BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

COMMISSIONERS PRESENT: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Thursday, October 22, 2009

TIME: Commenced at 9:30 a.m.
Concluded at 1:02 p.m.

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

REPORTED BY: RAY D. CONVERY
Court Reporter
(850) 222-5491

ORIGINAL

PARTICIPATING: (As heretofore noted.)

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I N D E X

WITNESSES

EXHIBITS

NUMBER:	ID.	ADMTD.
333, 334, 335, 336	Premarked	5901

P R O C E E D I N G S

(Transcript follows in sequence from Volume 43.)

ACTING CHAIRMAN EDGAR: Good morning. I call this hearing to order today.

Ms. Bennett, any preliminary matters?

MS. BENNETT: No preliminary matters.

ACTING CHAIRMAN EDGAR: Any preliminary matters from any of the parties?

Seeing none, Mr. Butler, your witness.

MR. BUTLER: Thank you, Madam Chairman. We call Dr. Morley for her rebuttal testimony, and Dr. Morley has been previously sworn.

Whereupon,

ROSEMARY MORLEY

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

DIRECT EXAMINATION

BY MR. BUTLER:

Q Would you please state your name and address for the record.

A Rosemary Morley, 700 Universe Boulevard, Juno Beach, Florida.

Q By whom are you employed and in what capacity?

A I'm employed by Florida Power & Light as the Director of Load Forecasting.

Q Have you prepared and caused to be filed 18 pages of prefiled rebuttal testimony in this proceeding?

A Yes, I have.

Q Do you have any changes or revisions to it?

A No, I do not.

Q If I asked you the same questions contained in your rebuttal testimony today, would your answer be the same?

A Yes, they would.

MR. BUTLER: Madam Chairman, I would ask that Dr. Morley's prefiled rebuttal testimony be inserted into the record as though read.

ACTING CHAIRMAN EDGAR: The prefiled rebuttal testimony will be entered into the record as though read.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF DR. ROSEMARY MORLEY

DOCKET NO. 080677-EI

AUGUST 6, 2009

Q. Please state your name and business address.

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

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

A. Yes.

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

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

- RM-12, Summary of Forecasting Variance to Date
- RM-13, Summary of Adjustments to the Forecast
- RM-14, Calculation of the Adjustment for Minimum Use Customers
- RM-15, Monthly Forecast Variance

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to explain why the Commission should reject the load forecasts proposed by the Office of Public Counsel's (OPC) witness Brown. My testimony explains the purpose and necessity of the adjustments FPL made to its econometric model in developing its forecast of net energy for load (NEL) and how those adjustments have significantly improved the accuracy of FPL's forecast. I also demonstrate that the revisions to these adjustments proposed by Ms. Brown are inappropriate and result in a substantially less accurate and inherently biased forecast. In addition, my testimony addresses issues raised by Ms. Brown and by SFHAA witness Kollen concerning the 2011 test year.

SUMMARY

Q. Please summarize your rebuttal testimony.

A. FPL's load forecast includes reasonable and appropriately developed adjustments to its econometric model, including the adjustments for minimum use customers and re-anchoring. These adjustments significantly improve the accuracy of FPL's load forecast as evidenced by FPL's year-to-date variance on a weather normalized basis which is less than +0.1%. By contrast, both of OPC's proposed load forecasts understate or eliminate altogether the adjustments required for minimum use customers and re-anchoring. As a result, and as reflected on Exhibit RM-12, OPC's proposed load forecasts show a substantial bias towards over-forecasting the actual level of NEL as evidenced by their year-to-date weather normalized variance which ranges from -1.49% to -1.56%. In other words, the revisions to the load forecast proposed by OPC inflate the errors in the forecast more than fifteen fold. In summary, OPC's proposed forecasts are clearly less accurate than FPL's load forecast and their recommended load forecasts should be rejected. My testimony also explains why FPL's load forecast for 2011 is reasonable, and does not rely on unfounded speculation regarding the timing of the economic recovery.

OPC's PROPOSED REVISIONS TO THE LOAD FORECAST

Q. Why did FPL make adjustments to the output of its econometric model in developing its NEL forecast?

A. FPL made adjustments to the output of its econometric model in order to improve the accuracy of its NEL forecast. FPL's data, supported by outside sources including ITRON and the U.S. Census Bureau, indicate recent changes in consumption patterns. When such changes in consumption patterns are not fully embedded in the historical data, adjustments to the output of the econometric model are needed in order to avoid a bias in the forecast. A bias results in a tendency to consistently understate or overstate the actual level of NEL. A good forecaster strives to avoid such biases and instead aims to develop a forecast which neither understates nor overstates actual values.

Q. Has FPL documented the need for these adjustments?

A. Yes. With the exception of the adjustment for the addition of the power sale contract to the Seminole Electric Cooperative, all of the adjustments FPL performed are needed collectively in order to correct for the econometric model's tendency to over-forecast actual NEL levels as a result of the changes in consumption patterns noted above. As shown on Exhibit RM-13, the output of the econometric model had an average forecasting variance of -3.33% between

March 2008 and December 2008. The negative sign means that the econometric model over-forecasted the actual level of NEL between March 2008 and December 2008 by an average of 3.33%. Moreover, this was a consistent pattern with the model over-forecasting each and every month and with the size of the forecasting error increasing over time. As a result, the average forecasting error in the last quarter of 2008 was -4.44% versus -3.33% for the March thru December period as a whole. The pattern in forecasting errors between March 2008 and December 2008 clearly indicates the need for adjustments to the output of the econometric model.

Q. **Ms. Brown states on page 32, lines 21 thru 22 of her testimony that the econometric model's recent tendency to over-forecast simply replaced its prior tendency to under-forecast. Is this correct?**

A. No. Prior to 2008, the econometric model did not exhibit any underlying bias in terms of either under-forecasting or over-forecasting. This lack of bias is evident in the random pattern of forecasting errors prior to 2008. Specifically, prior to 2008 the monthly direction of forecasting errors changed randomly with a month or two of over-forecasting typically followed by a month or two of under-forecasting and vice versa, with errors in over-forecasting and errors in under-forecasting generally tending to offset one another. By contrast, the consistency of over-forecasting since March 2008 clearly indicates a forecasting bias that must be addressed.

Q. Ms. Brown further claims that the MAPE statistics resulting from FPL witness Hanser's in-sample and out-of-sample tests of the econometric model indicate that no adjustments to the model are needed. Do you agree?

A. No. Ms. Brown relies on MAPE statistics for a purpose for which they were not intended, which is like trying to use a hammer where a screwdriver is needed. To be clear, MAPE stands for mean absolute percentage error. As the name implies, the MAPE statistic is based on the absolute forecasting error in each month. In other words, a -2.0% error (i.e. over-forecasting the month's NEL by 2.0%) and a +2.0% error (i.e. under-forecasting the month's NEL by 2.0%) both have an absolute error of 2.0%. A bias in a forecast is indicated when the direction of the monthly forecasting errors are predominantly in one direction (i.e. over-forecasting) or another (i.e. under-forecasting). Because the MAPE statistic does not take into account the direction of each month's forecasting error, it is not a good measure of any underlying bias in a forecast.

Q. Ms. Brown also claims on page 33, line 19 thru page 34, line 8 of her testimony that the adjustment for minimum use customers is inherently duplicative with the re-anchoring adjustment. Do you agree?

A. No. Both adjustments are needed to address the bias toward over-forecasting evident since March 2008. Based on March through December 2008 data the adjustment for minimum use customers combined with the re-anchoring adjustment results in a net adjustment of only -2.05%. By contrast, the trend in forecasting error is -3.33% based on the March through December 2008 data and -4.44% based on the last quarter of 2008. Moreover, as Exhibit RM-13 shows, even accounting for the adjustments for mandated energy efficiency, minimum use customers and re-anchoring, the cumulative adjustments to the forecast sum to only -3.43%, a level that closely approximates the March through December 2008 forecasting error but is well below the trend in over-forecasting in the latter months for 2008. The math simply does not add up to the duplication claimed by Ms. Brown.

Q. **Ms. Brown implies that, since an increase in minimum use customers was already occurring in 2008, the re-anchoring adjustment must already adequately reflect the increase in minimum use customers. Do you agree?**

A. No. While it is true that the number of minimum use customers was already on the rise in 2008, the re-anchoring adjustment is based on the average level of 2008 sales, and as such, was not designed to fully address the recent trend in over-forecasting since March 2008, particularly the acceleration in the number of minimum use customers that occurred during this time. Indeed, the re-anchoring adjustment corrects for less than 40% of the March thru December 2008 average forecasting error and an even smaller percentage of the forecasting error in the later months of 2008. As such, it is clear that the re-anchoring adjustment alone does not adequately address the model's tendency to over-forecast sales.

Q. **Is FPL's adjustment for minimum use customers overstated as Ms. Brown claims on page 32, lines 15 and 16 of her testimony?**

A. No. If anything, the actual number of minimum use customers in 2009 indicates that FPL's adjustment may have been on the low side. However, rather than focusing on the accuracy of FPL's projections, Ms. Brown asserts that FPL's adjustment for minimum use customers is overstated due to our estimate of the long-run average percentage of residential customers qualifying as minimum use customers and what she refers to as a formula error.

Q. Is FPL's estimate of the long-run average percentage of residential customers qualifying as minimum use customers appropriate?

A. Yes. FPL used 7.0% as an estimate of the long-run average percentage of residential customers qualifying as minimum use customers based on the average percentage of minimum use customers during the 2003-2004 time period. The 2003 thru 2004 period is appropriate for this purpose because data from the U.S. Census Bureau show that vacancy rates in Florida were very close to their long-term averages during this time. Historically, vacancy rates in Florida were relatively stable prior to the peak of the housing bubble in 2006. For example, homeowner vacancy rates in Florida averaged 2.1% in 2003-2004, close to the 2.2% averaged between 1998 and 2005. Intuitively, the use of the 2003 thru 2004 period also makes sense in that it represents a period before the recent housing boom and bust.

Q. Why didn't FPL simply compute the average percentage of minimum use customers since 1998, the period used to calibrate the econometric model?

A. The data on minimum use customers, that is customers using between 1 and 200 kWh per month, are only available as far back as September 2002. However, as I discussed above, data from the U.S. Census Bureau which are available for a longer period of time support FPL's estimate of the long-term average percentage of minimum use customers. Vacancy rates in Florida and the percentage of residential customers qualifying as minimum use customers have historically tracked one another. Therefore, the fact that vacancy rates were near their long-term average between 2003-2004 indicates that the 2003 to 2004 period provides a reasonable proxy for the long-term average of the percentage of residential customers qualifying as minimum use customers.

Q. Doesn't FPL have data on minimum use customers going back to 1997 based on the file "empty_homes_history.xls" described by Ms. Brown on page 36, lines 1 thru 18 of her testimony?

A. No. The history going back to 1997 in the file "empty_homes_history.xls" includes zero usage customers. As defined in my direct testimony, I am using the term "minimum usage" customers to reflect those customers using between 1 and 200 kWh per month, not those using between 0 and 200 kWh a month. Hence, Ms. Brown's suggestion that the data "was not reliable" on page 36, line 16 of her testimony appears to be based on some confusion regarding the distinction between the two series of data. If FPL had included zero usage customers in its calculation of the impact from minimum use customers a larger adjustment would have resulted.

Q. Is Ms. Brown's estimate of the long-term average percentage of residential customers qualifying as minimum use customers appropriate?

A. No. Ms. Brown uses the period from September 2002 thru December 2007 to estimate the long-term average percentage of residential customers qualifying as minimum use customers, a period in which the percentage of minimum use customers averaged 7.42%. Data from the U.S. Census Bureau show that homeowner vacancy rates in Florida averaged 3.0% between September 2002 and December 2007, well above their long-term average of 2.2%. Therefore, Ms. Brown's assertion that the September 2002 thru December 2007 period be used to estimate the long-term average percentage of residential customers qualifying as minimum use customers should be rejected.

Q. Ms. Brown also states on page 38, lines 5 thru 10 of her testimony that FPL's assumption that all minimum use customers have zero usage results in an inflated calculation of the adjustment for minimum use customers. Do you agree?

A. No. The refinement suggested by Ms. Brown has only a marginal impact on the forecast. As shown on Exhibit RM-14, using 100 kWh as the assumed usage of these customers results in a decrease of only 0.09% in the minimum use adjustment in the 2010 test year. As I discuss below, of greater consequence is the actual trend in the number of minimum use customers.

Q. What percentage of residential customers qualify as minimum use customers based on the most recent actuals available?

A. As of June 2009, 9.03% of FPL's residential customers qualified as minimum use customers. By contrast, FPL's load forecast assumed that only 8.55% of residential customers would qualify as minimum use in June 2009. Based on this actual data through June 2009, an updated adjustment for minimum use customers for the test year would be 1.27%. As shown on Exhibit RM-14, this represents a 0.16% increase in the adjustment for minimum use customer in the 2010 test year from FPL's filed forecast, even with the assumption that minimum use customers use 100 kWh/month. Thus, FPL's proposed adjustment for minimum use customers is not overstated and, if anything, may be too low in light of recent actual data.

Q. Does Ms. Brown express any other issues with FPL's forecast of minimum use customers?

A. Yes. On page 37, lines 21 thru 25 and page 38, lines 1 thru 4, Ms. Brown cites discrepancies in the 2011 forecasted number of minimum use customers FPL provided in response to OPC's third set of interrogatories, request number 175. Consistent with the assumption of an improvement in the housing market in 2011, FPL reduced the adjustment for minimum use customers by 50% in developing its load forecast. Unfortunately, the projected number of minimum use customers in 2011 was incorrectly calculated in FPL's response to OPC's third set of interrogatories, request number 175. While any confusion this may have caused is regrettable and is being corrected with a supplemental interrogatory response, this error had absolutely no impact on FPL's load forecast or MFR filing.

Q. Ms. Brown on page 38, lines 11 thru 20 of her testimony describes what she calls an error in the way FPL applied its re-anchoring adjustment. Is her concern justified?

A. No. FPL calculated the re-anchoring adjustment based on the average level of 2008 usage, after taking into account changes in mandated energy efficiency and the addition of the Seminole Electric Power Sales. In developing the forecasts for 2009, 2010 and 2011, the re-anchoring adjustment was then applied to the output of the econometric model before any adjustments for mandated energy efficiency or the Seminole Electric Power Sales. However, even if the re-anchoring adjustment were applied to the output of the econometric model after adjusting for mandated energy efficiency and the Seminole Electric Power Sales, the impact on the forecast would be trivial, less than 0.05% in the 2010 test year.

Q. Aside from the conceptual issues of how the adjustments to the load forecast should be developed, does Ms. Brown accurately compute the methodology she advocates?

A. No. Ms. Brown's computation contains a serious arithmetic error. On her Exhibit SLB-9, page 1 of 3, column k, the sum of "NEPACT" (i.e. mandated energy efficiency) and new wholesale contracts (i.e. the Seminole Electric Power Sales) in 2008 is incorrectly shown as -2,270,684,789 kWh. In reality, the sum of mandated energy efficiency and the Seminole Electric Power Sales in 2008 is -1,568,228,958 kWh. Exhibit SLB-9, page 1 of 3, column k, repeats the same values for both 2008 and 2009 suggesting that this error may be typographical in nature. However, the implication of this error on OPC's calculations is significant since Ms. Brown advocates computing the re-anchoring adjustment based on the "Revised NEL before Re-anchoring" for 2008 which is incorrectly calculated based on the error in column k. Thus, even if one accepted OPC's flawed methodology for computing the adjustments to the load forecast, this error means that OPC's proposed re-anchoring adjustment shown in column n of Exhibit SLB-9, page 1 of 3, would be significantly miscalculated. Correcting solely for the impact of this arithmetic error, OPC's proposed re-anchoring adjustment, which is shown as -0.075% in column n of Exhibit SLB-9, page 1 of 3, would instead be -0.702%.

Q. What impact does this specific error have on OPC's proposed load forecast?

A. As a result of the error in column k of Exhibit SLB-9, page 1 of 3, the forecasted values shown as the "Revised NEL Model" in column o are overstated in every year. These figures, in turn, are used as OPC's proposed load forecast on Exhibit SLB-9, page 2 of 3, which is shown as "Load Forecast Analysis Revenue Calculations – Minimum Use Correction Only." Thus, even using OPC's flawed methodology, OPC's proposed load forecast based on what it calls "Minimum Use Correction Only" is overstated by approximately 698 GWh in 2009, by 704 GWh in 2010, and by 713 GWh in 2011.

Q. Does this specific error also impact OPC's proposed increase in FPL's revenue forecast?

A. Yes. On Exhibit SLB-9, page 2 of 3, OPC proposes a $43.7 million increase in 2010 and a $37.5 million increase in 2011 in FPL's revenue forecast. However, had OPC correctly reflected the sum of 2008 mandated energy efficiency and incremental wholesale sales on Exhibit SLB-9, page 1 of 3, column k, their proposed increase to FPL's revenue forecast would be $19.8 million in 2010 and $13.3 million in 2011. Thus, OPC's error in the sum of the 2008 mandated energy efficiency and incremental wholesale sales resulted in an overstatement of FPL's revenues of $23.8 million in 2010 and $24.1 million in 2011.

Q. Does this mean an increase in FPL's revenue forecast of $19.8 million in 2010 and $13.3 million in 2011 would be appropriate?

A. Not at all. OPC has not demonstrated that any revision in FPL's revenue forecast is needed. I merely wish to point out that OPC has not correctly implemented the methodology they advocate.

Q. How accurate has OPC's proposed load forecast been based on what it calls "Minimum Use Correction Only"?

A. OPC's proposed forecast based on what it calls "Minimum Use Correction Only" has a year-to-date variance on a weather normalized basis of -1.49%, an error more than fifteen times larger than FPL's forecasting variance during the same period. Exhibit RM-12 provides a graphic illustration of the superior forecasting accuracy of FPL's forecast.

Q. What monthly pattern do you observe in OPC's proposed load forecast based on what it calls "Minimum Use Correction Only"?

A. Exhibit RM-15 shows the monthly patterns in the forecasting error of FPL's forecast versus OPC's proposed load forecast based on what it calls "Minimum Use Correction Only." The monthly pattern of OPC's forecast clearly shows a consistent bias toward over-forecasting NEL. OPC's proposed "Minimum Use Correction Only" load forecast has over-forecasted NEL each and every month of 2009 thru June. By contrast, FPL's forecast shows a far more random pattern in the forecast error, with some months over-forecasted and some months under-forecasted. This pattern demonstrates that there is no underlying bias in FPL's load forecast.

Q. Does OPC offer another proposed load forecast in addition to the one referred to as "Minimum Use Correction Only" on Exhibit SLB-9, page 2 of 3?

A. Yes. OPC also proposes a load forecast based on removing the re-anchoring adjustment altogether. This proposed load forecast is referred to as "Minimum Use Correction and Remove Re-anchoring" on Exhibit SLB-9, page 3 of 3. Ms. Brown offers absolutely no explanation in her testimony to support the complete removal of the re-anchoring adjustment. Not surprisingly, this revision further compromises the accuracy of the forecast.

Q. How accurate has OPC's proposed load forecast been based on what it calls "Minimum Use Correction and Remove Re-anchoring Adjustment"?

A. As shown on Exhibit RM-12, OPC's proposed "Minimum Use Correction and Remove Re-anchoring Adjustment" load forecast has a weather-normalized year-to-date variance of -1.56%, more than fifteen times as high as FPL's forecasting variance.

Q. What monthly pattern do you observe in OPC's proposed load forecast based on what it calls "Minimum Use Correction Only and Remove Re-anchoring Adjustment"?

A. Exhibit RM-15 shows the monthly patterns in the forecasting error of FPL's forecast versus OPC's proposed load forecast based on what it calls "Minimum Use Correction and Remove Re-anchoring Adjustment." OPC's proposal again chronically over-forecasts NEL with a negative forecasting variance each and every month. This clearly indicates an underlying bias in OPC's proposed load forecast. Moreover, the trend in recent months is one of an increasing tendency to over-forecast.

Q. Aside from their lack of accuracy and forecast bias, what other conclusions do you draw from your analysis of OPC's two proposed load forecasts as presented by Ms. Brown?

A. OPC's proposed "Minimum Use Correction Only" load forecast does not represent any legitimate corrections to FPL's adjustment for minimum use customers. Rather, the revenue impact shown on Exhibit SLB-9, page 2 of 3 is the result of understating the adjustment for minimum use customers and miscalculating the re-anchoring adjustment. The understatement of the adjustment for minimum use customers results primarily from the inappropriate time period Ms. Brown uses to estimate the long-run average percentage of residential customers using between 1 and 200 kWh/month. The miscalculation of the re-anchoring adjustment is the result of the false impression that a double-counting exists between the re-anchoring adjustment and the adjustment for minimum use customers. OPC's miscalculation of the re-anchoring adjustment is then further compounded by its arithmetic error in summing the 2008 impact of mandated energy efficiency and new wholesale sales as shown on Exhibit SLB-9, page 1 of 3, column k.

