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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VOLUME 31
Pages 4152 through 4274

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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: Saturday, September 5, 2009

TIME: Commenced at 9:00 a.m.
Concluded at 10:54 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: CLARA C. ROTRUCK
Court Reporter
(850) 222-5491

ORIGINAL

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PARTICIPATING: (As heretofore noted.)

# I N D E X

## WITNESSES

EXHIBITS

| NUMBER: | | ID. | ADMTD. |
|---|---|---|---|
| 154 through 159 | | | 4178 |
| 160 through 167 | | 4204 | |
| 374 through 378 | | | 4178 |
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| 484 | Impact of Customer Growth/ Billing Determinants | 4242 | |
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P R O C E E D I N G S

(Transcript follows in sequence from Volume 30.)

CHAIRMAN CARTER: I would like to call this hearing to order. I've got a couple of preliminary matters I'd like to mention before I recognize Ms. Clark to mention her preliminary matters.

Mike, can you turn my mike down maybe one notch?

On preliminary matters, before I recognize Ms. Clark, let me say to all of the parties, and I hope all of you guys are here, misery loves company. The dates that we have available, which I think will work better because they're contiguous, would be September 16 and September 17. That is a Wednesday and a Thursday. And I think we can complete it on that. Also, just to give you a heads-up, is that we're probably going to be doing at least 12-hour days on those two days, because we're going to bring this thing in for a landing. So eat your Wheaties and be ready. Those will be at least 12-hour days so we can get it done. Again, September 16 and September 17. Minimum would be 9:30 a.m. to 9:30 p.m., that's a minimum. So let's get ready for that.

Ms. Clark, you're recognized.

MS. CLARK: Thank you, Mr. Chairman.

Regarding the order of witness today, we had indicated just this morning to all the parties that we would like to take up Santos after Barrett and before Slattery, and to let you know that, looking at the order of witness and the likely amount of time, there would be -- we would not propose to have Slattery go on the stand today. In fact, we had indicated to her she could go home. As I understand it, no parties have any issues with taking up Santos after Barrett.

CHAIRMAN CARTER: Okay. Let me just say to the lawyers and the parties that your witnesses, we'll give them an opportunity to explain the answers, but don't give me the *Encyclopedia Brittanica*. Yes, no, but, just brief on that, okay, and let's kind of bring this thing in for a landing.

I have been very, very judicious in granting people time and all like that, but, lawyers, tighten up your questions, no friendly cross. Let's get this show on the road.

COMMISSIONER EDGAR: Ms. Clark, could you then run through the order of witnesses for today so that I can know what to be looking forward to?

MS. CLARK: Mr. Ender is on the stand now. After Mr. Ender, Ms. Deaton would come up, then Ms. Morley, then Mr. Barrett and then Ms. Santos.

COMMISSIONER EDGAR: Thank you.

CHAIRMAN CARTER: Anything further from the bench?

COMMISSIONER EDGAR: No, sir.

CHAIRMAN CARTER: Staff, any preliminary matters?

MS. BENNETT: No, sir.

CHAIRMAN CARTER: From any of the parties, are there any preliminary matters?

Let me express an apology to Mr. Kelly in the Office of Public Counsel, is that I got a call from him this morning as I was coming in that the door wasn't open, so I was on door duty this morning. Mr. Beck, I'm glad to have you and we were able to get the doors open and all. It is just one of those things.

Ms. Kaufman, good morning to you again, and you are recognized.

MS. KAUFMAN: Good morning, Mr. Chairman.

CHAIRMAN CARTER: You may proceed.

MS. KAUFMAN: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MS. KAUFMAN:

Q Good morning, Mr. Ender.

A Good morning.

Q Welcome back. I'm Vicki Kaufman, I'm

appearing here on behalf of the Florida Industrial Power Users Group, and we met during your deposition by phone, right?

A Yes.

Q I just want to follow up on a few questions that Mr. Wiseman asked you about yesterday regarding the 12 CP and a 13th methodology.

As I understood your summary, that is the cost-of-service methodology that you're recommending that the Commission use in this case, correct?

A That is correct.

Q And I think you mentioned in your testimony that this method has significant regulatory acceptance in Florida?

A That is correct, for over 25 years.

Q I won't take you through, I think you discussed with Mr. Wiseman how that methodology works, correct?

A Yes.

Q Now, are you familiar with the 12 CP and 25 percent average demand method?

A I am familiar with it.

Q And you would agree, wouldn't you, that that method allocates 25 percent of production costs on an energy basis?

A Yes, it does.

Q Are you aware that that was the methodology approved in the Tampa Electric rate case?

A Yes, I am.

Q Are you familiar with the 12 CP and 50 percent average demand methodology?

A Yes.

Q And are you aware that that's been posed by Progress Energy in their rate case?

A That is correct.

Q And that methodology allocates 50 percent of production costs on an energy basis, correct?

A Yes.

Q Now, in your rebuttal testimony, at page 4, line 16 -- are you there, sir?

A Yes, I am.

Q Actually, the question begins on line 11, but through the end of the page, you talk about -- and I think you mentioned this to Mr. Wiseman yesterday -- why Florida Power & Light believes that the 12 CP and a 13th works best with the way your system is planned, is that right?

A Yes.

Q Can you explain to the Commissioners why that is the case?

A Yes, I can. The 12 CP and a 13th methodology accurately reflects the effects of not only -- it recognizes that both energy and peak demand influence the type of generation unit that is added, and therefore the costs that are accurately incurred for that generation unit. And it recognizes that FPL must meet its peak demand for the winter, to maintain the reserve margin of 20 percent for the summer and winter, as well as being able to meet the peak demands for every month.

Q In your opinion, is the 12 CP and a 13th method that you've recommended more consistent with FPL's generation planning than the, say, 12 CP and 25 percent AD?

A They both are valid methodologies. One, of course, would allocate more energy than the other, the 12 CP 25 AD. I believe that the 12 CP is not an inappropriate method, but given the long history of usage by this Commission of 12 CP and a 13th, we are very comfortable with the use of that method for this case.

Q And would your answer be the same if I asked you to compare the 12 CP and a 13th to the 12 CP and 50 percent AD method?

A As I said, yes, I don't have any objections to the use of that, depends on the facts and circumstances, and I don't think it's an inappropriate method.

Q But for FPL you support the 12 CP and a 13th, correct?

A At this time we're supporting the 12 CP 1/13th, and I must also bring to your attention the fact that at the time that we filed the case, the 12 CP and a 13th methodology was the only methodology approved by this Commission, and after our filing when the TECO case was completed is when the 12 CP 25 AD became one of the methods used by this Commission.

Q But in terms of your work and your planning for FPL, you still believe that the 12 CP and a 13th is the most appropriate methodology?

A Yes, at this time.

Q Now, in your direct testimony, beginning on page 26 -- I'm sorry to keep flipping back and forth, but since we're doing both together --

A That's fine. You said page 26?

Q Yes, beginning at the top.

Your discussion beginning on line 1 and continuing on that page, you talk about the fact that some rate classes are above parity and others are below, and I think you discussed that perhaps in your summary yesterday?

A Yes.

Q And as I understand your suggestion, and I think Ms. Deaton's as well, you are suggesting that this rate case be used to bring all classes to parity, is that correct, or close to parity?

A Well, I believe it's the right thing to do from a cost-of-service perspective is to ensure that all classes pay their fair share, and that is not the case. I'm not here to testify on the rate design aspect, Ms. Deaton will do that, but from a cost-of-service perspective, what the studies show is that there are certain classes that are earning above the overall rate of return and certain classes below, and therefore there is a subsidy going on that should be dealt with anyway.

Q And it's your position that this rate case should be the vehicle for bringing the classes close to parity, correct?

A That would be the position of Ms. Deaton. My position is that the cost of service shows that there is a need for bringing the classes more in line with their true cost, the rates in line with their true cost for each class.

Q Now, Mr. Wiseman had a discussion with you yesterday about your Exhibit JAE-6, if you could turn to that. Let me ask you a question before we look at your exhibit.

Are you familiar with the term *rate shock*?

A Yes, I am.

Q How would you define rate shock?

A I mean -- how would I define rate shock?

Q What would you mean by that if you were to use that term?

A I'd mean a substantial increase in the rates.

Q Do you have an opinion of what would be a substantial enough increase to cause rate shock?

A Again, the issue -- the answer is yes, I do have an opinion, but with respect to my testimony, I'm presenting the cost study that determines what the position of each class is relative to its current rate in terms of the cost structure, and a lot of classes are not carrying their fair share of the cost, and that is what this shows in this -- this particular schedule shows that.

As far as the rate shock implications, since I'm not designing the rates, it's not really something that is addressed in this particular exhibit.

Q Well, you do have testimony, quite a bit, about parity and those sorts of issues --

A Yes, I do.

Q -- do you not? And I think you said you do have an opinion as to what you would consider rate shock. Can you tell us what that would be?

A Well, I think that in terms of the parity issues, I will accept that there are significant differences between the costs that are being collected today -- I mean, the costs that are being incurred to serve certain rate classes as compared to the rates are just not sufficient. And from that degree, yes, the impact is significant. However, that's been the way it's been, and that's the way it is today, and this rate case gives us an opportunity to deal with those disparities in the rates.

Q Mr. Wiseman asked you about this table, and I understood your answer, and I understand -- I think I understand the division of responsibility between you and Ms. Deaton. However, would you agree that a customer that sees over a 63 percent increase in their base revenues might be experiencing rate shock? That's a yes or no.

A Yes. Yes. May I explain, though?

Q Certainly.

CHAIRMAN CARTER: Make it brief, though.

MS. KAUFMAN: Or maybe not.

CHAIRMAN CARTER: You can explain, but just briefly explain your answer.

THE WITNESS: It is considered substantial, but again, those classes have been enjoying the benefits of lower rates at the expense of some other classes, and from a cost perspective it would be fair to have all classes carry their own fair share.

BY MS. KAUFMAN:

Q Are you familiar with the principle of gradualism?

MS. CLARK: Mr. Chairman, I would like to object to this line of questioning. I think the person to ask these questions of is Ms. Deaton, who will be on the stand next. These are rate design and rate issues. Mr. Ender is here supporting the cost-of-service study.

CHAIRMAN CARTER: Ms. Kaufman, to the objection?

MS. KAUFMAN: Mr. Ender talked extensively about parity in his testimony, and if you look at the exhibit I've just been examining him about, it shows these increases that I have been trying to question him about. I think it's perfectly appropriate and within the scope of his testimony.

CHAIRMAN CARTER: Good morning, Ms. Helton.

MS. HELTON: Good morning, Mr. Chairman.

MS. CLARK: If I could add one thing, this chart shows the relative positions of the rate classes. It's not the rate setting which Ms. Deaton talks about.

CHAIRMAN CARTER: Ms. Helton -- well, Ms. Kaufman.

MS. KAUFMAN: I think that the concept of parity that this witness addresses in this exhibit is directly on point with rate shock and gradualism, and I think that it's true that Ms. Deaton talks about rate design, but this witness addresses these issues as well, and I think I'm entitled to ask him about his exhibit.

CHAIRMAN CARTER: Ms. Helton?

MS. HELTON: Could I confer with Ms. Kimber for just one second?

CHAIRMAN CARTER: Okay. Briefly.

(Brief pause.)

MS. HELTON: It's my understanding that the costs are the costs, and that is what this witness, Mr. Ender, has presented to us, but what the company proposes and what you do with those costs is a rate design issue, and the appropriate witness to do that is Ms. Deaton, who is coming up next. So it seems to me that this is outside the scope of this witness's direct testimony and rebuttal testimony.

CHAIRMAN CARTER: The objection is sustained. Move on, Ms. Kaufman.

BY MS. KAUFMAN:

Q Mr. Ender, let's look for another minute at this Exhibit JAE-6, and you would agree with me, since you are the cost person, that the column number 5 all the way to the right and the percentages that are shown there are what your study shows these classes would experience in an increase to get to parity?

A Yes.

Q Are you familiar with the average in excess cost-of-service methodology that Mr. Pollock talks about in his testimony?

A Yes, I am.

Q And I should have asked you this first: You have reviewed Mr. Pollock's testimony?

A Yes, I have.

Q Would you agree that under the average in excess methodology, that 59 percent of the costs are allocated on an energy basis?

A That is correct.

Q So that in the event the Commission decided they wanted to move to a methodology that allocated more production costs based on energy, the average in excess demand -- average in excess cost-of-service methodology would do that, correct? It would allocate more production based on energy?

A Yes, it would. However, the problem that I have with the average in excess, which I state in my testimony, is that it does not reflect the manner in which FPL plans their system, and therefore it does not recognize the cost causation implications.

Q Would you agree that under the average in excess method, residential rates would go down more than they would under the 12 CP and a 13th? Have you done that analysis?

A I believe that is the case.

Q So they would. Just so the record is clear in regard to what you're recommending and what Mr. Pollock is recommending, is it your understanding that Mr. Pollock recommends the average in excess method only if the Commission doesn't adopt the 12 CP and a 13th?

A That is what I understand his testimony to be.

MS. KAUFMAN: If I could have just a minute?

CHAIRMAN CARTER: Yes, ma'am.

(Brief pause.)

BY MS. KAUFMAN:

Q You calculated the difference, in other words, how much more would residential rates could go down under the average in excess as compared to the 12 CP and a 13th?

A I have not done a full study, though.

Q Do you have any sense of the magnitude?

A Excuse me, can you restate the question again?

Q Yes. I think that a few questions ago you agreed with me that under the average in excess methodology as compared to the 12 CP and a 13th, residential rates would decline more?

A I do not have the impact on the residential rates. I just have the impact on how much more or less production costs would be allocated to the residential.

MS. KAUFMAN: May I just have one second?

CHAIRMAN CARTER: Yes, ma'am.

(Brief pause.)

MS. KAUFMAN: I have an exhibit, and I honestly apologize, I don't know if this is in the record or not, so if I could go ahead and distribute it?

CHAIRMAN CARTER: Yes. Let's do this, let's distribute it and let the parties look it over first before we go anywhere with it, okay?

MS. KAUFMAN: Thank you. Actually, I think that it may be, because I believe that staff, now we've entered in FIPUG's first set, all of the interrogatories.

CHAIRMAN CARTER: Give staff an opportunity to check it out, and then we'll go from there, okay?

MS. KAUFMAN: Yes.

BY MS. KAUFMAN:

Q Mr. Ender, if you could look at page 2 while that's being distributed.

A What part of page 2?

Q The chart that is on the bottom half of the page. Can you take a minute and review that?

