BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION FOR INCREASE IN RATES BY FLORIDA POWER & LIGHT COMPANY. DOCKET NO. 080677-EI

2009 DEPRECIATION AND DISMANTLEMENT STUDY BY FLORIDA POWER & LIGHT COMPANY. DOCKET NO. 090130-EI

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PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN MATTHEW M. CARTER, II COMMISSIONER LISA POLAK EDGAR COMMISSIONER KATRINA J. McMURRIAN COMMISSIONER NANCY ARGENZIANO COMMISSIONER NATHAN A. SKOP
DATE:	Wednesday, September 2, 2009
TIME:	Commenced at 9:30 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	JANE FAUROT, RPR (850) 413-6732
PARTICIPATING:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
445			2722
447	S&P 11-30-07 Publication	2677	2722
448	S&P 11-26-08 Publication	2680	2723
449	S&P 5-27-09 Publication	2681	2723
279 - 290			2721
450	Rebuttal Nevada Power Company Docket Number 06-11023	2844	
451	FPL Site Plan Excerpt	2854	

P R O C E E D I N G S

(Transcript follows in sequence from Volume 20.)

CHAIRMAN CARTER: We are back on the record. And before we begin where we left off, a couple of preliminary matters. For planning purposes, our next available date on the calendar we have got for you will be Wednesday, September 16 from 9:30 to 7:00 p.m. Wednesday, September 16, 9:30 to 7:00 p.m.

And, of course, I remain the eternal optimist. I think we can knock this puppy out by the end of the week. That's what I think. And we won't even need to mess up Ms. Bradley's Saturday. Obviously, you don't have any plans right now, do you? I'm so sorry to mess up your weekend like that.

MS. CLARK: Mr. Chairman.

CHAIRMAN CARTER: Yes, ma'am, Ms. Clark.

MS. CLARK: I have some scheduling, I think, consensus for this afternoon when you are ready to hear that.

CHAIRMAN CARTER: Let me take that in a minute. Let me do that in a minute.

MS. CLARK: Okay.

CHAIRMAN CARTER: Because I've got this sheet, this thing got -- well, anyway, let's hold onto that

one. Probably, maybe after we finish with this witness, then I will recognize you for the possible schedule, okay?

MS. CLARK: Well, it would be who would be next after this witness. If would be a change in the --

CHAIRMAN CARTER: Well, then that's when I will recognize you after we finish with this witness, okay?

MS. CLARK: Okay. Sounds good.

CHAIRMAN CARTER: Give me that high sign to make sure that I recognize you during that time.

MS. CLARK: Thank you.

CHAIRMAN CARTER: Staff, just let me know that after we finish with this witness, I need to recognize Ms. Clark with some possible recommendations on the schedule for this afternoon.

Okay. Any other preliminary matters from the parties before we begin?

Okay. When last we left -- Ms. Helton, you are recognized. There was an objection pending.

MS. HELTON: Yes, sir, Mr. Chairman. I believe that this exhibit proffered by FPL, Number 446, or was marked for identification as 446, mischaracterizes Mr. Baudino's methodology, which is to use the proxy group which has been listed under his name

on Exhibit Number 445. For this reason, I believe that it is inappropriate to use this Exhibit Number 446 for cross-examination purposes.

CHAIRMAN CARTER: Okay. Then we won't be using 446. You may proceed, Mr. Anderson.

MR. ANDERSON: And we would just like to note an offer of proof for the record, which I will make at the appropriate time for Exhibit 446 when exhibits are offered. I will move on to another line of questioning and I was just organizing my notes to do that for you.

CHAIRMAN CARTER: Okay. That will be fine. Go ahead. And we will do that at the appropriate time. You may proceed. Do you want to take a moment to get your notes organized?

MR. ANDERSON: Yes, just one moment.

CHAIRMAN CARTER: Okay. That's fine.

MR. ANDERSON: May I proceed?

CHAIRMAN CARTER: You may proceed.

MR. ANDERSON: Thank you.

CONTINUED CROSS EXAMINATION

BY MR. ANDERSON:

Q. Good afternoon, Mr. Baudino.

A. Good afternoon.

Q. On Page 57 at Lines 3 to 4 of your testimony, could you look at that?

A. Yes, I have it.

Q. You state that a flotation adjustment essentially assumes that the current market price is wrong, and you recommend that there not be a flotation adjustment included in this case, isn't that right?

A. That is correct.

Q. And a flotation adjustment is intended to reflect the costs incurred by a utility with respect to the issuance of securities and the like. That is the generic nature of flotation costs, right?

A. That is the nature of what it intends to do.

Q. You would agree that within an appropriate quantification that such a cost is a real cost that is incurred by a utility, and if appropriately shown and proven, should be included among the reasonable costs of a utility, right?

A. I have -- I have actually testified in the past that if a utility can show its actual flotation cost in a test period that it could ask for collection of those costs. What I don't agree with is this sort of generic flotation cost adjustment that is not based on a utility's costs.

Q. Okay. And that gets to your idea that a flotation adjustment assumes the current market price is wrong. Dr. Avera in contrast, though, he doesn't rely

on that idea, though, does he? Rather, he specifically points out that FPL has unrecovered flotation costs. That is the basis we are offering, not an argument that the market price is this or that. Do you understand that to be the case? That that is the difference between the two parties' positions.

A. Well, I think I have explained what my position is on flotation costs, and I will let Dr. Avera explain what his position is.

Q. Are you aware that the Florida Public Service Commission staff has in the past recommended flotation cost adjustments without saying the market price is wrong?

A. It is my understanding that this Commission has in the past allowed flotation cost adjustment.

Q. I'm sorry?

A. Sorry, I will repeat. It is my understanding that this Commission and the staff have recommended flotation cost adjustments in past cases.

Q. Thank you. Then on Page 30, Line 14.

A. 30?

Q. Yes, sir. You quote a study by Professor Brigham and some others, right?

A. Yes.

Q. And Eugene Brigham was a distinguished

professor at the University of Florida, who recommends flotation cost adjustments for past equity issues as Dr. Avera talks about, right?

A. I have seen Dr. Brigham's testimony in the past. I don't recall if he included flotation cost adjustments or if that is in his book. I just don't recall.

Q. Okay. You don't recall one way or the other, right?

A. Right. I just don't recall at this point.

Q. Okay. On Page 34, Lines 15 to 17, you criticize Dr. Avera's recognition of exemplary management because you believe ROE should be based on cost of equity models, right?

A. Well, I believe that the cost of equity ought to be based on the investor required return, and it would be inappropriate and burdensome to ratepayers to inflate that investor required return by some arbitrary management -- adjustment for exemplary management.

Q. You recognize there is no specific adder that is being requested by FPL. It is just a consideration within the range is our position, you understand that, right?

A. I believe that is correct, yes.

Q. And you will grant me that the 12.5 percent

return selected by Mr. Pimentel is in the range of 11 to 13 percent that Dr. Avera found from his application of cost of equity models, right?

A. It is in that range and probably more specifically justified by the nonutility group results. And, actually, I believe that his range went down to 10-1/2, not 11.

Q. We will let him clarify that. I believe it is 11, but that's fine. I would like to move on to some questions about capital structure.

A. All right.

Q. Your testimony asserts that the Commission should approve an adjusted equity ratio of 50 percent, is that right?

A. Right. That is the adjusted equity ratio that the financial reporting services, like S&P would be looking at. And that's different from the ratemaking equity ratio of 53-1/2 percent that I am recommending.

MR. ANDERSON: And I am passing out a document called -- I would like to ask that it be labeled, please. It is Exhibit Number 447.

CHAIRMAN CARTER: 447. Title?

MR. ANDERSON: A short title would be S&P 11-30-07 Publication.

CHAIRMAN CARTER: S&P 11-30-07 Publication.

(Exhibit Number 447 marked for identification.)

CHAIRMAN CARTER: You may proceed.

MR. ANDERSON: Thank you.

BY MR. ANDERSON:

Q. In your testimony at Page 39, Lines 18 to 21, you point to a recent S&P publication as support for your recommended ratio of 50 percent, right?

A. Yes.

Q. And Exhibit 447, is this a portion of that S&P ratings rec that you relied on?

A. It is.

MR. MENDIOLA: And, Your Honor, we would reserve optional completeness on this.

CHAIRMAN CARTER: I beg your pardon?

MR. MENDIOLA: We would reserve optional completeness. Mr. Anderson said that this is a portion of this document, and to the extent that there are other parts that need to be included in order to give a fair representation, then we reserve optional completeness.

MR. ANDERSON: In this case I misspoke. It is actually two pages of a two-page document. It is 1 of 2 and 2 of 2, and my apologies for misstating.

MR. MENDIOLA: In which case we don't need to have optional completeness.

CHAIRMAN CARTER: Okay. You may proceed.

BY MR. ANDERSON:

Q. And you used Table 1, which has business risk and financial risk, right?

A. Yes, I used Table 1 and Table 2 here, both.

Q. And then you turn to Table 2, you just mentioned?

A. Yes.

Q. And FPL falls into that intermediate category, is that right?

A. Correct.

Q. Okay. And then we look over under Table 2, intermediate under debt leverage, that says 35 to 50 percent, right?

A. Correct.

Q. And to get an equity percentage we just need to flip that. That would be what, 50 to 65 percent, right?

A. That's correct.

Q. So the basis of your 50 percent recommendation, if I understand it, is the qualification for the intermediate classification here with a 50 to 65 percent equity ratio range. And then you picked the lowest there, the 50 percent, right?

A. Yes, I picked the lower end of the range,

correct.

Q. Okay.

A. Or you could look at -- for equity, or you could say the higher end of the range for debt.

CHAIRMAN CARTER: You may proceed.

MR. ANDERSON: Okay.

BY MR. ANDERSON:

Q. I have handed you Exhibit 440 in evidence entitled Lawton S&P reference documents. Please look at the page Bates Number 011244. Do you see that?

A. I do see that, yes.

Q. Does the Table 2 -- this is from Mr. Lawton yesterday. Is this the same Table 2 essentially as your Table 2?

A. Well, it is essentially the same as the Table 2 in the prior exhibit that you handed out.

Q. Right. And, again, just the common feature is it has got the same columns, FFO debt, FFO interest, debt leverage, et cetera. It has got the same figures in the columns. So the two of you were looking at the same table, this Table 2, right?

A. Yes.

Q. Okay.

CHAIRMAN CARTER: Mr. Anderson, do you need a number on this exhibit?

MR. ANDERSON: Yes, please. We would like to mark this Exhibit Number 448.

CHAIRMAN CARTER: Number 448, Commissioners, for your records.

MR. ANDERSON: And a short title, S&P 11/26/08 Publication.

CHAIRMAN CARTER: Okay. You may proceed.

MR. MENDIOLA: And, Mr. Chairman, this is one we would like to reserve optional completeness on. This is apparently Page 1 of 11.

CHAIRMAN CARTER: Okay. You may proceed.

(Exhibit Number 448 marked for identification.)

BY MR. ANDERSON:

Q. Okay. And looking at Exhibit 448, look at the box Table 1, business and financial risk profile matrix.

A. Yes.

Q. That is the same Table 1 from the 2007 document we just looked at, right?

A. Yes, it appears to be the same table.

Q. Okay.

A. The same relationships.

Q. Right. And that is what establishes the business risk profile stated there of excellent, strong, satisfactory, et cetera, right?

A. Correct.

Q. Okay. And that is what you used to look across from excellent to intermediate, and all that good stuff, right?

A. Yes.

Q. Okay. Please look at the top highlighted portion on Exhibit 448. It says editor's note. This is dated 11-26-08, the publication. Table 1 in this article is no longer current. It has been superseded by the table found in criteria methodology business risk/financial risk matrix expanded, published May 27, 2009 on ratings direct. Did I read that right?

A. Yes.

MR. ANDERSON: Okay. I want to short circuit a step and just pass out the next one.

CHAIRMAN CARTER: Okay. This would be 449.

MR. ANDERSON: Yes, sir. Thank you. S&P 5/27/09 Publication.

(Exhibit Number 449 marked for identification.)

CHAIRMAN CARTER: It's 449.

COMMISSIONER EDGAR: Mr. Chairman, I --

CHAIRMAN CARTER: That's 449.

COMMISSIONER EDGAR: That's 449. I got my documents confused, so let me catch up.

CHAIRMAN CARTER: They look alike.

COMMISSIONER EDGAR: They look alike.

CHAIRMAN CARTER: They really do.

COMMISSIONER EDGAR: Thank you very much.

CHAIRMAN CARTER: Okay. You may proceed, Mr. Anderson.

MR. ANDERSON: Thank you.

BY MR. ANDERSON:

Q. Mr. Baudino, you filed your testimony with all the other intervenor testimony in this case on July 16, 2009, right?

A. Yes.

Q. And July 16 was after the May 27, 2009 publication date of the S&P guidance we have just passed out, right?

A. That is correct.

Q. Okay. Please look at Table 1.

A. Yes, I see that.

Q. And we start off, and we see, again, excellent, intermediate A, right?

A. Correct.

Q. Let's turn to Table 2 now which is at Page 4 of Exhibit 449?

A. Yes, I have that.

Q. Okay. And what I have done here, and it may

make it easier for folks is if you take your Exhibit 447, which is the 11/30/07 document, and I have just folded it open like this so you can see Table 2. And for the May 27th, 2009 document, I've got that Table 2 side-by-side now. Do you have that?

A. I do.

Q. Okay. That Table 2 has changed now, hasn't it?

A. It has. The change there is the inclusion of the significant financial risk and --

Q. Right. And in addition, some of the metrics changed a little bit, too.

A. A little bit, yes.

Q. For example, in the 2007 document reading across the top you had FFO/debt percent. We still have got that in the 2009 document, right?

A. Yes.

Q. And it seems to me that the numbers have changed under that column, too, haven't they?

A. Which, the --

Q. Just glancing. For example, modest under the 2007 document and modest under the 2009, you have got 40 to 60 percent and then 45 to 60 percent, so there is a numerical change.

A. Yes.

Q. And looking down the column there are other changes like that, too, right?

A. Yes. They become a bit more conservative, I would say.

Q. Right. And then the middle column has changed altogether between the tables. The other one was FFO interest coverage and the new one is debt/EBITDA, E-B-I-T-D-A, coverage, right?

A. Yes.

Q. And that is a different metric than the one in the 2007. And then looking at the right-hand column, we have got from 2007, the debt-to-capital, and in the 2009, again, we have debt-to-capital. And as you noted, we have added some -- we have added that significant category, right?

A. Right.

Q. Let's look at the intermediate category in the 2009 Table 2 in Exhibit 449. It says debt to total capital ratio provides for a 35 to 45 percent ratio, right?

A. Correct.

Q. And that equates to a 55 to 65 percent equity ratio, right?

A. That is correct.

Q. Okay. So for that intermediate provision that

is a change from the 2007 document which permitted down to the 50 percent level, right?

A. Correct.

Q. So from the Table 2 in the May 2009 document, which is the S&P current guidance, an equity ratio of 55 to 65 percent is indicated, all other things equal to maintain an intermediate financial risk profile corresponding to our current rating, right?

A. Yes, that would be the updated numbers, correct.

Q. And as you said a little earlier, you recommended a 50 percent equity ratio based on the old document. And isn't it true that if we use the current guidance, that your recommended 50 percent ratio no longer falls into the intermediate range consistent with our current rating, right?

A. That is true. However, given the excellent business profile for FPL, that still results in an A rating, albeit it shows here A-minus.

Q. Well, what I am clarifying is your recommendation was based on an out of date document that at a 50 to 65 percent range you recommended 50. Now, what I want to do is using that same methodology of 50 percent, that right now it would be, all other things equal, right on the edge between the significant and

aggressive, right?

A. Correct.

Q. Okay. And then if you turn back to Table 1 on Page 2 of Exhibit 449, the 2009 document, right?

A. Yes.

Q. And reading across from excellent, intermediate A, that is where we are now, right?

A. Yes.

Q. If we are actually in the significant range or the aggressive range, the indicated rating there is A-minus or BBB, right?

A. For significant it would be A-minus.

Q. Right. And for aggressive it would be BBB?

A. Right.

Q. And that 50 percent is the dividing line between the two of those, right? Is that right?

A. That is correct.

Q. Yes. Now, to get to the capital structure you are recommending, I believe your papers show we need to remove about 845 million in equity from the company, right, and replace that with debt?

A. I am just turning to my --

Q. RAB-8.

A. RAB-8.

Q. Under adjustments.

A. Right. There is two adjustments you would need to make there. One would be to move -- and this is for ratemaking purposes -- to achieve the ratemaking equity ratio of 53-1/2 percent. I moved approximately 845 million out of equity and into debt, and then increased the company's short-term debt, so I moved approximately 438 million out of long-term debt into short-term debt.

Q. And the point there is -- because we heard things a little different yesterday, is if you make a recommendation to change the equity by decreasing it, you made the con-commitment change to change the debt, right?

A. Yes.

Q. Okay. You know that we don't carry $845 million in cash on our balance sheet month-to-month to fund that. We would have to go out and borrow that, right?

A. This is a ratemaking adjustment to get to a ratemaking equity ratio that is -- that is reasonable, much more reasonable than the almost 60 percent number that the company is proposing. So this is just a ratemaking adjustment. I'm not suggesting the company needs to go out and borrow 845 million on the market to do this. This is something that could happen over time.

There is a number -- you know, there are other ways the company could accomplish this. But this is a ratemaking adjustment.

Q. You recognize in Florida Power and Light Company nearly all of its revenues are subject to this Commission's jurisdiction. It is not a multi-state company, right?

A. That's right.

Q. And unlike some other companies that might have 25 or 30 percent of FERC revenues, we have next to nothing, right?

A. I don't know what the FERC revenues are for FPL. I don't know.

Q. But this is overwhelmingly dominated as a Florida regulated utility and Florida regulated financials, right?

A. I will accept that, subject to check, yes.

Q. And isn't it true that for the company to have any shot at actually earning whatever the all in, you know, rate of return is, including return on equity, we really do have to conform our actual investment just as we do today to that which has been approved by the Commission, right?

MR. MENDIOLA: Objection. That is a vague question to have any shot and conform. Maybe counsel

can identify what he means by that.

CHAIRMAN CARTER: Just rephrase, Mr. Anderson.

BY MR. ANDERSON:

Q. In order to have any likelihood, based upon information provided in this case, to achieve whatever target rate of return, including return on equity that is approved by this Commission, we really do need, just as we do today, to conform our actual equity structure to that which is approved by this Commission, correct? We can't make it up in some other state.

A. Right. I mean, you are going to get your revenues and earnings from what this Commission approves here, that's right.

Q. Exactly. Now, after this proceeding is completed here today, and you return home to -- I'm sorry, Mr. Baudino, I forget where you came from today.

A. I live in North Carolina.

Q. North Carolina. When you return to North Carolina, it's fair you and your firm, with respect, you have no responsibility to raise the more than 16 billion in capital that we need to serve our customers, right?

MR. MENDIOLA: Objection. That question is meaningless. Of course, Mr. -- well, it is irrelevant. It doesn't matter where the witness lives or whether his firm has any responsibility to raise the capital, so

that question is objectionable. That is irrelevant.

CHAIRMAN CARTER: Objection based on relevance. Mr. Anderson, speak to the objection, please.

MR. ANDERSON: The issue presented in this case focusing on return on equity and rate of return is that we ensure together that the company is in a position of sufficient financial strength to attract and retain capital. That is something our company has to do this Commission needs to regulate, and the point is that the witness does not have any ongoing interest in ensuring that that actually occurs or does not occur. That is the purpose of the question.

CHAIRMAN CARTER: Ms. Helton.

MS. HELTON: This is a tough one again, Mr. Chairman. I'm hoping that after this question in this line of questioning we can move on, Mr. Chairman. I think it is an appropriate question. I think he is trying to make a point, but I am hoping we can move on after that.

CHAIRMAN CARTER: Mr. Anderson.

MR. ANDERSON: May I have an answer to that question, and then I have got a short line and hope to be done.

CHAIRMAN CARTER: Tread lightly.

BY MR. ANDERSON:

Q. Not a trick question. It is our chief financial officer, our CEO, and all who have responsibility for raising the money, right?

A. Yes.

Q. And it is the Commission's obligation to make the decision so that, you know, we can do that, you know, based upon how they judge the evidence, right?

A. I believe that is overly simplistic. I think the Commission must look at FPL's plans and make sure that all of its expenditures, its proposed expenditures are just and reasonable and prudent and that it does so in the lowest cost manner. And that is what I am talking about here in my testimony and recommending with respect to the capital structure I am recommending the Commission adopt.

Q. I understand that point, and we will just -- we will just move on.

You have not been a chief financial officer of an electric utility like Mr. Pimentel, right?

A. No, I have not been.

Q. You have not been responsible for raising capital at a utility?

A. No.

Q. Or developing a financing plan on behalf of or

as an employee of a utility?

A. No.

Q. You are not responsible for maintaining credit ratings for a utility or any company rated by Standard and Poor's, Moody's mor Fitch?

A. No, that's not my responsibility.

Q. Never employed by Standard and Poor's rating service?

A. No.

Q. The Moody's rating service?

A. No.

Q. The Fitch rating service?

A. No rating services.

Q. You have not met with FPL's debt investors?

A. I have not.

Q. Equity investors?

A. I have not.

Q. Ratings analysts?

A. No, I have not.

Q. You are not responsible for issuing bonds at any company or stock at any company?

A. I am not.

MR. ANDERSON: No further questions.

CHAIRMAN CARTER: Thank you.

Staff, you're recognized.

MS. BROWN: Just a few questions.

CROSS EXAMINATION

BY MS. BROWN:

Q. Good afternoon, Mr. Baudino. I'm Martha Brown with the Commission staff.

A. Good afternoon.

Q. Counsel for FP&L passed out selected pages of an S&P report dated 11-30-07. It is Exhibit Number 447. Do you have that?

A. I do.

MR. ANDERSON: To be clear that was the one with 2 of 2, so just to be clear.

MS. BROWN: Well, I would like you to refer to 1 of 2.

MR. ANDERSON: Thank you.

BY MS. BROWN:

Q. The next to the last paragraph at the bottom of Page 1, do you see that? It starts out regulated utilities and holding companies.

A. Yes, I have that.

Q. Would you read that paragraph, please?

A. Sure. Regulated utilities and holding companies that are utility focused virtually always fall into the upper range, excellent or strong, of business risk profiles. The defining characteristics of most

utilities, a legally defined service territory generally for significant competition, the provision of an essential or near essential service, and the presence of regulators that have an abiding interest in supporting a healthy utility financial profile underpin the business risk profiles of the electric, gas, and water utilities.

Q. Thank you. What does this passage mean to you regarding S&P's assessment of the business risk profile of regulated utilities?

A. Well, generally I think that this -- it means -- this is my interpretation of it, is that they tend to be much stronger and have better business positions than unregulated firms for one thing. I think this legally defined service territory is something you don't find in, for example, the companies in Dr. Avera's nonutility group.

The provision of an essential or near essential service and regulators that have an abiding interest in supporting a healthy utility financial profile, that all supports -- is very supportive in terms of regulation, in terms of investors, both bond and stock investors. And I think -- so in general that is the way that I would characterize it.

Q. Okay. Now if you would turn to Page 2 of 2, and read aloud the first paragraph there. It's a little

long, but we thought it would be better for you to read the whole thing.

A. Sure. Starting with the indicative ranges?

Q. Yes.

A. The indicative ranges for utilities differ somewhat from the guidelines used for their unregulated counterparts because of several factors that distinguish the policy and profile of regulated entities. Utilities tend to finance with long maturity capital and fixed rates. Financial performance is typically more uniform over time, avoiding the volatility of unregulated industrial entities.

Also, utilities fare comparatively well in many of the less quantitative aspects of financial risk. Financial flexibility is generally quite robust, given good access to capital, ample short-term liquidity, and the like. Utilities that exhibit such favorable credit characteristics will often see ratings based on the more accommodative end of the indicative ratio ranges, especially when the company's business risk profile is solidly within its category.

Conversely, a utility that follows an atypical financial policy or manages its balance sheet less conservatively, or falls along the lower end of its business risk designation would have to demonstrate an

ability to achieve financial metrics along the more stringent end of the ratio ranges to reach a given rating.

Q. And what is your impression of this discussion with respect to the perceived difference between the risk associated with regulated utilities and the risk profile for their unregulated counterparts?

A. Well, in terms of financial risk, the financial risk would tend to be lower. And it shows here, this one sentence, financial performance is typically more uniform over time, avoiding volatility of unregulated industrial entities. And source volatility is usually associated with risk. So, I think with the language we read and that I read earlier about business risk profile, it sort of helps to support the financial risk profile, as well.

And, also, if a company is very solidly within an excellent business profile, such as FPL, this suggests that -- let me see if I can find the sentence here. The ratings based on the accommodative end of the indicative ratio ranges. So everything kind of moves together, and even so -- I think also one thing that I noted in the -- one thing that S&P has stated before, it says note that even after we assign a company a business risk and financial risk, the committee does not arrive

by rote at a rating based on the matrix. The matrix is a guide. It is not intended to convey precision in the ratings process or reduce the decision to plotting intersections on a graph. So there is some judgment there.

Q. And where were you reading from, that last portion that you read?

A. That was from the November 2007 Standard and Poor document.

MS. BROWN: All right. We have no further questions. Thank you.

CHAIRMAN CARTER: One moment.

Any questions from the bench? Redirect.

MR. MENDIOLA: Thank you, Mr. Chairman.

REDIRECT EXAMINATION

BY MR. MENDIOLA:

Q. Mr. Baudino, you were asked a number of questions regarding whether you were a CFO, like Mr. Pimentel, or otherwise had experience raising capital for a utility company. Do you recall that?

A. Yes.

Q. How long have you been an expert in analyzing utility capital structures and return on equity?

A. Well, I have been -- I started out with the New Mexico Public Service Commission in 1982, so

approximately 27 years.

Q. And do you make it your practice to monitor utility capital structures and returns on equity around the country?

A. Yes. And, in fact, I did that in my -- one of my exhibits here when I compared the equity and debt ratios of my comparison group to what the company was asking for in terms of its equity ratio.

Q. And what did you find?

A. That those --

MR. ANDERSON: Objection, please. We did not pursue this line of questioning. It's beyond the scope of direct. I'm trying to make sure I object prior to the answer.

CHAIRMAN CARTER: Mr. Mendiola. I want to call you Mr. Wiseman so bad. Mr. Mendiola.

MR. MENDIOLA: I would not be offended if you did.

CHAIRMAN CARTER: Okay. Good. To the objection, Mr. Mendiola.

MR. MENDIOLA: Sure. Mr. Anderson's line of questioning seemed to raise a question of Mr. Baudino's experience, and by virtue of raising the question about his experience, raised a question about the reasonableness of his recommendations. My redirect goes

directly to Mr. Baudino's experience and asks him to place that experience in terms of what he monitors around the country and how that influenced his recommendation here. So it goes to his experience.

CHAIRMAN CARTER: Ms. Helton.

MS. HELTON: I agree with Mr. Mendiola, and I think it is an appropriate line of cross-examination.

CHAIRMAN CARTER: You may proceed. Objection overruled.

THE WITNESS: Could you repeat the question, please?

BY MR. MENDIOLA:

Q. Sure. The question was with respect to your analysis of what is occurring around the country in terms of capital structures and returns on equity, what did you find relative to what this company is requesting?

