BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for increase in rates by Florida Power & Light Company	)))	Docket No. 120015-EI FILED: July 2, 2012

DIRECT TESTIMONY

OF

HELMUTH SCHULTZ III

ON BEHALF OF THE CITIZENS OF THE STATE OF FLORIDA

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DIRECT TESTIMONY

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Helmuth Schultz III

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 120015-EI

I. STATEMENT OF QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Helmuth W. Schultz III. My business address is 15728 Farmington Road, Livonia, Michigan 48154.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am a Senior Regulatory Analyst with Larkin & Associates, P.L.L.C.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCITES, P.L.L.C.

A. Larkin & Associates, P.L.L.C., performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorney generals, etc.). Larkin & Associates, P.L.L.C., has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including water and sewer, gas, electric and telephone utilities.

Q. HAVE YOU PREPARED AN EXHIBIT WHICH DESCRIBES YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A. Yes. Attached as Exhibit No.__(HWS-1), is a summary of my background, experience and qualifications.

Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Larkin & Associates, P.L.L.C., was retained by the Florida Office of Public Counsel (OPC) to review the rate increase requested by Florida Power & Light Company (the Company or FPL). Accordingly, I am appearing on behalf of the citizens of Florida ("Citizens") who are customers of FPL.

II. BACKGROUND

Q. PLEASE BRIEFLY DESCRIBE THE ISSUES YOU WILL BE ADDRESSING IN THIS PROCEEDING.

A. I am addressing the appropriateness of the Company's recovery on payroll, incentive compensation, benefits other than pensions and post-retirement benefits (OPEB), payroll taxes, tree trimming, pole inspections, the recovery of Directors and Officers Liability (DOL) Insurance and uncollectible expense. I will also be addressing the level of the depreciation reserve surplus available in 2013 based on recommendations regarding costs estimates in 2012 that are considered excessive and impact the amount the Company projected to be utilized in 2012. I am also addressing the rate base impact from the change in the depreciation reserve surplus and some recommendations to working capital. Finally, I will address the Company's request regarding the continuation of the automatic storm recovery mechanism contained in the 2010 settlement arguments among parties that the Commission approved in Order No PSC-11-0089-S-EI.

III. PAYROLL

Q. WERE THERE ANY ISSUES IDENTIFIED DURING YOUR REVIEW THAT IMPACTED YOUR RECOMMENDATIONS REGARDING THE AMOUNT OF PAYROLL INCLUDED IN FPL'S 2013 PROJECTED TEST YEAR?

A. Yes. I determined that documentation supporting the amount of payroll included in O&M expense was inconsistent and insufficient. Later in my testimony I will provide the basis for my concerns and express my reservations related to the payroll O&M factor.

Q. IN YOUR REVIEW OF THE FILING, DID YOU IDENTIFY ANY CONCERNS RELATED TO THE LEVEL OF PAYROLL REQUESTED BY FPL IN THE TEST YEAR?

A. Yes. In my review I became concerned that the projected employee complement is excessive. The Company's request is based on an average of 10,312 employees in 2012 and 10,147 employees in 2013. As shown on Schedule C-35, the average number of employees in 2011 was 9,971. This historical information initiated my concern and prompted a more in-depth review of the reasonableness of the Company's request.

Q. WHAT OTHER INFORMATION DID YOU REVIEW THAT CONFIRMED YOUR CONCERN WAS JUSTIFIED?

A. The Company response to OPC Interrogatory No. 33, as amended, indicated that, as of April 2012, the employee count was 9,932. My further review of that response and the amended response to OPC Interrogatory No. 34 suggested that the request was excessive, not only because of the increase over current levels, but also because the request is based on a combination of actual filled positions and authorized positions that historically FPL has not filled. As shown on Exhibit No. HWS-2, Page 2 of 3, the Company has a long history of not filling the number of its authorized positions. Specifically of concern is that more recently the variance between authorized and filled positions has increased. Based on the information included in the filing and the responses to discovery, I believe the Company has significantly overstated the projected number of employees in its rate request.

Q. DID THE COMPANY ADDRESS THE NEED FOR EMPLOYEES IN ITS REQUEST?

A. Yes. In her direct testimony on pages 7-11, Company Witness Slattery stated that the industry continues to face a severe shortage of skilled workers. She adds this is due to an aging workforce, skill gaps in the talent pool, and emerging technologies, with special emphasis on the nuclear employees. She then refers to some statistics indicating that 40% of the workforce will be eligible to retire within five years, and the number of nuclear employees within different age groups is shifting to where a greater percentage of the employee complement consists of older employees.

Q. DOES THE COMPANY'S EXPLANATION JUSTIFY THE INCREASE IN EMPLOYEES THAT IT IS REQUESTING?

A. No. The Company presented a very similar argument in Docket No. 080677-EI, which time has refuted.

Q. PLEASE ELABORATE.

A. As shown on Exhibit No. HWS-2, Page 2 of 3, the number of actual employees at FPL has actually declined from an average of 10,711 in 2008 to 9,921 as of May 2012. The current request is troubling, since the Company in Docket No. 080677-EI requested 11,111 employees. According to the direct testimony and rebuttal testimony of Company Witness Slattery in that last rate case, complements of 11,111 in 2010 and 11,157 in 2011 were required because of the increased number of employees eligible for retirement and the challenges to utilities with nuclear operations. Specifically, Ms. Slattery stated at page 6 of her rebuttal, "The staffing-level forecasts are management's reasonable estimate of what is required to do the work based on optimal staffing levels." This assumption of what is reasonable is important, because it provides a contrast between how the Company approaches a rate request and how the Company actually operates. The fact is that the projected 11,111 positions claimed to be *required* for 2010 in the last rate case significantly exceeded the 10,195 actual average employment level for 2010. The projected 11,157 positions claimed to be *required* for 2011 in the last rate case significantly exceeded the 9,961 actual average employment level for 2011. With a variance of 916 positions in 2010 and 1,196 positions in 2011, any request for a significant increase by FPL should be viewed with skepticism. It should be noted that my analysis that compares actual employees to the authorized number reflects a significantly lower authorized level for 2010 and 2011 than what the Company stated it had a need for in Docket No. 080677-EI. Based on those differences, the Company apparently revised its estimate of needed positions subsequent to the Commission's decision in Docket No. 080677-EI. It is worth further noting that in its direct testimony and petition for increase in this case, FPL does not claim that it implemented austerity measures affecting employee levels after the last rate case decision and stipulation that impacted service levels. To the contrary, FPL witnesses brag about high service levels and FPL even requests a 25 basis point ROE adder as a reward.

Q. DID THE COMMISSION ALLOW THE COMPANY THE REQUESTED 11,111 POSITIONS IN DOCKET NO. 080677-EI?

A. No. In Order No. PSC-10-0153-FOF-EI, the Commission indicated that the history of variances suggests that the Company's forecast for 2010 did not take into account unfilled positions. The Commission then elected to apply the 2007 variance of 2.48% in determining a disallowance to payroll expense. The order does not specifically identify the number of allowed positions; however, if one reduces the 11,111 positions by 2.48% (or 276 positions), the result is an allowance of 10,835 positions for 2010. The Company never achieved an employee count of 10,835 during any month in the period from January 2009 through May 2012. As indicated earlier, the average actual employee count for 2010 was 10,195 positions and for 2011 it was 9,961 positions. Based on the variance between the number of positions allowed in rates and the number actually employed, the Company cannot argue that the positions were not filled on account of the Commission disallowing a number of the positions it requested in Docket No. 080677-EI.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE COMPANY'S REQUEST?

A. As shown on Exhibit No. HWS-2, Page 1 of 3, using the 3.76% average variance for the five months ended May 2012, I am recommending that the number of positions in the 2013 test year be reduced from 10,147 to 9,766. That reduction in employees reduces total payroll, excluding incentive compensation, by $34.866 million. That equates to a reduction in payroll expense of $24.968 million ($24.578 million jurisdictional).

Q. WHY DID YOU EXCLUDE INCENTIVE COMPENSATION?

A. Because the Company made an adjustment for executive incentive compensation, I will address incentive compensation separately. I am proposing an additional adjustment for employee incentive compensation. Including incentive compensation in the above payroll adjustment could result in a double counting of the dollars being adjusted.

Q. BASED ON YOUR RECOMMENDATION OF ALLOWING 9,766 EMPLOYEES IN THE TEST YEAR, YOU ARE RECOMMENDING AN EMPLOYEE COMPLEMENT THAT IS LOWER THAN THE CURRENT MAY 2012 LEVEL OF 9,921. WHY SHOULD THE COMMISSION REDUCE

THE EMPLOYEE COMPLEMENT TO A LEVEL BELOW WHAT IS CURRENTLY EMPLOYED?

A. FPL's request for authorized positions assumed 10,348 positions in May 2012 and an average of 10,147 in the projected test year 2013. That is a difference of 201 positions, based on the number of FPL's authorized positions. My recommendation to reduce the projected 2013 authorized number of 10,147 by 381 positions may appear high in comparison. However, when you consider that the actual complement as of May 2012 is 9,921 and my recommendation is to allow 9,766, my recommendation is only a reduction of 155 positions. I am actually making a conservative adjustment.

Q. WOULD YOU EXPLAIN WHY YOU BELIEVE THAT COMPARISON IS PROPER?

A. FPL and I disagree as to what will occur with respect to the number of employees. The Company's request is based on a projection built on a projection, while my analysis and recommendation is based on actual data as it relates to the Company's less than accurate historical forecasts. The key starting point is May 2012. The Company estimated that as of May 2012, there would be 10,348 employees. It further assumed that, from May 2012 through the projected 2013 test year, the employee complement would be reduced by 201 positions (10,348 – 10,147), reflecting an average test year complement of 10,147 employees. My recommendation begins with the actual employee complement of 9,921 as of May 2012 and essentially eliminates FPL's May 2012 guesstimate from the equation. I then determined that the need in the projected 2013 test year is 9,766. My recommendation is for a reduction of 155 positions (9,921 – 9,766) to the employee complement for the same time frame that the Company assumes a reduction of 201 positions.

Q. ARE YOU AWARE OF WHY THE COMPANY WOULD FORECAST A REDUCTION IN THE EMPLOYEE COMPLEMENT DURING 2012 AND INTO 2013?

A. Based on the response to OPC Interrogatory No. 48, some of the reduction was due to the Company factoring in a reduction of approximately 206 positions associated with the Smart Meter deployment during 2012 and 2013. That would account for a large portion of the Company's decline of 352 positions between January 2012 (10,404) and December 2013 (10,052).

Q. DID YOUR REVIEW OF THE COMPANY'S PAYROLL REQUEST INCLUDED IN THE CURRENT FILING LEAD TO ANY OTHER CONCERNS?

A. Yes. The purpose of my review was to determine how FPL developed the payroll amount included in O&M expense, evaluate whether the development of the employee complement was reasonable and whether a proper amount was charged to O&M expense. In addition to my concern with the excessive estimated employee complement, I identified a concern related to the appropriate O&M payroll factor. Even though I am not proposing an adjustment, I do believe that the Commission should be aware of the problems and/or uncertainties that I encountered as part of my review.

Q. IF YOU ARE NOT PROPOSING AN ADJUSTMENT RELATED TO THE O&M PAYROLL FACTOR, THEN WHY ARE YOU ASKING THE COMMISSION TO RECOGNIZE THE PROBLEMS YOU ENCOUNTERED WITH THE COMPANY'S PAYROLL DOCUMENTATION?

A. First, the Company's filing should be supported by documents that readily identify what is actually included in the filing. A document that is labeled as payroll should consist of payroll not a combination of payroll and loaders. The fact that one response stated that O&M was 80% of total payroll and a second response indicates O&M is 70.6% of total payroll indicates there are uncertainties about the reliability of information being provided to other parties that are evaluating the filing. The second reason that I am asking the Commission to recognize issues that have been encountered is that I am proposing an adjustment to the employee complement, and that adjustment is based on total payroll that will ultimately be adjusted to reflect an amount that is included in FPL's O&M expense requested in the 2013 test year. Because a question may arise as to whether a reasonable O&M factor has been applied to the total payroll adjustment, the Commission should be aware of the discrepancies in information supplied by the Company.

