Ruth Nettles 080677-EI

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Attachments: 4.1.10.FPL Motion for Reconsideration and Clarification FINAL.pdf; 4.1.10.FPL Motion for Reconsideration and Clarification FINAL.doc

Electronic Filing

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b. Docket No. 080677-EI
In Re: Application for Increase in Rates by Florida Power & Light Company

c. The Document is being filed on behalf of Florida Power & Light Company.

d. There are a total of 73 pages

e. The document attached for electronic filing is Florida Power & Light Company's Motion for Reconsideration and Clarification of Order No. PSC-10-0153-FOF-EI

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DOCUMENT NUMBER-DATE
02415 APR-1 ☐
FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Power & Light Company	))	Docket No: 080677-EI
In re: 2009 depreciation and dismantlement study by Florida Power & Light Company	)))	Docket No. 090130-EI Filed: April 1, 2010

FLORIDA POWER & LIGHT COMPANY'S
MOTION FOR RECONSIDERATION AND CLARIFICATION OF ORDER NO. PSC-10-0153-FOF-EI

Florida Power & Light Company ("FPL"), pursuant to Rule 25-22.060, Florida Administrative Code, hereby moves for reconsideration of the following issues that were part of the Commission's determination of FPL's 2010 test year revenue requirements in Order No. PSC-10-0153-FOF-EI, issued on March 17, 2010 ("Order 0153"): (1) impact of fuel cost over-recovery on test year working capital (Issue 46); (2) adjustment of test year late payment revenues to reflect impact of minimum late payment charge (Issue 89); (3) adjustment to test year salaries and employee benefits (Issue 103); and (4) adjustment of test year charges from FiberNet to FPL (Issue 109). FPL is seeking reconsideration with respect to specific computational errors that the Commission made in implementing its decision on the foregoing issues (collectively, the "Reconsideration Errors"), putting aside the Commission's stated rationale for its decision on each of the above issues.

In addition, FPL hereby seeks clarification regarding an apparent inconsistency in Order 0153 as it relates to the computation of the test year depreciation expense used in setting FPL's base rates.

FPL hereby respectfully requests that the Commission correct the Reconsideration Errors and clarify the depreciation expense inconsistency, as more fully discussed herein below. To the extent that addressing the Reconsideration Errors and clarifying the depreciation expense

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inconsistency should result in either an increase or decrease in FPL's approved test year revenue requirements, FPL requests that the Commission make a commensurate adjustment to the annual amortization of the theoretical depreciation reserve surplus approved in Order 0153, such that there is no change to the base rates approved for implementation effective March 1, 2010 and which are currently in effect. Approval of this approach will ensure that FPL's reconsideration and clarification requests are addressed with *no change in rates* charged to customers and *no change in revenues* to FPL, and will have the effect of avoiding further deterioration in FPL's cash flow and earnings relative to what the Commission approved in Order 0153.

In support of this Petition, FPL states as follows:

INTRODUCTION AND BACKGROUND

1. On March 18, 2009, pursuant to the provisions of Chapter 366, Florida Statutes, and Rules 25-6.0425 and 25-6.043, F.A.C., FPL filed a petition for, *inter alia*, an increase in rates to be effective on the first cycle day of January 2010 based on a 2010 test year. The Commission held fifteen days of technical hearings concerning FPL's request, ultimately concluding on October 23, 2009.

2. On December 23, 2009, the Commission Staff issued its recommendation on FPL's request. Staff recommended numerous adjustments that reduced FPL's 2010 rate increase request from $959 million to $357 million. The Commission then considered Staff's recommendation at a special agenda conference held on January 13, 2010, made additional adjustments to that recommendation, and ultimately granted FPL a 2010 base rate increase of approximately $75.5 million.

3. This Petition does not seek reconsideration of the rationale or overall result of the Commission's decision, with which FPL substantially disagrees. Rather, FPL has confined its

Petition to the four Reconsideration Errors where – even taking the Commission's rationale as a given – the decision nonetheless omits or overlooks key information and/or reflects computational errors. FPL describes the nature and magnitude of the Reconsideration Errors below, and attaches to this motion supporting worksheets to facilitate review and quantification of each such issue. In addition, FPL describes and seeks clarification of an apparent inconsistency in the computation of depreciation expense set forth in Order 0153.

4. FPL requests that the Commission correct the Reconsideration Errors and clarify the apparent inconsistencies in the computation of depreciation expense. Should the Commission resolve FPL's requests for reconsideration and clarification in a manner that results in either increasing or reducing the amount of test year revenue requirements approved in Order No. 0153, FPL requests that the Commission make a commensurate adjustment to the annual amortization of depreciation reserve surplus approved in Issue 19F, such that there would be no rate increase or decrease relative to the $75.5 million increase that took effect March 1, 2010.

5. Approval of the approach described in Paragraph 4 will ensure that FPL's reconsideration and clarification requests are addressed with *no change in rates* charged to customers and *no change in revenues* to FPL, thus preserving the rates that were approved by the Commission on January 29, 2010, communicated to customers by both the Commission and FPL, and implemented as approved on March 1, 2010. The March 1 rates result in FPL's customers presently paying the lowest overall electric bills in the state. Preserving the March 1 rates also will have the effect of avoiding the potential for further deterioration in FPL's cash flow and earnings.[1] Cash flow considerations are of particular concern given the March 11, 2010

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[1] Were the Commission not to correct the Reconsideration Errors, FPL would suffer a reduction in earnings of approximately 30 basis points below what the Commission approved in Order 0153.

downgrade of FPL's credit rating by Standard & Poor's Rating Service ("S&P") and the possibility of more downgrades from other credit rating agencies to follow, potentially affecting FPL's cost of borrowing.[2]

ARGUMENT

I. The Standard for Reconsideration.

6. The Commission has recited the following standard for review of its orders on reconsideration:

> The standard of review for a motion for reconsideration is whether the motion identifies a point of fact or law which was overlooked or which the Commission failed to consider in rendering its Order. See Stewart Bonded Warehouse, Inc. v. Bevis, 294 So.2d 315 (Fla. 1974); Diamond Cab Co. v. King, 146 So.2d 889 (Fla. 1962); and Pingree v. Quaintance, 394 So.2d 161 (Fla. 1st DCA 1981). In a motion for reconsideration, it is not appropriate to reargue matters that have already been considered. Sherwood v. State, 111 So.2d 96 (Fla. 3rd DCA 1959); citing State ex. rel. Jaytex Realty Co. v. Green, 105 So.2d 817 (Fla. 1st DCA 1958).

In re: Petition for rate increase by Tampa Electric Company, Docket No. 080317, Order No. PSC-09-0571-FOF-EI, August 21, 2009, at 8. As will be shown below, FPL respectfully submits that the Commission overlooked or failed to consider important facts that led it to calculate inaccurate adjustments to FPL's 2010 revenue requirements. Attached hereto are Appendices I to IV, which show the calculations of the revenue requirements adjustments that the Commission should make for each of the Reconsideration Errors. Those errors, if left uncorrected, would effectively reduce the return on equity ("ROE") that FPL would have the opportunity to earn on

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[2] *See FPL Group Inc. Downgraded to "A-" From "A", Off Credit Watch; Outlook Stable,* Standard & Poor's Research Update, dated March 11, 2010; *Moody's Places FPL Group and Subsidiaries on Review for Downgrade,* Moody's Investors Service Global Credit Research, dated January 19, 2010; *Fitch Places Florida Power & light and FPL Group on Watch Negative,* Fitch Ratings notice dated January 12, 2010. These reports are attached hereto as Exhibits 1, 2 and 3, respectively.

2010 test year results by 30 basis points below the 10% mid-point approved in Order 0153. Thus, the Reconsideration Errors represent a substantial, unintended and unjustified penalty to FPL which warrants prompt correction.

II. Reconsideration Errors

A. In Determining Test Year Working Capital, the Commission Failed to Take Into Account Its Recent Decision Directing FPL to Make a One-Time Refund of Fuel Cost Over-Recovery in 2010 (Issue 46).

7. In Issue 46, the Commission determined whether to remove both projected over-recoveries and under-recoveries in the fuel, capacity, environmental and conservation clauses for the purpose of calculating the working capital component of test year rate base. FPL believes that both over-recoveries and under-recoveries should be removed from that calculation, because they both either pay or earn a return through the applicable clauses. The Commission disagreed and excluded the effect of under-recoveries from the calculation while including the effect of over-recoveries. Accordingly, it included a net over-recovery of $101,971,000 in the working capital calculation, which has the effect of reducing FPL's test year working capital and hence rate base for ratemaking purposes by that amount.

8. While FPL disagrees with the Commission's asymmetrical decision to include only over-recoveries in the working capital calculation, that is not what FPL seeks to have the Commission reconsider through this motion. Rather, FPL seeks reconsideration of the *amount* of the over-recovery included in working capital. Specifically, the computation of the over-recovery overlooks and is inconsistent with a recent Commission decision in the 2009 fuel adjustment proceeding (Docket No. 090001-EI), thereby overstating the impact on test year working capital of the projected 2010 fuel cost over-recovery. In its base rate filing, FPL assumed the established practice for fuel clause true-ups of over-recoveries and under-

recoveries: the projected over-recovery from 2009 would be reflected in the 2010 fuel clause factor and hence the refund would occur ratably throughout calendar year 2010. This practice resulted in FPL forecasting an average balance due customers over the course of the test year totaling $94.5 million, which reduces working capital requirements by that amount.

9. As it turned out, however, the Commission did not approve FPL's proposal to recover the fuel cost over-recovery balance that accrued at the beginning of 2010 by reflecting it in the 2010 fuel factor and refunding it ratably over the calendar year. Rather, in Order No. PSC-09-0795-FOF-EI, Docket No. 090001-EI, dated December 2, 2009, at 20 ("Order 0795"), the Commission directed FPL to refund the full amount of its 2009 net true-up over-recovery as a one-time credit in January 2010. The Commission's direction was an unanticipated action, relative to prior fuel adjustment practice and, therefore, inconsistent with FPL's test year projections which were used as the starting point for the Commission's decision on this issue in the rate case.

10. As shown on Appendix I, if one treats the fuel cost over-recovery that FPL had forecast in the MFRs for 2010 as refunded in January 2010 (which is what occurred pursuant to Order 0975) instead of ratably over the calendar year, the average fuel cost over-recovery balance is reduced from $94.5 million to $66.3 million, which has the effect of increasing FPL's test year working capital requirements by $28.1 million and FPL's 2010 revenue requirements by $2.7 million. In deciding Issue 46 on January 13, 2010, the Commission overlooked and did not incorporate the direct and material impact that Order 0795 had on the calculation of test year working capital. Order 0795 imposes a known and imminent post-hearing adjustment that is appropriate for inclusion in establishing rates. *See, e.g., Gulf Power Co. v. Bevis* 289 So.2d 401, 405 (Fla. 1974) ("The recognized rule then is that the test year must be adjusted for known and

imminent changes in order to be representative of the conditions which will prevail in the immediate future when the rates will become effective.") Accordingly, FPL respectfully requests that the Commission reconsider its decision on the test year working capital and increase FPL's revenue requirements by $2.7 million as shown in Appendix I.

B. When It Disapproved FPL's Proposed Minimum Late Payment Charge, the Commission Failed to Remove the Adjustment to Test Year Revenues That It Had Approved to Reflect the Effect of the Minimum Charge (Issue 89).

11. As explained below, the Commission overstated FPL's late payment charge ("LPC") revenues in the test year, because the Commission failed to synchronize its decisions on Issue 89 (projected LPC revenues) and Issue 145 (approval of proposed $10 minimum LPC).

12. FPL's existing LPC is 1.5% of the overdue balance. FPL proposed to add a $10 minimum to the LPC, such that all late payments would be subject to a late payment charge of at least that amount. FPL included in its test year revenue forecast additional revenues related to the projected effect of the $10 minimum. However, the Office of Public Counsel ("OPC") disputed FPL's projection of the revenue impact of the $10 minimum LPC, claiming that the revenue impact would be $25,024,251 higher than FPL's projection. This incremental alleged revenue impact was only applicable and was only to be considered in the event that the $10 minimum was approved. In rebuttal testimony, FPL disagreed with OPC's calculation, but also identified two adjustments of its own to the projected LPC revenues:

(a) a $7,386,000 decrease to LPC revenues under the *current* LPC, to be consistent with the test year revenue forecast; and

(b) a $751,895 increase to projected revenues to apply FPL's projected bad debt percentage only to incremental LPC revenues resulting from the proposed $10

minimum (FPL had originally double counted the bad debt reduction applicable to LPC revenues under the existing charge).

FPL's adjustments are shown on Exhibit 358, as Items 10 and 6A, respectively. FPL's rebuttal testimony also made it clear that, if the Commission did not agree with FPL's position on the projected revenue impact of the proposed $10 minimum LPC, then FPL would withdraw the proposal and ask the Commission to authorize FPL to continue the existing LPC without the minimum.

13. The Commission adopted both OPC's and FPL's proposed LPC revenue adjustments. It concluded that those adjustments netted to a total adjustment of $18,390,146, which appears in Schedule 3 of the Staff recommendation and was approved as an upward adjustment to the FPL's projected test year revenues (and thus a commensurate reduction in the calculation of FPL's revenue requirements).

14. Two corrections are necessary to properly reflect projected LPC revenues in view of the Commission's decision in Order 0153:

(a) First, the Commission's $18,390,146 adjustment should be reversed, because it is demonstrably inapplicable. The adjustment would apply only if the Commission had approved FPL's proposed $10 minimum for the LPC. However, in Issue 145 the Commission acceded to FPL's withdrawal request and rejected the proposed $10 minimum. Thus, there is no legitimate rationale for making an adjustment to LPC revenues to reflect what would have happened if the $10 minimum had been approved, when in fact that minimum was rejected.

(b) Second, FPL's adjustment to decrease LPC revenues by $7,386,000 still needs to be made because it applies to the *current* LPC, without the $10 minimum, which is what Order 0153 authorized FPL to continue charging.

15. The cumulative effect of these two errors is that the Commission overstated FPL's test year revenues by $25,776,146. The details of this calculation are shown on Appendix II. FPL respectfully requests that the Commission reconsider its decision on the projected LPC revenues test year working capital and increase FPL's test year revenue requirements by $25.8 million as shown in Appendix II.

C. The Commission Erroneously Included Amounts in its Removal of Jurisdictional Incentive Compensation That Had Been Allocated to Affiliates (Issue 103).

16. In Issue 103, the Commission decided to remove for ratemaking purposes approximately $49.5 million from FPL's 2010 test year Salaries and Employee Benefits expense. FPL disagrees with the Commission's rationale for making this adjustment. Even if one accepts that rationale, however, the calculation of the expense adjustment is overstated by $12.7 million because the Commission failed to take into account that a portion of the incentive compensation that was removed from the test year had already been allocated by FPL to affiliates and hence was not included in the calculation of test year revenue requirements in the first place.

17. Of the $49.5 million of FPL's 2010 test year Salaries and Employee Benefits expense removed by the Commission, $42.8 million related to executive incentive compensation (*see* Appendix III). Of that $42.8 million, approximately $12.7 million was allocated to affiliates in FPL's 2010 test year. The Commission's removal of the full $49.5 million therefore removed $12.7 million too much expense. In other words, the Commission removed approximately $12.7 million of executive incentive compensation expense from FPL's test year revenue requirements

that had already been removed through allocation to affiliates. FPL respectfully requests that the Commission reconsider its decision on executive incentive compensation expense and increase FPL's test year revenue requirements by $12.8 million as shown in Appendix III.

D. The Commission Erroneously Calculated the Return on Investment For FiberNet Telecommunication Charges to FPL (Issue 109).

18. In determining the charges that FPL would be permitted to include in the test year for the lease of telecommunication equipment from its affiliate FiberNet, the Commission adopted OPC's position that the lease charges should be recalculated to reflect, not FiberNet's actual charges to FPL, but rather OPC's view of what FPL's return on investment ("ROI") would be if FPL owned the equipment. Without regard to whether the rationale for the Commission's decision was appropriate, the ROI that OPC calculated and that the Commission adopted is erroneous, simply as a matter of arithmetic.

