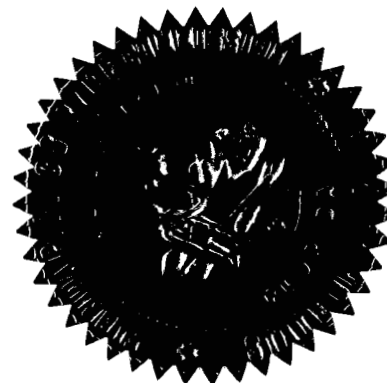


BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 060038-EI

In the Matter of:

PETITION FOR ISSUANCE OF A STORM  
RECOVERY FINANCING ORDER, BY FLORIDA  
POWER & LIGHT COMPANY.



ELECTRONIC VERSIONS OF THIS TRANSCRIPT ARE  
A CONVENIENCE COPY ONLY AND ARE NOT  
THE OFFICIAL TRANSCRIPT OF THE HEARING,  
THE .PDF VERSION INCLUDES PREFILED TESTIMONY.

VOLUME 2

Pages 38 through 151

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN LISA POLAK EDGAR  
COMMISSIONER J. TERRY DEASON  
COMMISSIONER ISILIO ARRIAGA  
COMMISSIONER MATTHEW M. CARTER, II  
COMMISSIONER KATRINA J. TEW

DATE: Wednesday, April 19, 2006

PLACE: Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida

REPORTED BY: LINDA BOLES, RPR, CRR  
Official FPSC Reporter  
(850) 413-6734

APPEARANCES: (As heretofore noted.)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

## I N D E X

## OPENING COMMENTS:

By Mr. Wright	40
By Mr. Twomey	41
By Mr. Kise	43
By Mr. Keating	44

## WITNESSES

NAME:	PAGE NO.
MORAY P. DEWHURST	
Direct Examination by Mr. Litchfield	47
Prefiled Direct Testimony Inserted	50
Cross Examination by Mr. McWhirter	83
Cross Examination by Mr. Wright	95
Cross Examination by Mr. Kise	99
Cross Examination by Mr. Keating	102
Redirect Examination by Mr. Litchfield	142

CERTIFICATE OF REPORTER	151
-------------------------	-----

## P R O C E E D I N G S

(Transcript continues in sequence from Volume 1.)

1  
2  
3 MR. WRIGHT: Madam Chairman, thank you for the  
4 opportunity. I will be very brief. The Florida Retail  
5 Federation agrees with and supports the specific dollar issue  
6 positions advocated by Public Counsel and the Attorney General,  
7 specifically that FPL should have disallowed from recovery of  
8 claimed costs approximately \$165 million, of which 115, 114  
9 plus is from 2005's costs and \$50 million is from 2004 costs.  
10 Additionally, we agree that the reserve need not be any greater  
11 than \$200 million.

12 According to the official National Hurricane Center  
13 post-storm evaluation, Hurricane Wilma was mostly a Category 1  
14 storm, with Category 2 winds experienced in a few areas. Yet  
15 FPL, incredibly, says that its system performed as designed and  
16 expected against the fact that 65 percent of its customers were  
17 without service for more than a week.

18 The evidence will show that in its distribution  
19 planning, FPL does not consider the economic value of outages  
20 sustained by its customers. They consider the SAIDI and CAIDI.  
21 They don't consider what it really costs their customers to be  
22 without power.

23 Operating under the 2002 stipulation, FPL willfully  
24 limited its pole inspection program and willfully reduced the  
25 scope of its pole inspection program with the direct result of

1 enhancing its profitability at the expense of its customers'  
2 reliability. These were willful acts, they were imprudent, and  
3 the Commission should impose substantial penalties against FPL  
4 for them. Thank you.

5 CHAIRMAN EDGAR: Thank you, Mr. Wright.

6 Mr. Twomey, there are two minutes left.

7 MR. TWOMEY: Thank you very much, Madam Chair,  
8 Commissioners.

9 AARP adopts the opening statements of the Attorney  
10 General, Office of Public Counsel, the other consumer parties.  
11 By taking those positions, you should teach Florida Power &  
12 Light Company and the other companies observing this proceeding  
13 that there is a cost associated with them not properly  
14 inspecting and maintaining their systems so as to avoid damage  
15 from events otherwise that they should.

16 This company's customers have reeled financially the  
17 last two years, experiencing record high fuel adjustment  
18 increases, as well as substantial surcharges as a result of the  
19 2004 storm damage case. Those surcharges were exacerbated, as  
20 you are well aware, by the granting of this company of some  
21 \$34 million of additional monies under the name of lost  
22 revenues. As stated by Public Counsel, we would hope that we  
23 don't see lost revenues granted to this company again, whether  
24 directly so or indirectly.

25 You should, to the greatest extent possible, reduce

1 the amount of financial burden this company's customers have to  
2 bear going forward by eliminating the imprudent, the  
3 duplicative charges pointed out by the customer experts. As  
4 well, you should take the greatest opportunity to reduce the  
5 surcharges and the large 12-year carrying charge that will be  
6 associated with them by substantially reducing the storm  
7 reserve fund.

8           AARP and the others would submit to you that you can  
9 safely do this because under this Commission's recent  
10 precedence there is essentially a flow through, almost a fuel  
11 charge, if you will, or a storm charge adjustment charge that  
12 allows companies like FP&L to come in, rapidly petition the  
13 Commission for storm damage surcharges, interim surcharges,  
14 without even the benefit of a prior evidentiary hearing, and  
15 begin charging the customers almost immediately for the alleged  
16 cost of repairing from a storm.

17           Given this ability, AARP would urge that you  
18 dramatically reduce the amount of the storm reserve, reduce it  
19 to \$200 million, which is still a lot of money. You will  
20 reduce the amount of surcharges the customers have to pay, you  
21 will reduce the charge, the financing charge over 12 years,  
22 and you can safely do so because if there is a storm this  
23 year, next year, years hence that causes a deficit,  
24 Florida Power & Light can come in here immediately and seek  
25 interim surcharges. We would ask that you reduce the

1 surcharge, the reserve dramatically. Thank you.

2 CHAIRMAN EDGAR: Thank you, Mr. Twomey.

3 MR. KISE: Madam Chair.

4 CHAIRMAN EDGAR: Mr. Kise.

5 MR. KISE: I just have one other point the Attorney  
6 General reminded me to make to the Commission, if that -- less  
7 than 30 seconds. Thank you.

8 With respect to the sharing issue that Mr. Litchfield  
9 discussed and Mr. McWhirter referred to, one, one comment that  
10 the Attorney General wanted to make here is that the Attorney  
11 General is quite disappointed in what appears to be yesterday's  
12 public comment about that issue in a forum that is not this one  
13 and prior to this adjudication, and would hope that the  
14 Commission would keep a very open mind with respect to  
15 reviewing that issue.

16 Also, the Attorney General wants to point out for the  
17 record what Mr. McWhirter said, which is that the stipulation  
18 and settlement is our agreement. We certainly intend to honor  
19 that agreement. But the Commission is not bound by that  
20 agreement and has an independent obligation, which the Attorney  
21 General hopes the Commission will undertake, to determine what  
22 is in the best interest of the public with respect to that  
23 issue. Thank you.

24 CHAIRMAN EDGAR: And per the prehearing order, we  
25 have five minutes for an opening statement by Commission staff.

1 MR. KEATING: Before I begin, I wanted to find out if  
2 the Federal Executive Agencies intended to add anything, the  
3 intervenors.

4 CHAIRMAN EDGAR: My understanding is no, but we  
5 certainly want to make sure that I'm correct.

6 CAPTAIN WILLIAMS: No. You're correct, ma'am. We  
7 waived.

8 CHAIRMAN EDGAR: Okay. Thank you.

9 MR. KEATING: And thank you, Commissioners, for the  
10 opportunity to provide an opening statement this morning. I'll  
11 be brief.

12 My comments are limited to drawing for you what staff  
13 sees as the big picture surrounding the issues in this case,  
14 related to the financing costs that you may ultimately approve  
15 for recovery through storm recovery bonds, a process also  
16 referred to as securitization.

17 FPL's petition in this docket represents the first  
18 time that a utility in Florida has called upon the provisions  
19 of the law establishing storm recovery bonds as a tool to  
20 recover storm costs and to rebuild the Storm Damage Reserve. I  
21 won't try to explain in detail the nature of the mechanism.  
22 The expert witnesses in this case are much better qualified to  
23 do that, and do so in their testimony.

24 In a nutshell though, this mechanism allows a utility  
25 to quickly recover storm costs and rebuild its reserve by

1 accessing low cost funds in the bond markets through an  
2 affiliate. The affiliate, called the special purpose entity,  
3 sells the bonds and provides the proceeds to the utility in  
4 return for the right to monies collected by FPL from ratepayers  
5 through a nonbypassable Commission-approved charge. These  
6 monies are used by the special purpose entity to make payment  
7 of principal and interest to investors and to service the  
8 bonds. This type of transaction has never been conducted by a  
9 Florida utility. It has, however, been conducted in other  
10 states with respect to various types of costs other than storm  
11 costs.

12           Unlike typical utility bond issuances, FPL's  
13 customers will bear the full economic burden of these bonds.  
14 For that reason, the bonds have sometimes been referred to and  
15 you'll hear in testimony them referred to as ratepayer-backed  
16 bonds. Every six months a true-up mechanism required by the  
17 law assures that charges collected from ratepayers are  
18 sufficient to service the bonds.

19           Recognizing the new and unique nature of this type of  
20 transaction in Florida, the Legislature authorized the  
21 Commission to hire financial experts and outside counsel to  
22 assist it in implementing the new law. As a result of a  
23 competitive bidding process, the Commission hired  
24 Saber Partners, a firm experienced in representing state  
25 commissions in these types of transactions, as its financial



1 advisor. FPL has also hired a financial advisor to assist it  
2 in this proposed transaction.

3 Saber Partners, through the testimony of three  
4 witnesses sponsored by staff in this docket, has recommended a  
5 series of what it refers to as best practices based on its  
6 experience with ratepayer-backed bonds issued in other states.

7 In its rebuttal testimony, FPL has agreed, with some  
8 qualifications, to accept and apply many of these practices in  
9 this transaction. However, some disagreements remain.

10 In staff's view there are three major remaining  
11 differences: First, whether or not to accept, whether or not  
12 to adopt a lowest cost standard for the transaction; second,  
13 the extent of the Commission's role in the structuring,  
14 marketing and pricing of the bonds, including the final stages  
15 of pricing; and, third, the degree of ratepayer protection  
16 required in the transaction documents.

17 Now I am not going to suggest to you in this opening  
18 statement what the answers are to these disputes. I simply  
19 present these comments to you to try to provide somewhat of a  
20 road map for you to follow in listening to the testimony and  
21 forming your opinions on these issues. I hope these comments  
22 have proved helpful in that regard. Thank you.

23 CHAIRMAN EDGAR: Thank you, Mr. Keating. That  
24 concludes the opening statements.

25 We will go ahead and swear the witnesses that are

1 present in as a group, and then I think we'll take a very short  
2 break before we move into the first witness. So will all of  
3 those witnesses who are present please stand? Raise your right  
4 hand.

5 (Witnesses collectively sworn.)

6 CHAIRMAN EDGAR: Thank you.

7 We will come back at 10:50 by the clock on the wall,  
8 and I am going to stick to that. Thank you.

9 (Recess taken.)

10 CHAIRMAN EDGAR: We will go back on the record.

11 Mr. Litchfield.

12 MR. LITCHFIELD: Thank you, Chairman Edgar.

13 FPL's first witness is Mr. Dewhurst, and he was  
14 present this morning and has been sworn.

15 CHAIRMAN EDGAR: Thank you.

16 MR. LITCHFIELD: If I might present the witness.

17 CHAIRMAN EDGAR: Yes.

18 MORAY P. DEWHURST

19 was called as a witness on behalf of Florida Power & Light  
20 Company and, having been duly sworn, testified as follows:

21 DIRECT EXAMINATION

22 BY MR. LITCHFIELD:

23 Q Mr. Dewhurst, would you please state your name and  
24 business address.

25 A My name is Moray P. Dewhurst. My business address is

1 709 Universe Boulevard, Juno Beach, Florida.

2 Q And what is your employment capacity?

3 A I am the Chief Financial Officer.

4 Q Have you prepared and caused to be filed 30 pages of  
5 direct testimony in this proceeding?

6 A I have.

7 Q Do you have any changes or revisions to that  
8 testimony?

9 A No.

10 Q If I asked you the same questions reflected in that  
11 prefiled direct testimony today, would your answers be the  
12 same?

13 A They would.

14 MR. LITCHFIELD: Chairman Edgar, I would ask that  
15 Mr. Dewhurst's prefiled direct testimony dated January 13th,  
16 2006, be inserted into the record as though read.

17 CHAIRMAN EDGAR: Please have the prefiled testimony  
18 inserted into the record as though read.

19 BY MR. LITCHFIELD:

20 Q Mr. Dewhurst, are you also sponsoring exhibits to  
21 your direct testimony?

22 A Yes, I am.

23 Q And those exhibits consist of MPD-1, 2 and 3,  
24 consisting of one page each.

25 A That's correct.

1           MR. LITCHFIELD: Chairman Edgar, I would note that  
2 MPD-1, 2 and 3 have been premarked by staff as hearing Exhibits  
3 6, 7 and 8, and I believe they've already been moved into the  
4 record.

5           CHAIRMAN EDGAR: Thank you.

6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                   **FLORIDA POWER & LIGHT COMPANY**

3                   **TESTIMONY OF MORAY P. DEWHURST**

4                   **DOCKET NO. XXXXXX-EI**

5                   **JANUARY 13, 2006**

6

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

8    A.    My name is Moray P. Dewhurst. My business address is Florida Power & Light  
9           Company, Finance Division, 700 Universe Boulevard, Juno Beach, Florida  
10          33408-0420.

11   **Q.    What is your employment capacity and position at Florida Power & Light  
12          Company?**

13   A.    I am Senior Vice President of Finance and Chief Financial Officer of Florida  
14          Power & Light Company (FPL or the Company).

15   **Q.    Please describe your duties and responsibilities in that position.**

16   A.    I am responsible for all the major financial areas of the Company, including the  
17          accounting and control functions, tax, treasury, budgeting and forecasting, and  
18          risk management. I oversee the establishment and maintenance of the financial  
19          plans, controls and policies for FPL. I am also responsible for establishing and  
20          maintaining effective working relations with the investment and banking  
21          communities, and for communicating the results of our operations to investors.

22   **Q.    Please describe your educational background and professional experience.**

1 A. I have a bachelor's degree in Naval Architecture from MIT and a master's degree  
2 in Management, with a concentration in finance, from MIT's Sloan School of  
3 Management. I have approximately twenty years of experience consulting  
4 Fortune 500 and equivalent companies in many different industries on matters of  
5 corporate and business strategy. Much of my work has involved financial  
6 strategy and financial re-structuring. I was appointed to my present position in  
7 July of 2001.

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

9 A. Yes. I am sponsoring Document No. MPD-1, a summary of the Company's  
10 primary recommendation, MPD-2, a summary of the Company's alternative  
11 recommendation; and MPD-3, projected up-front issuance and ongoing costs for  
12 storm-recovery bonds.

13 **Q. What is the purpose of your testimony?**

14 A. The purpose of my testimony is to: (i) present and evaluate alternative methods to  
15 fund the existing Reserve deficit and future storm restoration activities; (ii)  
16 support the Petition for Financing Order (the Petition) requesting approval of the  
17 proposed issuance of bonds, which is FPL's primary recommendation requested  
18 in this proceeding, and if not approved, support of FPL's alternative  
19 recommendation requested in this proceeding; (iii) provide an overview of the  
20 Company's proposed securitization transaction; and (iv) provide an estimate of  
21 transaction costs, both upfront and ongoing.

22 **Q. Please identify the other FPL witnesses and summarize the purpose of their**  
23 **testimony filed on FPL's behalf in this proceeding.**

1 A. Following is a list of the other witnesses who have submitted testimony on behalf  
2 of FPL and a brief description of the general subject matter addressed by each  
3 witness:

- 4 • K. Michael Davis – Identification of total storm losses incurred for the 2004  
5 and 2005 storms; presentation of estimated storm-recovery costs subject to  
6 storm-recovery financing as of July 31, 2006; calculation of revenue  
7 requirements for storm cost recovery under the Company's primary and  
8 alternative recommendations; proposal for a detailed framework for the true-  
9 up mechanism; and the accounting entries for storm-recovery financing;
- 10 • Geisha J. Williams – Description of storm restoration activities and estimated  
11 storm-related costs for 2005;
- 12 • Mark Warner - – Description of nuclear storm restoration activities and  
13 estimated nuclear storm- related costs for 2005;
- 14 • Richard E. Brown - KEMA Inc. - Present the results of KEMA's independent  
15 analyses of FPL's infrastructure performance during Hurricane Wilma and of  
16 FPL's pole inspection and maintenance practices;
- 17 • Leonardo E. Green, Ph. D. – Explanation of the sales and load forecast used to  
18 develop customer rates in the company's primary and alternative  
19 recommendations;
- 20 • Steven P. Harris, ABS Consulting – Estimate of the expected annual storm  
21 loss and solvency of the Reserve under the Company's primary and  
22 alternative recommendations;

- 1 • Wayne Olson, Credit Suisse First Boston LLC – Overview of asset-backed
- 2 securities and details of the key characteristics of the structure of the proposed
- 3 securitization transaction; and
- 4 • Rosemary Morley – Separation and allocation of storm costs and the recovery
- 5 factors to be used for billing individual rate classes; discussion of how the
- 6 Storm Charge mitigates rate impacts as compared to the more traditional
- 7 surcharge recovery method; presentation of proposed tariff sheets.

