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:

KIM OUSDAHL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

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DOCKET NO. 080677-EI & 090130-EI

AUGUST 6, 2009

Q. Please state your name and business address.

A. My name is Kim Ousdahl. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

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

A. Yes.

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

A. Yes. I am sponsoring the following rebuttal exhibits:

- KO-11, FPSC Summary of Orders on Capital Structure
- KO-12, Capital Structure Adjustments
- KO-13, RS Means/NUS Productivity Factor Comparison
- KO-14, Affiliate Management Fee (AMF) Specific Cost Drivers
- KO-15, Power Generation Division (PGD) MW Capacity
- KO-16, Identified Adjustments

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to comment on the testimonies of the Office of Public Counsel's (OPC) witnesses Dismukes, Brown, and Pous, Florida Industrial Power Users Group (FIPUG) witness Jeffry Pollock and South Florida

Hospital and Healthcare Association's (SFHHA) witness Kollen. Specifically, I will address the following topics:

- Environmental Insurance Refund
- Capital Structure
- Calculation of Generation Base Rate Adjustment (GBRA)
- Dismantlement
- Nuclear Plant End-of-Life Materials and Supplies, and Last Core Fuel Cost
- Clause-Related Bad Debt Expense
- Affiliate Transactions
- Removal of FPL Historical Museum Expenses
- FPL-New England Division
- Power Monitoring Revenues
- Revenue Requirement Shift to Clauses
- FPSC Staff Audit Report
- Identified Adjustments
    - Economic Stimulus Bill
    - Department of Energy (DOE) Settlement
    - Customer Information System (CIS)
    - Nuclear Electric Insurance Limited (NEIL) Distribution
    - Other Miscellaneous Adjustments

SUMMARY

Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony will demonstrate that the Company's request is reasonable and that the intervenor recommendations are flawed as they relate to the proper accounting and ratemaking treatment of the Associated Electric & Gas Insurance Services Limited (AEGIS) environmental insurance commutation, FPL Historical Museum costs, power monitoring revenues and the calculation of the West County Unit 3 GBRA. I will show that, contrary to intervenor assertions, the Company's capital structure adjustments, affiliate transactions, and clause-related bad debt expense are reasonable and appropriate. I will demonstrate that intervenor attempts to simply dismiss the proper accruals of dismantlement and nuclear plant end of life materials and supplies and last core fuel costs based on remote possibilities will only lead to higher future accruals and the inappropriate deferral of costs to future customers. Lastly, I will present the Company's revenue requirement impact of certain recently identified adjustments, the most significant of which is the increase in accumulated deferred taxes due to bonus depreciation which should be reflected in the 2010 and 2011 revenue requirements.

AEGIS ENVIRONMENTAL INSURANCE REFUND

Q. On page 60 through 61, OPC witness Brown recommends the Commission

require FPL to amortize the AEGIS environmental insurance refund over a five year period beginning in 2010. Do you agree?

A. No. At the time the coverage was purchased, the full amount of the premium was expensed for tax purposes at policy inception and a 1998 tax deduction was taken for the full amount. For book purposes, the previously recorded environmental reserve was reduced as a result of this risk mitigation through third party coverage. Concurrent with this purchase, FPL transacted a settlement with predecessor insurers for a release on future claims in exchange for a payment to FPL offsetting in the aggregate the AEGIS purchase amount. The settlement transaction was likewise recorded against the reserve associated with those specific exposures.

Upon commutation of the policy in 2008 and release of all exposures, the $43.8 million refund received was recorded as a reduction to Account 924 – Property Insurance Expense. No reserve was reinstated in 2008 when the AEGIS policy was commuted as the historical exposures associated with the policy were no longer evident and therefore no further liability was incurred.

The original policy was purchased in a non-base rate setting year (1998). The purchase was not included in FPL's Environmental Cost Recovery Clause (ECRC). Thus, purchase of the policy has never had any direct impact on rates customers pay. Transactions such as this that result in increases or decreases in period operating expenses outside of a test year are reflected in surveillance reporting, and may result in a higher or lower return than authorized. Commission practice has not included deferral of ongoing period operating expenses in order to "spread" either benefit or cost. Commission practice generally limits deferral and recovery to gains and losses. Gains and losses are not period costs, but instead represent benefit or detriment outside of the operation of the business. Therefore, this Commission and others view the deferral of these non-operating financial transactions to be appropriate in order to symmetrically spread these impacts through rates prospectively. The commutation of this AEGIS policy does not represent an accounting gain and should not be treated as anything other than a change in a period cost.

In addition, when the Company experiences peaks and valleys in operating costs it manages those in the normal course of business. So, when this policy was commuted and cash was received in the fourth quarter of 2008, the cash was immediately reinvested in the business. In other words, the customer received a direct benefit of that cash through its use in electric operations. If the opposite had been the case, as it many times is, and the Company had an unexpected and unplanned expense increase in its normal course of operations, it likewise would have managed that event within the context of other cash and expense constraints.

Q. Is the amortization of FPL's Glades Power Park (FGPP) a proper analogy for the deferral and amortization of the AEGIS commutation?

A. No. The Commission action in the FGPP need determination gave rise to this regulatory asset. Without the amortization of the FGPP coal investment, the

Company would have been prohibited any opportunity to recover its investment in future generating plant necessary to fulfill its obligation to serve customers. This is not a corollary to period expense deferral.

CAPITAL STRUCTURE

Q. On page 66, SFHHA witness Kollen states that accumulated deferred income taxes (ADIT) are understated due to an adjustment for the effects of FIN 48. Do you agree with Mr. Kollen?

A. No. Mr. Kollen references SFHHA's Ninth Set of Interrogatories, Question No. 278, and states that the Company reduced its ADIT included in the capital structure. If Mr. Kollen had read the entire response to this question, he would have noted the following:

> "Since uncertain tax positions relate to future potential liabilities, the deferred taxes associated with the temporary differences related to the FIN 48 liabilities were included in the accumulated deferred income taxes in the capital structure, rather than including them with long-term liabilities in rate base."

Therefore, the $168.6 million Mr. Kollen is referring to is already included in the accumulated deferred income taxes in the capital structure and no adjustment is required.

Q. On page 68, SFHHA witness Kollen alleges that the Company has improperly diluted the low-cost capital provided by customer deposits and cost-free capital provided by ADIT by allocating pro rata adjustments to all sources of capital. Do you agree with the arguments put forth by Mr. Kollen?

A. No. Mr. Kollen does not provide evidence or cite any past Commission decisions to support his recommendation. When FPL expends cash in the normal course of its operations, it does so from a pool of funds that is generated from all sources of capital – including deferred taxes, customer deposits and investment tax credits. The sources of capital that were used to fund the Company's rate base, including Construction Work In Progress (CWIP) and plant, cannot be traced solely to investor supplied sources of capital as suggested by witness Kollen. His adjustments would be appropriate only if FPL were financing the clause-related plant and CWIP that is excluded from rate base differently than it is financing the plant and CWIP included in the base rate recoverable rate base. This is clearly not the case.

Making adjustments for rate base items over only investor sources of capital results in an inappropriate double counting of the low cost customer deposits and zero cost deferred tax capital structure components. This is a disallowance masquerading as an adjustment.

Q. Has this Commission considered Mr. Kollen's approach in previous proceedings?

A. Yes. The approach Mr. Kollen is advancing has been rejected by this Commission each time it has been considered. Exhibit KO-11, contains references and relevant extracts from previous FPSC orders supporting FPL's position on this issue.

Q. The Gulf Power Order referenced in Exhibit KO-11 (Order No. PSC-02-0787, Docket No. 010949-EI) mentioned a double counting of lower cost capital components under this approach. Can you explain why double counting of lower cost capital structure items, especially deferred taxes, would occur?

A. Yes. As noted by Mr. Kollen, a significant portion of FPL's pro rata adjustments reflect the removal of clause-related plant and Allowance for Funds Used During Construction (AFUDC)-eligible CWIP from FPL's retail rate base. These rate base items are removed because they earn their own return outside of base rates. In the case of the clause assets, they earn a Commission approved rate of return that is calculated over all sources of capital, including deferred taxes, customer deposits and investment tax credits. The calculation of the rate of return for base rates should mirror the calculation of the return for clauses. Exhibit KO-12 compares Mr. Kollen's capital structure adjustment method to the proper pro rata method. Because Mr. Kollen's method adjusts rate base over only investor sources of capital, when clause assets are removed from jurisdictional rate base, the proportion of deferred taxes and customer deposits that remain in the reconciled, jurisdictional adjusted capital structure used to calculate the base rate required rate of return is increased. As shown on page 1 of Exhibit KO-12, deferred taxes increase by $112 million. The same zero cost deferred taxes and customer deposits that reduced the clause rate of return are used again to lower the base rate required rate of return. This is the double counting effect.

The same problem occurs with the adjustment to exclude AFUDC-eligible CWIP from rate base. The AFUDC rate that provides a capitalized return on these CWIP balances is calculated over all sources of capital, including the zero cost deferred taxes and the low cost customer deposits. The Commission's base rate return calculation should mirror that of CWIP. Like the clause rate of return, the inclusion of these low cost capital structure components in the AFUDC rate calculation results in a lower AFUDC rate than would have been calculated using investor sources of capital only in the calculation. When the AFUDC-eligible CWIP balance adjusted from the jurisdictional rate base is assigned to only investor sources of capital, no deferred taxes and customer deposits are removed from the capital structure, and the double counting that resulted from the clause assets will occur again. Page 2 of Exhibit KO-12 shows the effect of the double counting that will occur if Mr. Kollen's recommendation is approved; $287 million of deferred taxes would be double counted. This would represent a significant error and a deviation from previous Commission ratemaking practice.

Q. **Is FPL's position on capital structure adjustments consistent with the Commission's recent order in the Tampa Electric Company (TECO) rate proceeding?**

A. Yes. The decision on the motion for reconsideration in the TECO rate case on pro rata capital structure adjustments is appropriate and consistent with the approach FPL has recommended and therefore would be the correct application of Commission precedent in this case.

Q. Is there another reason why Mr. Kollen's arguments should be rejected?

A. Yes. As indicated above, the same deferred tax is effectively included in the calculation of the cost of capital for both base rate recovery and clause recovery. This double counting of deferred taxes might result in a violation of tax normalization rules. Under the tax normalization rules, any ratemaking adjustment with respect to a utility's deferred tax reserves must be consistently applied with respect to rate base, depreciation expense and income tax expense. The consequence of such a normalization violation would be the risk of loss of accelerated tax methods for depreciation.

CALCULATION OF GBRA

Q. On page 12, SFHHA witness Kollen states that FPL improperly calculated the proposed West County Unit 3 revenue requirement. Is that true?

A. No, it is not. The Company's calculations are consistent with the methodology for applying GBRA as codified in need hearing determinations and as prescribed in FPL's Settlement Agreement, which was approved by the Commission. Mr. Kollen's computation assumptions are inconsistent with the historical practice in the following respects:

- The common equity ratio of 55.8 (rounded) percent used in the need determination revenue requirement calculation was specified in the Settlement Agreement (paragraph 17 and paragraph 15);

- Because one objective of the need determination is to evaluate the relative cost effectiveness of various generation plant alternatives, plant costs are calculated using incremental cost of capital so as to properly compare the economics of the various alternative generation sources;
- Because generation plants are long lived assets, short term debt is not included in the incremental capital structure used in the need hearings, nor is preferred stock since FPL has no preferred stock in its capital structure;
- The estimated deferred tax associated with the first year operation of West County Unit 3 is included in FPL's West County Unit 3 revenue requirement calculation; it is included as an offset to rate base on MFR B-6, page 2 line 31 of the West County Unit 3 Schedules;
- A 25 year life was used for the West County Unit 3 revenue requirement calculation in the need hearing. This is consistent with the 25 year life assumed for the GBRA eligible combined cycle plants recovered through the GBRA recovery mechanism. It is also consistent with the useful lives for these plants in FPL's depreciation study; and
- The same assumptions other than the specific incremental cost rates were used in the need determination hearings for the Turkey Point

Unit 5, West County Unit 1, and West County Unit 2 GBRA eligible plants and were incorporated in the historical GBRA implementations.

Q. On page 11 of SFHHA witness Kollen's testimony, he claims that recovering the first year revenue requirement of new plant in GBRA when revenue requirement is at its peak level is unfair to customers. Do you agree with his position?

A. No. The GBRA first year revenue requirement is consistent with that which would result from traditional base rate setting occurring on day one of the commercial operation date (COD) of a new generating plant. In the case of GBRA, at the time of the next general base rate proceeding, the asset will begin to be recovered in base rates on an embedded cost basis reflecting its current net book value in rate base along with all other plant-in-service.

DISMANTLEMENT

Q. On page 91 through 92 of his testimony, OPC witness Pous argues that FPL uses a "reverse construction" assumption for the method of dismantlement which yields a higher cost than FPL would be likely to incur. Do you agree?

A. No. FPL's study estimates costs associated with dismantlement of its fossil plants assuming total demolition using heavy equipment and employing the most efficient methods possible in that task. Mr. Pous mischaracterizes FPL's description of its method as reflected in its study.

Q. Did FPL consider the use of the explosive demolition methods advocated by Mr. Pous?

A. Yes. The FPL study does employ the use of control blasting where appropriate. The generating assets in the FPL service territory are in many cases situated near commercial structures and/or other environmentally sensitive areas. At the appropriate time when demolition planning is being conducted, these determinations will be made on a site specific basis.

Q. On page 87 and 88 of his testimony, OPC witness Pous cites an example of how a "reverse construction" approach to fossil dismantlement can produce a gross over-estimate. His example is the dismantlement of a tall smoke stack in Oklahoma whose demolition was estimated at $2 million predicated on a process that knocks off sections of the stack at a time with the debris falling into the stack. He contrasts this approach with much less costly demolition using explosives. Is this example relevant to FPL's dismantlement study?