A. The comparison group capital structure for my group of companies I show on Exhibit REB-9. The common equity ratio for that group is 47.6. That looks at debt, common equity -- well, debt and common equity and preferred, if any. So if you look at the -- well, the total equity ratio, even if you include preferred stock is about 49 percent. The company is asking for 59 percent in this case, so that significantly exceeds

the group.

Q. Now, you were asked a question regarding whether you, as an out-of-state resident, have any responsibility or interest in helping this company to raise capital. Do you recall that question?

A. I do.

Q. Do you know whether the South Florida Hospital and Healthcare Association has an interest in ensuring that FP&L raise sufficient capital to provide adequate and reliable service?

A. I'm going to -- I haven't asked any of our clients this directly, but I am going to assume that they do, just like all customers of Florida Power and Light have a very strong interest in that, and I am representing this particular set of customers.

Q. All right. Now, you were asked a number of questions regarding the $845 million of equity that you recommend making one of two adjustments to in order to bring the ratemaking capital structure to the level of your recommendation. Do you recall that?

A. Yes, I do.

Q. And you referred to something as a ratemaking adjustment. Do you recall that?

A. Yes.

Q. What is a ratemaking adjustment, and does that

require an actual payment of cash?

A. A ratemaking adjustment for me in this case, if we go to Exhibit REB-8, what I did was reduce the company's excessive amount of equity in its capital structure down to a more reasonable level. This does not require any payment of cash or financing on FPL's part. And, in fact, what it does is get the ratemaking capital structure more in line with what the company actually had in its Schedule D2. I want to just turn to that.

On Page 41 of my testimony, I went to the company's Schedule D2, which showed its historical and forecasted capital structures through the end of the projected test year. And, you know, starting in 2007 the company's equity ratio was around 54.6. It got up to 56 one year. In 2010 they are looking at 53.8. In 2011, 54.8. So really, the adjustment is a ratemaking adjustment to get this more in line with the company's experience and with a more reasonable level of equity in the capital structure so it is not so expensive for ratepayers to support.

Q. And counsel for FPL asked you about one of your adjustments, but he didn't ask you about the other adjustment, isn't that correct?

A. Right.

Q. And can you make one without making the other to get to your capital structure?

A. No, you cannot.

Q. What is the other adjustment?

A. The other adjustment is to move out of long-term debt about $438 million into short-term debt, which the company substantially understated in its request in this case.

Q. What was it that was understated in its request?

A. The amount of short-term debt in the capital structure, which is very inexpensive financing for the company and which would be good for the company to reflect that in its regulated capital structure supporting its rate base.

Q. And so, the adjustment was from long-term debt to short-term debt?

A. Yes, that was the second adjustment.

Q. All right. And what would the effect of that adjustment have on the company's amount of short-term debt in its test year compared to its historical years?

MR. ANDERSON: I would like to object. And the reason is this is all in the witness' direct testimony. This is far beyond the scope of cross-examination. It is not proper redirect. It is

expressly called out by counsel as something that was not talked about and is just being pointed to in the initial testimony. It's unrelated to the questions.

So if we are to, you know, try to move witnesses along, I make decisions about what I ask about. It doesn't open the door to asking question about utterly unrelated things to those that I have pointed to. The points that are being referred to are in the record, but it's not proper redirect exam. That's the basis of my objection.

CHAIRMAN CARTER: To the objection, Mr. Mendiola.

MR. MENDIOLA: Thank you, Mr. Chairman. Your Honor, Mr. Anderson asked specifically the witness about one adjustment, but not about the other. And, frankly, as the witness testified, the two are not independent of each other. You can't make one without making the other and still get to his recommendation. And so sometimes it is just as important what was not asked versus what was asked in terms of providing a clear record for the Commission.

I think that if counsel for FPL were allowed to ask only about the one adjustment reflecting a payment of equity to debt without referring to the other adjustment moving long-term debt to short-term debt, it

would leave the false impression with this Commission that Mr. Baudino's adjustment could cost the company more money than it actually would.

CHAIRMAN CARTER: Ms. Helton.

MS. HELTON: Could I have Mr. Mendiola -- and I'm sorry if I'm pronouncing your name incorrectly.

CHAIRMAN CARTER: Close enough.

MR. MENDIOLA: I've been called worse.

MS. HELTON: Could I have him repeat -- I'm sorry, but if I could have him repeat the question.

MR. MENDIOLA: Sure. My question was if the adjustment from long-term debt to short-term debt were made, as Mr. Baudino recommends, then what effect would that have on the level of short-term debt on the company's capital structure for the test year compared to the level of short-term debt in historical years in the capital structure?

CHAIRMAN CARTER: One moment. One moment.

MS. HELTON: Thank you, Mr. Chairman. The way I see it, Mr. Chairman, is that Mr. Anderson opened the door to the adjustments that the witness recommended in his prefiled testimony, and that counsel for the Hospital is just making sure -- making sure you have the complete picture. So I think it is an appropriate line, short line of cross -- or redirect examination.

CHAIRMAN CARTER: Overruled, but tread lightly.

MR. MENDIOLA: Yes. Yes, sir.

BY MR. MENDIOLA:

Q. Can you answer that, that one question, Mr. Baudino?

A. Yes. Basically, what that second adjustment does is bring the company's short-term debt levels up to where -- near where they have been historically and what they have been forecasted to. And I have got those numbers on Page 42 of my testimony.

Q. All right. That is enough on that line.

You were asked a number of questions regarding Exhibit Number 449, which is the S&P publication of May 27th, '09. Can you put that in front of you, please?

A. Sure. I have it.

Q. All right. Now, in reference to Table 2, you were asked a question regarding the addition of the category called significant, do you see that?

A. Yes, I do.

Q. And I believe you testified that your recommended capital structure of 50 percent debt, 50 percent equity for credit rating purposes is on the borderline between significant and aggressive, is that correct?

A. It is.

Q. All right. Now, look over to Table 1 with me. You were asked questions about Table 1, as well, were you not?

A. Yes.

Q. And, if FPL -- first of all, along the left-hand column, FPL is in the excellent category, is that right?

A. Yes.

Q. All right. And it is currently at least under the prior -- under your prior analysis under the prior matrix, it was an intermediate financial risk, is that right?

A. Yes.

Q. And so now it could be in the significant category, is that right?

A. It's possible. If S&P imputes the kind of debt that FPL has in its filing, then it would likely fall into the significant category.

Q. And what would the indicative rating be if it were significant and excellent?

A. It would be A, A-minus specifically.

Q. All right. And do you know what the median credit rating is, bond rating for an integrated investor-owned utility in this country?

A. The average bond rating, I'm not completely sure.

Q. All right. Do you know whether --

A. I haven't averaged them all out.

Q. Do you know whether A-minus is investment grade?

A. Yes, it is, very strong investment grade.

Q. All right. And even if FPL -- well, first of all, let me ask you to read the short two sentences or three-sentence paragraph right below Table 1. Could you read that into the record, please?

A. Yes.

Q. Out loud, please.

A. The rating outcomes refer that, that?

Q. Yes, that one.

A. Okay. The rating outcomes refer to issuer credit ratings. The ratings indicated in each cell of the matrix are the midpoints of a range of likely rating possibilities. The range would ordinarily span one notch above and below the indicated rating.

Q. So do you have an opinion about whether it is possible that even if FPL were in the significant category it could maintain an A rating?

A. It could according to that statement. Yes, it is possible.

Q. All right. And if FPL were to go down to an A-minus rating, do you have an opinion about whether that would impair its access to adequate capital at a reasonable price?

A. It would not.

Q. Why do you say that?

A. There would be very -- it is likely there would be very little difference in the cost of an A versus A-minus issue. Within rating categories there is usually not that much difference between, say, A and A-minus. And so an A-minus is still very strongly -- a very strong investment grade rating.

Q. You were asked a question, a line of questions regarding exemplary management, and whether that issue should be considered in setting an ROE. Do you recall that line of questions?

A. Yes.

Q. And do you have an opinion about whether this company and its management has a statutory -- let me rephrase that. I don't want to ask you for a legal opinion.

Do you have an opinion about whether this company and its management has a responsibility to provide adequate and reliable service to the customers of this state?

A. Yes, it does.

Q. And in your opinion should the management be rewarded for doing what it is supposed to be doing?

A. It is my testimony they should not.

Q. And why is that?

A. Over and above -- I mean, certainly the company's pay levels should be adequate to attract good people to the company, and, really, I don't think investors should be -- should enjoy supernormal returns at the expense of ratepayers for management and utility personnel doing the job that we expect them to do.

Q. And do you have an opinion about whether executive management of this company is adequately compensated?

A. I don't have an opinion on that.

Q. You were also asked a line of questions --

MR. ANDERSON: I just want to note that the question was asked. I tried to object because it is far beyond the scope. That has been my point all along, and there was no opinion, thankfully. But I would just ask that, again, we keep attention to the scope of the exam.

CHAIRMAN CARTER: Mr. Mendiola.

MR. MENDIOLA: I am moving on, Your Honor. I think the issue was with respect to exemplary management and whether that should be rewarded.

CHAIRMAN CARTER: I remember the question. I just said move along.

MR. MENDIOLA: All right. I will move on.

BY MR. MENDIOLA:

Q. You were also asked a question, Mr. Baudino, regarding flotation costs. Do you recall that?

A. Yes.

Q. Do you know whether -- and, first of all, what are flotation costs?

A. Well, they are the costs of -- basically, they are the costs of issuing equity in the market. So it is underwriting costs and so forth.

Q. And are those costs associated with actually issuing equity?

A. Yes.

Q. Do you know whether FPL or FPL Group has any plans to issue equity?

A. At some point -- well, I'm not sure exactly what those plans are. At some point in the future the company could issue equity to help fund its capital expenditure program, but I think there is going to be a mix -- it is my understanding there is going to be a mix of internally generated funds, debt, and equity.

Q. And do you know whether FP&L stock is publicly traded, FP&L stock?

A. Florida Power and Light's utility stock is not publicly traded. They are part of a holding company called FPL Group.

Q. All right. And even if FP&L were to issue more equity, do you have any reason to believe that 25 basis points would be an appropriate proxy for the flotation costs?

A. No, I have no idea whether that would be appropriate or not.

Q. And why don't you have an idea about that?

A. The company hasn't given us any estimate of what its flotation costs would be.

Q. Okay. There were a number of questions before lunch regarding your proxy group and the proxy group of Mr. Avera and Dr. Woolridge. Do you recall that?

A. Yes.

Q. And I believe -- do you recall that those proxy groups were the utility proxy groups?

A. They were.

Q. All right. In your review of Dr. Avera's analysis, did he also have a nonutility proxy group?

A. Yes.

Q. Did he rely on the utility proxy group?

A. I would say that his recommendation is not supported by the results of the utility proxy group.

Q. Okay. Do you know whether he rejected the results of the utility proxy group?

A. He didn't really say that he rejected it, but the 12-1/2 percent can only be supported by the results that we have seen in the -- from the nonutility group.

Q. Now, there were a number of questions with respect to your discounted cash flow model and whether or not a dividend growth rate should be included in the G variable of the discounted cash flow model. Do you recall that?

A. Yes.

Q. And the G variable refers to growth, isn't that right?

A. Right.

Q. And so just to set the stage, the question is whether in taking into account growth whether one should take into account dividend growth and earnings growth or whether one should take into account only earnings growth. Is that a fair kind of framing of the issue?

A. I think it is a fair framing of the issue between Dr. Avera and myself.

Q. All right. And so, again, to kind of set the corners, you take into account dividend growth, Dr. Avera doesn't, is that right?

A. Correct.

Q. Does this company pay a dividend?

A. Yes, it does. FPL Group does.

Q. In your opinion, would investors examine whether or not there is likely to be any growth in that dividend for this company?

A. Yes. And I think, as I said in my testimony, they are likely to look at every possible piece of evidence they can to try and ascertain what that level of growth will be. I think when you have dividend growth forecasts that are lower than earnings forecasts, that is indicating something about what the rate of your cash flows are going -- how your cash flows are going to grow over the next few years. You really need to take that into account in your DCF model.

Q. And in your opinion, does an investor examine the -- well, the cash flow from his or her investments?

A. Oh, yes.

Q. And --

A. To the extent that cash flow is from dividends, yes.

Q. Well, and I was just going to ask you, how is cash flow -- when you hold a piece of stock, a stock certificate in a company, how is cash flow generated?

A. Well, cash flow could be generated through, you know, dividends most likely. Also, any return of

capital the company might choose to make.

Q. Now, you were also asked a number of questions earlier this morning regarding your CAPM analysis. Do you recall those questions?

A. Yes.

Q. And counsel for FPL asked you to read part of your testimony at Page 34, Lines 7 to 8. Could you turn there with me?

A. Yes, I have that.

Q. I believe counsel for FPL asked you to read the sentence beginning at Line 6, where you state, "I do not rely on the CAPM method for my ROE recommendation."

A. Yes.

Q. And then he had you stop right there, but could you continue to read the remainder of that sentence?

A. It says, "But these results suggest that using the lower end of the DCF range of results is reasonable in this case."

Q. All right. So, is it fair to say that although you didn't rely on the range in the CAPM model, you, nevertheless, took that into account in your final recommendation?

A. Well, it is sort of -- I didn't really include the results in my recommendation. However, the results

from the CAPM, both historical and forecasted, were significantly lower than even the low end of my range for the DCF. So it suggested to me that 10.4 certainly was not too conservative and was reasonable.

Q. All right. And with respect to your 10.4 ROE recommendation, do you have an opinion about whether the company would be able to adequately access the capital markets with a 10.4 percent ROE established by this Commission?

A. In my opinion they could.

Q. All right. And then to be clear, when the utility accesses the capital markets, who is it that pays the cost associated with that capital? Who pays the cost of that capital, shareholders or ratepayers?

A. I'm not sure I understand the question. When a utility accesses the capital market.

Q. What I'm saying is whatever the cost of capital is that is established by this Commission and then recovered through base rates, who pays those, ratepayers or shareholders?

A. Well, the ratepayers pay rates based on the weighted cost of capital that is applied to rate base. So the utility has to have some way, obviously, to fund the interest expense and to fund a return to shareholders. That has to come from the ratepayers.

Q. All right. And if the company can access the capital markets adequately with a 10.4 percent ROE, just as it could with a 12.5 percent ROE, between those two options, which one would be less expensive to ratepayers?

A. I'm sorry, I didn't catch the first part of your question.

Q. If the company could access the capital markets the same, or adequately with both a 10.4 percent ROE and a 12.5 percent ROE, which one of those two options would be less expensive for ratepayers?

A. Assuming other things are equal, the 10.4 percent option.

Q. Even if that slightly increases the cost of debt?

A. I think the answer to that is likely yes.

Q. All right. You were also asked a number of questions this morning regarding the beta of FPL Group. Do you recall that?

A. Yes.

Q. And I believe that it was represented to you based on one of your exhibits that the beta of the FPL Group is 0.75, is that right?

A. Yes, that came from my testimony.

Q. What does that indicate to you?

A. Well, generally utility companies have betas that are less than 1.0, meaning they are less risky than the market. And what beta really shows -- these calculated beta ratios are based on relative price movements -- price movements of a stock relative to the overall market. So what this shows, basically, is that -- I guess one way to put it would be that the FPL Group moves about 75 percent of what the market would move, for example, in terms of its price. It is one -- it is one measure of risk in terms of stock market price volatility, but it is really not the total measure of risk, but it is the one they use in the CAPM model.

Q. And the 0.75 beta for FPL Group takes into account both the regulated and the nonregulated portion of FPL Group, isn't that right?

A. It should, yes. It should take into account everything that is happening in the company, both regulated and unregulated.

Q. And if one were to examine only the risk associated with the regulated monopoly portion of the FPL Group, Florida Power and Light, directionally would you expect that beta to go up or down?

A. If you just looked at FPL, Florida Power and Light by itself, based on everything I have read from financial analysts and so forth, I would say that that

would be a lower beta, meaning lower risk.

Q. All right. Now, you were also asked a series of questions regarding your range that was the result of your DCF analysis, 10.38 to 11.13. Do you recall those questions?

A. Yes, I do.

Q. And you were asked a question regarding whether this Commission, if it were to agree that somehow Florida Power and Light were more risky than you have identified, would it be appropriate to apply an 11.13 percent return on equity. Do you recall that question?

A. I recall something to that effect, or that the 10.4 percent might be too low, something like that --

Q. And is -- I'm sorry to step on your words.

A. That's all right. As I recall, it was something along those lines.

Q. Do you have an opinion about whether 11.13 percent is appropriate?

A. Well, I think looking at my utility group and looking at it in comparison to FPL, I would say that 11.13 would be too high for FPL.

Q. Now, you were also asked at the very beginning of the cross-examination, and you can tell I am getting close to the end of my redirect -- you were asked about

the difference between equity investors and bond investors. Do you recall that?

A. Yes.

Q. And you were asked a series of questions regarding the protections or lack of protections that equity investors have relative to bond investors. Do you recall that line of questioning?

A. Yes. Yes, I do.

Q. All right. And you began to describe some of the protections that equity investors in regulated monopoly -- that regulated -- that investors in regulated monopoly companies have relative to equity investors in the market as a whole. What are some of those protections?

A. Well, with regulation that is different from companies that are unregulated to function outside of the regulatory process, obviously the utility has an opportunity to come in and seek a fair and just rate of return on its equity -- on its equity to be applied to its prudently incurred investment in plant to serve ratepayers, and the company gets an opportunity to earn that. That is something that unregulated firms do not have.

Q. And so when an unregulated firm, such as Wal-Mart or McDonald's, if they are not earning enough

return, can they go to a regulator and ask to have their revenues increased?

A. No.

Q. All right. Now, I just want to clear up the record on one thing. I asked you earlier about Dr. Avera's reliance on his utility proxy group. Do you happen to have his testimony in front of you?

A. Yes.

Q. Would you turn to Page 54?

A. Okay. I have that.

Q. And read the question that begins at Line 4, and then the final sentence in the answer that begins with the word as at the end of Line 15 out loud, please.

A. Okay. So beginning with that sentence, as a result?

Q. What does the test of logic imply with respect.

A. Okay. So read from like the average corporate credit rating?

Q. No, no. Read the question first, what does the test of logic imply.

A. Okay. What does this test of logic imply with respect to the DCF results for the utility proxy group?

Q. Okay. Now read the last sentence of that answer.

A. As a result, consistent with the test of economic logic applied by FERC, these values provide little guidance as to the returns investors require from utility common stocks and should be excluded.

Q. All right. Does that refresh your memory about whether Dr. Avera excluded the results of his utility proxy group?

A. Yes, it did -- it does.

Q. All right. And in your experience, have you ever seen the results of utility proxy group be excluded when setting the ROE for a utility?

A. I have not seen them just wholesale excluded.

MR. MENDIOLA: Thank you. Those are all of my questions.

CHAIRMAN CARTER: Okay. Exhibits.

MR. MENDIOLA: Yes, Your Honor, I would move for the admission of RAB-1 through 12, which have been previously marked as Exhibit Numbers 279 through 290.

CHAIRMAN CARTER: Are there any objections? Without objection, show it done. Hang on before you go to the back pages. That's Exhibit Numbers 279 through 290.

(Exhibit Numbers 279 through 290 admitted into the record.)

CHAIRMAN CARTER: Okay. Let's go to the back

pages. Let me go there first. Exhibit Number 445.

MR. ANDERSON: Mr. Chairman, I will hold aside 446.

CHAIRMAN CARTER: I beg your pardon?

MR. ANDERSON: I would like to offer into evidence at this time 445, 447, 448, 449, and 450.

CHAIRMAN CARTER: There is no 450.

MR. ANDERSON: I may have misnumbered.

CHAIRMAN CARTER: Okay. So let's do this. You say you are not --

MR. ANDERSON: I'm sorry, I did --

CHAIRMAN CARTER: You are not offering 446, right? Is that what you said?

MR. ANDERSON: I'm going to come back to that in a second.

CHAIRMAN CARTER: Okay. Well, let's come back to it.

MR. ANDERSON: I made an error.

CHAIRMAN CARTER: 445. 445, any objections? Without objection, show it done.

(Exhibit Number 445 admitted into the record.)

CHAIRMAN CARTER: Okay. We will skip 446 for a moment and come back. 447, any objections? Without objection, show it done.

(Exhibit Number 447 admitted into the record.)

CHAIRMAN CARTER: 448, any objections? Without objection, show it done.

(Exhibit Number 448 admitted into the record.)

CHAIRMAN CARTER: 449, any objections? Without objection, show it done.

(Exhibit Number 449 admitted into the record.)

CHAIRMAN CARTER: Now let's go back to 446, the Consensus Proxy Group ROE Estimate. Did I get it right?

MR. ANDERSON: Right.

CHAIRMAN CARTER: Okay. You're recognized.

MR. ANDERSON: Thank you. And I'm not going to reargue the motion. I understand you have ruled. I am just going to make a brief offer of proof.

CHAIRMAN CARTER: Okay.

MR. ANDERSON: We offer to relabel ROE estimate using Mr. Baudino's methodology applied to utilities in common because the word consensus bothered people. The other basis for this offer is that this exhibit takes actual information from the witness, from companies for which each of the ROE witnesses has identified as a comparable company. It applies a methodology described in this testimony. It comes out, and it shows the cost of equity estimate of 12.28 percent using this methodology. That if you add

flotation costs which we are asking for, but the witness disagrees, it shows a total indicated ROE estimate of 12.53 percent.

For the record, that is what this would have been offered for and is being offered for. And we understand that you have ruled that it is not admissible, but we wish the record to be clear that we offered it, it has been rejected, and that is what that meant to show. Thank you.

CHAIRMAN CARTER: Duly noted.

Anything further for this witness? Thank you, sir. You may be excused.

Call your next witness.

MR. BUTLER: Mr. Chairman. It's Mr. Butler.

CHAIRMAN CARTER: Oh, right. Hang on a second. Ms. Clark.

MR. BUTLER: I believe who the next witness is is the matter for the hour.

CHAIRMAN CARTER: Okay.

MS. CLARK: Mr. Chairman, you might have seen in the last schedule that we gave you that Mr. Clarke and Mr. Stall are scheduled to be taken up at a time certain this afternoon. So we would propose to go to Clarke, and then Stall, and then back to Pollock, and then if time permits to Kollen and then to Woolridge.

I think the expectation is that Kollen and Woolridge would be tomorrow. And I think the order worked out is for Kollen to go first, and then Woolridge, but with the understanding they both need to be taken up early.

I have indicated to Ms. Alexander regarding Klepper that he wouldn't come up today, and so they will return tomorrow. The only other thing I would mention is that Meischeid is also somebody that would be taken up tomorrow.

CHAIRMAN CARTER: Okay. Let's go with our playbook.

Mr. McGlothlin.

MR. McGLOTHLIN: We do not object to that order of witnesses. My understanding is that both Dr. Woolridge and the other witnesses scheduled for tomorrow have a need to leave early, so whoever has the most pressing travel arrangements should be the first one up, and I don't know the answer to that question, but --

CHAIRMAN CARTER: Okay. Well, we will work with the witnesses. Like I said before, I know people have travel plans and all, and we will work with them on that.

Mr. Wright, any problems with the new iteration?

MR. WRIGHT: No, sir. Thank you for asking.

CHAIRMAN CARTER: Ms. Kaufman?

MS. KAUFMAN: No, Mr. Chairman. We're fine. Thank you.

CHAIRMAN CARTER: Ms. Bradley?

MS. BRADLEY: None.

CHAIRMAN CARTER: Okay. Mr. Wiseman?

MR. WISEMAN: No, Mr. Chairman.

CHAIRMAN CARTER: Okay. Ms. Clark, thank you very kindly. So I guess then our next witness will be Clarke, is that right?

MR. BUTLER: That's right, it will be Mr. Clarke. He is coming into the hearing room. He needs to set up for just a moment. And I have got a couple of matters I would like to deal with while he is setting up.

CHAIRMAN CARTER: Okay. Let's deal with the preliminary matters. You're recognized.

MR. BUTLER: Thank you. First of all, with respect to Mr. Clarke, we will be passing out errata to his rebuttal testimony, and he will cover that as we introduce his testimony.

Also, I have distributed before lunch to all of the parties and left copies for you, Commissioners, the exhibits that had been requested for Mr. Stall and

for Mr. Barrett that had been numbered as Hearing Exhibit 404 that concerned the nuclear employees that left and that were hired by FPL in the period January 2007 through August 2009.

CHAIRMAN CARTER: Are you referring to these two pages here?

MR. BUTLER: Yes.

CHAIRMAN CARTER: Hang on a second.

Okay. Mr. Butler, go ahead.

MR. BUTLER: So the first in order sequence or number sequence is Mr. Stall's. It is the hearing Exhibit 404, and it is -- the first page, loss of nuclear employees by FPL, and then the second page is hiring of nuclear employees by FPL. And this was requested by the Commission when Mr. Stall was testifying earlier.

CHAIRMAN CARTER: Okay.

MR. BUTLER: And I would -- if there are no objections, I would move it into evidence at this time.

CHAIRMAN CARTER: Let's hear from the parties.

Ms. Kaufman, you're recognized.

MS. KAUFMAN: Thank you, Mr. Chairman. I thought that we were going to have the opportunity to talk to Mr. Stall about this exhibit when he returned to the stand.

CHAIRMAN CARTER: Okay.

MR. BUTLER: That's fine. If that is what the parties want and need to do, then we will just defer moving it into evidence until after Mr. Stall.

CHAIRMAN CARTER: Okay. We'll do it that way, then.

MR. BUTLER: Okay. And then the second one is Exhibit 419 that was requested from Mr. Barrett, and it shows the reductions in the 2010 and 2011 O&M forecasts from what had been originally proposed by the business units to what was approved by FPL. And I will -- Mr. Barrett will be coming back, as well. I can move it -- let me do that. Let me move it into evidence and see if anybody has questions that they need to follow up with Mr. Barrett. If so, we can defer that, as well.

CHAIRMAN CARTER: Ms. Kaufman.

MS. KAUFMAN: I think we would prefer to wait until Mr. Barrett takes the stand.

CHAIRMAN CARTER: Okay. We will do that.

MR. BUTLER: Very well.

CHAIRMAN CARTER: Okay. All righty.

COMMISSIONER EDGAR: Mr. Chairman, can I just ask for my own, once again, clarification. We are starting when you are ready for us to with Witness Clarke, and then Woolridge, and then, depending on how

the day goes, maybe Pollock. Is that --

MR. BUTLER: No, it would be -- after Mr. Clarke, it would be --

COMMISSIONER EDGAR: Obviously, I need it to be clarified.

CHAIRMAN CARTER: Ms. Clark, she has got the current iteration of the list. Ms. Clark.

MS. CLARK: Okay. Clarke, then Stall, then Pollock, then Kollen, then Woolridge.

CHAIRMAN CARTER: I'm sure -- I'm going to go out on a limb and say tomorrow this list will probably change again, right? Okay. All right.

COMMISSIONER EDGAR: Like I say, I do want to go to bed sometime tonight, Mr. Chairman.

CHAIRMAN CARTER: Yes.

COMMISSIONER EDGAR: Thank you.

CHAIRMAN CARTER: Okay. Mr. Butler, I think you are up. Is that correct?

MR. BUTLER: I am. And, Mr. Clarke, have you been sworn previously? Were you sworn in previously? Okay.

THE WITNESS: No, I haven't.

CHAIRMAN CARTER: Well, please stand and raise your right hand. And is Witness Stall here, as well? Oh, he's already -- Stall has already been sworn in?

Okay. Good.