8

9

**BACKGROUND**

10 **Q. Please briefly describe the circumstances that led to the adoption of the**  
11 **current Storm Restoration Surcharge.**

12 A. The 2004 storm season inflicted severe damage on FPL’s service territory and the  
 13 electric infrastructure. As a result, costs incurred to restore electric service  
 14 following Hurricanes Charley, Frances, and Jeanne, in the aggregate totaled \$890  
 15 million (net of insurance proceeds), depleting in its entirety FPL’s storm and  
 16 property insurance reserve (Reserve) and, leaving FPL’s Reserve with a  
 17 substantial deficit. In Order No. PSC-05-0937-FOF-EI, the Commission affirmed  
 18 the surcharge it had approved on a provisional basis in Docket No. 041291-EI that  
 19 was effective February 17, 2005, but extended the term an additional twelve  
 20 months or through cycle 12 billing for February 2008, unless all costs are  
 21 recovered sooner. The approved surcharge of \$1.65 (per 1,000 kWh residential  
 22 bill) is intended to eliminate the deficit in the Reserve caused by the 2004 storm  
 23 season.



1 **Q. What effect did the 2005 storm season have on the Reserve?**

2 A. In 2005, another very active storm season, four Hurricanes inflicted damage on  
3 FPL's system. As discussed by Ms. Williams and Mr. Davis, restoration costs  
4 associated with Hurricanes Dennis, Katrina, Rita and Wilma have increased the  
5 Reserve deficiency by approximately \$816 million, leaving a deficit balance in  
6 the Reserve in excess of \$1.1 billion. The current Storm Restoration Surcharge is  
7 designed to recover approximately \$300 million of that amount by February 2008,  
8 leaving approximately \$800 million, to be recovered through another means, as  
9 well as the open question of how best to restore the Reserve to a reasonable level  
10 going forward.

11 **Q. Please explain how the Company had proposed to replenish the Reserve to a**  
12 **reasonable level in its application for a base rate increase in Docket No.**  
13 **050045-EI.**

14 A. In its base rate case filing, the Company had proposed to increase the annual  
15 accrual in base rates to \$120 million. The total accrual was comprised of an  
16 amount approximating the expected annual storm losses based on an analysis  
17 performed by Steve Harris of ABS Consulting, Inc., plus an amount to contribute  
18 toward restoring the Reserve balance to a level of \$500 million.

19 **Q. How did the Stipulation and Settlement Agreement signed by parties to**  
20 **FPL's base rate proceeding and approved by the Commission (Settlement**  
21 **Agreement) address the issues of storm cost recovery and the replenishment**  
22 **of the Reserve?**

1 A. The Settlement Agreement: (1) suspends the then current base rate accrual of  
2 \$20.3 million; (2) provides that FPL will be entitled to recover prudently incurred  
3 storm restoration costs and replenish the Reserve to a level approved by the  
4 Commission; and (3) allows recovery of prudently incurred storm restoration  
5 costs and replenishment of the Reserve through charges that are incremental to  
6 base rates, either through a charge established through Section 366.8260, Florida  
7 Statutes (Securitization) or another form of surcharge.

8 **Q. What was the Commission's response to this aspect of the Settlement?**

9 A. The Commission approved it as part of the overall settlement, but expressed some  
10 discomfort over the continuing deficit in the Company's Reserve and at the  
11 prospect of leaving that proceeding without a current plan in place to replenish the  
12 Reserve to a reasonable level. The Commission strongly encouraged the  
13 Company to return with such a proposal as soon as possible, to which we agreed.  
14 This filing seeks to address the Commission's concerns.

15

16 **PRIMARY RECOMMENDATION**

17 **Q. Please detail the Company's primary recommendation and its request in**  
18 **connection with this filing.**

19 A. FPL recommends that the Commission approve the issuance of up to \$1,050  
20 million storm-recovery bonds to finance the after-tax costs incurred as a result of  
21 the 2004 and 2005 storms. The proceeds from the bond issuance would be used  
22 to fund the balance of unrecovered 2004 and 2005 storm-recovery costs, replenish  
23 the Reserve and pay upfront bond issuance costs. The amortization of the bonds

1 would be structured to provide a level charge of approximately \$1.58 for the  
 2 typical residential bill (1,000 kWh) over the expected bond life of twelve years  
 3 based on current market conditions. Upon issuance of the storm-recovery bonds,  
 4 this charge would replace the existing 2004 Storm Restoration Surcharge.

5 **Q. Please detail the amounts FPL is seeking approval to finance through the**  
 6 **issuance of storm-recovery bonds?**

7 A. FPL proposes to finance the costs incurred for storm restoration with the issuance  
 8 of storm-recovery bonds which would be used to finance the after-tax equivalent  
 9 of the following estimated amounts:

	<u>\$ Millions</u>
11 2004 Jurisdictionalized Unrecovered Storm-Recovery Costs	213.3
12 2005 Jurisdictionalized Unrecovered Storm-Recovery Costs	826.9
13 Replenishment of Reserve	<u>650.0</u>
14 Total Storm –related Costs Subject to Storm Recovery Financing	1,690.2
15 Less: Income Taxes at 38.575%	<u>(652.0)</u>
16 After-tax Storm-related Costs Subject to Storm Recovery	
17 Financing	<u>1,038.2</u>

18 Mr. Davis' and Ms. Williams' testimonies provide further detail on the  
 19 calculation of estimated unrecovered 2004 and 2005 storm-recovery costs. My  
 20 testimony will address the estimated financing costs, and the replenishment of the  
 21 Reserve.

22 **Q. What amount of storm-recovery bonds would be required to finance the**  
 23 **amounts described above?**

1 A. The Company anticipates the issuance of \$1,050 million in storm-recovery bonds  
2 which is comprised of the after-tax storm-recovery costs and costs to replenish the  
3 Reserve plus estimated upfront bond issuance costs of approximately \$11.4  
4 million. The resulting \$1,049.6 million is rounded to \$1,050 million. Bonds are  
5 issued for the after-tax value of costs subject to financing to recognize the tax  
6 benefit received when storm restoration costs are deducted for income tax  
7 purposes. Thus, the bond proceeds available after the payment of upfront bond  
8 issuance costs provides approximately \$638 million to reimburse the Company  
9 for unrecovered storm costs and approximately \$400 million to replenish the fund  
10 (the after-tax equivalent of a \$650 Reserve). Upfront bond issuance costs are  
11 described in more detail later in my testimony and in the testimony of Mr. Olson.

12 **Q. What would be the impact to customers if the Commission approves FPL's**  
13 **primary recommendation?**

14 A. The current residential surcharge of \$1.65 per 1,000 kWh would be replaced with  
15 the combination of a Storm Bond Repayment Charge and a Storm Bond Tax  
16 Charge referred to collectively as the Storm Charge, which under current market  
17 conditions would provide an estimated levelized charge of approximately \$1.58  
18 per month for a typical 1,000 kWh residential bill for approximately 12 years.  
19 The actual average retail charge per kWh will vary based on changes in customer  
20 growth and usage projections as well as changes in market interest rates that may  
21 occur between now and the issuance date of the bonds. If market rates rise to  
22 such an extent that the average retail kWh charge associated with the bond  
23 issuance would exceed the average retail kWh charge associated with the Storm

1 Restoration Surcharge now in effect, the aggregate amount of the storm-recovery  
2 bond issuance would be reduced to an amount whereby the initial average retail  
3 kWh Storm Charge would not exceed the average retail kWh Storm Restoration  
4 Surcharge currently in effect. While this would reduce the amount of Reserve  
5 replenishment, it strikes a reasonable balance between customer interests in the  
6 mitigation of rate impacts and the need to fund the Reserve to a reasonable level  
7 immediately to prepare FPL to respond to another potentially destructive 2006  
8 storm season.

9  
10 The calculation of the revenue requirements associated with the Storm Bond  
11 Repayment Charge and the Storm Bond Tax Charge as well as the periodic true-  
12 up mechanism for those charges is discussed in Mr. Davis' testimony and the  
13 calculation of the customer rate impact of the Storm Charge is provided in Dr.  
14 Morley's testimony. Document No. MPD-1 provides a summary of these  
15 calculations as well as the expected value in the Reserve over a ten-year period  
16 assuming the expected annual losses from windstorm damage provided by Mr.  
17 Harris.

18 **Q. When would the storm-recovery bonds be issued?**

19 A. FPL recommends the storm-recovery bonds be issued as soon as practicable  
20 following issuance of the financing order, and will work to do so prior to August  
21 1, 2006 to ensure funding is in place during the next storm season. FPL's balance  
22 sheet and liquidity position are strong, but it is critical that a mechanism for  
23 recovery of 2004 and 2005 storm restoration costs is in place before significant

1 new costs might be incurred in 2006. The exact issuance date cannot be  
2 determined at this time and depends on factors such as acceptance by the  
3 Securities and Exchange Commission (SEC) of certain filings and completion of  
4 the bond ratings and marketing process.

5 **Q. What if the Commission issues a financing order, but there is a delay in**  
6 **actually implementing the financing?**

7 A. In light of the size of the current deficit and the need to begin to reduce the deficit  
8 and rebuild the Reserve to prepare for another potentially active storm season, the  
9 Company recommends that the Commission approve a surcharge to be applied to  
10 bills rendered on and after August 15, 2006 to recover the 2005 storm-restoration  
11 costs over approximately three years (or until the applicable revenue requirements  
12 have been recovered) in the event the issuance of storm-recovery bonds is delayed  
13 for any reason. The monthly impact to residential customers of this surcharge is  
14 currently estimated to be \$2.98 per 1,000 kWh based on current estimates for  
15 2005 storm restoration costs. The surcharge would be discontinued when the  
16 storm-recovery bonds are issued. The amount of storm-recovery bonds issued  
17 would be adjusted for the impact of collections of this surcharge.

18 **Q. How does the Company propose to account for differences between the**  
19 **estimated balances for unrecovered 2004 and 2005 storm-recovery costs as of**  
20 **July 31, 2006 included in the Company's Petition and the actual unrecovered**  
21 **2004 and 2005 storm-recovery costs on the date the storm-recovery bonds**  
22 **are issued?**

1 A. The actual balance of unrecovered storm-recovery costs will be influenced by  
2 several factors including: actual versus forecast surcharge collections for the  
3 existing surcharge, actual versus projected commercial paper rates, differences  
4 resulting from the actual versus estimated bond issuance date, as well as changes  
5 in estimated 2005 storm-recovery costs. The Company proposes that any  
6 differences between the estimated and actual balances for unrecovered 2004 and  
7 2005 storm-recovery costs be reflected in the amount of replenishment of the  
8 Reserve. Thus, if the actual balance of unrecovered 2004 and 2005 storm-  
9 recovery costs is below the estimated July 31, 2006 balance, the resulting balance  
10 in the Reserve will be higher and vice versa.

11 **Q. Please detail how bond proceeds would be used.**

12 A. Bond proceeds must first be used to pay upfront bond issuance costs associated  
13 with the bond financing. Proceeds would next be used to reimburse the Company  
14 for the after-tax equivalent of the remaining unrecovered 2004 Reserve deficit  
15 plus the actual unrecovered 2005 storm restoration costs. Remaining proceeds  
16 would be used to replenish the fund depleted as a result of costs previously  
17 incurred.

18

19 **ALTERNATIVE RECOMMENDATION**

20 **Q. Does FPL have an alternative recommendation if the Commission does not**  
21 **approve a financing order for the issuance of storm-recovery bonds?**

22 A. Yes. If the Commission determines that the storm restoration costs should not be  
23 securitized and instead should be recovered through another means, the Company

1 recommends that a surcharge be implemented to recover estimated 2005 storm  
2 restoration costs over approximately three years and a separate surcharge be  
3 implemented to collect \$650 million toward replenishment of the Reserve over  
4 three years (or until such time as the applicable revenue requirements have been  
5 collected) for bills rendered on and after June 15, 2006. This alternative provides  
6 for recovery of storm restoration costs already incurred and provides funds to  
7 attempt to replenish the Reserve over a reasonable time frame. While the rate  
8 impact on customer bills is greater than under the Company's primary  
9 recommendation, it is for a shorter duration. Like the Company's primary  
10 recommendation, this option also is provided for under the Settlement Agreement.

11 **Q. What would be the impact to customers if the Commission selects FPL's**  
12 **alternative recommendation?**

13 A. The alternative recommendation would result in an initial monthly charge of  
14 \$6.84 for a typical 1,000 kWh residential customer bill. This charge would  
15 decline to \$5.19 once the 2004 Storm Restoration Surcharge ends. The  
16 calculation of the revenue requirements associated with the alternative  
17 recommendation is provided in Mr. Davis' testimony and the calculation of the  
18 customer rate impact related to the surcharges is provided in Dr. Morley's  
19 testimony. Document No. MPD-2 provides a summary of these calculations as  
20 well as the expected value of the Reserve over time based on Mr. Harris' analysis.

21  
22  
23



**REPLENISHMENT OF THE STORM DAMAGE RESERVE**

1  
2 **Q. Has FPL performed a study to determine the annual amount of expected**  
3 **losses from windstorms?**

4 A. Yes. FPL commissioned studies to calculate the annual amount of expected  
5 windstorm losses, as well as the expected value of the Reserve given various  
6 funding levels. The studies were prepared by ABS Consulting and are being  
7 sponsored by Mr. Harris.

8 **Q. What does the analysis conclude regarding the expected annual long-term**  
9 **cost for service restoration and repair of storm damage to FPL's assets?**

10 A. Mr. Harris' analysis concludes that the expected average annual cost for  
11 windstorm losses is approximately \$73.7 million. Windstorm losses include costs  
12 associated with service restoration and system repair of FPL's Transmission and  
13 Distribution (T&D) system from hurricane, tropical and winter storm losses. Also  
14 included are storm staging costs and windstorm insurance deductibles attributable  
15 to non-T&D assets.

16 **Q. Have these studies been updated to incorporate the frequency of storm**  
17 **activity experienced during the 2004 and 2005 storm seasons?**

18 A. No. As discussed in Mr. Harris' testimony, the studies are based on over 100  
19 years of storm activity (1900-2002). Mr. Harris has concluded that while there  
20 might be a slight increase in the storm frequency estimate if data from the 2004  
21 and 2005 storm seasons were included, the increase is not likely to be large given  
22 the size of the storm database.

1 Q. Are there any other circumstances that could increase FPL's expected  
2 annual losses?

3 A. Yes. Growth in the Company's transmission and distribution system over the past  
4 year, particularly in the coastal areas most vulnerable to damage increases the  
5 company's exposure to storm damage. In addition, changes in the insurance  
6 markets affecting the availability and affordability of insurance coverage would  
7 impact expected annual losses. Mr. Harris' analysis assumes no T&D insurance  
8 is available and that non-T&D insurance deductibles remain stable. After the  
9 very active storm seasons of 2004 and 2005, there is little likelihood that the  
10 insurance markets will offer T&D insurance in the foreseeable future. In addition,  
11 early indications from the market suggest that non-T&D windstorm insurance  
12 may be less available, or may require higher deductibles in the future. If this were  
13 to happen, any deductible increase or any diminution in non-T&D windstorm  
14 insurance would increase the storm damage costs to be charged to the Reserve.

15 Q. Does Mr. Harris' analysis recommend a particular Reserve level?

16 A. No. There is no single correct Reserve balance. The appropriate Reserve level  
17 depends largely on the regulatory framework for storm cost recovery. Obviously,  
18 the lower the Reserve balance, the more likely that storm losses will exceed the  
19 funds available in the Reserve and, therefore, the greater the reliance on special  
20 assessments. The higher the Reserve balance, the less likely windstorm losses  
21 will exceed the funds available in the Reserve. Mr. Harris' testimony evaluates  
22 the solvency of the Reserve under the Company's primary and alternative  
23 recommendations.

1    **Q.    What level of replenishment of the Reserve is included in the Company's**  
2    **recommendation?**

3    A.    Consistent with past Commission Orders, a reserve level should be large enough  
4    to withstand the storm damage from most but not all storm seasons.  The  
5    Company's proposed issuance of storm-recovery bonds would provide an initial  
6    Reserve of approximately \$650 million to support future storm restoration  
7    activities.

8  
9    Although a Reserve of \$650 million is not necessarily what the Company would  
10   project as an adequate Reserve level going forward, weighing a number of factors  
11   including (i) an expected average annual cost for windstorm losses of  
12   approximately \$73.7 million as determined by FPL's outside expert Mr. Harris,  
13   (ii) the possibility that Florida is in the midst of a much more active hurricane  
14   period relative to average levels of activity over the much longer term, (iii) the  
15   potentially diminished availability of non-T&D property insurance, (iv) the  
16   impact of the recent severe and unprecedented storm seasons on customer bills in  
17   the near term, and (v) the opportunity to revisit this issue in future proceedings,  
18   establishing a Reserve level of approximately \$650 million is reasonable at this  
19   time.

