portion of 2004 costs at the St. Lucie Nuclear
19 Plant not covered by insurance, as previously discussed, of \$15.4 million and an
20 obligation to reimburse foreign utilities for uninsured claims, as previously
21 discussed, of \$1.0 million. Because the timing of the resolution of these matters
22 is not exclusively under FPL's control and since these items could take a
23 prolonged period of time until they are finalized, it is difficult for FPL to state

1 with certainty what the actual amounts might be or when they will be actualized.
2 However, FPL will not adjust the total amount to be recovered to be more than
3 the amount approved in the 2004 Storm Cost Recovery Order.
4

5 **2005 STORM-RECOVERY COSTS**

6 **Q. Does FPL propose any adjustments to its 2005 storm costs?**

7 A. Yes. The adjustments to the 2005 storm costs that FPL believes are appropriate
8 are shown on page 1 of my Document No. KMD-13. In addition, page 2 of this
9 document addresses revisions to Ms. DeRonne's proposed adjustments. Each of
10 these adjustments will be discussed in detail later in my testimony.

11 **Q. What does FPL suggest that the Commission do with these adjustments?**

12 A. FPL recommends that the Commission address the adjustments through a final
13 true-up process. There are still uncertainties relative to the 2004 and 2005 storm
14 costs. Also, there will be differences between other estimates used in this
15 proceeding and the actual costs, as previously discussed.

16 **Q. Audit Finding No. 1 of the Commission Staff's Audit Report issued on**
17 **February 14, 2006 notes there is \$26.1 million of regular payroll included in**
18 **FPL's 2005 storm costs. Should this amount be included in the amount of**
19 **storm costs to be recovered from customers?**

20 A. Yes, this amount should be included in storm costs to be recovered by customers
21 because these costs were incurred by personnel performing restoration work.
22 This amount includes all regular payroll for exempt, non-exempt, and bargaining
23 personnel that worked in the restoration effort associated with the 2005 storms.

1 Included in this are amounts for Nuclear payroll that may be recoverable from
2 insurance, payroll related to capital work, and payroll that would have otherwise
3 been charged to clauses or capital.

4
5 In FPL's proposed methodology, the Actual Restoration Cost Approach with an
6 adjustment to remove capital costs, regular payroll is an appropriate cost to
7 charge to the storm reserve and therefore, should be recoverable from customers.
8 Under this approach, which mirrors a replacement cost insurance approach, all
9 costs that are a direct result of storm restoration are appropriately charged to the
10 reserve.

11 **Q. Should this amount be split between managerial and non-managerial?**

12 A. No. FPL does not track payroll costs between managerial and non-managerial
13 personnel in its normal course of business, therefore, requirements to do so
14 would impose additional system costs that would be unnecessary since this split
15 would only be used for storm recovery purposes. FPL does track payroll costs
16 by exempt, non-exempt, and bargaining unit personnel. The exempt category
17 includes all professional personnel that are paid overtime under approved
18 circumstances, such as storm restoration. The non-exempt and bargaining unit
19 categories include all personnel that, by law or contract terms, must be paid for
20 any overtime they work.

21 **Q. On page 7 of Ms. DeRonne's direct testimony, she recommends an**
22 **incremental approach adjustment for regular payroll of \$26.1 million from**

1 **the 2005 storm costs since she alleges these costs are already recovered**
2 **through FPL's base rates. Do you agree with this adjustment?**

3 A. No. First of all, the adjustment Ms. DeRonne proposes ignores the fact that the
4 budget which contemplated these normal payroll amounts also contemplated that
5 there would not be service interruptions due to hurricanes. Unfortunately, there
6 were interruptions due to hurricanes resulting in a significant amount of
7 budgeted costs not being recovered in base rates. Therefore, her proposal is
8 asymmetrical and only addresses the expense side of the ratemaking equation.
9 Further details of this concept were discussed earlier in my rebuttal testimony.

10
11 Second, if the Commission determines that an adjustment to remove regular
12 payroll is necessary, then it should consider the types of payroll previously
13 discussed as well as backfill, catch-up, and vacation buy-back as offsets to this
14 amount.

15 **Q. Does Ms. DeRonne agree that some of these costs should be considered?**

16 A. Yes. Ms. DeRonne recognizes the necessity for adjusting normal payroll for
17 amounts that normally would have been charged to clauses of \$2.7 million and
18 capital of \$8.0 million. These amounts were determined by having each
19 Business Unit analyze the normal payroll distribution for any of their employees
20 that worked on storm restoration during 2005. For those employees that would
21 normally have charged clauses or capital, a calculation of the amounts for those
22 time periods was made. A summary of these amounts by Business Unit are
23 included on my Document No. KMD-14.

1 Q. On page 25 of Mr. Larkin's direct testimony, he asserts that backfill and
2 catch-up work are not directly related to storm restoration. Do you agree
3 with this assertion?

4 A. No. First of all, backfill and catch-up costs are incurred as a direct result of
5 storm restoration. Personnel that do not have storm assignments must work
6 overtime or temporary labor must be employed to ensure essential activities are
7 carried out (backfill). Even with this additional effort and its associated cost,
8 backlogs are created and must be reduced using overtime or contract labor to
9 clear backlogs while at the same time ensuring that on-going customer needs are
10 met. Moreover, OPC's claim that FPL should incur normal labor plus backfill
11 and catch-up costs without any additional recovery creates a disincentive to FPL
12 using its own personnel for storm restoration. OPC's position is also
13 fundamentally unfair because it requires FPL to bear uncompensated costs twice,
14 once through normal payroll and then again through backfill and catch-up costs.

15
16 Secondly, OPC's claims are internally inconsistent. If one accepts OPC's
17 incremental cost approach, it is illogical that OPC would recommend an
18 adjustment under an argument that only incremental costs to base rates should be
19 considered, and at the same time recommend denying an offset for backfill and
20 catch-up work, which is an incremental cost. Backfill and catch-up costs have a
21 direct correlation to storm restoration. That is, the reason these categories of
22 costs exist is due to resources being deployed to restore service.

23

1 On page 18 of the 2004 Storm Cost Recovery Order, the Commission addressed
2 the consideration of backfill and catch-up in relation to incurred storm costs:

3 “Although we do not believe that these types of costs fall into the
4 category of ‘extraordinary,’ we believe that these costs could be
5 considered incremental if we could determine that the specific
6 expenditures supporting the \$9.0 million and \$7.0 million amounts
7 quoted by witness Davis were beyond regularly budgeted amounts. We
8 also believe that these types of costs may have been incurred to facilitate
9 restoration activities. However, the record in this case discloses no
10 information regarding regularly budgeted costs for these expenditures and
11 no calculations in support of the proposed amounts. Furthermore, we do
12 not believe that FPL has proven that the catch-up work and backfill work
13 could not be performed by employees during regular hours or by
14 contractors within the normal amount of budgeted contract work. The
15 burden is on FPL to demonstrate and document that there was such
16 overtime, that it was caused directly by loss of personnel to storm
17 assignments, and that it was not budgeted for. We find that FPL has not
18 provided sufficient information to carry its burden to demonstrate that the
19 catch-up and backfill amounts were incremental to those the utility would
20 incur under normal circumstances.”

21

22 On page 17 of the same Order, the Commission addresses OPC’s position on
23 catch-up and backfill:

1 “According to OPC, ‘catch-up, backfill, and incremental contractor work
2 may be consistent with OPC guidelines if the catch-up, backfill, and
3 incremental contractor work is an extraordinary expenditure that is
4 incremental to those the utility would incur under normal circumstances.’
5 OPC witness Majoros stated that to be recoverable through the storm
6 reserve, costs should be incurred to facilitate restoration activities.”

7 Therefore, the relationship of backfill and catch-up work to storm restoration
8 appears to have been well established in FPL’s 2004 storm docket (Docket No.
9 041291-EI).

10 **Q. If the Commission determines that regular payroll should be removed from**
11 **the 2005 storm costs for recovery, what is the amount of backfill and catch-**
12 **up costs FPL proposes to partially offset the \$26.1 million regular payroll**
13 **adjustment?**

14 A. As shown on page 2 of my Document No. KMD-13, the total amount of backfill
15 and catch-up costs that partially offset the \$26.1 million regular payroll
16 adjustment is \$8.7 million, of which \$7.9 million is for 2005 backfill and catch-
17 up work and \$0.8 million is for 2006 catch-up work. These costs represent
18 compensated overtime, temporary labor, and/or contractors to catch-up or reduce
19 backlogs created by resources being assigned to storm restoration activities. The
20 work can not be performed during regular working hours or by contractors
21 within the normal amount of budgeted work because all of that time is already
22 assigned to activities necessary to meet current customer demands. If those
23 demands did not exist, FPL would not have budgeted the cost in the first place.

1 **Q. How did FPL determine the amount of backfill and catch-up costs related to**
2 **the 2005 storms?**

3 A. The amount of the backfill and catch-up costs related to storm restoration during
4 2005 were determined by each Business Unit. These amounts were identified as
5 the unbudgeted cost associated with compensated overtime, temporary labor,
6 and/or contractors and which was incurred to satisfy job accountabilities of other
7 employees while they were assigned to storm or to reduce backlog created by
8 employees working on storm restoration. A summary of these amounts by
9 Business Unit are included on my Document No. KMD-14.

10

11 The documents which support these costs were provided in FPL's response to
12 OPC's Third Request for Production of Documents, Question No. 43 in Docket
13 No. 060038-EI, and FPL stands ready to defend them. Ignoring these
14 incremental costs makes no sense and is inconsistent with OPC's position that
15 only incremental costs not recovered in base rates should be allowed.

16 **Q. On page 8 of Ms. DeRonne's direct testimony, she states that she does not**
17 **agree that an offset of \$2.5 million related to Nuclear payroll that is**
18 **expected to be recovered through insurance should be an offset to regular**
19 **payroll. Do you agree with her statement?**

20 A. No. Under an incremental cost approach, nuclear payroll expected to be
21 recovered through insurance should not be included in the regular payroll
22 adjustment. If it is, then it will be subtracted twice from the total amount of 2005
23 storm costs to be recovered; once through the regular payroll adjustment and

1 then again when insurance proceeds are removed from the total amount of 2005
2 storm costs. This amount which partially offsets the regular payroll adjustment
3 is shown on page 2 of my Document No. KMD-13.

4 **Q. Mr. Larkin states on pages 26 and 27 of his direct testimony that vacation**
5 **buy-backs are the result of the Company's vacation policy and are not "a**
6 **direct result of storm restoration activities." Do you agree with this**
7 **statement?**

8 A. No. FPL purchased vacation from employees involved in the 2005 storm
9 restoration activities since they were unable to take advantage of their earned
10 vacation due to the timing and length of storm restoration efforts. Hurricane
11 Wilma caused severe damage to FPL's service territory on October 24, 2005 and
12 many employees worked through November to make repairs to FPL's damaged
13 infrastructure. As such, they were unable to take all the vacation they were
14 entitled to and normal workloads will not enable employees to take these days in
15 the future. Thus, customers benefited from having these employees perform
16 storm restoration duties instead of taking vacation. Therefore, these payments
17 are a direct result of the 2005 storms and should be allowed as an offset to the
18 \$26.1 million regular payroll adjustment, if the Commission determines this
19 adjustment is necessary.

20

21 In addition, if the Company did not purchase the vacation from the employees,
22 then they would have been entitled to roll this vacation over into the next year.
23 This would have resulted in the employee potentially taking additional vacation

1 in the subsequent year and not being available for service to customers. In order
2 to meet customers needs, FPL would then have had to either fill this void with
3 overtime or contractors, which would impose an incremental cost on the
4 Company and potentially its customers. The implementation of the buy-back
5 policy was specifically directed to avoid an extraordinary loss of trained
6 employees in 2006 due to excessive amounts of carryover vacation.

7 **Q. If the Commission determines that regular payroll should be removed from**
8 **the 2005 storm costs for recovery, what is the amount of vacation buy-backs**
9 **FPL proposes to offset the \$26.1 million regular payroll adjustment?**

10 A. As shown on page 2 of my Document No. KMD-13, the total amount of vacation
11 buy-backs to offset the regular payroll adjustment is \$1.2 million. This amount
12 was determined by identifying vacation buy-backs for employees that worked on
13 storm restoration.

14 **Q. If the Commission determines that regular payroll should be removed from**
15 **the 2005 storm costs for recovery, are there any other offsets FPL believes**
16 **should be taken into consideration?**

17 A. Yes. Under FPL's adjustments to the approach approved in the 2004 Storm Cost
18 Recovery Order shown on page 2 of my Document No. KMD-13, there is an
19 adjustment to remove regular payroll of \$26.1 million and another adjustment to
20 remove the normal capital costs of \$63.9 million from the amount of storm costs
21 to be recovered. Because the adjustment for normal capital costs includes a
22 component for regular payroll, if both the regular payroll and capital adjustments

1 are made, then the amount of regular payroll charged to capital will have been
2 subtracted from the amount of storm costs to be recovered twice.

3

4 As shown on my Document No. KMD-15, the total amount of estimated capital
5 expenditures of \$72.6 million has been recorded by FPL as of March 31, 2006
6 under the following categories: FPL regular payroll, contractors, materials,
7 vehicles, and other, including applied engineering. Of this amount, \$2.2 million
8 has been categorized as FPL regular payroll which is shown as an offset to the
9 \$26.1 million regular payroll adjustment on page 2 of my Document No. KMD-
10 13.

11 **Q. In Audit Finding No. 1 of the Commission Staff's Audit Report issued on**
12 **February 14, 2006, it notes that FPL has included \$60.3 million in overtime**
13 **payroll in its 2005 storm costs. Do you agree that these should be included**
14 **in storm costs?**

15 A. Yes. Consistent with FPL's proposed methodology, these costs are directly
16 related to storm restoration and are therefore appropriate for recovery. In
17 addition, under the incremental cost approach, these costs are also appropriate as
18 they are an incremental unbudgeted cost to the Company.

19 **Q. Ms. DeRonne states on pages 8 and 9 of her direct testimony that FPL has**
20 **included \$9.2 million in "Applied Pensions and Welfare." She goes on to**
21 **state that these costs are already included in base rates and "would not**
22 **increase as a result of a storm event," and therefore, should not be included**
23 **in the 2005 storm costs. Do you agree with her statements?**

1 A. No. Even if one were to accept an incremental cost approach, which FPL does
2 not, the \$9.2 million adjustment is incorrect and the supposition upon which it is
3 based is faulty.