A I have reviewed it.

CHAIRMAN CARTER: Hang on a second.

Staff, is this in already in another area? Give me some advice on this.

MS. BENNETT: It was entered. I don't have the number, but FIPUG entered it.

CHAIRMAN CARTER: So it's already in then?

MS. BENNETT: My understanding is it's 463.

CHAIRMAN CARTER: Okay.

BY MS. KAUFMAN:

Q Mr. Ender, you have looked at the chart at the bottom of page 2 of Exhibit 463, and these are -- this is an excerpt from FIPUG's responses to staff's first set of interrogatories, and we're just going to look at interrogatory number 2, and that chart shows the difference between the 12 CP 1/13th and the average in excess demand, correct?

A Yes, it does.

MS. CLARK: Mr. Chairman, I would like to object to this exhibit. I believe this is something Mr. Pollock did, not something produced by Mr. Ender. I think it's a little unreasonable to ask him to validate any of the numbers in here.

CHAIRMAN CARTER: I don't think he should be required to validate any numbers, but he did say he had read this and he was familiar with it.

MS. KAUFMAN: I'm not going to ask him to validate the numbers, and Ms. Clark is correct that this is FIPUG's response to some staff discovery. I just wanted to follow up on the point he already talked about.

Q Would you agree that this chart illustrates the fact we've just been talking about, about the difference between the average in excess demand and the 12 CP and 1/13th as it affects residential customers?

A Yes, that is what this chart does.

MS. KAUFMAN: Thank you, Mr. Chairman.

CHAIRMAN CARTER: Thank you, Ms. Kaufman.

MS. KAUFMAN: Thank you, Mr. Ender.

CHAIRMAN CARTER: Who's next? Ms. Bradley, are you next?

MS. BRADLEY: I'm not sure, but I have no questions.

CHAIRMAN CARTER: Ms. Christensen?

MS. CHRISTENSEN: No questions.

MR. LaVIA: No questions.

CHAIRMAN CARTER: Okay, let me do this: Commissioners, anything from the bench before I go to staff?

Okay, staff, you're recognized.

CROSS EXAMINATION

BY MS. WILLIAMS:

Q Good morning, Mr Ender. My name is Anna Williams with the Commission. I just have a couple of questions.

Yesterday when Mr. Wiseman was questioning you, you stated that the rate classes OL-1 and SL-1 would not be allocated production plant costs using a summer coincident peak allocation. Can you please explain why, under a summer coincident peak allocation, those two rate classes do not get any production plant allocated?

A Yes. The reason why the streetlight rate classes OL-1 and SL-1 would not get any cost allocated is generally in the summer, the peak occurs during the daylight hours and the lights are not on, and, therefore they would make no contribution to the production cost under that scenario. This is only one hour per year.

Q If no costs get allocated to the OL-1 and SL-1 rate classes, is it correct to say that those costs get allocated to other classes?

A Absolutely.

May I add, that is the reason why the 12 CP and a 13th was approved by the Commission. One of the reasons was because it provided some cost responsibility to all rate classes.

Q Now, on page 8 of your rebuttal testimony, lines 9 through 12, you discuss that the summer coincident peak methodology increases the revenue requirement for the residential class by 23.6 million when compared to FPL's filed methodology. Do you recall that?

A Yes.

Q Why does the summer coincident peak method increase the revenue requirement for the residential class?

A Well, the use of the summer coincident peak would not recognize the energy component of the energy usage, and as a result, it would shift costs over to the higher demand customers like residential and general service.

Q And that would result in 23.6 million in additional revenue requirements from the residential customer as well as 11.1 million for the general service customer?

A Yes, it would result in $23.6 million more to the residential and 11.1 more to the general service rate classes.

Q Now, my next few questions relate to the minimum distribution system, or MDS, method proposed by SFHHA Witness Baron.

On page 11 of your rebuttal testimony, lines 9 through 12, you state that the MDS method shifts all benefits obtained from economies of scale to the larger customers. Could you elaborate on that statement, please?

A Yes. The residential customers, there's a lot of economies of scale. For example, in the case of a transformer, there could be eight to ten customers that could use the same transformer. A similar-sized transformer is that which would be required for one commercial customer. In addition to that, the diversity in the load allows us to be able to add more customers to those transformers, which all are increasing the benefits of the economies of scale.

Q And that is because not all of the maximum demand from each of the residential customers occurs at the same time?

A That is correct.

Q Now, turning to page 15 of your rebuttal, lines 3 through 6, could you please explain why the MDS method increases the amount of distribution plant allocated to residential and small commercial customers?

A Yes. The MDS method would classify some of the costs that are now allocated based on demand to customer, and as a result, it would allocate that based on the number of customers. Since the residential and general service class of customers has the most number of customers, there will be more costs allocated to those classes, and it would benefit the less customer-centric classes.

Q Now, turning now to Mr. Pollock's testimony, he stated that the analyses demonstrate that the summer peak demands determine FPL's capacity requirements, the other months are irrelevant. Do you agree with that statement?

A No, I don't.

MS. KAUFMAN: What page are you on?

MS. WILLIAMS: Page 46, lines 3 through 6, of Pollock's direct testimony.

CHAIRMAN CARTER: You may proceed.

BY MS. WILLIAMS:

Q Do you agree with that statement?

A Before I do that, let me take a look at his testimony. (Examining document.)

Could you repeat the question, please?

Q Mr. Pollock states that the analyses demonstrate that the summer peak demands determine FPL's capacity requirements, the other months are irrelevant. Do you agree with that statement?

A I do agree with that statement; however, they're not irrelevant, because the planning process and -- used by FPL not only takes into consideration the summer peak, but it also looks at the impact of the winter reserve margin as well as the loss of load probability. In addition, it takes into consideration, in determining the type of unit that is selected, the number of hours a unit is expected to run, which is driven by the energy demands.

Q Could can you explain how you define class maximum demand?

A Class maximum demand is a demand for a class, irrespective of when it happens, and generally is a demand that is not coincident with the system peak demand.

Q So the class maximum demand can occur at any time based on when the class experiences the maximum demand?

A That is correct.

MS. WILLIAMS: That's all the questions I have. Thank you.

CHAIRMAN CARTER: Redirect?

MS. CLARK: I believe I just had one.

REDIRECT EXAMINATION

BY MS. CLARK:

Q And I may have heard you wrong, Mr. Ender, when Ms. Williams asked you about the statement by Mr. Pollock --

CHAIRMAN CARTER: One second, Ms. Clark.

Anything from the bench?

Okay, you may proceed.

BY MS. CLARK:

Q When Ms. Williams asked you about the statement by Mr. Pollock on page 46 regarding the summer peak demands determine capacity requirements, and then it says the other months are irrelevant, I believe your answer was that they were not irrelevant, but I was not sure.

A They are not irrelevant.

MS. CLARK: Mr. Chairman, I have no further redirect.

CHAIRMAN CARTER: Exhibits?

MS. CLARK: FPL would move the admission of Exhibits 154 through 160.

CHAIRMAN CARTER: Hang on one second. Are there any objections?

Without objection, show it done, 154 through 160.

MS. CLARK: And additionally, 374 through 378.

MS. HELTON: Mr. Chairman, I think we need to do 154 through 159. My records are showing 160 is Ms. Deaton's exhibit.

MS. CLARK: I beg your pardon.

CHAIRMAN CARTER: Okay, to 159. 154 through 159, show it done without objection.

(Exhibit Nos. 154 through 159 admitted into the record.)

CHAIRMAN CARTER: Now, on page -- does it start at 374? Yes, 374 through 378, is that correct?

MS. CLARK: Yes, Mr. Chairman.

CHAIRMAN CARTER: Are there any objections?

Without objection, show it done.

(Exhibit Nos. 374 through 378 admitted into the record.)

CHAIRMAN CARTER: Now, let's go to the back pages.

No. 483, Mr. Wiseman?

MR. WISEMAN: Mr. Chair, SFHHA would move the admission of Exhibit 483.

CHAIRMAN CARTER: Any objection?

Without objection, show it done.

(Exhibit No. 483 admitted into the record.)

CHAIRMAN CARTER: Call your next witness.

Thank you, you may be excused.

MS. CLARK: Mr. Chairman, FPL would call Ms. Deaton, and I'm not sure that she has been sworn in.

CHAIRMAN CARTER: Okay. Raise your right hand, please.

Whereupon,

RENAE DEATON

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

CHAIRMAN CARTER: Thank you. Please be seated.

Ms. Clark, you may proceed.

MS. CLARK: Thank you, Mr. Chairman.

DIRECT EXAMINATION

BY MS. CLARK:

Q Ms. Deaton, would you please state your name and your business address?

A My name is Renae Deaton. My business address is 9250 West Flagler Street, Miami, Florida.

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

A Florida Power & Light Company, as the Rate

Design Manager.

Q Have you prepared and caused to be filed 22 pages of direct testimony in this case?

A Yes, I have.

Q Did you also prepare and cause to be filed one errata sheet to your direct testimony?

A Yes, I have.

Q Do you have any other changes or revisions to your prefiled direct testimony?

A No, I do not.

Q And with that errata, if I asked you the same questions contained in your prefiled direct testimony, would your answers be the same?

A Yes, they would.

MS. CLARK: Chairman, I would ask that the prefiled direct testimony of Renae Deaton be inserted in the record as though read.

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

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**DIRECT TESTIMONY OF RENAE B. DEATON**

**DOCKET NO. 080677-EI**

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

A. My name is Renae B. Deaton. My business address is Florida Power & Light Company, 9250 West Flagler St., Miami, Florida 33174.

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

A. I am employed by Florida Power & Light Company ("FPL" or the "Company") as the Rate Development Manager in the Rates & Tariffs Department.

**Q. Please describe your duties and responsibilities in that position.**

A. I am responsible for developing electric rates at both the retail and wholesale levels. At the retail level, I am responsible for developing the appropriate rate design for all electric rates and charges. I am also responsible for proposing and administering the tariff language needed to implement those rates and charges.

**Q. Please describe your educational background and professional experience.**

A. I hold a Bachelor of Science in Business Administration and a Masters of Business Administration from Charleston Southern University. Since joining FPL in 1998, I have held positions in the rates and regulatory areas. Prior to this, I was employed at South Carolina Public Service Authority (d/b/a Santee Cooper) for fourteen years, where I held a variety of positions in the Corporate Forecasting, Rates, and Marketing Departments and in generation plant operations.

Q. **Are you sponsoring an exhibit in this case?**

A. Yes. I am sponsoring eight exhibits which are attached to my direct testimony. They are as follows:

- RBD-1 – Summary of Sponsored MFRs
- RBD-2 – FPL Typical Residential 1,000 kWh Bill
- RBD-3 – Comparison of FPL's Base Rates Versus Change in the Consumer Price Index
- RBD-4 – Major Florida Utility Typical Residential Bill Comparisons
- RBD-5 – Summary of Current Rate Structures
- RBD-6 – Resulting Parity Indices
- RBD-7 – Summary of Proposed Rate Structures
- RBD-8 – Comparison of GBRA Revenue Requirements and Fuel Savings

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

A. Yes. The MFRs that I am sponsoring or co-sponsoring are listed on Exhibit RBD-1. In addition, I am sponsoring the following 2009 supplemental MFR schedules that FPL has agreed with the Florida Public Service Commission

("FPSC" or the "Commission") Staff and the Office of Public Counsel to file: MFR C-5.

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

A. The purpose of my testimony is to address three general areas. First, I discuss the forecast of base revenues from the sale of electricity. Next, I address FPL's proposed target revenues by rate class. Finally, I present the proposed rate design for achieving the target revenues by rate class.

**Q. Please summarize your testimony.**

A. FPL's last general base rate increase was in 1985. Since that time, base rates were reduced in 1990, 1999 and 2002. FPL requested a base rate increase in 2005, but agreed to maintain base rates at then-current levels subject to adjustment for limited increases associated with generation plant additions.

MFR A-2 summarizes the typical bill impacts for the 2010 Test Year and 2011 Subsequent Year as compared to current rates increased for West County Energy Center (West County) Units 1 and 2, as approved by the Commission in Order No. PSC-08-0825-PCO-EI. Even with the full base rate increase, most customers would see an overall decrease in their bills in 2010 based on projected reductions in fuel prices using recent (February 9, 2009) fuel cost projections. As reflected in my Exhibit RBD-2, the total typical residential (1,000 kWh) bill is decreasing from $109.55 in January 2009 to $104.63 in January 2010. This is a decrease of $4.92 or 4.5 percent in 2010.

In 2011, the same typical residential bill increases to $116.47 due to the Subsequent Year Adjustment and a projected increase in fuel prices.

As discussed by FPL witness Ousdahl, FPL expects to include the full in-service revenue requirements estimate for the nuclear uprate projects in its Nuclear Cost Recovery clause filings. Therefore, all costs projected for nuclear uprates are excluded from 2011 base rates. Taking into account expected increases in base rates for nuclear uprates through the Nuclear Cost Recovery Rule, the projected 2011 typical residential bill is $117.21. Overall, the projected increase from January 2009 to January 2011, given the full base rate increases as well as projected fuel prices as of February 9, 2009 and the estimated in-service revenue requirements for the nuclear uprate projects, is $7.66, which is an average of only about 3.5 percent per year for the two year period. Even with this projected increase, FPL customers' typical bills will still compare favorably with the current prices of other major investor owned utilities (IOUs) in the state as well as nationally.

Other rate classes will see varying decreases in 2010 depending on the current rate of return (parity) for their respective rate classes. For example, large commercial customers served under the GSLD-1 or GSLD-2 schedules are projected to see changes in their bills ranging between a three percent increase to an eight percent decrease in 2010 and a five percent to 14 percent increase in 2011 depending on the customer's load characteristics.

Traditionally, base rate cases have been used as the vehicle for improving the parity among rate classes. At FPL, parity among the rate classes has not been addressed in over 20 years due to the long period of time that FPL was able to avoid the need for a rate increase and the 2005 settlement, and as a result there is a need to improve parity as part of this proceeding. This filing presents an opportunity to adjust rates and charges to more closely reflect the cost of service and thus address the parity issue. Notwithstanding the above, FPL's price should still compare favorably.

As discussed by FPL witnesses Barrett and Ousdahl, FPL is proposing to continue utilizing the Generation Base Rate Adjustment (GBRA) mechanism for limited but necessary base rate increases to account for capital expenditures associated with generation expansion. FPL customers already see immediate fuel cost reductions when the generation units are placed in service through the fuel cost recovery clause, and continuation of the GBRA simply puts recovery of generation costs on the same basis from a timing perspective as the recognition of the fuel savings. Continuation of the GBRA will allow FPL to address generation-related base rate requirements during and beyond the 2011 Subsequent Year in an efficient manner while promoting rate predictability and stability.