Q. PLEASE ELABORATE ON THE METHOD OF REVIEW AND ANALYSIS YOU UNDERTOOK AND THE ISSUES THAT YOU IDENTIFIED.

A. According to the Company's Schedule C-35, in 2012 there is an estimated average employee complement of 10,312 and a total payroll of $1,075,925,000. For 2013, the projected test year, there is an estimated average employee complement of 10,147 and a total payroll of $1,048,734,000. To verify the dollars and employee numbers, I reviewed the Company's workpapers provided in the response to OPC Production of Documents, POD No. 12. During this review, I identified 4 specific files that my experience and the Company's response to discovery led me to believe would provide verification of the Company's Schedule C-35. First, I noted an Excel document (MFR C-35_05_Payroll 2012 and 2013) that listed the total payroll for 2012 and 2013 to be $1,075,924,714 and $1,048,734,277, respectively. This verified the total dollar information on Company Schedule C-35. A second document (MFR C-35_04_FPL AVG Headcount_ 2012) identified an average employee complement of 10,312 and 10,147 for 2012 and 2013, respectively. This verified the "Average Employees" for the respective years on Company Schedule C-35.

Q. YOU INDICATED THAT THERE WERE FOUR SPECIFIC DOCUMENTS THAT YOU RELIED UPON. IF YOU VERIFIED THE TOTAL PAYROLL AND THE AVERAGE NUMBER OF EMPLOYEES FOR THE RESPECTIVE YEARS WITH THESE TWO DOCUMENTS, WHAT OTHER INFORMATION WAS REQUIRED FOR YOUR REVIEW?

A. The Company's request is based on the total payroll; however, the cost of service includes only the portion of total payroll being charged to O&M. Therefore, further review was required to determine the amount charged to O&M.

Q. WHAT AMOUNT OF PAYROLL DID THE WORKPAPERS INDICATE WAS CHARGED TO O&M?

A. A third document (Allocation of FERC Payroll to COSSIDs.xlxs) indicated that FPL charged $836,441,007 and $847,283,848 to O&M expense in 2012 and 2013, respectively. Because the amounts indicated a higher than normal percentage of total payroll being charged to O&M, I elected to verify that the amounts represented as O&M payroll were in fact charged to O&M in the filing. I performed this verification process by testing some of the expense accounts to a fourth workpaper (Compound Allocator Calculations-Test 2013.xlxs). This document provided a breakdown of costs by account between "labor" and "other". The labor dollars matched the amounts tested on the third document (Allocation of FERC Payroll to COSSIDs.xlxs) and the total matched the amount of expense in the respective accounts on MFR Schedule C-4, which in turn ties into the Company's MFR Schedule C-1. Based on that testing, I concluded that I had a document that did in fact reflect the O&M payroll included in the Company's rate filing.

Q. YOU INDICATED THAT YOU HAD A CONCERN REGARDING THE PERCENTAGE OF PAYROLL THAT APPEARED TO BE CHARGED TO O&M. WHY DID YOU HAVE THAT CONCERN?

A. As shown on Exhibit No. __(HWS-2), Page 3 of 3, I have summarized the expense, capital and other payroll for the years 2006 through 2011 and for 2012 year-to-date. For the years 2007-2011, the five year average of payroll that was charged to O&M expense is 75.18% and the 2012 year to date is 73.68%. The workpaper (Allocation of FERC Payroll to COSSIDs.xlxs) that shows $836,441,007 and $847,283,848 being charged to O&M expense in 2012 and 2013, respectively, reflects that the O&M payroll in 2012 and 2013 represents 77.7% and 80.8%, respectively, of total payroll. That is a concern because that represents a significant increase over the historical trend discussed earlier, especially with the significant amount of capital work FPL has proposed in the filing. My subsequent review determined that the document was not just payroll, as indicated, but that it also included benefits. I concluded this because the "payroll" document included $81,919,357 charged to Account 926 (Employee Pensions & Benefits) in 2012 and $96,280,274 charged to Account 926 in 2013. Based on my experience and the documentation provided by FPL, I concluded that these benefit dollars are not payroll dollars. Subsequent information provided by FPL in informal discovery confirmed my conclusion. FPL responded to seven of nine questions on June 22, 2012. The Company's response of most concern was that "The workpapers correctly reflect that approximately 80% of FPL's payroll is allocated to O&M." On June 25, 2012, the Company responded to a remaining question regarding the O&M expense factor. The response provided an O&M amount of $740,842,090 (70.6% of total payroll). This confirmed I was correct when I concluded that the O&M payroll amount in the Company's payroll workpapers was not 100% payroll dollars. In fact, the response indicates the $847,283,848 figure includes "Loaders" which generally is indicative of employee benefit costs.

Q. ARE YOU CONVINCED THAT THE O&M FACTOR FOR 2013 IS 70.6%?

A. No. There still remain too many variances in the Company's discovery responses for me to firmly conclude that the 70.6% is accurate. However, by removing the $96,280,274 shown on the Company workpaper as being charged to Account 926 in

2013, I calculated an O&M factor of 71.61%. This calculation is shown on Exhibit No. HWS-2, Page 3 of 3, Line 14. The comparable percentages eliminated the need for adjusting payroll because of what appeared to be the Company's use of an excessive expense factor in the test year. However, I recommend that the Commission be very cautious in relying on the level of FPL's documentation in making decisions related to payroll.

IV. INCENTIVE COMPENSATION

Q. HAVE YOU ANALYZED THE COMPANY'S INCENTIVE COMPENSATION IN THIS CASE?

A. Yes. I analyzed FPL's testimony on this issue, its incentive plans, the Commission's Order for FPL's last rate case in Docket No. 080677-EI, and the responses to discovery regarding payroll and incentive compensation. In this case, Company Witness Slattery stated on page 14 of her direct testimony that "FPL has excluded from its expense request the portions of executive and non-executive incentive compensation that were excluded from the 2010 rate order, Order No. PSC-10-0153-FOF." She explained that this adjustment was made in an effort to narrow the items at issue in this rate case. Subsequent to the filing of testimony in this proceeding, FPL filed a "Notice of Identified Adjustments" that indicated the Company had inadvertently omitted from the initial filing the removal of $.7 million associated with the non-executive performance share portion of the incentive compensation adjustment.

Q. HAS THE COMPANY ADJUSTMENT TO REMOVE THE INCENTIVE COMPENSATION BASED ON THE ORDER IN DOCKET NO. 086077-EI NARROWED THE ISSUES IN THIS RATE CASE?

A. To some degree, it has. However, I am still recommending an adjustment be made for incentive compensation. As shown on Exhibit No. HWS-3, I am recommending that the Company's 2013 O&M expense be reduced by $22.726 million ($22.371 million jurisdictional).

Q. DID YOU REVIEW THE ADJUSTMENT MADE BY THE COMPANY?

A. Yes. FPL, in determining the revenue requirement for 2012 and for the projected test year 2013, removed $36.176 million and $28.459 million, respectively, on a jurisdictional basis for executive incentive compensation. As noted above, the Company has acknowledged that the adjustment was understated by $.7 million for the non-executive incentive compensation portion.

Q. DID YOU VERIFY THE AMOUNTS TO BE ACCURATE?

A. I am questioning the amounts based on my review of the work papers provided in response to OPC POD No. 12 and responses to discovery. For example, the response to OPC POD No. 12 indicated that the 2012 and 2013 executive incentive compensation is $42.900 million and $44.745 million, respectively. In addition, there is $12.211 million and $12.575 million of executive performance incentive compensation in 2012 and 2013, respectively. As noted above, the respective adjustments made by FPL to executive incentive compensation for 2012 and for the projected 2013 test year were to remove $36.176 million and $28.459 million, respectively. I have concerns that in 2012, the adjustment to O&M made by the Company is $36.176 million out of a total of $55.111 million (approximately 65.6%), however in the 2013 test year only $28.459 million out of a total of $57.320 million (approximately 49.6%) is removed. The difference is significant, and I have concerns whether the amount of executive incentive compensation removed from the respective projected 2012 and 2013 O&M expense is correct.

I also reviewed the differences in the non-executive incentive compensation amounts. The response to OPC POD No. 12 indicated the employee incentive compensation is $60.045 million and $63.471 million for 2012 and 2013, respectively. In response to FIPUG Interrogatory No. 8, the Company indicated the non-executive pay for performance is $60.8 million and $59.0 million for 2012 and 2013, respectively. In response to OPC Interrogatory No. 236, the Company indicated the forecasted non-executive/non-bargaining incentive compensation for 2012 and 2013 is $59 million and $53.7 million, respectively. There is some apparent uncertainty within the Company as to the actual amount of employee incentive compensation that is included in the filing.

Q. DID YOU TRY AND RECONCILE THE DIFFERENCES?

A. Yes. Upon noting some significant differences, OPC tried to schedule a meeting with Company personnel to discuss the incentive differences, as well the payroll questions discussed elsewhere in my testimony. After some delays, FPL said that due to the complexity of the questions, it would provide written responses. When the responses were provided, the answer to the question on the disparity between the two adjustments was delayed until a formal response to SFHHA's Interrogatory No. 262 was to be provided. However, FPL indicated that the response to SFHHA's Interrogatory No. 262 would not address fully OPC's request and that a written response would be provided specific to OPC's request. The actual response to OPC's informal request was provided on June 26, 2012. It suggests that, similar to the initial $.7 million error already identified for 2013, a second error exists for 2013 and that there was a comparable adjustment in 2012 of $7.904 million. I interpret the response to indicate that the 2012 executive incentive compensation amount was not the $42.900 million as originally identified, but instead it was approximately $57.7 million. That would explain the disparity with the executive incentive adjustments; however, it raises a further concern as to how much reliance can be placed on the amounts reflected in the filing.

Q. EARLIER YOU NOTED THAT THE NON-EXECUTIVE INCENTIVE COMPENSATION MISSED BY THE COMPANY IN ITS INCENTIVE COMPENSATION ADJUSTMENT WAS $.7 MILLION. WHY IS THAT ADJUSTMENT SO SMALL IN COMPARISON TO THE APPROXIMATELY $60 MILLION YOU IDENTIFIED FOR 2012 AND FOR 2013 FOR NON-EXEXCUTIVE INCENTIVE COMPENSATION?

A. FPL volunteered to make the same adjustment that was made by the Commission in Docket No. 080677-EI. The adjustment made in the 2010 rate order, Order No. PSC-10-0153-FOF, and the adjustment made by the Company in the current filing, after including the omission, appears to be consistent in the mechanics of the Commission's determination. The problem, in my opinion, is that based upon my review of testimony and the Commission's prior decision, I believe there was an inadvertent oversight in the Commission's order regarding what should have been included as part of the adjustment in that proceeding. The OPC witness' testimony on that issue was entitled "Non-Executive Incentive Compensation" and the questions discussed issues related to "Non-Executive Incentive Compensation" however; the testimony dealt only with the non-executive long term incentive compensation. This was a different plan than the more costly, general non-executive type compensation plan. The Commission order also refers repeatedly to non-executive incentive compensation, which suggests the Commission was also under the impression that the OPC witness' recommended adjustment was similar to the executive incentive compensation cost adjustment recommendation that consisted of both cash-based incentives as well as stock-based incentives. Therefore, in my opinion, the non-executive compensation adjustment in Docket No. 080677-EI inadvertently omitted the cash-based portion of the non-executive incentive compensation when the decision was made as to what should be adjusted. That is why a significant difference exists when compared to the mechanics of the overall executive incentive compensation adjustment. The difference on a total Company basis in Docket No. 080677-EI amounted to approximately \$52.966 million. The questionable amount of non-executive incentive compensation in this docket, according to the response to SFHHA Interrogatory No. 262, is \$59.873 million. This incentive compensation includes \$53.667 million of cash incentives and \$6.205 million of Performance Dollar Incentive Program costs.

Q. DOES ORDER NO. PSC-10-0153-FOF FACTOR INTO YOUR RECOMMENDATION IN THIS CASE?

A. Partially. The Commission decided that 100% of executive incentive compensation should be excluded from rates and "that 50 percent of the *non-executive incentive* compensation" shall be excluded from O&M expense as unreasonable. The justification for disallowing 50% (instead of the 100% disallowed for executives) was that the Commission was "hesitant to conclude that one hundred percent of the non-executive incentive compensation benefited only shareholders." In my opinion, the Commission was right, provided the goals are set at a level that creates a true incentive to enhance performance. The adjustment I am proposing is consistent with the Commission's Order in Docket No. 080677-EI. The only difference between that case and this case is that I have identified the portion of non-executive incentive compensation that was not addressed in Docket No. 080677-EI.