20   **Q.    Do either of the Company's recommendations eliminate the possibility of**  
21   **special assessments for future storm damage?**

22   A.    No.  Without an annual surcharge or accrual to fund ongoing storm restoration  
23   costs, the Reserve naturally will decline over time as costs are charged against the

1 Reserve. If we are fortunate enough to experience a few years of below average  
2 storm losses, the Reserve may be sufficient to avoid an additional surcharge or  
3 securitization during that period of time. However, Mr. Harris' analysis  
4 concludes that the expected value of the Reserve under the Company's primary  
5 recommendation would be approximately \$350 million after five years and that  
6 there would be a 17% chance that the Reserve would be insufficient at some point  
7 over the next five years to fund required storm restoration costs. He also  
8 concludes that the expected value of the Reserve under the Company's alternative  
9 recommendation would be approximately \$300 million after five years and with  
10 an 18% chance that the Reserve would be insufficient to fund restoration costs at  
11 some point over the next five years. In addition, the primary recommendation  
12 would be expected to have a lower probability of Reserve insolvency than the  
13 alternative recommendation during the initial three years due to its higher  
14 expected Reserve balances. Of course, future storm activity will dictate the  
15 necessity for any type of special assessments or additional issuances of storm-  
16 recovery bonds.

#### 18 POLICY ISSUES

19 **Q. What are the key policy considerations underlying any storm cost recovery**  
20 **framework?**

21 A. First, storm restoration is a cost of providing electric service in Florida and,  
22 therefore, properly recoverable through the rates and charges of the Company.

23 This principle is clearly acknowledged in past Commission treatment of storm

1 restoration costs and is addressed directly in the Settlement Agreement. While we  
2 cannot predict with certainty when storms will occur, we can predict with virtual  
3 certainty that tropical storms and hurricanes will affect our service territory and  
4 we will incur costs for restoring power. However, those costs are not reflected in  
5 the Company's base rates. Previously, a small portion, i.e., \$20.3 million, of the  
6 expected annual losses were reflected in base rates. To have attempted to reflect  
7 in base rates the expected average annual cost of storm restoration plus an amount  
8 sufficient to replenish the Reserve in a reasonable period of time would have  
9 required a base rate increase of \$100 million. Instead, the Settlement Agreement  
10 held base rates constant and moved all such costs outside of the Company's base  
11 rates for recovery through a charge associated with Securitization or another form  
12 of surcharge to recover the cost of restoring power in the wake of storms.

13  
14 Second, each 'generation' of customers should contribute to the cost of storm  
15 restoration, even if no storm strikes in a particular year. Since storms will occur  
16 and only their timing is uncertain, the true cost of providing electric service  
17 should include an allowance for some level of restoration activity.

18  
19 Third, however, "pre-funding" restoration costs sufficient to cover an extreme  
20 sub-period of storm activity (i.e., building up a Reserve sufficient to cover  
21 virtually all storm restoration) is likely to be economically inefficient. Thus,  
22 some mechanism for recovery of the prudently incurred costs that exceed the  
23 Reserve is required.

1

2

Each of these principles has been reflected, expressly or implicitly, in prior Commission decisions relative to the establishment of the Reserve and the recovery of storm restoration costs.

3

4

5 **Q.**

**Please describe the principal components of the Commission's approach to storm cost recovery.**

6

7 **A.**

Prior to Hurricane Andrew, FPL had a small Reserve and maintained commercial insurance coverage for its T&D network. The costs of carrying this insurance were recovered through base rates. The cost of storm restoration, therefore, was borne by customers over time largely through the cost of insurance included in the Company's base rate charge.

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

Following Andrew, commercial insurers withdrew from the market. In the absence of commercial coverage, the Company established and the Commission consistently endorsed an overall framework that consists of three main parts: (1) an annual storm accrual, adjusted over time as circumstances change; (2) a Reserve adequate to accommodate most but not all storm years; and (3) a provision for utilities to seek recovery of costs that go beyond the Reserve. The regulatory framework is designed to provide the flexibility to prevent unbounded growth of the storm fund during extended periods of extremely low storm activity as well as provide for supplemental recovery of deficits in the Reserve during periods of high storm activity.

1           These three parts act together to allow FPL over time to recover the costs of storm  
2 restoration, while at the same time balancing competing customer interests,  
3 namely: holding the ongoing impact to reasonable levels; reducing the volatility  
4 in customer bills which occurs when the Reserve is insufficient; and promoting  
5 intergenerational equity. This balance requires periodic adjustment in the main  
6 components of the framework – the annual charge and the appropriate Reserve  
7 balance – in light of changing storm experience and the growth of FPL’s T&D  
8 network. The annual charge can be reduced if a period of favorable loss  
9 experience leads to an excessive build-up in the Reserve level, while, conversely,  
10 a period of unfavorable loss experience will lead to depletion of the Reserve and a  
11 need to increase the annual charge.

12 **Q. Please summarize your understanding of the Commission’s policy on the**  
13 **appropriate Reserve balance.**

14 A. The Commission’s policy, as articulated in Order Nos. PSC-95-1588-FOF-EI,  
15 PSC-95-0264-FOF-EI and PSC-98-0953-FOF-EI, is to determine a Reserve  
16 balance that is sufficient to protect against most years’ storm restoration costs, but  
17 not the most extreme years. Such a level should reduce dependence on a relief  
18 mechanism such as a special customer assessment. Obviously, the lower the  
19 Reserve balance, the more likely that storm losses will exceed the funds available  
20 in the Reserve and therefore the greater the reliance on special assessments. The  
21 higher the Reserve balance, the less likely windstorm losses will exceed the funds  
22 available in the Reserve.

1 **Q. How do the Company's primary and alternative recommendations comport**  
2 **with the Commission's framework for storm cost recovery and the policy**  
3 **objectives you have described?**

4 A. While the two requests present some differences, most notably in the time period  
5 over which recovery is accomplished, fundamentally each is consistent with the  
6 general framework established by the Commission. Both approaches allow the  
7 recovery of costs to provide electric service. Likewise, both requests will help to  
8 ensure adequate funding for future storm restoration while minimizing the need  
9 for additional special assessments. The one principal difference, as I noted, is that  
10 securitization allows the costs of a sub-period of extreme storm activity to be  
11 "smoothed" and borne by customers over a longer time frame, thus mitigating the  
12 rate impact on current customers. In addition, the Company's primary  
13 recommendation provides immediate replenishment of the Reserve in time for the  
14 next storm season.

15 **Q. Did the passage of Section 366.8260, Florida Statutes, which provides for the**  
16 **issuance of storm-recovery bonds alter the current framework for storm cost**  
17 **recovery?**

18 A. No. Section 366.8260 simply provides the Commission with an additional option  
19 for recovery of storm restoration costs that have exceeded the Reserve and for  
20 replenishment of the Reserve. Under Section 366.8260, recovery of deficits and  
21 replenishment of the Reserve would be achieved through the issuance of storm-  
22 recovery bonds which are repaid by customers through a non-bypassable charge.



1 Q. What are the comparative benefits of securitization relative to the  
2 conventional surcharge?

3 A. A primary benefit of securitization is the ability to immediately replenish the  
4 Reserve and to "smooth out" the rate impact of an extreme sub-period of storm  
5 activity making it a useful tool for recovery of existing deficits and replenishment  
6 of the Reserve.

7  
8 In contrast to storm-recovery bonds, a surcharge is well suited for funding annual  
9 expected losses and maintaining the Reserve because it can be adjusted over time  
10 if actual storm losses are significantly higher or lower than expected over an  
11 extended period. A short-term, temporary surcharge can be a cost-effective means  
12 to collect a deficit over a short time frame, although the impact to customer bills  
13 will be greater. Further, one cannot achieve the same bill smoothing impact, as  
14 with securitization, simply by extending the surcharge. To do so would not be  
15 cost effective because deficits over a longer time frame must be financed with a  
16 balanced mix of debt and equity to maintain credit quality.

17  
18 Thus, practical circumstances then existing will determine whether securitization  
19 or a more conventional short-term surcharge is preferable. In light of the  
20 significant impact of the 2004 and 2005 storm seasons and the need to quickly  
21 replenish the Reserve in preparation for potentially more active storm seasons in  
22 the coming years, the Company's recommendation is that the issuance of storm-

1 recovery bonds is preferable at this time to conventional surcharge recovery for  
2 storm costs.

3  
4 As provided in Document No. MPD-1, the monthly charge associated with the  
5 issuance of storm-recovery bonds in the Company's primary recommendation is  
6 estimated to be \$1.58 for a typical (1,000 kWh) residential bill over the life of the  
7 bonds. The Company's alternative recommendation, which provides for recovery  
8 over a three-year period in a more traditional manner, would have an initial  
9 monthly customer impact of \$6.84 for a typical (1,000 kWh) residential bill as  
10 shown in Document No. MPD-2. The impact will decline to \$5.19 for a typical  
11 (1,000 kWh) residential bill once the surcharge for the 2004 storm season has  
12 been collected. Thus, while the more traditional approach to cost recovery  
13 reflected in FPL's alternative recommendation certainly is workable, the issuance  
14 of storm-recovery bonds would avoid or significantly mitigate rate impacts to  
15 customers while at the same time more quickly positioning the Company to  
16 respond to another potentially active storm season.

#### 17 18 **EVALUATION OF ALTERNATIVES**

19 **Q. What other alternatives did the Company consider before making its**  
20 **recommendation?**

21 **A.** The Company considered three other alternatives for storm cost recovery: 1)  
22 continuation of the current Storm Restoration Surcharge to recover the 2004  
23 storm deficit, 2005 storm restoration costs and to replenish the Reserve; 2)

1 keeping the current Storm Restoration Surcharge for recovery of 2004 storm costs  
2 in place, establishing a new surcharge for 2005 storm restoration costs, and  
3 utilizing securitization to replenish the Reserve; and 3) keeping the current Storm  
4 Restoration Surcharge for recovery of the 2004 storm costs in place while  
5 utilizing securitization to recover all 2005 storm restoration costs and to replenish  
6 the Reserve.

7 **Q. Please describe each of the alternatives that were evaluated by the Company**  
8 **and explain why the Company's recommendation should be adopted in favor**  
9 **of these alternate approaches.**

10 **A. Alternative 1 – Continue Existing Surcharge**

11 The existing storm surcharge would continue until changed by a future  
12 proceeding. The surcharge would be applied to jurisdictional storm costs as  
13 follows: first to unrecovered 2004 storm costs, next to unrecovered 2005 storm  
14 costs, and finally to replenish the Reserve.

15  
16 This alternative maintains an ongoing levelized customer charge and funds losses  
17 and replenishes the Reserve through an annual surcharge. However, given the  
18 size of the current deficit from the 2004 storm season and the additional  
19 restoration costs from the 2005 storm season, this alternative is not a feasible  
20 solution as it would take over ten years to recover the storm restoration costs that  
21 have already been incurred without providing any funding for ongoing future  
22 storm restoration activities. The current deficit would need to be funded with a  
23 balance of debt and equity required to maintain the company's current credit

1 quality and free up short-term liquidity to support ongoing operational  
2 requirements such as the fuel hedging program, construction program and clause  
3 underrecoveries, making this alternative more costly to customers compared to  
4 issuing storm-recovery bonds. FPL does not believe this is a practical or desirable  
5 alternative given the costs of the 2005 storm season and the need to prepare for  
6 another potentially strong storm season.

7 **Alternative 2 – Surcharge for 2004 and 2005 Costs, Securitize Reserve**  
8 **Replenishment**

9 Under this alternative, the current Storm Restoration Surcharge would remain in  
10 place to recover 2004 storm restoration costs. A new three-year surcharge would  
11 provide for recovery of 2005 storm restoration costs. Replenishment of the  
12 Reserve would be accomplished through the issuance of approximately \$400  
13 million (the after-tax equivalent of \$650 million Reserve) of storm-recovery  
14 bonds.

15  
16 While this alternative would provide a viable method of funding restoration costs  
17 and replenishment of the Reserve, it has a larger up-front rate impact to  
18 customers. Under the circumstances, FPL considered it to be less attractive than  
19 the Company's primary recommendation.

20 **Alternative 3 – Continue existing surcharge for 2004 costs, Securitize 2005**  
21 **Storm Costs and Reserve Replenishment**

22 Under this alternative, the current Storm Restoration Surcharge would remain in  
23 place to recover 2004 storm restoration costs. The Company would issue storm-

1 recovery bonds of approximately \$900 million to fund the after-tax equivalent of  
2 2005 unrecovered restoration costs of \$827 million as well as to replenish the  
3 Reserve to \$650 million.

4  
5 Similar to alternative 2, the Company considers this alternative to be a viable  
6 method to recover the current deficit and replenish the Reserve, but feels the  
7 Company's recommendation provides for recovery of costs with less impact to  
8 customer rates.

9  
10 **FPL'S PROPOSED STORM-RECOVERY BOND TRANSACTION**

11 **Q. Please provide an overview of FPL's proposed Storm Recovery Bond**  
12 **issuance.**

13 **A.** FPL will form a bankruptcy-remote special purpose entity (SPE) to acquire storm-  
14 recovery property and issue and sell the storm-recovery bonds. This SPE will be  
15 capitalized by FPL in an amount equal to at least 0.50% of the storm-recovery  
16 bond issuance amount. FPL's capital contribution will be deposited into a Capital  
17 Subaccount, which allows the utility to treat the bond issuance as a financing for  
18 tax purposes and it also acts as a credit enhancement mechanism. As described in  
19 Mr. Olson's and Mr. Davis' testimony, under a recently promulgated Internal  
20 Revenue Services procedure (2005-62), a 0.50% equity contribution will be  
21 sufficient to assure this desired tax treatment. This capital contribution will be  
22 made available to cover any shortfalls in storm-recovery charges and to make

1 payments on the storm-recovery bonds, if necessary. This equity contribution  
2 will be returned to the Company at the time the bonds are paid in full.

3  
4 FPL will receive the net proceeds after the payment of issuance costs from the  
5 bond issuance. The proceeds will be used to reimburse the Company for  
6 unrecovered storm-recovery costs with the remaining proceeds (estimated at  
7 approximately \$400 million) being deposited in the fund. FPL, in its role as  
8 Servicer, will collect an irrevocable, non-bypassable Storm Bond Repayment  
9 Charge to recover the amounts necessary to pay principal and interest on the  
10 storm-recovery bonds as well as ongoing costs (excluding taxes) associated with  
11 the transaction from its customers. FPL will also collect a Storm Bond Tax  
12 Charge to recover any income taxes associated with the Storm Bond Repayment  
13 Charge. FPL will transfer the Storm Bond Repayment Charges deemed collected  
14 to a collection account at the SPE on a daily basis. (FPL's role as Servicer, will  
15 be discussed further in Mr. Olson's testimony). The SPE will then apply the  
16 collections to the general subaccount for distribution to bondholders and other  
17 parties in accordance with a priority of payments (or waterfall) for the payment of  
18 principal and interest on the bonds and other ongoing costs (described below),  
19 such as servicing fees, legal and accounting costs, trustee fees, rating agency fees,  
20 and administrative costs. Mr. Olson's testimony provides more detail on the  
21 payment waterfall.

22 **Q. Please describe the terms of the storm-recovery bonds.**

1 A. The storm-recovery bonds will likely be issued in multiple tranches with varying  
2 maturities to attract a greater number of investors. The targeted rating on the  
3 bonds will be triple – A. Exact pricing, interest rates, terms, tranches and other  
4 characteristics will be determined at the time of issuance and will depend on  
5 prevailing market conditions.

6 **Q. When are the storm-recovery bonds expected to be issued?**

7 A. The storm-recovery bonds are expected to be issued after all of the following  
8 events have occurred: 1) issuance of a financing order (and expiration of appeals  
9 period); 2) delivery of necessary SEC approvals under the Securities and  
10 Exchange Act of 1933; and 3) completion of the rating agency process.

11 **Q How will the storm-recovery bonds be sold?**

12 A. The bonds can be sold either through a competitive bidding process or a  
13 negotiated sale. The Company is indifferent at this time as to which method is  
14 preferable. The decision as to which method may be preferable is dependent on  
15 factors such as issue size, complexity of issue, and current market conditions,  
16 some of which are not known with certainty at this time. The upfront bond  
17 issuance cost estimates below include an estimate for underwriting fees. If the  
18 bonds are subsequently sold through a competitive bidding process, the  
19 underwriting fee would not be an itemized cost, but would be included in the  
20 price of the bonds.

21 **Q. Please provide a description of the upfront bond issuance costs which will be**  
22 **financed with the proceeds of the storm-recovery bonds?**

1 A. Upfront bond issuance costs, which will be financed from the proceeds of the  
2 storm-recovery bonds, include the fees and expenses to obtain the financing order,  
3 as well as the fees and expenses associated with the structuring, marketing and  
4 issuance of each series of storm-recovery bonds, including counsel fees, structural  
5 advisory fee, underwriting fees (if the bonds are sold through a negotiated sale)  
6 and original issue discount, rating agency and trustee fees (including trustee's  
7 counsel), accounting and auditing fees, printing and marketing expenses, stock  
8 exchange listing fees and compliance fees, filing fees, and the costs of any  
9 financial advisor retained by the Commission. Upfront bond issuance costs  
10 include reimbursement to the Company for amounts advanced for payment of  
11 such costs.

12 **Q. Please provide an estimate of these upfront bond issuance costs.**

13 A. The Company estimates the upfront bond issuance costs associated with its  
14 recommended \$1,050 million in storm-recovery bonds to be approximately \$11.4  
15 million if the bonds are sold through a negotiated sale. If the bonds are sold  
16 through a competitive bid, the underwriting fees will be embedded in the interest  
17 rate offered on the bond. Document No. MPD-3 provides a breakdown of these  
18 estimated costs. The Company reviewed several stranded cost recovery  
19 securitization filings made by other utilities and developed an estimate of upfront  
20 bond issuance costs with the assistance of our financial advisor. These numbers  
21 are subject to change, as the costs are dependent on the timing of issuance, market  
22 conditions at the time of issuance, the outcome of competitive pricing solicitations



1 for certain fees and other events outside the control of the Company, such as  
2 possible litigation, possible review by the SEC and rating agency requirements.