A. No. FPL's dismantlement assumptions include the use of control blasting for chimneys. FPL's estimate to remove and dispose of both stacks at Riviera is $0.4 million and the estimate to dispose of the stacks at Cape Canaveral is $0.4 million for each stack. In 1993, FPL used explosives to demolish a stack at Turkey Point that had been damaged by Hurricane Andrew. That demolition cost $0.4 million. Clearly FPL's current estimate for control blasting of chimneys is not overstated as historical cost incurred for a similar activity was much more costly in 2010 dollars than that estimated in our study. Although our current study assumes this method may be employed at Riviera, the demolition of the stacks using explosives due to the presence nearby of commercial conveying equipment at this port facility may not be feasible.

Q. What other evidence demonstrates the reasonableness of the Company's estimates for dismantlement?

A. Comparison of the dismantlement cost actually incurred by FPL to dismantle its power plants with the estimates of previous dismantlement studies supports the reasonableness of FPL's assumptions. FPL's estimate of the cost to dismantle Fossil Units 4 and 5 at Ft. Lauderdale in 1992 was $8.9 million. The actual cost to dismantle Units 4 and 5 steam supply systems in order to re-power the units was $9.8 million. Clearly in this case, we underestimated the actual dismantlement costs for those units.

FPL's estimate of the cost to dismantle the Ft. Myers steam units and common facilities was $20.7 million, of which $5.4 million was for Unit 1 and $9.3 million for Unit 2, totaling $14.7 million. The actual cost for partial dismantlement (of Units 4 and 5 steam supply systems) in order to re-power the two units was $12.9 million. This evidence demonstrates that in a partial dismantlement scenario, the Company expended 88 percent of the full dismantlement estimate. This review of FPL's recent experience with partial dismantlement of its power plant sites supports the reasonableness of the Company's estimates and methodological approach.

Q. On page 89 through 90 of his testimony, OPC witness Pous argues that FPL uses old and unsubstantiated crew mix and productivity factors that should

not be relied on to estimate the costs of dismantlement. Do you agree?

A. No. The productivity factors used in FPL's dismantlement study are reasonable. As noted by Mr. Pous, the factors were not developed by FPL but rather, were provided by NUS Engineering. The productivity factors provided by NUS Engineering are valid for the methodology that assumes total demolition using heavy equipment. Productivity factor estimates are not highly sensitive to minor changes in specific crew size or equipment mix.

Comparison of these productivity factors with those published by R.S. Means in the 2008 edition of Building Construction Cost Data supports the continued reasonableness of the factors used in FPL's dismantlement study. Exhibit KO-13 reflects a side-by-side comparison of the NUS estimates with updated RS Means estimates today.

Q. On page 91 of his testimony, OPC witness Pous argues that the contingency should be negative, due to the Company's use of a "high side cost estimate". Do you agree?

A. No. By definition the contingency percentage covers the costs of events that cannot with certainty be predicted individually, but collectively have a reasonable chance to occur after the dismantlement process begins. Contingent events include such things as weather delays, equipment failures, failure of the demolition contractor to perform, and unexpectedly severe environmental problems. The use of contingency is an accepted practice in the development of engineering estimates.

Q. Page 91 in Mr. Pous' testimony argues that FPL's contingency percentage is outdated, because it is based on an Atomic Industrial Forum (AIF) study done in the late 1970's. Do you agree?

A. No. As indicated in FPL's response to Depreciation - Staff's Second Set of Production of Documents Request, Question No. 9, in 1995, the FPSC Depreciation Staff recommended the use of a 16 percent contingency factor, after requesting FPL to adjust downward its originally proposed 20 percent contingency factor to reflect the lower risk associated with fossil dismantlement as opposed to that associated with nuclear decommissioning. The FPSC has approved every FPL dismantlement study submitted since 1995 using the 16 percent contingency factor. FPL continues to believe it is a reasonable contingency factor.

Q. On page 85 through 86 of his testimony, OPC witness Pous says that FPL should have weighted its estimate of dismantlement cost to reflect the possibility of sale of the generating facilities. Is this a reasonable position?

A. Mr. Pous acknowledges that the vast majority of such sales occurred in states that underwent deregulation of electric generation and that FPL is not subject to deregulation. He also concedes that "sales of generating facilities that were still in operation" are "far less frequent." FPL believes that any weighting of such possibilities is unreasonable and reflects a highly unlikely scenario. Rates must be set on probabilities and reasonable estimates, not speculation and remote possibilities.

Q. On page 92 of his testimony, Mr. Pous cites the Ft. Pierce Utilities dismantlement of H.D. King Plant where the contractor paid for the right to the scrap, as evidence that FPL's fossil dismantlement studies over-estimate dismantlement cost. Do you agree?

A. No. According to a June 26, 2009 news article in www.tcpalm.com/news, Fort Pierce Utilities Authority (FPUA) spent $11 million to dismantle the old H.D. King power plant. That is a cost, not positive net salvage.

According to the State of Florida's Industrial Wastewater Facility Permit document, the H.D. King Power Plant consisted of four steam electric generating units (Units 5, 6, 7 & 8) and one combustion turbine. The largest unit had a maximum nameplate generating capacity of 56 MW. The combined maximum nameplate generating capacity for all five of these units was 141.3 MW. So, according to this news article, FPUA spent $11 million to dismantle generating stations whose total maximum nameplate rating is about the same as FPL's Cutler Unit 6. FPL's current dismantlement study estimates that it will cost $10 million to dismantle the entire Cutler site, including not only Unit 6 but also Unit 5 and Common Plant. This simple comparison shows that FPL's estimates to fully dismantle its units are less than the actual cost incurred by FPUA to dismantle its H.D. King plant.

Q. On page 86 through 87 of OPC witness Pous' testimony, he argues that the assumption that the site will be returned to greenfield is unreasonable – that sites will be re-used for new generation. Do you agree?

A. Although continued re-powerings and site reuse is a possibility, it cannot be assumed to be probable across the fleet. Site grading and site restoration activities are normal activities in a dismantlement project. It is reasonable to include these site restoration costs in a fossil dismantlement study. This position is supported by this Commission in Order No. 24741, Docket No. 890186-EI, wherein the Commission stated that:

> "While the timing of ultimate removal certainly could remain a question, there will undoubtedly come a time this action will become necessary and site restoration will likewise be required."

Q. What does Mr. Pous recommend with regard to the Company's dismantlement accrual?

A. On page 93 of his testimony, he recommends that the Commission either (1) accept FPL's accrual or (2) reduce it by 60 percent.

Q. Is there any basis for reducing the accrual by 60 percent?

A. No. Mr. Pous' argument for a 60 percent reduction is based on the experience he cites at Nevada Power Company, where, according to his testimony, an estimated cost employing a "reverse construction" approach produced an estimate that was three times greater than the actual cost to dismantle.

FPL is not familiar with all the details of this estimate and dismantlement but we have learned, that a) the estimate was based on a generic fossil steam plant, not the specific plant that was dismantled; and b) the estimate was done a few years before the dismantlement and did not reflect the significant increase in salvage values that occurred between the time of the estimate and the time of the actual dismantlement. Updating the estimate to reflect salvage values current at the time of the demolition would have reduced its estimated cost, which would have reduced the difference between the estimate and the actual cost. Said another way, a major factor driving the higher estimate was that at the time of dismantlement, salvage values were at a peak. Therefore, it was not solely a change in the choice of engineering method, but estimation factors that contributed to the savings.

In any case, the contrast between a "reverse construction" estimate for demolition of a generic fossil generating station and the actual cost to dismantle the Nevada Power Company's generating station, appears to have no evidentiary relevance to FPL's dismantlement estimates.

Q. On page 19 of his testimony, FIPUG witness Pollock recommends that FPL's dismantlement accrual be suspended. Do you agree?

A. No. Suspending the dismantlement accrual is not reasonable. We have shown our assumptions to be (1) reasonable when compared with the actual costs of dismantlement; (2) consistent with previous Commission orders; and (3) necessary as a component of base rate recovery. In fact, in our direct case, we demonstrate that we used conservative assumptions as related to the current downturn in salvage values so as not to unnecessarily increase the expense. Prior to the completion of the next dismantlement study, FPL will have further evidence of the cost of partial dismantlement for the Riviera and Cape Canaveral modernizations which may provide information useful in testing our current estimates without undue speculation. Arbitrarily reducing or eliminating the accrual will likely result in a higher cost to customers in the future as we will have to further increase the accrual to make up for an unnecessary shortfall.

Q. On page 93 of his testimony, OPC witness Pous recommends "that the Commission order the Company to perform detailed and well documented analyses of the different approaches and probabilities of end of life termination for generating facilities," and "to develop and fully justify the most cost efficient manner for any actual demolition cost approach that it determines to be appropriate," to be "provided to the Commission no later than the Company's next depreciation or rate proceeding." Do you agree with this recommendation?

A. No, I do not agree to the extent it suggests FPL's current studies are not adequate. FPL's fossil dismantlement studies are very detailed, are based on reasonable assumptions, and have produced estimates that have been shown to be in line in comparison with the actual dismantlement cost incurred.

NUCLEAR PLANT END-OF-LIFE
MATERIALS & SUPPLIES AND LAST CORE FUEL COST

Q. Do you agree with OPC's witness Brown's recommendation on page 65 that FPL should suspend the annual accruals for nuclear plant end-of-life (EOL) materials and supplies (M&S) and nuclear fuel last core values, and to

eliminate the amortization amount established by the Commission in Order No. PSC–02–0055–PAA–EI?

A. No, I do not. As acknowledged by OPC witness Brown in her testimony on pages 64 through 65, FPL's accruals for EOL M&S and last core values are in accordance with Order No. PSC-02-0055-PAA-EI wherein the Commission recognized that M&S and last core values that will remain at the end of life at the nuclear units should be amortized over the remaining life of the nuclear units. FPL's accounting and proposed adjustment are consistent with the Commission findings.

Q. What is the basis for OPC witness Brown's proposed adjustment to EOL M&S and last core?

A. OPC witness Brown does not take exception to FPL's accounting or quantification of the proposed test period amounts. Her recommendation is based on the premise that FPL's Nuclear Decommissioning reserves are over funded and will result in excess funds at the end of the decommissioning periods.

Q. On what basis did she reach her conclusion?

A. Her analysis as presented on pages 63 to 64 of her testimony and her Exhibit SLB-23 is based on estimated decommissioning assumptions taken from FPL's last decommissioning study filed with the Commission on December 12, 2005 and FPL's estimated decommissioning fund balances at December 31, 2009 as forecast in this docket.

Q. In your opinion, do these assumptions provide a valid reason to suspend the accrual at this time?

A. No. An updated decommissioning study would have to be performed before one can assume that excess decommissioning funds will exist at end of life in amounts great enough to be used for end of life materials and last core fuel.

A comparison of the estimated fund balances forecasted by the Company as of December 31, 2009 of $2.3 million and the actual Fund balances as of June 30, 2009 of $2.1 million shows that the actual balances are currently $249 million less than the forecasted December balance.

The accruals related to EOL M&S and last core should not be suspended based on witness Brown's summary analysis using dated information. On the contrary, they should be increased as demonstrated in my direct testimony.

Q. What is your opinion of OPC's recommendation that the Commission require FPL to investigate its options for utilizing the nuclear decommissioning funds at an earlier date, or for classifying EOL M&S and nuclear fuel balances as decommissioning costs and thus provide deductions against the funds at the end of license lives?

A. Those recommendations are uninformed and unreasonable. EOL M&S and nuclear fuel last core balances do not represent costs related to the physical removal and decontamination of the plant facility and thus under current Nuclear Regulatory Commission (NRC) regulations (at 10 CFR sections 50.2, 50.75, and 50.82) and Internal Revenue Service (IRS) regulations (Treas. Reg. 1-468A-1T(b)(6)) would not qualify as decommissioning expenditures. Release of existing decommissioning funds for non-decommissioning activities would require prior approval from the NRC. While it is possible that with prior FPSC approval, the NRC might also approve the use of existing funds for purposes other than NRC defined decommissioning activities (although NRC's approval would be speculative given NRC's current position on such matters, see 73 Fed. Reg. 62220 (2008)), to do so would require complete segregation of such funds from amounts held for NRC defined decommissioning activities. The premature release of available funds to satisfy a non cash requirement would reduce the benefit accruing to the customers in the form of reinvested fund earnings that would continue to be available to finance future decommissioning activities. Ms. Brown's testimony is speculative and provides no evidence that the accrual should not be increased as demonstrated in my direct testimony.

Q. On page 64 of OPC's Witness Brown's testimony, she states that "FPL should determine whether the full decommissioning costs could be covered by the qualified and non-qualified funds, while the tax savings are used to fund the end-of-life materials and supplies and nuclear fuel." Please comment on this statement.

A. Witness Brown's reference to tax savings appears to imply that they are an additional source of funds that are available over and above her already speculative assumption that there will be excess funds and reserve balances available for other than decommissioning activities. This is simply not the case.

Expenditures incurred to decommission the nuclear units will create a tax deduction. However, to the extent the expenditures are funded from the qualified fund, the withdrawal of funds will also be taxable. Thus, there is not a net tax savings at the time of decommissioning. To the extent decommissioning expenditures are charged against the non-qualified reserve, the source of funds will come from the tax deduction plus the withdrawal of cash funds from the non-qualified fund investments. The withdrawals from the non-qualified funds are not taxable.

The timing of qualified and non-qualified fund withdrawals ultimately must be determined by the Company on a unit by unit basis at the time of the decommissioning expenditures. Given the tax deductibility of the non-qualified withdrawals, it would be logical that the Company would take full use of the non-qualified funds to obtain the maximum tax advantage. Therefore, it would also follow that there will be no unutilized tax savings.

