# BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

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

## REBUTTAL TESTIMONY & EXHIBIT OF:

## MARLENE M. SANTOS

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**REBUTTAL TESTIMONY OF MARLENE M. SANTOS**

**DOCKET NO. 080677-EI**

**AUGUST 6, 2009**

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

A. My name is Marlene M. Santos. My business address is Florida Power & Light Company, 9250 W. Flagler Street, Miami, Florida 33174.

**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 exhibit which is attached to my testimony:

- MMS-4, Complaints for Florida Investor Owned Utilities

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

A. The purpose of my rebuttal testimony is to refute claims made in the direct testimonies of South Florida Hospital and Healthcare Association (SFHHA) witness Kollen and Office of Public Counsel (OPC) witnesses, Brown and Dismukes related to Advanced Metering Infrastructure (AMI), bad debt expense, late payment charge revenue, and topics related to FPLES. In addition, I will comment on customer complaint/inquiry data presented by Florida Public Service Commission (FPSC or Commission) witness Hicks.

## SUMMARY

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

A. SFHHA witness Kollen is proposing an adjustment of $5.7 million be made to increase the savings associated with the AMI project. Mr. Kollen asserts that the Test Year savings should be in direct proportion to the number of meters deployed. My testimony shows how this estimate of savings is unrealistic as savings do not occur at the same rate as meter deployment. Savings are realized after several complex interdependent components and processes are fully developed, tested and implemented, and deployment at an FPL regional work area is achieved.

OPC witness Brown is proposing adjustments to bad debt expense. Ms. Brown claims that forecasted write-offs are overstated because FPL used an older version of the inputs of kWh sales and real price than what was filed in these proceedings. However, my testimony shows that when the write-off forecast is revised to account for the updated kWh sales and real price as Ms. Brown proposes, as well as the pertinent updated economic variables, the write-off forecast increases by $4.5 million in 2010 and $1.6 million in 2011, compared to the original filing. It does not decrease as Ms. Brown proposes. In addition, I will discuss how Ms. Brown incorrectly accounts for write-off savings associated with the Automated Bill Payment (ABP) program and the Remote Connect Switch (RCS) functionality included in the AMI project, and show that an adjustment is not necessary.

Ms. Brown is also proposing to increase the revenue forecast associated with our proposed Late Payment Charge (LPC) of the greater of $10 or 1.5%. My testimony supports why a proposed reduction for a 2% write-off rate on the incremental late payment charge revenue in the test years is appropriate and why Ms. Brown's assumption of using an average of the 2007 and 2008 late payments as a percent of total bills rather than the 30% behavior change assumed by FPL is unrealistic. If the 30% adjustment for behavior change is not accepted, then FPL would withdraw its proposal to change the current LPC fee structure. In addition, my testimony shows why Ms. Brown's proposal to include an offset in the revenue expansion factor for the LPC revenue calculated at 1.5% is improper and should be rejected.

I will then address claims made by OPC witness Dismukes regarding the transfer of the FPL gas business to FPLES on January 1, 2006, noting that it is absolutely inappropriate to raise concerns and propose changes regarding a matter that was ultimately resolved and settled upon as part of the Stipulation and Settlement agreement referenced in FPSC's Docket Nos. 050045-EI and 050188-EI, Order No. PSC-05-0902-S-EI dated Sept. 14, 2005. Therefore, Ms. Dismukes' recommendation should be rejected because it is inconsistent with the Stipulation and Settlement agreement. Moreover, the gross margins realized from the gas business are unrelated to FPL and its customers. No adjustment is required, contrary to Ms. Dismukes' recommendation. Additionally, for those FPLES programs that utilize the FPL bill, FPLES compensates FPL for these billing services.

Lastly, I will comment on the complaint/inquiry data presented by FPSC witness Ms. Hicks. The data shows that on an annual basis only 0.16% of FPL customers contacted the Commission with a complaint/inquiry and that over the two year period, only two or 0.014% of those contacts appeared to be violations of Commission rules. Clearly, FPL has a very low rate of complaints and, in fact, compares favorably to other Florida Investor Owned Utilities (IOUs). This demonstrates FPL's commitment to providing excellent customer service.