4
5 The \$9.2 million represents payroll overheads consisting of pension, welfare,
6 payroll taxes and insurance, which is appropriately related to the regular payroll
7 and overtime pay included in FPL's 2005 storm costs. This amount is the sum of
8 all line items with footnote (a) identified in Attachment 1 of FPL's response to
9 OPC's Ninth Set of Interrogatories, Question No. 184 in Docket No. 060038-EI.
10 Footnote (b) of this attachment should have also been identified as payroll
11 loadings. The sum of the amounts identified with footnote (b) are \$0.3 million.
12 In addition, there was \$0.04 million of payroll loadings which fell below the
13 threshold of this interrogatory request and \$1.2 million required to adjust payroll
14 overheads to the correct amount. Therefore, the sum of payroll loadings
15 included in the 2005 storm costs is \$8.4 million. These amounts are shown on
16 my Document No. KMD-16.

17
18 The payroll overhead applicable to regular payroll included in the 2005 storm
19 costs is \$4.4 million (\$26.1 million at 16.69%). The overhead rate used is the
20 same overhead rate applied to regular payroll in the ordinary course of business.
21 This amount is shown on my Document No. KMD-16. Any difference between
22 the actual payroll overhead applicable to the final actual regular payroll and the
23 \$4.4 million will, if necessary, be addressed in the final true up process.

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The payroll overhead applicable to overtime payroll included in the 2005 storm costs is \$4.0 million (\$60.3 million at 6.69%). The lower overhead rate applicable to overtime payroll is based on the assumption that only social security taxes would apply to overtime payroll. This amount is shown on my Document No. KMD-16. Any difference between the actual payroll overhead applicable to the final actual overtime payroll and the \$4.0 million will, if necessary, be addressed in the final true up process.

Consequently, if the Commission disallows recovery of any portion of the regular payroll, then the applicable payroll overheads associated with this amount should be computed using the appropriate percentage above instead of removing the entire amount. The applicable percentage should also be applied to any regular payroll offsets approved by the Commission.

Q. On page 10 of Ms. DeRonne’s testimony, she recommends that an offset to fleet vehicles for the capital portion of \$2.8 million not be considered in determining the total amount of fleet vehicles that should be charged to the 2005 storms. Do you agree with this recommendation?

A. No. Under the incremental cost approach, there is an adjustment to remove fleet vehicle costs that are already included in base rates and another adjustment to remove the normal cost of capital from the amount of storm costs to be recovered. Included in both of these adjustments is an amount for the estimated capital portion of fleet vehicle costs. Therefore, if both the total amount of fleet

1 vehicle costs and capital adjustments are made, then the estimated amount of the
2 capital portion of fleet vehicle costs has been subtracted from the amount of
3 storm costs to be recovered twice.

4
5 Once FPL determined the total amount of company-owned fleet vehicle costs
6 related to the 2005 storms, which was provided in FPL's response to Staff's
7 Second Set of Interrogatories, Question No. 96 in Docket No. 060038-EI, FPL
8 applied the same capital/operations and maintenance split for vehicles utilized by
9 the Company in the normal course of business to determine the \$2.8 million
10 amount related to capital.

11
12 In addition, if the Commission adopts the budget based-incremental cost
13 approach advocated by OPC, a portion of the year-end operations and
14 maintenance budget variances for Fleet Services must be considered. As
15 discussed in Ms. Williams' rebuttal testimony, FPL exceeded its 2005 Fleet
16 Services operations and maintenance budget by \$3.2 million of which \$1.2
17 million for additional maintenance on its vehicles due to extraordinarily high
18 usage of the vehicles during storm restoration. This amount which partially
19 offsets the fleet vehicle costs is shown on page 2 of my Document No. KMD-13.

20 **Q. On page 10 and 11 of Ms. DeRonne's direct testimony, she recommends that**
21 **the 2005 storm costs be reduced by the year-end variance for**
22 **telecommunications costs of \$0.5 million, since FPL came in under budget.**
23 **Do you agree with this recommendation?**

1 A. No. This amount represents variances for multiple Business Units for local and
2 long distance service, cellular service, leased lines, pagers, and equipment
3 maintenance that were either greater or less than plan. These variances were not
4 due to savings from storm restoration during 2005. Two examples of factors
5 contributing to the variance are as follows: the Company was able to negotiate a
6 lower contract rate with its long distance carrier and revised its cellular phone
7 policy in mid-year 2005. FPL should not be penalized for its efforts at managing
8 costs solely because storms affected its service territory.

9

10 This is a good illustration of why FPL objects to making storm restoration cost
11 adjustments based solely on budget variances without further analysis. This
12 concern was discussed in more detail earlier in my testimony.

13 **Q. Ms. DeRonne states on page 12 and 13 of her direct testimony that FPL has**
14 **included \$0.3 million of repairs for cooling fans at Martin Unit 8 “even**
15 **though a warranty claim is being pursued.” She further states that this**
16 **amount should not be included in the 2005 storm costs. Do you agree?**

17 A. No. FPL has included this amount in its 2005 storm costs because the warranty
18 claim is being contested by the manufacturer. If FPL is successful in recovering
19 an amount under the warranty, then FPL will adjust the 2005 storm costs by this
20 amount. Until this has been finalized, FPL believes this amount has been
21 appropriately included in the 2005 storm costs and should not be adjusted at this
22 time.

23

1 If the Commission determines that this amount should be removed from storm
2 cost recovery, then FPL requests that specific provision be made to allow FPL to
3 charge the storm reserve to the extent any of the costs are not recovered through
4 the warranty.

5 **Q. On pages 18 and 19 of Ms. DeRonne's direct testimony, she recommends**
6 **that \$2.4 million related to the condenser tube repair at Martin Units 1 and**
7 **2 be removed from the 2005 storm costs. Do you agree that an adjustment**
8 **for this repair should be made at this time?**

9 A. Yes, however the effect of this adjustment should be addressed in the final true-
10 up process.

11

12 As provided in FPL's response to Staff's Third Set of Interrogatories, Question
13 No. 147 in Docket No. 060038-EI, the amount related to Martin Plant Unit 2
14 condenser tubes will be removed from the storm estimate since FPL was unable
15 to identify the necessary repairs as a direct result of 2005 storm damage. In
16 addition, FPL also stated that further analysis indicates the Martin Plant Unit 1
17 condenser tubes need to be completely replaced, not partially replaced as initially
18 estimated. A complete tube replacement is identified as a capital project. As
19 such, the revised estimate as of March 31, 2006 for condenser tube repair at the
20 Martin Units is \$2,785,364. This amount was then subsequently removed from
21 the 2005 storm costs and identified as capital. This adjustment is shown on page
22 1 of my Document No. KMD-13.

1 Q. On pages 19 and 20 of Ms. DeRonne's direct testimony, she states that
2 hydrolasing for the Martin Units "is a normal, recurring maintenance item"
3 and was projected to be performed during the next scheduled outages for
4 these units. Do you agree with Ms. DeRonne that \$0.2 million for these
5 costs should be removed from the 2005 storm costs?

6 A. No. Although hydrolasing may be a normal maintenance activity, the
7 hydrolasing performed at this time was not part of normal maintenance. Rather,
8 it was specifically the result of storm debris passing through the tubes and was
9 necessary to enable a proper assessment of the condition of the tubes after the
10 hurricane. As such, it is not a "normal, recurring maintenance item."

11 Q. On pages 20 and 21 of Ms. DeRonne's direct testimony, she recommends
12 that \$2.5 million for advertising costs and \$0.1 million for public relations
13 should be removed from the 2005 storm costs. Do you agree with Ms.
14 DeRonne's recommendation?

15 A. No. Public outreach advertising, including communications designed to keep
16 customers informed of the status of FPL's restoration efforts and to inform
17 customers of the extraordinary dangers that exist during storm restoration, should
18 be encouraged, not discouraged. These communications meet a critical customer
19 need for restoration and safety-related information after a natural disaster. As
20 such, public safety and public outreach advertising costs should be allowed.

21

22 Also, thank you advertising designed to recognize foreign crews who assist in
23 restoration efforts should be allowed in order to encourage their continued

1 support. These reasonable and necessary expenses are highly volatile and
2 extraordinary and would ordinarily not be included in the cost of service for
3 purposes of setting base rates.

4
5 Of the costs FPL has included in its 2005 storm costs, FPL has determined that
6 \$404,627 associated with the employee campaign radio and web advertisement
7 was image enhancing and that amount has been reversed from the storm reserve
8 during March 2006. FPL also removed \$17,949 related to conservation
9 advertising in March 2006. These adjustments are shown on my Document No.
10 KMD-13.

11 **Q. Mr. Larkin asserts on page 27 of his direct testimony that employee**
12 **assistance costs should not be recovered since they “are no different than**
13 **any other customer or employee of a non-utility company.” Do you agree**
14 **with his assertion?**

15 A. No. Our employees are fully committed to storm restoration and report to work
16 immediately after a storm passes. They can do so only because the Company
17 provides assistance for things such as roof tarps, ice, water, etc. that allow the
18 employee to immediately leave his or her home and report to work. If the
19 Company does not provide this assistance, the employee is going to have to take
20 care of these issues before reporting for storm duty which could impact their
21 ability to report to work as quickly as they otherwise would delaying the start of
22 restoration. These costs would not have been incurred, but for the need to restore
23 service due to outages caused by the 2005 storms as soon as possible. Therefore,

1 under either an incremental cost approach or FPL's proposed methodology, these
2 costs are appropriate for recovery as they are directly related to storm restoration
3 and are not a cost that would be budgeted or reflected in base rates.

4 **Q. Mr. Larkin states on page 28 of his testimony that uncollectible accounts**
5 **expense should not be included in the 2005 storm costs, as they are difficult**
6 **to directly relate to the effects of a storm. Do you agree with his statement?**

7 A. No. Since FPL mobilizes a large portion of its workforce to restore service to
8 customers as quickly and safely as possible, a majority of the resources that
9 would be utilized to mitigate uncollectible bills are reassigned to storm
10 restoration. Base rates assume that these mitigation efforts are in place and are
11 working. Therefore, delinquent customers receive additional days to pay and if
12 they do not ultimately pay, the amount of uncollectible write-off expense
13 becomes higher as a direct result of hurricane activity. Again, but for the
14 restoration effort resulting from the storms, these additional costs would not have
15 been incurred.

16
17 Furthermore, on page 16 of the 2004 Storm Cost Recovery Order, the
18 Commission stated the following:

19 "Further, we find that there is a direct relationship between hurricane
20 activity and the amount of uncollectible, or bad debt, expense incurred.
21 We believe that bad debt expense is not excludable from recovery
22 through the storm reserve simply because it is not a cost of repairing
23 FPL's system and restoring service."

1 Therefore, the Commission has acknowledged the cause and effect relationship.

2 **Q. How did FPL determine the amount of uncollectible accounts expense**
3 **related to the 2005 storms?**

4 A. The process used to determine and calculate the amount of uncollectible
5 accounts expense was provided in FPL's response to Staff's Second Set of
6 Interrogatories, Question No. 92 in Docket No. 060038-EI. This response is
7 provided as my Document No. KMD-17.

8 **Q. On page 21 of Ms. DeRonne's direct testimony, she recommends an**
9 **adjustment to remove \$2.8 million for estimated property damage and**
10 **personal injury costs under the General Counsel Business Unit, which was**
11 **noted in FPL's response to OPC's Ninth Set of Interrogatories, Question**
12 **No. 184 in Docket No. 060038-EI. She goes on to state that these costs do not**
13 **directly relate to storm restoration and are considered when base rates are**
14 **determined. Do you agree with her recommendation?**

15 A. No. Any property damage and personal injury costs that are directly related to
16 storm restoration should be recoverable. In other words, but for the restoration
17 effort associated with the 2005 storms, these costs would not have been incurred.

18

19 As I have previously stated, removal of these costs from storm recovery would in
20 effect attribute them to base rates. Since these costs are extraordinary in nature,
21 it is highly unlikely they would be recognized for recovery when setting base
22 rates. It has been the Commission's practice in setting base rates to eliminate
23 non-recurring costs. To disallow these costs for both storm recovery purposes

1 and in a base rate proceeding would prohibit FPL from recovering prudently
2 incurred costs.

3 **Q. Has FPL determined if any of its 2005 property damage and personal injury**
4 **costs should be removed from storm cost recovery?**

5 A. Yes. Upon further review of its 2005 property damage and personal injury costs
6 charged to the storm reserve, FPL has removed \$2.2 million of these costs from
7 recovery during March 2006. In addition, it has ensured that the remaining \$0.6
8 million of estimated 2005 property damage and personal injury costs are a direct
9 result of storm restoration. This adjustment is shown on my Document No.
10 KMD-13.

11 **Q. On page 14 of her direct testimony, Ms. DeRonne recommends that FPL**
12 **remove \$26.3 million in remaining contingencies from the 2005 storm costs.**
13 **Do you agree with this recommendation?**

14 A. No. FPL included contingencies in the 2005 storm cost estimate due to the
15 uncertainty regarding the ultimate cost of repairing the 2005 storm damages.
16 This is a normal practice when estimating the costs of any major project such as
17 a construction project. Because there are varying degrees of uncertainty, you do
18 the best job possible in identifying the work to be performed and in estimating
19 the cost of performing that work. Nevertheless, any prudent manager would
20 insist on including a contingency factor in any large estimate until the
21 uncertainties associated with the job are resolved. Perhaps the most important
22 thing to remember about contingencies, is that they are intended to address the
23 unknown. What ever you know has already been factored into the basic job

1 estimate, what you don't know obviously can't be included. This factor will
2 change as actual costs become known and will be eliminated when all costs are
3 known.

4
5 In a like manner, FPL estimates the costs of restoration projects based on the best
6 available information at the time the estimate is prepared, and a contingency is
7 included to account for uncertainty. As better information becomes known
8 and/or projects become actualized, the amount of contingencies FPL includes in
9 its filing will change. This has already occurred for the 2005 costs. As noted in
10 FPL's response to OPC's Ninth Set of Interrogatories, Question No. 183 in
11 Docket No. 060038-EI, the original amount of contingency included in FPL's
12 filing was \$44.5 million and the amount as of February 28, 2006 was \$26.3
13 million. This reduction was a result of costs being actualized, which is
14 consistent with the function of a contingency.

