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 & EXHIBIT OF:

JOHN J. REED

DOCUMENT NUMBER-DATE
08128 AUG-6 8
FPSC-COMMISSION CLERK

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

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5 **AUGUST 6, 2009**

6

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

8 A. My name is John J. Reed. My business address is 293 Boston Post Road West,

9 Suite 500, Marlborough, Massachusetts 01752.

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

11 A. Yes.

12 **Q. Are you sponsoring any rebuttal exhibits in this case?**

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

14 • Exhibit JJR-13, Average Customer Savings

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

16 A. The purpose of my rebuttal testimony is to comment on the testimony of the

17 following witnesses:

18 • South Florida Hospital & Healthcare Association (SFHHA) witnesses

19 Kollen and Baudino; and

20 • Florida Industrial Power Users Group (FIPUG) witness Pollock.

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1 Specifically, I will address issues raised by these witnesses related to Subsequent
2 Year Adjustment, management of Operation and Maintenance (O&M) Expenses,
3 recognition of superior performance in setting the Return on Equity (ROE), and
4 the recognition of Power Purchase Agreements (PPAs) in setting the common
5 equity ratio.
6
7 **SUMMARY**
8
9 **Q. Please summarize your rebuttal testimony.**
10 A. My rebuttal testimony provides the Commission with additional information on
11 the topics listed above, including examples demonstrating how other regulators
12 have addressed these issues. As discussed in my rebuttal testimony, the FPL
13 proposals that I address are consistent with how these issues have been addressed
14 in other states and should be approved by the Commission. Specifically:
15 - FPL's proposal that its superior performance in keeping costs under
16 control should be recognized in establishing the authorized return on
17 equity in this case is consistent with the Commission's prior treatment of
18 management performance and is consistent with how several other states
19 have addressed the issue. Contrary to SFHHA witness Baudino's
20 testimony that this would result in excessive rates, FPL's superior
21 performance has produced approximately $1 billion per year of savings for

1 its customers, while a 50 basis point increase in the authorized ROE would
2 represent only $60 million in additional revenue requirements.

3 • A rate adjustment for expected post-test-year cost changes, which is what
4 is reflected in FPL's proposed subsequent year adjustment, is commonly
5 used in ratemaking and reasonably balances the need for administrative
6 efficiency in the ratemaking process with the requirement that a utility be
7 afforded a reasonable opportunity to earn its authorized return.

8 • SFHHA witness Kollen's claims that FPL's projected O&M costs are
9 "wildly excessive" are both untrue and unsupported. FPL's non-fuel
10 O&M costs, which are what are covered in base rates, are among the
11 lowest in the nation and FPL has historically kept the increases in these
12 unit costs to far less than the rate of inflation. The projected cost increases
13 for the test year are the product of inflationary pressure and the need to
14 maintain service adequacy and reliability. My analysis indicates that FPL
15 should be recognized as having achieved superior performance in
16 controlling costs, rather than being penalized through the exclusion of
17 reasonable costs from its revenue requirement.

18 • The financial pressure on a utility's credit metrics from significant fixed
19 cost obligations in Purchase Power Agreements (PPAs) is real and
20 requires recognition in the ratemaking process. The appropriate vehicle
21 for this recognition is to consider the effects of imputed debt when setting
22 the common equity ratio to be used for ratemaking purposes. This

1 approach is often used by regulators in other states, and is what FPL has

2 proposed in this case.

3

4 **REBUTTAL OF ISSUES RELATED TO THE RECOGNITION OF**

5 **MANAGEMENT PERFORMANCE IN SETTING AN AUTHORIZED RETURN**

6 **ON EQUITY**

7

8 **Q. SFHHA's witness Baudino recommends that the Florida Commission reject**

9 **the recognition of superior performance in the setting of an allowed Return**

10 **on Equity. Do you agree with this recommendation?**

11 A. No, I do not. SFHHA witness Baudino states that "increasing the investor

12 required return to recognize factors such as 'exemplary management' would over

13 compensate investors and result in excessive rates to ratepayers" (See Direct

14 Testimony and Exhibits of Richard A. Baudino, at page 34 lines 17 – 19). In fact,

15 there is historic precedent and numerous cases of public utility commissions

16 recognizing management performance in setting an appropriate ROE.