The Commission should approve FPL's rate proposals and continuation of the GBRA mechanism as presented in this testimony because they are reasonable, cost-based and send the appropriate price signals to customers.

## HISTORICAL SUMMARY OF FPL RATES

**Q. Please provide a historical overview of FPL rates.**

A. FPL has not proposed an increase in its retail base rates since Docket No. 050045-EI (2005 Rate Case) that was initiated in March 2005. That case resulted in a settlement agreement (2005 Settlement Agreement) that held FPL's base rates flat while providing for limited but necessary increases to account for capital expenditures associated with generation expansion through the GBRA. With the noted exception of the GBRA-related adjustments, no other general increase in base rates has occurred since that time and in fact, the last general FPL base rate increase occurred in 1985 (Docket No. 830465-EI).

FPL has reduced its retail base rates three times since the 1985 decision. In January 1990, base rates were reduced by $38 million as a result of a review of the Company's earnings following a reduction in the corporate income tax rate (Docket No. 890319-EI). In April 1999, base rates were reduced by $350 million as a result of a settlement agreement (Docket No. 990067-EI). Then in April 2002, a second settlement agreement (Docket No. 001148-EI) reduced base rates by another $250 million. In addition, the three settlement agreements in 1999, 2002 and 2006 provided for annual revenue rebates to customers based on prescribed revenue thresholds. In total, these three rate agreements are estimated to have resulted in over $6 billion dollars in customer savings by the end of 2008.

**Q. What type of impact does this have on retail bills?**

A. As a result of these reductions, FPL's January 2009 typical residential bill is 17 percent lower than it was 24 years ago while consumer prices, as measured by the Consumer Price Index (CPI), have increased 99 percent. To put this in perspective, a typical residential customer consuming 1,000 kWh in 1985 would be paying $165.60 in January 2009 had base rates increased by the rate of inflation. This is $56.05 or 34 percent higher than the actual January 2009 typical residential bill. Exhibit RBD-3 outlines this price comparison. Extending this comparison we see in Exhibit RBD-4 that the FPL January 2009 typical residential bill is the lowest among Florida's major IOUs. Additionally, according to available data from the Florida Municipal Electric Association and the Edison Electric Institute, FPL's typical residential bill is 18 percent lower than the average electric bill in Florida, and 17 percent lower than the national average.

## OVERVIEW OF BASE REVENUES AND RATE STRUCTURES

**Q. What is meant by base revenues from the sale of electricity?**

A. This revenue represents FPL's total billed revenues from the sale of electricity less revenues generated from adjustment clauses. With the base rate increase, current projections indicate that base revenue will make up approximately 49 percent of the total bill for a standard 1,000 kWh of residential use.

**Q. How are base revenues from the sale of electricity determined?**

A. Base revenues from the sale of electricity are determined by applying the applicable base rate tariff charges, excluding the cost recovery adjustment clause factors, to the appropriate billing determinants. As described in Exhibit RBD-5, FPL has more than 40 retail rate schedules, each with its own set of tariff charges and billing determinants.

**Q. What is meant by billing determinants?**

A. Billing determinants are the parameters used for billing customers. The applicable billing determinants reflect the rate structure established for a given rate schedule. Customer, demand and energy charges are each associated with their own set of billing determinants. Customer billing determinants are expressed in terms of the number of accounts billed by month. Demand billing determinants are expressed in terms of kilowatts (kW) at the peak of customer demand during a month, while energy billing determinants are expressed in terms of kilowatt-hours (kWh). Some rate schedules are limited to customer and energy billing determinants. For example, customers in the small general service rate schedule (GS-1) are charged a customer charge and a cents per kWh energy charge. GS-1 customers represent the smallest of the commercial/industrial electric customers, those with maximum demands below 21 kW, and their rate does not include a demand charge. Larger commercial/industrial customers, on the other hand, are charged on the basis of their demand, i.e., the maximum electric usage in a given time period, and energy. Thus, the rate structure for the general service demand rate schedules e.g. GSD-1, includes a customer charge, a cents per kWh energy charge and a dollar per kW demand charge.

**Q. What are the current rate structures for the major rate schedules?**

A. Exhibit RBD-5 provides a narrative explanation of the current rate structures of FPL's major rate schedules.

## FORECAST OF BASE REVENUES

**Q. What were the major inputs used to produce the forecast of retail base revenues from the sale of electricity for 2010 and 2011?**

A. The major inputs in the process were the customer and energy (kWh) sales forecasts by revenue class produced by FPL witness Morley and the cost of service data produced by FPL witness Ender.

**Q. What is the difference between revenue classes and rate schedules?**

A. Revenue classes represent general categories of customers used for financial reporting purposes. There are six retail revenue classes: residential, commercial, industrial, street and highway lighting, railroads and other. The revenue classes are a combination of different rate schedules with the exception of the railroads revenue class. This class is the only class specific to a particular rate schedule: the Metropolitan Transit Service (MET) rate schedule. In order to provide the level of detail required in the MFR-E Schedules, the forecasts of sales and customers by revenue class were converted into forecasts of sales and customers by rate schedule.

**Q. What is the difference between rate classes and rate schedules?**

A. Rate classes are groups of individual rate schedules with like billing attributes (customer type and load size) and rate design relationships, so they are treated for rate design purposes on a combined basis. As a result, one or more rate schedules may be combined into a single rate class. For example, residential, Rate Schedule RS-1, and residential time-of-use, Rate Schedule RST-1, are combined together into the RS(T)-1 rate class.

**Q. Please describe the steps for developing the forecast of base revenue.**

A. First, the billing determinant forecast for customers, kWh sales and kW demand, is developed by rate schedule. Next, these billing determinants are applied to the currently applicable rates to provide the base revenue forecast for the appropriate time periods. These rates include the GBRA-related adjustments approved to take effect in 2009. Then the rate components are updated using the per unit cost data provided in MFR E-6b. This will move the revenue by rate class toward parity and toward the targeted revenue amounts. Finally, adjustments are made to achieve target revenue levels and also to make adjustments where full parity can not be achieved.

**Q. How is the billing determinant forecast developed?**

A. The customer and sales forecast is provided by FPL witness Morley for the appropriate time period. This forecast is developed on a revenue class basis and must be expanded to the rate class level.

Next, the forecast for the number of customers and kWh sales by rate schedule is developed based on the historical relationship between customers and sales by rate schedule and customers and sales by revenue class. Historical percentages are applied to the forecast of customers and sales by revenue class. The result is a forecast of sales and customers by retail rate schedule for the appropriate time period, in this case the years 2010 and 2011.

Finally, additional derivations are made to complete the forecast of customer and energy billing determinants by rate schedule. For example, the kWh sales for RS-1 are segmented to reflect the inverted rates described in Exhibit RBD-5. Likewise, for time-of-use rate schedules, total sales are segmented between on-peak and off-peak sales based on historical patterns. In addition, for demand-metered rate schedules, billing demands are developed based on the historical relationship between billing demand and billed sales by rate schedule.

**Q. Are there any exceptions to the process as described?**

A. Yes. Specific sales and customer forecasts are developed for certain rate schedules. For example, Commercial/Industrial Load Control (CILC) rate schedules are closed to new customers. Therefore, the forecasted number of customers and kWh sales under those rate schedules is based on their actual values during the last 12 months ending December 2008. These exceptions are limited to a small number of customers.

**Q. Which MFRs provide detail on the retail base revenue forecast described above?**

A. The currently-approved base tariff charges adjusted for the approved GBRA base rate increases are shown on MFR A-3. MFR E-15 provides a description of how the projected billing determinants were developed. The results of applying the base tariff charges to the projected billing determinants are provided in MFR E-13c. Additional detail on the base revenue forecast for the lighting rate schedules is given in MFR E-13d.

**Q. What does FPL's cost of service study show regarding the system average Rate of Return (ROR) and the parity indices by rate class?**

A. As explained by FPL witness Ender, FPL's cost of service study shows a system average earned ROR of 4.25 percent for the 2010 Test Year and 3.71 percent for the 2011 Subsequent Year. This is consistent with the retail ROR reported in MFR A-1. The cost of service study indicates that the parity indices vary by rate class with some class indices well above 100 percent and others well below 100 percent.

## TARGET REVENUES BY RATE CLASS

**Q. How are target revenues by rate class, as shown on MFR E-14, determined?**

A. FPL has set the target revenues by rate class in order to obtain parity among the rate classes to the greatest extent possible. In a rate case proceeding in which an adjustment in rates is proposed, the cost of service serves as a guide in evaluating any proposed changes in the level of revenues by rate class. More specifically, the allocation of any revenue increase should be assessed in terms of its impact on the parity between rate classes. Also, the relationships between rate classes must be maintained to avoid unintentional migration that may impact the rate classes' parity going forward. The general service demand rates were considered together to determine target revenues in order to preserve the relationships between the general service demand rates and the corresponding time of use rates, high load factor rates, curtailable service rates and the seasonal demand riders.

**Q. What impact would FPL's target revenues by rate class have on parity?**

A. As shown in Exhibit RBD-6, under FPL's proposed target revenues by rate class, the parity of all rate classes is improved. In fact, with the proposed rates, the number of rate classes within 10 percent of parity more than tripled in 2010. This results in 99.8 percent of all FPL customers being within 10 percent of parity.

**Q. How does FPL propose to achieve these target revenues by rate class?**

A. FPL proposes to achieve these target revenues through changes to existing rates and revisions to service charges. Both the rates and service charges are based on cost forecasts that result in the need for the target revenues. In the remainder of this testimony, each element of FPL's proposal will be outlined in detail.

## PROPOSED CHANGES TO EXISTING RATES

**Q. Please explain why FPL is proposing changes to its existing rates.**

A. FPL is proposing to change its existing rates in order to support the target revenues by rate class outlined above. The changes to existing rates outlined below are consistent with the objectives of providing rates that are cost-based, understandable and that send appropriate price signals to customers.

**Q. Please describe in general terms the methodology you used in developing the proposed changes to FPL's existing rates.**

A. Generally speaking, the inputs include the target revenues by rate class presented in MFR E-8, the unit costs at the required ROR presented in MFR E-6b and the projected revenues and billing determinants by rate schedule presented in MFR E-13c. As appropriate, the unit costs in MFR E-6b are used as a starting point and then adjustments are made to achieve the target revenue by rate class outlined above.

**Q. What specific details are available that outline how other changes FPL is proposing to its existing rates were developed?**

A. Attachment 2 of MFR E-14 provides work papers outlining the derivation of the proposed changes to FPL's existing rates. In addition, Exhibit RBD-7 provides a narrative explanation of the proposed rate structures, much the same way that Exhibit RBD-5 outlines the current rate structures.

**Q. How does FPL propose to recover its target revenue from the lighting rate classes?**

A. Attachment 3 to MFR E-14 provides the estimated cost of installing and maintaining new street lighting fixtures, poles and conductors. These figures suggest that the cost of installing and maintaining new poles and conductors substantially exceeds the charges under the current tariff. The target revenue increases for SL-1 and OL-1 are achieved primarily through increases in the pole and conductor charges, with other adjustments as needed to achieve the classes' target revenues. In addition, the base energy charges for SL-1 and OL-1 are based on the energy unit cost in MFR E-6b.

**Q. Which MFRs provide additional information on the proposed changes to existing rates you have outlined?**

A. The impact the proposed rate changes would have on typical bills is presented in MFR A-2. MFR A-3 provides a summary of the proposed rate changes. The applicable proposed tariff sheets are presented in Attachment 1 of MFR E-14. The revenue impact from the proposed changes to existing rates is taken into account in calculating the revenues shown in MFRs E-12, E-13a, E-13c and E-13d and the parity indices under proposed rates are shown in MFR E-8.

**Q. Are there any other tariff modifications FPL is proposing?**

A. Yes. MFR E-14 shows the proposed changes to the SL-1 and PL-1 lighting rate schedules. FPL is proposing to close the re-lamping option on the SL-1 and OL-1 tariffs for new streetlight installations. Customers choosing this option often believe that FPL is responsible for all maintenance instead of just re-lamping. This often results in customer dissatisfaction. FPL believes that removing this option will make maintenance responsibilities more clear. FPL is also proposing to remove the 10 year and 20 year facilities payment options from the PL-1 tariff. First, the 10 year option is rarely used. However, the main reason for FPL proposing to remove the 10 year and 20 year payment options is due to the collections issues that often occur when the original customer requesting the payment option (e.g. a developer) transfers payment responsibility to another party (e.g. a homeowner's association).

Additionally, FPL is proposing to close the Wireless Internet Electric Service (WIES) rate to new customers. Currently, FPL only has 18,240 kilowatt hours of load on the WIES rate. The tariff provides that FPL may withdraw the rate and transfer existing customers to the otherwise applicable rate schedule if the total annual energy under this rate schedule does not meet a minimum threshold of 360,000 kWh by June 30, 2004. Rather than withdraw the rate and transfer the existing customers, FPL proposes to close the rate schedule to new customers.

**Q. Is FPL proposing any new rate schedules or riders?**

A. No. FPL introduced several new rate schedules and riders in its 2005 rate case that have provided significant benefits to many commercial/industrial (C/I) customers and these rates continue to provide opportunities for additional C/I customers to reduce their electric bills. In the previous rate proceeding, the company introduced the following new optional rate offerings: the Seasonal Demand Time of Use Rider (SDTR), the High Load Factor Time of Use (HLFT) rate and the General Service Constant Use (GSCU) rate. Many customers have taken advantage of these new optional rate offerings and are continuing to experience savings as compared to the standard rate offerings.

In response to C/I customers who wanted to take advantage of a time-of-use rate but were unable to plan around the eight to nine hour on-peak window year-round, the SDTR was created. To address this need, the SDTR provides a time-differentiated rate with a narrower on-peak window than is specified under the standard TOU rates. Customers who typically experience lower usage during the summer months have taken advantage of the optional SDTR, including educational, governmental and manufacturing customers.

The HLFT rate offers an attractive rate to customers with higher load factors while also providing a time-differentiated price signal. Customers who have benefited from the HLFT rate include those in the retail, healthcare, governmental and educational sectors. The optional SDTR and the HLFT rates are available to all distribution level demand-metered C/I customers.

Based on input from our customers, FPL introduced the GSCU rate for non-demand metered commercial customers which provides savings to small commercial customers with a relatively constant, high load factor usage such as telecommunications and cable television industry customers.

