

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.

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VOLUME 8
Pages 842 through 1008

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 20, 2006

TIME: Commenced at 5:16 p.m.
Concluded at 7:45 p.m.

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

REPORTED BY: LORI DEZELL
Registered Professional Reporter

APPEARANCES: (As heretofore noted.)

DOCUMENT NUMBER-DATE

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P R O C E E D I N G S

1
2 (Transcript follows in sequence from
3 Volume 7.)

4 CHAIRMAN EDGAR: We will go back on the
5 record.

6 MR. BUTLER: Thank you, Madam Chairman.
7 During the break I passed out to all of the parties
8 and the commissioners some green envelopes that I'm
9 not going to be referring to yet. But I just
10 figured it would be better than taking up time to
11 distribute documents later.

12 And also during the break, I understand that
13 Public Counsel was able to get Mr. Byerley a copy
14 of this RUS bulletin that he has added the
15 reference to in his testimony and I want to ask him
16 a couple of questions about that.

17 BY MR. BUTLER:

18 Q You now have a copy of the RUS bulletin
19 1724E-204 in front of you, Mr. Byerley?

20 A Yes, sir.

21 Q I think your mic may not be on.

22 A Okay. Thank you.

23 Q Thank you. First of all, let me just ask you
24 something about the cover page to it. You'll see that
25 it has a date of June 6, 1997 on it?

1 **A** Yes, sir.

2 **Q** And if you look up in sort of the middle of
3 this block of information about it, it says that it has
4 an expiration date seven years from the effective date.
5 Do you see that?

6 **A** Yes, sir.

7 **Q** Would you agree that that would make this
8 apparently expired?

9 **A** No, sir.

10 **Q** Why is that? I'm obviously just adding
11 seven years to June 6, 1997 and getting June 6, 2004.

12 **A** I called Don Hidden at RUS in Washington,
13 D.C., who is their transmission specialist, and I asked
14 him that very question. And he said that the thing is
15 in revision but if it's not been rescinded, so it is
16 still considered to be in effect.

17 **Q** You don't have copies of any of the revisions
18 with you?

19 **A** No, sir, it's not out for revision. It's in
20 committee for revision right now. It's in the process
21 of being revised. I did ask him specifically if the
22 item I referred to was up for revision, and he told me
23 no.

24 **Q** Now, this is a bulletin of the Rural Utilities
25 Service, correct?

1 **A** That's correct.

2 **Q** Okay. Do bulletins of the Rural Utilities
3 Service control with respect to an investor-owned
4 utility such as FPL?

5 **A** No, sir.

6 **Q** Does the Rural Utility Service serve as a
7 lender to REAs -- I'm sorry, to rural electric coops?

8 **A** That's correct.

9 **Q** Okay. So one of the things that the RUS, I'll
10 use that instead of Rural Utility Services --

11 **A** Fine.

12 **Q** -- because that's faster -- one of the things
13 that the RUS is looking to do is to ensure that it's
14 interest as a secured lender is protected in any of the
15 property that is maintained by the rural electric coops
16 that borrow from it, correct?

17 **A** Yes.

18 **Q** Would you agree that, in general, a secured
19 lender has an interest to specify very conservative
20 standards because what it wants to do is to be sure that
21 its secured property is properly secured against any
22 loss?

23 **A** I don't have any experience in that area.

24 **Q** Okay. Would you turn to page 7 of the
25 bulletin in question?

1 **A** Yes, sir.

2 **Q** And there is a section 5.2.5 in here which I
3 believe is at least in part what you are referencing
4 this bulletin for; is that right?

5 **A** Yes, sir.

6 **Q** And what this says is that, in part, locknuts
7 shall be provided for each structure bolt or American
8 Nut Company Anco (phonetic) type self-locking nuts may
9 be used.

10 Then it goes on to say, "locknuts shall be the
11 galvanized MF or NCO type." Do you see that?

12 **A** Yes, sir.

13 **Q** Is it your understanding that the bolts used
14 in the Conservation-Corbett 500 kV line are galvanized
15 steel?

16 **A** My understanding was that they were core 10
17 weathering steel.

18 **Q** All right. In other words, they were not
19 galvanized steel, correct?

20 **A** That's correct.

21 **Q** In your opinion would it be good practice to
22 use galvanized nuts on a nongalvanized steel bolt?

23 **A** No, sir, you would use a galvanized bolt and
24 nut together.

25 **Q** Let me turn back to your prefiled testimony,

1 Mr. Byerley. Would you turn to page -- excuse me,
2 page -- well, actually, I guess there's not really a
3 page reference you need for this question. Under FPL's
4 Osmose program, would you agree that poles could be
5 identified with minor deterioration that would not
6 require the poles either to be replaced or braced?

7 **A** Yes.

8 **Q** And, in fact, is it true that the National
9 Electrical Safety Code, NESC, recognizes that poles can
10 remain in service despite observable deterioration so
11 long as they continue to meet the applicable strength
12 requirements?

13 **A** Yes, that's covered in the code.

14 **Q** Okay. I'd like you to turn to page 20 of your
15 testimony. I want to ask you some questions that relate
16 to your comment about the -- on lines 18 through 22, I
17 guess, about the Osmose program detecting a higher
18 percentage of poles with deterioration than the
19 thermovision program. Are you aware that the
20 thermovision program applies exclusively to feeders?

21 **A** Yes, I am.

22 **Q** And are you aware that in FPL's system, the
23 feeders have a higher percentage of noncreosote poles
24 than do the laterals?

25 **A** Yes, sir, I am.

1 **Q** And examples of noncreosote poles would be
2 things such as CCA treated wood poles or concrete poles?

3 **A** Yes.

4 **Q** Would you agree the CCA treated poles and the
5 concrete poles are not significantly prone to
6 deterioration?

7 **A** Yes, I would.

8 **Q** I'm sorry?

9 **A** Yes, I would.

10 **Q** Would you agree that in FPL's system, the
11 feeders are inspected more frequently than laterals?

12 MR. McGLOTHLIN: Excuse me, I have a -- would
13 you clarify what you mean by inspected? Earlier
14 questions related to Osmose, and now you have a
15 more general question. Would you clarify what you
16 are including?

17 MR. BUTLER: I'm including all three of FPL's
18 inspection initiatives. Just generally that FPL's
19 inspection programs are focused overall more on --
20 excuse me -- feeder poles than on lateral poles.

21 **A** To the extent that the thermovision is
22 exclusively on the feeder poles -- and I do not know
23 about the touch points which are a much larger number --
24 I can't answer your question. I don't know.

25 **Q** Okay. You're aware that the Osmose inspection

1 program is focused on older poles; is that right?

2 **A** Yes, I believe that was stated.

3 **Q** Okay. In view of the differences that I've
4 just been describing between the thermovision program
5 and the Osmose program, wouldn't you expect to see more
6 deterioration in poles inspected under the Osmose
7 program than you would on those inspected under the
8 thermovision program?

9 **A** Would you restate that, John? I'm not sure I
10 quite follow what your point is.

11 **Q** Okay. I just talked about differences between
12 what is inspected in the thermovision program versus
13 what is inspected in the Osmose program.

14 What I'm asking you is, in view of those
15 differences in what is inspected, wouldn't you expect to
16 see more deterioration in the population of poles that
17 are inspected under the Osmose program than those that
18 are inspected under the thermovision program?

19 **A** That might be possible but I don't think
20 that's the explanation. I think the explanation is the
21 degree of inspection that takes place.

22 **Q** Okay. But you would agree that the population
23 of poles inspected under the thermovision program is a
24 population that is not as likely to have deterioration
25 in them as the poles that are inspected by the Osmose

1 program, wouldn't you?

2 **A** That seems like a reasonable thing, yes.

3 **Q** If you turn to page 21, lines 20 to 21, you
4 have a statement here in the case where -- this relates
5 to the hazard assessments that linemen perform before
6 they do work on poles. "In the case where the work is
7 performed from a bucket truck, which is quite common
8 today, the pole hazard assessment may be abbreviated."
9 Do you have any evidence that this is the case?

10 **A** No, sir.

11 **Q** Are you familiar with the hazard assessment
12 forms that linemen fill out before working on poles
13 under this hazard assessment program that you're talking
14 about here?

15 **A** Yes, sir, I've seen it. I don't want to say
16 I'm familiar with it.

17 **Q** Okay. Do you know what FPL does with those
18 forms once they've been filled out by linemen?

19 **A** My understanding is that they are turned into
20 a local area office and then apparently they're not
21 recorded in any sort of database. I have no idea what
22 happens to them after that.

23 **Q** Do you know what steps are taken to
24 disposition them once they've been turned into the local
25 offices?

1 **A** No, sir.

2 **Q** Okay. Turn to page 24 of your testimony,
3 please.

4 Your testimony talks about here on lines 23
5 through 25 that you surmised that poles may have been
6 set at too shallow a depth because the birthmarks were
7 located 8 to 10 feet above the ground level rather than
8 at or slightly above the eye level height. First of
9 all, would you explain briefly what you mean by
10 birthmark?

11 **A** A birthmark is identifying information that is
12 burned into the pole at the manufacturer. It normally
13 would contain the name of the owner, the date it was
14 produced, it would contain the height and class and
15 possibly a little bit more information if a particular
16 owner wanted something else. But that's basically the
17 information.

18 **Q** Okay. And do you know for a fact that it's
19 FPL's standard to have the pole birthmarks placed on the
20 poles at a location where they would be at eye level
21 once the poles are installed?

22 **A** Either they don't have a standard or some of
23 the poles are not set properly. I saw -- I saw
24 birthmarks where I would expect them, which would be
25 about six feet, and I saw birthmarks considerably

1 higher. And the ones I saw considerably higher were on
2 leaning poles which led me to suspect that possibly they
3 had been set too shallow.

4 Q But unless it were the case that FPL had a
5 standard to place the birthmark on the pole at a height
6 where, when properly set, it would be at eye level, you
7 wouldn't be able to tell whether it had been set too
8 shallow or not simply by looking at the height of the
9 birthmark, would you?

10 A Not unless there was a standard, but that's
11 the very reason for the standard.

12 Q So your understanding is that the reason for
13 the standard is to give the crews a way of telling how
14 deeply to set the pole?

15 A To tell inspectors later how deeply it
16 actually was set and also to provide a convenient level
17 that can easily be seen.

18 Q If it turned out that FPL's standard practice
19 were instead to have the birthmarks placed so that they
20 would be about 8 to 10 feet above the ground when the
21 pole is installed, would that change your conjecture
22 about the poles being set at too shallow a depth?

23 MR. McGLOTHLIN: I'm sorry, John, would you
24 repeat that?

25 MR. BUTLER: Sure.

1 BY MR. BUTLER:

2 Q If it turned out to be the case that FPL's
3 standard practice were to have the birthmarks placed on
4 the poles so that the birthmarks would be about 8 to 10
5 feet above ground level once the poles were installed,
6 would that change your conjecture about the poles being
7 set at too shallow a depth?

8 A On that pole it would. But on the -- a lot of
9 the other poles I saw were apparently set too deep.
10 Nothing wrong with that. Don't get me wrong.

11 Q Okay. On page 25 of your testimony, you
12 address the percentage of broken poles from
13 Hurricane Wilma that FPL's forensic teams identified as
14 being deteriorated. Do you know how the forensics teams
15 defined deterioration for the purpose of their Wilma
16 data recording?

17 In looking at the information, it appears that
18 they were attributing the pole failure to deterioration.
19 These are not -- I didn't make these determinations, FPL
20 did. So I have to assume that if they said it broke
21 because it was deteriorated, then that was the case.

22 Q And what is it that you are basing your
23 conclusion that they said it broke because it was
24 deteriorated?

25 A Because that's what their information says.

1 **Q** And what were you looking at? I'm just asking
2 you what documents did you look at that led to you that
3 conclusion?

4 **A** The forensic team report for Hurricane Wilma.

5 **Q** Did you look at the data reporting forms that
6 were produced to the Office of Public Counsel last week,
7 spreadsheets that showed the pole-related data for
8 broken poles on Hurricanes Wilma and Katrina?

9 **A** No, sir, I don't think I've seen that.

10 **Q** Okay. Do you have any way of knowing whether
11 broken poles that were identified by the forensics teams
12 as having deterioration would have failed even if they
13 did not have any deterioration present? In other words,
14 that they would have been hit by something that would
15 have broken them or wind speed would have broken them
16 even if they hadn't been deteriorated?

17 **A** I -- I have my Exhibit 18, a page from the
18 forensic team report, in which they show the broken
19 poles by contributing factors. And among the
20 contributing factors were wind only, deterioration,
21 trees, debris, overload. I do not know how the forensic
22 team arrived at those conclusions. I can only accept
23 the facts that are presented to me.

24 **Q** Okay. Do you know what percent of the broken
25 creosote poles FPL's forensics teams identified after

1 Wilma as being deteriorated would have been detected and
2 repaired or replaced if they had been inspected shortly
3 before the 2005 hurricane season?

4 **A** No, I don't.

5 **Q** I want to ask you a series of three
6 hypotheticals that we had discussed at your deposition.
7 These all concern the issue of reliability indices. The
8 first of them asked you to assume that a -- I'm going to
9 use the expression SAIDI. You're familiar with that,
10 aren't you?

11 **A** Yes.

12 **Q** S-A-I-D-I. Okay. And the first hypothetical,
13 assume that a utility had a SAIDI in year one of 70 and
14 the national average was 130; then in year two that
15 utility SAIDI deteriorated slightly to 75 and the
16 national average remained at 130.

17 Under that circumstance, do you believe that
18 the utility which had the SAIDI of 70 versus the
19 national average of 30 then that deteriorates slightly
20 to 75 versus a national average of 130 should be
21 determined to be imprudent because it's not adequately
22 maintained its reliability?

23 **A** I think it would be prudent for them to
24 investigate why it was deteriorating.

25 **Q** But would you agree that if they are at a

1 level of 75 versus a national average of 130, the mere
2 fact that they are now at 75 instead of 70 wouldn't make
3 them imprudent?

4 **A** Not necessarily.

5 **Q** You wouldn't necessarily agree?

6 **A** Oh, I'll say that --

7 **Q** Or are you saying it wouldn't necessarily make
8 them imprudent?

9 **A** I'm sorry, John, do you mind asking that
10 again?

11 **Q** Sure.

12 **A** You know I don't like these hypotheticals
13 because being an engineer, it's tough. So bear with me.

14 **Q** I recall that.

15 **A** I'm trying.

16 **Q** Thank you. What I was just asking you to
17 state is whether you would consider that the utility in
18 my hypothetical which has the SAIDI of 70 in year one,
19 SAIDI of 75 in year two, versus in both years a national
20 average of 130, that merely the fact that it went from
21 the 70 to 75 would make that utility's reliability
22 performance imprudent?

23 **A** No.

24 **Q** Okay. Now, the second hypothetical that I had
25 discussed with you at your deposition concerned a

1 utility that has ten customers in year one, it has five
2 vegetation-related outages in year one, and as we
3 discussed, this is a really fast growing utility so in
4 year two it has 20 customers and it now has six
5 vegetation-related outages. Given those numbers, would
6 you consider the utility's vegetation-related outage
7 performance to have deteriorated or improved in year two
8 versus year one?

9 **A** Not quite enough facts to answer. But as a
10 percentage, obviously it would not have gone down.

11 **Q** In fact, as a percentage it actually would
12 have improved, correct?

13 **A** Yes.

14 **Q** And the final example I have for you is -- the
15 final hypothetical, have a utility that in year one has
16 five vegetation-related outages and 10 outages
17 associated with other causes so there would be 15 total
18 outages. In year two, it has seven vegetation-related
19 outages, but only five outages for other reasons. In
20 other words, there's 12 total outages.

21 From the perspective of the utility's overall
22 reliability performance, would you say that it had done
23 better or worse in the second year?

24 **A** Overall it's done better.

25 **Q** Uh-huh. Mr. Byerley, I want to ask you about

1 your calculation of costs for replacing deteriorated
2 poles and associated conductor. I think that it would
3 be useful for you to turn to pages 26 and 27. I guess
4 that means turning to your revised pages 26 and 27,
5 doesn't it?

6 **A** Yes, sir.

7 **Q** Okay. As revised, your testimony on this
8 calculation starts with a figure of 6,925 FPL poles that
9 failed during Hurricane Wilma, correct?

10 **A** Yes.

11 **Q** Okay.

12 **MR. BUTLER:** Madam Chairman, I'm going to ask
13 that the first document out of that green envelope
14 that I had left for everyone be marked for
15 identification, and I have 152 as the next number.
16 And what I would like to have marked as the first
17 of these is the document that says "Preliminary
18 Draft, Hurricane Wilma, Forensics Team" on its
19 cover.

20 And I would note that although it says
21 confidential on it, this is a version of something
22 that we have agreed with the Office of Public
23 Counsel to do some limited redactions and thereby
24 eliminate the concerning confidential information
25 so that both they and we can use it without having

1 confidential protection on it.

2 CHAIRMAN EDGAR: Okay. Thank you for that
3 clarification. And yes, we will mark this as
4 Exhibit 152. You may have already done this, but
5 if you did, do it again, and if you didn't, please
6 do it now, will you give it a title.

7 MR. BUTLER: I'm sorry. "Preliminary Draft
8 Hurricane Wilma Forensic Teams."

9 CHAIRMAN EDGAR: Thank you.

10 MR. BUTLER: Thank you.

11 (Exhibit 152 was marked for identification.)

12 BY MR. BUTLER:

13 Q Mr. Byerley, would you turn to page 9 of what
14 I -- I'm sorry, to page 10 of the document that we've
15 just marked as Exhibit 152.

16 A Yes, sir.

17 Q The figure of 6,925 comes from the chart at
18 the very bottom of the page, I'm showing FPL poles and
19 the population and the number failed, correct?

20 A Yes, sir.

21 Q Now, I'm going to ask you, please, to mark as
22 Exhibit 153 the document that starts with an e-mail from
23 me to Mr. McGlothlin. And really the title for this I
24 would give is "Updated Preliminary Draft,
25 Hurricane Wilma, Forensics Team." You'll see on the

1 second page of it there was a date, December 21, 2005?

2 CHAIRMAN EDGAR: Thank you, Mr. Butler. And
3 yes, we will mark this as Exhibit 153.

4 MR. BUTLER: Thank you.

5 (Exhibit No. 153 was marked for identification.)

6 BY MR. BUTLER:

7 Q Mr. Byerley, have you seen what we have just
8 marked as Exhibit 153?

9 Okay. I just -- there's two documents here,
10 two separate documents.

11 Q There are, yes.

12 A Okay. I'm with you again. Yes, I see it.

13 Q Have you seen this before today?

14 A No, sir.

15 Q Your counsel had not shown this to you prior
16 to my handing it to you?

17 MR. MCGLOTHLIN: Are you referring to the
18 cover e-mail or the document for clarification?

19 BY MR. BUTLER:

20 Q Well, we'll start with the document -- we'll
21 start with the document underneath, the revised or
22 updated preliminary draft that has the December 21, 2005
23 date on it. Were you shown this by your counsel?

24 A I didn't see the document. He told me over
25 the telephone that he received this document.

1 Q Okay. Would you turn to page 10 of it?

2 A Yes, sir.

3 Q And where the document that I had just been
4 talking about that is marked as Exhibit 152 has a figure
5 of 6,925 poles failed. You'll see that the
6 corresponding figure on this updated document is 6,368.
7 Do you see that?

8 A Yes, sir.

9 Q And are you aware from your discussions with
10 your counsel of the reason for the change from the 6,925
11 to the 63 -- yeah, 6,368 figure?

12 A Yes, sir.

13 Q And that is because the first one included
14 streetlights and the second one did not, correct?

15 A That's what it says.

16 Q Okay. I'd ask you to look at page 4 of both
17 of the documents and sort of lay them side by side.

18 You'll see that in both of them they have this
19 little box about the source up in the upper right-hand
20 corner and that says that it's supposed to exclude
21 street light poles?

22 A Yes, sir.

23 Q You see that? Okay. Do you have any reason
24 to doubt that the correct number of nonstreet light
25 poles, FPL poles that failed, is the 6,368 shown on

1 Exhibit 153 rather than the 6,925 that's shown on
2 Exhibit 152?

3 **A** Well, I have two questions. First of all, I
4 have not totalled up these numbers but I assume that
5 you're going to tell me that if I were to add up all of
6 these numbers, I would come up with the 6,300 figure.

7 **Q** That's right.

8 **A** And the second concern I had was, I wondered
9 what they meant by street lighting poles. I noted -- I
10 went back and looked at my pictures when I was driving
11 around and I found a number of them where the street
12 lighting poles were actually on distribution circuits.
13 And I couldn't help but wonder, normally when you see
14 street lighting you see one of two things. The
15 old-fashion style is where you have a distribution pole
16 with a luminaire hung on the side of it. You see quite
17 a few of those.

18 The new modern style would be an aluminum
19 standard with underground feed and with no distribution
20 on it. I do not recall seeing wooden poles with
21 streetlights and nothing else on them.

22 So I questioned what -- what does the wooden
23 street light pole, where are they, what do they look
24 like.

25 **Q** Where are you getting from the documents the

1 information that the street light poles would be wooden?
2 Remember, they're supposed to be excluded. I understand
3 your question. But just --

4 **A** Well, because either if the street light poles
5 is what I'm accustomed to seeing, which is a
6 distribution pole with a luminaire hanging on it. Other
7 than that, it would be aluminum standards which is
8 common. Once in a while you see concrete or steel but
9 typically it's the aluminum standard that you see in
10 parking lots and along the interstate. And I don't see
11 anything in here that indicates that there's any of
12 those poles involved. So I don't -- you know, I'm not
13 sure what this means.

14 **Q** Okay. That's fine.

15 Do you know whether FPL has in its system
16 standalone street light poles that aren't attaching the
17 street light to a distribution pole used for other
18 purposes, it's actually just for the purpose of
19 supporting the street light?

20 **A** Yes, sir. As a matter of fact, when I went
21 back and looked through my pictures, I found -- I
22 printed off several of them, and I printed off a picture
23 of the aluminum standard that we found in
24 West Palm Beach. I wasn't looking for it, it just
25 happened to be in the picture.

1 **Q** I guess just one final try at this question.
2 Do you have any reason to believe that the difference
3 between the 6,925 and the 6,368 is not a result of
4 excluding those standalone street light poles of
5 whatever material they might be?

6 **A** I guess my question would be, why are they not
7 identified on page 10 as being something different than
8 CCA creosote to concrete? I mean, you're talking 600
9 poles here.

10 **Q** But you will recall that the note on page 4 --
11 I'm suggesting to you that the note on page 4 indicates
12 that the poles aren't supposed to be there in the first
13 place in either version of this form. Would that be
14 consistent with the information you're seeing on both
15 Exhibits 152 and 153?

16 **A** I see the note. What I can't explain is where
17 are those extra 600 poles. You're telling me there are
18 street lighting poles, and yet in my experience I'm not
19 sure I can even remember ever seeing a street lighting
20 pole, a wooden street lighting pole that had no
21 distribution with it.

22 **Q** Let me ask you about the next step in your
23 calculation. The next step is to multiply the total
24 number of FPL poles that failed in Hurricane Wilma times
25 45 percent which you say represents the percentage of

1 FPL failed poles that are creosote poles; is that right?

2 **A** Yes, sir. I'm referring to the graph in the
3 lower right-hand corner of page 10. Lower left-hand
4 corner, excuse me.

5 **Q** The lower left-hand corner, right?

6 **A** Yes.

7 **Q** Now, the lower --

8 **A** Excuse me, you just caught me in a mistake. I
9 believe that in that correction I put lower right-hand
10 corner and it should be the lower left-hand corner.

11 **Q** Because you're referring to the graph or chart
12 that is entitled "broken poles by type," right?

13 **A** Right.

14 **Q** Where the first bar is creosote and it has
15 45 percent by it, right?

16 **A** That's right.

17 **Q** Now, would you agree that that data is kind of
18 disaggregated into broken poles by -- or broken FPL
19 poles by type and then broken telephone poles by type in
20 the two charts that are in the -- on the right-hand side
21 of that page?

22 **A** That's correct.

23 **Q** Okay. And I'd ask you to look at -- focus on
24 the broken FPL poles by type. Do you see that?

25 **A** Yes, sir.

1 **Q** Now, would you agree -- do the math if you
2 would like or accept it subject to check -- that the 278
3 creosote poles as a percentage of the 979 poles total in
4 that sample is more on the order of about 28 percent
5 rather than 45 percent?

6 **A** Excuse me, John. I'm looking at the graph in
7 the lower left corner.

8 **Q** Yes.

9 **A** It says a sample size of 1,741, 1,779 of them
10 are creosote, and it also puts a 45 percent number right
11 there.

12 **Q** Yes. No, I'm saying fine, take that. But
13 look over, Mr. Byerley, see the big arrow headed right
14 in the middle of the page?

15 **A** Yeah.

16 **Q** And if you'll look, the data that appears --
17 excuse me -- in the two charts on the right are broken
18 FPL poles by type and broken telephone poles by type.
19 Do you see that?

20 **A** Oh, yes, sir.

21 **Q** And what I'm asking you to do is focus on,
22 instead of the total poles, on the FPL poles by type.

23 **A** Yes, sir.

24 **Q** And you'll see that there are 278 of them out
25 of a population of 979. Do you see that?

1 I see a different number, but you're close.
2 It's 268 out of 980.

3 Q Okay. You're using the updated version.
4 That's fine. We can use that instead. The 268 out of
5 980 would you accept, subject to check, that it is about
6 27 percent?

