

**BEFORE THE FLORIDA  
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 080677-EI & NO. 090130-EI  
FLORIDA POWER & LIGHT COMPANY**

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

**REBUTTAL TESTIMONY & EXHIBITS OF:**

**K. MICHAEL DAVIS**

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
**FLORIDA POWER & LIGHT COMPANY**  
**REBUTTAL TESTIMONY OF K. MICHAEL DAVIS**  
**DOCKET NO. 080677-EI & NO. 090130-EI**  
**AUGUST 6, 2009**

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

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

**Q. By whom are you employed and what is your position?**

A. I am employed by Florida Power & Light Company ("FPL" or the "Company") as Vice President and Chief Accounting Officer.

**Q. Please outline your educational qualifications and experience.**

A. I hold a Bachelor of Science degree in Business Administration, with a major in Accounting from the University of Florida. I was employed for approximately 18 years by Deloitte Haskins & Sells, Independent Public Accountants (presently Deloitte & Touche). In December 1988, I was employed by FPL and have served as its Chief Accounting Officer on a continuous basis since that date. I am a Certified Public Accountant in the state of Florida, and a member of the American Institute of Certified Public Accountants and the Florida Institute of Certified Public Accountants. I am a member and past chairman of the Accounting Executive Advisory Committee of the Edison Electric Institute (EEI). That group is composed of Chief

1 Accounting Officers from utilities that are members of EEI and oversees the  
2 activities of the various accounting committees of EEI and advises senior EEI  
3 committees on accounting issues.

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

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

- 6 • KMD-1, Effect of Theoretical Reserve Surplus on 2010 Revenue  
7 Requirements
- 8 • KMD-2, Revenue Requirement Impact of Proposed Amortization
- 9 • KMD-3, Comparison of Book Depreciation Reserve and Theoretical  
10 Reserve for Nuclear Uprates
- 11 • KMD-4, Stranded Investment Recovered from Customers in Other  
12 States

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

14 A. The purpose of my rebuttal testimony is to respond to certain  
15 recommendations made by the Office of Public Counsel's (OPC's) witnesses  
16 Pous and Lawton, South Florida Hospital and Healthcare Association's  
17 (SFHHA's) witness Kollen, and Florida Industrial Power Users Group's  
18 (FIPUG's) witness Pollock related to depreciation expense. I will address the  
19 theoretical reserve surplus recommendations of these witnesses; FPL rebuttal  
20 witness Clarke will provide comments on the various depreciation parameter  
21 changes proposed by these witnesses. I will also address the appropriate use of  
22 capital recovery schedules within FPL's depreciation study.

1 My rebuttal testimony will demonstrate why FPL's proposed treatment of the  
2 depreciation reserve surplus and capital recovery schedules in this case is both  
3 consistent with Commission practice and, most importantly, in the best  
4 interest of FPL's customers. Specifically with regard to the depreciation  
5 reserve surplus I will demonstrate that the intervenor witnesses have painted  
6 an incomplete picture for the Commission by showing only the near term  
7 customer "savings" resulting from a rapid amortization of the surplus and  
8 ignoring the significant rate increase which would immediately follow. This  
9 rate increase would be a direct and unavoidable consequence of the rapid  
10 amortization and would exceed the short term savings recommended by the  
11 intervenor witnesses in both magnitude and duration.

12

13

### SUMMARY

14

15 **Q. Please summarize your rebuttal testimony.**

16 A. The following is a summary of my rebuttal testimony:

17

1. Theoretical reserve surpluses and deficits only involve a question of  
18 when a customer is charged for use of the assets necessary to provide  
19 service, not whether the customer should be charged. As such it is a  
20 question of the timing of expense recognition.

21

2. FPL's current theoretical reserve surplus provides a benefit to  
22 customers.

- 1                                   • As shown in my Exhibit KMD-1, FPL’s revenue requirements  
2                                   in this case are \$216 million lower as a direct result of the  
3                                   theoretical reserve surplus.
- 4                                   • Theoretical reserve surpluses reduce revenue requirements  
5                                   because they reduce rate base. In contrast, rapid amortization  
6                                   of a reserve surplus (as recommended by the intervenors)  
7                                   would provide an artificial, unsustainable short term rate  
8                                   reduction and would rapidly increase rate base over the term of  
9                                   the amortization. The end result in FPL’s case would be a rate  
10                                  shock to our customers that would significantly exceed the  
11                                  artificially lower rates in the short term.
- 12                                  • The theoretical reserve surplus lowers the risk of cost  
13                                  increases from premature retirements due to external factors,  
14                                  such as technological changes, climate legislation, hurricanes,  
15                                  etc. remaining in rate base and having to be collected after the  
16                                  customer is no longer benefiting from the asset.
- 17                                  3. The theoretical reserve surplus should be addressed through the  
18                                  Commission’s long established policy of using the remaining life  
19                                  depreciation methodology. This approach promotes rate stability  
20                                  because the theoretical reserve surplus is returned over the remaining  
21                                  life of the asset at the same time that other risks to the affected assets  
22                                  decline.

- 1                   4. Intervenor witnesses Pous, Lawton, Kollen and Pollock focus solely  
2                   on short-term rate reductions and completely ignore the large rate  
3                   increase of up to \$478 million that would be necessary just a few years  
4                   later, solely as a result of their recommendations. This assumes the  
5                   amortization of the full \$1.245 billion over four years. It should be  
6                   noted that the effects of this rate increase will continue for an extended  
7                   period of time. As can be seen from my Exhibit KMD-2, witness  
8                   Pous' recommendation would result in a \$233 million rate reduction in  
9                   2010, but that would become a \$399 million rate *increase* starting in  
10                  2014; witness Pollock's recommendation would result in a 2010 rate  
11                  reduction of \$125 million followed by a \$234 million increase starting  
12                  in 2014; and witness Kollen's recommendation would decrease rates  
13                  by \$249 million in 2010 then increase them starting in 2015 by \$415  
14                  million.
- 15                 5. This would be a particularly poor result given that FPL will be adding  
16                 more than \$16 billion to rate base over the next five years.
- 17                 6. The theoretical reserve surplus reflects actions benefiting customers.
- 18                     • The use of innovative depreciation accruals such as revenue  
19                     based depreciation.
  - 20                     • Rate agreements that left depreciation rates unchanged for an  
21                     extended period.
  - 22                     • An extension of the term of the operating licenses for FPL's  
23                     nuclear plants.

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- Life extensions for other operating assets.

7. Mr. Pous overstates the near term benefits of amortizing the theoretical reserve surplus over a short period because he failed to consider the effects the theoretical reserve surplus has on current depreciation rates.

## THEORETICAL RESERVE

**Q. Please explain the concept of a theoretical reserve.**

A. A theoretical depreciation reserve is a *calculated* rather than an *actual* depreciation reserve. It is used as a guide in analyzing the status of the actual reserve. The actual depreciation reserve represents the total amount of depreciation accumulated on assets still in service from their in service date to the present. The theoretical reserve is not an exact measurement for determining the condition of the actual reserve. It is only a reference point calculated at a point in time, based on the proposed depreciation parameters and reflecting the Commission's required use of the prospective method. Also, the theoretical reserve gives no consideration to the manner in which the assets in question are being utilized or historical factors that affected the actual amount recorded in the depreciation reserve.