**REBUTTAL TO TESTIMONY OF SFHHA WITNESS LANE KOLLEN**

**Q. Please comment on SFHHA witness Kollen's assertion that AMI savings during the Test Year should be in direct proportion to the number of meters deployed.**

A. Mr. Kollen's claim should be rejected. His position is incorrect because savings cannot be calculated based solely on the number of meters deployed. Mr. Kollen fails to recognize that significant savings are not realized until several complex interdependent components and processes are fully developed, tested and implemented, and deployment is achieved at an FPL regional work area.

**Q. Please explain why Mr. Kollen's proposed savings can not be calculated based solely on the number of meters deployed.**

A. The meter deployment by itself is not the sole driver to achieve savings. First, the amount of savings Mr. Kollen estimates is unrealistic for the Test Year since there is a considerable amount of work to be completed related to a wide range of supporting systems, processes and organizations before significant savings can be achieved.

These include:

- Integrating complex software to many legacy and several new systems in order to maintain the integrity of customers' bills and to allow the scalability required for mass deployment. These consist of several different software solutions to read the meter, consolidate data, and integrate to back office customer billing systems.
- Creating sophisticated databases required by new systems to manage and store an extraordinarily large amount of meter data.
- Completing significant cyber security measures to protect the integrity of our customer data and systems.
- Developing a significant number of new processes and systems to maximize new functionality.
- Establishing and training the organization needed to support new processes and systems.

Secondly, FPL's deployment approach results in meter reading workforce savings being deferred until the AMI meter saturation in a region is nearly complete, the deployed meters are validated and used for billing, and the remaining workload associated with non-AMI meters is optimized.

**Q. Does Mr. Kollen question FPL's projected deployment schedule, or projected costs and savings from the deployment of AMI meters and infrastructure?**

A. No. Mr. Kollen does not question FPL's projected deployment schedules or projected costs of deployment, separated into expense and capital amounts. Mr. Kollen also does not question the estimated annual savings of $36 million, which does not occur until 2014, once the AMI meters and infrastructure are fully deployed.

**Q. Based on the characteristics of this project, is Mr. Kollen's proposed adjustment to increase savings for 2010 by $5.7 million appropriate?**

A. No. For the reasons discussed previously, savings do not occur at the same rate as meter deployment. Savings are realized after several complex interdependent components and processes are fully developed, tested and implemented, and deployment at an FPL regional work area is achieved. Prudent integration, deployment and organizational plans will insure continuous quality of service and minimize impact to our customers. As such, the $0.42 million savings included in the Test Year are reasonable and the $5.7 million adjustment to increase savings is not appropriate.

**REBUTTAL TO TESTIMONY OF OPC WITNESS SHEREE L. BROWN**

**BAD DEBT EXPENSE**

**Q. Do you agree with OPC witness Brown's assertions that FPL's bad debt expense is overstated?**

A. Absolutely not. In an attempt to cast doubt on FPL's projected bad debt expense, Ms. Brown presents an analysis that is inconsistent and purposefully selective in its recommendations. And in fact, when our forecast is updated to reflect the assumptions that Ms. Brown suggests, FPL's projections of bad debt expense are higher, not lower.

**Q. What are Ms. Brown's assertions concerning FPL's projections of bad debt expense for the Test Years?**

A. Ms. Brown makes two assertions. One is that the assumptions used in the regression model were made prior to economic changes that were utilized by FPL in preparing other components of its filing. The other is that the benefits of enhanced collection and assistance programs have not been sufficiently taken into account in projecting the level of write-off savings.

Ms. Brown correctly points out that the level of kWh sales and real price of electricity used in the regression model to predict bad debt are higher than those used for other purposes in FPL's final projection for the Test Years. However, she incorrectly concludes that the bad debt calculation would have been reduced significantly if later, lower estimates of kWh sales and real price of electricity had been used.