19. OPC's adjustment reduced O&M expenses by $1,182,224 for the 2010 test year. This adjustment is based upon a ROI of 7.41%, as indicated in Exhibit 202, which was included in the testimony of OPC Witness Ms. Dismukes. In turn, the ROI is calculated in Exhibit 208, which was included in the testimony of OPC witness Mr. Woolridge. It is clear from Exhibit 208 that the 7.41% rate is expressed on an *after-tax*, not a pre-tax, basis because it does not include an equity gross-up for taxes. OPC witness Dismukes admitted that the ROI to be applied to the FiberNet equipment lease should be based upon a "pre-tax overall cost of capital." Tr. 2112-13; Ex. 202. In order to achieve a return of 7.41%, an additional amount representing the taxes on the equity portion of the return would need to be included. Otherwise, FPL would not recover even OPC's substituted ROI for the FiberNet equipment lease.

20. FPL respectfully requests that the Commission reconsider its decision on the FiberNet equipment lease charges to FPL and recalculate the ROI applicable to the lease so that it is stated on a pre-tax basis. As shown in Appendix IV, that recalculation yields a pre-tax ROI of 10.65%. This higher ROI would result in an increase in the allowed lease payment of approximately $585,000 and a corresponding $0.6 million increase in FPL's 2010 test year revenue requirements.

III. Clarification Request

21. In Schedule 3 to Order 0153, the Commission shows FPL's approved test year Depreciation and Amortization Expense to be approximately $753 million. However, applying the depreciation and dismantlement rates approved by the Commission in Order 0153, FPL estimates that test year Depreciation and Amortization Expense would be approximately $624 million. FPL respectfully requests the Commission to re-evaluate the application of its depreciation and dismantlement adjustments and to clarify the appropriate amount of Depreciation and Amortization Expense for the test year.

IV. Relief

22. FPL hereby respectfully requests that the Commission: (1) correct the Reconsideration Errors, the revenue requirement calculation adjustments for which are shown in Appendices I to IV; and (2) clarify the appropriate amount of test year Depreciation and Amortization Expense.

23. Should the Commission's correction of the Reconsideration Errors and resolution of FPL's clarification request result in a net reduction of FPL's test year revenue requirements, FPL requests that the Commission reduce the annual amortization of depreciation reserve surplus

approved in Issue 19F to the extent needed to offset the reduction in test year revenue requirements, such that the base rates that became effective on March 1, 2010 would remain unchanged. On the other hand, should the Commission's correction of the Reconsideration Errors and resolution of FPL's clarification request result in a net increase in FPL's test year revenue requirements, FPL requests that the Commission increase the annual amortization of depreciation reserve surplus approved in Issue 19F to the extent needed to offset the increase in test year revenue requirements, again with the intended end result that the March 1, 2010 base rates would remain unchanged.

24. Adjusting the amortization of the depreciation reserve surplus as described in Paragraph 23 will enable the Commission to correct the Reconsideration Errors and clarify its decision with respect to the computation of test year depreciation expense *with no change to FPL's base rates* currently in effect and *no change in revenues collected from customers.* Approval of FPL's request will not result in any change to what FPL customers pay for electric service or FPL's revenues from same. Furthermore, maintaining the base rates currently in effect will minimize customer confusion and administrative expense that would result if another rate adjustment were ordered.

25. It is important to emphasize that, putting aside the question of whether 10% is an adequate ROE, FPL would suffer a reduction in earnings of approximately 30 basis points below the 10% mid-point that the Commission approved in Order 0153, unless the Reconsideration Errors are corrected. Further, FPL's approach regarding clarification of the depreciation issues is appropriate to avoid a deterioration of cash flow. This is particularly important, given S&P's recent downgrade of FPL's credit rating and the possibility of more downgrades from other credit rating agencies to follow.

POSITIONS OF OTHER PARTIES

26. In accordance with Rule 28-106.204(3), Florida Administrative Code, FPL attempted to contact OPC and counsel for each of the interveners in this docket to determine whether they object to this Motion. FPL is authorized to represent that OPC, FIPUG, FRF, SHFFA, the City of South Daytona, FEA and SCU-4 take no position on the Motion until they have had an opportunity to review it, and reserve their right to file a response. FPL is authorized to represent that AIF has no objection to the Motion. As of the time of filing the Motion, FPL has not received a response for the Attorney General, AFFIRM, or Mr. Ungar.

WHEREFORE, for the foregoing reasons, FPL respectfully requests the Commission to reconsider and clarify Order No. PSC-10-0153-FOF-EI, to correct the errors in said order as set forth above and clarify the Commission's intent with respect to FPL's test year depreciation expense as described herein. As needed, FPL requests that the Commission adjust the annual amortization of depreciation reserve surplus approved in Issue 19F such that there will be no change to the base rates that took effect March 1, 2010.

Respectfully submitted,

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By: *_/s/ John T. Butler_*
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished electronically and U.S. Mail this 1st day of April, 2010, to the following:

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Appendix I

Issue 46

Appendix I

Issue 46: Should the net over-recovery/under-recovery of fuel, capacity, conservation, and environmental cost recovery clause expenses be included in the calculation of working capital allowance for FPL?

Commission Order: The net over-recovery of fuel, capacity, conservation, and environmental cost recovery clause expenses should be included in the calculation of FPL's working capital allowance.

Implementation error: The Commission's order on this issue ignored a recent Commission decision in the 2009 fuel adjustment proceeding (Docket No. 090001-EI) that substantially overstates the impact on test year working capital of the projected 2010 fuel cost over-recovery. In Order No. PSC-09-0795-FOF-EI, Docket No. 090001-EI, dated December 2, 2009, at 20, the Commission directed FPL to refund the entire amount of its 2009 net true-up over-recovery as a one-time credit in January 2010. The Commission's direction was contrary to established fuel adjustment practice and inconsistent with FPL's test year projections.

($000)

	Dec 2009	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	Jun 2010	Jul 2010	Aug 2010	Sep 2010	Oct 2010	Nov 2010	Dec 2010	13 - Mo Average
(Over)/Under Recovered Fuel Exp - FPSC - As Filed (1)	(66,404)	(136,463)	(178,508)	(193,400)	(194,301)	(153,381)	(136,386)	(89,917)	(47,491)	(46,710)	16,705	(1,733)	(0)	(94,461)
Timing difference in 2009 over-recovered fuel balance refunded (2)	-	60,870	55,337	49,803	44,269	38,736	33,202	27,668	22,135	16,601	11,067	5,534	-	28,094
Difference in interest on (over)/under recovered balance (3)	-	52	100	91	82	73	65	56	47	38	27	17	6	50
(Over)/Under Recovered Fuel Exp - FPSC with January Full Refund	(66,404)	(75,540)	(123,071)	(143,506)	(149,950)	(114,572)	(103,128)	(62,193)	(25,309)	(30,071)	27,799	3,818	6	(66,317)

	2010	
$	(66,317)	Net Fuel Over-recovery working capital allowance with entire 12/2009 over-recovery balance refunded in January 2010
	(94,461)	Net Fuel Over-recovery working capital allowance in MFR B-6 with 12/2009 over-recovery balance refunded ratably over 2010
$	28,144	Increase to test year working capital allowance requirements
	6.65%	2010 Commission adjusted Overall Rate of Return per Schedule 5, Order No. PSC-10-0153-FOF-EI
$	1,872	Required Net Operating Income
	(211)	Less Interest Synchronization
$	1,661	Net Operating Income Change
	1.63411	Net Operating Income Multiplier per Schedule 4, Order No. PSC-10-0153-FOF-EI
$	2,714	Increase to 2010 Revenue Requirements

(1) The 2010 Test Year 13-month average net over-recovery of $(94,461) is comprised of a 13-month average fuel under-recovery of $1,285 (refer to 2010 Test Year MFR B-6, page 9 of 12, line 11) and a 13-month average fuel over-recovery of $(95,746) (refer to 2010 Test Year MFR B-6, page 12 of 12, line 10).

(2) Difference between refunding entire 12/31/2009 fuel over-recovery in January 2010 as is the treatment in Order No. PSC-09-0795-FOF-EI, Docket No. 090001-EI, and the year-to-date 2010 ratable refund of the 12/31/2009 fuel over-recovery as was projected and included in FPL's Test Year 2010 MFR B-6 amounts detailed in note (1) above.

(3) Difference in interest on (over)/under recovered fuel balance between refunding entire 12/31/2009 fuel over-recovery in January 2010 and a ratable refund of the 12/31/2009 fuel over-recovery during 2010 as was the treatment in FPL's MFR projections which was based on established fuel adjustment clause practice.

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES

DOCKET NO. 080677-EI

EXPLANATION: PROVIDE A DEVELOPMENT OF JURISDICTIONAL SEPARATION FACTORS FOR RATE BASE FOR THE TEST YEAR AND THE MOST RECENT HISTORICAL YEAR.

TYPE OF DATA SHOWN:
X PROJECTED TEST YEAR ENDED 12/31/10
PRIOR YEAR ENDED 12/31/09
HISTORICAL TEST YEAR ENDED 12/31/08
PROJ. SUBSEQUENT YR ENDED 12/31/11

WITNESS: Kim Ousdahl, Joseph A. Ender, Robert E. Barrett, Jr.

LINE NO.	(1) DESCRIPTION	($000) (2) TOTAL COMPANY	($000) (3) FPSC JURISDICTIONAL	(4) JURISDICTIONAL FACTOR
1				
2	OTHER REG ASSETS - NUCLEAR G/U CARRYING COSTS	0	0	0.000000
3	OTHER REG ASSETS - DERIVATIVES	526,631	516,978	0.981672
4	OTHER REG ASSETS - GLADES POWER PARK	0	0	0.000000
5	OTHER REG ASSETS - ARO ASSETS	0	0	0.000000
6	OTHER REG ASSETS - STORM SECURITIZATION - BONDS	531,855	531,855	1.000000
7	OTHER REG ASSETS - STORM SECURITIZATION - DEF TAX	332,507	332,507	1.000000
8	OTHER REG ASSETS- STORM SECUR- OVER/UNDER -TAX	0	0	0.000000
9	OTHER REG ASSETS- STORM SECUR- OVER/UNDER -BONDS	0	0	0.000000
10	OTHER REG ASSETS - UNDERRECOVERED CONSERVATION COSTS	14,195	14,195	1.000000
11	OTHER REG ASSETS - UNDERRECOVERED FUEL COSTS - FPSC	1,285	1,285	1.000000
12	OTHER REG ASSETS - UNDERRECOVERED CAP COSTS	39,702	39,702	1.000000
13	OTHER REG ASSETS - UNDERRECOVERED ECRC COSTS	2,983	2,983	1.000000
14	OTHER REG ASSETS - UNDERRECOVERED FUEL COST - FERC	(3,060)	0	0.000000
15	OTHER REG ASSETS - SPECIAL DEFERRED FUEL	0	0	0.000000
16	OTHER REG ASSETS - OKEELANTA SETTLEMENT	0	0	0.000000
17	OTHER REG ASSETS - DBT DEFERRED SECURITY			0.987976
18	PRELIM SURVEY & INVESTIGATION CHARGES & RIGHT OF WAY	129,156	128,154	0.992237
19	CLEARING ACCOUNTS - OTHER	18,817	18,671	0.992237
20	TEMPORARY FACILITIES	0	0	0.000000
21	MISC DEFD DEB - OTHER	0	0	0.000000
22	MISC DEFD DEB - FIN 48 - INTEREST REC	30,131	29,897	0.992237
23	MISC DEFD DEB - GROSS RECEIPTS TAX	0	0	0.000000
24	MISC DEFD DEB - STORM MAINTENANCE	1,535,823	1,522,169	0.991110
25	MISC DEFD DEB - STORM MAINT - OFFSET	(1,535,823)	(1,522,169)	0.991110
26	MISC DEFD DEB - DEFERRED PENSION DEBIT	1,047,755	1,039,105	0.991745
27	MISC DEFD DEB - SJRPP	33,733	33,070	0.980363
28	DEFERRED LOSSES FROM DISPOSITION OF UTILITY PLT	7	7	0.992238
29	RESEARCH, DEVELOPMENT & DEMONSTRATION EXPENDITURES	0	0	0.000000
30	WORKING CAPITAL ASSETS	4,608,157	4,573,675	0.992517
31				
32	WORKING CAPITAL LIABILITIES			
33				
34	NOTE: TOTALS MAY NOT ADD DUE TO ROUNDING.			

SUPPORTING SCHEDULES: B-5, B-16, B-17, B-15, B-9, B-7

RECAP SCHEDULES: B-1, E-3A, B-3

APPENDIX I
Source 1

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES

DOCKET NO. 080677-EI

EXPLANATION:
PROVIDE A DEVELOPMENT OF JURISDICTIONAL SEPARATION FACTORS FOR RATE BASE FOR THE TEST YEAR AND THE MOST RECENT HISTORICAL YEAR.

TYPE OF DATA SHOWN:
X PROJECTED TEST YEAR ENDED 12/31/10
PRIOR YEAR ENDED 12/31/09
HISTORICAL TEST YEAR ENDED 12/31/08
PROJ. SUBSEQUENT YR ENDED 12/31/11

WITNESS: Kim Ousdahl, Joseph A. Ender, Robert E. Barrett, Jr.

LINE NO.	(1) DESCRIPTION	($000) (2) TOTAL COMPANY	($000) (3) FPSC JURISDICTIONAL	(4) JURISDICTIONAL FACTOR
1				
2	OTHER REG LIAB - DEFERRED PENSION CREDIT	0	0	0.000000
3	OTHER REG LIAB - DEFRD GAIN LAND SALES - PIS	(1,758)	(1,745)	0.992237
4	OTHER REG LIAB - INTEREST INCOME - FIN 48	(30,131)	(29,897)	0.992237
5	OTHER REG LIAB - DERIVATIVES	0	0	0.000000
6	OTHER REG LIAB - NUCLEAR COST RECOVERY	0	0	0.000000
7	OTHER REG LIAB - NUCLEAR AMORT	(42,602)	(42,602)	1.000000
8	OTHER REG LIAB - UNALLOC PROD RESERVE	0	0	0.000000
9	OTHER REG LIAB - OVERRECOVERED ECCR REVENUES	(4)	(4)	1.000000
10	OTHER REG LIAB - OVERRECOVERED FUEL REVNUS FPSC	(95,746)	(95,746)	1.000000
11	OTHER REG LIAB - OVERRECOVERED CAPACITY REVENUES	(47,211)	(47,211)	1.000000
12	OTHER REG LIAB - OVERRECOVERED ENVIRONMENTL REVNUS	(968)	(968)	1.000000
13	OTHER REG LIAB - OVERRECOVERED FUEL REVNUS FERC	2,126	0	0.000000
14	OTHER REG LIAB - GAINS ON SALE EMISSION ALLOW	(2,072)	(2,029)	0.979260
15	DEFERRED GAINS FUTURE USE	(4,072)	(4,040)	0.992237
16	WORKING CAPITAL LIABILITIES	(6,244,202)	(6,191,461)	0.991554
17				
18	TOTAL WORKING CAPITAL	(1,636,045)	(1,617,786)	0.988839
19				
20	TOTAL RATE BASE	17,904,556	17,700,985	0.988630
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34	NOTE: TOTALS MAY NOT ADD DUE TO ROUNDING.			

SUPPORTING SCHEDULES: B-5, B-16, B-17, B-15, B-9, B-7

RECAP SCHEDULES: B-1, E-3A, B-3

APPENDIX I
Source 1

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.	DOCKET NO. 090001-EI ORDER NO. PSC-09-0795-FOF-EI ISSUED: December 2, 2009

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
NANCY ARGENZIANO
NATHAN A. SKOP
DAVID E. KLEMENT

APPEARANCES:

R. WADE LITCHFIELD and JOHN T. BUTLER, ESQUIRES, 700 Universe Boulevard, Juno Beach, Florida 33408
On behalf of Florida Power & Light Company (FPL)

NORMAN H. HORTON, JR., ESQUIRE, Messer, Caparello & Self, P. A., Post Office Box 15579, Tallahassee, Florida 32317
On behalf of Florida Public Utilities Company (FPU)

JEFFREY A. STONE, RUSSELL A. BADDERS, and STEVEN R. GRIFFIN, ESQUIRES, Beggs & Lane, Post Office Box 12950, Pensacola, Florida 32591
On behalf of Gulf Power Company (Gulf)

JOHN T. BURNETT, ESQUIRE, Progress Energy Service Company, LLC, 100 Central Avenue, St. Petersburg, Florida 33701-3323
On behalf of Progress Energy Florida, Inc. (PEF)

JAMES D. BEASLEY and LEE L. WILLIS, ESQUIRES, Ausley & McMullen, Post Office Box 391, Tallahassee, Florida 32302
On behalf of Tampa Electric Company (TECO)

PATRICIA A. CHRISTENSEN and CHARLIE BECK, ESQUIRES, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC)

ALLAN L. JUNGELS, CAPTAIN, and SHAYLA L. MCNEILL, CAPTAIN, 139 Barnes Drive, Suite 1, Tyndall Air Force Base, FL 32403-5319
On behalf of Federal Executive Agencies (FEA)

APPENDIX I
Source 2

VII. OTHER MATTERS

For each utility, FPL, FPUC, Gulf, PEF, and TECO, we find that the new fuel and capacity factors shall be effective beginning with the first billing cycle for January 2010 and thereafter through the last billing cycle for December 2010. The first billing cycle may start before January 1, 2010, and the last cycle may be read after December 31, 2010, so that each customer is billed for twelve months regardless of when the adjustment factor became effective.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the findings set forth in the body of this Order are hereby approved. It is further

ORDERED that Florida Power & Light Company, Progress Energy Florida, Inc., and Tampa Electric Company, are hereby authorized to apply the fuel cost recovery factors set forth herein during the period January 2010 through December 2010. It is further

ORDERED that Florida Power & Light Company shall refund the 2009 under-recovery amount of $364,843,209 to its customers in January 2010. It is further

ORDERED the estimated true-up amounts contained in the fuel cost recovery factors approved herein are hereby authorized subject to final true-up and further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based. It is further

ORDERED that Florida Power & Light Company, Progress Energy Florida, Inc., Gulf Power Company, and Tampa Electric Company are hereby authorized to apply the capacity cost recovery factors as set forth herein during the period January 2010 through December 2010. It is further

ORDERED that the estimated true-up amounts contained in the capacity cost recovery factors approved herein are hereby authorized subject to final true-up and further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based.