7 A It appears to be 28. And I get that number by
8 subtracting the 62 percent from the 90 percent.

9 Q That's fine.

10 A I agree.

11 Q Somewhere in that range, would you agree?

12 A Yes.

13 Q And then in contrast, for the broken telephone
14 poles by type, which is the other chart on that side of
15 the page, the telephone poles are 67 percent creosote,
16 correct?

17 A That's correct.

18 Q Okay. So the chart on the lower left-hand
19 corner that you were looking at in fact is a -- sort of
20 a combination of the statistics for broken FPL poles by
21 type and broken telephone poles by type and it averages
22 45 percent, but the FPL poles that are creosote would
23 only be 28 percent and, in contrast, the telephone poles
24 in that category would be 67 percent; would you agree?

25 A You're correct.

1 **Q** Okay. If you're looking at the FPL poles that
2 are creosote, wouldn't you agree that the 28 percent
3 would be more appropriate to use than the 45 percent
4 that you used in your calculation?

5 **A** That's correct.

6 **Q** Okay. The next step in your calculation is to
7 multiply the FPL creosote poles by the percentage of
8 creosote pole failures that were related to
9 deterioration, right, and you used a percentage of
10 46 percent there for that?

11 **A** That's correct.

12 **Q** I don't have any quarrel with that. I just
13 wanted to keep flowing through the calculation. You
14 then next multiply the number of FPL creosote poles that
15 failed due to deterioration times \$1,700 which you
16 assume to be the normal maintenance cost in 2005 for
17 replacing a pole, correct?

18 **A** That's the number that FPL has in their -- in
19 their production.

20 **Q** And you actually reference it's page 17 of
21 your document JSB-11, correct?

22 **A** Page -- I'm sorry, I'm not with you. Page 17?

23 **Q** I think you were referring to page 17 of your
24 JSB-11.

25 **A** Oh, I'm sorry.

1 **Q** My copy at least, it didn't reproduce well but
2 there is a box about midway from left to right and
3 two-thirds of the way down that is a figure of \$1,700
4 which is the cost of replacing a pole. Is that what
5 you're talking about where you got that figure?

6 **A** I'm catching up with you. Yes, sir, that's
7 the \$1,700.

8 **Q** Okay. Would you agree that this \$1,700
9 includes both material costs for items such as the pole
10 and then labor costs that are associated with installing
11 the materials?

12 **A** That would be a reasonable number, yes.

13 **Q** I mean, that's what you would expect this to
14 include, right, both the material cost and then the
15 labor to put it in?

16 **A** At that price, that's what I would expect.

17 **Q** Okay. Now, you take the \$1,700 figure and
18 multiply that normal pole replacement cost times a
19 factor of four to reflect increase cost of doing work
20 during hurricane restoration, correct?

21 **A** Yes.

22 **Q** I believe you agreed in your deposition that
23 you had no way of determining what FPL's actual
24 hurricane recovery multiplier would be, correct?

25 **A** That's correct.

1 **Q** But you've applied the factor of four to the
2 entire \$1,700, correct?

3 **A** That's correct.

4 **Q** So that means you're effectively assuming that
5 the cost of materials as well as the cost of labor goes
6 up four fold in hurricane restoration conditions,
7 correct?

8 **A** Yes, I have.

9 **Q** Do you have any evidence that FPL pays four
10 times as much for a pole it installs after a hurricane
11 as it does for a pole it installs in normal conditions?

12 **A** No, I don't.

13 **Q** Would it surprise you if FPL actually has put
14 contracts in place that allow it to acquire poles for
15 hurricane restoration at or near the normal cost for
16 those poles?

17 **A** No, sir.

18 **Q** Okay. Let me move to the next step of your
19 calculation.

20 **MR. BUTLER:** Excuse me just a second,
21 Commissioners. This is fortunately the last step
22 of this calculation.

23 **Q** Finally, after you've determined a cost of
24 poles to be replaced in hurricane conditions, you end up
25 adding to that the cost of what you consider to be

1 associated conductor, the cost of repairing or replacing
2 conductor that would have been damaged as a result of
3 the pole failure, correct?

4 **A** That's correct.

5 **Q** And for doing that, you develop a ratio that
6 divides the total amount for storm -- 2004 storm repair
7 of conductors that's in account 365 by the total 2004
8 storm repair costs for poles that's in account 364,
9 correct?

10 **A** That's correct.

11 **Q** Do you know whether account 365, the conductor
12 account, includes costs for repairing conductors that
13 failed for reasons other than pole breakage?

14 **A** No, sir, I don't.

15 **Q** If it did, if account 365 included costs for
16 conductor repairs for all sorts of different reasons
17 that the conductors failed, would you agree that using
18 the ratio as you did would tend to overstate the cost of
19 conductor repairs associated with broken poles?

20 **A** I don't think that's necessarily true. I
21 think when you have pole damage, you typically have
22 conductor damage and vice-versa. They kind of go
23 hand-in-hand.

24 **Q** Understood. But the way you have developed
25 the figure is to just develop a ratio of total conductor

1 repair costs divided by total repair, or total pole
2 repair costs and then apply that ratio to what you
3 calculated as the pole repair cost amount to add in an
4 amount for associated conductor, correct?

5 **A** Yes.

6 **Q** And if the sort of numerator in developing
7 that ratio had all conductor repair costs in it, not
8 just those associated with pole breakage, wouldn't using
9 the resulting ratio for that purpose overstate the
10 amount of the -- excuse me -- associated conductor
11 damage repair cost?

12 **A** Well, this is an approximation anyway. But
13 yes, I think it would be better if we had good numbers.

14 **Q** Let me turn to your calculation of the cost to
15 replace poles broken by preventable tree damage. And
16 much of this calculation relies on the same logic and
17 parallels the calculation for deteriorated poles that
18 we've just been discussing. So I'm going to limit my
19 questions to you to a particular part of this which is
20 the percent of FPL's poles in Hurricane Wilma that
21 failed due to preventable tree damage.

22 **A** Yes, sir.

23 **Q** And ask you to look at page 30 and 31. At the
24 bottom of page 30 going over to the top of page 31, you
25 discuss statistics from page 11 of the hardening report

1 that concern the percentage of conductor damage in
2 Hurricane Katrina that was caused by trees; correct?

3 **A** Yes.

4 **Q** And you use this information on the percentage
5 of conductor damage that was caused by trees and then
6 ultimately by preventable tree-related damage to develop
7 for Hurricane Wilma the percentage of poles that were
8 damaged by preventable tree incidents, correct?

9 **A** That's correct.

10 **Q** What information do you have that the
11 statistics on conductor damage from Hurricane Katrina
12 are a suitable proxy for pole damage during
13 Hurricane Wilma?

14 **A** I don't have any. I didn't have any data
15 there, and so what I did was just try to make a
16 reasonable assumption and thought that -- I think it was
17 69 percent in Katrina and I said probably half.

18 **Q** At the time that you prepared your testimony,
19 had you read the KEMA report?

20 **A** Yes, I had.

21 **Q** Are you aware that on page 78 of the KEMA
22 report there is a statistic specifically going to the
23 subject of preventable tree-related pole breakages in
24 Hurricane Wilma?

25 **A** Yes.

1 **Q** Why did you not use that figure which
2 explicitly goes to this subject of preventable
3 tree-related pole breakages rather than using
4 conductor-related damage from Hurricane Katrina as a
5 proxy?

6 **A** I didn't see anything else to support that
7 number and I thought that number seemed pretty
8 unreasonable.

9 **Q** Do you have any information that would --
10 other than just your intuition -- that would make you
11 feel the number is unreasonable? Do you have any
12 statistics?

13 **A** No, sir, I don't.

14 MR. BUTLER: Thank you. That's all the
15 questions that I have. Thank you, Mr. Byerley.

16 CHAIRMAN EDGAR: Thank you, Mr. Butler.

17 Mr. McGlothlin, redirect?

18 REDIRECT EXAMINATION

19 BY MR. MCGLOTHLIN:

20 **Q** Mr. Byerley, in response to questions from
21 Mr. Butler, you indicated that you had taken some
22 pictures of street light poles during your field visit
23 to the FPL service area. Did you observe and did you
24 take pictures of any wood poles with streetlights on
25 them that indicated to you they should belong in the

1 population of total failed poles?

2 **A** Yes.

3 **Q** Would you --

4 **A** I took a number of pictures. I didn't take
5 the picture of the pole with a luminaire. It turned out
6 when I reviewed the pictures that there they were. And
7 that's --

8 **Q** Would you identify them and where they appear
9 in your exhibit of pictures so that the Commissioners
10 can see what you're talking about?

11 **A** Okay. It is in Exhibit 2. And I printed off
12 a few of them I can show you. But specifically photos
13 8, 13, 16, 23, 26 -- I'm sorry, do you want me to slow
14 down?

15 **Q** Yes, sir.

16 **A** Yes. I'm sorry.

17 CHAIRMAN EDGAR: As a matter of fact, we do.

18 **A** I'm sorry. Let's start with 8.

19 **Q** Beginning with picture No. 8, in addition to
20 the street light does the pole appear to perform any
21 other service?

22 **A** Obviously it has a transformer hanging on it.

23 **Q** And can you tell what material it's made of?

24 **A** The pole?

25 **Q** Yes.

1 **A** I didn't print that particular one and I don't
2 think -- no, I got the government version here, it's
3 black and white, and I can't really see anything.

4 **Q** Proceed with --

5 **A** But, now, figure 13 clearly shows a street
6 pole -- a street light on a wooden pole.

7 Incidentally -- well, never mind.

8 Figure 16, figure 23.

9 Before we go to 23, I'd like to back up to 20.
10 Figure 20 shows what I call the modern form of street
11 lighting. If you'll notice on the right-hand side
12 across the street, there's an aluminum standard with a
13 luminaire on it. There's no distribution associated
14 with that. And that's what I would refer to as more
15 modern. And the other examples here are -- are
16 old-fashioned, let's say.

17 23, 26, 55 and 56. I did not see any wooden
18 poles with luminaires on them that did not have
19 distribution.

20 **Q** Well, given what you've observed and based
21 upon your experience and knowledge of how wood poles are
22 used, did the information that certain street light
23 poles had been removed from the total that you used
24 provide any basis in your opinion for removing them from
25 the basis of your calculation?

1 **A** No, sir.

2 **Q** You were asked some questions about the ratio
3 you used to develop the amount of damage conductor that
4 would have been associated with the damaged poles. And
5 the question included the assumption that the total
6 amount of conductor damage would include conductor
7 damage in addition to that associated with poles. Do
8 you recall that question?

9 **A** Yes.

10 **Q** Would it be important to know how that total
11 conductor damage was apportioned among different types
12 of causes before agreeing or disagreeing with the
13 appropriateness of segregating out any portion of it?

14 **A** Certainly.

15 **Q** And if, for instance, the amount attributed to
16 pole damage in the overall account was understated, that
17 would also tend to understate the amount of conductor
18 damage that should be associated with your adjustment,
19 would it not?

20 **A** Certainly.

21 **Q** You mentioned in your response that conductor
22 damage goes hand-in-hand with pole damage. Would you
23 elaborate on what you meant by that statement?

24 **A** They're all tied together. Generally what
25 affects one affects the others.

1 **Q** You were asked about the factor of four that
2 you applied --

3 **A** Right.

4 **Q** -- to the replacement cost to arrive at a
5 storm associated costs. Would you identify some of the
6 factors that typically would increase under storm
7 conditions that would -- and would have to be taken into
8 account when estimating the replacement costs during
9 storm conditions?

10 **A** Well, I think there's several things that
11 happen, and I have some experience in this area because
12 working in the emergency operations center. My job
13 there was to assemble the crews and get them out there
14 to make contacts with other utilities and with our
15 contractors, get them moving. You end up paying a lot
16 of premium time. You end up having to house these
17 people and feed them and make accommodations for them,
18 you end up air freighting parts that you would normally
19 send on a weekly basis. Frankly, I think my factor of
20 four is low based on my experience. And I was trying to
21 be conservative here. But that's -- that's my best
22 estimate.

23 **Q** In making that statement, are you taking into
24 accounted the assertion that FPL does not pay four times
25 the material cost for poles in a storm situation?

1 **A** No, sir, I -- the pole cost is -- is -- ask me
2 that again. I'm sorry. I kind of got lost in my
3 answer.

4 **Q** Mr. Butler suggested in his question posed to
5 you that FPL does not pay four times the materials cost
6 of the pole replacement and asserted that FPL obtained
7 poles at or near the ordinary cost.

8 **A** They may very well obtain it at that cost, but
9 the delivery of it may be an entirely different manner.
10 Whenever you start running crews 16 hours a day and
11 you're running them on the weekends and you're paying
12 them double and triple time, the total cost is still --
13 is going to go up.

14 **Q** For purposes of clarification, then, when you
15 use a factor of four, you would not necessarily assume
16 that the material cost per se or --

17 **A** Not necessarily.

18 **Q** -- would go up by that same factor?

19 MR. BUTLER: I can't resist. I object to
20 Mr. McGlothlin leading the witness.

21 MR. MCGLOTHLIN: I think that objection is
22 probably well founded.

23 CHAIRMAN EDGAR: I appreciate that,
24 Mr. McGlothlin.

25 MR. MCGLOTHLIN: As to earlier objections to

1 questions by other counsel.

2 MR. KISE: Madam Chair, am I to understand
3 that the rules of cross-examination are different
4 out here than anywhere else? I thought -- my
5 understanding is you can lead witnesses on
6 cross-examination, at least every other forum I've
7 ever been, in including this one in past hearings.
8 I didn't realize that was a problem.

9 MR. BUTLER: I don't think it is either. He's
10 doing redirect examination.

11 MR. KISE: Never mind. I'm asleep once again.

12 BY MR. MCGLOTHLIN:

13 Q Mr. Butler asked you if you had experience
14 with respect to the maintenance of distribution systems,
15 and you answered no. In your capacity with TVA did you
16 have any different association with maintenance of
17 utility systems?

18 A Yes. That was -- and specifically
19 distribution, because my experience has been with
20 transmission. And yes, at one point in my career I was
21 the operations manager for the national district which
22 included all the facilities within about a, I'll say, a
23 40-mile radius of Nashville, include 500 kV lines and
24 stations down to 69 kV lines and stations.

25 And I was responsible for the electricians,

1 the linemen, the right-of-way clearing, everything that
2 goes on out there.

3 Q Would those responsibilities in that capacity
4 have included responsibilities for pole inspections?

5 A Yes.

6 Q What about vegetation management?

7 A Yes.

8 Q You were asked whether you had experience with
9 responsibility for responses from hurricanes and you
10 answered in the negative. In your capacity with the
11 TVA, did you have responsibilities that might be
12 analogous to such responsibilities over hurricanes?

13 A Yes. I will answer that two ways. I believe
14 the question John asked me was did I have experience in
15 planning for hurricane emergency, and the answer is no.
16 But I have had experience in planning for earthquakes.

17 You-all are probably aware that the western
18 end of our system sits on the New Madrid fault. And
19 that's the fault that went off in 1811 and created Real
20 Foot Lake. It shook bells in Charleston. And the
21 experts are telling us that that fault is going to go
22 again in the not too distant future. So we did
23 extensive planning on taking care of our system as a
24 result of earthquakes.

25 The other answer to the question is, yes, I've

1 had extensive experience in picking up after tornados,
2 blizzards and ice storms.

3 Q Mr. Byerley, turn, if you will, to page 20 of
4 your testimony prefiled. And if you would, read the
5 sentence that begins at line 20 "with their detailed."

6 A With their detailed routine of sounding,
7 excavating and boring, Osmose inspectors find
8 deteriorated poles at a rate 20 percent greater than
9 that of the thermovision crews.

10 Q Mr. Butler posed some questions to you about
11 differences between the Osmose area of inspection and
12 type of pole. Did anything -- did any of the
13 considerations he enumerated explain to your
14 satisfaction a rate 20 times greater than that of the
15 thermovision crews?

16 A No, sir.

17 Q He posed to you some hypotheticals, and the
18 first had to do with SAIDI calculations. Would it be
19 important to know what was included and what was
20 excluded in arriving at the SAIDI values and
21 understanding that hypothetical?

22 A Yes.

23 Q In response to the hypothetical about changes
24 in vegetation outages, you've indicated that other facts
25 will be needed. Can you specify what additional

1 information you would like to have in terms of
2 responding to such a hypothetical?

3 **A** To be honest, I don't quite remember the
4 question. I'm not sure I'm prepared to answer that.

5 **Q** Okay. Well, I don't think it warrants
6 additional time. I'm going to move on.

7 MR. McGLOTHLIN: Those are all of my
8 questions.

9 CHAIRMAN EDGAR: Thank you, Mr. McGlothlin.
10 Exhibits?

11 MR. BUTLER: I would move Exhibits 152 and
12 153.

13 CHAIRMAN EDGAR: Any objections? Seeing none,
14 please show Exhibits 152 and 153 moved into the
15 record as evidence.

16 (Exhibits No. 152 and 153 admitted into the
17 record.)

18 CHAIRMAN EDGAR: I'm sorry, were you talking
19 to me?

20 MR. McGLOTHLIN: Yes. I might have missed
21 something, but I have not attended all the
22 administrative matters -- if 63 -- 66 through 83
23 have not already been moved into evidence, I move
24 them now.

25 CHAIRMAN EDGAR: I'm sorry, I'm confused.

1 MR. MCGLOTHLIN: I may be the one that's
2 confused.

3 CHAIRMAN EDGAR: Let's work through it
4 together.

5 MR. MCGLOTHLIN: Mr. Byerley's exhibits are
6 identified as 66 through 83. I'm not clear as to
7 whether they've been admitted into evidence. If
8 they have not been --

9 CHAIRMAN EDGAR: My understanding is that they
10 are in evidence. Ms. Gervasi, can you --

11 MS. GERVASI: Yes, that's correct.

12 CHAIRMAN EDGAR: They are. But
13 Mr. McGlothlin, thank you for asking if you had a
14 question.

15 Okay we have just moved 152 and 153 into
16 Evidence. And with that, the witness may be
17 excused. Thank you very much.

18 MR. BYERLEY: Thank you.

19 CHAIRMAN EDGAR: We will take an approximate
20 12-minute break and come back, Mr. McGlothlin, for
21 your next witness.

22 (Break taken.)

23 MR. BECK: Mr. Larkin, you were not previously
24 sworn?

25 MR. LARKIN: That's correct.

1 CHAIRMAN EDGAR: Then we will do that now.

2 HUGH LARKIN, JR.

3 was called as a witness on behalf of OPC, and having
4 been duly sworn, testifies as follows:

5 DIRECT EXAMINATION

6 BY MR. BECK:

7 Q Would you please state your name.

8 A My name is Hugh Larkin, Jr.

9 Q And by whom are you employed?

10 A I am employed by Larkin & Associates.

11 Q Mr. Larkin, did you pre-file testimony in this
12 case?

13 A Yes, I did.

14 Q Do you have any changes or corrections to make
15 to your testimony?

16 A No, not at this time.

17 Q If I were to ask you the same questions today,
18 would your answer be the same?

19 A Yes.

20 MR. BECK: Madam Chairman, I'd move
21 Mr. Larkin's testimony into the record as though
22 read.

23 CHAIRMAN EDGAR: Show the prefiled testimony
24 entered into the record as though read.

25

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DIRECT TESTIMONY OF HUGH LARKIN, JR.
ON BEHALF OF THE CITIZENS OF FLORIDA
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
DOCKET NO. 060038-EI

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the States of Michigan and Florida and the senior partner in the firm Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.) Larkin & Associates, PLLC has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous electric, water and wastewater, gas and telephone utility cases.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?

1 A. Yes. I have testified before the Florida Public Service Commission on numerous
2 occasions during the past 30 years. I have also testified before Public
3 Service/Utility Commissions in 35 state jurisdictions, United States District
4 Courts, the Federal Energy Regulatory Commission and the Canadian Natural
5 Energy Board.

6
7 Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR
8 QUALIFICATIONS AND EXPERIENCE?

9 A. Yes. I have attached Appendix I, which is a summary of my regulatory
10 experience and qualifications.

11

12 Q. ON WHOSE BEHALF ARE YOU APPEARING?

13 A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel
14 (OPC) to review and comment on Florida Power & Light Company (FPL or
15 Company) request for recovery of storm restoration costs, and to address the
16 appropriate methodology for determining the amount to be recovered from
17 customers. Accordingly, I am appearing on behalf of the Citizens of Florida
18 (Citizens).

19

20 Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE
21 FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?

22 A. Yes. Donna M. DeRonne, of my firm, is also presenting testimony, as well as
23 James Byerley of R.W. Beck.

24

1 II PURPOSE OF TESTIMONY

2 Q. WHAT IS THE PURPOSE OF THE TESTIMONY YOU ARE FILING IN THIS
3 CASE?

4 A. The purpose of my testimony is to set forth the principles which should underlie
5 the cost recovery for storm damages that the Commission should authorize in this
6 docket. These principles set forth a policy which the Florida Office of Public
7 Counsel and I feel are appropriate for establishing the basis for cost recovery in
8 this docket and all subsequent dockets related to the recovery of storm damage
9 costs.

10
11 Q. THE BASIS ON WHICH FLORIDA UTILITIES RECOVER MAJOR STORM
12 DAMAGE COSTS IS OFTEN DESCRIBED AS "SELF INSURANCE." DO
13 YOU AGREE WITH THAT DESCRIPTION?

14 A. No, I do not. The proper description for the recovery of storm costs under the
15 present method used by the Florida Public Service Commission is "Customer
16 Supplied Insurance." In other words, utility customers have been assigned the
17 risk of compensating utilities for major components of storm damage costs. It is
18 the Office of the Public Counsel's and my opinion that the risk shouldered by
19 ratepayers in compensating companies for storm damage costs should be limited
20 to the incremental costs incurred by utilities in restoring service to ratepayers.
21 That incremental cost should reflect only those additional costs incurred by the
22 company in restoring service which exceed costs already considered and reflected
23 in rates.

24

1 The incremental cost approach is vastly different from the approach being set
2 forth by FPL. The FPL approach essentially is asking the Florida Public Service
3 Commission to hold the Company harmless from all business risk. In other
4 words, if the Company can establish any tangential association with the storm
5 then the Company claims that these costs are recoverable from ratepayers. On the
6 other hand, the OPC and myself, on behalf of the customers who really are the
7 insurance carrier, claim that in order for a cost to be recovered, it must be
8 incremental. In other words, over and above what is reflected in base rates.

9
10 It should be kept in mind that the purpose of regulation is to substitute for
11 competition. The Public Service Commission should look to the business risk
12 which was borne by FPL's customers in regard to the storm damage they incurred
13 as a proxy for the business risk which FPL should bear. Those customers were
14 not able to make claims for items such as lost revenue, backfill, employee
15 assistance, advertising, etc. Because of the tremendous strain that the storms have
16 placed on southern Florida and the Florida economy in general, the Commission
17 must spread the burden of storm restoration costs in a fair and equitable manner
18 and not attempt to remove the business risk that is compensated for in the rate of
19 return provided to electric utilities. FPL's petition states: "In addition to the
20 damage to FPL's infrastructure, Hurricane Wilma caused significant damage to
21 the communities that the Company serves." These communities must refurbish
22 their own infrastructure and do not have the ability to turn to insurance carriers or
23 governmental agencies to hold them harmless from the effects of severe storms.

24

1 III. COMPANY'S ACCOUNTING FOR STORM DAMAGE COSTS

2 Q. IN MR. DAVIS' TESTIMONY, FPL CONTENDS THAT THE
3 METHODOLOGY THAT IT IS PROPOSING FOR STORM DAMAGE COSTS
4 RESULTS IN THE "MOST ACCURATE WAY TO ACCOUNT FOR ALL
5 FPL'S STORM RESTORATION COSTS BECAUSE IT PROPERLY UTILIZES
6 THE NORMAL COST ACCOUNTING PRACTICES, PROCESSES AND
7 PROCEDURES THAT ARE RELIED UPON BY THE COMPANY IN THE
8 ORDINARY COURSE OF ITS BUSINESS." DO YOU AGREE WITH THAT
9 STATEMENT?

10 A. No. Clearly, the Company's accumulation of cost related to storm restoration is
11 not a daily, recurring practice in the Company's accounting procedures. If that
12 were the case, the Company would not have to issue special accounting
13 instructions and special work order numbers to accumulate storm damage costs in
14 separate work orders and accounts. It is not a correct or accurate statement to say
15 that the cost accumulated under the Company's storm cost accounting method
16 results in an accurate, reliable accounting methodology which will result in the
17 proper recovery of cost from ratepayers.

18
19 Q. WHY IS THAT SO?

20 A. The Company's cost accumulation under storm damage work orders results in the
21 accumulation of all payroll and all materials, supplies and other costs charged to
22 the work order being accumulated as storm damage costs. This is so even though
23 some of the payroll costs and some material and other costs are reflected in rates

1 and collected from ratepayers during the normal course of business or are costs
2 that are part of the business risk which the Company should bear.

3
4 Q. CAN YOU GIVE EXAMPLES OF SUCH COSTS?