OPC's proposed load forecast based on what it calls "Minimum Use Correction and Remove Re-anchoring Adjustment" represents an even more extreme and less successful attempt to revise FPL's forecast. Given the econometric model's tendency to over-forecast the level of NEL, as shown on Exhibit RM-13, it is difficult to imagine why anyone would conclude that a re-anchoring adjustment is not required. By eliminating the re-anchoring adjustment and understating the adjustment for minimum use customers, OPC attempts to address what is a 3.33% to 4.44% bias toward over-forecasting with adjustments that sum to only a 2.0% reduction in the output of the econometric model. Given this gap, it is not surprising that OPC's "Minimum Use Correction and Remove Re-anchoring Adjustment" load forecast has a weather-normalized year-to-date variance of -1.56%.

In summary, OPC's proposed load forecasts are clearly inferior to FPL's load forecast and should be rejected by the Commission. Likewise, the revenue deficiency impacts calculations presented on Exhibit SLB-10 which rely on OPC's proposed load forecasts should be rejected.

LOAD FORECAST IN THE 2011 TEST YEAR

Q. OPC witness Brown on page 5, lines 1 thru 22 of her testimony and SFHAA witness Kollen on page 7, line 11 thru page 9, line 13 of his testimony both state that forecasts for the 2011 test year are too speculative to be relied on in this proceeding. Is FPL's load forecast for the 2011 test year speculative?

A. No. FPL's load forecast for 2011 is reasonable and is not the result of negative speculation regarding the timing of the economic recovery. FPL's 2011 load forecast to a large extent reflects the start of a recovery in customer and sales growth. Accordingly, FPL's load forecast shows NEL increasing by 1.6% in 2011, its highest rate of increase since 2006. Likewise, FPL's load forecast shows the number of customers increasing by 1.3% in 2011, its highest rate of increase since 2007. It is also important to keep in mind that uncertainty regarding the 2011 test year is a two-sided risk. Indeed, based on the information currently available, there is a relatively greater risk that FPL's 2011 load forecast is too high rather than too low.

Q. **What factors suggest that the 2011 load forecast may be too high?**

A. The University of Florida released a new population forecast in March 2009 indicating even lower population growth through 2011. While the University of Florida has a history of underestimating the state's long-run population growth, their shorter term accuracy has been very good. Moreover, the reduction in short-term population growth indicated by the University of Florida is consistent with FPL's own experience which shows the number of customers continuing to fall on an annual basis.

Q. **What impact would the University of Florida's March 2009 population forecast have on FPL's load forecast for the test years?**

A. The University of Florida's March 2009 population projections would result in a 0.7% reduction in NEL in 2010 and a 1.5% reduction in NEL in 2011 relative to FPL's filed load forecast.

Q. **Are there any other factors which would reduce the load forecast for the test years?**

A. Yes. FPL's load forecast does not reflect any incremental DSM. In other words, FPL's load forecast reflects only existing DSM programs and participation levels. Incremental DSM is treated as a line item reduction to the load forecast as part of the resource planning process.

Q. What impact would incremental DSM have on the load forecasts for the test years?

A. In Docket 080407-EG, FPL has proposed 74.1 GWh of incremental DSM in 2010 and 148.6 GWh in 2011. These estimates would reduce FPL's projected NEL by about 0.1% in both 2010 and 2011. Of course, to the extent that there are any modifications in the actual level of incremental DSM, these impacts would be affected. For example, in Docket 080407-EG, GDS Associates has proposed 594.2 GWh of incremental DSM in 2010 and 1191.5 GWh in 2011. These estimates would reduce FPL's projected NEL by 0.6% in 2010 and by 1.1% in 2011.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BY MR. BUTLER:

Q Dr. Morley, are you also sponsoring the exhibits attached to your rebuttal testimony?

A Yes, I am.

Q And were these prepared by you or under your direction, supervision or control?

A Yes, they were.

Q Do you have any changes or corrections to them?

A No, I do not.

MR. BUTLER: Madam Chairman, I would note that Dr. Morley's rebuttal exhibits, RM-12 through RM-15, have been identified, premarked for identification as Nos. 333 through 336.

COMMISIONER EDGAR: Thank you.

BY MR. BUTLER:

Q Dr. Morley, would you please summarize your rebuttal testimony?

A Yes. The purpose of my rebuttal testimony is to address revisions to FPL's sales forecasts proposed by OPC Witness Brown.

The ultimate objective of a forecast is to provide an accurate prediction of the future. FPL's sales forecast is meeting this objective. In order to measure accuracy, we look at what is called the forecasting variance which is the difference between weather-normalized actuals and the forecast. The chart immediately behind me compares FPL's sales forecasting variance with those of OPC based on weather-normalized year-to-day net energy per load through June. The goal is to be as close to the zero line as possible, and FPL's forecast is very close to zero. In fact, FPL's year-to-day variance is less than 0.1 percent. This clearly shows that FPL's forecast is highly accurate. To a large extent, this accuracy is attributable to the reasonable and appropriate adjustments FPL made to the econometric model used to forecast sales.

OPC has proposed two alternative sales forecasts based on either reducing or eliminating two of these needed adjustments. As a result, OPC's proposed sales forecasts are far less accurate than FPL's. As you can see, each of OPC's proposed forecasts have a year-to-date variance many times the size of FPL's. In fact, each is 15 times as large as FPL's.

In addition to the year-to-date variance, another important measure of how well the forecast is performing is the monthly pattern in the forecasting variance. A good forecast should be unbiased. In statistical terms, this means that there should not be a pattern of either consistently over-forecasting or consistently under-forecasting. Conversely, in statistical terms, a biased forecast is one that does consistently over-forecast or under-forecast. The monthly pattern in FPL's forecasting variance shown in second chart confirms that FPL's forecast is unbiased. By contrast, all of OPC's forecasts, including those submitted in Ms. Brown's supplemental testimony, have a consistently negative forecasting variance. In other words, OPC's forecast chronically over-forecasts sales. In statistical terms, this clearly indicates an underlying bias in all of OPC's proposed forecasts. So, by the important measure of whether a forecast is unbiased, FPL's forecast is plainly superior to all of OPCs.

In conclusion, FPL's sales forecast is a superior forecast as it is both accurate and unbiased.

This concludes my rebuttal summary.

MR. BUTLER: Thank you, Dr. Morley. I tender the witness for cross-examination.

ACTING CHAIRMAN EDGAR: Thank you.

Ms. Christensen.

CROSS EXAMINATION

BY MS. CHRISTENSEN:

Q Good morning, Commissioners. Good morning, Ms. Morley.

A Good morning.

Q Now, as you've just discussed in your opening, Ms. Brown noted that there was an error in the way the re-anchoring adjustment was applied in the 2009-2011 timeframe where FPL applied the adjustments to the NEL before the energy efficiency adjustment and the wholesale adjustments rather than after. On page 10 and 11 of your rebuttal testimony, it appears that you agree that this is what FPL did but you conclude that Ms. Brown's concern is not justified.

Now, is it correct to say that your conclusion was based on the magnitude of the error?

A I don't agree with it that it was an error at all. I think that the way FPL did the forecast was appropriate, and I think that's evident by the fact that we have a lower year-to-date sales forecasting variance.

Q So am I correct in assuming you did not quantify what Ms. Brown has termed an error?

A No, I did quantify it, and I believe, as I show on page 11, line 4, it results in an impact of less than 0.5 percent which is, you know, virtually zero for all practical purposes.

Q Okay. Well, let me ask you this: The re-anchoring adjustment is negative 1.29 percent, correct?

A That's correct.

Q And in 2010 the minimum usage adjustment is negative 1.1 percent, correct?

A Could you repeat the year, Ms. Christensen?

Q 2010, the minimum net usage adjustment is negative 1.1 percent.

A Yes, that's correct.

Q So the total adjustment for re-anchoring and minimum use in 2010 would be a cumulative negative 2.39 percent, correct?

A That's correct, and that's entirely appropriate. We made those two adjustments because of the model's tendency to over-forecast sales, and in fact in 2008 it was over-forecasting by between 3.3 and I believe 4.2 percent. That's a big number. So we made those adjustments to correct that problem.

Q Well, let me draw you back to my questions, which -- would you accept, subject to check, that the energy efficiency adjustment for 2010 is 3,237,749 megawatt hours?

A Yes.

Q Okay, and would you further accept, subject to check, that 2.39 percent of that 3.2 million-megawatt hours is 77,382-megawatt hours?

A If you -- I would be happy to write those figures down and --

Q Yeah, certainly. It is 2.39 percent of the 3,237,749-megawatt hours which would result in 77,382 megawatt hours.

A Yes.

Q Okay. And assuming then an average loss factor of six percent, would you agree that this equates to approximately 72,739-megawatt hours in sales?

A Yes.

Q And in an average rate of about 3.6 cents per kilowatt hour for base rates, this would be about approximately $2.6 million, correct?

A I would accept that arithmetic, subject to check.

Q Okay. And as you stated before, you would not consider $2.6 million a significant error in the forecasting?

A No, not at all. And that is not the first -- that is not the question you asked me previously.

You asked me about the order of the adjustments, not making the adjustment. I think it's very important to make the adjustments, including the adjustment for mandated energy efficiency. That was not the question you asked me previously. You asked me about the order of the adjustments.

Q Okay. In your rebuttal testimony you indicate that your load forecast is pretty close to the actuals for 2009, is that correct?

A That's correct.

Q And you say it's off by less than a positive .1 percent, correct?

A Well, it's off by much closer than that. If you -- again, referring to the chart behind me, it's within 0.4 percent.

Q Okay. And did you update all of your regression independent variables for 2009 to determine whether the model was accurately forecasting in 2009, or did you just compare the previous forecast outputs using the forecasted variables?

A The way we perform a variance analysis is we compare the forecast with the weather-normalized actuals.

Q Okay. So it would be fair to say that you did not update the input variables?

A No, because that is not the way we perform a variance analysis. You see how well the forecast is doing relative to the actuals. You don't change the forecast.

Q Okay. So you would not know if the model was really a good fit in 2009, correct?

A No, I disagree. I think the ultimate proof of how well a forecast in a model is doing is how well the forecast is doing.

Q But to test that, you would really need to apply the actual variables for the same period, correct?

A No.

Q Okay. Well, let me ask you this: Has the household disposable income decreased or increased from your previous estimates in your model?

A We believe our forecast remains on target. We forecasted a decline in real household disposable income consistent with this recession, and we stand by that forecast.

Q Well, let me have you answer the question that I was asking which was: Has household disposal income decreased or increased from the estimates that were in your model?

A The actuals for real household disposable income are not available for 2009 as of yet; however, based on all the indications we have about the economy, we believe our forecast for real household disposable income remains on track.

Q Okay. So you don't know because the information is not available or -- I'm not understanding the answer to the question.

A The actuals for real household disposable income for 2009 are not yet available; however, the net energy for load for 2009 is available, and as you can see, our forecast is performing very well.

Q Okay. And regarding real prices, it's the same real price information. Is that available currently for 2009?

A Yes.

Q Has that increased or decreased from the inputs that you used in your model?

A I don't recall.

Q Okay. And regarding population, is the 2009 information available?

A Yes.

Q And has that increased or decreased from what was used in your model?

A That has decreased. Our population forecast, as I mentioned in August, was based on the November of 2008 University of Florida estimates. Those have since been revised downwards. So, as I talk in my rebuttal testimony, the risk to the forecast going forward is probably that population and customers may be even lower than projected. So that they're -- to the extent that -- you know, forecasting, there's always an uncertainty. The relative uncertainty in this case is that the forecast may be too high.

Q Well, I assume that, if you had updated the factors, the forecast would have been reduced; is that correct?

A Without fully doing that process, I can't say, but I do believe, because population is such an important component in the forecast, that that is where the relative risk is.

Q Okay. And if your forecast was reduced and you still applied a re-anchoring or minimum-use adjustment, your year-to-date variance of less than plus .1 percent would actually become an under-projection, correct?

A I'm not sure of that without performing that calculation.

Q Okay. You would agree that the minimum-use customers rose significantly in 2008?

A Yes, especially towards the latter half of the year.

Q And you would also agree that the number of minimum-use customers affects the overall average use per customer, correct?

A Yes. We are certainly seeing that today.

Q And the database for your regression included customers and kilowatt hours usage back to 1998, correct?

A That's correct.

Q So the minimum-use customers in each month of the database affected the average use per customer for that month, correct?

A Yes.

Q However, you chose in your modeling to use the minimum-use customers from 2003 through 2004, correct?

A Yes, and if I could explain for a moment, we've always had a certain number of minimum-use customers in our system. We don't adjust for that accurate amount. We only adjust for the increment, if you will, the addition in empty homes we've had in the last year or two as a result of the housing crisis. So we have to come up with kind of a baseline estimate of the percent of empty use -- percent of minimum-use customers, and we used 2003-2004 to come up with that average because that's a time period where vacancy rates were near their long-term average.

Q However, you did not use the longer-term historical average, the 2000 -- or, I'm sorry, the 1998 through the 2007 time period, correct?

A No. That data is not available.

Q Okay. But it's not the minimum use that's represented over the entire database when you use the

2003-2004, correct?

A We believe it's a reasonable proxy, and I think the ultimate test of that is how well the forecast is doing, which is clearly doing very well.

Q When you prepared your regression analysis, you used a long period of monthly historical data for several independent variables to forecast the dependent variables, in this case energy, correct?

A I would ask you to repeat. You said a "resident variable"? I don't think I caught the second word.

Q Let me repeat the question. It might be -- to make sure I don't stumble over the words. When you prepared a regression analysis, you use a long period of monthly historical data for several independent variables to forecast the dependent variable, which in this case is case energy, correct?

A Yes, we have monthly use-per-customer data going back to -- we use monthly use-per-customer data going back to 1999.

Q Okay. And so -- and that data would have covered from '98 to 2008, correct?

A That's correct.

Q And we're talking -- in the historical energy use as an input into the model, to derive a relationship between the independent variables and the energy use, correct?

A That's correct.

Q And the historical energy use data reflected the use of all of FPL customers including minimum-use customers, correct?

A Yes.

Q It didn't just reflect the periods that were considered close to the long-term averages, correct?

A That's correct. It considered the full period.

Q Okay. And if you know -- this is a slightly different topic -- how many times has the University of Florida updated it's population assumptions in the last year and a half, if you know?

A I've been asked that question a lot, so I should know it off the top of my head. They revised it I'm going to say about six times.

MS. CHRISTENSEN: Okay. That's all the questions I have. Thank you, Ms. Morley.

THE WITNESS: Thank you, Ms. Christensen.

ACTING CHAIRMAN EDGAR: Ms. Bradley?

MS. BRADLEY: No questions.

ACTING CHAIRMAN EDGAR: Mr. Moyle.

/ / / / /

CROSS EXAMINATION

BY MR. MOYLE:

Q I have a few. Do you have expert -- are you testifying as an expert in this case, do you know, or a fact witness or --

A I'm testifying on the load forecast.

Q Okay. So would it be fair to indicate that you have familiarity with statistics and forecasting?

A Yes.

Q Okay. So just so I'm clear, statistics is something you're comfortable talking about, right?

A I think it depends on the question, but yes.

Q Well, with respect to statistics, do you have any understanding as to a variation with respect to it being material on a statistical basis? Did you follow that question?

A I think I did, and there's probably several ways of -- it depends on what you're looking at. It's -- sometimes you look at a standard deviation. I don't know if that's where you were getting to.

I think in forecasting, you know, variation may depend on, you know, what you're looking at. Certainly, if you're looking at an error, you would be very interested in any trend. That's why we made our adjustment to the forecasting model, not just in terms of the magnitude, but the fact that there was such a consistent trend in the model over-forecasting.

Q And is a standard deviation in statistics -- is it truly standard?

A It's got a standard formula.

Q Well, I guess really what I want to talk about -- you've got those big charts behind you up there, and, you know, were making a point about, well, OPC's is wrong by one and a half percent and yours was half a percent higher. I mean, at the end of the day, to my way of thinking, the cumulative error is -- or it's not even an error, it's just a forecast being off by about one percent, correct?

A No. I'd like to address a couple of things in that. Just to be clear, in the chart we are within -- as shown here, within 0.4 -- .04 percent versus OPC, which is off by -- which is over-forecasting by between one and a half and 1.6 percent, and in the world of forecasting -- maybe not statistics, but in the world of forecasting, that is a significant difference, and I certainly couldn't go to my boss and say, hey, I'm only within -- I'm in some standard deviation of the error. That would not be acceptable in forecasting.

Q Okay. I apologize about the .004 percent. My eyes were not getting there when you handed the handouts. I was wrong on that. So you're saying that, with respect to forecasting, a one-percent variation is significant, but with respect to statistics, it's not?

A Well, I think it depends on what you're looking at in statistics. I would say for forecasting, it is significant, and I think what is more significant in OPC's proposed forecasts is the consistency of the trend because what happens when you have a forecast which is consistently either under- or over-forecasting, then that error tends to get larger over time.

Q And the University of Florida had a consistent trend in their errors in forecasting population over the last couple of years, have they not?

A Yes, and I believe this is addressed in a late-filed exhibit that staff requested is that there -- on a long-term basis, the University of Florida -- and when I say long-term, I'm going ten years or more. On a long-term basis they have consistently under-forecasted long-term population growth, but when we look at a shorter period of time, that has not been the case particular recently with the decline in population.

Q The error in the short term, they've also predicted -- well, tell us about the short term. You had talked about -- you were asked a question by OPC about the University of Florida's forecast being in error over the short term, and I don't think you gave us the information about how the error was realized. Could you do that?

A Sure. I'm trying to be really quick here. I wanted to -- well, let me go to that -- is that the -- our forecast for population from the University of Florida assumed that in 2009 the population was going to increase by about 75,000, and that was based on their November, 2008 projections. They have subsequently come up with another forecast and also with an estimate of the actual number of population for 2009, and that estimate of the actual level of population in 2009 shows not an increase but a decrease by about 58,000. So that's a fairly significant revision on their part.

Q And that would be a lot more than the 1.5 percent shown on your chart with respect to a forecast variance, would it not? Initially it was a 75,000 increase and now it's a negative number?

A Oh, absolutely, and that's why, as I discuss in my rebuttal testimony, the risk of the forecast going forward is that it may actually -- our forecast may actually be too high because of the downturn in population.

Q There was a story -- I don't know if you saw the paper today. There was a story about it is projected that Florida may only pick up one congressional seat because of population changes in the upcoming census. Did you see that this morning in the *Democrat*?

A I didn't have time to read the paper this morning, unfortunately.

Q Well, I guess the question and the point I want to make on that is that, when you actually go about and make a decision about a congressional seat, they actually count people. They go out and they do a census. Are you aware of that, that the census is an actual count? You send something in the mail -- I mean, they're trying to get realtime data. It's not based on forecasts.

MR. BUTLER: I'm going to object to this line of questioning. I don't see the connection to Dr. Morley's rebuttal testimony.

ACTING CHAIRMAN EDGAR: Mr. Moyle, are we getting far afield?

MR. MOYLE: Well, it is, admittedly, probably far afield, but I think the point that I want to try to make, and I can ask her the point, is --

ACTING CHAIRMAN EDGAR: Can you draw that point to her rebuttal?

/ / / / /

BY MR. MOYLE:

Q Sure, sure. You would agree, would you not, that real data is better for making decisions as compared to forecasts because forecasts are variable but real data is a historical piece of information? You would generally agree with that proposition, would you not?

A You know, I believe I've been asked this question before, and as I said previously, it depends on what you're looking at and your usage. In terms of the census, of course, they do count people. They only do that every ten years because it's only practical, probably, to do it in that. So no, I cannot agree with that.

Q So you would agree with -- I guess you would say you'd need more information as to what it is you're looking at as to whether realtime data would be a better indicator as compared to a forecast?

A Yes, what you're looking at and what you're trying to do.

Q If I understand your bone of contention with OPC, it's that you have a difference in forecasts. When you forecast net energy for load, you forecast it on a long-term basis; do you not?

A We forecast it monthly. We have -- and we also have a long-term forecast.

Q Okay. And your long-term forecast, how many years does it go out?

A Quite a few. More than 20.

Q More than 20?

A Correct.

Q So if the graph that you put up there that you showed with the 1.5 percent under-forecast of OPC, that's year-to-date, is that right, or through June, I guess?

A Yes.

Q Okay. And if we put that out on a broader scale, say, you know, a ten-year scale, it very could well be that the OPC forecast is more accurate than the Power & Light forecast if you did it on a ten-year basis, correct?

A No. I wouldn't necessarily agree with that. In fact, one thing we have looked at is, one of the best indications of how well a forecast is going to do going out in the future is how well the forecast is doing currently. In OPC's case, they would have -- they had a compound error because basically they're over-forecasting this year's sales significantly, and in order to overcome that, we would have to have really unrealistic growth next year. So, no, I don't think I could agree with that, Mr. Moyle.