By ORDER of the Florida Public Service Commission this 2nd day of December, 2009.

/s/ Ann Cole
ANN COLE
Commission Clerk

This is an electronic transmission. A copy of the original signature is available from the Commission's website, www.floridapsc.com, or by faxing a request to the Office of Commission Clerk at 1-850-413-7118.

(S E A L)

LCB/ELS

Appendix II

Issue 89

Appendix II

Issue 89: Is an adjustment appropriate to FPL's Late Payment Fee Revenue if the minimum Late Payment Charge is approved in Issue 145?

Commission Ordered Adjustments in Issue 89:

OPC Adjustment: In direct testimony of OPC witness Brown, OPC disputed FPL's projection of the revenue impact of the $10 minimum LPC (i.e., revenues at proposed rates which were ultimately not approved) and proposed an adjustment that the revenue impact should be $25,024,251 higher than FPL's projection (TR 2437-2439) (1). This was based on OPC's recommendation to eliminate FPL's two percent adjustment to account for bad debt associated with the LPC revenue and eliminating FPL's 30 percent behavior change modification adjustment and instead use an average of the 2007 and 2008 late payments as a percent of total bills (TR 2439) (1). The calculation of OPC's $25,024,251 adjustment is show on Exhibit 229 (SLB-7) (2).

In the final order, the Commission approved OPC's proposed adjustment to revenues at *proposed* rates to correct the LPC revenues at the proposed $10 minimum based on 2007 and 2008 actual experience be accepted (Order No. PSC-10-0153-FOF-EI, page 137) (3) and applied this adjustment to forecast revenues at *current* rates. This is an inappropriate application of OPC's adjustment, since the adjustment was based on FPL's calculations for the proposed $10 minimum rate, and that rate was not approved. OPC did not dispute or propose any adjustments to FPL's forecast of late payment fee revenues at *current* rates, thus there was no basis in the record for making such an adjustment. This erroneous application of OPC's adjustment is illustrated in the following table:

	FPL and OPC Testimony and Exhibits			**Staff Recommendation / Commission Decision**	
	FPL Forecast Revenue	OPC Proposed Adjustments	Forecast Revenue	Staff Proposed Adjustments	Staff Proposed Revenue
Revenue at the current 1.5% charge	$45 MM	None - no party disputed forecast revenue at the current charge	$45 MM	**$25 MM**	**$70 MM**
Revenue at the proposed $10 minimum charge	$92.7 MM	**$25 MM**	$117.7 MM		
			Staff applied OPC's proposed adjustment for the proposed $10 charge to the revenue forecast at the current 1.5% charge		

FPL Adjustment 1: In rebuttal testimony of FPL witness Santos, FPL recognized LPC revenue was inadvertently reduced by expected bad debts on the full amount of LPC revenues rather than on the incremental change in the LPC revenue at the proposed $10 minimum (TR 6055) (4). FPL corrects this error in a proposed adjustment in Item 10 of Exhibit 358 (5), increasing LPC revenue by $751,895.

FPL's adjustment to correct the LPC forecast at *proposed* rates as proposed in Item 10 of exhibit 358 (5), was deem appropriate and approved in the Commissions final order (Order No. PSC-10-0153-FOF-EI, page 137) (3).

FPL Adjustment 2: In rebuttal testimony of FPL witness Santos, an error in the forecast of late payment charge (LPC) revenues at *current* rates was discussed. LPC revenues were overstated because they were based on an older version of the revenue forecast than what was used to develop the final projections (TR

6059) (6). Item 6a of Exhibit 358 (5) shows FPL's proposed adjustments due to this over-statement of LPC revenue at *current* rate. Item 6a results in an adjustment to decrease late payment fee revenue by $7,386,000.

As part of the analysis included in Staff's Recommendation for Issue 89, it was noted that FPL's correction to its original filing as presented in Exhibit 358 (5) was not challenged and appears reasonable (Staff Recommendation, page 308) (7). FPL's adjustment to correct the original LPC forecast at *current* rate as proposed in Item 6A of exhibit 358 (5), was deem appropriate and approved in the Commissions final order (Order No. PSC-10-0153-FOF-EI, page 137) (3).

The Commission adopted both OPC's and FPL's proposed LPC revenue adjustments. It concluded that those adjustments netted to a total adjustment of $18,390,146 which appears on Schedule 3 of the final order (Order No. PSC-10-0153-FOF-EI, page 210) (8) and was approved as an upward adjustment to the FPL's projected test year revenues (and thus a commensurate reduction in the calculation of FPL's revenue requirements).

Statement of Error:
There is a major flaw in the Commission approval of the $18,390,146 adjustment because it failed to synchronize its decisions on Issue 89 (projected LPC revenues) and Issue 145 (approval of proposed $10 minimum LPC). The adjustment would apply only if the Commission had approved FPL's proposed $10 minimum for the LPC. However, in Issue 145 the Commission acceded to FPL's withdrawal request and rejected the proposed $10 minimum. Thus, there is no legitimate rationale for making an adjustment to LPC revenues to reflect what would have happened if the $10 minimum had been approved, when in fact that minimum was rejected (Order No. PSC-10-0153-FOF-EI, page 181) (9).

Adjustment to Correct Error:
Two corrections are necessary to properly reflect projected LPC revenues in view of the Commission's decision in Order No. PSC-10-0153-FOF-EI:

Amount	Description
$ 18,390,146	Reversal of the Commission approved adjustment as shown on Schedule 3 of Order No. PSC-10-0153-FOF-EI (8)
$ 7,386,000	Adjustment to decrease LPC revenue at *current* rates as shown on Item 6a of Exhibit 358 (5)
$ 25,776,146	Total increase in Revenue Requirements

<u>**Sources**</u>
(1) Transcript pages 2437-2439
(2) Exhibit 229 (SLB-7)
(3) Order No. PSC-10-0153-FOF-EI, pages 135-137
(4) Transcript page 6055
(5) Exhibit 358 (KO-16)
(6) Transcript page 6059
(7) Staff Recommendation pages 306-309
(8) Order No. PSC-10-0153-FOF-EI, page 210, Schedule 3
(9) Order No. PSC-10-0153-FOF-EI, page 181

1 Q: **DO YOU HAVE ANY CONCERNS WITH THE COMPANY'S**
2 **CALCULATIONS OF THE INCREASED REVENUES ASSOCIATED WITH**
3 **THE IMPLEMENTATION OF A MINIMUM PAYMENT OF $10?**

4 A: Yes. The Company has had significant increases in late payment fees over recent
5 years; however, in projecting the late payments fees for the test years, FPL has
6 assumed that percentage of late paid accounts will remain at the same levels as the
7 2008 experience. In addition, the Company has offset the increased late payment
8 fees by a 2% write-off rate and a 30% "behavior change" associated with accounts
9 that would be subject to the minimum charge. These adjustments have resulted in an
10 understatement of the late payment revenues under the revised structure.
11 In addition, under the new rate structure, a portion of the late payment fees will still
12 be derived from a variable rate structure—1.5% of the late payment. This additional
13 revenue should be reflected in FPL's revenue expansion factor.

14 Q: **PLEASE EXPLAIN HOW FPL'S LATE PAYMENTS HAVE INCREASED**
15 **OVER RECENT YEARS.**

16 A: As shown in the response to OPC's Second Request for Production of Documents,
17 No. 12 (LPC Forecast $10 01262009.xls) and summarized in Exhibit__(SLB-7),
18 Page 1 of 3, FPL's late payment fees have increased from $15.4 million in 2005 to
19 $40.95 million in 2008, or at a compound average annual growth rate of over 38%
20 since 2005. In addition, the number of late payments as a percentage of total bills
21 has increased from 11.1% to 22.3 % over that same time period.

22 Q: **WHAT ASSUMPTION DID FPL MAKE REGARDING THE NUMBER OF**
23 **LATE PAYMENTS FOR THE TEST YEAR?**

24 A: FPL first assumed that the number of late payments in 2010 and 2011 would be
25 proportionate to the number of late payments as a percentage of the total customer

1 bills from 2008. FPL then adjusted this figure down for 2% write-offs. For
2 customers that would receive a minimum late payment fee of $10 under the new
3 structure, FPL further reduced the number of late payments down by 30%, assuming
4 that the higher charge would cause 30% of these customers to modify their behavior
5 and pay their bills on time. The resulting number of late payments assumed by FPL
6 is 8,456,689 out of a total of 54,585,108 projected bills, or 15.5%.
7 Q: **DID FPL PROVIDE ANY JUSTIFICATION FOR ITS ASSUMPTION THAT**
8 **THE IMPLEMENTATION OF THE $10 MINIMUM LATE FEE WOULD**
9 **CAUSE 30% OF THE AFFECTED CUSTOMERS TO PAY THEIR BILLS**
10 **ON TIME?**
11 A: No.
12 Q: **IS IT REASONABLE TO ASSUME THAT THERE WILL BE SOME**
13 **BEHAVIOR MODIFICATION AS A RESULT OF THE IMPLEMENTATION**
14 **OF THE MINIMUM LATE PAYMENT FEE?**
15 A: Yes, however, there is no evidence supporting a 30% behavior modification that
16 effectively reduces the percent of late-paid bills down to pre-2007 levels—
17 particularly in light of the high growth in late payments experienced over the past
18 few years.
19 Q: **DOES FPL REPORT WRITE-OFFS OF LATE PAYMENTS SEPARATELY**
20 **FROM ITS OTHER WRITE-OFFS WHICH ARE INCLUDED IN ITS**
21 **UNCOLLECTIBLE ACCOUNTS EXPENSE?**
22 A: No. The write-offs included in FPL's bad debt, or uncollectible account expense, are
23 reported in total; therefore, the projections of uncollectible account expense for the
24 test years would already incorporate any write-offs of late payments.

1 Q: **WHAT IS YOUR RECOMMENDATION FOR ESTIMATING THE LEVEL**
2 **OF LATE PAYMENT FEES FOR THE TEST YEARS?**
3 A: I recommend eliminating the 2% write-off adjustment, which should already be
4 incorporated into the uncollectible accounts expense. In addition, I am
5 recommending that the Commission eliminate the 30% behavior modification
6 adjustment and, instead, use an average of the 2007 and 2008 late payments as a
7 percentage of total bills.
8 Q: **HOW DOES THIS METHODOLOGY RECOGNIZE SOME LEVEL OF**
9 **BEHAVIOR MODIFICATION?**
10 A: Using this methodology, 20% of customer bills are assumed to be paid late. This is
11 less than the 22.3% level experienced in 2008. As explained by Witness Morley at
12 page 56 of her testimony, FPL has seen a steady increase in the number of customers
13 making late payments. She noted the increase was an average of 150,000 customers
14 per month. Using the 20% average late payment percentage not only recognizes a
15 reduction in FPL's late payment percentage from 2008, but also fully offsets any
16 increases in late payment experience that would be expected based on FPL's history
17 and the economic factors that FPL has recognized throughout its application.
18 Q: **WHAT IS THE IMPACT OF YOUR RECOMMENDED CHANGES?**
19 A: The recalculation of the late payment fees is set forth in Exhibit__(SLB-7). As
20 shown in Exhibit__(SLB-7), the late payment fees for 2010 are estimated to be
21 $117,701,025. This is $25,024,251 greater than FPL's estimate using the 30%
22 behavior modification. The late payment fees for 2011 are estimated to be
23 $119,771,078, which is $26,034,753 greater than FPL's estimate. In preparing these
24 estimates, I have (i) eliminated the 30% behavior modification adjustment and the
25 2% write-off, (ii) used an average of the 2007 and 2008 late payments as a

Florida Power & Light Company
2010 Revenue Adjustment for Late Payment Fees

2010 - Late Payment Charge - Forecasted FPL Calculation

Month	2010 Forecasted Customer Base	LPC Cust %	LPC Count as a % of Customer Base	$10 LPC Count No Elasticity	Write-off 2% rate	$10 Count Net of Write-offs	w/ 30% Behavior Change	>$10 Count	Write-off Rate	>$10 Count Net of Write-offs	Total Count	2010	
												LPC Count	LPC Rev(2)
Jan	4,334,707	19.5%	882,954	857,302	(17,146)	840,156	588,109	25,652	(513)	25,139	613,248	613,248	$6,629,910
Feb	4,542,393	19.6%	890,915	869,436	(17,389)	852,047	596,433	21,479	(430)	21,049	617,482	617,482	$6,713,146
Mar	4,546,312	20.5%	930,414	910,294	(18,206)	892,088	624,461	20,121	(402)	19,718	644,180	644,180	$7,014,115
Apr	4,545,359	20.9%	949,881	931,117	(18,622)	912,494	638,746	18,764	(375)	18,389	657,135	657,135	$7,099,814
May	4,543,942	22.6%	1,027,331	1,007,072	(20,141)	986,931	690,852	20,259	(405)	19,854	710,705	710,705	$7,656,278
Jun	4,545,245	21.1%	960,932	939,527	(18,791)	920,737	644,516	21,405	(428)	20,977	665,492	665,492	$7,246,398
Jul	4,543,766	22.5%	1,022,273	995,881	(19,918)	975,964	683,175	26,392	(528)	25,864	709,038	709,038	$7,757,395
Aug	4,547,680	22.8%	1,037,831	1,007,520	(20,150)	987,370	691,159	30,311	(606)	29,705	720,864	720,864	$7,900,004
Sep	4,549,227	23.7%	1,079,790	1,041,342	(20,827)	1,020,515	714,361	38,448	(769)	37,679	752,040	752,040	$8,363,538
Oct	4,552,230	24.1%	1,097,123	1,055,265	(21,105)	1,034,160	723,912	41,858	(837)	41,021	764,933	764,933	$8,676,972
Nov	4,561,993	24.5%	1,116,181	1,077,432	(21,549)	1,055,883	739,118	38,750	(775)	37,975	777,093	777,093	$8,464,365
Dec	4,572,249	25.9%	1,186,068	1,149,209	(22,984)	1,126,225	788,358	36,859	(737)	36,122	824,479	824,479	$9,154,839
	4,548,759	22.3%	12,181,694	11,841,397	(236,828)	11,604,569	8,123,199	340,297	(6,806)	333,491	8,456,689	8,456,689	$92,676,774

2010 - Late Payment Charge - Forecasted ADJUSTED Calculation

Month	2010 Forecasted Customer Base	LPC Cust %	LPC Count as a % of Customer Base	$10 LPC Count No Elasticity	Write-off 2% rate	$10 Count Net of Write-offs	w/ 30% Behavior Change	>$10 Count	Write-off Rate	>$10 Count Net of Write-offs	Total Count	2010	
												LPC Count	LPC Rev(2)
Jan	4,534,707	20.0%	907,992	881,613	n/a	881,613	n/a	26,379	n/a	26,379	907,992	907,992	$9,697,438
Feb	4,542,393	20.0%	909,531	887,604	n/a	887,604	n/a	21,928	n/a	21,928	909,531	909,531	$9,613,892
Mar	4,546,312	20.0%	910,316	890,630	n/a	890,630	n/a	19,686	n/a	19,686	910,316	910,316	$9,664,539
Apr	4,545,359	20.0%	910,125	892,146	n/a	892,146	n/a	17,979	n/a	17,979	910,125	910,125	$9,623,389
May	4,543,942	20.0%	909,841	891,900	n/a	891,900	n/a	17,942	n/a	17,942	909,841	909,841	$9,655,816
Jun	4,545,245	20.0%	910,102	889,830	n/a	889,830	n/a	20,273	n/a	20,273	910,102	910,102	$9,687,814
Jul	4,543,766	20.0%	909,806	886,318	n/a	886,318	n/a	23,488	n/a	23,488	909,806	909,806	$9,775,284
Aug	4,547,680	20.0%	910,590	883,995	n/a	883,995	n/a	26,595	n/a	26,595	910,590	910,590	$9,813,901
Sep	4,549,227	20.0%	910,900	878,465	n/a	878,465	n/a	32,435	n/a	32,435	910,900	910,900	$9,986,728
Oct	4,552,230	20.0%	911,501	876,725	n/a	876,725	n/a	34,776	n/a	34,776	911,501	911,501	$10,184,062
Nov	4,561,993	20.0%	913,456	881,744	n/a	881,744	n/a	31,712	n/a	31,712	913,456	913,456	$9,874,919
Dec	4,572,249	20.0%	915,509	887,058	n/a	887,058	n/a	28,451	n/a	28,451	915,509	915,509	$10,123,243
	4,548,759	20.0%	10,929,671	10,828,028	-	10,628,028	-	301,643	-	301,643	10,929,671	10,929,671	$117,701,025

Adjustment Required: $25,024,251

We have reviewed the Company's forecast and it does reveal that the effects of the CDR were not originally included in the forecast by FPL witness Morley. The CDR was inadvertently excluded. Accordingly, FPL's adjustments to operating revenue for the 2010 test year to include the effects of the C/I Demand Reduction Rider Incentive Credits are approved.