These newer optional rates continue to offer customers the opportunity to reduce costs through changes in their consumption patterns. FPL continues to work with customers to help them take advantage of these recent rate offerings and optimize utilization of these rates.

Q. **Is FPL proposing to adjust the level of its service charges?**

A. Yes. The proposed adjusted level of service charges is outlined in MFR E-13b.

Q. **What types of miscellaneous services are provided under FPL's tariff?**

A. FPL's tariff outlines specific charges for initial connects on new premises, connects/disconnects on existing premises, reconnects after non-payment and field collections on past due accounts. The tariff additionally provides for late payment fees and returned check charges. Charges for the reimbursement of unauthorized or fraudulent use of electricity and temporary construction accounts are also included in the tariff. No new services are being proposed at this time.

**Q. Has FPL performed a study estimating the cost of providing miscellaneous services?**

A. Yes. As co-sponsored by FPL witnesses Santos and Spoor, MFR E-7 provides estimates of the current cost of initial connects on new premises, connects/disconnects on existing premises, reconnects after non-payment and field collections on past due accounts. As FPL witness Santos testifies, in many cases, the current cost of providing a service exceeds its currently-approved tariff charge.

**Q. Has the revenue impact from adjusting service charges been taken into account in calculating the revenue increase needed to meet the target revenues by rate class for the Test Year?**

A. Yes. As shown in MFR E-8, the increase in service charge revenues is taken into account in calculating the revenue increase needed to meet the target revenue by rate class. In effect, the increase in service charge revenues helps offset the needed increase in revenues from the sale of electricity proposed for each rate class.

## GENERATION BASE RATE ADJUSTMENT

**Q. How would the GBRA mechanism be utilized?**

A. As discussed by FPL witnesses Barrett and Ousdahl, FPL proposes to continue to utilize the GBRA mechanism to adjust base rates in the same manner as has been used for Turkey Point Unit 5 and will be used as previously approved in Docket No. 080001-EI for the West County Units 1 and 2. Pursuant to the 2005 Settlement Agreement, the GBRA is implemented by adjusting base charges and non-clause recoverable credits (e.g. the transformer rider credits and the curtailable service credits) by an equal percentage. The calculation of this percentage change in rates is based on the ratio of jurisdictional annual revenue requirement, as presented in the need determination proceeding, and the forecasted retail base revenues from the sales of electricity during the first twelve months of operation. This ratio is the GBRA Factor. The GBRA Factor is applied to FPL's current base charges and non-clause recoverable credits to produce the revised base rate charges. To the extent the actual capital expenditures are less than the projected costs used to develop the initial GBRA Factor, a one-time credit will be made through the capacity clause. In order to determine the amount of this credit, a revised GBRA Factor will be computed using the same data and methodology incorporated in the initial GBRA Factor, with the exception that the actual capital expenditures will be used in lieu of the capital expenditures the need determination was based on. On a going forward basis, base rates will be adjusted to reflect the revised GBRA Factor. The difference between the cumulative base revenues since the implementation of the initial GBRA Factor and the cumulative base revenues that would have resulted if the revised GBRA Factor had been in-place during the same time period will be credited to customers through the capacity clause with interest at the 30-day commercial paper rate as specified in Rule 25-6.109.

**Q. What impact will continuation of the GBRA have on retail rates?**

A. As experienced with the implementation of the GBRA for the Turkey Point Unit 5, the increase in base rates is largely offset by fuel savings for the new unit. It is anticipated that this will also be the case for West County Units 1, 2 and 3. Customers already are able to immediately realize the savings associated with these new, highly efficient units through the fuel cost recovery clause. Thus, the overall customer impact is largely offset. As shown on Exhibit RBD-8, the increase in retail rates is largely offset by the reductions in fuel costs realized when the plant goes into service. Increasing base rates through the use of the GBRA for these units simply aligns the timing of the base rate increase with realization of the fuel savings without a costly base rate case. Continuation of the GBRA will allow FPL to address base rate requirements during and beyond the 2011 Subsequent Year in an efficient manner while promoting rate predictability and stability.

**Q. If the requested base rate relief is granted, how will FPL's typical residential bill compare to other Florida IOUs?**

A. As shown on RBD-2, a typical residential bill is projected to be $104.63 in 2010 and $117.21 in 2011. Even with the requested increases, however, FPL's typical bill should remain competitive based on the comparison of the typical bill of the other major IOUs shown in Exhibit RBD-3. While prices are projected to increase in 2011, FPL typical bills should still be competitive compared with the current prices of other major IOUs in the state as well as with other electric utilities nationally.

The Commission should approve FPL's rate proposals and continuation of the GBRA mechanism as presented in this testimony because they are reasonable, cost-based and send the appropriate price signals to customers.

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

A. Yes.

# ERRATA SHEET

(x) DIRECT TESTIMONY, OR ( ) REBUTTAL TESTIMONY (PLEASE MARK ONE WITH "X")
WITNESS: Renae B. Deaton

| PAGE # | LINE # | CHANGE |
|---|---|---|
| 7 | 4 | three rate agreements ~~are estimated to~~ have resulted |
| 7 | 7 | As a result of these reductions, the base portion of FPL's January |

**Exhibit RBD-7**

| PAGE # | LINE # | CHANGE |
|---|---|---|
| 7 of 11 | | No changes are proposed for the CDR rider. ~~No changes are proposed for the credits available under the CDR rider. The revisions to the administrative adders are proposed based on the customer unit costs reported in MFR E-6b. Specifically, the proposed administrative adder by rate schedule is based on the difference between the customer unit costs under the applicable CILC rate schedule and that of the otherwise applicable tariff.~~ |

**Exhibit RBD-2**

| PAGE # | LINE # | CHANGE |
|---|---|---|
| 1 | Entire | Updated to reflect<br>▪ Projected 2010 fuel and capacity clause factors as filed in Docket No. 090001 on August 2, 2009<br>▪ Projected 2011 fuel and capacity clause factors based on fuel cost projections as of August 10, 2009<br>▪ Estimated adjustments to the base bill to reflect adjustments in Exhibit KO-16. |

BY MS. CLARK:

Q Are you also sponsoring any exhibits to your direct testimony?

A Yes, I am.

Q Do those exhibits consist of RBD-1 to RBD-9?

A In direct? Eight.

Q Yes, in direct is RBD-1 through 8?

A Yes.

Q And are those exhibits true and correct to the best of your knowledge?

A With the errata to RBD-2.

MS. CLARK: Mr. Chairman, I would note that Ms. Deaton's exhibits have been premarked for identification as 160 and I think through 167. I seem to be one number off, so I'd like to check and make sure.

CHAIRMAN CARTER: Staff, help me out. I've got 160 through 167. Is that right, staff?

MS. BENNETT: 167 is the last of Ms. Deaton's, I'm going backwards today, and 160 is the first of her direct.

CHAIRMAN CARTER: Ms. Clark, you may proceed.

(Exhibit Nos. 160 through 167 marked for identification.)

/ / / / /

BY MS. CLARK:

Q Ms. Deaton, have you also prepared and caused to be filed 15 pages of rebuttal testimony?

A Yes, I have.

Q Did you also prepare and cause to be filed one errata sheet to your rebuttal testimony?

A I don't think so.

Q Okay. If I ask you the same questions contained in your rebuttal testimony, would your answers be the same?

A Yes, they would.

MS. CLARK: Chairman Carter, I would ask that her rebuttal testimony be inserted in the record as though read.

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

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**REBUTTAL TESTIMONY OF RENAE B. DEATON**

**DOCKET NO. 080677-EI**

**AUGUST 6, 2009**

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

A. My name is Renae B. Deaton. My business address is Florida Power & Light Company, 9250 West Flagler St., Miami, Florida 33174.

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

A. Yes.

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

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

- RBD-9, Impacts of Imposing Rate Increase Limitations
- RBD-10, FPL's Bill Lowest in Florida

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

A. The purpose of my testimony is to rebut the testimony of the Florida Industrial Power Users Group's (FIPUG's) witness Pollock, the South Florida Hospital and Healthcare Association's (SFHHA's) witnesses Baron and Kollen, and the Association For Fairness in Rate Making's (AFFIRM's) witness Klepper. Specifically, I will address FPL's proposed rate design as it relates to parity and proposed rate increases by rate class, the design of general service demand rates, issues related to the GBRA, and issues related to conjunctive billing.

## SUMMARY

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

A. A primary purpose of my rebuttal testimony is to refute the claim that rate increases should be limited to 1.5 times the system average increase, rather than taking the opportunity to achieve parity and eliminate years of subsidizations between the rate classes.

In developing its revenue increase allocation guideline, the Florida Public Service Commission (FPSC or Commission) recognized that limits may be needed in instances where a customer would see a significant impact on a total bill basis. In this case, however, this guideline is not necessary or appropriate. Exhibit RBD-9 clearly demonstrates that on average, customers are projected to see an overall decrease in their total bill in January 2010. Imposing an artificial limit of "1.5 times the system average" on individual rate classes would perpetuate the continued subsidization of certain classes by an excess of $40 million. Under proposals offered by intervenors, these subsidies would grow even larger ($65 million to over $190 million as noted in SJB-10 and SJB-9 from SFHHA witness Baron).

I also address several misconceptions that intervenors have as it relates to previously-approved rate design methodology. Specifically I will address the development of CILC rates and related target revenue, the development of the general service demand rates, and the appropriate venue for the CDR rider development.

Finally, I will demonstrate that the implementation of the GBRA is not a radical or complicated matter, as asserted by SFHHA witness Kollen, given the full implementation of the GBRA for Turkey Point Unit 5, the subsequent \$5.5 million rate reduction true-up to reflect the actual capital cost of the plant, and approval for implementation of base rate increases for West County Units 1 and 2. Furthermore, I will discuss the overall benefits of the continuation of the GBRA mechanism as it relates to sending appropriate price signals to customers as well as the contribution of the power plants eligible for GBRA treatment, in conjunction with past efficiency improvements of the fossil fleet discussed by FPL witness Hardy, to fuel savings that are estimated to reach \$1 billion per year by 2014.

## REBUTTAL OF FIPUG WITNESS POLLOCK

**Q. Do you agree with FIPUG witness Pollock's assertion at pages 56-57 of his testimony that the concept of gradualism should be applied to class revenue allocation in this case?**

A. No. FPL's proposal appropriately reflects the allocated costs by rate class and provides an opportunity to address inequities between the rate classes at a time when overall bills are projected to decrease for most customers in 2010 with moderate increases in 2011. Taking a more gradual approach and not moving to parity to the fullest extent practicable now would result in the continued subsidization of certain rate classes by others. Furthermore, FPL cannot predict with any certainty the next opportunity to address parity, and it might not occur for a number of years. Given this uncertainty, a gradual approach would allow these subsidies to continue longer than necessary.

For a number of years, medium and large commercial and industrial (C/I) customers have benefited from a subsidy by residential and small commercial customers. It would be unfair to residential and small commercial customers to allow this subsidy to continue unnecessarily.

Had FPL been implementing general rate increases over the past 24 years on a regular basis, and thus been able to maintain appropriate parity levels, the subsidies that exist today, to a large extent, could have been prevented. However, FPL has been able to avoid a general base rate increase, except for limited increases associated with GBRA, for 24 years, and has even lowered rates three times in this period. Thus there is a need to address subsidies between rate classes that have arisen during this time and ensure equitable rates on a going forward basis.

**Q. FIPUG witness Pollock states in his testimony at pages 56 - 57 that the Commission recently addressed class revenue allocation in the TECO rate case by limiting the lighting class increase to 150% of the system average, and that therefore all rate class increases in this case should be limited to 150% of the retail average base rate increase. Do you agree?**

A. No. Parity discrepancies in the TECO case were not as large as in this case which is why the 150% cap only needed to be applied to the lighting rate class. In prior cases the Commission has used a guideline or what could be called a "rule-of-thumb" to limit rate increases to an individual rate class to mitigate bill impact. At the same time, however, the Commission has made clear its goal that rates should be based on the fully allocated cost-of-service methodology with the goal of achieving full parity among rate classes. In the FPSC Order that first instituted the rule-of-thumb, the Commission clearly indicated that this guideline was designed to mitigate the impact of the total customer bill, not out of some general principle of slowly moving toward parity and allowing cross-subsidization to continue. The Commission states on pages 106-107 in Order No. 10306 approving FPL's request for a rate increase in Docket No 810002 as follows: "All parties in this proceeding agree that the revenue increase should be allocated between classes so as to move toward an equalized rate of return for all classes. While we embrace this concept, we feel the impact on *customers' bills* must be considered in allocating revenues" (emphasis added).

**Q. Are there other cases in which the Commission has deviated from the rule-of-thumb?**

A. Yes. The Commission also recently addressed revenue allocation in the People's Gas System (PGS) case (Docket No. 080318). In the PGS case, the Commission approved Staff's recommendation on rate design which, as discussed by Staff on page 2 of its recommendation, veered from the Commission guidelines. The result was that the Commission allowed increases to rate classes greater than 150% of the 11.17% system average, from 180% to over 400% (See PSC Order No. 09-0411-FOF-GU, schedule 7). On page 42 of the Commission's Final Order it stated, "The distribution charges are set at a level which, in combination with the customer charge, will result in the recovery of the total base revenues allocated to each rate class."

In a Gulf Power rate case, the Commission also recognized the need to deviate from its general guidelines (Docket 810136-EU). On pages 29-30 of Order No. 10557 the Commission said: "we are departing from our policy in previous cases of limiting the increase to any one class to no more than 1.5 times the system average increase. Were we to apply that policy in this case, some classes whose present rates of return are above parity would receive an increase. Thus, the greater equity lies in allocating the increase to those rate classes with substantially lower rates of return."

**Q. What meaning do you ascribe to the Commission's reference to "the greater equity"?**

A. That it is inherently fair and equitable to align each rate class's revenues with its cost of service. FPL's proposal does just that. Limiting the revenue increase to any individual rate class to a certain threshold may appear to be equitable, but the benefits of doing so should be balanced against the added revenue burden other customers would be required to bear and the disparities in parity by rate class which would continue as a result. As the Commission found in the Gulf case, the revenue burden on other customers and the disparities in parity by rate class can be such that the use of the rule-of-thumb is inequitable.

**Q. What would be the consequences of applying the rule-of-thumb in this case?**

A. As shown in column (e) of Exhibit RBD-9, $43 million would be shifted from some rate classes to other rate classes. The residential (RS-1) class would end up shouldering the bulk of the subsidization, as target revenues would need to be increased an additional $28 million. The GSD-1 rate class would be allocated most of the remaining subsidization as it would receive an additional increase of $11 million. The GSLD-1 and HLFT-2 rate classes would receive most of the benefit in a $33 million reduction in target revenues.

