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August 6, 2009

-VIA HAND DELIVERY -

Ms. Ann Cole
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: In Re: Petition for increase in rates by Florida Power & Light Company
In Re: 2009 depreciation and dismantlement study by Florida Power &
Light Company
Dockets No. 080677-EI/ Docket No. 090130-EI

Dear Ms. Cole:

Enclosed for filing on behalf of Florida Power & Light Company ("FPL") is an original and twenty one (21) copies of Rebuttal Testimonies and Exhibits of FPL witnesses Armando J. Olivera, Armando Pimentel, Christopher A. Bennett, C. Richard Clarke, Dr. Rosemary Morley, George K. Hardy, John J. Reed, Joseph A. Ender, J. A. Stall, Kathleen Slattery, Kim Ousdahl, K. Michael Davis, Marlene M. Santos, Philip Q. Hanser, Renae B. Deaton, Richard F. Meisheid, Robert E. Barrett, Jr., Terry Deason, and William E. Avera.

Please indicate receipt of this document by stamping the enclosed extra copy of this letter. Please contact me should you or your staff have any questions regarding this filing.

Sincerely,

R. Wade Litchfield

Enclosures
cc: Parties of record (w/encl.)

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by Hand Delivery or Overnight Delivery this 6th day of August 2009, to the following:

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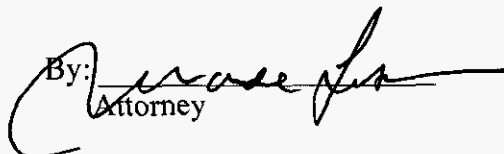
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**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 080677-EI
FLORIDA POWER & LIGHT COMPANY**

**IN RE: PETITION FOR RATE INCREASE BY
FLORIDA POWER & LIGHT COMPANY**

REBUTTAL TESTIMONY & EXHIBITS OF:

ARMANDO J. OLIVERA

DOCUMENT NUMBER-DATE

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **REBUTTAL TESTIMONY OF ARMANDO J. OLIVERA**

4 **DOCKET NO. 080677-EI**

5 **AUGUST 6, 2009**

6

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

8 A. My name is Armando J. Olivera. My business address is Florida Power & Light
9 Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

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

11 A. Yes.

12 **Q. Are you sponsoring a rebuttal exhibit in this case?**

13 A. Yes. I am sponsoring the following rebuttal exhibit:

14 • AJO-3, FPL Superior Performance and Value

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

16 A. The purpose of my testimony is to rebut positions taken in testimony by various
17 intervenors regarding the Subsequent Year Adjustment, the Generation Base Rate
18 Adjustment (GBRA) mechanism and the recognition of FPL's (FPL or the
19 Company) superior performance as it relates to return on equity (ROE).

20

21 It is also worth noting a few things that the intervenor witnesses have chosen not
22 to address in their testimony. For example, while they may oppose in one respect

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1 or another FPL's request in this proceeding, none of the witnesses appear to
2 disagree that:

- 3 • FPL provides superior service as reflected in exhibit AJO-3 and has
4 outperformed similarly sized companies across an array of financial and
5 operational metrics,
- 6 • FPL's typical residential bill is currently the lowest among Florida electric
7 companies, and even with the full base rate increase the 2010 bill will go
8 down for most customers,
- 9 • FPL has not had a general base rate increase since 1985 and has base rates
10 today that are actually lower than in 1985,
- 11 • FPL has continued the necessary investment of almost \$6 billion in its
12 infrastructure since the 2005 settlement agreement in spite of deteriorating
13 economic conditions and reduced revenues, and
- 14 • FPL has projected capital expenditure requirements of approximately \$16
15 billion just over the next five years.

16

17 I believe that these facts provide an important frame of reference for the Commission's
18 decision in this proceeding.

SUBSEQUENT YEAR ADJUSTMENT

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Q. Intervenor witnesses oppose FPL's request for a Subsequent Year Adjustment in this proceeding. Why is a Subsequent Year Adjustment necessary?