15
16 Also in March 2006, the accrual for corporate contingencies associated with
17 Hurricanes Dennis and Rita have been eliminated further reducing the
18 contingency to \$7.5 million. This adjustment is shown on page 1 of my
19 Document No. KMD-13. As I have previously stated, the amount of
20 contingencies FPL estimates at this time will change when actual costs become
21 known. Therefore, FPL recommends that this adjustment along with any unused
22 contingency for Hurricanes Katrina and Wilma be reflected in the final true-up
23 process.

1 Q. On pages 28 and 29 of Mr. Larkin's direct testimony, he states that exempt
2 employee overtime incentives should not be included in the 2005 storm costs
3 since their normal pay is "full compensation for all time that they are
4 required to put in." Do you agree with this recommendation?

5 A. No. The salaries of these employees are based on the time required for their
6 normal job requirements, not storm restoration. Prohibiting any incentive
7 payments made to employees who are involved in storm restoration that do not
8 get paid overtime to do so is inappropriate. This payment was determined in a
9 manner consistent with the manner in which overtime payments were computed
10 for other employees and was limited to the amount necessary to avoid inequities.

11

12 The exclusion of incentives provides management level personnel with a
13 disincentive to work storm restoration. These employees frequently work long
14 hours along side other employees who are not exempt from receiving overtime
15 pay which is unfair. The nature of storm restoration is such that all available
16 personnel are asked to report for storm duty to ensure the prompt restoration of
17 service to our customers.

18

19 It is important to note that of the \$60.3 million of overtime payroll FPL included
20 in its filing, only approximately 1.3%, or \$0.8 million, related to exempt
21 employee overtime incentives. This is a small amount of compensation to
22 ensure fairness for the long hours worked by these employees.

1 Q. On pages 23 and 24 of her direct testimony, Ms. DeRonne recommends that
2 FPL offset its 2005 storm costs for amounts received from other power
3 companies for storm recovery assistance provided. Do you agree with this
4 adjustment?

5 A. No. Those amounts have nothing to do with FPL's 2005 restoration efforts and
6 as such it is inappropriate to raise them in this proceeding. FPL does not seek to
7 recover its additional incremental cost for providing mutual aid assistance to
8 other companies and it therefore would be inappropriate to require FPL to credit
9 reimbursements for mutual aid against storm costs.

10

11 As previously discussed, FPL is a member of the Edison Electric Institute (EEI),
12 and the Southeastern Electric Exchange (SEE), where the members of these
13 organizations have a mutual aid agreement to help each other when disasters
14 such as hurricanes occur, and are entitled to recover all reasonable costs for
15 providing assistance to the host utility. It is not a profit making venture.

16

17 When FPL sends its personnel to assist others, it captures actual costs incurred in
18 a job order. When the assistance is complete, FPL applies appropriate loaders to
19 the job order, as it would for any third party billing, and then provides an invoice
20 to the host utility. Under the terms of the mutual aid agreements, FPL is not
21 allowed to bill the host utility for overtime it pays its remaining crews to
22 maintain work schedules due to the absence of personnel sent to assist the host

1 utility. These costs are charged to normal operations and maintenance expenses
2 by FPL and offsets the payments received from other utilities.

3
4 The adjustment proposed by Ms. DeRonne would create a disincentive to FPL's
5 participation in mutual aid arrangements. Any disincentive to participate when
6 other utilities are impacted by natural disasters is not in the best interest of FPL's
7 customers who rely on these utilities to provide assistance in return. It is
8 unlikely these utilities would provide assistance to FPL if we are unwilling to do
9 so when they are in need.

10 **Q. If the Commission determines that an adjustment for amounts received**
11 **from other power companies for recovery assistance provided is**
12 **appropriate, do you agree with Ms. DeRonne that \$6.9 million should be**
13 **adjusted?**

14 **A.** No. The amount computed by Ms. DeRonne is wrong. As provided in response
15 to OPC's Seventh Set of Interrogatories, Question No. 156 in Docket No.
16 060038-EI,

17 "The breakdown of the \$9,095,845 charged for the loan of FPL
18 employees and equipment to other power companies for storm restoration
19 is as follows: Base Payroll \$2,080,517; Overtime Payroll \$3,300,152;
20 Bonuses \$0; Travel and Other \$2,227,252; Materials \$75,819; Vehicle
21 \$659,404 and Administrative & General Expenses \$752,701."

22

1 Based on this information, other incremental costs should be added to the travel
2 and other of \$2.2 million Ms. DeRonne agrees is incremental. Specifically, the
3 \$3.4 million of overtime payroll and materials are incremental since they were
4 not included in base rates or in the 2005 budget. In addition, FPL has calculated
5 an amount of \$0.3 million in overtime for backfill work for the crews sent to
6 assist the other utilities for Hurricane Rita. No computations are available for
7 the other storms. Therefore, if the adjustment is made, the appropriate amount
8 would be \$3.2 million, not the \$6.9 million Ms. DeRonne is recommending. The
9 following schedule shows how the adjustment was determined:

11	Total Costs for Assistance Provided	\$9.1
12	Less Incremental Costs:	
13	Travel and Other	(2.2)
14	Overtime and Materials	(3.4)
15	Backfill for Crews Sent to Assist	<u>(0.3)</u>
16	Net Adjustment to 2005 Storm Costs	<u>\$3.2</u>

17 **Q. In Audit Finding No. 5 of the Commission Staff's Audit Report issued on**
18 **February 14, 2006, it states that FPL has initiated the survey for repairing**
19 **the other companies' poles during the 2005 storm restorations, but it is not**
20 **completed. What is FPL's response to this finding?**

21 **A.** As I have previously discussed, the provisions of the joint use agreements
22 between FPL and other companies that own poles provides that when a pole
23 owner replaces another's pole, it is entitled to be reimbursed for all reasonable

1 costs and expenses that would not otherwise have been incurred if the owner had
2 made the replacement. Preparation of this billing requires FPL to complete
3 survey of the actual poles that were replaced. As of March 31, 2006, FPL has
4 not completed its survey of the poles replaced in 2005 but has estimated that the
5 amount to be reimbursed by third parties will total \$10.6 million. As such, FPL
6 has identified the estimated capital amount at normal cost associated with these
7 poles to be \$4.2 million and credited the estimated difference of \$6.4 million to
8 the 2005 storm costs. This adjustment is shown on page 1 of my Document No.
9 KMD-13. When the survey has been completed, any difference between the
10 estimated and actual amounts will be adjusted accordingly. The effect of any
11 adjustment will be reflected during the true-up of 2005 storm costs.

12 **Q. On page 17 of Ms. DeRonne's direct testimony, she states that an**
13 **adjustment should be made to FPL's 2005 storm recovery costs for these**
14 **estimated reimbursements. Do you agree with the \$7,923,288 she is**
15 **proposing to exclude from recovery?**

16 **A.** No. The amount to remove from the 2005 storm costs should be \$6,407,769.
17 This amount was determined by subtracting the estimated normal cost of capital
18 for these poles of \$4,156,615 from the total estimated amount of reimbursement
19 of \$10,564,384. FPL utilized its standard work management system to calculate
20 the normal cost of these poles would be and as discussed above, has made an
21 adjustment to capital for these estimated amounts.

22

1 When the actual amount of normal cost of capital for all capital projects is
2 determined, they will be recorded to plant-in-service. Therefore, when the
3 normal cost of capital related to the actual reimbursement from third parties is
4 determined, it will be credited to plant-in service. The effect of this adjustment
5 will result in the elimination of the capital costs associated with these third party
6 poles from FPL's books and records. As such, they will not be included in
7 FPL's rate base in future rate proceedings.

8 **Q. On page 22 of Ms. DeRonne's direct testimony, she recommends that an**
9 **adjustment be made to remove \$3.0 million due to an increase in FPL's**
10 **estimated capital costs. Do you agree with this recommendation?**

11 A. No. FPL acknowledges there is in an increase in estimated capital costs but
12 recommends that the adjustment be included in a final true-up process.

13

14 As stated on lines 4 through 9 of my direct testimony on page 27,

15 "The capital estimates may change for various reasons, including but not
16 limited to, true-up of material issuances/returns, true-up of actual costs
17 for assets other than Transmission and Distribution, and/or true-up arising
18 from subsequent processing required to allocate the capital costs at the
19 county level for property tax purposes. Any difference between what was
20 estimated and the actual capital costs will be charged or credited to the
21 Reserve."

22 The necessary adjustments are reflected in the amounts shown on line 12 on page
23 1 of my Document No. KMD-13 under the heading of "Capital Expenditures."

1 Q. On page 7 of Mr. Larkin's direct testimony, he alleges that a certain level of
2 materials and supplies function the same way and they are already
3 recovered through base rates. Do you agree with his conclusion?

4 A. No. It is apparent that Mr. Larkin does not understand how FPL handles
5 materials and supplies related to storm restoration. FPL establishes staging sites
6 to coordinate storm restoration activities, which facilitates those restoring power
7 ability to access materials and supplies. Available materials and supplies are
8 transferred out of inventory to these staging sites and where necessary, additional
9 materials and supplies required for storm restoration are purchased and shipped
10 directly to the staging sites. When storm restoration is complete, all unused
11 materials and supplies are transferred back to inventory or if not needed, are
12 returned to vendors for credits. In any event, only the materials and supplies that
13 are directly related to storm restoration are included in the Company's storm
14 costs. Furthermore, the Company does not charge replenishment of the materials
15 and supplies it used for storm restoration to its storm costs, but rather to
16 inventory.

17 Q. In Audit Finding No. 2 of the Commission Staff's Audit Report issued on
18 February 14, 2006, it notes that FPL included \$1.4 million for substation
19 landscaping and \$0.09 million in service center landscaping in its 2005 storm
20 costs. Does FPL believe landscaping costs should be included?

21 A. Yes. These costs are necessary to return landscaping to its pre-storm condition
22 in order to be in compliance with local code requirements. FPL was in
23 compliance with these requirements before the storms, and but for the 2005

1 storms, these costs would not have been incurred. As such, these costs should
2 qualify under both FPL's proposed methodology and the incremental cost
3 approach. Failure to comply with code requirements would result in the local
4 jurisdictions initiating code enforcement actions.

5 **Q. In Audit Finding No. 6 of the Commission Staff's Audit Report issued on**
6 **February 14, 2006, it notes that FPL included \$10.1 million in Nuclear**
7 **Preparation costs in its 2005 storm costs. Does FPL believe storm**
8 **preparation costs should be included?**

9 A. Yes. These costs are necessary in order to safely prepare nuclear sites for
10 approaching storms. The need for and nature of these activities are further
11 discussed by Mr. Warner in his rebuttal testimony.

12
13 Further, as illustrated on Document No. MW-3 of Mr. Warner's rebuttal
14 testimony, the total amount of the amount of Nuclear storm preparation costs
15 includes regular and overtime payroll of \$1.7 million and \$1.8 million,
16 respectively. Therefore, if the Commission requires an adjustment to remove
17 Nuclear storm preparation costs from the 2005 storm costs in addition to an
18 adjustment for regular payroll or overtime, the payroll costs included in the
19 Nuclear storm preparation costs should not be included in any such adjustment.
20 Otherwise, it will be subtracted from the total amount of 2005 storm costs twice.

21 **Q. In Audit Finding No. 10 of the Commission Staff's Audit Report issued on**
22 **February 14, 2006, it notes that FPL's supporting documentation for the**
23 **Power Systems Business Unit does not support the accrual on its books as of**

1 **December 31, 2005 for this Business Unit. What is FPL's response to this**
2 **finding?**

3 A. As indicated in FPL's response to Staff's Third Set of Interrogatories, Question
4 No. 148 in Docket No. 060038-EI, the difference of \$2.6 million between the
5 Power Systems Business Unit accrual recorded on the general ledger as of
6 December 31, 2005 and the supporting documentation provided was due to the
7 following:

- 8 • \$2.0 million for payroll overheads applied to Power Systems' accrued
9 costs for Hurricane Wilma which was recorded in the Power Systems
10 Business Unit cost rollup rather than the Accounting/Financial Other cost
11 rollup. The support for this should have been included along with the
12 supporting documentation submitted for the Power Systems Business
13 Unit; however, since payroll overheads are typically recorded in the
14 Accounting/Financial Other cost rollup, it was inadvertently omitted
15 when the supporting documentation was supplied to Staff.
- 16 • \$0.6 million for over/under fluctuations for Business Units other than
17 Power Systems. The monthly storm accrual process is based on a
18 Business Unit aggregation of estimated storm restoration costs which is
19 compared to actuals-to-date to derive the current accrual amount. The
20 Company has not adjusted its total accrual each month as the difference
21 has been immaterial, but reviews the estimate in order to determine if
22 adjustments to the accrual should be made. Since this difference was not
23 significant, they were not adjusted. However, these differences were

1 adjusted in the amounts included on line 12 titled "Other Changes in
2 Storm Cost Estimates" on page 1 of my Document No. KMD-13.

3 **Q. As indicated in Ms. Williams' rebuttal testimony on Document No. GJW-10,**
4 **there is still an amount estimated for the Power Generation Business Unit's**
5 **2005 storm costs. Why is this so?**

6 A. The reasons for the estimated amount is due to the unavailability of contractor
7 resources, and FPL's desire to meet its obligation to serve its customers in a cost
8 effective manner. This consideration was discussed in more detail earlier in my
9 testimony. Specifically, if a plant can continue to operate safely, FPL will delay
10 making storm repairs until a scheduled outage takes place rather than paying a
11 premium for contractors or causing higher cost generation to be used while the
12 plant is down.

13 **Q. If FPL brought the fossil units back online after the 2005 storms, why are**
14 **the estimated repairs still necessary?**

15 A. FPL sends out damage assessment teams to evaluate damages at its power plants
16 immediately after a storm passes. Damages which require immediate repair in
17 order to get the unit safely back online are done first. For any remaining work
18 identified, the repairs still need to be completed to ensure the efficiency and
19 reliability of the units, returning them to pre-storm condition. If these repairs are
20 not ultimately made at some point in time, the unit may be forced into an
21 unscheduled outage and the repairs would have to be completed at a premium,
22 and the load the plant serves would have to be replaced possibly with a higher
23 fuel cost, which will ultimately impact our customers.