17 **Q. What precedent exists for this type of recognition?**

18 A. The judicial underpinnings of such recognition extend back at least to 1923 in the

19 Supreme Court's decision in *Bluefield Water Works & Improvement Co. v. Public*

20 *Service Commission of West Virginia, 262 U.S. 679, (1923)*. Many public utility

21 commission orders reference that case in the context of setting rates of return

22 giving due consideration to a company's efficiency. In a number of cases from

1 the late 1970's to the mid–1990's, commissions reviewed utility efficiency and
2 either explicitly or implicitly reflected that in setting an allowed rate of return.

3 **Q. Are you aware of similar cases in other jurisdictions?**

4 A. Yes, I am. In addition to Florida, these include Iowa, New Mexico, Rhode Island
5 and Utah.

6 **Q. Please describe the regulatory contexts of these precedents.**

7 A. In a 1992 order deciding a MidWest Gas rate case, the Iowa Utilities Board (the
8 "Board") explicitly awarded the company 50 basis points in its allowed ROE in
9 recognition of superior management efficiency and benefit to ratepayers. The
10 Board noted in its order the Iowa statutory provision (Iowa Code §476.52 (1991)),
11 allowing such recognition:

12 If it "determines in the course of a proceeding ... that a utility is
13 operating in such an extraordinarily efficient manner that tangible
14 financial benefits result to the ratepayer, the Board may increase
15 the level of profit or adjust the revenue requirement for the utility."

16

17 The order goes on to note some of the factors the Board considers when making
18 adjustments to a utility's return of equity. In its final determination, the Board
19 stated:

20 [The] Board adjusts the cost of common equity upward by 50 basis
21 points, finding that consistently superior service, beneficial
22 corporate restructuring, and investment in a pipeline

1 interconnection stemmed from extraordinary management
2 efficiency and resulted in tangible financial benefit to ratepayers
3 (Iowa Utilities Board, May 15, 1992. Re Midwest Gas, a Division
4 of Iowa Public Service Company, Docket No. RPU-91-5).
5
6 In the context of a general rate case, the New Mexico Public Service Commission,
7 in 1978, awarded Southwestern Public Service Company "an extra" 50 basis
8 points in setting its ROE in part as a means of recognizing "the efficiency and
9 prudence" of company actions while keeping its costs competitive. The order
10 stated:
11 The Commission believes that regulatory incentives should be
12 provided for efficient management. Such incentives need not
13 always be punitive. In an instance where a utility management's
14 activities have resulted in the development of farsighted utility
15 planning at minimal costs to the ratepayers, positive incentives are
16 warranted and will ultimately accrue to the benefit of the ratepayer
17 (New Mexico Public Service Commission, December 5, 1978. Re
18 Southwestern Public Service Company, Case No. 1435).

1 In addition, in Rhode Island, the Rhode Island Public Utilities Commission
2 ("RIPUC"), as part of a general rate case for Narragansett Electric Company, took
3 note of corporate performance in setting ROE. The RIPUC noted:

4 In establishing a reasonable return from within a range, the
5 commission has in the past given consideration to the service
6 record of the company and the general attitude of management in
7 meeting its public service obligations. In recognition of the
8 company's performance the Commission finds the fair rate of
9 return to be 13.75 which is the upper end of the range proposed
10 .....(Rhode Island Public Utilities Commission, November 8, 1980.
11 Re Narragansett Electric Company, Docket No. 1499)

12

13 In two cases the Utah Commission noted that various elements of utility
14 performance warranted recognition in setting the ROE for a company.
15 Specifically, in a 1990 order in a Utah Power and Light general rate case, the
16 Utah Commission noted:

17 We recognize that management performance is an appropriate
18 factor for the Commission to consider in setting the ROE within a
19 reasonable range (Public Service Commission of Utah, February 9,
20 1990, Re Utah Power and Light Company, Docket No. 89-035-10).

Later, in a 1995 case for Mountain Fuel Supply Company, the Commission echoed that perspective:

> The Commission agrees that the Company's gas procurement performance merits recognition and is a factor contributing to the stipulated return-on-rate base (Public Service Commission of Utah, October 17, 1995 Re Mountain Fuel Supply Company, Docket No. 95-057-02).