A. Florida Industrial Power Users Group (FIPUG) witness Pollock states that the Commission should reject the subsequent year adjustment because it is unnecessary (page 5 lines 13-15). On the contrary, from a financial integrity perspective, the subsequent year adjustment is necessary as FPL must continue to make significant investments in its infrastructure even after the 2010 test year revenue requirements are determined. FPL witness Barrett's direct testimony addresses the drivers of the 2011 increase which include growth, infrastructure investment, regulatory commitments and inflation. FPL witness Pimentel's direct testimony indicates that the Company is planning to spend \$16 billion in capital over the next five years. Operating and maintenance (O&M) costs also will continue to increase in 2011. As a result of these factors, earnings will subsequently deteriorate in 2011 even with the full requested rate relief in 2010; therefore, it is fair and reasonable to ask that the Company be granted the opportunity to continue to earn its approved rate of return in 2011.

FIPUG witness Pollock also states that the Commission should reject the subsequent year adjustment because it is inappropriate (page 5 lines 13-15). I disagree. The subsequent year adjustment is an appropriate means by which the

1 Company can address continuing cost increases beyond the 2010 test year. In his
2 rebuttal testimony, FPL witness Deason explains that the subsequent year
3 adjustment is an accepted and recognized method of addressing forecasted
4 financial and operating conditions that affect a utility's opportunity to earn the
5 approved rate of return. And as stated in my direct testimony, the Subsequent
6 Year Adjustment will allow the Company, the Commission and all parties to
7 address in a single proceeding both the 2010 and 2011 needs, thereby addressing
8 this 2011 earnings deterioration, while at the same time avoiding the time,
9 expense and significant workload impact on FPL and the other parties of a
10 separate rate proceeding for 2011.

11
12 Witness Pollock (page 30 lines 19-21) and Office of Public Counsel (OPC)
13 witness Brown (page 3 lines 13-14) argue that revenues and costs cannot be
14 accurately projected for 2011; however, as FPL witnesses Barrett and Morley
15 demonstrate in their direct and rebuttal testimony, our projections for 2011 are
16 reasonable and reliable and fairly reflect expected conditions in 2011.

17
18 From a policy perspective, the subsequent year adjustment is a valuable and
19 useful regulatory tool that the Commission can and should use in deciding this
20 case. And from a practical perspective, this tool will allow the Company an
21 opportunity, not a guarantee, to continue to earn a fair and reasonable return in
22 2011 which in turn will support the needed investments in our infrastructure and
23 the other cost drivers that must be addressed in 2011.

GBRA MECHANISM

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Q. South Florida Hospital and Healthcare Association (SFHHA) witness Kollen (page 9 line 16) takes the position that GBRA is a “radical” departure from traditional ratemaking and should be rejected. Do you agree?

A. No. The GBRA is a progressive ratemaking mechanism that has been proven to work in Florida, and it is similar to one that has been utilized successfully in at least one other southeastern jurisdiction.

The GBRA approach worked well for FPL and its customers as evidenced by its use when Turkey Point Unit 5 went into service in 2007. As FPL witness Deaton explains in her rebuttal testimony, the GBRA mechanism was used effectively to incorporate Turkey Point Unit 5 into base rates, while customers simultaneously received an offsetting reduction in their fuel expense due to the higher efficiency of the new unit. And while not all GBRA applications will result in totally offsetting rate changes, there are still significant offsets to fuel charges when new higher efficiency generating units are placed into service. These are important benefits to customers that should be recognized concurrently with the costs to achieve those benefits.

Ms. Deaton also explains that without the GBRA alignment of the base rate increase to the fuel price reduction, the price signal received by customers would be too low as it would only reflect the fuel savings. The end result is that

1 customers benefit by receiving cleaner (greener) generation service that is more
2 efficient and reliable, with minimal impact to the monthly bill.

3 **Q. Has the regulatory policy underlying Florida's GBRA been adopted**
4 **elsewhere?**

5 A. Yes. Even though the GBRA is a relatively new regulatory mechanism, at least
6 one other jurisdiction has instituted a ratemaking approach that is very similar to
7 the GBRA. As addressed in the rebuttal testimony of Ms. Deaton, the Alabama
8 Public Service Commission has established a similar mechanism for the purpose
9 of recognizing the financial impact of new generating plants by allowing a rate
10 increase at such time as a unit that is "certified" (similar to Florida's need
11 determination process) is placed into service. It is clear that the GBRA is not at
12 all radical, as some of the intervenor witnesses are suggesting. It has proven to be
13 successful in Florida and Alabama, and should be approved by this Commission
14 on a going forward basis as an efficient enhancement to Florida's regulatory
15 ratemaking process.