- 1 **Q. As indicated in Ms. Williams' rebuttal testimony on Document No. GJW-10,**
2 **there is still an amount estimated for 2005 storm costs for Other FPL**
3 **Facilities. Why is this so?**
- 4 A. There is still an estimated amount due to the availability and cost of contractor
5 resources. FPL believes that it is not in the best interests of FPL or its customers
6 to pay premium rates for contractors unless absolutely necessary. As demand for
7 these resources begin to decline, FPL will be able to begin contracting for the
8 required work at a more reasonable cost.
- 9 **Q. On page 38 of Ms. DeRonne's direct testimony, she recommends that FPL**
10 **stop charging 2005 storm costs to the reserve as of December 31, 2006. Do**
11 **you agree with this date?**
- 12 A. No. As shown on Document No. GJW-10 of Ms. Williams' rebuttal testimony,
13 there are still projects remaining to be completed as of March 31, 2006 that
14 would fall past this cut-off date. There are many reasons for the extended timing
15 including when plants come down for outages, and availability of contractors or
16 other resources. The establishment of any arbitrary cut-off date for 2005 storm
17 charges to the reserve should recognize the projects listed on Document No.
18 GJW-10. In addition, when the actual costs for these projects are known, any
19 necessary adjustments to true-up these estimates should be allowed.
- 20 **Q. Are there any additional exhibits you are sponsoring?**
- 21 A. Yes. I have attached FPL's filed responses to Commission Staff's Audit Report
22 issued on February 14, 2006 and Supplemental Audit Report issued on March
23 10, 2006 as my Document No. KMD-18.

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CONCLUSION

Q. Please summarize your rebuttal testimony.

A. FPL has properly determined the amount of costs it incurred in restoring service to its customers following the 2005 hurricanes. These costs have been determined using the Actual Restoration Cost Approach. An adjustment to remove normal capital costs has been made.

My rebuttal testimony demonstrates that the Actual Restoration Cost Approach with an adjustment for normal capital costs is the appropriate way to measure restoration costs for recovery because it is straight forward and uses the same work order process to capture costs that it uses on a day-to-day basis.

Contrary to the allegations made by witnesses for OPC, there is no double recovery of storm costs because a significant amount of budgeted revenues were not realized due to service interruptions caused by the hurricanes, as shown on my Document No. KMD-10.

FPL has made a number of estimates in determining its storm costs, including those designed to address contingencies. Estimates are an inherent part of the accounting process and must be based on reliable information, not mere speculation regarding future events. FPL's estimates meet that criteria. Contingencies are a standard practice used to account for a range of unidentified

1 but likely additional costs associated with the restoration process. When costs
2 are fully actualized, all amounts for contingencies will be eliminated.

3
4 My rebuttal testimony rebuts the notion that FPL somehow profits from
5 hurricanes and the related restoration process. In fact, it suffers a significant loss
6 of revenue and ongoing additional resource demands due to the storm event.
7 Because personnel that ordinarily are engaged in work that would be considered
8 appropriate for base rate recovery are reassigned to storm restoration activities,
9 their costs are charged to the storm work orders for recovery by other means.
10 The work that they would otherwise be performing does not go away, nor do
11 base revenues get collected to pay these ongoing costs during the outages.

12
13 My rebuttal testimony also addresses certain of the adjustments proposed by
14 OPC witnesses DeRonne and Larkin and the Staff Audit Findings, and either
15 shows them to be improper adjustments, or provides corrected amounts as
16 appropriate.

17
18 Finally, my rebuttal testimony presents the latest updates to the Company's
19 storm estimates for 2004 and 2005 which are based on better information than
20 that available at the time the petition was filed. The Commission needs to
21 recognize that storm restoration and the resulting costs significantly lag the
22 actual storm event; therefore, true-ups will be necessary in order to ensure that
23 customers pay only the actual, full storm restoration costs. In addition, my

1 rebuttal testimony shows that the previously filed amount for securitization is
2 reasonable to utilize in establishing the securitization amount today and that the
3 ultimate amount of costs should be trued-up in a final true-up process.

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

5 **A. Yes.**

**2005 Identified Hurricane Effects on Net Operating Income
Under Different Storm Cost Approaches
(Dollars in Thousands)**

Line No.	FPL's Proposed Method			FPSC 2004 Storm Cost Order Method			OPC's Proposed Method		
	Revenues	Operating Expenditures	Operating Income	Revenues	Operating Expenditures	Operating Income	Revenues	Operating Expenditures	Operating Income
1	2005 Identified Hurricane Effects								
2									
3	\$ (51,354)		\$ (51,354)	\$ (51,354)		\$ (51,354)	\$ (51,354)		\$ (51,354)
4	Operating Expenses:								
5	Regular Payroll	(26,092)	26,092	-	(26,092)	26,092	-	(26,092)	26,092
6	Nuclear Payroll Expected to be Recovered Through Insurance	2,491	(2,491)	-	2,491	(2,491)	-	2,491	(2,491)
7	Vacation Buy Back	1,209	(1,209)	-	1,209	(1,209)	-	1,209	(1,209)
8	Backfill and Catch-up	8,665	(8,665)	-	8,665	(8,665)	-	8,665	(8,665)
9	Payroll Normally Charged to Capital	8,000	(8,000)	-	8,000	(8,000)	-	8,000	(8,000)
10	Payroll Normally Charged to Clauscus	2,730	(2,730)	-	2,730	(2,730)	-	2,730	(2,730)
11	Payroll Overheads at 16.69%	(2,148)	2,148	-	(2,148)	2,148	-	(2,148)	2,148
12	Payroll Overheads at 6.69%	580	(580)	-	580	(580)	-	580	(580)
13	Total Operating Expenses	(4,566)	4,566	-	(4,566)	4,566	-	(4,566)	4,566
14									
15	2005 Net Hurricane Impact	\$ (4,566)	\$ (46,788)	\$ (51,354)	\$ (4,566)	\$ (46,788)	\$ (51,354)	\$ (4,566)	\$ (46,788)
16									
17									
18									
19									
20									

**Net Operating Income Impact of the 2005 Hurricanes
Under Different Storm Cost Approaches
(Dollars in Thousands)**

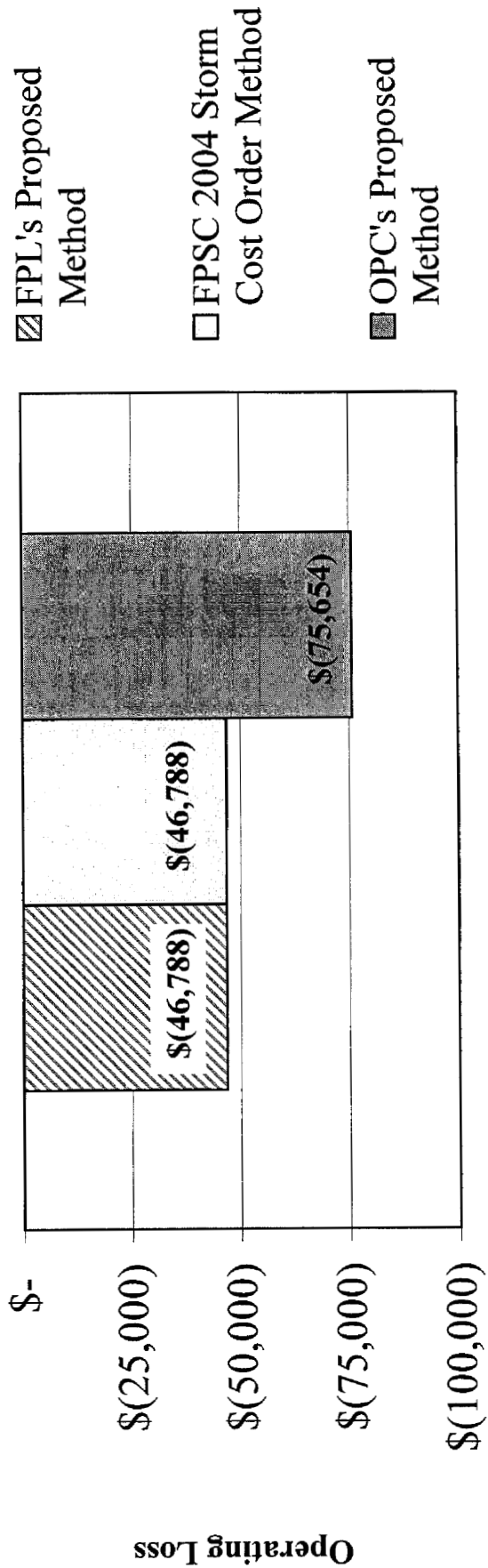
Line No.	FPL's Proposed Method*			FPSC 2004 Storm Cost Order Method			OPC's Proposed Method		
	Revenues	Operating Expenditures =	Operating Income +	Revenues	Operating Expenditures =	Operating Income +	Revenues	Operating Expenditures =	Operating Income +
1	<u>Hurricane Effects Adjusted for Different Storm Cost Methods</u>								
2									
3	\$ (51,354)	\$ (4,566)	\$ (46,788)	\$ (51,354)	\$ (4,566)	\$ (46,788)	\$ (51,354)	\$ (4,566)	\$ (46,788)
4									
5	Effect of Storm Cost Methods								
6	Regular Payroll Adjustment								
7	-	-	-	-	26,092	(26,092)	-	26,092	(26,092)
8	-	-	-	-	(2,491)	2,491	-	-	-
9	-	-	-	-	(2,237)	2,237	-	-	-
10	-	-	-	-	(1,209)	1,209	-	-	-
11	-	-	-	-	(8,665)	8,665	-	-	-
12	-	-	-	-	(8,000)	8,000	-	(8,000)	8,000
13	-	-	-	-	(2,730)	2,730	-	(2,730)	2,730
14	-	-	-	-	1,775	(1,775)	-	2,564	(2,564)
15	-	-	-	-	(580)	580	-	-	-
16	-	-	-	-	1,955	(1,955)	-	17,926	(17,926)
17									
18	Other Incremental Costs Adjustments:								
19	-	-	-	-	1,100	(1,100)	-	1,100	(1,100)
20	-	-	-	-	5,738	(5,738)	-	5,738	(5,738)
21	-	-	-	-	(2,767)	2,767	-	-	-
22	-	-	-	-	(1,200)	1,200	-	-	-
23	-	-	-	-	-	-	-	520	(520)
24	-	-	-	-	-	-	-	3,582	(3,582)
25	-	-	-	-	(4,826)	4,826	-	-	-
26	-	-	-	-	(1,955)	1,955	-	10,940	(10,940)
27									
28	\$ (51,354)	\$ (4,566)	\$ (46,788)	\$ (51,354)	\$ (4,566)	\$ (46,788)	\$ (51,354)	\$ 24,300	\$ (75,654)
29									
30									
31									

*FPL's methodology is the Actual Restoration Cost Approach With an Adjustment to Remove Capital Costs

** Income tax effects have not been included.

Impact of 2005 Hurricanes on Net Operating Income

(Dollars in Thousands)



FPL's Proposed Adjustments to the 2004 Storm Costs
(Dollars in Millions)

Line No.	Description	Total 2004 Storm Costs	Insurance Proceeds	Capital Expenditures & Other	2004 Storm Costs to be Recovered
1	Amounts Included in Docket No. 041291-EI	\$ 999.0	\$ (109.0)	\$ (91.9)	\$ 798.1
2					
3	<u>FPL's Proposed Adjustments to the 2004 Storm Costs:</u>				
4					
5	Reduction in Legal Claims and Lawsuits	(0.6)	-	-	(0.6)
6	Reduction in Uninsured Nuclear Damages	(5.1)	-	-	(5.1)
7	Reimbursement for Repair and Restoration of Poles Owned by Others	-	-	(5.4)	(5.4)
8	Net Adjustments in the 2004 Storm Costs	(5.7)	-	(5.4)	(11.1)
9					
10					
11	2004 Storm Costs Recorded on the General Ledger as of March 31, 2006	\$ 993.3	\$ (109.0)	\$ (97.3)	\$ 787.0
12					
13					
14					
15					

Comparison of OPC's and FPL's Proposed Adjustments to the 2004 Storm Costs

Line No.	Description	OPC Witness DeRonne Document No. DD-2	FPL's Proposed Adjustments on Page 1 of KMD-11
1	Remove Amounts Allowed in Prior Order that FPL does not Project to Incur	\$ 21,700,000	\$ -
2			
3	Remove Legal Claims & Lawsuits	2,664,038	635,000
4			
5	Remove Accruals for "Various Nuclear Storm Damages"	21,467,915	5,079,200
6			
7	Estimated Offset for Reimbursement for Repair and Restoration of Poles	5,564,858	5,432,966
8	Owned by Other Parties		
9			
10			
11	Reduction to Remaining 2004 Storm Restoration Costs Requested by FPL	\$ 51,396,811	\$ 11,147,166
12	for Inclusion in Storm Financing		
13			
14			
15			

2004 Storm Costs
(\$ millions)

Line No. Description	Per Document No. KMD-2 in Docket No. 041291-EI	As of July 31, 2005	As of March 31, 2006
1 Actual Costs	\$ 629.9	\$ 852.6	\$ 770.7
2 Accruals for Work Completed, But Not Paid	216.7	8.8	-
3 Accruals for Remaining Work to be Completed	43.4	28.6	16.3
4 2004 Storm Costs Recorded on the General Ledger	<u>890.0</u>	<u>890.0</u>	<u>787.0</u>
5			
6			
7 <u>Add Back FPL's Identified Adjustments on Document No. KMD-11:</u>			
8 Legal Claims and Lawsuits	-	-	0.6
9 Uninsured Nuclear Damages	-	-	5.1
10 Billings for Repair and Restoration of Poles Owned by Others	-	-	5.4
11 Total Adjustments Identified by FPL	<u>-</u>	<u>-</u>	<u>11.1</u>
12			
13			
14 <u>Add Back Commission Adjustments</u>			
15 Storm Costs Charged to Capital at Normal Cost	-	-	70.2
16 Storm Costs Charged to the Storm Reserve*	-	-	21.7
17 Total Commission Adjustments	<u>-</u>	<u>-</u>	<u>91.9</u>
18			
19			
20 Total 2004 Storm Costs	<u>\$ 890.0</u>	<u>\$ 890.0</u>	<u>\$ 890.0</u>

25 * Per Commission Order No. PSC-05-0937-FOF-EI, this amount should not have been removed from storm cost recovery.
26 Please note for purposes of this proceeding, this amount is offset by the 2005 storm accrual of \$20.3 million and 2005 storm
27 fund earnings of \$0.1 million, which is illustrated on my Document No. KMD-3 of my direct testimony.
28
29
30

FPL's Proposed Adjustments to the 2005 Storm Costs
(Dollars in Millions)

Line No.	Description	Total 2005 Storm Costs	Insurance Proceeds	Capital Expenditures	Other Recoveries	2005 Storm Costs to be Recovered
1	2005 Storm Costs as Filed on Document No. KMD-4	\$ 906.4	\$ (26.5)	\$ (63.9)	\$ -	\$ 816.0
2						
3	<u>FPL's Proposed Adjustments to the 2005 Storm Costs:</u>					
4						
5	Reduction in Legal Claims and Lawsuits	(2.2)	-	-	-	(2.2)
6	Reduction in Advertising and Communications Expense	(0.4)	-	-	-	(0.4)
7	Martin Unit 1 and 2 Partial Condenser Tube Repair	(2.4)	-	-	-	(2.4)
8	Martin Unit 1 Complete Condenser Tube Repair	2.8	-	(2.8)	-	-
9	Reimbursement for Repair and Restoration of Poles Owned by Others	-	-	-	(6.4)	(6.4)
10	Net Adjustments in the 2005 Storm Costs	(2.2)	-	(2.8)	(6.4)	(11.4)
11						
12	Other Changes in Storm Cost Estimates*	(18.6)	1.4	(5.9)	-	(23.1)
13						
14	2005 Storm Costs Recorded on the General Ledger as of March 31, 2006	\$ 885.6	\$ (25.1)	\$ (72.6)	\$ (6.4)	\$ 781.5
15						
16						
17						
18						
19						
20						
21						
22	*Included in this amount is the adjustment necessary to reduce the remaining contingency to \$7.5 million as of March 31, 2006.					