**Q. Is FPL's approach of moving to parity to the greatest extent practicable preferable?**

A. Yes. FPL's approach is preferable as it strives to eliminate subsidization among the rate classes, thus sending appropriate price signals. This is not only consistent with prudent utility rate-making concepts but also with the Commission's goals regarding parity. FPL's approach considers the overall impact on the customer's bill, which for most customers will be lower in 2010. Thus we find ourselves in a somewhat unique scenario under which we are able to implement the necessary base rate increase and ensure full parity between rate classes to the greatest extent practical with minimal impact to customers.

**Q. FIPUG witness Pollock states on page 58 of his testimony that, "FPL has under-priced the demand charge and over-priced the energy charge (based on FPL's proposed revenue levels)." Do you agree with this statement?**

A. No. The cost-of-service, as proposed, was closely followed in the rate design process. Following a strict unit rate for demand charges would distort the relationships between the general service demand classes and make it difficult to achieve target revenue while maintaining time-of-use (TOU) design goals and principals. As outlined in my direct testimony, limited adjustments were made to the general service demand rates to maintain the appropriate relationships between rate schedules within the general service demand classes. Additionally, adjustments were made to energy charges for the purposes of meeting target revenue levels by rate class.

**Q. Do you agree with FIPUG witness Pollock's statement on page 61 of his testimony that "HLFT rates are a derivative of the GSLDT rates"?**

A. No. This is incorrect as the GSDT, the GSLDT and HLFT rates are options to, or derivatives of, the corresponding GSD and GSLD rates. FIPUG witness Pollock goes on to recommend using a target load factor of 70% in designing the HLFT rates. MFR E-14, Attachment 2, pages 14 – 16 shows that 70% was indeed the target load factor used in the HLFT rate design.

**Q. Beginning on page 61, FIPUG witness Pollock discusses what he perceives are issues with the CILC rate design. Do you agree with his assessment?**

A. No. FIPUG witness Pollock asserts that rates should be set to unit costs without adjustment. Mr. Pollock fails to point out that the unit cost in the cost of service does not reflect non-firm CILC load, and therefore energy adjustments are required to achieve the target revenue increase shown in the cost of service MFR E-1.

The CILC base target revenue increases, as outlined in MFR E-14 Attachment 2, pages 26-28, reflect the revenue deficiency shown in the cost of service MFR E-1. In determining the revenue deficiency, CILC revenues are adjusted to reflect the CILC Incentive Offset as detailed in MFR E-5, row 6. Without this adjustment, the revenue deficiency would be $30.6 million higher. Additionally, both the demand and energy charges are developed as approved by the Commission in Docket No. 891045-EI.

**Q. Starting on page 63 of FIPUG witness Pollock's testimony, he discusses changes to the Commercial/Industrial Demand Reduction (CDR) Rider credit. Do you agree with his recommendations in this proceeding?**

A. No. FPL has not proposed to revise the $4.68 credit under the CDR Rider in this filing because consideration and evaluation of changes to the credit, if needed, are made in the Demand Side Management (DSM) Goals docket.

## REBUTTAL OF FIPUG WITNESS BARON

**Q. SFHHA's witness Baron states on page 44 that the Commission should "continue its past practice of limiting the increase to any rate schedule to 1.5 times the average percentage increase." Do you agree?**

A. No. For the same reasons I have previously discussed regarding FIPUG witness Pollock's testimony, I also disagree with SFHHA witness Baron on this issue. Also, note that SFHHA's witness Baron misstates the Commission's revenue allocation guideline. As discussed previously, the Commission's guideline applies to allocation of revenues among the rate *classes*, not rate schedules.

**Q. In Exhibit SJB-9 to SFHHA witness Baron's testimony, an alternative revenue allocation for purposes of rate design is proposed for this proceeding. Do you agree with the methodology?**

A. No. SFHHA witness Baron's proposed allocation is based on a flawed cost-of-service methodology as it applies to the FPL system, as addressed by FPL witness Ender. Additionally his approach would serve to benefit the customers that he represents by shifting revenues out of these rate classes and into others, specifically residential and small general service customers.

**Q. How would SFHHA witness Baron's proposal affect parity among FPL's rate classes?**

A. Under SFHHA's witness Baron's approach, fewer rate classes would reach parity levels and cross-subsidization would continue for the foreseeable future. Specifically, Mr. Baron's approach would result in the residential and general service rate classes overpaying by approximately $190 million (See SFHHA witness Baron's Exhibit SJB-9, column 9 minus Exhibit SJB-10, column 4).

## REBUTTAL OF SFHHA WITNESS KOLLEN

**Q. SFHHA Witness Kollen suggests on page 9 that the Commission's approval of the GBRA mechanism would represent a "radical departure from traditional ratemaking." Do you agree?**

A. No. The GBRA mechanism was used effectively to incorporate Turkey Point Unit 5 into rate base, thereby aligning these changes with fuel savings realized by customers while keeping regulatory costs low. This is similar to the mechanism established by the Alabama Public Service Commission (APSC) in 1982 for the purpose of recognizing the financial impact of placing new generating plants into service. Alabama Power Company has used that mechanism to effect an Adjustment for Commercial Operation of Certified New Plant (CNP) rate to incorporate into rates costs for new power plants that were certified by the Alabama Public Service Commission as they are placed into service (See APSC Dockets 18117 and 18416). While this process may not yet be considered traditional, it is far from "radical."

**Q. What do you mean by "aligning these changes with fuel savings"?**

A. I mean that base rate adjustments are made to reflect the costs of new plant investments through the GBRA mechanism at the same time that fuel clause factors are adjusted to reflect savings that will result from the new, more efficient generating units. This alignment is consistent with ensuring that the appropriate price signal is sent to customers; without the alignment the price signal received would be too low as it would only reflect the fuel savings.

**Q. Have you quantified the benefits of these new, more efficient generating units included in GBRA?**

A. Yes. In addition to the first year fuel savings discussed in my direct testimony and Exhibit RBD-8, FPL has quantified the benefits of the efficiency improvements that have accrued and will continue to accrue over time, as discussed in FPL witness Hardy's direct and rebuttal testimony. FPL has projected that the investments included in base rates through GBRA, along with efficiency improvements of the existing fossil fleet, will help FPL achieve over $3 billion in fuel savings from 2003 - 2009. These fuel savings have been passed on to the customer through the fuel clause. Going forward, FPL's rate request and continuation of the GBRA will allow continued investments in efficiency improvements, which are expected to yield savings of $1 billion per year by 2014, thus allowing future bills to remain low.

**Q. What is the basis for the fuel savings claim?**

A. The $3 billion in fuel savings was determined by an analysis that compared the continuation of FPL's generation fleet in 2003-2009 with and without the efficiency improvements at existing oil- and gas-fired facilities as well as the addition of new, more efficient generation facilities. As discussed by FPL witness Hardy, FPL's fossil fleet is expected to be almost 20% more efficient in 2014 than it was in 2002 and, as a result, FPL estimates that the efficiency savings will grow to over $1 billion per year in 2014.

Q. **What does that mean for customers?**

A. It means that customers pay less. FPL's current low bills reflect the savings in fuel costs realized due to investment in improving the efficiency of the FPL fossil fleet, as discussed by FPL witness Hardy. FPL's rates are the lowest in Florida and 21% below the Florida average according to June survey data on the typical 1,000 kWh residential bill from the Florida Municipal Electric Association. As shown on RBD-10, the typical FPL customer currently pays $28.50 less monthly, or about $340 less per year than the Florida average.

Q. **SFHHA witness Kollen further suggests on pages 11-12 that there is no GBRA tariff to review and that paragraph 17 of the settlement lacks sufficient detail for approval of continuation of the GBRA mechanism. Do you agree?**

A. No. Paragraph 17 of the settlement and the clarifying language regarding the GBRA true-up contained on page 5 in Order No. PSC-05-0902-S-E1 approving the 2005 settlement provided sufficient detail for the Commission to approve, without issue, implementation of base rate increases for West County Units 1 and 2, and Turkey Point Unit 5, including a base rate reduction to reflect a $5.5 million savings in annual revenue requirements as a result of the Turkey Point Unit 5 project costing $21 million less than originally projected. Additionally, I previously described the mechanics of the GBRA adjustment on pages 20-21 of my direct testimony. The mechanics of the GBRA adjustment and true-up can be set forth in a tariff just as easily as it was set forth in my direct testimony.

## REBUTTAL OF AFFIRM WITNESS KLEPPER

Q. **Should the Commission require FPL to develop multiple location rates as suggested by AFFIRM witness Klepper on page 12 of his testimony?**

A. No. The Commission should reject the request for two reasons. First, AFFIRM witness Klepper requests a form of conjunctive or aggregated billing that would violate Commission Rule 25-6.102, F.A.C., which prohibits conjunctive billing. This is a long-standing Commission rule and the Florida Legislature has seen fit to provide only a limited exception to this rule for customers who also generate electricity from agricultural waste (See §366.91(7), F.S.).

Second, Mr. Klepper's request would also discriminate against similarly-situated customers that are not part of a chain. Florida law prohibits unjustly discriminatory or preferential pricing (See §366.07 F.S.). Mr. Klepper proposes that AFFIRM members be allowed to aggregate demands at individual locations based on ownership in order to qualify for the GSLDT3 rate, a rate designed for customers taking service at the transmission voltage level, and avoid all distribution charges. However, he has not shown that an AFFIRM customer that is part of a chain costs any less to serve or uses the distribution system differently than the exact same type of customer that is not part of a chain.

Finally, as discussed in my direct testimony, FPL offers many rate alternatives that provide customers opportunities to lower their costs through efficient energy usage. The high load factor time-of-use (HLFT) and seasonal demand time-of-use (SDTR) rates were designed specifically for this purpose. For the foregoing reasons the Commission should not require multi-location rates as requested by AFFIRM witness Klepper.

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

A. Yes.

BY MS. CLARK:

Q Are you also sponsoring exhibits to your rebuttal testimony?

A Yes, I am.

Q Do those exhibits consist of RBD-9 through RBD-10?

A Yes.

CHAIRMAN CARTER: I'm showing, Ms. Clark, 379 and 380 for those.

MS. CLARK: I do have that right, thank you.

(Exhibit Nos. 379 and 380 marked for identification.)

BY MS. CLARK:

Q And are those exhibits true and correct to the best of your knowledge?

A Yes, they are.

Q Ms. Deaton, have you prepared a summary of your direct and rebuttal testimony?

A Yes, I have.

Q And would you give it to us --

CHAIRMAN CARTER: Ms. Deaton, were you here when I explained the lights?

THE WITNESS: I think I saw them, but you can explain again.

CHAIRMAN CARTER: Green is good; amber, you've got two minutes; and red, you've got 30 seconds.

THE WITNESS: Okay.

Good morning, Chairman Carter and Commissioners. My direct and rebuttal testimony addresses the rate design issues, including the proposed rate levels, allocation of the rate increases to the rate classes, and the GBRA mechanism, as well as the forecast of base revenues.

Since 1985, FPL has had three rate decreases resulting in more than $6 billion in customer savings. As a result, FPL's current rates compare favorably in Florida and nationally. In fact, the base component of the bill is 17 percent lower than it was 24 years ago, while the Consumer Price Index has increased nearly 100 percent. The result is that bills are currently the lowest in Florida, as you can see here in my Exhibit RBD-10, and saves customers more than $340 per year.

Additionally, FPL's commercial and industrial bills are also among the lowest in Florida, and rates are expected to remain low, going forward. As shown on my Exhibit RBD-2, the typical residential bill is expected to go from $109 in December to about $100 in January 2010, the lowest in four years. The bill in January '11 is expected to be approximately $114, or about $5 higher than it will be in December of this year. Most commercial and industrial bills will also see an overall bill decrease, as shown in my Schedule MFR A-2.

Therefore, contrary to the assertions of FIPUG and South Florida Hospital, there is no need to apply a limit to the increases that are properly allocated to the various rate classes. While in certain cases the Commission has elected to limit rate increases as a means of mitigating significant bill impacts, the circumstances in this case do not justify the use of such a limitation. With bills going down for most customers in 2010 and only moderate increases in 2011, limiting increases in this case would do nothing more than allow the inappropriate shift of millions of dollars in costs to the residential and the small general service customers. In fact, general service customers, which are at 150 percent of parity currently, would see only a six percent base increase in 2010 under FPL's proposal. However, under Intervenors' position to limit increases to the large commercial/industrial classes to 1.5 times the system average, increases for the general service customers would be as high as 19 percent.

Furthermore, FPL provides many rate offerings, such as the high load factor time-of-use rate, that allow customers the opportunity to reduce their energy bills even further, contrary to the claims made by AFFIRM.

It appears that AFFIRM has not examined the high load factor time-of-use rate as an option to the general service demand rate, yet many customers with 24-hour operations similar to AFFIRM customers enjoy savings under the high load factor time-of-use rate.

As with all our customers, FPL will gladly work with AFFIRM to examine the potential benefits available under the high load factor time-of-use rate and other opportunities that may provide benefits to AFFIRM customers as well as the rest of FPL customers.

FIPUG's proposal to increase the commercial/industrial load control and the commercial demand reduction rider discounts beyond the cost-effective levels set by this Commission in the DSM goals docket is inappropriate. FIPUG would have the CILC credits increased more than $20 million above the cost-effective levels set by this Commission. The CILC rate was closed by the Commission due to concerns that it was no longer cost-effective. Increases to the credit proposed by FIPUG would make CILC even less cost-effective. Any changes to the CILC or CVR credits are properly addressed in the DSM goals proceeding to ensure continued cost-effectiveness.

Turning to the GBRA, despite the fact that the GBRA in Florida has been in place and worked smoothly for three FPL power plants over the last four years, South Florida Hospital calls it complicated and alleges that it's a radical departure from traditional ratemaking. In fact, the opposite is true. The GBRA is an efficient, progressive rate mechanism that allows the recovery of cost of new, large power plants coincident with the resulting reduction in the fuel cost, thereby sending the appropriate price signals.

As shown here on RBD-8, the fuel efficiency savings from Turkey Point 5 and the three West County units are projected to offset the majority of the first-year revenue requirements going into base rates. Like the Florida Commission, the Alabama Public Service Commission has been using a similar mechanism since 1982. Clearly, the GBRA is neither a radical or complicated concept.