Late payment fee revenues

In its forecasted revenues, FPL included a 30 percent reduction in late payment fees and a 2 percent increase in write-offs of late payment revenues due to the proposed increase in the late payment fee. FPL proposed a change in its revenues relating to late payment charges to recognize a proposed customer behavior modification plan which FPL argued would discourage customer late payments. FPL witness Santos described the Company's proposed change to its charge for late payments as follows:

> FPL currently charges 1.5% for late payments, but is proposing the greater of 1.5% or $10. Driven largely by the deteriorating economy, FPL has seen a steady increase in the number of customers making late payments. The percent of customers with late payments has increased from 21% in 2006 to 24% in 2008. This is an increase of 150,000 customers on average per month.

OPC witness Brown testified that FPL had understated its projected revenue from late payment.

> . . . in projecting the late payments fees for the test years, FPL has assumed that percentage of late paid accounts will remain at the same levels as the 2008 experience. In addition, the Company has offset the increased late payment fees by a 2% write-off rate and a 30% "behavior change" associated with accounts that would be subject to the minimum charge. These adjustments have resulted in an understatement of the late payment revenues under the revised structure.

According to witness Brown, FPL did not provide any justification for its assumption that the implementation of the $10 minimum late fee would cause 30 percent of the affected customers to pay their bills on time which would reduce the percent of late paid bills to pre-2007 levels.

OPC witness Brown recommended eliminating the two percent write-off adjustment, which should already be incorporated into the uncollectible accounts expense. She also recommended eliminating the 30 percent behavior modification adjustment and, instead, proposed using an average of the 2007 and 2008 late payments as a percentage of total bills. Under this approach, 20 percent of customer bills are assumed to be late which is less than the 22.3 percent level experienced in 2008.

OPC witness Brown's recalculated revenues from late payment fees was $25,024,251 greater than FPL's estimate for 2010.

FPL witness Santos testified in her rebuttal that:

> The purpose of changing the late payment charge to have a minimum of $10 is to change behavior and induce more timely payment. . . By minimizing the behavior change assumption of 30%, Ms. Brown effectively diminishes the impact that the late payment charge is specifically designed to achieve. . . FPL's use of an assumed behavior change of 30% is therefore quite conservative because it is less than half of the 65% change expected when applying the electricity demand elasticity.

We disagree with the Company's analysis of its customer behavior modification plan. The Company's analysis of behavior change based on the electricity demand elasticity suggested that there would be a behavior change of 65 percent. We believe this percentage to be extremely high and in our opinion makes the analysis somewhat suspect. We do not find it supportive of the Company's 30 percent behavior change. No analyses was presented for the 30 percent behavior change in FPL's original filing.

We agree with witness Brown's recommendation to eliminate the two percent write-off adjustment and to include the effects of uncollectibles in the uncollectible account. This approach is consistent with other revenue adjustments. We also agree with witness Brown's approach to recognize revenue associated with late payment fees based on the average of 2007 and 2008. Witness Brown's approach used actual late payments and still recognized a decrease in the number of customers paying late compared to 2008.

FPL proposed some additional changes to its late payment revenues based on corrections it discovered during the proceeding. FPL witness Ousdahl sponsored hearing Exhibit 358 in her rebuttal testimony and explained that during the course of the proceeding, FPL identified some additional adjustments to the Company's original filing. Exhibit 358 summarized the additional adjustments to rate base, net operating income, and capital structure that FPL made to its original filing. Items 6a and 10 of Exhibit 358 addressed some additional changes to FPL's proposed adjustment to net operating income for revenues associated with late payments.

Item 6a of Exhibit 358 showed FPL's proposed adjustments due to an over-statement of late payment revenue. According to FPL, late payment revenues were overstated because they were based on an older version of the revenue forecast than what was used to develop the final projections. Item 6a resulted in an adjustment to decrease late payment fee revenue by $7,386,000 for the 2010 test year.

Item 10 of Exhibit 358 showed FPL's proposed adjustments due to an under-statement of late payment revenue. According to FPL, late payment revenues were inadvertently reduced by expected bad debts on the full amount of late payment revenues rather than on the incremental change in late payment revenues. Item 10 resulted in an adjustment to increase late payment fee revenue by $751,895 for the 2010 test year.

We find that FPL's additional adjustments made in its Exhibit 358, which were made to correct its original filing, are reasonable and appropriate.

Based on the foregoing, we find that FPL's adjustments to correct the original forecast for Late Payment Revenue proposed in Item 6a and Item 10 of Exhibit 358 are appropriate and we approve those changes. We agree with OPC's proposal to adjust the forecast of late payment revenues based on 2007 and 2008 actual experience. Accordingly, we approve a net adjustment to net operating income to increase late payment revenue for the 2010 test year by $18,390,146.

Revenue Forecast

Our decision regarding the 2010 revenue forecast is a result of our discussion of several items in this Order. Our revenue forecast is based on our analysis and decisions regarding forecasts of customers for the 2010 test year, revenue responsibility for transmission investments, and late payment fee revenues. No further changes to our revenue forecast are necessary as the changes are captured in our discussions listed above and are reflected cumulatively in our calculation of net operating income totals listed below.

Total Operating Revenue

We were asked to determine if FPL's proposed $4,114,727,000 total operating revenue for 2010 was appropriate. Our decision regarding what FPL's appropriate total operating revenues for 2010 is a culmination of our other decisions in this Order. Based on our decisions, the appropriate total operating revenue is $4,136,478,146 for the 2010 projected test year and, is shown on Schedule 3, attached to this Order.

Charitable contributions

FPL witness Ousdahl sponsored Exhibit 117, which included MFR Schedule C-18 for the 2010 test year. This MFR was also contained in Exhibit 180. MFR Schedule C-18 required the Company to "Provide a schedule, by organization, of any expenses for lobbying, civic, political and related activities or for civic charitable contributions included for recovery in cost of service for the test year and the most recent historical year." FPL's response to MFR Schedule C-18 for the 2010 test year stated "Because of prior Commission decisions, the Company did not include any expenses for lobbying, civic, political and related activities, or for civic charitable contributions in determining Net Operating Income for 2010. All are accounted for "below the line."

We find that, with the exception of contributions to FPL's Historical Museum, FPL has followed our direction provided through past orders regarding the treatment of charitable contributions. FPL witness Ousdahl testified that it was not appropriate to adjust the test year expenses to remove the contributions made to the FPL Historical Museum by FPL. According to witness Ousdahl:

> The FPL Historical Museum is a subsidiary of FPL that is charged with maintaining records and artifacts associated with the Company's long history in the state of Florida. These activities are important to the preservation of the historically significant information about the Company and the industry from its beginning in the early 20th century until today. The FPL Historical Museum costs

1 **LATE PAYMENT CHARGE REVENUE**

2

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

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

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

10 A. Ms. Brown's concern is partially valid. She is proposing that this factor be
11 excluded because she asserts that it is reflected in the bad debt total. The bad debt
12 expense shown on MFR C-11 does not account for the bad debt expense
13 associated with the incremental LPC revenues from the proposed service charge
14 change. However, when forecasting LPC revenues for the test years, the bad debt
15 expense for the entire amount of LPC revenues was accounted for when only the
16 incremental revenue associated with the proposed service charge should have had
17 the LPC bad debt rate of 2% applied. Applying the 2% LPC bad debt rate
18 assumption to only the incremental LPC revenues yields an increase of ~~$899,613~~ $751,895
19 in 2010 and ~~$915,949~~ $775,931 in 2011 to the total LPC revenues at proposed charges.

20

21 Whether the 2% LPC write-off is accounted for as part of the bad debt expense in
22 MFR C-11 or in the calculation of the LPC revenue, it has the same basic impact.
23 As such, the LPC bad debt rate, applied to the incremental revenue associated

APPENDIX II
Source 5

Docket No. 080677-EI, No. 090130-EI
Identified Adjustments
Exhibit KO-16, Page 1 of 3

FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
SUMMARY OF 2010 TEST YEAR & 2011 SUBSEQUENT YEAR ADJUSTMENTS

Category Affected	Item No.	Adjustments/Corrections Affecting Company Per Book Amounts	Impact on 2010 Retail Revenue Requirements Increase/(Decrease) ($000)	Impact on 2011 Retail Revenue Requirements Increase/(Decrease) ($000)
CAP STR	1	Adjustment to reflect the impact of the American Recovery and Reinvestment Act of 2009 (Stimulus Bill) that were not known at the time of filing of the MFRs. This adjustment results in an increase in zero cost accumulated deferred income taxes in the amount of $288,261,000 in 2010 and $257,087,000 in 2011. See discussion in rebuttal testimony of FPL witness Kim Ousdahl.	($40,068)	($35,860)
NOI	2	O&M expenses are understated due to the forecast of NEIL Insurance Distributions budgeted at $11M. The forecast should not have included any distributions. Correction of this oversight reduces pretax NOI in the amount of $11,093,959 in 2010 and 2011. See discussion in rebuttal testimony of FPL witness Kim Ousdahl.	$11,019	$11,013
NOI	3	Adjustment for anticipated operating expenses expected to be reimbursed by the DOE pursuant to the nuclear spent fuel settlement agreement. The adjustment is an increase to pretax NOI resulting from a decrease in operating expenses (O&M, property taxes and depreciation expense) of $7,022,000 in 2010 and $7,892,000 in 2011. See discussion in rebuttal testimony of FPL witness Kim Ousdahl. See item 4 for rate base impact.	($6,962)	($7,819)
RB	4	Adjustment for anticipated capital expenditures expected to be reimbursed by the DOE in 2010 and 2011 pursuant to the nuclear fuel settlement agreement. The adjustment results in a decrease in rate base of $26,759,000 in 2010 and $53,205,000 in 2011. See discussion in rebuttal testimony of FPL witness Kim Ousdahl. See item 3 for NOI impact.	($3,124)	($6,314)
NOI	5	Affiliate payroll loadings were understated, resulting in an overstatement of O&M expense. The payroll amounts were not affected, as Forecasting used data from the BUs to get the final payroll dollars. Correction of this error results in an increase in pretax NOI of $3,915,580 in 2010 and $4,169,643 in 2011.	($3,896)	($4,147)
NOI	6a	Late payment fee revenues at the current rate of 1.5% are calculated based on a percent of total revenue and are overstated because they were based on older version of the revenue forecast than what was used to develop the final projections of the Test Years forecast. As a result, late payment fee revenues at current rates are overstated by $7.4 million in 2010 and 7.0 million in 2011.	$7,386	$7,001
NOI	6b	Bad debt expense and Working Capital are understated (since the accumulated provision for uncollectible accounts is overstated) because bad debt was calculated on an older version of the revenue forecast and economic variables than those used to develop the final projections for the Test Years. Correction results in a decrease to pretax NOI (increase to O&M expense) of $3,805,000 in 2010 and $1,984,000 in 2011. See item 8 for rate base impact and item 7 for revenue expansion factor impact. Note that this NOI impact has been adjusted for the portion related to clauses which is removed by company adjustment.	$1,481	$756
REV EXP FACTOR	7	Bad debt expense and Working Capital are understated (since the accumulated provision for uncollectible accounts is overstated) because bad debt was calculated on an older version of the revenue forecast and economic variables than those used to develop the final projections for the Test Years. This correction results in an increase in the revenue expansion factor of 0.042% in 2010 and 0.014% in 2011. See item 8 for rate base impact and item 6 for NOI impact.	($441)	($184)

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 080677-EI & 090130-EI EXHIBIT 358
COMPANY Florida Power & Light (Rebuttal)
WITNESS Kim Ousdahl (KO-16)
DATE 10/23/09

RB	8	Bad debt expense and Working Capital are misstated (since the accumulated provision for uncollectible accounts is misstated) because bad debt was calculated on an older version of the revenue forecast and economic variables than those used to develop the final projections for the Test Years. Correction results in an increase to rate base of $584,000 in 2010 and a decrease of $398,000 in 2011. See item 6 for NOI impact and item 7 for revenue expansion factor impact.	$69	($48)
NOI	9	Adjustment to reflect increase in expected state unemployment tax rates that was inadvertently not reflected in MFRs. Correction of this error results in a decrease to pretax NOI (increase to taxes other than income) in the amount of $980,000 in 2010 and $979,000 in 2011.	$975	$974
NOI	10	Forecast service charge revenues were inadvertently reduced by expected bad debts on the full amount of late payment revenues rather than on the incremental change in late payment revenues resulting from the proposed change to the late payment charge. Correction of service charge revenues results in an increase in pretax NOI of $751,895 in 2010 and $775,931 in 2011.	($752)	($776)
NOI	11	Correction of error in projection of plant in service and depreciation exp related to CIS III that resulted in an overstatement of depreciation expense and an understatement of net plant in service. Correction of these errors result in and an increase to pretax NOI (decrease to depreciation expense) of $504,000 in 2010 and $4,881,000 in 2011. See item 12 for rate base impact.	($437)	($4,228)
RB	12	Correction of error in projection of plant in service and depreciation exp related to CIS III that resulted in an overstatement of depreciation expense and an understatement of net plant in service. Correction of these errors result in an increase to rate base of $151,000 in 2010 and $2,267,000 in 2011. See item 11 for NOI impact.	$15	$235
RB	13	Correction of error in the original forecast of the storm liability for 2004 storms (account 253,186) results in an decrease in the working capital liability and therefore an increase in per book rate base of $1,825,000 in each of 2010 and 2011.	$214	$217
RB	14	Correction of an understatement of Fuel stock account FERC account 151. The forecast was not updated to reflect the most recent estimate of fuel stock. MFR B-18 is correct, but B-17, B-6, B-5, B-3, B-1 are not. Correction results in an increase to per book rate base of $1,716,000 in 2010 and a decrease of $10,694,000 in 2011.	$199	($1,261)

Category Affected	Item No.	Adjustments/Corrections Affecting Company Adjustments	Impact on 2010 Retail Revenue Requirements Increase/(Decrease) ($000)	Impact on 2011 Retail Revenue Requirements Increase/(Decrease) ($000)
NOI	15	Overstatement of depreciation rate for account 354 by 0.9% (from 3.58% to 2.68%) resulted in an overstatement of depreciation expense and an understatement of net plant due to the accumulated depreciation effect. Correction of this error results in an increase to pretax NOI (decrease to depreciation expense) of $3,487,000 in 2010 and $3,631,000 in 2011. See item 16 for rate base impact.	($3,430)	($3,621)
RB	16	Overstatement of depreciation rate for account 354 by 0.9% (from 3.58% to 2.68%) resulted in an overstatement of depreciation expense and an understatement of net plant due to the accumulated depreciation affect. Correction of this error results in an increase to rate base of $1,743,500 in 2010 and $5,302,500 for 2011. See item 15 for NOI impact.	$205	$633
CAP STR	17	The Company inadvertently excluded the impact to accumulated deferred income taxes resulting from the company adjustment to include the impact of the change in depreciation rates indicated by its depreciation filing. Correction of this error resulted in a decrease in the accumulated deferred income tax liability for the test year in the amount of $16,508,000 in 2010 and $50,938,000 in 2011.	$1,928	$6,050