(Witness sworn.)

COMMISSIONER ARGENZIANO: Mr. Chair.

CHAIRMAN CARTER: Commissioner Argenziano.

COMMISSIONER ARGENZIANO: I can't hear you very well. I don't know if Chris would be able to turn up that volume a little.

CHAIRMAN CARTER: Okay.

COMMISSIONER ARGENZIANO: Thank you.

CHAIRMAN CARTER: All right. I just swore in the witness, Mr. Clarke.

Mr. Clarke, can you just make a couple of statements to make sure that Commissioner Argenziano can hear you? Just say your name.

THE WITNESS: My name is Richard Clarke.

CHAIRMAN CARTER: Commissioner, how is that? Is that better?

COMMISSIONER ARGENZIANO: That's good. Thank you.

CHAIRMAN CARTER: Okay. Thank you.

Mr. Butler, you are recognized, sir.

MR. BUTLER: Thank you. We are, in the interest of hoping to move things along, presenting Mr. Clarke for both his direct and rebuttal testimony at this point.

CHAIRMAN CARTER: And that is the understanding of the parties, correct? Okay. Thank you. Thank you, Mr. Butler, for your cooperation. Appreciate that.

MR. BUTLER: My pleasure.

CHAIRMAN CARTER: You may proceed.

C. RICHARD CLARKE

was called as a witness on behalf of Florida Power and Light Company, and having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BUTLER:

Q. Mr. Clarke, would you please state your name and business address for the record?

A. Yes. My name is Richard Clarke. My business address is 5062 Alfingo Street, Las Vegas, Nevada.

Q. Okay. By whom are you employed and in what capacity?

A. I am Director of U.S. Services for the Valuation and Rate Department with Gannett Fleming.

Q. Have you prepared and caused to be filed 24 pages of prefiled direct and 74 pages of prefiled rebuttal testimony in this proceeding?

A. Yes, I have.

Q. We have just distributed an errata list for

your rebuttal testimony, and I would ask you to run through that briefly, and just tell the parties and the Commissioners where the changes are to your testimony.

CHAIRMAN CARTER: Hang on before we go with the changes. Let me do this. Since this witness is here for direct and rebuttal, is five minutes sufficient for this witness?

MR. BUTLER: I think it is. That's what we have shot for, and I guess --

CHAIRMAN CARTER: Okay. Okay. I just wanted to -- because, you know, me and my lights. I don't have a whole lot of fun in this job. One thing that I get to do is control the lights.

MR. BUTLER: Do you have the -- do you have the ability to twist it up to six minutes?

CHAIRMAN CARTER: We can give you six minutes.

MR. BUTLER: I'm sure he can finish. He will be summarizing both within that time. I'm not sure --

CHAIRMAN CARTER: For rebuttal and direct, we will give him six minutes when he gets ready, okay?

MR. BUTLER: Thank you.

BY MR. BUTLER:

Q. Now, Mr. Clarke, would you please briefly describe the changes that are reflected in this errata sheet that has just been handed out to your rebuttal

testimony?

A. Yes. On Page 8, Line 13, it says at 40 years State Line Unit 1 and 2, retired at 48 and 39 years respectively. It should be changed to 45 years. At State Line Unit 1 and 2, retired at 48 and 41 years respectively. Page 25, Line 4, it says calculates his interim retirement rate of .0075 to be 1 minus .8679, divided by 30. That should be changed to say calculates his interim retirement rate of .0044.

And then on exhibit -- on CRC-1, Page 510, under recommendation, change the current 45 R-5 life and curve for this account to a 40 R-5 curve and life. Recommendation is to retain the current 45 R-5 life and curve for this account. The same exhibit on Page 523, it says conclusion, second line, range and causes of retirement to 45 R-1.5 represents A. It should say range and the causes of retirement 47 R-1.5 represents A.

Again on CRC-1, Page 539, discussion on the fifth line. It says indications of 50 to 55 years. That should say indications of 50 to 60 years. CRC-1, Page 569, discussion in second paragraph, Line 2. It says years with low mode type curves, the industry range is 35 to 55. It should be changed to years with low mode type curves, the industry range is 23 to 57.

CRC-1, Page 670, the depreciation -- these ones have been changed as part of interrogatories. So, the first one is on Page 670, and the depreciation is in OPC First Set of Interrogatories Question Number 72, Attachment 1, Page 1 of 1. CRC-1, Page 673 has been revised in OPC First Set of Interrogatories Question Number 73, Attachment 1, Pages 1 of 2. And CRC-1, Page 698, the depreciation has been changed to OPC First Set of Interrogatories Question Number 14, Attachment 1, Page 1 of 1. And that concludes my errata items.

Q. Thank you, Mr. Clarke, and I would note for the record that the changes to the text testimony were indeed to his rebuttal testimony. The Exhibit CRC-1 is actually an exhibit to his direct testimony.

With those changes, if I asked you the questions contained in your direct and rebuttal testimony, would your answers be the same?

A. Yes, they would.

MR. BUTLER: I would ask that Mr. Clarke's direct and rebuttal testimony be inserted into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

MR. BUTLER: Thank you.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF C. RICHARD CLARKE

DOCKET NO. 080677-EI

Q. Would you please state your name and business address.

A. My name is C. Richard Clarke. My business address is 5062 Alfingo Street, Las Vegas, Nevada, 89135.

Q. By whom and in what capacity are you employed?

A. I am Director of Western U.S. Services for the Valuation and Rate Division of Gannett Fleming, Inc. (Gannett Fleming). The Valuation and Rate Division of Gannett Fleming provides depreciation consulting services to utility companies in the United States and Canada. As Director of Western U.S. Services, I am responsible for conducting depreciation, valuation and original cost studies, determining service life and salvage estimates, conducting field reviews, presenting recommended depreciation rates to clients, and supporting such rates before state and federal regulatory agencies.

Q. What is your educational background?

A. I have a Bachelor of Science degree in Business Management from Northeastern University in Boston and an Associate of Engineering Degree in Industrial Technology.

Q. Do you belong to any professional societies?

A. Yes. I am a member of the Society of Depreciation Professionals (the Society) and the American Gas Association (AGA) and Edison Electric Institute (EEI) industry Accounting Committee (AGA/EEI). I have served as Chairman of the Society of Depreciation Professionals and currently serve on their Board of Directors, and have been Chairman of the AGA/EEI Property Accounting Committee twice. I am also an instructor for depreciation training sponsored by the Society and taught classes at AGA/EEI.

Q. Do you hold any special certification as a depreciation expert?

A. Yes. The Society has established national standards for depreciation professionals. The Society administers an examination to become certified in this field. I passed the certification exam in September 1997, and was recertified in August 2003 and in February 2008.

Q. Please outline your experience in the field of depreciation.

A. I joined Gannett Fleming in August 2004. My experience prior to joining Gannett Fleming included twelve years, 1967-1979 with United Engineers, a large engineering firm with head offices in Philadelphia and Boston where I spent six years as a Utilities Consultant in the area of valuation and six years as a design engineer. In 1979, I joined Southern California Edison. In my twenty-five years with Southern California Edison, I held positions of Valuation Analyst, Valuation Engineer, Senior Valuation Engineer, Manager of Capital Recovery and Manager of Property Accounting. My responsibilities were for recorded and estimated book depreciation, capital forecasting, rate base

including working cash, tax depreciation and related tax information, ad valorem taxes, and property valuation studies. I was the company witness for depreciation and rate base. While at Southern California Edison, I was the Company representative on the Property and Valuation Committee of the EEI.

Q. Have you submitted testimony to any utility commissions on the subject of utility plant depreciation?

A. Yes. I have submitted testimony to the California Public Utility Commission, the Public Utilities Commission of Nevada, the Washington Utilities and Transportation Commission and to the Federal Energy Regulatory Commission (FERC) on several occasions. A list of proceedings where I have submitted testimony is attached to this testimony as Exhibit CRC-2.

Q. Have you received any additional education relating to utility plant depreciation?

A. Yes. I have completed the following courses conducted by Depreciation Programs, Inc.: "Techniques of Life Analysis," "Techniques of Salvage and Depreciation Analysis," "Forecasting Life and Salvage," "Modeling and Life Analysis Using Simulation" and "Managing a Depreciation Study." I have also completed the "Introduction to Public Utility Accounting" and "Advanced Public Utility Accounting" programs conducted by the American Gas Association.

Q. What is the purpose of your direct testimony in this proceeding?

A. I am sponsoring the results of a new Depreciation Study (the Depreciation Study) that I prepared for Florida Power & Light Company (FPL). The

Depreciation Study covers depreciable electric properties in service as of the last date of the previous full calendar year, December 31, 2007, and actual and projected plant and reserve balances through the end of 2009.

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring the following exhibits:

- CRC-1: Depreciation Study.
- CRC-2: List of Public Utility Commissions where I have testified and issues that I addressed.

Q. Are you sponsoring any Minimum Filing Requirements (MFRs) in this case?

A. No.

Q. Would you please summarize your testimony?

A. My testimony will explain the methods and procedures of the Depreciation Study as well as set forth the annual depreciation rates that result from the Depreciation Study. The Depreciation Study includes comparison schedules showing current and proposed depreciation parameters including average service lives, net salvage percentages, depreciation rates, depreciation accruals as well as a comparison of the theoretical reserve to the booked reserve at December 31, 2009. I also provide additional detail on each section of the Depreciation Study in my testimony.

METHODS USED IN THE DEPRECIATION STUDY

Q. Please define the concept of depreciation.

A. Depreciation refers to the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes that can be reasonably anticipated or contemplated, against which the Company is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, technological changes, changes in demand and the requirements of public authorities.

Q. In preparing the Depreciation Study, did you follow generally accepted practices in the field of depreciation and valuation?

A. Yes. These methods and practices are detailed in my testimony.

Q. Please describe the contents of your Depreciation Study.

A. My study is presented in five parts:

- Part I, Introduction, presents the scope and basis for the Depreciation Study.
- Part II, Methods Used in the Estimation of Depreciation, includes descriptions of the basis of the study, the estimation of survivor curves and net salvage and the calculation of annual and accrued depreciation.
- Part III, Summary Results of Study, presents a description of the results and summaries of the depreciation calculations separately by Functional Class of plant.

- Part IV, Detail of Generation Plant, provides a description of the generating units and shows by account, the depreciation calculations. Also included in this part is a presentation of the life analysis and salvage analysis including graphs for each generation account.
- Part V, Detail of Transmission, Distribution and General Plant, provides a description of transmission, distribution and general plant by account. Also included are the results of the life analysis, the salvage analysis and the depreciation calculations.

Q. Please identify the depreciation method that you used.

A. I used the straight line remaining life method of depreciation, with the average service life procedure. The annual depreciation is based on a method of depreciation accounting that seeks to distribute the unrecovered cost of fixed capital assets over the estimated remaining useful life of each unit, or group of assets, in a systematic and rational manner.

In compliance with the Florida Public Service Commission ("FPSC" or the "Commission") rules of depreciation prescribed in Rule 25-6.0436, Florida Administrative Code (F.A.C.), depreciation rates are also presented using the whole life method. Theoretical reserves were calculated using the remaining life method and compared with the actual book reserves.

Q. Did you review prior Commission orders on FPL's depreciation accrual rates?

A. Yes. I reviewed the following Commission Orders: No. PSC-05-0902-S-EI -- stipulation and settlement order, No. PSC-05-0499-PCO-EI -- consolidation of dockets, No. PSC-08-0491-PAA-EI -- solar energy, No. PSC-04-0609-FOF-EI -- Turkey Point Unit 5 and PSC-05-0821-PAA-EI -- Manatee Unit 3 and Martin Unit 8.

Q. What are your recommended annual depreciation accrual rates for FPL?

A. My recommended annual depreciation accrual rates are the remaining life rates set forth in Table 1 on page III-5 for Production Plant by function, Table 11 on page IV-4 for production plant by unit and Table 6 on page III-10 for Transmission, Distribution, and General Plant functions. These rates were developed using the same methodology used by FPL in their last depreciation study and follow the rules of depreciation prescribed by the FPSC previously discussed.

Q. How did you determine the recommended annual depreciation accrual rates?

A. I did this in two phases. In the first phase, I estimated the service life and net salvage characteristics for each depreciable group - that is, each plant account or subaccount identified as having similar characteristics. In the second phase, I calculated the composite remaining lives and annual depreciation accrual rates based on the service life and net salvage estimates determined in the first phase.

SERVICE LIVES AND NET SALVAGE

Q. Please describe the first phase of the Depreciation Study, in which you estimated the service life and net salvage characteristics for each depreciable group.

A. The service life and net salvage study consisted of compiling historic data from records related to FPL's plant; analyzing these data to obtain historic trends of survivor and net salvage characteristics; obtaining supplementary information from management and operating personnel concerning accounting and operating practices and plans; and interpreting the above data and the estimates used by other electric utilities to form judgments of average service life and net salvage characteristics.

Q. What historic data did you analyze for the purpose of estimating service life characteristics?

A. I analyzed the Company's accounting entries that record plant transactions during the period 1941 through 2007. The transactions included additions, retirements, transfers and the related balances. The Company records also included surviving dollar value by year installed for each plant account as of December 31, 2007. The results of these analyses were incorporated into plant and reserve forecasts for 2008 and 2009 to calculate the annual accrual as of December 31, 2009.

Q. What methods are generally used to analyze service life data?

A. There are two methods widely used in a typical depreciation study to estimate a

survivor curve for a group of plant assets; these are the Retirement Rate Method and the Simulated Plant Balances Method. The data at FPL are kept in a manner that enabled us to use the Retirement Rate Method.

The Retirement Rate Method is an actuarial method of deriving survivor curves using the average rates at which property of each age group is retired. The method relates to property groups for which aged accounting experience is available or for which aged accounting experience is developed by statistically aging unaged amounts. This method has been illustrated through the use of an example in Section II of the Depreciation Study.

The Simulated Plant Balance Method is used for property groups for which the retirements of property by age are not known. However, it does require continuous records of vintage plant additions and year-end plant balances. The method suggests probable survivor curves for a property group by successively applying a number of alternative survivor curves to the group's historical additions in order to simulate the group's surviving balance over a selected period of time. One of the several survivor curves which result in simulated balances that conform most closely to the book balance may be considered to be the survivor curve which the group under study is experiencing.

Q. Did you use the previously mentioned approach to estimate the lives of production facilities?

A. No. For production facilities the life span technique was used to estimate the

lives of electric generation facilities, for which concurrent retirement of the entire facility is anticipated. In this technique, the survivor characteristics of such facilities are described by the use of interim retirement survivor curves and economic recovery dates. The interim survivor curve describes the rate of retirement related to the replacement of elements of the facility, such as for a building, the retirements of plumbing, heating, doors, windows, roofs, etc. that occur during the life of the facility. The economic recovery date, an estimate of the probable retirement date, of a facility based on its anticipated operating life, affects each year of installation for the facility by truncating the interim survivor curve for each installation year at its attained age as of that date. The use of interim survivor curves truncated at these dates provides a consistent method of estimating the lives of several years' installation for a particular facility inasmuch as a single concurrent retirement for all the years of installation will occur at that specified date.

Q. Has Gannett Fleming used this approach in other proceedings?

A. Yes, we have used the life span technique in performing depreciation studies presented to many public utility commissions across the United States and Canada.

Q. What are the economic recovery dates and what was your basis for each selection?

A. The Company provided me with the economic recovery dates and their basis for each of the facilities using the life span approach. The economic recovery dates for each facility is provided in the Depreciation Study in Section II on pages II-

26 and II-27.

Q. Are there any major changes in generation plant from FPL's previous study?

A. Yes, there are a number of changes taking place in generation that are included in the Depreciation Study.

1. The Company will complete and put in service two 1200 MW Combined Cycle units in 2009 at its West County site. A third 1200 MW Combined Cycle plant at its West County site is scheduled for operation in 2011.
2. The Company is also planning to complete and place in service three solar plants in the next couple of years. The 25 MW DeSoto Solar Energy Center, which uses photovoltaic panels, will be placed in service in 2009 and is included in the Depreciation Study. Another 10 MW photovoltaic plant, Spacecoast Solar Energy Center is scheduled for 2010. A 75 MW thermal array facility, the Martin Solar Energy Center, scheduled for operation at FPL's Martin Plant site, is also scheduled to be placed in service in 2010.
3. FPL is modernizing two Steam Generating plants: Cape Canaveral Units 1 and 2, and Riviera Units 3 and 4. These modernizations are scheduled to go in-service in 2013 and 2014 respectively.
4. The nuclear units at Turkey Point and St. Lucie are scheduled for major upgrades (uprates) which will increase the output an additional 104 MW per generating unit at Turkey Point and 103 MW per generating unit at

St. Lucie. These uprates are scheduled to go into service in phases between 2010 and 2012.

Q. Did you use statistical survivor characteristics to estimate average service lives of the property

A. Yes. I used Iowa-type survivor curves.

Q. What is an "Iowa-type survivor curve" and how did you use such curves to estimate the service life characteristics for each property group?

A. Iowa-type curves are a widely used group of generalized survivor curves that contain the range of survivor characteristics usually experienced by utilities and other industrial companies. The Iowa curves were developed at the Iowa State College Engineering Experiment Station through an extensive process of observing and classifying the ages at which various types of property used by utilities and other industrial companies had been retired.

Iowa-type curves are used to smooth and extrapolate original survivor curves determined by the retirement rate method. Iowa curves were used in this study to describe the forecasted rates of retirement based on the observed rates of retirement and the outlook for future retirements.

The estimated survivor curve designations for each depreciable property group indicate the average service life, the family within the Iowa system to which the property group belongs, and the relative height of the mode. For example, an Iowa 50 R2 designation indicates an average service life of fifty years; a right-

moded, or R-type curve (the mode occurs after average life for right-moded curves); and a moderate height, two, for the mode (possible modes for R-type curves range from 1 to 5).

Q. Did you physically observe FPL's plant and equipment as part of your Depreciation Study?

A. Yes. I held meetings with operating personnel and made field visits to FPL property to observe representative portions of plant. Meetings and field reviews were conducted to become familiar with Company operations and obtain an understanding of the function of the plant and information with respect to the reasons for past retirements and the expected future causes of retirements. This knowledge, as well as information from other discussions with management, was incorporated in the interpretation and extrapolation of the statistical analyses. Meetings were held with personnel from Steam Generation, Nuclear Generation, Resource Assessment and Planning, Distribution, Corporate Real Estate, Construction, Meters, Fleet Services, Information Management, and Marketing and Communication Business Units, as well as meetings with accounting personnel.

Q. What facilities did you observe?

A. During the preparation of my study I visited the following facilities and observed operations and maintenance practices at each location. I visited the Turkey Point facility because it had a good representation of all types of generation. I also had a number of meetings with various company personnel in the Generation, Transmission, Meters, Resource Assessment and Planning,

Distribution and Accounting Business Units:

September 12, 2008

- Corporate offices - Juno Beach
- General offices - Miami

December 16, 2008

- Turkey Point nuclear plant
- Turkey Point steam generating plant
- Turkey Point combined cycle plant

December 17, 2008

- Ft. Lauderdale combined cycle and gas turbine facilities
- FPL system control center
- Meter technology center

Q. Would you please explain the concept of "net salvage"?

A. Net salvage is a component of the service value of capital assets that is recovered through depreciation rates. The service value of an asset is its original cost less its net salvage. Net salvage is the salvage value received for the asset upon retirement less the cost to retire the asset. When the cost to retire exceeds the salvage value, the result is negative net salvage.

Inasmuch as depreciation expense is the loss in service value of an asset during a defined period (e.g., one year), it must include a ratable portion of both the original cost and the net salvage. That is, the net salvage related to an asset should be incorporated in the cost of service during the same period as its

original cost so that customers receiving service from the asset pay rates that include a portion of both elements of the asset's service value, the original cost and the net salvage value.

For example, the full recovery of the service value of a $1,000 transformer will include not only the $1,000 of original cost, but also, on average, $450 to remove the transformer at the end of its life less $150 in salvage value. In this example, the net salvage component is negative $300 ($150 - $450), and the net salvage percentage is negative 30% (($150 - $450)/$1,000).

Q. Please describe the criteria you used to estimate net salvage percentages.

A. I reviewed net salvage data from 1986 through 2007. Cost of removal and salvage were expressed as a percent of the original cost of the plant retired, both on an annual basis and a three-year moving average bases. The most recent five-year average was also calculated.

Q. Were there other considerations used in developing your final estimates for net salvage?

A. Yes. After applying the above mentioned criteria to each account, I considered the information provided to me by the Company's operating and maintenance personnel; general knowledge and experience of the industry practices; and trends in the industry in general.

Q. Do the depreciation rates used for electric generating facilities have a component for dismantling?

A. No. FPL has made estimates of final dismantlement for their fossil generation facilities, but as required by the FPSC, these costs are handled separately from regular depreciation and are not part of the Depreciation Study. However, fossil generation dismantlement costs are included separately in this docket, in Exhibit KO-8 sponsored by FPL witness Ousdahl. Net salvage data for fossil production facilities provided in this study only reflects interim retirement activity. End of life costs for nuclear units are addressed separately in decommissioning studies.

REMAINING LIVES AND DEPRECIATION RATES

Q. Please describe the second phase of the process that you used in the Depreciation Study, in which you calculated composite remaining lives and annual depreciation accrual rates.

A. After I estimated the service life and determined net salvage characteristics to use for each depreciable property group, I calculated the annual depreciation accrual rates for each group based on the straight line remaining life method, using remaining lives weighted consistent with the average life procedure. The annual depreciation accrual rates were developed as of December 31, 2007. They were then factored into the estimated plant and reserve for 2008 and 2009 to develop depreciation rates as of December 31, 2009.

Q. Please describe the straight line Remaining Life Method of depreciation.

A. The straight line Remaining Life Method of depreciation allocates the original

cost of the property, less accumulated depreciation, plus future net salvage, in equal amounts to each year of remaining service life.

Q. Please describe the Average Service Life Procedure for calculating remaining life accrual rates.

A. The Average Service Life Procedure defines the group for which the remaining life annual accrual is determined. Under this procedure, the annual accrual rate is determined for the entire group or account based on its average remaining life and this rate is applied to the surviving balance of the group's cost. The average remaining life of the group is calculated by first dividing the future book accruals (original cost less allocated book reserve less future net salvage) by the average remaining life for each vintage. The average remaining life for each vintage is derived from the area under the survivor curve between the attained age of the vintage and the maximum age. Then, the sum of the future book accruals is divided by the sum of the annual accruals to determine the average remaining life of the entire group for use in calculating the annual depreciation accrual rate.

Q. Please use an example to illustrate the development of the annual depreciation accrual rate for a particular group of property in your Depreciation Study.

A. For purposes of illustrating this process I will use Account 368, Line Transformers. I selected this account because it is one of the largest depreciable groups.

The retirement rate method was used to analyze the survivor characteristics of this property group. Aged plant accounting data were compiled from 1941 through 2007 and analyzed for periods that best represent the overall service life of this property. The life table for the 1941-2007 experience bands is presented starting on page V-145. The life table displays the retirement and surviving ratios of the aged plant data exposed to retirement by age interval. For example, page V-145 shows $15,713,491 retired during age interval 1.5-2.5 with $1,797,545,292 exposed to retirement at the beginning of the interval. Consequently, the retirement ratio is 0.0087 ($15,713,491/$1,797,545,292) and the surviving ratio is 0.9913 (1-0.0087). The percent surviving at age 1.5 of 99.72 percent is multiplied by the survivor ratio of 0.9913 to derive the percent surviving at age 2.5 of 98.85 percent. This process continues for the remaining age intervals for which plant was exposed to retirement during the 1941-2007 period. The resultant life table, or original survivor curve, is plotted along with the estimated smooth curve. The curve chosen from the analysis alone was a 32 L1.5 curve; this is similar to the average life used for this account in the industry. After discussions with company personnel and considering general experience and knowledge of this type of property we decided the 32 L1.5 was a good estimate for this account for FPL. This curve is shown on page V-144 of the Depreciation Study.

The net salvage percentage chosen for this account is negative 25 percent. The percentage is based on the aforementioned criteria developing net salvage

percentages. As shown on page V-147, net salvage has been negative since 1986 and has been very consistent at around 20 to 30 percent negative. The five-year average on page V-148 shows negative 23 percent; the last five years of a three-year moving average shows negative net salvage ranging from negative 21 to negative 31 percent. Company personnel mentioned removal costs were not increasing substantially but remain constant. Considering all this information, we used negative 25 percent for this account.

My calculation of the annual depreciation related to the original cost of Account 368, Line Transformers, at December 31, 2009, is presented on pages V-150. The calculation is based on the 32 L1.5 survivor curve, negative 25% net salvage, the attained age, and the allocated book reserve. The tabulation sets forth the installation year, the original cost, calculated accrued depreciation, allocated book reserve, future accruals, remaining life and annual accrual. These totals are brought forward to Table 16 on page V-3.

Q. Were you able to develop results for every depreciable account in the company using the above-mentioned statistical methods?

A. Yes. The above-mentioned statistical methods were performed on every account. Information obtained from Company personal, comparisons to other electric utilities and experience and knowledge in the electric utility industry were factored into the final results.

Q. How was the above-mentioned statistical method applied to life span properties?

A. Where electric production plant had specific economic recovery dates, the life span technique was employed in conjunction with the use of interim survivor curves. An interim survivor curve was estimated for each plant account using the aforementioned criteria and then the survivor curve was truncated at the end of the life span developed for each property group.

Q. Were there any accounts for which you used a methodology different from that described above?

A. Yes. For Account 370, Meters, we used a different approach. The Company is replacing approximately 4.3 million residential and small commercial meters with Automated Meter Infrastructure (AMI) meters in the next 5 years. Using Company projections of the dollar amounts of current meters to be replaced each year over this period, we isolated these meters to be retired and set them up as a capital recovery schedule to be amortized over a four-year period, consistent with previous Commission practice. A life analysis was performed on the remaining meters based on history. I recommend that these meters be depreciated using the results of that life analysis, which showed a 36 R2.5 life and curve was the best estimate. The new AMI meters have been separated into a new account and will be depreciated using a 20 R2.5 life and curve.

Q. Did you use this same methodology for the general plant accounts?

A. Yes, for the general plant accounts that are depreciated. However, most of the general plant accounts are amortized in accordance with amortization periods prescribed by the FPSC.

Q. What were your overall results of your life analysis?

A. The overall results showed an increase in average service lives for most accounts. This is a result of fewer retirements being made and equipment staying in service longer. This is typical of the electric utility industry today. The analysis also showed some increases in negative net salvage, which is attributable to the rising cost of removal.

FACTORS AFFECTING DEPRECIATION EXPENSE

Q. What are the major factors that affect the depreciation expense resulting from application of the Depreciation Study?

A. It is difficult to correlate exact changes in depreciation expense with the changes in plant, reserve and depreciation parameters. The changes in expense by class of plant can be estimated by making a comparison of depreciation accruals using approved existing rates versus proposed rates on the plant in service at December 31, 2009. Overall, the depreciation expense decreased by approximately $8.8 million. The changes discussed below do not include any reserve adjustments for the annual depreciation expense credit, which I will discuss later in my testimony. The differences are also shown in Tables 3 and 9 of the Depreciation Study and summarized below by class of plant:

Steam Production: The depreciation accrual for this class of plant increased by approximately $9.7 million. Most of this increase is due to the increase in interim negative net salvage.

Nuclear Production: This class of plant increased in depreciation accrual by approximately $23.7 million. Most of this increase is due to the increase in interim negative net salvage.