5 A. Yes. As an example, meter readers and budgeted amounts of overtime for those
6 meter readers are reflected in O&M costs and are recovered in rates. During
7 storms most, if not all, meter readers are assigned to storm recovery activities,
8 either as part of the restoration process (guiding contractor to damaged sites) or
9 for safety or damage assessment duties. This would be so even though the areas
10 where they might be reading meters have not been damaged as a result of the
11 storm. Their payroll and overtime associated with the storm recovery process are
12 charged to storm recovery work orders. The meters which they would have read
13 are either estimated or are read in the next month after they return to meter
14 reading duties. The billings associated with subsequent meter reads recover the
15 costs of these meter readers along with other employees who might be assigned to
16 storm restoration activities during the storm recovery period. The accounting
17 methodology utilized by the Company charges total payroll and overtime during
18 the period that the employee is engaged in storm recovery activity even though
19 part or all of his payroll would be recovered through rates in the current or
20 subsequent months. The methodology offered as accurate and infallible by the
21 Company cannot and does not differentiate between incremental payroll and
22 payroll which the Company would recover through the normal rate recovery
23 method. In other words, the Company is asking to recover the total cost of the
24 employee involved in the restoration even though part or all of his hourly rate and
25 overtime costs may already be recovered in base rates.

1
2 This methodology of total recovery of storm costs instead of incremental costs
3 results in charging ratepayers twice for the same payroll dollars, once through
4 base rates and a second time through storm related work orders. The same would
5 be true of line crews and other personnel whose time would generally be charged
6 to O&M expense and who now are working on storm restoration. The cost would
7 be accumulated in the storm work orders and not charged to O&M accounts, even
8 though certain levels of payroll and overtime costs are reflected in base rates
9 associated with maintenance of lines, transformers and other distribution and
10 transmission system equipment.

11
12 Q. WOULD THE SAME BE TRUE OF MATERIALS AND SUPPLIES?

13 A. Yes. A certain level of materials and supplies have been included in base rates
14 and recovered from ratepayers in the normal course of billing customers for
15 electric services.

16
17 Q. ARE ALL OF THE COSTS FOR PAYROLL AND MAINTENANCE AND
18 SUPPLIES COSTS INCREMENTAL TO THE COMPANY'S NORMAL
19 OPERATING AND MAINTENANCE EXPENSES?

20 A. First, let me define incremental. Kohler's Dictionary for Accountants defines
21 incremental as follows: "An increase over some base value expressed as a
22 difference between the new value and the base value." FPL storm accounting
23 system does not account for only incremental costs. It accounts for total cost of
24 any employee, material, contract cost, supplies, etc. charged to a storm work
25 order. The accounting process utilized by FPL does not account or attempt to

1 account for the portion of the cost charged to storm work orders that are
2 incremental to the Company's normal operating expense. The accounting
3 process, which FPL labels as accurate, merely charges every cost associated with
4 employees work on the storm rather than trying to segregate only that cost which
5 is incremental to normal payroll, maintenance and other expense.
6

7 IV. THE USE OF VARIANCES OR ESTIMATES OF COST INCLUDED IN
8 BASE RATES

9 Q. MR. DAVIS' TESTIMONY CRITICIZES THE INCREMENTAL COST
10 APPROACH BECAUSE IT ANALYZES DIFFERENCES BETWEEN
11 BUDGETED AND ACTUAL NUMBERS AND CONCLUDES THAT THESE
12 AMOUNTS RESULT FROM COST BEING CHARGED TO STORM COST. IS
13 HIS CRITISISM A VALID CRITISISM?

14 A. Hardly. Mr. Davis, in describing the process that the Company uses, states:
15 "Also, it avoids the necessity of making estimates for year-end budget
16 variances..." However, the Company's process is replete with estimates.

17
18 The Company states that it will remove from the storm restoration work orders
19 those costs which should be capitalized. However, the Company is not relying on
20 the accumulation of cost in the storm work orders to determine what costs should
21 be capitalized, but are making estimates of those costs by using what Mr. Davis
22 calls "normal costs." This is stated on page 15 of his testimony. However,
23 normal costs are not defined in the testimony until page 26, where it is stated by
24 Mr. Davis that "Each business unit is responsible for preparing an estimate of

1 capital work as a result of storm damage to its assets. FPL estimates storm
2 damage related to transmission and distribution assets at normal cost utilizing the
3 Company's estimating system."

4
5 In other words, the work orders that accumulate costs for the storm damage is not
6 accurate enough to determine what costs should be capitalized. In that instance
7 the Company feels it is okay to use the Company's own "estimating system."

8 Again, on the same page, Mr. Davis states: "Storm damages to all other assets are
9 estimated individually by each Business Unit." If, as Mr. Davis states, the
10 method recommended by the Company results in accounting and recovery of
11 actual costs incurred to restore electric service, why would the Company find it
12 necessary to use any estimates? Also, on page 22, when asked to describe the
13 unrecovered pre-tax 2005 storm recovery costs, Mr. Davis lists the following:
14 "An estimate for storm restoration activities not yet completed; and an estimate
15 for completed activities where the final costs are not yet known."

16
17 Mr. Davis states that these costs will be trued-up at a later date. A significant
18 portion of the 2005 storm costs contained in the filing are based on estimates.
19 Obviously the Company feels it is okay to use estimates only when it benefits the
20 Company.

21
22 Q. FPL HAS CLAIMED THAT IT IS NOT PROPER ACCOUNTING TO UTILIZE
23 THE INCREMENTAL APPROACH IN DETERMINING STORM
24 RESTORATION COST THAT SHOULD BE CHARGED TO THE STORM
25 RESERVE AND RECOVERED FROM RATEPAYERS THROUGH A

1 SURCHARGE OR THROUGH SECURITIZATION. HAS FPL ITSELF
2 UTILIZED AN INCREMENTAL APPROACH IN DETERMINING ANY
3 PORTION OF THE COSTS THAT ARE REFLECTED IN THE STORM
4 RECOVERY BALANCE THAT IT WISHES TO CHARGE RATEPAYERS IN
5 THIS MANNER?

6 A. Yes, they have. A bit of background is necessary to explain my answer. In
7 Docket No. 041291-EI (the docket involving FPL's request to recover costs of
8 restoring its system after the 2004 storm season), FPL asserted that all costs
9 associated with the storm, including those associated with the replacement of
10 poles and wires that ordinarily would be capitalized, were storm-related and
11 properly charged to the storm reserve. OPC argued that the amount that would be
12 spent on capital items under normal conditions should be capitalized and placed in
13 rate base, and only the increment above the normal amount should be treated as
14 extraordinary O&M and charged to the storm reserve. The Commission ruled in
15 OPC's favor.

16
17 OPC's proposed treatment of capital items in that case was a part of its overall
18 incremental approach to the accounting for storm-related costs. It is analogous to
19 OPC's position on the expense side, in that, In the incremental approach, the
20 proposition that normal amounts should be filtered out of the amounts charged to
21 the storm reserve is common to both the treatment of capital items and expense
22 items.

23
24 In this case, FPL has treated capital costs in accordance with the Commission's
25 decision in Docket No.041291-EI; that is to say, it quantified the "normal capital

1 costs” associated with replacing facilities that would be capitalized under ordinary
2 circumstances and segregated those from the increment above normal costs that
3 were occasioned by 2005 storm conditions. It proposes to place the “normal
4 costs” in rate base, and to charge only the extraordinary increment to the reserve
5 and recover that amount from customers. In doing so, FPL adopted an
6 incremental approach on the capital side of the storm cost equation, but
7 inconsistently advanced its non-incremental, “actual cost” approach to the
8 accounting of expense items. In other words, at the same time that FPL advocates
9 its “actual cost” approach (and resists the application of an incremental approach)
10 to expense items, it proposes to employ a form of an incremental approach to the
11 capital cost side of the same storm accounting exercise. FPL’s proposed
12 treatment of capital costs in this case belies its claim that an incremental approach
13 to the accounting for storm costs is inappropriate.

14
15 V. FINANCIAL STATEMENTS NOT AFFECTED BY USE OF
16 INCREMENTAL COST APPROACH

17 Q. ONE OF THE ARGUMENTS SET FORTH IN MR. DAVIS’ TESTIMONY IS
18 THAT “USING ESTIMATES IN PREPARING THOSE FINANCIAL
19 STATEMENTS IS NOT PERMITTED.” IS THAT A CORRECT
20 STATEMENT?

21 A. No, it is not. Financial statements are based on estimates of many components
22 which are not actually known at the time the financial statements are prepared.
23 For instance, pension accruals are based on estimates of future liabilities for
24 employee benefits. Unbilled revenue is based on a calculation of the estimate of

1 what revenues will be billed in a subsequent month. Accruals of payroll,
2 expenses, and other liabilities are made at the end of each month in order to
3 reflect on the financial statements estimates of liabilities incurred or revenues
4 earned which are not known in their exact amount. The 2004 storm cost on the
5 Company's books includes the total estimated amount even though the Company
6 knew some cost would not be approved by the Commission. In any case, the use
7 of incremental costs which utilizes projections or estimates of what cost the
8 Company would recover through base rates is clearly within the ratemaking
9 process and is based on the Commission's past practices of using future budgeted
10 test years in setting base rates. It would be inconsistent for the Commission to
11 conclude that it would be inaccurate to utilize budget variances in determining
12 what incremental storm cost restoration is recoverable from ratepayers when the
13 Commission has utilized budgeted test years which have been projected at least
14 two years into the future in establishing base rates. Clearly, the Commission has
15 been comfortable with the budgeting process and analysis of variances from the
16 budget in establishing base rates. Consistency would require that the Commission
17 follow a similar process in establishing incremental cost for storm restoration
18 recoverable from ratepayers.

19
20 Q. MR. DAVIS, ON PAGE 16, STATES THAT SOMEHOW THE USE OF
21 BUDGET VARIANCES IN DETERMINING RECOVERABLE STORM
22 DAMAGE COSTS FROM RATEPAYERS IS "INCONSISTENT WITH THE
23 STRINGENT FINANCIAL REPORTING REQUIREMENTS IMPOSED ON
24 PUBLIC COMPANIES BY THE SARBANES OXLEY ACT OF 2000." IS
25 THAT CORRECT?

1 A. No, a Public Service Commission can use any reasonable methodology in
2 determining what costs are recoverable from ratepayers. The Sarbanes Oxley Act
3 cannot override a Commission's regulatory authority, nor does it attempt to.

4

5 VI. COMPANY'S METHODOLOGY DOES NOT REPLICATE COST
6 RECOVERY UNDER THIRD PARTY REPLACEMENT COST
7 INSURANCE POLICY

8 Q. MR. DAVIS HAS STATED THAT HIS METHODOLOGY WOULD
9 REPLICATE INSURANCE RECOVERY UNDER THIRD PARTY
10 REPLACEMENT COSTS. DO YOU AGREE WITH THAT ANALYSIS?

11 A. No, I do not. First of all, most insurance policies have a deductible. In the
12 instance of public utilities, that deductible is generally fairly substantial and could
13 amount to millions of dollars. The Company's methodology does not duplicate
14 an insurance policy's deductible component. Additionally, insurance policies
15 generally would not cover the recovery of costs which the Company is attempting
16 to recover if the incremental approach is used, such as, backfill, catch up, or
17 incremental work not directly related to storm restoration. Insurance policies also
18 would not generally allow for the recovery of advertisements and communication
19 costs, employee assistance costs or employee bonuses which the Company is
20 seeking to recover.

21

1 VII. FPL HAS ALWAYS TOUTED ITS BUDGET PROCESS AS BEING
2 EXTREMELY ACCURATE

3 Q. IN FPL'S LAST RATE CASE, HOW DID THE COMPANY CHARACTERIZE
4 ITS BUDGETING PROCESS?

5 A. The Company characterized its budgeting process as being extremely reliable and
6 that the Commission could utilized it in establishing base rates even though its
7 budgets and projections were projected for periods up to 24 months. Clearly, if it
8 is appropriate and reasonable to utilize budgets to establish base rates, then it is
9 also reasonable and appropriate to utilize budget variances to determine what
10 level of storm restoration cost should be recovered from ratepayers.

11 Budget Variance Analysis

12 Q. MR. DAVIS STATES, ON PAGE 19 OF HIS DIRECT TESTIMONY, THAT
13 COMPARISON OF BUDGETS AND ACTUAL EXPENDITURES ARE NOT A
14 VALID APPROACH AND "...IT IS NOT A TYPICAL, COMMON OR EVEN
15 ACCEPTED ACCOUNTING METHOD FOR COST ACCOUNTING." IS
16 THAT CORRECT?

17 A. No, it is not. In fact, cost accounting is generally based on an analysis of
18 variances from budgeted or standard costs. It is the analysis of the difference
19 between what is utilized as standard or budgeted cost and actual costs, which is
20 termed a "variance," which most manufacturers use in analyzing and evaluating
21 their manufacturing process. Any standard cost accounting textbook will have a
22 chapter on the analysis and control of standard cost variances.

23

1 Q. IT HAS BEEN SUGGESTED IN MR. DAVIS' TESTIMONY THAT UTILITY
2 ACCOUNTING DOES NOT UTILIZE INCREMENTAL COSTS IN
3 RECORDING TRANSACTIONS FOR RATEMAKING OR REGULATORY
4 PURPOSES. IS THAT A CORRECT SUGGESTION?

5 A. No, it is not. The Uniform System of Accounts has specific instructions which
6 indicate that only incremental costs should be recorded in plant accounts when a
7 construction project results in "a betterment" of a minor item of property. Electric
8 Plant Instructions which direct utilities on how costs are to be recorded in electric
9 plant-in-service has the following instructions:

10 When a minor item of depreciable property is replaced
11 independent of the retirement unit . . . if the replacement effects a
12 substantial betterment (the primary aim of which is to make the
13 property effected more useful, more efficient, of greater durability,
14 or greater capacity), the excess cost of the replacement over the
15 estimated cost at current prices of the replacement without
16 betterment shall be charged to the appropriate electric plant
17 account.¹
18

19 Plant Instructions for the recording of a betterment to utility plant allows only the
20 recording of incremental costs over the current price of the replacement, the
21 difference is charged to O&M expense. This is the same procedure which I am
22 recommending the Commission follow in this case, that is, in calculating
23 restoration costs the Commission should allow for the recovery of only that
24 component of the cost which exceeds normal O&M costs.

25

¹ 18CFR, Ch 1, PT 101, Plant Instruction 10, p. 302.

1 Q. THE COMPANY'S TESTIMONY IMPLIES THAT CALCULATING
2 RECOVERABLE STORM COSTS USING AN INCREMENTAL APPROACH
3 IS IMPROPER OR INACCURATE ACCOUNTING, IS THAT CORRECT?

4 A. No, it is not. As I have previously stated in the above paragraphs, cost accounting
5 is a discipline within the overall accounting process which is designed to measure
6 the cost of individual processes, products or events. The USOA also follows this
7 process in accounting for certain plant additions. In this case, the Commission
8 should be concerned with measuring only the incremental effect of storm
9 restoration cost on FPL. In order to accomplish that task, it is necessary to
10 segregate those costs during a storm period which would have been incurred by
11 the Company absent the storm. FPL's methodology of accumulating every
12 payroll, material, contract or other cost in storm related work orders without
13 segregating that component of those costs which would otherwise still be incurred
14 by FPL absent the storm results in a double recovery from ratepayers. The
15 appropriate procedure is to utilize budgets and other available data to segregate
16 from the total storm work orders those components which FPL would have
17 incurred absent the storm. By doing so, the incremental cost of the storm is
18 segregated, and the resulting amount is, in general, the appropriate amount to
19 recover from ratepayers.

20

21 Budgeting Process in Determining Variances

22 Q. FPL WITNESS DAVIS CLAIMS THAT THE USE OF THE BUDGETING
23 PROCESS IS NOT A RELIABLE METHOD FOR DETERMINING STORM
24 COSTS. WOULD YOU PLEASE DISCUSS HIS CONTENTION?

1 A. It is interesting to note that the Company has claimed that its budgeting process is
2 extremely accurate. In FPL's last petition for a rate increase, Docket No. 050078-
3 EI, which was filed in March 2005, FPL projected every income and expense
4 account through the year ended December 31, 2006. FPL projected every balance
5 of every rate base account, including plant in service, accumulated depreciation,
6 plant held for future use and working capital over a two year period. The
7 Company contended in that case that the use of these budgets and projections
8 were accurate enough that the Florida Public Service Commission should raise
9 base rates to ratepayers by \$384.6 million. Now in the storm restoration case,
10 FPL contends that the budgets and budget variances are not useful in determining
11 what costs are incremental storm costs. It appears to be disingenuous for the
12 Company to claim that it can project budgets for each and every account for a two
13 year period, but that such budgets are useless when compared to actual expenses
14 over a relatively short period of time. The Commission has consistently over the
15 last 20 years, or more, used projections, budgets and forecasts to determine the
16 proper level of rates, fuel costs and other components of rates. The Commission
17 should follow its prior practices and utilize budgets and budget variances in order
18 to determine the proper level of incremental storm restoration costs to be
19 recovered from ratepayers.

20
21 Q. MR. DAVIS CLAIMS THAT: "... THE IMPACT OF A HURRICANE,
22 WHICH, AMONG OTHER THINGS, RESULTS IN NORMALLY
23 SCHEDULED WORK AND THE RELATED COST BEING DEFERRED OR
24 DELAYED TO SUBSEQUENT PERIOD, ... " DO YOU AGREE WITH
25 THAT STATEMENT?

1 A. No. Obviously, there are certain functions that were delayed and it may be
2 necessary to complete at a later date. However, the effects of a storm on electric
3 utility distribution and transmission system is to exploit the points of the electric
4 system which are weak or would have been the subject of maintenance projects.
5 Items such as repairs to poles, cross-arm braces, replacing guys, or braces, all of
6 which would have been maintenance items, are now included within the storm
7 restoration costs. The trimming of trees and brush which would have been
8 maintenance have now been accomplished as part of the storm restoration costs.

9
10 In many instances after a major hurricane, utilities will do extra tree trimming and
11 brush removal because customers are more receptive to cutting back trees and
12 shrubbery because they are anxious for power to be restored. Additionally, the
13 2005 storms affected heavily populated areas of FPL's service territory.

14 Company Witness Geisha J. Williams stated:

15 In 2005, FPL and its customers were affected by 4 hurricanes –
16 Dennis, Katrina, Rita and Wilma. All four of the hurricanes
17 impacted the most densely populated areas in FPL's service
18 territory, Palm Beach, Broward and Miami-Dade counties, where
19 60% of FPL's customers reside.²
20

21 The hardest hit areas were Miami-Dade, Broward, and Palm Beach
22 counties. This tri-county area also contains the greatest number of
23 electrical facilities, many of which are located in areas with
24 difficult access such as alley ways and behind homes, and includes
25 areas with very dense vegetation.³
26

² Geisha J. Williams' Testimony, p. 16, lines 17-20.

³ Geisha J. Williams' Testimony, p. 19, lines 6-9.

1 The Company would have the Commission and OPC believe that the storm
2 restoration costs, which was major and impacted most of the Company's service
3 area, could not and did not affect any routine maintenance project. The Company
4 implies that all of the routine maintenance, which is included in the Company's
5 base rates and budgets, would have been spent on other areas of the Company's
6 service territory or on other projects within the storm area, but not on any of the
7 transmission or distribution which was restored during the restoration period.
8

9 VIII. LOST REVENUE

10 Q. IF THE COMMISSION USES YOUR RECOMMENDED INCREMENTAL
11 APPROACH TO THE DETERMINING STORM RESTORATION COSTS
12 RECOVERABLE FROM RATEPAYERS, DOES FPL STATE THAT
13 ADDITIONAL ADJUSTMENTS ARE NECESSARY TO THE
14 INCREMENTAL APPROACH?

15 A. Yes. FPL would add to recoverable storm costs if the incremental approach is
16 used a number of costs. Part of those costs are backfill and catch-up work,
17 vacation buy back, uncollectibles, and other costs that according to the Company
18 are "Amounts not recovered in base rates due to storm related outages of
19 \$51,354,000 were used to offset adjustments for base operating expense included
20 in storm reserve charges." In addition to the items I have listed above, FPL would
21 add a dollar amount of \$7,068,200 which, in effect, is a plug amount in order to
22 zero out any difference between the incremental approach and the cost approach
23 recommended by FPL. Essentially, these items are lost revenues.
24

1 Q. WHAT ARE LOST REVENUES?

2 A. Lost revenues are an estimate of what the Company, in theory, would have
3 collected from ratepayers through revenues absent the outages caused by the
4 storms. The calculation of this estimate is based on calculating an average
5 consumption by customers for a prior period and then applying that average to the
6 days of outages times the number of customer outages during the restoration
7 period. This consumption is then multiplied by a revenue factor.

8

9 Q. WOULD YOU AGREE WITH THE COMPANY'S CONTENTION THAT IT
10 SHOULD RECEIVE RECOVERY OF LOST REVENUES IF THE
11 COMMISSION WERE TO USE THE INCREMENTAL APPROACH TO
12 CALCULATE STORM RESTORATION COSTS?

13 A. No, I do not. Lost revenues are not a cost of restoring service. There is no
14 expenditure of funds or outflow of cash represented by a so called "lost revenue."
15 It is a calculated number based on estimates of possible sales during the storm
16 outage period. While it is reasonable to assume that the Company could have
17 billed customers during this period but for the storm outage, it is not reasonable to
18 assume that these revenues are linked to, or result from, restoring service to
19 customers.

20

21 When utility rates are set, the rate of return allowed the Company on equity
22 provides for the assumption of risk. Part of that risk is the effects of weather on
23 sales. A projected test year, which is used by this Commission in establishing
24 base rates, does not utilize kilowatt hour sale assumptions which take into effect
25 variances from "normal" weather. That is, the assumptions utilized in calculating

1 both the number of customers and the consumption per customer is based on
2 normal weather, i.e., weather is neither colder than normal or warmer than
3 normal, or that there are storm related outages. If, in fact, weather is warmer than
4 normal during the cooling season and colder than normal during the heating
5 season, the Company receives the benefit of those increased sales because they
6 were not taken into account in establishing base rates. On the reverse side, if the
7 weather is colder than normal during the cooling season and warmer than normal
8 during the heating season the Company would suffer the detriment of those
9 reduced sales. The same is true regarding other weather effects; that is, the
10 number of outages are not factored into the billing determinants used to establish
11 base rates. If storm activity is less than average, the Company benefits because
12 fewer outages will both increase consumption and reduce maintenance costs. If
13 there is more activity, including major storms, then the Company would bear the
14 consequences of the lower sales as a result of a more active storm period. The
15 effect of weather on sales consumption has always been a benefit/risk assigned to
16 stockholders through the determination of the fair and reasonable rate of return. It
17 should never be a factor in establishing incremental costs to be borne by
18 ratepayers as a result of hurricane activity.

19
20 Q. HAVE YOU MADE A COMPARISON OF FPL'S ACTUAL KILOWATT
21 HOUR SALES AS REPORTED IN THE FUEL DOCKET TO THE
22 ESTIMATED KILOWATT HOUR SALES REPORTED IN THE FUEL
23 DOCKET?

24 A. Yes, I have. Exhibit ___(HL-1), Schedule 1, shows a comparison of the actual
25 kilowatt hour sales reported in the fuel docket to estimate sales for the months of

1 January 2005 through December 2005 and the total actual for 2005 to the
2 estimated sales for that same period. The schedule shows that in months when the
3 hurricane occurred, July, August, September and October, the Company's actual
4 sales reported in the fuel docket exceeded the estimated sales by almost 1.4 billion
5 kilowatt hours.

6
7 Q. WHAT DID THE COMPANY CLAIM AS LOST SALES DURING THAT
8 SAME PERIOD AMOUNT?

9 A. That amount is shown in column (f) of Exhibit ___(HL-1), Schedule 1. During
10 this same period, Company Witness Green calculated the Company's lost storm
11 related sales of approximately 1.4 million megawatt hours. In other words, the
12 Company's actual sales, which included storm lost sales, were actually higher
13 than estimated by 1.4 billion kWh.

14
15 Q. HOW DID THE COMPANY'S SALES FOR THE TOTAL YEAR 2005
16 COMPARE TO THE ESTIMATED AMOUNT?

17 A. That is shown on line 13 of Schedule 1, which shows that the Company, during
18 2005, experienced sales which were about 560 million kilowatt hours less than the
19 estimated amount. The reductions in sales below the estimated amounts occurred
20 in months where there were no hurricanes. The month of November 2005 shows
21 a sales decline of over 676 million kilowatt hours below estimated. Possibly 30%
22 of this sales decline may be attributable to outages which continued from storm
23 damage in October 2005. Thus, even though the Company's sales were less than
24 estimated for 2005, it appears that the sales declines were not caused by hurricane

1 related outages during 2005, but were related to other weather issues, i.e., colder
2 or warmer than normal weather during non-hurricane months.

3

4 Q. WHAT WOULD BE THE RESULT IF THE COMMISSION ALLOWED FOR
5 LOST REVENUE AS A HYPOTHETICAL COST FOR STORM
6 RESTORATION?

7 A. The net effect would be to shift part of the risk that the stockholders are
8 compensated for in the rate of return from the stockholders to the ratepayers.
9 Obviously, a substantial portion of risk that is accounted for in the rate of return
10 has to do with the effect of weather on sales. If the Commission were to allow for
11 the recovery by FPL of lost revenue, then the Commission would, in effect, be
12 allowing that risk to be shifted from stockholders to ratepayers without a
13 reduction in the authorized rate of return on equity included in base rates. From a
14 ratemaking standpoint, it would be improper for the Commission to allow for the
15 recovery of weather related sales reductions in a docket designed to compensate
16 the Company for storm related restoration costs. Especially since the weather
17 related kWh sales gains exceeded the kWh storm related sales losses by about 1.2
18 billion kWh in months where storms occurred.