Q. DO YOU BELIEVE THAT ALLOWING SOME INCENTIVE COMPENSATION IS REASONABLE?

A. Yes, if certain requirements are established and met. For example, in the Progress Energy Florida (PEF) rate case (Docket No. 090079-EI), I recommended full disallowance, based on the fact that the plans were not designed to provide a quantifiable and/or tangible benefit to rate payers. Basically, the incentive plan was focused on paying added compensation for goals that were shareholder-oriented. The Commission agreed with my recommendation and disallowed the entire amount requested. Had the employee plan been designed in a manner that would have, in fact, enhanced performance that benefited ratepayers, I would have recommended a

50/50 split. A properly designed employee incentive compensation plan will provide enhanced performance that benefits shareholders and ratepayers equally. The cost of such a plan then should be shared equally by shareholders and ratepayers. More scrutiny has to be placed on executive compensation, because executives are already highly compensated and the goals that are included in the executive plan are more focused on shareholder returns than customers. In addition, the main purpose for an incentive plan for executives is to provide a means of deducting, for tax purposes, compensation that may not be deductible if paid strictly as base pay. More compensation is at issue; therefore, the bar has to be set higher for any executive compensation to be included in rates.

Q. DID YOU REVIEW THE GOALS FOR THE FPL INCENTIVE COMPENSATION PLAN?

A. I did. The plan I found is borderline with regard to performance goals. During some years when the goal(s) were not achieved, the goal was lowered. And, in some years when a goal was achieved, the new goal was not always set at the past year's achievement level. FPL has indicated that this could occur due to timing, since the subsequent year's plan is established prior to completion of the current year.

Q. WOULD YOU EXPLAIN HOW YOUR RECOMMENDATION FOR SHARING THE NON-EXECUTIVE INCENTIVE COMPENSATION DIFFERS FROM THE COMMISSION'S DETERMINATION IN ORDER NO. PSC-10-0153-EI-FOF?

A. The decision, as I interpret it, focused on the sharing of benefits. The Commission stated it was hesitant to conclude that the plan benefitted only shareholders. That, in my opinion, means it was evaluating the flow of benefits when the decision was made to share the cost of non-executive incentive compensation equally. As I discussed earlier, for that sharing to take place, the evidence must establish that the goals used to determine whether payment will be made must be set at a level that creates a true incentive to perform at a higher level than previously achieved. As I noted earlier, PEF's failure to set true incentive goals was the basis for my recommending a total disallowance.

Q. IS IT POSSIBLE THAT, BECAUSE SOME OR ALL OF INCENTIVE COMPENSATION IS DISALLOWED FOR RATEMAKING PURPOSES, COMPANIES WILL SIMPLY ELIMINATE THE PLAN AND INCREASE BASE PAY TO ACCOUNT FOR THE DIFFERENCE?

A. It is possible. The real question is whether it is probable that this change could take place. In my three decades of analyzing rate cases, this has been a fairly common response by companies. I have never seen it happen. In fact, Company Witness Slattery was asked this very question in the rebuttal phase of Docket No. 080677-EI[1]:

> Q. Would FPL need to reconsider restructuring its total compensation package *if any* incentive compensation expenses were excluded?
>
> A. Yes. FPL would need to consider reallocating total compensation and benefits so as to reduce performance-based compensation programs while raising base salaries and/or other traditional fixed-cost programs. This would raise costs to customers in the long run. Doing so would also negatively affect the Company's performance and impede the ability to compete in attracting and retaining the

[1] Docket No. 080677-EI, REBUTTAL TESTIMONY & EXHIBIT OF: KATHLEEN SLATTERY; Page 21; filed August 6, 2009.

> talent needed to deliver on commitments to customers. Penalizing utilities that shift from traditional fixed-cost programs to more flexible, performance-based programs would encourage inefficient program design that would negatively affect performance and harm customers.

Almost two and one-half years have passed since the decision in Docket No. 080677-EI, and FPL still has an incentive compensation plan. Not only does FPL have an incentive compensation plan, it has proposed to remove 100% of the executive incentive plan and 50% of the Long Term non-executive incentive compensation plan from the rate request to comply with the terms of the last order.

Q. IS THERE MERIT TO THE ARGUMENT THAT PENALIZING UTILITIES THAT SHIFT FROM TRADITIONAL FIXED-COST PROGRAMS TO MORE FLEXIBLE PERFORMANCE-BASED PROGRAMS WOULD NEGATIVELY AFFECT PERFORMANCE AND HARM CUSTOMERS?

A. No. The first problem with that argument is that at this time, I am not aware of any utility that does not have some form of incentive compensation plan. When I have asked in the past about the implementation of the incentive plan, I have not found a utility that actually shifted from the fixed-cost plan to a flexible performance-based plan. I have uniformly found that no reduction in base pay occurred. That means the introduction of incentive compensation was, in effect, just another form of compensation offered to employees, in addition to the employees base pay. The second problem is that companies will typically argue that without this plan they will not be competitive and will not be able to attract and retain competent employees. In my experience, I have not observed any utility eliminate its incentive compensation plan. Therefore, I believe this claim has no merit. Finally, companies will argue the compensation is reasonable and should be allowed based on compensation studies. The compensation studies used by companies to justify the employee compensation are focused on total compensation. These studies may justify the total compensation paid to employees; however, to date I have not seen a study that makes a comparison of the various jurisdiction-specific allowance levels for incentive compensation as such is included in total compensation. Basically, the studies may provide some basis for paying employees, but the studies do not make any determination as to what is reasonable with regard to incentive compensation for purposes of establishing rates. If one were to make a comparison of PEF's incentive compensation expense and that of FPL's, one might conclude that the compensation of each of the companies was reasonable. However, based on the last rate case decisions for PEF and FPL, FPL's incentive compensation could be considered excessive, since more of the costs for incentive compensation were allowed in FPL's rates than in PEF's. The other problem with the penalty argument made by companies is that for it to be a meaningful one there would have to be a pending proposal that the plan be eliminated. My recommendation is not to eliminate the plan, but to limit the amount to be included in rates. The issue is whether the cost of a well-conceived plan should be shared by both of the benefactors of improved performance from an incentive program or whether only one benefactor should pay for it. The benefits from a well-conceived plan will inure to both shareholders and ratepayers, and the cost to achieve the benefits that are beyond normal expectations should be shared equally.

Q. IF A PLAN IS PROPERLY DEVELOPED AND ADMINISTERED, IS THERE ANY DISPUTING THE SHARING OF THE COSTS AND BENEFITS BETWEEN RATEPAYERS AND SHAREHOLDERS?

A. No. As long as the plan is properly developed and administered with true incentive type goals that focus on providing financial benefits as well as enhanced customer service and reliability, the sharing of costs is appropriate. In fact, when rebutting a focus on financial factors in Docket No. 080677, FPL Witness Slattery acknowledged that the plan provides benefit to both shareholders and ratepayers. Ms. Slattery stated that shareholders benefit from increased efficiency and productivity. Under these circumstances, customers will indirectly benefit from such improvements. There appears to be agreement that both may benefit if the plan is properly developed and administered. That being the case, it would only be appropriate that the extra cost as well as the extra benefit of the plan be shared equally.

<u>V. EMPLOYEE BENEFITS</u>

Q. ARE YOU MAKING ANY RECOMMENDATION WITH RESPECT TO EMPLOYEE BENEFITS?

A. I am recommending that employee benefit expense (excluding pensions and OPEB expense 2013) be reduced by $14.992 million ($14.771 million jurisdictional). This calculation is shown on Exhibit HWS-4, Page 1. My recommendation includes separate adjustments for the Company's excessive request for employees and the Company's use of an excessive O&M expense factor. I have not recommended an adjustment to the escalation of costs at this time; however, I am questioning the escalation of benefits, excluding pensions and OPEB, on a per employee basis in 2012 and in the 2013 projected test year.

Q. WHY ARE YOU QUESTIONING THE ESCALATION?

A. The per employee cost for benefits, excluding pension and OPEB costs, increased 13.5% in 2012 and 8.6% in 2013. The increases in general appear to be high. What makes the increase more of a concern is the fact that the 2011 comparable cost per employee of $12,655 was less than the 2010 cost per employee of $13,387, which was also less than the 2009 cost per employee of $14,490. The sudden large increase in cost per employee after years of declining costs raises doubts in the ratemaking context and calls into question FPL's justification of these costs. This is consistent with an overall problem with the reliability of the Company's estimates for the various benefits. In Docket No. 080677-EI, FPL Witness Slattery stated that the benefit cost would be $198.355 million and $231.752 million in 2010 and 2011, respectively. Company Schedule C-35 shows the 2010 and 2011 actual costs to be $173.893 million and $168.017 million, respectively. The differences are significant in every cost category.

Q. HAVE YOU MADE AN ADJUSTMENT SIMILAR TO YOUR PAYROLL ADJUSTMENT, WHERE YOU REDUCED THE BENEFITS ON A PER EMPLOYEE BASIS?

A. Yes. The adjustment for excess employees is shown on Exhibit No. HWS-4, Page 1 of 2. I am recommending a reduction to Account 926 of $4.886 million ($4.814 million on a jurisdictional basis) for the benefit costs associated with the 381 unfilled positions that I have recommended be disallowed from the Company's projected employee complement, as discussed earlier.

Q. WOULD YOU EXPLAIN WHY YOU CONSIDER THE COMPANY'S O&M FACTOR FOR EMPLOYEE BENEFITSTO BE CONSIDERED EXCESSIVE?

A. Yes. Exhibit No. HWS-4, Page 2 of 2 is a two-part analysis of historical and projected benefits costs. The analysis on lines 1 through 18 compares the historical benefits costs and distribution of benefit costs to the 2012 and 2013 costs reflected in the Company's filing. The second analysis is a simple comparison of expenses using different documents to verify the validity of the first analysis, and to display how the amount of expense for Pensions and Benefits charged to Account 926 has varied from 2007 through the projected 2013. The analysis indicates that historically FPL has expensed approximately 75% of benefit costs, and the current level of expense for the first three months of 2012 is approximately 75%. Based on FPL's workpapers for benefits and its Schedules C-4 and C-35, the 2012 and 2013 expense factors are 80.69% and 82.1%, respectively. I regard the projected costs and expense allocation as excessive, given the historical trend and the level of construction projected by the Company.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT BE MADE TO ACCOUNT FOR THE EXCESSIVE ALLOCATION TO O&M EXPENSE?

A. Yes. My adjustment is shown on Exhibit No. HWS-4, Page 1 of 2, on Lines 11 through 13. To avoid a possible double count I first reduced the $130.029 million of original requested benefit expense, excluding pensions and OPEB costs, by the

$4.886 million associated with the excess employee request. I then multiplied the adjusted remaining total benefit cost of $152.431 million by the 2012 year-to-date expense factor of 75.47% to determine a more reasonable and consistent expense level of $115.037 million. The recommended reduction to expense of $10.106 million ($9.957 million jurisdictional) is simply the difference between the adjusted expense of $125.143 million (based on 82.1% expense factor) and the $115.037 million (based on the 75.47% actual 2012 expense factor). I believe this adjustment addresses my concern with FPL's excessive allocation to O&M expense. It minimizes the potential for over charging ratepayers for benefits due to excessive estimates, as was done in Docket No. 080677-EI.

Q. DOES THE ADJUSTMENT ALLEVIATE YOUR CONCERNS ENTIRELY?

A. No. The benefits adjustment was made excluding pensions and OPEB costs, mainly because those cost estimates are based on actuarial assumptions and calculations. I note that in Docket No. 080677-EI, the Company estimated the 2011 pension credit to be $37.715 million: however, the actual credit was $53.858 million. That would mean the pension expense was overstated by $16.143 million. The OPEB costs for 2010 and 2011 were similarly overstated. Consequently, I believe my recommended adjustment is very conservative.

VI. PAYROLL TAX EXPENSE

Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO PAYROLL TAX EXPENSE?

A. Yes. Payroll taxes must be reduced to reflect the impact of any payroll adjustment. Since payroll is the direct driver impacting payroll tax expense, any reduction to payroll must flow through to payroll tax expense. Thus, I am recommending a reduction of $1.601 million ($1.577 million jurisdictional) to payroll taxes to correspond with my other payroll adjustments.

Q. HOW DID YOU DETERMINE YOUR PAYROLL TAX ADJUSTMENT?

A. Based on the Company's projected expense as shown on Schedule C-4 and the projected payroll expense reflected on Schedule C-4, I calculated an effective payroll tax rate. The effective tax rate as calculated on Exhibit HWS-5 is 6.41%. I then applied that effective tax rate to my recommended adjustment to payroll expense of $24.968 million. The result is a payroll tax adjustment of $1.604 million.