Q. Are there more recent examples of regulators incentivizing management performance through the use of ROE adders?

A. Yes. In Virginia pursuant to H.B. 3068 (now Chapter 888) and S.B. 1416 (now Chapter 933), commonly referred to as electricity "re-regulation" legislation, which became law on July 1, 2007, recognition of performance is authorized. The legislation provides Virginia utilities with an opportunity to earn returns competitive with those of their peers in the Southeastern U.S. and also authorizes the State Corporation Commission to adjust a utility's authorized return to reward it for good performance, including superior customer service, or penalize it for poor performance.

In addition, the Texas Public Utility Regulatory Act, as amended in September of 2007, requires that the Texas Commission consider certain factors in determining an electric utility's rate of return, including: (1) the efforts and achievements of the utility in conserving resources; (2) the quality of the utility's services; (3) the

1 efficiency of the utility's operations; and (4) the quality of the utility's
2 management (Texas Public Utility Regulatory Act, Subchapter B, Sec. 36.052,
3 September 2007).
4
5 Furthermore, the Florida Commission plainly has the discretion to reward a
6 utility's superior management and efficiency by approving an upward adjustment
7 to the utility's authorized rate of return and has done so as recently as 2002. In
8 the petition of Gulf Power Company for a rate increase in 2002, the Florida
9 Commission explained the factors leading to approval of a reward adjustment as
10 follows:

> 11 The testimony of Gulf witnesses Labrato and Fisher demonstrates
> 12 that Gulf's service is excellent. In addition, testimony of customers
> 13 at the customer service hearings was very favorable. We find that
> 14 Gulf's past performance has been superior and we expect that level
> 15 of performance to continue into the future. In recognition of this,
> 16 we find that Gulf deserves to have 25 basis points added to the
> 17 mid-point ROE of 11.75%. Thus, a 12% ROE shall be used for all
> 18 regulatory purposes, including, for example, implementing the cost
> 19 recovery clauses and allowances for funds used during
> 20 construction (Docket No. 010949-EI; Order No. PSC-02-0787,
> 21 FPSC June 10, 2002).

22

1 **REBUTTAL OF ISSUES RELATED TO THE SUBSEQUENT**
2 **YEAR ADJUSTMENT FOR SIGNIFICANT INCREASES IN O&M**
3 **EXPENSES**

4

5 Q. **SFHHA witness Kollen and FIPUG witness Pollock both argue that the**
6 **Subsequent Year Adjustment is unnecessary and simply avoids a necessary**
7 **regulatory process to review FPL's expenses. Do you agree with this**
8 **position?**

9 A. No, I do not. SFHHA witness Pollock claims that the Subsequent Year
10 Adjustment is nothing more than a back-to-back rate increase. Specifically,
11 Witness Pollock states that "such back-to-back rate increases fail to properly
12 balance the utility's needs with the needs of its customers. Assuming its 2011
13 assumptions are accurate (which FIPUG disputes), FPL is really asking the
14 Commission to guarantee that it will achieve the authorized return. Providing such
15 a guarantee is contrary to accepted regulatory practice, which is to provide an
16 opportunity to earn the authorized return" (See Testimony and Exhibits of Jeffrey
17 Pollock, at page 32, lines 20 through 23, page 33, lines 1 through 2). In fact, the
18 use of a Subsequent Year Adjustment is a common regulatory practice utilized in
19 Florida and other jurisdictions to efficiently address expected increases in
20 expenses.

21 Q. **Please describe the Florida Commission's past use of the Subsequent Year**
22 **Adjustment.**

1 A. As stated in FPL witness Deason's rebuttal testimony, the Florida Commission
2 has statutory and rule authority to approve subsequent year adjustments to rates,
3 and has exercised that authority when a utility proves or projects with reasonable
4 certainty that there will be future changes in factors considered in setting rates
5 that will affect the utility's ability to earn a fair and reasonable return on its
6 investments. As illustrated by the cases in which subsequent year adjustments
7 have been granted, the Florida Commission has used the adjustment to meet the
8 requirement of providing a utility a reasonable opportunity to earn its authorized
9 rate of return.