Q But if you're looking at a point ten years -- I mean, you don't know what's going to happen in ten years, do you? We can't see ten years into the future.

A I would agree with you that the further out we go -- and if you're talking ten, 20 years, yes, the impact of this year will have less impact as you go further out, but I think, if we're talking about the years 2010 and 2011, I think the sales forecast variance this year is very relevant.

Q You were asked questions about forecasts for 2009 household disposable income, and you said that information is not available to you, is that right?

A That's correct.

Q But you did say that you believe that it's on track, that your indications are that the forecast for disposable income is on track; is that right?

A That's correct.

Q Okay. And what does that track show?

A Well, basically we assumed that there would be a decline in real household disposable income this year consistent with a severe recession, and all indications are that we are in a severe recession and we will -- the Florida economy certainly will continue to struggle for the next year or so.

Q So what percentage of reduction in disposable income did you assume or did your forecast indicate?

A I believe it was a peak decline of about four percent in April this year, and then the declines would, you know, gradually get lessened, and again this is something we've heard on the news a lot lately, you know, we still have declines but not so bad, and that's basically what our forecast calls for.

Q And in preparing that forecast, isn't a key driver of that forecast what you think salaries may do if people -- I mean, disposable income is how much money a family or a person has to spend after taxes, correct?

A I think you asked me two questions. Can I --

Q Okay.

A Can I get the first one again?

Q What's disposable income?

A It is income from wages and salaries, interest income, transfer payments, adjusted for income taxes.

Q Okay. And do you know -- you talked about interest income. That would be like from investments or monies invested in a certificate of deposit, for example; is that right?

A That's correct.

Q Do you know what -- isn't it true that the lion's share of disposable income for Floridians comes from salaries?

A That's correct.

Q And with respect to the forecasts, don't the forecasts also indicate that salaries are not increasing presently or in the next year?

A I think the -- our forecast for real disposable income is driven by more employment and average work hours than salary levels.

Q Okay. But my question was specific as to salaries. What do your salaries show? What are you forecasting with respect to salaries for 2009 and 2010?

A We don't have a forecast of salaries. We have a forecast of real household disposable income.

Q So as we sit here today, you don't have information as to salaries and whether, as a general sense, those are going up, staying stagnant, or going down in the state of Florida as a whole?

A No. We find that employment is really more of a driver, and we certainly have tracked, you know, how unemployment has been increasing in Florida.

Q So the four-percent reduction you believe is largely attributable to unemployment, high unemployment, as compared to a reduction in salaries?

A Yes.

Q And you do track unemployment, right? I guess there's statistics available for that.

A Yes.

Q Are there statistics available for salary?

MR. BUTLER: I'm going to object. I don't think that Mr. Moyle's question goes to anything in Dr. Morley's rebuttal testimony, and if he can point to where it is, then that would be fine. Otherwise, I object.

ACTING CHAIRMAN EDGAR: Mr. Moyle, can you point to a --

MR. MOYLE: Well, she talked about the general state of the economy, and, you know, she previously answered about the, you know, four-percent reduction, but it was interesting -- you know, we had a salary --

ACTING CHAIRMAN EDGAR: I take that as a no. Sustained.

BY MR. MOYLE:

Q All right. On page 10 of your testimony, I guess FPL made a mathematical error, is that right, in its calculation of the minimum-use customers?

A No, we did not make an error in the calculation of our sales forecast, our MFRs. We did make an error in a response to an interrogatory from -- that was addressed to OPC, which we have corrected.

Q And that was a mathematical calculation error that was made?

A Yes.

Q Okay. And I just want to spend a couple of minutes on this difference between a minimum-use customer and a zero-use customer. Can you try to explain in terms that a lawyer might be able to understand the difference between a minimum-use customer and a zero-use customer?

A Sure. I will try to do that. I think of zero-use customers being more akin to an inactive meter, meaning the meter's not running, they're not using anything, where a minimum-use customer is using between one and 200 kilowatt hours a month, which is far below what an average residential customer is using, and I'll leave it at that.

Q And in your testimony, like on page 8, line 10, you state, "As defined in my direct testimony, I am using the term minimum-use customer to reflect those customers using between one and 200 kilowatts per hour, not those using between zero and 200 kilowatts per month," and my reading of that indicates that the distinction between those two measurements is really one kilowatt hour, is that right?

A That's correct.

Q Okay. And that's the distinction that you just pointed out, in effect, somebody doesn't even have a meter on; is that right? If it's a zero-use, the meter is not charged?

A I don't know that's the case, Mr. Moyle. I would say there's no usage.

Q And what's the significance of that, the difference between a minimum-use and a zero-use, for the purposes of forecasts?

A We adjusted for minimum-use customers, meaning they have some usage but it is far below what a normal customer would be using.

MR. MOYLE: Okay. That's all I have. Thank you.

ACTING CHAIRMAN EDGAR: Mr. Wright.

CROSS EXAMINATION

BY MR. WRIGHT

Q Thank you, Madam Chairman. I do have a few questions for Dr. Morley.

A Good morning.

Q Good morning, Dr. Morley. Welcome back.

A Thank you.

Q I do have a few questions about your forecasts and the forecast errors and adjustments that you discussed in your rebuttal testimony. At page 5 you discuss the bias toward over-forecasting evident since

March, 2008, and I'd like to begin by exploring that. You discuss a trend -- and I think you talk about this at page 3, 4 and 5 of your rebuttal testimony. You discuss an observed trend in forecasting error of negative 3.33 percent for the period March, 2008 through December, 2008; correct?

A Yes.

Q Just so I'm clear and I understand what we're talking about here, does this mean that on average for that period the actual observed value was 3.33 percent less than the value predicted by your model?

A Yes.

Q Okay. And so, similarly, the average of negative 4.4 percent for the fourth quarter of 2008 means that for that period the average forecast error was four point -- the average -- the forecasted value was on average 4.44 percent less than the predicted value, correct?

A Yes.

Q When you refer to the average -- and we can just talk about the fourth-quarter number here. When you talk about the average of -- being negative 4.44 percent for that three-month period, is that an average of the three monthly variances?

A That's correct.

Q And I take it from the tenor of your testimony that you'd agree that a forecast error of more than three percent, plus or minus, is significant; would you not?

A Yes, but just to add a little bit to that, I also think it's important to note the consistency in the monthly pattern of the error, not just the level.

Q Right. And I think you talked about that in your testimony. So it is two separate questions, and what your testimony I think specifically addresses is, if it's always off in the same direction, that by itself is significant; correct?

A Yes.

Q And then the question I was going on to ask beyond that is, if it's consistently off by three percent or so, is that a significant error?

A Yes.

Q Okay. You testified I think at the bottom of 4 in your testimony that before 2008 the model was doing fine. Is that correct?

A What I say specifically is there was not this consistent pattern of having a string of eight months or more of over- or under-forecasting.

Q Right. There was a pattern of positive variances and negative variances, correct?

A Yes.

Q Talking about your forecasts for 2008 with respect to which you observed the errors that you subsequently corrected, when was that forecast prepared or when were those forecasts prepared as applicable?

A The forecast -- the net-energy-for-load forecast was prepared in January, 2009.

Q I'm sorry. I was meaning to ask you about the forecast values for 2008 that you observed to be erroneous getting on toward the end of 2008, and my question I meant to be was: When was your 2008 forecast that turned out to have this bias in it prepared?

A It wasn't our 2008 forecast. It was our model.

Q Oh. Perhaps it would help me if we could just pick a period. Let's say October, 2008. Your model predicted a certain value, correct?

A Yes.

Q And that value was somewhere in the range of four and a half percent off, correct?

A Yes.

Q When you say the model was wrong as opposed to the forecast being off, what does that mean? Does that mean -- did you run the model in September of '08 and it predicted a value for October that turned out to be four and a half percent off, or -- I'm just trying to understand, when you say it was the model that was off as opposed to the forecast that was off, what does that mean?

A It means that the model was off. I'm sorry. I'm a little -- I'm not clear on what the question is.

Q Well, your testimony says that the model over-forecasted the actual level of NEL.

A Yes.

Q Okay. I would understand that to mean that the model prepares a forecast estimate for each month, is that correct?

A Yes.

Q And then what you observed was that the forecasted NEL value -- sticking with our October, 2008 example, the forecasted -- the value forecast by your model for 2008 was off by something in the range of four, four and a half percent?

A Correct.

Q My question -- the question I'm trying to get at is, when did you calculate the forecast value that turned out to be off by four and a half percent?

A Are you talking about for the year as a whole or for October?

Q Well, right now I'm talking about October.

I'd like to get to the point of the year as a whole, but --

A We would have calculated that once the October values were known. So it would have been around November.

Q You would have calculated the observed variance in November?

A Correct.

Q When was the forecast of the October value prepared that subsequently turned out to be inaccurate?

A Probably in early November.

Q I apologize, but I'm confused. Why would you be -- early November of what year?

A 2008.

Q Why would you have been forecasting October, 2008 in November of 2008?

A Because we need to calibrate our model.

Q At some point prior to October, 2008, was there a forecast value of NEL for October of 2008?

A Yes.

Q When?

A When was there a forecasted value?

Q I fear that perhaps we are talking past each other, and I don't know why or how that is, but let me try it again.

At some point -- in November of 2008 you did some recalibration calculations that confirmed that your October 2008 actual value was off by let's just say four and a half percent from a previously-predicted value. Is that true?

A From the previously-predicted value from this model. If I could -- that we also had a forecast for 2008 that would have been prepared as part of the budget in a prior -- like a year prior.

Q Was it the value that was prepared from the budget that was compared to the actual value observed in 2008 to calculate the forecast error?

A No, it was this model.

Q Okay. Do you compare your -- back up one step.

Do I understand that you prepared -- like I guess you prepare a forecast for budget purposes for a couple of years into the future.

A Yes.

Q Do you compare those -- the values that are predicted by those budget type forecasts to actual performance?

A Yes.

Q For October, 2008 relative to the -- let's say the October-November 2007 budget forecast, would the variance for -- from the actual observed October '08 value as compared to the predicted value from the budget forecast also have been on the order of four and a half percent?

A I don't remember what the magnitude was. I do remember that, before we developed this new model, we were having a problem of over-forecasting sales, and this model, along with the adjustments that we made, have really helped address that problem.

Q Do you use the same -- with the understanding that you have adjusted and corrected, in your view, the model that you're now using, but do you use the same model for the budget forecast that we're talking about here?

A This -- the model that we developed in January, 2009 that we're using for this rate case is the same forecast that we're using for all our official purposes now. That forecast was not necessarily the same as previously-developed forecasts.

Q Do you use -- as a general proposition -- and again, leaving aside the fact we know you made some changes and what you believe to be improvements in the model. Do you use the same model for your budget NEL forecast that we're talking about here?

A Could you -- I'm sorry, but when you say that -- the budget forecasts that we're talking about here, could you give me the year, the budget year you're referring to?

Q Well, for 2008 you prepared budget forecasts in something like October or November of 2007.

A Yes.

Q You used a model to prepare that forecast.

A Yes.

Q Was that the same model that was subsequently determined to be in error?

A That model is not the same as the model that we are using in this rate case. There were revisions to that.

Q I understand that. I was trying to break it up.

A Okay.

Q Was the model that you used for the budget forecast prepared in the fall of '07 the model that turned out to predict erroneous values for 2008?

A No, it was a different model. But just to clarify, again, the model that we're looking at here is the model we're using in the rate case, and that is the model that had the four-percent over-forecasting variance.

Q I understand your testimony to be that you have made corrections, adjustments to the model. Did you start with -- for this rate case. Was the starting point for the model for this rate case the same model you were using through 2007?

A No.

Q Ah-ha.

A We did other enhancements to the model. For example, we are using real household disposable income now. I believe we were using personal income, which is more of an aggregate number, before. And we also are looking at cooling degree hours instead of days now.

Q So would it be fair to say -- would it be accurate to say that you actually changed some variables in the model?

A Yes, we made enhancements.

Q And that some of the coefficients of the independent variables also changed?

A Yes.

Q Okay. We covered a couple of those -- you covered a couple of those in your previous response. You changed from cooling degree days to cooling degree hours.

A Correct.

Q And you made an enhancement in your disposable income variable.

A Yes.

Q What if any other significant changes did you make between the prior model and the one used for the rate case?

A And, of course, the adjustments that we've talked about, those were also enhancements, but not -- if you're talking about the regression model itself, I think that those are the main ones.

Q Did you change the population variable as the independent variable from the prior model to the current model?

A No. We've always looked at population as an input into our customer model. Of course, the vintage of the numbers would be different, but we have always -- we've always included population.

Q So the data changes as the University of Florida Bureau of Economic and Business Research estimates change?

A That's correct.

Q When did you recognize the bias in the model that you have discussed in your testimony that seems to have been sometime in late 2008 that you recognized that? Is that accurate?

A Yes, because that's when we calibrated and developed the model.

Q When was the forecast that is the subject of this rate case, your sales forecast for 2010 and 2011, prepared?

A I think, as I mentioned a moment ago, January, 2009.

Q Thank you for keeping me straight on that.

Was the underlying problem with the prior model that somehow you missed the economic downturn maybe through the input data or whatever?

A No. I think the basic problem was the prior model was over-forecasting, and it had -- that was the basic problem.

Q But it wasn't over-forecasting through 2007, correct?

A No, it was over-forecasting in 2007.

Q All right. Randomly?

A No.

Q Well, in light of that answer, I do not understand your statement at page 4, lines 13 and 14, which is, "Prior to 2008, the econometric model did not exhibit any underlying bias in terms of either under-forecasting or over-forecasting."

A Okay. So let me try to address this confusion. We do a forecast every year, and we had a particular model that we used that was probably developed in late 2007, and that was one forecast, okay. And that -- and then in late 2008 we began to assemble a new model. That new model is what I refer to -- the pages that you just cited, we recalibrate the model to see how it was doing, and that was -- that new model was showing that tendency.

Q So you did like a back-cast modeling of '07 using the 2008 model, and then that's --

A No.

Q No?

A No. We looked at the model we're using in this rate case and looked at the pattern in residuals for that model.

Q Do your forecast estimates for 2010 have a confidence interval? And by that I mean, can you say that you are X-percent, like 90 percent confident that your NEL forecast for 2010 will be between two values, X and Y, or such and such a percentage of the main line estimate?

A No, we don't have specific confidence intervals; however, as I mentioned before, historically -- and we have looked at this -- one of the best indications of how well a forecast will do in a future year is how well it's doing currently.

Q So you don't have a confidence interval at all?

A That's correct.

Q You can't say that you're 90 or 95 percent confident that your estimate for 2010 will be within between 95,000 GWH and 105,000 GWH?

A No, but we are very confident in our forecasts, and I think the variance to date shows why.

Q Would you agree that, as a general proposition, the accuracy of a model is likely to be less the further out in time the forecast goes?

A Yes.

Q If the underlying data input to your model shift, that would -- I shouldn't say would. Wouldn't it be true that that could cause a change in the output estimate the forecast?

A Yes.

Q So wouldn't it be true that, if the recovery occurs earlier than anticipated, it would be likely that your forecast estimate from January, 2009 would, given my assumption, understate the actual value?

A Yes, that is true. What is also true, if population is lower than we forecasted, as appears to be case, the opposite would be true.

Q Thank you.

Just a moment, Madam Chairman.

I do have it right, you're net-energy-for-load forecast is in the range of a hundred, 102,000 GWH per year for the next couple of years; correct?

A Could you repeat that?

Q Yeah, the question was simply do I have it right that the company's net-energy-for-load forecast for the next couple of years is in the ballpark of a 100,000 gigawatt hours or a hundred billion kilowatt hours each year?

A Yes.

MR. WRIGHT: I think that's all I have. Thank you, Madam Chairman. Thank you, Dr. Morley.

ACTING CHAIRMAN EDGAR: Mr. Wiseman.

MR. WISEMAN: No questions, Your Honor.

ACTING CHAIRMAN EDGAR: Are there questions from staff?

MS. BENNETT: No questions.

ACTING CHAIRMAN EDGAR: Are there questions from the bench?

I think I have one. When you are evaluating accuracy or veracity of a forecast after the fact, how do you determine what is error in the forecast and what is internal or built-in bias?

A I think, when we're looking for bias, that we're really looking for a pattern, a very consistent pattern. For example, when we look at -- when we had our discussion previously with Mr. Wright, is the model was showing a pattern where all the errors from March through December were over-forecasting, and that's a problem. So I think you're really looking at the pattern, like a one month here or there. You have maybe two months in a row, three months in a row, not such an issue, but if you have a pattern where it's like eight, ten months in a row, that's a problem.

ACTING CHAIRMAN EDGAR: Thank you.

Mr. Butler, redirect?

REDIRECT EXAMINATION

BY MR. BUTLER:

Q Thank you, Madam Chairman, just very briefly.

Dr. Morley, to clarify a couple of numbers in the record, at least as I have heard them, you were asked by Ms. Christensen about the information that appears on page 11 of your rebuttal testimony where you calculate what the impact would be if the re-anchoring adjustment would apply to the output of the econometric model after adjusting for energy efficiency and sum of all sales, and I heard you say 0.5 percent. Is that correct or is it 0.05 percent?

A I meant to say 0.05 percent.

Q Thank you. And, similarly, you were referring to the one point in responding to Ms. Christenson to the forecast variance for FPL shown on the chart behind you, Exhibit RM-12, and I heard you to say 0.4 percent, is that correct or is it 0.04 percent?

A It's .04 percent.

MR. BUTLER: Thank you. That's all the redirect that I have.

ACTING CHAIRMAN EDGAR: Okay. Let's take up exhibits.

MR. BUTLER: I would move the admission of Exhibits 333 through 336.

ACTING CHAIRMAN EDGAR: Any objections?

Hearing none, show Exhibits 333 through 336 entered into the record at this time.

(Exhibit Nos. 333 through 336 received in evidence.)

ACTING CHAIRMAN EDGAR: I believe that is it for this witness?

MR. BUTLER: I think that's it. May she be excused?

ACTING CHAIRMAN EDGAR: You may be excused. Thank you very much.

MR. BUTLER: Thank you.

Shall we call our next witness?

ACTING CHAIRMAN EDGAR: I was just going to say, Mr. Butler, we'll give her a just a moment to collect her things and then, yes, please, call your next witness.

MR. BUTLER: Thank you. That would be Mr. Barrett appearing for his rebuttal testimony.

ACTING CHAIRMAN EDGAR: Mr. Butler, we're ready when you are.

MR. BUTLER: Thank you, Madam Chairman.

Before we introduce Mr. Barrett and have him give his summary, we have just handed out late-filed Exhibit 419, and it came to my attention this has not been moved into the record earlier. It was an exhibit that staff had requested that performed a comparison of what were originally-submitted budget proposals to the actual approved budgets for O&M. There was an exhibit to that effect in Mr. Barrett's testimony, direct testimony on capital but not O&M, and my recollection is that staff had requested this exhibit. So I wanted to hand it out at this point. We'll just move it into evidence at the end of Mr. Barrett's rebuttal testimony, but I wanted to be sure that the parties had access to it if they had any questions for Mr. Barrett about it.

ACTING CHAIRMAN EDGAR: Okay. So we'll take that up at the end and it has been distributed to everybody. Mr. Moyle.

MR. MOYLE: I'm just trying to remember, I know that earlier in September, we had discussions about late-filed exhibits, and I think FIPUG and the Attorney General had voiced objections. This was one that was requested during the hearing, Mr. Butler?

MR. BUTLER: That's my recollection is that it was requested by staff, as I say, as kind of a counterpart to one that Mr. Barrett had on capital, and this showed the O&M and the counterpart information.

ACTING CHAIRMAN EDGAR: That is my recollection as well, but I fully admit that my recollection is a little hazy.

MR. MOYLE: I appreciate getting it so we can digest it a little bit before we have to --

ACTING CHAIRMAN EDGAR: And if there are questions, we can take them up at the appropriate time.

Yes, Mr. Wright.

MR. WRIGHT: Just so I'm clear, we would be able to ask Mr. Barrett about these adjustments and what if any implication they have for the company's request in this case; is that accurate?

COMMISIONER EDGAR: That is my understanding, but let me ask Mr. Butler if his witness is prepared to do so.

MR. BUTLER: He is and that's fine with us, too. It's not literally the subject of his rebuttal testimony, but we don't have any objection to questions on this late-filed exhibit.

MR. WRIGHT: Thank you, Madam Chair.

ACTING CHAIRMAN EDGAR: Okay. Thank you.

Mr. Butler.

Whereupon,

ROBERT BARRETT

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

DIRECT EXAMINATION

BY MR. BUTLER:

Q Thank you, Madam Chairman, and Mr. Barrett has been previously sworn.

Would you please state your name and address for the record, Mr. Barrett?

A Robert Barrett, 700 Universe Boulevard, Juno Beach, Florida.

Q By whom are you employed and in what capacity?