Comparison of OPC's and FPL's Proposed Adjustments to the 2005 Storm Costs

Line No.	OPC Witness DeRonne Document No. DD-1 Page 1 of 3 (revised)	FPL's Adjustments Based on the 2004 Storm Cost Recovery Order Approach*	FPL's Adjustments Under FPL's Proposed Methodology*
1	2005 Estimated Storm-Recovery Costs as Filed	\$ 906,404,000	\$ 906,404,000
2	Less: Estimated Insurance Proceeds as Filed	(26,533,000)	(26,533,000)
3	Estimated Capital Expenditures as Filed	(63,855,000)	(63,855,000)
4	Net 2005 Storm-Recovery Costs as Filed	816,016,000	816,016,000
5			
6	Incremental Payroll Adjustment		
7	Estimated Regular Employee Payroll as Filed	(26,092,000)	(26,092,000)
8			
9	Less: Capital Payroll In Regular Salaries (Details are on Document No. KMD-15)		2,237,000
10	Nuclear Payroll Expected to be Recovered through Insurance	-	2,491,000
11	2005 Backfill and Catch-up Work	-	7,878,000
12	Payroll Normally Charged To Clauses	2,730,000	2,730,000
13	Payroll Normally Charged To Capital	8,000,000	8,000,000
14	2006 Catch-up Work	-	787,000
15	Vacation Buy Back	-	1,209,000
16	Payroll Loadings (Details are on Document No. KMD-16)	(9,213,514)	(1,195,000)
17	Total Incremental Payroll Adjustments	1,516,486	24,137,000
18	Net Regular Payroll Adjustment	(24,575,514)	(1,955,000)
19			
20	Other Incremental Adjustments		
21	Tree Trimming	(1,100,000)	(1,100,000)
22	Fleet Vehicles	(5,738,000)	(5,738,000)
23	Fleet Vehicles - 2005 O&M Budget Adjustment	-	1,200,000
24	Fleet Vehicles - Capital	-	2,767,000
25	Telecommunications	(520,264)	-
26	Amount Not Recovered In Base Rates	-	4,826,000
27	Other Incremental Adjustments	(7,358,264)	1,955,000
28			
29	Additional Adjustments to FPL's 2005 Storm Costs (Details are on page 1)	(57,049,342)	(11,417,000)
30			
31	Additional Adjustments to FPL's 2005 Power Systems Storm Costs**	(25,462,500)	-
32			
33	Total Adjustments to FPL's Proposed Restoration Costs	(114,445,620)	(11,417,000)
34			
35	Other Changes in Storm Cost Estimates (Details are on page 1)	-	(23,100,000)
36			
37	Total Recoverable (System)	\$ 701,570,380	\$ 781,499,000
38	Jurisdictional factor	99.921%	99.921%
39	Jurisdictional Recovery Amount	\$ 701,016,139	\$ 780,881,616
40			
41			
42			
43			
44	*Total recoverable amounts tie to the general ledger as of March 31, 2006.		
45	**FPL does not propose to make these adjustments, as discussed by Ms. William's in her rebuttal testimony.		

**Backfill, Catch-up, and Payroll Normally Charged to Capital and/or Clauses
Related to the 2005 Storms
(Dollars in Thousands)**

Line No.	Cost	Power Systems	Customer Service	Eng & Constr*	Info Mgmt	Resource & Planning	Total
1	2005 Backfill	\$ 825	\$ -	\$ 13	\$ -	\$ 11	\$ 849
2	2005 Catch-up	6,422	540	2	-	65	7,029
3	Total 2005 Backfill and Catch-up	7,247	540	15	-	76	7,877
4	2006 Catch-up	368	316	103	-	-	787
5	Total Backfill and Catch-up	7,615	856	118	-	76	8,664
6							
7	Payroll That Would Have Normally Been Charged to Clauses	1,513	896	296	15	10	2,730
8							
9	Payroll That Would Have Normally Been Charged to Capital	8,000	-	-	-	-	8,000
10							
11		\$ 17,128	\$ 1,752	\$ 414	\$ 15	\$ 86	\$ 19,394
12							
13							
14							

15 *Represents the sum of amounts for Integrated Supply Chain and Corporate Real Estate organizations.

**2005 Estimated Capital Storm Costs
as of March 31, 2006**

Line No.	Cost	Nuclear	Accounting/ Financial Other	Power Generation	Information Management	Distribution	Transmission	Corporate Real Estate	Total
1	FPL Regular Payroll	\$ -	\$ -	\$ -	\$ 10,500	\$ 1,298,212	\$ 885,748	\$ 42,168	\$ 2,236,629
2	Contractor	400,000	-	4,315,066	199,500	14,783,022	5,307,284	4,758,658	29,763,529
3	Materials	-	-	-	-	18,553,143	4,667,118	2,477	23,222,737
4	Vehicles	-	-	-	-	1,334,085	191,073	-	1,525,159
5	Other, Including Applied Engineering	-	1,056,425	-	-	12,046,869	2,699,612	2,787	15,805,693
6									
7	Total	\$ 400,000	\$ 1,056,425	\$ 4,315,066	\$ 210,000	\$ 48,015,331	\$ 13,750,835	\$ 4,806,090	\$ 72,553,747
8									
9									
10									

FPL's Proposed Adjustment for Payroll Overheads

Line No.	2005 Payroll Overheads
1 Payroll Overhead Adjustment per Document No. DD-1	\$ (9,213,514)
2 Add Footnote (b) From FPL's Response to OPC's 9th Set of Interrogatories, Question No. 184	(305,620)
3 Payroll Overheads Below Threshold in FPL's Response to OPC's 9th Set Of Interrogatories, Question No. 184	(43,348)
4 Adjustment to Correct Payroll Overhead (see proof below)	1,171,382
5 Total Payroll Overheads	<u>\$ (8,391,100)</u>
6	
7	
8 <u>Proof of Payroll Overheads</u>	
9 Regular Payroll Overheads (\$26.1 million at 16.69%)	\$ 4,354,755
10 Overtime Payroll Overheads (\$60.3 million at 6.69%)	4,036,345
11 Total Payroll Overheads	<u>\$ 8,391,100</u>
12	
13	
14 <u>Payroll Overhead Adjustment Offsets</u>	
15 Social Security Taxes Related to Overtime Payroll (\$60.3 million at 6.69%)	\$ 4,036,345
16 Nuclear Payroll Expected to be Recovered Through Insurance (\$2.5 million at 16.69%)	415,715
17 Backfill and Catch-up (\$8.7 million at 6.69%)	579,689
18 Payroll Normally Charged to Capital (\$8.0 million at 16.69%)	1,335,200
19 Payroll Normally Charged to Clauses (\$2.7 million at 16.69%)	455,637
20 Payroll Loadings Included in Capital Expenditures (\$2.2 million at 16.69%)	373,460
21 Total Payroll Overhead Adjustment Offsets	<u>7,196,045</u>
22	
23	
24 FPL's Proposed Payroll Overheads Adjustment	<u>\$ (1,195,055)</u>
25	
26	
27	
28	
29	
30	
31 Note:	
32 Payroll overheads shown above are based on the regular payroll and overtime payroll reflected in FPL's petition. Any difference	
33 between the payroll or related payroll overheads will, if necessary, be addressed in the final true-up process.	
34	
35	

Florida Power & Light Company
Docket No. 060038-EI
Staff's Second Set of Interrogatories
Interrogatory No. 92
Page 1 of 1

Q.

For 2005 Storm Recovery Costs, please provide a detailed calculation of, and describe the method of recording and accounting for, uncollectible expense

A.

The uncollectible expense estimation process captures incremental write-offs due to storm resulting from:

1. Incremental usage during collection policy suspension period and
2. Incremental usage during collection back-log period to work accounts.

The first component is calculated based on the period of time in which collection policies were suspended times customers' daily usage and adjusting it for outages during the period.

The second component is calculated based on the period of time to catch-up the field collections back-log (based on historical collection productivity rates) times the customers' daily usage.

These two components provide an average incremental write-off per account which is then multiplied by the projected number of customers that will write-off during the period. These incremental gross write-offs are then reduced for estimated post-write off recoveries (based on historical rates) to provide net write-offs.

Reference attachment 1 for details on actual calculation.

PERIOD OF SUSPENSION - Schedule 1

	Miami-Dade	Broward	Palm Beach	North	West
Katrina					
Date of Storm	8/26/2005	8/26/2005	8/26/2005	8/26/2005	8/26/2005
Resumed Field Collection	9/7/2005	9/7/2005	9/7/2005	9/7/2005	9/7/2005
Rita					
Date of Storm	9/20/2005	9/20/2005	9/20/2005	9/20/2005	9/20/2005
Resumed Field Collection	9/22/2005	9/22/2005	9/22/2005	9/22/2005	9/22/2005
Wilma					
Date of Storm	10/24/2005	10/24/2005	10/24/2005	10/24/2005	10/24/2005
Resumed Field Collection	11/15/2005	11/15/2005	11/15/2005	11/15/2005	11/15/2005
<i>Maximum Elapsed Period</i>	36	36	36	36	36
<i>Half-period convention (avg # days collection suspension)</i>	18	18	18	18	18

ANTICIPATED WRITE-OFFS - Schedule 2

	Miami-Dade	Broward	Palm Beach	North	West
<i>Final Notices Issued/Resumed due to Policy Suspension</i>	160,184	144,228	126,944	120,438	113,516
<i>Final Notice Expiration:</i>					
% expiration by districts	66%	63%	61%	63%	60%
Total # Final Notices Expired	105,142	91,351	77,805	76,044	68,542
<i>Field Loads:</i>					
% Final Notices Expired Load to Field Coll	41%	39%	38%	38%	38%
Total Number of Field Loads	43,496	35,311	29,830	28,977	26,085
<i>10% Write Off</i>	4,350	3,531	2,983	2,898	2,609

ADDITIONAL CONSUMPTION DURING BACK-LOG - Schedule 3

	Miami-Dade	Broward	Palm Beach	North	West
Number of accts that load to the field (back-log)	43,496	35,311	29,830	28,977	26,085
# Collectors	19	17	18	11	10
# Collectors net of vacation (assumed 7 out of 10 will be available)	13	12	13	8	7
# Accts Wkd per Collector per day	32.9	32.9	30.6	30.2	28.4
# Accts Wkd per day	438	392	386	233	199
Work Days to Complete back-log	99	90	77	125	131
Associated Weekend Usage	28	26	22	36	37
Total # Days of Additional Consumption	128	116	99	160	169
# Days to Work Storm Back-log	64	58	50	80	84

Assumption:

70% of the time collectors will be available since 10% of the time collectors will be on vacation.
 Productivity information and work days is based on 5-day weeks, 8 hrs/day

Effective Percent of Power During Collection Suspension - Schedule 4

	Miami-Dade	Broward	Palm Beach	North	West
Cumulative # of customer days without power	7,894,030	7,747,575	5,613,401	108,000	1,279,300
# days before resumption of field collection	36	36	36	36	36
Number of customers	973,777	879,911	943,859	910,814	678,439
Maximum number of customer days during the period	35,055,972	31,676,796	33,978,924	32,789,304	24,423,804
Effective % <u>without</u> power during collection suspension	23%	24%	17%	0%	5%
Effective % with power during collection suspension	77%	76%	83%	100%	95%

INCREMENTAL WRITE-OFF CALCULATION

Total	Miami-Dade	Broward	Palm Beach	North	West	Total
Policy Suspension						
Avg Days elapsed due to policy suspension	18	18	18	18	18	
Blended Avg Daily Usage	\$4.25	\$4.25	\$4.25	\$4.25	\$4.25	
Effective % with Electricity	77%	76%	83%	100%	95%	
Avg Incremental Write off per account due to Policy Suspension	\$59	\$58	\$64	\$76	\$73	
Back-log						
Avg Days elapsed due to back-log	64	58	50	80	84	
Blended Avg Daily Usage	\$4.25	\$4.25	\$4.25	\$4.25	\$4.25	
Avg Incremental Write off per account due to Back-log	\$272	\$247	\$212	\$341	\$359	
Projected Impact						
Total Avg Incremental Write-off per Account	\$331	\$305	\$276	\$417	\$431	
Projected Accounts that will write-off	4,350	3,531	2,983	2,898	2,609	16,370
Gross Incremental Write-off Impact	\$1,440,652	\$1,075,301	\$821,940	\$1,208,731	\$1,125,412	\$5,672,036
Recovery Rate by Region (ranges from 36 to 38%)	(\$547,448)	(\$397,861)	(\$304,118)	(\$435,143)	(\$405,148)	(\$2,089,718)
Incremental Net Write Off	\$893,204	\$677,440	\$517,822	\$773,588	\$720,263	\$3,582,318
Katrina & Rita Accrual						\$200,000
Wilma Accrual						\$3,382,318