The theoretical depreciation reserve represents a snapshot look at where the accumulated provision for depreciation would be at a specific point in time, based on specific assumptions about the future. This is then compared with

1 the accumulated provision for depreciation actually reflected in the  
2 Company's books and records. The difference between these two amounts is  
3 known as the theoretical reserve surplus or deficit.

4  
5 Since the theoretical reserve is a snapshot, it will change every time new  
6 depreciation rates are computed. These changes do not reflect errors. Rather,  
7 they reflect changes in the perception of the future based on the current  
8 depreciation parameters. Therefore it should be obvious that the theoretical  
9 reserve is narrowly focused on the present and does not consider either  
10 historical or uncertain future events.

11

## 12 THEORETICAL RESERVE SURPLUS

13

14 **Q. Does the existence of a theoretical reserve surplus indicate that customers**  
15 **have been charged too much for the assets in question?**

16 A. No. As I stated earlier, the theoretical reserve is only a snapshot or  
17 benchmark used to start an analysis. A theoretical reserve surplus could  
18 indicate that the customer was charged for use of the asset sooner than the  
19 snapshot assessment of the future indicates was necessary; however, it doesn't  
20 tell you why the early charge was made. Nor does it address the fundamental  
21 question of whether the customer should be charged for use of the asset. As  
22 such, it only involves a question of timing. Assuming the asset is used and  
23 useful, the customer will ultimately be charged for use of the asset.



1 **Q. How does the Theoretical Reserve Surplus affect customers?**

2 A. The theoretical reserve surplus reduces rate base and depreciation expense.  
3 As a result, the revenue requirements upon which customer rates are based are  
4 lower than they would be if the theoretical reserve surplus did not exist. As  
5 shown in my Exhibit KMD-1, the \$1.245 billion theoretical reserve surplus  
6 reported by FPL results in annual revenue requirements that are \$216 million  
7 less than they would be if the reserve did not exist. Thus, customers are  
8 receiving a current benefit through lower rates.

9 **Q. How do you recommend the Commission address the theoretical reserve**  
10 **surplus?**

11 A. I recommend that the Commission address the theoretical reserve surplus by  
12 continuing its long-standing reliance on the remaining life depreciation  
13 methodology. This method is self-adjusting and will address deficiencies and  
14 surpluses over the remaining useful life of the assets. Over that same period,  
15 the existence of any theoretical reserve surplus will continue to benefit  
16 customers by reducing revenue requirements as previously discussed while  
17 providing an effective hedge against uncertainties, such as early asset  
18 retirements due to events like hurricanes, technology changes, climate  
19 legislation, etc.

20 **Q. Wouldn't customers benefit if the theoretical reserve surplus was**  
21 **reversed over a short period as suggested by intervenor witnesses Pous,**  
22 **Lawton, Kollen and Pollock?**

1 A. Only in the short run. It is true that reversing the theoretical reserve surplus  
2 over a short period of time would artificially reduce revenue requirements  
3 during that period. However, it is also true that solely as a result of that short  
4 term benefit, customers would then face a substantial rate increase. The short  
5 term “benefit” is far outweighed by the longer term detriment to FPL’s  
6 customers. As shown in my Exhibit KMD-2, annual revenue requirements  
7 would increase \$478 million if the theoretical reserve surplus of \$1.245 billion  
8 were amortized over four years and \$415 million if it were amortized over  
9 five years. Unfortunately, the rate increase would not only be larger than the  
10 short-term reduction, it would persist over a much longer period and would  
11 compound the cumulative effect of the significant capital expenditures we  
12 anticipate in the near future. Such dramatic fluctuations in revenue  
13 requirements solely as a result of a short-term reduction in revenue  
14 requirements are not in our customer’s long-term best interests.

15 **Q. Would the intervenor witnesses’ proposals to amortize the theoretical**  
16 **reserve surplus reduce or eliminate intergenerational inequities as**  
17 **suggested?**

18 A. No. In fact, the effect is the opposite of what is suggested. A rapid  
19 amortization will create intergenerational inequities by providing customers  
20 during the next four years with an artificial benefit while requiring customers  
21 in future periods to pay significantly higher costs solely as a result of the  
22 short-term benefit having been provided. It is important to remember that at  
23 no time during the period that the theoretical reserve surpluses were

1 accumulated was there a general base rate increase. Consequently, there were  
2 no incremental rates paid by customers. In fact, rates decreased by \$350  
3 million in 1999 and another \$250 million in 2002, as a result of settlement  
4 agreements to which most parties in this proceeding participated and which  
5 were approved by the Commission.

6 **Q. Are there other events that the Commission should consider in**  
7 **determining how to address the theoretical reserve surplus?**

8 A. Yes. The effects of future events that cannot be predicted with certainty such  
9 as the impact of climate legislation on fossil plant lives and the effect of  
10 hurricanes on all plant assets should be considered in determining how to best  
11 address the theoretical reserve surplus. In addition, we anticipate that FPL's  
12 nuclear uprate assets will, until the next depreciation study is approved, be  
13 under-depreciated by as much as \$68 million. Computation of this amount is  
14 shown in my Exhibit KMD-3. This is due to the declining remaining life of  
15 the nuclear facilities at the same time the total investment is increased by the  
16 cost of the uprates and is a logical consequence of resetting depreciation rates  
17 once every four years. The Commission should carefully consider these  
18 events in making its decision regarding the theoretical reserve surplus.

19 **Q. What would be the consequences of not considering these potential future**  
20 **events?**

21 A. Failure to consider the potential effect of the uncertain future events  
22 mentioned above could result in unrecovered costs associated with plants  
23 being retired earlier than anticipated or in significant capital expenditures

1 being required. This would either increase the amount of unrecovered costs  
2 associated with retired assets or exacerbate the effects on rate base of the  
3 capital expenditures. For example, if the theoretical reserve surplus is  
4 eliminated, the undepreciated cost of distribution assets retired due to a  
5 hurricane would create a deficit because the potential for such losses is not  
6 considered in the parameters used to develop depreciation rates. Allowing the  
7 theoretical reserve surplus to be reduced over time through the remaining life  
8 methodology provides an offset to any such deficit. Similarly, if significant  
9 capital expenditures are required to comply with new environmental  
10 regulations, rate base would increase, putting upward pressure on base rates  
11 soon after customers suffered the rate shock of a significant base rate increase  
12 solely as a result of amortizing the surplus over a short period of time.  
13 Amortizing the theoretical surplus over the remaining life of the assets would  
14 help keep rates lower as the effects of the surplus reduce rate base and revenue  
15 requirements.