A Florida Power & Light, Vice-president of Finance.

Q Have you prepared and caused to be filed 23 pages of prefiled rebuttal testimony in this proceeding?

A Yes.

Q And did you prepare errata that were filed with the Commission to your testimony on August 21, 2009?

A Yes.

Q Do you have any further changes or revisions to your pre-filed rebuttal testimony?

A No.

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

A Yes.

MR. BUTLER: Madam Chairman, I'd ask that Mr. Barrett's rebuttal testimony be inserted into the record as though read.

ACTING CHAIRMAN EDGAR: First, Mr. Butler, a question for -- again, my memory is somewhat hazy. Has the errata been introduced or marked or entered in, or does it -- did you just say that an errata had been filed?

MR. BUTLER: It had been filed. I don't think that we had earlier and we had not planned here to introduce it as an exhibit. We can certainly do so if that's the Chair's pleasure. It had been filed and served on all of the parties, and if -- I'll tell you what, it's very short. If you would like, I can just have Mr. Barrett go through and orally note the changes to his rebuttal testimony.

ACTING CHAIRMAN EDGAR: Yes, please.

BY MR. BUTLER:

Q Okay. Mr. Barrett, would you please identify and note the errata to your rebuttal testimony?

A Certainly. On page 6, line number 7, the number 22 million should be 28 million; page 12, line 21, MFR C-37 should be MFR C-36; Exhibit REB-22, it's line 20, in the footnote there, the 22 million should be 28 million; and in REB-23, Footnote No. 6 should read, "projects shifted from late 2008 and budgeted in 2009, no impact on 2010 test year." And that's it.

COMMISIONER EDGAR: Thank you. Thank you, Mr. Butler. That's helpful to me, and with those changes noted, the prefiled rebuttal testimony of the witness is entered into the record as though read.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF ROBERT E. BARRETT, JR.

DOCKET NO. 080677-EI

AUGUST 6, 2009

Q. Please state your name and business address.

A. My name is Robert E. Barrett, Jr. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

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

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

- REB-21, FPL 2009 O&M Budget Performance
- REB-22, FPL 2009 Capital Budget Performance
- REB-23, FPL 2008-2010 Non-Fuel O&M Expense Analysis
- REB-24, MFR Audit Responses to Issues 4 and 6

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is: (1) to explain why the Commission should reject the arguments of the Office of Public Counsel's (OPC's) witness Brown and the South Florida Hospital and Healthcare Association's (SFHHA's) witness Kollen that the 2010 and 2011 revenue requirements forecasts are unreliable; (2) to explain why the Commission should reject the recommendation of the OPC and SFHHA witnesses that the Commission should not approve the Company's proposed 2011 subsequent year increase; and (3) to explain why the Commission should reject the arguments of the OPC and SFHHA witnesses against the continuation of Generation Base Rate Adjustment (GBRA) mechanism.

Q. Please summarize your rebuttal testimony.

A. FPL filed a full set of Minimum Filing Requirements (MFRs) for the 2010 and 2011 test years that were subject to a rigorous forecasting process. The Company's forecasts of revenue requirements included in these MFRs are reasonable and reliable for setting base rates in 2010 and 2011 in this proceeding. The forecasts were based on assumptions prepared by internal and external subject experts and reviewed and approved by management using a rigorous process. The forecasts reflect reasonable assumptions that have proven reliable thus far in 2009.

The Company has consistently been among the best in the industry in cost management and is committed to provide reliable electric service at a reasonable cost to its customers. The Company made significant reductions in its level of expenditures in 2008 in response to the worst economic downturn in Florida in more than a generation. Most of those cost reductions were in response to the unprecedented slowdown in growth in the state and the impact of that economic environment is reflected in the forecasted resource needs for 2009 through 2011.

Performance relative to 2009 budgets to date confirms that the Company's forecasts are reasonable and reliable.

The Company's forecast of revenue requirements for test year 2011 is reasonable despite being one year further out in time. The Company followed the same rigorous process for 2011 as it did for 2009 and 2010, and the underlying assumptions continue to be appropriate. Use of the Company's proposed 2011 test year to approve a subsequent year adjustment in this proceeding is efficient, and the Commission's monthly surveillance of the Company's earnings ensures that customers are adequately protected. OPC's and SFHHA's concerns are unwarranted.

Finally, the use of the GBRA mechanism, as proposed by the Company, is an appropriate and effective way to implement the recovery of base revenue requirements for previously approved generating units with the fuel benefits they provide passed automatically to customers through the fuel clause. The Company has successfully used the GBRA for Turkey Point 5 and will use it in 2009 for West County Units 1 and 2. The GBRA protects customers through its true-up mechanism, helps reduce the need for lengthy base rate proceedings for all parties, and protects the Company from potential regulatory lag. The Commission should reject as unfounded OPC's assertion that the GBRA undermines the Commission's regulatory scrutiny.

2010 TEST YEAR FORECAST

Q. SFHHA witness Kollen's testimony claims that the Company has reduced 2009 costs relative to its 2009 budgets, "rendering the 2009 budget unreliable as the basis for the 2010 test year forecast." (Kollen, Pages 7, 16) Do you agree with that assertion?

A. No. The Company's forecast of revenue requirements for the 2010 test year is reliable for setting new rates. FPL is seeking new rates to be effective beginning January 1, 2010. Because incremental revenues will be recovered prospectively, it is appropriate that those revenues reflect the costs projected for that period. Using any period other than 2010 would cause a mismatch between revenues and expected costs. The Company's performance relative to its 2009 O&M and capital budgets will have no material impact on its 2010 revenue requirements, and there is nothing in that performance that casts any doubt on the continued validity and appropriateness of the 2010 forecasts.

Q. What was the Company's year-to-date performance relative to its O&M budget in April 2009?

A. As shown on Exhibit REB-21, through April 2009 the Company was $38 million below its budget of O&M expenses.

Q. What are the sources of those year-to-date O&M variances, and what is the Company's expectation for the full year 2009?

A. As shown on Exhibit REB-21, approximately $19.1 million of the $37.6 million favorable variance relates to timing of activities within the year including the

Department of Energy (DOE) spent fuel settlement that had been budgeted to occur later in the year. The remaining approximately $19 million represents reductions that are expected to be realized at year end and include $5 million in generation costs largely related to the later commercial in service date of West County Unit 1 and the placement of units in inactive reserve status; $10 million in Distribution savings related to field support and other productivity initiatives; and, about $4 million throughout various other areas.

Q. Do those expected year-end under runs versus the 2009 O&M budget affect the 2010 test year forecast of O&M?

A. No. These savings are specific to the 2009 budget and reflect changes in the operating environment within 2009. For example, the cost avoided by the later commercial operation date for West County Unit 1 has no impact on its level of required operating costs for 2010. Similarly, the Distribution cost savings include lower than budgeted fleet fuel savings experienced in early 2009. Those reductions have not changed the Company's view of fleet fuel prices for 2010. The 2010 test year forecast still reflects the level of resources the Company expects to be required in 2010.

Q. SFHHA witness Kollen asserts that, "For the first four months of 2009, the Company cut its capital expenditures by $170 million from budget levels," and that this should be deducted from rate base as well as a similar adjustment in 2010 (Kollen, Pages 63). Do you agree with this assertion?

A. No. Mr. Kollen's approach is completely inappropriate due to its simplifying assumptions and extrapolations of year-to-date activity. He assumes that all favorable year-to-date budget variances are permanent, indicative of future under runs, and represent items that impact base revenues requirements in 2010 without any support whatsoever. As shown on Exhibit REB-22, the Company's April year-end forecast of capital expenditures reflects $36 million in projected cost savings. Of this amount, $23 million represents items that do not affect the base revenue requirements in the Company's forecast. The remaining $14 million reflects about $22 million related to recovery of capital expenditures under the DOE spent nuclear fuel settlement which was not reflected in the Company's budget.

Q. Do those expected year-end under runs versus the 2009 capital budget affect the 2010 test year forecast of capital expenditures?

A. With the exception of the DOE settlement payments, no. As shown above, the expected under runs in capital expenditures in 2009 are almost entirely related to renewable projects recoverable through a clause and have no impact on the 2010 projected retail rate base as filed in this proceeding, or, in the case of the DOE settlement, have been addressed in Exhibit KO-16 included in FPL witness Ousdahl's rebuttal testimony.

Q. SFHHA witness Kollen asserts the increase in O&M from 2008 to 2010 "is excessive when compared with the Company's actual experience in recent years." (Kollen, page 15) Do you agree with this assertion?

A. No. The forecasted level of O&M expenses in 2010 is reasonable and reflects the expected operations of the Company in 2010. Mr. Kollen cites MFR Schedule C-1, Jurisdictional Adjusted Amount of O&M as his basis for comparison of 2010 versus 2008 which shows an increase in O&M expense of $387.4 million.

Q. Does Mr. Kollen use the correct O&M expenses to make his comparison of 2010 to 2008?

A. No. Mr. Kollen uses the Jurisdictional Adjusted Amount from MFR C-1 for his comparison. This amount includes all proposed Company Adjustments that are not relevant for comparison to 2008. A more relevant starting point is the Jurisdictional Adjusted per Commission amount from MFR C-1.

Q. Are other adjustments necessary to provide a meaningful analysis of O&M expenses in 2008 and 2009?

A. Yes. Exhibit REB-23 provides a more meaningful comparison of all years, 2008, 2009 and 2010. Several items affected O&M expenses in 2008 that render it not useful as a "status quo" year (Kollen, page 17) unless properly adjusted. As mentioned in my direct testimony, the Company took meaningful steps to reduce costs in 2008 as the seriousness of the economic downturn began to unfold. Those cost reduction actions included the deferral of approximately $11 million of work from 2008 to 2009 which is reflected in the 2009 O&M budget. This deferral does not affect the resource estimates for the 2010 test year as it was budgeted as incremental work in 2009. Results in 2008 were also improved by the $44 million reduction of expense due to the Associated Electric & Gas Insurance Services Limited (AEGIS) environmental insurance policy commutation. There were other one-time items reducing 2008 O&M expenses that totaled about $14 million and included reductions in incentive compensation, favorable injuries and damages reserve adjustments and a one-time credit on medical administrative fees. These three adjustments made 2008 actual results better than "normal" by $69 million.

Q. Are similar adjustments required to provide a meaningful analysis of 2009 O&M expenses?

A. Yes. A limited number of adjustments are required to make 2009 comparable to 2008. First, the $11 million of 2008 activities deferred to 2009 should be removed. Secondly, the $19 million of cost reductions identified on REB-21 should be reflected. Next, the $9.7 million of DOE spent nuclear fuel settlement proceeds received in 2009 should be added back as a one-time item, similar to the treatment of the AEGIS environmental insurance expense reduction in 2008. The Company is proposing an errata adjustment to address the expected future recovery of settlement dollars under the DOE spent nuclear fuel settlement. Lastly, based on the Company's forecasted inflation rate of 2.00 percent, as disclosed on MFR Schedule C-1, the expected inflation impact of $27 million should be removed from the 2009 O&M to make it comparable with 2008 expenses. When all of these adjustments are made to "normalize" 2009 the resulting growth over 2008 is 1.4 percent as shown on Exhibit REB-23 line 15, column (c).

Q. Are any additional adjustments required to make 2009 O&M expenses comparable to 2008?

A. Yes. Mr. Kollen claims that it is appropriate to consider the impact on O&M expenses of "limited known and measurable changes" (Kollen, Page 17) As shown on Exhibit REB-23, lines 18-23, column (b), there are about $28 million of

O&M expenses in 2009 that are known and measurable differences from 2008. It should be noted that given the size and complexity of FPL's operations there are many differences when comparing operations across years; however, this limited number of items is discrete and measurable. After adjusting for these items, 2009 shows a 0.7 percent decrease in O&M expenses relative to the adjusted 2008.

Q. **What are the results of performing a similar analysis on the Company's forecasted O&M expenses for 2010?**

A. Similar adjustments have been made for 2010 and are shown on Exhibit REB-23, columns (d) through (f). When all appropriate adjustments are applied to the Company's forecast, as discussed above, the 2010 level of expenditures is 2.9 percent higher than the adjusted 2009 level of expenses. In fact, the average annual growth from 2008 to 2010 is only 1.1 percent (Exhibit REB-23, Line 25, Column (f)).

Q. **Is there a more meaningful measure of the Company's cost performance than that proposed by SFHHA witness Kollen?**

A. Yes. A more meaningful analysis of O&M expenses is a multi-year analysis as provided in MFR Schedules C-37 and C-41, the Commission's O&M benchmark calculation and variance explanations using 2006 as a base year compared to the Company's projections for 2010. It is more appropriate to take a longer view of the Company's performance rather than subjecting the analysis to aberrations that exist from year to year. It is also appropriate to consider a longer view of the Company's cost performance as more reflective of the level of sustainable cost performance because most of the base O&M expenses are fixed rather than variable.

Applying the Commission benchmark metrics of customer growth and inflation yields a 2010 Test Year Benchmark of $1,504 million. The Company's 2010 Adjusted O&M Expenses are projected to be $1,565 million, or $61 million above the benchmark. Of this $61 million, approximately $26 million is related to the additional costs of placing new generating units into service at Turkey Point and West County. The remaining $35 million above the Commission benchmark level of O&M is due to a number of cost drivers as discussed more fully on MFR C-41 and include the significant impact of the economic deterioration on the Company's customer service costs and increased regulatory compliance costs. Adjusting the 2010 benchmark to include the incremental costs of operating the new Turkey Point and West County units yields an average annual growth in O&M expenses over the 2006-2010 period of only 0.6 percent.

Q. SFHHA witness Kollen asserts that, "utilities manage their O&M expenses in response to the timing and level of ratemaking recoveries" (Kollen, page 20). Has FPL followed this approach to managing its O&M expenses?

A. Absolutely not. All expenses that were incurred and those that are being forecast are necessary to the provision of reliable, efficient electric services and are therefore appropriate to be recovered from customers as reasonable costs of service. In keeping with its obligation to serve, and more importantly, the Company's commitment to provide safe, reliable and cost effective electric service to its customers, the Company has only very limited ability to manage the timing of when it incurs fixed costs of the business. This is evidenced by the fact that, during this unprecedented economic downturn, the Company has continued to invest in infrastructure at a time when revenues have been falling. Consequently, returns to shareholders have fallen every year during the term of the 2005 Stipulation and Settlement Agreement (Settlement Agreement). In 2006, the first year of the settlement agreement, return on equity (ROE) was 12.0 percent, fell to 11.9 percent in 2007, and then fell further to 10.8 percent in 2008. In 2009, ROE is projected to be 9.3 percent. Absent the revenues requested in this proceeding in 2010, ROE is projected to be 4.7 percent. The Company has demonstrated a commitment to invest for the needs of its customers even during difficult times.

Q. SFHHA witness Kollen further asserts that, "the Commission should reduce the Company's proposed test year payroll expense to reflect productivity improvements" (Kollen, page 25). Is this an appropriate adjustment?

A. No. Mr. Kollen uses five and ten-year average non-farm output per hour to infer 2 percent annual productivity improvement potential and then applies that to 2008 payroll. While it is useful to note Mr. Kollen's application of longer term trends as appropriate when evaluating cost performance, there are several problems with the specifics of his approach. A better measure of the Company's productivity is payroll dollars per customer rather than payroll per hour. The Company's goal is to serve customers reliably at a reasonable cost, not to achieve a particular payroll cost per hour. Per SFHHA Interrogatory 297 and the Company's actual/projected customers found on MFR Schedule C-33, the Company's base pay per customer was $187.51 in 2006, $199.48 in 2007 and $206.58 in 2008. In 2007, base pay per customer was 6.4 percent higher than 2006 and 2008 was 3.6 percent higher than 2007. Projections for 2009 and 2010 are 3.5 percent and 4.9 percent respectively. Thus, the projected increases in base pay per customer in 2010 and 2011 are lower than the average increase in that metric from 2006 to 2008.

Q. SFHHA witness Kollen's overall assessment is that the Company's O&M expense forecast is "wildly excessive and cannot reasonably be justified given the present economic circumstances" (Kollen, page 17). Is this an appropriate assessment?

A. Absolutely not. FPL's effort to keep costs low has been our guiding philosophy for many years. In fact, even with the approval of this rate request FPL's retail rates are expected to be the lowest of all investor owned utilities in Florida and well below the national average. As discussed by FPL witness Reed, FPL has consistently outperformed its peers in productive efficiency. (Reed, pages 20-22). Exhibit JJR-6, page 31 of 47 demonstrates that during the period 1998 to 2007 FPL was best-in-class among the "Straight Electric Group" of 27 utilities. In 2007, the last year for which comparative industry data is available, FPL's non-fuel O&M per customer, at $334, was almost 47 percent lower than its peers. These comparisons were made using the FERC Form 1 data. Adjusting for differences in non-fuel O&M between the FERC Form 1 data and MFR C-37, FPL's non-fuel O&M per customer in 2009 is about $345 and for 2010 it is about $369, 41 percent lower than the industry's performance in 2007. FPL has established its cost performance track record over many years as among the best, if not the best, in the industry. FPL's projections for 2010 and 2011 reflect the continuation of that strong performance.

Q. Please summarize your assessment of Mr. Kollen's "top-down" and "bottom-up" approaches and recommendation for O&M expenses.

A. Neither approach is applied in a manner that fairly or reasonably measures FPL cost control performance. Mr. Kollen's "top-down" approach relies upon use of an unadjusted 2008 base year for determining the appropriate level of 2010 O&M expenses. As discussed above, this fails to consider real and measurable differences between 2008 and the projected 2010 test year. Mr. Kollen makes no explicit application of his "bottom-up" approach other than to suggest its use to the Commission. Mr. Kollen's overall recommended reductions to the Company's requested O&M expenses in 2010 are inappropriate and not supportable. The Company's forecast of O&M expenses in 2010 reflects the benefits of FPL's continuing cost management efforts and is reasonable.

Q. Do you agree with OPC witness Brown's statement on page 42 of her testimony that FPL's payroll should be reduced to reflect a level of unfilled positions?

A. No. The budgeting process assumes that each department plans for the optimal staffing level required to meet the corresponding workload. These resources include part-time staff, full-time staff, some level of overtime, and the use of third-party resources where appropriate. FPL's budget is focused on the cost, not the headcount, that aligns with the activities performed by the company during the period in question. During that period, operating conditions as well as attrition rates and hiring rates may necessitate a reevaluation of the mix of resources discussed above, without necessarily impacting budgets. This resource flexibility renders headcount comparisons not meaningful when evaluating funding levels. Ms. Brown's proposal to reduce FPL's budgeted payroll does not fully capture the dynamics of this equation as further described in FPL witness Slattery's testimony.

2011 SUBSEQUENT TEST YEAR

Q. Office of Public Counsel (OPC) witness Brown charges that, owing to the current economic instability, "the 2011 Test Year projections incorporate an unacceptable additional level of uncertainty and should be rejected" (Brown, Page 7). Do you agree with that conclusion?

A. No, I do not. There is broad consensus among economists that the current recession began in late 2007; however, that official declaration by the National Bureau of Economic Research was not made until the fourth quarter of 2008. This created a mismatch between perceptions of the economic environment and the interpretations of the lagging economic data throughout much of 2008. Consequently, as described in my direct testimony, the Company revisited its assumptions for the 2009 planning process several times in 2008 (Barrett Direct, Pages 18-19). Additionally, the Office of Economic and Demographic Research of the state legislature uncharacteristically revised its population forecast three times in 2008, contrary to the standard pattern of biannual releases. There is no doubt that there was uncertainty that extended through the summer 2008.

Q. Has the Company's forecast of 2009 through 2011 been rendered unreliable by this increased uncertainty in 2008?

A. No. Since late 2008 and early 2009 when the forecasts used in this proceeding were finalized, the level of uncertainty has not been as great as that experienced in early 2008. The official declaration of the recession seems to have removed some of the prior uncertainty in the economic forecasts. Contrary to 2008, when the state's official population forecast was revised three times over the course of the year, only one forecast has been released this year. According to the Office of Economic and Demographic Research of the state legislature's office no additional population revisions are planned through August of this year. As discussed in FPL witness Morley's testimony, the March 2009 latest population revisions confirm FPL's expectation of a lingering recession in population growth for the next few years. In fact, as explained by Dr. Morley, the Company's sales forecast for 2009 used in the preparation of the Company's MFR's has proven to be very accurate through June, with a weather-normalized variance of less than 0.1 percent.

Q. Do the Company's forecast assumptions for 2010 and 2011 remain reasonable and reliable as a basis for setting rates in this proceeding?

A. Yes. As discussed earlier, the Company's updated base O&M forecast for 2009, as of April 2009, is within 1 percent of the Company's 2009 budget. The Company's updated capital forecast, as projected in April 2009 is within 1.3

percent of the Company's capital budget. The Company's performance against its sales forecast, O&M budget and capital budget confirm that its forecast process and assumptions are reliable. That same rigorous process, including assumption review and approval, was applied to the forecasts of 2010 and 2011.