CAP STR	18	The company adjustment to remove solar plant amounts from base rates for clause recovery did not include the removal of the related investment tax credit from the base rates capital structure. Correction of this error results in a decrease to ITC in the amount of $57,622,486 in 2010 and $188,709,329 in 2011.	($1,544)	($3,988)
RB	19	Correction of overstatement to working capital resulting from an error in the amount of spent fuel inventory used in company adjustment # 41 to eliminate the nuclear fuel lease and bring the nuclear fuel inventory back onto FPL's books. The correction results in a reduction of rate base in the amount of $3,810,820 in 2010 an $3,835,125 in 2011.	($446)	($455)
NOI	20	Incremental Hedging Costs Error. The MFR C-2 company adjustment adding incremental hedging bank to base rates from clause recovery moved too much expense in base rates, resulting in an overstatement of O&M in the amount of $52,908. Amount on C-42 is correct. Correction of this error results in an increase to pretax NOI of $52,908 in each of 2010 and 2011.	($32)	($32)
SUBTOTAL ADJUSTMENT IMPACTS - NET DECREASE IN REVENUE REQUIREMENTS			($37,661)	($41,874)
NOI & RB	21	Adjustment to account for the effects of removing the costs and revenues associated with FPL's firm long-term transmission service contracts from the retail jurisdiction. Jurisdictional rate base is overstated by $261,720,000 in 2010 and $286,794,000 in 2011. Jurisdictional pretax NOI is overstated by $7,924,000 in 2010 and $7,812,000 in 2011. See Exhibit JAE-11 in rebuttal testimony of FPL Witness Ender.	($22,975)	($26,615)
TOTAL ADJUSTMENT IMPACTS - NET DECREASE IN REVENUE REQUIREMENTS			($60,636)	($68,489)

1 request already fully and properly reflects the late payment fees that are projected
2 for 2010. Ms. Brown's adjustment would improperly double-count the revenue
3 impact of those fees and should be rejected accordingly.
4 **Q. In the course of evaluating the claims of the intervening witnesses, did you**
5 **identify any adjustments that should be made to late payment fee revenues**
6 **calculated at the current rates?**
7 A. Yes. Late payment fee revenues at the current rate of 1.5% were calculated as a
8 percent of total revenue, using the same kWh sales forecast that I mentioned
9 earlier with respect to bad debt expense. As a result, late payment fee revenues at
10 the current rate are overstated by $7.4 million in 2010 and $7.0 million in 2011.
11 FPL is reflecting this adjustment as part of FPL witness Ousdahl's Exhibit KO-
12 16, *Identified Adjustments*.
13
14 **REBUTTAL TO TESTIMONY OF OPC WITNESS KIMBERLY H.**
15 **DISMUKES**
16
17 **Q. OPC witness Dismukes raises concerns regarding the January 1, 2006 sale of**
18 **the natural gas business from FPL to FPLES. Is it appropriate to raise such**
19 **concerns at this time?**
20 A. It is absolutely inappropriate to raise concerns and propose changes regarding a
21 matter that was part of the 2005 Rate Case Proceedings, and was ultimately
22 resolved and settled upon as part of the Stipulation and Settlement Agreement.
23 FPSC Docket Nos. 050045-EI and 050188-EI, Order No. PSC-05-0902-S-EI

Issue 89: Is an adjustment appropriate to FPL's Late Payment Fee Revenues if the minimum Late Payment Charge is approved in Issue 145?

A. For the 2010 projected test year?

B. If applicable, for the 2011 subsequent projected test year?

Recommendation: Yes. First, staff recommends that FPL's corrections to the forecast for Late Payment Revenues from Exhibit 358 be made. Second, staff recommends that OPC's adjustment to the forecast of Late Payment Revenues based on 2007 and 2008 actual experience be accepted. (Prestwood)

A. Staff recommends a net adjustment to increase Late Payment Revenues by $18,390,146, for the 2010 test year.

B. If applicable, staff recommends a net adjustment to increase Late Payment Revenues by $19,809,684, for the 2011 test year.

Position of the Parties

FPL: Yes. Late Payment Fee revenues should be increased by $751,895 in 2010 and $775,931 in 2011, with an offsetting decrease of $7,386,000 in 2010 and $7,001,000 in 2011 for adjustments reflected in Ex. 358. No other adjustment is appropriate.

OPC: Yes. Late payment revenue should be increased to eliminate FPL's 30% behavior adjustment and 2% write-off; to average 2007/2008 late payments on percentage to total bills for behavior modifications; and reduce revenues for customers not subject to the minimum fee to reflect lower anticipated revenues for 2010. Revenues should be increased $25,024,251 for 2010. OPC strenuously opposes the subsequent 2011 test year. If the 2011 test year is considered, the appropriate amount is $26,034,753.

AFFIRM: No position.

AG: Such charges should not be allowed, as discussed in the response to Issue 145; otherwise adopt OPC's position.

AIF: No position.

SOUTH DAYTONA: No position.

FEA: No position.

FIPUG: Yes. Agree with OPC.

FRF: Agree with OPC.

SFHHA: No position.

Staff Analysis:

PARTIES' ARGUMENTS

Forecast Updates:

FPL witness Ousdahl sponsored Exhibit 358 (KO-16) in her rebuttal testimony and explained that during the course of the proceeding, FPL identified appropriate adjustments to the Company's filing. Exhibit 358 (KO-16) summarizes the adjustments to Rate Base, Net Operating Income, and Capital Structure that FPL is proposing to its original filing. (TR 3708)

Item 6a of Exhibit 358 shows FPL's proposed adjustments due to an over-statement of Late Payment Revenue. According to FPL, Late Payment revenues were overstated because they were based on an older version of the revenue forecast than what was used to develop the final projections. Item 6a results in an adjustment to decrease late payment fee revenue by $7,386,000 and $7,001,000 for the 2010 test year and the 2011 subsequent test year, respectively. (EXH 358)

Item 10 of Exhibit 358 shows FPL's proposed adjustments due to an under-statement of Late Payment Revenue. According to FPL, Late Payment Revenues were inadvertently reduced by expected bad debts on the full amount of late payment revenues rather than on the incremental change in late payment revenues. Item 10 results in an adjustment to increase late payment fee revenue by $751,895 and $775,931 for the 2010 test year and the 2011 subsequent test year respectively. (EXH 358)

Behavior Change:

FPL witness Santos described the Company's proposed change to its charge for late payments as follows:

> FPL currently charges 1.5% for late payments, but is proposing the greater of 1.5% or $10. Driven largely by the deteriorating economy, FPL has seen a steady increase in the number of customers making late payments. The percent of customers with late payments has increased from 21% in 2006 to 24% in 2008. This is an increase of 150,000 customers on average per month.

(TR 1567-1568)

OPC witness Brown testifies that FPL had understated its projected revenue from late payment for both test years.

> . . . in projecting the late payments fees for the test years, FPL has assumed that percentage of late paid accounts will remain at the same levels as the 2008 experience. In addition, the Company has offset the increased late payment fees by a 2% write-off rate and a 30% "behavior change" associated with accounts that would be subject to the minimum charge. These adjustments have resulted in an understatement of the late payment revenues under the revised structure.

(TR 2437)

According to witness Brown, FPL did not provide any justification for its assumption that the implementation of the $10 minimum late fee would cause 30 percent of the affected customers to pay their bills on time which would reduce the percent of late paid bills to pre-2007 levels. (TR 2438)

OPC witness Brown recommended eliminating the two percent write-off adjustment, which should already be incorporated into the uncollectible accounts expense. She also recommended eliminating the 30 percent behavior modification adjustment and, instead, proposed using an average of the 2007 and 2008 late payments as a percentage of total bills. Under this approach, 20 percent of customer bills are assumed to be late which is less than the 22.3 percent level experienced in 2008. (TR 2439)

OPC witness Brown's recalculated late payment fees are $25,024,251 and $26,034,753 greater than FPL's estimates for 2010 and 2011, respectively. (TR 2439)

FPL witness Santos testified in her rebuttal that

> The purpose of changing the late payment charge to have a minimum of $10 is to change behavior and induce more timely payment. . . .By minimizing the behavior change assumption of 30%, Ms. Brown effectively diminishes the impact that the late payment charge is specifically designed to achieve. . . . FPL's use of an assumed behavior change of 30% is therefore quite conservative because it is less than half of the 65% change expected when applying the electricity demand elasticity.

(TR 6056-6057)

In rebuttal, witness Santos testified that if FPL's conservative 30 percent adjustment for behavioral change is not factored into LPC revenues, then FPL would withdraw its proposal to change the current LPC fee structure. (TR 6057)

ANALYSIS

Forecast Updates:

FPL's corrections to its original filing presented in Exhibit 358 were not challenged and appear to be reasonable. If the corrections are not accepted, FPL's case would be based upon erroneous data.

Behavior Change:

OPC witness Brown's recommendation to eliminate the two percent write-off adjustment and include the effects of uncollectibles in the uncollectible account is consistent with other revenue adjustments. Also Witness Brown's approach based on the average of 2007 and 2008, uses actual late payments and still recognizes a decrease in the number of customers paying late compared to 2008.

The Company's analysis of behavior change based on the electricity demand elasticity supports a behavior change of 65 percent. This extremely high percentage suggest that the

analysis is somewhat suspect and is not really supportive of the Company's 30 percent behavior change. No analyses were presented for the 30 percent behavior change in FPL's original filing.

CONCLUSION

Staff recommends that FPL's adjustments to correct the original forecast for Late Payment Revenue proposed in Item 6a and Item 10 of Exhibit 358 be accepted. Staff also recommends that OPC's proposed adjustment to the forecast of Late Payment Revenues based on 2007 and 2008 actual experience be accepted.

A. For the 2010 projected test year?

Based on the corrections identified in Exhibit 358 and OPC's proposed adjustment, staff recommends a net adjustment to increase Late Payment Revenue for the 2010 test year by $18,390,146.

B. For the 2011 subsequent projected test year?

Based on the corrections identified in Exhibit 358 and OPC's proposed adjustment, if applicable, staff recommends a net adjustment to increase Late Payment Revenue for the 2011 test year by $19,809,684.

APPENDIX II
Source 8

FLORIDA POWER & LIGHT COMPANY
DOCKET NO. 080677-EI
NET OPERATING INCOME
DECEMBER 2010 TEST YEAR

SCHEDULE 3

Issue No.		Operating Revenues	O&M - Fuel & Purchased Power	O&M Other	Depreciation and Amortization	Taxes Other Than Income	Total Income Taxes and ITCs	(Gain)/Loss on Disposal of Plant	Total Operating Expenses	Net Operating Income
	Adjusted per Company	4,114,727,000	27,505,000	1,694,367,000	1,074,265,000	350,370,000	243,338,000	(1,002,000)	3,388,844,000	725,883,000
	Commission Adjustments:									
3	2010 Customer, kWh & kW Forecast	0	0	0	0	0	0	0	0	0
7	2011 Customer, kWh & kW Forecast	0	0	0	0	0	0	0	0	0
14	WCEC 3 - No GBRA	0	0	0	0	0	0	0	0	0
15	Transmission Investments and Costs	(33,639,000)	0	(10,452,000)	(10,335,000)	(4,918,000)	(3,056,683)	0	(28,771,683)	(4,867,317)
16	Jurisdictional Separation	0	0	0	0	0	0	0	0	0
56	Nuclear End of Life and Last Core	0	0	0	0	0	0	0	0	0
61	Glades Power Park Amortization	0	0	(6,137,000)	0	0	2,367,348	0	(3,769,652)	3,769,652
82	Customer Growth and Inflation Factors	0	0	0	0	0	0	0	0	0
83	SJRPP Transfer to CCRC	0	0	0	0	0	0	0	0	0
84	FAC Revenues & Expenses	0	0	0	0	0	0	0	0	0
85	ECCR Revenues & Expenses	0	0	0	0	0	0	0	0	0
86	CCRC Revenues & Expenses	0	0	0	0	0	0	0	0	0
87	ECRC Revenues & Expenses	0	0	0	0	0	0	0	0	0
88	C/I Demand Reduction Rider	0	0	0	0	0	0	0	0	0
89	Late Payment Revenues	18,390,146	0	0	0	13,241	7,088,891	0	7,102,132	11,288,014
90	Revenue Forecast	36,969,000	0	0	0	26,618	14,250,524	0	14,277,142	22,691,858
91	Total Operating Revenues	0	0	0	0	0	0	0	0	0
92	Charitable Contributions	0	0	0	0	0	0	0	0	0
93	Historical Museum	0	0	(45,470)	0	0	17,540	0	(27,930)	27,930
94	Aviation Costs	0	0	(1,633,916)	(2,092,009)	0	1,437,276	0	(2,288,649)	2,288,649
95	Advanced Metering Infrastructure	0	0	0	0	0	0	0	0	0
96	Bad Debt Expense	0	0	3,805,000	0	0	(1,467,779)	0	2,337,221	(2,337,221)
97	FAC Bad Debt Expense	0	0	16,893,000	0	0	(6,516,475)	0	10,376,525	(10,376,525)
98-S	Advertising Expenses	0	0	0	0	0	0	0	0	0
99-S	Lobbying Expenses	0	0	0	0	0	0	0	0	0
100	Unfilled Positions and Overtime	0	0	(15,392,467)	0	(882,729)	6,278,157	0	(9,997,039)	9,997,039
101	Productivity Improvements	0	0	0	0	0	0	0	0	0
102	Nuclear Production Staffing	0	0	0	0	0	0	0	0	0
103	Salaries and Employee Benefits	0	0	(49,510,136)	0	0	19,098,535	0	(30,411,601)	30,411,601
106	Pension Expense	0	0	0	0	0	0	0	0	0
107	Environmental Insurance Refund	0	0	0	0	0	0	0	0	0
108	Department of Energy Settlement	0	0	(6,094,000)	(747,000)	(109,000)	2,677,105	0	(4,272,895)	4,272,895
109	Affiliated Companies Transactions	0	0	(4,565,224)	0	(510,000)	1,963,910	0	(3,111,314)	3,111,314
116A	Gain on Sale	0	0	0	0	0	0	0	0	0
119	FPL-NED Assets	0	0	0	0	0	0	0	0	0
120	Storm Damage Accrual	0	0	(148,666,500)	0	0	57,348,102	0	(91,318,398)	91,318,398
121	Fossil Dismantlement Accrual	0	0	0	2,640,568	0	(1,018,599)	0	1,621,969	(1,621,969)
122	Rate Case Expense	0	0	(217,250)	0	0	83,804	0	(133,446)	133,446
123-S	Atrium	0	0	0	0	0	0	0	0	0
124	ECCR Payroll in Base Rates	0	0	1,582,000	0	0	(610,257)	0	971,744	(971,744)
125	CCRC Payroll in Base Rates	0	0	427,000	0	0	(164,715)	0	262,285	(262,285)
126	Hedging Costs in FAC	0	0	650,000	0	0	(250,738)	0	399,263	(399,263)
127-S	Orange Grove Operations	0	0	0	0	0	0	0	0	0
128	Level of O&M Expenses	0	0	0	0	0	0	0	0	0
129	Customer Information System	0	0	0	(435,000)	0	167,801	0	(267,199)	267,199
130	Capital Expenditures Reduction	0	0	0	0	0	0	0	0	0
131	Depreciation Expense	0	0	0	(310,060,000)	0	119,605,645	0	(190,454,355)	190,454,355
132	Taxes Other Than Income	0	0	0	0	972,000	(374,949)	0	597,051	(597,051)
133	American Recovery & Reinvestment Ac	0	0	0	0	0	0	0	0	0
134	Income Tax Expense	0	0	0	0	0	0	0	0	0
173	Nuclear Uprates	0	0	0	0	0	0	0	0	0
	Interest Synchronization	0	0	0	0	0	4,292,828	0	4,292,828	(4,292,828)
	Total Commission Adjustments	21,720,146	0	(219,346,863)	(321,028,441)	(5,407,870)	223,207,072	0	(322,576,202)	344,296,348
135	Commission Adjusted NOI	4,136,447,146	27,505,000	1,475,020,037	753,236,559	344,962,130	466,545,072	(1,002,000)	3,066,267,798	1,070,179,348

find, however, upon consideration, that it is appropriate to keep the current charge of $23.24 or 5% of the amount of payment, whichever is greater, in effect at this time.