10 **Q. Are you aware of other Commissions that utilize this mechanism?**

11 A. Yes, I am. In March 2009, the California Public Utilities Commission ("California
12 PUC") authorized Edison International subsidiary Southern California Edison
13 ("SCE") a $308.1 million rate increase for 2009. The California PUC also
14 authorized an additional $205.3 million increase for 2010 and a $219 million
15 increase for 2011. SCE indicated that the rate increases were necessitated by
16 system load growth, the need to replace aging distribution infrastructure and
17 business systems, increased expenses to meet regulatory requirements for
18 electricity generation and procurement, higher operations and maintenance
19 expenses, and increased employee costs (Docket No: Ap-07-11-011. Decision 09-
20 03-025. 3/12/2009).

In 1993, Potomac Electric Power Company requested, and the Maryland Public Service Commission approved, a two step rate increase. The increase in base rates included a $23.2 million increase effective March 13, 1994 and a $2.2 million increase effective June 5, 1994 (Docket FC-929; Approved by Commission 3/4/1994).

In August of 2000, the Public Service Commission of Wisconsin issued an order approving Wisconsin Electric Power Company's ("WEPCO's") request for an increase in base rates. In this case, the Public Service Commission of Wisconsin found that it was reasonable to implement an increase in WEPCO's retail electric rates by $36,538,000 for the 2000 test year and to further increase WEPCO's Wisconsin retail electric rates by $27,521,000 effective January 1, 2001, to allow the company to recover incremental costs associated with its electric reliability and safety construction expenditures (Final Decision in Application of Wisconsin Electric Power Company for Approval of Plan to Improve Reliability Through Infrastructure and Incentives and Request for Rate Increase for Test Year 2000, Docket No. 6630-UR-111, at page 7).

Clearly, subsequent year adjustments are simply a means by which a Commission sets rates that allow a fair and reasonable return to utilities, when the factors considered in establishing rates change between the first test year and the

1 subsequent year such that fair rates set for the first year may no longer be
2 adequate to allow a fair and reasonable return in the subsequent year.
3
4 **REBUTTAL OF ISSUES RELATED TO THE MANAGEMENT OF**
5 **OPERATION AND MAINTENANCE EXPENSES**
6
7 Q. **SFHHA witness Kollen claims that the requested level of increased O&M**
8 **expenses is excessive and can't be justified. Do you agree with this assertion?**
9 A. No, I do not. SFHHA witness Kollen claims that the requested level of increase
10 in O&M expenses for the test year is "wildly excessive and cannot reasonably be
11 justified given the present economic circumstances, particularly in South Florida,
12 the Company's proven ability to implement cost reductions, including the effects
13 of productivity improvements through capital investment and continued efficiency
14 improvements through the adoption of best practices" (See Direct Testimony and
15 Exhibits of Lane Kollen, at page 17, lines 5 through 9). Witness Kollen's claims
16 would be more appropriately applied to an organization, unlike FPL, that has not
17 been successful in managing its costs.
18
19 FPL's superior achievement in managing its O&M expenses is indicative of an
20 ability to produce a given level of service quality and reliability at relatively low
21 cost. The superiority of this performance is demonstrated by the fact that FPL has
22 achieved a rank of 1, 2 or 3 for each of the years studied (out of the 28 companies

1 studied), as shown in Exhibit JJR-6 in my Direct Testimony. A high rank
2 indicates that FPL's financial controls and operational performance have
3 combined to produce very significant savings for FPL's customers. Specifically,
4 in the area of non-fuel O&M expenses, FPL has managed to hold these expenses
5 to an increase of 11.4% from 1998 through 2007, while the Consumer Price Index
6 increased approximately 27.2% from 1998 to 2007 and the Handy-Whitman
7 index, commonly used to measure increases in construction costs for electric
8 utilities, increased by 40% to 60% for different cost categories.