Q. **OPC witness Brown asserts, "if economic recovery is either faster or greater than expected under FPL's assumptions, then there is the potential for excess earnings at ratepayer expense" (Brown, Page 5). Do you agree with that assertion?**

A. No. First, Ms. Brown addresses only one potential variation from the Company's assumptions regarding the economic outlook and its impact on operating results. In fact, the Company has prepared a reasonable forecast of revenue requirements for 2010 and 2011 with the expectation that variations around the forecast are equally likely to be positive or negative. Using this forecast for setting rates ensures that the risks borne by the Company and customers are symmetrical. The Company has consistently followed this approach to preparing forecasts.

Secondly, it is not correct to assume that a faster economic recovery will necessarily significantly increase earnings for the Company. Just as the Company was able to reduce costs during 2008 largely due to the severe downturn in customer and load growth, a faster than expected recovery might in fact lead to additional costs not contemplated by this forecast of revenue requirements, particularly in the front end. Those costs would offset, in whole or part, the impact of increased revenues on earnings. Without knowing more about the specifics of a recovery, it is not possible to quantify the impact that a faster recovery would have on earnings in a reasonable way.

Lastly, Ms. Brown asserts that "FPL would have no obligation to then reduce rates without customer or Commission intervention" (Brown, Page 5). Again, this risk is symmetrical. For instance, if FPL's earnings prove to be insufficient due to the forecast being too optimistic, FPL's only recourse would be to initiate another rate proceeding and be subject to further earnings attrition during the pendency of that proceeding. Correspondingly, if the Commission determined through its monthly surveillance process that the Company was over-earning, the Commission or a party could initiate a rate decrease proceeding.

Q. In consideration of the possibility of further economic pressure on the Company, OPC witness Brown asserts "if revenues are down, FPL can take actions to cut expenses to attempt to achieve net income targets" (Brown, Page 6). Do you agree?

A. It is true that the Company demonstrated an ability to effect some cost reductions in response to the economic downturn in 2008; however, given the largely fixed nature of the Company's costs, the ongoing commitment to provide reliable electric service to its customers and the continuing impact of reductions that were already made in 2008, the opportunities for further cost reductions are limited. The reductions achieved in 2008 were largely related to eliminating spending for growth activities. The sales, O&M and capital budgets for 2008 assumed historic levels of customer growth in 2008; however, by December 2008 the actual number of customers was 123,000 below plan. This large variance created corresponding substantial opportunities for cost reductions. By contrast, the forecast assumes the Company will add only about 10,000 customers in 2009 and 29,000 customers in 2010 (based on annual averages). While 2008 afforded the Company the opportunity to reduce growth related expenditures compared to the earlier high-growth years, there are very limited funds in the 2009 and 2010 plans related to growth activities and hence little opportunity for further reductions.

Q. SFHHA witness Kollen asserts "the Company is not harmed if the Commission rejects the proposed 2011 subsequent year increase because it can file another case in 2010 using more current assumptions and data" (Kollen, Page 8). Do you agree with that assertion?

A. No. Although the Company can indeed file another case in 2010 if the subsequent year increase is not granted, it is not accurate to say the Company would not be harmed. Mr. Kollen's claim of no harm ignores the significant impact on the time and resources of the Company. Furthermore, he completely ignores the cost in time and resources to the Commission, its staff, and all other interested parties.

The Company's forecast of 2011 is reliable and there are symmetrical protections for the Company and the customer in the event that variances from the forecasts significantly affect earnings, up or down. More frequent proceedings are administratively burdensome and costly for all parties.

Additionally, periodic base rate proceedings, such as those in 2002, 2005 and now 2009, have been prepared, filed and executed by the Company in addition to its daily business operations. The Company has been able to meet its regulatory commitment to file timely and accurate financial information without building a large permanent staff devoted to processing rate cases, in part because the filings have been infrequent. Moreover, a stable regulatory environment has allowed FPL and its customers to benefit from a business model that is highly customer-focused and operationally driven. If base rate proceedings were to become a regular occurrence that business model might need to change with the potential of adding costs to be borne by customers.

CONTINUATION OF THE GBRA MECHANISM

Q. With respect to the GBRA, OPC witness Brown asserts that, while it "may be an efficient and effective way for FPL to increase rates without regulatory consideration of all aspects of its operation, it does not outweigh the risks to ratepayers and...would transfer risks from FPL to its ratepayers" (Brown, Page 8). Do you agree with that assertion?

A. No. The GBRA strikes an appropriate balance of the risks and rewards and apportions them appropriately between customers and the Company. Under the Company's proposal, only plants that have undergone an extensive review and received a Certificate of Need from the Commission are eligible for GBRA recovery. The need determination proceeding includes a comprehensive economic analysis of the proposed plant addition and a determination that the proposed plant is the low cost alternative for customers. The GBRA adjustment to base rates is approved for implementation based upon the costs projected and approved in the Need Order. After the plant is placed into service, the final capital costs are trued-up, with any cost under-runs returned to customers while any cost over-runs are borne by the Company unless and until approved by the Commission after a prudence review. This mechanism thus affords substantial protection to the customer.

Q. OPC witness Brown further states, "Once rates are established, the impacts of economic recovery may result in higher returns to FPL's shareholders" that could absorb the revenue requirements associated with a new power plant (Brown, Page 8). Do you agree with that assertion?

A. No. The impact of a different economic environment than that assumed in the forecast will certainly have an impact on the Company's operating results; however, it is wrong to assert that the risk is not borne equally by customers and the Company. The GBRA is designed to appropriately match the revenue collected with the underlying revenue requirements associated exclusively with the new power plant. With power plant additions such as West County Unit 3, the Company has demonstrated a benefit to customers derived through greater fuel efficiency that will be passed to customers through the Fuel Cost Recovery Clause immediately upon the commercial operation of the unit. By virtue of the GBRA, the revenue requirements of the unit are appropriately netted against those fuel savings. Absent the GBRA mechanism, the non-fuel revenue requirements would need to be the subject of a separate base rate proceeding, while the fuel savings would be passed on more quickly, therefore creating improper price signals to customers.

Q. SFHHA Witness Kollen asserts that the "proposed GBRA mechanism constitutes a single issue and one-way base rate increase mechanism that fails to consider cost reductions that the Company may achieve in other areas" (Kollen, Page 10). Do you agree with that assertion?

A. No. While it is true that the GBRA is a single issue mechanism, it matches the increased revenue requirements associated with a power plant with the offsetting fuel savings for that plant. Thus, for the single issue the GBRA addresses, it appropriately "considers the cost reductions that the Company" achieves with respect to that issue. Furthermore, the effects of revenue and expense increases and decreases for all Company operations will be monitored by the Commission and its staff through the monthly surveillance process to provide regulatory scrutiny and customer protection.

Q. OPC Witness Brown asserts, "In past years, FPL has in fact absorbed new power plants without increasing base rates at the time" (Brown, Page 11). Why is that no longer the case?

A. The current economic environment is very different. As I stated in my direct testimony, for the period 1999 to 2006 retail sales growth averaged 2.9 percent annually. Power plant additions were added primarily to meet the need of a growing customer base. That growth provided additional base revenues to help offset the cost of new plant base revenue requirements. Additionally, FPL was able to implement significant productivity savings to achieve its current industry leading cost performance and the benefits of those productivity savings are already reflected in FPL's test year forecast. Today things are very different. For the period 2006 to 2010, FPL's retail sales are expected to actually decline 0.6 percent annually on average. This decline in sales will be accompanied by a decline in revenues. It is simply no longer possible for FPL to "absorb" the significant increases to its base costs.

Q. **Florida Industrial Power Users Group (FIPUG) witness Pollock recommends that, if the GBRA is approved, the Commission should limit its application to West County Unit 3 (Pollock testimony, Page 39). Do you agree?**

A. No. For the reasons described above and in my direct testimony, the GBRA is a fair and efficient mechanism to adjust base rates for the addition of new power plants. It is appropriate for West County Unit 3, and it will be just as appropriate for power plants that are added after West County Unit 3.

FPSC STAFF AUDIT REPORT

Q. **On page 6 of her testimony, FPSC witness Welch stated that FPL recorded non-recurring expenses in 2008 as detailed in the Staff Audit Report Findings 4 and 6. Is there any concern that these expenses may be included in the 2010 and 2011 budget?**

A. No. As further detailed in my Exhibit REB-24, issues 4 and 6 discussed in the Staff Audit Report have no impact on the 2010 and 2011 test years.

Q. Does this conclude your testimony?
A. Yes.

BY MR. BUTLER:

Q Thank you. Mr. Barrett, did you also prepare or have prepared under your direction, supervision and control exhibits that are attached to your prefiled rebuttal testimony?

A Yes.

MR. BUTLER: Madam Chairman, I would note that these are his exhibits REB-21 through REB-24, and those have been pre-identified at Exhibits 337 through 340.

ACTING CHAIRMAN EDGAR: Thank you.

BY MR. BUTLER:

Q With that, Mr. Barret, I would ask that you summarize your rebuttal testimony.

A The purpose of my rebuttal testimony is to explain why the Commission should reject the arguments of the witnesses for the Intervenors on three issues: Their contention that the 2010 and 2011 revenue requirements forecasts are unreliable, their recommendation to not approve the company's proposed 2011 subsequent-year increase, and their opposition to the continuation of the generation base rate adjustment or GBRA mechanism.

First they contend that the 2010 and 2011 forecasts are not reliable because year-to-date 2009 performance versus budget shows favorable variances. As my testimony demonstrates, most of the O&M and capital variances either represent timing within the year, the shifting of work from 2009 to 2010 subsequent to our filing of 2010, or expenditures that are not related to the base rate proceeding such as items recovered through clauses.

The year-to-date activity for 2009 that were available when I prepared my rebuttal testimony, together with the company's re-forecast of 2009, support the reliability of the forecasts filed in this proceeding.

The witness for the Hospital Association further asserts that 2010 O&M expenses should be equivalent the company's O&M performance in 2008. As I demonstrate in my testimony, that's overly simplistic and inappropriate without sufficient adjustments to both years for comparability. I offer such adjustments and demonstrate the 2010 O&M forecast is reasonable.

To accept the Intervenors' position that FPL can operate in 2010 at a level of resources equivalent to 2008 is to ignore more than $200 million of real and measurable differences between those years.

Second, OPC's witness asserts that the forecast for 2011 is too uncertain given the current economic environment and should be rejected. My testimony describes how the level of uncertainty has decreased rather than increased since the beginning of the recession in late 2007. Most importantly, the uncertainty around the 2011 forecast is balanced between customers and the company. Additionally, FPL has filed a complete set of MFRs in support of the subsequent-year adjustment. The only outcome from following Intervenors' recommendation will be to force the company into filing another rate case in 2010.

Finally, OPC's assertion that the GBRA transfers risk from shareholders to customers is false. The GBRA is an effective and efficient mechanism for adjusting rates specific to approved generating plant additions. Only plants that have been reviewed and approved through a need determination process qualify for GBRA treatment to ensure that they have received adequate scrutiny by the Commission. The GBRA times the base rate increase with the corresponding change to fuel rates to better align costs and benefit. The GBRA also affords a high level of cost protection for customers through its true-up provision, and it's appropriate that the Commission approve its continued use.

It's been further asserted that the company should absorb the cost of new power plants. This assertion is without merit. The company's projection of future revenue requirements in this case shows that, even with GBRA recovery for West County 3, the company still is in need of a rate increase in 2011. Current rates have not been and are not projected to be sufficient to support the necessary investments in the company's basic infrastructure, much less to enable to company to absorb new power plants. GBRA is fair, balanced and effective in implementing base rate increases for approved generating plants.

Thank you, and this concludes my summary.

MR. BUTLER: Thank you. I tender the witness for cross-examination.

ACTING CHAIRMAN EDGAR: Thank you. Mr. McGlothlin, questions?

CROSS EXAMINATION

BY MR. McGLOTHLIN:

Q Yes, thank you.

Mr. Barrett, please refer to page 15 of your rebuttal testimony, and more specifically the question and answer that begin at line 21 and carry over to the next page. At that point in your testimony you refer to the updated O&M forecasts for 2009 and the projected capital expenditure forecasts for April of 2009, do you not?

A Yes.

Q It's true, is it not, that the forecasts for results in 2009 were prepared in 2008?

A Yes.

Q And in your testimony you say, "That same rigorous process, including assumption review and approval, was applied to the forecasts of 2010 and 2011," correct?

A Correct.

Q Now, the timing of that process occurred at the same time you were preparing projections for 2009, correct?

A Yes.

Q So the projections for 2010 were prepared in 2008?

A Late 2008, yes.

Q So the projections for the subsequent test year were also prepared in 2008?

A Correct.

Q The subsequent test year being 2011?

A Yes.

Q So while you say the process was the same, the assumptions that were reviewed during the process had to be different because they're looking at different timeframes, correct?

A Well, the assumptions were prepared in the same time period, but they were for a different subsequent period, yes.

Q In 2008, the process occurred.

A Yes.

Q But the process involved assumptions from 2010 and different assumptions for 2011.

A Correct.

Q And 2011 is looking farther out into the future than 2010, correct?

A Correct.

Q Using the same process that was used in the 2008 timeframe, is FPL able to tell us what sales will be in 2015?

A We can make a forecast of it.

Q Do you think that's as reliable as the sales forecast for 2010?

MR. BUTLER: Excuse me. I'm going to object to this line of questions about the accuracy of the sales forecast. We just had the witness up here who was talking about sales forecasts, and it's not part of Mr. Barrett's rebuttal testimony.

ACTING CHAIRMAN EDGAR: Mr. McGlothlin.

MR. McGLOTHLIN: The thrust of Mr. Barrett's testimony is that the parties and the Commission should be able to rely on the projections for the subsequent test year. That's what I'm probing here.

MR. BUTLER: This witness doesn't go to all of the forecasts. It's broken up into pieces. We just had Dr. Morley testify on exactly that subject, on the reliability of the sales forecasts.

ACTING CHAIRMAN EDGAR: Ms. Cibula.

MS. CIBULA: I think it should be allowed, and he can say whether or not he has any knowledge of it.

ACTING CHAIRMAN EDGAR: Per the recommendation of counsel, the objection is overruled. Mr. McGlothlin.

BY MR. McGLOTHLIN:

Q Do you think the forecast for the 2015 sales is as reliable as the forecast for, say, the 2010 test year?

A Probably not.

Q So you would agree with me that distance and time bears on the accuracy and reliability of assumptions even if the same process is applied to those different assumptions?

A I believe there are probably gradations of that statement. The further out you go, it's probably less reliable. We're talking about a couple of years here, and so I feel comfortable that the forecasts we've put together for 2009, '10 and '11 are sufficiently accurate and reliable.

Q Gradations notwithstanding, you agree that distance and time bears on the accuracy and reliability of a forecast?

A It can.

Q The projections for 2011 on which you base the subsequent test year are based essentially on the assumption of a down economy, correct?

A It's based on an assumption of an economy that is beginning to improve in 2011.

Q On the basis of a down economy that's beginning to recover, FPL forecasts a deficiency of $240 million revenue deficiency in 2011, correct?

A That would be incremental deficiency over and above 2010.

Q Yes, and that's based on the use of a 12.5 percent return on equity in the calculation?

A Yes.

Q If you'll look at page 15, lines 12 through 18 -- I'll give you a second to review your testimony there. The revenue deficiency that FPL calculates for 2011, the subsequent test year based upon your prior answer, is a function of the forecasted absence of sales growth, correct?

A Yes.

Q And at page 16, lines 11 through 13, you also assumed a different scenario, one that includes faster than expected recovery; did you not?

A I don't believe so.

Q Well, let's look at it. Page -- lines -- page 16, beginning at line 17, you say, "It's not correct to assume that a faster economic recovery will necessarily significantly increase earnings for the company." So, on the one hand you assess a scenario that assumes a down economy at the beginnings of recovery, but don't you also address a recovery faster than the one you first depict?

A I believe your prior question was we did a scenario with sensitivity. We did not. I was addressing a point in Ms. Brown's testimony. We have one forecast for 2011, and I was simply qualitatively rebutting the point that a faster economic recovery means anything.

Q Okay. I take your point. I think what you've told me is that FPL did not perform a second analysis with different assumptions, but FPL did address what would happen in the event that a faster recovery such as one premised by our witness, Brown, would transpire; correct?

A No. As I said, Witness Brown made an assertion, and I said you can't necessarily just assume that.

Q What can you not necessarily assume with respect to her assertion?

A Her assertion that a faster economic recovery means better economic results for the company.

Q All right. I think we're getting close.

On the one hand, with respect to FPL's forecast of a down economy that is just beginning to recover, FPL says, in that scenario, in 2011, we project we would have a revenue deficiency of $240 million; correct?

A If I could just rephrase that a little bit. Our forecast of 2011 with the underlying economic assumptions that include a lingering recession just beginning to recover, and continued investment in the business, indicate an increased revenue deficiency of $240 million; correct.

Q All right. And with respect to Witness Sherry Brown's testimony in which she testified, among other things, that a faster recovery would ameliorate the need for additional revenues, in your testimony you say not so fast, we disagree with that contention; correct?

A I believe what I said was you can't just *a priori* say that.

Q Okay. So, in other words, FPL's position is, if we have a down economy, we need a revenue increase; on the other hand, if we have a faster recovery, we still need a revenue increase; correct?

A I didn't say that. What I said was our forecast for 2011 indicates a need for a $240-million rate increase. What I further said was, if you change the assumptions, unless you actually do another forecast, you can't just say we do or don't need a rate increase. Ms. Brown seemed to assert that she could just kind of unilaterally say we don't need a rate increase.

Q At page 16, line 11, you say, "In fact, the company has prepared a reasonable forecast of revenue requirements for 2010 and 2011 with the expectation that variations around the forecast are equally likely to be positive or negative," and I think you alluded to that sentence in your summary; did you not?

A Yes.

Q Tell me what you mean when you say, "Variations are equally likely to be positive or negative"?

A Essentially what that means is we put together a forecast with no bias towards it being conservative or optimistic, that we try to go right down the middle of the fairway, if you will, such that -- you know, any forecast is going to have variations around it, and we believe that the forecast we put for all the major assumptions could just as likely be too high or too low so that it's balanced and that the risk is therefore not in favor of one party or the other.

Q Now, read for me if you will the testimony beginning at line 17 through 23.

A We're still on page 16?

Q Yes.

A Seventeen through 23. So basically at the bottom of the page.

"Secondly, it is not correct to assume that faster economic recovery will necessarily significantly increase earnings for the company. Just as the company was able to reduce costs during 2008 largely due to the severe downturn in customer and load growth, a faster than expected recovery might in fact lead to additional costs not contemplated by this forecast of revenue requirements, particularly in the front end. Those costs would offset in whole or in part the impact of increased revenue or earnings."

Q And if you'll complete the next sentence, please.

A "Without knowing more about the specifics of a recovery, it is not possible to quantify the impact that a faster recovery would have on earnings in a reasonable way."

Q And this is the area of your testimony in which you responded to Ms. Brown, the exchange we had earlier in this cross-examination; correct?

A Yes.

Q And won't you agree with me that, with respect to Ms. Brown's testimony and the possibility of a faster recovery, it is FPL's contention that in that event FPL contends it will continue to need the same revenue increase that it forecasts in 2011?

A That's not my contention. My contention is, based on our forecast, we need the $240-million increase, and as I said, you can't -- without knowing the specifics of the recovery, it's not possible to quantify the impact of those changes.

Q But in your -- in FPL's analysis, it did make certain assumptions about the nature the economy, the down economy that is just beginning to recover; did it not?

A Yes.

Q And with respect to that scenario, you say our process and our rigor and our assumptions are so good that we can pinpoint where the possibilities of being above or below are 50 percent in either direction;

correct?

A I don't think I said --

MR. BUTLER: I'm sorry. I was just going to say, I'm going to object to that. It's mischaracterizing Mr. Barrett's rebuttal testimony.

MR. McGLOTHLIN: Well, let me rephrase.

ACTING CHAIRMAN EDGAR: Mr. McGlothlin, will you rephrase?

MR. McGLOTHLIN: I will.

ACTING CHAIRMAN EDGAR: Thank you very much.

BY MR. McGLOTHLIN

Q Is it true, sir, that at line 11 on page 16 you say, "In fact, the company has prepared a reasonable forecast of revenue requirements for 2010 and 2011 with the expectation that variations around the forecast are equally likely to be positive or negative"? Did you say that?

A I did.

Q Now, you say that with respect to the assumptions that the company employed with respect to a down economy just beginning to recover, but with respect to a different scenario, that is, a faster recovery than that which is the premise of the -- subsequent to the test year period, you say, "It's not possible to quantify the impact that a faster recovery would have on earnings in a reasonable way." Did you say that as well?

A I did.

Q Okay. Now, would you agree with me that a faster recovery would translate -- likely translate into additional sales than those projected by the company in the subsequent test year?