CLAUSE RELATED BAD DEBT EXPENSE

Q. On page 23 through 24 of OPC Witness Brown's testimony, she is concerned that collecting clause-related bad debt expense through the various clauses creates an additional need for regulatory oversight and adjustments. Is this concern valid?

A. No, it is not. FPL is proposing to recover clause-related bad debt expense through the clauses because it is incremental in nature, functionally related to clause revenues and, potentially volatile because clause revenues may fluctuate substantially from year to year. Ms. Brown's concerns are misplaced regarding the additional need for regulatory oversight. FPL would not need to develop separate write-off rates. If the proposed company adjustment is approved, FPL will continue to calculate the uncollectible expense on a total company basis because the rate of bad debt exposure is no different for a dollar of fuel revenue than for a dollar of base revenue. FPL would then calculate the clause expense portion exactly as it has in this filing; through an allocation based on the ratio of the clause revenue to total retail revenues from sales.

Q. On page 24 of OPC witness Brown's testimony, she alleges that clause bad debt should not be recovered via the clause because doing so reduces the incentive for FPL to decrease bad debt expense. Do you agree?

A. No. The cost incurred by FPL to mitigate bad debt expense is a base rate cost and will equally benefit all bad debt exposure whether base portion or clause portion. When FPL is able to reduce write-offs, all revenue losses are reduced. The attention paid to this expense is driven by the fundamental unfairness which results when customers who do pay their bills have to pay additionally for those who do not. The continued focus on bad debt exposures by FPL is supported by the fact that it is one of the performance indicators used to determine FPL's executive compensation. There is no evidence that the change in recovery of bad debt expense would diminish FPL's attention to this important issue.

AFFILIATE TRANSACTIONS

Q. On page 3 of OPC witness Dismukes' testimony, she alleges that there is an incentive to misallocate or shift costs to regulated companies, so that unregulated affiliates can reap the benefits. Do you agree there is a risk of subsidization of affiliate costs by FPL customers?

A. No. FPL is subject to the close oversight and scrutiny of this Commission, FERC, and numerous other governmental and regulatory bodies. At the federal, state, and local levels, FPL has specific requirements which ensure that we are in full compliance with applicable laws, regulations, and Commission policies, which include those dealing with affiliate transactions and cost allocation. Not only is it the right and legal thing to do; it is good business practice.

FPL is a registrant subject to SEC reporting requirements and as a result, must provide audited financial statements and undergo a separate review of its internal control over financial reporting as required under the Public Company Accounting Oversight Board standards. Affiliate billings are subject to review for these separate company financial statements just as any other transaction which gives rise to audited results. FPL has clear requirements to report its costs accurately in these audited financial statements.

In addition, the Company engages in its own active oversight of controls including affiliate billings through periodic, thorough internal audits as discussed in my direct testimony.

FPL has worked hard to earn the trust of its customers and regulators. Maintaining good affiliate cost allocation practices is vital to continuing to earn and maintain that trust. In order to achieve good affiliate cost allocation practices, FPL commits the necessary time and resources to ensure that customers of FPL do not bear any of the costs associated with affiliates.

Q. Does the budget and variance reporting process at FPL mitigate any risk which may exist to shift costs to the regulated companies?

A. Yes. One of FPL's primary management tools for controlling costs is the development and management of the departmental budget. Managers are charged with developing budgets and managing spending levels at or below budgeted amounts. The budget threshold for FPL is net of all affiliate billings. All variances to budget are analyzed and reported in detail to executive management. Managing costs is a key component of incentive plans. To the extent an FPL manager ignored the proper billing of affiliate support costs, he/she would risk a budget overrun and jeopardize their performance evaluation results and commensurate incentive compensation reward. Affiliates similarly use budgets as a management and performance tool, and their managers closely monitor charges coming in from FPL for the same reason. These positive tensions work to produce accurate financial reporting that complies with company procedures and Commission rules.

Q. Do you agree with OPC witness Dismukes' analogy on page 11 of her testimony that the expectation of affiliates to review their bills is like the fox watching the chicken coop?

A. No. Ms. Dismukes appears to have difficulty understanding the incentive for performance placed on employees of FPL Group. The affiliates' employees are also evaluated based on their performance against financial targets, including managing within their budgets. They review the detailed bills from FPL with as much attention as they would review bills from other vendors or suppliers, because all costs they incur have the same impact on their financial results. They will not hesitate to contest a charge that does not appear to be correct. This affiliate review is a valid control that helps ensure that charges are correct.

Q. Please describe the Company's policies concerning integrity, compliance with laws and regulations, record keeping, and information provided to regulators.

A. All employees of FPL and its affiliates are subject to the Company's Code of Business Conduct and Ethics (the "FPL Code"). The FPL Code in relevant part requires all representatives of the Company and its affiliates to: (1) act in accordance with the highest standards of personal and professional integrity and to comply with all applicable laws, regulations and Company policies; (2) maintain all records accurately and completely; and (3) ensure that the information provided to regulators is accurate and not misleading. All employees of FPL and its affiliates are required to review and commit to abide by the FPL Code.

Q. Is FPL subject to reporting requirements with respect to its affiliate transactions?

A. Yes. FPL's affiliate reporting provides a high degree of transparency concerning all of its dealings with its affiliates. FPL complies with strict affiliate accounting and reporting requirements mandated by the Commission.

Q. Do you agree with the comments made by OPC witness Dismukes on page 10 of her testimony regarding the direct charges FPL projected for 2009, 2010, and 2011 shown on Exhibit KHD-4?

A. No. Ms. Dismukes has understated the direct charges for the projected years 2009, 2010, and 2011 by failing to include the pole rental attachment fees to FiberNet, which are $1.6 million, $1.8 million and $2.0 million, respectively, for the projected years.

Q. Do you have any other concerns about Exhibit KHD-4?

A. Yes. Ms. Dismukes has used an incomplete source to obtain the direct charges for the historical years. As clarified in FPL's response to Attorney General's Second Set of Interrogatories, Question No. 74, the initial source for the information provided was limited to ER 99 work orders used in 2008. Her ER 99 work order data for prior years is therefore incomplete as charges for a work order used in 2007 are not included unless the work order was also used in 2008. Additionally, this process excludes amounts that may have been charged directly to the "intercompany receivable from affiliates" account and billed out as a direct charge.

Q. Page 10 of OPC witness Dismukes' testimony states that FPL's direct

charges to affiliates are lower in 2010 and 2011 than in 2008, and that FPL has not explained why these charges should be reduced so dramatically from 2008. Will you clarify this perceived discrepancy?

A. Yes. As is the case in most years, 2008 included incremental affiliate purchases and sales that represent additional costs billed to affiliates outside of the budgeted ongoing levels of support typically provided.

When FPL prepares its budget, it generally considers only the ongoing embedded support activities to be provided to affiliates in forecast periods. It cannot always anticipate unusual, incremental activities that might occur; and in fact it is unnecessary for FPL to do so. In addition, certain ongoing projects managed by FPL may be budgeted net of affiliate costs. For instance, in 2008 a substantial amount ($14 million) of the increased billings was due to charges associated with the SAP and the Nuclear Asset Management System (NAMS) implementations. Those projects will still be ongoing in 2010 but the Information Management (IM) business unit simply budgeted the FPL portion of those costs only and therefore, the direct bills that will occur in 2010 are not reflected in the estimates. This does not impact base rates however, as the vast majority of these costs are third party sourced whether integrator, project management, hardware or software. These costs are over and above the embedded FPL resource costs in that year as they are sourced outside of FPL. As peak, unexpected support, incremental projects or materials are requested by the affiliates during the year, those materials and services are supplied incrementally through third party sources. Incremental purchases and other incremental support that may be provided outside of the embedded operational costs of the utility are not relevant to setting future rates as a significant amount of the billed amounts to the affiliate will be sourced outside of utility embedded costs.

In addition, the 2008 direct bills included the charges to affiliates for rental of space and equipment totaling $6 million. These affiliate services are included in the 2010 forecast as revenue, not as direct bills. Therefore, the customer receives the benefits in reduced rates through an increase in forecasted revenue, rather than in the form of direct bill credits.

Q. Do you agree with the method described by OPC witness Dismukes on page 30 through 31 of her testimony to update the specific drivers of the Affiliate Management Fee (AMF) for the test years 2010 and 2011?

A. No. Ms. Dismukes has made the incorrect assumption that all of the specific drivers used in the AMF will increase over time. To address Ms. Dismukes' concern that the drivers were not current, FPL has provided drivers updated in the first quarter of this year as a part of its normal billing process to compare to those included in the rate filing. The drivers used for the test year forecasts and the new drivers are shown on Exhibit KO-14. The minor fluctuations between the two sets of drivers indicate that many of the new drivers actually decreased.

Q. Do you agree with the method described by OPC witness Dismukes on page 30 through 31 of her testimony to update the MW capacity used to allocate the Power Generation Division (PGD) executive payroll through the AMF for the test years 2010 and 2011?

A. No. FPL again used the most current information available at the time to develop the allocation factors. Contrary to Ms. Dismukes' testimony, this information already included 1,219 MW related to FPL's West County Energy Unit 1 and 864 MW of wind capacity for NextEra for 2009. FPL updated MW information used for these calculations as of the second quarter of 2009. Exhibit KO-15 shows the current forecasted relative MW of capacity, which are minimally different from those included in the filing.

Q. OPC's witness Dismukes is concerned that the Massachusetts Formula is a size-based allocation and it fails to reflect the benefit that FPL affiliates receive from the shared services. On page 21 through 23 of her testimony, she goes on to say that the Massachusetts Formula implicitly assumes that the larger the affiliate, the greater its received benefit from shared services. Is this a legitimate concern?

A. No. The objective of performing cost allocations to affiliates is to recover the *cost* of the shared services that the affiliates use in order to ensure that FPL's customers are not paying any *costs* that would result in a subsidy to those affiliates. Section (4) (c) of FPSC rule 25-6.1351 – Cost Allocation Principles states that indirect costs shall be distributed to each non-tariffed service and product provided by the utility on a fully allocated *cost* basis. There is no language anywhere in the rule that says the affiliates must pay for shared services based on the market value or benefits of the services received, and our methodology fully complies with the affiliate rule. Ms. Dismukes ignores the benefit that FPL and its customers receive from affiliate relationships. FPL has greater access to high quality resources without having to incur the full cost thereof.

Furthermore, the Company has employed the use of benefits drivers in instances where they can be derived. A current example of the use of a benefits driver for allocating costs is that of the SAP project. The Company has gone to great lengths to analyze each module of the SAP implementation and to determine the relative levels of benefit that each module provides to each affiliate that is participating in this implementation. The reason that a benefits driver is not used for the embedded corporate shared functions that are billed using the Massachusetts formula is that these activities generally represent governance, compliance or strategic endeavors that cannot be billed using a benefits analysis. In this case, size is a reasonable measure of the proper "beneficiaries" of these services.

Q. Do you agree with OPC witness Dismukes' assertion on page 21 through 23 of her testimony that the Massachusetts Formula is size based and is therefore inadequate for the allocation of shared services?

A. No. While I agree that the Massachusetts Formula results in larger allocations for larger companies, this result is entirely appropriate. Every indication we have supports the notion that larger companies have greater requirements for support as measured by their utilization of labor and other resources. To the extent we can identify a causal relationship between activities and support services, specific drivers are used to allocate costs. All of these allocations result in the larger companies receiving a larger share of costs. When a similar result occurs because of the application of the Massachusetts Formula for truly unattributable costs, it neither is unexpected nor inappropriate. It is for this very reason the Massachusetts Formula has been so widely accepted in the utility industry as well as by this Commission. No adjustment is necessary to the Massachusetts formula results.

Q. Please comment on OPC witness Dismukes' suggestion on page 33 of her testimony to use a 50/50 allocation of executive costs.

A. Ms. Dismukes acknowledges that the work performed by these executives is strategic and benefits the groups as a whole; however, she then dismisses the use of size based allocators as a means to share costs with no evidence for why the more sizable entity should not bear a greater portion of the costs. Her lengthy discussion that refers to the NextEra section of the annual report simply distracts from the reality that FPL's methods are appropriate, consistent with precedent and have resulted in charges to NextEra that appropriately track its growing status within FPL Group.

Q. On page 46 of OPC witness Dismukes' testimony, she recommends an adjustment to defer gains on sale of utility assets from 2007 and 2008 and amortize them over five years. Is this an appropriate adjustment?

A. No. Ms. Dismukes cites FPSC Docket No. 060657-GU, Order No. PSC-07-0913-PAA-GU, issued November 7, 2007. This order relates to the sale of an entire gas plant. The order also includes an embedded reference to FPL Docket No. 830465-EI, Order No. 13537, issued July 24, 1984. This order discusses the regulatory treatment for a gain on sale of land. These transactions represent sales of facilities and land, and Commission policy for the amortization of gains or losses on the sale of these entire systems and land parcels would be appropriate. However, Ms. Dismukes attempts to apply this Commission policy to FPL's sale of *retirement units* which were transacted in 2007 and 2008. Gains and losses that arise from the sale or interim retirement of *retirement units* of a utility are deferred to the balance sheet and accounted for in future depreciation. Specifically, for the FPL transactions analyzed by Ms. Dismukes in 2007 and 2008, when the FPL assets were sold, the original cost of the asset was debited to account 108 and credited to account 101. Then, as required by USOA and FPSC rules and practice, FPL recorded a debit to cash and a credit to account 108 for the sales proceeds at market in accordance with FPSC and FERC guidelines for retirement of plant in service *retirement units*. The customers will benefit from these gains through reduced return and decreased depreciation expense as is the requirement of the USOA and regulatory accounting practice for electric utilities. Therefore, Ms. Dismukes' recommendations represent a deviation from utility accounting rules and Commission practice and precedent.