Other Production (Combined Cycle): This class of plant showed an overall decrease in depreciation accrual of approximately $7.8 million. Any increases caused by changing net salvage percentages were offset by the increase in capital recovery dates for most of the combined cycle plants, which resulted in a decrease to the accrual.

Other Production (Combustion Turbines): The depreciation accrual for this class of plant increased approximately $4.3 million. Most of this increase is due to the increase in interim negative net salvage.

Transmission Plant: The depreciation accrual for this class of plant increased approximately $2.1 million dollars and was due to a combination of increased service lives and increased negative net salvage.

Distribution Plant: The depreciation accrual for this class of plant decreased approximately $17 million in depreciation accrual and was due to a combination of increased negative net salvage and increased lives.

General Plant: Depreciation accruals for this class of plant decreased

approximately $23 million due to some changes in lives but mainly due to an increase in net salvage for vehicles.

Q. Please explain the annual credit to depreciation expense mentioned in the previous response.

A. Included in FPL's 2005 rate settlement agreement, FPL was provided the option to record up to $125 million annually as a credit to depreciation expense and a debit to depreciation reserve. FPL has recorded a $125 million credit in depreciation expense in 2006, 2007 and 2008 and will be recording another $125 million in 2009. Therefore, by the end of 2009, FPL will have recorded $500 million associated with these credits in the depreciation reserve.

Q. Has FPL taken this credit into consideration in the development of the depreciation expense in the new Depreciation Study?

A. Yes. FPL has allocated the credit to the depreciation reserve to the generating units and plant accounts based on the percentage of current theoretical reserve excesses to the functional total identified in FPL's current Depreciation Study. The allocation of the reserve is shown in Table 10 of the Depreciation Study on page III-25 of Exhibit CRC-1.

Q. What is the impact of this reserve credit on the current depreciation expense?

A. The impact of decreasing the reserve would be an increase in the future depreciation accruals. This is mentioned previously in describing the changes in the depreciation expenses and the major cost drivers. It is impossible to identify exactly the impact that this reserve credit has on each unit and each account but

it does account for most of the increase in generation depreciation expense.

Q. What is the overall change in annual depreciation expense for 2009?

A. As described before making a comparison between existing rates and proposed rates using the plant at December 31, 2009, showed an overall increase in depreciation expense of $23 million. In addition, the capital recovery schedules for the retirements associated with the Cape Canaveral and Riviera Plant modernizations, the Automated Meter Infrastructure, and the Nuclear Uprates, and their associated anticipated removal costs (shown in Schedule 7) provide an additional $78.5 million of annual depreciation.

Q. Does this conclude your direct testimony?

A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF C. RICHARD CLARKE

DOCKET NO. 080677-EI & NO. 090130-EI

AUGUST 6, 2009

Q. Please state your name and business address.

A. My name is C. Richard Clarke. My business address is 5062 Alfingo Street, Las Vegas, Nevada, 89135.

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:

- CRC-3, Life Spans of Retired US Coal Generating Units, 10 MW or Greater
- CRC-4, Life Spans of Retired US Oil and Gas Steam Generating Units, 10 MW or Greater
- CRC-5, Commission Orders From State of Nevada
- CRC-6, Statistical Analysis, Bulletin 125
- CRC-7, California Standard Practice U-4
- CRC-8, NARUC, Developing an Observed Life Table
- CRC-9, Response to OPC First Set of Interrogatories No. 55

Q. What is the purpose of your rebuttal testimony?

A. My testimony responds to the direct testimony of Office of Public Counsel's

(OPC's) witness Jacob Pous relating to depreciation issues in the area of remaining life calculations, production plant service lives, interim retirements, interim net salvage, mass property life analysis, and mass property. Also, I am responding to the testimony of Florida Industrial Power Users Group (FIPUG) witness Jeffry Pollock concerning extending the lives for certain production plants.

Q. Please summarize your testimony.

A. As discussed in greater detail in my testimony, the processes suggested by Mr. Pous and Mr. Pollock lack the robustness that results from insightful incorporation of company knowledge about the assets in question as well as the highly respected, industry-approved methodologies that I used to arrive at the recommendations within the depreciation study. All the changes suggested by Mr. Pous and Mr. Pollock were biased toward increasing service lives and decreasing net salvage percentages, with the readily apparent goal of decreasing depreciation. My analysis of their methods indicates that, in focusing improperly on this end result, they have disregarded key considerations that are considered to be important industry practices. As a result, the suggested changes proposed by Mr. Pous and Mr. Pollock would result in significantly understating FPL's true depreciation requirements, and thus improperly skew recovery of asset value toward the future, saddling future customers with a burden that is disproportionate to their use of the assets in question. This has significant adverse consequences for intergenerational equity and will create unnecessary risks of recovery. Moreover, I will point out cases where the methodology used by Gannet Fleming

has found wider acceptance among the jurisdictions where it was presented than the alternative recommendations of Mr. Pous and Mr. Pollock.

I would also like to add that, in addition to all of the problems with the asset lives and net salvage values just discussed, Mr. Pous has calculated his proposed annual depreciation expense incorrectly by failing to take into account the impact resulting from his proposal to accelerate the amortization of the $1.25 billion theoretical depreciation reserve. His calculated rates do not reflect the fact that, based on his proposed accelerated amortization, FPL will have to collect an additional $1.25 billion through depreciation rates in the future. Additionally, he has calculated the theoretical reserve for production plant accounts incorrectly.

SERVICE LIVES FOR PRODUCTION PLANT

Q. Do you agree with OPC witness Mr. Pous that the Commission should adopt a 60-year service life for FPL's coal plants, 50-year service life for its large gas-fired plants, and 30-35 service life for its combined cycle plants?.

A. No. For the reasons discussed below, Mr. Pous' recommended service lives are unrepresentatively long, in view of FPL and industry experience.

Q. Do you agree with FIPUG witness Pollock that the Commission should adopt his recommended 55-year service life for coal plants and 35-year service life for combined cycle plants?

A. No. Again, for the reasons I discussed below, Mr. Pollock's recommended

service lives are too long and should be rejected.

Q. Please explain your participation in the development of the production lives for the Company's generating facilities.

A. For my depreciation study, the Company provided me with economic recovery dates (or probable retirement dates) for all their generating stations by unit. These same retirement dates were used in their 2007 Integrated Resource Plan (IRP). These dates were also used in the Company's Ten Year Power Plant Site Plan presented to the FPSC in early 2008.

Q. Mr. Pous claims that the Company's proposed retirement dates are not supported by the Company's Ten Year Power Plant Site Plan. Is this correct?

A. Mr. Pous is wrong. FPL's Ten Year Power Plant Site Plan fully supports the retirement dates provided to me for the depreciation study. The only difference is the repowering of the Cape Canaveral and Riviera Steam Plants, which the Company decided to pursue after the Site Plan was developed.

Q. When Gannett Fleming prepares depreciation studies for various clients, is it common to use a company's generation Resource Plan as the starting point to establish production plant depreciation lives?

A. Yes. Gannett prepares a number of depreciation studies for many utilities in the United States and Canada. In most cases, the company for which we are preparing the study will have a generation plan identifying when they plan to remove each unit from service. The Company will have a group of engineers and managers familiar with each unit in regards to operation and maintenance of that

unit, and they will consider many issues before assigning a remaining life including demand, load duration curves, design, energy requirements, fuel supplies, temperature variations, peaks, existing lives, and age. These factors will vary by company and are subject to location, operational practices, fuel resources, and other conditions. Once all this information is coordinated and a resource plan is developed, it is shared and approved by top company management and (if applicable) presented to the relevant utilities commission. Because of these reasons, it is important to depend on the knowledge of the individual Company when developing retirement dates of its production plant facilities.

Q. Does Gannett Fleming review the life spans resulting from these company resource plans?

A. Yes. Gannett Fleming evaluates all the retirement dates and life spans used in their depreciation study. If there were significant variances from what is the norm in the industry, then Gannett would question the Company and seek reasons for differences. However, Gannett would rely on the information obtained from management and operating personnel in reaching its conclusion.

Q. During your conduct of the depreciation study for FPL, did you have conversations with Company personnel concerning the probable lives for the production facilities?

A. Yes I did. During my FPL interviews, personnel from generation explained to me some of their reasoning for the establishment of the suggested retirement dates used in the study. FPL witness Hardy also describes these reasons in his rebuttal testimony and discusses how engineers and planners developed probable lives

based on information I described in a previous response above. He also mentioned other factors considered such as:

a. The coal units' economic recovery periods are based on a 40-year boiler life. In the late 1990's a 30-year life was assigned to these plants on the basis of damage done to boilers by burning western coal due to slag build-up. Since then FPL has found ways to manage the slag problem, resulting in an extension of the economic recovery period to 40 years.

b. The large gas-fired units at Martin and Manatee use a 35-year recovery period as these units are heavily cycled; a longer recovery period under this level of cycling would be unrealistic.

c. The 25-year economic recovery period for the combined cycle units is based on manufacturer's stated projections of the physical life of the combustion turbine, which is the most costly component at the combined cycle plant with the shortest life. The physical life of the combustion turbine is estimated to be 25 years by the manufacturer based on cycling operation only, or 30 years at base operations. Based on the anticipated usage the economic recovery period was established at 25 years.

Q. Did you review the probable retirement dates and life spans provided to you by FPL in this depreciation study?

A. Yes. I compared them to life spans used by Gannett Fleming and the industry for reasonableness. The life spans the Company is recommending are within the range of lives Gannett is seeing in the industry and are reasonable. The range of

lives within the industry for Steam Production/Coal is 40-65 years and the range for Steam Production/Gas is 40-50 years. The life spans for combustion turbines are in the 25-35 year range. The Company is within these ranges. As previously discussed, the Company explained to me specific information used in the development of their resource plan which would reasonably cause the lives to be toward the low end of the ranges.

Q. Did either Mr. Pous or Mr. Pollock perform any analysis of his own on each of the Company's coal and gas fired Steam plants in question?

A. No, Mr. Pous and Mr. Pollock simply relied on statistics from other industry electric companies when making his recommendations. They did not consider any of the unique circumstances related to the operations, design life, cycling, maintenance practices, etc, of FPL's production plants.

Q. Did either Mr. Pous or Mr. Pollock meet with any Company personnel to discuss the operation and maintenance of FPL's production facilities?

A. No, it is my understanding that neither Mr. Pous nor Mr. Pollock met with any Company personnel before making his recommendations.

Q. Did Mr. Pous or Mr. Pollock visit any of the production plants for which he is recommending increasing the service life?

A. To my knowledge, neither Mr. Pous nor Mr. Pollock visited any of FPL's production plants.

Q. Mr. Pous provides examples of companies that use a 60-year service life for coal fired steam generating plants. Do those examples provide a reasonable basis for increasing the service lives for FPL's coal fired steam generating plants?

A. No. Mr. Pous provided examples of companies that use a 60-year service life but did not reveal if any of these companies had significant investments made on their units that were considered in increasing the life of their units.

While Mr. Pous states that he is aware of companies in the industry using lives for coal plants in the 60-year range, I am also aware of a number of retired coal plants that had lives in the 30 and 40-year range. For example: Oak Creek Units 1, 2 & 4 retired at 35 years; Tait Units 4 & 5 retired at 29 years; Richmond Unit 1 retired at 40 years; Stateline Unit 1 & 2 retired at 48 and 39 years respectively; and Riverside Unit 1 retired at 38 years.

Q. Did Mr. Pous make any recommendations as to the service life for combined cycle plants?

A. No. Mr. Pous made no recommendation, however he suggested the Commission order the FPL to perform a detailed analysis substantiating the 25-year life span recommended by the Company.

Q. Do you think this is necessary?

A. No I do not. The Company has demonstrated the reasoning for their estimate of 25-years, and it is supported in the rebuttal testimony of FPL witness Hardy.

Q. Should Mr. Pollock's recommendation of 35-years for combined cycle plants be ignored also?

A. Yes it should be ignored also, based on information presented here and in the rebuttal testimony of Mr. Hardy.

Q. Are you familiar with the Platts World Electric Power Plants Database?

A. Yes. It is a comprehensive listing of power plants in the United States and abroad, both in service and retired. The database contains information on hundreds of power plants that have been retired in the United States.

Q. Can you summarize the contents of the Platts database in regards to retired coal, oil and gas power plants?

A. Yes. I have analyzed the Platts database for retired coal units and retired oil and gas units. As shown in exhibit CRC-3, the average age of retirements for coal generating units is 42.65 years. As shown in exhibit CRC-4, the average age of retirements for oil and gas generating units is 44.47 years. Given these historical average ages of retirements, as well as the company specific information provided by engineering, the life span estimates for FPL's generating facilities are clearly reasonable.

CALCULATION OF REMAINING LIVES

Q. Please describe your method for calculating remaining life depreciation accruals.

A. For the purpose of calculating remaining life depreciation accruals, I first allocate

the book depreciation reserve to each vintage within an account (or in the case of generating units, within each account for each unit). This allocation is done in proportion to the theoretical reserve for each vintage, with the limitation that the reserve for each vintage cannot exceed the original cost less proposed net salvage.

Once the reserve is allocated, I can then determine the future accruals for each vintage by deducting the allocated reserve from the sum of the original cost and future net salvage. I then divide the resulting future accruals by the remaining life for the vintage to determine the annual accrual for the vintage. The sum of the annual accruals for each vintage is the annual accrual amount for the account. The composite depreciation rate for the account can then be determined by dividing this amount to the total original cost.

Q. How do you calculate the remaining life for each vintage?

A. The remaining life for each vintage is derived from the age of the vintage and the specific Iowa survivor curve selected for the account.

Q. Did you determine a composite remaining life for each account?

A. Yes. A composite remaining life for an account can be calculated by dividing the sum of the future accruals for each vintage by the sum of the annual accruals for each vintage. However, unlike with Mr. Pous' proposed methodology, this composite remaining life is not used for the purpose of calculating annual accruals. Annual accruals are calculated for each vintage using my method.

Q. On pages 42 through 47 of his testimony, Mr. Pous discusses concerns regarding your calculation of remaining lives for plant accounts. Are those concerns valid?

A. No, they are not.

Q. Please explain why the concerns are not valid.

A. Mr. Pous claims that the method I used to calculate the remaining life is incorrect. His main concern is that for purposes of calculating remaining life depreciation accruals for an account, I prorate the book reserve for the account to each vintage. In performing this proration, the total reserve allocated to each vintage is limited so that it does not exceed the total vintage original cost less proposed net salvage. Mr. Pous takes issue with the fact that this limitation and with the fact that the use of net salvage in this calculation can have an impact on the calculation of a composite remaining life for an account.

Q. Has the Gannett Fleming, Inc. methodology been used in other depreciation studies?

A. Yes, Gannett Fleming has used this methodology in numerous depreciation studies, and it has been accepted by many jurisdictions in both the United States and Canada.

Q. Has Mr. Pous challenged this method for calculating remaining lives elsewhere?

A. Yes, Mr. Pous made a similar challenge to this methodology in his testimony to the Nevada Commission during the 2005 rate case for Sierra Pacific Power Company (Docket No. 05-10004).

Q. Did the Nevada Commission agree with Mr. Pous?

A. No. The Nevada Commissioners were convinced that Gannett Fleming's methodology was adequate and widely accepted in the industry as stated in the Order for Dockets No. 05-10003 & 05-10004. See Exhibit CRC-5.

Q. Does Mr. Pous' proposed method use the composite remaining life for an account in determining annual depreciation accruals?

A. Yes, it does. Mr. Pous recommends the use of what is referred to as the direct weighting method of calculating a composite remaining life for an account. The point of calculating this composite using this method is to use it to calculate annual accruals for the account. As I have discussed, this is not necessary for my method because accruals are calculated for each vintage.

The direct weighting method Mr. Pous proposes is described in Determination of Straight-Line Remaining Life Depreciation Accruals, Standard Practice U-4, published by the California Public Utilities Commission in 1961 (see Exhibit CRC-7). This text also describes several other weighting methods. In discussing the selection of an appropriate method, the authors state:

> "In selecting a method of weighting, several considerations apply. First, it is desired that the method of weighting used shall produce the same results as though the book reserve had been prorated to the various age groups or classes of property on the basis of the applicable reserve requirement."

Rather than select a method that produces the same results as proration, I have performed the proration. Based on the considerations presented in Standard Practice U-4, my method is clearly preferable to that of Mr. Pous.

Q. Mr. Pous claims that your approach is not consistent with standard group or mass property depreciation concepts. Is this true?

A. No, it is not. The remaining life for each vintage is determined using a survivor curve consistent with standard group property depreciation concepts. A portion of each vintage will be retired before the average service life and a portion will be retired after the average service life. The remaining life calculated for each vintage takes this into account.

Q. Mr. Pous claims that your method does not calculate accruals for vintages that are fully accrued is improper because it is inconsistent with FPL's actual practice. Is this concern valid?

A. No, it is not. By limiting the accruals only to vintages that are not fully accrued, annual accruals are calculated only for those vintages that have future costs left to recover. As a result, the composite annual depreciation rate developed is appropriate for the plant balances going forward and results in the necessary amount of accruals.

Q. Mr. Pous' Exhibit JP-3 provides an example of what he calls "Gannett Fleming's remaining life calculation error." He proposes an alternate method of allocating the book reserve to each vintage. Is his method more reasonable than your method?

A. No. The difference in allocation that Mr. Pous shows in Exhibit JP-3 is that Mr.

Pous allocates amounts to vintages that exceed the original cost less future net salvage. His example is not more compelling than my method, as his method results in negative accruals for some vintages.

Q. Mr. Pous claims that your methodology of allocating the book reserve to each vintage impacts the calculation of the theoretical reserve. Is Mr. Pous correct in making this claim?

A. No, he is not. In my methodology, the theoretical reserve is used to allocate the book reserve to each vintage. In other words, calculating the theoretical reserve is a first step in calculating annual accruals. Thus, it is clear that the theoretical reserve is calculated independent of my method of calculating annual depreciation accruals and calculating a composite remaining life. Changing the method used to calculate accruals would not impact my calculation of the theoretical reserve.

INTERIM SURVIVOR CURVES FOR PRODUCTION PLANT

Q. Please explain the method you proposed for depreciation of production plant accounts.

A. In the Depreciation Study submitted as Exhibit CRC-1, I have proposed to use the life span technique for each of the company's generating units. The life span technique is appropriate for accounts in which large groups of property will be retired at once. Power plants are a perfect example of this type of property, as all of the assets associated with a generating unit - such as structures, turbines,

generators and other electrical equipment - will be retired when the unit is taken out of service.

Life span property experiences two types of retirements – final retirements and interim retirements. Final retirements are those that occur when the entire unit is taken out of service. Interim retirements, on the other hand, are retirements of components that occur before the final retirement date for the entire unit.

To properly calculate the depreciation for each generating unit, one must estimate both the date of final retirement and the level of interim retirements that will occur before that date.

Q. Does Mr. Pous agree with using the life span method for production plants?

A. Yes, he does. But while he agrees that depreciation for generating units should account for interim retirements, he proposes a different method for doing so.

Q. Please explain the difference between your proposed method for accounting for interim retirements and the method proposed by Mr. Pous.

A. In my depreciation study, I have utilized the proposed retirement date for each generating unit proposed by the Company. In addition, I have estimated an Iowa type survivor curve for each production plant account that takes in to account the fact that some of the property at these plants will be retired before the final date of retirement. Mr. Pous also proposes using the life span technique and adjusting for interim retirements. However, instead of using an Iowa curve with a distinct retirement dispersion pattern that matches the type of property in each plant

account, he instead estimates an "interim retirement rate" and adjusts the remaining life for each generating unit within each plant account based on this interim retirement rate. By selecting an interim retirement rate for each account, he assumes that there will be a constant level of interim retirements for each year the plant is in service.

Q. How is this method different from using an interim survivor curve?

A. Actually, although he claims there to be a difference, Mr. Pous employs the same basic method as I do except that he selects the same type of curve for every account. Using a constant interim retirement rate to adjust for interim retirements for each production plant account, as Mr. Pous proposes, is identical to selecting an O1 type survivor curve as an interim survivor curve for each and every account. An O1 curve is a straight line with a constant level of retirements at each age, and as a result, the calculation can be simplified to be dependent only on the remaining life of a generating unit. If a survivor curve with a variable retirement dispersion is used, such as the Iowa R, L and S type curves that the company has proposed, the calculation is more appropriately differentiated because each vintage needs to be calculated separately.

Q. On pages 59 through 65 of his testimony, Mr. Pous discusses concerns with your method of accounting for interim retirements for FPL's generating units. Are these concerns valid?

A. No, they are not.

Q. On page 60 of his testimony, Mr. Pous claims that your method of accounting for interim retirements is "inappropriate and cumbersome for application in this proceeding." Is this an accurate assessment?

A. No, it is not. As I will discuss, my proposal to use Iowa survivor curves is appropriate and widely accepted for life span property such as generating units. Additionally, while my calculation requires more detail than that of Mr. Pous, the increased accuracy in predicting future interim retirements far outweighs any additional effort required in its calculation.

Q. Has your methodology been used in other depreciation studies?

A. Yes. My company uses this method for life span property in all of our studies for this type of asset class. We have used it in many jurisdictions across the United States and Canada.

Our method is also recognized by NARUC in its publication "Public Utility Depreciation Practices" (see Exhibit CRC-8). According to NARUC, developing an observed life table from historical data, which "can be fitted to generalized life curves, e.g., Iowa curves or curves based on the Gompertz-Makeham formula," and using the fitted curve to account for interim retirements is appropriate for life span property. This is precisely the method I have employed.

Q. Do any other Florida utilities use the Company's method for accounting for interim retirements?

A. Yes. Progress Energy Florida used Iowa survivor curves for interim retirements in its 2005 Depreciation Study (filed in Docket 050078-EI). The Commission

approved this method in their depreciation study. For their 2009 Depreciation Study, they have again used the same methodology (Docket 090079-EI).

Q. Mr. Pous filed testimony in Docket 050078-EI. Did he challenge Gannett's method for accounting for interim retirements in the Progress Energy Florida Depreciation Study?

A. No, he did not.

Q. Has this method for accounting for interim retirements been challenged in any previous rate cases?

A. Yes, Mr. Pous made a similar challenge to this methodology in Nevada, in testimony for the aforementioned rate proceeding of Sierra Pacific Power Company (Docket No. 05-10004).

Q. What was the decision reached by the Commission in the Sierra Pacific case?

A. As previously stated, the Commission agreed with Gannett Fleming in this case and specifically agreed with Gannett's industry-established method of calculating interim retirements in its Order for Dockets No. 05-10003 & 05-10004.

Q. On page 60 of his testimony, Mr. Pous states that the method you used is "cumbersome for application in this proceeding." Do you agree with his characterization?

A. No, I do not. While the method I proposed in the depreciation study requires calculations that are more complicated than those required with Mr. Pous' proposal, they are not difficult calculations to make with modern computer technology. As I will discuss, my proposals are a more accurate estimate of

future interim retirements. It would be inappropriate to sacrifice this accuracy for the sake of simplifying the calculation of depreciation.

It is also important to point out that my methodology is simpler than that employed and approved in FPL's last rate case Docket No. 050045-EI, in which depreciation was calculated for every distinct type of property unit within each plant account and generating unit.

Q. Mr. Pous claims that because the property in production plant accounts is not homogeneous, using an interim survivor curve to estimate interim retirements is inappropriate. Is this concern valid?

A. No, Mr. Pous is incorrect. Property in these accounts is grouped according to the Uniform System of Accounts, just as property for transmission, distribution and general plant is. Mr. Pous has proposed Iowa survivor curves for plant accounts in these functions, despite the fact that some Transmission and Distribution plant accounts, such as Account 362, Station Equipment, also do not include homogenous-type investments.

The retirement dispersion pattern for each of the Iowa survivor curves takes into account the fact that property in a given plant account will be retired at different ages. As a result, it is perfectly reasonable to use an Iowa survivor curve to estimate interim retirements for the property in production plant accounts. Given that the estimated retirement patterns are based in part on the company's actual retirement experience, the estimates based on Iowa survivor curves are superior to

the estimates proposed by Mr. Pous, which assume a constant level of retirements each year.

Q. Could you provide an example to illustrate the difference between Mr. Pous' proposal and the company's proposal?

A. Yes. The difference is perhaps best illustrated by elaborating on the example of a life span group of property given by Mr. Pous in his testimony. In his testimony, Mr. Pous draws an analogy to using the life span technique for power plants to that of thinking of a car as life span property. As Mr. Pous explains, while a typical car might have a service life of 10 years, during the life of the car various components will have to be replaced. Thus, although the car itself will have a life span of 10 years, the actual average service life of the car will be shorter once you take into account the additional retirements due to the replacing each of the components.

Q. In this example, how would Mr. Pous' estimate the interim retirements a car would experience?

A. Using Mr. Pous' method of adjusting for interim retirements, one would estimate the percentage of the car's cost that would be retired each year and adjust the average service life based on this estimate.

Q. Does this method accurately estimate interim activity?

A. No, not on a consistent basis. Continuing with the same example we can see that based on any one car owner's actual experience, this method does not accurately estimate actual interim retirements. The problem is that Mr. Pous assumes that retirements will occur at a constant level throughout the life of the car. This is not

a true reflection of how car repairs are spread out over the life of a car. Instead, there will likely be few retirements in the early years of the car's life, but as its components age, the level of retirements will increase. So, while in the first few years only minor items will need to be replaced, as the car gets older the owner will have to replace the tires, the brakes and possibly even major items such as the transmission. These items are all more expensive, so it is clear that retirements will increase in the later stages of the life of the car.

Q. Does Mr. Pous' proposal account for the fact that interim retirements tend to increase as property gets older?

A. No.

Q. Does the company's proposed method take into account this sort of retirement dispersion?

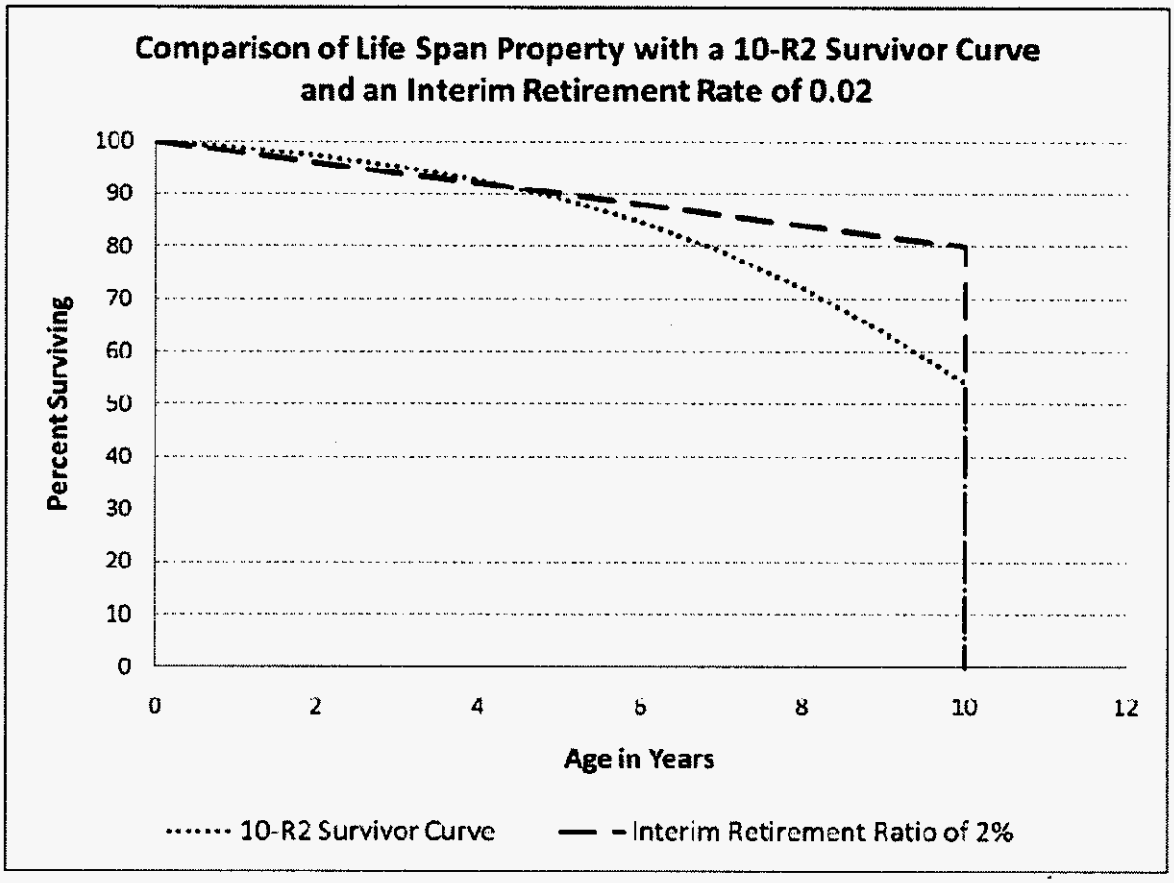
A. Yes, it does. Instead of assuming a constant level of interim retirements, one should instead use the Company's method and estimate these interim retirements with a survivor curve that better mirrors actual interim retirement experience.