What Ms. Brown fails to consider is that the regression model used to predict bad debt also includes economic variables, such as unemployment rate and affordability index (Florida Real Per Capita Income/Median Price of Homes), as well as kWh sales and real price. For consistency in FPL's filing, it is necessary to use all variables--kWh sales, real price, and the other economic variables--from the same vintage.

Table A below makes a comparison of the bad debt forecast submitted in MFR C-11 to a revised forecast that uses the lower revenues in MFR C-11 as suggested by Ms. Brown, but also utilizes economic variables for the same period including Florida's unemployment and affordability index.

**Table A**

| | 2010 | 2011 |
|---|---|---|
| MFR C-11 | 28,017,000 | 22,992,308 |
| Revised | 32,511,098 | 24,592,308 |
| Difference | 4,494,098 | 1,600,000 |

With all of those variables updated to the same vintage as the later kWh sales and real price, bad debt expense <u>increases</u> by $4.5 million and $1.6 million over the original filing for 2010 and 2011, respectively. In addition, the bad debt rate as calculated in MFR C-11 would change from 0.260% to 0.302% in 2010 and from 0.207% to 0.221% in 2011. These are higher than Ms. Brown's proposed bad debt rates of 0.194% in 2010 and 0.158% in 2011 shown in Exhibit SLB-6. In other words, if all assumptions are updated on a consistent basis instead of only selected ones, the test year bad debt expense in FPL's filing would need to be increased, not lowered. Ms. Brown conveniently ignores the need for consistency in her calculations. FPL is reflecting this increase in bad debt expense as part of FPL witness Ousdahl's Exhibit KO-16, *Identified Adjustments*.

**Q. Do you agree with Ms. Brown's adjustment to the expected savings from Automated Bill Payments (ABP)?**

A. No. Ms. Brown calculates incremental savings of $1,474,271 in 2010 and $1,921,040 in 2011 based on her assumed increase in the 2010 and 2011 number of customers that would sign up for ABP at the time of connect. Conceptually, what Ms. Brown fails to realize is that the regression model used to forecast bad debt expense has been exposed to the growth in ABP over the last few years. As a result, the model already assumes a rate of growth for 2010 and 2011. An out of model adjustment is only necessary if there is a significant change in policy or procedure that causes a larger than anticipated savings. Therefore, Ms. Brown's savings adjustments are incorrect since they are already accounted for in the regression model.

**Q. What is Ms. Brown's recommendation for recognizing Remote Connect Switch (RCS) write-off savings?**

A. Ms. Brown recommends that the FPSC recognize a greater portion of the RCS avoided write-off savings by assuming an earlier deployment of the RCS avoided write-offs. She assumes in 2010, that FPL would achieve a 5-year straight amortization of the annual savings expected from RCS in 2014, when the program will be fully implemented. She increases the 2010 savings from $383,506 to $1,713,305. She uses a different methodology to adjust the 2011 savings from $2,607,692 to $4,038,209.

**Q. Do you agree with Ms. Brown's recommendation to recognize greater RCS savings in 2010 and 2011?**

A. No. RCS is a new technology in the meters that we will be deploying as part of the AMI project. This technology leverages the wireless capabilities of the AMI meter to connect and disconnect service remotely. As discussed previously on pages 4 and 5 related to the AMI project, the meter deployment by itself is not the sole driver to achieve savings. There is a considerable amount of work to be completed related to a wide range of supporting systems, processes and organizations before significant savings can be achieved.

**Q. Based on the characteristics of the AMI project, is Ms. Brown's proposed adjustment to increase RCS savings in 2010 from $383,506 to $1,713,305 and in 2011 from $2,607,692 to $4,038,209 appropriate?**

A. No. As previously discussed, savings do not occur at the same rate as meter deployment. FPL has accurately reflected costs and savings by recording them as they are anticipated to occur. The RCS bad debt savings included in the filing are associated with the expected benefits from the equipment's use. It is incorrect to account for RCS savings before they are expected to occur.