VII. VEGETATION MANAGEMENT/HARDENING PLAN

Q. ARE YOU RECOMMENDING THAT THE 2013 PROJECTED TEST YEAR VEGETATION MANAGEMENT/HARDENING PLAN COST BE REDUCED?

A. Yes. In reviewing the Company response to Staff Interrogatory No. 235, I noted that several reliability related expenses historically were below budget during the period 2008 through 2010. Based on my analysis, it is appropriate to make an adjustment to reflect the expected and normal level of vegetation management/hardening expense.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE COMPANY'S "PROJECTED COSTS?"

A. As shown on Exhibit No. HWS-6, I am recommending a reduction of $9.240 million ($9.236 million jurisdictional) to the Company's latest estimate for 2013. The adjustment was determined by multiplying FPL's request of $71,400,621 by the budget-to-actual variance of 87.06% for the years 2008 through 2010. I then subtracted the result from the amount requested.

Q. WHY DID YOU REFER TO THE COMPANY REQUESTED AMOUNT AS A "LATEST ESTIMATE"?

A. In response to OPC Interrogatory No. 134, FPL indicated that the costs for vegetation management and the hardening plan were $76,142,406. FPL subsequently provided a revision to its response to OPC Interrogatory No. 134 and reduced the amount to $71,400,621. The approximate $4.7 million reduction was re-categorized by FPL to pole inspections.

Q. IS IT REASONABLE TO ASSUME THAT THE AMOUNT TO BE EXPENDED IN 2013 WILL BE LESS THAN WHAT THE COMPANY ACTUALLY EXPENDED IN 2011?

A. Yes. In fact, the Company-proposed spending for 2012 is less than the actual amount expended in 2011, even though more total miles are projected to be cut. Spending for vegetation management can vary from year to year, depending on the condition of the planned area for trimming, contractual pricing, and the actual miles trimmed. The level of costs for 2013 is an estimate, because it is not known what the actual cost will ultimately be. The difference between my recommendation and FPL's request is that I applied a known and measurable factor to the estimate. That known and measurable factor is that during the years 2008 through 2010, the Company actually spent 13.94% less on vegetation management and hardening than it originally estimated.

VIII. POLE INSPECTIONS

Q. ARE YOU RECOMMENDING THAT THE 2013 PROJECTED TEST YEAR POLE INSPECTION COSTS BE REDUCED FOR THE SAME REASON THAT YOU RECOMMENDED THE VEGETATION MANAGEMENT/ HARDENING PLAN COST BE REDUCED?

A. Yes. In my review of the Company response to Staff Interrogatory No. 235, I noted that actual pole inspections expenses were below budget during the period 2008 through 2010.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE COMPANY'S PROJECTED POLE INSPECTION EXPENSE?

A. As shown on Exhibit No. HWS-7, I am recommending a reduction of $2.734 million ($2.733 million jurisdictional) to FPL's latest estimate for 2013. I calculated the adjustment by multiplying the Company request of $14,014,888 by the budget-to-actual variance of 80.49% for the years 2008 through 2010 and subtracting the result from the amount requested.

Q. IS IT SIMILARLY REASONABLE TO ASSUME THAT THE AMOUNT TO BE EXPENDED IN 2013 WILL BE LESS THAN WHAT THE COMPANY ACTUALLY EXPENDED IN 2011?

A. Yes. Exhibit No. HWS-7 shows that the cost-per-pole fluctuated from 2007 through 2011, with 2011 being an extraordinarily high year. FPL estimated the cost for 2012 and 2013 at different rates, and at a rate lower than 2011. The Company-proposed spending levels for both 2012 and 2013 are less than the actual amount expended in 2011. FPL's request for 2013 is simply an estimate. As with the vegetation management estimate, the only difference between my recommendation and FPL's request is my application of a known and measurable factor to the estimate. That known and measurable factor is that during the years 2008 through 2010, the Company actually spent 19.51% less than it originally estimated for pole inspections.

IX. DIRECTORS AND OFFICERS LIABILITY INSURANCE

Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE COST OF DIRECTORS AND OFFICERS LIABILITY INSURANCE?

A. Yes. The cost associated with acquiring Directors and Officers liability insurance (DOL), while considered to be a necessary business expense by many, is in reality a necessary business expense designed to protect shareholders from their past decisions. DOL insurance protects shareholders from the decisions they made when they hired the Company's Board of Directors and the Board of Directors in turn hired the officers of the Company. The question is whether this cost that FPL has elected to incur is for the benefit of shareholders and/or ratepayers, and who should be responsible for the costs associated with acquiring this coverage. I am recommending, even though shareholders are the primary beneficiary, that this business expense be shared equally between shareholders and rate payers.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?

A. According to the response to OPC Interrogatory No. 60, FPL has included $2,781,173 of expense in account 925 for DOL insurance (DOL). As shown on Exhibit HWS-8, I am recommending a reduction to Account 925 of $1.391 million ($1.369 million jurisdictional).

Q. HAVE YOU ADDRESSED THIS ISSUE IN PREVIOUS RATE CASES IN FLORIDA?

A. Yes. I recently addressed this issue in Gulf Power Company Docket No. 110138-EI. In that case, the Commission determined that the cost for DOL insurance should be shared equally between shareholders and ratepayers. Prior to the Gulf Power proceeding, the Commission addressed the subject on three other occasions. In the Peoples Gas Company case and the Tampa Electric case[2], the Commission allowed 100% of the cost to be included in customer's rates. In those cases, the Commission viewed the cost as a legitimate business expense. However, in the PEF case (Docket No. 090079-EI[3]), the most recent of the other three, the Commission observed that other jurisdictions make an adjustment for DOL insurance and that it has disallowed DOL insurance in wastewater cases. The Commission in that case allowed PEF to place one half the cost of DOL insurance in test year expenses.

[2] See Order No. PSC-09-0411-FOF-GU, page 38, issued June 9, 2009, in Docket No. O80318-GU, In re: Petition for rate increase by Peoples Gas System; and Order No. PSC-09-0283-FOF-EI, issued April 30, 2009 in Docket No. 080317-EI, In re: Petition for rate increase by Tampa Electric Company.
[3] See Order No. PSC-10-0131-FOF-EI, issued March 5, 2010, in Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc.

Q. ARE THE GULF AND PEF DECISIONS WHY YOU ARE RECOMMENDING AN ADJUSTMENT FOR THE COST ASSOCIATED WITH DIRECTORS AND OFFICERS LIABILITY INSURANCE IN THIS CASE?

A. To a great extent I would say yes, because I believe that the Commission recognizes that, while this is a legitimate business expense, the expense is unique in that it is designed primarily to protect shareholders from their past decisions.

Q. WHAT WOULD YOUR RECOMMENDATION BE IF THE COSTS HAD NOT BEEN DISALLOWED IN THE GULF AND PEF DOCKETS?

A. Even if the costs had not been disallowed, I would continue to recommend to the Commission that there be an equal sharing, because the cost associated with DOL insurance benefits shareholders first and foremost. This is not an unregulated entity. Certain criteria exist for recovery of costs, such as prudence and benefit. In ratemaking, a prudent cost should follow the benefit. However, the reason for incurring that prudent cost is often to protect shareholders from directors' and officers' imprudent decision making. The benefit of this insurance clearly inures primarily to shareholders; some of whom generally are the parties initiating any suit against the directors and officers. The Commission's decisions on this question in the Gulf Power and PEF rate case dockets were fair, and those decisions should be followed in this Docket.

X. UNCOLLECTIBLES EXPENSE

Q. ARE YOU RECOMMENDING A REVISION TO THE COMPANY'S UNCOLLECTIBLE FACTOR OF .166%?

A. No. As my schedule indicates, the uncollectible expense declined in 2010 and 2011. The uncollectible rate of actual net write-offs has been declining since 2009. In reviewing FPL's calculation of the uncollectible factor for this case I found it to be reasonable, given the change in the economy and because 2011 was uncharacteristically low. However, I am recommending that the amount included in expense be reduced by $1.76 million. The adjustment is calculated on Exhibit HWS-9.

Q. IF YOU CONSIDER THE UNCOLLECTIBLE RATE TO BE REASONABLE, THEN WHY ARE YOU CHALLENGING THE EXPENSE THAT THE COMPANY IS REQUESTING?

A. The expense included in the Company's request is based on an uncollectible factor. It is then increased by an estimated adjustment to the reserve for uncollectibles. It is the estimated adjustment to the reserve with which I disagree. The uncollectible expense in rates should be representative of the net write-offs expected, similar to the uncollectible factor used in the revenue expansion factor.

XI. DEPRECIATION RESERVE SURPLUS

Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE DEPRECIATION RESERVE SURPLUS INCLUDED IN THE COMPANY'S 2013 PROJECTED TEST YEAR?

A. Yes. The amount included in 2013 is an estimate based on the projected cost of service for 2012. FPL estimated that $525.529 million of the ordered $894 million reserve surplus amortization (credit) would be utilized in 2012. The key word is estimated. The amount for 2012 is not known and measurable, and is subject to change based on changes in facts and/or assumptions that were employed in the forecasting of rate base, revenue and expenses for 2012. To simply assume the Company is correct could result in rates being set for 2013 with no means for accounting for the 2012 estimate being inaccurate. In my opinion, the Company has overestimated the depreciation reserve surplus amortization requirement for 2012 by overstating expenses. One fact that leads to my reservations about the accuracy of the 2012 estimates is that the Company estimated a need for $139 million in 2010, yet it actually utilized only $3.847 million. FPL's estimate was off by more than 97%. In 2011 the Company estimated it would use $267 million, but the actual amount required was only $186.964 million. That is a variance of 30%. Thus, if the estimate for 2012 is off by 30%, the Company would have an additional $157.7 million available in 2013.

Q. ARE THERE SOME SPECIFIC COSTS THAT YOU BELIEVE WOULD IMPACT THE AMOUNT OF THE DEPRECIATION RESERVE SURPLUS THAT WOULD BE REQUIRED IN 2012?

A. Yes. As discussed in detail, FPL has overestimated payroll and, because it assumed an even higher employee complement in 2012 than in the 2013 projected test year, the amount of payroll to be adjusted is even greater than what was recommended for 2013. Similarly, there are other estimated costs such as tree trimming, pole inspections, and uncollectible expense that are overstated, as well as employee benefits and payroll taxes.

Q. HAVE YOU CALCULATED ADJUSTMENTS TO THE 2012 PROJECTED COSTS THAT WOULD RESULT IN AN INCREASED AMOUNT OF DEPRECIATION RESERVE SURPLUS AVAILABLE TO OFFSET COSTS IN 2013?

A. Yes. As shown on Exhibit No. HWS-10, I have made a comparison of the costs based on actual requirements and estimated requirements as proposed by the Company. I then adjusted the 2012 requirement for payroll, benefits, tree trimming and pole inspections based on similar adjustments proposed by me to the 2013 projected test year. Based on the adjustments identified to date, the depreciation reserve surplus applied as a reduction to cost of service in 2013 should be increased by $40.55 million from $190.918 million to $231.468 million.

Q. THE SUM OF YOUR ADJUSTMENTS IS $53.808 MILLION. WHY IS YOUR ADJUSTMENT FOR ONLY $40.55 MILLION?

A. FPL's $190.918 million figure was based on an estimated reserve surplus requirement of $174 million for 2011, and the actual in 2011 was $187 million. Because of the use of that estimate, the $190.918 was overstated by $13.258 million. The $53.808 million less the $13.258 results in a difference of $40.550 million.

Q. PLEASE EXPLAIN YOUR 2012 EMPLOYEE ADJUSTMENT FOR PAYROLL.

A. As shown on Exhibit No. HWS-10, Page 2, I reduced 2012 payroll expense by $27.517 million on a jurisdictional basis. I calculated the adjustment the same way I did for the 2013 projected test year, except that I used the 2012 Company estimated costs and employee counts. Also, since I have not adjusted the employee incentive compensation for 2012, I did not remove that cost from the payroll dollars used to calculate the average cost per employee.

Q. WHY DIDN'T YOU MAKE AN ADJUSTMENT TO REMOVE HALF OF THE EMPLOYEE INCENTIVE COMPENSATION, SIMILAR TO YOUR RECOMMENDATION FOR 2013?

A. Rates are being established for 2013, not 2012. My recommendation to remove half of the employee incentive compensation in 2013 is based on what I believe the Commission intended to do in Docket No. 080677-EI and what I have described as proper rate making treatment for incentive compensation costs. I cannot make the same adjustment in 2012 because rates for 2012 are based on the decision in Docket No. 080677-EI, and that specific employee incentive compensation was not adjusted in that order.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE COMPANY 2012 ESTIMATED COSTS FOR EMPLOYEE BENEFITS?