Going forward, the GBRA plants, combined with other fossil fleet efficiency improvements since 2002 as discussed by FPL Witness Hardy, are projected to result in an estimated $3 billion in fuel savings this year, growing to an estimated billion dollars per year by 2014.

In closing, it's important to note that the suggested rate design changes advocated by the Intervenors serve to benefit select customers, while the rates developed by FPL benefit all FPL customers through fair and equitable rate design.

Thank you.

CHAIRMAN CARTER: Thank you very kindly.

MS. CLARK: Mr. Chairman, we tender Ms. Deaton for cross-examination.

CHAIRMAN CARTER: Who is first?

MS. CHRISTENSEN: No questions.

CHAIRMAN CARTER: Mr. Wiseman, you're first? You are recognized.

MR. WISEMAN: Thank you.

CROSS EXAMINATION

BY MR. WISEMAN:

Q Good morning, Ms. Deaton. I'm Ken Wiseman for the South Florida Hospital and Healthcare Association.

To start off, I'm really hoping you can clear up some confusion that I think is in the record.

Now, would you agree that as originally proposed, FPL was proposing to increase base rates effective January 1, 2010, by approximately $1.044 billion?

A I'm not -- 1.044 less the adjustments shown in

KO-16.

Q I'm sorry --

A That was adjusted down in Exhibit KO-16. I don't have the total numbers with the adjustments.

Q Well, here's what I'm trying to figure out. I believe that Mr. Olivera testified that FPL is now seeking additional base revenues of $983 million. Can you confirm that that is the correct number?

A I don't have that exhibit.

Q So you don't know?

MS. CLARK: Mr. Chairman, Ms. Deaton is the rate design person. The revenue requirement would have been more appropriate to ask of Ms. Ousdahl.

CHAIRMAN CARTER: Commissioner Skop?

COMMISSIONER SKOP: Mr. Chair, I'm looking at direct testimony and I have questions with respect to the revenue requirement. I see it listed in multiple places discussing GBRA and the revenue requirements, so certainly that is going to be my line of questioning.

CHAIRMAN CARTER: Mr. Wiseman, to the objection?

MR. WISEMAN: I think this is a key question. This is the rates witness. The rates are designed to collect revenues. You can't have one without the other. And I think it's critical that we understand what the rates that are being proposed are designed to recover.

CHAIRMAN CARTER: Okay. Ms. Helton?

MS. HELTON: It seems to me that it's a fair question, what revenue requirements are the rates that she has proposed -- what revenue requirements has she used to form the basis for her rate proposal.

CHAIRMAN CARTER: Overruled. You may proceed.

BY MR. WISEMAN:

Q Ms. Deaton, my question, again, was that Mr. Olivera -- my recollection, anyway, is that he testified that FPL is now seeking to increase base revenues by $983 million, and I would like to know if you can confirm that that is the number that we should be looking at?

MS. CLARK: I would ask Mr. Wiseman to clarify. There's been a request for 2010 and a subsequent year. I think he should be clear on what he's asking.

BY MR. WISEMAN:

Q Effective January 1, 2010.

A I have designed my revenues -- well, my rates -- to recover $969 million in revenues. That will be adjusted lower for the adjustments in KO-16. We have not modified all of the MFRs to reflect those adjustments.

Q Do you have a ballpark idea of how much the adjustment is going to be? Is it going to be one percent, two percent, do you know?

A I don't know.

Q All right. If we could pass out -- I want to ask you questions about two MFRs. One I have made copies of for everyone's convenience, and I apologize, Ms. Deaton, if you could pull the other one, it's Schedule E-5 for the 2010 test year?

A I have that.

Q Okay.

A Mr. Wiseman, I could provide the further clarification on adjustments for KO-16. I do believe I provided that in a late-filed deposition exhibit.

MR. WISEMAN: Could I ask if counsel for FPL has a copy of that exhibit?

MS. CLARK: I can try and get one.

MR. WISEMAN: I wonder if at a break we could get a look at that exhibit. I don't need it right now to continue, but I think it would be helpful for the record.

CHAIRMAN CARTER: Okay, you may proceed.

THE WITNESS: And we have here in my Exhibit RBD-2 has been adjusted for KO-16.

/ / / / /

BY MR. WISEMAN:

Q I'm sorry, what was the exhibit number you referred to?

A RBD-2, the modified exhibit. It was updated on August 20th for the new fuel and capacity factors, and it also reflected the adjustments for KO-16.

Q Maybe if we could get that at a break as well, but let's go forward.

You have MFR E-5 for the 2000 test year before you, correct?

A Yes.

Q All right. And I've also provided you a handout that has Schedule E-13A for the 2010 test year, correct?

A Yes.

Q All right. Now, looking at E-5 where it says -- in column 2 where it says Total Retail, down in line 30, there is a number of approximately $969 million. Do you see that?

A Yes, that is correct.

Q And that is the $969 million that you just referred to as the number that your proposed rates are designed to collect, correct?

A Yes.

Q All right. Now, if we look up at -- we're still in column 2. If we look up at the top to row -- I'm sorry, line 5, am I correct that the retail revenues, base revenues, under current rates would be designed to recover a total of $3,880,727,000, is that correct?

A Yes, these are the revenues produced by current rates as adjusted for West County 1 and 2 that will be in effect in January 1st on 2010.

Q All right. And the billing determinants that you used to determine this figure of approximately $3.8 billion, those, am I correct, are the 2010 billing determinants?

A That is correct.

Q Okay. Now, if you could take a look at Schedule E13A, please? You would agree that column 2 shows the retail revenues that would be recovered under current rates using 2010 billing determinants and would recover the $3.8 billion that we were just referring to, correct?

A Yes.

Q Then if you look over at column 3, am I correct that, first of all, to -- you used the 2010 billing determinants to determine the revenues in this column as well, correct?

A Yes.

Q Okay. And using the proposed rates that were designed to collect the $969 million that we previously referred to, that your proposed rates would collect in total approximately $4.8 billion, is that right?

A Yes.

Q Okay. Now, just so I understand your prior testimony of just a few minutes ago, due to the adjustments that have been made since the case has been filed, the total amount that you will be seeking to collect in base revenues will be something slightly less than this $4,849,000,000 in column 3, correct?

A That is correct.

Q But you have not calculated the exact rates that would produce the number that you will be looking for?

A No. We have made an estimate of the impact on the residential bill. That's as far as we've been able to do.

Q Would you agree, we're not talking about a five percent reduction, correct?

A The reduction is the difference in -- it's a 67-cent reduction.

Q I'm sorry --

A It's a 67-cent reduction in the thousand kilowatt hour bill between what we had expected the bill to be for residential customers, the $51.71 on my original RBD-2, versus the $51.10.

Q There's no way I can do the math in my head, but I assume that is less than a one percent reduction, is that correct?

A I don't have a calculator, but yes, I think that's --

Q Okay. So if we go to -- back to Schedule 13-A, and I guess we'll have to use this for illustrative purposes, but you would agree that the numbers that are here in this schedule would be off by less than one percent, correct?

A I believe the number for -- it's coming back to me now -- the number for 2010 is about a $60 million reduction and 2011 is about a $68 million reduction.

Q And again, as compared to total revenues of close to $5 billion, that would be less than one percent, correct?

A Yes.

Q All right. Now, would I be correct, then, in looking at 13-A to say that, as an example, for the CILC 1-D rate schedule, that FPL is proposing an increase to base rates of 58.8 percent?

A Which one?

Q I picked the one on line 1, the first one --

A Okay. Yes, 58.8 percent, that is the proposed increase in base rates. However, if you look on MFR A-2, you will see pretty large decreases in the overall bill for CILC customers.

Q If we can concentrate on base rates, please, that's what I want to talk about.

A Well, the bill is what the customer will see.

Q I understand, and actually I'm going to ask you some questions about the overall bill as well, but for right now I think if we keep with base rates it will move this along a lot faster.

You would agree, looking down this page, that for CILC 1-T, FPL is proposing to increase base rates by 63.2 percent, is that correct?

A Yes. Again, in the 1-T, customers have large energy uses and they will see among the largest bill decreases due to the fuel decreases.

Q And if we go down, as an example, to GSLD-1, you're proposing to increase base rates for that rate schedule by 50.7 percent, correct?

A That's correct.

Q And for HLFT-2 you're proposing to increase base rates by 58.1 percent, correct?

A That's correct.

Q Now, just to go down this page a little bit further, it's line -- I believe it's line 25, for the residential class, FPL is proposing to increase base rates by 20.8 percent, is --

A Yes. The residential class is over parity, so they would see a lower than average increase in their base rates.

Q I have a question for you about that. Do you think that a 21 percent increase in base rates in one year constitutes a large single swing in rates?

A No, not when you consider the bill the customer will see, which will be the lowest in four years.

Q What about -- again, let's put fuel costs aside, I said we will get to that, I'm talking solely about base rates. Do you believe a 21 percent swing in one year with respect to the base rate constitutes a large single-year swing?

A You cannot look at the base rates and fuel separately. We're investing in fuel efficiency improvements, as Witness Hardy will testify, and those are resulting in lower fuel costs and you have to look at the total bill.

MR. WISEMAN: Mr. Chair, the witness has given two explanations, and I know she's entitled to give an explanation, but I think I'm entitled to a yes or no as well, and if I could have the witness answer the question yes or no?

THE WITNESS: I have answered no, and I have explained why.

BY MR. WISEMAN:

Q Your answer is no?

A Yes, my answer is no, because the total bill is decreasing.

Q All right. As you mentioned in your oral statement, both SFHHA's Witness Baron and FIPUG's Witness Pollock recommended that any increases in any rate schedule should be limited to one and a half times the average percentage increase, if any, that the Commission grants in this case, is that correct?

A I'm sorry, could you repeat the question?

Q Sure. Both Witnesses Pollock and Baron recommended that the increases to any rate schedule be limited to 1.5 times the average increase, is that correct?

A I believe that Pollock clarified that it should be limited to the rate class, not rate schedule. I believe Baron said rate schedule, from which the Commission uses rate class.

Q Fair enough.

You're familiar with the TECO, the recent

Tampa Electric decision?

A Yes, I am.

Q And you would agree that in that case the Commission did apply the 1.5 times limit, is that right?

A I agree that they apply that to one rate class that was out of line with parity, but there were no other rate classes that needed to be brought in line with parity.

Q All right. Now, if I understood your rebuttal testimony and your oral statement this morning, as well as some answers that you've given, I believe it's your position that the Commission doesn't need to apply the 1.5 limit in this case because, in your view, overall bills are going to go down in 2010 and just rise moderately in 2011, is that correct?

A That's correct, and that is not just my view, that is the view of prior Commission orders, also.

Q You would agree that the major reason that you're suggesting that overall bills will go down is because of fuel costs, correct?

A And fuel efficiency improvements.

Q Would you agree that 70 to 80 percent of FPL's fuel costs reflect natural gas prices?

A That's the approximate range.

Q Were you here when Mr. Olivera testified last week?

A No.

Q Well, he testified that natural gas prices are volatile. I wonder, do you agree with that?

A I agree with it, they're volatile.

Q So that means that natural gas prices can just as easily go up as they can go down, isn't that true?

A That's true, and that is why the fuel efficiency improvements are so important. The customers will save even more due to fuel efficiency improvements when prices do go up, or if they go up.

Q And you would agree, however, that if your fuel projections prove to be wrong because fuel prices rise, that customers will not see overall decreases in their bills, isn't that true?

A We have filed the fuel factors for 2010, and if they are approved by this Commission, they will see those lower fuel factors in their bills.

Q Right, and if fuel prices end up going up, then there's going to be -- FPL is going to collect those higher fuel costs later on, isn't it?

A If fuel prices go up, those will be reflected in fuel factors in the future, that's true, and if prices go down, the fuel factors will also come down again.

Q Well, I wonder, do you think that the -- in determining whether to approve FPL's proposed base rate increase, the Commission should take the volatility of fuel prices into account?

A No.

Q Do you believe that in determining whether to limit increases to rate schedules to one and a half times the average percentage increase, the Commission should take the volatility of fuel prices into account?

A They have not in the past.

Q And what is your testimony in this case, should they --

A In this case, the forecast is prices are going down and that they will rise moderately in 2011 and that the Commission based its decision based on the facts before it, and the fact is that these larger CI rate classes are below parity and need to be brought up to parity in order to carry their fair share of the cost. They are enjoying the benefits, they enjoy the largest benefits of the fuel savings. Because they are heavier energy users, they're going to see the larger benefits in the fuel savings. They should pay their fair share of the production costs that produce those benefits.

Q All right. My question, again, was in determining whether to limit increases to rate schedules to one and a half times the average, should the Commission take the volatility of fuel prices into account?

A I don't think so.

Q Okay. Can you refer to page 8 of your direct testimony, please? I'm not going to ask you a question about a specific line there, but you would agree, you talked generally about billing determinants at that portion of your testimony, correct?

A Yes.

Q Now, you weren't here when Dr. Morley testified last week either, right?

A No.

Q Well, Dr. Morley testified that to the extent that she forecast growth in kilowatt hour sales by, as an example, two percent, all other things being equal, that would translate to lower billing determinants than if she had forecast growth in kilowatt hour sales at, say, ten percent.

MS. CLARK: Mr. Chairman, I would like for Mr. Wiseman to have that testimony for Ms. Deaton to look at.

MR. WISEMAN: I can ask the question, I don't have to refer to Dr. Morley.

/ / / / /

BY MR. WISEMAN:

Q I'll just ask you -- let me rephrase the question -- would you agree that to the extent that a forecast of growth in kilowatt hour sales is two percent, all other things being equal, that would translate to lower billing determinants than if the forecast of growth in kilowatt hour sales were ten percent?

A Certainly.

Q Okay. Now, I want to ask you a hypothetical. Assume a utility has a cost of service of $100, and that is inclusive of its authorized return on equity. Assume that it forecasts consumption -- annual consumption of 100 kilowatt hours and there's only one rate class and all costs are allocated on the basis of energy. Under that hypothetical -- and let's say that billing determinants are set at 100 -- would you agree that the unit rate of electricity then would be one dollar per kilowatt hour?

A Yes.

Q Okay. Assume we're in year one since base rates have been set. The utility sells exactly 100 kilowatt hours during the year at a dollar each. Would you agree that in that hypothetical, the utility has recovered its entire cost of service inclusive of its authorized return on equity and no more?

A You're saying we collected $100?

Q Yes.

A Yes, then we have collected the revenue requirements we set rates on.

MR. WISEMAN: If I could have an exhibit marked for identification, please?

CHAIRMAN CARTER: Commissioners, No. 484.