3 **Q. How will the Company reconcile actual upfront bond issuance costs with the**  
4 **estimates provided by the Company since the actual costs will not be known**  
5 **until after the Commission issues the Financing Order and the storm-**  
6 **recovery bonds have been issued?**

7 A. The proceeds of the storm-recovery bond issuance will be used to pay (or  
8 reimburse the Company for) the actual upfront bond issuance costs incurred. If  
9 the actual upfront bond issuance costs are below the \$11.4 million estimated in  
10 the financing order, then the difference will be added to the Reserve and vice  
11 versa. Not later than 120 days following issuance, the Company will file with the  
12 Commission a reconciliation of actual upfront bond issuance costs with estimated  
13 amounts provided for in the storm-recovery bond issuance. The Commission  
14 shall review such information and may require the Company to make a  
15 contribution to the Reserve in accordance with Section 366.8260(2)(b)(5).

16 **Q. Please describe the estimated ongoing costs (excluding debt service) which**  
17 **will be recovered from the Storm Bond Repayment Charge.**

18 A. In addition to debt service on the storm-recovery bonds (and any swap or other  
19 hedging costs), there will be expenses that will be incurred throughout the life of  
20 the Bonds in order to support the ongoing operation of the SPE. These ongoing  
21 costs are estimated at \$850,000 annually, as set forth the in Document No. MPD-  
22 3, and include servicing fees, legal and accounting costs, trustee fees, rating  
23 agency fees, administrative costs, the costs of funding any reserves (such as

1 replenishment of the capital account) and miscellaneous other fees associated with  
2 the servicing of the storm-recovery Bonds. The SPE will also have at least one  
3 independent director or manager to oversee its operation, and they will receive a  
4 fee for their services and will be entitled to indemnification. Ongoing costs  
5 associated with the transaction do not include the federal and state tax liabilities  
6 associated with the collection of the Storm Bond Repayment Charge, which will  
7 be recovered by the Company through the collection of a separate charge (the  
8 Storm Bond Tax Charge) described in the testimonies of Mr. Davis and Dr.  
9 Morley.

10  
11 Certain of these ongoing costs, such as the administration fees and the amount of  
12 the servicing fee for FPL (as the initial servicer) may be determinable, either by  
13 reference to an established dollar amount or a percentage, on or before the  
14 issuance of any series of storm-recovery bonds. Other ongoing costs will vary  
15 over the term of the storm-recovery bonds.

16 **Q. How will the Company reconcile its actual ongoing costs associated with the**  
17 **transaction with its estimated costs?**

18 A. Because ongoing costs are recovered through the Storm Bond Repayment Charge,  
19 disparities will be resolved periodically through the true-up mechanism. The true-  
20 up mechanism is described in more detail in Mr. Davis' testimony.

21 **Q. Does this conclude your testimony?**

22 A. Yes.

1 BY MR. LITCHFIELD:

2 Q Mr. Dewhurst, have you prepared a summary of your  
3 direct testimony?

4 A Yes, I have.

5 Q Would you please provide that at this time to the  
6 Commission?

7 A Good morning, Chairman Edgar, Commissioners.

8 As of the end of March, FPL's storm reserve shows a  
9 negative balance of approximately \$1.1 billion, and another  
10 hurricane season is rapidly approaching. We are forced to ask  
11 the Commission to make choices: What method to use to recover  
12 the deficit and how much of a reserve to build.

13 The recoverability of prudently incurred restoration  
14 costs is clearly established by the fundamentals of utility  
15 ratemaking and by prior regulatory rulings, and it is  
16 explicitly acknowledged in last year's stipulation and  
17 settlement agreement. But the mechanism that should be used  
18 for recovery and the target level of the reserve are both open  
19 questions. We have proposed two alternatives: Securitization  
20 and surcharge.

21 As you know, last year the Legislature passed  
22 securitization legislation, giving the Commission an additional  
23 tool to support the recovery of prudently incurred restoration  
24 costs. Both alternatives are workable, both are consistent  
25 with the policy framework applied by the Commission since

1 Hurricane Andrew closed off the commercial market for T&D  
2 insurance, and both proposals include targeting roughly a  
3 \$650 million level in the storm reserve, disregarding for the  
4 moment future storm losses.

5           There is no clear analytical way of saying which  
6 alternative is better. The choice comes down to policy  
7 judgment. Securitization will produce a smaller monthly  
8 charge. The surcharge proposal has a shorter recovery period.  
9 Under the current circumstances, we believe the securitization  
10 approach makes sense, even though the charge will be in place  
11 for a longer period, but we can appreciate that some customers  
12 might prefer the alternative.

13           Similarly, there is no clear analytical way of saying  
14 what the target reserve level should be. The larger the  
15 number, the greater the impact on the immediate customer  
16 charge, but the greater the protection before the reserve is  
17 exhausted. Other things equal, a larger reserve means lower  
18 rate volatility. We believe \$650 million represents a  
19 reasonable compromise between capacity to handle future losses  
20 and impact on customer rates.

21           If the Commission approves the securitization  
22 approach and provides an appropriate financing order, we would  
23 expect to issue roughly \$1.1 billion in bonds, which would give  
24 us the capacity to handle roughly \$1.7 billion of previously  
25 incurred and future restoration costs.

1           My testimony describes our two proposed alternatives  
2 and discusses the policy considerations that I believe are  
3 relevant to the choices that need to be made. I also discuss  
4 alternatives that we considered and then rejected. My  
5 testimony also provides an overview of the securitization  
6 process and an estimate of the associated issuance costs.  
7 Mr. Olson's testimony provides much more detail on the  
8 mechanics of securitization.

9           That completes my summary. But if I might, as the  
10 initial company witness, I thought it might be helpful if I  
11 introduced the other witnesses you'll be hearing from just  
12 briefly.

13           Ms. Geisha Williams will describe FPL's plans in  
14 response to the storms of 2005, and show that the same factors  
15 that led to excellent restoration performance in 2004 were  
16 present in 2005. She will support the reasonableness and  
17 prudence of the costs incurred in restoring power.

18           Dr. Richard Brown will present the results of KEMA's  
19 independent engineering analysis, which shows that FPL's  
20 transmission and distribution system performed well and  
21 consistent with expectations during Hurricane Wilma.

22           Mr. Mark Warner will cover the impact of the 2005  
23 storms on FPL's nuclear facilities and the costs incurred in  
24 response.

25           Mr. Mike Davis discusses the accounting for storm

1 costs and details the amounts charged to the reserve.

2 Mr. Steven Harris will present the results of ABS's  
3 independent analysis of the risk of uninsured losses to FPL's  
4 T&D system and its implications for the potential solvency of  
5 the storm reserve under a variety of future scenarios.

6 Mr. Wayne Olson of Credit Suisse describes the  
7 securitization process in general and FPL's proposed storm  
8 recovery bond offering in particular.

9 Dr. Leonardo Green describes the revenue forecast  
10 underpinning the estimates of the storm bond amortization  
11 schedules, and also calculates the impact of the 2005  
12 hurricanes on FPL's revenues.

13 And, finally, Dr. Rosemary Morley discusses the rate  
14 and tariff implications of both the securitization approach and  
15 the surcharge alternative. Thank you.

16 CHAIRMAN EDGAR: Thank you.

17 MR. LITCHFIELD: Madam Chairman, we tender  
18 Mr. Dewhurst for cross-examination.

19 CHAIRMAN EDGAR: Thank you. Mr. Williams.

20 CAPTAIN WILLIAMS: No.

21 CHAIRMAN EDGAR: Mr. Kise.

22 MR. KISE: Nothing at this time. Thanks.

23 CHAIRMAN EDGAR: Mr. McWhirter.

24 CROSS EXAMINATION

25 BY MR. McWHIRTER:

1 Q Good morning, Mr. Dewhurst.

2 A Good morning.

3 Q You are responsible for Issue 37, and that's the  
4 level of funding for the storm reserve; is that correct?

5 A I don't have Issue 37.

6 Q Let me read it to you. "What is the appropriate  
7 level of funding to replenish the Storm Damage Reserve to be  
8 recovered through the mechanism approved in this proceeding?"

9 A Yes. I'm responsible for that.

10 Q Actually that's not the question I wanted to ask you  
11 about.

12 What I wanted to reconcile, get you to reconcile for  
13 us verbally is that you claim your storm damages were  
14 \$1.7 billion, and the bond issue that you're seeking is  
15 \$1,050,000,000; is that correct?

16 A Approximately, yes.

17 Q I see. And the difference between the \$1.7 billion  
18 and the \$1.05 billion is you've given what I would call an  
19 original discount on taxes that are to be collected in the  
20 future; is that correct?

21 A Well, I would disagree with your term "original  
22 discount," which to me means something else.

23 Q That's customer lingo and not stock market lingo.

24 A Fundamentally the difference between the 1.7 and the  
25 1.05 is taxes. In fact, there's a table in my direct

1 testimony, if you'll bear with me just one second.

2           On Page 7 of my direct testimony you will see how we  
3 reached the \$1.7 billion number, which is the sum of  
4 \$213 million remaining from the 2004 storm season,  
5 approximately \$827 million from the 2005 storm season, the  
6 target \$650 million for replenishing of the reserve, that adds  
7 up to approximately \$1.7 billion. Now those are all pretax  
8 costs to the company. So as they are incurred or as they have  
9 been incurred, they are written off for tax purposes. So in  
10 order to provide the capacity to cover \$1.7 billion of costs,  
11 we only need to securitize \$1.05 approximately billion of debt.  
12 So the difference in there is the tax effect. Either way, the  
13 customer ends, the burden on the customer ends up being the  
14 \$1.7 billion, which is simply the costs that we have incurred.  
15 So it's neutral in that sense to both, both sides.

16           Q     All right, sir. With respect to Page 7, you're not  
17 going to get a \$1.7 billion check from the bond underwriter at  
18 the time the bonds are sold. You're going to only get 1.3 or,  
19 yeah, \$1.038 billion. How are you going to allocate that  
20 check? Are you going to put the money on 2004 costs or are you  
21 going to put the money on 2005 costs or are you going to put  
22 part of it in the reserve? Have you got a program for us to  
23 tell us what pot it's going to go into?

24           A     Well, it all goes into the reserve. As I mentioned  
25 in my summary, the reserve today is a negative \$1.1 billion.



1 After we've been through all this, the reserve will effectively  
2 be at approximately \$650 million.

3 Q Well, you're not going to leave it in that reserve.  
4 You're going to reimburse yourself, I would imagine, for costs,  
5 aren't you?

6 A If you're asking where does the cash go?

7 Q Yeah. Where does the cash --

8 A The cash goes into FPL's central cash pool just like  
9 all the other cash.

10 Q And so you can use that cash for any purpose?

11 A Yes. Any operational purpose for FPL.

12 Q The fund is supposed to have earnings on it. How,  
13 how do you calculate what component of the fund will be  
14 achieving earnings though while it's on, in the storm reserve?

15 A Thank you. You just reminded -- I mean, a piece of  
16 the cash will end up in the reserve. It will be roughly the  
17 after tax amount of \$650 million. So the funded portion of the  
18 reserve is approximately 62 percent of \$650 million. The other  
19 portion is a deferred tax credit. So that piece will go into  
20 the storm fund and it will be invested along the investment  
21 guidelines that we've traditionally had for the storm fund.

22 Q All right. Now on your Exhibit 6 there's a  
23 designation that's been given, but your subexhibit in your  
24 testimony is MPD-1, and that shows how the money is going to be  
25 collected and disbursed each year from the surcharge. Is that

1 correct?

2 A That's correct. These are estimates that we prepared  
3 based on available data back in December. So the exact numbers  
4 would obviously be different and depend upon current market  
5 conditions. But approximately these would be correct.

6 Q Now am I correct that this money that's collected  
7 will be subject to a gross receipts tax of 2.5 percent?

8 A I'm actually not the right person to consult on that.  
9 I think probably Dr. Morley or Mike Davis would be the better  
10 witnesses to consult on gross receipts tax.

11 Q Well, Dr. Morley's exhibit excludes a gross receipts  
12 tax in her analysis of the impact on the individual customer.  
13 So do you want to defer that to her to find out how customers  
14 are going to be charged for the gross receipts tax?

15 A Yeah. I can't answer that piece of your question.

16 Q Uh-huh. And you don't know whether -- how the  
17 utility tax, the 10 percent municipal utility tax that will be  
18 charged to customers --

19 A No. That's correct.

20 Q -- is that included here?

21 A That's not -- I don't -- this is the total impact on  
22 the customer bill, but I'm not familiar with those particular  
23 components of it.

24 Q I took the liberty of adding up the columns for the  
25 12-year period, and I calculate, and I offer this to you

1 subject to check, and if you think I have erred badly in my  
2 calculations, please quickly advise.

3 But the money that you're collecting for principal  
4 payment, that's on Line 3, over the 12-year period will be  
5 \$1.04 billion. And then on top of that you're going to collect  
6 from customers for income tax, that's the storm damage tax  
7 charge on 14, and that's \$652 million. And then the amount  
8 that you're going to collect from customers for interest on the  
9 bonds, that's Line 9, that adds up to \$373 million. And then  
10 you're going to have \$10 million in bond servicing over the  
11 period of time. And then on that -- I added \$652 million more,  
12 but I may have double added there. I calculate that the total  
13 you're going to collect from customers over the 12-year period  
14 is \$2,085,000,000. Does that correspond to your understanding  
15 of what you're going to collect?

16 A Well, I'd have to check the arithmetic. But let me  
17 see if I can reconcile what you're talking about. If you go  
18 back to the table in the body of the testimony that we were  
19 looking at on Page 7.

20 Q Yes.

21 A The 1.04 that you calculate is the amount of the  
22 financing. So obviously the bondholders expect to get their  
23 principal back, and, therefore, the sum of the principal  
24 payment on Line 8 of the exhibit should add up to 1.04.

25 We also need to cover the taxes, the 652, and that is

1 the reason why Line 14 on the exhibit sums to 652. So if we  
2 were to do this as a one-day transaction and turn around and  
3 ask the customer to bear the burden in one single day, there  
4 would be \$1.7 billion of total cost.

5 But obviously this is not the alternative with  
6 securitization. We're stretching those costs out over time.  
7 Because they are stretched out over time and the bondholders  
8 have advanced the money up-front, there's obviously an interest  
9 charge on that.

10 So subject to check, I would imagine that over, this  
11 is roughly a 12-year deal, it should be somewhere a little  
12 north of, I would estimate, \$300 million of interest that would  
13 be incurred over that entire period. So, subject to check,  
14 your number \$370 million number doesn't seem off.

15 Q So what's the total amount you're going to collect  
16 over that period of time?

17 A It would a little north of \$2 billion.

18 Q \$2 billion.

19 A Again, and this illustrates the basic difference  
20 between the securitization approach and a surcharge approach.  
21 Obviously, the shorter the recovery period, the higher the  
22 impact on the monthly customer bill. But the quicker the  
23 charge is over, the less the interest costs that are incurred.  
24 Clearly a dollar that I have to pay now hurts more than a  
25 dollar that I have to pay in the future. That's what the

1 interest effectively represents.

2           And as I said in my summary, I think that's one of  
3 the basic choices that the Commission has to make here is which  
4 of those two is the right way to go.

5           Q     When you made your original estimate back in January,  
6 you used 5.06 percent as the weighted average interest cost.  
7 Have you had reason to change that amount of interest since  
8 that date?

9           A     Well, obviously interest rates have changed.  
10 Unfortunately, the overall trend of interest rates has been up.  
11 I did ask to have done a quick estimate, and we estimate that  
12 the impact, if I use today's rates, would be about a two-cent  
13 increase on the monthly charge.

14          Q     About 100 basis points on the interest charge you  
15 show, it would be closer to 6 percent than 5?

16          A     No. No. I believe interest rates on average have  
17 probably gone up about 40 basis points, but that would  
18 translate to approximately two cents on the monthly charge. So  
19 instead of \$1.58 it would \$1.60.

20          Q     What would it amount to -- excuse me.

21          A     I'm sorry?

22          Q     I interrupted you. I apologize.

23          A     Yeah. So, in other words, the monthly charge, which  
24 back in December we estimated would be \$1.58, would now under  
25 today's market circumstances be approximately \$1.60. So a

1 two-cent differential because interest rates have risen in the  
2 meantime.

3 Q And you know what the impact on a thousand kilowatt  
4 hours would be. What would the dollar impact be? Would it be  
5 --

6 A That I don't know. I don't recall that.

7 Q Okay. And you, and you don't know whether these  
8 numbers include regulatory assessment fee, municipal utility  
9 tax, franchise or gross receipts tax?

10 A As I said earlier, I'm not familiar with the details  
11 of those elements. I believe they were covered in Ms. Morley's  
12 testimony, but I'm not sure.