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**HISTORICAL FACTORS AFFECTING  
ACCUMULATED DEPRECIATION**

20 **Q. On page 8, Mr. Pous states: “It is useful to compare the actual reserve to**  
21 **the “theoretical reserve,” or the reserve that would be necessary to enable**  
22 **the utility to remain “on course” to recoup its investment ratably over the**

1           **current estimate of life of the asset or assets in question at a given point in**  
2           **time.” Do you agree with this statement?**

3    A.    Yes. However, I would like to address this issue of comparison more fully.  
4           This comparison by necessity includes an understanding of the issues that  
5           impacted past assumptions used in recording the actual amounts of  
6           depreciation that are reflected in the book depreciation reserve.

7    **Q.    Can you give some examples of issues that would have impacted**  
8           **assumptions from the past?**

9    A.    Yes. During the 1990’s, the Florida legislature was investigating whether  
10           deregulation of the electric industry would benefit Florida and its citizens.  
11           This gave rise to concerns about stranded investment. FPL, with the approval  
12           of the Commission, (See Docket No. 950359-EI, Order No. PSC-96-0461-  
13           FOF-EI and Docket No. 970410-EI, Order No. PSC-98-0027-FOF-EI)  
14           addressed that risk using nontraditional depreciation methods such as revenue  
15           based depreciation that reduced the risk without increasing customer rates.  
16           There is ample evidence as shown in my Exhibit KMD-5 that significant  
17           amounts of stranded costs were borne by customers in states that did  
18           deregulate. This was a very real risk that would not be captured in the  
19           theoretical reserve process nor would it have been addressed through normal  
20           depreciation rates. I do not believe it is appropriate to characterize a well  
21           thought out and innovative approach to addressing stranded costs without a  
22           rate increase as an “overly aggressive depreciation practice” (Pous page 3 and  
23           4).

1 In 2002 and 2003, FPL received approval from the Nuclear Regulatory  
2 Commission to extend the operating licenses for its nuclear units by 20 years.  
3 Prior to that, FPL had prepared its depreciation studies under the assumption  
4 that it would only operate the plants during the period of their initial operating  
5 license. When the license extension was received, FPL changed its remaining  
6 life assumption to reflect the extension. While customers will continue to  
7 receive low cost energy from these units, as discussed by Mr. Stall, FPL will  
8 continue to make significant capital expenditures to maintain and improve  
9 these units. None of these future costs are considered in determining the  
10 theoretical reserve.

11

12 Also, FPL continues to improve its maintenance practices and is making  
13 capital expenditures that affect the remaining service lives of its non-nuclear  
14 properties. Again, none of these future expenditures are reflected in the  
15 theoretical reserve computation.

16 **Q. Will these types of events impact the future?**

17 A. Yes. Although there is no current indication that deregulation will occur in  
18 Florida, there are other uncertainties that could have a similar effect.  
19 Environmental legislation is a good example. Climate change legislation, also  
20 known as cap-and-trade, could adversely affect the economics of coal plants  
21 and less efficient oil fired plants. I believe that the Commission should  
22 consider these possibilities in evaluating the appropriate lives of non-nuclear  
23 generating facilities. As an example, expanding the life of coal facilities to 60

1 years would create stranded investment (i.e. net book value remaining after  
2 retirement) if these plants could no longer be operated. In consideration of the  
3 prospect of climate legislation, 2010 would appear to be an ill advised time to  
4 increase the depreciable lives of FPL's coal and oil fired generating plants.

5

6 **COMMENTS ON INTERVENOR WITNESS STATEMENTS**

7

8 **Q. On page 10, witness Pous states the following: "Generally speaking, it is**  
9 **in an electric utility's financial self-interest to collect more dollars from**  
10 **customers than fewer dollars, to collect those dollars sooner than later,**  
11 **and, once having collected dollars, to keep them rather than returning**  
12 **them to customers." Do you agree with this statement?**

13 **A.** Absolutely not. Mr. Pous' implication that a utility operates under a "self-  
14 interest" mode ignores the fact that a utility is under an obligation to serve its  
15 customers and to do so at the lowest possible cost. Mr. Pous ignores the fact  
16 that a utility no longer receives a return on an investment once it has been  
17 depreciated.

18

19 Utilities are capital intensive by nature, that is, they require significant  
20 amounts of investment in order to continue to provide reliable electric service.  
21 Customers are much better off when a utility can generate sufficient funds  
22 from its operations and minimize the requirements for external financing.  
23 Therefore, the customer's interests and the Company's are aligned in this

1 regard – the longer the asset is in rate base earning a return, the greater the  
2 total cost to the customer. An appropriate balance must be struck, which the  
3 Commission does through the use of remaining life depreciation and its  
4 oversight authority.

5 **Q. On page 9, Mr. Pous states, “FPL has built a massive depreciation**  
6 **reserve excess – so massive that the Commission should require FPL to**  
7 **return a portion of the excess to customers over a four year period.” Do**  
8 **you agree with his statement?**

9 A. Absolutely not. First, the Commission should consider how the theoretical  
10 reserve surplus arose. Given the reasons previously discussed, I believe the  
11 remaining life depreciation method, which this Commission has relied upon  
12 over many years, will properly correct any theoretical reserve imbalances for  
13 either deficits or surpluses. In the current depreciation study, this correction  
14 has the effect of reducing depreciation expense by \$57 million from the  
15 amount it otherwise would have been without the theoretical reserve  
16 surpluses.

17 **Q. On page 12, Mr. Pous states, “My analysis, based upon data, assumptions**  
18 **and rationales that I develop and support in detail, reveals that FPL has a**  
19 **current reserve excess of \$2.75 billion.” Do you agree with his assertion?**

20 A. No. Mr. Pous’ \$2.75 billion is based on adjustments he has made that Mr.  
21 Clarke will show in his testimony are incorrect.

22 **Q. On page 13, Mr. Pous states: “In my testimony I have not challenged or**  
23 **sought to disallow recovery of any of the investments in plant. My**



1           **proposed adjustments affect only the timing of the collections.” Would**  
2           **you please comment on these statements?**

3    A.    Yes. Mr. Pous attempts to establish that his recommendation will benefit  
4           customers without harming FPL. This is not correct, as his recommendation  
5           would harm both FPL and our customers. Again, what he fails to address is  
6           the rate shock and the dramatic fluctuations in customer rates that will result  
7           from his recommendations. Specifically, he fails to address that the  
8           customers’ base rates could solely as a result of his recommendation increase  
9           by 3.8%. I believe it is in the customer’s best interest to continue the \$216  
10          million benefit currently reflected in rates and rely on the remaining life  
11          methodology to correct the surplus.

12   **Q.    On page 16, Mr. Pous states: “I recommend that the life spans for coal**  
13          **fired units be increased from the low 40-year range as proposed by the**  
14          **Company to 60 years as is now being recognized by other regulators and**  
15          **utilities. I further recommend that the minimum life span for large steam**  
16          **oil or gas fired generating facilities be set at a minimum of 50 years.” Do**  
17          **you agree with his recommendations?**

18    A.    No. Mr. Clarke addresses the appropriate life spans for coal and large steam  
19           oil or gas fired capacity. However, I would ask the Commission to consider  
20           some additional thoughts I have on the recommendation.