16 **Q. What are your conclusions regarding Florida's GBRA?**

17 I concur with FPL witness Deason who explains that this progressive regulatory
18 tool provides a reasonable means, within established safeguards, to facilitate cost
19 recovery of prudent and cost effective Commission-approved generation
20 investments. For the reasons that I and other FPL witnesses have stated, and
21 particularly as discussed in the rebuttal testimony of FPL witness Deason, I
22 believe that it is important that this regulatory tool be available to the Commission
23 and it should be approved in this docket.

1 **FPL'S SUPERIOR PERFORMANCE AND RETURN ON EQUITY**

2

3 **Q. SFHHA witness Baudino alleges (page 34 lines 17-19) that “Increasing the**
4 **investor required return to recognize factors such as ‘exemplary**
5 **management’ would over compensate investors and result in excessive rates**
6 **to ratepayers.” Do you agree?**

7 **A. No. In fact, recognizing the Company’s performance in establishing an**
8 **appropriate rate of ROE would have the opposite effect on rates. When one**
9 **compares the very real and sizable benefits to customers of a well run, top**
10 **performing utility against the relatively modest portion of the overall revenue**
11 **requirement associated with even 50 basis points of ROE, it is hard to understand**
12 **how one could sustain such a view.**

13 **Q. How should FPL’s superior performance be considered with regard to FPL’s**
14 **cost of equity?**

15 **A. In answering this question, I will refer to the direct testimonies of FPL witnesses**
16 **Pimentel and Avera, both of whom state that FPL’s superior performance and the**
17 **resulting benefits that are realized by customers should be a consideration in**
18 **approving the identified cost of equity of 12.5%. I would note that Dr. Avera’s**
19 **recommended 12% to 13% range for establishing a fair ROE does not include an**
20 **“adder” for superior performance; rather, he states that “considering exemplary**
21 **performance in establishing a point estimate from within my (Dr. Avera’s) ROE**
22 **range offers an appropriate incentive for FPL to continue to innovate and take**
23 **risks in pursuit of superior results.” Consistent with this testimony, FPL witness**

1 Reed indicates that it would be appropriate to grant FPL an ROE at or above the
2 midpoint of Dr. Avera's range. In fact, FPL witness Pimentel selected the 12.5%
3 midpoint of Dr. Avera's recommended 12% to 13% range rather than select a
4 point at the upper end of the range, which would have been supported by FPL's
5 performance. The recommendations of intervenor witnesses in this proceeding,
6 on the other hand, could only be read as a penalty, in spite of FPL's performance
7 and the associated benefits to customers.

8 **Q. Mr. Baudino goes on to allege (page 34 lines 20-22) that "providing an**
9 **inflated return on equity to recognize exemplary management performance**
10 **undercuts the benefits of such performance, which should be lower costs and**
11 **greater efficiency." Do you agree?**

12 A. Absolutely not. I will defer to the direct and rebuttal testimony of FPL witnesses
13 Pimentel and Avera as to why Mr. Baudino's characterization of the requested
14 ROE as inflated is an inaccurate and skewed perspective. But that he also would
15 suggest that recognition of performance in establishing a reasonable ROE for a
16 utility undercuts the benefits of such performance is nonsensical. First, if the
17 benefits of performance warrant the recognition a company seeks in establishing
18 the return, i.e., the benefits outweigh the perceived cost, then Mr. Baudino's
19 concern is simply misplaced. Moreover, if the Commission believes that it is
20 sound public policy to acknowledge good performance in establishing a utility's
21 ROE because to do so will encourage continued good performance, then clearly
22 the Commission will have decided that such action *promotes* rather than
23 undercuts performance.

1 **Q. What are the benefits to customers of FPL's strong performance?**

2 A. I would refer to, rather than repeat here, the many benefits that are discussed at
3 length in the direct testimony of FPL witnesses. But, in particular, I will note the
4 direct and rebuttal testimony of FPL witness Reed. As he described in his direct
5 testimony, "My review of FPL's performance has demonstrated that the Company
6 has out-performed similarly sized companies across an array of financial and
7 operational metrics." He quantifies the customer benefits of this outstanding
8 performance as follows: "FPL's performance has translated into real cost savings
9 to its customers. In 2007 alone, this performance saved customers between \$700
10 million and \$1.3 billion as compared to costs that customers would have incurred
11 if FPL's non-fuel O&M expenses had been merely average."