In consideration of current difficult economic conditions, we find it appropriate to leave FPL's service charges unchanged.

Late Payment Charge

FPL asked to establish a minimum late payment charge that it argued would provide the appropriate incentive for customers to improve payment behavior. FPL currently charges 1.5 percent for late payments, but proposed the greater of 1.5 percent or $10. FPL stated that it had seen a steady increase in the number of customers making late payments, which it believed was driven largely by the deteriorating economy. The percent of customers with late payments increased from 21% in 2006 to 24% in 2008. This amounts to an increase of 150,000 customers on average per month. FPL argued that other industries use late payment charges greater than $10 to encourage customers to pay on time. FPL stated that the other Florida utilities that currently charge a fee similar to what FPL proposed are the City of Miramar Utilities, which charges a $15 fee, and the Lee County Electric Cooperative, which charges a $10 fee for residential customers. FPL argued that $5 would not be sufficient to encourage good payment behavior. FPL did state in its brief, however, that if we did not accept its position with respect to the new fee's effect on revenues, FPL would withdraw its late payment charge proposal. Since we did not accept FPL's position with respect to the new fee's effect on revenues, FPL has in effect withdrawn its request. Accordingly, FPL's request to establish a $10.00 late payment fee shall be denied.

Termination Factors

FPL's proposed termination factors are applied to customers taking service on the PL-1 or RL-1 rate schedule who chose monthly payments rather than a lump sum payment, and who then terminate their lighting agreement prior to the expiration of their 10 or 20 year contract period. The RL-1 rate schedule is a closed schedule, and not available to new customers. As stated in the Company's tariff sheet MFR E-14, Sixth Revised Sheet No. 8.722, and Second Revised Sheet No. 8.745, in order to terminate service the customer must provide a 90-day written notification to the company of their intent to cease service. The amount a customer pays to terminate their contract is computed by applying the termination factor to the installed cost of the facilities, based on the year in which the agreement is terminated. The company proposed to remove the 10-year and 20-year payment options from the PL-1 and RL-1 tariff, which is addressed in stipulated Issue 153.

We have reviewed the FPL's calculations and we find that the proposed termination factors are appropriate and we approve them.

Present Value Revenue Requirement

The Present Value Revenue Requirement (PVRR) multiplier is designed to produce an estimate of the cumulative cost of the project over its useful life. Under FPL's PL-1 and RL-1

Appendix III

Issue 103

APPENDIX III

Issue 103: The Commission erroneously included in its removal of jurisdictional incentive compensation amounts that had been allocated to affiliates.

A. Working from the recommendation of OPC witness Brown endorsed by the PSC Staff, the Commission made adjustments to reduce the payout ratio for executive incentive compensation. In addition, they made a further adjustment to disallow all executive cash and stock-based incentives (OPC witness Brown and Staff had recommended disallowance of 50% of the remaining executive incentive pay after adjustment for payout ratio.)

B. In formulating her recommended adjustments to executive incentive pay, OPC witness Brown and the PSC Staff used gross executive incentive pay totals prior to allocations to affiliates as the basis of their calculations. By using the same basis for their adjustments, the Commission has erroneously included in its removal of incentive compensation approximately $12.8 million that had been allocated to affiliates.

C. Basis for Calculation of Error

$12,226,189 -	Adjustment for change in payout ratio from 1.4 to 1.0 times the target level for executive incentive compensation (1)
$30,565,472 -	Adjustment for 100% of executive incentive compensation remaining after the adjustment for payout ratio (1)
$42,791,661 -	Sub-total - Jurisdictional Executive Incentive Compensation included in O&M from OPC witness Brown's testimony – SLB-20, line 3 (2)
$ 300,000 -	Adjustment for redundant non-operational positions (1)
$ 757,282 -	Adjustment for FPL concession to eliminate executive raises (1)
$ 2,122,947 -	Adjustment for change in payout ratio from 1.3 to 1.0 times the target level for non-executive incentive compensation (1)
$ 3,538,246 -	Adjustment for 50% of non-executive incentive compensation remaining after the adjustment for payout ratio (1)
$49,510,136 -	Total amount of Commission approved adjustment (1)

$42,791,661 -	Jurisdictional Executive Incentive Compensation included in O&M from OPC witness Brown's testimony – SLB-20, line 3 (2)
$43,147,847 -	Total 2010 Executive Incentive Compensation included in O&M from OPC witness Brown's testimony – SLB-20, line 4 (2) *(Note: did not adjust for allocations to affiliates – see below)*

$ 9,881,018 -	Long Term Incentive of $36,159,414 from EAC 809 allocated to affiliates (3) (see calculation on following page)
$+2,967,418 -	Annual Cash Incentive of $10,063,565 from EAC 820 allocated to affiliates (3) (see calculation on following page)
$12,848,436 -	O&M only amount allocated to affiliates
$12,742,373 -	Jurisdictional amount

Sources

(1) Page 150 of Order No. PSC-10-0153-FOF-EI

(2) See Exhibit No. 242 (Brown Exhibit SLB-20, lines 3 and 4)

(3) See Exhibit No. 35-21 (FPL's response to AG's 2nd Set Interrog. No. 76, Attachment I, Pages 2 and 5)

Amounts Erroneously Included in Removal of Jurisdictional Incentive Compensation

AG's 2nd Int 76 - EAC 609 (Long Term Incentives) - 2010 Exec Total	$ 38,159,414
Amount Available for Alloc. Total (Is Int 76 EAC 609 Total less the net of Capital, Below the Line, Other Non-Utility Expenses and Deferred Comp estimate differences.)	$ 32,163,238

	Amount Available for Allocation	Amount Available for Allocation Using Mass. Formula	Amount Available for Allocation Using Nuc. Formula	Amount Available for Allocation Using PGD Formula	Total Allocated to Affiliates
Total	$32,163,238 [1]	$19,226,469 [2]	$4,817,338 [2]	$2,072,742 [2]	
Affiliate Allocation Rates		34.24% [3]	50.00% [3]	42.90% [3]	
Total charged to affiliates		$6,583,143	$2,408,669	$889,206	$9,881,018

EAC 820 Annual Cash Incentives Amount Available for Alloc. Total (Is Int 76 EAC 820 Total less the net of Capital, Below the Line and Other Non-Utility Expenses)	$ 10,063,565

	Amount Available for Allocation	Amount for Available for Allocation Using General	Amount for Available for Allocation Using Nuclear	Amount for Available for Allocation Using Power Generation	Total Allocated to Affiliates
Total	$ 10,063,565 [1]	5,580,787 [2]	1,640,489 [2]	550,844 [2]	
Affiliate Allocation Rates		34.24% [3]	50.00% [3]	42.90% [3]	
Total charged to affiliates		$ 1,910,862	$ 820,244	$ 236,312	$ 2,967,418
Total charges EAC 820 and 609					$ 12,848,436

[1] Figure represents compensation for FPL Group and Utility executives included in FPL's 2010 test year. The issue of double counting pertains only to the subset of compensation for shared executives whose compensation is allocated between the utility and unregulated affiliates. Therefore, compensation for executives who work only for FPL is excluded from this analysis even though their compensation is part of the total. The cost estimates for the shared executives are found in the cost pools/allocable amounts under the General (Mass. Formula), Nuclear and Power Generation Formula column headers.

[2] Methodology consistent with Exhibit 125 (Ousdahl Exhibit KO-9, FPL's Cost Allocation Manual)

[3] Percentages are the rates provided in OPC 2nd Set Production of Documents No. 106.

percent above the baseline year after year, then the incentive payments have essentially become base salary. Exhibit 242 showed the reductions in incentive compensation to executives proposed by OPC witness Brown. The proposed adjustment to reduce the payout ratios for executive incentive compensation to 1.0 resulted in a reduction in jurisdictional O&M expenses of $12,226,189 for the 2010 test year. OPC witness Brown recommended similar adjustments for FPL's non-executive incentive compensation. The proposed reduction to lower the payout ratio from 1.3 times the target to an amount equal to the target is a reduction in jurisdictional O&M expenses of $2,122,947 for the 2010 test year.

Finally, FPL proposed adjustments to its original filing. Among those adjustments, it removed executive bonuses in the amount of $757,282 for the 2010 test year. We approve this adjustment.

Based on the foregoing, we reduce FPL's O&M expenses by $757,282 to reflect FPL's concession to eliminate the executive raises. We reduce FPL's O&M expenses by $12,226,189 to reduce the payout ratio for executive incentive compensation from 1.4 times the target level to 1.0 times the target level. We reduce FPL's O&M expenses by $30,565,472, to reflect a 100 percent reduction in executive incentive compensation. We reduce O&M expense by $2,122,947 to reflect the change in the payout ratio for non-executive incentive compensation from 1.3 times the target level to 1.0 times the target level. We reduce O&M expenses by $3,538,246 to limit non-executive incentive compensation remaining after the adjustment for the payout ration to 50 percent. We reduce O&M expenses by $300,000 to reflect our determination that there are redundant highly compensated non-operational positions. The total reduction of FPL's O&M expenses for salaries and benefits is $49,510,136.

Pension Expense

We were asked to determine if any adjustments should be made to net operating income for pension expenses. We analyzed and reviewed the MFRs, discovery responses, testimony, and cross examination and determined that there shall be no adjustments for pension expense, except for the adjustments made by FPL in Exhibits 481 and 511. The pension amounts were estimated from an actuarial calculation for the 2010 FPL Group plan costs and related obligations using consistent methodologies and reasonable, supportable assumptions. We decline to make any additional adjustments for pension expense.

Environmental Insurance Refund

We were asked to determine if a test year adjustment was necessary to reflect FPL's receipt of an environmental insurance refund in 2008. OPC proposed a decrease in O&M expense to recognize FPL's receipt in 2008 of a refund for environmental insurance it had previously purchased. OPC witness Brown testified that FPL's rates included the costs for property insurance and, as such, any refunds should be provided to ratepayers. The adjustment proposed by OPC witness Brown, based on a five year amortization of the insurance refund, was a decrease in jurisdictional O&M expense of $8,685,682 for the 2010 test year and a decrease in jurisdictional O&M expense of $8,685,656 in the 2011 subsequent test year. The adjustment would also increase jurisdictional rate base by $39,085,569 for the 2010 test year.

FPSC Docket 080677-EI
Revenue Impact of Executive Incentives
Exhibit__(SLB-20)

Florida Power & Light Company
Revenue Impact of Executive Incentive Adjustment

		Compensation Adjustments				
Line No.	Detail	Amount included in O&M	Reduction for Payout Factor	Reduction for Allocating 50% to Shareholders	Total Reduction	Amount Remaining in Requirements
1	Cash	$ 10,063,565	$ 2,875,304	$ 3,594,130	$ 6,469,435	$ 3,594,130
2	Stock-Based	33,084,282	9,452,652	11,815,815	21,268,467	11,815,815
3	Total 2010	$ 43,147,847	$ 12,327,956	$ 15,409,945	$ 27,737,902	$ 15,409,945
4	Jurisdictional	$ 42,791,662	$ 12,226,189	$ 15,282,736	$ 27,508,925	$ 15,282,736
5	Cash	$ 10,577,521	$ 3,022,149	$ 3,777,686	$ 6,799,835	$ 3,777,686
6	Stock-Based	35,535,044	10,152,870	12,691,087	22,843,957	12,691,087
7	Total 2011	$ 46,112,565	$ 13,175,019	$ 16,468,773	$ 29,643,792	$ 16,468,773
8	Jurisdictional	$ 45,733,197	$ 13,066,628	$ 16,333,285	$ 29,399,912	$ 16,333,285
9	2010 Revenue Impact [1]				$ 27,600,481	
10	2011 Revenue Impact [1]				$ 29,482,231	

Notes:
[1] Jurisdictional Reduction x (1-.38575) x revenue expansion factor.

APPENDIX III
Source 2

APPENDIX III
Source 3

[illegible] 2009	Executives	Exempt	Non-Exempt	Bargaining	[illegible]
Bonuses expected to be paid in cash allocated to Capital	$ 1,169,161				$ 10,483,828
Bonuses expected to be paid in cash allocated to Base OM	$ 9,743,575				$ 48,761,153
Bonuses expected to be paid in cash allocated to Other	$ 214,329				$ 2,238,018
Value of Performance shares allocated to Capital	$ -				
Value of Performance shares allocated to Base OM	$ -				
Value of Performance shares allocated to Other	$ -				
Value of other stock based compensation allocated to Capital	$ -				
Value of other stock based compensation allocated to Base OM	$ -				
Value of other stock based compensation allocated to Other	$ -				
Other compensation allocated to Capital	$ -				
Other compensation allocated to Base OM	$ -				
Other compensation allocated to Other	$ -				
Total	$ 11,127,055	$ -	$ -	$ -	$ 61,482,999

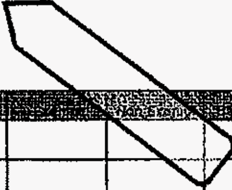
[illegible] 2010	Executives	Exempt	Non-Exempt	Bargaining	[illegible]
Bonuses expected to be paid in cash allocated to Capital	$ 1,285,670				$ 3,682,657
Bonuses expected to be paid in cash allocated to Base OM	$ 10,063,565				$ 52,965,608
Bonuses expected to be paid in cash allocated to Other	$ 222,902				$ 2,439,321
Value of Performance shares allocated to Capital	$ -				
Value of Performance shares allocated to Base OM	$ -				
Value of Performance shares allocated to Other	$ -				
Value of other stock based compensation allocated to Capital	$ -				
Value of other stock based compensation allocated to Base OM	$ -				
Value of other stock based compensation allocated to Other	$ -				
Other compensation allocated to Capital	$ -				
Other compensation allocated to Base OM	$ -				
Other compensation allocated to Other	$ -				
Total	$ 11,572,137	$ -	$ -	$ -	$ 59,087,585

[illegible]	Executives	Exempt	Non-Exempt	Bargaining	[illegible]
Bonuses expected to be paid in cash allocated to Capital	$ 1,225,684				$ 3,504,645
Bonuses expected to be paid in cash allocated to Base OM	$ 10,577,521				$ 53,840,494
Bonuses expected to be paid in cash allocated to Other	$ 231,818				$ 2,602,010
Value of Performance shares allocated to Capital	$ -				
Value of Performance shares allocated to Base OM	$ -				
Value of Performance shares allocated to Other	$ -				
Value of other stock based compensation allocated to Capital	$ -				
Value of other stock based compensation allocated to Base OM	$ -				
Value of other stock based compensation allocated to Other	$ -				
Other compensation allocated to Capital	$ -				
Other compensation allocated to Base OM	$ -				
Other compensation allocated to Other	$ -				
Total	$ 12,035,023	$ -	$ -	$ -	$ 59,947,149

APPENDIX III
Source 3

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bonuses expected to be paid in cash allocated to Capital	$ -					$ -
Bonuses expected to be paid in cash allocated to Base OM	$ -					$ -
Bonuses expected to be paid in cash allocated to Other	$ -					$ -
Value of Performance shares allocated to Capital	1,126,709					$ 1,126,709
Value of Performance shares allocated to Base OM	$ 11,425,159	$ 6,875,001			$ 20,515	$ 18,320,675
Value of Performance shares allocated to Other	$ 246,517					$ 246,517
Value of other stock based compensation allocated to Capital	1,182,267					$ 1,182,267
Value of other stock based compensation allocated to Base OM	$ 18,490,088					$ 18,490,088
Value of other stock based compensation allocated to Other	$ 219,707					$ 219,707
Other compensation allocated to Capital						$ -
Other compensation allocated to Base OM						$ -
Other compensation allocated to Other						$ -
Total	$ 32,690,447	$ 6,875,001	$ -	$ -	$ 20,515	$ 39,585,963

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bonuses expected to be paid in cash allocated to Capital						$ -
Bonuses expected to be paid in cash allocated to Base OM						$ -
Bonuses expected to be paid in cash allocated to Other						$ -
Value of Performance shares allocated to Capital	1,160,541					$ 1,160,541
Value of Performance shares allocated to Base OM	$ 12,259,747	$ 9,276,011				$ 21,535,758
Value of Performance shares allocated to Other	$ 430,150					$ 430,150
Value of other stock based compensation allocated to Capital	$ 1,255,148					$ 1,255,148
Value of other stock based compensation allocated to Base OM	$ 20,824,535					$ 20,824,535
Value of other stock based compensation allocated to Other	$ 229,293					$ 229,293
Other compensation allocated to Capital						$ -
Other compensation allocated to Base OM						$ -
Other compensation allocated to Other						$ -
Total	$ 36,159,414	$ 9,276,011	$ -	$ -	$ -	$ 45,435,425



[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bonuses expected to be paid in cash allocated to Capital						$ -
Bonuses expected to be paid in cash allocated to Base OM						$ -
Bonuses expected to be paid in cash allocated to Other						$ -
Value of Performance shares allocated to Capital	1,049,408					$ 1,049,408
Value of Performance shares allocated to Base OM	$ 13,933,525	$ 10,879,458	$ -	$ -	$ -	$ 24,812,983
Value of Performance shares allocated to Other	$ 533,667					$ 533,667
Value of other stock based compensation allocated to Capital	$ 1,488,045					$ 1,488,045
Value of other stock based compensation allocated to Base OM	$ 21,601,519					$ 21,601,519
Value of other stock based compensation allocated to Other	$ 238,637					$ 238,637
Other compensation allocated to Capital						$ -
Other compensation allocated to Base OM						$ -
Other compensation allocated to Other						$ -
Total	$ 38,844,801	$ 10,879,458	$ -	$ -	$ -	$ 49,724,259

Appendix IV

Issue 109

Appendix IV

Issue 109 - The Commission Erroneously Calculated the Return on Investment For FiberNet Telecommunication Charges to FPL.