13 Q All right. But you don't know?

14 A Correct.

15 Q That's all right. Now once again I'm going to  
16 request you to bear with me because I don't have an exhibit for  
17 you to look at. But your -- the 10K you filed last month with  
18 the Securities and Exchange Commission listed Florida Power &  
19 Light Group's O&M expenses for the year 2005 to be  
20 \$1,307,000,000 million without considering fuel costs, and  
21 that's \$79 million greater than your O&M costs were in 2004.  
22 The surveillance report that you filed with the Commission  
23 shows that the retail component of O&M was something like  
24 1.1 -- \$1,190,000,000, and that's an increase of only  
25 \$54 million over 2004.

1           And the thing that I didn't understand, because I'm  
2 not an accountant and perhaps you can explain to us, is if your  
3 expenses in 2005 went up by \$826 million, why did your O&M  
4 expenses only go up \$54 million?

5           MR. LITCHFIELD: Chairman Edgar, I would simply  
6 object to the first part of Mr. McWhirter's question. It's not  
7 really a question at all but more in the form of testimony.  
8 Subject to that objection, I'm happy to have the witness  
9 answer.

10           THE WITNESS: I can't respond to your question  
11 without seeing the document you're referring to.

12           MR. McWHIRTER: I understand.

13           THE WITNESS: I mean, you're giving me numbers that  
14 I -- that are not here.

15 BY MR. McWHIRTER:

16           Q     Well, what you're saying is you're unfamiliar with  
17 your O&M costs being in the neighborhood of 1.19 --  
18 \$190 million?

19           A     No, that's not what I said. I can't respond to your  
20 question without --

21           CHAIRMAN EDGAR: Mr. McWhirter, let's keep it as a  
22 question to the witness.

23           MR. McWHIRTER: All right.

24           CHAIRMAN EDGAR: Thank you.

25 BY MR. McWHIRTER:

1 Q Is the money you collect from customers to pay labor  
2 costs, is that taxable revenue or do you get a tax deduction  
3 for the labor costs going out?

4 A I think there's a compound question in there. But if  
5 I understand your question correctly, the answer to both parts  
6 is yes. As we receive revenue from customers, we incur tax  
7 liability. And as we incur costs, we get those accredited for  
8 tax purposes.

9 Q And is that same thing true for money that you pay to  
10 outside contractors that perform services for your company?

11 A In general, costs associated with outside contractors  
12 would be part of your taxable expense base. So they would be  
13 netted out from mere taxable revenue to compute taxable income.

14 Q Is storm damage an expense which is also tax  
15 deductible to the company?

16 A Well, you need to be a little more specific about  
17 storm damage. But in general, yes.

18 Q And the problem that gives me concern, and I  
19 apologize for being stupid in the way I express it, but if it's  
20 tax deductible, when do, when does the utility take the  
21 deduction and when do the customers get the benefit of that  
22 deduction, if it's payable over a 12-year period?

23 A Well, I can't answer your question, it's so general,  
24 without looking at the specifics. But clearly there will be  
25 timing differences in the normal course of business, whether it



1 has to do with storm or anything else. That's what produces  
2 deferred tax items, whether those be credits or debits, over  
3 the life of whatever particular thing that you are looking at.  
4 Those net out. The difference between what we incur for tax  
5 purposes and what we report for accounting purposes will be the  
6 same.

7 Q Are you satisfied in your own mind that you have  
8 matched it in the best possible way to ensure that the revenue  
9 collected from customers is matched to the expenses the  
10 customer -- that the company incurs in order that the customers  
11 will get the full credit of the expense deduction?

12 A Yes. I think that's very clear on Page 7.

13 Q If you'll go back to your table on Page 7 of your  
14 exhibit. Am I correct in assuming that should the Commission  
15 elect to reduce any of the amount of money you claim in Lines  
16 11, 12 and 13, to the extent of that reduction there would be a  
17 comparable reduction in interest costs and tax costs and  
18 servicing fees?

19 A There might be. It would depend exactly on what the  
20 Commission chose to do.

21 For example, if the Commission chose to take some  
22 amount arbitrarily out of the 826.9 but say it should be put in  
23 the storm reserve, then that wouldn't necessarily be true.

24 Q Uh-huh.

25 A To the extent --

1 Q Can you elaborate on that a little further?

2 A Well, to the extent that the Commission approves  
3 something less than \$1.1 billion of securitization issuance,  
4 then everything else would come down somewhat proportionate.  
5 That's not quite right. Not every item. There are some costs  
6 that are essentially fixed or don't vary with the size of the  
7 deal. But obviously the biggest component of cost in there is  
8 the interest on the debt over the 12 years, and that obviously  
9 does vary with the size of the amount that you borrow.

10 MR. McWHIRTER: Thank you. I'd tender the witness.

11 CHAIRMAN EDGAR: Mr. Twomey.

12 MR. TWOMEY: I have no questions, Madam Chair.

13 CHAIRMAN EDGAR: Ms. Christensen.

14 MS. CHRISTENSEN: No questions.

15 CHAIRMAN EDGAR: Mr. Wright.

16 MR. WRIGHT: Thank you, Madam Chairman.

17 CROSS EXAMINATION

18 BY MR. WRIGHT:

19 Q Good morning, Mr. Dewhurst. I just have a very few  
20 questions for you.

21 On this piece of paper -- my first question for you  
22 is this. Given the operation of the rate stipulation that was  
23 in effect from 2002 through 2005, isn't it true that every  
24 dollar that FPL did not spend on vegetation management or pole  
25 inspection or pole repair or pole replacement was an additional

1 dollar that accrued to the bottom line benefit of FPL's  
2 shareholders?

3 A Yes and no. I would agree that during the period of  
4 that rate agreement there was a benefit to the bottom line for  
5 any, any benefit, plus or minus for any change in O&M. I would  
6 say that the -- whatever productivity improvements we were able  
7 to make during the course of that agreement very clearly flowed  
8 through as benefits to customers in the most recent rate  
9 renegotiation, meaning that, other things equal, the rate  
10 increase that we would have been looking for would have been  
11 higher had we not had productivity improvements, et cetera.

12 Q Okay. The answer to my specific question was yes;  
13 correct?

14 A I think my answer needs to be complete, and it's not  
15 just an absolute. There's a benefit to shareholders for a  
16 period and then there's a benefit to customers.

17 Q During the period 2002 through 2005 the benefits of  
18 not spending money flowed to FPL's shareholders; true or false?

19 A The immediate cash flow benefits flowed to  
20 shareholders, yes.

21 Q Thank you.

22 A But I don't think that's the complete benefit.

23 Q And your attorney is entitled to ask you on redirect  
24 if you want to expand your answer. I'm entitled to an answer  
25 to my question as asked.

1 CHAIRMAN EDGAR: Mr. Wright, let's not start off the  
2 day by lecturing the witness.

3 MR. WRIGHT: Okay.

4 CHAIRMAN EDGAR: Okay. When you can, a yes or no  
5 answer. But he may -- you may expand, if need be.

6 MR. WRIGHT: Thank you, Madam Chairman.

7 MR. LITCHFIELD: Could the witness finish his answer,  
8 Madam Chairman? I'm not sure he was.

9 THE WITNESS: No. I've completed my answer.

10 CHAIRMAN EDGAR: Mr. Wright.

11 MR. WRIGHT: Thank you.

12 BY MR. WRIGHT:

13 Q Will you agree that before 2005 conventional  
14 amortization accounting treatment was standard practice for  
15 storm deficits?

16 A No. I would not agree with that.

17 Q What was standard practice then?

18 A I'm not sure what, how you would define standard  
19 practice. I think probably Mr. Davis is the right witness to  
20 speak specifically to the accounting. But I don't think it was  
21 amortization accounting.

22 Q Okay. One more question, I believe. You do testify  
23 regarding alternatives considered by the company. Did you  
24 consider, did FPL consider conventional amortization accounting  
25 treatment for its 2005 storm costs?

1           A       I can't speak to alternative accounting treatments  
2 that we chose. My testimony speaks to the fundamental economic  
3 alternatives that we considered, most of which had to do with  
4 variations on the rate at which recovery would occur; i.e.,  
5 whether it would be more protracted at a lower monthly charge  
6 or more accelerated at a higher monthly charge.

7           Q       Okay. Did you consider in rate design, in the rate  
8 alternatives that you considered, amortizing the storm deficit  
9 or any part thereof?

10          A       I'm not sure I know how to answer that because I  
11 think you have some specific meaning in the term  
12 "amortization."

13                   Clearly, both of these methods amortized the  
14 remaining unrecovered balance of storm costs over time. So I  
15 think my answer is yes.

16          Q       All right. Thank you.

17                   CHAIRMAN EDGAR: Mr. Kise.

18                   MR. KISE: Madam Chair, I just have a couple of  
19 questions for point of clarification. And I might also add, I  
20 know we were going in the order this way down the table, but to  
21 avoid duplication, I deferred to Public Counsel and to FIPUG  
22 and the others before I just ask my couple of points of  
23 clarification since they're probably going to cover most  
24 everything.

25                   CHAIRMAN EDGAR: For -- with three long days and

1 numerous witnesses, it does help me keep an order to follow the  
2 line, but we can, we can do it differently. But let's try to  
3 keep some consistency, if we could.

4 MR. KISE: I'll sit down there tomorrow.

5 CROSS EXAMINATION

6 BY MR. KISE:

7 Q Mr. Dewhurst, I just had a couple of questions.  
8 Referring you to Page 7 and 8 of your direct testimony, the  
9 table that you had referred to earlier, I believe. Do you see  
10 where I'm referring?

11 A Yes.

12 Q There's a number in there, and it may be me. As Mr.  
13 McWhirter indicated, I'm like him; I'm not a tax person or  
14 accountant. I just want to ask you some clarification about  
15 this income tax deduction here. It looks like you've deducted  
16 a portion for income taxes at 38.575 percent on the table. Do  
17 you see where I'm referring to?

18 A You mean Line 15, the \$652 million?

19 Q Yes. Line 15.

20 A Yes.

21 Q And then on Page 8 you describe that, starting on  
22 Line 4 and going down to Line 10, with a discussion about the  
23 after tax value of costs, and you make a reference to a  
24 \$400 million fund on line 9, the after-tax equivalent of a  
25 \$650 million reserve. Do you see where I'm referring to?

1 A Yes, I do.

2 Q Can you explain to me why you're making that  
3 deduction? I mean, I can read your testimony, but I guess I'm  
4 asking you to expand on that a little bit because I'm not  
5 following why it is that we do that. Wouldn't -- once you  
6 spend money out of the fund, wouldn't you get a corresponding  
7 deduction as it comes out?

8 A Yes. And that relates to the 2004 and 2005 costs.  
9 So as those are incurred, they're expensed for tax purposes.

10 This relates to the \$650 million storm reserve. So  
11 traditionally and in this case with a funded storm reserve, the  
12 total capacity is greater than the amount that is in the storm  
13 fund, the actual funded component, and the difference is the  
14 deferred tax credit on that. So we will have the capacity for  
15 \$650 million of future losses, and of that \$650 million,  
16 approximately 400 will be invested in the fund, and the other  
17 250 will be recorded on the books effectively as a deferred tax  
18 credit.

19 Q Okay. So then the amount that you are -- the amount,  
20 if I'm understanding you correctly, and please bear with me, if  
21 I'm understanding you correctly, the amount that you're saying  
22 needs to be in the reserve for actual, to cover the actual cost  
23 is \$400 million because the other 250 represents deferred  
24 taxes.

25 A Not quite. The reserve in total will still be

1 \$650 million. It's the other side of the ledger, if you like,  
2 of how that gets added up. 400 of that will be effectively in  
3 marketable instruments in the fund itself, and the other 250  
4 approximately will be in the form of a deferred tax credit.

5 Q And so -- but -- and, again, maybe you're being clear  
6 and I'm not, but that, the \$400 million that's invested --  
7 assume this all happens in the same year, that you have the  
8 recovery of the 650 from the customers, you charge them  
9 \$650 million, recover that money in, and then in the same year  
10 you pay out that same amount of money. There is no tax  
11 consequence in any one given year; correct?

12 A No. Let me see if I can explain what would happen in  
13 the hypothetical where we do this, so we now have \$650 million  
14 in the storm reserve, of which \$400 million is in the fund  
15 itself. And now on, let's say on the next day we get hit with  
16 a storm that happens to cost exactly \$650 million in  
17 restoration costs. We would then have the capacity to handle  
18 those \$650 million in restoration costs with the \$400 million  
19 of funds plus the \$250 million of deferred tax credit. So,  
20 again, we would be able to absorb the \$650 million of costs  
21 without having to come back to the Commission or the customer.

22 MR. KISE: Okay. Thank you.

23 CHAIRMAN EDGAR: Have we -- is there cross from any  
24 of the other intervenors? Did I miss anyone? No? Okay.

25 Questions from staff.



1 MR. KEATING: Yes. Thank you.

2 CROSS EXAMINATION

3 BY MR. KEATING:

4 Q Mr. Dewhurst, good morning.

5 A Good morning.

6 Q Staff is going to hand you what was identified  
7 earlier as Exhibit 3. It's a composite exhibit. I apologize  
8 for the size. I will refer you to specific bates stamped page  
9 numbers as I go through my questions.

10 Mr. Dewhurst, do you consider yourself an expert in  
11 the structuring, marketing and pricing of utility  
12 securitization bonds like the bonds being proposed in this  
13 proceeding?

14 A Yes and no. As I think we discussed at my  
15 deposition, I don't consider myself an expert in all the  
16 details of securitization transactions. I do think I'm  
17 qualified because of my general experience in financing to talk  
18 about the major elements of them. So with that distinction,  
19 it's a yes and no answer.

20 Q Okay. But you have never personally been involved in  
21 the issuance of utility securitization bonds; is that correct?

22 A No, I have not.

23 Q Okay. In your testimony you state that you are  
24 responsible for communicating the results of FPL's operations  
25 to investors; is that correct?

1           A     Yes. That's correct. I am typically the primary  
2 speaker on our quarterly earnings calls, and I play the lead  
3 role in most of our investor communications efforts. There are  
4 many other people involved in that, but I'm typically the  
5 principal.

6           Q     In fulfilling this role, have you been asked to  
7 explain the recovery of fuel costs to investors?

8           A     Yes, I have.

9           Q     When communicating with investors regarding FPL's  
10 request for fuel cost recovery before this Commission, have you  
11 indicated to investors that you thought it was reasonable to  
12 expect the company would get recovery of such costs consistent  
13 with the Commission's past precedent?

14          A     Yes, in general I've expressed that. I've also  
15 indicated that in regulatory matters investors need to be  
16 aware, as they are, that there are no guarantees. But the  
17 basic principles of regulation argue for recovery of fuel  
18 costs. It's certainly been the Commission's policy and  
19 practice in the past, and, therefore, I think there is a  
20 reasonable expectation on the part of investors that as long as  
21 those costs have been prudently incurred, that they would be  
22 recoverable.

23          Q     And when communicating to investors, have you  
24 indicated that FPL believes its storm damage restoration costs  
25 from the 2005 storm season were prudent and, therefore, the

1 company expects it will receive approval for recovery of those  
2 costs?

3 A I'm just trying to think when we have -- in general  
4 terms, yes. I think what I've actually communicated is around  
5 the time of the January filing in these proceedings, I  
6 indicated what we had incurred, what we had filed, what we were  
7 requesting, the fact that we had proposed two alternatives and  
8 were recommending as the preferred alternative the  
9 securitization approach, that we felt that the costs were  
10 reasonable, prudently incurred, and that the recovery was very  
11 consistent with the terms of the stipulation. Again, I'm  
12 usually careful to say there can be no guarantees.

13 Q And you would agree the Commission approved recovery  
14 of the reasonable and prudently incurred storm costs associated  
15 with the 2004 storm season; is that correct?

16 A Yes.

17 Q Okay. I'd like you to look at, in the exhibit that  
18 we provided, bate stamp pages 329 and 330. If you could take a  
19 second to locate those.

20 A 329 and 330. I have those. Give me a moment to read  
21 them.

22 (Pause.)

23 Okay. I have read them.

24 Q Okay. Have you seen those reports before?

25 A Yes, I have.

1 Q Okay. Let me first ask you about the, the report on  
2 bate stamp Page 330. It's got a publication date near the top  
3 of July 20th, 2005. That report relates to recovery of 2004  
4 storm costs; is that correct?

5 A That's correct.

6 Q Okay. And there's an indication that the Commission  
7 will decide how it will deal with the remaining \$21 million  
8 requested in a separate agenda conference. Do you see that?

9 A Yes, I do.

10 Q Okay. Would you agree that FPL subsequently received  
11 approval from the Commission for recovery of the \$21 million  
12 referenced in this report?

13 A Yes. As I recall, the outcome was to charge the  
14 \$21 million to the storm reserve, essentially leaving the  
15 reserve at that point in \$21 million deficit, other things  
16 being equal.

17 Q And if you could turn to the report on bate stamp  
18 page 329 with the publication date October 25th, 2005. Would  
19 you agree based on this report that although FPL sustained  
20 substantial damage to its infrastructure from Hurricane Wilma,  
21 that S&P did not expect the effects to result in a lower credit  
22 rating for the company?

23 A Yes, I would agree with that. And the reason being  
24 really expressed in the last sentence, which says, "Methods to  
25 recover the restoration costs include securitization and rate

1 surcharges, both of which need Florida Public Service  
2 Commission approval." Implicit in this report is S&P's  
3 expectation, as they indicated to us at the time, that we would  
4 get recovery. Obviously, if we were not to get recovery, they  
5 would have a very different view of what the credit impact  
6 would be.

7 Q Thank you. And if you could now refer to bate stamp  
8 page 435 from the exhibit that was provided to you.

9 (Pause.)