12

13 The analysis in his rebuttal testimony demonstrates that FPL customers save
14 approximately \$1 billion annually over what an average utility might require.
15 Against that benefit, he then compares the estimated cost of 50 basis points in
16 FPL's ROE, which represents approximately \$60 million in revenue
17 requirements. Thus, even with an explicit recognition for performance equal to
18 50 basis points above the midpoint customers would still be better off by
19 approximately \$940 million. So, as I indicated in my previous answer, I don't
20 think there is any credible basis for a witness to allege that our customers are not
21 far better off given the Company's performance, even if the Commission
22 acknowledges that performance in approving 12.5% as an appropriate rate of
23 return on equity in this proceeding.

1 **Q. What is the impact on customers of the requested ROE?**

2 A. I disagree with SFHHA witness Baudino (page 4 lines 3-4) when he suggests that
3 FPL witness Avera's recommended ROE would result in "excessive rate levels"
4 for customers. First and foremost, rates cannot be excessive if they fairly reflect
5 costs, which is the case here. As FPL witness Pimentel states in his direct
6 testimony, 12.5% is an appropriate ROE taking into account the Company's risk
7 profile, market conditions and need for access to large amounts of capital. As he
8 states in his rebuttal testimony, this ROE is necessary to maintain financial
9 strength, which is especially important in the current economic environment, and
10 also to maintain access to capital given FPL's planned expenditures of \$16 billion
11 over the next five years.

12
13 From a customer's perspective, FPL's proposed ROE and indeed its overall
14 requested increase will not result in "excessive" rates. Customers care first and
15 foremost about their total bill, and in 2010 most customers will see an overall
16 decrease in their bills. As of June 2009, FPL is the lowest cost provider in
17 Florida, based on the typical residential bill, and the bill will likely continue to be
18 among the lowest in Florida even with the full base rate increase. Rather than
19 experiencing "excessive" rates customers will actually continue to enjoy rates that
20 are very competitive within Florida and nationally. While it is true that lower fuel
21 prices have contributed to this situation, it is also FPL's efforts to improve
22 efficiency by making prudent investments that have resulted in current base rates
23 that are lower than they were 25 years ago after FPL's last general base rate

1 increase. For example, as FPL witness Hardy states in his direct testimony, FPL's
2 investments in its fossil fleet have resulted in an improvement in the net heat rate,
3 a reflection of generating efficiency, of almost 19 percent from 1990 to the
4 present (and by 10 percent over the five year period from 2002-2007 alone). To
5 put this all into perspective:

- 6 • FPL base rates are 17% lower in 2009 than 1985 despite inflation of
7 nearly 100% since 1985; a gallon of gas has more than doubled since
8 1985, and a loaf of bread and a gallon of milk have nearly tripled in price
9 in the same time,
- 10 • There have been no general base rate increases in 25 years, and base rate
11 reductions have saved customers nearly \$7 billion since 1999 as reflected
12 in the direct testimony of FPL witness Deaton, and
- 13 • As Ms. Deaton states in her rebuttal testimony, FPL's fossil generation
14 efficiencies have saved customers approximately \$3 billion in fuel costs
15 since 2002, and savings will reach \$1 billion per year in 2014.

16 **Q. Is it reasonable for the intervenors to be claiming that FPL's requested ROE**
17 **is too high?**

18 I understand that it is their right to make that claim, but I do not think it is
19 reasonable. As FPL witness Pimentel discusses in his rebuttal testimony, it is
20 helpful in putting FPL's requested ROE of 12.5% in perspective by contrasting it
21 with current returns on equity for some of the other major businesses operating in

1 Florida. For example:

- 2 ➤ ROE for Publix of 19.3%
- 3 ➤ ROE for Wal-Mart of 20.6%
- 4 ➤ ROE for Tenet Healthcare of 31.8%
- 5 ➤ ROE for PraxAir of 26.5%

6 While these companies are not electric utilities, and may not be directly
7 comparable for investors, there are at least a few observations that can be made
8 with regard to these businesses and their rates of return on equity. First of all, it is
9 clear that the prices charged for the goods and services by each of these
10 enterprises includes a profit margin that is calculated to yield a sufficient rate of
11 return for their investors. Second, there is no one to tell any of these institutions
12 that they are earning above a “fair” rate of return on equity. Third, unlike FPL,
13 they do not have FPL’s obligation to serve which requires our company to
14 maintain and even expand its capital investment in infrastructure even in times of
15 economic downturns while other business have more flexibility in deciding when
16 and how they expand and contract their businesses. And they do so based on their
17 assessment of where it will be the most profitable, taking into account the degree
18 of competition that exists, the labor market, demand for their product, and other
19 such factors.