## LATE PAYMENT CHARGE REVENUE

**Q. Why is Ms. Brown suggesting that FPL adjust the late payment charge revenues associated with the implementation of a $10 minimum charge?**

A. Ms. Brown asserts that FPL should not have assumed a 2% net write-off factor and a 30% behavior change in the calculation of late payment charge (LPC) revenues. The adjustments that she makes incorrectly result in an LPC revenue increase of $25,024,251 in 2010 and $26,034,753 in 2011.

**Q. Is Ms. Brown's concern with the 2% net write-off factor valid?**

A. Ms. Brown's concern is partially valid. She is proposing that this factor be excluded because she asserts that it is reflected in the bad debt total. The bad debt expense shown on MFR C-11 does not account for the bad debt expense associated with the incremental LPC revenues from the proposed service charge change. However, when forecasting LPC revenues for the test years, the bad debt expense for the entire amount of LPC revenues was accounted for when only the incremental revenue associated with the proposed service charge should have had the LPC bad debt rate of 2% applied. Applying the 2% LPC bad debt rate assumption to only the incremental LPC revenues yields an increase of $899,613 in 2010 and $915,949 in 2011 to the total LPC revenues at proposed charges.

Whether the 2% LPC write-off is accounted for as part of the bad debt expense in MFR C-11 or in the calculation of the LPC revenue, it has the same basic impact. As such, the LPC bad debt rate, applied to the incremental revenue associated with the proposed LPC charge is justified. Additionally, FPL subsequently performed an analysis that shows the write-off rate associated with LPC revenue in 2008 was 2.35%, so the 2% assumption is understated.

**Q. Is Ms. Brown's concern with the 30% behavior change valid?**

A. No. The purpose of changing the late payment charge to have a minimum of $10 is to change behavior and induce more timely payment. Ms. Brown acknowledges that there should be a change to late payment behavior as a result of changing the late payment charge from 1.5% to the greater of $10 or 1.5% (pg 26 lines 12-15 of her testimony), but simply uses an average of the 2007 and 2008 late payments as a percent of total bills as a basis. By minimizing the behavior change assumption of 30%, Ms. Brown effectively diminishes the impact that the late payment charge is specifically designed to achieve. Ms. Brown's use of a historical late payment rate is not founded on a price change behavioral response. Instead it is merely the average of late payments as a percentage of total bills in 2007 and 2008. It is quite a stretch in her reasoning to equate a growth trend in late payment charges with a price altering behavior change as Ms. Brown is proposing.

In contrast, FPL has analyzed the likely behavioral impact of the change in late payment charges, and that analysis fully supports our use of a 30% change. As shown on Table B below, FPL determined that there should be a behavior change of approximately 65% by applying the electricity demand elasticity of approximately 0.2 to the estimated change in charges of 324%. FPL's use of an assumed behavior change of 30% is therefore quite conservative because it is less than half of the 65% change expected when applying the electricity demand elasticity. (See Table B).

**Table B**

| | | |
|---|---|---|
| A | 2008 LPC Revenues Charge < $10 | $27,460,706 |
| B | Count of 2008 Charge < $10 | 11,634,410 |
| C=A/B | Average 2008 Charge < $10 | $2.36 |
| D=C | Old Charge | $2.36 |
| E | New Charge | $10.00 |
| F=E/D-1 | Change in Price | 324% |
| G | Elasticity | -0.20 |
| H=G*F | Change in Behavior | -65% |

Ms. Brown has an unrealistic position that would significantly and unjustifiably overstate FPL's LPC revenues. If FPL's conservative 30% adjustment for behavioral change is not factored into LPC revenues, then FPL would withdraw its proposal to change the current LPC fee structure.