A. On Exhibit No. HWS-10, Page 3, I calculated an adjustment of $11.941 million ($11.763 million jurisdictional). Consistent with the methodology used to adjust the 2013 employee benefits excluding pension and OPEB costs, I removed the cost associated with the excess employees. I then removed the cost differential between FPL's use of an 80.69% expense factor and my use of the 2012 actual to date expense factor of 75.47%.

Q. WHY ARE YOU ADJUSTING THE VEGETATION MANAGEMENT/ HARDENING EXPENSE FOR 2012?

A. The Company estimate in 2012 is just an estimate. Based on the historical trend I reviewed, FPL has been consistently high with its estimates when a comparison to actual is made. Therefore, I calculated a reduction to Vegetation Management/Hardening expense of $7.929 million ($7.925 million jurisdictional) by applying the historical variance rate to FPL's estimate. This calculation is shown on Exhibit No. HWS-10, Page 5.

Q. ARE YOU RECOMMENDING A SIMILAR ADJUSTMENT TO POLE INSPECTION EXPENSE?

A. Yes. On Exhibit No. HWS-10, Page 6, I calculated a $2.842 million ($2.840 million jurisdictional) reduction to the Company's 2012 estimated expense of $14.566 million. Consistent with the recommendation for 2013 I applied the historical variance rate to FPL's estimate to determine my recommended expense level.

Q. WHAT ADJUSTMENT IS RECOMMENDED FOR UNCOLLECTIBLE EXPENSE FOR 2012?

A. The uncollectible expense should be reduced by $1.997 million. The adjustment is shown on Exhibit HWS-9. I am making this recommendation because the Company expense includes an amount for increasing the reserve. As discussed earlier, I do not believe that that amount is appropriate in rates.

Q. DOES YOUR RECOMMENDED ADJUSTMENT TO THE DERPRECIATION RESERVE SURPLUS IMPACT RATE BASE?

A. Yes. I have recommended the reserve balance as of 2012 be increased by $40.550 million. The adjustment to the unamortized reserve is a reduction to rate base of $20.275 million or one-half of the additional credit not required in 2012.

XII. WORKING CAPITAL

Q. WHAT AMOUNT OF JURISDICTIONAL WORKING CAPITAL HAS FPL REQUESTED IN THIS RATE FILING?

A. The Company's initial net jurisdictional working capital request is $1,217,209,000, which is shown on MFR B-17. The Commission's decision in Docket No. 080677-EI authorized a working capital amount of $112,121,000. The Company's current requested working capital amount in this docket is nearly 10 times the amount that was allowed in the last rate case.

Q. DID THE COMPANY INDICATE IN DISCOVERY THAT THERE WOULD BE SOME ADJUSTMENTS TO THIS AMOUNT?

A. Yes, the Company indicated there was at least one error which would have a minor effect on the original cash working capital request of $1.2 billion. The Company is proposing to adjust Account 228.3 – Accumulated Provision – Pension and Deferred Benefits, which would increase jurisdictional working capital by approximately $6 million. Incorporating the Company's adjustment when setting rates would not significantly change the Company's already substantial request of $1.2 billion for working capital, which is significantly higher than what was requested and approved in its last rate case.

Other Regulatory Liabilities

Q. DOES THERE APPEAR TO BE A PRIMARY SOURCE FOR THIS SIGNIFICANT INCREASE IN WORKING CAPITAL?

A. Yes. On a jurisdictional basis, FPL has projected a beginning credit balance for Account 254 – Other Regulatory Liabilities of $2,058,556,000, which is reflected as a reduction to working capital. In its MFRs, the Company made debit Adjustment No. 33 to reduce the liability by $2,816,670,000 related to the Asset Retirement Obligation ("ARO") and debit Adjustment No. 36 of $271,004,000 for Nuclear Cost Recovery, on a Florida jurisdictional basis, which brings the projected ending balance of this account to $1,029,118. Since the amounts of the adjustments were greater than the beginning credit balance in the account, FPL created a debit balance for this liability account, which has the effect of changing the account from a reduction in working capital of approximately $2 billion to an increase in working capital of $1,029,118,000. However, the $2,816,670,000 pro forma adjustment to remove the ARO liability exceeded the existing 13-month average liability balance in the account ($1,625,431,000) by $1,191,239,000 as shown in the Company's response to OPC Interrogatory 252. This adjustment alone accounts for the significant increase in the Company's working capital request.

Q. WHAT IS AN ARO?

A. An ARO is a company's recognition of a liability for certain obligations associated with the retirement of long-lived assets.

Q. DO COMMISSION RULES CONTAIN SPECIFIC REQUIREMENTS REGARDING AROs?

A. Yes. Section 25-14.014, Florida Administrative Code, entitled Accounting for Asset Retirement Obligations, states that under Statement of Financial Accounting Standards (SFAS) 143 (Accounting Standards Codification 410), the implementation of the accounting for AROs shall be revenue neutral in the rate making process.

Q. WAS THE COMPANY ASKED TO EXPLAIN WHY THIS ADJUSTMENT WHICH CREATED A DEBIT BALANCE IN THE WORKING CAPITAL WAS APPROPRIATE?

A. Yes. In OPC Interrogatory 252 the Company was asked "If any of those adjusted balances results in a debit (or a negative balance for a liability) please explain why a negative liability amount should be included as a working capital addition." The Company's response stated:

> The Commission has consistently approved FPL's use of a balance sheet approach in determining the amount of working capital to include in rate base. See Order No. 10306 in Docket No. 810002-EU; Order No. 11437 in Docket No. 820097-EU; Order No. 13537 in Docket No. 830465-EI; and Order No. PSC-10-01530-FOF-EI in Docket No. 080677-EI. The balance sheet approach defines working capital as current assets and deferred debits that are utility related and do not already earn a return, less current liabilities, deferred credits and operating reserves that are utility related and upon which the Company does not already pay a return. Except for net overrecoveries associated with FPL's cost recovery clauses, Account 254 - Other Regulatory

> Liabilities represents current liabilities that do not already pay a return. The Commission has required that FPL include net clause overrecoveries in working capital consistent with Commission policy, which was confirmed on page 95 of FPL's last base rate order (Order No. PSC-10-01530-FOR-EI in Docket No. 080677-EI). Accordingly, the balance in Account 254 is eligible for inclusion in the working capital calculation as reflected on MFR-B-2.

As can be seen, the Company's response did not explain why this increase in working capital would be appropriate for ratemaking. There is no indication that the resulting debit balance in Account 254 was the result of an overrecovery and the debit balance is not a current liability or a deferred credit.

Q. HOW DOES THE LIABILITY ACCOUNT HAVE A DEBIT BALANCE?

A. The Company debited Account 254 for $2,816,670,000 related to the ARO and $271,004,000 for Nuclear Cost Recovery. The response to OPC Interrogatory No. 252 shows a credit balance of $1,625,431,000 related to the ARO and $271,004,000 for Nuclear Cost Recovery. There is no problem with the Nuclear Cost Recovery adjustment because it results in a zero balance. However, I am questioning how one can debit Account 254 for $2,816,670,000 related to the ARO when the account has a credit balance of only $1,625,431,000. The Company needs to explain how this adjustment can be considered appropriate.

Q. WERE THERE OTHER ADJUSTMENTS TO THE COMPANY'S RATE BASE WHICH MAY HAVE THE EFFECT OF OFFSETTING THIS INCREASE IN WORKING CAPITAL?

A. There appear to be; however, it is not clear that the result is revenue neutral, as required by the Florida Administrative Code. Adjustment No. 1-ARO to plant in service and Adjustments 12 and 13 to the accumulated depreciation and amortization, ARO-Decommissioning and ARO-Other, when totaled together equal the ARO adjustment made to working capital. However, there is no clear explanation of what this working capital balance represents and how it relates to other adjustments that the Company has made to Accumulated Depreciation and Amortization related to the ARO. For instance, the Company's Adjustment No. 11 for $3,078,681,000 increases the depreciation reserve associated with the provision for decommissioning costs. An illustration of the ARO adjustments is shown below, (all amounts are on a total company basis):

Commission Adj. No.	Description		Total Company Amount
1	Asset Retirement Obligation	$	(8,562)
12	Asset Retirement Obligation-Decommissioning	$	(2,808,939)
13	Asset Retirement Obligation-Other	$	(42,650)
33	Asset Retirement Obligation	$	2,860,151
		$	-
11	Accum Prov Decommissioning Costs	$	3,078,681

As can be seen above, Adjustment No. 11 decreases the depreciation reserve, which increases rate base. Therefore, the net effect of all the above adjustments is to, increase rate base, which suggests that the ARO related adjustments are not revenue neutral.

Q. DOES THE FACT THAT THE OTHER ADJUSTMENTS APPEAR TO OFFSET THE ACCOUNT 254 ARO ADJUSTMENT RESOLVE THE

CONCERN WITH THE MISMATCHING DEBIT AND CREDIT POSTED TO ACCOUNT 254?

A. No. The Company still needs to explain why there is a difference.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT AT THIS TIME?

A. No, I am not. The Company's has not clearly presented an affirmative explanation whether these adjustments related to the ARO are revenue neutral as required by the Commission's rule. The Commission should require the Company to explain why the adjustments for decommissioning and ARO were made, what they represent, how they relate to one another, what the net effect on the Company's rate base is and why ratepayers should pay a rate of return related to the net balance of these adjustments.

<u>Other Accounts Receivable</u>

Q. HAS FPL PROVIDED A DETAILED ANALYSIS OF OTHER ACCOUNTS RECEIVABLE - ACCOUNT 143 WHICH WOULD JUSTIFY THE INCLUSION OF THIS PROJECTED BALANCE IN WORKING CAPITAL?

A. No. The Company stated that it projects Account 143 – Other Accounts Receivable based on the total balance, but does not project individual accounts receivable. Therefore, it is not possible to analyze what the Company has included in this account for working capital purposes for the projected test year.

Q. DID THE COMPANY PROVIDE AN EXPLANATION OF EACH OF THE BALANCES AND WHY EACH SHOULD BE INCLUDED IN WORKING CAPITAL?

A. No, it did not. The Company was asked to provide the detailed balances and a description of what relationship each respective account had to service provided to ratepayers in the test year ended December 31, 2013. The Company's response provided detailed balances for 2011 on a 13-month average basis; however, there was no explanation of how each of these balances relates to providing services to retail ratepayers and why each individual balance should be included in working capital for 2013.

I have reviewed the account titles of each of these 2011 balances and have listed the 13-month averages for those accounts that do not have a title indicating that they relate to providing current service to ratepayers, or those titles that indicate they are unrelated to providing current customer service. Since the total 2011 balance is greater than the amount the Company included in the 2013 test year, I identified the balances of the accounts (lacking support for their inclusion in working capital) as a percentage of the total 13-month average balance for 2011. That percentage is 65.10%. Applying this percentage to the 2013 test year balance of Other Accounts Receivable balance, results in a reduction of $90,116,880 on a total company basis and $88,680,327 on a jurisdictional basis. I have included my analysis of this account information as Exhibit No. HWS-11.

FPL has failed to justify the balance and the explanation is not sufficient. The balances I have identified should remain excluded from Account 143 – Other Accounts Receivable.

Other Regulatory Assets

Q. WAS THE COMPANY ASKED TO PROVIDE A BREAKDOWN AND EXPLANATION OF PROJECTED BALANCES WHICH IT HAS INCLUDED IN WORKING CAPITAL IN THE 2013 TEST YEAR FOR OTHER REGULATORY ASSETS?

A. Yes.

Q. DID THE COMPANY PROVIDE A JUSTIFICATION FOR THE PROJECTED BALANCES IT HAS INCLUDED IN OTHER REGULATORY ASSETS?

A. No. The Company's response to OPC Interrogatory 249 merely states that the Commission allows the Company to follow the balance sheet approach, but it does not discuss each balance in Account 182.3 – Other Regulatory Assets and why those balances should be included for working capital purposes.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?