9 **Q. Is it reasonable to expect FPL to continue to manage its non-fuel O&M**
10 **expenses to the same levels to which it has previously managed them?**

11 A. No, it is not. FPL's corporate commitment to superior operating efficiency has
12 put the Company in the enviable position of being a low cost provider. This is
13 evidenced by the fact that in 2007, FPL was the second highest ranked utility out
14 of the 28 companies in the Straight Electric Group in controlling non-fuel O&M
15 expenses on combined per-customer and per-MWh basis, while decreasing retail
16 rates in 1990, 1999, and 2002.
17
18 FPL's performance has translated into real cost savings to its customers. In 2007
19 alone, this performance has saved customers between $700 million and $1.3
20 billion as compared to costs that customers would have incurred if FPL's non-fuel
21 O&M expenses had been merely average (consistent with the average of the 28
22 companies in the Straight Electric Group). While Florida is in the midst of a

1 severe economic downturn, FPL cannot achieve additional operating cost savings
2 beyond that which it has already achieved through its demonstrated commitment
3 to managing costs. In order to ensure that customers continue to receive the level
4 of service that FPL has historically provided, O&M expenses must be allowed to
5 reflect a level commensurate with the operational improvements necessary to
6 continue to provide exemplary service to customers.

7 **Q. If the Commission ultimately determines that it is appropriate to recognize**
8 **FPL's superior performance through an ROE adder, how would the effect of**
9 **this adder compare to the savings that FPL customers have enjoyed over the**
10 **past several years?**

11 A. As I stated above, FPL customers saved approximately $1 billion in 2007 alone as
12 a result of FPL's superior ability to manage costs, while being more operationally
13 challenged than its peers. FPL's exceptional performance in this area is
14 demonstrated in Exhibit JJR-13, which shows that FPL's customers have realized
15 significant cost savings over the past 10 years when compared to the costs they
16 would have faced if FPL had only achieved "average" performance on its cost
17 controls, rather than being a top performer.
18
19 An ROE adder in recognition of FPL's performance of 50 basis points would
20 represent approximately $60 million in revenue requirements. Clearly, the effect
21 of recognizing FPL's performance through an ROE adder is diminutive compared
22 to the benefits that FPL's customers have realized and will continue to realize.

1 **REBUTTAL OF ISSUES RELATED TO THE TREATMENT OF POWER**
2 **PURCHASE AGREEMENTS IN SETTING FPL'S COMMON EQUITY RATIO**
3
4 **Q. FIPUG witness Pollock argues that the Florida Commission should exclude**
5 **imputed debt for purchase power obligations in setting the common equity**
6 **ratio since these costs are allowed to be recovered through the Fuel and**
7 **Capacity Cost Recovery Clauses and ratings agencies do not necessarily**
8 **recognize power purchase obligations as imputed debt in evaluating a**
9 **utility's financial strength. Do you agree with witness Pollock's position?**
10 A. No, I do not. SFHHA witness Pollock claims that since the cost of purchasing
11 power under PPAs can be passed through to customers, ratings agencies such as
12 Moody's regard these PPAs as operating costs with no long-term debt-like
13 attributes and therefore imputes no debt for such contracts where recovery is
14 guaranteed (See Direct Testimony and Exhibits of Jeffry Pollock, at page 24 lines
15 2 through 17). In fact, rating agencies recognize the financial effects that stem
16 from the debt-like features of the PPAs. The debt rating agencies have
17 increasingly considered those effects when evaluating the creditworthiness of the
18 utility purchaser under a PPA. The rating agencies treat the PPA's fixed cost
19 obligations as "imputed debt", which is seen as increasing the financial leverage
20 of the utility, decreasing the interest coverage levels of the utility, and reducing its
21 credit quality.

1 **Q. What is "imputed debt" and how does it affect a utility's cost of and access to**
2 **capital?**
3 A. Imputed debt represents the inherent financial risk of fixed payment obligations
4 associated with long term PPAs. Imputed debt is a rating agency construct
5 whereby the agency develops a risk-adjusted value of the fixed payments under
6 the PPA and "imputes" that value as debt when developing the metrics used to
7 determine a company's credit rating. Standard & Poor's ("S&P") states that it
8 views electric utility purchased-power agreements as debt-like in nature, and has
9 historically capitalized these obligations on a sliding scale. S&P applies a 0% to
10 100% "risk factor" to the net present value of the PPA's capacity payments, and
11 designates this amount as the debt equivalent ("Standard & Poor's Methodology
12 For Imputing Debt For U.S. Utilities' Power Purchase Agreements," May 7, 2007).
13
14 Through this process, rating agencies attempt to capture the risks that a PPA may
15 impose on a utility-purchaser and reflect those in the credit rating, even if
16 Generally Accepted Accounting Principles ("GAAP") do not require a PPA to be
17 recorded on the balance sheet as a long-term obligation. The risk apportionment
18 of the PPA, the size of the utility's financial obligation, and the term of the PPA
19 will all likely be considered in the debt imputation to the utility, and can most
20 certainly have a significant negative impact on credit rating. This will, in turn,
21 put upward pressure on the utility's cost of debt, and the utility's access to capital
22 in a tight market may be limited.