Q. Please summarize your recommendations regarding affiliate adjustments as presented by Ms. Dismukes.

A. Ms. Dismukes' recommended adjustments are based on inappropriate trending and 50/50 allocations, and ignore the use of specific drivers and the long standing Massachusetts formula employed by the Company. Her suggested use of trending is clearly inappropriate. She is forecasting the historic trajectory of the growth in affiliates into the 2010 and 2011 timeframe, which quite ignores the constraints faced today in the capital markets which will make it impossible for historical rates of growth to continue. After the release of FPL Group second quarter earnings, the analyst community viewed NextEra prospects much more cautiously. A report released by Citi noted, "Management also mentioned their previously given long term outlook of bringing 7,000-9,000 MWs of new wind online is "overly optimistic". The company's outlook has changed primarily due to the effects of a slowing economy which is causing reluctance among counterparties, such as utilities, from signing new PPA's." Ms. Dismukes' adjustments ignore the reality of the marketplace in which we operate today, in favor of generalized, unsubstantiated assumptions. Her recommendations should not be adopted.

Q. Page 8 of OPC witness Dismukes' testimony states that FPL uses ER 99 work orders to capture direct charges from the affiliates to FPL. Is this correct?

A. No. Ms. Dismukes has the process reversed. FPL uses ER 99 work orders only to capture direct charges from FPL to the affiliates.

Q. OPC witness Dismukes states on page 9 of her testimony, that FPL does not retain the initial request to open a work order to direct-charge costs to affiliates, implying that this is a deficiency on the part of FPL. She goes on to recommend that FPL retain such documentation. Is this necessary?

A. No. FPL has sufficient work order controls in place for establishing and charging inter-company work orders. Only a small group of individuals are approved to open ER 99 intercompany work orders. And once a work order is established, control is maintained by strict review of charges. Details about the opening of the work order do not enhance controls. The work order itself is a key control for the documentation of work performed on behalf of affiliates. There is ample room provided on the work order screens to record information about the work order which includes a description of the work to be performed. The work order is also the mechanism used to recap the detail of charges that forms the basis for the affiliate's monthly bill. The bill lists all payroll and non-payroll charges made to the work order, as well as the names of the individuals and the hours that they charged to the work order. The work order charges are reviewed by FPL as well as by the affiliate that receives the charges. Clearly, the opening of the work order is not a control; rather the review of the usage is the control. Furthermore, the work order system is a paperless system. Requiring the company to maintain files with these requests would increase FPL's administrative burden as well as require additional storage media or physical space, which would translate to additional costs while not providing any additional benefit.

Q. On page 11 of OPC witness Dismukes' testimony, she claims that FPL should use direct time reporting rather than exception time reporting using fixed payroll distributions because if an employee fails to report a change in time reporting, the charges will be associated with the originating company, even if time was spent elsewhere. Is Ms. Dismukes correct?

A. No. If every employee had to input every work order number every two weeks for every activity or project performed, the amount of numbers keyed in could be so large that the risk of input errors would unacceptably high. Consider that each work order and charge location combination is 15 digits long. When one considers that the average employee has to account for at least 80 hours every two weeks, when multiplied by the number of employees at FPL, the amount of digits keyed in would be astronomical, and the risk of error would soar. Furthermore, requiring employees to charge their time directly or account for every hour worked would unfairly burden the many FPL employees who do not provide affiliate support and whose time reporting does not vary. This requirement would also increase non-productive time, as this is a very time-consuming process. This may lead to an increase in costs because it would require that FPL have more FTEs to perform the same amount of productive work. The proper approach is to use variable time reporting (which Ms. Dismukes refers to as direct reporting) for employees that engage in ongoing support of multiple entities and to use exception time reporting for those that do not. The transactional oversight associated with the payroll Sarbanes Oxley Act control process is intended to catch any inadvertent errors which concern Ms. Dismukes.

Q. On page 11 of OPC's witness Dismukes' testimony, she cites a 2008 internal audit of affiliate transactions and claims that there does not appear to be adequate follow-up of some direct payroll charges. Is this the case?

A. No, it was not the case. The law department was the group in question, and they stated that they did indeed review the payroll reports for labor charges to affiliates. The law department indicated that while they did review the payroll charges, they did not maintain a record of this review, which the auditors noted. In response to the auditor's report, the law department now maintains these reports. It should be noted that this was the only exception identified by Internal Audit during the review of the Affiliate Management Fee (AMF) and cost allocations in 2008 and that overall the report was very favorable. This is an indication that FPL's processes governing affiliate transactions and cost allocations are appropriate and that the controls are functioning properly, and that remedial action is taken promptly when a possible deficiency is brought to our attention. Note that in this very rate proceeding affiliate transactions and cost allocations were also extensively reviewed by the FPSC audit staff, and no exceptions were noted.

Q. On Page 14 of OPC witness Dismukes' testimony, she states that costs that are unattributable are assigned using five different fees. Is this correct?

A. No, this is incorrect. FPL's Cost Allocation Manual (CAM) states that shared administrative functions are allocated using five different fees. Ms. Dismukes characterizes all shared administrative functions as "unattributable." The word "unattributable" suggests that one cannot directly associate costs to the affiliate in question. Simply because an administrative function is shared does not make it unattributable. One of the five fees she describes as "unattributable" is the PGD Service Fee, which is based on direct charges and is fully attributable. The other service fees are based on assigned costs. The AMF uses specific drivers wherever possible. The Massachusetts Formula is used for those remaining costs which have no direct causal relationship and therefore could be considered unattributable.

Q. OPC's witness Dismukes asserts that costs included in the Affiliate

Management Fee are generally allocated using the Massachusetts Formula on page 14 through 15 of her testimony. Do you agree with this assertion?

A. No. Ms. Dismukes is incorrect when she says that these costs are generally allocated using the Massachusetts Formula. Actually, in 2008, 53 percent of the cost pool was allocated using specific drivers and only 47 percent was allocated using the Massachusetts Formula. Ms. Dismukes leaves the impression that most of our costs are allocated using the Massachusetts Formula; however, this is simply not the case. FPL goes to great lengths to identify causal relationships between costs and the activities that drive them in order to achieve a more precise distribution of shared costs among FPL and its affiliates.

Q. Is OPC witness Dismukes correct when she makes the statement on page 15 of her testimony that all of FPL Group's costs are directly charged to FPL and then allocated to the affiliates through the Affiliate Management Fee?

A. No. In her testimony she references OPC's First Set of Interrogatories, Questions No. 71 and 75 as the source of her statement. FPL's response to No. 71 states that FPL Group *related* costs are booked at FPL, not all FPL Group costs. FPL's response to No. 75 further explains that these FPL Group *related* costs include appropriate FPL Group executive payroll, which is then included in FPL's calculation of the AMF. Many of FPL Group's most sizable billings are direct charged by FPL Group to its subsidiaries, not allocated through the AMF. Examples include the cost of benefit plans such as pension and postretirement, medical and dental plans, as well as the 401K thrift plan. Share-based and deferred compensation costs for affiliate employees are also booked directly by the affiliates and are not initially recorded at FPL. Finally, FPL Group bills each subsidiary directly for its federal and state income tax obligation as if it were a stand-alone company in accordance with the FPL Group's tax sharing agreement.

Q. **On page 19 through 20 of OPC witness Dismukes' testimony, she alleges that FPL did not provide adequate support for its projections. Do you agree with this allegation?**

A. No. We have been entirely responsive to the discovery questions noted by Ms. Dismukes. For example, with respect to AG's Interrogatory, Question No. 38, Ms. Dismukes claims that FPL described the projection process, as requested, but did not provide work papers for the detailed projections. However, FPL pointed Ms. Dismukes to FPL's response to OPC's Second Request for Production of Documents, Question No. 106 for the 2009 and 2010 work papers and SFHHA's Interrogatory, Question No. 296 for 2011. These encompass the actual calculation files that FPL uses to create and record the AMF. These were also provided in electronic format. In addition to the more than 30,000 pages of documents that have been submitted in response to formal accounting discovery requests, FPL has participated in conference calls to provide requested clarification on these responses. FPL also agreed to answer over twenty very detailed informal discovery questions from OPC within a very short time period. FPL then provided further information on these discovery questions via an informal conference call with OPC and Ms. Dismukes. OPC acknowledged and expressed its appreciation for the tremendous effort FPL had made to provide complete and timely responses. We are puzzled by Ms. Dismukes' accusation that we have not been responsive.

Q. On page 21 of OPC witness Dismukes' testimony, she provides another example where she claims FPL provides only the amount of projections, not how the projections were developed. She also says there were no underlying calculations or other support provided concerning the projections. Do you agree that what FPL provided was inadequate?

A. No. The production request that she refers to is the backup for MFR C-30. Requests for production of documents require us to produce existing documentation only. The rules do not require us to create documentation that does not exist. FPL provided information at the lowest level of detail we had - the budgeted information from the individual business units. As Ms. Dismukes acknowledges, FPL even provided a five page document explaining the assumptions behind the projections. Her allegations that we have not provided adequate support have no merit. Her specific claims on the two production requests referenced as well as her general claim that FPL has not provided adequate support for its projections should be rejected.

Q. Do you agree with the AMF cost allocation percentages of 23 percent, 25 percent, and 26 percent proposed for NextEra operations for the respective years 2009, 2010 and 2011 as stated by OPC witness Dismukes on page 22 of her testimony?

A. No. Ms. Dismukes appears to have forgotten that the Seabrook, Duane Arnold and Point Beach nuclear plants are all part of NextEra's operations. While separate allocation percentages are developed for each plant, they should be added to the NextEra percentage to reflect the allocation to all operations. This would result in percentages of 31 percent, 33 percent and 34 percent for the respective years. As a result of this incorrect percentage, her calculation of the 2010 allocation to NextEra on page 23, line 3 is understated by $4.0 million.

Q. Do you agree with OPC witness Dismukes' observation on page 23 of her testimony that the cost per employee for corporate communications, general counsel and finance services as paid by FPL vs. its affiliates is unreasonable?

A. No. Ms. Dismukes attempts to demonstrate that the Massachusetts formula sized based allocation provides an unreasonable result when measured on a cost per employee basis. This is an analysis without merit. If a cost per employee were the cost driver of these services then the analysis would be valid; however, the cost incurred by FPL Group for these services is a function of compliance, risk management and strategy and governance, not a function of the number of employees in the business. Therefore, we allocated those costs to each entity using the Massachusetts formula which provided for a higher overall cost burden to be borne by FPL based on the three size based measures. To now test the reasonableness of this result by translating the cost to each entity into a cost per employee only proves that it was not allocated on a cost per employee basis.

Q. Do you agree with OPC witness Dismukes' assertion on page 19 of her testimony, that the labor costs projected for FiberNet indicate a problem with the labor components of the Massachusetts Formula used by FPL for the projected test years 2009, 2010, and 2011?

A. No. Ms. Dismukes again implies that averaging, or trending, is the appropriate method for forecasting future costs. As stated elsewhere in this testimony, Ms. Dismukes recommends several adjustments based on trending historical costs. Trending is not always appropriate, as history may contain activities or conditions that will not exist in the test years. The labor projections for FPL FiberNet are in line with their overall business plan and are therefore more precise than any trended approach. In fact, the use of a trend simply dismisses and ignores the more precise, budgeted data without proof of its weakness. It should also be noted that while FPL FiberNet is the only affiliate Ms. Dismukes takes issue with regarding the labor charges, its payroll only comprises about 1 percent of the total payroll in the Massachusetts Formula for each of the projected test years.

Q. On page 17 of her testimony, OPC witness Dismukes expresses concern about the FPL Group allocation factors used for FAS 87 costs being based on 2008 data and FAS 106 and Post Retirement costs being based on 2007 data, and the potential impact this has on the Affiliate Management Fee allocation. Is this a valid concern?

A. No. This concern is unfounded, as these FPL Group allocation factors are not used in the development of AMF Fee cost allocations. They are used to develop FPL's share of the FPL Group benefit plan costs. These benefit costs are then included in the calculation of the benefits payroll loading rate. FPL must use the latest available estimates from the actuary to calculate the test year impact of these costs. It would be quite costly to have the actuary roll forward the pension and postretirement calculations based on new census data as of January 1, 2009 and then to extrapolate this into new allocation factors. In fact, it could not be performed in time to do the filing. The relative changes in pensionable earnings and headcount used for the allocation of costs are typically immaterial and therefore, the lagged census data use is reasonable.

Q. OPC witness Dismukes suggests averaging the 2008-2010 growth rate for FPLES revenues instead of the annual amounts forecasted for use in the calculation of the Massachusetts Formula for the projected test years on page 18 of her testimony. Do you agree with this recommendation?

A. No. This is just another application of Ms. Dismukes' misguided view that using an average, or trending process, results in a more accurate forecast. Each affiliate provided their Massachusetts Formula components after developing a business plan for the forecast years. To imply that the results of this formal process are less accurate than using an average given the current economic environment is inappropriate.

REMOVAL OF FPL HISTORICAL MUSEUM EXPENSES

Q. On page 42 of OPC witness Dismukes' testimony, she recommends an adjustment to remove the 2010 and 2011 contributions made by FPL to the Historical Museum reflected as test year expenses. Is this an appropriate adjustment?

A. No. The FPL Historical Museum is a subsidiary of FPL that is charged with maintaining records and artifacts associated with the Company's long history in the state of Florida. These activities are important to the preservation of the historically significant information about the Company and the industry from its beginning in the early 20th century until today. The FPL Historical Museum costs are incurred by FPL and recorded as legitimate FPL operating costs. Therefore, it is inappropriate to make an adjustment to move such costs below the line and treat them as charitable donations.