Fibernet Allocated Asset Base	$18,003,912
Fibernet pre tax ROI	13.97%
Fibernet ROI cost as originally filed based on Fibernet's 13.97% pretax ROI	**$2,515,147**
Less: Dismukes/ Staff ROI cost based on OPC witness Woolridge's 7.41% after tax ROI (1)	1,332,923
Commission approved revenue requirement adjustment	**($1,182,224)** (2)

Fibernet ROI recalculated based on Woolridge Exhibit JRW-1

Capital Structure	Ratio	Cost Rate	Weighted Cost Rate	Pretax Weighted Cost Rate	
Common Equity	54.43%	9.50%	5.17%	8.42%	
Long Term Debt	41.81%	5.14%	2.15%	2.15%	
Short term Debt	3.76%	2.27%	0.09%	0.09%	
Total	100.00%		7.41%	**10.65%**	10.652%

Revised revenue requirement adjustment based on OPC witness Woolridge pre tax ROI

Fibernet Allocated Asset Base	$18,003,912
Fibernet pre tax ROI	**10.65%**
Revised Fibernet ROI cost	$1,917,831
Fibernet ROI cost using Commission approved capital costs and pre tax ROI	$1,917,831
Fibernet ROI cost as originally filed based on Fibernet's 13.97% pretax ROI	$2,515,147
Adjustment to as filed ROI cost	**($597,316)**
Dismukes/ Staff revenue requirement adjustment	($1,182,224) (3) (4)
Proposed change to Commission O&M adjustment	**$584,908**

Sources:
(1) Exhibit 208 *(Woolridge Exhibit JRW-1)*
(2) Page 157-158 Order No. PSC-10-0153-FOF-EI
(3) Exhibit 202 (Dismukes Exhibit KHD-12 redacted version)
(4) Hearing Transcript pages 2112-2113

Exhibit JRW-1

Florida Power & Light Company
Cost of Capital

Weighted Average Cost of Capital - Regulatory Capital Structure

Capital Source	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Short Term Debt	3.03%	2.27%	0.07%
Long-Term Debt	33.67%	5.14%	1.73%
Customer Deposits	3.02%	5.98%	0.18%
Common Equity	43.84%	9.50%	4.16%
Investment Tax Credits	0.31%	7.41%	0.02%
Deferred Income Taxes	16.14%	0.00%	0.00%
Total Capital	100.00%		6.17%

Weighted Average Cost of Capital - Conventional Capital Structure

Capital Source	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Short Term Debt	3.76%	2.27%	0.09%
Long-Term Debt	41.80%	5.14%	2.15%
Common Equity	54.43%	9.50%	5.17%
Total	100.00%		7.41%

subsidization and whether it is really a level playing field to the extent competitors want to offer the same products as FPLES. Furthermore, we are concerned that products offered in this manner cause customer confusion; in addition we heard testimony regarding the limitations of these products. Accordingly, to explore our concerns, we find it appropriate to open a separate docket to investigate the relationship of and the appropriateness of FPLES offering products to FPL consumers.

FiberNet:

OPC witness Dismukes proposed lowering the charges from FiberNet to FPL by reducing the rate of return on FiberNet's assets. Witness Dismukes recommended lowering the return charged by FiberNet to that suggested by OPC witness Woolridge. This adjustment would reduce O&M expenses by $1,182,224 for the 2010 test year. Concerning the costs charged to FPL by FiberNet, an affiliate of FPL, OPC witness Dismukes testified:

> With respect to costs allocated from FiberNet, for the projected test year costs were allocated using fiber miles, fiber capacity, and DS3 capacity. I am recommending one modification to the methodology employed to allocate these costs to FPL. As shown on Exhibit 202, the allocation of costs to FPL is based upon the assets owned by FiberNet. A large portion of the costs allocated to FPL are based upon the return on the assets used by FPL. In developing the amount to charge FPL, the Company used a return on investment . . . I have modified this return to be consistent with the pre-tax overall cost of capital recommended by Dr. Woolridge. The Commission should reject the Company's request to use a rate of return that is substantially in excess of FPL's allowed rate of return and utilize the rate of return recommended by Mr. Woolridge. As shown on this exhibit, this change results in an estimated reduction to charges for the years 2010 and 2011 of $1,182,224 [each year].

FPL witness Avera's rebuttal Exhibit 363 (Rebuttal to Technical Arguments) stated that:

> . . . the risks and cost of capital for telecommunications services is generally regarded as higher than for electric utility services, particularly for competitive local exchange companies such as FiberNet. . . . A review of Exhibit JRW-18 reveals that the average beta for the Telecommunications Services industry was 1.43, versus the 0.88 beta value cited by Dr. Woolridge for the electric utility industry and a beta of 1.00 for the overall market.

In other words, FPL witness Avera believed this comparison indicated that the risks associated with FiberNet were higher than FPL. Witness Avera concluded that OPC witness Woolridge's recommended overall rate of return for FPL was entirely unrelated to the services provided by FiberNet.

FPL could own its own telecommunications equipment that would be used strictly for its own use. If this were the case, the assets would be a part of the Company's rate base and it would be allowed to earn the same return as the rest of its rate base assets. We find that FiberNet has higher risk as a separate affiliate, and that the ratepayers shall not be required to pay for this

additional risk. The return payable to FiberNet from FPL ratepayers shall be that permitted to be earned by FPL. This adjustment decreases O&M expenses by $1,182,224.

Power Monitoring Revenue:

OPC recommended increasing miscellaneous revenue by $236,336 for the 2010 test year. These increases were to certain revenues excluded from revenue due to a mislabeling. FPL witness Ousdahl stated that the data was mislabeled in an informal discovery response as power monitoring revenues, and should have been labeled as regulation service revenues. She went on to say:

> This description change is supported by FPL's response to OPC's First Set of Interrogatories Question No. 55 where the same amounts are shown for 2006, 2007 and 2008 with a description of Regulation Service Revenues. Even though FPL misidentified the account description, it does not impact the amounts forecasted for Power Monitoring revenues, which are properly reflected in FPL's MFR's.

We find that this adjustment was unnecessary and that the revenues associated with this item were correctly shown in the Company's MFRs.

Forecast Updates:

FPL witness Ousdahl sponsored Exhibit 358 in her rebuttal testimony and explained that during the course of the proceeding, FPL identified appropriate adjustments to the Company's filing. Exhibit 358 summarized the adjustments to rate base, net operating income, and capital structure that FPL proposed to its original filing.

Item 5 of Exhibit 358 showed FPL's proposed adjustment due to an overstatement of affiliate payroll loadings. According to FPL, affiliate payroll loading was overstated because it was not based on the final payroll forecast from the business units. Item 5 resulted in an adjustment to decrease O&M expense and taxes other than income taxes by $3,373,000 for the 2010 test year. The forecast updates result in an adjustment to decrease O&M expense and taxes other than income taxes by $3,592,000.

Conclusion

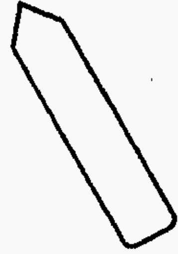
Based on the foregoing, we find that: 1) the Company's proposed adjustment for the forecast data shall be accepted, and that O&M expense and taxes other than income taxes shall be decreased by $3,373,000; 2) that no adjustment shall be made for stale allocation drivers; 3) that no adjustment shall be made for the Massachusetts Formula; 4) that no adjustment shall be made for FPL Energy Services; 5) that adjustment to the charges from FiberNet to FPL shall be made resulting in an O&M expense reduction of $1,182,224 for the 2010 test year; 6) that no adjustment shall be made for the power monitoring revenue; and 7) that a generic docket shall be opened to investigate the relationship of and the appropriateness of FPLES offering certain products to FPL consumers. The total reduction in this docket for O&M expense and taxes other than income taxes is $4,774,224 for affiliate transactions.

Docket Nos. 080677-EI & 090130-EI
FPL FiberNet Adjustment
Exhibit KHD-12, Page 1

REDACTED

Florida Power and Light Company
FiberNet Adjustment

Cost Component	Amount
Asset Base for ROI 2010	[redacted]
Fiber	[redacted]
Shared Fiber	[redacted]
Electronics	[redacted]
Shared Electronics	[redacted]
Capital Spares	[redacted]
NOC Assets	[redacted]
Accumulated Depreciation	[redacted]
Total Allocated Asset Base	[redacted]
ROI Rate	[redacted]
FPL Return on Investment	[redacted]
OPC Recommended ROI	7.41%
OPC Return on Investment	[redacted]
OPC Recommended Adjustment 2010	$ (1,182,224)
OPC Recommended Adjustment 2011	$ (1,182,224)



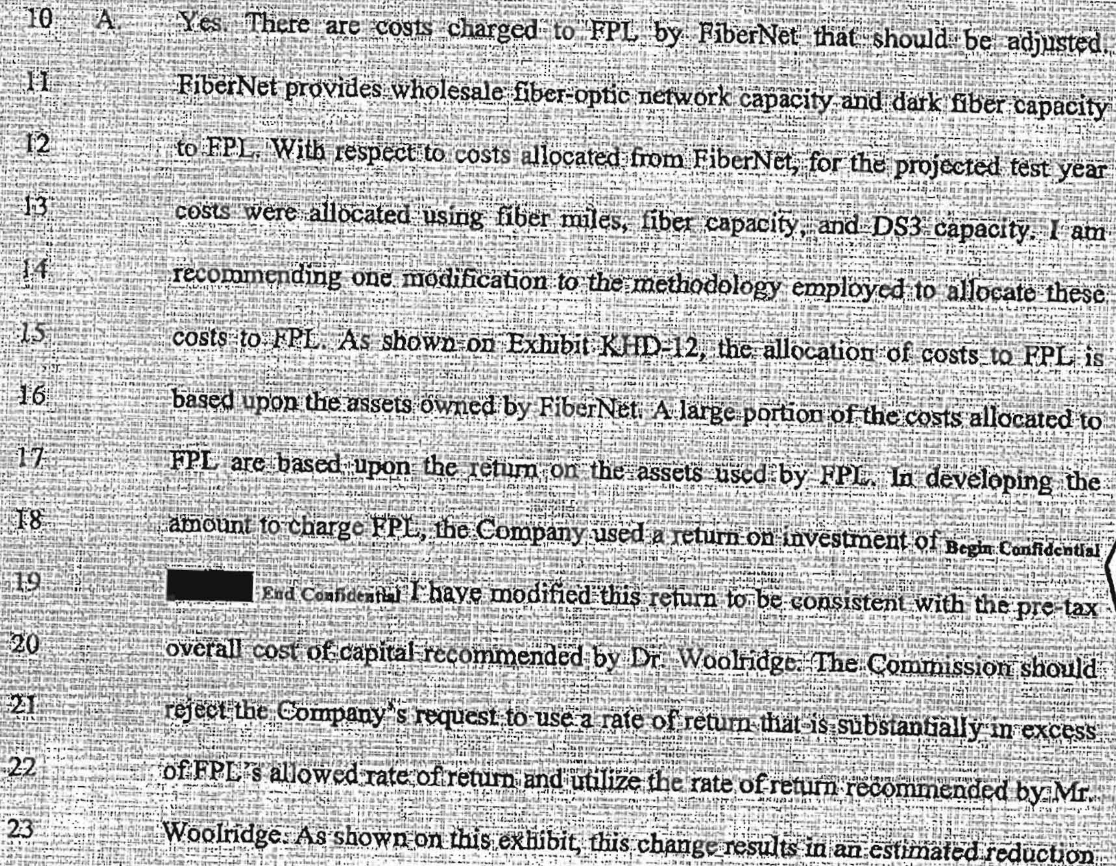
Source: Response to OPC Interrogatory 8; Exhibit JRW-1.

REDACTED

1 FPLES, receive significant benefits from the services provided under the
2 management fee, yet these benefits are not reflected in the allocation
3 methodology.
4 As shown on Exhibit KHD-11, the changes that I recommend concerning
5 the allocation of the AMF reduce charges to the Company in the projected years
6 by $7.9 million for 2010 and $7.9 million for 2011.

7 **IV. Transactions with Other Affiliates**

8 **Q. ARE THERE AFFILIATE COSTS CHARGED TO FPL THAT YOU**
9 **WOULD LIKE TO ADDRESS?**



10 A. Yes. There are costs charged to FPL by FiberNet that should be adjusted.
11 FiberNet provides wholesale fiber-optic network capacity and dark fiber capacity
12 to FPL. With respect to costs allocated from FiberNet, for the projected test year
13 costs were allocated using fiber miles, fiber capacity, and DS3 capacity. I am
14 recommending one modification to the methodology employed to allocate these
15 costs to FPL. As shown on Exhibit KHD-12, the allocation of costs to FPL is
16 based upon the assets owned by FiberNet. A large portion of the costs allocated to
17 FPL are based upon the return on the assets used by FPL. In developing the
18 amount to charge FPL, the Company used a return on investment of **Begin Confidential**
19 ■■■■ **End Confidential** I have modified this return to be consistent with the pre-tax
20 overall cost of capital recommended by Dr. Woolridge. The Commission should
21 reject the Company's request to use a rate of return that is substantially in excess
22 of FPL's allowed rate of return and utilize the rate of return recommended by Mr.
23 Woolridge. As shown on this exhibit, this change results in an estimated reduction

REDACTED

1 to charges for the years 2010 and 2011 of $1,182,224.

2 Q. **FPL ENERGY SERVICES ("FPLES") IS ANOTHER AFFILIATE OF FPL.**

3 **WHAT SERVICES DOES IT PROVIDE?**

4 A. FPL Energy Services provides energy related products and services to residential,

5 commercial and governmental customers. (http://www.fples.com/aboutus.shtml.)

6 For residential customers, FPLES provides the following services, as described on

7 FPLES' web page.

8 **Protection from Costly Power Surges**

9 SurgeShield is heavy-duty surge protector installed at your meter which
10 prevents power surges from entering your home thru your meter and
11 causing damage to major appliances and systems.

12 **Appliance Protection**

13 Home repair bills leaving you with the feeling of empty pockets?
14 Appliances can break down when you least expect it leaving you with
15 costly home repair bills. ApplianceGard can save you hundreds of dollars.

16 **Water Lines and Electric Wiring Protection**

17 Water lines inside and outside of your home and electric wiring inside
18 your home can become damaged or simply worn out over time and can be
19 costly to repair or replace. UtilityGard offers 3 great plans for 1 low price.

20 **Power Surge Protection for your Electronics**

21 While there's no way to prevent power surges, Power Surge Protection
22 provides coverage for the repair or replacement of your essential
23 electronics and appliances. *Best of all, you choose the level of coverage*
24 that meets your needs.

25 **Readi-Power**

26 Purchasing a permanent or portable back-up generator is easy with the
27 Readi-Power program. Find out how you can get a customized system that
28 fits your needs and budget.