A Yes.

Q And that would be a growth in sales compared to the current status quo, correct?

A By "status quo," do you mean the current forecast or the current level of sales?

Q And the forecast used for the subsequent test year.

MR. BUTLER: I'm sorry. I'm confused by the question, and it seems like he's comparing the increase to two things, current conditions and the forecast for the test years.

BY MR. McGLOTHLIN:

Q Well, let's take them one at a time. Would you agree there would be additional sales compared to today?

A I don't know.

Q You don't believe that an increase in -- a faster recovery would mean sales higher than currently with a down economy?

A I do not know. We're forecasting a decline in sales, so it depends on how robust that recovery might be.

Q So, with respect to the scenario examined by -- assumed and examined by FPL when it put together the subsequent test year, FPL's process and assumptions were so good that it had the degree of precision that you described in your testimony, but with respect to a scenario involving a recovery faster than that assumed, you can't even tell me whether that would translate into higher sales than currently are projected?

A Okay. Now you've shifted gears to say currently projected versus today.

Q Okay. If you'd rather operate from the standpoint of the assumptions included in the subsequent test year, let's do that.

A Okay.

Q All right.

A So a faster recovery than what we assumed for the subsequent test year would result in higher sales in the subsequent test year than our current forecast --

Q All right.

A -- but not necessarily higher than today.

Q Well, let's continue to use the subsequent test year as the baseline for my questions then.

A Okay.

Q You've said that a faster recovery would mean more sales than forecasted for purposes of the subsequent test year. Would greater sales also translate into greater profitability than that projected for the subsequent test year?

A If nothing else changed, yes, but a faster recovery necessarily means there's probably other things changing. It could be a high inflationary recovery in which case costs would be increasing faster. It could be a situation where there are new homes being built akin to the '05-'06 boom in which case new investment would need to made. So unless you know the characteristics of this supposed recovery happening faster than we forecasted, you really can't say what's going to happen to the company's earnings, and that was the whole point of my rebutting Ms. Brown's kind of simplistic assumption that we're just going to be better off.

Q In terms of profitability and earnings, is sales growth a good thing or a bad thing for Florida Power & Light Company?

A As long as that growth pays for itself in terms of the costs that it brings onto this system, it would be good thing. There could be situations where increased sales growth would come at a level of investment required to get those sales that don't make them profitable. You just can't say unless you actually run a scenario with a holistic set of assumptions.

Q Doesn't growth in sales largely explain why FPL was able to go some 25 years without a base rate increase?

A That's one part of the equation. FPL's significant productivity improvements in cost management and increased efficiency of its operations has been a significant contributor to why we've been able to stay out of the rate increase arena.

Q So I want to go back to one of the earlier questions. It is true, is it not, that in your testimony you say, on the one hand, if the subsequent test -- if the conditions that we project for the subsequent test year prevail, we will need an additional increase in revenues; and if, on the other hand, the recovery begins and proceeds at a faster pace than we've assumed, we still will need a revenue increase. Isn't that your testimony?

A I have not addressed the latter question, counsel.

Q Well, you have addressed it in the testimony to which I've referred you, have you not?

A I have said you cannot tell what the impact on the company would be unless you have a holistic set of assumptions and essentially do another forecast. We have a forecast for 2011 that we believe is reasonable based on our view of the economy, based on our view of how we will be operating the business. That results in a need for 240 million of additional revenues in 2011 over 2010. If things change, we have not calculated what that does.

Q Said differently, do you agree with me that there is uncertainty with respect to conditions that will prevail in 2011?

A Certainly.

Q And with respect to that uncertainty, you are saying essentially -- FPL is saying essentially, give us a rate increase now, and if we over-earn, you can always bring us for in for a base rate reduction?

A No. What I'm saying is I think we've put together a fairly reasonable forecast for 2011 based on everything that we know today, and there are protections for the customer in the surveillance process that the Commission has, but we've put together a complete set of MFRs, a complete set of assumptions that underpin those, and we believe it's reasonable for setting rates.

Q But you do agree that there is a degree of uncertainty about 2011?

MR. BUTLER: I'll object that that's been asked and answered at least once earlier.

BY MR. McGLOTHLIN:

Q I'll rephrase.

Given that you've agreed with me that there's uncertainty attached to 2011, would you agree with me that your approach effectively places the risk of that uncertainty on the ratepayers?

A No, I would not.

Q Even though your testimony is that the Commission should give FPL a rate increase for 2011 and then the customers should rely on protections in the form of surveillance and subsequent actions to protect them in that event, correct?

A That is a mechanism available to the Commission to make sure that we do not over-earn. As you just heard from Dr. Morley, we believe that there's significant uncertainty on the downside on the sales forecast given the customer forecast that may have some downside pressure.

So my whole point in this testimony in addressing this assertion by Witness Brown was that the risks, the uncertainty around the forecast are balanced, and there's also going to be things that are kind of puts and takes, if you will, things that offset, and any forecast is going to have that. We've put together a forecast that we believe, as I said, is right down the middle of the fairway, and that there will be some variation around it, certainly within the realm of variation that this Commission would probably normally accept in terms of any kind of a band around earnings, but in the event that there were a downside and we were to under-earn, we have the obligation to our investors to come back and ask for a rate increase. If we -- you know, we're in a situation where we're over-earning, then any party, including the Commission itself could bring us in.

Q Is that the balance that you describe in your earlier testimony -- is the balance that you were describing, does that relate to the idea that the Commission should award a subsequent test year adjustment in the amount of $240-million incremental to the 2010 request and then, whether FPL under-earns or over-earns, there is always the remedy subsequent to the 2011 test year?

A The balance I was referring to is my belief that the assumptions that underpin the forecast are balanced, kind of a P50, if you will, such that there is equal likelihood that they could be up or down in equal and offsetting directions. That's what I meant by balance.

Q At page 18, lines 12 through 17, you respond to the statement made by Witness Kollen who appeared for the Hospital and Healthcare Association, and you said, "Mr. Kollen ignores the cost and time and resources to the Commission and staff and all the interested parties in the event that FPL is denied the subject test year and has to come in for a rate increase thereafter."

Now, certainly, Mr. Barrett, you're not testifying that the reason FPL seeks a subsequent test year is its concern for the costs that others would incur in the event of a rate case; are you?

A Certainly.

Q If several parties and, more generally, FPL's customers indicate they would rather risk the possibility of a rate case in the future than see FPL receive an unwarranted \$240-million increase in 2011, would that persuade you that's not a strong argument in FPL's behalf.

MR. BUTLER: I would object to Mr. McGlothlin's characterization of FPL's request. It assumes facts not in evidence.

ACTING CHAIRMAN EDGAR: Sustained.

MR. McGLOTHLIN: I believe the witness agreed that his testimony is that one reason FPL advances in support of its subsequent test year adjustment --

ACTING CHAIRMAN EDGAR: Mr. McGlothlin, I sustained the objection.

MR. McGLOTHLIN: I'm sorry. I did not hear your comment.

ACTING CHAIRMAN EDGAR: Okay.

BY MR. McGLOTHLIN:

Q I believe you said in answer to an earlier question that the balance you describe in your testimony is that the chances are 50-50 that the request for a subsequent test year adjustment would either leave FPL in an under-earnings situation or an over-earning situation, correct?

A I think I just said that my interpretation of what you meant by balance was that the balance around the forecast assumptions themselves are balanced equally likely to be above or below. The context of under-earning or over-earning was in terms of if it were to get -- if it were to turn out such that we under-earned or over-earned, there are remedies. The context of balance, though, has to do with, we put together a forecast in our view that has no bias towards being either overly optimistic or overly pessimistic.

That's what I mean by balance.

Q Okay. But we also addressed the possibility that the -- if granted, the subsequent test year adjustment would leave FPL in an over-earning situation subject to surveillance and possible remedial action, correct?

A That is a possibility, yes.

Q And in that event, customers and parties would incur the cost of a base rate proceeding in any event; would they not?

A There is a chance that they would incur a cost in that event versus a certainty that they would incur a cost if we had to file again because of not having a subsequent year adjustment.

Q I want to change subjects and talk about your rebuttal testimony that addresses the base rate adjustment. At page 16, referring to -- you referred to the testimony of OPC Witness Sheree Brown who testified that in past years FPL has absorbed the cost of new power plants without increasing base rates at that time. Do you recall that testimony on your part?

A Yes.

Q And in response to that, you say, "The current economic environment is very difficult. It is simply no longer possible for FPL to absorb the significant increases to base cost." Do you see that comment?

A I don't. Which line number is that?

Q Well, I think it's page 16.

A I don't believe it's 16.

MR. BUTLER: Mr. McGlothlin, the discussion of the GBRA mechanism starts on page 19. Is it perhaps a different page?

BY MR. McGLOTHLIN:

Q Page 21.

A I'm there.

Q The question beginning at line 16, and your answer beginning at line 19. Sorry for the pause there. I'll give you a moment to review that information.

A Okay.

Q I take it you don't dispute her assertion. Your point is that, in your view, current conditions don't provide the same ability to absorb the costs that occurred in the past when those plants were added without requests for increases in base rates?

A Yes.

Q And when I say they were added -- well, let me back up, and I'm referring to what happened in the past again.

A Okay.

Q These power plants were constructed, placed in service and added to rate base without a concurrent request for a modification of base rates, correct?

A Prior to Turkey Point 5, which received GBRA treatment in 2007, that would have been the case.

Q All right. That's the time period to which I refer. And when I say they were added to rate base, that means that, when the plants began commercial service, FPL recognized and incurred the costs of owning and operating those plants on its books; correct?

A Yes.

Q And those costs would have been reflected in its calculation of revenues, costs, net operating income and earnings.

A Correct.

Q And they would have been reflected in the company's earned rate of return as well?

A Yes.

Q Earned rate of return is measured by subtracting the total operating costs from operating revenues and then relating the resulting net operating income to the rate base, correct?

A Correct.

Q So if costs go up, all other things being equal, net income goes down, and if rate base goes up, all other things being equal, return on equity goes down; correct?

A By "all else being equal," I'm assuming you mean revenues.

Q Yes. We're holding everything constant except for the additional costs that are recognized.

A Yes, although that's not the circumstance that happened during the period that you're interested in.

Q Being really simplistic to get the relationships.

A Got it.

Q So saying that FPL absorbed those power plants prior to Turkey Point No. 5 in existing base rates is another way of saying that earnings from the then current rates was used to absorb those costs?

A The revenues from those rates provided enough to cover the cost of those plants and provide a return.

Q Now, as FPL builds and places into service units that are more efficient in converting fuel to electricity, it accomplishes fuel savings; correct?

A Yes.

Q And that would have been true with respect to those plants prior to Turkey Point No. 5 that were constructed, placed into service and recognized in costs without the modification of base rates at the time?

A Yes.

Q So when FPL placed those units into service and recognized the cost of those units for accounting purposes, those fuel savings were achieved when the units were placed into service.

A Yes, and I'm not completely familiar with the heat rates of all of those units, but presuming that they were lower than the system average heat rate, there would have been fuel savings that would have been passed along to customers.

Q That's the assumption that underlies my question; yes, sir.

And that's another way of saying that the point at which fuel savings began is the same point in time at which the cost recovery began, correct?

A Since rates didn't change, I'm going to contend a little bit with your assertion that cost recovery began. We began reflecting the cost of those plants.

Q Well, would you agree that, to the extent base rates were sufficient to generate revenues that covered the cost of the new units and continued to provide earnings to the company, FPL accomplished the cost recovery of those new units?

A Yes.

Q So based upon what transpired prior to Turkey

Point No. 5, it's clear that it isn't necessary to have a discrete increase in base rates to achieve this matching of costs and fuel savings; is it?

A In that time period, it was not necessary; however, times have changed as my rebuttal testimony goes on to talk about.

Q Yes.

A Primarily the lack of growth in the top line revenues. So while Turkey Point 5 and subsequent units, West County's 1, 2 and 3 will provide fuel savings to customers, we don't anticipate, absent a GBRA, any additional revenues to help cover the cost of those units.

Q I understand that's your testimony and we're going to get to that.

First, though, it's obvious enough, but just to make the point clear, there was no generation base rate adjustment in place when in the past FPL placed new units into service and simultaneously absorbed the costs without a base rate increase; correct?

A Prior to Turkey Point 5, there was no GBRA.

Q I'm going to give you a very simple hypothetical and there are a couple of numbers involved but I've tried to keep it very simple, so you may want to take a note or two. I want you to assume hypothetically that at the time one of those units came on line prior to Turkey Point No. 5 when there's no GBRA, base rates were generating $500 million of revenues, earnings were $100 million, and the revenue requirements associated with the new unit were $20 million. Do you have those figures in mind?

A Uh-huh.

Q And assume there's no base rate increase and FPL absorbed the cost of those units based upon the revenues generated by their then current base rates. Would you agree that, under that hypothetical, the earnings would be reduced from $100 million to $80 million because of the $20 million revenue requirement associated with the new unit?

MR. BUTLER: I'm sorry, Mr. McGlothlin, in your hypothetical, can you clarify -- are you assuming no growth in revenues from year to year?

BY MR. McGLOTHLIN:

Q Yes. Deliberately simplistic, yes.

A I'm going to make one more clarifying remark. We would have to assume a zero tax rate because revenue requirements are pre-tax whereas income is after tax.

Q With that clarification, go ahead.

A So, yes, the hundred would drop to 80.

Q Okay. And would you agree that, under the hypothetical as Mr. Butler clarified, the revenues stay at $500 million?

A Yes.

Q In other words, in that scenario, earnings would decrease by $20 million but customers' bills would stay the same. They would continue to generate the $500 million.

A Yes.

Q Now, that is a simple hypothetical designed to illustrate what would have happened at the time FPL was absorbing the costs of new units without a base rate increase and without a GBRA.

Now, assume the same situation but also assume that the GBRA that FPL -- for which FPL seeks approval in this case was in place at that time and that the particular unit would have been eligible for a GBRA recovery. In that circumstance, would you agree that there would be no diminution of earnings because of the base rate adder? They would stay at $100 million, but that customers would pay not the $500 million, but $520 million.

MR. BUTLER: I'm going to object to Mr. McGlothlin's hypothetical to this extent: He characterized the first of his two examples as being what would have been the case during this period when

FPL was absorbing the cost of the new units without base rate increases, but we've clarified that in his hypothetical there was no increase year to year in sales, and actually one of the main points of both Mr. Barrett's testimony and Ms. Brown's is that there was a period when sales were going up. So I don't think it was representative.

MR. McGLOTHLIN: The hypothetical is deliberately simplistic, is designed to show the impact on customers' bills of a situation in which base rates are adequate to absorb the costs but there is in place a rider or a mechanism by which the cost of a new plant automatically are added to the customers' bills, and I've provided some simplifying assumptions, but that's not uncommon for purposes of illustration.

ACTING CHAIRMAN EDGAR: And it is a hypothetical.

MR. McGLOTHLIN: Yes, it is.

ACTING CHAIRMAN EDGAR: Overruled.

THE WITNESS: So, yes, in your hypothetical, the revenue would then be 520.

BY MR. McGLOTHLIN:

Q So earnings would be unaffected, customers' bills would go up, even though under the hypothetical I've described, it's a given that base rates at the time were adequate to absorb the cost of the new plant. That would be the effect of a GBRA in that circumstance.

A In your simple hypothetical where everything else is equal, and keep in mind, too, you're talking about income, not rate of return.

Q Would you answer my question first?

A Yes. The rate of return would necessarily change because we're adding investment.

Q All right. Fair enough.

Now, with respect to Ms. Brown's testimony and the point that I've suggested to you by cross, you say the current economic environment is different from those times; correct?

A Correct, among other differences from those times, including our ability to drive out productivity savings.

Q But isn't it true that FPL's proposed generation base rate adjustment with GBRA is not limited to the current environment of the economy? Isn't it true that FPL requests that the GBRA be placed in effect and made permanent for the future?

A It's our request that it be continued indefinitely, yes.

Q So it's not limited to 2010, and it's not limited to the West County unit that's projected to come on service in 2011; is it?

A Correct.

Q In the decades to come, do you anticipate that FPL will be adding new customers to its system?

A Yes.

Q In the decades to come, do you think FPL will increase sales?

A I hope so.

Q In the decades to come, do you think it's reasonable to expect that we'll see economic circumstances very different than those that prevail today and in 2010 and in 2011?

A That would be our expectation.

Q In the decades to come, do you think FPL's system could -- and operations might benefit from such things as electric cars or other advents that we can't even predict today?

A I have no idea.

Q Do you remember the period in the '80s when mortgage rates were 15 percent and up?

A Yes.

Q Do you recall the conventional wisdom at the time was that we would never see another fixed-rate mortgage?

A I don't recall that.

Q Do you remember when it was predicted that oil would reach $200 per barrel?

A Yes.

Q And didn't it duck under $40 per barrel in the last several months?

A I believe it did, yes.

Q So as we sit here today, we can't really predict what economic conditions may be in the next -- in the decades to come; correct?

A That's correct, but one thing we can predict is that, if the GBRA as we've proposed it is approved, it will only ever allow us to earn our approved rate of return on that asset and can only move the overall company earnings closer to that overall rate of return as allowed by this Commission. If we were over-earning before we had GBRA, it brings us back down closer to the midpoint. If we're under-earning, it brings us back closer to the midpoint. It in and of itself cannot cause us to over-earn.

Q It may not cause you to over-earn, but it could cause customers' bills to go up and become higher than necessary to support your investment. Isn't that what we demonstrated with the example I gave you?

A In your hypothetical, sure, the numbers worked out that way, and as we talked about, that was just a hypothetical, overly simplistic.

Q Well, you jumped ahead of me a little bit. I don't mind that answer, but my point and my question to you next is: Isn't it true that in time to come we could see again a situation in which then current base rates are sufficient to cover the cost of a new unit in whole or in part without the application of a mechanism such as the GBRA?

A I don't know.

Q Is it possible?

A It's possible.

Q I'm going to change subjects on you again. I refer you to page 19 of your rebuttal testimony, line 23. You say, "The need determination proceeding includes a comprehensive economic analysis of the proposed plant addition and a determination that the proposed plant is a low-cost alternative for customers, the GBRA adjustment is approved from implementation based upon costs projected and approved in the new order."

Now, the economic analysis -- do you have that reference, Mr. Barrett?

A Yes.

Q The economic analysis to which you refer is an economic analysis of a proposed plant as compared with alternatives to that proposed plant, correct?

A It compares the proposed plant to all of the alternatives, yes.

Q And that economic analysis performed in the determination of need proceeding does not determine that a base rate increase will necessarily be warranted at the time that unit is placed into service, does it?

A No, it does not.

MR. McGLOTHLIN: No further questions.

CHAIRMAN CARTER: Ms. Bradley?

CROSS EXAMINATION

BY MS. BRADLEY:

Q Thank you.

Ms. Slattery punted a question to you, so let me ask you, how much are Florida Power & Light's dues to Affiliated -- I'm sorry -- Associated Industries?

A I don't know, but I do know that they are below the line, so they're not part of this request.

Q So when she punted them to you and said you could answer that question --

A My answer is it's not part of the request that we're asking and I don't know what we pay to AIF.

Q Do you have any idea why Ms. Slattery thought you could answer the question?

A I think she was thinking that it was part of the rate request, the forecast that I'm the sponsor of, but it's not part of our forecast that we're asking for recovery of. So I'm able to verify that it's not in the numbers that we're asking for.

Q Someone indicated earlier, I thought, that y'all paid dues or have to pay for the rating companies that have been discussed the last few days.

A Are you talking about the credit rating agencies?

Q Yes.

A Yeah. I believe that would have been Mr. Pimentel.

Q All right. How much do y'all pay for that?

A I believe he was asked that question in his testimony. I'm not going to speculate. So I think it's in the transcripts.

Q It's what?

A I think it's in the transcripts. Yeah, I think he answered that question, and I don't remember.

Q As to how much was paid each one?

A How much we pay S&P, how much we pay Moody's and how much we pay Fitch. I think I recall back in September him being asked that question.

Q All right. I understood you were the money man.

A He's the big money man.

Q He's the big money man.

So the big money man doesn't tell you what y'all spend on these items?

A I don't deal with the credit rating agencies. That's our treasury group, and they report to him.

Q All right. Do you have any knowledge of that?

A You could ask me a question and I'll tell you if I know.

Q Do you know whether those dues have stayed the same the last few years or if there's been any increases or decreases in that?

A I do not know, but just to clarify, they're not really dues. I think it's a fee that we pay for a service.

Q Do you have any knowledge of a range of those? I mean, are they hundreds, thousands?

A I think it's in the hundred thousand or less kind of number, but I'm not positive. I'm pretty confident that it's in the record, though.

Q Okay. You were a sponsor of Schedule C-15, correct?

A What's the title of that?

Q It's a list of dues that y'all pay.

A Yes.

Q And can you tell me if I'm reading this correctly? Y'all paid -- are these in the hundreds of thousands?