FPL-NED

Q. On Ms. Dismukes' testimony, page 51, she claims that FPL-New England Division (NED) has benefited significantly because of its ownership by FPL, and as a result, when FPL transfers the assets of NED to another legal entity under FPL Group Capital, the transfer should occur at the higher of cost or market, as required by the affiliate rule. Do you agree?

A. No. FPL-NED provides transmission services to wholesale customers in New England. FPL-NED's operations and tariffs are regulated by the Federal Energy Regulatory Commission (FERC). It has no operations in Florida, and none of its assets, costs or operating expenses are recovered through retail rates. When an employee of FPL performs any work related to FPL-NED, the employee's time is direct charged to FPL-NED. In addition, FPL-NED's costs are included in the development of the affiliate management fee factor, and therefore FPL-NED receives its respective share of common costs. Finally, all FPL-NED activity is captured in separate point accounts which receive a jurisdictional separation factor of zero. Together, these procedures ensure that retail customers do not bear any costs associated with FPL-NED.

Q. On page 51 of her testimony, Ms. Dismukes states that FPSC affiliate rule 25-6.1351-3(d) would apply when the transfer of FPL-NED assets takes place, and that the assets should be transferred at the higher of net book value or market. Are the provisions of the affiliate rule applicable in this situation?

A. No. Section 3(d) of the affiliate rule applies the requirement that assets be transferred at the higher of net book value or market when an asset used in regulated operations is transferred from a utility to a nonregulated affiliate. This rule does not apply because FPL-NED assets have never been used in operation in any Florida retail jurisdiction regulated by the FPSC.

POWER MONITORING REVENUES

Q. On page 47 of Ms. Dismukes' testimony, she recommends an adjustment to the Power Monitoring Revenues in 2010 and 2011 because of conflicting data. Do you agree with her adjustment?

A. No. The conflict in the data she refers to is due to an item being mislabeled. The forecasted 2010 and 2011 amounts should be $0.89 million and $0.94 million, respectively. In an informal discovery response provided to OPC, the line labeled as Power Monitoring Revenues should have been labeled Regulation Service Revenues. This description change is supported by FPL's response to OPC's First Set of Interrogatories Question No. 55 where the same amounts are shown for 2006, 2007 and 2008 with a description of Regulation Service Revenues.

Even though FPL misidentified the account description, it does not impact the amounts forecasted for Power Monitoring revenues, which are properly reflected in FPL's MFR's. Therefore, the adjustment proposed by Ms. Dismukes as shown on her Exhibit KHD-15 is unnecessary and inappropriate.

REVENUE REQUIREMENT SHIFT TO CLAUSES

Q. On page 15 of Mr. Kollen's testimony, he claims that FPL is masking the full magnitude of the increases in non-fuel O&M expense because of Company Adjustments transferring \$20.9 million of 2010 O&M expense to clause recovery. Is this a true statement?

A. No, it is not. I clearly identified in my direct testimony in a section titled "Adjustments To Move Items Between Base Rates and Clause Recovery" the amounts and direction of all of the Company Adjustments that transfer items between base rates and clause recovery. Also, the footnote on the bottom of FPL's 2010 Test Year MFR A-1 specifically identifies the impact of the proposed Company Adjustment transfers between base and clause on FPL's total requested revenue increase. Lastly, as noted by Mr. Kollen in his testimony, the 2010 Test Year MFR Schedule C-36 shows the increase in FPL's non-fuel, non-clause O&M expenses for the years 2007 through 2010. This MFR Schedule shows the base recoverable O&M expenses before any Company Adjustment transfers from base rate recovery to clause recovery.

FPSC STAFF AUDIT REPORT

Q. FPSC Staff stated in its Audit Report that rate base in 2008 was overstated because three CWIP projects recovered through the Environmental Cost Recovery Clause (ECRC) were not removed from rate base. Did this error, identified in the Audit Report as Audit Finding No. 2, impact FPL's 2010 and 2011 test year rate base?

A. No, it did not. The last actual historical month included in the rate case forecast was September 2008. The problem identified in the Audit Report only affected the historical December 2008 rate base. The ECRC treatment of the solar CWIP projects, in question, was forecast correctly and all of the ECRC CWIP balances for 2008, 2010 and 2011 years were removed from rate base.

Q. FPSC Staff also stated in its Audit Report that revenue was overstated in 2008 because a revenue account included in the Fuel Cost Recovery clause was not removed from net operating income. Did this error, identified in the Audit Report as Audit Finding No. 3, impact FPL's 2010 and 2011 test year net operating income amounts?

A. No, it did not. The account in question records revenues from penalty fees associated with imbalance violations by transmission service customers. The problem identified in the Audit Report did not affect net operating income in the 2010 and 2011 test years because there was no penalty fee revenue included in the rate case forecast for the 2009, 2010 and 2011 years.

IDENTIFIED ADJUSTMENTS

Q. Please describe your Exhibit KO-16 summarizing adjustments to net operating income and rate base.

A. Exhibit KO-16 summarizes the adjustments FPL has identified as appropriate during the course of this proceeding. I will describe the significant items included in this Exhibit.

<u>American Recovery and Reinvestment Act of 2009 (Stimulus Bill)</u>

Q. Please summarize the impacts of the Stimulus Bill on the Company?

A. The American Recovery and Reinvestment Act of 2009 was signed into law on February 12, 2009. A section of the Stimulus Bill extended bonus depreciation for tax purposes for one additional year. In 2008, Congress temporarily allowed businesses to deduct for tax purposes the cost of capital expenditures made in 2008 faster than ordinary tax depreciation would allow. It permitted businesses to immediately deduct for tax purposes fifty percent of the cost of depreciable property. The Stimulus Bill extended this temporary tax benefit for capital expenditures incurred in 2009. FPL will take advantage of the extension of bonus depreciation and will deduct additional tax depreciation in year 2009 in the amount of $884 million. This amount was calculated by multiplying the 2009 additions by 50 percent and then multiplying the remaining amount by the Modified Accelerated Cost Recovery System (MACRS) accelerated tax depreciation rate. This additional tax depreciation deduction will increase the average accumulated deferred income taxes included in the capital structure for years 2010 and 2011 by approximately $288.3 million and $257.1 million, respectively (see Exhibit KO-16 Item 1). The change in the accumulated deferred income taxes has been reflected in the adjustments list with a reduction in the revenue requirements for the 2010 Test Year of $40.1 million and $35.9 million for the 2011 Subsequent Year.

In addition to bonus depreciation, the Stimulus Bill would allow taxpayers to elect grants in lieu of investment tax credits for certain renewable energy property (e.g., solar property). FPL will be placing in service during 2009 and 2010 solar projects which will be eligible for investment tax credits (ITC). ITC or Treasury grants in lieu of ITC on these solar projects have been included in the forecast for the test period and were inadvertently left in capital structure in the filing. We are including an adjustment, Item 18 in Exhibit KO-16, to remove those ITCs, as the benefit should be returned to customers in the Environmental Cost Recovery Clause along with the capital costs associated with those projects. There will be no difference in the treatment of the ITC if the grants are elected since the grants operate like the current law ITC.

Q. Does FPL expect to participate in the Stimulus Bill's Smart Grid Investment Grant Program?

A. Yes. FPL is currently planning to apply for a government grant under the competitive Smart Grid Investment Grant Program included in the Stimulus Bill.

FPL understands that the Department of Energy (DOE), in order to promote economic stimulus, intends to award funding to companies making certain smart grid-related investments that would otherwise likely not occur absent Federal funding (i.e., for either new, incremental projects or acceleration of projects). Accordingly, FPL currently plans to request funding for expenditures that were not included in either the 2010 or 2011 test years. In other words, any DOE funds received would cover only the related incremental expenditures over and above those currently incorporated in the MFRs. These are for projects such as transmission and distribution automation, and testing of customer response premise equipment. The application submittal date is August 6, 2009. However, the DOE is not expected to announce awards until October or November 2009. Depending on the scope of the award, if in fact FPL receives one, FPL would be able to provide an assessment of the potential benefits after the subsequent DOE contract negotiation period. However, as stated above, any funds received would only cover any incremental expenditures and would be recorded as a credit to plant-in-service causing no net increase or decrease in rate base.

Q. Does FPL also intend to seek to participate in the Stimulus Bill's program for plug-in electric vehicles (PHEVs)?

A. Yes. FPL has also applied to the DOE under other competitive Economic Stimulus Bill appropriated grant programs for funding to cover the incremental cost of converting some bucket trucks and company-owned passenger vehicles to PHEVs. FPL does not expect to know until late third or fourth quarter of 2009 whether any amounts will be awarded to the company. Again, the Company has already included the cost of the vehicles in the forecast and any incremental costs necessary to convert these vehicles will be covered by the stimulus funds.

Q. On page 62 of SFHHA witness Kollen's testimony, he recommends that the Commission should direct FPL to capture all tax benefits resulting from the Stimulus Bill, reflect them as a deferred tax liability, and review them in a future base rate proceeding. Do you agree?

A. No. The Company has a clear understanding now of the legislation and its impacts as it relates to this base rate filing and is recording those impacts today on its books and records. The Company has now included all the effects of the stimulus bill in its computation of the revenue requirements for the Test and Subsequent Years. The Company has provided the adjustment included on Exhibit KO-16 to reflect the benefits of bonus tax depreciation in 2009.

DOE Settlement (Exhibit KO-16 Items 3 and 4)

Q. On page 33 of SFHHA Witness Lane Kollen's testimony, he claims that FPL should include a $9.0 million adjustment to its 2010 Test Year revenue requirements to reflect ongoing refunds from the Department of Energy (DOE) related to the U.S. Government's failure to dispose of FPL's spent nuclear fuel. Do you agree?

A. I agree that FPL should make an updated adjustment to its 2010 Test Year revenue requirements to reflect new information regarding an expected recovery from the DOE; however I disagree with the amount of the adjustment Witness

Kollen is recommending. As indicated in witness Kollen's testimony (page 33, line 24-26) his adjustment to the test period revenue requirement uses, as a proxy for 2010 amounts, an amount reimbursed by the DOE that was based on expenditures incurred prior to the test period. The adjustment to the 2010 and 2011 test years to reflect the results of the DOE Settlement should be based on the level of expenditures included in the Company's 2010 and 2011 forecast.

Q. Has FPL calculated an amount that should be used to adjust its 2010 Test Year revenue requirements to reflect such an adjustment?

A. Yes, FPL's 2010 Test Year jurisdictional revenue requirements should be adjusted by $(6.9) million, representing the NOI impact and $(3.1) million, representing the rate base impact. These adjustments are based on the amount of capital and operations and maintenance expenses the Company has identified in its 2010 forecast that are expected to be reimbursed by the DOE, and apply the same recovery assumptions from FPL's settlement agreement with the DOE entered into on March 31, 2009 resolving FPL's damages incurred prior to 2008. FPL has calculated these adjustments to its 2010 revenue requirements associated with the expected reimbursement, and has included them as Items 3 and 4 of Exhibit KO-16.

Q. Has FPL calculated an adjustment to its 2011 Subsequent Year revenue requirements to reflect a similar adjustment?

A. Yes. FPL has calculated jurisdictional adjustments of $(7.8) million, representing the NOI impact and $(6.3) million, representing the rate base impact, to its 2011

Subsequent Year revenue requirements, and has included them as Items 3 and 4 of Exhibit KO-16.

<u>**CIS Costs (Exhibit KO-16 Items 11 and 12)**</u>

Q. Mr. Kollen asserts in page 36 through 37 of his testimony that FPL has treated preliminary CIS costs incorrectly for ratemaking purposes. Do you agree?

A. No. As Mr. Kollen acknowledges in his testimony, FPL is projected to expense $7.25 million in 2010 that can be attributed to cost associated with the CIS III system replacement project. The costs that are expensed include: 1) preparation of detailed project plan; 2) review of scope and preliminary project requirements; 3) approval of Scoping Study documentation; and 4) start of preparation for data conversion. This accounting treatment is in accordance with Statement of Position (SOP) 98-1: Accounting for the Costs of Computer Software. Mr. Kollen does not allege that the accounting treatment is incorrect, however he basically says that generally accepted accounting principles (GAAP) should be ignored and these costs should be appended to the CIS capitalized asset or deferred and amortized for ratemaking purposes. FPL has accounted for these costs correctly under GAAP and consistent with its historical application of GAAP in its regulated set of financial records. The FPSC has generally acknowledged that GAAP should be followed in setting rates. This deviation without any basis should not be allowed. If the Commission should choose to follow this recommendation, the Company will need to reverse substantial previously incurred expenses associated with the planning phase of its SAP and NAMS projects and defer and capitalize those expenses.

Q. **Mr. Kollen states on page 48 of his testimony that FPL should not have included any depreciation expense on the new CIS system until 2012. Do you agree?**

A. Yes. Mr. Kollen is correct. It was discovered in answering SFHHA's Tenth Set of Interrogatories, Question No. 288 that there was a problem in the projection of plant in service and depreciation expense regarding CIS III. As a result, depreciation expense is overstated by $0.5 million in 2010 and $4.9 million in 2011. Also, rate base is understated due to the accumulated depreciation in 2010 by $0.2 million and in 2011 by $2.3 million. These adjustments and their revenue requirement impacts are presented in the schedule of adjustments as my Exhibit KO-16 Items 11 and 12.