21

22           With regard to large steam oil or gas-fired generating facilities, the  
23           Commission should consider whether the current use of these units justifies

1 the restoration of the net book value to the level indicated by the theoretical  
2 reserve. Because these units are less efficient and are dispatched less  
3 frequently than the more efficient combined cycle units, they should have less  
4 of their original cost remaining to be recovered.

5 **Q. On page 35, witness Pous states: “As previously noted, I do not believe**  
6 **most utilities allow identified imbalances of this magnitude to be created.**  
7 **Generally speaking, by revisiting the reserve situation with a**  
8 **comprehensive study every few years, one would reasonably expect the**  
9 **variance between the theoretical reserve and the book reserve to stay**  
10 **within reasonable bounds.” Would you please respond to Mr. Pous’**  
11 **comments?**

12 **A.** Yes. Mr. Pous’ comments imply that FPL and the Commission somehow  
13 have not been diligent in the review and development of FPL’s depreciation  
14 rates. That is simply not the case. FPL’s current depreciation study and its  
15 predecessors were prepared and filed in compliance with all of the  
16 Commission’s requirements. Those studies were reviewed and approved by  
17 the Commission or else depreciation rates were left unchanged as a result of a  
18 Settlement Agreement, which was also approved by the Commission. The  
19 incredible interest in the theoretical reserve at this point in time appears to  
20 have more to do with reducing rates in the short term, and at any cost, than  
21 with appropriate depreciation accounting. Further evidence of this can be  
22 seen in Mr. Pous’ failure (as identified in FPL witness Clarke’s rebuttal  
23 testimony) to reset the depreciation reserve levels from the book reserve to the

1 theoretical reserve when he carved out the theoretical reserve surplus for  
2 amortization separate and apart from the depreciation study. This results in an  
3 overstatement of his depreciation reduction. The Commission should not be  
4 misled in the practical application of the theoretical reserve calculation and its  
5 proper use in determining future depreciation rates. As I have stated  
6 previously, there are many good reasons for why we are where we are today  
7 with respect to accumulated depreciation.

8 **Q. On page 36, witness Pous states: "...that fairness compels a departure**  
9 **from FPL's "business as usual" remaining life approach so that current**  
10 **customers do not continue to subsidize future customers to such a large**  
11 **extent." Would you please comment on Mr. Pous statement?**

12 **A.** Yes. I do not agree with Mr. Pous' comment about "business as usual" when  
13 it comes to addressing reserve excesses or deficiencies. The Commission  
14 approved method of addressing a reserve excess or deficiency is by using the  
15 remaining life methodology, which is a self-adjusting process. Even the use of  
16 capital recovery schedules is consistent with this approach, since it addresses  
17 the remaining undepreciated costs of an asset to be retired over a period that  
18 approximates its estimated useful life and which is consistent with the  
19 Commission's requirements for filing depreciation studies. The effect of  
20 changes in the remaining lives of depreciable assets should be reflected as a  
21 prospective change to depreciation rates over the remaining lives of the  
22 related assets. This Commission has consistently approved the application of  
23 the remaining life method for FPL in Docket Nos. 910081-EI, 931231-EI,

1 971660-EI, and Docket No. 050188-EI, the last four times new depreciation  
2 rates were established for FPL based on comprehensive depreciation studies,  
3 as well as for several individual plant depreciation studies filed by FPL.

4

5 I also take exception to Mr. Pous' view that current customers are subsidizing  
6 future customers. In fact, as previously stated, revenue requirements for the  
7 2010 test year in this proceeding are \$216 million lower as a direct result of  
8 the reserve surplus. This reduction has two components: lower return  
9 requirements due to lower rate base and lower depreciation expense due to  
10 lower unrecovered balances of plant in service. FPL's customers are receiving  
11 a very real and tangible benefit from the existence of the theoretical reserve  
12 surplus.

13 **Q. On page 39 and continuing on page 40, Mr. Pous states: "My position is**  
14 **that there is no realistic basis or possibility that the excess reserve would**  
15 **turnaround and become a deficiency by the time of the next depreciation**  
16 **study is completed in four years." Do you agree with his statement?**

17 **A.** No. I do not agree with Mr. Pous' estimate of the theoretical reserve surplus  
18 and as stated earlier in my testimony, Mr. Clarke will address this. Predicting  
19 where FPL will be from the standpoint of a theoretical reserve surplus or  
20 deficiency is very difficult. Making a statement such as Mr. Pous has implies  
21 that he knows everything about the future today. This is assuredly not the  
22 case. As a practical matter, things may change that cannot be anticipated.  
23 That is why four years from the March 2009 filing, FPL will be required to

1 file a new depreciation study. That study, based on the then-current view of  
2 future as well as historical events, will properly address reserve surpluses or  
3 deficiencies as of that point in time.

4 **Q. On page 40, Mr. Pous recommends that “\$44,906,153 of unrecovered**  
5 **costs due to the early retirement of the Cape Canaveral and the Rivera**  
6 **stations be offset out of the \$410 million of Company identified excess**  
7 **reserve for steam production investment” and on lines 11 through 13 that**  
8 **“\$168,234,989 of unrecovered costs due to the nuclear uprates be offset**  
9 **out of the \$377.5 million of Company identified excessive reserve for**  
10 **nuclear production investment” and on lines 13 through 15 “that**  
11 **\$101,081,858 of unrecovered costs due to relating to Meters-Obsolete by**  
12 **AMI be offset out of the \$340 million of Company identified excess**  
13 **reserve for the distribution function.” Do you agree with his approach?**

14 **A.** No. The use of capital recovery schedules for certain assets that are  
15 anticipated to be retired over a relatively short period of time is consistent  
16 with previous Commission practice. The Florida Administrative Code Rule  
17 25-6.0436, paragraph (10), subpart (a) states:

18 Prior to the date of retirement of major installations, the  
19 Commission shall approve capital recovery schedules to  
20 correct associated calculated deficiencies where a utility  
21 demonstrates that (1) replacement of an installation or group of  
22 installations is prudent and (2) the associated investment will

1 not be recovered by the time of retirement through the normal  
2 depreciation process.

3  
4 The Commission's rule is consistent with the concept that using capital  
5 recovery schedules helps to ensure that recovery of retired equipment occurs  
6 close to, or before, the new equipment costs begin to be included in rates. FPL  
7 has had several capital recovery schedules approved by the FPSC in the past  
8 and is currently in its last year of a 4-year capital recovery schedule for its  
9 retired St. Lucie Unit 2 steam generator and reactor vessel heads at all of its  
10 nuclear units. Capital recovery schedules have been approved in Docket No.  
11 050188-EI, Order No. PSC-05-0902-S-EI, issued 9/14/05. Other capital  
12 recovery schedules approved by the FPSC are: Ft. Myers (3.5 years) and  
13 Sanford (5.5 years) repowering retirements in Docket No. 971660-EI, Order  
14 No. PSC-99-0073-FOF-EI, issued 1/8/99; and St. Lucie Unit 1 steam  
15 generator replacement (4.5 years), major overhaul and asbestos abatement  
16 projects (4 years), Cutler Unit 4 and Sanford Unit 1 (1 year), and pre-existing  
17 10-year warranted silicone cable injection (8 years) in Docket No. 931231-EI,  
18 Order No. PSC-94-1199-FOF-EI, issued 9/30/94. As discussed above, what  
19 FPL has requested related to the nuclear uprates, AMI Meters, Cape  
20 Canaveral, and Riviera power plants is consistent with Commission rules and  
21 practices that span many years for assets that are being replaced. For AMI  
22 Meters, this is a change in technology that is anticipated to occur over the  
23 2010 to 2013 period. This period coincides with the 4-year depreciation study

1 cycle and would result in the recovery of these deficiencies before the setting  
2 of the Company's next depreciation rates. The Commission should reject Mr.  
3 Pous' recommendation of applying the reserve excess to FPL's proposed  
4 capital recovery schedules and continue with its long-standing precedent for  
5 handling these large interim retirements.