10 A Okay. I have read that.

11 Q Okay. And would you agree that this document is a,  
12 is an analyst report from Merrill Lynch dated November 7th,  
13 2005?

14 A Yes.

15 Q Okay. And are you familiar with this document?

16 A I have seen it before. I read most of the analyst  
17 reports when they come out. I don't recall this one at this  
18 point, but I'm certain I've seen it before.

19 Q Moving to page, bate stamp page 439 that's part of  
20 the same document -- do you have that?

21 A Yes, I do.

22 Q Do you see the heading about a third of the way down  
23 the page titled "Constructive Regulatory Framework Set in  
24 Place"?

25 A Yes.

1 Q Could you please read aloud the first two sentences  
2 under this heading?

3 A "Over the past few months, FP&L has reached  
4 regulatory agreements that ensure long-term rate stability and  
5 a defined mechanism to recover storm-related costs. These two  
6 determinations should minimize risk over the next several  
7 years." The report obviously goes on to detail those.

8 I think it's important to know what Steve Fleishman  
9 is talking about here. He's referring to the resolution of the  
10 rate case and the resolution of last year's storm cost  
11 recovery. And both those frameworks, I think, were viewed by  
12 investors as constructive from a regulatory point of view.

13 Q Would you agree that there were contested issues  
14 between FPL and intervening parties in the rate case in which a  
15 stipulation was reached last year?

16 A Yes.

17 Q Okay. Would you agree that there were contested  
18 issues between FPL and the parties with respect to FPL's most  
19 recent fuel recovery request?

20 A I'm really not familiar with that request. I can't  
21 remember what the issues, if any, were.

22 Q Would you agree that there were contested issues  
23 between FPL and the parties concerning FPL's request for  
24 approval of 2004 storm cost recovery?

25 A Yes, I would agree with that.

1 Q Okay. In general, would you agree that most any time  
2 FPL comes before the Commission to request an increase in  
3 rates, that there will be some contested issues between FPL and  
4 the consumer representatives?

5 A As a general proposition, I would agree with that.  
6 Obviously what those issues are, how significant they are could  
7 vary dramatically from proceeding to proceeding. But as a  
8 general statement, I think that's fair.

9 Q I'd like you to look at the document that starts on  
10 bate stamp page 332 in the exhibit that was provided, and I  
11 believe that continues through 333.

12 A Okay.

13 Q Okay.

14 A Give me a moment to read it.

15 Q I'm sorry?

16 A Please give me a moment to read it.

17 Q Okay.

18 (Pause.)

19 A Okay.

20 Q And would you agree that this document is an analyst  
21 report from Moody's Investor Services dated December 19th,  
22 2005?

23 A Yes, I would. I would note though that this is, this  
24 is the FPL Group note. I believe at about the same time  
25 Moody's put out an equivalent report on Florida Power & Light

1 itself, and one needs to be a little careful to make sure one  
2 understands the difference between those two. So without that  
3 other document, I think we have to recognize that this could,  
4 some of this could be out of context.

5 Q Okay. Well, let me ask you to, to read the last  
6 paragraph on bate stamp page 332.

7 A "The affirmation of the ratings of Florida  
8 Power & Light Company reflects its strong cash flow coverage  
9 ratios, relatively low leverage, robust demand growth,  
10 favorable demographics and low percentage of industrial  
11 customers. The utility encountered some challenging regulatory  
12 issues in 2005 with regard to its rate case, fuel filing and  
13 storm cost recovery, and has had to defer some costs. However,  
14 the approach followed by the Florida Public Service Commission  
15 has been relatively constructive for Florida Power & Light, and  
16 the Commission has allowed the utility to recover prudently  
17 incurred fuel and storm restoration costs on a timely basis."

18 Q Would you agree that one of the primary purposes of  
19 this docket is to determine the appropriate mechanism for  
20 timely recovery of reasonable and prudently incurred 2005 storm  
21 costs?

22 A Yes, I would.

23 Q Okay. I'm going to ask you to look at one additional  
24 document in the composite exhibit. It starts at bate stamped  
25 page 335, and it continues on Page 336.



1 (Pause.)

2 A Yes. I've read that.

3 Q Would you agree that this document is an analyst  
4 report from Standard & Poor's dated December 20th, 2005?

5 A Yes, I would. Again, I would note this is a report  
6 for FPL Group as a whole. And the comments I made with respect  
7 to the Moody's article equally, if not more important, with  
8 respect to Standard & Poor's, I suspect there was an equivalent  
9 report for Florida Power & Light itself issued at the same  
10 time, but that's not what we're looking at here. So this is  
11 the credit update, if you'd like, or commentary on FPL Group,  
12 the holding company.

13 Q Okay. Would you agree that Standard & Poor's per  
14 this report has placed FPL's credit rating on credit watch with  
15 negative implications as a result of FPL Group's announcement  
16 of it's planned merger with Constellation Energy?

17 A Yes. I agree that was the action they took.

18 Q Okay. Thank you.

19 I'd like to refer to your testimony. In your  
20 testimony you discuss alternatives that FPL considered before  
21 making its primary recommendation to issue storm recovery  
22 bonds. Do you recall that?

23 A Yes, I do.

24 Q Okay. Under the primary recommendation and all the  
25 alternatives that are addressed in your testimony, the amounts

1 that would be recovered by FPL are the same; is that correct?

2 A Yes.

3 Q FPL did not conduct any present value analyses to  
4 compare the primary recommendation and the alternatives; is  
5 that correct?

6 A Yeah, that's correct. I think as we discussed at my  
7 deposition, there was no need to do that. And potentially a  
8 net present value analysis could be quite misleading in this  
9 situation.

10 Q Okay. And how could it be misleading in this  
11 situation? If you could explain.

12 A Well, net present value analysis is a standard  
13 financial analytical technique that seeks to put future cash  
14 flows on a consistent basis by bringing them forward to the  
15 future and essentially saying how much would somebody be  
16 willing to pay today for the equivalent amount in the future.  
17 As such, the correct application of the analysis depends  
18 greatly on the discount rate, the rate by which one discounts a  
19 future dollar to today. So where a net present value analysis  
20 is typically used would be in comparing two investment  
21 alternatives where we need to understand what differences in  
22 future cash flow profiles might mean, which is worth more  
23 today.

24 The situation we're dealing with here is really the  
25 reverse of that. We know the amount that we're looking to,

1 that we're dealing with today. It's the \$1.7 billion. The  
2 problem is how do we spread those costs out over time and which  
3 of two alternatives is preferable? That's a slightly different  
4 question and ultimately depends much more on customers'  
5 preferences for different cash flow profiles over time.

6 As I indicated in my summary, I think different  
7 customer groups could prefer rationally either the  
8 securitization alternative or the surcharge. So if I were to  
9 use a net present value analysis in this, I would need to be  
10 very careful to know what the right discount rate should be.  
11 And the right discount rate would ultimately depend upon  
12 different customers' time preferences, and that's an  
13 extraordinary difficult thing to know in advance.

14 But in this case I don't need to do net present value  
15 analysis because, as I indicated, I know what the amount is  
16 that we're looking to spread out over future periods. It's  
17 \$1.7 billion.

18 It's sort of a basic principle of finance that if I  
19 finance something in a competitive marketplace, that is a zero  
20 net present value deal except for the transaction costs. So  
21 since the securitization is being done in a competitive  
22 marketplace, it's a fair deal for, for the amount that's being  
23 issued. So the present value is in effect what I'm trying to  
24 finance minus any transaction costs.

25 So as I say, it wasn't necessary to do that analysis,

1 and it could be misleading because I don't know how to  
2 calculate the discount rate that I would need to know to find  
3 an answer which I already intuitively know.

4 Q Would you agree that present value analysis could be  
5 used to bring future cash flows to the present?

6 A I would agree it could be used. And as I said, it  
7 could be very misleading. If you don't get the right discount  
8 rate, you will get the wrong answer. It will be a garbage in,  
9 garbage out problem.

10 And as I also said, to know what the correct discount  
11 rate is in this particular instance, you really would need to  
12 know customer time preferences or customer utility preferences,  
13 which are really unknowable.

14 Q Is it correct that the basis for FPL's primary  
15 recommendation, that is the issuance of storm recovery bonds in  
16 this case, is based on, is based on an assertion that there  
17 would be rate mitigation associated with issuance of these  
18 bonds as compared to another alternative?

19 A Yes, that's fundamentally right. If you strictly  
20 took a "what's the fewest dollars approach," that would say we  
21 should use the alternative. But, as I indicated, that produces  
22 a much higher monthly charge, albeit for a shorter period of  
23 time.

24 I believe that in the current circumstances there's a  
25 good logical argument for saying that customers would be well

1 served to have a smaller monthly charge, even though that's  
2 spread out over a longer period of time. It tends to mitigate  
3 the impact on rates, it gives a smaller impact immediately, and  
4 it's likely to produce less volatility in that number going  
5 forward.

6 Q How much of a rate reduction do you believe is  
7 required to qualify as rate mitigation?

8 A I don't know that I can answer with a specific  
9 number. It would depend upon the facts and circumstances at  
10 the time.

11 As I say, in this situation my belief is that the  
12 difference between the two alternatives in terms of their  
13 impact on the monthly bill makes it well worth considering the  
14 securitization alternative.

15 Q Okay. Do you believe that there's a range associated  
16 with that?

17 A I'm sorry. That there's a range associated with --

18 Q With the amount of rate reduction that would be  
19 required.

20 A I don't know that I'd say there's a range so much as  
21 I would acknowledge that different people, reasonable people  
22 could differ on which of the alternatives in any hypothetical  
23 situation might be preferable, depending upon how wide that  
24 difference is.

25 Q Okay. If you could turn to bates stamp page 254 from

1 the exhibit that staff has provided. Do you have that?

2 A Yes, I do.

3 Q Okay. That's a response to an interrogatory, a staff  
4 interrogatory in this docket that asked FPL what the  
5 administrative fee is that it would receive for its role in  
6 collecting franchise fees from its ratepayers and remitting  
7 said fees to municipalities. I'll give you a minute to look at  
8 that response.

9 CHAIRMAN EDGAR: Commissioner Carter.

10 COMMISSIONER CARTER: Could we get a page number?

11 CHAIRMAN EDGAR: Mr. Keating, could you tell us the  
12 page number that you're on again?

13 MR. KEATING: Yes. It's page 254.

14 CHAIRMAN EDGAR: Thank you.

15 THE WITNESS: Okay. I've read that.

16 BY MR. KEATING:

17 Q Would you agree that according to this response, the  
18 cost associated with the collection of franchise fees is  
19 recovered through FPL's base rates?

20 A Well, yes and no. I think what the response says is  
21 that in general most of FPL's franchise agreements don't  
22 provide for a separate fee, although it then goes on to  
23 indicate at least one where there is. But for those where  
24 there's not, it indicates that the costs are, were included in  
25 FPL's most recent cost of service study.

1 Q Okay. In looking at the next page, bate stamp page  
2 255, in that interrogatory staff had asked FPL what  
3 administrative fee it would receive or it receives for its role  
4 in collecting local, municipal and state taxes from its  
5 ratepayers and remitting those fees to the appropriate  
6 governmental entities. And I'll give you a minute to review  
7 that.

8 (Pause.)

9 A Okay. I've read that.

10 Q Okay. Would you agree from your reading of this  
11 response that the costs associated with the collection of these  
12 various taxes are recovered through FPL's base rates?

13 A Yes, subject to -- I think that's not quite what the  
14 response says. It says the costs were included in both FPL's  
15 most recent cost of service study and the cost of service study  
16 filed in FPL's previous rate case.

17 I should point out that I'm not really the right  
18 witness to address these particular -- these were not  
19 interrogatories that I responded to, so really all I'm doing is  
20 reading them.

21 Q Does FPL have -- does FPL have an estimate of the  
22 costs, the incremental costs it will incur to perform  
23 activities outlined in the servicing agreement that would be  
24 one of the transaction documents or one of the documents that  
25 allows this securitization to proceed?

1           A     No. We have not developed a separate bottoms-up  
2 incremental cost estimate for the servicing agreement.

3                     Just to explain, the servicing agreement is an  
4 agreement between FPL and the special purpose entity that would  
5 issue the bonds. And it relates to the need to have someone  
6 deal with many of the basic servicing functions, primarily  
7 making sure that the payments are collected on a timely manner  
8 and remitted to bank accounts for the benefit of bondholders.

9                     In order to receive an appropriate bankruptcy  
10 opinion, it's necessary that there be compensation for that  
11 servicing, the services provided by FPL that's based on an  
12 arms-length transaction. So in estimating these for these  
13 purposes, we looked at other transactions and took the low end  
14 of the range, which in my Exhibit MPD-3 is the, in the lower  
15 part of Exhibit 3 the estimate of ongoing costs translates to  
16 the servicing fee of \$525,000. So that's a fixed amount. We  
17 have not prepared a bottoms-up estimate of the actual  
18 incremental costs needed to perform those activities.

19           Q     Does FPL to your knowledge forecast kilowatt hour  
20 sales in the normal course of its operations?

21           A     Yes, we do.

22           Q     To your knowledge, is the cost of updating these  
23 kilowatt hour sales forecasts recovered through current base  
24 rates?

25           A     The cost of updating regular forecasts that are



1 needed in the regular course of business certainly would be  
2 recovered through, they're part of the base cost. So those  
3 incremental activities would be recovered through base rates.

4 Q If you could turn to bates stamp page 258 in the  
5 exhibit that staff provided, and if you could take just a  
6 minute to review that question and answer.

7 (Pause.)

8 A Okay.

9 Q Based on your review of that response, would you  
10 agree that the methodology for forecasting kilowatt hour sales  
11 for purposes of determining the storm bond repayment charge as  
12 proposed in this proceeding will not differ from the way that  
13 FPL forecasts kilowatt hour sales for other purposes?

14 A I would agree that the methodology -- we would  
15 propose to use the same methodology that we use for other  
16 purposes. That doesn't mean, of course, that the activity  
17 would be identical. There would -- in principle there could  
18 well be incremental activity. I can't speak to whether there  
19 would or not.

20 Q And if you could turn to bates stamped page 266, and  
21 if you could take just a minute to review that question and  
22 answer.

23 (Pause.)

24 A Okay.

25 Q Based on your review of that question and answer,

1 would you agree that with the exception of hedging expenses,  
2 all other costs of administering FPL's fuel cost recovery are  
3 performed in conjunction with other base rate activities?

4 A Yes, I would agree with that.

5 Q Okay. Thank you.

6 In your direct testimony, and I'm specifically  
7 referring to the bottom of Page 9, you discuss a desire to  
8 issue the bonds prior to August 1st of this year; is that  
9 correct?

10 A Yes, that's correct. At the time that I drafted my  
11 testimony, I was optimistic that we might be in a position to  
12 do that. I think today I would probably be less optimistic,  
13 but we'll certainly try and do them as swiftly as we can,  
14 subject to getting a good deal.

15 Q Is there anything special about the August 1st date?

16 A No. I don't think there's anything magical about a  
17 specific date. I do think that there is a clear interest in  
18 not having an unduly protracted issuance process, but there is  
19 nothing absolutely magic about August 1st. I think clearly the  
20 further out we go, the greater the pressure on liquidity. But  
21 there's nothing particularly magical about August 1st.

22 Q Would you agree that FPL's storm reserve had a  
23 negative balance throughout the entire 2005 storm season?

24 A Yes, I would. It was roughly on the order of  
25 \$400 million for most of the year. And then it spiked up

1 dramatically towards the end of the year when we started  
2 incurring major costs associated in particular with Hurricane  
3 Wilma, and it ended the year with a negative balance of about  
4 \$1.1 billion.

5 Q And if you could refer to Page 27 of your direct  
6 testimony. I believe there you discuss events that must occur  
7 before the storm recovery bonds can be issued. And I'm looking  
8 specifically at Lines 7 through 10.

9 A Yes.

10 Q Okay. The first item on Line 8 there, issuance of a  
11 financing order and expiration of appeals period. Would you  
12 agree that this step could take a few weeks to a few months,  
13 depending on the actions of parties other than the company or  
14 the Commission?

15 A I'm not that familiar with what the time frame for  
16 the appeals process would be, so I'm not sure about the  
17 characterization there. But I would certainly agree that it is  
18 not entirely within the control of either the Commission or the  
19 company.

20 Q Okay. The next item, delivery of necessary SEC  
21 approvals under the Securities and Exchange Act of 1933. Would  
22 you agree that this step could take a few weeks to a few  
23 months, depending on the speed with which the SEC acts?

24 A Yes and no. A few weeks, it would certainly be  
25 reasonable. I would think that a few months for a transaction

1 like this would be unusual, but in principle it could happen.

2 Q What would you consider a typical range in terms of  
3 the time that the SEC would take to issue the, its necessary  
4 approvals?

5 A Yeah. Again, I haven't studied, you know, past deals  
6 to see how long it has taken. But just thinking about the  
7 structure of this transaction and what's involved, I would  
8 think it should not take more than four to six weeks to get  
9 through the SEC.

10 Q And the final item on your list, completion of the  
11 rating agency process, would you agree that this step could  
12 take a few weeks to a few months depending on the rating  
13 agencies?

14 A Yes. Again with a caveat, I think a few months would  
15 be -- I would be disappointed, let me put it that way, if we  
16 couldn't get through the rating agencies in more than a few  
17 weeks. A lot of the analysis can be done in advance. We know  
18 generically what they will be looking for. And the rating  
19 agencies are usually pretty cooperative in trying to, you know,  
20 focus on getting a rating out there. So it's a little easier  
21 to work with the rating agencies in that regard, I would say,  
22 than the SEC.