A. Since the Company has provided no support for these amounts, I am removing from the total those account balances which do not have descriptions which indicate they should be included for working capital purposes. If the Company can provide appropriate explanations and documentation then I will revise my adjustment accordingly. The following jurisdictional balances are those I have excluded from working capital and are shown in the table below:

Other Regulatory Assets – Other	$214,014,000
Other Regulatory Assets – Under Recovered Conservation Costs	$ 461,000
Other Regulatory Assets – Under Recovered ECRC Costs	$ 596,000
Other Regulatory Assets – Convertible ITC Depreciation Loss	$ 51,779,000
Total -	$266,850,000

These balances should be removed unless the Company can provide an appropriate and full explanation of how they provide benefit to ratepayers and why they should be included in working capital. My adjustment reduces Other Regulatory Assets by $271,365,000 and ($266,850,000 jurisdictional).

Miscellaneous Deferred Debits

Q. DID YOU ALSO REQUEST THAT THE COMPANY PROVIDE A LIST OF MISCELLANEOUS DEFERRED DEBITS - ACCOUNT 186 AND ALSO TO STATE WHY EACH BALANCE WAS INCLUDED IN PROJECTED WORKING CAPITAL FOR RATE MAKING PURPOSES?

A. Yes, OPC Interrogatory No. 251 requested this information.

Q. DID THE COMPANY'S RESPONSE PROVIDE ALL OF THE REQUESTED INFORMATION?

A. No. The Company was asked to provide explanations of why each balance was included in working capital. Again, the Company's response was simply that the Commission had authorized the use of the balance sheet method for calculating working capital, but did not discuss the individual balances. This response is inadequate. There are certain balances that do not appear to relate to provision of current service to ratepayers. Furthermore, the Company's response did not contain a detailed analysis by subaccount for the test year working capital request. The response provided 13-month averages by subaccount for the years 2008 through 2011 and the 13-month period through March 2012. Many of these subaccounts contained vague descriptions which do not identify them as costs necessary for providing utility service. I based this judgment on reviewing the account titles of each of the balances and identifying those that do not have a title or other description indicating that they relate to providing current service to ratepayers, as well as those titles that indicate they are unrelated to providing current customer service. The items were removed as shown below.

Q. **WHAT ADJUSTMENT ARE YOU RECOMMENDING RELATED TO MISCELLANEOUS DEFERRED DEBITS?**

A. Below I have listed the following account titles and March 2012 13-month average balances which do not meet FPL's burden of proof:

Miscellaneous Deferred Debits	$1,417,111
Miscellaneous Deferred Debits-FIN48 L/T Int Rec	$1,620,056
Miscellaneous Deferred Debits – LT Receivables	$ 477,991
Miscellaneous Deferred Debits – GO Grain	$ 59,089
Miscellaneous Deferred Debits – Contract Services	$ 195,663
Miscellaneous Deferred Debits – Mitigation Banking CR Sales	$ 77,665
Miscellaneous Deferred Debits – Mitigation Banking CR Sale-Phase II	$ 48,596
Total -	$3,896,171

My adjustment reduces Miscellaneous Deferred Debits by $3,896,171 ($3,836,435 jurisdictional).

Q. WHY ARE YOU REMOVING THE MISCELLANEOUS DEFERRED DEBIT BALANCES FROM THE MARCH 2012 13-MONTH AVERAGE?

A. Since the company did not provide a comparative analysis for the test year balance, it is reasonable to assume that similar items and amounts are included in the test year as those I have identified above and have removed as a surrogate. FPL has failed to justify the balance and the explanation is not sufficient. The balances I have identified and removed should be excluded from test year working capital.

<u>Deferred Rate Case Expense</u>

Q. SHOULD ANY OTHER ADJUSTMENTS BE MADE TO THE COMPANY'S PROJECTED WORKING CAPITAL?

A. Yes. OPC consultant Ms. Ramas is addressing the deferred rate case expense component of working capital in her direct testimony.

Q. HAVE YOU PREPARED A SUMMARY OF YOUR ADJUSTMENTS TO WORKING CAPITAL?

A. Yes, I have summarized my adjustments to working capital in the chart below:

Working Capital		Total Company		Florida Juris.	Juris. Factor
Other regulatory Assets					
Other reg. assets-other	$	217,480,000	$	214,014,000	0.984059
Other reg. assets-under recovered conservation costs	$	461,000	$	461,000	1.000000
Other reg. assets-under recovered ECRC costs	$	596,000	$	596,000	1.000000
Other reg. assets - convertible ITC Deprec. Loss	$	52,828,000	$	51,779,000	0.980140
Total regulatory assets	$	271,365,000	$	266,850,000	
Misc deferred debits	$	3,896,171	$	3,836,435	0.984668
Other Accounts Receivable	$	90,116,880	$	88,680,327	0.984059
Total reduction to working capital	$	365,378,051	$	359,366,762	

XIII. STORM RECOVERY MECHANISM

Q. HAVE YOU REVIEWED THE TESTIMONY OF COMPANY WITNESS DEWHURST REGARDING STORM COST RECOVERY?

A. Yes, and I agree that FPL should not be seeking an accrual in this proceeding to increase its storm reserve. Based on the response to OPC Interrogatory 229, FPL's storm reserve is in excess of $200 million. FPL Witness Dewhurst stated in his pre-filed testimony that "FPL can expect to incur, on average, about $150 million per year in restoration costs." Reviewing the charges from 2008 through March 2012, the Company has recorded a net of $38.3 million that was offset by $24.9 million of earnings. On average, FPL has recorded less than $10 million a year since the end of 2007. Based on my analysis, the reserve appears sufficient at this time.

Q. IS THERE AN ISSUE WITH STORM RECOVERY IN THIS CASE?

A. Yes. The Company is requesting that it be allowed to continue to recover storm costs under the framework prescribed by the 2010 Rate Settlement (Settlement). Under paragraph 3 of the Settlement, FPL could implement, on an interim basis without Commission action, a monthly surcharge to recover current storm costs. The OPC is of the opinion that, with the expiration of the settlement agreement, storm cost recovery should follow past Commission practice for addressing the adequacy of FPL's storm reserve and the recovery of storm costs. As noted in FPL Witness Dewhurst's testimony, the Commission's past practice allows utilities to seek recovery of costs that go beyond the storm reserve. That practice is sufficient to protect FPL if a storm of that magnitude were to occur. Putting aside any issue of the Commission's authority to approve on an automatic storm-related adjustment in the absence of a stipulation of parties, to allow the automatic surcharge practice to continue essentially would negate the need for a reserve that is intended to cover storms that are not as financially severe as those that occurred in the 2004/2005 timeframe. The reserve is available to cover the costs of major storms and the provision for recovery of storms that would exceed the reserve is a sufficient mechanism to protect FPL if significant damage were to occur. The automatic recovery mechanism that Mr. Dewhurst is requesting was one feature of a multifaceted negotiation and settlement agreement. In addition to my reasons for opposing it, I have been informed by OPC counsel that OPC does not consent to the unilateral effort of FPL, who was one of several parties to the settlement, to seek to continue this feature of the agreement beyond the expiration date.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Helmuth Schultz III has been furnished by electronic mail and/or U.S. Mail on this 2nd day of July, 2012, to the following:

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QUALIFICATIONS OF HELMUTH W. SCHULTZ, III

Mr. Schultz received a Bachelor of Science in Accounting from Ferris State College in 1975. He maintains extensive continuing professional education in accounting, auditing, and taxation. Mr. Schultz is a member of the Michigan Association of Certified Public Accountants

Mr. Schultz was employed with the firm of Larkin, Chapski & Co., C.P.A.s, as a Junior Accountant, in 1975. He was promoted to Senior Accountant in 1976. As such, he assisted in the supervision and performance of audits and accounting duties of various types of businesses. He has assisted in the implementation and revision of accounting systems for various businesses, including manufacturing, service and sales companies, credit unions and railroads.

In 1978, Mr. Schultz became the audit manager for Larkin, Chapski & Co. His duties included supervision of all audit work done by the firm. Mr. Schultz also represents clients before various state and IRS auditors. He has advised clients on the sale of their businesses and has analyzed the profitability of product lines and made recommendations based upon his analysis. Mr. Schultz has supervised the audit procedures performed in connection with a wide variety of inventories, including railroads, a publications distributor and warehouser for Ford and GM, and various retail establishments.

Mr. Schultz has performed work in the field of utility regulation on behalf of public service commission staffs, state attorney generals and consumer groups concerning regulatory matters before regulatory agencies in Alaska, Arizona, California, Connecticut, Delaware, Florida, Georgia, Kentucky, Kansas, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, Nevada, North Dakota, Ohio, Pennsylvania, Rhode Island, Texas, Utah, Vermont and Virginia. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on numerous occasions.

<u>Partial list of utility cases participated in</u>:

U-5331	Consumers Power Co. Michigan Public Service Commission
Docket No. 770491-TP	Winter Park Telephone Co. Florida Public Service Commission

Case Nos. U-5125 and U-5125(R)	Michigan Bell Telephone Co. Michigan Public Service Commission
Case No. 77-554-EL-AIR	Ohio Edison Company Public Utility Commission of Ohio
Case No. 79-231-EL-FAC	Cleveland Electric Illuminating Public Utility Commission of Ohio
Case No. U-6794	Michigan Consolidated Gas Refunds Michigan Public Service Commission
Docket No. 820294-TP	Southern Bell Telephone and Telegraph Co. Florida Public Service Commission
Case No. 8738	Columbia Gas of Kentucky, Inc. Kentucky Public Service Commission
82-165-EL-EFC	Toledo Edison Company Public Utility Commission of Ohio
Case No. 82-168-EL-EFC	Cleveland Electric Illuminating Company, Public Utility Commission of Ohio
Case No. U-6794	Michigan Consolidated Gas Company Phase II, Michigan Public Service Commission
Docket No. 830012-EU	Tampa Electric Company, Florida Public Service Commission
Case No. ER-83-206	Arkansas Power & Light Company, Missouri Public Service Commission
Case No. U-4758	The Detroit Edison Company - (Refunds), Michigan Public Service Commission
Case No. 8836	Kentucky American Water Company, Kentucky Public Service Commission

Case No. 8839	Western Kentucky Gas Company, Kentucky Public Service Commission
Case No. U-7650	Consumers Power Company - Partial and Immediate Michigan Public Service Commission
Case No. U-7650	Consumers Power Company - Final Michigan Public Service Commission
U-4620	Mississippi Power & Light Company Mississippi Public Service Commission
Docket No. R-850021	Duquesne Light Company Pennsylvania Public Utility Commission
Docket No. R-860378	Duquesne Light Company Pennsylvania Public Utility Commission
Docket No. 87-01-03	Connecticut Natural Gas State of Connecticut Department of Public Utility Control
Docket No. 87-01-02	Southern New England Telephone State of Connecticut Department of Public Utility Control
Docket No. 3673-U	Georgia Power Company Georgia Public Service Commission
Docket No. U-8747	Anchorage Water and Wastewater Utility Alaska Public Utilities Commission
Docket No. 8363	El Paso Electric Company The Public Utility Commission of Texas
Docket No. 881167-EI	Gulf Power Company Florida Public Service Commission
Docket No. R-891364	Philadelphia Electric Company Pennsylvania Office of the Consumer Advocate

Docket No. 89-08-11	The United Illuminating Company The Office of Consumer Counsel and the Attorney General of the State of Connecticut
Docket No. 9165	El Paso Electric Company The Public Utility Commission of Texas
Case No. U-9372	Consumers Power Company Before the Michigan Public Service Commission
Docket No. 891345-EI	Gulf Power Company Florida Public Service Commission
ER89110912J	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 890509-WU	Florida Cities Water Company, Golden Gate Division Florida Public Service Commission
Case No. 90-041	Union Light, Heat and Power Company Kentucky Public Service Commission
Docket No. R-901595	Equitable Gas Company Pennsylvania Consumer Counsel
Docket No. 5428	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 90-10	Artesian Water Company Delaware Public Service Commission
Docket No. 900329-WS	Southern States Utilities, Inc. Florida Public Service Commission
Case No. PUE900034	Commonwealth Gas Services, Inc. Virginia Public Service Commission
Docket No. 90-1037* (DEAA Phase)	Nevada Power Company - Fuel Public Service Commission of Nevada

Docket No. 5491**	Central Vermont Public Service Corporation Vermont Department of Public Service
Docket No. U-1551-89-102	Southwest Gas Corporation - Fuel Before the Arizona Corporation Commission
	Southwest Gas Corporation - Audit of Gas Procurement Practices and Purchased Gas Costs
Docket No. U-1551-90-322	Southwest Gas Corporation Before the Arizona Corporation Commission
Docket No. 176-717-U	United Cities Gas Company Kansas Corporation Commission
Docket No. 5532	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 910890-EI	Florida Power Corporation Florida Public Service Commission
Docket No. 920324-EI	Tampa Electric Company Florida Public Service Commission
Docket No. 92-06-05	United Illuminating Company The Office of Consumer Counsel and the Attorney General of the State of Connecticut
Docket No. C-913540	Philadelphia Electric Co. Before the Pennsylvania Public Utility Commission
Docket No. 92-47	The Diamond State Telephone Company Before the Public Service Commission of the State of Delaware
Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control

Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation (Supplemental) State of Connecticut Department of Public Utility Control
Docket No. 93-08-06	SNET America, Inc. State of Connecticut Department of Public Utility Control
Docket No. 93-057-01**	Mountain Fuel Supply Company Before the Public Service Commission of Utah
Docket No. 94-105-EL-EFC	Dayton Power & Light Company Before the Public Utilities Commission of Ohio
Case No. 399-94-297**	Montana-Dakota Utilities Before the North Dakota Public Service Commission
Docket No. G008/C-91-942	Minnegasco Minnesota Department of Public Service
Docket No. R-00932670	Pennsylvania American Water Company Before the Pennsylvania Public Utility Commission
Docket No. 12700	El Paso Electric Company Public Utility Commission of Texas
Case No. 94-E-0334	Consolidated Edison Company Before the New York Department of Public Service
Docket No. 2216	Narragansett Bay Commission On Behalf of the Division of Public Utilities and Carriers, Before the Rhode Island Public Utilities Commission

Case No. PU-314-94-688	U.S. West Application for Transfer of Local Exchanges Before the North Dakota Public Service Commission
Docket No. 95-02-07	Connecticut Natural Gas Corporation State of Connecticut Department of Public Utility Control
Docket No. 95-03-01	Southern New England Telephone Company State of Connecticut Department of Public Utility Control
Docket No. U-1933-95-317	Tucson Electric Power Before the Arizona Corporation Commission
Docket No. 5863*	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 96-01-26**	Bridgeport Hydraulic Company State of Connecticut Department of Public Utility Control
Docket Nos. 5841/ 5859	Citizens Utilities Company Before Vermont Public Service Board
Docket No. 5983	Green Mountain Power Corporation Before Vermont Public Service Board
Case No. PUE960296**	Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission
Docket No. 97-12-21	Southern Connecticut Gas Company State of Connecticut Department of Public Utility Control
Docket No. 97-035-01	PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah

Docket No. G-03493A-98-0705*	Black Mountain Gas Division of Northern States Power Company, Page Operations Before the Arizona Corporation Commission
Docket No. 98-10-07	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 99-01-05	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket No. 99-04-18	Southern Connecticut Gas Company State of Connecticut Department of Public Utility Control
Docket No. 99-09-03	Connecticut Natural Gas Corporation State of Connecticut Department of Public Utility Control
Docket No. 980007-0013-003	Intercoastal Utilities, Inc. St. John County - Florida
Docket No. 99-035-10	PacifiCorp dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. 6332 **	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board
Docket No. G-01551A-00-0309	Southwest Gas Corporation Before the Arizona Corporation Commission
Docket No. 6460**	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 01-035-01*	PacifiCorp dba Utah Power & Light Company Before the Public Service Commission of Utah

Docket No. 01-05-19 Phase I	Yankee Gas Services Company State of Connecticut Department of Public Utility Control
Docket No. 010949-EI	Gulf Power Company Before the Florida Office of the Public Counsel
Docket No. 2001-0007-0023	Intercoastal Utilities, Inc. St. Johns County - Florida
Docket No. 6596	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board
Docket Nos. R. 01-09-001 I. 01-09-002	Verizon California Incorporated Before the California Public Utilities Commission
Docket No. 99-02-05	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket No. 99-03-04	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket Nos. 5841/ 5859	Citizens Utilities Company Probation Compliance Before Vermont Public Service Board
Docket No. 6120/6460	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 020384-GU	Tampa Electric Company d/b/a/ Peoples Gas System Before the Florida Public Service Commission
Docket No. 03-07-02	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control

Docket No. 6914	Shoreham Telephone Company Before the Vermont Public Service Board
Docket No. 04-06-01	Yankee Gas Services Company State of Connecticut Department of Public Utility Control
Docket Nos. 6946/6988	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 04-035-42**	PacifiCorp dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. 050045-EI**	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. 050078-EI**	Progress Energy Florida, Inc. Before the Florida Public Service Commission
Docket No. 05-03-17	The Southern Connecticut Gas Company State of Connecticut Department of Public Utility Control
Docket No. 05-06-04	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. A.05-08-021	San Gabriel Valley Water Company, Fontana Water Division Before the California Public Utilities Commission
Docket NO. 7120 **	Vermont Electric Cooperative Before the Vermont Public Service Board
Docket No. 7191 **	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 06-035-21 **	PacifiCorp Before the Public Service Commission of Utah

Docket No. 7160	Vermont Gas Systems Before the Vermont Public Service Board
Docket No. 6850/6853 **	Vermont Electric Cooperative/Citizens Communications Company Before the Vermont Public Service Board
Docket No. 06-03-04** Phase 1	Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control
Application 06-05-025	Request for Order Authorizing the Sale by Thames GmbH of up to 100% of the Common Stock of American Water Works Company, Inc., Resulting in Change of Control of California-American Water Company Before the California Public Utilities Commission
Docket No. 06-12-02PH01**	Yankee Gas Company State of Connecticut Department of Public Utility Control
Case 06-G-1332**	Consolidated Edison Company of New York, Inc. Before the NYS Public Service Commission
Case 07-E-0523	Consolidated Edison Company of New York, Inc. Before the NYS Public Service Commission
Docket No. 07-07-01	Connecticut Light & Power Company Connecticut Department of Public Utility Control
Docket No. 07-035-93	Rocky Mountain Power Company Before the Public Service Commission of Utah
Docket No. 07-057-13	Questar Before the Public Service Commission of Utah
Docket No. 08-07-04	United Illuminating Company Connecticut Department of Public Utility Control
Case 08-E-0539	Consolidated Edison Company of New York, Inc. Before the NYS Public Service Commission

Docket No. 080317-EI	Tampa Electric Company Before the Florida Public Service Commission
Docket No. 7488**	Vermont Electric Cooperative, Inc. Before the Vermont Public Service Board
Docket No. 080318-GU	Peoples Gas System Before the Florida Public Service Commission
Docket No. 08-12-07***	Southern Connecticut Gas Company Connecticut Department of Utility Control
Docket No. 08-12-06***	Connecticut National Gas Company Connecticut Department of Utility Control
Docket No. 090079-EI	Progress Energy Florida, Inc. Before the Florida Public Service Commission
Docket No. 7529 **	Burlington Electric Company Before the Vermont Public Service Board
Docket No. 7585****	Green Mountain Power Corporation Alternative Regulation Before the Vermont Public Service Board
Docket No. 7336****	Central Vermont Public Service Company Alternative Regulation Before the Vermont Public Service Board
Docket No. 09-12-05	Connecticut Light & Power Company Connecticut Department of Utility Control
Docket No. 10-02-13	Aquarion Water Company of Connecticut Connecticut Department of Utility Control
Docket No. 10-70	Western Massachusetts Electric Company Massachusetts Department of Public Utilities

Docket No. 10-12-02	Yankee Gas Services Company Connecticut Department of Utility Control
Docket No. 11-01	Fitchburg Gas & Electric Light Company Massachusetts Department of Public Utilities
Case No.9267	Washington Gas Light Company Maryland Public Service Commission
Docket No. 110138-EI	Gulf Power Company Before the Florida Public Service Commission
Case No.9286	Potomac Electric Power Company Maryland Public Service Commission

* Certain issues stipulated, portion of testimony withdrawn.
** Case settled.
*** Assisted in case and hearings, no testimony presented
**** Annual filings reviewed and reports filed with Board.

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

2013 Employee Adjustment

Line No.	Description	$000's Per Company	Per OPC	Reference
1	Total Employees	10,147	10,147	a
2	Employee Adjustment		(381)	Testimony
3	Adjusted Employee Level	10,147	9,766	
4	Total Payroll	1,048,734	1,048,734	a
5	Executive Incentive Compensation	(44,745)	(44,745)	b
6	Executive Performance Incentive Compensation	(12,575)	(12,575)	b
7	Employee Incentive Compensation	(63,471)	(63,471)	b
8	Total Payroll Excluding Incentive Compenssation	927,943	927,943	
9	Average Pay Per Employee Excluding Incentive Pay	91.450	91.450	L.8/L.3
10	Gross Payroll Adjustment		(34,866)	L.2 x L. 9
11	Expense Factor		71.61%	HWS-2;P 3
12	O&M Adjustment		(24,968)	L.10 x L. 11
13	Jurisdictional Allocation		0.98438	c
14	Jurisdictional O&M Adjustment		(24,578)	L 12 x L 13

Source: (a) Company Schedule C-35
(b) Company response to OPC POD 2-12.
(c) Company Schedule C-1

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Employee Analysis

Line No.		Exempt	Non-Exempt	Actuals Union	Temporary	Total	Authorized	Variance
1	2002	3,989	2,657	3,285	43	9,973		
2	2003	3,970	2,610	3,188	39	9,807		
3	2004	4,227	2,608	3,212	60	10,107	10,338	2.23%
4	2005	4,319	2,619	3,203	84	10,225	10,408	1.76%
5	2006	4,407	2,679	3,216	88	10,390	10,552	1.54%
6	2007	4,517	2,660	3,271	109	10,557	10,768	1.96%
7	2008	4,632	2,619	3,379	82	10,711	10,994	2.57%
8	2009	4,607	2,633	3,323	64	10,627	11,072	4.02%
9	2010	4,451	2,500	3,173	71	10,195	10,627	4.07%
10	2011	4,420	2,339	3,065	137	9,961	10,250	2.82%
11	Jan-12	4,534	2,252	3,074	196	10,056	10,404	3.34%
12	Feb-12	4,538	2,239	3,074	174	10,025	10,403	3.63%
13	Mar-12	4,553	2,219	3,080	119	9,971	10,367	3.82%
14	Apr-12	4,559	2,214	3,087	72	9,932	10,331	3.86%
15	May-12	4,523	2,305	3,093		9,921	10,348	4.13%
16	Jun-12						10,362	
17	Jul-12						10,343	
18	Aug-12						10,312	
19	Sep-12						10,262	
20	Oct-12						10,225	
21	Nov-12						10,196	
22	Dec-12						10,183	
23	Average						10,311	3.76%
				Projected				
24	Jan-13	4,753	2,097	3,278	78		10,206	
25	Feb-13	4,754	2,093	3,276	84		10,207	
26	Mar-13	4,743	2,074	3,275	86		10,178	
27	Apr-13	4,756	2,057	3,272	91		10,176	
28	May-13	4,754	2,068	3,264	92		10,178	
29	Jun-13	4,757	2,042	3,294	102		10,195	
30	Jul-13	4,745	2,032	3,294	99		10,170	
31	Aug-13	4,743	1,983	3,312	99		10,137	
32	Sep-13	4,740	1,953	3,308	99		10,100	
33	Oct-13	4,740	1,945	3,307	98		10,090	
34	Nov-13	4,736	1,938	3,300	98		10,072	
35	Dec-13	4,739	1,915	3,300	98		10,052	
36	Average						10,147	

Source: Lines 1-7 are from Company response to OPC Int. 2-34 Amended.
Line 8-14 are from Company response to OPC Int. 2-33 Amended except April authorized is from OPC POD 2-12
Lines 15-22 and 23-36 are from Company response to OPC POD 2-12 Partial, HR Response, except for the actuals on Line 15 which are from Company response to OPC Int. 11-234

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Payroll Expense Analysis

Line No.		Expense	Capitalized	Other	Total	% Expensed
1	2006	648,560,315	188,689,166	20,223,694	857,473,175	75 64%
2	2007	699,537,454	204,617,147	23,816,038	927,970,639	75 38%
3	2008	724,083,670	214,338,062	32,314,987	970,736,719	74 59%
4	2009	727,524,964	229,542,142	27,950,188	985,017,294	73.86%
5	2010	760,159,378	199,838,890	27,295,950	987,294,218	76 99%
6	2011	771,767,122	217,009,964	38,949,718	1,027,726,804	75.09%
7	Five Year Average					75.18%
8	2012 Ytd	195,551,962	59,382,136	10,463,036	265,397,134	73.68%
9	2012	836,441,007			1,075,924,714	77.74%
10	A/C 926	(81,919,357)				
11		754,521,650			1,075,924,714	70.13%
12	2013	847,283,848			1,048,734,277	80 79%
13	A/C 926	(96,280,274)				
14		751,003,574			1,048,734,277	71 61%