6 **Q. On page 53 and on page 54, in response to a question asking if the**  
7 **Commission should authorize depreciation over four years for the**  
8 **undepreciated costs of the Cape Canaveral and Riviera facilities, Mr.**  
9 **Kollen states: "No. The Commission should direct the Company to cease**  
10 **depreciation on these facilities, add the remaining net book value to the**  
11 **costs of the modernization, and then depreciate the costs along with the**  
12 **modernization costs over the estimated service lives of the modernized**  
13 **facilities." Do you agree with his proposal?**

14 **A.** No. As discussed above in my testimony the Commission has a long-standing  
15 precedent and has contemplated how to properly recover these large interim  
16 retirements in its depreciation rule. The Commission should reject Mr.  
17 Kollen's proposal. His proposal would violate both Generally Accepted  
18 Accounting Principles (GAAP) and the Uniform System of Accounts (USOA)  
19 by adding an unrelated cost to the new asset.

20 **Q. On page 55, in response to the question "Should the Commission**  
21 **authorize depreciation over a four year period for the nuclear update**  
22 **costs incurred through December 31, 2009," Mr. Kollen stated: "No. The**

1           **Commission should depreciate these costs over the remaining extended**  
2           **license life of the nuclear units.” Do you agree with his proposal?**

3    A.     Mr. Kollen’s position is not clear. If Mr. Kollen’s position is that the nuclear  
4           uprate costs incurred through December 31, 2009 and those incurred after  
5           December 31, 2009 relating to plant in service additions should increase plant  
6           and be depreciated over the life of the asset, the Company agrees. These  
7           assets will increase the output of the units and improve the facilities and  
8           should be depreciated over the remaining life. However, if Mr. Kollen is  
9           recommending the deferral of the net book value of retirements and that the  
10          cost of removal should be recovered over the remaining extended license, then  
11          the Company disagrees. The cost of removal and the remaining net book  
12          value of the retirements should be deferred and recovered over a four year  
13          period as requested in the capital recovery schedule. The capital recovery  
14          schedule is consistent with the Commission rule on depreciation and the  
15          precedent it has established on these large interim retirements. As discussed  
16          above, there are numerous examples where the Commission has approved  
17          capital recovery schedules, such as those proposed by FPL.

18   **Q.     On page 55, in answer to the question “Should the Commission authorize**  
19           **depreciation over a four year period for the existing meter investment?”**  
20           **Mr. Kollen replied: “No. The Commission should use the same**  
21           **depreciation or amortization rate for these costs as it adopts for the**  
22           **remaining existing meter investment that will not be replaced by AMI**  
23           **meters.” Do you agree?**



1 A. No. The Company has requested a capital recovery schedule for the net book  
2 value related to the meters it is replacing with new AMI meters. This  
3 replacement is due to the new technology in the AMI meters and of which  
4 FPL witness Santos has described in detail in her direct testimony. The  
5 Company is not doubling up as Mr. Kollen is suggesting but rather has  
6 established a separate recovery schedule consistent with Commission  
7 depreciation rules and precedents for recovery of the net book related to the  
8 meters being replaced. As I have stated earlier in my testimony with regards  
9 to the remaining net book on the Cape Canaveral and Riviera units, Mr.  
10 Kollen's proposal would violate GAAP and the USOA by adding an unrelated  
11 cost to the new asset.

12 **Q. On page 41, Mr. Pous recommends that "the remaining \$931,137,145 of**  
13 **the Company identified excess reserves be returned to customers over the**  
14 **next 4-years." Do agree with his proposal?**

15 A. No. Using the amortization period that Mr. Pous is proposing would provide  
16 current customers a windfall at the expense of future customers as I have  
17 already discussed in my testimony.

18 **Q. On page 51, Mr. Kollen states: "I recommend that the Commission**  
19 **amortize the reserve surplus over five years in a manner similar to that**  
20 **which it approved in Order No. PSC-05-0902-S-EI approving the**  
21 **settlement in the Company's 2005 rate case." Do you agree with Mr.**  
22 **Kollen's proposal?**

1 A. No. Mr. Kollen's proposal is very similar to that of Mr. Pous, although for a  
2 larger amount. The arguments that I put forth on why the Commission should  
3 reject this proposal are the same as for Mr. Pous' proposal. The only  
4 difference in the two proposals is that Mr. Kollen's proposal would produce a  
5 much larger rate shock in year six than Mr. Pous does in year five. My Exhibit  
6 KMD-2 demonstrates the impact of Mr. Kollen's proposal. For the same  
7 reasons that I have previously stated, the Commission should reject Mr.  
8 Kollen's recommendation.

9

10 **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

11

12 **Q. Do you agree with Mr. Pous' assertion that amounts received from third**  
13 **parties should be classified as salvage rather than contributions in aid of**  
14 **construction (CIAC)?**

15 A. No. Mr. Pous is merely looking for a way to increase salvage-related  
16 recoveries. In the case of reimbursable jobs, the Company agrees with Mr.  
17 Clarke that the effect of reimbursable jobs should not be considered in  
18 establishing depreciation rates. We believe that the objective of the  
19 depreciation study is to set parameters that are related to the economic lives of  
20 the assets. Therefore, events such as hurricanes, reimbursable jobs, and other  
21 unusual events should not be considered.

1           **COMMISSION ORDERS CITED BY INTERVENOR WITNESSES AS**  
2                           **PRECEDENT FOR THEIR RECOMMENDED ACTIONS**

3  
4   **Q.    Intervenors have sited several Commission Orders as a precedent for**  
5           **early amortization of the theoretical reserve surplus. Do you agree with**  
6           **the conclusions they have made regarding the various orders they site?**

7    A.    No. I will address each order they cite below.

8   **Q.    On page 31, witness Pous cites certain Commission orders related to**  
9           **“corrective reserve transferances” to support his recommended action.**  
10           **Do you agree that these orders are reflective of his proposed reserve**  
11           **adjustments in this docket?**

12   A.    No. In Docket No. 880053-EI, Order No. 19901, the Staff of the Commission  
13           proposed corrective reserve transfers related to a change in the assignment of  
14           depreciation rates. Such corrective reserve transfers are generally between  
15           accounts within functions. Gulf Power had previously assigned its  
16           depreciation rates for production by accounts and had changed to assigning  
17           them by plant site. In making this transformation, reserve surpluses and  
18           deficits can be created and the Commission authorized the reserve transfers to  
19           correct for this.