Q. **Ms. Brown asserts on page 28 of her testimony that any increase in base revenues will result in an increase in late payment fees and that therefore it would be appropriate to include an offset in the revenue expansion factor for this additional revenue. She then proposes an adjustment to FPL's revenue expansion factor in her Exhibit SLB-8 that would reduce FPL's 2010 and 2011 revenue requirements by $905,000 and $1,132,000, respectively. Do you agree with her proposal?**

A. No, I do not. First of all, reflecting the revenues from late payment fees as a component of the revenue expansion factor would be inconsistent with Commission precedent. Other Florida investor owned electric utilities assess a late payment fee using a similar fee structure to what FPL is now proposing, and

FPL has not found a single instance in which they include the revenue associated with the late payment fees in their calculation of the revenue expansion factor. For example, TECO did not include late payment fee revenues in calculating the revenue expansion factor in its recently concluded rate case (*see* Order No. PSC-09-0283-FOF-EI, dated April 30, 2009, Docket No. 080317-EI) and neither did Progress Energy Florida in the MFRs upon which its settled 2005 rate case was based (*see* Order No. PSC-05-0945-S-EI, dated September 28, 2005, Docket No. 050078-EI). Ms. Brown has not offered any reason to deviate from that precedent here.

Secondly, the reduction in FPL's revenue requirements that would result from the revenue expansion factor adjustment proposed by Ms. Brown is unwarranted and improper. Implicit in her adjustment is that the late payment fees that FPL collects in the test year will increase in proportion to the increased revenues FPL would receive under its proposed base rates. However, FPL has already reflected the late payment fees in its calculation of proposed base rates (*see* MFR E-5, line 36). The late payment fees were projected on the basis of FPL's proposed revision to the late payment fee structure (*i.e.,* the addition of a $10 minimum payment) and its total 2008 electric revenues, including fuel and other clause revenues. FPL used total electric revenues for this projection because the late payment fee applies to the *total* bill, not just the base rate portion. FPL's 2008 total electric revenues were approximately $11.3 billion, which is more than FPL projects its total electric revenues to be in 2010. Therefore, FPL's base rate request already fully and properly reflects the late payment fees that are projected for 2010. Ms. Brown's adjustment would improperly double-count the revenue impact of those fees and should be rejected accordingly.

**Q. In the course of evaluating the claims of the intervening witnesses, did you identify any adjustments that should be made to late payment fee revenues calculated at the current rates?**

A. Yes. Late payment fee revenues at the current rate of 1.5% were calculated as a percent of total revenue, using the same kWh sales forecast that I mentioned earlier with respect to bad debt expense. As a result, late payment fee revenues at the current rate are overstated by $7.4 million in 2010 and $7.0 million in 2011. FPL is reflecting this adjustment as part of FPL witness Ousdahl's Exhibit KO-16, *Identified Adjustments*.

## REBUTTAL TO TESTIMONY OF OPC WITNESS KIMBERLY H. DISMUKES

**Q. OPC witness Dismukes raises concerns regarding the January 1, 2006 sale of the natural gas business from FPL to FPLES. Is it appropriate to raise such concerns at this time?**

A. It is absolutely inappropriate to raise concerns and propose changes regarding a matter that was part of the 2005 Rate Case Proceedings, and was ultimately resolved and settled upon as part of the Stipulation and Settlement Agreement. FPSC Docket Nos. 050045-EI and 050188-EI, Order No. PSC-05-0902-S-EI dated Sept. 14, 2005, Attachment A, page 20, paragraph labeled "18", says "This Stipulation and Settlement will resolve all matters in these Dockets pursuant to and in accordance with Section 120.57(4), Florida Statues. This Docket will be closed effective on the date the FPSC Order approving this Stipulation and Settlement is final." As such, FPL believes this matter does not warrant any further response.

Q. **Ms. Dismukes recommends that the gross margins associated with the FPL gas contracts sold to FPLES should flow back to the ratepayers. Do you agree?**

A. No, this is not correct. As stated earlier, the matter related to the sale of the FPL gas contracts to FPLES was resolved per the Stipulation and Settlement Agreement. Since 2006, FPLES has been responsible for all activities related to the Gas Business and has assumed all related risk. FPL has not been involved in this business since that time. As such, the gross margins realized from the Gas Business are unrelated to FPL and its rate payers. No adjustment is necessary contrary to Ms. Dismukes' recommendation.