Q. Continuing with the example of a car, could you elaborate on the difference between the two methods?

A. Figure 1 graphically shows the results of using these two methods. The dashed line illustrates Mr. Pous' method assuming an interim retirement rate of 0.02, which means that 2% of the original cost of the car will be retired each year. The dotted line illustrates the company's method using a 10-R2 survivor curve. As the graphs illustrate, Mr. Pous' method results in a constant level of retirements for each year until the final retirement at age 10. As discussed earlier, this is not an

accurate estimate of actual replacement expenditures throughout the life of the car. Instead, the 10-R2 curve is a better reflection of actual interim retirements. There are very few retirements in the early years but retirements increase as more expensive parts need to be replaced.

Figure 1



The average service life for each estimate is the area under the curve. As expected, in each case the average service life is less than ten years. However, both methods lead to different results. The average service life using Mr. Pous' method is 9 years, but using the company's method and a 10-R2 survivor curve results in an average service life of 8.5 years.

Q. How does Mr. Pous select the interim retirement rate to use?

A. Although his presentation in Exhibit JP-4 makes it appear as if Mr. Pous has considered a number of historical data points, in reality his calculation of an interim retirement rate is really only based on a single observed data point. For each type of plant he selects a single data point near the end of the observed life table, and calculates what percentage of investment would need to be retired each year to result in the percent surviving indicated by this data point. This is equivalent to fitting a straight line on a graph through two points – one at age 0 with 100% surviving, and one at a later age with a lesser percent surviving.

Q. Are there any problems that arise with Mr. Pous' method of determining an interim retirement ratio?

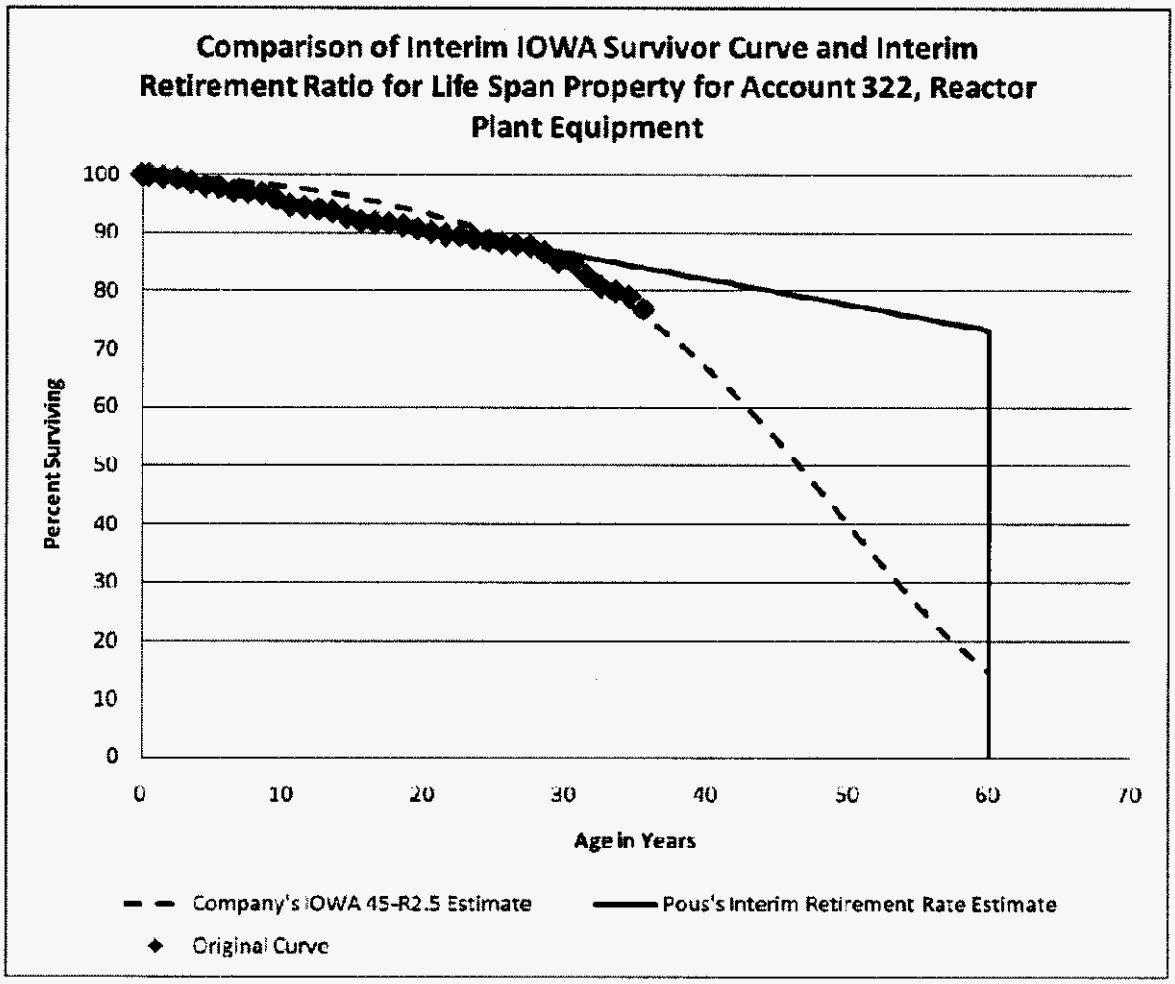
A. Yes, there are. For example, in Figure 1 both the 10-R2 survivor curve and the curve derived from using an interim retirement rate of 0.02 are close approximations of each other through about age 5. However, they deviate significantly after this age. Yet if one tries to determine an interim retirement rate using only this data point, the results will significantly underestimate future retirements. This is akin to making assumption that just because you have not needed to spend a lot of money on car repairs in the first five years you have owned it, that you will never have to make significant repairs to keep the car running in the future.

Q. Does Mr. Pous make a similar assumption in his determination of interim retirement rates in his testimony?

A. Yes, he makes this precise assumption in many of his estimates of interim

retirement ratios. As an example, Figure 2 shows the actual experienced survivor curve from FPL's history (or "original curve"), my proposed interim survivor curve estimate of 45-R2.5, and the curve implied by Mr. Pous' proposed interim retirement rate of .0044 for Account 322, Reactor Plant Equipment.

Figure 2



Mr. Pous' Exhibit JP-4 shows his calculation of interim retirement rates. He claims to have used 50 data points for all steam generating accounts, 30 data points for all nuclear generating accounts and 15 data points for all other production generating accounts.

For this nuclear account example, he also provides a percent surviving of 86.79%. This percent surviving corresponds to the percent surviving at age 28.5, as shown in the Original Life Table for Account 322 in Exhibit CRC-1, page 407. He then calculates his interim retirement rate of .0075 to be (1-.8679)/30.

I should first point out that Mr. Pous' calculation is incorrect. If 86.79% is surviving at age 28.5, then (1-.8679) should be divided by 28.5 instead of by 30. If Mr. Pous had calculated a constant retirement rate correctly, he would have ended up with a rate of .0046 instead of .0044. More importantly, as was the case with the car example, this method has the potential to significantly underestimate future retirements. Mr. Pous' method assumes that the rate of retirements will be the same in the future as it was in the past.

Additionally, Mr. Pous ignores later data points that have experienced higher levels of retirements. As you can see, while both my estimate and Mr. Pous' estimate are similar through age 28.5, after this point they begin to deviate. My estimate is a much better fit for these later data points.

Q. Based on the original life table for this account, the exposures for these data points are smaller than for earlier data points. According to Mr. Pous' testimony, this means that they are not as important to consider when fitting a survivor curve. Is he correct in this assertion?

A. No, he is not. As I will address later in my testimony, when determining which data points are significant for the purpose of curve fitting, the fact that one data

point has larger exposures than another does not necessarily imply that it should have more weight in determining a proper survivor curve estimate. What is more important is that the total exposures are statistically significant. In this case there are still exposures in excess of $190 million for the data points at ages 29.5 and 30.5. For the data points through age 34.5, exposures still exceed $26 million. Thus, the data points that Mr. Pous has chosen to ignore still have a significant amount of investment.

Q. Does your estimate take all of the significant data points into account?

A. Yes. As you can see in Figure 2, my estimate is a good fit though the data point that Mr. Pous has chosen to emphasize, and is an excellent fit after that.

Q. Does your estimate take any other factors into account?

A. Yes, it does. In determining the interim survivor curve estimates used in the depreciation study, I have relied on a number of factors. These included all of the company's historical data, discussions with company management, field visits to FPL generating sites, a comparison with industry data and trends, and previous Commission decisions.

Q. Are there any additional problems with Mr. Pous' method for determining an interim retirement rate?

A. Yes, there are. Another problem with Mr. Pous' analysis is that he assumes that future interim retirement activity will be the same as past retirement history. In the case of nuclear plants, it is unlikely that a plant designed for 40 years of commercial operation, as is the case with both of FPL's nuclear sites, will not experience an increase in interim retirements as the life is extended to 60 years.

Yet Mr. Pous' interim retirement rate estimate assumes that retirements in the final 31.5 years of operation will be the same as in the first 28.5 years of operation.

Q. For Steam Plant accounts Mr. Pous has selected a data point at age 48.5 years to calculate his interim retirement rate. Because there is a longer history for Steam Plant accounts, is Mr. Pous' proposal for Steam Production Plant a better estimate of future interim retirements?

A. No, this is not the case. Even for accounts for which there is longer retirement history, it is incorrect to simply assume that the past will be indicative of the future. For example, cap and trade legislation could have a significant impact on steam generating plants. In order to keep such plants operating in the future, the company will likely require large investments in new technologies and associated retirements to meet future regulatory requirements. In this case, past interim retirement history would not necessarily be indicative of future interim retirements.

INTERIM NET SALVAGE

Q. What does Mr. Pous assert concerning your analysis of interim net salvage?

A. Mr. Pous has proposed two types of adjustments to my estimates for interim net salvage. First, he has changed the adjustment for interim retirements based on his proposed interim retirement ratios. This has affected every account, and is dependent entirely on the estimate of interim retirements as described in the

previous section. I will address this issue in general; an account-by-account discussion is not necessary.

Second, he has specifically challenged my estimates for two Steam Production accounts, two Nuclear Production accounts and five Other Production accounts. I will address some of his criticisms for these accounts in general. I will also address the specifics of each of these accounts in detail.

Q. Is this criticism valid?

A. No, as I will explain below.

Q. What is interim net salvage?

A. As I have discussed in previously, for life span property such as power plants there are two types of retirements. Final retirements are those that occur when a generating unit is taken out of service; at this point all the property of that unit will be retired. Interim retirements are those that occur due to the normal operation of the generating unit, and are made prior to the final retirement date.

Both types of retirements can have gross salvage and cost of removal associated with them. In the state of Florida, net salvage related to final retirements is accrued through a separate dismantlement and decommissioning reserve. As a result, there is no need to make an estimate for it in the Depreciation Study.

For interim retirements, however, the estimated net salvage must be recovered from ratepayers over the lives of the assets, just as is the case with mass property

accounts such as those in Transmission and Distribution Plant. The future amount of interim net salvage can be estimated in a similar manner to mass property net salvage, and a net salvage percent can be developed for each plant account using a combination of historical data and informed judgment. The only difference is that interim net salvage does not pertain to all of the property for the generating unit. Instead, it is related to only those that will be retired as interim retirements. As a result, this "unadjusted" net salvage percent needs to be adjusted so that it recovers an amount that pertains only to interim retirements.

Q. How is this adjustment made?

A. In the depreciation study, the unadjusted net salvage percent developed in my analysis is reduced based on the percentage of plant that will be retired as interim retirements. This percentage can be determined from the survivor curve for each production plant account. So, for example, if we have estimated that a generating unit will last 50 years and the interim survivor curve for our plant account is the 40-R2, this means that roughly 73% of the original investment will have been retired at age 50. Thus, we can adjust our net salvage estimate so that it only pertains to 73% of the plant. With rounding, a (10)% net salvage estimate becomes (7)%, or a (20)% net salvage estimate becomes (15)%. Please note that I will be using parentheses to describe negative numbers throughout my testimony.

Q. Has Mr. Pous made an adjustment?

A. Yes, he has. He has adjusted the net salvage estimates based on his interim retirement rates in a similar manner. However, even for accounts where he agrees

with my net salvage analysis, the proposed net salvage percents are different from mine because there is a different adjustment for net salvage.

Q. Could you discuss Mr. Pous' specific proposals for changes to your net salvage estimates?

A. Yes. I will only discuss in detail those accounts that Mr. Pous has criticized directly. For those accounts that he proposes a change based solely on a change in the interim survivor curve estimates, Mr. Pous' changes are inappropriate because his methodology and estimates for accounting for interim retirements are inadequate, as I have discussed previously.

Q. Are there any general criticisms of your unadjusted estimates that Mr. Pous makes that you would like to address?

A. Yes, for a number of accounts Mr. Pous notes that the mix of investment for plant currently in service is different from the mix of investment reflected as retirements in the historical database we relied on for our net salvage analysis. He argues that as a result the historical database is not reflective of future interim net salvage.

He is incorrect in this assertion. Our net salvage estimates for production plant accounts are estimates of net salvage for *interim* retirements. Not all of the plant in service will be retired as interim retirements; instead, a large amount will be final retirements when an entire generating unit is taken out of service. As such, the mix of investment for interim retirements will necessarily be different than that of the entire plant in service for each account. Thus, what is important is that

the plant retired as reflected in FPL's historical database is representative of the type of property that will be retired in the future as interim retirements. In the vast majority of cases where Mr. Pous attempts to make this argument, past interim retirements are indicative of future interim retirements. Where this is not the case, I have placed less weight on these retirements in my analysis.

Another argument Mr. Pous makes for a number of accounts is that removal costs that occur as a result of the replacement of property for conversion to combined cycle facilities have been recorded incorrectly. He claims that these costs should have been applied to the new asset instead of to cost of removal. As I will discuss later in my testimony, in the section "Mass Property Net Salvage," this argument is based on a flawed interpretation of the Uniform System of Accounts and should be rejected.

Q. Please discuss Account 311 Structures and Improvements.

A. For this account I selected a net salvage estimate of (15)%, which I have reduced to (5)% to account only for interim retirements. To put these figures in context, the historical average is (16)% and the current approved estimate is (9)%.

Q. Mr. Pous claims that it is appropriate to place more weight on recent history for this account. Do you agree?

A. No, I do not. There is a diverse collection of assets in this account, and different types of assets have different levels of net salvage. Focusing on a narrow band of experience has the potential to omit relevant data. For this reason, the overall band of experience is more important in terms of forecasting future net salvage.

Q. Mr. Pous claims that compared to the plant balance for this account, a disproportionate share of the historical retirements have been piping, and as a result this has skewed the historical data. Is this a valid claim?

A. No, it is not. This is an example of Mr. Pous incorrect claim that the mix of investment in the retirement history should be the same as the mix of investment for plant in service. As I have discussed, what is actually important is whether the mix of retirements reflects future interim retirements. In this case, these retirements are indicative of interim retirements that will occur in the future and Mr. Pous' assertion that they should be given less weight is incorrect.

Q. Mr. Pous claims that the retirement of a retaining wall and a cooling pond underdrain system in 2007 have skewed the data. Is he correct?

A. No, these items do not skew the data. Despite what Mr. Pous claims, it is certainly possible that these types of retirements will be made in the future.

However, these retirements are more than offset by a large reuse salvage amount of $1,443,521 in 1986. Because reuse salvage is $0 for every other year, I have elected to give this entry less weight. As a result, the data still supports an estimate of (15)%..

Q. Please discuss Account 314 Turbogenerator Units.

A. For this account I have selected a zero net salvage percent. There have been years with high positive net salvage and high negative net salvage, however there is no clear pattern to the data.

Mr. Pous proposes a net salvage estimate of 10%. He claims that when major items of property are retired, such as rotors or stators, there is positive net salvage, but when minor items are retired there is negative net salvage. He claims that this is the cause of the volatility in levels on net salvage from year to year, and bases his recommendation on the overall net salvage average of 8% and the five-year average of 9%.

I agree with Mr. Pous that major items of property will be retired as interim retirements in the future, and that in this particular account these retirements can result in positive net salvage. However, a more detailed look at the underlying data reveals large levels of gross salvage in the past are not likely to be indicative of future levels of gross salvage. In particular, retirements in 1992 and 2003 account for gross salvage of $6,739,654 and $7,882,154 respectively. Combined, this represents over 45% of the total gross salvage in the full twenty-two year history. The 1992 gross salvage is related to warranty replacements at Martin Unit 1 and Manatee Unit 1. The 2003 gross salvage was related to insurance proceeds for a failed generator at Martin Unit 1. In both cases, the retirements that resulted in these large gross salvage entries are not representative of expectations for future interim retirements, and as a result should be given less weight in the analysis.

If these retirements are excluded from the analysis, the resulting historical average indicates negative levels of net salvage for both the overall band of experience

and for the most recent five years. As a result, my estimate of zero is clearly justified by a detailed analysis of the historical data.

Q. Please discuss Account 322 Reactor Plant Equipment.

A. For this account I have proposed a (5)% estimate, reduced to (4)% to be applicable to interim retirements. The overall average is (11)%, and the five-year average is (30)%. Cost of removal has also increased in the past four years.

Mr. Pous proposes to retain the (2)% net salvage estimate. He claims that the 2005 cost of removal distorts the data and as a result there is no reason to increase the estimate. The 2005 entry is somewhat atypical, and as a result I have given it less weight in my analysis. However, even without this entry a (5)% rate is justified. The overall average is (11)%, which is much higher than my estimate. Other than 2005, recent years have experienced higher net salvage as well. For example, 2004 had an overall average net salvage of (11)% and 2006 had (18)%. Further, the overall average is also skewed by a very high reuse salvage entry in 1995. Without this entry the overall average would have been even higher. As a result, my unadjusted estimate of (5)% is appropriate for this account.

Q. Please discuss Account 324 Accessory Electrical Equipment.

A. For this account, I have recommended an unadjusted (20)% net salvage estimate which becomes (12)% estimate after adjusting for interim retirements. The overall average for net salvage for this account is (19)% and the most recent five-year average is (41)%.

Mr. Pous proposes to keep the (2)% estimate, which he adjusts to (.06)% based on his interim retirement rate. Mr. Pous' argument is based on the fact that the total number of retirements is small compared to the total plant balance. As have discussed previously, the total plant balance is irrelevant; we are only concerned with interim retirements. As a result, the historical data is appropriate for determining an interim net salvage rate, and the unadjusted estimate of (20)% that I have recommended is justified for this account.

Q. Please discuss Account 341 Structures and Improvements.

A. For this account I have recommended an unadjusted net salvage estimate of (25)%. The overall average is (20)%, and is skewed by large gross salvage amount of $1,512,327 in 2007. Without this amount, net salvage would be nearly twice as negative.

Mr. Pous proposes a net salvage estimate of zero, which is inexplicable given that other than in 2007, there has been either zero or negative net salvage in every year the Company has experienced retirements. His proposal rests on three main arguments, none of which have any validity. First, he claims that I "chose to ignore a significant positive level of net salvage that occurred in 2007 without any investigation." This is simply untrue. I have not ignored this gross salvage amount, although because it is an anomaly I have given it less weight than the rest of the database. Again, if this entry were ignored completely, the overall average net salvage would be close to (40)%. I have not selected a (40)% net salvage; instead, I have chosen a (25)% rate in part because of the 2007 year.

I have addressed Mr. Pous' other two arguments previously. First, he argues that recent removal costs related to the conversion of a facility to a combined cycle plant should have instead been assigned to the cost of the new additions. As I have discussed, his reasoning is flawed and should be rejected. Second, he claims that recent retirements are not reflective of the overall mix of investment in the account. As I have discussed, it is only important that past retirements reflect future interim retirements. In this case, they do.

Q. Please discuss Account 342 Fuel Holders, Producers and Accessories.

A. For this account I have proposed an unadjusted net salvage estimate of (5)%. The overall average is (4)% and the most recent five-year band is (19)%.

Mr. Pous proposes a net salvage estimate of zero. His proposal is based on his argument that the mix of investment for retirements is not reflective of the mix of investment for the entire account. As I have discussed, this argument is flawed. Past retirements are indicative of the types of property that will be retired as interim retirements in the future, and as a result the estimate I have made based on the historical data is appropriate.

Q. Please discuss Account 343, Prime Movers – General.

A. For this account I have recommended a (10)% unadjusted net salvage estimate. The overall average for this account is (24)% and the most recent five-year average is (14)%.

Mr. Pous proposes an estimate of zero. He first argues that removal costs

associated with conversion to combined cycle facilities should have been charged to new additions. As I have discussed this argument is flawed.

Additionally, Mr. Pous notes two large negative gross salvage amounts However, even ignoring these amounts there is a clear history of removal costs associated with retirements in this account. As a result, Mr. Pous' proposal of zero is not reflective of the company's historical data.

Q. Please discuss Account 344, Generators.

A. For this account I have recommended a net salvage estimate of (100)%. The overall average is (98)% and the most recent five-year average is (136)%

Mr. Pous recommends a net salvage estimate of zero. His estimate is based on three main arguments. First, he makes his unwarranted claim that the data cannot be relied on because it includes conversions to combined cycle facilities. Second, he repeats his flawed argument that the mix of investment for retirements needs to be similar to the mix of investment for the current plant balance. Finally, he makes the claim that "the scrap or resale value of investment in this account is likely to increase" yet offers absolutely no evidence to support this claim.

Given that Mr. Pous offers no legitimate reason to deviate from the Company's actual historical experience, my estimate is appropriate for this account.

Q. Please discuss Account 345, Accessory Electric Equipment.

A. For this account I have proposed a net salvage estimate of (10)%. The overall experience is (7)% and the most recent five-year band is (14)%.

Mr. Pous recommends a net salvage estimate of zero. Mr. Pous' argument is based on his flawed argument that the mix of investment for retirements must be similar to the mix of investment for the current plant balance. In this case he is again incorrect, as retirements reflect the types of property that will likely be retired as interim retirements in the future.

As a result, Mr. Pous' estimate of zero is clearly inappropriate given the levels of negative net salvage the company has experienced. My estimate of (10)% is an appropriate reflection of the overall retirement history and the more recent trend towards more negative net salvage.

MASS PROPERTY AVERAGE SERVICE LIVES

Q. What does Mr. Pous assert about your analysis of average service lives?

A. Mr. Pous reviewed the statistical analysis that I performed and made selections of average service lives that were biased towards longer lives. By relying on different sections of the data he was able to skew the results so that they appear to support his selections.

Q. Is his criticism valid?

A. No, as I will explain below.

Q. What were the results of his analysis?

A. Mr. Pous claims he reviewed all accounts in mass property for transmission, distribution and general plant and made adjustments to 18 of the 36 accounts. Of the 18 accounts he made adjustments to, all were biased towards longer lives.

Q. Do you agree with his methodology?

A. No I do not.

Q. Could you briefly explain how a statistical life analysis is performed?

A. Yes, my direct testimony explains in detail with examples of how a statistical analysis of Company data is performed using the Retirement Rate Method. Exposures and retirements are reviewed by account by age. From this information, a survivor ratio is developed and ultimately a survivor curve. These survivor curves are then compared to the Iowa Curves, which were developed in the industry through an extensive process of observation and classification of the ages at which industrial property retires. These Iowa Curves are used and accepted throughout the industry. The Iowa curves, their development, and their use are further explained in my direct testimony.

Q. How is this curve fitting performed?

A. Curve fitting and selection of survivor curves is described in detail in "The Estimation of Depreciation" by Fitch, Wolf and Bissinger. As described in that publication curve fitting is done by a combination of two methods, graphically matching and mathematical matching.

Q. How does Gannett Fleming, use the above mentioned methodology?

A. Gannett Fleming, Inc. uses a combination of visual curve fitting and mathematical matching to develop the "best" fitting curve.

Q. Does Mr. Pous use the same method?

A. No. he does not. It appears Mr. Pous simply uses a visual curve fitting with no statistical analysis to determine if his curve is really the "best" fit overall. He relies mainly on the earlier retirements of an account to make his final curve selection.

Q. Please explain how you determined your proposed curves and lives for the mass property accounts.

A. The process included a number of steps:

1. The process began with FPL data, which was reviewed with FPL personnel for any irregularities.
2. I then performed statistical analysis known as the Annual Rate Method on all accounts, this methodology is described in my direct testimony including visual and mathematical curve fitting.
3. I incorporated information from FPL interviews with O&M personnel.
4. I incorporated any information gathered on our field visits.
5. I reviewed the current approved average service lives and curves.
6. I compared initial results with industry statistics.
7. I then made my final selections.

Q. What were the results of your analysis?

A. Out of the 36 mass property accounts I increased the lives in 22 accounts,

decreased the lives in 4 accounts and left 10 accounts as they were.

Q. Please summarize how Mr. Pous developed his proposed lives and curve selections.

A. Mr. Pous reviewed the same data I did but did his curve fitting based on visual examination , relying mainly on the earlier years of retirements. He then used industry averages to justify his selections.

Q. Is he correct in relying mainly on the earlier years of retirement?

A. No, he is not. Robley Winfrey, considered the dean of depreciation and life analysis, states in Bulletin 125 on page 91 (see Exhibit CRC-6) that when doing curve fitting, the emphasis should be placed not on the first 20% of the curve or the last 20% but rather on the information in the middle years. Mr. Winfrey conducted detailed analysis of the probable error involved in fitting a smooth survivor curve to an observed life table with varying percentages surviving. He concludes:

> "When survivor curves are to be classified according to the 18 types and the probable average life to be determined, it is recommended that more weight be given to the middle portion of the survivor curve, say that between 80 and 20 percent surviving, than to the forepart or extreme lower end of the curve. This inner section is the result of greater numbers of retirements and also it covers the period of most likely the normal operation of the property."