20  
21           In Docket No. 010669-EI, Order No. PSC-01-2270-PAA-EI, the Commission  
22           made adjustments to correct for reserve imbalances created over time. The  
23           adjustments discussed in these orders are typical adjustments made during the

1 review of a company's depreciation study and a primary reason the  
2 Commission requires the periodic review of depreciation rates. The  
3 Commission, however, did not order any kind of an accelerated recovery but  
4 rather made the appropriate reserve transfers and changed rates on a  
5 prospective basis which is consistent with its remaining life approach.

6

7 In Docket 860868-EI, Order No. 19438, the Commission made a reserve  
8 adjustment related to the interest synchronization of investment tax credits.  
9 The reserve adjustment was prescribed by the Commission as a bottom line  
10 depreciation reserve rather than a refund. The amount of the reserve  
11 adjustment was made account specific at the utility's next depreciation  
12 represcription and was for the recovery of the Supervisory Control and Data  
13 Acquisition System scheduled for retirement. In that order, the Commission  
14 also approved a capital recovery schedule for PCB contaminated transformers  
15 consistent with its recognition of the recovery of large interim retirements.

16

17 There are three other orders that I would like to address that Mr. Pous has  
18 identified in which the Commission has amortized depreciation reserve  
19 differences. In Docket No. 840049-TL, Order No. 14929, the Commission  
20 established a five-year amortization for General Telephone and Electronics  
21 (Gentel) net reserve deficit in the amount of \$32,138,000. In so doing, the  
22 Commission stated in its order, "since Gentel's last depreciation represcription  
23 there have been substantial developments in the areas of technology and

1 competition which we believe should be reflected in the depreciation rates.”

2 The Commission was addressing two issues with its order, one relating to

3 technological changes, i.e., going from analog to digital equipment and

4 competition. In Docket No. 890203-GU, Order No.22115, the Commission

5 addressed reserve transfers between plastic and other gas mains. The

6 Commission also approved the application of a \$47,934 expense associated

7 with the write-off of a historic deficit that had concluded in 1986 to the

8 “prospective reserve deficit, which will correct the overstatement of the rate

9 base in seven years, rather than the 19 years remaining under the present

10 amortization pattern.” This was also authorized during a time when base rates

11 were not being reset. In Docket No. 970410-EI, Order No. PSC-97-0499-

12 FOF-EI, the Commission approved the continuation of the earnings plan

13 approved in Docket No. 950359-EI. This plan was agreed to by the

14 Commission, Office of Public Counsel and FPL. The plan allowed FPL to

15 continue to record additional retail expenses equal to “100% of the base rate

16 revenues produced by actual retail sales between its low band and most likely

17 sales forecast and at least 50% of the base rate revenues produced by actual

18 retail sales above FPL’s most likely sales forecast for 1996 as filed in Docket

19 No. 950359-EI.” The order stated that the first priority for application of the

20 expenses would be to correct any depreciation reserve deficiency then any

21 deficiencies related to fossil dismantlement and nuclear decommissioning

22 reserves and any remaining amounts would be recorded to an unspecified

23 reserve account. It is important to note that these agreements came about due

1 to concerns by the Commission and the Company that deregulation in Florida  
2 would lead to stranded investment and that mitigation of that risk was in the  
3 best interest of the customers of FPL. It is also important to point out that  
4 these agreements were made outside of a base rate proceeding. The  
5 Commission should not accept Mr. Pous' arguments that these orders are  
6 appropriate precedents for his accelerated amortization proposal. The  
7 adjustments reflected in these orders occurred as a result of proactive efforts  
8 on the part of the Commission and the Company and without a change to  
9 customer rates.

10 **Q. On page 32, Mr. Pous states: "The Commission has adopted the position**  
11 **that depreciation reserve differences should be recovered as fast as**  
12 **possible, unless such recovery prevents the Company from earning a fair**  
13 **and reasonable return on investment." (See order No. PSC-93-1839-FOF-**  
14 **EI). Is this accurate?**

15 A. It is accurate only to the extent that the order contains the quote found in  
16 witness Pous' testimony. However, the order does not support witness Pous'  
17 conclusions or recommendations in this case; rather, it supports FPL's request.  
18 This order relates to a depreciation study as of December 31, 1992, filed by  
19 the Marianna Electric Division of Florida Public Utilities Company. In this  
20 order the Commission did state "such deficiencies should be recovered as fast  
21 as possible, unless such recovery prevents the Company from earning a fair  
22 and reasonable return on its investments." However, a closer look at the  
23 Commission's application of this concept supports FPL's position on the use

1 of the remaining life method. This Company had negative reserve balances  
2 related to the Power Operated account and the Tools, Shop and Garage  
3 account, Accounts 396 and 394.1, respectively. There existed a reserve  
4 surplus in the Poles, Towers, and Fixtures account, Account 364, and the  
5 Commission used it to correct the deficiency. The Commission authorized a  
6 reserve transfer. As such, the deficiency was subsumed in Account 364 and  
7 the resulting decrease was recognized over its approved remaining life of 23  
8 years. This is consistent with FPL's position of utilizing the remaining life to  
9 address reserve deficiencies or excesses. The Commission did not authorize  
10 an immediate amortization affecting rates, but instead realized that the transfer  
11 of the deficiency was appropriate, and the result in Account 364 should be  
12 recovered over the remaining useful life. It is interesting to note that in this  
13 same order the Commission authorized the use of a capital recovery schedule  
14 over a four year period. This is also consistent with FPL's request in this  
15 docket. This is a practice the Commission has employed many times in the  
16 past and is provided for in the depreciation rules.

17 **Q. On page 32, Mr. Pous states: "In another case, the Commission adopted a**  
18 **one-year write-off for a portion of a utility's reserve deficit by stating that**  
19 **"we believe that it [the deficit] should be written off as quickly as**  
20 **possible. " (Emphasis added). (See Order No. 13918) Will you please**  
21 **comment on Order No. 13918?**

22 **A.** Yes. This order was for the represcription of depreciation rates for the St.  
23 Joseph Telephone and Telegraph Company. This Company had a reserve

1 deficit that was broken into two components: a historic deficit and a  
2 prospective deficit. The Commission determined that the historic deficit  
3 should be written off over one year. In determining this short amortization  
4 period, the Commission reviewed the Company's projected 1984 earnings and  
5 determined that the Company could absorb the additional expense and still  
6 earn at least its *maximum* 16% return. This is very similar to the 1990's as I  
7 have addressed earlier in my testimony when FPL, due to its strong revenue  
8 growth and the threat of deregulation, was able to record additional  
9 depreciation expense. This is clearly not the case today.