1 **Q. Have other Commissions recognized the imputed debt associated with Power**
2 **Purchase Agreements?**
3 A. Yes, they have. State Commissions have given explicit consideration to the
4 effects of imputed debt when considering whether a proposed PPA is "least cost"
5 or in the public interest. These considerations have included an adjustment to the
6 direct cost of power under the PPA when evaluating the PPA against power
7 supply alternatives, and increasing the utility's target equity ratio to offset the
8 debt imputation effects.
9
10 For example, in 2001, Nevada adopted what was at the time one of the country's
11 more aggressive renewable portfolio standards ("RPS"), which ultimately
12 required the state's utilities to sign a substantial number of new, long-term
13 contracts for renewable power. In June 2005, the Nevada legislature passed
14 Assembly Bill 3 which became Chapter 2 (22nd Special Session) that modified
15 Nevada's RPS and increased the target percentages for energy from renewable
16 resources. At the same time, the legislature recognized that the goal of
17 significantly increasing the number of renewable energy contracts signed would
18 be difficult without proactively addressing the issue of imputed debt. The
19 legislation addressed imputed debt directly by requiring the Commission to adopt
20 regulations that established "methods to classify the financial impact of each
21 long-term renewable energy contract and energy efficiency contract as an
22 additional imputed debt of a utility provider. The regulations must allow the