Q. **Ms. Dismukes comments on a surge protection service advertisement that was presented by a customer at the service hearing conducted in Plantation, Florida. The FPLES advertisement indicates that billing for this service is via the FPL electric bill. She alleges that FPL is not compensated by FPLES for use of its billing service. Do you agree with this conclusion?**

A. No. For those FPLES programs that utilize the FPL bill, FPLES compensates FPL accordingly for billing, collection and any other related costs.

**REBUTTAL TO TESTIMONY OF FPSC WITNESS RHONDA L. HICKS**

**Q. FPSC witness Hicks reported that from July 1, 2007 through June 30, 2009 the FPSC logged 14,700 complaints against FPL. Can you please comment on this data?**

A. Yes. First of all I would like to point out that Ms. Hicks' data includes contacts received by the FPSC from FPL customers regardless of whether they were actually complaining or merely inquiring about a matter. For this reason, I will refer to these contacts as "complaints/inquiries." There were 14,700 complaints/inquiries during this time period. This equates to approximately 7,350 complaints/inquiries per year or about 0.16% of our customer base filing a complaint/inquiry. It also demonstrates that 99.84% of our customers had no reason to contact the FPSC.

**Q. Ms. Hicks also testified that 12,236 out of the 14,700 complaints/inquiries were transferred directly to the company for resolution via the Commission's Transfer-Connect Program. Do you have any comments about this?**

A. Yes. We are happy to participate in the Commission's Transfer-Connect Program. This is an excellent and innovative process that allows us to quickly and efficiently address our customers' concerns. FPL continues to adopt innovative ways of enhancing the service we provide, such as with our interactive voice response system (IVR), which has recently been ranked #1 in the industry in a recent industry survey. Using the Commission's warm transfer process, we were able to resolve over 80% of the concerns expressed by our customers through this process during the time period mentioned.

**Q. Ms. Hicks also mentioned that of the 14,700 complaints/inquiries, Staff determined that two appear to be violations of Commission rules. Can you please expand on this?**

A. One of the apparent rule violations was for failing to respond to a customer when they requested an application for one of our programs. Our investigation revealed that a technical problem prevented the automated issuance of the application. Once we identified and corrected the problem, a process was put in place to prevent a recurrence. The second apparent rule violation was for improperly disconnecting service. Our process is to protect an account from disconnection for an identified disputed balance during the resolution of the complaint. In this instance the customer's complaint regarding a transferred balance was opened on October 22, 2008 and was closed by the FPSC on November 26, 2008. At the customer's request, the case was re-opened on April 27, 2009. Due to an oversight, the account was not updated with the re-opened complaint information and service was disconnected the next day.

Although FPL's target is zero violations of Commission rules, the two apparent infractions mentioned above represent only 0.014% of the total complaints/inquiries during the aforementioned two year period. To provide perspective during this same time period FPL processed tens of millions of transactions.