Mr. Pous proposes exactly the opposite. For the most part, he agrees with my analysis for the middle years of retirements. However, he places much more weight on the earlier years, in contradiction to Mr. Winfrey's recommendations.

In my opinion, the curves I chose are a good fit both graphically and mathematically and they are a better fit than Mr. Pous' suggestion. While I placed the most emphasis on the intermediate years as recommended by Mr. Winfrey, I also did take into account the same early years that Mr. Pous over-emphasizes.

Q. **Mr. Pous claims that more weight should be placed on data points that reflect larger dollar levels of exposures. Is he correct in this assertion?**

A. No, he is not. While it is important that exposures contain a statistically significant sample size, the absolute dollar amount is unimportant. The data points Mr. Pous chooses to ignore contain significant levels of exposures. By focusing on the absolute dollar amount, Mr. Pous ignores the more meaningful portion of the survivor curve – that is, the middle portion of the curve between 80% and 20% surviving.

Q. **Mr. Pous accuses you of relying on the "tail" of the curve is this true?**

A. This is not true. As mentioned above, I considered early years and intermediate years with very little or no emphasis on the tail of the curve.

Q. **Throughout his testimony, Mr. Pous uses industry statistics to justify his increase in average service lives, do you agree with his use of industry statistics?**

A. Definitely not. Mr. Pous use of industry averages to justify his increases is completely wrong. Average service lives can vary tremendously from company to company. Some of the reasons for different service lives are geographical location, maintenance practices, past accounting practices, continuing property records systems, commission, weather, etc. This is similar in saying the life of a Chevrolet, a Mercedes and a Ford pickup are all the same without even considering their different uses, the way they are made, their drivers, etc.

Q. Did you use industry statistics?

A. Yes, I used industry statistics to compare the range of curves and lives to the curves and lives I was proposing. If the lives were quite different from lives being used for similar property in the industry then I investigated why. If data is available in the detail it is at FPL then there is no need to rely on industry averages other than for preliminary comparison purposes. If there is no data available for a specific account, reliance on industry statistics may be all that is available.

Q. Mr. Pous, in his account-by-account analysis, often references that you used different lives in depreciation studies for other companies than the lives you are proposing here for the same accounts. Is this true?

A. Yes, that is true. As I mentioned previously there are a number of reasons why one company uses a certain average service life and another company uses a longer or shorter life. These reasons include geographical location, maintenance practices, accounting practices, past commission decisions, outside contractor work, continuing property records, etc. Each company is independent. I also

want to point out that Mr. Pous also has used different lives in various depreciation studies. For example, he agreed with a 60-year life for easements in Nevada and is now recommending 95 years.

Q. Would you please provide an account-by-account analysis of your proposed curves and average service lives versus Mr. Pous recommendations?

A. Yes. I will start with Account 350.2, which is Transmission Easements. For this account, I proposed retaining the current 50-year average service life. The results of the statistical analysis were poor as there are not many retirements in this account. The 50 years is within the industry range of 40-60 years. There is no reason to warrant a change from the current approved.

Mr. Pous increased the life to 95 years as a "conservative estimate." This is absurd; the maximum life of the transmission poles, towers, conductor, etc. would only be half the maximum life used for the easements. He attempts to justify his recommendation by saying other companies have used lives up to 70 years. Perhaps this is true, but none even approach 95 years. He also attempts to taint my selection by saying that I used 60 years in a recent case in Nevada, Docket No. 06-11023. This statement is correct as far as it goes, but as I mentioned previously there are different circumstances between companies. It is interesting to note that in that same case in Nevada, Docket No. 06-11023 Mr. Pous also accepted 60 years, which is much farther from his proposed life in this docket than it is from mine.

It should also be noted that in a Florida Public Service Commission Staff Report on depreciation in Docket No. 950359-EI, the Staff proposed that FPL use a 50-year life for Transmission Easements.

Q. What is the difference in Account 353, Transmission Substation Equipment?

A. In this account I proposed increasing the curve and life from 36 R1.5 to a 38 R1.5. The statistical analysis was good for this account and the data provided a good fit to the 38 R1.5 curve and life. This curve was also the best fitting curve mathematically. This curve was within the industry range of 30-60 years.

Mr. Pous wishes to increase the life even more to 43 years. His justification is that his curve fits better in the early years of retirements and that 38 years is in the low range of the industry statistics. If Mr. Pous had used the early retirements and the middle retirements his curve would have looked different. He is also wrong that I relied only on the "tail" of the curve when making my selection. Mr. Pous says because this account is largely transformers which have a longer life than the remainder of the account is justification for extending life. Mr. Pous incorrectly characterizes the retirement rate method as being dependent on the total retirements for an account. Instead, this method takes into consideration the relationship of retirements to exposures for each age within an account. Unlike Mr. Pous, I am not looking at overall retirements in our statistical analysis but rather at retirements compared to exposures for each age.

Q. Please discuss account 353.1 Step Up Transformers.

A. I lowered the life for this account based on the results of the statistical analysis

from a 35 S3 to a 33 R2. The statistical analysis was good and showed a good fit for the 33 R2 both graphically and mathematically.

Mr. Pous increased the life to 44 years based on his curve fitting. He attempts to discount an early retirement saying if one were to remove it then the life would be longer. Removing the retirement does not impact my analysis.

Q. Please discuss Account 354 Towers and Fixtures.

A. For this account I elected to retain the current approved 45 R5 life and curve. There are very few retirements for this account and the results of the statistical analysis were poor. The 45 years is low for this property compared to the industry but I felt that there was not enough information to recommend a change at this time.

Mr. Pous increases the life for this account to 60 years based solely on the statistics of other companies. He provides no evidence that these companies are an appropriate comparison with FPL. He is also wrong when he states that FPL has surviving plant reaching the maximum life of this account. The maximum life for the 45 R5 life and curve is over 60 years and the oldest FPL surviving plant at December 31, 2009, is 49 years.

Q. Please discuss Account 356 Overhead Conductors.

A. I increased the current life from a 44 R1.5 to a 47 R1.5. The statistical analysis was very good and provided a good fit for the 47 R1.5 both graphically and mathematically. The 47-year life is within the industry range of 38-65 years. The

Company also mentioned that wind loading is a problem and could cause shorter than normal lives.

Mr. Pous increases the life even greater to 51 years. He states that past reconductoring has shown artificially shorter lives than will occur in the future, and concludes that this has skewed the data. This assumption on his part is not justified. He then goes on to use statistics and industry averages to justify his life increase. Industry statistics should not be used when the data for this account is excellent and fits the Iowa curve selection very nicely.

Q. Please discuss Account 359 Roads and Trails.

A. For this account the statistical analysis was limited because there were only few retirements, which is typical for this property. I retained the currently approved 50-year life as there was no justification for extending it at this time. The industry range was 40-74 and the 50 years falls within that range.

In a Florida Public Service Commission Report on depreciation in Docket No. 950359-EI, the Staff proposed that FPL use a 50-year life for this account, Roads and Trails. Mr. Pous increases the life for this account to 65 years but really gives no valid justification. He tries to justify his increase because I used longer lives in other cases, but as previously discussed conditions were different and unique to those cases and should not be relied upon in this case.

Q. *Please discuss Account 362 Distribution Substation Equipment*

A. I increased the life for this account from 38 R1.5 to 41 R1.5. The statistical

analysis was good for this account and the 41 R1.5 was the best fit both graphical and mathematically. The range of the industry was 21-55 years.

Mr. Pous increased the life even more, to 48 years based on his curve fit. He says that, when he removed outliers from the data, it showed increasing life to 48 years, yet he makes no indication as to what outliers he is talking about. He also attempts to justify his increase by stating that in another case I used a longer life. Again this should be discounted as the circumstances are completely different from company to company.

Q. Please comment on Account 364 Poles, Towers and Fixtures

A. I increased the life for this account from a 34 R1.5 to a 37 R2 life and curve. The statistical analysis produced excellent results and the 37 R2 curve produced the best fitting curve and life both graphically and mathematically. The industry range is 23-57 years. The Company told me they are replacing wood poles with concrete poles where possible and the poles not being replaced will have a program to help extend the life.

Mr. Pous increases the life for this account even further to 41 years. He justifies this by saying his curve is a better fit looking at earlier retirements and that because there is a plan to replace wood poles with concrete we need to extend even further. First, there are already concrete poles in the data base and the Company is not sure how many wood poles will be replaced with concrete. I am already extending the life; to extend it even further is not justified at this time. He

also attempts to use industry average as a reason to extend, which is incorrect as I previously discussed.

Q. Please comment on Account 365 Overhead Conductors and Devices

A. I increased the life for this account from 35 S0.5 to a 40 S0 life and curve. The statistical analysis was good and the 40 S0 life and curve was a good fit both graphically and mathematically. The industry range is 24-55 years. The main cause of retirements of this account is deterioration, road widening, and storms.

Mr. Pous increased the life even further to 43 years. To justify his increase he looks at a 20-year band but provides no explanation why he would use that band. Mr. Pous also uses industry averages to attempt to support his increase even though the Company data for this account is excellent.

Q. Please comment on Account 367.6 Underground Conductor-Duct System

A. I retained the current approved life of 38 years and a S0 curve. The statistical analysis was good and showed a good fit for the 38 S0 life and curve. The industry range was 28-53 years. There was no reason to change the current approved.

Mr. Pous increased the life to 40 years based on his curve fitting of the earlier retirements. He states that because 22% of the investment is tree retardant cable some recognition of additional life is appropriate. This is misleading as I am not aware that there has been an established life in the industry for tree retardant cable that indicates a life longer than 38 years.

Q. Please comment on Account 367.7 Underground Conductors – Direct Buried

A. I increased the life slightly for this account from 34 R2.5 to 35 R2. The statistics for this account were good although the data showed that retirements had fallen off in the past 10 years, which would normally indicate an increasing life; however, in the past couple of years, retirements started to increase again. I increased the life slightly at this time and recommend waiting to see if the level of retirements will return to historical levels. FPL advised that they were having corrosion problems and are now using conduit instead of direct buried cable. I would expect to see more retirements in the future.

Mr. Pous increases the life even further at this time to 43 years. His justification for this increase is based on the slowing of retirements in the past few years.

Q. Please comment on Account 368 Line Transformers

A. I increased the life slightly for this account from 31 L2 to a 32 L1.5. The statistical analysis for this account was good and the 32 L1.5 life and curve fit good both graphically and mathematically. The industry range is 26-45 years.

Mr. Pous increased the life even further to 34 years. He feels his curve fitting of the earlier retirements is a better fit than mine. He also brings up that there were some significant retirements in early years that may make the data suspect; however, FPL has not identified any unusual events that would make any impact on our analysis. Mr. Pous uses this as a cause for longer average service lives. He then goes on to discuss how industry averages support increasing the life.

Q. Comment on Account 369.7 Distribution Underground Services

A. At this time, I retained the currently approved 34 R2 life and curve for this account. The life analysis showed that retirements are very small compared to the exposures. After 50 years there is still 90% of the plant surviving. Over 50% of this account is less than 20 years old. The industry range is 22-60 years, and FPL is within that range.

Mr. Pous increased the life to 41 years based on his analysis of the data and justified it by industry averages. I do not believe that industry averages is the proper method to use as I have previously discussed.

Q. Please comment on Account 370 Distribution Meters

A. I increased the life for this account from a 34 S2 to a 36 R2.5. The statistical analysis for this account was good and the 36 R2.5 life and curve fit good both graphically and mathematically. The industry range is 18-43 years. This account consists of meters not being replaced as part of the AMI program.

Mr. Pous increases the life even greater to 38 years. He bases his estimate on curve fitting using the earlier years of retirements. He does not use industry comparisons for this account.

Q. Please comment on Account 373 Street Lighting & Signal Systems

A. I increased this account from 20 S-0.5 to a 30 R0.5. The statistical analysis was good and supports a 30 R0.5 life and curves both graphically and mathematically.

The industry range is 22-45 years although over half the companies report lives 30 years or less.

Mr. Pous increased the life even greater to 35 years. This is a significant increase of 15 years. Mr. Pous again based his estimate on the earlier retirements in this account. He also attempts to justify his estimate by stating that changes to street lighting in the past such as changing from mercury vapor to sodium vapor shortened lives, and that will not occur in the future, so therefore lives will be longer. Given that the Company did not identify any changes in the near future, I do not believe Mr. Pous has a valid basis for making this prediction.

Q. Please discuss Account 390 Structures and Improvements

A. I increased this life from 38 S1 to a 50 R1.5. The statistical analysis was good and showed the 50 R1.5 curve fit the data good both graphically and mathematically. The industry range is 35 - 65 years.

Mr. Pous would suggest increasing the life for this account to 56 years, which is a 47% increase in the average service life from the currently approved life. This is a significant increase. He bases his recommendation on his curve fitting of the earlier retirements. Mr. Pous also states that because 64% of the account is buildings, which would have a longer average service life than the ancillary components, the life for this account should be longer.. This is misleading as the 10 buildings that make up 64% of this account also include ancillary components such as roofs, air conditioning, lighting systems, etc. There is no reason to

increase the average service life for this account 18 years based on this justification.

Q. Please comment on the Aircraft Accounts, both 390.01 fixed wing and 390.02 rotary.

A. I recommend retaining the current 7-year life for these accounts. There was no statistical information available for this account. The Company has depreciated its aircraft over 7 years in the past and after having discussion with FPL personnel they plan on retiring these aircraft within the same period as the previous aircraft.

Mr. Pous increases the life to 9 years. He says that, because there are still assets in this account from vintage 1999 then the life for aircraft should be extended to at least 9 years. Aircraft personnel have told me that they do have a large jet that will be retiring next year that is older than 7 years, but on the whole, their helicopters and airplanes last about 7 years.

MASS PROPERTY NET SALVAGE

Q. Did you make any adjustments to mass property net salvage percentages?

A. Yes. I reviewed the current net salvage estimates for mass property and increased net salvage in 14 accounts, decreased net salvage in 6 accounts and left 16 accounts the same.

Q. Did Mr. Pous make any adjustments to your estimates?

A. Yes. Out of the 36 mass property accounts Mr. Pous decreased net salvage in 14

accounts. I will be addressing his adjustments in detail in this testimony.

Q. Please discuss the issues that Mr. Pous took with your analysis of mass property net salvage estimates?

A. I would like to start with his incorrect statement on page 138 of his testimony that "Limited or no cost of removal should occur with replacement activity" and his reference to USOA Electric Plant Instructions 10B(2). He also claims that for the retirement of property that is to be replaced, the cost of removal should be charged to construction. This is also wrong. The following sections of the USOA clearly state that cost of removal associated with a retirement should be charged to accumulated depreciation; the USOA does not distinguish between retirements for replacement and retirement without replacement.

1. Electric Plant Instruction 11(A) applies to the cost of removal that relates to the retirement, with or without replacement:

   "...all items relating to the retirements shall be kept separate from those relating to construction...,"

2. The description of Account 108, Accumulated Provision for Depreciation of Electric Plant, states in paragraph B states that this treatment is for retirements with or without replacement:

   "At the time of retirement of depreciable electric plant, this account shall be charged with the book cost of property retired and the cost of removal,"

3. Electric Plant Instruction 10(B)(2) specifies that there is no distinction

between retirements with replacements and retirements without replacements:

> *" when a retirement unit is retired from electric plant with or without replacement the book cost thereof shall be credited to the electric plant account in which it is included, determined in the manner set forth in Paragraph D below. If the retirement unit is of depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to accumulated provision for depreciation applicable to such property. The cost of removal and salvage shall be charged or credited, as appropriate, to such depreciation account."*

4. Electric Plant Instruction 10(F) states:

> *"The book cost less net salvage of depreciable electric plant shall be charged in it's entirety to Account 108 Accumulated Provision for Depreciation of Electric Plant in Service..."*

Q. Are Mr. Pous' assertions correct?

A. No. Mr. Pous' interpretation of the accounting for the replacement of property is wrong. As these electric plant instructions point out, salvage and cost of removal should be recorded with the retirement and not as part of new construction.

Q. Could you respond to the other allegations made by Mr. Pous concerning your overall analysis of mass property net salvage?

A. Yes. Mr. Pous summarizes my analysis as "nothing more than acceptance of simple arithmetic averages of historical data." This is completely wrong. The estimates were not simple arithmetic averages but instead were based on informed

judgment that incorporated analysis of historical cost of removal and gross salvage data, as well as expectations with respect to future levels of removal costs and gross salvage. The historical data included in the statistical analysis were cost of removal and gross salvage compared to retirements for a 22-year period, 1986 through 2007. This data was separately analyzed as percents of the original cost retired on annual, 3-year moving average and the most recent 5-year average bases. The average percent for the entire study period 1986-2007 also were determined. Cost of removal and gross salvage are calculated separately in order to assist in detecting trends in these components of net salvage. Moving averages are used to smooth the indications of net salvage that can fluctuate from year to year. Data that appeared unreasonable was either removed from the analysis or given less weight in the analysis. Input from FPL personnel was evaluated and incorporated in the final results. Results were also compared to other industry companies for reasonableness.

Q. Mr. Pous alleges that you of picking and choosing results to obtain more negative net salvage levels than would otherwise be the case, is this true?

A. Absolutely not. I was looking for trends in the data. Sometimes the data was consistent over the entire 22-year period and a trend could be developed but not always, there were instances where the trend was recent and more weight was placed on this data. In no way did I analyze data with a particular result in mind.

Q. Mr. Pous criticizes you for removing reimbursed retirements from the data, even though these events occur on an annual basis and are not outliers. Is this true?

A. Again this is a false accusation by Mr. Pous. All reimbursed retirements were not removed from the analyses. Reimbursed retirements that were considered reoccurring on a regular basis were included. However, government mandated projects that were considered nonrecurring were removed. These included relocations for the Department of Transportation and the installation of new Metrorail line. Retirements related to hurricanes were also removed from the data.

It should also be noted that while Mr. Pous recommends including reimbursed retirements in the analysis for net salvage, which would likely result in a reduction of depreciation expense, he does not recommend including them in the analysis for the service lives of FPL assets, which would result in an increase in depreciation expense. It is neither systemic, nor rational, to include these retirements for one type of analysis but not for another. I have excluded these retirements from both sets of analyses.

Q. Could you discuss Mr. Pous' reference to "economies of scale."

A. Economies of scale in construction occur when projects increase in size. For instance, when removing poles, the cost per pole would decrease if a utility was to remove ten poles on a street versus one pole on the same street. Mr. Pous would

have us believe that, in the future, more frequent retirements will be occurring and therefore there will be savings in the unit cost of removal.

Q. Do you agree?

A. According to the data we used in our life analysis retirements have been occurring very slowly over the past years, retirement activity may increase as plant gets older, however, retirements are spread over a long period of time and there is not enough information that points to any significant reduction in removal costs from economies of scale. Retirements would need to occur in large quantities in areas of close proximity to receive any benefits.

Q. Does growth affect how Mr. Pous anticipates economies of scale?

A. Yes, load growth leads to addition and retirement activity that tends to keep the age of retirements from increasing to an age equal to the average service life. Therefore, retirement age is unlikely to increase enough for any further economies of scale than have already occurred.

Q. Mr. Pous says your proposed net salvage percents are among the most negative in the industry, is that true?

A. No. This is another of Mr. Pous false claims. I compared the results of my analysis to the industry and FPL's net salvage percentages are well within the industry range. Some accounts were in the high range and some were in the lower range, but there was no consistent trend in either direction.

Q. Could you discuss net salvage for each account Mr. Pous makes adjustments to?

A. Yes. For all Mr. Pous' criticism of my methodologies he has only made

adjustments to 14 of the 36 accounts analyzed. Of course, just as his service life adjustments all increased my life estimates, he is again biased toward decreasing all my net salvage estimates.

Q. Please discuss Account 353, Station Equipment.

A. For this account, I changed the currently approved rate of 5% to (10)%. The historical data showed a definite trend towards negative net salvage. The industry range is 5% to (20)%.

Mr. Pous instead recommends zero net salvage. He claims that unusual values in the database have skewed the data and as a result my estimate is inappropriate. He claims to have investigated these values, but the results of his "investigation" are in some ways bizarre. He claims that significant cost of removal experienced in 2007 is driven by the retirement of a building with a high level of asbestos. Yet substation buildings are not in this account; they are instead in Account 352. Further, the work order he cites in discussing this retirement clearly indicates that the retirement is for Account 352 and is dated May 29, 1990. It is entirely unclear how this retirement affects the analysis for Account 353, Station Equipment.

Q. Please discuss Account 354, Towers and Fixtures.

A. For this account I retained the currently authorized (15)% net salvage. The industry range for this account is 0 to (50)%. The data for this account is sporadic, but does show a general decline in gross salvage percents and a general increase in cost of removal percents.

Despite this trend, Mr. Pous instead recommends a net salvage percent of zero. Mr. Pous' argument hinges on his claim that reimbursed retirements should be included in his analysis. As I have discussed, this is not a valid claim.

Mr. Pous specifically claims that the database used for analysis for this account conflicts with other provided data. In particular, the data used for the study differs from the booked cost of removal provided for OPC's first set of interrogatories and production of documents. The discrepancy is for transaction year 2006 and is related to large hurricane related retirements. Retirements related to hurricanes have been removed from all the databases analyzed in determining life and salvage parameters as they are unexpected events that are not indicative of the future activity for an account.

Q. Please discuss Account 355, Poles and Fixtures.

A. For this account I have elected to retain the currently authorized net salvage percent of (50)%. The net salvage rates over the past five and fifteen years are (55)% and (49)% respectively. Removal costs for wood poles are expected to increase due to changes in regulations.

Mr. Pous makes a number of arguments for this account that I have addressed previously. He claims that that reimbursed retirements and hurricane retirements should be included in the net salvage analysis for this account and that "economies of scale" will reduce removal costs in the future. As previously discussed, these arguments are flawed and should be rejected.

Mr. Pous also argues that I have ignored recent trends in the data, which he states is inconsistent with my analysis for Account 355. He claims that there is a trend towards lower levels of negative net salvage in recent years. However, a more detailed look at the history of this account reveals that there is more of a cyclical trend, as opposed to a trend of either strictly increasing or strictly decreasing amounts of net salvage. Throughout the history of this account, both cost of removal and salvage have varied from higher to lower levels as a percent of retirements. Given that the historical trend is cyclical, it is appropriate to put more weight on the full band of experienced net salvage than on recent bands.

Q. Please address Account 356, Overhead Conductors and Devices.

A. For this account, I have proposed to change the currently authorized net salvage percent of (45)% to (50)%. The overall average net salvage for this account is (50)%, and rolling bands show consistent negative net salvage. The industry range is 0 to (80)%.

Mr. Pous proposes a (40)% net salvage estimate. He bases his estimate on his stance on reimbursements, his stance on economies of scale, and on the scrap proceeds for copper wire. I have discussed his arguments on reimbursements and economies of scale earlier in my testimony. His arguments on these issues should be rejected.

Regarding future gross salvage from copper wire, Mr. Pous' argues that higher scrap prices for copper will lead to future gross salvage for copper wire to be

higher than the levels the company has historically experienced. This argument is quite thin. First, as he himself points out, only 3% of the account is copper wire. Additionally, the composite remaining life for this account is over 36 years. Mr. Pous cannot possibly know copper price trends 36 years into the future. Yet he claims on page 159 of his testimony that gross salvage will be "disproportionately higher" in the future than has been experienced in the past. This claim is highly speculative and should be rejected, especially because it pertains to such a small portion of this account.

Q. Please address Account 364, Distribution Poles, Towers and Fixtures.

A. For this account, I changed the currently authorized net salvage percent of (40)% to (125)%. Recent activity suggests that net salvage is significantly negative – as much as (193)% in 2006. The overall band of my analysis experienced an average of (76)% net salvage, but the most recent five-year band was (157)%. While my estimate of (125)% is at the upper (more negative) industry range of (10)% to (135)%, industry-wide the trend is for increasingly negative net salvage estimates. More recent studies I have performed indicated experienced net salvage for this account beyond the upper range of my industry database.

Mr. Pous proposes a net salvage percent of (60)%. This estimate is far less negative than the overall average of (76)%, and less than 40% of the five-year average experienced net salvage of (157)%. FPL has experienced at least (111)% net salvage for each of the past five years, and has only experienced net salvage

below (84)% in two of the past ten years. Clearly Mr. Pous has proposed an estimate that is far less negative than the Company's actual experience.

Mr. Pous' again argues that reimbursed retirements should be included in the analysis. As I have discussed, this argument should be rejected. However, it is important to note that Mr. Pous' proposal of (60)% is even lower than the resulting average net salvage if these retirements are included in the database.

Mr. Pous also appears to claim that because 18% of the investment in this account is concrete poles, concerns about the effect of regulations on the removal costs for wood poles are irrelevant. This is a confusing claim given that in his discussion of Account 356, he argued that copper wire - which comprised only 3% that account - would have a significant impact on future gross salvage. If Mr. Pous really believes that speculative future scrap values affecting 3% of one account will have a major impact on future expectations of net salvage, then surely he must concede that actual regulations that will increase removal costs for the majority of property in this account will have an impact on future net salvage. Mr. Pous attempts to bolster his argument by claiming that future additions will lead to a higher proportion of the investment in this account to be concrete poles. This is an irrelevant point, as the scope of the Depreciation Study relates only to plant in service, not to future additions.

On page 163 of his testimony, Mr. Pous' final argument is that removal costs have

been higher in the past five years because that time frame is "associated with a significant increase in hurricane-related events, which may partially explain what appears to be excessively high negative net salvage levels." This argument is flawed. FPL has removed hurricane related retirements from its analysis, and as a result, any increased removal costs due to hurricanes during this time period would have no impact on FPL's estimate.

Q. **Also on page 163 of his testimony, Mr. Pous claims that his estimate for this account is conservative because it "still provides the company with approximately seven times the average level of negative net salvage it has experienced over the past 22 years and 138% of the highest level the Company has ever experienced." Is this a valid comparison?**

A. No, Mr. Pous makes an inaccurate comparison. His claim is that with a (60)% net salvage estimate, the annual accruals related to net salvage for each year will still exceed the company's actual experienced net salvage in the past. This is a suspicious argument. Comparing the absolute levels of historical net salvage and the absolute levels of future net salvage accruals is not a relevant exercise, as past and future levels of retirements are not the same.

A net salvage estimate is not an effort to estimate the net salvage amounts experienced by FPL in its historical retirements, but instead is an estimate used to recover the future costs associated with retiring plant currently in service. Future costs will likely be substantially greater than historical costs on absolute terms because of growth and inflation. As a result, it is more appropriate to compare the

ratio of net salvage costs to retirements. Using this comparison, Mr. Pous' estimate is well below FPL's actual experience. Thus, Mr. Pous' proposal is not at all conservative. Instead, significantly under recovers future net salvage when compared to FPL's actual net salvage experience.

Q. Please address Account 365 Overhead Conductors & Devices.

A. For this account I increased the net salvage from the current (50)% to (100)% based on the trends of comparing cost of removal and salvage to retirements. Although gross salvage has been recently increasing, the cost of removal is increasing tremendously. In the past 5 years the net salvage is (91)% and the past two years are over (100)%. Using rolling bands also shows net salvage at (99)%.

Mr. Pous attempts to taint the data by pointing out a negative gross salvage amount in 2006 and saying that I did not investigate this amount. I was aware that this amount was probably recorded incorrectly and deemed it an outlier; however, by assuming an average salvage amount for this year, the net salvage percent would still be over 90% negative.