19

20 Q. IN THE AGENDA CONFERENCE CONDUCTED ON JULY 19, 2005
21 CONCERNING THE 2004 STORM RESTORATION COSTS,
22 COMMISSIONER DEASON EXPRESSED SOME CONCERN RELATED TO
23 THE RECOVERY OF LOST REVENUE. HE INDICATED THAT IT MIGHT
24 BE APPROPRIATE FOR THE COMPANY TO RECOVER LOST REVENUE
25 IF IT AFFECTED THE COMPANY'S FINANCIAL INTEGRITY AND

1 JEOPARDIZED THEIR ABILITY TO RESPOND TO FUTURE STORMS.

2 WHAT EFFECT WOULD NOT RECOVERING THE 2004 LOST REVENUE,
3 ALLOWED BY THE COMMISSION IN THAT DOCKET, HAVE ON THE
4 COMPANY'S EARNINGS?

5 A. The Commission allowed \$33,814,297 of what it termed "normal O&M cost
6 offset" which was, in affect, lost revenue in that docket. If the Commission had
7 not allowed that dollar amount as part of the recovery of storm cost, earnings
8 would have been reduced by the net after tax effect of that dollar amount, or
9 \$20,770,432. ($\$33,814,297 \times [1 - .38575] = \$20,770,432$) In other words, net
10 income would be reduced by the approximate \$20.8 million. Based on amounts
11 contained in the December 2004 surveillance report, FPL's Florida Public Service
12 Commission adjusted average jurisdictional return on common equity would be
13 reduced from 12.68% to 12.30%. This is still a substantial return on equity and
14 greater than the amount agreed to in the settlement in the Company's last rate
15 case, Docket No. 050045-EI, for other regulatory purposes, which was 11.75%.

16
17 Q. IN THE COMPANY'S LAST DOCKET REGARDING THE RECOVERY OF
18 2004 STORM RESTORATION COSTS, THE COMMISSION'S
19 ADJUSTMENT WAS LABELED "NORMAL O&M COSTS OFFSET." HOW
20 DOES THAT RELATE TO LOST REVENUE?

21 A. This is a surrogate for lost revenue which presumably reflects the lost revenue
22 associated with only operation and maintenance costs which the Commission had
23 allowed as a deduction from the 2004 storm costs. This amount, however, is
24 substantially all of the lost revenue since the Company calculated lost revenue for

1 that period to be \$38.2 million and the “normal O&M cost offset” was \$33.8
2 million.

3
4 Q. HAS FPL ASKED FOR LOST REVENUE IN THIS CASE?

5 A. Not directly. The adjustment they propose to the incremental approach is an
6 attempt to obtain lost revenue through adding additional cost to storm recovery
7 cost which are not expenditures on the storm recovery process. However, if the
8 Commission were to allow “normal O&M cost offset” as they did in the last case,
9 they would be allowing lost revenues.

10
11 IX. OTHER COSTS WHICH SHOULD BE EXCLUDED FROM STORM
12 COST RECOVERY

13 Q. ARE THERE OTHER COSTS WHICH ARE APPROPRIATELY EXCLUDED
14 FROM STORM COST RECOVERY ACCRUALS EVEN IF THEY ARE NOT
15 LABELED ON LOST REVENUES?

16 A. Yes. Only those costs that are directly related to restoring facilities should be
17 included in the storm restoration cost accruals and recovered from ratepayers.
18 Other costs that the Company may claim to be related to storm recovery should be
19 excluded. These costs include payroll and overtime in work areas not directly
20 affected by the storm, such costs are sometimes labeled as “backfill” work. Costs
21 associated with work postponed due to the employees working on storm
22 restoration are not directly related to restoring facilities, these costs which are
23 called “catch-up” costs should be excluded from recovery as storm costs. Costs
24 associated with uncollectible receivable write-offs should also be excluded from

1 storm recovery costs. Costs associated with advertising, communications, and
2 employee assistance should be excluded. Finally, incremental contract costs,
3 outside professional service, and temporary labor costs due to work postponed as
4 a result of the urgency of storm restoration costs should not be included as items
5 recoverable under storm restoration costs.

6
7 Q. WOULD YOU LIST AND EXPLAIN WHAT CATEGORIES OF COSTS
8 SHOULD BE EXCLUDED FROM STORM COST RECOVERY?

9 A. Yes. The following costs at a minimum should be excluded:

10
11 Vacation Buy-Backs

12 Q. THE COMPANY IS REQUESTING THAT VACATION BUY-BACKS BE
13 CONSIDERED FOR RECOVERY IF THE COMMISSION WERE TO ADOPT
14 AN INCREMENTAL APPROACH TO STORM COST RECOVERY. DO YOU
15 AGREE WITH THE COMPANY'S CONTENTION?

16 A. No. Vacation Buy-Backs are generated by the Company's vacation policy and
17 not as a direct result of storm restoration activities. FPL's response to the OPC's
18 7th Request for Production of Documents, Request No. 88, provides the
19 Company's vacation policy for the year 2005. In that policy it is stated:

20 In addition, for calendar year 2005 only, employees will be paid
21 for any remaining unused vacation in excess of 120 hours. You
22 will receive payment for your unused vacation in excess of the
23 carryover limit (120 hours) in your January 26 paycheck.
24

25 FPL could have changed its carryover policy and allowed employees to carryover
26 any and all vacation which could not be taken in 2005. Instead, the Company

1 chose to limit the carryover hours to 120 and reimburse employees for any
 2 vacation which could not be taken in 2005. This is a management decision.
 3 These costs are not directly related to the restoration of service, but are directly
 4 related to FPL's vacation policy.

5
 6 In addition, part of this cost may be the result of buy-backs from employees who
 7 have purchased additional vacation hours and were unable to take those hours as
 8 vacation in 2005 because of restoration activities. In the same POD response, it is
 9 stated that the Company would buy back vacation hours which could not be taken
 10 because of legitimate business reasons. The POD states:

11 To sell back your purchased 2005 vacation hours, complete this
 12 form and return it to HRP/JB by December 9.
 13

14 Regardless of whether the Vacation Buy-Back is a result of unused vacation or
 15 vacation which the Company is purchasing back from employees who had
 16 previously purchased those vacation hours, it is not a legitimate cost to be
 17 recovered from ratepayers.
 18

19 Utility Employee Assistance Cost

20 Q. SHOULD THE COMPANY RECEIVE AS PART OF STORM RECOVERY
 21 COSTS UTILITY EMPLOYEE ASSISTANCE EXPENDITURES?

22 A. No. Utility employees who receive assistance from the Company in securing
 23 their damaged property after a storm occurrence are no different then any other
 24 customer or employee of a non-utility company. Each customer, whether they are
 25 an employee or employee of a non-regulated company, is responsible for the

1 restoration or protection of his own property. He cannot pass that cost onto a
2 third party. Emergency employees, such as, police officers, firemen and road
3 maintenance employees of cities and counties cannot ask their employer to
4 reimburse them or take over the responsibility of protecting their property before
5 responding to their job requirement. Police officers and firemen must respond
6 immediately to calls from the State, city or county authority to provide the
7 services they have been trained to perform. They cannot ask that their employer
8 first assist them or pay for the cost of protecting their property before reporting
9 for duty.

11 Uncollectible Accounts

12 Q. SHOULD UNCOLLECTIBLE ACCOUNTS BE RECOVERED THROUGH
13 STORM RECOVERY COSTS?

14 A. No. It would be difficult, if not impossible, to relate uncollectible accounts
15 directly to the effects of a storm. Even if it could be done, these expenses are not
16 directly related to the restoration of service. They are in the nature of risk, which
17 the Company is compensated for through the rate of return on equity. These types
18 of business risks should not be compensated for through the storm recovery costs.

20 Exempt Employee Overtime Incentives

21 Q. SHOULD FPL BE COMPENSATED FOR ADDITIONAL COMPENSATION
22 GIVEN TO EMPLOYEE WHO ARE NOT ELIGIBLE FOR OVERTIME?

1 A. No. Salaried employees are just that. They receive their compensation for the
2 level of work that is required of them. They are not compensated for based on
3 fixed number of hours of work. When overtime is required of these employees,
4 they are responsible for providing that additional work for the salary they agreed
5 to accept. The Company does not compensate these employees for additional
6 time they might put in when work requirements require that they spend additional
7 hours, such as, month end accounting closings, or special projects with short due
8 dates. The storm recovery cost is not a basis on which to provide extra
9 compensation to employees who are salaried and have accepted that salary as full
10 compensation for all time that they are required to put in.

11
12 X. STORM RESTORATION COSTS REQUEST BY GULF POWER

13 Q. ARE YOU FAMILIAR WITH THE RESENT REQUEST BY GULF POWER
14 COMPANY FOR RECOVERY OF STORM RESTORATION COSTS?

15 A. Yes, I am.

16
17 Q. HAS GULF POWER FOLLOWED THE SAME APPROACH AS FPL TO
18 STORM RESTORATION COST RECOVERY?

19 A. No, they have not. Gulf Power's filing generally follows the approach that I am
20 recommending, that is, the incremental cost approach. Gulf Power's witness, R.J.
21 McMillan, shows the Company's total request for storm restoration costs. His
22 testimony states, on page 8, that the total amount of recoverable cost charged to
23 the reserve is net of "...estimated insurance reimbursements, normal capital cost
24 including cost of removal, and operating and maintenance expense normally

1 recovered through base rates as shown on Schedule 2 of my exhibit.” Gulf Power
2 is essentially saying that there are costs which the Company recovers through
3 base rates which should not be also included as part of the storm restoration cost
4 recovery. This is exactly opposite of what FPL is claiming. It is my opinion that
5 the Gulf Power general approach is correct and is the one the Commission should
6 adopt.

7

8 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

9 A. Yes, it does.

1 BY MR. BECK:

2 Q Mr. Larkin, you also have an exhibit that's
3 already been entered into the record as Exhibit No. 84,
4 it's HL-1 to your testimony?

5 A Yes.

6 Q And you don't have any changes to that, do
7 you?

8 A No.

9 MR. BECK: And with that, we tender Mr. Larkin
10 for cross-examination.

11 THE WITNESS: Do you want me to --

12 BY MR. BECK:

13 Q Oh, I'm sorry, read the summary you gave.

14 MR. LARKIN: I will summarize my testimony.

15 CHAIRMAN EDGAR: It is late in the day.

16 Again, we will get through this together.

17 A The purpose of my testimony is to support the
18 principles of incremental cost, and incremental cost is
19 the basis for determining a level of expense that should
20 be recovered from ratepayers.

21 The company's accounting methodology, which it
22 terms actual cost recovery, is not what it is presented
23 to be.

24 What it is is it a situation where the company
25 issues certain work orders and they pass out these work

1 order numbers. And then every single dollar that they
2 can charge into that account is charged into that
3 account, including estimates and future costs which they
4 think they might incur in restoring the system.

5 It is my position, the position of OPC, that
6 some of these costs are covered by base rates and that
7 when a lineman goes out and charges his time into that
8 work order, the company is also recovering through base
9 rates that lineman's cost, at least part of it.

10 And the same is true for people like meter
11 readers who -- whose costs are charged into the work
12 order but they are also being recovered through base
13 rates. The company counters that, oh, wait a minute, we
14 lost some revenue.

15 But lost revenue is a business risk associated
16 with weather. And that weather in this instance really
17 cuts in favor of the company. That when you look at the
18 total kilowatt hour sales during the storm period, that
19 the kilowatt hour sales is actually greater than what
20 the company anticipated. Even taking into consideration
21 the period that certain customers were off. But even if
22 that weren't the case, even if they didn't have more
23 revenue, this is not a cost related to the actual
24 restoration of the facilities.

25 So what we're saying and what we think is

1 appropriate is the company's entitled to any increment
2 over what they didn't recover in base rates and that if
3 there's any weather risk or any weather lost revenue,
4 that's associated with a rate of return on equity and
5 that you have to make a decision of what level of cost
6 you think the ratepayer ought to pay and that there is
7 certainly risks that the company should bear and costs
8 that they should bear associated with the storm.

9 Costs such as the buy back of vacation. They
10 had employees that couldn't take their vacation so they
11 set the policy is that you only can carry over 120 hours
12 into next year. Anything else you are going to get paid
13 for. They could have changed that policy. Could have
14 allowed employees to carry over 200 hours or 300 hours.
15 Or like the state employees, they can carry over a year.

16 So you shouldn't look to allow them to recover
17 costs in this docket that is, number one, not
18 incremental, and, number two, is associated with the
19 risk they should bear related to weather costs.

20 That concludes my summary.

21 Q Thank you, Mr. Larkin. Mr. Larkin is tendered
22 for cross-examination.

23 CHAIRMAN EDGAR: Mr. Shreve?

24 MR. SHREVE: Madam Chairman.

25 CROSS-EXAMINATION

1 BY MR. SHREVE:

2 Q Mr. Larkin, I'm Jack Shreve with the Attorney
3 General's Office. If the -- the items that you've
4 been -- that you covered in your testimony, if this is
5 allowed, doesn't that amount to double recovery for the
6 company?

7 A And I'm -- in my opinion it is.

8 Q And if they are allowed to recover any loss,
9 although in this case in your testimony there was no
10 loss to the company in revenue, wouldn't that totally
11 take away the risk that the company says they had to use
12 in establishing a higher rate of return?

13 Well, it would take aware some of the risks.
14 There are probably other risks that are incorporated
15 within the rate of return on equity.

16 Q But it would certainly lower the risk?

17 A It certainly would.

18 MR. SHREVE: No other questions.

19 CHAIRMAN EDGAR: Thank you. Is there cross
20 from other intervenors? No, no? Mr. Twomey? No?
21 Questions from staff?

22 MS. GERVASI: No questions.

23 MR. ANDERSON: Thank you, Chairman Edgar.

24 CROSS-EXAMINATION

25 BY MR. ANDERSON:

1 **Q** Good evening, Mr. Larkin.

2 **A** Good evening.

3 **Q** Can you hear me down there?

4 **A** Certainly.

5 **Q** All right. You just said a minute ago that
6 FPL has a methodology where every single dollar that can
7 be charged to the storm accounts is charged into the
8 accounts. That's what you just said, right?

9 **A** That's correct.

10 **Q** Are you saying that Florida Power & Light
11 Company failed to have adequate accounting controls on
12 its storm restoration process?

13 **A** No. Their accounting control was to ensure
14 that every dollar that possibly could be charged to the
15 storm reserve was charged to the storm reserve.

16 **Q** Let me stop you right there for a moment
17 though because we talked at your deposition a little bit
18 about your knowledge of utility accounting. And as I
19 recall, you told me that you're acquainted with work
20 orders; is that right?

21 **A** That's correct.

22 **Q** And FPL uses unique storm cost work orders for
23 its storm cost restoration?

24 **A** That's correct.

25 **Q** It uses the same kind of work order system

1 that the company uses every day in its normal course of
2 business?

3 **A** Yes.

4 **Q** FPL sends out to those sites around the state
5 where the workers are staged out of site controllers
6 where the responsibility for helping ensure costs are
7 reported correctly; isn't that right?

8 **A** That costs? Well, let me start it this way.
9 If you give to everybody that's working, every employee,
10 and you say, charge your time to this work order, then
11 every dollar is going in there.

12 If you're not saying to them, look, the only
13 thing you ought to charge to this work order is the time
14 that is incremental to what you would recover or what
15 you would charge to your normal cost center, then what
16 you're getting is total cost and you're not getting
17 incremental costs.

18 So I would disagree with your characterization
19 that this is just great accurate accounting because it
20 is not.

21 **Q** Well, let's see. You didn't disagree with the
22 part about the site controllers being out there on site
23 making sure the paperwork is done. You didn't disagree
24 with that, did you?

25 **A** No.

1 **Q** And you agree, don't you, that the company
2 provides accounting guidance to its employees, to those
3 site controllers on what can and can't be charged to the
4 storm work order; isn't that right?

5 **A** Yes. And everything can be charge to the
6 storm work order. If you give to every person the work
7 order number and you say, okay, charge every dollar
8 every hour you spend and charge it to the work order,
9 then you're getting 100 percent of that person's time
10 into the work order. You're not getting just the
11 incremental time.

12 **Q** Here's the problem I'm having with what you're
13 saying, though, Mr. Larkin, is did you review in detail
14 the accounting guidance that was provided to the site
15 controllers?

16 **A** I did review in detail the accounting
17 instructions, yes.

18 **Q** And the accounting instructions tell people
19 what can and cannot be charged to the work order; isn't
20 that right?

21 **A** It tells them in general terms. It does not
22 tell them anything about their usual work order or their
23 usual cost center time. It does not tell them to
24 segregate the incremental time from the direct time that
25 they would normally charge to a different cost center.

1 **Q** And when those thousands of workers are out
2 there working out of the base camps under the control of
3 site controllers, you're concerned that all those long
4 days they're working they're not recording to the
5 correct work order? Is that what you're saying?

6 **A** No, I didn't say that, and I think you
7 understood what I said.

8 **Q** In fact, didn't you say at your deposition
9 that you wouldn't recommend any other accounting
10 methodology be employed in the field when the work is
11 being done?

12 **A** That's correct. Because you can't tell them
13 what is incremental and what is not incremental. What
14 I'm recommending is that the Commission adopt the
15 adjustments we're recommending to get to -- to reflect
16 incremental costs in the storm reserve.

17 **Q** But that's because your fundamental theory is
18 that FPL's accounting records cannot be trusted to
19 properly record storm costs?

20 **A** They cannot be trusted to properly record
21 incremental storm costs, that's correct.

22 **Q** You said incremental storm costs?

23 **A** Yeah.

24 **Q** And that's under your theory, right?

25 **A** That's correct.

1 **Q** Let me ask you some questions about another
2 part of your theory. At the very beginning of your
3 testimony, you say that this Commission should look to
4 the business risk which was borne by FPL's customers in
5 regard to the storm damage they incurred as a proxy for
6 the business risk which FPL should bear. Is that right?

7 **A** That's correct.

8 **Q** Let me ask you some questions about that basic
9 precept that you're offering to this Commission to guide
10 them in deciding the case. The prices and revenues of
11 FPL's business customers are not subject to the
12 Commission's regulation, are they?

13 **A** The prices of revenue? State the question
14 again.

15 **Q** I'd be pleased to. This goes back to
16 something we talked about at your deposition. You're
17 saying that the Commission should look to our customers
18 and the business risks they have as a model for
19 recovery --

20 **A** Yes.

21 **Q** -- of FPL's cost?

22 **A** That's correct.

23 **Q** All right. We talked about the fact that FPL
24 has millions of customers, correct?

25 **A** Yes, that's correct.

1 Q Including business customers?

2 A That's correct.

3 Q The business customers are not subject to the
4 Commission's regulation, are they?

5 A You're correct. They do not have a monopoly.
6 They do not have a guaranteed source of income. You're
7 absolutely right. They have a greater risk than FPL.

8 Q Let's step back for a moment. The prices
9 those customers set out there, they're not subject to
10 Commission regulation, are they?

11 A No, they're not.

12 Q So if you sat outside of a Florida gas station
13 during that storm period -- we all saw what happened to
14 the prices going up -- no Commission had to pass on
15 that, did they?

16 A No, they didn't pass on it but then there were
17 gas stations that couldn't open up because they had no
18 power.

19 Q Well, sir --

20 A That individual couldn't turn to a third party
21 and say, why don't you give me the revenue I missed
22 because my gas station was closed down because it
23 couldn't get power from FPL? You couldn't say -- he
24 couldn't say to his mortgage holder, look, I can't pay
25 my mortgage now, I want you to give me a pass on it.

1 So they're incomparable. You have much less
2 risk than FPL customers do.

3 **Q** Let me pause you there because what you just
4 told me, the first thing you said is the Commission
5 should look to the customers apparently because they
6 have the same or similar business risks. What you just
7 told me now is that they're not comparable. Isn't that
8 right?

9 **A** They are comparable in the sense that they
10 have -- that the risk should be equal or that you should
11 consider that risk when you set the amount of recovery
12 that FPL should get.

13 **Q** You should consider what?

14 **A** You should consider the risk that ratepayers
15 bear in the storm -- their ability to recover storm
16 damage in assessing the amount that FPL should recover
17 from its ratepayers.

18 **Q** Let's talk about some other business risks we
19 talked about at your deposition. FPL's customers can
20 stop producing goods and services, can't they?

21 **A** They can if they want to go out of business.

22 **Q** Sure. And after a storm, FPL's customers
23 don't have to go out there, hit the streets and restore
24 power for millions of people; isn't that right?

25 **A** They don't have to restore power. But they --

1 if they're good business people, they have to restore
2 their business in order to pay their bills.

3 **Q** If one of our customers wants to change the
4 goods and services it sells, it can just do that of its
5 own volition, it's own business planning; is that right?

6 **A** It could but they most likely could not
7 because they have an investment that requires the
8 recovery of. So you couldn't just say, well, I'm not --
9 if you're in the phosphate mining industry, you can't
10 just say, well, I guess I'll go mine coal in the middle
11 of Florida when there is no coal to mine.

12 You've got that investment in the mining
13 equipment that you have to recover.

14 **Q** The customers have the right to pull their
15 capital as they choose, they're not subject to a duty to
16 serve millions and millions of customers of electricity;
17 isn't that right?

18 **A** They're not required to but they have to
19 because competition requires them to.

20 **Q** I don't think that's right. With respect,
21 they can choose to go out of business, they can choose
22 to change their products or services, they can change
23 to change their --

24 **MR. SHREVE:** Madam Chairman, I'd like to
25 object to counsel testifying. He's not asking a

1 question.

2 Q Isn't that true?

3 A They can.

4 Q Thank you. Now, after the storms clear away
5 and the lines are down and people want their power back
6 on, do you think that customers want FPL employees out
7 there as soon as possible working hard to restore power?

8 A Certainly.

9 Q But you propose, don't you, that the
10 Commission refuse recovery of FPL's costs for tarps for
11 employees' roofs, water, ice, child care, that enabled
12 FPL's employees to report to work and support storm
13 restoration services? You're saying don't recover those
14 costs, right?

15 A That's absolutely right. Because the
16 ratepayer who has the same problems, the same situation,
17 cannot turn to a third party and say, why don't you do
18 this for me and pay for it? If a policeman is required
19 to show up and perform his duties the same as FPL is, he
20 can't go to the city and say, before I show up, you pay
21 for somebody to come and put this on my house.

22 For instance, Mr. Davis had his roof blown
23 off. I wonder his -- the cost of a tarp on his roof is
24 included in the cost you're trying to recover. If it
25 is, I don't see why -- what Mr. Davis could have done

1 that would have justified that.

2 Q Let's see if I understand you. You're saying
3 that utility employees who go out and do storm
4 restoration are no different than any other customer or
5 employee; is that right?

6 A As far as those kinds of costs, they should
7 bear those themselves.

8 Q You say that other people can't apply to a
9 third party. Have you done a study, for example, of
10 police departments in Florida and what they provide for
11 their officers?

12 A I have no.

13 Q And you've done no study for what the
14 firefighters may provide for their officers in
15 circumstances like that?

16 A I have not.

17 Q Okay. So when you offered that opinion in
18 your testimony that firefighters and police officers
19 don't get any assistance, you said that without checking
20 a thing; isn't that right?

21 A That's correct. But it's my understanding
22 that they don't. I hadn't read anything or hadn't heard
23 anything that was -- that they didn't get that kind of
24 assistance.

25 Q And you didn't look either, did you?

1 **A** No, because it -- my understanding is that
2 they don't.

3 **Q** That was just your feeling about common sense?

4 **A** That's right.

5 **Q** Okay. And it's on that basis that you're
6 making this public policy recommendation to the Florida
7 Public Service Commission?

8 **A** That's correct.

9 **Q** It is OPC's position and sponsored by your
10 firm that granting FPL's requested storm costs would
11 result in customers paying twice for the same cost, as I
12 understand it, once in base rates, once through storm
13 restoration charge. That's a part of your case?

14 **A** That's correct.

15 **Q** Isn't it true that neither you nor your
16 company, Larkin & Associates, conduct a detailed
17 accounting study to trace costs charged by FPL to the
18 storm reserve back to base rates?

19 **A** We did not do anything. We -- in an
20 individual study we asked the company to provide that
21 information.

22 **Q** You explain during your deposition that it
23 would be possible to trace costs. For example, of the
24 meter reader you told us about. Starting with the
25 company's surveillance reports, trace that back to the

1 company's financial reports, back to the customer
2 service ledgers, ultimately to the account recording
3 meter reading expense. You said that's how an
4 accountant could do it.

5 **A** That's how you could trace his payroll, yes.

6 **Q** But Larkin & Associates in making all of these
7 recommendations has not prepared such a study and if you
8 had, you would have submitted it to the Commission,
9 wouldn't you?

10 **A** We did not prepare a study. We relied on the
11 discovery we asked of the company.

12 **Q** Isn't it true that the staff of the Commission
13 here has said in response to discovery requests that one
14 cannot tell what costs at all are included in base
15 rates?

16 **A** I would disagree with that. And I explained
17 that to you in my deposition.

18 **Q** Let's pause for a moment and I'll ask that an
19 exhibit be passed out.

20 MR. ANDERSON: To try to streamline a bit,
21 maybe we can pick a number and I can indicate a
22 title?

23 CHAIRMAN EDGAR: This will be 154.

24 MR. ANDERSON: Thank you. This is Staff's
25 response to Interrogatory No. 49.

1 (Exhibit 154 marked for identification.)