Nuclear Electric Insurance Limited (NEIL) Distribution (Exhibit KO-16 Item 2)

Q. **Why has the Company proposed an adjustment to increase 2010 and 2011 revenue requirements by $11 million related to an understatement of O&M expenses due to the forecast of NEIL Insurance Distributions?**

A. The Company is a member of Nuclear Electric Insurance Limited (NEIL) a nuclear industry mutual insurance group. NEIL determines annually, based upon its operating results and reserve status whether distributions will be made to member companies. These distributions, when received, are treated as a credit to O&M expense. Included in the Company forecast for 2010 and 2011 is the assumption of a distribution from NEIL of $11 million in each year; however, the Company had been alerted by NEIL in December 2008 to the possibility that poor investment performance in 2008 might affect NEIL's ability to make future distributions. In early 2009, when the 2008 performance became known, the Company should have revised its forecast to reflect the expectation of no distributions in 2010 and 2011 prior to filing its MFRs. This adjustment corrects that oversight.

Q. Does this conclude your rebuttal testimony?

A. Yes.

FPSC *CITE as 84 FPSC* 7:136

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of FLORIDA POWER AND LIGHT COMPANY for an increase in its rates and charges.	DOCKET NO. 830465-EI ORDER NO. 13537 ISSUED: 7-24-84

The following Commissioners participated in the disposition of this matter:

GERALD L. GUNTER, Chairman
JOSEPH P. CRESSE
JOHN R. MARKS, III
KATIE NICHOLS
SUSAN W. LEISNER

Pursuant to duly given Notice, the Florida Public Service Commission held public hearings in this docket on January 30, 1984, in Miami, Florida; February 3, 1984 in Fort Lauderdale, Florida; February 13, 1984, in Sarasota, Florida; February 16, 1984, in Daytona Beach, Florida; February 20, 1984, in Fort Myers, Florida; March 30, 1984, in Palm Beach Gardens, Florida, and in Tallahassee, Florida, on April 9-13, 16, and 18-20, 1984. Having considered the record herein, the Commission now enters its final order.

APPEARANCES: MATTHEW M. CHILDS, Esquire, JOHN T. BUTLER, Esquire, and CHARLES GUYTON, Esquire, Steel, Hector and Davis, Suite 320, Barnett Bank Building, 315 South Calhoun Street, Tallahassee, Florida 32301, and MORRIS SHELKOFSKY, Esquire, 9250 West Flagler Street, Miami, Florida 33152, for Florida Power and Light Company

JACK SHREVE, Esquire, Public Counsel, STEVE BURGESS, Esquire, CAROLYN OLIVE, Esquire, and STEPHEN FOGEL, Esquire, Office of Public Counsel, Room 4, Holland Building, Tallahassee, Florida 32301, for the Citizens of the State of Florida

THOMAS F. WOODS, Esquire, Woods & Carlson, 1030 East Lafayette Street, Suite 112, Tallahassee, Florida 32301, for Florida Hotel & Motel Association

GEORGE B. STALLINGS, JR., Esquire, P. O. Box 13, Ortega Station, 5411 Ortega Boulevard, Jacksonville, Florida 32210, for Florida Retail Federation

MILDRED E. V. PITTS, Esquire, Office of General Counsel - LK, Room 4002, 18th & F Streets, N.W., Washington, D.C. 20405, for General Services Administration

MARK H. RICHARD, Esquire, Law Offices of Neil Chonin, P.A., 304 Palermo Avenue, Coral Gables, Florida 33134, for Floridians United for Safe Energy, Inc.

IRA DANIEL TOKAYER, Esquire, 1626 Dade County Courthouse, 73 West Flagler Street, Miami, Florida 33130, for Metropolitan Dade County

JOHN W. MCWHIRTER, JR., Esquire, and JOSEPH A. MCGLOTHLIN, Esquire, Lawson, McWhirter, Grandoff & Reeves, 201 East Kennedy Boulevard, Suite 821, P. O. Box 3350, Tampa, Florida 33601, for Florida Industrial Power Users Group

Capital Structure

The ultimate goal of providing a fair return is to allow an appropriate return on equity investment in rate base. Because, as a general rule, sources of capital cannot be clearly associated with specific utility property, the Commission has traditionally considered all sources of capital (with appropriate adjustments) in establishing a fair rate of return.

The establishment of a utility's capital structure serves to identify the sources of capital employed by a utility, together with the amounts and cost rates associated with each. After establishing the sources of capital, all capital costs, including the cost of equity capital, are allocated according to their relative proportion to total cost of capital. The weighted components are then added to provide a composite or overall cost of capital. The weighted cost of capital multiplied by the net utility rate base produces an appropriate return on rate base, including a return on equity capital in rate base. The return is also sufficient to recover the annual cost of other types of capital, including debt.

Since a return on all sources of capital is provided by this treatment, actual debt and similar capital costs are not included in test year operating expenses, but are treated "below the line." This assures that such capital costs are not double-counted for ratemaking purposes.

An appropriate capital structure is both economical and efficient. Such a capital structure should minimize the cost of capital by obtaining capital through an appropriate balance of equity and the other components. The capital structure used for ratemaking purposes for a particular company should bear an appropriate relationship to the actual sources of capital to the Company.

Consistent with our decision to employ projected test periods in this case, we have decided to utilize the capital structures projected by the Company to be in place in the years 1984 and 1985. We have adjusted the system capital structure to remove capital that is not being utilized to fund the jurisdictional rate base. Such adjustments are necessary to reconcile rate base with capital structure. The types and proportions of capital will be developed in a following schedule.

We have also determined to use 13-month average capital structures with average cost rates.

Approved Capital Structure and Fair Rate of Return

Based upon our review of the record, we approve the following capital structures for 1984 and 1985:

the investment horizon and solving for the investor required rate of return, Mr. Clinger concluded the Electric Utility Index's DCF cost of common equity to be 15.0%.

To support his DCF analysis, Mr. Clinger presented a Capital Asset Pricing Model. The risk free rates used were the then current yields of long term treasury bonds. The market return was estimated by adding an equity-debt risk premium of 6.1% to the risk free rate. The 6.1% risk premium, representing the earned returns on long-term U.S. Treasury Bonds over the earned returns on common stock for the period 1926-1981, was obtained from the 1982 edition of Stocks, Bonds, Bills, and Inflation: The Past and Future by Ibbotson and Sinquefield. The beta values were obtained from Value Line. The CAPM indicated a cost of equity to the Electric Utility Index of 15.6%.

As a further check of his DCF analysis, Mr. Clinger presented an Earnings/Price Analysis. Using an expected earnings-per-share amount (current earnings adjusted for one period's growth) and the then current market price, the model yielded a cost of common equity to the index of 14.6%.

In addition to the DCF, CAPM, and E/P Analyses, Mr. Clinger presented an independently developed Risk Premium Regression Analysis. This approach assumes the cost of common equity is a function of the Company's cost of debt. Applying Eggert Economic Enterprises' consensus forecast of 1984 A+/A1 bond yields to his regression equation, Mr. Clinger determined FPL's 1984 cost of common equity to be 15.7%.

Based on his analyses, Mr. Clinger concluded the cost of common equity capital for FPL to be in the range of 15.1% - 15.7% with a midpoint of 15.4%. Mr. Clinger updated his testimony at the hearing, resulting in a recommended cost of common equity range of 15.1% - 15.8% with a midpoint of 15.45%.

We discount the use of the results of Dr. Langum's DCF analyses due to his use of expected dividend growth rates that do not reflect investors' long-term dividend growth expectations. We discount the use of Mr. Howard's DCF results because his quarterly DCF model is misspecified and misapplied. It fails to consider reinvestment (the time value of money), and does not produce a yield equivalent to the annual model. We discount Dr. Langum's, Mr. Howard's and Mr. Rothschild's use of the Comparable Earnings technique due to the inherent practical and conceptual problems associated with this technique which none of these witnesses were able to overcome. Based on the evidence in the record and a review of the equity costing methodologies presented, we adopt an allowed rate of return on common equity capital for Florida Power and Light Company of 15.60% for 1984 and 1985.

6. & 7. Tax Credits and Deferred Taxes

Certain tax credits are recognized as a source of capital having no cost to the utility, thereby reducing the overall cost of capital. Other tax credits are apparently required by the Internal Revenue Code to be allowed to earn the overall cost of capital calculated without regard to the existence of the tax credits. Deferred taxes arise from depreciation book-tax timing differences and are also treated as zero-cost capital. Public Counsel proposed that tax credits and deferred taxes be treated similarly to his suggestion for customer deposits: these balances should be unaffected by any disallowance of items in rate base that did not give rise to the credits or deferred taxes when rate base is reconciled with the capital structure. We believe tax credits and deferred taxes should be construed as supporting all assets on a pro rata basis. We therefore include

FPSC CITE as 84 FPSC 12:150

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Power and Light Company for an increase in its and charges.	DOCKET NO. 830465-EI ORDER NO. 13948 ISSUED: 12-28-84

The following Commissioners participated in the disposition of this matter:

GERALD L. GUNTER, Chairman
JOSEPH P. CRESSE
JOHN R. MARKS, III
SUSAN W. LEISNER
KATIE NICHOLS

ORDER GRANTING IN PART AND DENYING IN PART PETITIONS FOR RECONSIDERATION

BY THE COMMISSION:

By Order No. 13537, issued in this docket on July 24, 1984, we determined that Florida Power and Light Company (FPL or Company) should be authorized an increase in gross revenues of $81,464,000 for the test year 1984 and $114,984,000 for the 1985 "subsequent year" adjustment. FPL's request was for increases of $335,274,000 and $120,279,000 for 1984 and 1985, respectively.

By its Petition for Reconsideration Florida Power and Light Company has requested our reconsideration of the basis and method for applying the CPI and customer growth benchmark in this proceeding, our decisions on eleven specific operation and maintenance (O&M) issues, three working capital issues and the accounting treatment for the Turkey Point Spent Fuel Pits Litigation Items. The Office of Public Counsel filed a Cross Motion for Reconsideration and Response to FPL's Motion for Reconsideration. By his cross motion, Public Counsel alleged that the Commission had confiscated customer funds by its treatment of FPL's capital structure and that the Commission had failed to address Issue No. 31 related to unbilled revenues receiving a return as working capital. In his response to FPL's petition, Public Counsel supported the Commission's use of the CPI and customer growth benchmark in general and two specific adjustments to FPL's working capital. Additionally, the Commission Staff brought to our attention certain technical and mathematical errors in Order No. 13537, which were considered and resulted in increases to the final award.

After hearing oral argument on the petitions for reconsideration and considering the petitions and our Staff's recommendation on the matter, we have made certain adjustments which result in the 1984 test year gross annual revenue increase being raised to $84,103,000 and the 1985 subsequent year adjustment being increased to $120,447,000. The various issues on reconsideration and our resolution of them are described below.

Use of a Consumer Price Index and Customer Growth Index in Reviewing O&M Expenses

FPL asserts that the application of a CPI and customer growth benchmark is not a proper basis for quantifying the level of direct O&M expense to be allowed in setting rates for a utility. The utility argues that the use of such a benchmark is an abandonment of cost-based ratemaking and an inappropriate and arbitrary shifting of the burden of proof. We reject FPL's assertion.

We find that the remainder of the points raised by FPL have been adequately treated in Order No. 13537 and decline to restate the basis for our decisions. We reaffirm our order on those points and deny FPL's request that they be reconsidered.

Treatment of Capital Structure

Public Counsel contends that the Commission's treatment of deferred taxes, customer deposits and tax credits in the capital structure was improper and resulted in the confiscation of customer supplied funds. It is Public Counsel's argument that the proper treatment of deferred taxes, customer deposits, and tax credits is to fully reflect the per books amount of these sources in the jurisdictional capital structure.

We believe that Public Counsel's position is deficient in several important respects. First, the adjustments required to accurately reflect the forecasted jurisdictional capital structure are more detailed than simply prorating them over investor sources. The proper methodology would appear to be to have the Company reforecast its balance sheet, however, this is a time consuming process for which we presently have no procedure in place. Secondly, Public Counsel's methodology ignores the fact that customer deposits, deferred taxes and tax credits were part of the sources of funds used to finance CWIP, which was the subject of the largest rate base adjustment in this case. Thirdly, since it is generally agreed that funds cannot be traced, there is a concern that the IRS might look upon a reconciliation process that makes adjustments to all but the low-cost sources of funds as a method of reducing the return on JDIC.

Notwithstanding the above comments, there is some merit to Public Counsel's position. If we disallow something as an imprudent investment and remove it from rate base, then it should also be removed from the books of the Company. Whether an item is an imprudent investment should be clearly indicated by the Commission and will depend upon the reason it was disallowed. A clear example in this Company's previous rate cases was the removal from rate base of the atrium at FPL's general office for not being used in the provision of electric service. The atrium should be written off from equity and equity alone because it would clearly not be appropriate to prorate the atrium to customer deposits or other sources of funds. Thus, where it can be determined that a specific capital structure component may be adjusted for a disallowed item we will do so. Where such a determination cannot be made, we shall continue our practice of making prorata adjustments when reconciling capital structure to rate base, except for the removal of non-utility property and nonregulated subsidiaries directly from equity, and the use of a jurisdictional factor of 100% for customer deposits.

Treatment of Unbilled Revenues in Working Capital

Per Issue No. 31 in Prehearing Order No. 13176 in this docket, the issue was raised whether unbilled revenues should be excluded from the working capital allowance. The Company contended that unbilled revenues were utility related current assets that did not earn a separate return and, therefore, should be included in working capital. The Public Counsel, however, asserted that any amounts of the accrued unbilled revenues that were not previously recognized as revenues for regulatory purposes, or that accrued during a period in which those revenues

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for rate increase by Gulf Power Company.	DOCKET NO. 010949-EI ORDER NO. PSC-02-0787-FOF-EI ISSUED: June 10, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

APPEARANCES:

JEFFREY A. STONE, Esquire, RUSSELL A. BADDERS, Esquire, and R. ANDREW KENT of Beggs & Lane, 700 Blount Building, 3 West Garden Street, Post Office Box 12950, Pensacola, Florida 32576-2950 and RICHARD D. MELSON, Esquire of Hopping Green & Sams, P.A. 123 South Calhoun Street, Post Office Box 6526, Tallahassee, Florida 32314
On behalf of Gulf Power Company.