29 **One Plug**

EXHIBIT 1

STANDARD
&POOR'S

Global Credit Portal
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Research Update:

FPL Group Inc. Downgraded To 'A-' From 'A', Off CreditWatch; Outlook Stable

Primary Credit Analyst:
Todd A Shipman, CFA, New York (1) 212-438-7676;todd_shipman@standardandpoors.com

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Research Update:

FPL Group Inc. Downgraded To 'A-' From 'A', Off CreditWatch; Outlook Stable

Overview

- We downgraded and removed from CreditWatch negative FPL Group Inc. (FPL) and subsidiaries to 'A-' from 'A' based on greater regulatory risk at utility subsidiary Florida Power & Light (FP&L) and growing investments in unregulated assets under subsidiary FPL Group Capital. The outlook is stable.
- The deteriorated business risk profile is now 'strong' instead of 'excellent'.
- We affirmed the 'A' ratings on Florida Power & Light's first mortgage bonds.
- The financial risk profile remains 'intermediate' and should remain robust enough to support the new ratings if the company remains disciplined in its pursuit of growth at merchant energy producer and marketer NextEra Energy Resources.

Rating Action

On March 11, 2010, Standard & Poor's Ratings Services lowered its corporate credit rating on FPL and subsidiaries to 'A-' from 'A'. At the same time, we removed the ratings from CreditWatch with negative implications where they were placed on Jan. 14, 2010 following an adverse rate case ruling for FP&L. We affirmed 'A' secured debt rating on FP&L, and revised the recovery rating on this debt to '1+' from '1' based on an updated recovery analysis. Juno Beach, Fla.-based FPL has about $19 billion of debt outstanding.

Rationale

FPL's credit fundamentals on its regulated utility side have been among the strongest in the U.S., due primarily to low regulatory risk and an attractive service territory with healthy economic growth and a sound business environment. Both of those pillars have been weakened in the past year as Florida, and FP&L's service territory in particular, have suffered during the recession, and regulators have responded with decisions that reflect more intense political influence over the regulatory environment. Maintaining financial strength despite regulatory setbacks and a slowly improving economy in Florida will be challenging. In addition, the balance between regulated utility operations and unregulated businesses is projected to trend in favor of the riskier merchant generation, marketing, and trading activities as lower returns and higher regulatory risk in Florida lead to changes in capital allocation decisions. This will erode FPL's business risk profile, which we now deem to be 'strong' instead of 'excellent'.

The ratings on FPL reflect the strength of the regulated cash flows from integrated electric utility FP&L, and the diverse and substantial cash generation capabilities of its unregulated operations at subsidiary NextEra. FP&L is expected to contribute less than half of the consolidated credit profile and has better business fundamentals than most of its integrated electric peers, with a slightly better-than-average service territory, sound operations, and a credit-supportive regulatory environment. The company's willingness to expand through acquisitions, fluctuating cash flows from NextEra's rapidly-expanding portfolio of merchant generation assets and growing marketing and trading activities, and the utility's significant exposure to natural gas detract from credit quality. Standard & Poor's characterizes FPL's business profile as 'strong' and its financial profile as 'intermediate'. (Our methodology applies the terms 'excellent,' 'strong,' 'satisfactory,' 'fair,' 'weak,' and 'vulnerable' to characterize business risk, and 'minimal,' 'modest,' 'intermediate,' 'significant,' 'aggressive,' and 'highly leveraged' to characterize financial profiles.)

Business risk is anchored by the company's core electric utility operations in Florida, which exhibit strength in almost every area of analysis: the service territory has fared better than most of the rest of the country, although it is lagging in this recessionary environment, the customer mix is mostly residential and commercial, costs and rates are low, and reliability and customer satisfaction are high. While not immune to overall economic trends, we expect Florida to remain attractive to people and jobs over the long term. A large and growing reliance on natural gas to fuel utility generation could, over time, turn from an advantage (because of its favorable environmental status) to a weakness if gas prices continue to significantly fluctuate and rise over time. Regulatory risk, the most important risk a utility faces, has been well managed at FP&L but has risen of late as regulators have reacted to weak economic conditions and keener attention in the political arena with a series of decisions for FP&L that fall short of the very sound record of past support for credit quality.

NextEra, the main subsidiary under unregulated Group Capital, engages in electric generation, marketing, and trading throughout the U.S. NextEra's focus is on geographic and fuel diversity and on developing environmentally advantageous facilities that could benefit from climate change political trends. The merchant generator's capacity of more than 18,000 MW consists of more than 40% wind turbines, a little over one-third natural gas-fired stations, and the rest mainly nuclear facilities. Three-quarters of the wind projects, one-third of the natural gas capacity, and three of the four nuclear units operate under largely fixed-price, long-term contracts. The rest of the portfolio, including one nuclear plant, is merchant capacity that is exposed to market prices for its output. While a policy of actively hedging the commodity price risk of plant inputs and outputs helps to dampen the risks associated with energy merchant activities, there is an inherent risk level at NextEra that cannot be avoided. Such risk permanently hinders credit quality, especially in light of the growing influence of marketing and high-risk proprietary trading results in NextEra's earnings and cash flows.

We believe the governance and financial policies used to manage risk are adequate. FPL's financial profile is characterized by very healthy credit metrics, ample liquidity, and a management attitude toward credit quality that

supports ratings. Importantly, sophisticated, but complex, financial structures employed at the project level substantiate significant off-credit treatment of largely non-recourse debt at NextEra. Any indication that FPL management would use its own financial resources to aid a troubled project in support of strategic objectives could lead Standard & Poor's to reevaluate the adjustments made to FPL's reported debt. Large adjustments are also factored into the credit analysis regarding hybrid debt instruments and power purchase agreements at FP&L. Adjusted credit metrics in current economic and market conditions support the 'intermediate' financial profile. The metrics are expected to remain steady, including funds from operations (FFO) to debt of around 25% and debt-to-capitalization below 50%.

Short-term credit factors

The short-term rating on FPL is 'A-2'. FPL's available cash flow is not sufficient to fund its large capital expenditure plans and dividends and is expected to remain that way for the foreseeable future. FPL has ample liquidity with $6.4 billion of revolving bank facilities maturing mainly in 2013, and a $250 million revolving term loan maturing in 2011. Almost $4.4 billion of liquidity was available as of Dec. 31, 2009, including $238 million of cash and equivalents on the balance sheet. The facilities support commercial paper programs at FP&L and Capital and letters of credit. By analyzing a stress scenario to assess FPL's liquidity adequacy to cover exposure to adverse market and credit events, Standard & Poor's expects that the company has sufficient liquidity under those conditions. The company's maturity schedule subsides over time, with maturities peaking at over $2 billion during 2011.

Outlook

The outlook on FPL and subsidiaries is stable and reflects a business profile that is increasingly dominated by higher-risk merchant energy activities and a utility that still presents an above-average credit profile compared to its U.S. peers. We would consider a negative outlook if some combination of worsening regulatory risk at FP&L, deteriorating operational efficiency at NextEra, investment decisions that favor NextEra over FP&L to an even greater degree, or poor financial performance because of the Florida economy, unfavorable energy markets, or risk management missteps indicate that the credit profile is likely to decline. We could consider a positive outlook if a dramatic shift in the Florida economic, political, and regulatory environment appears to be sustainable over a long time horizon and affirmative steps are taken to reduce risk at NextEra.

Related Research

Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, RatingsDirect May 27, 2009
Assessing U.S. Utility Regulatory Environments, RatingsDirect, Nov. 7, 2008.

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
FPL Group Inc.		
Corporate Credit Rating	A-/Stable/--	A/Watch Neg/--
FPL Group Capital Inc.		
Florida Power & Light Co.		
Corporate Credit Rating	A-/Stable/A-2	A/Watch Neg/A-1
FPL Fuels Inc.		
Commercial Paper	A-2	A-1/Watch Neg
FPL Group Capital Inc.		
Senior Unsecured	BBB+	A-/Watch Neg
Junior Subordinated	BBB	BBB+/Watch Neg
Commercial Paper	A-2	A-1/Watch Neg
FPL Group Capital Trust I		
Preferred Stock	BBB	BBB+/Watch Neg
Florida Power & Light Co.		
Preferred Stock	BBB	BBB+/Watch Neg
Commercial Paper	A-2	A-1/Watch Neg

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Florida Power & Light Co.		
Senior Secured	A	A/Watch Neg
Recovery Rating	1+	1

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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The McGraw-Hill Companies

EXHIBIT 2

EXHIBIT 2

Rating Action: Moody's Places FPL Group and Subsidiaries on Review for Downgrade

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Global Credit Research - 19 Jan 2010

Approximately $12 Billion of Debt Securities Affected

New York, January 19, 2010 -- Moody's Investors Service placed the long-term ratings of FPL Group, Inc. (A2 Issuer Rating); Florida Power & Light Company (A1 Issuer Rating), and FPL Group Capital Inc. (A2 senior unsecured) on review for possible downgrade. Moody's also placed FPL Group Capital's Prime-1 short-term rating for commercial paper on review for possible downgrade. Florida Power & Light Company's Prime-1 short-term rating for commercial paper is not on review, as Moody's anticipates that the review will not result in more than a one notch downgrade of the ratings of Florida Power & Light Company. The review of the ratings of FPL Group and FPL Group Capital could result in a multi-notch downgrade.

"The review for downgrade of the ratings of FPL Group and its subsidiaries is prompted by the heightened risk to investors caused by a decline in the political and regulatory environment for investor owned utilities operating in Florida, which led to last week's rate case decision, and continued challenging economic conditions throughout the state" said Michael G. Haggarty, Vice President and Senior Credit Officer. FPL Group's regulated utility subsidiary Florida Power & Light Company was granted minimal rate relief in the first rate case decided by a newly constituted Florida Public Service Commission at a time when the utility planned substantial investments for transmission and distribution improvements and new generation.

The FPSC overruled its staff recommendations in several respects, including return on equity and storm fund accruals, and cut back the utility's rate request in a number of areas, including compensation and several operating expense categories. Moody's views the FPSC's decision as somewhat understandable given the difficult Florida economy and commissioners' sensitivity to increasing customer bills in this environment. Moody's notes that several commissioners made comments regarding their willingness to grant more meaningful rate relief once the Florida economy improves.

The rate case was plagued by delays and controversy caused by political intervention in regulatory process, which was unprecedented in the state of Florida, with the Governor vocally opposing the utility's request for rate relief and interfering in independence of the regulatory process. The appointment of two new commissioners in the late stages of the rate case, after testimony had been completed, significantly increased the level of uncertainty regarding the rate case outcome, an outcome that was ultimately detrimental to the credit quality of the Florida Power & Light Company. As a result of these developments, Moody's now views the Florida utility regulatory environment as substantially less constructive and predictable than it has been historically, increasing the level of risk to investors going forward.

The review for downgrade of the ratings of FPL Group Capital primarily reflects the review for downgrade of FPL Group, which unconditionally guarantees all of the debt and contractual obligations of FPL Group Capital, and the higher risk characterizing the consolidated organization partly caused by the regulatory, political, and financial challenges now facing the utility. The review for downgrade of FPL Group and FPL Group Capital also reflects the lower consolidated cash flow coverage ratios experienced by FPL Group in recent years and the higher debt incurred in over the last two years at both FPL Group Capital and NextEra Energy Resources to finance wind project development and other capital expenditures. Moody's expects NextEra's large capital expenditure program to continue to require substantial additional debt financing over the next several years, increasing the proportion of debt at FPL Group's unregulated subsidiaries compared to the utility.

The review will focus on the impact that both the rate case decision will have on the financial condition and cash flow coverage metrics of both the utility and the consolidated FPL Group organization; the measures the utility can take to offset the negative impact of the rate case decision, including deferrals or cutbacks in capital expenditure plans (some already announced); and the company's debt, dividend and operating expense plans going forward. The review will also consider the company's growth plans at NextEra, their anticipated method of financing this growth, and the financial and operating performance of the company's unregulated generating portfolio, particularly considering the recently weak performance of its Texas merchant generating assets and lower than expected wind resource. Finally, the review will consider economic conditions in the state of Florida and the prospects for an economic recovery over the near to intermediate term.

The last rating actions on FPL Group, Florida Power & Light Company, and FPL Group Capital were on October 31, 2006, when their rating outlooks were changed to stable from negative.

The principal methodology used in rating these issuers was Regulated Electric and Gas Utilities, which can be found at www.moodys.com in the Credit Policy and Methodologies directory, in the Rating Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Credit Policy & Methodologies directory.

Ratings under review include:

FPL Group, Inc.'s A2 Issuer Rating;

Florida Power & Light Company's Aa2 senior secured; A1 Issuer Rating;

FPL Group Capital's A2 senior unsecured; A3 junior subordinated; and Prime-1 short-term rating for commercial paper; and the A3 trust preferred rating of FPL Group Capital Trust I.

FPL Group, Inc. is a parent holding company for regulated utility Florida Power & Light Company and unregulated subsidiaries FPL Group Capital Inc and NextEra Energy Resources, LLC (unrated) and is headquartered in June Beach, Florida.

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EXHIBIT 3

FitchRatings
KNOW YOUR RISK

EXHIBIT 3

FITCH PLACES FLORIDA POWER & LIGHT AND FPL GROUP ON WATCH NEGATIVE

Fitch Ratings-New York-12 January 2010: Fitch Ratings has placed the ratings of FPL Group, Inc. (FPL), FPL Group Capital, Inc. (Group Capital) and Florida Power & Light Company (FP&L) on Rating Watch Negative. The action is taken in response to the adverse decision by the Florida Public Service Commission (FPSC) on Jan. 11 in the Progress Energy Florida (PEF) rate case and the greater possibility of a poor outcome of the pending FP&L rate case, to be determined by the FPSC on Jan. 13. The change in status affects approximately $11 billion of securities. A complete list of ratings affected is set forth below.

The restrictive result in the PEF case indicates that regulatory risk in Florida has been heightened in a state that Fitch had formerly considered particularly supportive of financially sound utilities and strong credit ratings. Over the past several years, the rate-setting policies and practices of the FPSC have allowed FP&L to maintain strong credit ratings despite large capital investments for infrastructure expansion and improvements and the recessionary effects on sales. In Fitch's most recent review of the ratings of the companies in the FPL Group on Oct. 29, 2009, affirmation of the ratings and Stable Rating Outlook for FP&L, FPL, and Group Capital were predicated upon the assumption that the outcome of FP&L's contentious and politicized pending base rate proceedings would have a balanced result despite the turbulent regulatory environment in Florida. The Stable Outlook for FP&L also assumed that the FPSC would maintain existing tracker mechanisms that provide periodic reset for recovery of many expense categories. Fitch also noted that FPL Group's consolidated credit measures are vulnerable to erosion if FP&L's future cash flow is materially weakened by an adverse FP&L base rate order.

Fitch expects to resolve the Rating Watch Negative after analyzing the results of the FPSC rate order and any modifications in corporate investment, operating and maintenance plans, or capital structure that FPL management may implement in response to the commission's order.

Fitch's summary of the PEF base rate decision is included in a separate release, 'Fitch Places Ratings of Florida Power Corp on Rating Watch Negative', also published today.

FPL (IDR 'A') relies upon the combined sources of cash flow available to the group from FP&L and from Group Capital, owner of NextEra, a developer and owner/operator of power generation assets. Group Capital is an intermediate holding company that owns and funds non-utility investments, primarily in NextEra. Group Capital's ratings reflect the unconditional and irrevocable guarantee by its parent FPL, and thus they carry the same ratings as FPL. FP&L (IDR 'A') has been the core or anchor of the consolidated group, but growth of NextEra accelerated over the past five years. NextEra's share of FPL net income is estimated at approximately half of consolidated 2009 net income, up from roughly 20% in 2004. An unfavorable outcome of FP&L's pending rate case that materially reduces the utility's 2010-2011 operating cash flow could cause the utility contribution to the group consolidated results to diminish further.

Fitch places the following ratings on Rating Watch Negative:

FPL Group, Inc.
--Issuer Default Rating (IDR) 'A'.

FPL Group Capital, Inc.
--IDR 'A';
--Short-term IDR and commercial paper 'F1'.
--Senior unsecured debentures 'A';
--Jr. Subordinate hybrids 'A-'.

FPL Group Capital Trust I

--Trust preferred stock 'A-'.

Florida Power & Light Company
--IDR 'A';
--Short-term IDR and commercial paper 'F1'.
--First mortgage bonds 'AA-';
--Unsecured pollution control revenue bonds 'A+'. .

These rating actions reflect the application of Fitch's current criteria which are available at 'www.fitchratings.com' and specifically include the following reports:

--'Corporate Rating Methodology' (Nov. 24, 2009);
--'Credit Rating Guidelines for Regulated Utility Companies' (July 31, 2007);
--'U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines' (Aug. 22, 2007).

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Additional information is available at 'www.fitchratings.com'.

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