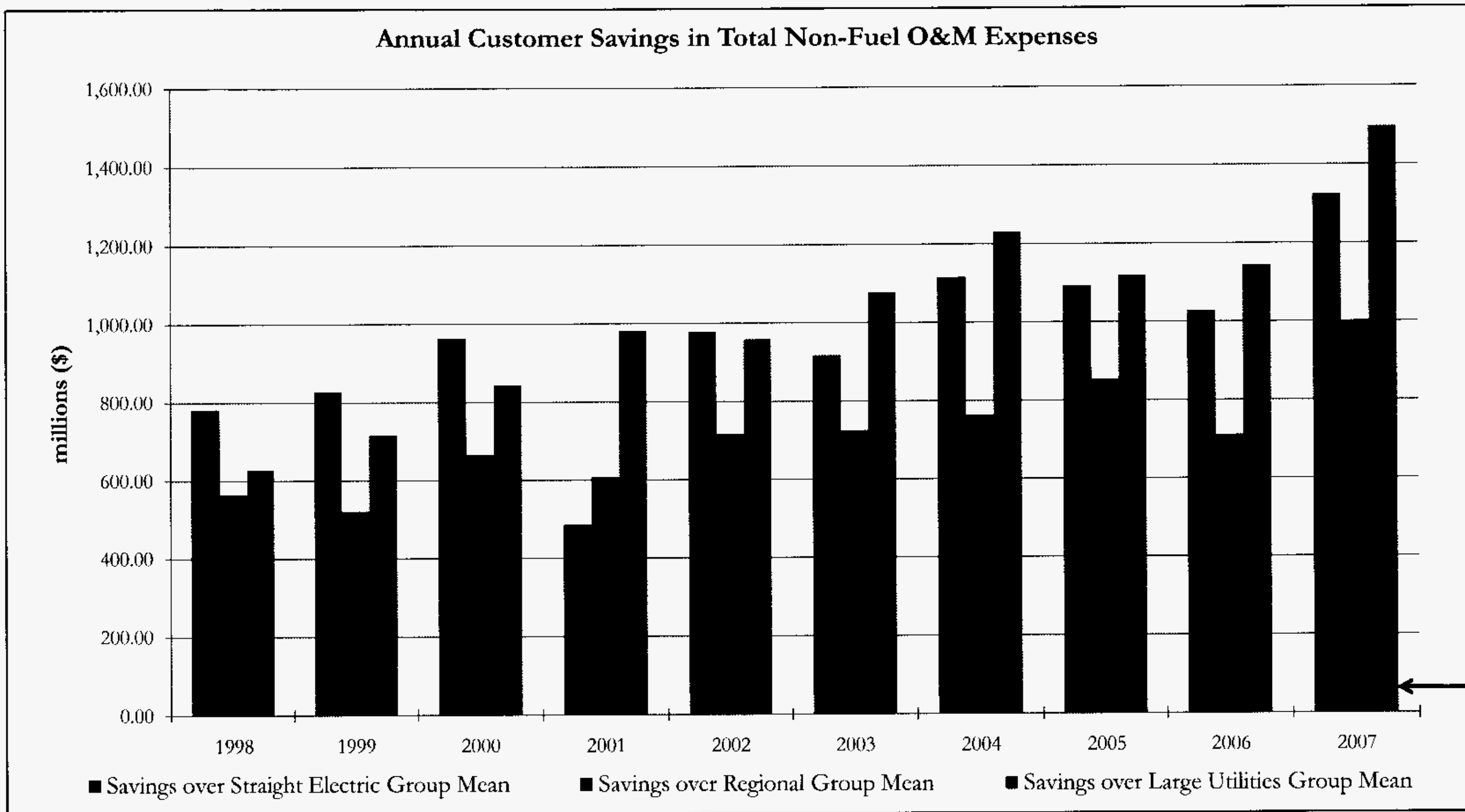
1 utility provider to propose an amount to be added to the cost of the contract, at the
2 time the contract is approved by the Commission, equal to a compensating
3 component in the capital structure of the utility provider. In evaluating any
4 proposal made by a utility provider pursuant to this paragraph, the Commission
5 shall consider the effect that the proposal will have on the rate" (See State of
6 Nevada, Assembly Bill No. 3, Section 29.7 (b), pg. 21).
7
8 The Wisconsin Public Service Commission ("Wisconsin PSC") expressly
9 recognizes the debt associated with PPAs. The Wisconsin PSC sets a common
10 equity ratio target based on what they call a "Financial Capital Structure" that
11 includes imputed debt on PPAs that supports a given credit rating. This
12 determines the amount of equity that will be included in the "Regulatory Capital
13 Structure" in setting rates. The effect is to allow the company to carry a higher
14 equity ratio and have it considered within the ratemaking process (Edison Electric
15 Institute, Understanding Imputed Debt Issues, June 2008 citing Wisconsin Public
16 Service Commission, Final Decision, Docket No.6690-UR-118, January 15,
17 2008).
18
19 In addition, the Delmarva Public Service Commission has recognized the
20 financial risk associated with long term PPAs. On August 1, 2006, in response to
21 Commission directives, Delmarva Power and Light filed a draft Request for
22 Proposals (RFP) for long term contracts to supply its standard offer service

1 customers. Throughout the process, there was a substantial amount of discussion
2 about the terms and conditions of the RFP, including the imputed debt cost factors
3 in bid evaluation. On November 21, 2006, the Delaware Public Service
4 Commission issued Order No. 7081, which found that Delmarva's (DP&L)
5 imputed debt adjustment should be used in their RFP. The Order stated:

6 We believe that the RFP should provide that DP&L will be
7 permitted to assess the incremental equity amount to be equal to
8 30% of the net present value of the bid's capacity payment, and
9 that a portion of the energy price may also be included if DP&L
10 concludes that a portion of the bid's energy component would be
11 imputed as debt by rating agencies in their assessment of DP&L's
12 creditworthiness.

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

14 A. Yes.



50 basis points in ROE impact

Annual Customer Savings in Total Non-Fuel O&M Expenses											
	Annual Savings (millions $)										
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Total**
Savings over Straight Electric Group Mean	782.64	828.07	963.87	485.65	978.24	917.59	1,115.75	1,091.93	1,027.41	1,323.33	**9,514.49**
Savings over Regional Group Mean	563.93	521.73	666.00	607.52	717.09	725.18	762.82	854.30	711.25	998.93	**7,128.74**
Savings over Large Utilities Group Mean	627.53	717.08	843.90	982.64	959.47	1,077.78	1,231.12	1,118.54	1,144.95	1,497.20	**10,200.20**

Source: SNL Interactive, FERC Form 1

Total O&M Expenses less Fuel, Purchased Power, and Other; Total Ultimate Customers

Based on Calculation of Total Non-Fuel O&M per Customer Expense