2 BY MR. ANDERSON:

3 Q Mr. Larkin, have you had an opportunity to
4 read and review what has been marked as Exhibit 154?

5 A Yes.

6 Q Can you look at page 2 of the response?

7 A Yes.

8 Q Isn't it a fact that this states, "Because
9 base rates were last reset based on a negotiated
10 stipulation among the various parties, it is unclear
11 what specific costs of any kind are included in base
12 rates? That's what the words say, right?

13 A Yes.

14 Q And that was Staff's response to FPL's
15 Interrogatory No. 49; is that right?

16 A That's correct.

17 Q Thank you.

18 CHAIRMAN EDGAR: Commissioner Carter?

19 COMMISSIONER CARTER: Do you mind if I ask
20 Staff a question on this? Is that appropriate at
21 this time or should I wait?

22 CHAIRMAN EDGAR: I don't know, so let me ask
23 counsel. Mr. Harris?

24 MR. HARRIS: I'm not going to tell a
25 commissioner he can't ask a question any time they

1 want to. If a Commissioner wants to ask a
2 question, go ahead and ask, sir.

3 COMMISSIONER CARTER: I'll wait.

4 CHAIRMAN EDGAR: I appreciate that,
5 Commissioner Carter, however, I just -- the
6 suspense is -- I can't stand it so I'm going to ask
7 Mr. Melson to jump right in.

8 MR. HARRIS: He may choose to tell you.

9 MR. MELSON: Commissioner Carter, I guess I'd
10 like to hear the question. To the extent it goes
11 to the reason staff answered a particular
12 interrogatory in a given way, that probably is not
13 appropriate. But --

14 COMMISSIONER CARTER: Okay.

15 MR. MELSON: -- I don't know what your
16 question is.

17 COMMISSIONER CARTER: You just answered it.
18 Thank you.

19 CHAIRMAN EDGAR: Thank you, Mr. Harris and
20 Mr. Melson. Mr. Anderson?

21 BY MR. ANDERSON:

22 Q Thank you. Now, stepping back, I understand
23 one of your colleagues, Donna DeRonne, is testifying
24 next; is that right?

25 A That's correct.

1 **Q** And she's testifying about the details?

2 **A** Yes.

3 **Q** You're testifying more to theory level?

4 **A** More high level overview of how the Commission
5 should approach this case.

6 **Q** All right. All right. Then I'll stay away
7 from the details with you. OPC's storm accounting
8 method sponsored by you and your firm is based on the
9 use of budget variances incremental method; isn't that
10 right?

11 **A** It's based on an analysis provided by the
12 company of the variances between what was budgeted and
13 what was actually incurred.

14 **Q** OPC and Larkin & Associates look at the
15 differences between budget amounts and actual amounts
16 and conclude that differences result from costs being
17 charged to storm costs; isn't that right?

18 **A** You'd have to ask Donna that directly,
19 Donna DeRonne. She's the one that looked at all of the
20 variances.

21 **Q** Do you have a copy of your deposition with
22 you, Mr. Larkin?

23 **A** Yes.

24 **Q** Could you look at page 45, please?

25 **A** Yes.

1 Q If you look at line 6 through 11.

2 A Page 45?

3 Q Yes, sir, lines 6 through 11. Were you asked
4 this question and did you give this answer:

5 "QUESTION: Is it correct that the incremental
6 cost approach advocated by Larkin & Associates and
7 OPC involves analyzing the differences between
8 budgeted and actual numbers and concluding that the
9 differences result from costs being charged to
10 storm costs?"

11 And the answer you gave was yes. Is that
12 right?

13 A Yes. And --

14 Q That would be --

15 A -- what I'm saying is that the analysis was
16 provided by the company and Donna DeRonne analyzed
17 those; she reviewed them.

18 Q For clarity of the record, the answer to my
19 question is yes; is that right?

20 A Yes, we looked at the differences between
21 budgeted and actual provided by the company and Donna
22 analyzed those differences.

23 Q And the analysis -- and the analysis you
24 talked about involves concluding that the differences
25 result from costs being charged to storm costs?

1 **A** I don't know. You'd have to ask her.

2 **Q** Sir, I asked you that question, you gave that
3 answer at your deposition. For clarity of the record,
4 please tell me which is the case.

5 **A** I'm telling you that the answer in the
6 deposition is correct.

7 **Q** Thank you. That's sufficient then.

8 **A** And then --

9 **Q** That's sufficient. I can move on.

10 **A** And that answer contemplated Donna's review of
11 those differences.

12 **Q** After Larkin & Associates identifies these
13 differences, those amounts are subtracted from the
14 amount of storm cost recovery, right?

15 **A** You'll have to -- if you're talking about the
16 detail which was --

17 **Q** I'm talking at a theoretical level.

18 **A** Theoretically, once she reviews the difference
19 and she concludes that it's associated -- the difference
20 between the budget and the actual is related to the
21 storm, then that's deducted from storm reserve.

22 **Q** Isn't it true that there are many things that
23 can cause the amount of money a company spends for a
24 category of expense to be different from the amount it
25 budgeted?

1 **A** There can be other differences.

2 **Q** Timing can cause differences? For example,
3 when an expense is charged in one period as opposed to
4 another.

5 **A** It can cause a difference.

6 **Q** Changes in scope of work, for example, adding
7 or subtracting from work to be done can cause variances
8 between budgeted and actual spending, right?

9 **A** Yes, they can.

10 **Q** Development of new practices that save money
11 can cause actual costs to be less than those that are
12 budgeted, right?

13 **A** It can.

14 **Q** Unforeseen developments in the business other
15 than hurricanes can cause variances between budgeted and
16 actual spending?

17 **A** That's correct.

18 **Q** Despite all of these things that can cause
19 changes between budgeted and actual costs, it is your
20 theory that if FPL underspent a budget in 2005, you
21 automatically conclude that the variance was caused by
22 storm savings?

23 **A** I don't think that's accurate but you'll have
24 to ask Ms. DeRonne.

25 **Q** Could you turn to your deposition, please, at

1 page 50, lines 15 through 18.

2 **A** Fifteen through 18?

3 **Q** Yes. Did you -- were you asked this question
4 and did you give this answer.

5 "QUESTION: If FPL underspends a budget in
6 2005, does it automatically mean that the variance
7 is caused by storm savings?"

8 "ANSWER: I would conclude that, yes."

9 That's the answer you gave to that question,
10 right?

11 **A** Yes.

12 **Q** Thank you. In fact, it's your view that if
13 FPL had a productivity gain in the course of a year that
14 resulted in spending a million dollars less than it had
15 budgeted in an area, you would still claim that one
16 million cost savings were due to storm costs and should
17 be subtracted, right?

18 **A** Well, I'd have to see what caused it. But I
19 would agree with that, and I think that that's
20 appropriate. I don't think it's appropriate for the
21 company to keep all of the pluses and then stick the
22 ratepayer with all of the negative cost.

23 **Q** Let's explore that a little bit. You're
24 saying that if FPL had a productivity gain with a
25 million dollar savings, nothing to do with the storm,

1 unfair to stick customers, charge that against -- take
2 it away from the recovery. That's what you're saying,
3 right?

4 **A** That's correct. And it's -- and that's
5 appropriate. Let me give you an example.

6 **Q** I'm sorry --

7 **A** The company had a savings associated with
8 telephone rates that had nothing to do with any
9 productivity gains, rates were just decreased. Under
10 your theory the company gets to keep that but any
11 communications they had with the ratepayer about the
12 storm, the ratepayer ought to pay that but the company
13 keeps the productivity gain that they did nothing for.
14 So I don't think that I would agree with your synopsis.

15 **Q** Well, here's the big picture as I see it. It
16 seems to me, isn't it right, that Larkin & Associates is
17 objecting to FPL's use of its routine accounting
18 methodology applied in storm circumstances to capture
19 costs and instead you're saying your methodology which
20 simply assumes that negative variances were caused by
21 storm, that somehow that's a better measure. That's
22 what you're saying?

23 **A** It certainly is. What you're saying is that
24 we have a cost accounting system that charges everything
25 we can find, think of and dump into this account, and

1 then we're coming before this Commission, we're going to
2 ask them to give us every dollar of it back. And when
3 somebody says, well, let's look at some of these
4 possible cost savings and deduct those, you don't want
5 to do that. You don't want to take what's in base rates
6 and back that out of that.

7 **Q** Well, let's --

8 **A** That's our position.

9 CHAIRMAN EDGAR: Excuse me, gentlemen. If I
10 may. I know the hour is late. However, let's just
11 pause for a second.

12 Mr. Anderson, questions, please. And
13 Mr. Larkin, please confine your answer to the scope
14 of the question.

15 MR. LARKIN: All right.

16 CHAIRMAN EDGAR: Let's try again.

17 BY MR. ANDERSON:

18 **Q** You did no studies to see what accounts FPL
19 overspent?

20 **A** You'll have to ask Ms. DeRonne.

21 **Q** I'll do that then.

22 Let's turn to another part of your testimony
23 very briefly. Please look at page 18 of your direct
24 testimony.

25 You offer some testimony here in your capacity

1 as an accountant that's on the effect of a storm on
2 electric utility distribution and transmission system;
3 is that right?

4 **A** Yes.

5 **Q** And you say that the effect of a storm is to
6 exploit the points of an electric system which are weak
7 and would have been the subject of a maintenance
8 project, right?

9 **A** Yes.

10 **Q** You are not an expert on effects of storms
11 upon transmission and distribution systems, correct?

12 **A** No, but that's a common sense conclusion.

13 **Q** Let's pause from a moment. You're not an
14 engineer?

15 **A** That's correct.

16 **Q** You've not installed, operated or maintained
17 any transmission or distribution equipment during your
18 career?

19 **A** No.

20 **Q** You were never employed by a utility or anyone
21 else to assess the performance of a transmission or
22 distribution system after a storm?

23 **A** No.

24 **Q** You performed no study as to FPL's system
25 after the 2005 storm?

1 **A** That's correct.

2 **Q** You were not present for the repairs of any of
3 the poles, cross arm braces, guy wire replacements, or
4 any other storm restoration work on the FPL system after
5 the 2005 storms?

6 **A** That's correct.

7 **Q** You also say in your direct testimony that
8 trimming of trees and brush which would have been
9 maintenance has now been accomplished as part of the
10 storm restoration costs, right?

11 **A** I don't think that that's a correct
12 characterization. What I said is the trimming of trees
13 and brush which would have been maintenance have now
14 been accomplished as part of the storm restoration
15 costs. In many instances after a major hurricane,
16 utilities would do extra tree trimming and brush removal
17 because customers are more receptive to cutting back
18 trees and shrubbery because they are anxious for power
19 to be restored.

20 **Q** Just to refocus us. And I'm sorry, but I was
21 justing at line 7 and 8 making sure I read them right.
22 "The trimming of trees and brush which would have been
23 maintenance have now been accomplished as part of the
24 storm restoration cost." That's what it says, rights?

25 **A** That's correct.

- 1 **Q** Okay. Now, you're not an arborist or a tree
2 trimmer, are you?
- 3 **A** No.
- 4 **Q** You have no experience in designing or
5 operating utility vegetation management programs, right?
- 6 **A** That's correct.
- 7 **Q** You do not know what vegetation clearing
8 instructions were provided to FPL's crews and
9 contractors after the 2005 storms, correct?
- 10 **A** That's correct.
- 11 **Q** You were not present for any vegetation
12 clearing work performed after the 2005 storms?
- 13 **A** That is correct.
- 14 **Q** In order to determine whether any portion of
15 the 2005 storm restoration, vegetation clearing work
16 eliminated any particular part of FPL's routine cycle of
17 vegetation management. You could assess what lines were
18 actually planned to be cleared. You could do a study
19 like that, right?
- 20 **A** You could have, yes.
- 21 **Q** Larkin & Associates has not done such a study
22 in this case, right?
- 23 **A** No.
- 24 **Q** All Larkin & Associates did was for retrimming
25 look at the budgeted and actual cost?

1 **A** We looked at the budgeted and actual cost and
2 explanation that the companies provided.

3 MR. ANDERSON: We have no further questions
4 for the witness. Thank you.

5 We would like to offer the exhibit, I believe
6 it was 154, into evidence.

7 CHAIRMAN EDGAR: Let's take the -- if I may,
8 take the -- and feel free to remind me so we don't
9 forget, we'll take up when we are at the end of the
10 witness's testimony to follow the procedure that we
11 have been thus far.

12 Commissioners, any questions at this time?

13 No? Mr. Beck, redirect?

14 MR. BECK: Thank you, Madam Chairman.

15 REDIRECT EXAMINATION

16 BY MR. BECK:

17 **Q** Mr. Larkin, do you believe that the base rates
18 of Florida Power & Light include a level for normal
19 salary amounts?

20 **A** Yes.

21 **Q** Why do you believe that?

22 **A** Well, when you get a, say, surveillance
23 report, the surveillance report is predicated on the
24 company's actual operations, their actual expenses, and
25 that report shows that the company earned a rate of

1 return. That means that they recovered -- in order to
2 earn a rate of return, they have to recover every
3 operating expense they incurred, every maintenance
4 expense, every tree trimming expense, every salary,
5 every bonus, every depreciation expense, every
6 amortization expense, every pension expense, every
7 health care expense in order to earn a rate of return.

8 So anything that's reflected in any operating
9 expense account has been recovered and is in base rates
10 because base rates was able to pay all of those expenses
11 and render a rate of return to the company. The only
12 way that the company can ever claim that we did not
13 recover this particular salary or that particular
14 expense is if they had a loss, and they didn't have a
15 loss in either 2004 or 2005.

16 So every expense that was on the books that
17 was not charged to the reserve was recovered by the
18 company, even if they had lost revenue. So that's why
19 they recovered those expenses, or why those expenses are
20 in base rates.

21 **Q** Okay. Thank you.

22 Mr. Larkin, this morning I read Mr. Davis an
23 expert from the Commission's 2004 order. Were you
24 present when I did that?

25 **A** I may have been.

1 **Q** Let me read it from the bottom of page 9. The
2 order said, "By moving all O&M expenses associated with
3 the storm repair to the storm reserve without taking
4 into account the normal level of expenditures funded by
5 base rates the customers pay requires customers to pay
6 twice for the same cost."

7 Are you familiar with that portion of the
8 Commission's order --

9 **A** Yes.

10 **Q** -- from 2004? Is the approach taken by
11 yourself and Ms. DeRonne in this case consistent with
12 that?

13 **A** Yes, it is.

14 MR. BECK: That's all I have. Thank you.

15 CHAIRMAN EDGAR: Mr. Anderson?

16 MR. ANDERSON: Nothing further. We just offer
17 one --

18 CHAIRMAN EDGAR: Well, I think we'll do the
19 exhibit now.

20 MR. ANDERSON: I'm sorry.

21 CHAIRMAN EDGAR: That's okay.

22 MR. ANDERSON: We would offer Exhibit 154
23 which was staff's response to FPL's Interrogatory
24 No. 49 into evidence.

25 CHAIRMAN EDGAR: Any objections? Seeing none,

1 show 154 entered into the record as evidence.

2 (Exhibit 154 admitted into the record.)

3 CHAIRMAN EDGAR: And the witness is excused.

4 Thank you very much.

5 We will forge ahead for a little while longer.

6 Mr. Beck, your witness?

7 MR. BECK: We'd call Donna DeRonne.

8 CHAIRMAN EDGAR: Mr. Beck?

9 MR. BECK: Ms. DeRonne, you were not
10 previously sworn, were you?

11 MS. DERONNE: No, I was not.

12 CHAIRMAN EDGAR: Okay. Then let's take care
13 of that at this time. Ms. DeRonne, if you'll
14 stand.

15 DONNA DERONNE

16 was called as a witness on behalf of OPC, and having
17 been duly sworn, testifies as follows:

18 CHAIRMAN EDGAR: Thank you.

19 DIRECT EXAMINATION

20 BY MR. BECK:

21 Q Would you please state your name.

22 A Donna DeRonne.

23 Q By whom are you employed?

24 A I'm employed by Larkin & Associates.

25 Q And did you cause direct testimony to be filed

1 in this case?

2 **A** Yes, I did.

3 **Q** Okay. You had direct testimony filed on
4 March 31st, 2006; is that right?

5 **A** Correct.

6 **Q** And then there was a revised testimony filed
7 on April 7th, 2006; is that right?

8 **A** Yes, that's correct.

9 **Q** And is it the April 7th, 2006 testimony that
10 you'll be adopting here today?

11 **A** Yes, it is.

12 **Q** Okay. Do you have any changes or corrections
13 to make to your testimony?

14 **A** Yes, I do. First I'll go through just a quick
15 minor change. It's -- on page 25 of my testimony when I
16 discussed the conservation corporate line addressed in
17 Mr. Byerley's testimony, on line 6 and line 8 I referred
18 to it as a 500 megawatt line. It should be a kV line.
19 And that's again on line 6 and line 8.

20 Additionally, Mr. Byerley presented some
21 revisions to his numbers earlier today that he is making
22 to his testimony, and that does, since I'm presenting
23 the overall dollar impacts of the OPC witnesses'
24 adjustments, it does affect some of the dollar amounts
25 within my testimony.

1 If you begin on page 5, line 6, where I
2 reference OPC's adjustments reduce the company's
3 requested '05 storm amount, on line 6 I identify that
4 amount as \$114,445,620. That would change to
5 \$110,690,395.

6 On the next line, line 7, the amount of
7 701,570,380 would change to 705,325,605. And later on
8 that same line the number of 701,016,139 would change to
9 704,768,398.

10 And while this isn't a change in my testimony,
11 the overall impact on the amounts from the revisions by
12 Mr. Byerley essentially increases the amount that OPC
13 recommends to be recovered in this case by \$3,752,259.

14 If you go to page 26 of my testimony, that's
15 where I discuss each of the dollar adjustments presented
16 by Mr. Byerley. Rather than go through each one
17 individually, I believe all the corrected amounts by
18 Mr. Byerley are already in the record from earlier
19 today. So rather than go line by line through each and
20 every one of them, I believe they should be in the
21 record already.

22 And again if you go to my exhibit attached to
23 my testimony, the first exhibit which was marked as
24 Exhibit DD-1, the dollar amounts for Mr. Byerley's
25 recommended adjustments on lines 36 through 43 would

1 also change based on Mr. Byerley's revisions presented
2 earlier today.

3 And that completes my revisions.

4 MR. BECK: Madam Chairman, the DD-1 has been
5 put into evidence as Exhibit 85.

6 CHAIRMAN EDGAR: Thank you, Mr. Beck.

7 BY MR. BECK:

8 Q Ms. DeRonne, with those changes as you
9 described them just now, would your testimony be the
10 same if I asked you the same questions today?

11 A Yes, it would be.

12 MR. BECK: I'd ask that Ms. DeRonne's
13 testimony be inserted into the record as though
14 read.

15 CHAIRMAN EDGAR: The witness's prefiled
16 testimony will be read into the record as though
17 read, with the clarifications and corrections
18 noted.

19

20

21

22

23

24

25

1 DIRECT TESTIMONY OF DONNA DERONNE
2 ON BEHALF OF THE CITIZENS OF FLORIDA
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 FLORIDA POWER & LIGHT COMPANY
5 DOCKET NO. 060038-EI

6 INTRODUCTION

7 Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

8 A. My name is Donna DeRonne. I am a Certified Public Accountant licensed in the State of
9 Michigan and a senior regulatory consultant at the firm Larkin & Associates, PLLC,
10 Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan
11 48154.

12
13 Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

14 A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting
15 Firm. The firm performs independent regulatory consulting primarily for public
16 service/utility commission staffs and consumer interest groups (public counsels, public
17 advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC has
18 extensive experience in the utility regulatory field as expert witnesses in over 600
19 regulatory proceedings, including numerous electric, water and wastewater, gas and
20 telephone utility cases.

21
22 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE
23 COMMISSION?

24 A. Yes, I have testified before the Florida Public Service Commission on several prior
25 occasions. I have also testified before several other state regulatory commissions.

1

2 Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS
3 AND EXPERIENCE?

4 A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and
5 qualifications.

6

7 Q. ON WHOSE BEHALF ARE YOU APPEARING?

8 A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel (OPC)
9 to review and comment on Florida Power & Light Company's (FPL or Company) request
10 for recovery of storm restoration costs, and to address the appropriate methodology for
11 determining the amount to be recovered from customers. Accordingly, I am appearing on
12 behalf of the Citizens of Florida (Citizens).

13

14 Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE
15 FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?

16 A. Yes. Hugh Larkin, Jr., also of Larkin & Associates, is presenting testimony. James
17 Byerley of R.W. Beck is also presenting testimony on behalf of the OPC.

18

19 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

20 A. The purpose of my testimony is to present the impact of the principles set forth in OPC
21 witness Hugh Larkin, Jr.'s testimony on the 2005 storm recovery costs requested by FPL
22 for recovery in this case. Within this testimony, and on the exhibits attached hereto, I
23 quantify the impact of the various recommendations of Mr. Larkin and make several
24 adjustments to reflect the appropriate incremental cost methodology for storm recovery,
25 as applied to FPL's proposed 2005 storm recovery costs. I recommend certain offsets to

1 the 2005 storm restoration costs. I am proposing several revisions to the remaining 2004
2 storm costs for which FPL is seeking recovery and recommend several adjustments
3 thereto. Additionally, I address the appropriate cut-off date for charging the 2005 storm
4 restoration costs to the storm reserve.

5
6 Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?

7 A. Yes. I have prepared Exhibit __ (DD-1) and Exhibit __ (DD-2), attached hereto.

8 Exhibit __ (DD-1) consists of 3 pages. This exhibit addresses the 2005 Storm Recovery
9 Costs proposed by FPL, with the OPC's recommended adjustments thereto.

10 Exhibit __ (DD-2) presents my recommended revisions to the 2004 Storm Restoration
11 costs.

12
13 OVERALL 2005 STORM RESTORATION COST SUMMARY

14 Q. HAVE YOU PREPARED AN EXHIBIT SUMMARIZING THE IMPACT OF THE
15 OPC'S VARIOUS RECOMMENDED REVISIONS TO FPL'S PROPOSED 2005
16 STORM RECOVERY COSTS?

17 A. Yes. Page 1 of Exhibit __ (DD-1) begins with FPL's proposed 2005 Storm Recovery
18 Costs, prior to the application of interest. As shown on lines 1 through 5 of Page 1, this
19 consists of \$906,404,000 of actual and projected 2005 storm-recovery costs, less
20 \$63,855,000 of estimated capital expenditures and \$26,533,000 of estimated insurance
21 proceeds, resulting in net 2005 storm-recovery costs for which FPL is seeking recovery
22 of \$816,016,000 prior to the application of interest. According to FPL witness K.
23 Michael Davis' testimony, this amount is based on the "Actual Restoration Cost
24 Method," with the removal of normal capital costs.

25

1 On Exhibit__(DD-1), I then reflect four separate groups of adjustments to the proposed
2 2005 storm restoration costs. Beginning on line 6 of page 1, I first adjust the payroll and
3 labor related storm recovery costs presented by FPL to reflect the incremental approach
4 recommended by the OPC and OPC Witness Larkin. This includes adjustments to
5 remove regular employee salaries recovered in base rates, offsets for payroll normally
6 charged to clauses and capital, and removal of employee benefits already recovered in
7 base rates. The determination of each of these adjustments will be discussed in this
8 testimony.

9

10 The second group of adjustments presented on page 1 addresses other non-labor areas
11 under the incremental approach. These include adjustments to tree-trimming, vehicle
12 costs, telecommunications costs, and materials and supplies.

13

14 The third group of adjustments presented on Exhibit__(DD-1) removes some additional
15 items that are not appropriate for recovery as storm restoration costs or for inclusion in
16 the cost estimates. Each of these adjustments will be addressed in either Hugh Larkin's
17 direct testimony, or in this testimony. Also included is an offset for proceeds received by
18 FPL during 2005 for the loan of personnel and equipment to other power companies,
19 which will also be addressed in this testimony.

20

21 The fourth group of adjustments presented on the exhibit reflects the impact of the
22 findings and recommendations of OPC witness James Byerley of R.W. Beck.

23

1 Q. WHAT IMPACT DO THE ADJUSTMENTS AND REVISIONS TO FPL'S PROPOSED
2 2005 STORM RECOVERY COSTS HAVE ON THE AMOUNT TO BE RECOVERED
3 FROM RATEPAYERS?

4 A. As shown on Exhibit__(DD-1), page 1, on a total company basis, the \$816,016,000
5 proposed by FPL for recovery from customers through the storm reserve associated with
6 the 2005 storms should be reduced by ^{110,690,315}~~\$114,445,620~~, resulting in a revised amount for
7 recovery through the reserve of ^{706,325,605}~~\$701,570,380~~. This equates to ^{704,768,398}~~\$701,016,139~~ on a
8 jurisdictional basis.

9
10 Q. HAS THE COMPANY BEEN ASKED TO PROVIDE A CALCULATION OF ITS 2005
11 STORM RECOVERY COSTS BASED ON THE INCREMENTAL APPROACH
12 UTILIZED BY THE COMMISSION IN THE 2004 STORM COST RECOVERY
13 ORDER?

14 A. Yes. OPC Interrogatory No. 30 asked the Company to provide adjustments to its
15 requested 2005 storm recovery costs for certain items based on the methodology utilized
16 by the Commission in the 2004 Storm Cost Recovery Order, Order PSC-05-0937-FOF-
17 EI. In the response and a supplemental response, FPL provided attachments containing
18 what it purports would be the 2005 recoverable storm costs under the incremental cost
19 approach used in the 2004 Storm Recovery Order. Under FPL's proposed calculations,
20 the end result, i.e., the amount of 2005 storm costs to be recovered from ratepayers, are
21 identical to its proposed "Actual Restoration Cost" method. This is due to several
22 adjustments included by FPL, coupled with a "plug" number being used to represent lost
23 revenue amounts needed to make the incremental approach equal its "Actual Restoration
24 Cost" approach.