23 Q Is completion of the rating agency process something  
24 that's not entirely within the control of FPL or the  
25 Commission?

1           A     Yeah. I would agree it's not entirely within our  
2 control. As I indicated, I think our experience in other deals  
3 has been that the rating agencies are usually pretty willing to  
4 work with you and get a prompt turnaround time.

5           Q     Thank you. If you could now refer to bates stamp page  
6 446 of the exhibit that staff has provided. And when you get  
7 there, if you could take a minute to review that question and  
8 answer. That is staff's request for admission number 2 in this  
9 document.

10                   (Pause.)

11           A     Okay. I have read that.

12           Q     Based on your review of this discovery response, do  
13 you believe that the transaction documents, registration  
14 statement and term sheet for this transaction would be in a  
15 final form two days prior to the proposed series launch date?

16           A     I believe -- yes. I believe they would be in  
17 substantially final form. I think the key word here is  
18 material.

19                   We submitted initial drafts of the documents with our  
20 testimony back in January, so there should be plenty of time to  
21 go through those and review them. If there are any material  
22 items that need to be discussed or modified, it should  
23 certainly be possible to have those all resolved well before we  
24 launch the deal. There will always be, at least the potential  
25 to be final last-minute changes, but they would be ones that I

1 would not characterize as material.

2 Q Who would determine whether the changes were  
3 material?

4 A I think the -- it would be inherent in the oversight  
5 and approval process because the Commission would sign off on  
6 these documents in what I would consider materially final form,  
7 and at that point we would be specifying the things that would  
8 still need to be filled in. They would typically be the exact  
9 details of the transaction.

10 So I think at that point the Commission could  
11 determine whether or not it was satisfied that those items, if  
12 they were to change in any way, would give them concern about  
13 moving forward with the deal. That's why the approval process  
14 is built in there.

15 Q If the Commission approved the documents in what  
16 you've described as substantially final form and there were  
17 changes made to the documents after that approval, what  
18 recourse would the Commission have if the Commission determined  
19 any of those changes were material? In other words, would it  
20 have an opportunity to review those documents again?

21 A Well, it would certainly have the opportunity to  
22 review those documents again. But I think the purpose here is  
23 to make sure that we don't have those disagreements when we  
24 launch the deal. Once you go into the market, while it is  
25 possible to pull a deal, it's not a good thing. And so we want

1 to make sure that we have agreement before we actually launch  
2 the deal. So if at that point the Commission were  
3 uncomfortable with anything that was not yet specified or the,  
4 in other words, the range of alternatives for those things that  
5 remain to be exactly specified, I think they would have the  
6 opportunity to say and say we're not comfortable going further.

7 Q Once the documents have been approved by the  
8 Commission, could those documents, other than to reflect what  
9 you've characterized maybe as some minor changes, could those  
10 documents be amended in the future?

11 A I'm honestly not familiar enough with the specific  
12 terms of the agreement, but the short answer is, no, not  
13 materially. You can't go forward and then change them  
14 significantly after the fact. Most of those documents are in  
15 there to make sure that bondholders are adequately protected  
16 because ultimately they're advancing money in the expectation  
17 that it's going to be recovered. So it's typical in these  
18 documents that you can't just certainly unilaterally change  
19 them after the fact.

20 Q Could you say that those documents would never be  
21 amended in the future?

22 A No. I couldn't say they would never be amended in  
23 the future. It's hard for me to conceive of a situation in  
24 which they would be materially amended in which the Commission  
25 wouldn't have an opportunity to review them, if they so wished.

1 Q Okay. Would you agree that in certain state  
2 jurisdictions to your knowledge that various commissions have  
3 been involved in the structuring, marketing and pricing of  
4 utility securitization bonds?

5 A Yes, I would agree. My understanding is that there  
6 have been a range of different processes used in other  
7 situations in other states, and the degree of involvement and  
8 exactly the nature of the involvement of the Commissions has  
9 varied. In some cases they've taken a very active role. In  
10 other cases they've taken a not so active role, merely an  
11 oversight role.

12 Q Could you explain how the staff preissuance review  
13 process as proposed by FPL in this docket would work? If you  
14 wish, you might want to refer to FPL's response to staff's  
15 first set of interrogatories number 1, which is bate stamp page  
16 1 in this exhibit.

17 (Pause.)

18 A Okay. I have read that.

19 Q And again I'll restate the question or the request.  
20 If you could explain how that staff preissuance review process  
21 as proposed by FPL would work in this proceeding.

22 A Yes. I think actually the better place, if I might,  
23 is to -- if I'm allowed to go to my rebuttal testimony, there's  
24 a chart in there that speaks directly to that.

25 Q Well, let me ask before we do, is what's in your



1 rebuttal testimony different from what's in response to  
2 interrogatory number 1?

3 A It's much more detailed, so it explains better, I  
4 think. To get to the answer to your question, it gives much  
5 more detail on how this process would work, which is what I  
6 thought you were driving at.

7 Q Mr. Dewhurst, I propose then that we address that on  
8 rebuttal, if we need to, in the interest of, interest of moving  
9 this along.

10 A Okay.

11 Q Has FPL made any specific plans for marketing the  
12 storm recovery bonds that it proposes in this proceeding?

13 A No, not yet. I think it's a little premature until  
14 we learn from the Commission which of the two approaches they  
15 prefer. I think a lot of time spent thinking about the  
16 specifics of how you market the debt would be potentially  
17 wasted.

18 Q So these marketing plans would be developed after the  
19 financing order has been issued?

20 A Yes and no. I think primarily they would be  
21 developed after the financing order. Though I think once the  
22 Commission has made an overall ruling, assuming that the  
23 Commission wanted to go the securitization route, then that  
24 would be a logical signal for us to start at least thinking  
25 about them.

1 Q If I could get you to turn to bates stamp page 27 from  
2 the exhibit that staff provided. If you could take just a  
3 minute to review the question and answer. It's staff  
4 interrogatory Number 31 to FPL and FPL's response.

5 (Pause.)

6 A Okay. I have read that.

7 Q Would you agree that this response indicates that FPL  
8 will provide the Commission an opportunity to review financing  
9 documents and related legal opinions prior to the launch of the  
10 bond sale?

11 A Yes, that's correct.

12 Q And would you also agree that this group of documents  
13 will be voluminous, perhaps hundred or thousands of pages?

14 A I would agree they'll be voluminous. I don't know  
15 about hundreds of thousands of pages. As I said, I think we  
16 submitted all the major documents with, in draft form with our  
17 initial testimony. So I think, if you like, the guts of those  
18 documents have been available to the Commission and its staff  
19 now for quite some time.

20 Q Just to clarify my question, I asked hundreds or  
21 thousands of pages. I didn't mean to suggest hundreds of  
22 thousands.

23 A Then I apologize for my hearing.

24 MR. LITCHFIELD: If it's hundreds of thousands, we  
25 might go back to the conventional storm surcharge.

1 (Laughter.)

2 BY MR. KEATING:

3 Q In that same response, I believe FPL indicates that  
4 it does not believe it is necessary for the Commission to  
5 participate in the sale on a realtime basis, given FPL's track  
6 record in marketing and pricing first mortgage bonds. Is that  
7 correct?

8 A Yes, that's correct. I don't feel it is necessary  
9 for the Commission to participate in realtime pricing. Again,  
10 we may be veering into rebuttal testimony here, but as I  
11 indicate there, if the Commission wishes to participate and  
12 take an active role even through pricing, we'd be delighted to  
13 have you along. But I don't think it's necessary, and the  
14 reason is that by the time you launch a deal like this, you  
15 should have a pretty good indication of where it's going to  
16 price. You don't launch it until you have a pretty good  
17 indication of what the market is going to, how the market is  
18 going to react to that. So in launching a deal like this, I  
19 would expect to be able to have a pretty high degree of  
20 confidence that the deal would price within a plus -- plus or  
21 minus a couple of basis point. And a basis point for this deal  
22 is equivalent to roughly half a million dollars.

23 And the factors that would cause the pricing to vary  
24 within that kind of range are really what happens on the day,  
25 what the market conditions are on the day or the period of

1 pricing. So at that point there's not a great deal that you  
2 can do. There's a few things that you can do on the day of  
3 pricing or in the pricing period to try and squeeze a little  
4 bit more out of the deal, but they're fairly kind of standard  
5 techniques. So as I say, I don't think it's necessary. But if  
6 the Commission wants to be there, we would welcome you.

7 Q Would you agree that the structure, marketing and  
8 pricing of utility securitization bonds is different from the  
9 structure, marketing and pricing of first mortgage bonds that  
10 the response indicates that FPL has a track, a good track  
11 record with?

12 A Yes and no. I would agree that some of the details  
13 are slightly different, but the broad approach is very much the  
14 same. At one level it's not that complicated. You're going to  
15 indicate to the marketplace that a deal is coming. Frankly,  
16 some people in the marketplace already believe a deal is  
17 coming, which I think is a little premature. You are going to  
18 explain to investors what the specific nature of the deal is.  
19 And, in particular, in the case of a securitization there is  
20 more structuring involved than in a first mortgage bond. By  
21 structuring, I mean things like the special purpose entity and  
22 its support from the originating legislation and the financing  
23 order.

24 But in both cases you have essentially an education  
25 process and a communication process to the investor: This is

1 the deal, these are its strong points, these are its risks.  
2 And then you have a decision to launch, whether the market  
3 conditions are suitable when you actually launch. There's a  
4 bookbuilding process to try and generate orders and create some  
5 price pressure, and then at some point you price the deal. So  
6 yes and no. The details are different, but the broad steps in  
7 the process are very similar.

8 Q Are you -- do you have any familiarity with the  
9 securitization, utility securitization transactions that have  
10 been conducted in Texas and New Jersey?

11 A I have briefly reviewed sort of some of the history  
12 of many of the other deals that are done, but I wouldn't say  
13 I'm familiar with them. No, I haven't looked at the details of  
14 each transaction. No.

15 Q Are you aware of whether the language contained in  
16 the laws in Texas and New Jersey establish a lowest cost  
17 standard for, for purposes of determining, for lack of a better  
18 word, the prudence of the cost of funds?

19 A You've thrown in several things in there that I'm not  
20 sure I know or don't know, so let me answer what I do know.

21 I am aware that some statutes have a so-called lowest  
22 cost standard in them. What that specifically means, I think,  
23 varies from situation to situation and how it's been applied  
24 varies from situation to situation. I don't know the specifics  
25 of the Texas legislation. Clearly that's not the case with the

1 Florida legislation. That's not in the Florida Statute.

2 Q Do you believe that the Florida Statute prohibits the  
3 Commission from requiring FPL to work collaboratively with the  
4 Commission either by itself, by its staff or a representative  
5 to conduct a transaction in a transparent manner?

6 MR. LITCHFIELD: I'll object to the form of the  
7 question because I think it incorrectly presumes that the  
8 utility has somehow indicated it's not willing to work  
9 collaboratively on this process. And I think clearly the  
10 company has repeatedly indicated that it is, so I would object  
11 to the form of the question.

12 CHAIRMAN EDGAR: Mr. Keating, rephrase.

13 MR. KEATING: My question essentially was, I think,  
14 intended to elicit that same response from the witness.

15 (Laughter.)

16 BY MR. KEATING:

17 Q I will, I will attempt to rephrase.

18 Is it your belief that the Florida law prohibits the  
19 Commission in any way from requiring FPL to work  
20 collaboratively with the Commission and to conduct the  
21 transaction in a transparent manner?

22 A No. It's not my belief that the legislation  
23 restricts that. I do believe the legislation has some sections  
24 in it that I've read that sort of contemplate the Commission  
25 defining for the utility the ground rules within which it

1 should operate; i.e., the degree of flexibility it should have,  
2 ultimately the degree of decision-making authority over what  
3 elements it should have. And that I would certainly encourage  
4 the Commission to do. I think it's very important that we have  
5 a clear process for determining ultimately who makes the  
6 decisions. And I do think the statute speaks at least  
7 indirectly to that, but it certainly doesn't preclude a  
8 collaborative process.

9 Q And you are somewhat familiar with the Florida  
10 Statute; correct?

11 A Somewhat familiar with it is a good characterization,  
12 yes.

13 Q Are you familiar with the provision that would  
14 provide for Commission review of actual issuance costs 120 days  
15 after the bonds have been issued?

16 A Yes, I'm aware of that provision.

17 Q Do you believe that interest rates on the bonds are  
18 not issuance costs pursuant to the Florida law?

19 A My clear -- my reading of the law is clearly they're  
20 not part of issuance costs. I think the early definition  
21 section of the statute makes that clear.

22 Q If you could turn to bates stamp page 38 of the  
23 exhibit that staff prepared.

24 MR. LITCHFIELD: Sorry, Cochran. May I ask for a  
25 reference?

1 MR. KEATING: I'm sorry. That was bate stamp page  
2 38. It should be FPL's response to staff interrogatory 49.

3 MR. LITCHFIELD: Number 38?

4 MR. KEATING: Bate stamp page 38. Yes.

5 MR. LITCHFIELD: Thank you.

6 THE WITNESS: Okay. I have that.

7 BY MR. KEATING:

8 Q If you could read from the second sentence on.

9 A "This process," referring to the staff preissuance  
10 review, "includes the opportunity for Commission staff to  
11 direct the company not to proceed with the launch of the bond  
12 sale if proceeding based upon the prelaunch bond structuring  
13 information provided to the Commission staff would not comply  
14 with the terms of the financing order. However, the  
15 preissuance review process does not contemplate Commission  
16 staff actually participating in the bond pricing on a realtime  
17 basis for reasons set forth in our response to staff's first  
18 set of interrogatories number 31."

19 Q Without someone involved in the transaction on a  
20 realtime basis when the deal is negotiated, how can the  
21 Commission be assured that the transaction, in fact, took place  
22 at the best interest rate consistent with market conditions?

23 A Well, first of all, I don't think there's any  
24 possible way of knowing if a transaction actually got the best  
25 price. All you can know is the actions that were taken in



1 advance that might lead to an efficient low cost deal.

2 But I think, as I've tried to make clear in response  
3 to an earlier question, if you have review and oversight all  
4 through the marketing process and up to the launch date, by  
5 then you pretty much know within a reasonable band where the  
6 deal is likely to price.

7 As I also said, if the Commission wants to be  
8 directly involved in the last little piece in the pricing  
9 itself, we welcome you.

10 Q Now if you turn to bate stamp page 54 in the  
11 exhibit -- I'm sorry -- 41, and that is the response from FPL  
12 to staff interrogatory 54.

13 A Okay.

14 Q Do you see the portion of the response that says that  
15 the most important aspect to the agencies, referring to credit  
16 rating agencies, is recoverability of any storm costs within a  
17 reasonable time frame?

18 A Yes, I see that.

19 Q Would you agree that the Commission has granted FPL  
20 recovery of reasonable and prudently incurred storm costs in  
21 the past within a reasonable time frame?

22 A Yes, I would certainly agree with that with respect  
23 to the 2004 proceedings.

24 Q Okay. Did FPL --

25 A Excuse me. The 2004 costs. The proceedings were in

1 2005.

2 Q Did FPL in your opinion experience any significant  
3 disallowances with respect to the recovery of 2004 storm damage  
4 costs?

5 A I think the answer depends on what you mean by  
6 "significant," so let me just explain what I think happened.

7 We had proposed an accounting methodology that was  
8 really just taking all the direct costs. One change that the  
9 Commission made to that was to make an adjustment for  
10 capitalization to the extent that the amount that goes into  
11 rate base in a fixed rate settlement period, i.e., through the  
12 end of '09, is not reflected in a change in base rates. Then  
13 effectively there's been -- I don't know there's a  
14 disallowance -- it's absence of recovery for that component.  
15 But with that one caveat, then I would say no disallowances.

16 Q But at the -- okay. At the time that FPL's rate case  
17 was, was stipulated last year, was FPL aware and the other  
18 parties aware that certain amounts had been, had been  
19 capitalized as a result of the 2004 storm recovery proceedings?

20 A At the time the stipulation occurred, yes. But there  
21 was no opportunity to revise our rate case filings to reflect  
22 the outcome of the 2004 storm cost recovery proceedings.

23 Q Okay. But would you agree there was an opportunity,  
24 given the dynamic nature of the settlement discussion, to  
25 address those costs or to address those amounts?

1           A       I'm hesitant to answer because I don't quite remember  
2 the exact time for all these things.

3                   I guess -- I think the answer is yes. I think by the  
4 time we had the negotiations, we at least -- well, we knew  
5 where the, what the outcome of that proceeding was. So I guess  
6 we had the opportunity somehow to reflect it in the  
7 negotiations.

8           Q       Okay. We discussed a little bit earlier, or you  
9 described the servicing agreement that would be one of the, one  
10 of the transaction documents involved in the issuance of storm  
11 recovery bonds. FPL would serve as the servicer initially; is  
12 that correct?

13          A       That's correct.

14          Q       Okay. And FPL cannot resign as servicer for the  
15 transaction; is that correct?

16          A       That's correct.

17          Q       Do you believe that FPL would ever intentionally  
18 default under the terms of the servicing agreement?

19          A       No.

20          Q       Okay. Can you provide any examples of why FPL would  
21 no longer be able to legally perform its servicer functions?