Final Notices - Schedule 2 Back-up (a)

	Dade 80's	Broward 70's	WPB 40's	West 50's	North 10's	
Pending to Be Issued						
Issued:						
8/26/2005	46	52	29	47	3,491	
8/27/2005	4	2	3	5	4,178	
8/28/2005						
8/29/2005						
8/30/2005	3	4	14,087	10,149	4,673	
8/31/2005		3	4,145	2,923	3,020	
9/1/2005	2	19,701	3,990	2,936	3,184	
9/2/2005	15,913	20,058	7,355	5,736	5,414	
9/3/2005	2,978	8,603	5,081	4,128	4,015	
9/4/2005						
9/5/2005						
9/6/2005						
9/7/2005	5,569	11,377	7,917	6,126	8,179	
9/20/2005	160	79	7,227	60	6,820	
9/21/2005	6	4	4,073	8,813	3,614	
9/22/2005	24,073	3,479	4,452	3,916	4,602	
10/24/2005						Mon
10/25/2005	28	22	12	11	87	Tues
10/26/2005	7	3	5		8,156	Wed
10/27/2005	6	2	6	7,846	4,593	Thurs
10/28/2005	12	4	3	3,738	5,585	Fri
10/29/2005	12	13	8	2,441	4,775	Sat
10/30/2005						Sun
10/31/2005						Mon
11/1/2005	19	15	12	2,422	4,220	Tues
11/2/2005	7	5	9,254	15,304	4,116	Wed
11/3/2005	9	8	1,115	4,015	3,802	Thurs
11/4/2005	16,138	11	1,519	3,930	4,397	Fri
11/5/2005	2,597	3	1,500	4,622	5,567	Sat
11/6/2005						Sun
11/7/2005						Mon
11/8/2005	2,281	15	26,259	4,094	4,201	Tues
11/9/2005	58,246	54,350	9,430	3,804	3,747	Wed
11/10/2005	7,907	7,168	5,061	4,256	3,323	Thurs
11/11/2005	8,371	6,209	4,800	4,365	4,385	Fri
11/12/2005	6,312	5,623	4,549	4,051	3,579	Sat
11/13/2005						Sun
11/14/2005						Mon
11/15/2005	9,478	7,415	5,053	3,778	4,714	Tues
						11/10/2004
						11/11/2004
						11/12/2004
						11/13/2004
						11/14/2004
						11/15/2004
						11/16/2004
TOTAL	160,184	144,228	126,944	113,516	120,438	

Note: numbers in blue are forecasted based on 2004 daily FN volume times a 7% increase based on 2005 Aug YTD FN Volume vs. 2004 Aug YTD FN Volume.

003 Data - Schedule 2 Back-up (b)

FN Sent		11	12	13	21	22	23	32	34	41	42	43	44	45	46	51	52	53	54	55	56	57	71	72	73	74	81	82	83	84	85	86	Total																																						
1		16,640	3,647	4,830	12,360	14,526	8,058	3,516	3,652	21,452	20,384	1,809	11,030	18,591	5,564	1,871	14,813	13,424	11,766	6,717	11,859	4,609	16,193	35,855	33,073	22,389	16,052	22,465	29,201	7,082	33,516	28,262	452,808																																						
2		12,588	2,540	3,345	8,732	10,778	5,794	2,550	2,560	15,307	14,494	1,323	8,789	13,254	4,843	1,408	10,939	9,573	8,049	4,949	8,629	3,235	11,458	24,910	22,998	16,182	10,743	15,225	20,262	4,562	23,627	19,036	320,439																																						
3		13,728	2,801	4,036	10,543	11,271	6,567	2,706	2,970	16,733	15,583	1,488	8,391	14,661	5,144	1,465	12,075	10,992	9,595	5,437	9,823	3,803	12,369	27,358	24,429	17,155	12,714	17,012	21,483	5,041	25,468	20,467	353,305																																						
4		14,360	2,988	4,192	10,995	12,609	7,127	2,833	3,185	19,473	18,593	1,717	9,604	17,107	5,861	1,588	13,083	12,223	11,007	6,198	10,395	4,003	14,858	32,555	30,498	21,067	14,830	20,567	26,718	7,130	30,570	24,677	412,609																																						
5		17,342	3,541	5,029	15,496	13,483	9,279	3,422	4,062	23,364	22,086	2,174	12,247	20,349	7,037	1,855	15,498	15,220	13,591	7,078	12,371	4,595	16,884	40,026	38,739	25,927	20,087	26,199	31,823	7,997	36,440	30,417	501,558																																						
6		13,743	2,740	3,862	9,479	13,355	6,720	2,677	2,909	17,918	17,244	1,613	8,808	15,640	5,470	1,538	12,014	11,196	10,307	5,874	9,436	3,754	13,758	30,807	28,806	20,083	14,180	19,211	23,720	6,579	28,750	23,539	385,328																																						
7		18,300	3,803	5,205	15,827	14,380	9,592	3,544	3,824	23,328	22,070	2,043	11,820	20,487	7,015	1,865	16,225	15,550	13,377	7,268	13,125	4,840	17,179	39,746	37,550	26,502	19,636	25,794	31,546	8,756	36,955	30,512	507,444																																						
8		18,363	3,588	5,252	14,551	14,978	9,417	3,654	3,920	23,781	22,517	2,145	12,162	20,986	7,110	1,665	16,231	15,344	13,381	7,328	12,928	4,869	18,193	41,488	37,616	27,335	18,637	25,928	32,197	9,011	39,133	32,424	517,162																																						
9		18,467	3,684	5,080	14,050	15,584	9,147	3,576	3,683	23,558	22,553	2,060	11,388	20,712	7,111	1,937	15,971	14,887	12,947	7,165	12,450	4,898	17,778	38,864	37,525	27,359	18,082	25,815	31,573	8,888	38,257	31,073	507,122																																						
10		20,066	3,944	5,764	15,821	16,149	10,116	3,882	4,184	25,721	25,059	2,234	12,735	23,052	7,621	2,084	17,332	16,402	14,935	7,871	13,809	5,104	19,169	46,156	41,287	29,088	20,190	27,875	34,332	9,736	41,550	34,106	557,466																																						
11		17,358	3,273	4,689	13,204	14,725	8,681	3,026	3,357	21,937	21,079	1,962	11,013	19,663	6,493	1,810	14,886	14,317	12,379	6,484	11,394	4,397	16,134	35,449	34,450	24,448	17,210	24,039	30,547	6,432	35,620	28,814	471,062																																						
		169,642	39,968	56,505	156,311	167,277	100,068	38,828	42,243	256,515	245,339	22,753	128,225	226,234	76,529	21,165	175,177	164,859	144,944	79,856	138,925	52,788	191,958	438,194	403,414	284,612	201,970	276,578	346,586	91,882	408,381	333,250	5,508,774																																						
		800,842														955,595														777,714														1,316,178														1,858,445													

FN Expired (FLDO)		11	12	13	21	22	23	32	34	41	42	43	44	45	46	51	52	53	54	55	56	57	71	72	73	74	81	82	83	84	85	86	Total																																																																																																																																								
1		9,847	2,490	2,981	8,056	6,689	5,117	2,390	2,360	12,192	12,426	1,075	6,547	11,423	3,408	1,216	9,087	7,671	6,345	3,742	7,052	2,513	9,926	21,933	19,650	13,804	10,004	14,490	16,132	4,164	21,094	17,566	277,390																																																																																																																																								
2		7,705	1,698	2,169	5,686	6,749	3,705	1,706	1,720	8,962	8,868	813	4,155	8,272	2,697	966	6,976	5,653	4,588	2,934	5,462	1,906	7,024	15,655	13,922	10,056	6,858	9,806	12,663	2,748	15,337	12,759	200,429																																																																																																																																								
3		8,806	2,000	2,683	6,884	6,891	4,320	1,922	2,025	9,461	9,545	891	5,075	9,267	3,320	1,009	7,788	6,489	5,421	3,210	6,304	2,180	7,799	17,213	14,942	10,910	7,909	11,578	13,498	3,053	16,881	13,874	222,448																																																																																																																																								
4		9,098	2,065	2,696	7,217	7,648	4,663	1,965	2,121	11,481	11,603	1,057	6,018	10,891	3,565	1,096	8,630	7,203	6,282	3,666	6,481	2,297	9,463	20,635	18,873	13,489	9,323	13,558	17,136	4,356	20,224	17,020	267,852																																																																																																																																								
5		10,051	2,330	3,042	9,432	7,718	5,098	2,243	2,467	13,077	13,010	1,236	7,276	12,363	4,176	1,190	9,323	8,532	7,535	3,904	7,378	2,419	10,447	24,464	21,699	16,007	12,027	16,667	20,288	4,735	23,276	19,824	302,834																																																																																																																																								
6		8,380	1,816	2,303	6,049	7,977	4,271	1,793	1,724	10,381	10,448	975	5,056	9,644	3,313	1,067	7,518	6,673	5,882	3,280	5,806	2,138	8,806	19,586	17,744	12,744	8,733	12,468	15,494	4,187	19,421	15,874	241,550																																																																																																																																								
7		11,337	2,410	3,182	10,467	8,680	6,300	2,424	2,397	13,649	13,725	1,223	7,148	13,100	4,309	1,268	10,519	9,375	7,689	4,189	8,031	2,816	11,214	25,174	23,568	17,189	12,335	16,918	20,686	5,398	25,087	20,854	322,610																																																																																																																																								
8		11,200	2,424	3,215	9,722	8,811	6,159	2,498	2,469	14,214	13,991	1,323	7,387	13,362	4,402	1,261	10,584	9,309	7,760	4,187	8,046	2,757	12,255	26,735	23,836	17,808	11,765	16,992	21,042	5,577	26,697	22,513	330,401																																																																																																																																								
9		11,690	2,531	3,286	9,509	9,609	6,108	2,545	2,403	14,259	14,786	1,318	7,150	13,935	4,566	1,375	10,522	9,261	7,553	4,285	7,940	2,876	11,909	25,804	24,256	18,095	11,619	17,430	21,316	5,526	26,422	21,941	331,827																																																																																																																																								
10		13,123	2,730	3,842	10,911	10,122	6,858	2,811	2,670	15,960	16,504	1,445	8,200	15,666	5,144	1,490	11,626	10,396	8,921	4,773	9,097	3,131	13,058	31,199	27,450	19,636	13,188	19,031	23,438	6,479	29,489	24,270	372,558																																																																																																																																								
11		10,337	2,072	2,829	8,088	8,589	5,377	1,961	1,974	12,615	12,636	1,152	6,468	12,444	3,839	1,138	8,960	8,279	6,663	3,683	6,948	2,453	10,127	21,764	20,795	15,228	10,332	15,440	19,490	4,862	23,145	18,916	286,606																																																																																																																																								
		122,983	26,925	35,531	101,283	100,897	64,708	26,602	26,722	150,334	152,116	13,749	78,031	143,896	47,566	14,360	111,617	98,023	82,426	46,414	66,550	30,204	123,707	277,048	250,380	182,503	125,929	181,492	225,085	56,471	272,520	227,080	3,463,152																																																																																																																																								
		505,651														63%														585,692														61%														469,594														60%														833,638														63%														1,088,577														65%														1,088,577														65%													

Field Loads		11	12	13	21	22	23	32	34	41	42	43	44	45	46	51	52	53	54	55	56	57	71	72	73	74	81	82	83	84	85	86	Total
1		3,597	985	1,171	3,158	3,127	1,697	1,005	1,104	4,645	4,562	431	2,125	4,558	1,120	483	3,084	3,004	2,306	1,338	2,463	953	3,821	7,591	6,652	5,209	3,833	5,715	7,496	1,825	8,726	6,616	104,402
2		3,207	839	963	2,356	3,190	1,489	867	1,067	3,999	3,807	361	1,615	3,787	1,222	465	2,898	2,225	1,865	1,120	2,146	826	3,394	7,129	5,983	4,078	3,028	4,498	5,719	1,269	7,264	5,447	86,120
3		3,886	1,051	1,199	3,051	3,337	1,772	1,077	1,240	4,432	4,275	406	2,123	4,224	1,432	551	3,341	3,278	2,314	1,346	2,525	972	4,060	8,340	6,903	4,735	3,647	5,403	6,566	1,337	8,092	6,960	103,861
4		3,704	968	1,238	3,134	3,580	1,866	1,001	1,274	5,025	5,082	479	2,296	4,894	1,372	490	3,763	3,249	2,439	1,445	2,408	913	4,591	9,427	7,762	5,953	3,840	6,355	7,698	1,814	9,356	7,666	115,120
5		3,851	983	1,187	4,206	2,977	2,111	1,093	1,304	5,507	5,408	572	2,302	5,265	1,629	618	3,934	3,768	3,316	1,578	2,928	1,039	5,018	9,885	8,317	6,329	4,872	7,211	9,238	2,134	10,478	9,013	127,872
6		2,938	752	930	2,324	2,970	1,443	848	854	4,201	4,240	405	1,828	3,975	1,167	437	2,902	2,767	2,502	1,242	2,203	768	3,925	7,667	6,355	4,674	3,484	5,258	6,181	1,745	8,614	7,151	96,529
7		4,559	1,016	1,243	4,400	3,266	2,405	1,169	1,210	5,481	5,540	505	2,465	5,408	1,583	539	3,928	4,172	3,316	1,336	3,023	1,024	5,323	10,727	8,985	6,636	5,279	6,350	8,003	2,171	11,186	9,389	131,666
8		3,781	883	1,155	3,097	3,142	2,020	953	1,141	5,334	5,016	486	2,351	5,034	1,466	509	3,874	3,585	2,961	1,374	2,618	901	4,684	8,867	8,577	5,926	4,161						

POWER OUTAGES - Schedule 3 back-up (a)