**Q. Do you have any additional complaint data that compares FPL to other Florida IOUs?**

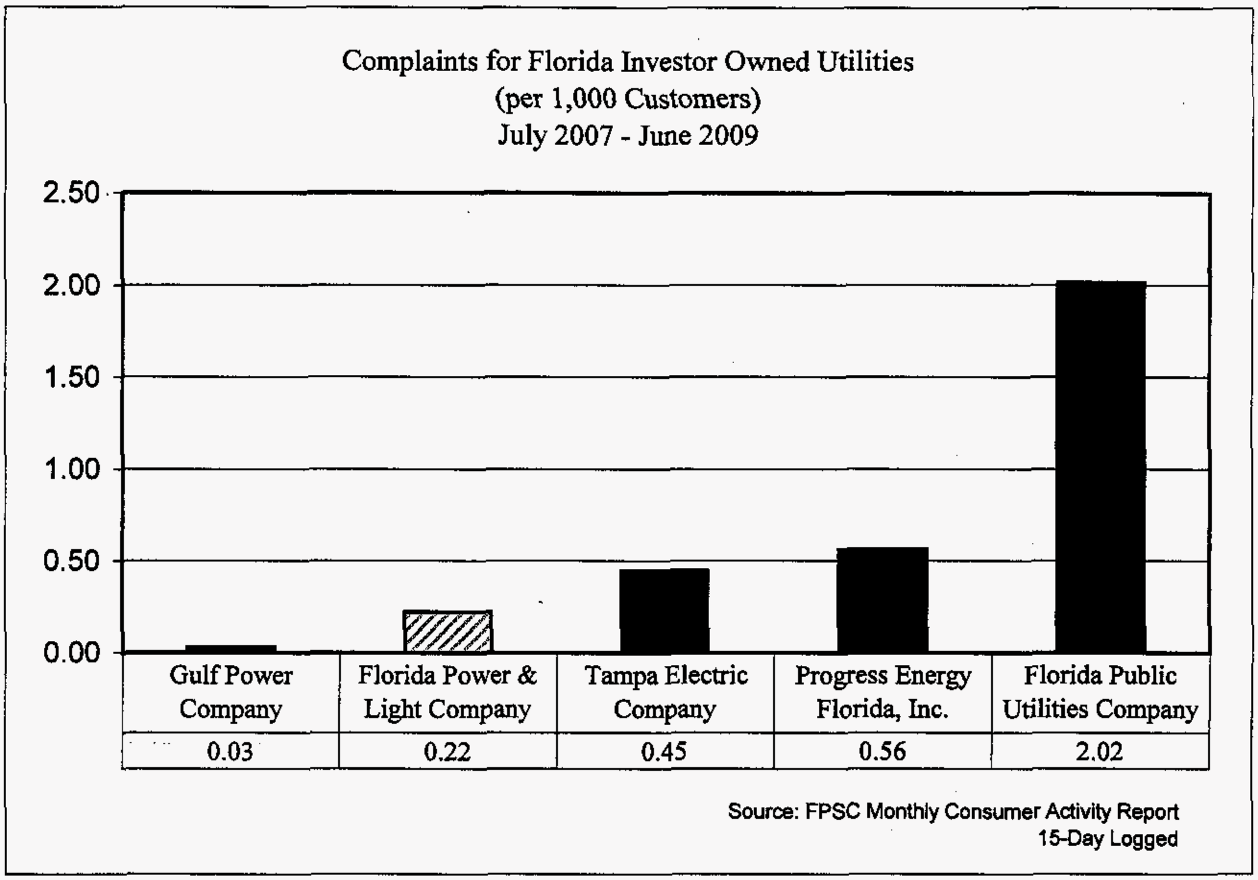
A. Yes. I am sponsoring Exhibit MMS-4, *Complaints for Florida Investor Owned Utilities*, which is a summary of logged complaint data per 1,000 customers for the five Florida Investor Owned Utilities. The data shows that FPL has the second lowest level of logged complaints when compared to the other utilities.

**Q. Are there any issues or concerns with Exhibit RLH-1 presented by Ms. Hicks?**

A. Yes. On Exhibit RLH-1, page 6, there is a line item that displays "Total Complaints Late Responding: 31". Our records do not reflect that FPL has submitted any late responses to the FPSC on customer complaints/inquiries during the time period mentioned.

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

A. Yes.


Complaints for Florida Investor Owned Utilities
(per 1,000 Customers)
July 2007 - June 2009
2.50
2.00
1.50
1.00
0.50
0.00
Gulf Power Company
Florida Power & Light Company
Tampa Electric Company
Progress Energy Florida, Inc.
Florida Public Utilities Company
0.03
0.22
0.45
0.56
2.02
Source: FPSC Monthly Consumer Activity Report
15-Day Logged