25

1 Q. WOULD YOU PLEASE SUMMARIZE WHICH OF THE ITEMS IN FPL'S
2 DETERMINATION OF THE PURPORTED INCREMENTAL COST
3 METHODOLOGY YOU HAVE INCLUDED IN THE DETERMINATION OF THE
4 OPC'S ADJUSTED RECOVERABLE 2005 STORM COSTS ON EXH__(DD-1)?

5 A. Yes. On Exhibit__(DD-1), page 1, the following adjustments are the same as those
6 recommended by FPL in its Incremental Cost Methodology calculations provided in its
7 supplemental response to OPC Interrogatory No. 30: 1) removal of regular employee
8 salaries charged to storm; 2) offset for payroll normally charged to clauses; 3) offset for
9 payroll normally charged to capital; 4) reduction to tree trimming costs for the amount
10 under budget; and 5) reduction to fleet vehicles to remove amounts in base rates. I did
11 not take issue with FPL making no adjustments for employee training for storm
12 restoration as none of these costs were included. I also did not take issue with FPL
13 making no adjustments for the Call Center as FPL has indicated that only the incremental
14 costs for the Call Center were included and a comparison of the budget to actual costs for
15 the call center did not show that the Company was under budget in the non-storm related
16 operation and maintenance expenses in this area during 2005.

17

18 Q. WHICH OF THE ADJUSTMENTS PROPOSED BY FPL IN ITS INCREMENTAL
19 APPROACH DID YOU EXCLUDE IN THE DETERMINATION OF OPC'S
20 ADJUSTED 2005 STORM RECOVERY COSTS?

21 A. On Exhibit__(DD-1), I specifically excluded the following incremental cost adjustments
22 proposed by FPL: 1) offsets for 2005 and 2006 backfill and catchup work; 2) offset for
23 nuclear payroll expected to be recovered through insurance; 3) offset for vacation buy-
24 back; 4) offset for vehicle costs charged to capital; and 5) the "plug" number associated
25 with purported lost revenues. The specific reasons each of these items are excluded are

1 addressed in the direct testimony of OPC witness Hugh Larkin, Jr., with the exception of
2 the insurance issue and vehicle cost issue addressed herein.

3

4 The OPC is also recommending several adjustments not included by FPL in its
5 incremental cost calculations, each of which are addressed either in Mr. Larkin's
6 testimony, or in this testimony.

7

8 PAYROLL & LABOR RELATED ADJUSTMENTS – INCREMENTAL APPROACH

9 Q. WOULD YOU PLEASE DISCUSS EACH OF THE PAYROLL AND LABOR
10 RELATED ADJUSTMENTS ON PAGE 1 OF EXHIBIT __ (DD-1)?

11 A. Yes. The purpose of each of the adjustments in this area is to ensure that the amount of
12 payroll and labor related costs already recovered by FPL through base rates are not also
13 recovered a second time through the recovery of the 2005 storm costs. The first item in
14 this area removes the amount included by FPL for the estimated regular employee
15 salaries of \$26,092,000. Additionally, the offsetting adjustments reflected on
16 Exhibit __ (DD-1) to reduce the labor adjustment by the amount of payroll normally
17 charged to clauses and capital are based on the amounts presented by FPL in its
18 incremental cost calculations in response to OPC Interrogatory No. 30, which is
19 \$2,730,000 and \$8 million, respectively. I did not reflect the remaining salary offset
20 adjustments proposed by FPL in its incremental cost calculations, the reasons for which
21 are addressed by OPC witness Larkin, with the exception of the insurance proceeds
22 offset, which I address. FPL's calculations under the Incremental Cost Approach
23 includes a \$2,490,800 offset to the regular employee salary adjustment to reflect the fact
24 that a portion of these payroll costs have already been removed from the 2005 estimated

1 storm recovery costs in the adjustment to remove the estimated insurance proceeds. I do
2 not agree that this offset to the regular employee salaries is appropriate.

3

4 Q. WHY NOT?

5 A. If this adjustment is reflected, FPL would recover the associated amount, i.e., \$2,490,800,
6 twice, once from insurers and again from ratepayers. The regular employee salary
7 amount included in FPL's storm recovery costs that is being removed under the
8 Incremental Cost approach, totaling \$26,092,000, is already being recovered in base
9 rates. If the Company both recovers the \$2,490,800 of nuclear employee base salaries
10 from insurers and also offsets the adjustment to remove base salaries from the storm costs
11 by the same \$2,490,800, it will recover these costs both from insurers and from
12 customers in base rates. Thus, the removal of the \$26,092,000 of regular employee
13 salaries charged to the storm recovery costs under the incremental method should not be
14 offset by the \$2,490,800. The \$2,490,800 should be removed from the 2005 restoration
15 costs as part of the estimated insurance proceeds through which the Company will
16 recover the costs and as part of the regular employee salary adjustment so that ratepayers
17 do not end up being required to fund the amount that will be recovered through insurance.

18

19 Q. WHAT ADDITIONAL ADJUSTMENTS NEED TO BE MADE TO PAYROLL AND
20 LABOR RELATED COSTS TO ENSURE THAT ONLY THE INCREMENTAL
21 COSTS NOT ALREADY INCLUDED IN BASE RATES ARE RECOVERED AS
22 PART OF THE STORM RESTORATION COSTS?

23 A. One additional adjustment must be made to remove amounts included in the 2005 Storm
24 Recovery Costs by FPL for employee benefits. FPL has included \$9,213,514 for
25 employee benefits.

1

2 Q. COULD YOU PLEASE ELABORATE WHY THIS AMOUNT NEEDS TO BE
3 REMOVED?

4 A. Yes. According to FPL's response to OPC Interrogatory No. 184, \$9,213,514 is included
5 in the 2005 storm recovery costs for "Applied Pensions and Welfare." The response
6 indicates that these amounts "...represent company payments for life, medical and dental
7 insurance, thrift plan, long term". Costs associated with the provision of these types of
8 benefits to employees are already reflected in base rates and Company budgets. The cost
9 of providing employee benefits would not increase as a result of a storm event. These are
10 not incremental costs to the Company resulting from the storms and should not be
11 included. Thus, I have removed the \$9,213,514 to ensure that only the incremental costs
12 associated with the 2005 storms are included.

13

14 OTHER ADJUSTMENTS – INCREMENTAL APPROACH

15 Q. WHAT ADJUSTMENTS NEED TO BE MADE IN NON-LABOR AREAS TO
16 ENSURE THAT ONLY THE INCREMENTAL COSTS ARE INCLUDED FOR
17 RECOVERY THROUGH THE STORM RESERVE?

18 A. At least three adjustments need to be made. The first two adjustments are identical to
19 those indicated by FPL in its Incremental Approach calculations in its supplemental
20 response to OPC Interrogatory No. 30. These consist of a \$1,100,000 reduction to the
21 tree trimming costs to reflect the fact that FPL's actual expenditures for non-storm related
22 tree trimming were \$1.1 million less than it included in its budget for 2005 and a
23 \$5,738,000 reduction to remove the amount of vehicle costs that FPL indicates would
24 have been incurred in the normal course of business, even absent the storms. Based on
25 the response to Staff Interrogatory No. 96, the \$5.7 million amount removed for vehicles

1 is only a portion of the total vehicle costs included in the storm recovery amounts and are
2 based on the monthly vehicle rates charged to the storm accounts. These vehicle rates
3 include items such as depreciation, maintenance, fuel and overhead costs. Additional,
4 incremental vehicle costs for both company owned and non-company owned vehicles
5 remain in the proposed storm recovery costs.

6

7 Q. DID FPL PROPOSE ANY OFFSETS TO EITHER OF THESE AMOUNTS?

8 A. Yes. In its proposed Incremental Approach calculations, FPL offset the Vehicle costs it
9 contends would have been incurred in the normal course of business by 48%, or
10 \$2,767,000, for a portion it contends would have otherwise been charged to capital costs
11 and not base rates. I have not reflected this offset as the Company has not supported the
12 offset, nor has it shown that vehicle costs were not otherwise included in the storm
13 related or other capital costs. In the 2004 Storm Recovery Case, the Company proposed
14 a similar offset to vehicle costs under a similar contention that a portion of the budgeted
15 amount was related to capital projects. The order in that case, Order No. PSC-05-0937-
16 FOF-EI, indicates that the OPC objected to the Company's rationale, "...stating that FPL
17 does not differentiate between capital costs and operating expense in its breakdown of
18 charges to the storm reserve." (p. 13) The Commission did not reflect FPL's proposed
19 capital offset in that case, removing the entire amount identified by FPL as costs it would
20 have incurred for the Company owned vehicles whether or not the storm occurred.
21 (Order No. PSC-05-0937-FOF-EI, p. 13)

22

23 Q. WHAT IS THE THIRD ADJUSTMENT THAT NEEDS TO BE MADE?

24 A. Included in FPL's proposed 2005 storm recovery costs are telecommunications expenses.
25 According to the response to OPC Interrogatory No. 181, the actual operation and

1 maintenance expenses for telecommunications costs in 2005 were \$520,264 less than
2 budgeted. This is shown on my Exhibit __ (DD-1), page 3. The proposed 2005 storm
3 recovery costs should be reduced by this \$520,264 so that only the incremental
4 telecommunications costs beyond those factored into base rates are included.
5

6 ADDITIONAL OPC RECOMMENDED ADJUSTMENTS – 2005 STORMS

7 Q. WOULD YOU PLEASE ADDRESS THE REMAINING ADJUSTMENTS
8 PRESENTED ON EXHIBIT __ (DD-1)?

9 A. Yes. The reasons for removing the following items from the 2005 storm recovery costs
10 are presented in the direct testimony of OPC witness Hugh Larkin, Jr.: uncollectible
11 accounts, employee assistance costs, and exempt employee overtime incentives. I
12 determined the associated amounts from various interrogatory responses, which are
13 identified and referenced on Exhibit __ (DD-1). In addition to those sponsored by Mr.
14 Larkin, I am also recommending several adjustments for the removal of items included in
15 FPL's proposed 2005 storm recovery costs. Each of these will be addressed below.
16

17 Remove Items Covered Under Warranty

18 Q. DID FPL INCLUDE ANY ITEMS IN ITS 2005 STORM RECOVERY COST
19 ESTIMATES TO BE RECOVERED FROM RATEPAYERS THAT IT MAY BE
20 RECOVERING FROM THIRD PARTIES?

21 A. Yes. FPL has included at least one item for which it is pursuing warranty recovery, and it
22 is including amounts associated with joint use poles that it will likely recover from
23 another party. The joint use pole issue will be addressed later in this testimony.
24

1 Q. WHAT ITEM HAS FPL INCLUDED IN ITS COST ESTIMATES FOR WHICH IT IS
2 SEEKING WARRANTY RECOVERY?

3 A. FPL has included an estimated \$316,250 for a cooling tower fan repair at Martin Unit 8.
4 In response to OPC Interrogatory No. 192, FPL indicated that the cost is being included
5 even though a warranty claim is being pursued "...because the claim is being contested
6 by the cooling tower manufacturer." The response indicated that the Company is pursuing
7 recovery and that "It was considered appropriate to include the repair cost, since these
8 costs could be removed if FPL eventually won its warranty claim."

9
10 Q. IN YOUR OPINION, SHOULD THE COST BE INCLUDED BECAUSE IT COULD
11 EVENTUALLY BE REMOVED, AS FPL CONTENDS?

12 A. While it is true that the amounts actually charged to the reserve will be trued-up to actual
13 amounts as the amounts become known, it still is not appropriate to include such costs in
14 the estimates. In this case, the starting point in FPL's calculations is a \$906,404,000
15 estimate for 2005 storm-recovery costs. This amount is reduced by FPL for several items
16 such as projected insurance proceeds and costs to be charged to capital; however, it is the
17 \$906,404,000 projected cost that is the basis of FPL's request. A large portion of the
18 \$906,404,000 of estimated 2005 storm recovery costs FPL is requesting is based on
19 estimated amounts. According to the response to Staff Interrogatory No. 132, as of
20 March 14, 2006, \$244,973,000 of the \$906,404,000 (or 27%) is still based on estimates.

21
22 According to the direct testimony of FPL witness J. Michael Davis, at pages 23-24, any
23 difference between the estimated storm costs and the actual costs incurred, or adjustments
24 due to the outcome of the staff audit or any Commission proceeding, would be charged or
25 credited to the storm reserve balance. The testimony states: "Thus, if the actual costs are

1 lower than anticipated, the resulting balance in the Reserve will be higher and vice
2 versa.”

3
4 FPL’s attitude is that if its estimates are off, they are going to be trued-up to actual
5 amounts anyway, with any reductions to the estimated amount resulting in an increase to
6 the storm reserve that could then be used for future storms. This is in addition to the
7 \$650 million requested to be added to fund the storm reserve. It is not appropriate to
8 potentially inflate the costs being requested under the attitude or premise that it will be
9 trued-up later and excess estimates will be used to increase the reserve. One must
10 remember that these are funds that FPL is requesting the ratepayers to pay for. While the
11 costs are being proposed to be spread out over a longer period through the use of storm
12 recovery bonds, it is still the ratepayers who will have to pay for these costs through the
13 payment of the bonds over an extended period. It is not appropriate to make these costs
14 to be recovered higher than they need be or higher than FPL has projected that it needs to
15 recover the costs and fund the storm reserve. While the storm recovery bonds may be
16 spreading the cost to ratepayers over more years, it is the ratepayers who will ultimately
17 be paying those costs. Consequently, on Page 1, I removed the \$316,250 included by
18 FPL for the repair of the cooling tower fans for which it is pursuing warranty recovery.

19
20 Remove Remaining Contingencies

21 Q. ARE THERE ANY OTHER ITEMS INCLUDED IN FPL’S ESTIMATED 2005
22 STORM RECOVERY COSTS THAT INFLATE THE AMOUNT FOR WHICH
23 RATEPAYERS ARE BEING REQUESTED TO FUND AT THIS TIME?

24 A. According to the response to OPC Interrogatory No. 183, as of February 28, 2006, the
25 remaining estimated 2005 storm recovery costs included \$26,253,351 for contingencies.

1 Approximately \$10 million of the contingencies fall under the heading of External Line
2 & Contractor costs and \$16 million fall under the “Other” cost category. I recommend
3 that the \$26.25 million of remaining contingencies as of the end of February 2006 be
4 removed from the storm cost estimates. As indicated above, it must be remembered
5 throughout this process that it is the ratepayers that are being asked to ultimately fund
6 these amounts. If the amounts are over-estimated, it is ratepayers who will be locked in
7 to paying higher amounts over the next twelve years under FPL’s proposal. The general
8 premise that if the costs are overestimated they will be trued-up and serve to increase the
9 available reserve funds for future storms is not a reasonable premise and is not the
10 attitude the Commission should adopt in evaluating the proposed 2005 storm recovery
11 costs in this case. As previously indicated, as of March 14, 2006, \$244,973,000 of the
12 \$906,404,000 (or 27%) of proposed storm recovery costs are still based on estimates.
13 The \$244,973,000 of remaining estimated costs would include the contingencies.
14 Removal of the contingencies still allows for the inclusion of a significant amount of
15 estimated costs in the proposed storm recovery financing.

16
17 Offset for Proceeds from Joint Use Poles

18 Q. HAS FPL INCLUDED AN OFFSET TO ITS ESTIMATED 2005 STORM RECOVERY
19 COSTS FOR AMOUNTS IT WILL COLLECT FROM THIRD PARTIES
20 ASSOCIATED WITH JOINT USE POLES?

21 A. No, it has not. As part of the storm recovery effort, FPL repaired and replaced other
22 companies’ poles that it jointly uses. The Company has not yet billed the outside parties
23 for the repairs or replacements, nor did it include an estimate to offset the storm recovery
24 costs it has requested in this case. FPL’s requested 2005 storm recovery cost estimate
25 includes many estimates which increase the projected cost, but does not include estimated

1 offsets to such costs, other than for insurance recoveries. The repair costs are included in
2 FPL's estimated total 2005 storm recovery costs of \$906,404,000. Additionally, the 2004
3 storm recovery costs also have not yet been reduced for the amounts to be recovered from
4 outside parties for FPL's repair and replacement of the poles owned by other parties.

5
6 Q. WHAT IS THE STATUS OF THE PREPARATION OF THE BILLS TO OUTSIDE
7 PARTIES?

8 A. In response to Staff Interrogatory No. 144, the Company indicated that it expects the
9 billing for the 2004 replacement costs for other companies' poles to be completed in
10 March 2006. The response to Staff Interrogatory No. 145 indicates that FPL is currently
11 conducting the 2005 storm pole survey, which it expects to complete in May 2006. Once
12 complete, the estimated costs to be recovered from the pole owners will be calculated.
13 Unfortunately, May 2006 is after the date hearings are scheduled to occur in this case.

14
15 Q. WHAT WOULD BE THE IMPACT OF THE AMOUNTS TO BE COLLECTED FROM
16 THE POLE OWNERS ON THE 2005 STORM RECOVERY COSTS?

17 A. The proceeds to be received would reduce the 2005 storm recovery costs incurred by FPL
18 as funds will be provided by the owners of the poles. A portion of the costs to be
19 recovered would pertain to costs that have been capitalized by FPL and would not impact
20 the net amount to be recovered through the storm reserve as part of this case. However,
21 any incremental amounts billed beyond the amounts capitalized by FPL should serve to
22 reduce the estimated 2005 storm recovery costs to be recovered from ratepayers.
23 Additionally, at the time of FPL's next rate case, a review should be made to ensure that
24 the capital amounts that were reimbursed by outside parties are do not increase rate base.

25

1 Q. WAS FPL ASKED TO PROVIDE AN ESTIMATE OF THE AMOUNT OF
2 REIMBURSEMENTS IT MAY RECEIVE?

3 A. Yes. OPC Interrogatory No. 182 asked the Company to provide its current best estimate
4 of reimbursements it may receive from other companies for Joint Use Poles or other
5 storm recovery work. FPL responded as follows:

6 The survey to determine the amount of non-FPL poles replaced by FPL during the
7 2004 storms has been completed and showed FPL replaced 2,483 BellSouth
8 poles. An initial estimate, using "normal" costs, was originally developed,
9 however, it was determined that this estimate was not representative of actual
10 2004 restoration costs. The revised billing for the 2004 poles replaced is currently
11 being developed and is expected to be completed in March 2006. Since the
12 billing is currently under development, FPL does not have an estimate at this
13 time. The survey to determine the number of non-FPL owned poles replaced by
14 FPL during the 2005 storms is expected to be completed during the second
15 quarter 2006. Once the 2004 billing is finalized, FPL will develop an estimate for
16 the 2005 storms.
17

18 Consequently, while FPL was requested to provide its "current best estimate", it did not
19 do so.

20
21 Q. HAS FPL PROVIDED ADDITIONAL INFORMATION SINCE RESPONDING TO
22 THE ABOVE QUOTED INTERROGATORY?

23 A. Yes. In Late Filed Exhibit No. 2 to the deposition of FPL witness Geisha Williams, the
24 Company provided a quantification of its cost to replace poles owned by other parties.
25 According to the late filed exhibit, the quantification of reimbursement for FPL's cost to
26 replace other parties owned poles is \$7,419,810 for 2004 and \$10,564,384 for 2005. The
27 late filed exhibit also indicates that the 2005 amount is an estimate as the survey to
28 determine the actual number of poles replaced is not expected to be completed until May
29 2006, with billing to be done shortly thereafter.

30

1 Q. WHAT IS YOUR RECOMMENDATION WITH REGARDS TO THE FACT THAT
2 FPL WILL RECEIVE REIMBURSEMENT IN THE FUTURE FROM AN OUTSIDE
3 PARTY FOR SOME OF THE AMOUNTS INCLUDED IN ITS 2005 STORM
4 RECOVERY COSTS?

5 A. As previously indicated, it is inappropriate to base the amount of 2005 storm recovery
6 costs to be recovered from customers in this case on inflated amounts or amounts that
7 may exceed the net incremental costs to actually be incurred specific to the recovery
8 efforts.

9

10 Q. HAVE YOU REFLECTED AN ADJUSTMENT FOR POTENTIAL RECOVERIES ON
11 EXHIBIT__(DD-1) AT THIS TIME?

12 A. Yes. As indicated above, FPL provided an estimate of the reimbursements to replace
13 other parties' poles as a result of the 2005 storms in Late Filed Exhibit 2 of \$10,564,384.
14 Consequently, I have incorporated a \$7,923,288 reduction to the 2005 storm recovery
15 costs. I recommend that as a placeholder 75% of the \$10,564,384 million be reflected as
16 an offset to the estimated 2005 storm recovery costs to be recovered. A 75% factor is
17 being utilized as the majority of the projected storm recovery costs are expenses as
18 opposed to capital amounts. On Exhibit__(DD-1), I remove \$7,923,288 from the amount
19 to be recovered. I will address the amount to be recovered via reimbursements from
20 BellSouth pertaining to the 2004 storm recovery costs later in this testimony.

21

22 Q. DO YOU HAVE ANY FURTHER RECOMMENDATIONS OR CONCERNS WITH
23 REGARDS TO THIS ISSUE?

24 A. Yes. Based on FPL's response to OPC POD 34, which is being provided as an exhibit to
25 OPC witness James Byerley's testimony, at Bates No. FPL004466, the estimated 2005

1 replacement cost per pole is \$1,700. In response to OPC POD 92, FPL provided copies
2 of some E-mails regarding its 2005 estimated billing to BellSouth for poles replaced as a
3 result of the 2005 storms. The estimated cost per pole contained in those E-mails were
4 significantly less than the \$1,700 estimated cost to replace poles contained in the
5 response to OPC POD 34. It is my understanding, based on Mr. Byerley's
6 recommendations, that the replacement cost per pole under emergency storm recovery
7 situations is significantly greater than under normal replacement situations. This makes
8 sense as external crews and overtime are utilized during emergency storm recovery
9 situations, causing the costs incurred to be higher than a "normal" replacement cost level.
10 Consequently, a review should be conducted once the actual amounts are trued-up to
11 ensure that the billings to outside parties for FPL's repair and replacement of poles
12 owned by others is based on the actual costs incurred by FPL.

13
14 Remove Martin Plant Condenser Tube Repair and Hydrolasing Estimates

15 Q. WHY HAVE YOU REMOVED THE COSTS INCLUDED BY FPL IN ITS ESTIMATE
16 RELATED TO THE MARTIN PLANT UNITS 1 AND 2 CONDENSOR TUBE
17 REPAIRS?

18 A. The projected 2005 storm recovery costs include \$2,386,000 for condenser tube repairs at
19 Martin Units 1 and 2. According to the supporting documentation provided for this
20 project in response to OPC POD 73 (Bates Nos. FPL 009633-009635) and the response
21 to OPC Interrogatory No. 194, FPL had already planned a partial condenser retube for
22 Martin Units 1 & 2 in its overhaul planning system in July of 2005, with overhaul dates
23 of 2007 and 2008. The Company claims the \$2.386 million is for damage caused by
24 Hurricane Wilma, yet it had already planned for retubing of these units prior to the storm
25 occurring. Consequently, these costs should not be recovered from the storm reserve as

1 was proposed by FPL. On Exhibit__(DD-1), I remove the \$2,386,000 included in the
2 2005 storm cost estimates.

3
4 Staff's Audit report, in Audit Finding No. 8, also indicates that the retubing was planned
5 prior to the storm occurring and that if the event was planned prior to the storm, then the
6 cost should not be included in the storm costs.

7
8 Q. HAS FPL PROVIDED ANY ADDITIONAL INFORMATION ON THIS ISSUE?

9 A. Yes. In response to Staff Interrogatory No. 147, FPL indicates that it now plans a
10 complete re-tube of the Unit 1 condenser instead of the partial re-tube included in its
11 storm cost estimate. A full re-tube is a capital project as opposed to expense item. The
12 response also indicates that FPL could not determine if the Unit 2 damage was caused by
13 the storm because pre-storm studies were not available. The response indicates that the
14 Unit 2 condenser tubes are no longer included in the storm estimate. The response also
15 indicates that in March 2006, the Company adjusted the storm estimate by \$2,785,364 to
16 reflect the Unit 1 work as capital. While it is not clear from the response, presumably the
17 amount will be excluded from the amount FPL proposes to charge to the reserve as it is a
18 capital cost. No amounts should be charged to the storm reserve for the Martin Plant
19 Units 1 and 2 condenser tube repairs or retubing.

20
21 Q. ARE THERE ANY ADDITIONAL RELATED COSTS THAT SHOULD ALSO BE
22 REMOVED?

23 A. Yes. FPL's 2005 storm cost estimate also includes \$144,000 for hydrolasing the Martin
24 Unit 1 and 2 condenser tubes and \$77,000 for hydrolasing the Martin Units 3 and 4
25 condenser tubes. The hydrolasing was conducted to clean the tubes to prepare for testing.

1 Hydrolasing the condenser tubes is a normal, recurring maintenance item. According to
2 the response to OPC Interrogatory No. 194, the Company had already projected to
3 perform condenser tube hydrolasing at Martin Units 1 and 2 in the spring of 2006, at Unit
4 3 in Fall of 2007 and Unit 4 in Spring 2008. As these costs are typical maintenance type
5 costs, I recommend they be removed from the 2005 storm recovery costs, resulting in a
6 reduction of \$221,000 (\$144,000 + \$77,000).