		80	70	40	50	10-30					
		#	% Pop	#	% Pop	#	% Pop	#	% Pop	#	% Pop
Katrina Hurricane Date	8/26/2005	790,600	81%	550,900	63%	98,600	10%	10,300	1%	2,600	0%
	8/27/2005	507,000	52%	310,500	35%	500	0%	0	0%	0	0%
	8/28/2005	341,200	35%	176,400	20%	0	0%	0	0%	0	0%
	8/29/2005	207,000	21%	94,400	11%	0	0%	0	0%	0	0%
	8/30/2005	118,231	12%	37,031	4%	0	0%	0	0%	0	0%
Rita Hurricane Date	9/20/2005	62,200	6%	44,000	5%	11,400	1%	8,400	1%	0	0%
	9/21/2005	1,100	0%	200	0%	0	0%	0	0%	0	0%
	9/22/2005	0	0%	0	0%	0	0%	0	0%	0	0%
Wilma Hurricane Date	10/24/2005	956,500	98%	862,800	98%	927,100	98%	404,800	44%	90,200	13%
	10/25/2005	908,700	93%	856,900	97%	884,300	94%	304,000	33%	10,100	1%
	10/26/2005	850,900	87%	850,100	97%	794,900	84%	199,100	22%	5,000	1%
	10/27/2005	635,300	65%	709,800	81%	695,900	74%	136,600	15%	100	0%
	10/28/2005	497,000	51%	642,600	73%	561,900	60%	90,800	10%	0	0%
	10/29/2005	370,800	38%	508,000	58%	461,200	49%	52,800	6%	0	0%
	10/30/2005	276,300	28%	384,800	44%	346,000	37%	29,500	3%	0	0%
	10/31/2005	231,500	24%	334,500	38%	246,500	26%	21,500	2%	0	0%
	11/1/2005	210,900	22%	310,500	35%	191,400	20%	13,700	2%	0	0%
	11/2/2005	200,500	21%	265,500	30%	143,600	15%	6,000	1%	0	0%
	11/3/2005	196,000	20%	249,700	28%	106,600	11%	1,800	0%	0	0%
	11/4/2005	172,300	18%	202,500	23%	69,300	7%	0	0%	0	0%
	11/5/2005	140,600	14%	181,200	21%	42,000	4%	0	0%	0	0%
	11/6/2005	99,200	10%	138,800	16%	23,400	2%	0	0%	0	0%
	11/7/2005	62,100	6%	106,700	12%	7,600	1%	0	0%	0	0%
	11/8/2005	35,700	4%	68,800	8%	600	0%	0	0%	0	0%
11/9/2005	16,000	2%	32,500	4%	400	0%	0	0%	0	0%	
11/10/2005	3,200	0%	6,800	1%	100	0%	0	0%	0	0%	
11/11/2005	2,133	0%	4,533	1%	67	0%	0	0%	0	0%	
11/12/2005	1,066	0%	2,266	0%	34	0%	0	0%	0	0%	
11/13/2005	0	0%	0	0%	0	0%	0	0%	0	0%	
Population		973,777		879,911		943,859		910,814		678,439	
		35,055,972		31,676,796		33,978,924		32,789,304		24,423,804	
		36		36		36		36		36	

# Days	80		70		40		50		10-30		
	Accts	Days	Accts	Days	Accts	Days	Accts	Days	Accts	Days	
Katrina Hurricane Date	1	283,600	283,600	240,400	240,400	98,100	98,100	10,300	10,300	2,600	2,600
	2	165,800	331,600	134,100	268,200	500	1,000	0	0	0	0
	3	134,200	402,600	82,000	246,000	0	0	0	0	0	0
	4	88,769	355,076	57,369	229,476	0	0	0	0	0	0
	5	118,231	591,155	0	0	0	0	0	0	0	0
	6	0	0	0	0	0	0	0	0	0	0
Rita Hurricane Date	1	61,100	61,100	43,800	43,800	11,400	11,400	8,400	8,400	0	0
	2	1,100	2,200	200	400	0	0	0	0	0	0
	3	0	0	0	0	0	0	0	0	0	0
	4										
Wilma Hurricane Date	1	47,800	47,800	5,900	5,900	42,800	42,800	100,800	100,800	80,100	80,100
	2	57,800	115,500	6,800	13,600	89,400	178,800	104,900	209,800	5,100	10,200
	3	215,600	646,800	140,300	420,900	99,000	297,000	62,500	187,500	4,900	14,700
	4	138,300	553,200	67,200	268,800	134,000	536,000	45,800	183,200	100	400
	5	126,200	631,000	134,600	673,000	100,700	503,500	38,000	190,000	0	0
	6	94,500	567,000	123,200	739,200	115,200	691,200	23,300	139,800	0	0
	7	44,800	313,600	50,300	352,100	99,500	696,500	8,000	56,000	0	0
	8	20,600	164,800	24,000	192,000	55,100	440,800	7,800	62,400	0	0
	9	10,400	93,600	45,000	405,000	47,800	430,200	7,700	69,300	0	0
	10	4,500	45,000	15,800	158,000	37,000	370,000	4,200	42,000	0	0
	11	23,700	260,700	47,200	519,200	37,300	410,300	1,800	19,800	0	0
	12	31,700	380,400	21,300	255,600	27,300	327,600	0	0	0	0
	13	41,400	538,200	42,400	551,200	18,600	241,800	0	0	0	0
	14	37,100	519,400	32,100	449,400	15,800	221,200	0	0	0	0
	15	26,400	396,000	37,900	568,500	7,000	105,000	0	0	0	0
	16	19,700	315,200	36,300	580,800	200	3,200	0	0	0	0
	17	12,800	217,600	25,700	436,900	300	5,100	0	0	0	0
	18	1,067	19,206	2,267	40,806	33	594	0	0	0	0
	19	1,067	20,273	2,267	43,073	33	627	0	0	0	0
	20	1,066	21,320	2,266	45,320	34	680	0	0	0	0
	21	0	0	0	0	0	0	0	0	0	0
		1,809,300	7,894,030	1,420,669	7,747,575	1,037,100	5,613,401	423,500	1,279,300	92,800	108,000
		27,181,942		23,929,221		28,365,523		31,510,004		24,315,804	
		77%		76%		83%		96%		100%	

Daily Usage - Schedule 5 back-up (a)

Account	Oct-Dec Usage	# Days	\$/Day
2598100	657.6	92	\$7.15
7410137	55.5	29	\$1.91
8932360	92.67	29	\$3.20
13869441	48.51	29	\$1.67
15126386	146.69	29	\$5.06
15829419	128.35	61	\$2.10
17903394	677.75	29	\$23.37
18463141	76.95	60	\$1.28
22023279	132.6	29	\$4.57
22874374	96.65	31	\$3.12
23797285	109.66	29	\$3.78
24283590	325.31	58	\$5.61
24413247	75.23	30	\$2.51
27638113	37.48	30	\$1.25
27986272	19.06	29	\$0.66
28186195	52.31	29	\$1.80
28746352	89.18	29	\$3.08
29275252	135.78	29	\$4.68
29497021	94.68	32	\$2.96
30244057	191.19	29	\$6.59
32312472	439.86	92	\$4.78
32376048	147.2	31	\$4.75
34707026	132.58	29	\$4.57
35235381	545.14	91	\$5.99
35864271	38.74	29	\$1.34
36623155	52.12	29	\$1.80
41436098	77.16	29	\$2.66
42761353	179.55	30	\$5.99
42764258	72.44	29	\$2.50
44028058	52.54	29	\$1.81
44211068	39.84	23	\$1.73
45461381	99.8	29	\$3.44
45680147	305.79	60	\$5.10
45905320	50.41	29	\$1.74
47552476	131.45	29	\$4.53
47986039	34.87	31	\$1.12
50585355	56.18	29	\$1.94
51284446	67.64	29	\$2.33
52513512	119.59	29	\$4.12
53554135	105.14	58	\$1.81
54062112	94.2	62	\$1.52
54149059	273.64	29	\$9.44
55727101	316.25	92	\$3.44
56103096	305.23	58	\$5.26
57225575	35.71	29	\$1.23
57685570	175.19	29	\$6.04
60081320	61.21	29	\$2.11
60656386	60.06	29	\$2.07
60925559	320.09	30	\$10.67
61438578	228.59	89	\$2.57
62458286	379.27	56	\$6.77
64800501	75.74	29	\$2.61
65530420	69.61	29	\$2.40
66436908	8.46	28	\$0.30
66808023	195.4	29	\$6.74
68561364	304.62	60	\$5.08
69902195	151.68	29	\$5.23
70109111	36.56	31	\$1.18
71109367	90.22	29	\$3.11
72508518	274.99	29	\$9.48
75449348	35.24	31	\$1.14
75903161	698.29	91	\$7.67
75988253	52.98	30	\$1.77
77412104	136.09	29	\$4.69

\$3.95

2004 cost recovery clauses	4.53
2005 cost recovery clauses	4.88
Change	8%

Adjusted Daily Usage **\$4.25**

Florida Power & Light Company
 April 4, 2006

Audit Finding No. 1

In its Audit Finding No. 1, Audit Staff states “[i]f the Commission decides to remove regular pay, the \$826,853,000 of un-recovered storm costs from Exhibit A of the filing would be reduced by \$26,092,000. If the exempt overtime not in FPL’s policy is removed, Exhibit A would be reduced by \$768,000.”

FPL’s Response –

1) Regular Payroll

The amount of regular pay that would be removed under Audit Finding No. 1 is overstated. First, if the Commission follows the incremental cost approach, then offsetting adjustments such as those set forth below would be needed to enable FPL to fully recover its prudently incurred costs of providing service. Also under this approach, if the adjustments below are made, then the amount of base revenues not achieved due to the 2005 Hurricanes of \$51,354,000 must be considered. Although this represents the total loss of base revenues, the relevant amount under the incremental cost approach is the adjustment for the amount not recovered through base rates. Therefore, if the net adjustment shown below is made, then the amount not recovered through base revenues is decreased by the same amount, which results in a net zero adjustment to the total amount of recoverable 2005 storm payroll charged to the Reserve.

Estimated Regular Employee Salaries as Filed (1),(2)	(26,092,000)
Less: Nuclear Payroll Expected to be Recovered through Insurance (3)	<u>2,490,800</u>
Net Regular Employee Salaries Charged to Storm	(23,601,200)
Less: 2005 Backfill and Catch-up Work (4)	7,878,000
Payroll Normally Charged To Clauses (5)	2,730,000
Payroll Normally Charged To Capital (6)	8,000,000
Less: 2006 Catch-up Work (4)	787,000
Less: Vacation Buy Back (7)	<u>1,209,000</u>
Total Incremental Salary Adjustments	<u>20,604,000</u>
Net Regular Payroll Adjustment Under Incremental Cost Approach	(2,997,200)

Notes:

(1) As of December 31, 2005, the amount of regular employee salaries related to 2005 storm restoration activities FPL has actually incurred is \$22,680,076.

(2) This amount includes payroll that is part of the normal cost of capital associated with the 2005 storms, which is already included in the removal of estimated capital expenditures of \$63,855,000 when determining the amount of 2005 storm costs to be recovered. Therefore, the regular payroll associated with the normal cost of capital related to the 2005 storms should not be included in any such payroll adjustment. Otherwise, it will be subtracted from the total amount of 2005 storm costs twice. Please note that this amount has not been determined at this time.

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(3) The amount of regular employee salaries charged to the Reserve of \$26,092,000 included an estimate of \$2,490,800 related to nuclear Powerblock repairs, which is expected to be recovered through insurance. Under the incremental cost approach, nuclear payroll expected to be recovered through insurance should not be included in any such payroll adjustment. If it is, then it will be subtracted twice from the total amount of 2005 storm costs to be recovered. Please note that once there is final resolution of insurance recoveries related to the 2005 storm damages, an adjustment will be made to the Reserve accordingly.

(4) There are other payroll costs that should be taken into consideration when making an adjustment for regular payroll under the incremental cost approach, such as backfill and catch-up. The Commission has previously recognized that the presence of backfill and catch-up costs offset directly any amount of base payroll that is not ultimately deemed recoverable through the storm recovery mechanism. Without this offset, FPL is not able to fully recover its prudently incurred costs.

(5) Regular payroll charged to the storm reserve that would have ordinarily been charged to clauses should be allowed to be recovered through the storm reserve since they are not being recovered through a cost recovery clause or through base rates. Simply stated, they are not being recovered twice from customers and, therefore, should not be disallowed under the incremental cost methodology.

(6) Regular payroll charged to the storm reserve that would have ordinarily been charged to capital should be allowed to be recovered through the storm reserve since they are not being recovered through base rates. Normal payroll, i.e. regular payroll, has a capital component and the assumption that all regular payroll charged to storm is related to operations and maintenance work is incorrect. It includes payroll dollars for employees that under normal working conditions would charge their time, or a portion of their time, to capital projects. Therefore, these costs should not be disallowed under the incremental cost methodology.

(7) This represents the purchase of unused earned vacation from employees that could not take vacation due to the length of storm restoration efforts. These employees were unable to take all the vacation they were entitled to and normal workloads will not enable employees to take these days in the future. Therefore, these payments are a direct result of the 2005 storms.

As a general matter, if the Commission decides to use an incremental cost approach and/or if some costs are disallowed, then the amount of payroll costs included in any adjustment other than the regular payroll adjustment needs to be removed from that particular adjustment. If its not adjusted, then it will be subtracted from the total amount of 2005 storm costs to be recovered twice. The same is true for capital expenditures.

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2) Lump sum exempt overtime pay

Lump sum exempt overtime should be allowed for employees working extraordinary hours in the storm restoration effort. Many employees who are not eligible for overtime under normal circumstances perform critical roles in the restoration effort (staging site managers, command center representatives, logistics representatives, etc.) that require extraordinary hours. Frequently, these employees work 16-plus hour days for weeks on end without a day off. To establish parity among employees who are not eligible for overtime and to encourage the work of exempt employees who are critical to the restoration effort, FPL should be permitted to charge to the Reserve lump sum overtime payments paid to exempt employees working extraordinary hours in storm restoration.

As addressed in Audit Finding No. 1, FPL paid a very small group of exempt employees performing critical storm restoration jobs an overtime lump sum payment in December 2005, which was charged to the Reserve. The employees receiving this lump sum payment did not receive any overtime on an hourly basis during storm restoration. These employees' earnings were compared with the earnings of those in like roles and employees working in the bargaining unit. The lump sum overtime payment was to establish pay parity among the employees that received no hourly overtime compensation and those that did not receive hourly overtime at different rates for performing the same work. This expense is not and generally would not be included in the cost of service for purposes of setting base rates due to the unusual and nonrecurring nature of the payments, but is a valid cost of providing service that is directly related to storm restoration.