Mr. Pous also attempts to say that I manipulated the data by excluding certain reimbursements. Neither the Company nor I manipulated the data and any reimbursements that should have been excluded were properly excluded. He also brings up an argument that 10% of the account made up of switches is skewing the data. This is not a valid point because we are looking at all retirements not just 10% of the investment.

Q. Please discuss Account 366.6, Underground Conduit – Duct System.

A. For this account, I recommend to reduce the currently authorized estimate of (10)% to (5)%. The twenty year and five year net salvage rates are (3)% and 0% respectively. The three-year rolling bands indicate decreasing (less negative) net salvage. The industry range is 0 to (50)%.

Mr. Pous again bases the majority of his argument on the fact that reimbursed retirements have been removed from the analysis. This argument should be rejected for reasons I have discussed previously.

Mr. Pous also makes the claim that most utilities abandon underground conduit in place, except where it is economical do remove it. In other words, he asserts that the only instances where the company would remove conduit gross salvage would exceed the removal cost. This is simply not true. There are many instances of the removal of underground conduit where removal cost exceeds gross salvage, such as when a third party accidentally digs up an underground line and the conduit needs to be replaced. The net salvage analysis disputes Mr. Pous' assertion as well, as the average net salvage over FPL's history is negative.

Q. Please discuss Account 367.6, Underground Conductors and Devices – Duct System.

A. For this account, I recommend keeping the existing estimate of (5)%. Cost of removal is decreasing, but net salvage overall is still negative. The industry range for this account is 25 to (40)%.

Mr. Pous argues that the data I have relied indicates that an estimate of zero net salvage is more appropriate. I disagree. The company has experienced negative net salvage in the vast majority of years in its historical database. The three-year moving averages, which smooth out noise in the data, show negative net salvage for almost every year as well. Additionally, Mr. Pous' analysis is heavily weighted towards more recent three-year moving averages. However, these averages have been heavily impacted by large final gross salvage amounts in 2006 and 2007 – amounts that total over 30% of the final salvage in the entire historical database. Mr. Pous emphasizes these years without any indication as to whether these levels of gross salvage will continue into the future. A more balanced analysis of FPL's history justifies maintaining the currently authorized estimate of (5)%.

Q. Please discuss Account 368 Line Transformers.

A. I reduced the current (35)% net salvage to (25)%. This is based on a decline in cost of removal over the recent years and practically no gross salvage. The overall average of 22 years is (25)% and is similar for the rolling bands and the more recent 5-year band.

Mr. Pous would like to reduce the net salvage even more to (20)% based on his assumption that "the Company manipulated the data" on page 168 of his testimony. This is not correct. He also uses some minor negative gross salvage amounts to question my results but has no facts for lowering my recommendation.

Q. Please discuss Account 369.1, Services – Overhead.

A. For this account I increased the net salvage from (60)% to (125)%. The data clearly shows that net salvage is increasing, to over (200)% in some of the more recent years. At the same time gross salvage has been decreasing. The 5-year average is (189)% and the 3-year rolling bands show close to (200)%. Mr. Pous sees the trend but limits his increase in net salvage to (85)%.

Mr. Pous refuses to accept the fact that the net salvage is showing percentages well over (100)% and into the (200)%s range because the Company cannot provide a reason why FPL has higher net salvage for Account 369.1 than the other industry companies I used in my industry comparisons. This is a ridiculous argument. There are many factors that influence this amount such as the individual company's accounting policies, O&M practices, management policies, etc. As such, a direct comparison of FPL to the companies in my industry group would not be an "apples to apples" comparison. Just because the Company follows its own practices is not a reason for Mr. Pous to reject the results of this analysis.

Mr. Pous also questions FPL accounting policies on replacement and replacing as a reason for high cost of removal for this account. He is incorrect; the Company follows the proper methodology for accounting as previously discussed.

Q. Please discuss Account 369.7, Services – Underground.

A. For this account I elected to not change the current authorized net salvage of

(10)%. The cost of removal shows an increasing trend over the past few years, which on its own could suggest using a more negative net salvage value, but the recorded gross salvage is suspect for 2005 and 2006. Therefore, I left the net salvage unchanged at (10)%, which is conservative in view of the fact that it has been more negative in some of the last few years.

Mr. Pous attempts to confuse the record by discussing that there was higher cost of removal in years 2004 to 2007 for underground services than there was for years 2000 to 2003 when there were more underground services retired. I am not sure what point he is trying to make. The net salvage percent is developed by the relationship of the cost of removal and gross salvage to the total retirements made in any given year, all based on dollars retired not quantities.

He then states that the Company policy is to abandon in place direct buried cable and this should account for zero net salvage. Again we are looking at retirements of the entire account not just a small piece.

Q. Please discuss Account 370, Meters.

A. Mr. Pous' objection to my net salvage estimate is based on the fact that the company will be retiring approximately 4.3 million meters over the next five years as a result of its AMI program. He states that this project will alter the experienced net salvage in the future. His claim might be correct, but it has absolutely no bearing on the contents of this account. All meters that will be retired due to the AMI program have been removed from this account into a

capital recovery schedule. The (55)% estimate that I have made for this account relates only to those meters that will *not* be retired for the AMI program.

Q. Please discuss Account 370.1, Meters – AMI.

A. The recovery of the meters that are being retired and replaced with AMI meters is being proposed to be recovered over a four-year amortization period as described in Table 7 in Exhibit CRC-1, page 55. There is no reason at this time to estimate a different net salvage percent for the new AMI meters than for the meters that are not being replaced. Therefore, I propose to use (55)% net salvage for the new AMI meters.

Q. Please Discuss Account 390 Structures and Improvements.

A. For this account I reviewed the retirements over the 22-year period and observed that net salvage was either zero or in most cases negative. As a matter of fact in the past 10 years net salvage in negative in all but 2 years and rounding to (10)% or more. The past five year average is (10)%. Therefore, I proposed to increase net salvage from zero to (10)% for this account.

Mr. Pous changes his whole approach to net salvage for this account. He claims because FPL has not retired any major buildings, historical data in this account is for other assets such as roofs, HVAC, ceilings, and other ancillary parts of the structure. These are exactly the type of structures and equipment that are expected to retire in the future. These assets comprise the bulk of this account. He attempts to say that this account is made up of 10 buildings; however, he forgets to say that these buildings are made up of the previously mentioned

retirement units. These assets have had and are expected to have a net salvage of (10)%.

Mr. Pous states that the trend in commercial real estate has been toward substantial appreciation. I am not sure what state he is talking about, but it is certainly not the case in Florida since 2005. He says FPL's offices are worth much more than their original cost. This is misleading. If FPL were to retire any of their buildings they would probably be worthless as-is, without improvements. Only the land would be of value. However, the land is owned by shareholders, who receive no return of their capital through rates. Mr. Pous is wrong in his recommendations for this account.

THEORETICAL RESERVE ADJUSTMENT

Q. Would you like to comment on Mr. Pous' theoretical reserve adjustment and theoretical reserve calculation in his testimony?

A. Yes, I would.

Q. Mr. Pous has proposed to decrease annual depreciation expense by $552 million. Are there any problems with his calculation of this decrease?

A. Yes, there is. Mr. Pous is proposing an adjustment to the book reserve in an attempt to align it more with the calculated or theoretical reserve. This adjustment accounts for $331 million, or approximately 60% of his total decrease

in annual depreciation expense. FPL witness Davis will address this particular issue and the adjustment in his testimony.

However, I would like to point out that Mr. Pous calculated his proposed annual depreciation expense incorrectly in his method. Since Mr. Pous is proposing a $1.25 billion adjustment to the book reserve, he should have calculated depreciation expense using the adjusted book reserve. He instead used the same "unadjusted" book reserve I used in the depreciation study. As a result, his calculation significantly understates annual depreciation accruals.

Q. Why should Mr. Pous have used the restated book reserve for his calculations?

A. Mr. Pous' proposed $1.25 billion adjustment to the book reserve would result in an equivalent $1.25 billion increase in future depreciation accruals to be collected over the remaining life of FPL's current plant in service. To properly calculate annual depreciation expense, Mr. Pous should have included this adjustment in his calculation of annual depreciation expense. Instead, he did not, which results in artificially low depreciation rates. His calculated rates do not reflect the fact that, based on his adjustment to the reserve, FPL will have to collect an additional $1.25 billion through depreciation rates in the future.

In addition to the fact that he has proposed to reduce depreciation expense directly through a reserve adjustment, he also wants depreciation rates to be lower due to a higher, unadjusted book reserve. This proposal is entirely inappropriate, as it is

an attempt to reduce depreciation both through a direct adjustment to the reserve and through the benefit of lower rates that the higher, unadjusted book reserve would provide. Mr. Pous' proposed depreciation expense reduction therefore needs to be rejected.

Q. Mr. Pous has calculated the theoretical reserve that would result using his proposed depreciation parameters. Is his calculation correct?

A. No, it is not. Specifically, Mr. Pous has incorrectly calculated the theoretical reserve for production plant. He has not included the interim retirement rates he proposes in his calculation of the theoretical reserve.

Q. How has Mr. Pous calculated the theoretical reserve for production plant?

A. Using the prospective method for calculating theoretical reserve, as required in Florida, the theoretical reserve is equal to the total calculated accruals less the theoretical future accruals. The total future accruals are equal to the original cost of plant less future net salvage. The total theoretical future accruals are equal to the ratio of the remaining life divided by the average service life multiplied by the total calculated accruals.

For production plant, Mr. Pous has not adjusted the remaining life or the average service life for each generating unit to account for interim retirements. He has instead simply used the remaining life for the unit and entire life for the unit. This is incorrect. Both the remaining life and the whole life for the generating unit need to be adjusted for interim retirements.

CORRECTIONS

Q. Did you make any changes to your original filed testimony?

A Yes. In the course of responding to interrogatories, I discovered an error in the summary of Account 354 Towers and Fixtures in my recommendation for an average service life. As pointed out in Exhibit CRC-9 I originally stated that the curve and life should be 40 R5 when it should have been a 45 R5.

Q. Does this change affect the results of your study?

A. Yes it does. This increase in average service life should decrease annual depreciation expense by approximately $1.5 million.

Q. Does this conclude your rebuttal testimony?

A. Yes.

REBUTTAL TESTIMONY OF C. RICHARD CLARKE ERRATA ITEMS

Page 8
From: Line 13, "at 40 years; Stateline Unit 1 & 2 retired at 48 and **39** years respectively;"
To: at 4 years; Stateline Unit 1 & 2 retired at 48 and years respectively; and

Page 25
From: Line 4, "calculates his interim retirement rate of .0075 to be (1-.8679)/30."
To: "calculates his interim retirement rate of .00 to be (1-.8679)/30."

Page CRC-1, Page 510
From: "Recommendation: "**Change** the current 45-R5 life and curve for this account **to a 40-R5 curve and life.**"
To: Recommendation: the current 45-R5 life and curve for this account "

Page CRC-1, Page 523
From: "Conclusion, 2nd line: "range and the causes of retirement. The 45-R1.5 represents a"
To: "range and the causes of retirement. The 4 -R1.5 represents a"

Page CRC-1, Page 539
From: Discussion 5th line: "..indications of 50 to **55** years."
To: "..indications of 50 to years."

Page CRC-1, Page 569
From: Discussion, 2nd paragraph, line 2: "years with low mode type curves. The industry range is **35** to **55** ..."
To: "years with low mode type curves. The industry range is to 5 ..."

Page CRC-1, Page 670
To: **Depreciation, OPC First Set of Interrogatory Question No. 72,**
Attachment 1, Page 1 of 1

Page CRC-1, Page 673
To: **Depreciation, OPC First Set of Interrogatory Question No. 73,**
Attachment 1, Pages 1 and 2

Page CRC-1, Page 698
To: **Depreciation, OPC First Set of Interrogatories Question No. 14,**
Attachment 1, Page 1 of 1

BY MR. BUTLER:

Q. Mr. Clarke, are you also sponsoring exhibits to your direct and rebuttal testimony?

A. Yes, I am.

Q. Were those prepared by you or under your direction, supervision, and control?

A. Yes, they were.

MR. BUTLER: Mr. Chairman, I would note that to his direct testimony there are two exhibits, CRC-1 and CTC-2, that have been premarked as 115 and 116. And then Exhibit CRC --

CHAIRMAN CARTER: Hang on one second. Let me get there.

MR. BUTLER: Okay.

CHAIRMAN CARTER: 115 and 116 on staff's composite list?

MR. BUTLER: That's right.

CHAIRMAN CARTER: Okay.

MR. BUTLER: And then to the rebuttal testimony it is Exhibits CRC-3 through CRC-9. And those have been premarked as 346 through 352.

CHAIRMAN CARTER: 346 through 352?

MR. BUTLER: That's right, yes.

CHAIRMAN CARTER: Okay.

BY MR. BUTLER:

Q. Mr. Clarke, have you prepared a summary of your direct and rebuttal testimony?

A. Yes, I did.

Q. Would you please provide your summary to the Commission at this time?

A. Yes, I will. Good afternoon, Commissioners. My name is Richard Clarke, and I prepared the depreciation study for FPL as of December 31st, 2009.

The study consisted of examining Florida Power and Light's accounting records, interviewing company personnel, visiting production facilities, and meeting with company management. The results were compared with information from other electric utilities, as well as other depreciation studies prepared by Gannett Fleming.

I incorporated my general knowledge and experience in the industry. My proposed depreciation rates result in an increase of $23 million in 2009 depreciation expense. However, this increase largely reflects the effect of the $125 million annual depreciation credits resulting from Florida Power and Light's last settlement agreement. Without those credits in the agreement, my proposal depreciation rates would have resulted in a reduction in 2009 depreciation expense of approximately $33 million.

For production lives, Florida Power and Light

provided probable retirement dates which I reviewed and compared to the industry and previous Gannett Fleming studies. I discussed the lives with Florida Power and Light personnel, who explained to my satisfaction the reasoning behind the suggested plant lives. Mr. Pous and Mr. Pollock have suggested longer lives, however, neither of their recommendations incorporated any information specific to Florida Power and Light, but, rather, relied solely on general industry statistics.

For mass property accounts, I developed average service lives based on generally accepted depreciation methods and procedures, which include the use of multiple sources to obtain a complete picture. I believe you will find that my approach provided a balance approach to plant lives, extending some, shortening others, and providing a reasonable explanation for leaving the others as they were.

Mr. Pous proposed lives for 18 of the 36 mass property accounts that were all biased to longer lives, longer periods than I had proposed, relying on industry statistics of other companies in previous depreciation studies. I believe my analysis presents more reasonable results.

I also performed a net salvage analysis on all mass property accounts. I reviewed historical cost

removal and salvage compared to retirements for the past 22 years. Based on my experience, I reviewed the data for outliers and gave less importance to information that was not representative. I then performed the end analysis and reviewed trends. I incorporated information from my interviews with Florida Power and Light personnel and compared the results to the industry. I believe these methods add to the robustness of the analysis and provide for a balanced approach in the determination of net salvage amounts.

Mr. Pous, again, reduced my estimates in 14 of the 36 mass property accounts, based solely on his general observations and industry statistics. My methodology is more comprehensive and provides a balance to all plant accounts.

For interim retirement curves and remaining life calculations, I used methods that are generally accepted methods in the industry and methods that have been accepted by the majority of electric utilities in the United States and Canada. Based on the above points, I recommend that you accept my recommendations, as they are more reliable and more closely related to Florida Power and Light's actual experience than either Mr. Pous' or Mr. Pollock's proposals.

Thank you.

MR. BUTLER: Thank you, Mr. Clarke. I tender the witness for cross-examination.

CHAIRMAN CARTER: Thank you. Mr. McGlothlin, what kind of order have you guys got?

MR. McGLOTHLIN: I will go first.

CHAIRMAN CARTER: You're recognized, sir.

CROSS EXAMINATION

BY MR. McGLOTHLIN:

Q. Mr. Clarke, Joe McGlothlin with the Office of Public Counsel.

If you will, sir, please turn to an exhibit to your rebuttal testimony. It is CRC-3, Page 1 of 11.

A. Yes.

MR. McGLOTHLIN: CRC-3, Page 1 of 11.

CHAIRMAN CARTER: Thank you, Mr. McGlothlin.

BY MR. McGLOTHLIN:

Q. That is a document captioned lifespans of retired U.S. coal generating units, 10 megawatts or greater, correct?

A. That is correct.

Q. And you offer this in support of the lifespans that you have assigned to FPL's coal-fired units in the course of your depreciation study?

A. This is one of the documents, yes.

Q. Now, 10 megawatts or greater, do I understand

correctly that this particular database includes coal plants that are as small as 10 megawatts and up, correct?

A. I believe the database that we used was 10 megawatts and greater. It says that in the title at the top of the schedule.

Q. Yes, sir. And it also says lifespans of retired U.S. coal generating units. Do I understand correctly that all of the units in this particular database have actually been retired and are no longer in service?

A. That is correct.

Q. So, that if there is a coal-fired generator that has surpassed any lifespan indicated on this exhibit, but is still in service, that particular generator would not be reflected in your database, correct?

A. No, these are retired units, but it shows that nothing has retired over an average of 42 years.

Q. My question is this: Do I understand correctly that this database does not include any active in-service coal-fired units?

A. These are retired units only.

Q. So your answer is yes?

A. Yes.

Q. And so if there is a coal-fired unit in service that has exceeded this lifespan shown here, or is expected to exceed by virtue of its condition, that would not be taken into account in this particular database, correct?

A. Not in this exhibit.

Q. Now, by analogy if we were to perform an analogous study of 2005, year 2005 Honda Accords, and we were to put into the analysis the information that corresponds to your three columns there, installation year, retirement year, and lifespan, under that example the installation year would be 2005, correct?

A. In your hypothetical?

Q. Yes.

A. Yes.

Q. And then the retirement year would be either 2005, '6, '7, '8, or '9, correct?

A. Let me see if I understand what you are saying. The units that were installed in 2005?

Q. Yes.

A. And they are retiring in year 2009?

Q. And we're considering only those Honda Accords that are actually out of service, have been removed from service. Then the database that corresponds to this example would show retirements during the period 2005

and 2009, correct?

A. Well, I'm not sure I understand. You have the units being installed in 2005 and retiring in 2009?

Q. The example is to perform an analogy to what you have here. You have some coal-fired plants, all of which have been retired. And by analogy if we were to look at those Honda Accords that were manufactured in 2005 and have since been taken out of service, the retirement years would cover the period 2005 through 2009, correct?

A. Yes, in your hypothetical that would be correct.

Q. And that would be the case even though we could reasonably assume that there are a fair number of 2005 Honda Accords still on the road, correct?

A. Well, you have given me a hypothetical, so --

Q. Understood. But that would be the case under the scenario I have posed, correct?

A. Well, if we new there was other generating plants, yes.

Q. Now, please return to Page 2 of your prefiled rebuttal testimony?

A. I'm there.

Q. Take a moment and review Lines 18 through 22. Mr. Clarke, beginning at Line 18 you refer to certain

proposals by Mr. Pous and Mr. Pollock, and you assert that the suggested changes would result in significantly understating FPL's true depreciation requirements, and thus improperly skew recovery of asset value toward the future, saddling future customers with a burden that is disproportionate to their use of the assets in question. Do you see that?

A. Yes, I do.

Q. And the next statement says this has significant adverse consequences for intergenerational equity. Do you see that?

A. Yes, I do.

Q. Do I understand, sir, that you oppose those measures that would place a burden on customers that is disproportionate to their use of the assets in question?

A. In this instance, yes.

Q. And do I understand correctly that it is your position that intergenerational equity is a consideration that the Commission should take into account as it evaluates the depreciation issues in this case?

A. No, I don't.

Q. Well, you do say at Line 21 with respect to your observation that some customers would be placed with a disproportionate burden and that this has

significant adverse consequences for intergenerational equity, do you not?

A. Yes, I do.

MR. McGLOTHLIN: No further questions.

CHAIRMAN CARTER: Thank you. Who is next, Mr. Wiseman?

MS. GRIFFITHS: Ms. Griffiths on behalf of --

CHAIRMAN CARTER: Ms. Griffiths.

MS. GRIFFITHS: Yes. On behalf of South Florida Hospital and Healthcare Association.

CHAIRMAN CARTER: You're recognized.

MS. GRIFFITHS: I have one exhibit that I am going to go ahead and pass out now, and I will get to it in just a moment.

CHAIRMAN CARTER: Okay.

MS. GRIFFITHS: I think we can -- it would be Exhibit Number 450.

CHAIRMAN CARTER: 450. Short title, please.

MS. GRIFFITHS: Rebuttal testimony on behalf of Nevada Power Company, Docket Number 06-11023.

CHAIRMAN CARTER: Now you are going to force me to favor Mr. Mendiola, because he gives me good titles here. Okay. How about rebuttal testimony, Docket Number -- well, how about Rebuttal Nevada Power Company, Docket Number 06-11023?

MS. GRIFFITHS: That sounds good.

CHAIRMAN CARTER: Does that work for you?

MS. GRIFFITHS: That works for me.

CHAIRMAN CARTER: Okay.

(Exhibit Number 450 marked for identification.)

CHAIRMAN CARTER: Let's take one second here so we make sure everyone has it.

You may proceed.

CROSS EXAMINATION

BY MS. GRIFFITHS:

Q. Good afternoon, Mr. Clarke.

A. Good afternoon.

Q. You are the Director of Western U.S. Services for the Evaluation and Rate Division of Gannett Fleming, Incorporated, is that correct?

A. That is correct.

Q. And Gannett Fleming is a firm that provides consulting services to utility companies throughout the United States and Canada, correct?

A. That is correct.

Q. All right. And so you, on behalf of Gannett Fleming performed the depreciation study that is relied upon by FPL in this proceeding in order to set its rates, correct?

A. That is correct.

Q. Now, Mr. Clarke, isn't it the case that Gannett reviews all retirement dates and lifespans used in their depreciation studies, correct?

A. Yes, that is correct.

Q. But those retirement dates and lifespans are fed to you by the utility, correct?

A. They are originally presented to me in some form or manner, usually in an integrated resource plan, or else I sit down and talk with the generation folks at the utility. And then I review them and look and compare those to lives that I have been using at Gannett Fleming and other utilities. And then if there is differences, I sit down and talk to the utility engineers and the planning people about the differences in the lives.

Q. Okay. So if there are significant variances from what is the industry norm, then Gannett would question the company and seek reasons for the differences, isn't that correct?

A. Yes, I would.

Q. Okay. I would -- and, Mr. Clarke, you employed a 25-year service life for the combined cycle units in this proceeding, did you not?

A. Well, I sort of did. I used a probable

retirement date that they provided me in the integrated resource plan, and the lives varied from 25 years up to 30-some years.

Q. Okay. The general rule was that it was a 25 to 27-year service life, isn't that correct?

A. The newer combined cycle units that were placed in service in the last few years were around 25 to 30 years, yes.

Q. Okay. And you are aware, are you not, that FIPUG's witness is proposing a 35-year life for the combined cycle units and SFHHA's witness is proposing a 40-year life for the combined cycle units, correct?

A. I am aware that Mr. Pollock is presenting 35 years, I believe.

Q. And have you looked at any other witnesses' proposals in this proceeding?

A. I don't believe Mr. Pous had a suggestion for combined cycle units.

Q. Oh, I'm sorry. If I said Pous, I meant to say SFHHA's Witness Mr. Kollen.

A. I'm sorry, I'm not aware of that one.

Q. Okay. Mr. Clarke, could you please turn to the exhibit that I have just passed out as Exhibit Number 450? Do you have that in front of you, sir?

A. Yes.

Q. Okay. Mr. Clarke, you testified on March 2007 in the Nevada Power Company Docket Number 06-011023, before the Nevada Public Utilities Commission of Nevada, did you not?

A. Yes, I did.

Q. And that was a base rate proceeding, was it not?

A. Yes, it was.

Q. And in that proceeding, you supported a 35-year combined cycle life for the Nevada Power Company combined cycle units, and we can see that on the flagged highlighted portion of the exhibit that I have passed out. Can you see that, sir?

MR. BUTLER: Excuse me, Mr. Chairman. I would like to inquire of Ms. Griffiths the caption on the first page of the exhibit she passed out. It says in the matter of the application of Nevada Power Company for approval of new and revised depreciation rates. I think she just asked whether this was a base rate proceeding. Could I ask for clarification?

MS. GRIFFITHS: I'm happy to clarify that with the --

CHAIRMAN CARTER: Okay.

MS. GRIFFITHS: -- with the witness.

CHAIRMAN CARTER: Just rephrase.

BY MS. GRIFFITHS:

Q. Yes. Was this rebuttal testimony provided on behalf of a proceeding for new and revised depreciation rates, is that correct?

A. Yes. This study was rolled into a base rate case.

Q. So it was used to set base rates in the Nevada proceeding, correct?

A. Yes, it was.

Q. Thank you for that clarification. And in that proceeding you testified on behalf of a 35-year combined cycle life for Nevada Power Company's combined cycle units, correct?

A. Yes, I did. But there is a big difference with the Nevada plants than there is with the Florida Power and Light plants.

Q. Let me just talk to you about the recommendation that you made in that proceeding, sir, and I will get to that.

CHAIRMAN CARTER: Hang on a second. Had you finished your answer?

THE WITNESS: I wasn't finished with my answer, Commissioner.

CHAIRMAN CARTER: Okay. You can answer.

THE WITNESS: In the Florida Power and Light

proceeding there is a number of reasons why they have a lower design life and lower expected service life than they would in Nevada. The units in Florida have a number of unique instances. One is the way that they are cycled. Florida is made up of mostly residential and small commercial, and they are cycled where they come on early in the morning and they are shut down; they come in the evening and they are shut down.

This type of cycling has an impact on the design of the plant and how long the plant is going to run. This is similar to if you were running an automobile in heavy traffic versus just running it on a country road. In Nevada, power plants out there sit in the middle of the desert and nobody bothers them. They are on a base load unit, because Las Vegas is where these power plants are, these combined cycle plants, and they are serving a 24/7 city, and they are running on a base load unit. So they are more like the country road type driving versus the city type driving of the Florida Power and Light units. I'm sorry, I --

MS. GRIFFITHS: May I follow up on that?

BY MS. GRIFFITHS:

Q. Mr. Clarke, do you recall having your deposition taken in this proceeding?

A. Yes, I do.

Q. Okay. And do you recall being asked the question can you describe to me any similarities or differences in the way Nevada Power Company and FPL cycle their combined cycle units? And do you recall that your answer was, no, I am not familiar with the methodology that they use for cycling their units?

MR. BUTLER: I'm sorry, if you would like Mr. Pous -- I'm sorry -- Mr. Clarke to discuss his deposition, can you provide him a copy of it, or at least ask whether he has a copy of it?

BY MS. GRIFFITHS:

Q. Do you have a copy of your deposition, sir?

A. No, I don't.

MS. GRIFFITHS: And may I provide him my copy?

CHAIRMAN CARTER: You may approach.

MR. BUTLER: And would you identify for the rest of us what page you are on, please?

MS. GRIFFITHS: Certainly. I'm --

CHAIRMAN CARTER: We can't hear you. You are going to have to speak into one of the microphones.

MS. GRIFFITHS: Should I lean over to his microphone, sir?

CHAIRMAN CARTER: No, don't do that. Just step to this one right here. Somebody may see you on TV and, you know -- can you getting it going, Jane?