Short title?

MR. WISEMAN: Impact of Customer Growth/ Billing Determinants.

CHAIRMAN CARTER: We will take the title off the sheet when we see it.

(Exhibit No. 484 marked for identification.)

MS. CLARK: Mr. Chairman, could I ask Mr. Wiseman where this comes from?

MR. WISEMAN: This is a hypothetical, it's a continuation of the hypothetical that I've been talking about. It's simply to make it easier to follow along.

CHAIRMAN CARTER: Okay, you may proceed.

BY MR. WISEMAN:

Q Ms. Deaton, assume -- we're still talking about the same hypothetical, all the assumptions that I have given you are the same, okay, except that we're now in year two. The cost of service is exactly the same, but in year two, the utility sells 110 kilowatt hours. Would you agree that that would mean in year two that the utility has recovered $110, which would be its $100 of cost of service, which is inclusive of its authorized return on equity, plus $10 extra?

A You're saying in year two that the revenue requirements would be the same as year one?

Q Yes.

A That we could serve -- that we have sold 110 -- we've sold ten more units at no extra cost?

Q That's --

A I don't accept those assumptions. If you sell more, it's going to cost more. I can't say what the excess would be.

Q Assume again that these are base revenues. We are not taking into account energy. Energy is -- fuel costs are separate and apart, this has nothing to do with this hypothetical.

The hypothetical is, assume that the cost of service for base rates is exactly -- it's still $100. So under that hypothetical, would you agree that if the utility sells 110 kilowatt hours, which is ten kilowatt hours more than rates were designed on, it would make an additional $10 above the $100 cost, authorized cost of service, right?

A Under the assumption that revenue requirements have not gone up in year two, that would be correct. I don't see how that would happen, but --

Q Okay, fair enough. Again, we're just using this for illustrative purposes to talk about how billing determinants can affect recoveries of authorized return on equity, just as a hypothetical and --

A But there is no assumption here about the range of the return on equity that would be allowed.

MS. CLARK: Mr. Chairman, I think I want to object to the line of this question and the exhibits. A hypothetical needs to have some basis in the real world, and I think what Ms. Deaton has indicated is this would not be a hypothetical that has a basis in the real world, because you would have costs for serving changing it. So to that extent, I don't think it's an appropriate line of questions.

MS. KAUFMAN: Mr. Chairman, may I be heard after Mr. Wiseman?

CHAIRMAN CARTER: No.

Mr. Wiseman, to the objection?

MR. WISEMAN: I don't want to testify, but utilities all the time serve more load in one year than they do in another year. And that doesn't mean that their cost of service changed one iota.

MS. CLARK: I would object, because I believe --

MR. WISEMAN: Ms. Clark, if I could finish my statement, please?

CHAIRMAN CARTER: No lunch today.

MR. WISEMAN: Again, this is a hypothetical simply to illustrate how billing determinants work. It's not being put in the record to say that it would work in exactly this way in the real world. It has been put in as a simple explanation of how billing determinants reflect -- or, I'm sorry, impact a utility's recovery of costs. That's all it is.

CHAIRMAN CARTER: Ms. Helton?

MS. HELTON: Mr. Devlin has whispered in my ear that he thinks that this hypothetical could happen in the real world, so I accept what he says. I'm also struggling, too, and I'm sorry, I can't remember who the witness was, but I remember that Florida Power & Light had an exhibit that they used for demonstrative purposes that listed the depreciation lives for a plant. So I'm really struggling with how that's different than what Mr. Wiseman is doing here.

He has made it very clear that this is just a hypothetical. I'm a visual person. I appreciate having these where I can see it instead of having to listen to it, too. So in my mind, Mr. Chairman, this is an appropriate way to ask the questions of the witness.

CHAIRMAN CARTER: Overruled. You may proceed.

BY MR. WISEMAN:

Q I think we were still on year two.

A Okay.

Q Would you agree that under the hypothetical, the utility in this instance would have collected a total of $110, which would mean it collected its $100 cost of service, which was inclusive of its authorized return on equity, plus $10 on top of that?

A Authorized the midpoint?

Q Fine, on top of the -- midpoint of the authorized return on equity.

A Under that assumption, which I have never seen revenue requirements be exactly the same from one year to the next, but under that assumption, yes, they would collect $10.

Q All right. $10 extra, right?

A More than the midpoint of the return on equity.

Q Now, let's assume we're now in year three, and exactly the same assumptions for the hypothetical. This year, the utility sells 125 kilowatt hours, so in year three, the utility would now collect its $100 cost of service inclusive of the authorized return on equity at the midpoint, plus $25 on top of that, right?

A Yes, there would be another $25.

Q Okay. Now, if you can turn to page 2 of the exhibit?

And before that, would you agree with the proposition that to the extent the utility makes more sales than were used to set billing determinants when rates were set, all other things being equal, the utility will earn more than its authorized return on equity?

A No.

Q All right. Well, let's turn to page 2. Assume we're back in year one. Everything is the same, except the utility now has two customers -- two classes of customers, okay? And they take service under different rate schedules. Class A customers are forecasted to take 100 kilowatt hours and they pay 37 and a half cents per kilowatt hour for service, okay? Do you have that?

A I see that on the blue bar. That's 37.5 cents or dollars?

Q Cents -- well, that is actually dollars on the table, but the rate is 37 and a half cents, okay?

A Okay.

Q All right. Say that Class B also is forecasted to take 100 kilowatt hours, and it pays a rate of 62 and a half cents per kilowatt hour, okay?

A Uh-huh.

Q So the rates are designed such that if the utility sells 100 kilowatt hours to Class A and 100 kilowatt hours to Class B, it's going to recover its $100 cost of service, which is inclusive of its authorized return on equity, right?

A At the midpoint.

Q Right. Okay. Now, assume we're in year one and the utility sells in fact 100 kilowatt hours to Class A and 100 kilowatt hours to Class B. It would recover its authorized -- it would recover its cost for service plus its authorized return on equity, right?

A The midpoint.

Q Okay. We are now in year two, and one thing -- two things have changed now in year two. In year two, Class A only consumes 90 kilowatt hours instead of the 100 that rates were designed on, okay? Do you have that?

A Uh-huh.

Q But Class B consumes 110 kilowatt hours, so that is ten kilowatt hours more than rates were designed on, correct?

A That's -- excuse me?

Q Is that a yes?

A Ninety -- you're saying that the blue bar uses 90 and the red bar uses 110?

Q Correct. Do you have that?

A Yes.

Q Okay. Would you accept, subject to check, that in this hypothetical Class A would have contributed $33.75 to the utility's cost of service and Class B would have contributed $68.75 to the cost of service and the utility would have collected a total of $102.50, okay?

A Subject to check, I'm not doing the math.

Q That's fine. You would agree that in this scenario, Class B would be overcontributing to the utility's return on equity and Class A would be undercontributing, correct?

A I would not agree. If they're using more, then they would be allocated more cost of service.

Q They have not filed a new rate case. We are talking about the rates that were set, and we're comparing to the rate design in the -- that was used for setting rates. Compared to the rate design that was used for setting rates, isn't it true that Class B has now overcontributed to the cost of service and return on equity and Class A has undercontributed?

A No, they have contributed their share. If they're using more, they would get more.

Q We're putting -- more as compared to the way in which rates were designed. Haven't they contributed more than the basis upon which rates were designed?

A If they increase their usage, they will pick up a larger share of the cost of service. That's the way it works.

Q So it's your testimony, then, that there is no relationship between the rates -- the manner in which rate are designed and the contribution that rate classes make to the utility's recovery of cost of service?

A I don't understand your question.

Q I'll repeat it. Is it your testimony that there is no relationship between the manner in which rates are designed and a utility's recovery of its cost of service?

A Of course not. The rates are designed based on the cost of service.

Q Right. So let's go back to the hypothetical and let's ask the question again. I think this really should be very easy.

A I think I have answered the question.

MS. CLARK: Madam Chairman, I was going to suggest it has been asked and answered at least three times.

COMMISSIONER EDGAR: Mr. Wiseman?

MR. WISEMAN: She just told me that there is a relationship between the manner in which rates are designed and the contribution to class of service, and her prior answer did not reflect that answer. So I think I'm -- there is an inconsistency in her testimony, and I think I'm entitled to go back and figure out what she believes the right answer is. We have two answers right now.

COMMISSIONER EDGAR: Ms. Clark?

MS. CLARK: I don't believe there is an inconsistency.

COMMISSIONER EDGAR: If that's an objection, it's overruled. Let's do try to move along.

BY MR. WISEMAN:

Q We won't even go to the third year in this one, let's just keep it at the second, because I think it makes the point.

Again, we're talking about a comparison as between the manner in which rates are designed and what has happened in actuality on this particular hypothetical utility system. Rates were designed such that Class B was going to contribute $62.50 to the utility's cost of service. Rates were designed such that Class A was going to contribute 37 and a half cents to the utility's cost of service.

A No, sir. These rates were designed such that Class A would contribute 37.5 cents per kilowatt hour use to the cost of service, and Class B was designed such that it would contribute 62.5 cents per kilowatt hour to the cost of service. You use more, you will pay more.

Q Okay. When you set -- go back to your Schedule E-13A, if you would. Let's just start -- use line 1. That's for the CILC-1D rate class, that's as good as any. You told me that of the revenue -- well, you told me that you used the 2010 billing determinants to determine the proposed base revenues that are in column 3, correct?

A Yes.

Q So there is a particular rate that would produce the revenues that are in column 3 for the CILC-1D rate class, correct?

A Yes, and that rate is consistent of -- consists of customer charges, demand charges, energy charges, which are all separate parts of the cost of service.

Q There are rates -- there is a rate that would produce the revenues -- and maybe it's multiple rates, but there are multiple rates that would produce the revenues that are in column 3 for the CILC-1D rate class, correct?

A The CILC-1D rate class is a rate class unto itself, so there's only one rate schedule in that rate class, and that rate schedule and the rates that are in that schedule would produce these revenues.

Q Right. You took the rate times the billing determinants assigned to that rate class, and you multiplied it out, and that produces $82,079,000, correct?

A It's not one rate, but yes.

Q And you used -- for every rate schedule that is on here, whether it's one rate, whether it's multiple rates, you took the rates that you've proposed, you multiplied them times the billing determinants and you determined the proposed base revenues that are assigned to that rate schedule, correct?

A That's correct.

Q Okay. And I'm asking you the same question as respect to this hypothetical. There is only one rate on this utility system that we have been talking about. The rates were designed -- I'll go back to year one. The rates were designed with a -- that there would be a

-- the rate was 37 and a half cents per kilowatt for Class A, and with the expectation that -- and the billing determinants that were assigned to that class were 100. Rate Class B was assigned billing determinants of a hundred also at a rate of 62 and a half cents.

A    Right, per kilowatt hour.

Q    Per kilowatt hour. So going back to year one, the utility -- rates were designed such that there was an expectation that rate class one would contribute a total of 37 and a half dollars to the cost of service plus inclusive of the return on equity, and Class B would contribute a total of 62 and a half dollars --

A    Based on the assumptions of what the usage was.

Q    And based on the billing determinants?

A    Right.

Q    Okay, so we're in year two. There hasn't been another rate case. Billing determinants are exactly the same. The rate for Class A is still 37 and a half cents.

A    I thought you said --

Q    Excuse me, could I please finish my question?

The rate for Class B is still 62 and a half cents. And in year two, what has changed, there's not been another rate case, but there has been a change in consumption as between the two rate classes.

A And that is correct, and if you run the cost of service, that would be the amount assigned for those rates based on the cost of service and based on the usage. I don't understand how to explain it any better.

MR. WISEMAN: Mr. Chair, I believe the witness is avoiding answering the question. I believe I'm entitled to question -- this is simple, Ratemaking 101. You don't have to go to ratemaking school to answer this question.

MS. CLARK: Mr. Chairman, I object to the question. It has been asked and answered. Mr. Wiseman doesn't like the response. The witness has explained the consumption has changed and that makes it appropriate for the amount to be more. I don't know what else we need.

CHAIRMAN CARTER: Ms. Helton?

MS. HELTON: Mr. Chairman, I agree with Ms. Clark, this has been asked and answered.

CHAIRMAN CARTER: Okay, sustained. Move on, Mr. Wiseman.

MR. WISEMAN: All right, we will move on.

CHAIRMAN CARTER: Commissioner Skop?

COMMISSIONER SKOP: I guess the practitioners are getting restless, so I'm going to ask an intervening question in an attempt to kind of defuse tension here.

CHAIRMAN CARTER: You're recognized.

COMMISSIONER SKOP: Good morning, Ms. Deaton.

THE WITNESS: Good morning.

COMMISSIONER SKOP: I want to refer you to page 13 of your rebuttal testimony, line 23, where you discuss the GBRA adjustment on pages 20 and 21 of your direct testimony.

THE WITNESS: I'm sorry, you're on rebuttal or direct?

COMMISSIONER SKOP: I'm on rebuttal that refers back to your direct, so my question will ultimately be concerning your direct testimony that is referenced within your rebuttal testimony, if you will.

THE WITNESS: Okay.

COMMISSIONER SKOP: So referring back to page 20 of your prefiled testimony, you discuss the generation base rate adjustment mechanism and how that GBRA mechanism will be utilized.

THE WITNESS: Yes.

COMMISSIONER SKOP: If I can refer you to lines 11 through 13 of your prefiled testimony, you discuss how the percentage is based upon the amount presented in the need determination proceeding, is that correct?

THE WITNESS: That's correct.

COMMISSIONER SKOP: Okay. I guess my question, and I have two questions relating to how the mechanism works, because, again, I'm still trying to make sure I completely understand it so that it's fair to the ratepayers, but equally fair to the extent that it does avoid regulatory lag based on some of the perceived advantages. But under GBRA, what happens when FPL is not bound to a cost estimate within a need determination, such as what happened with the Riviera Beach and the Cape Canaveral conversion projects when the Commission waived the bid rule for these projects over my objection?

THE WITNESS: Those costs were presented in the need determination. It's my understanding we're bound by those costs.

COMMISSIONER SKOP: But if you waived the bid rule, would you not be bound by those costs? Couldn't FPL theoretically make the argument that the Commission waived the bid rule, therefore the costs presented are not the estimated costs to which FPL would be bound under the need determination?

THE WITNESS: That's not my understanding.

COMMISSIONER SKOP: And you would state that for the record?

THE WITNESS: Yes.

COMMISSIONER SKOP: Okay. Referring to the next case on the same page, page 20, lines 17 through 18, you discussed the scenario when the actual capital expenditures for a project are less than the projected costs. What happens when there's a cost overrun on a project?