10 **Q. On page 33, witness Pous states: "It is also worth noting that the**  
11 **Company's proposed "business as usual" approach differs from the**  
12 **settlement in the last case. In that settlement, all parties agreed to allow**  
13 **FPL to, at its option, reduce depreciation expense during a 4-year period**  
14 **at the rate \$125 million per year." Would you please comment on Mr.**  
15 **Pous statement?**

16 **A.** Yes. The reduction in depreciation of \$125 million per year was based on a  
17 Settlement Agreement entered into by all the parties including Office of  
18 Public Counsel and approved by the Commission. Settlement Agreements by  
19 nature are based on give and take in which all the parties agree to a  
20 compromise for the good of all. FPL agrees with the Commission's policy of  
21 making depreciation adjustment for both surpluses and deficits over the  
22 remaining useful lives of the assets from which the surpluses or deficits



1 originated. As part of the settlement agreement, FPL agreed to the bottom line  
2 depreciation expense reduction.

3 **Q. On page 32, Mr. Pous states: “In yet another case, the Commission**  
4 **addressed the fairness issue as it relates to intergenerational inequity.”**  
5 **He addresses Order No. 13427. Would you please comment on this**  
6 **order?**

7 A. Yes. This order was a follow-up to Order No. 12356, in Docket No. 810100-  
8 EU, where the Commission ordered FPL to establish a funded  
9 decommissioning reserve. The issue in that docket was not depreciation, but a  
10 review of the correct method of accounting and ratemaking for the nuclear  
11 decommissioning funds. The Commission noted that by use of an unfunded  
12 reserve, the utility could use revenue for current operations. This method  
13 would provide a return to current customers of some of the dollars intended  
14 for decommissioning, while imposing on future ratepayers the risk of higher  
15 cost when decommissioning actually occurs. As stated in the order, “Fairness  
16 dictates that those receiving services and imposing costs be obligated to pay  
17 those costs, instead of placing the risk of recovery on other rate payers who  
18 may not get service from the nuclear units.” This is consistent with the  
19 current methodology of remaining life, whereby the prior customers have paid  
20 for the depreciation costs based on rates approved by the Commission. As  
21 previously stated, the adjustment recommended by Mr. Pous would provide a  
22 short term benefit to current customers while imposing a risk to future  
23 customers.

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

2 A. Yes.

**FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES**  
**EFFECT OF THEORETICAL RESERVE SURPLUS ON 2010 REVENUE REQUIREMENTS**  
**(IN MILLIONS)**

<b>Line</b>		
<b>No.</b>		
1	Theoretical Reserve Surplus as reported in the Depreciation Study	\$ 1,245
2		
3	Less one half year of amortization	28
4		
5	Net Rate Base Effect (Line 1 - Line 3)	<u>1,217</u>
6		
7	Overall Cost of Capital (1)	<u>8.00%</u>
8		
9	Return Requirements (Line 5 x Line 7)	97
10		
11	Revenue Expansion Factor (2)	1.63342
12		
13	Revenue Equivalent Amount (Line 9 x Line 11)	<u>159</u>
14		
15	Embedded Amortization of the Theoretical Reserve Surplus Over the	57
16	Remaining Lives of the Assets	
17		
18	Total Reduction in 2010 Revenue Requirements (Line 13 + Line 15)	<u><u>\$ 216</u></u>

**NOTES:**

- (1) Represents 2010 proposed rate of return on rate base as requested in FPL's Rate Case Docket No. 080677-EI.
- (2) Represents 2010 proposed expansion factor calculation as requested in FPL's Rate Case Docket No. 080677-EI.
- (3) Totals may not add due to rounding.

**FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES**  
**REVENUE REQUIREMENT IMPACT OF PROPOSED AMORTIZATION**  
**ILLUSTRATION BASED ON MR. POLLOCK'S FOUR YEAR FLOW BACK**  
**(\$000's)**

Line No.	2010	2011	2012	2013	2014
1	<b><u>Impact if Amortization of Theoretical Reserve Surplus is \$500,000,000</u></b>				
2					
3	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ -
4					
5	\$ 78,556	\$ 78,556	\$ 78,556	\$ 78,556	\$ -
6					
7	\$ 203,556	\$ 407,112	\$ 610,667	\$ 814,223	\$ 814,223
8					
9	\$ 101,778	\$ 305,334	\$ 508,889	\$ 712,445	\$ 814,223
10					
11					8.18%
12					66,616
13					
14					1.63256
15					108,755
16					
17					125,000
18					<b>\$ 233,755</b>
19					
20					<b>0.2183</b>
21					<b>\$ 2.18</b>
22					<b>1.9%</b>

**Notes:**

- (1) Represents 2011 proposed rate of return on rate base as requested in FPL's Rate Case Docket No. 080677-EI.
- (2) Represents 2011 proposed expansion factor calculation as requested in FPL's Rate Case Docket No. 080677-EI.
- (3) kWh used in the calculation is based on retail sales forecasted for 2010 and 2011 as requested in FPL's Rate Case Docket No. 080677-EI. 2014 was estimated using an average growth rate of 1.47% (average increase between 2010 and 2011).
- (4) Assumes cents per kWh impact is spread evenly over each rate class.
- (5) Represents % of 2011 typical 1,000 kWh residential bill under proposed rates as requested in FPL's Rate Case Docket No. 080677-EI.
- (6) Represents the effect of Mr. Pollock's recommendation to offset the theoretical reserve surplus against the capital recovery schedules.
- (7) This increase would continue over the remaining life of the affected assets in gradually declining amounts.
- (8) Totals may not add due to rounding.

**FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES**  
**REVENUE REQUIREMENT IMPACT OF PROPOSED AMORTIZATION**  
**ILLUSTRATION BASED ON MR. POUS' FOUR YEAR FLOW BACK**  
**(\$000's)**

Line No.	2010	2011	2012	2013	2014
1	<b><u>Impact if Amortization of Theoretical Reserve Surplus is \$931,137,415</u></b>				
2					
3	\$ 232,784	\$ 232,784	\$ 232,784	\$ 232,784	\$ -
4					
5	\$ 78,556	\$ 78,556	\$ 78,556	\$ 78,556	\$ -
6					
7	\$ 311,340	\$ 622,680	\$ 934,020	\$ 1,245,360	\$ 1,245,360
8					
9	\$ 155,670	\$ 467,010	\$ 778,350	\$ 1,089,690	\$ 1,245,360
10					
11					8.18%
12					101,890
13					
14					1.63256
15					166,341
16					
17					232,784
18					<b><u>\$ 399,126</u></b>
19					
20					<b><u>0.3727</u></b>
21					<b><u>\$ 3.73</u></b>
22					<b><u>3.2%</u></b>

**Notes:**

- (1) Represents 2011 proposed rate of return on rate base as requested in FPL's Rate Case Docket No. 080677-EI.
- (2) Represents 2011 proposed expansion factor calculation as requested in FPL's Rate Case Docket No. 080677-EI.
- (3) kWh used in the calculation is based on retail sales forecasted for 2010 and 2011 as requested in FPL's Rate Case Docket No. 080677-EI. 2014 was estimated using an average growth rate of 1.47% (average increase between 2010 and 2011).
- (4) Assumes cents per kWh impact is spread evenly over each rate class.
- (5) Represents % of 2011 typical 1,000 kWh residential bill under proposed rates as requested in FPL's Rate Case Docket No. 080677-EI.
- (6) Represents the effect of Mr. Pous' recommendation to offset the theoretical reserve surplus against the capital recovery schedules.
- (7) This increase would continue over the remaining life of the affected assets in gradually declining amounts.
- (8) Totals may not add due to rounding.

**FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES**  
**REVENUE REQUIREMENT IMPACT OF PROPOSED AMORTIZATION**  
**ILLUSTRATION BASED ON FULL AMORTIZATION OVER FOUR YEARS**  
(\$000's)

Line No.	2010	2011	2012	2013	2014
<b>1 <u>Impact if Amortization of Theoretical Reserve Surplus is \$1.245 Billion</u></b>					
2					
3	\$ 311,340	\$ 311,340	\$ 311,340	\$ 311,340	\$ -
4					
5	\$ 311,340	\$ 622,680	\$ 934,020	\$ 1,245,360	\$ 1,245,360
6					
7	\$ 155,670	\$ 467,010	\$ 778,350	\$ 1,089,690	\$ 1,245,360
8					
9					8.18%
10					101,890
11					
12					1,63256
13					166,341
14					
15					311,340
16					<b>\$ 477,681</b>
17					
18					<b>0.4460</b>
19					<b>\$ 4.46</b>
20					<b>3.8%</b>

**Notes:**

- (1) Represents 2011 proposed rate of return on rate base as requested in FPL's Rate Case Docket No. 080677-EI.
- (2) Represents 2011 proposed expansion factor calculation as requested in FPL's Rate Case Docket No. 080677-EI.
- (3) kWh used in the calculation is based on retail sales forecasted for 2010 and 2011 as requested in FPL's Rate Case Docket No. 080677-EI. 2014 was estimated using an average growth rate of 1.47% (average increase between 2010 and 2011).
- (4) Assumes cents per kWh impact is spread evenly over each rate class.
- (5) Represents % of 2011 typical 1,000 kWh residential bill under proposed rates as requested in FPL's Rate Case Docket No. 080677-EI.
- (6) This increase would continue over the remaining life of the affected assets in gradually declining amounts.
- (7) Totals may not add due to rounding.

**FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES**  
**REVENUE REQUIREMENT IMPACT OF PROPOSED AMORTIZATION**  
**ILLUSTRATION BASED ON MR. KOLLEN'S FIVE YEAR FLOW BACK**  
(\$000's)

Line No.	2010	2011	2012	2013	2014	2015
1	<b><u>Impact if Amortization of Theoretical Reserve Surplus is \$1.245 Billion</u></b>					
2						
3	\$ 249,072	\$ 249,072	\$ 249,072	\$ 249,072	\$ 249,072	\$ -
4						
5	\$ 249,072	\$ 498,144	\$ 747,216	\$ 996,288	\$ 1,245,360	\$ 1,245,360
6						
7	\$ 124,536	\$ 373,608	\$ 622,680	\$ 871,752	\$ 1,120,824	\$ 1,245,360
8						
9	Return Requirement on Increased Rate Base (1)					8.18%
10						101,890
11						
12	Revenue Expansion Factor (2)					1.63256
13	Rev Req on return on Rate Base Increase					166,341
14						
15	Effect on Rev Req of Completing Amort of Theoretical Rsv					249,072
16	<b>Total Increase in Annual Revenue Requirement (6)</b>					<b>\$ 415,413</b>
17						
18	Cents per kWh Impact (3)					0.3823
19	Typical 1,000 kWh bill Impact (4)					\$ 3.82
20	% of Average Bill (5)					3.3%

**Notes:**

- (1) Represents 2011 proposed rate of return on rate base as requested in FPL's Rate Case Docket No. 080677-EI.
- (2) Represents 2011 proposed expansion factor calculation as requested in FPL's Rate Case Docket No. 080677-EI.
- (3) kWh used in the calculation is based on retail sales forecasted for 2010 and 2011 as requested in FPL's Rate Case Docket No. 080677-EI. 2015 was estimated using an average growth rate of 1.47% (average increase between 2010 and 2011).
- (4) Assumes cents per kWh impact is spread evenly over each rate class.
- (5) Represents % of 2011 typical 1,000 kWh residential bill under proposed rates as requested in FPL's Rate Case Docket No. 080677-EI.
- (6) This increase would continue over the remaining life of the affected assets in gradually declining amounts.
- (7) Totals may not add due to rounding.

**FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES**  
**COMPARISON OF BOOK DEPRECIATION RESERVE AND THEORETICAL RESERVE FOR NUCLEAR**  
**CALCULATED AS OF DECEMBER 31, 2013**

<u>Vintage</u> (1)	<u>Original Cost</u> (2)	<u>Book Reserve</u> (3)	<u>Theoretical Reserve</u> (4)	<u>Surplus/ (Deficit)</u> (5)=(3)-(4)
2010	\$ 260,643,135	\$ 14,864,584	\$ 37,053,025	\$ (22,188,441)
2011	491,864,404	20,948,824	46,728,189	(25,779,366)
2012	589,057,539	17,912,076	37,971,545	(20,059,469)
2013	15,499,635	170,964	386,573	(215,609)
	<u>\$ 1,357,064,713</u>	<u>\$ 53,896,448</u>	<u>\$ 122,139,332</u>	<u>\$ (68,242,884)</u>

## NOTES:

- (1) Year uprates go in service
- (2) Estimated additions (FPL forecast model)
- (3) Assumes uprates go in service midyear
- (4) Estimated theoretical reserve as of December 31, 2013

NOTE: TOTALS MAY NOT ADD DUE TO ROUNDING.



**STRANDED INVESTMENT RECOVERED FROM  
CUSTOMERS IN OTHER STATES  
(MILLIONS)**

<b>STATE</b>	<b>UTILITY</b>	<b>Amount Approved</b>	<b>YEAR</b>
CT	CT Light & Pwr	\$ 3,600	1999
CT	United Illuminating	801	1999
DE	Delmarva	16	2000
MA	Boston Edison	800	1999
MA	Western MA Elec	155	1999
MA	NSTAR	675	2005
MD	Baltimore Gas & Elec	528	2000
MD	Delmarva	8	2000
MI	Consumer's Energy	333	2005
NJ	PSEG	2,940	1999
NJ	Jersey City P&L	600	2003
NJ	Atlantic City Electric	125	2003
NJ	Rockland Electric	84	2003
OH	Dayton Power & Light	600	2001
PA	PECO	5,260	2000
PA	Duquesne Electric	1,480	2000
PA	PPL Electric Utilities	2,970	2000
PA	Metropolitan Edison	658	2000
PA	Pennsylvania Electric	332	2000
PA	West Penn Power	670	2000
PA	UGI Utilities	35	2000
PA	Pike County Electric	0.169	2000
TX	Center Point Energy	2,300	2004
TX	Texas - New Mexico Power	72	2004
TX	AEP Texas Central	1,720	2006

SOURCE: Regulatory Research Associates (RRA)