7

8 Advertising and Communications Costs

9 Q. SHOULD UTILITY ADVERTISING, MEDIA RELATIONS OR PUBLIC
10 RELATIONS COSTS BE INCLUDED IN STORM RESTORATION COSTS?

11 A. No. These costs are generally image building type expenditures and are not related to the
12 restoration of service to customers. Costs associated with advertising related to public
13 information regarding safety and other customer services are incorporated into the
14 determination of base rates. Additional expenditures made informing the public of the
15 Company's efforts to restore service are either covered in base rates or do not provide a
16 direct benefit to ratepayers and are not directly related to the storm restoration efforts.

17

18 Q. WHAT AMOUNT IS INCLUDED IN THE 2005 STORM RECOVERY COSTS FOR
19 ADVERTISING AND PUBLIC RELATIONS?

20 A. In response to Staff Interrogatory No. 100, FPL identified \$2,528,196 of advertising and
21 public relations costs included in the 2005 storm recovery costs. The response shows that
22 \$506,507 was included for print ads and \$2,021,689 of these costs were for radio
23 communications, and no public relations costs were included. Staff Audit Report, Audit
24 Control No. 05-292-4-1, under Audit Finding No. 7, provides additional information

1 regarding advertising charges included in the storm recovery expenses. The print ads
2 consisted of newspaper ads addressing expected electric turn on dates and “Thank You”
3 ads in media such as the Wall Street Journal. The Audit Report indicates that the radio
4 ads appeared to be for safety tips or image enhancing. On Exhibit __ (DD-1), I remove
5 the \$2,528,196 of advertising costs from the 2005 storm restoration costs.

6
7 Additionally, while not identified in response to Staff Interrogatory No. 100, Staff’s
8 Audit Report, under Finding No. 7, indicates that an additional \$144,068 was included
9 for “Public Relations Invoice.” On Exhibit __ (DD-1), I also remove the \$144,068
10 identified by Staff as Public Relations costs charged to the storm recovery costs.

11
12 Remove Property Damage and Personal Injury Costs

13 Q. ARE THERE ANY ADDITIONAL COSTS INCLUDED BY FPL THAT ARE NOT
14 DIRECTLY RELATED TO STORM RECOVERY EFFORTS THAT SHOULD BE
15 EXCLUDED?

16 A. Yes. According to the response to OPC Interrogatory No. 184, under the “Other”
17 category of 2005 storm recovery costs FPL has included \$2,849,571 for estimated
18 property damage and personal injury costs under the General Counsel Business Unit.
19 These are not costs directly related to the storm recovery efforts or for the restoration of
20 electric service to customers and should not be included in the costs to be recovered.
21 Additionally, these types of costs are already considered in the determination of base
22 rates and should not be recovered via the recovery of storm restoration costs.

23

1 Increase in Portion of Costs Pertaining to Capital Items

2 Q. HAS FPL PROVIDED ANY FURTHER UPDATES OF ITS PROJECTED 2005
3 STORM RECOVERY COSTS?

4 A. Yes. In response to Staff Interrogatory 57 - Supplemental, the Company has provided
5 some updates to its estimated 2005 storm-recovery costs. The total cost estimate
6 provided by FPL as of February 28, 2006, prior to offsets, is very close to the estimates it
7 provided previously, decreasing slightly from \$906,403,000 to \$906,254,000. However,
8 the portion of the cost estimates that FPL projected to be related to capital expenditures,
9 which offset the costs for which FPL is requesting to recovery through the storm reserve,
10 has increased from the original estimated amount of \$63,855,000 to \$66,819,000, an
11 increase of \$2,964,000. On Exhibit __ (DD-1), I have reflected this additional \$2,964,000
12 offset to the 2005 storm recovery costs to reflect the fact that a higher portion is now
13 anticipated to be capital related, which would not be recovered from the storm reserve.

14
15 Offset for Proceeds Received for Loan of Personnel & Equipment

16 Q. DID FPL RECEIVE ANY AMOUNTS DURING 2005 FOR ASSISTING OTHER
17 UTILITIES IN THEIR STORM RECOVERY EFFORTS?

18 A. Yes. During 2005, FPL billed \$9,095,845 for the loan of company personnel and
19 equipment to other power companies for storm restoration activities. According to the
20 response to OPC Interrogatory No. 156, the amount charged consisted of: "...Base
21 Payroll \$2,080,517; Overtime Payroll \$3,300,152; Bonuses \$0; Travel and Other
22 \$2,227,252; Materials \$75,819; Vehicle \$659,404 and Administrative & General
23 Expenses \$752,701."

24

1 Q. HOW DOES THE AMOUNT BILLED BY FPL FOR ASSISTING OTHER UTILITIES
2 IN 2005 COMPARE TO PRIOR YEARS?

3 A. It is considerably higher. According to the response to OPC Interrogatory No. 157, FPL
4 received \$3.0 million in 2002, \$5.0 million in 2003, and \$0 in 2004 from other power
5 companies for the loan of employees and equipment for storm restoration efforts. FPL
6 included \$0 in revenues its recent rate case filing, Dkt. No. 050045-EI for
7 reimbursements from other utilities for assistance with storm restoration efforts, thus,
8 none of the reimbursements are reflected in base rates.

9

10 Q. ARE ANY OF THE COSTS INCURRED BY FPL FOR WHICH IT IS RECOVERING
11 FROM OTHER POWER COMPANIES INCORPORATED INTO BASE RATES
12 CHARGED TO FLORIDA RETAIL CUSTOMERS?

13 A. Yes. The majority of the costs incurred by FPL in assisting other utilities would be
14 included in costs recovered from FPL's Florida retail customers in base rates. Employee
15 labor costs, vehicle costs and administrative and general expenses incurred by FPL are
16 factored into the rate setting process and are thus part of base utility rates.

17

18 Q. SHOULD THE 2005 STORM RECOVERY COSTS INCURRED BY FPL BE OFFSET
19 BY THE PROCEEDS IT RECEIVES FROM OTHER UTILITIES FOR ASSISTING IN
20 RESTORATION EFFORTS?

21 A. Yes, the majority of the proceeds received by FPL for assisting other utilities in storm
22 recovery efforts should be reflected as an offset to FPL's storm restoration costs;
23 otherwise, FPL would recover such costs twice. It would recover the costs through base
24 rates charged to the Florida retail customers and again through the reimbursement of the
25 costs from the other utilities. The 2005 storm recovery costs requested by FPL to be

1 charged against the storm reserve in this case include substantial amounts for payments to
2 other utilities that assisted FPL in its restoration efforts. These are reasonable and
3 prudent costs that assist to expedite the storm recovery process. While I agree that it is
4 both a good business decision and good citizenship for FPL to provide assistance to other
5 utilities when it can in the other utilities' storm recovery efforts, such assistance should
6 not result in a profitable venture, particularly when FPL's customers are paying the
7 salaries and costs of the FPL employees who assist the other utilities. As the substantial
8 amounts incurred for the reimbursement to other utilities by FPL in the 2005 storm
9 recovery efforts are included in the amount requested to be charged against the reserve,
10 the reimbursements received by FPL from other utilities for providing similar assistance
11 should be reflected as an offset to the storm reserve costs.

12
13 Q. WHAT AMOUNT ARE YOU RECOMMENDING AS AN OFFSET TO THE STORM
14 RECOVERY COSTS FOR THE REIMBURSEMENTS CHARGED BY FPL IN 2005?

15 A. As shown on Exhibit__(DD-1), I recommend that the 2005 storm recovery costs be offset
16 by \$6,868,593. This is the amount billed by FPL to other utilities for the recovery
17 assistance of \$9,095,845, less the amounts pertaining to travel and other of \$2,227,252.
18 The costs incurred by FPL's employee to travel to the locations to assist in the recovery
19 efforts would not have been considered in determining base rates; however, the other
20 types of costs incurred would have been factored into the base rate determination.

21
22 RECOMMENDATIONS OF OPC WITNESS BYERLEY

23 Q. ARE THERE ANY ADDITIONAL ADJUSTMENTS TO THE PROPOSED 2005
24 STORM RECOVERY COSTS THAT NEED TO BE REFLECTED?

1 A. Yes. In the final section of adjustments on Exhibit__(DD-1), page 1, I provided the
2 impact on the 2005 storm restoration costs of the recommendations of OPC witness
3 James Byerley.

4
5 Q. PLEASE DISCUSS THE ADJUSTMENT FOR THE CONSERVATION-CORBETT
6 500~~MW~~^{KV} LINE.

7 A. OPC witness Byerley raises several prudence issues with regards to the Conservation-
8 Corbett 500~~MW~~^{KV} line in his prefiled testimony. FPL's projected total 2005 storm
9 restoration costs include \$10,411,000 for this project, which it then removes from the
10 2005 storm restoration costs for which it is seeking recovery in this case as part of its
11 capital cost offset. As a result of his recommendation, I removed the project costs from
12 both the total projected storm restoration costs and from the capital cost offset. The net
13 impact of these to adjustments on the 2005 Storm Recovery Costs to be included in the
14 proposed storm financing is \$0. However, if this adjustment to reduce the capital costs
15 by \$10,411,000 is not specifically reflected and identified, then the costs will be included
16 in the plant in service on FPL's books and recovered from ratepayers in the future.
17 Consequently, the order resulting from this case should specifically indicate that these
18 costs are being disallowed and should not be included in plant in service; otherwise,
19 ratepayers will pay for these costs, which the OPC believes to be imprudent, beginning
20 with the next FPL rate case.

21
22 Q. WHAT ADDITIONAL ADJUSTMENTS HAVE YOU REFLECTED ON
23 EXHIBIT__(DD-1), PAGE 1, FOR THE RECOMMENDATIONS SPONSORED BY
24 JAMES BYERLEY?

1 A. Mr. Byerley has recommended several adjustments associated with FPL's failure to
2 conduct an adequate pole inspection program, resulting in a higher level of pole and
3 conductor replacements from the storm than would otherwise be the case. Mr. Byerley is
4 recommending a pole replacement disallowance of \$12,000,000 and a conductor
5 replacement disallowance of \$10,600,000 as a result of the inadequate pole inspection
6 program. On Exhibit__(DD-1), I reduce the 2005 storm replacement costs by
7 \$12,000,000 and \$10,600,000, for the pole and conductor replacements, respectively.
8 Additionally, as Mr. Byerley has estimated that the capital related costs would be
9 approximately 25% of the total amount, I reduce the capital offset to the 2005 storm
10 related costs by \$3,000,000 for the pole replacement costs ($\$12\text{M} \times 25\%$) and \$2,650,000
11 for the conductor replacements ($\$10.6\text{M} \times 25\%$). Additionally, plant in service should be
12 reduced by these same amounts to ensure that ratepayers are not charged for these costs
13 at the time of the next rate case.

14
15 Mr. Byerley is also recommending several adjustments associated with FPL's failure to
16 conduct an adequate tree trimming program, resulting in excessive pole failures and
17 conductor replacements as a result of the 2005 storms. Mr. Byerley is recommending a
18 pole replacement disallowance of \$6,040,000 and a conductor replacement disallowance
19 of \$5,310,000 as a result of the inadequate tree trimming program. On Exhibit__(DD-1),
20 I reduce the 2005 storm replacement costs by \$6,040,000 and \$5,310,000, for the pole
21 and conductor replacements, respectively. Additionally, as Mr. Byerley has estimated
22 that the capital related costs would be approximately 25% of the total amount, I reduce
23 the capital offset to the 2005 storm related costs by \$1,510,000 for the pole replacement
24 costs ($\$6.04\text{M} \times 25\%$) and \$1,327,500 for the conductor replacements ($\$5.31\text{M} \times 25\%$).

1 Additionally, plant in service should be reduced by these same amounts to ensure that
2 ratepayers are not charged for these costs at the time of the next rate case.

3

4 2004 STORM RECOVERY COSTS

5 Q. THE COMPANY'S FILING SHOWS \$213,307,000 FOR UNRECOVERED 2004
6 STORM-RECOVERY COSTS AS OF JULY 31, 2006. COULD YOU PLEASE
7 DISCUSS THIS AMOUNT?

8 A. Yes. Exhibit KMD-3, attached to the direct testimony of FPL witness K. Michael Davis,
9 shows the beginning 2004 storm recovery cost deficiency balance of \$441,991,000. This
10 amount is based on Order No. PSC-05-0937-FOF-EI - the final decision in the 2004
11 Storm Restoration Cost case. The amount is based on the Commission adjusted amount
12 to be charged against the storm reserve and considered in the surcharge determination of
13 \$798,100,000 on a total system basis and \$794,309,025 on a jurisdictional basis less the
14 then existing balance in the storm reserve balance, resulting in the net deficiency balance
15 of \$441,991,000. Mr. Davis' exhibit then shows the estimated recoveries of the
16 deficiency balance through July 31, 2006, resulting in a 2004 storm-recovery cost
17 deficiency as of July 31, 2006 of \$212,024,000. This amount is then adjusted on Mr.
18 Davis' exhibit to reflect the following adjustments: 1) addition of a \$21,597,000 (\$21.7
19 million system) Commission approved adjustment to the 2004 storm recovery cost
20 amount not recovered through the surcharge; 2) the 2005 storm accrual recovered in base
21 rates; and 3) a slight deduction to the reserve for fund earnings through September 2005.
22 The end result is projected unrecovered 2004 storm recovery costs as of July 31, 2006 of
23 \$213,307,000. FPL proposes to include this amount in the total storm-related costs to be
24 recovered through the storm-recovery financing.

1

2 Q. WOULD YOU PLEASE DISCUSS THE \$21,597,000 ADDITION TO THE AMOUNTS
3 APPROVED FOR RECOVERY THROUGH THE SURCHARGE IN ORDER NO.
4 PSC-05-0937-FOF-EI MADE ON MR. DAVIS' EXHIBIT?

5 A. Yes. Order No. PSC-05-0937-FOF-EI included a \$21,700,000 (\$21,597,000
6 jurisdictional) reduction to FPL's requested 2004 storm damage recovery costs identified
7 as "Contributions in Aid of Construction." The order indicates that these costs are not
8 actually "Contributions in Aid of Construction." Page 20 of the order indicates the \$21.7
9 million is included as storm restoration costs, but not restoration costs included in the
10 surcharge approved in that docket. In other words, the Order ultimately resulted in the
11 addition of the \$21.7 million to the allowed charges to the storm reserve for future
12 recovery, but was not factored into the determination of the surcharge allowed for in that
13 case. FPL witness Davis' testimony in this case, at page 12, indicates that the
14 Commission approved the \$21.7 million adjustment to increase the storm costs contained
15 in the order. Once this \$21.7 million allowed to be reflected as a charge to the storm
16 reserve for recovery is factored in, the net amount that effectively was approved for
17 recovery in the 2004 Storm Cost Recovery Order is \$819,800,000 (\$798,100,000 +
18 \$21,700,000).

19

20 Q. WERE ALL OF THE 2004 STORM RECOVERY COSTS INCLUDED IN THE 2004
21 STORM COST RECOVERY ORDER BASED ON ACTUAL AMOUNTS?

22 A. No, a large portion of the costs were based on estimates. Page 22 of the 2004 Storm Cost
23 Recovery Order shows the beginning point in the calculation as total FPL estimated 2004
24 storm damage costs of \$999,000,000 less anticipated insurance reimbursements of
25 \$109,000,000, resulting in net estimated 2004 storm damage costs of \$890,000,000. This

1 is prior to Commission adjustments to reflect the incremental approach, less lost
2 revenues, and the removal of capital costs.

3
4 Q. DID THE ORDER INDICATE IF THERE WOULD BE A TRUE-UP OF THE COSTS
5 TO ACTUAL COSTS?

6 A. Yes. Page 37 of the Order states as follows:

7 Within 70 days after the conclusion of this recovery period, FPL shall file the
8 final actual 2004 storm damage costs and the total amount collected through the
9 surcharge during the recovery period. FPL's filing should also include a proposed
10 method for addressing any final over- or under-recovery. While we believe that
11 FPL witness Morley's proposal to refund any over-recovery as a one-time refund
12 appears reasonable, we will make a determination of the appropriate final
13 disposition of any over- or under-recovery when the total amount is known.
14

15 In the current case, FPL is proposing that the recovery period approved in that order not
16 be completed. Rather, FPL's proposal is that the projected remaining unrecovered
17 balance as of July 31, 2006 be rolled-into the proposed storm recovery financing in this
18 case, which would then be recovered from customers over a twelve year period. The
19 amount presented by FPL to be rolled-in is based on the original 2004 storm recovery
20 cost estimates presented in the 2004 Storm Cost Recovery case, not an amount that has
21 been trued-up to reflect actual costs.

22
23 Q. IN YOUR OPINION, DOES THIS PRESENT A PROBLEM?

24 A. Yes. Based on responses to OPC interrogatories and Requests for Production of
25 Documents, FPL has incurred less in 2004 storm recovery costs than it projected at the
26 time of the 2004 Storm Cost Recovery case. If the remaining 2004 Storm Recovery
27 Costs are not reduced to reflect the fact that actual costs have been lower than projected,
28 the result will be an inflated amount being recovered via the storm recovery bonds and
29 being charged to ratepayers.

1
2 In his direct testimony, FPL witness J. Michael Davis indicates that the Company
3 proposes to true-up the estimate of unrecovered 2004 storm recovery costs as the
4 amounts in the existing surcharge is based on "...an estimate for identified projects that
5 were not yet completed." (page 13) He indicates that the actual costs for the projects
6 may be more or less than what was estimated. At page 14 of his testimony, he states that
7 "Therefore, FPL proposes that once these projects are completed, if the actual amount is
8 lower than the estimated amount, the difference would be credited to the Reserve." He
9 also states that if the actual amount is higher, the difference would be charged to the
10 reserve. The problem with this proposal is that it will result in higher amounts being
11 included in the proposed storm recovery financing, which will be charged to ratepayers
12 over the next twelve years. As addressed previously in this testimony, it is not
13 appropriate to inflate the amounts to be recovered under the premise that the difference
14 will just result in a higher available reserve balance as the result is a higher cost to
15 ratepayers over the next twelve years if FPL's financing proposal is adopted.

16
17 Q. HOW DO THE ACTUAL AND CURRENT PROJECTIONS OF 2004 STORM
18 RECOVERY COSTS COMPARE TO THE AMOUNTS USED IN ESTIMATING THE
19 COSTS IN THE PRIOR CASE?

20 A. In response to OPC Interrogatory No. 108, FPL indicates that the actual 2004 storm
21 recovery costs incurred through January 31, 2006, net of insurance proceeds and capital
22 costs, are \$775,345,096. The response did not provide the amounts that have actually
23 been capitalized for comparison to the estimated \$58 million identified in the order. It
24 also did not provide the amount of insurance proceeds received to compare then to the
25 \$109,000,000 estimated in the 2004 Storm Recovery case. Consequently, based on the

1 information provided, it is not possible to compare the actual amounts incurred to the
2 estimated total costs assumed in the 2004 Storm Recovery Cost Order of \$999 million.

3
4 The response then lists an additional \$22,754,904 of accruals for estimated remaining
5 costs, resulting in actual and estimated remaining costs of \$798,100,000. Again, these
6 amounts are net of insurance proceeds and capital costs. The amounts equal the
7 \$798,100,000 recorded in Account 186.180, which is the regulatory asset account set up
8 for the 2004 storm recovery costs. The \$798,100,000 also happens to equal the
9 Commission adjusted net recovery costs approved by the Commission in the 2004 Storm
10 Recovery Order. As previously discussed, the \$798,100,000 was based on total projected
11 costs of \$999 million, reduced by \$109 million of projected insurance proceeds and the
12 Commission's capital related adjustments.

13
14 Q. SINCE THE ACTUAL COSTS INCURRED THROUGH JANUARY 31, 2006 PLUS
15 THE PROJECTED REMAINING ACCRUALS PRESENTED BY FPL EQUAL THE
16 \$798,100,000 FROM THE 2004 STORM RECOVERY COST ORDER, WHY DID
17 YOU INDICATE THAT FPL HAS INCURRED LESS THAN IT PROJECTED IN
18 THAT CASE?

19 A. One must remember that subsequent to the Final Agenda and prior to the issuance of the
20 2004 Storm Recovery Cost Order, the Commission allowed FPL to increase the charges
21 to the storm reserve to allow future recovery of an additional \$21.7 million. As
22 previously indicated, once this \$21.7 million adjustment is reflected, the net amount that
23 effectively was approved for recovery in the 2004 Storm Cost Recovery Order would be
24 \$819,800,000 (\$798,100,000 + \$21,700,000), not \$798,100,000. Thus, based on the net
25 of insurance and capital costs actually incurred by FPL through January 31, 2006 and

1 projected to still be incurred of \$798,100,000, the amount of 2004 storm recovery costs to
2 be recovered by FPL as part of its proposed storm recovery financing should be reduced
3 by at least \$21,700,000. FPL does not project to incur the net of insurance and capital
4 costs of \$819,800,000 effectively allowed for by the Commission.

5
6 Q. ARE YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS TO THE
7 AMOUNT OF UNRECOVERED 2004 STORM RESTORATION COSTS BEING
8 ADDED BY FPL TO ITS PROPOSED STORM RECOVERY FINANCING?

9 A. Yes, I am recommending two additional adjustments. The first adjustment removes what
10 FPL has identified as "Claims Outstanding & Pending Lawsuits." According to the
11 response to OPC Interrogatory No. 108, as of July 31, 2005, the estimated 2004 storm
12 recovery costs included \$2,664,038 for estimated claims outstanding & pending lawsuits
13 associated with Hurricanes Frances and Jeanne. As of January 31, 2006, the estimated
14 pending lawsuits included were \$1.15 million. Presumably, the prior estimated amounts
15 were incurred and recorded in the actual 2005 storm recovery costs by FPL. I
16 recommend that the 2004 storm recovery costs be reduced by \$2,664,038 at this time. If
17 a subsequent audit of the costs shows a higher level of lawsuits and legal claims included
18 in the 2004 storm recovery costs, then the additional amounts should also be removed at
19 that time. These are not costs directly related to the storm recovery efforts and should not
20 be included in the costs to be recovered. They also were not presented as outstanding
21 storm related costs at the time of the prior case. Additionally, these types of costs are
22 already considered in the determination of base rates.

23
24 Q. WHAT IS THE SECOND ADJUSTMENT YOU ARE RECOMMENDING?

1 A. The second adjustment removes estimated amounts FPL has included in the projected
2 remaining 2004 storm recovery costs for "Various Nuclear Storm Damages," totaling
3 \$21,467,915 of estimated additional costs as of January 31, 2006. The response to OPC
4 Interrogatory No. 108 indicates that the costs "Represents a conservative estimate for
5 work yet to be completed, which may change based on the final resolution of insurance
6 recoveries." These estimated future costs should not be included as part of the 2004
7 storm recovery costs and should be removed from the amounts reflected in FPL's
8 proposed storm financing in this case. Again, these are estimated amounts, which may be
9 offset by insurance recoveries.

10
11 Q. HAS FPL PROVIDED ADDITIONAL INFORMATION REGARDING WHAT IS
12 INCLUDED IN THE ADDITIONAL ESTIMATED NUCLEAR DAMAGE COSTS OF
13 \$21.5 MILLION?

14 A. FPL has provided some additional information; however, the information provided does
15 not equate to the additional \$21.5 million of accruals identified in the response to OPC
16 Interrogatory No 108. FPL's response to OPC POD 78 provided additional information
17 regarding the remaining estimated 2004 storm recovery costs. As previously mentioned,
18 FPL's response to OPC Interrogatory No. 108 identified \$22,755,000 of accrued 2004
19 storm recovery costs and \$775,345,096 of actual (net of insurance and capital costs) as of
20 January 31, 2006. Based on the response to OPC POD 78 (Bates No. 103922), the
21 estimated remaining costs to be incurred include \$21 million of costs associated with St
22 Lucie nuclear plant intake canal restoration that were not previously estimated. These
23 appear to be costs beyond those that were presented in the prior case, and estimated after
24 July 31, 2005.

25

1 Q. WHAT IS THE RELEVANCE OF THE JULY 31, 2005 DATE?

2 A. In the order in the 2004 Storm Restoration Cost case, Order No. PSC-05-0937-FOF-EI,
3 the Commission established the cut-off date for charging costs to the storm reserve for
4 2004 storm related restoration work of no later than July 31, 2005. One of the Ordering
5 paragraphs stated: "ORDERED that FPL shall cease charging costs to its storm reserve
6 no later than July 31, 2005, for restoration work related to the 2004 storm season."

7 Based on the response to OPC POD 78 (Bates No. 103922) it appears that costs now
8 being added for the intake canal restoration were estimated after the July 31, 2005 cut-off
9 date. Additionally, in response to OPC Interrogatory No. 107, FPL provided an exhibit
10 from Company witness Geisha William's rebuttal testimony in the 2004 storm recovery
11 cost case (Dkt. No. 041291-EI) which listed estimated remaining projects included in the
12 2004 storm recovery cost estimates that were not completed as of December 31, 2004 and
13 were greater than \$100,000. The additional estimated "various nuclear storm damages,"
14 and the Intake Canal project for St. Lucie nuclear plant were not listed in that document
15 as an outstanding estimated project in that case.