ALLEN ERICKSON, Major, DOUGLAS A. SHROPSHIRE, Lieutenant Colonel, USAFR, c/o USAF Utility Litigation Team AFCESA/ULT, 139 Barnes Drive, Tyndall AFB, Florida 32403
On behalf of Federal Executive Agencies.

MICHAEL A. GROSS, Vice President, Regulatory Affairs & Regulatory Counsel, 246 E. 6th Avenue, Tallahassee, Florida 32303
On behalf of Florida Cable Telecommunications Association.

JOHN W. MCWHIRTER, JR., McWhirter Reeves McGlothlin Davidson Decker Kaufman Arnold & Steen , P.A., 400 North Tampa Street, Suite 2450, Tampa, Florida 33601-3350 and VICKI GORDON KAUFMAN and TIMOTHY J. PERRY, McWhirter Reeves McGlothlin Davidson Decker Kaufman Arnold & Steen, ending May 31, 2003, is $22,113,000 and the cost rate is 9.70%. To the $22,113,000, the Company made adjustments to remove $4,201,000 of investment tax credits specifically identified with unit power sales contracts and to remove $920,000 of investment tax credits for the appropriate portion of other rate base adjustments which were made on a pro rata basis over all sources of capital. The result is total system adjusted investment tax credits of $16,992,000. The Company then applied a jurisdictional factor of .9760026 to this amount, resulting in adjusted jurisdictional investment tax credits of $16,584,000 with a cost rate of 9.70%. The cost rate is derived from long-term debt, preferred stock, and common equity.

On January 18, 2002, the Company revised its projected capital structure in Exhibit 2 to Mr. Labrato's deposition. The revised capital structure also reflects jurisdictional investment tax credits of $16,584,000, but alters the cost rate from 9.70% to 9.48%.

OPC's position is that the actual dollar amount is dependent on the adjustments to rate base and the cost rate is dependent upon the allowed return on equity.

We agree with OPC, but do not believe that there are any rate base adjustments that would affect investment tax credits. The result is that no adjustment is necessary and the balance therefore remains at $16,584,000. We recalculated the investment tax credit cost rate based on other adjustments and the return on equity, resulting in a 8.99% weighted average cost rate for the investment tax credits. Accordingly, we find that the adjusted jurisdictional investment tax credits of $16,584,000 with a weighted average cost of 8.99% for the May 31, 2003 projected test year is appropriate.

C. RECONCILING RATE BASE AND CAPITAL STRUCTURE

The Company presented its reconciliation of rate base and capital structure on MFR Schedules D-12a and D-12b. On January 18, 2002, the Company revised its projected capital structure in Exhibit 2 to Mr. Labrato's deposition. The Company made a specific adjustment to remove non-utility investment from equity and made specific adjustments to remove the unit power sales capital structure amounts from the per books capital structure balances. The Company also properly removed dividends declared from its capital structure. The remaining rate base adjustments required to reconcile the rate base and capital structure were made on a pro rata basis over all sources of capital. Finally, the jurisdictional factors were applied to these balances, resulting in the reconciliation of rate base and capital structure.

As stated, the Company removed all other rate base adjustments on a pro rata basis from all sources of capital. It has been our practice to make specific adjustments where possible and to prorate other rate base adjustments over investor sources only. However, Gulf's per books capital structure includes deferred taxes and investment tax credits that are being considered, along with the related assets, in cost recovery clauses. We believe that it is appropriate for the Company, in this case, to make pro rata adjustments for the remaining rate base items over all sources. This will allow the Company to match the related deferred taxes and investment tax credits with the assets being recovered through these clauses. For this reason it is appropriate to recognize the recovery clause treatment so as not to penalize the Company through the double counting of lower cost capital items.

OPC did not take issue with the methodology of reconciliation, but it did state that the actual reconciled amounts will depend on the rate base allowed. We agree with OPC and have also made a pro rata adjustment over all investor's sources of capital. We also agree with the revised capital structure provided in Mr. Labrato's deposition Exhibit 2. Accordingly, we find that with the specific capital structure adjustments and the pro rata adjustment, capital structure and rate base have been reconciled appropriately.

D. <u>RETURN ON EQUITY TO USE FOR ESTABLISHING GULF'S REVENUE REQUIREMENT</u>

For the reasons provided below, we find that the appropriate ROE to use in establishing Gulf's revenue requirement is 11.75%.

Mr. Benore, the Company's primary witness on cost of capital, based his ROE analysis on a group of 8 companies involved in the regulated electric utility business. He employed 9 risk measures to select this comparable risk group. These measures included a

(Millions of Dollars)

Assumptions:

- The only adjustment to total utility (System) rate base is clause net plant, which is equal to $700 million.
- The clause rate of return is calculated using total utility capital structure ratios and cost rates and equals 8.0%.
- Implicit in the rate of return on clause assets is a capital structure that supports the clause assets and rate of return.

	(1)			(2)	
Capital Structure Sources	**Total Utility Cap Struct**	Ratio	Cost Rate	**Clause Cap Struct**	Wtd COC
Long Term Debt	5,358	31.52%	5.55%	221	1.75%
Preferred Stock	0	0.00%	0.00%	0	0.00%
Common Equity	8,148	47.93%	12.50%	336	5.99%
Short Term Debt	161	0.95%	2.96%	7	0.03%
Customer Deposits	563	3.31%	5.98%	23	0.20%
Investment Tax Credits	57	0.33%	9.74%	2	0.03%
Deferred Income Tax	2,713	15.96%	0.00%	112	0.00%
Total	17,000	100.00%		700	8.00%

Base Rate Capital Structure = Total Utility Capital Structure - Clause Capital Structure

	Pro Rata Adjustment Over All Sources				Pro Rata Adjustment Over Investor Sources			
	(1)	(3)	(4)		(1)	(5)	(6)	
Capital Structure Sources	Total Utility (System) Cap Struct	Rate Base Adjustment	Adjusted Base Rate Cap Struct	Wtd COC	Total Utility (System) Cap Struct	Rate Base Adjustment	Adjusted Base Rate Cap Struct	Wtd COC
Long Term Debt	5,358	(221)	5,137	1.75%	5,358	(274)	5,083	1.73%
Preferred Stock	0	0	0	0.00%	0	0	0	0.00%
Common Equity	8,148	(336)	7,813	5.99%	8,148	(417)	7,731	5.93%
Short Term Debt	161	(7)	155	0.03%	161	(8)	153	0.03%
Customer Deposits	563	(23)	539	0.20%	563	0	563	0.21%
Investment Tax Credits	57	(2)	54	0.03%	57	0	57	0.03%
Deferred Income Tax	2,713	(112)	2,601	0.00%	2,713	0	**2,713**	0.00%
Total	17,000	(700)	16,300	8.00%	17,000	(700)	16,300	7.93%

Total Utility Capital Structure = Base Rate Capital Structure + Clause Capital Structure

	Pro Rata Adjustment Over All Sources			Pro Rata Adjustment Over Investor Sources		
	(4)	(2)	(7)= (4)+(2)	(6)	(2)	(8)=(6)+(2)
Capital Structure Sources	Adjusted Base Rate Cap Str	Clause Cap Struct	Total Utility Cap Struct	Adjusted Base Rate Cap Str	Clause Cap Struct	Total Utility Cap Struct
Long Term Debt	5,137	221	5,358	5,083	221	5,304
Preferred Stock	0	0	0	0	0	0
Common Equity	7,813	336	8,148	7,731	336	8,067
Short Term Debt	155	7	161	153	7	160
Customer Deposits	539	23	563	563	23	586
Investment Tax Credits	54	2	57	57	2	59
Deferred Income Tax	2,601	112	2,713	2,713	112	2,825
Total	16,300	700	17,000	16,300	700	17,000

Correct Result
Deferred Taxes only counted once

Incorrect Result
Deferred Taxes counted twice

There are $2713K of deferred taxes available to FPL. Properly done, these are divided between base and clauses as follows: $2601K (base) + $112K (clauses) = $2713K. OPC's adjustment would result, however, in taking the entire $2713K ($2601K + $112K) for base rates while still reflecting $112K for clauses. In other words, OPC's adjustment would result in the cost of capital reflecting $2825K of deferred taxes (i.e., ($2601K + $112K = $2713K)(base) + $112K (clauses) = $2825K), which is $112K more deferred taxes than FPL actually has (i.e., $2825K (reflected in cap structure)- $2713K (FPL actually has) = $112K).

Pro Rata Capital Structure
Adjustment - AFUDC-Eligible
CWIP Example
(Millions of Dollars)

Assumptions:

- The only adjustment to total utility (System) rate base is AFUDC eligible CWIP, which is equal to $1.8 billion.
- The CWIP AFUDC rate is calculated using total utility capital structure ratios and cost rates and equals 8.0%.
- Implicit in the AFUDC rate of return on CWIP balances is a capital structure that supports the CWIP asset and AFUDC rate of return.

Capital Structure Sources	(1) **Total Utility Cap Struct**	Ratio	Cost Rate	(2) **CWIP Cap Struct**	Wtd COC
Long Term Debt	5,358	31.52%	5.55%	567	1.75%
Preferred Stock	0	0.00%	0.00%	0	0.00%
Common Equity	8,148	47.93%	12.50%	863	5.99%
Short Term Debt	161	0.95%	2.96%	17	0.03%
Customer Deposits	563	3.31%	5.98%	60	0.20%
Investment Tax Credits	57	0.33%	9.74%	6	0.03%
Deferred Income Tax	**2,713**	15.96%	0.00%	287	0.00%
Total	17,000	100.00%		1,800	8.00%

Base Rate Capital Structure = Total Utility Capital Structure - CWIP Capital Structure

	Pro Rata Adjustment Over All Sources				Pro Rata Adjustment Over Investor Sources			
Capital Structure Sources	(1) Total Utility Cap Struct	(3) Rate Base Adjustment	(4) Base Rate Cap Struct	Wtd COC	(1) Total Utility Cap Struct	(5) Rate Base Adjustment	(6) Base Rate Cap Struct	Wtd COC
Long Term Debt	5,358	(567)	4,790	1.75%	5,358	(706)	4,652	1.70%
Preferred Stock	0	0	0	0.00%	0	0	0	0.00%
Common Equity	8,148	(863)	7,286	5.99%	8,148	(1,073)	7,075	5.82%
Short Term Debt	161	(17)	144	0.03%	161	(21)	140	0.03%
Customer Deposits	563	(60)	503	0.20%	563	0	563	0.22%
Investment Tax Credits	57	(6)	51	0.03%	57	0	57	0.04%
Deferred Income Tax	2,713	(287)	2,426	0.00%	2,713	0	**2,713**	0.00%
Total	17,000	(1,800)	15,200	8.00%	17,000	(1,800)	15,200	7.80%

Total Utility Capital Structure = Base Rate Capital Structure + CWIP Capital Structure

	Pro Rata Adjustment Over All Sources			Pro Rata Adjustment Over Investor Sources		
Capital Structure Sources	(4) Base Rate Cap Struct	(2) CWIP Cap Struct	(7) = (4) + (2) Total Utility Cap Struct	(6) Base Rate Cap Str	(2) CWIP Cap Struct	(8) = (6) + (2) Total Utility Cap Struct
Long Term Debt	4,790	567	5,358	4,652	567	5,219
Preferred Stock	0	0	0	0	0	0
Common Equity	7,286	863	8,148	7,075	863	7,938
Short Term Debt	144	17	161	140	17	157
Customer Deposits	503	60	563	563	60	622
Investment Tax Credits	51	6	57	57	6	63
Deferred Income Tax	2,426	287	2,713	2,713	287	3,000
Total	15,200	1,800	17,000	15,200	1,800	17,000

Correct Result	**Incorrect Result**
Deferred Taxes only counted once	Deferred Taxes counted twice

There are $2713K of deferred taxes available to FPL. Properly done, these are divided between base and AFUDC-eligible CWIP as follows: $2426K (base) + $287K (CWIP) = $2713K. OPC's adjustment would result, however, in taking the entire $2713K ($2426K + $287K) for base rates while still reflecting $287K for CWIP. In other words, OPC's adjustment would result in the cost of capital reflecting $3000K of deferred taxes (i.e., ($2426K + $287K = $2713K)(base) + $287K (CWIP) = $3000K), which is $287K more deferred taxes than FPL actually has (i.e., $3000K (reflected in cap structure) - $2426K (FPL actually has) = $287K).

Dismantlement Productivity Factors Comparison

Comparison of Power Stations Fossil Fuels per R.S. Means Building Construction Data 2008 with NUS Productivity Factors

Structural Steel	range	Unit	Installation [1] MH per ton	Demolition Adjustment [2]	R.S. Means Demolition MH per ton	Productivity Factors Used in FPL's Study
Extra Heavy/Heavy	**minimum**	per ton	11.636	30%	3.49	2.50 - 3.30
General or Light	**maximum**	per ton	22.456	30%	6.74	4.40 - 7.10

Reinforced Concrete	square footage 2' X 3' ft slab	Convert to CY 6 sq ft/27	Demolition MH per .222 CY [3]	Convert to CY (1/.222)	MH per CY factor (.32 X 4.5)	Productivity Factors Used in FPL's Study
Foundations	6	0.222	0.32	4.5	1.45	1.20

R.S. Means productivity factors support those used in FPL's fossil dismantlement study.

[1] These productivity factors are for installation of structural steel for fossil power plants from R.S. Means Building Construction Data, 2008.

[2] R.S. Means conversion factor for installation productivity factors to demolition productivity factors.