20
21 FPL, on the other hand, simply has to continue to provide highly reliable electric
22 service to each and every customer that asks for it. This requires billions of
23 dollars in new capital investment each year, which requires steady access to the

1 capital markets. If FPL is granted a below-market rate of return on equity in the
2 ranges being proposed by intervenors in this case, our capacity to access to those
3 markets on reasonable terms will be diminished, if not impaired. This is
4 discussed at length by FPL witnesses Pimentel and Avera.

5 **Q. Why is the overall Rate of Return, as opposed to just Return on Equity,**
6 **significant?**

7 A. The intervenors in this case talk about the return on equity without acknowledging
8 one simple fact: rates are not set solely on ROE. Rather, they are based on the
9 total overall rate of return (ROR). FPL witness Pimentel also explains that the
10 overall ROR is important because it fully reflects the costs from all sources of
11 capital and that the overall ROR is what is used for the purpose of setting rates.
12 FPL's requested 2010 ROR of 8.0% is below that recently approved for the
13 Tampa Electric Company in its base rate proceeding. Furthermore, as FPL
14 witness Pimentel notes, our requested ROR will be even lower after factoring in
15 the adjustments reflected in FPL witness Ousdahl's Exhibit KO-16.

16
17 **CONCLUSION**

18
19 **Q. What conclusions should be drawn from your testimony?**

20 A. Even after the 2010 base increase, FPL's costs will continue to rise, with O&M
21 increases and projected capital expenditures of \$16 billion over the next five
22 years. The Subsequent Year Adjustment and the GBRA are reasonable, efficient
23 and appropriate ways to deal with these cost increases both from a customer's and

1 the Company's perspectives. Furthermore they are important regulatory tools that
2 the Commission should use to enhance the overall effectiveness and fairness of
3 the regulatory ratemaking process.

4
5 FPL's projected costs, including its overall ROR, will not result in "excessive
6 rates;" in fact, just the opposite is true. FPL's typical residential bill is currently
7 the lowest in Florida, and even with the full requested base rate increase most
8 customer bills will go down in 2010.

9
10 Our customers expect affordable, reliable clean energy solutions now and in the
11 future, and FPL must continue to work to meet these expectations by making its
12 infrastructure stronger, smarter, cleaner, more efficient and less reliant on any
13 single source of fuel. In meeting these needs, FPL provides superior service at
14 rates that are currently the lowest in Florida and below the national average. FPL
15 ranks among the best in the industry in many categories, including low emissions,
16 conservation and fossil generation availability. FPL is mindful of the scope of the
17 projected base rate increase, however we also have a responsibility for making
18 prudent, long lead-time investments in our infrastructure, and it is in our
19 customers' long term best interests to implement this base rate increase now, at a
20 time when the result will be lower overall bills for most customers.

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

22 **A. Yes.**

FPL Provides Reliable, Clean Industry-Leading Service

Industry Leader in Fossil Generating Efficiency

- 10% improvement since 2002
- \$3 billion in fuel savings since 2002
- \$1 billion savings per year starting in 2014

Superior Distribution Reliability as Measured by SAIDI

- 45% better than national average
- Best among Florida major IOUs 4 of the last 6 years

Industry Leader in Customer Service Performance

- Top quartile for Care Center, Billing and Payment Processing
- ServiceOne Award – 5th year in a row
- Interactive Voice Response System best in industry

Reliable, Safe and Cost Effective Nuclear Energy

- Excellent safety record – 2007 SEE Award
- Consistent NRC “green band” performance since 2000

Top Performer in Productive Efficiency

- First among regional utilities for 10 years for O&M efficiency
- Top performer industry wide across many operational metrics

Despite Dramatic Changes Since 1985, FPL Bills Compare Favorably in Florida and the U.S.

Changes Since 1985

- Almost 2 million new customers
- Peak demand has nearly doubled
- FPL has invested \$26 billion
- Inflation of almost 100%
- 2009 base bill is 17% lower
- O&M cost per kWh decreased by 22%

FPL Rates Compare Favorably in Florida and Nationally

- Lowest among Florida investor-owned utilities
- Lowest of 54 Florida electric utilities
- 21% below Florida average; \$340 per year savings (*Typical residential customer*)
- 6% below the national average

Most Customer Bills Will Decrease in 2010

- Even with a base rate increase, a typical residential bill will go down