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Audit Finding No. 2

In its Audit Finding No. 2, Audit Staff states that, “[i]f the Commission decides to remove landscaping, the unrecovered storm costs from Exhibit A of the filing would be reduced by \$1,503,250.”

FPL’s Response

Reasonably and prudently incurred landscaping for substations and service centers should be allowed to be charged to the Reserve. Substation and service center landscaping is required to meet zoning requirements. This expense is not and generally would not be included in the cost of service for purposes of setting base rates due to the unusual and nonrecurring nature of the payments, but is a valid cost of service that is directly related to storm restoration.

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Audit Finding No. 3

In its Audit Finding No. 3, Audit Staff states that “[i]f the Commission decides to remove legal settlements, the \$826,853,000 of un-recovered storm costs from Exhibit A of the filing would be reduced by 2,250,000.”

FPL’s Response

Pursuant to the mutual aid agreement, FPL is required to indemnify foreign utilities for the uninsured portions of any lawsuits that result from their assistance in FPL’s storm restoration efforts. Similarly, FPL is indemnified from any lawsuits that result when FPL sends crews to assist foreign utilities in their restoration efforts. These are valid costs for which FPL cannot plan and they would not generally be susceptible to inclusion in the cost of service for purposes of setting base rates due to the unusual and nonrecurring nature of the costs. These lawsuit-related costs should be charged to the Reserve in order to encourage, not discourage, mutual aid.

In reviewing the litigation costs charged to the Reserve, FPL decided to reverse from the charges to the Reserve certain amounts associated with storm-related lawsuits charging FPL with negligence. The total amount reversed associated with 2005 storm-related lawsuits is \$2,200,000. Thus, if the Commission decides that the uninsured portions of storm-related lawsuit settlements should not be charged to the Reserve, these amounts should not be included in any such disallowance. Otherwise, they would be reversed twice.

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Audit Finding No. 4

Audit Finding No. 4 concludes that "If contingencies are not allowed, the \$826,000 of un-recovered storm costs from Exhibit A of the filing would be reduced by \$44,666,201. The company has asked for a true-up mechanism for additional or over-accrued costs that have not been recorded. However, FPL is asking for approval of charges through this mechanism to be approved within a month which precludes an audit of the charges."

FPL's Response

The contingency piece of FPL's estimate is very small. This is especially true when compared to the total estimated costs of restoration. As of February 28, 2006, the contingency amount has been reduced from \$44.5 million from the time when FPL filed its petition to \$26.3 million.

FPL reviews its damages resulting from storms and estimates the cost of restoration work based on the best available information at the time the estimate is prepared. As such, when better information is known and/or projects become actualized, the amount of contingency FPL originally included in its filing will change. Ultimately, any unused contingency would be reflected in the true-up process.

FPL believes that removing the relatively small contingency portion of the estimated storm costs is inconsistent with Commission precedent and Section 366.8260, Florida Statutes, which permits the use of estimates for purposes of approval of cost recovery. Including a contingency in FPL's storm cost estimate is an integral part of its request if FPL is to recover its reasonably and prudently incurred storm costs. FPL's filing makes clear that it intends to credit the Reserve if actual costs are lower than estimated costs, so there is no detriment to the customer.

With respect to the nuclear accrual, the referenced 10% contingency does not relate to the \$1,615,530 for Project Management, which is the estimated cost of program management personnel to oversee the actual restoration activities, and should not be considered a contingency. Rather, the 10% contingency applies to the estimate of nuclear Powerblock repairs of \$1.322 million (so \$132,200 represents the referenced contingency). The repairs will be charged to various workorders and the Reserve will be credited to the extent actual repair costs are lower than estimated, or if the amount is recovered from insurance.

Finally, FPL notes that the last two sentences of the finding, quoted above, appear to reflect confusion regarding two different true-ups referenced by FPL in its filing. The true-up of the "Storm Charge" as proposed by FPL (for over- or under-collection, etc.) would have a 30-day approval period. However, FPL has proposed no time frame associated with true-up of the storm costs, which is what this Audit Finding appears to be addressing. As discussed above, when better information is known and/or projects become actualized, FPL will adjust the remaining contingency accordingly.

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Audit Finding No. 5

In Audit Finding No. 5, Audit Staff states that “[t]he total un-recovered storm costs of \$826,853,000 should be reduced by the amount billed less the amount capitalized for the related poles.”

FPL’s Response

FPL agrees that the Reserve should be credited by amounts billed over the capitalized amount for repairing BellSouth poles during restoration for both 2004 and 2005 storm restoration activities. In March 2006, the billing for non-FPL poles replaced after the 2004 storms was prepared. The total amount billed was \$7,419,810, of which \$1,986,844 reduced capital and \$5,432,966 reduced the reserve. Additionally, in March 2006, FPL recorded an estimate for the non-FPL poles replaced after the 2005 storms. The total estimate was \$10,564,384, of which \$4,156,615 reduced capital and \$6,407,769 reduced the reserve. The survey to determine the actual number of poles replaced after the 2005 storm is expected to be completed in May 2006, with the billing to follow shortly thereafter.

The phrase “less the amount capitalized” reflected in the quote above should also be added to the end of the last sentence in the “Summary” statement on the audit disclosure for it to be consistent with the rest of the finding.

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Audit Finding No. 6

In its Audit Finding No. 6, Audit Staff stated “[i]f the Commission decides that storm preparation costs should be excluded, it would reduce the \$826,853,000 of un-recovered storm costs from Exhibit A of the filing.”

FPL’s Response

Storm preparation activities to safeguard nuclear power plants and other facilities are in the best interests of the customers and help prevent the need for even more repairs after a storm strikes. This expense is not and generally would not be included in the cost of service for purposes of setting base rates due to the unusual and nonrecurring nature of the payments, but is a valid cost of providing service that is directly related to storm restoration.

Further, the amount of Nuclear storm preparation costs includes regular and overtime payroll, which is already included in the removal of regular and overtime payroll referenced in Audit Finding No. 1. Therefore, if the Commission requires an adjustment to remove Nuclear storm preparation costs from storm cost recovery in addition to an adjustment for regular payroll and overtime, the payroll costs included in the Nuclear storm preparation costs should not be included in any such adjustment. Otherwise, it will be subtracted from the total amount of 2005 storm costs twice.

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Audit Finding No. 7

In its Audit Finding No. 7, Audit Staff stated “[a] reduction in the storm expense for image enhancing advertising would reduce the \$826,853,000 of un-recovered storm costs from Exhibit A of the filing.”

FPL’s Response

Public outreach advertising, including communications designed to keep customers informed of the status of FPL’s restoration efforts and to inform customers of the extraordinary dangers that exist during storm restoration, should be encouraged, not discouraged. These communications meet a critical customer need for restoration and safety-related information after a natural disaster. As such, public safety and public outreach advertising costs should be allowed. Also, thank you advertising designed to recognize foreign crews who assist in restoration efforts should be allowed in order to encourage their continued support. These reasonable and necessary expenses are highly volatile and extraordinary and would generally not be included in the cost of service for purposes of setting base rates.

FPL determined that \$404,627 associated with the employee campaign radio and web advertisement was image enhancing and that amount has been reversed from the Reserve during March 2006’s business. FPL also determined that \$17,949 was for a conservation advertisement and that amount has also been reversed from the Reserve during March 2006’s business. The effect of these adjustments will be reflected in FPL’s proposed true-up process for 2005 storm costs.

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Audit Finding No. 8

In its Audit Finding No. 8, Audit Staff stated “[i]f the Commission decides that the event was planned and should not be included in storm costs, the \$1,193,404 would reduce the \$826,853,000 of un-recovered storm costs from Exhibit A of the filing.

FPL’s Response

The “event report” appears to have been misunderstood. The Power Generation Division uses event reports to report an event or plan a job. They were planning a partial re-tube during the 2006 three-year budget planning cycle and they used this form to do that. It was for a Spring 2008 outage for Martin Unit 1. It is estimated that 10% more of the condenser tubes at Martin Units 1& 2 need to be replaced due to Hurricane Wilma, so the amounts accrued to the Storm Reserve are only for incremental damage due to the storm, not planned maintenance.

Also, the dates referenced in the Audit Finding are incorrect (July 2005 and October 2005). The dates on the event report were for another job and should have been changed. Contrary to the audit finding, the “last modified” date is not the date FPL completed the work. The dates should not be referenced as the dates FPL completed the work. The work has not been done and cannot be done until the Spring 2008 outage.

It also needs to be noted that the amount estimated for the condenser tube repair for Martin Unit 2 is no longer required, and further analysis indicates the Martin Plant Unit 1 condenser tubes need to be completely replaced, not partially replaced as initially estimated. Therefore, the initial amount charged to the Reserve was revised to \$2,785,364, and then subsequently removed from the Reserve and charged as capital in March 2006’s business. The effect of this adjustment will be reflected in FPL’s proposed true-up process for 2005 storm costs.

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Audit Finding No. 9

In Audit Finding No. 9, Audit Staff states that FPL's unrecovered 2004 storm costs should be reduced based on an internal audit report.

FPL's Response

FPL notes that the proper documentation was provided prior to the Auditor's Report being issued. FPL understands that this audit finding has been withdrawn based on the supplemental audit work.

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Audit Finding No. 10

In its Audit Finding No. 10, Audit Staff states that “[i]f the company cannot provide support for the differences, the \$2,649,572 should be removed from the 228 account.”

FPL’s Response

The difference of \$2,649,572 between the Power Systems Business Unit accrual recorded on the general ledger as of December 31, 2005 and the supporting documentation provided was due to the following:

	<u>As of</u> <u>December 31, 2005</u>	
Power Systems - Supporting Documentation	\$ 438,697,353	
Pension, Welfare, Taxes, and Insurance - Wilma	2,034,977	(1)
Estimated Changes in Other Business Units - Katrina	273,155	(2)
Estimated Changes in Other Business Units - Rita	96,673	(2)
Estimated Changes in Other Business Units - Wilma	244,768	(2)
	<u>\$ 441,346,925</u>	

Notes:

(1) Represents Pension, Welfare, Taxes, and Insurance (PWTTI) on the accrued costs for Hurricane Wilma recorded in the Power Systems Business Unit cost rollup rather than the Accounting/Financial Other cost rollup. The support for this amount should have been included along with the supporting documentation submitted for the Power Systems Business Unit; however, since PWTTI is typically recorded in the Accounting/Financial Other cost rollup, it was inadvertently omitted when the supporting documentation was supplied to Staff.

(2) The monthly storm accrual process is based on a Business Unit aggregation of estimated storm restoration costs which is compared to actuals-to-date to derive the current accrual amount. The Company has not adjusted its total accrual each month as the difference has been immaterial, but reviews the estimate in order to determine if adjustments to the accrual should be made. As noted, the differences for Hurricane Wilma of \$244,768, Hurricane Katrina of \$273,155 and Hurricane Rita of \$96,673 represent the net over/under fluctuations within the Business Unit detail, which are not significant, and are therefore, not adjusted monthly; rather the differences will continue to be reviewed monthly and then adjusted at quarter-end.

According the supplemental audit report “Objectives and Procedures” the Audit Staff “obtained supporting documentation for the December 2005 accruals for the power systems business unit [and] ... for work that FPL has identified as follow up work after Hurricane Wilma. We traced those items to supporting documentation that shows these amounts are owed. ... We traced all journal vouchers to in the sample to source

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documentation to determine if they were for reasonable storm charges." Thus, it appears the supplemental audit report negated the above finding.

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Audit Finding No. 11

In its Audit Finding No. 11, Audit Staff states that the Company's filing for remaining unrecovered 2004 storm costs is overstated by \$749,636 based on the general ledger balances as of December 31, 2005.

FPL's Response

The amount recorded for unrecovered 2004 storm costs in the General Ledger and the amount shown on Document No. KMD-3 are different for several reasons.

1. The amount of costs approved for recovery from customers in the 2004 Storm Cost Recovery Order (PSC-05-0937-FOF-EI) was rounded to \$798,100,000. Therefore, after the amount of the storm fund available to offset this was applied, then the amount to be recovered from customers became a rounded number as well. Therefore, this amount did not tie to the \$441,634,351 of what was actually shown on the General Ledger;
2. The amount of interest shown on Document No. KMD-3 showed actuals through November 30, 2005, and the estimate for December 31, 2005 was based on the after-tax commercial paper rate at the end of November 30, 2005. Therefore, the amount recorded on the books will be different because it was based on actual interest; and
3. The amount of billed revenues shown on Document No. KMD-3 showed actuals through November 30, 2005, and the estimate for December 31, 2005 was based on forecasted kWh sales as illustrated in Dr. Green's direct testimony. Therefore, the amount recorded on the books will be different because it was based on actual billed kWh sales.

Nevertheless, FPL believes that making this adjustment is unnecessary since the amounts are going to change each month based on the actual dollar activity. As stated in K. Michael Davis' direct testimony, FPL believes that any difference in the estimated unrecovered 2004 storm recovery costs and the actual balance as of July 31, 2006 should be adjusted to the storm reserve accordingly. However, FPL will not exceed the total amount of 2004 storm costs approved for recovery in the 2004 Storm Cost Recovery Order (PSC-05-0937-FOF-EI).

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Supplemental Audit Finding No. 1

In its Supplemental Audit Finding No. 1, Audit Staff states that FPL's internal audit department discovered that it had been over-billed by storm contractors in excess of \$807,000 for the 2004 storms. According to the supplemental report, "[t]he audit staff recommended that the un-recovered 2004 storm cost of \$213,307,000 in its filing should be reduced by \$807,000 if FPL could not prove that these cost had been removed."

FPL's Response

The statement in the summary finding that the invoice adjustment amounts were the result of an internal audit department discovery is incorrect. The invoice adjustments were the result of FPL's resource and performance management staff's (within the power systems business unit) invoice validation prior to approval for payment. Also, the summary finding infers that the "over-billed" amounts were paid to the storm contractors and foreign utilities.

The foreign utility invoice adjustment amounts were not paid. Invoice adjustments on utility invoices were reductions to the final invoice amount based on reviews performed by FPL's resource and performance management staff. At the request of resource and performance management, corrected invoices were submitted to FPL prior to final payment. For storm contractors, FPL has applied a credit to pending invoices.