22          A       I've tried to think of situations in which that would  
23 become impossible and I have a hard time doing so. I suppose  
24 it is conceivable that if FPL were bankrupt, there might be  
25 some practical constraints. But even then I think in most

1 practical situations we'd still be able to continue the basic  
2 functions. The basic functions in the servicing arrangement,  
3 again, are to be able to collect the charge from customers,  
4 account for it accurately, and make sure it's remitted to the  
5 benefit of the bondholders. So that the reason that the  
6 servicer is FPL, the utility in these situations, is because  
7 obviously we are the one who is in the best position to do  
8 that. We're billing the customer already, we handle customer  
9 calls and all those things, so it's very tightly bound up with  
10 our day-to-day operations. As a consequence, as long as we're  
11 an effectively functioning entity, it's hard for me to see how  
12 we would not be in a position to be the servicer.

13 Q From your understanding of the servicing agreement,  
14 in the event that FPL is replaced as servicer by another  
15 entity, would you agree that the, the fee, the servicing fee  
16 under the agreement would, would increase?

17 A Probably. Again, the fee that's set up in order to  
18 get the bankruptcy opinion has to be representative of an  
19 arms-length transaction. But as a practical matter, I think  
20 most likely that if somebody did have to take over the  
21 servicing function, they would incur greater costs than FPL  
22 would. So I think as a practical matter it would probably go  
23 up.

24 Q Through the mechanism for, through the mechanism  
25 that's established in the securitization statute in Florida,

1 would customers be responsible for the difference in that  
2 event?

3 A Yes.

4 MR. KEATING: Okay. Thank you. That's all the  
5 questions I have.

6 CHAIRMAN EDGAR: Thank you, Mr. Keating.  
7 Commissioners, any questions for the witness at this time?  
8 Commissioner Carter.

9 COMMISSIONER CARTER: Thank you, Madam Chairman.

10 I heard, Mr. Dewhurst, I heard you say that there was  
11 no way to say what the reserve should actually -- the amount  
12 should be for the reserve. Do you remember saying that early  
13 on?

14 THE WITNESS: No analytical way. Yes, sir.

15 COMMISSIONER CARTER: No analytical way. And I heard  
16 the Attorney General say that it should be \$200 million. I  
17 heard counsel for the AARP and the Retail Federation say it  
18 should be \$250 million. And I heard you say for FP&L it should  
19 be \$650 million; right?

20 THE WITNESS: Yes, sir.

21 COMMISSIONER CARTER: But you still say there's no  
22 analytical way to say what the reserve should be; correct?

23 THE WITNESS: I think that's correct.

24 COMMISSIONER CARTER: You -- Madam Chairman.

25 CHAIRMAN EDGAR: Commissioner Carter.

1           COMMISSIONER CARTER: You -- the discussion you had  
2 about the net present value, do you remember that discussion  
3 that you had?

4           THE WITNESS: Yes, sir.

5           COMMISSIONER CARTER: Wouldn't you really -- in order  
6 to eliminate possibilities or funding options, wouldn't you  
7 want to evaluate all of them, all of the funding models, or  
8 certainly more than one?

9           THE WITNESS: In principle I would agree with you.  
10 But the practical options, I think, are fairly limited. If  
11 it's going to be a short-term recovery, it can be done at  
12 commercial paper rates, which is what's implicit in the  
13 surcharge -- explicit in the surcharge alternative. If it gets  
14 stretched further out, then it's going to be, have to be  
15 financed with a longer term arrangement. Fundamentally for us,  
16 the baseline alternative would be first mortgage bonds. And I  
17 think relative to first mortgage bonds, a securitization  
18 approach is more efficient economically.

19           COMMISSIONER CARTER: Thank you. Follow-up, please.

20           CHAIRMAN EDGAR: Commissioner Carter.

21           COMMISSIONER CARTER: And you also said you'd have to  
22 know what the right discount rate is.

23           THE WITNESS: That's correct.

24           COMMISSIONER CARTER: Wouldn't you also -- I mean,  
25 you'd have to know that anyway, wouldn't you? Whatever

1 methodology, you would still -- we're talking about bonds, so  
2 you would still need to know the right discount rate, wouldn't  
3 you?

4 THE WITNESS: Yeah, I agree with that. The  
5 difference is that, at least in my mind, in the typical  
6 investment analysis we apply net present value. The discount  
7 rate is pretty easy to know roughly what it should be. It's  
8 typically the company's opportunity cost of capital. It would  
9 not be appropriate in my judgment to apply the company's  
10 opportunity cost of capital in a net present value analysis of  
11 these customer payment streams.

12 COMMISSIONER CARTER: So roughly just from a layman's  
13 standpoint, from, roughly from a layman's standpoint, what  
14 you'd want to have is, obviously you'd want to have, to know  
15 what the discount rate is, would have some kind of amortization  
16 schedule with a sinking fund to where roughly the equivalent of  
17 one-twelfth per year of the cost of the bond is put in this  
18 fund so at maturity they'll be able to pay the full principal  
19 amount, and then you'd want to know that you're collecting  
20 enough to make the interest payment every six months. So the  
21 bottom line is that it's all based upon what the monthly, the  
22 amount ratepayers are paying on a monthly basis; is that  
23 correct?

24 THE WITNESS: Well, I agree with that. I would just  
25 say that in the net present value analysis you'd be trying to

1 take -- we know what those are for these two alternatives  
2 roughly. So in the net present value analysis, you would be  
3 trying to bring those amounts back and put them on a common  
4 basis, a single figure today.

5           And the point I was trying to make earlier is we  
6 already know what that amount is, it's the \$1.7 billion that  
7 we're seeking to recover. So the present -- the only  
8 differences that I can see in present value are in the case of  
9 securitization there's an extra cost of the transaction costs  
10 because there are up-front issuance costs to the tune of  
11 approximately \$12 million, and ongoing servicing fees which are  
12 the equivalent of \$3 million or \$4 million.

13           On the other side for the surcharge alternative, we  
14 are essentially doing three-year recovery but we're using  
15 commercial paper rates. If we were to be strictly competitive  
16 market, arms-length, we would be charging a slightly higher  
17 interest rate in that. So one way you can look at it is  
18 essentially in the surcharge alternative, the customer is  
19 leaning a little more on FPL's balance sheet. So there's sort  
20 of a benefit there. So that's how I get to the economic  
21 conclusion that on a strict economic basis the securitization  
22 alternative is very slightly more costly in a present value  
23 sense to customers. But I think it's, it's a small amount and  
24 in my judgment doesn't override the policy issues, the rate  
25 mitigation issues that I think need to be considered here.



1 COMMISSIONER CARTER: Thank you, Madam Chairman.

2 CHAIRMAN EDGAR: Commissioners, any other questions  
3 at this time?

4 Mr. Litchfield, for planning purposes, about how long  
5 on redirect do you roughly think that you may wish to --

6 MR. LITCHFIELD: Maybe, maybe five minute, if that.

7 CHAIRMAN EDGAR: Okay. In that case, we will forge  
8 ahead.

9 REDIRECT EXAMINATION

10 BY MR. LITCHFIELD:

11 Q Mr. Dewhurst, Mr. Keating referred to you -- referred  
12 you to a few documents in the course of his examination. Do  
13 you still have those in front of you?

14 A Yes.

15 Q Would you turn specifically to the one that is bates  
16 numbered 011947. And that was, I believe, a single page from  
17 Merrill Lynch.

18 A 011947? I'm not finding that one.

19 MR. KEATING: I believe there are two sets of bates  
20 stamps on some of the documents. Some are FPL's bates stamps as  
21 they were provided in the course of discovery. The others are  
22 staff's, the ones in the center bottom portion of the page.  
23 Those were provided in putting together the exhibit.

24 MR. LITCHFIELD: Okay. Can I ask you to help me then  
25 identify that bates numbered document that you referred

1 Mr. Dewhurst to?

2 MR. KEATING: Which was the -- which report was that?

3 MR. LITCHFIELD: Merrill Lynch.

4 MR. KEATING: 435.

5 THE WITNESS: Okay. I have that one.

6 BY MR. LITCHFIELD:

7 Q Okay. To be sure that you and I are looking at the  
8 same page, does that begin at the top of the page with the  
9 phrase "Positions in the Other Regions"?

10 A I'm sorry. Could you repeat that?

11 Q At the very top of the page there's a phrase that  
12 begins "Positions in the Other Regions," and then there's a  
13 subheading beginning about a third of the page, "Constructive  
14 Regulatory Framework Set in Place." Mr. Keating referred us to  
15 435.

16 MR. KEATING: I believe that's 439, which is part of  
17 the same document.

18 THE WITNESS: Oh, I'm sorry. 439. Yes, I have 439.

19 BY MR. LITCHFIELD:

20 Q Okay. Would you tell me what this page represents,  
21 what it came from?

22 A Well, it's one out of six pages on a, a note put out  
23 by Steve Fleishman, an analyst for Merrill Lynch, going back to  
24 November of last year, and it indicates his view of where the  
25 company is at that point in time. So that point in time is,

1 and the reason he put it out is it's just after we had released  
2 third-quarter earnings, and so he's stating his view on the  
3 results of our operations as well as his outlook.

4 Q And how many such investor reports are issued in any  
5 given month or year, if you can provide me with some parameter?

6 A Well, let's see. After an earnings release, there  
7 would be probably a dozen to 15, and that happens four times a  
8 year, and then there would typically be other reports that  
9 would be put out during the course of the year whenever there  
10 were any significant events. Or, for example, for Florida  
11 Power & Light, at the conclusion of a significant regulatory  
12 proceeding, many of the analysts, not all, would put out a  
13 report on that.

14 And then in addition, most of them at least once a  
15 year will put out what I call an in-depth report, which is  
16 their sort of full review and their modeling of potential  
17 future financial results. So I don't know what that gets us  
18 to, but probably several hundred, a couple of hundred in the  
19 course of a year.

20 Q Do you have any understanding as to whether those  
21 were produced to staff in response to the discovery response in  
22 question?

23 A My understanding is they were. I believe the  
24 discovery request was for every analyst or rating agency report  
25 going back for about a year. So there would have probably been

1 a hundred or more of those.

2 Q Focusing on the specific statement to which  
3 Mr. Keating referred you to on 439, bates numbered document  
4 439, it's the sentence beginning "Over the past few months."  
5 Do you see that?

6 A Yes.

7 Q Can you -- putting that in context of the time that  
8 it was issued, can you tell me what the risk levels perceived  
9 by investors were for FPL prior to the time that statement was  
10 made in this document?

11 MR. KISE: Madam Chair?

12 CHAIRMAN EDGAR: Mr. Kise.

13 MR. KISE: I just want to object to that question.  
14 I'm not sure if he's asking whether -- as reflected in this  
15 document or is he asking in the abstract what the opinions of  
16 investors were. I'm not quite sure.

17 CHAIRMAN EDGAR: Mr. Litchfield, could you clarify  
18 your question?

19 MR. LITCHFIELD: I'm asking with reference to this  
20 statement what is Mr. Dewhurst's appreciation of the risk  
21 levels perceived by investors prior to the time this statement  
22 was made.

23 MR. KISE: Again, the same objection. In general is  
24 he asking this. I don't think this witness has qualified  
25 himself as an expert in general, the general marketplace.

1 CHAIRMAN EDGAR: And, Mr. Litchfield, I'm not sure  
2 what the phrase "appreciation" means in this particular  
3 context, so if you'll just try and --

4 MR. LITCHFIELD: I can rephrase the question.

5 CHAIRMAN EDGAR: Thank you.

6 MR. LITCHFIELD: But would remind counsel that  
7 Mr. Dewhurst has already indicated that he is responsible for  
8 the discussions with and the relationships with investors and  
9 communicates with them regularly, and he was taken through an  
10 extensive examination by Mr. Keating with respect to those  
11 statements and that understanding. So I'm simply asking  
12 Mr. Dewhurst based on his understanding in that capacity as CFO  
13 of Florida Power & Light Company, does he have an understanding  
14 as to what investors perceive the risk level is relative to FPL  
15 prior to this statement being, having been made.

16 CHAIRMAN EDGAR: Mr. Dewhurst.

17 THE WITNESS: Yeah. I think obviously every  
18 investor, every analyst is going to have a somewhat different  
19 view of the risk profile of any particular company situation.

20 What I can tell you based on an awful lot of  
21 conversations over the course of last year is that prior to the  
22 resolution of the storm proceedings and prior to the settlement  
23 agreement in the rate case, there were very significantly  
24 heightened perceptions of regulatory risk among most, if not  
25 all, investors. The resolutions of those two proceedings were

1 generally viewed as positive inasmuch as they reduced to  
2 earlier levels the, the perception of risk. And I think it  
3 it's very clear in reading the full context or the full report  
4 here from Steve Fleishman that investors are taking those as  
5 indicative of the risk environment going forward; i.e., that  
6 the Commission provided a constructive resolution of the storm  
7 cost recovery proceedings relating to 2004 storm costs. And,  
8 therefore, assuming the company is prudent in future  
9 situations, we could reasonably expect that they would do the  
10 same in subsequent proceedings. And, similarly, that the  
11 framework embodied in the rate settlement is one that investors  
12 would reasonably expect to carry forward.

13           So at this time these were, I would say -- the  
14 general perception of risk was that we had satisfactorily  
15 resolved a couple of major regulatory issues, and the  
16 frameworks laid out there would guide the development of  
17 similar proceedings going forward.

18           MR. KISE: Madam Chair, I just -- because I didn't  
19 perceive Mr. Litchfield's question as calling for the response  
20 that was given, I would just ask that the witness's response  
21 either be stricken or disregarded because he has just given you  
22 essentially hearsay, just his view based on a lot of  
23 conversations with investors.

24           I think Mr. Keating's examination, if I'm, if I'm not  
25 mistaken, was directed specifically at what is reflected in

1 this document, and he walked him very carefully through  
2 document by document and asked him specific questions about  
3 documents and what is reflected here. He didn't ask him  
4 general open-ended questions about all of his conversations.  
5 And so I think the answer -- while the question may not have  
6 called for it, the answer certainly amounts to nothing more  
7 than hearsay. With all respect to Mr. Dewhurst's experience,  
8 that's all it is.

9 CHAIRMAN EDGAR: Mr. Kise, I'm going to allow the  
10 witness's response to remain in the record as it was couched as  
11 his opinion and his knowledge.

12 Mr. Litchfield.

13 BY MR. LITCHFIELD:

14 Q Mr. Dewhurst, at least with respect to this  
15 particular analyst as reflected in the statement that we've  
16 been focusing on in bates numbered document 439, he was  
17 satisfied with the agreements that were entered into in terms  
18 of their prospects to provide future long-term rate stability  
19 and a defined mechanism to recover storm-related costs. Do you  
20 agree with that?

21 A Yeah. And maybe I was not precise enough in my  
22 earlier answer. But in that sentence that I read earlier, FPL  
23 has reached regulatory agreements that ensure long-term rate  
24 stability and a defined mechanism to recover storm-related  
25 costs. I think it's pretty clearly implicit in those

1 statements that, assuming those, that those frameworks continue  
2 into the future, that's positive and they act to, quote,  
3 minimize risk for the next several years.

4           Obviously, if the conditions underpinning those  
5 agreements were to change, this analyst would change his view.

6           Q     Would you turn to your direct testimony at Page 27.

7           A     I'm sorry. Which page?

8           Q     27.

9           A     Yes.

10          Q     And do you recall Mr. Keating asked you some  
11 questions relative to the Q and A beginning at Line 6 of that  
12 page? Do you recall that?

13          A     Yes, I do.

14          Q     And he was asking you, as I recall, relative to  
15 prospective time lines as they might be affected by these  
16 action items. Do you recall that discussion?

17          A     Yes, I do.

18          Q     Can these activities be conducted in parallel or do  
19 they need to be done in sequence?

20          A     To some degree they can be done in parallel. To some  
21 degree they need to be done in sequence. The -- ultimately you  
22 need to have a final financing order before you can go ahead.  
23 So there are certain things that simply cannot be done until  
24 you have the final financing order. But in advance of that, in  
25 the, for example, in the appeal period, it's certainly possible



1 to go ahead with, with many of the activities.

2 MR. LITCHFIELD: Thank you. That's all the redirect  
3 I have, Madam Chairman.

4 CHAIRMAN EDGAR: Thank you, Mr. Litchfield.

5 Mr. Dewhurst, you are excused.

6 (Witness excused.)

7 MR. KEATING: Chairman, I'm sorry.

8 CHAIRMAN EDGAR: Mr. Keating.

9 MR. KEATING: I wanted to move the portions of what's  
10 been identified as Exhibit 4 -- I think I've got a list of the  
11 specific bate stamp page numbers that were addressed by the  
12 witness. That would be bate stamp pages 1, 31, 38, 41, 254 to  
13 255, 260, 266, 329 to 330, 332 to 333, 335 to 336, 435 to 440  
14 and 446.

15 MR. LITCHFIELD: Madam Chairman, I will have an  
16 objection to perhaps three or four of those, and I'd like  
17 perhaps during the break to review my notes and perhaps get  
18 with Mr. Keating.

19 CHAIRMAN EDGAR: We will take that up after the lunch  
20 break. And we will be on break until 1:45. Thank you.

21 (Lunch recess.)

22 (Transcript continues in sequence in Volume 3.)

23

24

25

1 STATE OF FLORIDA )  
2 COUNTY OF LEON )

CERTIFICATE OF REPORTER

3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 20<sup>th</sup> DAY OF APRIL, 2006.

Linda Boles  
LINDA BOLES, RPR, CRR  
FPSC Official Commission Reporter  
(850) 413-6734