THE WITNESS: Cost overrun is -- according to the rule, FPL would have to come to this Commission for a prudency determination and show that it was caused by extraordinary causes, beyond the control of the utility, before any of those cost overruns would be included in base rates.

COMMISSIONER SKOP: Okay. And then just one brief line of questioning, again, still in relation to your direct testimony, but the predicate for asking it is in your rebuttal it's referred to.

On page 12 of your rebuttal testimony, lines 14 through 16, you discuss the expected fuel savings that I guess result is -- result from the Commission continuing the GBRA treatment. I'm trying to get a better understanding of that, and if I could refer your attention to your prefiled testimony, Exhibit RBD-8, and I would like you to briefly walk me through this, because I guess I'm trying to understand -- at least from my perspective, it seems to be an apples-to-oranges comparison.

I understand that you make a capital investment, and as you would, you wouldn't be making the investment unless you had some sort of tangible benefit to the ratepayer either through additional need for capacity or fuel savings or what-have-you, but I'm trying to understand what fuel savings, which is a pass-through cost, have to do with GBRA, which is a cost recovery mechanism, and in relation to RBD-8, you identify some previous plants that have come in service, Turkey Point 5, West County 1 and West County 2 that will come in later this year, as well as project West County 3 that won't come in service for about another year and a half or so. Then you also, in the second column, talk about the jurisdictional fuel savings, and then the next column is the jurisdictional revenue requirement.

With respect to the jurisdictional fuel savings, are those annual savings or are those savings that are projected over the life of the respective project?

THE WITNESS: No, the savings projected over the life of the project were presented in the need determination. This simply shows that the first-year revenue requirements, the revenue requirements that are put into base rates, how the fuel savings match during those first 12 months that the GBRA would be in effect. And you can see for Turkey Point 5 those are actual fuel dollars, and there was a net savings to the customers of $13 million for that first year. And, of course, as it goes on, the fuel savings would continue to increase over the life of the plant.

COMMISSIONER SKOP: Why would they continue to increase?

THE WITNESS: As the -- they're in service -- well, it would depend on fuel forecasts, of course, actual fuel prices, but the savings would continue, not necessarily increase.

COMMISSIONER SKOP: Would the jurisdictional revenue requirement continue to increase each year?

THE WITNESS: No, the jurisdictional revenue requirement is an interim measure until the next base rate increase, where it would be readjusted for the net plant in service.

COMMISSIONER SKOP: Okay. And with respect to the footnote at the bottom of that exhibit, it indicates that the West County Units 1, 2 and 3 fuel savings were estimated based upon fuel prices as of November 6, 2008, is that correct?

THE WITNESS: That's correct.

COMMISSIONER SKOP: And you would agree, would you not, that since that time, natural gas prices have significantly declined even below historic norms? I believe as of yesterday they were about $2.60 per BTU.

THE WITNESS: Yes, if the gas prices go down, then the fuel savings would also go down, but when gas prices, if they do go back up, the fuel savings would increase.

COMMISSIONER SKOP: But all things being equal in terms of why GBRA is a good thing or not a good thing, it relatively has nothing to do with fuel prices, is that correct?

THE WITNESS: It has to do with sending proper price signals. The fuel savings will be recognized through the fuel clause, and if the base rate increases that cause those fuel savings are not shown in base rates, customers will have a low price signal, which will indicate to them to have uneconomic usage, and they would increase their usage.

COMMISSIONER SKOP: Actually, I guess I'm perplexed by that. I can understand consumers having price signals for time-of-use pricing, but I have never known a consumer to be conscious about natural gas prices, so --

THE WITNESS: I believe Witness Morley testified that that is a factor in her load forecast.

COMMISSIONER SKOP: Okay, thank you.

CHAIRMAN CARTER: Mr. Wiseman?

MR. WISEMAN: Thank you, Mr. Chair.

BY MR. WISEMAN:

Q Ms. Deaton, would you agree that to drive a cost-based rate, you would need to take into account both costs and offsets to cost?

A The revenue requirements reflect the total cost, including any lower -- if costs are lower, it would reflect the lower cost. It reflects the revenue requirements, whatever they are.

Q And so you would take into account items that increase costs and you would take into account items that decrease costs, right?

A If costs are lower, that would be reflected in the revenue requirements.

Q So is that a yes?

A I don't quite understand your question, items that decrease cost. If costs are lower, they are what they are.

Q Right, but if you have -- costs are what they are, but if you have an item that would act as a credit against the costs, or debit of some type, you would take that into account, wouldn't you?

A I'm not the accounting witness, so I -- I take the revenue requirements that are presented by the accounting witness and developed through the cost of service by the cost of service witness and develop rates.

Q Okay. I believe it's your testimony that the GBRA mechanism is a cost-based rate, is that correct?

A That's correct.

MR. WISEMAN: If I can have another exhibit marked for identification?

CHAIRMAN CARTER: 485. Short title?

MR. WISEMAN: GBRA, No Adjustments.

CHAIRMAN CARTER: GBRA, No Adjustments.

(Exhibit No. 485 marked for identification.)

BY MR. WISEMAN:

Q Ms. Deaton, am I correct, you sponsored -- you have been handed a document that has been marked for identification as Exhibit 485, which is FPL's response to SFHHA Interrogatory No. 36. Am I correct that you sponsored the answer to this interrogatory?

A Yes.

Q In the interrogatory, the first part of it, we asked you whether FPL intends to make adjustments to base rates to reflect depreciation and retirements, is that correct?

A That's correct.

Q And in the latter parts of the question, we asked whether under the GBRA mechanism FPL intended to make adjustments to base rates based on customer growth or new parity studies, is that correct?

A That's part two of your question.

Q And part three?

A Yes.

Q Okay. Am I correct that FPL does not intend through the GBRA mechanism to make adjustments to reflect depreciation, plant retirement, customer growth or new parity studies?

A No. As with any other item put into base rates, adjustments would not be made until the next base rate case, and then this isn't a measure to put into place into base rates, the capital cost of large plants that are producing fuel efficiency improvements for customers.

MR. WISEMAN: Mr. Chair, if I could have marked as the next exhibit in order another --

CHAIRMAN CARTER: No. 486.

(Exhibit No. 486 marked for identification.)

CHAIRMAN CARTER: Commissioner Skop?

MR. WISEMAN: The short title -- I'm sorry?

COMMISSIONER SKOP: If you'll yield for one second, please, with respect to the last exhibit that was placed or handed out in the last line of question, in the response to that question, which is South Florida's Hospital first set of interrogatories, Interrogatory No. 36, page 1 of 1, the answer talks about the GBRA mechanism and the -- that under the current GBRA mechanism there is no additional adjustment made to base rates other than the true-up to be made in the event that actual capital expenditures associated with the unit are less than those that were approved through the need determination pursuant to the Power Plant Siting Act for that unit. So --

THE WITNESS: Yes.

COMMISSIONER SKOP: -- if that's a complete response, that would, at least to me, and I would like to get your opinion, suggest that any cost overruns on a given unit for which this Commission approved a need determination would need to be dealt with via a separate limited proceeding, is that correct?

THE WITNESS: That's correct. The current GBRA mechanism only accounts for lower capital costs.

COMMISSIONER SKOP: Thank you.

CHAIRMAN CARTER: Mr. Wiseman?

MR. WISEMAN: Thank you, Mr. Chair.

BY MR. WISEMAN:

Q Ms. Deaton, you have a document before you that has been marked for identification as Exhibit No. 486?

A I don't have numbers.

MR. WISEMAN: I'm sorry, actually, I don't think we gave this one a short title. The short title would be Impact of Depreciation on Rates.

BY MR. WISEMAN:

Q Ms. Deaton, do you have that now?

A Yes.

Q It's a diagram?

A Yes.

Q Okay. Now, let me make clear that we're not talking about cost of service in this diagram. I just want to ask you questions about the relationship between rate base and depreciation.

Now, can you turn to page 1 of the exhibit? Do you have that?

A I'm there.

Q Now, would you agree that -- you see where we say, "Rate case one authorized rate," do you see that?

A Rate case with no addition to rate base, is that --

Q Yes, the page that says, "Rate case with no addition to rate base."

A Yes.

Q Okay. And there's a line that goes -- it's a horizontal line that goes, I don't know, a third of the way across the page that says, "Rate case one authorized rate," do you see that?

A Yes, I do.

Q And underneath that there is a triangle, or at least what was supposed to be a triangle, that says "depreciation." Do you see that?

A Yes.

Q Okay. Now, would you agree, as a general proposition, the way that rates work, the Commission sets a rate based upon the rate base and other factors, that rate remains in effect and continues until the next rate case, and during the time that that rate is in effect, depreciation of rate base is accumulating and it's not actually recognized in rates immediately, is that correct?

A There is depreciation, there is additions, all kinds of things going on in between rate cases, and the Commission has surveillance reports to indicate when the utility may need to come in for a rate case.

Q Ms. Deaton, I'm not asking you about a specific regulation by the PSC in this instance. I'm talking about general ratemaking. Again, we're on a page that says, "No addition to rate base."

A Okay.

Q And the question is, as a matter of general ratemaking, when a rate is set, it remains in effect and depreciation takes place that accumulates, but it doesn't change the rate that's in effect at that time, isn't that correct?

A Rates are set until the next rate case, absent a limited proceeding rate case or a GBRA mechanism or some other way to change the rates, but the rates stay in effect until they're changed.

Q So the answer to my question was a yes, correct?

A Yes.

Q Okay. And then when rates are reset -- and again, here we are in this instance, we're assuming that there's been no addition to rate base.

In rate case two, what happens is because there's been no addition to rate base, all that depreciation that's been accumulating gets recognized, which would mean if there's been no addition to rate base, you're going to have a lower rate, right, all other things being equal?

A I'm not the depreciation witness. If revenue requirements are lower, rates will be lower.

Q You're the rates witness.

A And I work with revenue requirements.

Q And depreciation most certainly gets recognized in revenue -- in setting revenue requirements, doesn't it?

A The depreciation reduces net plant -- gross plant in service.

Q Right. And doesn't this page reflect that what happens is you -- again, because you've recognized that accumulated depreciation, you're going to have a lower rate in year two?

A Yes, if accumulated depreciation has gone up and there is no addition to rate base, then total revenue requirements will be lower and rates will be lower.

Q And hopefully we can go through the next two pages really quickly.

Page 2 says, "Rate case additions to rate base do not equal prior rate base," so what this reflects is that if there has been some addition to rate base that accumulated depreciation is going to get recognized, however, the rate will go up somewhat because there has been an increase to rate base, correct?

A I'm not sure I'm following this diagram.

Q Sure, okay. We have rate case one. The rate has been set, depreciation is accumulating. Then there is an increase to rate base, which is portrayed here by the, I don't know, I guess it's a blue line, and what happens is because there's been an increase to rate base, the rates are going to go up, but they don't go all the way up to the top of what the addition would be, because it's taking into -- the rate that is being set is taking into account the effect of accumulated depreciation, isn't that right?

A You're assuming the increase to rate base is less than the accumulated depreciation at the time of the increase?

Q No, the rate -- no, I'm assuming that the increase to rate base does not bring the rate base up to the level that it was at at the time that rates were set for rate case one.

MS. CLARK: It sure looks like that's what's on the chart. I'm a little confused. The blue line --

BY MR. WISEMAN:

Q Let's just -- I actually agree, this was not done quite the way I had anticipated, but it still illustrates the same point. Actually, let's go with the way the diagram actually is drawn.

The addition to rate base actually brings it up, brings rate base back to exactly where it was when rate case one took place, but there's been accumulated depreciation between rate case one and rate case two, so when the rate case two authorized rate is set, it's going to be somewhere -- it's not going to go all the way back up to where it was, because you have to take into account accumulated depreciation, right?

MS. CLARK: Mr. Wiseman, I -- but it sure looks like that's what's being illustrated on this. It goes back up to the rate --

MR. WISEMAN: No, it doesn't go back up. If you look at the line where it says "rate case two authorized" is somewhere -- it's lower than rate case one.

THE WITNESS: If your assumption is that the revenue requirements at the time we have the second rate case, this rate case two, are lower than the revenue requirements were when we set rate case one rates, then rates would be lower.

BY MR. WISEMAN:

Q Okay, fine. Let's just to go page 3, and hopefully we can get through this one quickly.

On this page the additions to rate base exceed the rate base that was used to set rates in rate case one. That's reflected by the blue line. Do you see that?

A Yes.

Q So again, though, the rate doesn't go all the way up to what would be set based upon the increases to rate base, because you have taken into account the effect of accumulated depreciation, right?

A If you have a limited rate case for this addition to rate base, you would increase rates for that one asset, you would not take into account depreciation of everything else. I believe Witness Ousdahl has testified that the GBRA does not change anything for earnings.

Q I didn't ask her about GBRA and I'm not asking about the FPL rate case, I'm talking about setting rates in general. The question is simply, doesn't this illustrate accurately that accumulated depreciation has an impact on setting rates?

A Along with plan additions, along with O&M expenses, along with everything else that goes into the cost of service.

Q All right, great, we can move on.

MS. CLARK: At the appropriate time, I think I'm going to object to this based on the conversation and what Mr. Wiseman said, because I don't think it illustrates the point he's trying to make and it's a bit confusing.

CHAIRMAN CARTER: Let's move on.

MR. WISEMAN: If we could have marked another exhibit for identification?

CHAIRMAN CARTER: No. 487.

THE WITNESS: Are we going to come to a break soon?

CHAIRMAN CARTER: Oh, you need a break? At eleven o'clock.

MR. WISEMAN: Are we going to go forward, or --

CHAIRMAN CARTER: No, at eleven o'clock. It's not eleven o'clock by my watch.

This is 487 and it is GBRA Ignores Depreciation.

(Exhibit No. 487 marked for identification.)

MS. CLARK: Mr. Chairman, could we take the break now? Ms. Deaton has a bad back and I think she needs the break.

CHAIRMAN CARTER: We'll come back at ten after.

(Brief recess at 10:54 a.m.)

(The transcript continues in sequence with Volume 32.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA )

COUNTY OF LEON )

I, CLARA C. ROTRUCK, do hereby certify that I was authorized to and did stenographically report the foregoing proceedings at the time and place herein stated.

IT IS FURTHER CERTIFIED that the foregoing transcript is a true record of my stenographic notes.

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 10th day of September, 2009, at Tallahassee, Leon County, Florida.

Clara C. Rotruck

CLARA C. ROTRUCK