A They're in dollars --

Q Oh, they're in dollars.

A I'm sorry. They're in thousands of dollars.

MR. BUTLER: I'm sorry, Ms. Bradley. Could you give me the citation to the document you're referring to again, please?

BY MS. BRADLEY:

Q I'm sorry, C-15.

So you've paid something like 1,894 times thousands of dollars to EEI for dues.

MR. BUTLER: Madam Chairman, I'm going to object to this as being entirely outside the scope of Mr. Barrett's rebuttal testimony.

MS. BRADLEY: Actually, on page 17 he discusses whether or not they can reduce expenses on various things, and on page 4 they talked about reducing costs, and I think these are some of the expenses and the costs that they have.

MR. BUTLER: But Mr. Barrett testified broadly to the subject of the company's budgets in his direct testimony. This certainly would have been appropriate subjects there. Here Mr. Barrett was rebutting specific points made by Intervenor witnesses, none of which related to the subject of dues.

ACTING CHAIRMAN EDGAR: Ms. Bradley, can you speak to the objection as to how your question is appropriate for rebuttal versus when we were on direct?

MS. BRADLEY: Well, on those two areas, he talks about there was a discussion about reducing expenses and whether or not expenses could be reduced and whether they would want to and that type of thing, and I think these are part of the expenses that possibly could be reduced.

ACTING CHAIRMAN EDGAR: But as to why rebuttal rather than direct?

MS. BRADLEY: Because he talked about them on rebuttal. He talked about reducing and whether they had expenses that could be reduced.

ACTING CHAIRMAN EDGAR: Ms. Cibula.

MS. CIBULA: I think it's within the scope of the rebuttal.

ACTING CHAIRMAN EDGAR: Overruled.

Ms. Bradley, proceed, and please restate the question.

MS. BRADLEY: Thank you. I will do so if I can remember it.

ACTING CHAIRMAN EDGAR: That's part of the reason why I asked you to do it.

BY MS. BRADLEY:

Q We'll give it a shot here anyway.

Isn't it true, sir, that y'all paid something like -- and help me with this amount. It's the second one down. How much did you pay to EEI, Edison Electric Institute? It says "Professional." How much were those dues?

A Can you refer me to which year we're looking at because I've got several years here? It's the same exact schedule but several different years, the upper right-hand corner.

Q "Projected test ended 12/31/10."

A Ten. Edison Electric Institute, line 2, I believe. Is that what you're looking at?

Q Yes.

A 1,894,000.

Q And that was for dues? I mean, that's projected for dues?

A That's dues and participation in projects and things like that.

Q And you paid how much to Florida Chamber of Commerce or will be projected to pay to Florida Chamber of Commerce?

A Let me just line this up. I believe it is

38,000.

Q What about the U.S. Chamber, Annual Education Fund?

A 83,000.

Q Let me see if I can match these up. What about line 28, the INPO, Institute for Nuclear Power Operations?

A 3,386,000, and, of course, that's an industry oversight group for the nuclear industry and really something that we have to be part of as a nuclear operator.

Q How about line 5, the North American Electrical Liability Coordinating Council? It says "Professional."

A 2,798,000, and that's the coordinator for all of the different electric regions around the country.

Q Do you know the total amount that you paid for -- you project to pay for dues in 2010?

A I believe it's about 14 million.

Q And you pay those or similar amounts each year?

A Yes. Most of this is just kind of a cost of being in this business.

Q Well, you're not required by anybody to belong to the Florida Chamber of Commerce, are you?

A No. As I said, most of these -- and the bigger dollar items are really just kind of a cost of being in this business, like the FCG, the FRCC, the NRG, the SEE, INPO, NEI, all the big dollar items. So, you know, probably 13 million of the 14 million are really just a function of being an electric company and a nuclear company.

Q And on the next page there's list of a number of other groups. Do you see that?

A No. Actually I seem to only have page 1 of 2 with me. Counsel, do you have a second page?

Q Let me see if we can find another copy of it.

A Sorry about that.

Q Have you got one?

A Okay. I've got it.

Q Let me ask you to look at 3, 4, 5, 6, 7, that line -- those lines.

A Okay.

Q Now, what are -- are those dues or are those donations, or what are all those?

A I believe they're dues to be part of those groups. You're talking about the various chambers?

Q And how much did you pay, line 3, to the Greater Miami Chamber of Commerce?

A 32,000.

Q And what about Miami-Dade Beacon Council?
A 17,000.
Q Miami Beach Chamber of Commerce, line 8.
A 10,000.
Q What was the total for the projected dues for those organizations?
A I'm sorry. The ones that I just read?
Q No, the list. Are those all the groups that you belong to, that Florida Power & Light belongs to?
A Well, the MFR specifically asked for those that are 10,000 or greater. So you see on line 15, there's an aggregation of things that are less than 10,000. So it would be this number plus whatever else fell into that smaller bucket.
Q And how much was that total?
A The total, if you're referring to line 17, is 14,000,873. I don't have any subtotal of any smaller groups.
Q Okay. And that's fairly consistent from year to year?
A Yes.
Q Since you filed the petition for this rate case, you've instructed the staff to reduce O&M expenses; have you not?
A I'm not sure I follow what you mean by

"instructed staff to reduce." Are you talking about --

Q Directed staff.

A Are you talking about the aviation costs and the executive comp that was discussed yesterday?

Q No, I was talking about internally in your business, in your company.

A Oh, I'm sorry. I thought you meant Commission staff. I was mistaken. Could you just rephrase that again? I'm sorry.

Q Since you filed the petition -- and I'm not following where you're going with that at all.

A I heard "staff" and I thought Commission staff. I apologize.

Q I'm assuming you wouldn't have the authority to direct Commission staff.

A I misunderstood you.

Q Okay. All right. Since you filed the petition, have you given any directions or are you aware of any directions being given to the employees or staff at your Florida Power & Light Company to cut O&M expenses?

A We're always looking for opportunities to reduce costs, and this year is no exception. We are looking for opportunities to either reduce costs or shift costs so that we can try to earn an appropriate return.

Q And so you're aware of directions to cut expenses, correct?

A Yes.

Q Do you have any idea how much of that has been done so far, what the actual expenses are so far for this year?

A The exhibit to my rebuttal testimony, I believe it's REB-21, which is the O&M expenses, we've identified about $19 million at year-end that we expect to be lower than what we had budgeted for 2009.

Q Was that the exhibit that you presented this morning?

A No. This was in my prefiled.

Q All right. So the amount that was part of the petition was not the actual expenses?

A As part of my rebuttal testimony, the exhibit REB-21 identified as of April, and probably sometime in May or June when we prepared the exhibit, we were looking out from the vantage point of year-to-date April, and we saw about $19 million of reductions to what we had budgeted for 2009 that would be achievable.

Q And has that been adjusted since that time?

A We look at it every month, and actually since that time -- I guess it's been a couple of months since

I've been back here, but with August actuals, we think there's even a little bit more that can be achieved in 2009. A lot of it, though, is by shifting things from 2009 to 2010, obviously not with any intention of increasing our request for 2010. We're just going to have to find a way to do work next year. So there's been some permanent savings in 2010 and there's been some things that -- or, excuse me, 2009, and some things that we've been able to shift from maybe fourth quarter to first quarter, that sort of thing.

Q I'm not sure if I understood what you were saying. Were you trying to say that you're going to have to find ways to do work cheaper?

A We're always looking for ways to do work cheaper.

Q But we know of those -- do you know the amount of additional reductions that you've taken, projected?

A As of April -- or, excuse me, as of August, additional to what is here in my prefiled testimony. As of August, we've identified about $50 million that would be less than the budget for 2009.

Q All right.

A A lot of that, as I said, is being shifted to 2010, and it's going to give us quite a hill to climb in 2010.

Q Can I assume though that the same would apply to 2002 as to 2009, that you would continue to look at ways to reduce costs so that it's not the big hit in 2010 that you mentioned?

A We will continue to look for ways to reduce costs where we can.

MS. BRADLEY: I don't think I have anything further. Thank you.

ACTING CHAIRMAN EDGAR: Mr. Moyle.

CROSS EXAMINATION

BY MR. MOYLE:

Q Thank you.

I want to follow up on some of the points that other lawyers brought up with you. John Moyle on behalf of FIPUG. And then I have some questions focused on your testimony, but on that last point that you were talking about with Ms. Bradley, just so I'm clear, in -- I had to step out briefly, but you said that you have reduced 50 million in costs for your 2009 budget, is that right, as of August?

A Let me recharacterize it. We haven't reduced our budget per se. What we've identified is, as of August when we look out towards the balance of the year, we've identified about $50 million that we would estimate to be coming in below budget, and a lot of that has to do with deferring work from '09 to '10. Some of it has to do with some real savings that are maybe one-time in 2009, but yeah. In my prefiled testimony it was -- 19 million was the year-end estimate, and that's grown to about 50 million.

Q Okay. And that's a significant growth, going from 19 to 50, correct?

A Yes.

Q Presumably some of those are recurring costs, are they not?

A Some may, but there's going to be some other cost pressures that we have. Medical, for instance, we're going to be significantly over budget in medical costs this year and expect that next year we're going to be over what we put into the 2010 forecast. So we're going to have to overcome that as well.

Q Now, reducing expenditures in this year, that helps with your earnings, correct, from a perspective of reported earnings to Wall Street?

A Yes.

Q Was that part of the reason why these 50 million in cuts were taken or, as you said, some of them were shifted into 2010 to help earnings?

A We -- some of it is due to -- most it are due to operating events. For instance, a great example is the West County Unit 1 came into service about two months later than we had expected. So there was a significant amount of O&M that we didn't expend because the unit wasn't operating yet, and that's a savings.

Q Yes, sir, and you talked about that in your testimony. I'm trying to understand the difference between the 19 and the 50, and I know you said some were deferrals and -- do you have an itemization of what makes up that 30?

A I do have -- actually I --

MR. BUTLER: Madam Chairman.

ACTING CHAIRMAN EDGAR: Mr. Butler.

MR. BUTLER: We have an updated version of REB-21 that reflects the figures that Mr. Moyle and Mr. Barrett are discussing here, and we can distribute it if parties are interested in our doing so.

MR. MOYLE: I mean, I was following up on questions that Attorney General's counsel asked. Maybe I could take a minute and look at the information and make a decision from there.

ACTING CHAIRMAN EDGAR: No good deed, Mr. Butler. That's a joke, by the way.

MR. MOYLE: I can move on to another line and we can --

ACTING CHAIRMAN EDGAR: Let's move along. Mr.

Butler, thank you for --

MR. MOYLE: I would like to see the information. He raised it, but if it saves time, I can move along and then take a break or something and look at it at that point if that's --

ACTING CHAIRMAN EDGAR: Let's try it that way and see where it takes us. Okay.

BY MR. MOYLE:

Q All right. Thank you, Mr. Butler.

Another point that was raised, Mr. McGlothlin had a discussion with you about the reliability of forecasts, and I think you agreed that forecasts are less reliable the further out in time you go; correct?

A Yes.

Q And he asked you to compare 2015 to 2010, and you agreed that forecasts for 2015 were less reliable than 2010; correct?

A Yes.

Q Okay. You would also agree that forecasts for 2011 are less reliable as compared to 2010, correct?

A I wouldn't necessarily agree with that. I mean, as I mentioned to Mr. McGlothlin, I think there are gradations of how far out in time you go and, you know, clearly five years is different than two years, and so I wouldn't necessarily agree that we don't have as much visibility into the next year or two that we do into five years hence.

Q But I thought the theory was, the further out in time you go, the less likely you are of a forecast, and I was just trying to understand whether that theory applied consistently on the continuum of time or whether it didn't, and it seems to me that you're saying, no, it doesn't comply continually on the further out in time you go because 2011 is somehow different. Is that what you're saying?

A I'm saying that I wouldn't look at 2011 the same way I'd look at 2015 --

Q Okay. But you would agree, if you look at 2010 and 2011, the same question Mr. McGlothlin asked you comparing 2015 to 2010, that forecasts for 2011 are less reliable than forecasts for 2010; correct?

A No, I would not.

Q You talked about one of the reasons that you are asking this Commission, as I understand it, to provide a generation based rate adjustment and a subsequent year adjustment is because it will avoid the need for a rate case. Is that generally accurate?

A It has the potential to avoid the need. The GBRA particularly has the potential to avoid the need for a rate case.

Q Okay. Do you agree that a rate case serves as sort of the ultimate true-up as that term has been used in this proceeding?

A Yes.

Q Okay. From a policy perspective, you would agree that an ultimate true-up is a beneficial thing for regulators and for customers, would you not?

A I would agree generally that that's the case; however, there are, again, gradations of how often. I mean, clearly we wouldn't to be here every month looking at the prior month and looking at the next month. So I think it's reasonable to look out one or two years, two years in our request, and think that the Commission can take comfort in the forecast that we've put together, and all parties can take some comfort that we have some visibility in the next couple of years.

Q And your last litigated rate case, what we're doing today, was over 20 years ago; correct?

A Correct.

Q Would you think that that might be a little too long to have a litigated rate case?

A I will say that we have -- first of all, I don't know if that's too long or not because the Commission does have the surveillance process to know how we're doing as far as earnings if things were to get out of line on the high side to call us in, or if we feel the need to come in because we're under-earning. So there is that kind of mechanism to make sure we kind of stay on track, but I will point out that in the '05 case we did file an full set of MFRs and we got to the brink of hearings so that there was a complete exhaustive set of evidence that was presented there.

Q But you would also agree that, in the process of having a litigated case, that you have -- that this commission and parties have an opportunity to get in and dig in in little more detail? Like Ms. Bradley was asking you about dues paid to varies organizations, just filing the MFR doesn't allow for that type of questioning; correct?

A Well, not live. I mean, obviously through the discovery process, depositions, et cetera, there's a lot of probing that goes on. So I think there's a fair bit that goes on even if you don't get to the point of a hearing.

Q Okay. And the GBRA mechanism, I think we've agreed that it would have an effect of making it less likely that you would come in for a rate case; correct?

A It has the potential to make it less likely, yes.

Q I mean, if it works as designed, it will have that effect, correct, because you'll be able to recover the cost of your new plant through that mechanism and not have to come in for a rate case?

A Well, it reduces the likelihood of it, but a case in point, West County 3. If we get a GBRA rate increase for West County 3, we still need the 240 million in 2011 despite getting full recovery for West County 3. So it doesn't guarantee that we won't need to come back in to look at other non-generating-plant kinds of costs. It just reduces the likelihood.

Q Now, you made a comment -- talking about that 240 million that you're looking for in 2011, you made a comment in response to a question, and I thought you said that it was a certainty that you would have to file a rate case without a subsequent-year adjustment. That's not -- you didn't mean that, did you? That's not really the case that it's a certainty that you're going to file a rate case if this Commission does not allow you that 240 million in 2011?

A I guess what I should have said is it's our expectation that we would have to file a rate case.

Q Right, because there's a lot of variables as to what the ultimate decision may be. If it's a negative 135, that would be different than a -- you know, a hundred million to the positive, correct? So you'd have to consider and make a judgment about indeed whether you would have to come in for a rate case, correct?

A Correct.

Q Okay. Thank you for clarifying that.

I want to talk a minute about -- one of the things that is bolstering the GBRA in the 2011 adjustment is the rate case, and I think you had characterized it as administratively and costly -- a rate case proceeding is administratively burdensome and costly, correct?

A Yes.

Q Okay. And to ascertain the cost impact, what are the rate case expenses in this case; do you know?

A You know, I don't know, because it was about four million I think prior to this latest delay, and so I don't know -- the meter is still running. So I really don't know.

Q Would it be -- for purposes of my questions, can we call it five, let's call it five million?

A That may be low, but we'll go with that for purposes of your question.

Q Okay. All right. So, if we're talking about five million in rate case expense, the cumulative total ask that FPL is making in this case is approximately 1.5 billion; correct?

A Correct.

Q And, according to my math, five million out of 1.5 billion is one-third of one percent. Would you agree with that?

A Sure.

Q And you would also agree that one-third of one percent cumulatively -- and we have opportunities to have the ultimate true-up -- is not a significant amount of money in comparison to the total ask of 1.5 billion, correct?

A No, those are apples and oranges. Five million is a lot of money to me.

Q And it's a lot of money to me, but I'm asking you the question in the context comparing it to the $1.5 billion ask.

A I don't know why they're mutually exclusive, but it's a much smaller number than 1.5 billion, if that's your point.

Q You haven't heard any of the witnesses of the Intervenors in their testimony or during cross-examination complaining about the cost of rate cases, have you?

A I have not heard everybody testify, but I've not heard that, no.

Q Now, counsel for the Attorney General asked you about this MFR, and specifically about dues paid to Associated Industries of Florida. Were you here yesterday when Ms. Slattery was on the stand and was asked the question about dues paid to Associated Industries of Florida?

A No.

Q Okay. And is it your testimony that you have no information about the dues paid to Associated Industries of Florida or just that it's below the line and therefore it's not pertinent?

MR. BUTLER: Let me object to that as asked and answered.

MR. MOYLE: I was -- just wanted to make clear what his testimony was.

MR. BUTLER: I think he stated it quite clearly in response to Ms. Bradley's questions.

MR. MOYLE: His -- I'm sorry.

ACTING CHAIRMAN EDGAR: I thought it was clear, too. I'm not sure what --

MR. MOYLE: Well, I thought in his answer he talked about below the line and, you know, for some reason, I just wanted to be clear whether he had information or not. I mean, if -- I think the point is, one, if he has information, it's relevant with respect to bias, but if he doesn't have any information, you know, I guess I would just ask that it be cleared up, that I be permitted to ask the question.

ACTING CHAIRMAN EDGAR: Mr. Butler?

MR. BUTLER: He testified that he didn't have the figure as to what the dues were is my understanding, and then went on to clarify that they are recorded below the line and kind of explained that's why he doesn't because what he is responsible for is the amounts that are in the forecast.

MR. MOYLE: But the point of confusion is that, if he knows it's recorded below the line, he's the financial guy. You know, you would think that there might be information as to the amount. You know -- I mean, he has the information it's below the line. He's the financial guy. I just wanted to clarify that he was -- I don't know. It could be 10,000, it could be 100,000, it could be a million.

MR. BUTLER: He is not generally the financial guy. He is the person who is sponsoring the company's financial forecast that the test year revenue request is based on, and as I explained, because that's not an element of the forecast, it's below it's the line. It's not something that would be in, you know, his purview, and so I also certainly take -- excuse me -- take exception to the comment about somehow those figures biassing his testimony.

MR. MOYLE: Briefly.

ACTING CHAIRMAN EDGAR: One more chance.

MR. MOYLE: He's the Vice-president of Finance for the company. I think it's a fair question to ask particularly given his distinction between above the line, below the line. I'm not trying to show bias with respect to this witness of it, but you know, we have a party --

ACTING CHAIRMAN EDGAR: Although I think that's what I heard you say.

MR. MOYLE: My bias comment was referred -- to one of my brethren at this table, not with respect to him. I mean, plainly we have one intervenor in this case who supporting FPL's rate increase of $1.5 billion. It's a business organization. And I think it's relevant and pertinent information how much they're paid in dues, if he knows.

ACTING CHAIRMAN EDGAR: Thank you, Mr. Moyle. Thank you Mr. Butler. This is the way I am going to ask that we proceed. First, it's rare, but I'm going to ask that the comment from Mr. Moyle about potentially showing bias from the witness, whatever the exact words, be struck. Secondly, I am going to ask -- allow the witness to respond to the question. And, third, I'm going to ask you to re-pose the question.

BY MR. MOYLE:

Q Thank you.

Sir, as the vice-president of finance for Florida Power & Light, do you have any information as to the amount of dues that Florida Power & Light pays to Associated Industries of Florida or has paid?

A I do not know what our dues to AFI are.

Q And the response to that question covers --

A So the answer is no.

Q Okay. So both current and past, correct?

A Correct.

Q And presumably no information about future dues as well, correct?

A Correct.

Q Thank you. Thank you.

You made a point in conversations with Mr. McGlothlin about it being very difficult to make judgments about 2011 because you don't know the nature of the hoped-for and anticipated economic recovery, correct?

A I made statements regarding his hypothetical, yes.

Q And you would agree -- I mean, you talked about new homes and inflation, and that there's a lot of variables and components as to how a recovery may look; correct?

A I believe that's what I said, yes.

Q And given your answer to Mr. McGlothlin, wouldn't it logically also follow that, with respect to making a decision about rates in 2011, that those same variables would apply to an entity trying to make determinations about rates in 2011?

A This is where I said -- well, let me first answer no. This is where my comments around balance in the forecast come into play. We believe we put a forecast together that is balanced in terms of the interplay between the major assumptions such that it should be within the realm of reasonableness and reliability for this commission.

Q In response to a question from Ms. Bradley about paying three million dollars plus in dues to a nuclear group, you had sort of indicated that you had to belong to that group. Do you recall that?