Chris, can we get the handheld mike?

THE WITNESS: Yes, I would rather --

CHAIRMAN CARTER: Hang on a second. Wait one second.

MS. GRIFFITHS: I'm at a little bit of a disadvantage.

CHAIRMAN CARTER: Hang on. We are going to get -- Chris is going to get the handheld turned on so we can get you on the record here.

Okay. Let's see. Try it.

MS. GRIFFITHS: I'm sorry, Mr. Clarke, I don't mean to lean over you.

CHAIRMAN CARTER: Okay. Hang on a second. Staff, would you get -- Chris. Chris. Hang on a second. Can you get the handheld to work here?

Mr. Butler, do you have a copy of his deposition? Oh, great. Staff has one. Staff has one. Hang on. Hang on, Ms. Griffiths. Staff has one, so you can hang onto yours. I'm sure you have got some notes on it. Staff will just allow him to use that, and you can return to your seat and use yours. How cool is that, huh?

MS. GRIFFITHS: That works great. Thank you.

CHAIRMAN CARTER: Okay. Come on back so we can get it on the record in terms of where we are. We

won't need it. Staff has got him a copy, so we won't need the handheld. Sometimes on the bench we can't hear, because, you know, on this end you may be able to hear, and on this end you won't be able to hear. So that's what we really want to listen to you, and we also want the court reporter, more important than us, to be able to hear what you are saying.

You may proceed.

MS. GRIFFITHS: Okay. Thank you, Mr. Chairman.

BY MS. GRIFFITHS:

Q. Mr. Clarke, in your deposition, do you recall being asked the question can you describe to me any similarities or differences in the way Nevada Power and FPL cycle their combined cycle units?

MR. BUTLER: And, again, I would ask that you identify where in the deposition, please.

MS. GRIFFITHS: Yes. It's Page 20, Lines -- I'm starting at Line 22.

MR. BUTLER: Thank you.

THE WITNESS: Okay. In my deposition I guess I wasn't referring to just between base load and cycling, but I was referring to maintenance practices, and there was a number of other things that were brought up to me.

BY MS. GRIFFITHS:

Q. Mr. Clarke, could you read your response to that question into the record, sir?

A. This says, no, I'm not familiar with the methodology that they use for cycling their units, but I know that there is a big variance in the location between being situated in a desert and being situated along the Atlantic Ocean, which is subject to the salt.

Q. Okay. And you were also asked the question, can you describe to me any similarities or differences in the manner in which the two utilities maintain their combined cycle units. Do you recall what your response was?

A. Yes. I said I wasn't familiar with the maintenance policies, and I am still not.

Q. Okay. And you also said that you could not describe -- I'm sorry. The next question asks you can you describe to me any similarities or differences with respect to the management policies of Nevada Power and FPL as they relate to the operation of combined cycle units, and what was your response, sir?

A. And I said I couldn't. I still can't today.

Q. Okay. And were you aware of any of the vendors or manufacturers of the Nevada Power combined cycle units that you referred to in the testimony?

A. No, I'm not. Not sitting here today, I'm not.

Q. Okay. And were you familiar with any of the vendors or manufacturers of FPL's combined cycle units?

A. Of FPL's?

Q. Yes. I am reading from the next question on the deposition, Page 21, Line 18, where it says what about FP&L's combined cycle units?

A. Yes, and I agree with that. On FPL's, I know some of them, but I don't know all of them.

Q. Okay. So in making the recommendation that you did in this proceeding, you did not take into account the manner in which FPL cycled their combined cycle units, the manner in which the utility maintained its combined cycle units, or any of its maintenance policies, is that correct?

A. That is correct. I took into consideration other issues, such as location. Location is a big issue. Location of the power plants, the combined cycles for Florida Power and Light. They are situated along the Atlantic Ocean where they are subject to the harsh environmental of the salt. In Nevada, they are siting out there in the desert, like I mentioned before, and they are not subject to any -- I mean, Arizona and Nevada is where you take antique cars to last forever. They are going to have a longer life than anything

situated along the coast in Florida.

Q. Okay. Mr. Clarke, let's turn back to the testimony that you provided to the Nevada Commission. And in that testimony you said that the industry norm for combined cycle units was 35 to 45 years. Is the 25 or 27-year life that is being proposed for the combined cycle units for FP&L within that industry norm?

MR. BUTLER: I'm sorry, Ms. Griffiths, can you point out where you are referring in his Nevada testimony?

MS. GRIFFITHS: Yes. It is Page 5. It is the highlighted portion, and I believe you should have a tab on that page.

THE WITNESS: First of all, I didn't say the industry norm. I said it was in the range. But since that time, I have worked with a couple of other clients that have 25-year lives also for their combined cycle. So the range has now changed since that time, and I believe I have presented that in my rebuttal testimony.

BY MS. GRIFFITHS:

Q. Let's turn back to your rebuttal testimony, and I am going to be starting at Page 6, going through Page 7, starting at Lines 19 on Page 6 through Page 7. Now, if we look at this paragraph --

A. I'm sorry, what line was that?

Q. I'm sorry. Turn to Page 6 of your rebuttal testimony, and on Page 6 you say that the lifespans the company is recommending are within the range of lives Gannett is seeing in the industry and are reasonable. Do you see that, sir?

A. Yes, I do.

Q. Okay. And then you said that following through the range of lives within the industry for the coal plants is 40 to 65 years, and the range for steam production and gas is 40 to 50 years. And then you don't have a range for combined cycle units, do you?

MR. BUTLER: I am going to object to the question. The next line is the lifespans for combustion turbines are in the 25 to 35-year range. Is that what you are referring to?

MS. GRIFFITHS: Yes, that is what I am referring to.

BY MS. GRIFFITHS:

Q. The next sentence reads the lifespan for combustion turbines are in the 25 to 35-year range, correct?

A. Yes, it does.

Q. Okay. But if we go back to your Nevada testimony, what you testified to there is that the lifespans for combined cycle units, which were 35 years

there, are within the range of lives that Gannett is seeing in the industry of 35 to 45 years, respectively, correct?

A. Well, I explained that, that we have done more recent studies now where the companies that I am working with are using 25 years for lifespans, so that is, obviously, going to change my range.

Q. Okay. Mr. Clarke, are you familiar with the Putnam plant for FPL?

A. I am familiar with it, yes.

Q. And this is one of FPL's combined cycle units, is it not?

A. Yes, it is, one of the older ones.

Q. All right. And the current retirement date for that combined cycle unit is 2020, isn't it?

A. Just a second.

CHAIRMAN CARTER: You have to speak into the microphone, Mr. Clarke.

THE WITNESS: Yes, I will. I'm sorry.

MS. GRIFFITHS: And I'm going to be passing --

CHAIRMAN CARTER: Hang on a second. Hang on a second. Let him find it. You can still pass it out, but go ahead on and let him get his thoughts together. Let's take a moment while they are passing that out. I will give you a number after he answers the question,

okay?

THE WITNESS: I'm sorry. The retirement date is 2020.

BY MS. GRIFFITHS:

Q. All right. Mr. Clarke, do you have a copy of an exhibit that has a description, FPL Site Plan Excerpt?

CHAIRMAN CARTER: Okay. Do you want it marked now?

MS. GRIFFITHS: Yes, sir.

CHAIRMAN CARTER: That would be, Commissioners, 4-5-1, Number 451.

THE WITNESS: No, I don't.

CHAIRMAN CARTER: And that would be FPL's Site Plan Excerpt.

THE WITNESS: Oh, is that the one you just gave me? I'm sorry.

CHAIRMAN CARTER: FPL Site Plan Excerpt.

(Exhibit Number 451 marked for identification.)

CHAIRMAN CARTER: Okay. You may proceed.

MS. GRIFFITHS: All right.

BY MS. GRIFFITHS:

Q. Mr. Clarke, this combined cycle plant has two

units, is that correct?

A. Yes, that is my understanding.

Q. Okay. And those units were placed in service in 1977 and 1978 respectively, is that correct?

A. That is correct.

Q. All right. So if the Putnam plant had had an actual service life of 25 years, and that unit would have been retired in 2002, and -- well, one unit would be retired in 2002 and the other would be retired in 2003, correct?

A. That is if the company did not make any investment in that plant. But in the '90s, the company had replaced their HRSEGs. They replaced, I believe, two of the turbines. So they put in a substantial investment in that plant to make it last longer.

Q. Okay. So it is the case, then, that the actual life of that plant with the company's investment, is already longer than the 25 years that you have used in your study, correct?

A. That is correct.

Q. All right. And if retired in 2020, the Putnam plant would have an actual life that would be in the 42 to 43-year range, would it not?

A. That would be correct, with the substantial investments into it.

Q. Okay. And that is well above the 25-year expected retirement date that you use in your study, isn't that right?

A. Yes, but the original design life is 25 to 30 years. The company had to make substantial changes to get it to run to 2020, a proposed 2020 life.

Q. Okay. And, Mr. Clarke, are you suggesting that FPL shouldn't invest in its new plants --

A. No.

Q. -- to maintain those plants and have them run longer?

A. No, not at all.

Q. Okay. If the Commission were to determine that the evidence supported using a longer expected life than the 25 years that you used, wouldn't that decision have the effect of lowering FPL's depreciation expense and the corresponding revenue requirement associated with that expense?

A. Yes, it would.

Q. And, you would agree, wouldn't you, that if the service life of FPL's combined cycle units were assumed to be 35 or 40 years, then depreciation rates would be reduced accordingly?

A. Yes, that's correct.

Q. Okay. So, you would also agree, wouldn't you,

that reducing depreciation expense means that there would be a higher net asset balance in the next rate case, correct?

A. A higher net book value, yes.

Q. Okay. And isn't it true that as a matter of regulatory ratemaking, FPL would generally be allowed a return on its net assets in its next rate case?

A. That is correct.

MS. GRIFFITHS: Those are all the questions I have, Mr. Clarke. Thank you.

CHAIRMAN CARTER: Okay. Ms. Bradley, or is it Ms. --

MS. BRADLEY: I don't have any questions.

CHAIRMAN CARTER: Okay. Ms. Kaufman.

MS. KAUFMAN: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MS. KAUFMAN:

Q. Good afternoon, Mr. Clarke.

A. Good afternoon.

Q. Let's just look for a moment at Page 2 of your direct testimony.

A. I'm sorry, what page?

Q. Page 2, and beginning on Line 15. I will wait until you get there.

MR. BUTLER: I'm sorry, just to be clear, you

said the direct, not the rebuttal, right?

MS. KAUFMAN: Yes, Mr. Butler.

MR. BUTLER: Thank you.

THE WITNESS: Line 15?

MS. KAUFMAN: Right.

BY MS. KAUFMAN:

Q. Starting at Line 15, you describe your background and experience for us, correct?

A. Yes.

Q. And am I correct that you spent over half of your career working for Southern California Edison?

A. Twenty-five years.

Q. So give or take, about half?

A. Yes, a little less than half.

Q. Okay. Do the math. And you provided us attached to your direct testimony CRC-2, which is a list of your cases in which you submitted testimony, correct?

A. Yes, that is correct.

Q. And am I correct that in every single one of those appearances you appeared on behalf of a utility company?

A. Yes, I have.

Q. Now, I want to discuss a little bit with you some of the issues that you were talking to Ms. Griffiths about. And, first of all, she discussed

with you the fact that you got your information regarding the retirement dates of the plants in issue from FPL personnel, is that correct?

A. That is correct.

Q. And I think you say in your rebuttal testimony that one of the things you looked at and relied on was FPL's Ten-Year Site Plan for the retirement dates?

A. What I really relied on was the integrated resource plan, which was also the same lives that they used in the ten-year plan.

Q. Right. And are you aware that the Ten-Year Site Plan is revised once a year?

A. Yes, I am.

Q. And are you aware that the Ten-Year Site Plan is not binding on FPL?

A. No, I'm not sure it is or not.

Q. You don't know one way or the other?

A. I don't know, no.

Q. Okay. And are you aware -- are you aware how often FPL updates their integrated resource plan?

A. No, I don't.

Q. Would you accept that they update it annually?

A. That is what I would assume, but I'm not sure.

Q. Okay. So, certainly you would agree that it is subject to change in terms of what the retirement

dates are?

A. Yes, that is quite possible.

Q. Okay. Now, let's turn to your rebuttal. Beginning on Page 6, and this is an area that Ms. Griffiths talked to you about a little bit. Actually, it is on Page 7, and it is the paragraph that -- the question begins at Line 7, and the answer goes through Line 12. And it is where you are discussing the unique circumstances that relate to FPL's plants. Do you see where I am?

A. Yes.

Q. Now, am I correct that these unique circumstances that you have relied upon were ones that were related to you by FPL personnel?

A. Well, some of them were. The cycling was. The location, I didn't have to have FPL tell me about the harsh environment that they are subject to along the coast compared to other units. I mean, I took that into consideration, but the cycling, the design life, items like that, yes.

Q. Do you still have a copy of your deposition there?

A. Yes, I do.

Q. Okay. If you will turn to Page 69?

A. Yes.

Q. Beginning at Line 2, I asked you the question is it true that your reference on Line 11, Page 7 to the unique circumstances relating to the operation, design life, cycling, and maintenance practices of FPL's plants were gleaned from your discussions with FPL personnel, and what was your answer on Line 7?

A. On Page 59?

Q. 69, I'm sorry.

A. 69.

Q. Do you need me to repeat the question?

A. I'm there. Yes, you need to repeat the question, please.

Q. Okay. The question that I asked you on Page 69 beginning at Line 2, is it true that your reference on Line 7 -- Line 11, Page 7, which is in your rebuttal testimony that we were just referring to about the unique circumstances, is it true that your reference on Line 11, Page 7 to the unique circumstances relating to the operation, design life, cycling, and maintenance practices of FPL's plants were gleaned from your discussions with FPL personnel? And what did you answer to that question?

A. My answer is yes.

Q. And still on that same page, I was asking you some more about this topic of the unique circumstances,

and if you see on Line 17, I said to you, I'm really just trying to understand what you are saying. And at Line 19, can you tell us what you said, what your answer was at Line 19 and 20? If you could just read what your answer was.

A. Yes. What I'm saying here is that when Florida Power and Light planning personnel developed the integrated resource plan, they took all this consideration of design life, how the units were going to run, how they were going to operate, the maintenance plans, all of that into consideration when they developed the IRP. They told me that. They told me what they placed. I said I was not familiar with the individual information, only that that is what they put into their effort to develop the integrated resource plan.

Q. Right. And what you are saying in that answer is that you got the information from the FPL personnel, correct?

A. The individual information for their operation, yes.

Q. And I also asked you if you knew what FPL's maintenance practices -- what it was about FPL's maintenance practices that you considered unique. And let me read the exact question. This is on Page 70,

beginning at Line 13. And I asked you do you know what maintenance practices FPL has that are unique? And your answer was no. Am I correct?

A. Yes, and it is still no.

Q. And then the next question beginning on Line 17, I asked you about the design life that you claim was unique to the FPL units. And I said you don't know what design life issues here -- there are that are unique to FPL or any of the categories you have listed? And then you said no, correct?

A. I said no, and that's correct. I got that information from the Florida Power and Light engineers.

Q. And you didn't review any of the maintenance information from the plant manufacturers, correct?

A. That is correct.

Q. Now, I think Ms. Griffiths went over the fact with you that Mr. Pollock has recommended a retirement life of 55 years for coal plants and 35 for combined cycle, correct?

A. That is correct.

Q. And you would agree with me, would you not, that his recommendation for the 55-year life for the coal plants is certainly in line with the recommendations or the lifespans that Gannet has seen?

A. Well, I said it is within the range of the

lives of coal plants that are in service today.

MS. KAUFMAN: That's all I have. Thank you. Thank you, Mr. Chairman.

CHAIRMAN CARTER: Thank you, Ms. Kaufman. Staff.

MS. WILLIAMS: Thank you. Before I ask my questions, I wanted to check with the parties and see about the exhibits I had passed out to them previously to see if they had any objections to them.

CHAIRMAN CARTER: Okay. Let's see. Mr. McGlothlin.

MR. McGLOTHLIN: OPC has no objection.

CHAIRMAN CARTER: Ms. Bradley?

MS. BRADLEY: None.

CHAIRMAN CARTER: Mr. Wiseman?

MS. GRIFFITHS: Ms. Griffiths. No objection.

CHAIRMAN CARTER: I'm sorry, Ms. Griffiths.

MS. KAUFMAN: I hate to be the spoilsport in this group, but I do not think that mine are complete, and also some of them appear to refer to other documents that are not included. So I wonder if I could just get with the staff the next time we break and be sure that I am clear.

CHAIRMAN CARTER: Okay. Let's do this, staff. Do we need to do this before you begin your

cross-examination?

MS. WILLIAMS: Yes, we do. It will greatly change my --

CHAIRMAN CARTER: Okay. Yes, I was thinking that. Let's take ten, everybody.

MS. WILLIAMS: Thank you, Mr. Chairman.

(Recess.)

CHAIRMAN CARTER: We are back on the record.

Staff, you're recognized for a preliminary matter before you go through your cross.

Ms. Kaufman, were you able to review the documents?

MS. KAUFMAN: Yes. Thank you, Mr. Chairman. We have no objection.

CHAIRMAN CARTER: Okay. Any objections by any of the parties? No objections. Okay. Staff, show it done, and you may proceed.

MS. WILLIAMS: Since there are no objections, at the conclusion of the testimony I will read out and go through each of those from staff's composite exhibit.

CHAIRMAN CARTER: Okeydokey.

MS. WILLIAMS: Thank you.

CROSS EXAMINATION

BY MS. WILLIAMS:

Q. Good afternoon.

A. Good afternoon.

Q. Now, I would like to start by turning your attention to a comparison of your analysis with that of OPC Witness Mr. Pous' analysis. You stated in your rebuttal testimony that Mr. Pous relied principally on the earlier years of retirements and effectively ignored the middle portion, is that correct?

A. In the mass property life analysis, yes, that is correct.

Q. Can you explain your overall basis -- on an overall basis your approach to the curve fitting process specifically on how you would handle the early part of the survivor curve?

A. Yes, I can. First of all, we plot surviving factors from retirements that have occurred in the past, which are exposures in retirements over the years and over the ages up until the current date. Then we try to fit a survivor curve to that. The program that is utilized to fit that usually fits it on a mathematical basis first, and comes up and tries to fit a least squares procedure, which is comparing the actual historical points to a point on the curve that best fits those historical points. Then we go in visually and look at those curves and try to redefine them.

What we are looking for is usually the center

portion of the curve, or the 80 percent that is in the middle. Not the first 20 percent, not the tail of the curve, but in the center portion of the curve. From that we make any adjustments that we feel are deemed necessary because of information that I have gotten from my interviews with company personnel and finally come up with the final curve.

Q. Now, you stated that in your opinion when one looks at the middle part of that curve where the operation is now running smoothly, and it has been going for a number of years, that is more indicative of what the future is going to be like, correct?

A. That is correct.

Q. On Page 42 and 43 of your rebuttal testimony, you also criticize Mr. Pous because in some cases the only reason that he chose the curve or the life that he did was because of his reliance on industry statistics, isn't that true?

A. I'm sorry. What page is that again?

Q. 42 and 43. One second, let me make sure I have that right.

A. Yes, that's true.

Q. So, in other words, you criticize him for using industry data as the only source of his analysis, correct?

A. As his main source, yes.

Q. As his main source. So it is true that he only sometimes uses industry data as a source to justify his increase, correct?

A. Well, he used -- he plotted a curve using the early years of the history and then tried to confirm that by using industry statistics.

Q. Okay. So isn't it true, Mr. Clarke, that you also employed industry statistics to confirm your own analysis?

A. Well, really what I did is I came up with an estimate and then I compared it to the range of the industry to make sure it was within that range.

Q. So, you did use industry data to confirm your own analyses that you performed to see if they fell within the range?

A. I'm trying to think now, but I don't think I changed any of the curves because of the industry.

Q. Thank you. Now, I would like to refer back to the Nevada case in which you testified. In response to Ms. Griffiths' questions, you stated that you relied on a 35 year-life in that case, correct?

A. In that case the service life that we used for depreciation was 35 years. And that was based, again, on a number of things.

Q. Right. It was based on --

A. I'm sorry. A number of things that were pertinent to Nevada Power Company at that time.

Q. But you used that life provided to you by the company, because the company gave you a number of reasons to support it, correct?

MR. BUTLER: I'm sorry. For clarification of the record, could we identify service life for what? I don't think you or Mr. Clarke identified which type of unit you were referring to.

MS. WILLIAMS: Sorry. It was the combined cycle units.

THE WITNESS: I assumed you were talking about the combined cycle units, yes.

MS. WILLIAMS: Good.

THE WITNESS: And actually one was only 30 years, I think, and the other unit was 35 years.

BY MS. WILLIAMS:

Q. But you did rely on that life provided by the company because they gave you a number of reasons to support that life, correct?

A. Well, they were able to support that life, plus, again, you know, with my interviewing process with the company, and then dealing with the properties, comparing them to other properties that -- of similar

types that we had done analytic work on, and, yes, I accepted those in the final run.

Q. And similarly in this case you relied on the life provided by FPL, the 25 to 27-year life because FPL gave you a number of reasons that they were using that lifespan?

A. Well, I did -- I did notice that they weren't really in the mid range of what I have used, that they were a little bit lower. So I did go back to the company and ask them to explain why their lives were lower than some of the other lives that I was using within the industry, and they did that to my satisfaction.

Q. Mr. Clarke, one of the reasons that was given to you by FPL to support that 25 to 27-year life was the fact that the manufacturer estimated the physical life to be around 25 years, correct?

A. I believe they started with that. That was the design life of the plant, and then there were a number of other unique issues that they told me about that would cause -- I think it was 25 to 30 years, depending upon the way the plants were run. And then because of some of the uniqueness for the Florida locations and for the way they ran the plants, they shortened that life.

Q. But one of the reasons was that the manufacturer had estimated that 25-year period?

A. Twenty-five to 30 I believe, yes.

Q. Okay. Now, you never saw any documentation from the manufacturer bearing on the expected life of the turbine, did you?

A. No, I didn't.

Q. So you relied mostly on your discussion with FPL's generation personnel with whom you discussed the life of those units?

A. Well, I know what effort goes into developing the integrated resource plan, and I relied on that. And the people that put that together rely on the operation of the company, the design life, you know, various other elements.

Q. I would like now to switch gears a little bit and talk about FPL's depreciation practices. Isn't it true that FPL continues to apply depreciation rates to gross plant-in-service whether a particular vintage is fully accrued or not?

A. Yes, it is true.

Q. Now, referring back to your rebuttal testimony, Pages 9 through 14, FPL maintains its depreciation reserves by depreciable account and not by vintage, correct?

A. Could you repeat that question, please?

Q. Looking at your rebuttal testimony, Pages 9 to 14, FPL maintains its depreciation reserves by depreciable account and not by vintage, correct? Do you have your deposition in front of you?

A. Is it Lines 9 through 14 or Pages 9 through 14?

Q. I want to do it a quicker way. Do you have your deposition in front of you?

A. I have my rebuttal in front of me.

Q. Can you turn to Page 37?

A. Oh, my deposition. I'm sorry.

Q. Your deposition.

A. I thought you said my rebuttal. And what page was it?

Q. 37.

A. Okay.

Q. And I will be looking at Lines 16 through 19.

A. Yes, by depreciable account, which I mean by unit, too. By unit by depreciable account.

Q. Okay. Thank you.

Now, as I understand your testimony you have a computer program which calculates the remaining life depreciation accruals by first prorating or allocating each account's book reserves to each vintage, correct?

A. I'm sorry, I'm having a hard time understanding you.

Q. You have a computer program which calculates the remaining life depreciation accruals by first prorating or allocating each account's book reserves to each vintage?

A. That is how remaining life is calculated, yes.

Q. Isn't it true that you used net salvage in the calculation of remaining life depreciation accrual for an account?

A. Yes. The way the Gannett program calculates the remaining life is that it calculates a remaining life for each vintage, counting the original cost adjusted for salvage. The way that we would like to keep track of depreciation reserve in the industry would be to keep it by vintage, because then we would know if we count it by vintage. However, nobody accounts for vintage, because it gets too complicated. So what we are trying to do at Gannett with our remaining life program is to allocate it back to each vintage so you will have a similar situation as if had you recorded it.

Q. Well, how can using net salvage impact the accounts composite remaining life?

A. I'm sorry?

Q. Let me rephrase. Whether you use net salvage

or not, does that effect the remaining life?

A. Yes, because it would affect the accounts that are fully depreciated.

Q. One second. Could you define remaining life for me?

A. It is -- remaining life is the certain age. It is the life to the average service life, the life remaining in the asset.

Q. Thank you. Now, I would like to turn to Mr. Pous' proposed method of calculating a composite remaining life of an account. Other than the fact that you consider your method preferable, is there anything that is theoretically or technically wrong with his use of the direct weighting method?

A. Well, I consider our method, you know, superior to his method because it actually calculates the remaining life based on the methodology that we would like to have in the industry for all companies. His method calculates a composite rate. I think you get more accuracy by calculating the remaining life on a vintage basis than you would by taking a composite rate for the overall account. And I also believe that Mr. Pous' method calculates more depreciation expense than my method does. I believe he even said that in his testimony.

Q. But you haven't indicated that there is anything theoretically or technically wrong with his method, correct?

A. Only that our method is more accurate than his method is.

Q. Okay. Thank you. Now, you would agree with me that the purpose of depreciation is to systematically spread the recovery of prudently invested capital over the period the plant items represented by that capital are providing service, correct?

A. Yes.

Q. And that is called the matching principle?

A. Yes.

Q. If the recovery period is shortened or lengthened due to technology advances, regulatory mandates, or prudent company planning, for example, the change still matches the period that the plant is serving the public, correct?

A. I'm sorry, could you just slow down a little bit and repeat that, please?

Q. Sure. If the recovery period is shortened or lengthened based on things such as technology advances, regulatory mandates, or prudent company planning, those three being examples, if the recovery period is shortened or lengthened, the change still matches the

period that the plant is serving the public, correct?

A That's true.

MR. BUTLER: Ms. Williams, are you referring under the remaining life method?

MS. WILLIAMS: Yes.

MR. BUTLER: Okay. Thank you.

THE WITNESS: Yes, that's true.

BY MS. WILLIAMS:

Q. And if the investment isn't recovered through depreciation at the time of retirement, you would agree with me that a negative reserve would result, correct?

A. That is true.

Q. And isn't it true that a negative reserve translates into a positive rate base component upon which the company is allowed to earn a return?

A. That is true, but I don't know if they are the exact same or not.

Q. Now, a positive rate base component relates to plant that is no longer in service, but has retired and was not fully recovered, right?

A. Well, I guess what I'm saying is that if you change the life of the asset, and you are going to extend it, you are going to increase rate base. I don't know if that amount of return that you are going to earn on the rate base is offset by the depreciation expense.

(Transcript continues in sequence with Volume 22.

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STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

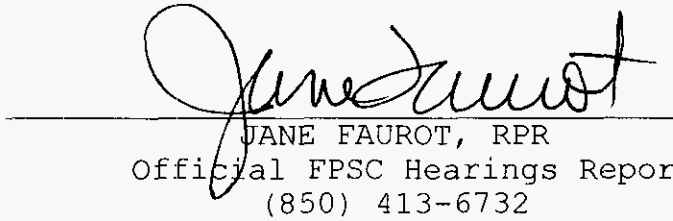
COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 8th day of September, 2009.



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