[3] R.S. Means demolition factor for footings and foundations.

Florida Power & Light Company

Affiliate Management Fee Specific Cost Drivers

Specific Drivers	Description	Test Year's Drivers	Updated Drivers	Difference	Notes
c4	Headcount Incl. Affiliates	29.18%	29.98%	0.80%	
c5	Headcount Excl. Affiliates	1.37%	1.37%	0.00%	(1)
c6	Sq Ft Avg Incl. Subs	13.78%	16.83%	3.05%	
c7	Sq Ft - GO	7.19%	5.61%	-1.58%	
c8	Sq Ft - JB	22.11%	29.03%	6.92%	
c9	Average of Shared Benefit Capitalized Software Drivers	23.01%	22.00%	-1.01%	
c10	Average of Shared Benefit Capitalized Hardware Drivers	15.99%	14.93%	-1.06%	
ec1	FTEs of cafeteria bldgs JB, GO, LFO, CSE, PTN, & PSL	9.45%	9.45%	0.00%	(3)
hr2	GO Building Affiliate FTE %	9.11%	8.08%	-1.03%	
hr3	JB Building Affiliate FTE %	30.08%	35.92%	5.84%	
hr4	LFO Building Affiliate FTE%	3.73%	5.86%	2.13%	
hr5	Well Program FTE%	8.25%	11.99%	3.74%	
X1	Adjusted number of workstations per business unit for Desktop support (W/S Model #1)	1.98%	2.20%	0.22%	
X2	Actual number of workstations per business unit. (includes Subsidiaries) (W/S Model #2)	24.61%	26.50%	1.89%	
X4	Actual number of mainframe MVS CPU hours by business unit.	5.61%	8.40%	2.79%	
X7	Actual number of workstations per business unit. (includes Subsidiaries), excludes ECCR charges	24.61%	26.50%	1.89%	
XF	Actual number of workstations per business unit. (includes subsidiaries in FPL utility facilities)	5.92%	6.10%	0.18%	
XN1	SAP Volume of Trans by Business Unit (FPLE Support)	24.16%	24.20%	0.04%	
XS1	Based on server ownership information - IM percent allocated out by total workstation count	28.58%	32.20%	3.62%	
XS2	Datacenter alloc. based on server located in GO and JB - IM percent alloc. by total workstation count	25.92%	20.20%	-5.72%	
XS3	Shared DASD allocation based on server and datacenter models	26.58%	23.40%	-3.18%	
Y2	Actual number of workstations per business unit. (includes Subsidiaries) (W/S Model #2)	22.00%	23.90%	1.90%	
Y3	Based on documents processed by BU	8.14%	18.80%	10.66%	
Y7	Actual number of workstations per business unit (Inc subs in FPL facilities) (W/S Model #4)	5.15%	6.00%	0.85%	
Y8	Actual number of mainframe MVS CPU hours by business unit.	5.44%	8.10%	2.66%	
YK	Actual % of FPL's subsidiaries workforce as a % of total FPL workforce for subs allocation.	19.94%	26.20%	6.26%	
YN	Actual % of FPL's subsidiaries SAP transacts. as a % of total FPL transacts. for subs allocation.	1.30%	1.30%	0.00%	(2)
YS1	Based on server ownership information - IM percent allocated out by total workstation count	23.75%	27.90%	4.15%	
YS2	Datacenter alloc. based on server located in GO and JB - IM percent alloc. by total workstation count	21.46%	16.30%	-5.16%	
YS3	Shared DASD allocation based on server and datacenter models	22.03%	19.20%	-2.83%	

Notes:

(1) Driver was set up but was never used to allocate costs.
(2) Driver was updated and did not change
(3) Driver was not updated but the impact is immaterial.
The EC1 Driver is applied to about $0.5M of the cost pool and represents about $0.05M of the 2010 AMF

Florida Power & Light Company

Updated PGD MW Capacity & Allocated Payroll

FPL Capacity Adjustments	**2009**	**2010**	**2011**
MW Capacity per Forecast	19,753	19,753	19,753
Adjustments to Existing Capacity	(31)		
Add Prior Year Corrections		(31)	1,188
Additions Per Latest Forecast:			
West County Energy Center 2		1,219	
West County Energy Center 3			1,219
Latest Forecasted Capacity for Year	19,722	20,941	22,160

NextEra Capacity Adjustments	**2009**	**2010**	**2011**
MW Capacity per Forecast	14,841	14,841	14,841
Adjustments to Existing Capacity	34		
Add Prior Year Corrections		1,009	2,009
Additions Per Latest Forecast:			
Unidentified Wind	975		
Unidentified Wind		1,000	
Unidentified Wind			1,400
Latest Forecasted Capacity for Year	15,850	16,850	18,250

Updated MW's and Allocation Factor			
FPL MW	19,722	20,941	22,160
NextEra MW	15,850	16,850	18,250
Total	35,572	37,791	40,410
FPL MW Ratio	55.4%	55.4%	54.8%
NextEra MW Ratio	44.6%	44.6%	45.2%

FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
SUMMARY OF 2010 TEST YEAR & 2011 SUBSEQUENT YEAR ADJUSTMENTS

Category Affected	Item No.	Adjustments/Corrections Affecting Company Per Book Amounts	Impact on 2010 Retail Revenue Requirements Increase/(Decrease) ($000)	Impact on 2011 Retail Revenue Requirements Increase/(Decrease) ($000)
CAP STR	1	Adjustment to reflect the impact of the American Recovery and Reinvestment Act of 2009 (Stimulus Bill) that were not known at the time of filing of the MFRs. This adjustment results in an increase in zero cost accumulated deferred income taxes in the amount of $288,261,000 in 2010 and $257,087,000 in 2011. See discussion in rebuttal testimony of FPL witness Kim Ousdahl.	($40,068)	($35,860)
NOI	2	O&M expenses are understated due to the forecast of NEIL Insurance Distributions budgeted at $11M. The forecast should not have included any distributions. Correction of this oversight reduces pretax NOI in the amount of $11,093,959 in 2010 and 2011. See discussion in rebuttal testimony of FPL witness Kim Ousdahl.	$11,019	$11,013
NOI	3	Adjustment for anticipated operating expenses expected to be reimbursed by the DOE pursuant to the nuclear spent fuel settlement agreement. The adjustment is an increase to pretax NOI resulting from a decrease in operating expenses (O&M, property taxes and depreciation expense) of $7,022,000 in 2010 and $7,892,000 in 2011. See discussion in rebuttal testimony of FPL witness Kim Ousdahl. See item 4 for rate base impact.	($6,962)	($7,819)
RB	4	Adjustment for anticipated capital expenditures expected to be reimbursed by the DOE in 2010 and 2011 pursuant to the nuclear fuel settlement agreement. The adjustment results in a decrease in rate base of $26,759,000 in 2010 and $53,205,000 in 2011. See discussion in rebuttal testimony of FPL witness Kim Ousdahl. See item 3 for NOI impact.	($3,124)	($6,314)
NOI	5	Affiliate payroll loadings were understated, resulting in an overstatement of O&M expense. The payroll amounts were not affected, as Forecasting used data from the BUs to get the final payroll dollars. Correction of this error results in an increase in pretax NOI of $3,915,580 in 2010 and $4,169,643 in 2011.	($3,896)	($4,147)
NOI	6a	Late payment fee revenues at the current rate of 1.5% are calculated based on a percent of total revenue and are overstated because they were based on older version of the revenue forecast than what was used to develop the final projections of the Test Years forecast. As a result, late payment fee revenues at current rates are overstated by $7.4 million in 2010 and 7.0 million in 2011.	$7,386	$7,001
NOI	6b	Bad debt expense and Working Capital are understated (since the accumulated provision for uncollectible accounts is overstated) because bad debt was calculated on an older version of the revenue forecast and economic variables than those used to develop the final projections for the Test Years. Correction results in a decrease to pretax NOI (increase to O&M expense) of $3,805,000 in 2010 and $1,984,000 in 2011. See item 8 for rate base impact and item 7 for revenue expansion factor impact. Note that this NOI impact has been adjusted for the portion related to clauses which is removed by company adjustment.	$1,481	$756
REV EXP FACTOR	7	Bad debt expense and Working Capital are understated (since the accumulated provision for uncollectible accounts is overstated) because bad debt was calculated on an older version of the revenue forecast and economic variables than those used to develop the final projections for the Test Years. This correction results in an increase in the revenue expansion factor of 0.042% in 2010 and 0.014% in 2011. See item 8 for rate base impact and item 6 for NOI impact.	($441)	($184)

RB	8	Bad debt expense and Working Capital are misstated (since the accumulated provision for uncollectible accounts is misstated) because bad debt was calculated on an older version of the revenue forecast and economic variables than those used to develop the final projections for the Test Years. Correction results in an increase to rate base of $584,000 in 2010 and a decrease of $398,000 in 2011. See item 6 for NOI impact and item 7 for revenue expansion factor impact.	$69	($48)
NOI	9	Adjustment to reflect increase in expected state unemployment tax rates that was inadvertently not reflected in MFRs. Correction of this error results in a decrease to pretax NOI (increase to taxes other than income) in the amount of $980,000 in 2010 and $979,000 in 2011.	$975	$974
NOI	10	Forecast service charge revenues were inadvertently reduced by expected bad debts on the full amount of late payment revenues rather than on the incremental change in late payment revenues resulting from the proposed change to the late payment charge. Correction of service charge revenues results in an increase in pretax NOI of $751,895 in 2010 and $775,931 in 2011.	($752)	($776)
NOI	11	Correction of error in projection of plant in service and depreciation exp related to CIS III that resulted in an overstatement of depreciation expense and an understatement of net plant in service. Correction of these errors result in and an increase to pretax NOI (decrease to depreciation expense) of $504,000 in 2010 and $4,881,000 in 2011. See item 12 for rate base impact.	($437)	($4,228)
RB	12	Correction of error in projection of plant in service and depreciation exp related to CIS III that resulted in an overstatement of depreciation expense and an understatement of net plant in service. Correction of these errors result in an increase to rate base of $151,000 in 2010 and $2,267,000 in 2011. See item 11 for NOI impact.	$15	$235
RB	13	Correction of error in the original forecast of the storm liability for 2004 storms (account 253.186) results in an decrease in the working capital liability and therefore an increase in per book rate base of $1,825,000 in each of 2010 and 2011.	$214	$217
RB	14	Correction of an understatement of Fuel stock account FERC account 151. The forecast was not updated to reflect the most recent estimate of fuel stock. MFR B-18 is correct, but B-17, B-6, B-5, B-3, B-1 are not. Correction results in an increase to per book rate base of $1,716,000 in 2010 and a decrease of $10,694,000 in 2011.	$199	($1,261)

Category Affected	Item No.	Adjustments/Corrections Affecting Company Adjustments	Impact on 2010 Retail Revenue Requirements Increase/(Decrease) ($000)	Impact on 2011 Retail Revenue Requirements Increase/(Decrease) ($000)
NOI	15	Overstatement of depreciation rate for account 354 by 0.9% (from 3.58% to 2.68%) resulted in an overstatement of depreciation expense and an understatement of net plant due to the accumulated depreciation effect. Correction of this error results in an increase to pretax NOI (decrease to depreciation expense) of $3,487,000 in 2010 and $3,631,000 in 2011. See item 16 for rate base impact.	($3,430)	($3,621)
RB	16	Overstatement of depreciation rate for account 354 by 0.9% (from 3.58% to 2.68%) resulted in an overstatement of depreciation expense and an understatement of net plant due to the accumulated depreciation effect. Correction of this error results in an increase to rate base of $1,743,500 in 2010 and $5,302,500 for 2011. See item 15 for NOI impact.	$205	$633
CAP STR	17	The Company inadvertently excluded the impact to accumulated deferred income taxes resulting from the company adjustment to include the impact of the change in depreciation rates indicated by its depreciation filing. Correction of this error resulted in a decrease in the accumulated deferred income tax liability for the test year in the amount of $16,508,000 in 2010 and $50,938,000 in 2011.	$1,928	$6,050

CAP STR	18	The company adjustment to remove solar plant amounts from base rates for clause recovery did not include the removal of the related investment tax credit from the base rates capital structure. Correction of this error results in a decrease to ITC in the amount of $57,622,486 in 2010 and $188,709,329 in 2011.	($1,544)	($3,988)
RB	19	Correction of overstatement to working capital resulting from an error in the amount of spent fuel inventory used in company adjustment # 41 to eliminate the nuclear fuel lease and bring the nuclear fuel inventory back onto FPL's books. The correction results in a reduction of rate base in the amount of $3,810,820 in 2010 an $3,835,125 in 2011.	($446)	($455)
NOI	20	Incremental Hedging Costs Error. The MFR C-2 company adjustment adding incremental hedging back to base rates from clause recovery moved too much expense in base rates, resulting in an overstatement of O&M in the amount of $52,908. Amount on C-42 is correct. Correction of this error results in an increase to pretax NOI of $52,908 in each of 2010 and 2011.	($52)	($52)
SUBTOTAL ADJUSTMENT IMPACTS - NET DECREASE IN REVENUE REQUIREMENTS			**($37,661)**	**($41,874)**
NOI & RB	21	Adjustment to account for the effects of removing the costs and revenues associated with FPL's firm long-term transmission service contracts from the retail jurisdiction. Jurisdictional rate base is overstated by $261,720,000 in 2010 and $286,794,000 in 2011. Jurisdictional pretax NOI is overstated by $7,924,000 in 2010 and $7,812,000 in 2011. See Exhibit JAE-11 in rebuttal testimony of FPL Witness Ender.	($22,975)	($26,615)
TOTAL ADJUSTMENT IMPACTS - NET DECREASE IN REVENUE REQUIREMENTS			**($60,636)**	**($68,489)**