A Yeah. I believe that I said that that's part of being a nuclear company. I don't know exactly what the requirements are, but I believe we have to be part of that.

Q Okay. But that organization doesn't have any regulatory authority over the company, does it?

A I don't believe so, but that's really outside the scope of my testimony.

Q You've heard of the Nuclear Regulatory Commission. That's a governmental entity, correct?

A Yes.

Q Let me direct your attention to certain portions of your testimony if I could, page 6, line 6.

A I'm there.

Q You state on page 6, "The remaining $14 million reflects about 192 million related to recovery of capital expenditures under the DOE Spent Nuclear Fuel Settlement which was not reflected in the company's budget." What 22 million in capital expenditures are you referring to?

A First, if I could make a correction, this was one of the errata that I read at the beginning. That 22 is 28.

Q Thank you.

A And it has to do with capital expenditures related to spent fuel storage that are expected to be spent in 2009.

Q And is this the dry cask monies that you're spending to create these new places to store the spent nuclear fuel rods?

A Yes, amongst, you know, other capital costs for the handling of the fuel and such, and these are covered by the settlement that we entered into with the DOE.

Q And we'll look at that document Mr. Butler has to update this, but a couple of other questions related to adjustments made to your O&M. You had a $44-million reduction in expense related to Associated Electric and Gas Insurance Services, Limited, environmental insurance policy. Are you familiar with that?

A I am.

Q Okay. Was that a one-time reduction or a recurring reduction?

A That was a one-time reduction.

Q And why do you have a one-time reduction? Was that a settlement of a lawsuit, or what was going on there?

A I believe it was thoroughly discussed with Witness Ousdahl.

Q Well, when you put it back in your rebuttal, it brings it back up. Can you briefly summarize it?

A This was a commutation of an insurance policy that had been purchased I believe back in '98 or '99, and it resulted in a reduction of expense of

$44 million.

Q Are those monies credited back to ratepayers?

A They were reflected as a reduction in expense in 2009, and since there were no change to rates, it did not explicitly go back to ratepayers, nor was the policy purchased with ratepayer money if you want to look at it that way.

Q And your expense for -- your O&M total expense for 2010 is approximately three percent higher than 2009, is that correct?

A Where are you looking at figures?

Q I'm on page 9, line 9. Do you see that?

A Yes.

Q And I was asking you -- approximately three percent. It says 2.9 there, but I'm just trying to get a sense of your relative O&M from 2009 to 2010. Am I correct that it is an increase of 2.9 percent?

A When you make the adjustments reflected on REB-23, my exhibit, yes.

Q And then how does the $50-million reduction that you discussed with Ms. Bradley factor into that three-percent figure, if it does?

A It's hard to say. To the extent some of that 50 -- well, first of all, it lowers 2009, but -- so, to the extent that it didn't impact 2010, it would make the percentage a little bit higher. To the extent it makes us need to spend more money in 2010, it makes it even higher.

Q But if it's a $50-million reduction, doesn't it make the percentage lower?

A This percentage is going from '9 to '10. So if lowers '9. The 50 million lowers '9. So it makes the growth bigger.

Q Okay. If that 50 million came in in '10, if you didn't make it in '9, then it would make it lower; correct?

A No.

Q If you add $50 million in potential savings in O&M, okay, and you didn't put them in in 2009 but you put them in in 2010, wouldn't that make the two percent -- 2.9 percent increase lower?

A Okay. I follow your math now, and that's not what's happening here. These are monies that will be saved in 2009, not monies that would be saved in 2010. In fact, some of these monies might need to be spent in 2010, therefore making 2010 even higher than what we filed.

Q And isn't the point of some of this is that you do have some flexibility about when you can put savings in or you can make expenditures in your O&M

budget?

A There is some flexibility. Some of it is a result of things that kind of happen to us, if you will, things that are outside of our control, some things that are inside of our control. We do have some limited flexibility around moving the timing of some things, but, you know, aside from that, it's not the same kind of flexibility that we had in 2008 when growth just basically stopped.

Q You are a Vice-president of Finance for Florida Power & Light Company, correct?

A Yes.

Q As we sit here today, do you believe that Florida Power & Light Company is fiscally sound and stable?

A Absolutely.

Q Do you think it -- the same question with respect -- through 2009, do you expect it to be financially sound and stable through 2009?

A I think I'm going to ask you to define "financially sound and stable" for me, if you would.

Q Well, how did you define it in response to my previous question?

A Basically good bond ratings, access to capital, able to fund required investments. So using that definition, in 2009 I expect us to be financially sound although under pretty good pressure. We're expecting to earn rates of return on equity in the low nines.

Q Well, that's why I asked the question, because on page 11, line 9, you're testifying that your return on equity is projected to be 9.3 percent; correct?

A Yes.

Q And a 9.3 percent return is not going to make the company financially unsound in 2009, correct, given your answer to my previous question?

A I wouldn't necessarily agree with that. I think it depends on who you're asking. I think it's going to be a cause of alarm for investors, particularly if they expect that level of return to continue. If they expect it to be a temporary blip that can be remedied by this proceeding and that the receipt of really required revenue increases, then I think that -- then it's just seen as that, a temporary blip. If it were to be seen as a new expectation for returns, that's a whole different ball game.

Q And I'm asking you because we don't have the investors here, but with respect to you, you would agree that a 9.3 percent -- well, never mind.

Let me ask you this: With respect to 2008, was the company financially sound in 2008, using your definition?

A It was financially sound although challenged as we went through the credit crisis.

Q And the rate of return that you achieved in 2008 was 10.8, correct?

A Correct, and investors well understood that that was in the middle of a rate freeze period that would be coming to an end at the end of this year, and so in some measure we were able to look beyond that and say, you know, they're looking at the long term, how are things going to be in the long term.

Q On page 12, you are responding -- the Hospital Association's witness indicated that the O&M expense forecast is wildly excessive and can't be justified in these present economic circumstances, and you disagree with that contention; correct?

A Correct.

Q Now, I guess you don't disagree that the present economic circumstances warrant belt-tightening, do you?

A No, I would agree with that.

Q Okay. And salaries are part of O&M expenses, are they not?

A They are.

Q And were you here yesterday when the company made a concession and reduced salaries due to the tough economic times and other considerations that it might be somewhat of a distraction? Were you here when that was announced?

A I don't believe that's what happened, but what I heard was that we agreed to keep executive compensation flat I believe for '9, '10 and '11.

Q And are you aware that part of that concession related to recognition of the tough economic times?

A Yes.

Q And if we are indeed in these tough economic times, which I don't think there is a dispute about, wouldn't it also follow that, with respect to other things that the company is requesting recovery for, that it would be appropriate to provide relief to ratepayers, given the tough economic times, on things like return on equity? You would agree with that, would you not?

MR. BUTLER: I'm going to object to this as well beyond the scope of his rebuttal testimony. He has no testimony on what the appropriate cost of equity is.

MR. MOYLE: He just -- I just read all his return on equity portions.

MR. BUTLER: He was simply -- he observes in his testimony what the return will be. He does not testify to what the appropriate return should be. We had two witnesses that covered that subject extensively.

ACTING CHAIRMAN EDGAR: Mr. Moyle, can you rephrase?

BY MR. MOYLE:

Q Yeah, if you could just give me a minute.

You're responding in your rebuttal to testimony of a witness who indicated that they thought Florida Power & Light Company's O&M expenses were too high particularly in light of the tough economic circumstances, correct?

A Correct.

Q Okay. You would agree that the tough economic circumstances, that fact is not limited to decisions about things like O&M and salaries, correct, that that -- the tough economic times is a factor that goes beyond those two items?

A Those items are what I addressed in my testimony.

Q Yes, sir, but you addressed other things in your testimony. Can you answer my question with respect to agreeing whether the tough economic times extend beyond O&M?

A They might, yes.

Q I wanted to go into the portion of your testimony that you talk about the symmetrical forecasting. If I understand the point you're making on symmetrical forecasting is is that you try not to make a forecast so it's biased high or low but it's, as you used the term, right down the middle of the fairway; correct?

A Correct.

Q Mr. McGlothlin said it's a 50-50. Is that a fair comparison as well?

A That's a fair qualitative assessment. It's not quantitatively, statistically necessarily a normal distribution where we're at the 50th percentile.

Q A flip of the coin is a 50-50 proposition, correct?

A It is.

Q Are you aware that the vast majority of commissions in the United States make rate decisions based on historical information as compared to forecasted information?

A No, I'm not aware of that.

MR. BUTLER: And a bit belatedly, but I'm going to object to the question as assuming facts not in evidence.

BY MR. MOYLE:

Q Mr. McGlothlin asked you questions about your statement on line 16.

A Which page?

Q I'm sorry. It's on page 16, line 17, about it's not correct to assume that a faster economic recovery will necessarily significantly increase earnings for the company. Do you see that?

A Yes.

Q Okay. If you assumed that you had a sales growth rate of three percent, all other things being equal, that would, would it not, significantly increase earnings for the company?

A We could argue about the word "significantly," but it would increase earnings for the company.

Q Well, flip over if you would, because -- flip over to page 21 of your testimony.

A I'm on there.

Q On line 19 you state, and I quote, "As I stated in my direct testimony, for the period 1999 to 2006, retail sales growth averaged 2.9 percent annually. Power plant additions were added primarily to meet the need of a growing customer base. The growth provided additional base revenues to help offset the cost of power plant revenue requirements." And I guess what I was trying to understand is, how in 1999 to 2006 a three percent growth rate provided enough revenue where you didn't need to seek any additional monies to put new power plants in, but on page 16 you're suggesting that an economic recovery may not necessarily significantly increase earnings for the company?

A Those are two different statements.

Q And is the distinction because of the years, we don't know what the recovery's going to look like? How do you reconcile those two statements?

A First of all, you took one of two statements on page 21. It never suggested that three percent revenue growth in and of itself would enable us to absorb new power plant additions. It goes on to say, "Additionally, FPL was able to implement significant productivity savings to achieve its current industry-leading cost performance." And -- so it's a combination of a growing top-line revenue and the ability to implement some productivity savings to save other base costs that enabled us to absorb those plants. That's very different than saying three percent causes significantly increased earnings. Those are two different statements.

Q Well, you're going to continue going forward to have these efficiencies that we've talked about, correct?

A The efficiencies that we have been able to achieve primarily over the last decade are embedded in and part of our forecast. So incremental gains of that same magnitude really are just not possible at this point. It's kind of, you know, diminishing returns. You know, once we're -- as Witness Reed will talk about when he gets up here, we're about half the industry average in terms of O&M -- non-fuel O&M cost per customer. So that has enabled us to absorb some infrastructure investments in addition to having this top-line revenue growth that happened during the '99 to 2006 period that I referred to.

Q You have a background in accounting, correct?

A No, I do not.

Q In finance?

A Finance.

Q The difference between recurring and non-recurring is something you're familiar with?

A Yes.

Q Would it be fair to characterize the efficiencies as recurring as compared to non-recurring?

A Yes.

Q Mr. McGlothlin asked you some questions about the GBRA, and is it your understanding that the GBRA, if it were to be allowed, would be a limited proceeding, that there would be an inability of Intervenors or

Public Counsel to come in and argue and say, well, wait a minute, yes, they have this additional capital expenditure on these power plants, but look over here, the sales growth has gone up wildly. We never expected this back when we were making this decision in 2009, that we would have a 10-percent sales growth, and they have more than enough money to address the addition of the power plant similar to your testimony on line 21. Is it your understanding that the GBRA mechanism would not allow those arguments to be made at the point in time when the company was seeking to put in service the power plant that was benefitting from the GBRA?

A Yes, it's my understanding the GBRA would be a limited-scope proceeding just focused on the GBRA, and as I have said before, the GBRA in and of itself is not go to go exacerbate any kind of an over-earnings situation at all. In fact, if we were earning above the allowed midpoint, bringing an asset in at the midpoint kind of brings down an overall over-earning situation.

MR. MOYLE: Madam Chair, that is just about it for me with the caveat about the document that was referenced at the start. You know, I'd like to be able to look at that, and whether we want to take a break now or whether it would be permitted for me to look at it over lunch and come back on that document, however --

whatever the preference is.

ACTING CHAIRMAN EDGAR: Well, you probably were reading my mind because I was going to next ask, as I have sometimes, Mr. Wright, if you could give me just an approximate idea. Do you have questions for this witness and, if so, a time, roughly?

MR. WRIGHT: Thank you for asking, Madam Chairman. I do have questions for this witness. You know, depending on the nuances and the length of responses, you know, it could be as little as less than 15 minutes or more than half an hour. I don't think it would hit 45 minutes, but I do have some questions at that order of magnitude anyway.

ACTING CHAIRMAN EDGAR: Thank you. And Mr. Wiseman.

MR. WISEMAN: Your Honor, I'm not going to have any questions of this witness.

ACTING CHAIRMAN EDGAR: And what about staff, do we have -- or -- do we? Do you have questions for this witness?

MS. WILLIAMS: I do have questions but it's probably under five minutes.

ACTING CHAIRMAN EDGAR: Okay. Then let's -- at this point, we've been going for about three hours, so let's take a 15-minute break and come back in the --

between quarter to and ten to, give the witness and the rest of us a short stretch.

Mr. Moyle, I would ask, if you can use that time to look over this document, and then we'll see if that gives you the time that you need.

MR. MOYLE: Thank you.

ACTING CHAIRMAN EDGAR: Thank you. We are on recess.

(Recess.)

ACTING CHAIRMAN EDGAR: Let's go ahead and gather together again and see where we are. Did I lose Mr. Wright? Oh, he's coming.

Mr. Moyle, let's begin with you. I think that, when we took a short break, you were going to review the document that had been passed out previously, Late-filed Exhibit No. 419.

MR. MOYLE: Yeah. I didn't know that we put a number on it, but --

ACTING CHAIRMAN EDGAR: That's the number.

MR. MOYLE: Oh, it is, okay.

MR. BUTLER: Madam Chairman, to avoid confusion, I don't think so. We handed out 419 --

ACTING CHAIRMAN EDGAR: Okay. Please clarify it for me, then. Sorry.

MR. BUTLER: Sorry. We handed out 419 at the beginning of Mr. Barrett's testimony, but then in response to a question, an exchange between Mr. Moyle and Mr. Barrett regarding the update to the REB-21, I said we had a version that was available. I gave Mr. Moyle a copy of that, and I think that's what he's been looking at.

ACTING CHAIRMAN EDGAR: Okay. Thank you for that clarification.

MR. MOYLE: Okay. And thanks, Mr. Butler, for providing it. I've looked at it. I don't intend to ask questions about it or offer it, so I think it's a moot point, and provided no other party is going to -- I don't think anybody's going to do that, so I think I'm finished with my cross, and thank you for the opportunity to look at this.

ACTING CHAIRMAN EDGAR: Okay. And that does include the other version that was -- well, the 419 as well because I thought, Mr. Moyle, when that was passed out, that you had asked also if you -- I think we're saying the same thing. You're done with this witness, correct?

MR. MOYLE: Yes.

ACTING CHAIRMAN EDGAR: Okay. That works for me. Okay.

MS. WILLIAMS: I do want to note that staff will want to enter this into the record, the update to REB-21. I want to put that out there now.

ACTING CHAIRMAN EDGAR: Mr. Moyle, does that change your circumstances?

MR. MOYLE: It does. Thank you.

ACTING CHAIRMAN EDGAR: Yeah, thank you for jumping in there. It was the appropriate time.

MR. MOYLE: Could I have just a minute?

ACTING CHAIRMAN EDGAR: You may.

MR. BUTLER: Madam Chairman?

ACTING CHAIRMAN EDGAR: Mr. Butler.

MR. BUTLER: While Mr. Moyle is conferring, let me note something else just to complicate things slightly.

ACTING CHAIRMAN EDGAR: Lovely. Go right ahead.

MR. BUTLER: I don't know if anybody is interested in having -- I just want to be sure that people are aware, REB-21 has a counterpart for capital which is REB-22. Both of them in Mr. Barrett's testimony are based on actuals through April, and the point of this exhibit or this document that we had handed Mr. Moyle and he is considering now what he wants to ask concerning it has to do with an update to the O&M expenses. We have also an update to the capital, and I just -- I didn't want it to be something that it comes up only right near the very end. If anybody wants to see it, we're certainly happy to distribute it. If no one does, we're happy to just leave it be as well.

ACTING CHAIRMAN EDGAR: Thank you.

Ms. Williams?

MS. WILLIAMS: It sounds like staff wants that as well.

ACTING CHAIRMAN EDGAR: What's the best way to proceed?

MS. WILLIAMS: Could we have Mr. Butler pass that update out around to the parties and then decide what to do from there?

ACTING CHAIRMAN EDGAR: Okay.

MR. BUTLER: And I will just at this point also pass out to all of the parties the REB-21 update. I had given it to particular parties who wanted it, but just to be sure everybody does --

COMMISIONER EDGAR: Okay. Well, let's go ahead and distribute two -- my understanding, two documents, updated versions of two of the exhibits for this witness. We'll go ahead and distribute them. We can mark them at this time and then see what's next.

Yes, Mr. Moyle.

MR. MOYLE: I need a minute to confer with

Mr. Wright. I'm a little hesitant because, you know, this sort of just came about as the result of a question that was asked by the Attorney General, and, you know, we've worked hard to try to not allow a bunch of supplemental stuff coming in, and if it's coming in -- we haven't really had time to digest it, and I think I'm okay if everything comes in across the board, but to, you know, sort of selectively put in some stuff without updating everything, then I think we're going down a road that's going to be difficult.

ACTING CHAIRMAN EDGAR: Well, it is always -- I think for all of us, certainly for me anyway, only to speak for myself, one of those conundrums: Do we have a desire for updated, most-current information and certainly a recognition that at some point we are at a moment in time. So case-by-case is generally the way I think is the best way to deal with this.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. I guess typically we've been breaking for lunch about this time. I do have an appointment I need to go to. It might be beneficial -- if the parties need time to confer, perhaps this might be near a good breaking point. I would just ask that, if it would be possible if we could reconvene at 2:45. Given the fact that there are only three of us participating today, I'd greatly appreciate that consideration.

ACTING CHAIRMAN EDGAR: I was kind of hopeful that we could finish with this witness before lunch, but realizing that we do have a number of questions that have come up, and, Commissioner, we always try to accommodate as many schedules as we possibly can.

So let's figure out where we are with these documents and what is the best way to proceed, and then maybe we can go to lunch. I know that I could use some food.

Okay. So these have been passed out. I believe everybody has them. Mr. Butler, will you please one more time briefly describe what we have before us?

MR. BUTLER: Certainly. I'll start with the first one which says at the top of it, "2009 O&M Variances to Budget," and I guess if we are marking --

ACTING CHAIRMAN EDGAR: Well, that is my thinking. Let me look to -- does that raise -- give massive heartburn to anybody?

I'm hearing no, so -- oh, Ms. Williams.

MS. WILLIAMS: I think what we wanted to do is give staff an opportunity to review it and make sure that they do in fact need it. If they end up deciding they don't want it in, we don't need to mark it. So if we could wait until after lunch and just have him describe it now and then we could mark them later if need be.

MR. BUTLER: That's fine with me. Sometimes the number helps avoiding having to remember what it was referring to, but if you'd rather wait till after lunch to mark it, it's fine. I'll just tell you what they are and we can --

ACTING CHAIRMAN EDGAR: Why don't you describe so that we all have it, and then we will, excuse me, go on lunch break and take it up when we come back.

Mr. Butler.

MR. BUTLER: Thank you. In any event, the document titled "2009 O&M Variances to Budget" is the same form of exhibit as what is in Mr. Barrett's rebuttal testimony at REB-21, and it shows the variance, the difference from what had been projected in the forecasts that are part of -- I'm sorry -- that were budgeted for 2009 of the actual expenditures and the projected remaining year expenditures, but, whereas in the case of the document in the original testimony the actuals ran only through April, the actuals now run through August, and then it's a re-projection for September through December, and it shows the total variances line of $51 million, meaning that the current expectation is to spend $51 million less than had been originally budgeted. And then the second document is entitled "2009 Capital Budget --" or "Capital Variances to Budget," and it follows essentially the same format and is updated for the same purpose of reflecting actuals through August instead of through April.

ACTING CHAIRMAN EDGAR: And that is the update to REB --

MR. BUTLER: 22.

ACTING CHAIRMAN EDGAR: -- 22. Thank you.

Okay. Any questions about any of that while we're all together?

Hearing none, okay. Then what I would ask is, while we are on lunch break, at a minimum, Mr. Moyle and Mr. Butler and Ms. Williams maybe get together and talk about this. All other parties are, of course, invited to join at your pleasure. And per Commissioner Skop's request, we will come back at 2:45 to begin again with this witness, and we are on lunch break.

(The transcript continues in sequence with Volume 45.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)

COUNTY OF LEON)

I, RAY D. CONVERY, 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 27th day of October, 2009, at Tallahassee, Leon County, Florida.

RAY D. CONVERY