16

17 The transcripts in that prior case, at page 484, addresses Staff's audit report associated
18 with the 2004 storm cost estimates and the projected St. Lucie nuclear plant damages in
19 particular. This consists of a page of testimony from Staff witness Iliana H. Piedra and
20 specifically states, at page 484, "The insurance company is expected to reimburse FPL
21 for all the St. Lucie nuclear plant damage except for its deductible of \$2,000,000 and
22 storm preparation expenses of \$9,280,311." The testimony also states that the deductible
23 and storm preparation costs for St. Lucie nuclear plant were included in the storm
24 restoration costs FPL was seeking, and the remaining costs were removed from the storm
25 costs estimates. The additional \$21,467,915 identified by FPL as part of the currently

1 remaining estimated 2004 Storm Recovery Costs for “Various Nuclear Storm Damages”
2 in response to OPC Interrogatory No. 108 does not appear to have been identified in the
3 prior docket as costs that would not be recovered through insurance.

4
5 Q. ARE THERE ANY ADDITIONAL REASONS THAT THESE REMAINING
6 ESTIMATED COSTS SHOULD NOT BE FACTORED IN TO THE STORM
7 FINANCING REQUESTED BY FPL IN THIS CASE?

8 A. Yes. As previously mentioned, these costs appear to have been identified and estimated
9 after the July 31, 2005 cut-off date identified in Order No. 05-0937-FOF-EI. They also
10 do not appear to have been identified as a projected 2004 storm related cost in that
11 docket. In addition, the response to OPC POD 78 (Bates No. 103922) in discussing the
12 intake canal project states that “No pre-hurricane assessments are available. As such,
13 isolating hurricane damage from possible dredging damage and normal operational
14 degradation is virtually impossible.” The storm recovery costs should include only those
15 extraordinary costs that result from the hurricanes. Based on the description of the intake
16 canal project, this may also be considered a capital cost as opposed to expense. There is
17 also the question of whether or not these costs will be covered by insurance. The
18 response to Interrogatory No. 108 indicates that the estimated nuclear storm damage cost
19 may change based on the final resolution of insurance recoveries. At this point, the
20 additional estimated amounts FPL is including in the 2004 storm restoration costs for
21 “various nuclear storm damages”, which have not been incurred and were not identified
22 in the prior case, should not be included in the determination of the proposed storm
23 financing amount.

24

1 Q. UNDER THE 2005 STORM RESTORATION COST ADJUSTMENTS, YOU
2 ADDRESSED OFFSETS FOR PROCEEDS FROM JOINT USE POLES. IS THIS
3 ALSO AN ISSUE WITH REGARDS TO THE 2004 STORM RECOVERY COSTS?

4 A. Yes. As previously indicated, the 2004 storm recovery costs also have not been reduced
5 for the amount to be recovered from outside parties for FPL's repair and replacement of
6 the poles owned by other parties. In Late Filed Exhibit No. 2 to the deposition of FPL
7 witness Geisha Williams, FPL provided the estimate of its cost to replace poles owned by
8 other parties as a result of the 2004 storms of \$7,419,810. Consequently, I recommend
9 that the 2004 storm recovery costs be offset by \$5,564,858 at this time for purposes of
10 determining the amount of storm recovery financing. This is based on the estimated
11 reimbursement amounts provided by FPL in Late Filed Exhibit No. 2, identified above,
12 times 75%, assuming that approximately 25% of the costs are related to capital costs.
13 Similar to my previous recommendation with regards to the 2005 storm recovery cost
14 offset for Joint Use poles, I recommend that a review be conducted to ensure that FPL is
15 billing outside parties for the full cost it incurred to repair and replace the poles owned by
16 the outside parties.

17

18 Q. HAVE YOU PREPARED A SUMMARY EXHIBIT SHOWING YOUR
19 RECOMMENDATIONS WITH REGARDS TO THE REMAINING 2004 STORM
20 RECOVERY COSTS FPL IS SEEKING TO RECOVER AS PART OF ITS STORM
21 FINANCING IN THIS CASE?

22 A. Yes. Exhibit__(DD-2) provides a listing of each of the adjustments I am recommending
23 to the 2004 storm restoration costs, each of which are discussed above. As shown on
24 Exhibit__(DD-2), the remaining 2004 storm restoration costs for which FPL is seeking
25 recovery as part of the storm refinancing should be reduced by \$51,396,811.

1

2 2005 STORM RECOVERY COST CUT-OFF DATE

3 Q. DID THE 2004 STORM RECOVERY COST ORDER ESTABLISH A CUT-OFF DATE
4 FOR CHARGES TO THE STORM RESERVE?

5 A. Yes. At page 22 of Order No. PSC-05-0937-FOF-EI, the Commission stated: "...we
6 find that FPL shall stop charging costs to the storm reserve no later than July 31, 2005,
7 for restoration work related to the 2004 storm season."

8

9 Q. WERE ALL OF THE COSTS CHARGED TO FPL TO THE RESERVE FOR 2004
10 STORM RECOVERY EFFORTS AS OF THE JULY 31, 2005 CUT-OFF DATE
11 ACTUAL, KNOWN AMOUNTS?

12 A. No. FPL accrued additional amounts on its books as of July 31, 2005 resulting in the
13 actual and estimated amounts equaling the amount approved by the Commission in Order
14 No. PSC-05-0937-FOF-EI. In response to OPC Interrogatory No. 108, FPL stated as
15 follows:

16 As ordered in the 2004 Storm cost Recovery Order (PSC-05-0937-FOF-EI), the
17 cut-off point to stop charging costs to the storm reserve was July 31, 2005.
18 Therefore, FPL assumes that the "True-up estimate of unrecovered 2004 storm-
19 recovery costs" is referencing the remaining work to be completed for 2004 storm
20 damages as of July 31, 2005. Estimates for this remaining work as of July 31,
21 2005 can be found on page 1 of Attachment 1. These costs were accrued on
22 FPL's books as of July 31, 2005 and recorded in Account 186.180, Miscellaneous
23 Deferred Debits, which is specific to the accumulation of 2005 storm costs..."
24

25 As previously indicated under the discussion of 2004 storm restoration costs, the
26 Company has included estimated costs in its accruals for projects that were not even
27 identified in the 2004 Storm Restoration case. Apparently, FPL considers its accrual of
28 estimated possible future 2004 storm recovery costs as appropriate for meeting the cut-off

1 date cited in the prior order, even though the projects had not begun and were not
2 identified in the prior proceedings.

3

4 Q. SHOULD A CUT-OFF DATE ASSOCIATED WITH THE 2005 STORM RECOVERY
5 EFFORTS ALSO BE ADOPTED IN THIS CASE?

6 A. Yes. In response to OPC Interrogatory No. 34, FPL indicates that most restoration work
7 is expected to be completed by year end 2006, with a few exceptions. I recommend a
8 cut-off date for charging 2005 storm restoration costs to the reserve of December 31,
9 2006. It is not appropriate to allow an indefinite period for charging costs associated with
10 the 2005 storms to the reserve. I also recommend that some additional firm parameters
11 be set.

12

13 Q. WHAT ADDITIONAL PARAMETERS SHOULD BE SET WITH REGARDS TO THE
14 RECOMMENDED CUT-OFF DATE?

15 A. For any amounts that are not based on actual expenditures as of the December 31, 2006
16 recommended cut-off date, the items contained in any accruals should be specifically
17 limited to those projects that were specifically identified as part of this case and the
18 projects should actually be started by December 31, 2006. In response to OPC
19 Interrogatory No. 113, the Company provided a listing of remaining 2005 storm
20 restoration projects outstanding as of January 31, 2006, along with estimated project start
21 and completion dates. Costs for projects beyond what is incorporated in this listing
22 should not be included in any accruals to the 2005 storm reserve as of December 31,
23 2006. As a large portion of the 2005 storm recovery costs that FPL is seeking for
24 inclusion in the storm financing are still based on estimated amounts, this limitation

1 should help to mitigate any potential pressures to seek out additional projects to somehow
2 tie to the 2005 storms in order to result in a certain final cost level.

3

4 Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?

5 A. Yes, it does.

1 BY MR. BECK:

2 Q Ms. DeRonne, have you prepared a summary of
3 your testimony?

4 A I would like to give a brief summary.

5 Q If you would, please.

6 A The purpose of my testimony, there are several
7 areas within my testimony, and within the first area I
8 address the 2005 storm restoration costs that OPC
9 recommends for recovery in this case based on the
10 incremental approach.

11 Mr. Larkin sponsors the testimony with regards
12 to the incremental approach and why that approach should
13 be used. And within my testimony, I present the dollar
14 amounts that are necessary to do that, to reflect the
15 incremental approach.

16 Under that -- under the incremental approach,
17 there's really two categories of adjustments which are
18 presented on my Exhibit DD-1 which is the exhibit, I
19 believe Beck said, 85.

20 The first group of categories of adjustments
21 are payroll related. These are removing the base
22 salaries that are already reflected in base rates. Not
23 the overtime. We did not remove the overtime salaries,
24 just the base salaries. That was also offset by amounts
25 that would have normally been recovered through the fuel

1 clause and other clauses in addition to capital costs,
2 you know, the amounts that would have normally been
3 charged to capital costs. Those were used to offset
4 that payroll reduction. And those amounts were provided
5 by the company in response to OPC 30.

6 In OPC data request 30, we had asked the
7 company to provide the calculation of the '05 storm
8 recovery costs under the incremental approach as
9 approved by the Commission in the prior rate case -- or
10 I'm sorry, the prior storm case. And that was the
11 starting point for our adjustments, was were the amounts
12 presented by that company within that response.

13 We also removed some -- or I removed some
14 other payroll related adjustments for employee benefit
15 type cost, medical insurance type costs that would
16 already be recovered through base rates also.

17 The second group of adjustments under the
18 incremental approach are also presented in that exhibit.
19 And in there we remove the tree trimming related costs
20 by which FPL was under its budgeted amount for that
21 period. That's a \$1.1 million dollar reduction. We
22 also remove fleet vehicle costs, the amounts that FPL
23 provided to us that are amounts that are factored into
24 base rates and that would already be recovered through
25 base rates.

1 And I also do a reduction for
2 telecommunications expense for the fact that the company
3 was under budget in that area. But yet there was still
4 significant amounts charged to the storm reserve in that
5 area so we reduce it by the amounts they were
6 underbudget during the year.

7 The third group of adjustments under the
8 '05 -- for the '05 storm recovery costs relate to other
9 specific recommended adjustments by OPC which goes -- is
10 not related to the incremental approach but should be
11 made regardless of which approach is followed.

12 This includes items such as removing some
13 items that would be recovered under warranty for the
14 company, some items that should be recorded as capital
15 costs instead. I also remove costs such as advertising
16 costs, and property damages and personal injury cost is
17 not -- costs that shouldn't be recovered through this
18 mechanism and aren't directly related to -- to restoring
19 the system.

20 Another item in this category that we adjusted
21 is we included an offset for amounts that will be
22 received from third parties for joint use poles. As
23 part of the restoration activities, the company did do
24 some repairs and replacements of poles owned by third
25 parties. And we made an adjustment to reduce the amount

1 to be collected in this case to acknowledge the fact
2 that they will receive amounts from third parties for
3 part of those poles.

4 Additionally, I recommend that there be an
5 offset for proceeds received by Florida Power & Light
6 during 2005 for its employees assisting other utilities
7 for restorations of their systems. There's a
8 significant amount in this case related to payments to
9 other utilities for assisting FPL, and we agree that
10 those were prudently incurred costs and it was
11 definitely the right decision to utilize those foreign
12 crews.

13 Likewise, during the same period FPL sent some
14 of its crews to other utilities to assist them with
15 their recovery efforts. And the base salary and a lot
16 of the costs for those employees to go are already
17 factored into base rates. Its customers are paying
18 those base salaries for those employees and their
19 benefit cost and the vehicle related expenditures.

20 So there should be an offset to these costs
21 for those amounts received. They're already recovered
22 in base rates. Otherwise they're being recovered twice,
23 ones from the outside company and again through base
24 rates. So I feel it's appropriate to offset the amounts
25 being requested to recover in this case for those

1 amounts.

2 The next group of adjustments we're
3 recommending for 2005 storm costs pertain to the
4 recommendations of witness Byerley, and I reflect the
5 impact of his various recommendations within my exhibit.

6 And then within my exhibit I also address some
7 recommended adjustment to the remaining 2004 storm costs
8 that the company has not yet fully recovered. Really
9 there's four areas of judgments I'm recommending
10 there. The first one is I recommend that amounts
11 21.7 million that pertains to the accounting adjustment
12 that was discussed earlier by Mr. Davis, we didn't
13 contest the way it was accounted for by the company
14 under the order. I do believe they followed what was
15 directed in that order. The company has not showed
16 they've actually expended those amounts and you should
17 not fail to recover the amounts if they haven't actually
18 expended them for the storm recovery efforts.

19 In addition, there's other areas where the
20 companies under the projected expenditures for those
21 '04 storms compared to what was allowed for in that
22 case. There's various amounts, for example, the nuclear
23 storm damages. They haven't -- these are amounts that
24 shouldn't be included for that '04 recovery and they
25 haven't been extended -- expended yet. And I cite

1 variation reasons that those shouldn't be included
2 within my testimony.

3 And additionally for 2004, similarly is what I
4 recommended for 2005. The amounts to be reimbursed from
5 third parties for those joint-owned poles and for poles
6 owned by outside parties should also be removed
7 resulting in a recommended reduction to the 2004 storm
8 restoration costs that haven't been recovered to this
9 point of \$51.4 million. And that summarizes my
10 testimony.

11 MR. BECK: Thank you, Ms. DeRonne.

12 Ms. DeRonne is available for cross-examination.

13 CHAIRMAN EDGAR: Thank you. Is there cross
14 from any of the intervenors? No? No? No?
15 Mr. Twomey, cross?

16 MR. TWOMEY: No, ma'am.

17 CHAIRMAN EDGAR: Thank you. Questions from
18 staff?

19 MS. GERVASI: Staff has no questions.

20 MR. ANDERSON: Thank you, Chairman Edgar.

21 CROSS-EXAMINATION

22 BY MR. ANDERSON:

23 **Q** Good evening, Ms. DeRonne.

24 **A** Good evening.

25 **Q** We've spoken before; is that right?

1 **A** Yes, at the deposition.

2 **Q** Right. I'd like to start right off. You said
3 a minute ago that you're recommending disallowance of
4 the \$21.7 million dollar which is the topic of
5 Mr. Davis' testimony earlier when we talked about the
6 adjustments at the direction of the Commission, right?

7 **A** What I'm recommending is that that amount
8 hasn't actually been expended and, therefore, it should
9 not be recovered.

10 **Q** That you honed in on exactly what I wanted to
11 talk to you about. Were you here this afternoon when
12 Mr. Davis testified?

13 **A** Yes, I was.

14 **Q** Mr. Davis is the chief accounting officer of
15 Florida Power & Light Company.

16 **A** Yes, that's my understanding.

17 **Q** The chief accounting officer, Mr. Davis,
18 testified that the amounts were expended, right?

19 **A** I don't recall if he specifically said that
20 21.7 was expended.

21 **Q** Well, the transcript will show what it will
22 show. But let me ask you this. Assume, subject to
23 checking that transcript, that the chief accounting
24 officer testified that the amounts were expended. How
25 can you further dispute the correctness of that

1 recovery?

2 **A** Because that would be inconsistent with
3 information that I've seen in this case. Specifically
4 if you refer to the response to OPC Interrogatory No.
5 108, and within that response the company provided,
6 beginning on attachment 1, page 2, a December -- if you
7 look at the December 31st, 2005 balance there, it shows
8 actual --

9 **Q** Just a moment, Ms. DeRonne, I don't have that
10 in front of me, and it's very important to follow this
11 along.

12 **A** Okay.

13 **Q** If you're offering this. We don't have a copy
14 of the document that's being referred to.

15 CHAIRMAN EDGAR: We can take a moment if that
16 would be helpful.

17 MR. ANDERSON: Thank you.

18 My suggestion, because of the lateness of the
19 hour, I would ask my colleagues to find that for
20 me. And if it's all right, we could come back.
21 I'd like Ms. DeRonne to have an opportunity to say
22 what she has to say. But I had 15 made and they're
23 sitting here someplace.

24 CHAIRMAN EDGAR: So are you saying you would
25 like to move on to other questions --

1 MR. ANDERSON: Right, and come back.

2 CHAIRMAN EDGAR: -- and come back to this one?

3 MR. ANDERSON: Right.

4 CHAIRMAN EDGAR: That's fine.

5 MR. BECK: Madam Chair?

6 CHAIRMAN EDGAR: Mr. Beck?

7 MR. BECK: I have copies of interrogatory --

8 MR. ANDERSON: Do you? Thank you. That would
9 be of great assistance.

10 MR. BECK: We've even marked them as a
11 cross-examination exhibit for you.

12 MR. ANDERSON: Such a deal. Thank you.

13 CHAIRMAN EDGAR: I am showing 155. Gentlemen,
14 the title? Mr. Anderson, a title?

15 MR. ANDERSON: The title of this would be "FPL
16 Response to OPC Interrogatory No. 108."

17 (Exhibit 155 marked for identification.)

18 CHAIRMAN EDGAR: I'm ready when you are.

19 MS. DeRONNE: Should I continue with my
20 response now that you have that?

21 BY MR. ANDERSON:

22 Q That will be fine?

23 A Okay. If you look on attachment 1, page 2 of
24 2, it shows a December 31st, 2005 actual amount expended
25 of \$775,199,451. And if you look at the asterisk at the

1 bottom that explains that amount, it specifically said,
2 "amount shown are net of insurance proceeds and capital
3 costs."

4 Therefore, the actual expenditures as of --
5 well, you can take either of those dates -- but
6 December 31st, '05 since that's at the top, that
7 775 million is already net of insurance proceeds and net
8 of capital costs. And to that amount the company lists
9 various accruals. These are amounts that have not yet
10 been expended yet.

11 But accruals to total -- a total amount of
12 expenditures which would exclude insurance procedures
13 and capital costs of \$798,100,000. If you then go to
14 the decision in the prior case, which is order No. PSC
15 050937-FOF-EI issued September 21st, 2005, that 798,
16 100,000 ties into the adjusted amount approved by the
17 Commission for recovery through the surcharge in the
18 last case of the \$798,100,000.

19 And then there's another adjustment within
20 that case. The Commission had approved that that
21 \$21.7 million not be recovered through the surcharge
22 because I believe of the lateness of some of the record
23 in that case. The company was allowed to credit that to
24 the storm reserve but they were not allowed to recover
25 it through the surcharge approved in that case.

1 So effectively what was approved for the
2 noncapital, noninsurance-related expenditures in that
3 case would be the 798,100,000 plus the 21.7 million that
4 the company was essentially allowed future recovery of
5 but not through the surcharge.

6 When you combine those two amounts, the net
7 amount is \$819,800,000. And in the data responses in
8 this case, the company has only shown that it has
9 actually expended and projects additional accruals
10 totalling \$798,100,000. So that's why I'm recommending
11 that \$21.7 million be taken out in this case because
12 it's not projected that will be incurred.

13 **Q** Okay. I appreciate the explanation. And that
14 was your reasoning through a whole bunch of different
15 documents, right, about \$21.7 million that FPL's chief
16 accounting officer said has been expended. That's your
17 interpretation of some data, right?

18 **A** That's based on the exact wording of the data
19 responses provided by the company within this case,
20 specifically the response to question No. 108 which
21 indicates those amounts are the amounts net of insurance
22 proceeds and capital costs.

23 **Q** If the Commission applies the incremental cost
24 methodology recommended by OPC, do you believe that the
25 Commission should apply that methodology on a consistent

1 basis?

2 **A** When you say "consistent basis," do you mean
3 consistent with the methodology approved in PSC
4 050937-FOF-EI?

5 **Q** No, I mean in an internally consistent and
6 logical way.

7 **A** Yeah, there should be some specific reasons
8 for why each adjustment is made under the incremental
9 method. I know in the prior case there was offset for
10 lost revenues that we do not recommend in this case
11 which is addressed in Mr. Larkin's testimony. So that
12 would be a variance from the method approved by the
13 Commission in the prior case that the OPC feels very
14 strongly about.

15 **Q** You are familiar with the concepts of backfill
16 and catch-up work in this case, aren't you?

17 **A** Yes, those are addressed by Mr. Larkin.

18 **Q** Backfill work is the extra hours of work FPL
19 employees and contractors have to perform because FPL
20 workers are out supporting storm restoration?

21 **A** That's what the company has presented as the
22 backfill and catch-up work cost, yes.

23 **Q** Catch-up work is extra hours of work FPL
24 employees and contractors have to perform because of the
25 time taken away from regular duties to perform storm

1 restoration?

2 **A** They may be. And again, this issue was
3 addressed by Mr. Larkin within his testimony.

4 **Q** In this case, FPL has presented computations
5 of those amounts and the backfill and catch-up work
6 totals \$8.67 million; is that right?

7 **A** I'm not sure I would agree that they presented
8 computations of those amounts. They provided in
9 response to a production of document request by the OPC
10 some dollar amounts where they had requested that each
11 of their business units provide estimates. But I
12 haven't seen any backup showing how the specific amounts
13 by those business units were drafted.

14 **Q** The testimony of FPL's witnesses and its
15 exhibits show \$8.67 million in backfill and catch-up
16 work. You'll agree with me on that, right?

17 **A** Yeah. I agree that that's the amount that FPL
18 presented in this case.

19 MR. BECK: Madam Chairman, this has gone on
20 repeatedly that counsel will state what their
21 company has filed and then ask the witness if
22 that's true, that that's what the company filed,
23 and that's simply not a proper question. I'd
24 object to it.

25 CHAIRMAN EDGAR: Mr. Anderson, it's late and

1 we're all tired.

2 MR. ANDERSON: Right.

3 BY MR. ANDERSON:

4 Q In the 2004 storm cost order, isn't it true
5 the Commission stated, "We believe these costs" --
6 referring to backfill and catch-up -- could be
7 considered incremental?

8 A Let me check the exact wording. Could you
9 give me a page reference because I know in total there
10 was no adjustment to reduce or to offset for those
11 backfill amounts. If you can give me a page reference.

12 Q Page 18, first full paragraph.

13 A Yes, I believe that -- I agree that that's
14 what it says, that we believe that these costs could be
15 considered incremental. And then it goes on to say if.
16 And then it gives some qualifiers in that. But again in
17 that case they did not include that as an adjustment.

18 Q And your testimony in this case, you
19 specifically exclude incremental cost adjustments
20 proposed by FPL if we use your method for consideration,
21 if the Commission applies incremental with it?

22 A I'm sorry, could you repeat that?

23 CHAIRMAN EDGAR: It's late.

24 Q Let's pause.

25 MR. ANDERSON: And just pausing. Big picture.

1 There's considerable cross-examine for this
2 witness. It's not hours and hours, but I just want
3 to make sure it's the direction of the Commission
4 to proceed on. It's probably 45 minutes.

5 CHAIRMAN EDGAR: Okay. Mr. Anderson, my kind
6 of mental process was that we would see if there
7 was a break in about ten minutes. But if this is a
8 good breaking point, then we will break now.

9 Mr. Beck, any objection?

10 MR. BECK: No.

11 CHAIRMAN EDGAR: Okay. Then we will in just a
12 few moments go on break. I was ever hopeful that I
13 would be able to turn to the second page of
14 witnesses to begin tomorrow. But it does seem that
15 this is a good time to stop.

16 So I appreciate the cooperation of my
17 colleagues and all of our participants to help us
18 make good progress today. We will come back at --
19 and begin at nine o'clock tomorrow morning,
20 Mr. Anderson. We will begin and pick up where we
21 are stopping with you and with the witness.

22 I wish everyone a good night's sleep. Eat
23 your Wheaties, we're going to forge ahead as far as
24 we possibly can tomorrow.

25 I do not yet have a stopping time in mind. We

1 will see how far we go and we can make some
2 discussions at lunch. If we are not able to finish
3 tomorrow, we will come back at one o'clock on
4 Saturday. Are there any questions before we break?

5 MR. ANDERSON: One quick thought.

6 CHAIRMAN EDGAR: Mr. Anderson.

7 MR. ANDERSON: One brief thought and
8 suggestion. We tried to keep our witness summaries
9 quite short. Might it be an idea tomorrow to try
10 to restrain summaries, rebuttals also, to no more
11 than three-minute summaries?

12 CHAIRMAN EDGAR: I appreciate the -- we will
13 begin in the morning before we begin the
14 questioning with a reminder to both the witnesses
15 and attorneys to be concise and focused.

16 Thank you all. I wish you a good night.
17 We'll see you at nine o'clock in the morning, and
18 we are in recess.

19 (Hearing adjourned at 7:45 p.m. to reconvene
20 on Friday, April 21st, at 9:00 a.m.)

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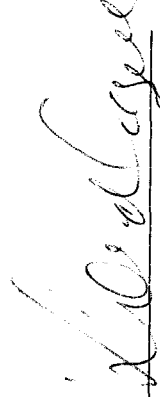
CERTIFICATE OF REPORTER

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6 COUNTY OF LEON)
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8 I, LORI DEZELL, RPR, CCR, certify that I was
9 authorized to and did stenographically report the
10 proceedings herein, and that the transcript is a true
11 and complete record of my stenographic notes.

12 I further certify that I am not a relative,
13 employee, attorney or counsel of any of the parties, nor
14 am I a relative or employee of any of the parties'
15 attorney or counsel connected with the action, nor am I
16 financially interested in the action.

17 WITNESS my hand and official seal this 21st
18 day of April, 2006.
19

20
21 

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