Source: Lines 1-3 are from Company response to Amended OPC Int. No 35
Lines 4-6 and 8 are from Company response to Amended OPC Int No 33.
Lines 9-14 are from Company response to OPC POD 2-12

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

2013 Employee Incentive Compensation Adjustment

Line No.	Description	$000's Executive	Employees	Reference
1	Incentive Compensation	44,745	63,471	a
2	Executive Performance Incentive	12,575		a
3	Ratepayer Portion		(31,736)	Testimony
4	Shareholder Amount	57,320	31,736	
5	O&M Factor		71.61%	HWS-2;P.1
6	O&M Expense Reduction		(22,726)	L 4 x L 5
7	Jurisdictional Allocation		0.98438	c
8	Jurisdictional O&M Adjustment		(22,371)	L 6 x L 7

Source: (a) Company Schedule C-35
(b) Company response to OPC POD 2-12

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Benefit Expense Adjustment

Line No.		000's Expense	Total	% Expensed	Reference
	2013				
1	Total Benefit Cost		212,113		a
2	Taxes/WC		(76,172)		a
3	Benefits	111,605	135,941	82 10%	b
4	Pensions	31,724	38,641		c,a
5	Post Retirement Benefits	(13,300)	(16,200)		c,a
6	Benefits Excluding Pensions and OPEB	130,029	158,382	82 10%	c
7	Employees	10,147	10,147		a
8	Cost Per Employee	12 814	15 609		L.6/L 7
9	Employee Adjustment	(381)	(381)		HWS-2;P 1
10	Employee Benefit Adjustment	(4,886)	(5,951)	82 10%	L.8 x L.9
11	Adjusted Benefit Cost	125,143	152,431	82 10%	L 6 - L.10
12	Recommended Expense	115,037	152,431	75 47%	c
13	Benefit Expense Factor Adjustment	(10,106)			L.12 - L 11
14	Total Benefit Adjustment	(14,992)			L.10 + L.13
15	Jurisdictional Allocation	0.985261			b
16	Jurisdictional O&M Adjustment	(14,771)			L 14 x L 16

Source: (a) Company Schedule C-35.
(b) Company Schedule C-4.
(c) Estimated expense amount based expense factor on line 3.

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Benefit Expense Analysis

Line No.		Expense (000's)	Capitalized (000's)	Other (000's)	Total (000's)	% Expensed
	2009					
1	Total	132,995	33,824	8,273	175,092	75.96%
2	Taxes/WC	(53,282)	(16,641)	(4,033)	(73,956)	72.05%
3	Benefits	79,713	17,183	4,240	101,136	78.82%
	2010					
4	Total	126,675	36,635	10,583	173,893	72.85%
5	Taxes/WC	(53,828)	(14,793)	(4,201)	(72,822)	73.92%
6	Benefits	72,847	21,842	6,382	101,071	72.08%
	2011					
7	Total	124,028	35,003	8,985	168,016	73.82%
8	Taxes/WC	(55,329)	(16,487)	(3,192)	(75,008)	73.76%
9	Benefits	68,699	18,516	5,793	93,008	73.86%
	2012 Ytd					
10	Total	45,081	9,688	2,039	56,808	79.36%
11	Taxes/WC	(24,571)	(4,560)	(500)	(29,631)	82.92%
12	Benefits	20,510	5,128	1,539	27,177	75.47%
	2012					
13	Total	96,115			197,218	48.74%
14	Taxes/WC				(78,106)	0.00%
15	Benefits	96,115	0	0	119,112	80.69%
	2013					
16	Total	111,605			212,113	52.62%
17	Taxes/WC				(76,172)	0.00%
18	Benefits	111,605	0	0	135,941	82.10%

Line No.	Year	Account 926	Total Benefits	
19	2007	54,626		
20	2008	43,578		
21	2009	77,382	101,136	76.51%
22	2010	67,750	101,072	67.03%
23	2011	68,101	93,007	73.22%
24	2012	96,115	119,112	80.69%
25	2013	111,605	135,941	82.10%

Source: Lines 1-12 are from the Company response to Amended OPC Int. 2-52.
Lines 13 and 16 are from Company Schedule C-35.
Lines 14 and 17 are from Company response to OPC POD 2-12.
Lines 15 and 24 expense amount is from the Company response to OPC Int 4-89
Lines 18 and 25 expense amount is from the Company Schedule C-4
Lines 19-23 Account 926 amounts are from Company Schedule C-6.
Lines 21-25 Total Benefits amounts are from Company response to OPC POD 2-12.

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Payroll Tax Expense Adjustment

Line No.	Description	$000's Expense	Reference
1	Federal Unemployment Tax	352	a
2	State Unemployment Tax	1,196	a
3	FICA (Social Security) Tax	46,618	a
4	Total Expense Payroll Taxes	48,166	
5	Payroll Expense	751,004	HWS-2;P 3
6	Effective Payroll Tax Rate	6.41%	L.4/L.6
7	Payroll Adjustment	(24,968)	HWS-2;P 1
8	Payroll Tax Adjustment	(1,601)	L.6 x L.7
9	Jurisdictional Allocation	0.984797	a
10	Jurisdictional O&M Adjustment	(1,577)	L.8 x L.9

Source: (a) Company Schedule C-4.

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Distribution Vegetative Management - Tree Trimming

				$000's		
Line No.	Year	Lateral Miles	Feeder Miles	Actual	Budgeted/ Projected	Cost Per Mile
1	2007	2,215	4,454	67,834		10
2	2008	2,078	4,262	63,115	69,649	10
3	2009	2,768	4,151	59,211	75,192	9
4	2010	2,741	5,222	60,488	65,150	8
5	2011	3,367	4,337	62,425		8
6	2012	3,700	4,300		61,269	8
7	2013	3,700	4,800		71,401	8
8	Cycle	6 Year	3 Year			
9	Total Miles	22,700	13,600			
10	Five Year Average 2007-2011			62,615		
						Variance
12	Three Year Actual to Budget			60,938	69,997	0.870582
13	2013 Recommended Per Citizen's				62,160	
14	2013 Requested				71,401	
15	Citizen's Recommended Adjustment				(9,240)	
16	Jurisdictional Adjustment @ 99.9472%				(9,236)	

Source: Lateral miles are from Company response to Staff Int. 6-194.
Feeder miles are from Company response to Staff Int. 6-195.
Actual are from Company response to OPC Int. 10-224 and Staff Int. 6-193.
Budgeted are from Company response to Staff Int. 6-235.
Projected are from response to OPC Int. 6-134.
Jurusdictional allocation is from Company response to OPC Int. 10-223.

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Pole Inspection Expense

				$000's			
Line No.	Year	Poles Inspected	Pole Failures	Actual	Budgeted/ Projected	Cost Per Pole	Failure Rate
1	2007	141,332	9,801	8,578		0.06	6.93%
2	2008	143,319	10,040	12,654	14,418	0.09	7.01%
3	2009	138,970	15,243	10,896	13,024	0.08	10.97%
4	2010	141,423	15,636	10,662	15,064	0.08	11.06%
5	2011	137,315	16,585	17,517		0.13	12.08%
6	2012	137,430			14,566	0.11	
7	2013	137,430			14,015	0.10	
8	Actual	702,359	67,305	60,308		0.085864	9.58%
9	5 Year Average 2007-2011			12,062	8,095		
						Variance	
10	3 Year Actual to Budget			11,404	14,168	0.804896	
11	2013 Recommended Per Citizen's				11,281		
12	2013 Requested				14,015		
13	Citizen's Recommended Adjustment				(2,734)		
14	Jurisdictional Adjustment @ 99.9472%				(2,733)		

Source: Actual are from Company response to OPC Int. 10-224
Budgeted are from Company response to Staff Int. 6-235
Projected are from response to OPC Int. 6-134 Revised.
Per Company response to OPC Int. 10-227; 2012 and 2013 is based on 2010 actual cost per pole. The 137,430 projection multiplied by the 2010 rate $75.39 equals $10,360,848

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Directors and Officers Liability Insurance Adjustment

Line No.	Description	$000's Expense	Reference
1	DOL Insurance	2,781	a
2	Adjustment to Shareholders	(1,391)	Testimony
3	Jurisdictional Allocation	0.984797	
4	Jurisdictional O&M Adjustment	(1,369)	

Source: (a) Company response to OPC Int 2-60.

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Uncollectible Expense Adjustment

			$000's		
Line No.	Year	Account 904	FPL	OPC	OPC Adjustment
1	2007	18,106			
2	2008	31,700			
3	2009	30,275			
4	2010	14,919			
5	2011	7,193			
6	2012	15,633	15,633	13,636	(1,997)
7	2013	18,408	18,408	16,648	(1,760)

Historical Net Write-offs Analysis

		Recoveries	Net Write-Offs	Revenues	Write-Off Percentage
8	2008		26,378	11,295,886	0.234%
9	2009	14,587	28,182	11,543,552	0.244%
10	2010	14,430	18,683	9,812,194	0.190%
11	2011	13,363	16,595	10,230,348	0.162%
12	2012	3,785	3,168	2,135,273	0.148%
13	Five Year Average		18,601	9,003,451	
14	Company Requested 2013 Revenue				10,220,581
15	Estimated Write-off Based on 2012 Year to Date				15,166

Source: Lines 1-5 are from Company Schedule C-6.
Line 6 is from Company response to OPC Int. 4-89
Line 7 is from Company Schedule C-4
Lines 9-12 are from Company response to OPC Int. 2-56 - Supplemental.
OPC amounts are from Company response to OPC POD 2-12

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Surplus Depreciation Reserve

Line No.	Year	Budgeted	$000's Per Company	Per OPC	Surplus Adjustment	Reference
1	Balance		894,000	894,000		
2	2010	(139,000)	(3,847)	(3,847)		
3	2011	(267,000)	(186,964)	(186,964)		
4	2012	(526,000)	(525,529)	(471,721)	53,808	
5	2013		(190,918)			
6			(13,258)	231,468	(13,258)	
7	**Net Adjustment**				40,550	
8	2012 Per Company			(525,529)		
9	Employee Adjustment			27,517		HWS-10;P.2
10	Benefit Adjustment			11,763		HWS-10;P.3
11	Payroll Taxes			1,765		HWS-10;P.4
12	Vegetation Maintenance			7,925		HWS-10;P.5
13	Pole Inspections			2,840		HWS-10;P.6
14	Uncollectibles			1,997		HWS-9
15	2012 Surplus Requirement			(471,721)		

Source: Budgeted amounts are from response to OPC Int. 4-96
2010 actual is from response to OPC Int 4-94
2011 actual is from response to OPC Int 3-84

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

2012 Employee Adjustment

Line No.		$000's Per Company	Per OPC	Reference
1	Total Employees	10,312	10,312	a
2	Employee Adjustment		(387)	Testimony
3	Adjusted Employee Level	10,312	9,925	
4	Total Payroll	1,075,925	1,075,925	a
5	Executive Incentive Compensation	(42,900)	(42,900)	b
6	Executive Performance Incentive Compensation	(12,211)	(12,211)	b
7	Employee Incentive Compensation	(60,045)		b
8	Total Payroll Excluding Incentive Compenssation	960,768	1,020,814	
9	Average Pay Per Employee Excluding Incentive Pay	93.170	102.858	L.8/L.3
10	Gross Payroll Adjustment		(39,853)	L 2 x L 9
11	Expense Factor		70.13%	HWS-2;P.3
12	O&M Adjustment		(27,948)	L 10 x L 11
13	Jurisdictional Allocation		0.984587	c
14	Jurisdictional O&M Adjustment		(27,517)	L.12 x L 13

Source: (a) Company Schedule C-35
(b) Company response to OPC POD 2-12.
(c) Company Schedule C-1.

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Benefit Expense Adjustment - 2012

Line No.		$000's Expense	Total	% Expensed	Reference
	2012				
1	Total Benefit Cost		197,218		a
2	Taxes/WC		(78,106)		a
3	Benefits	96,115	119,112	80 69%	b
4	Pensions	36,376	45,080		c,a
5	Post Retirement Benefits	(12,945)	(16,042)		c,a
6	Benefits Excluding Pensions and OPEB	119,547	148,150	80 69%	c
7	Employees	10,312	10,312		a
8	Cost Per Employee	12	14		L 6/L 7
9	Employee Adjustment	(387)	(387)		HWS-2;P 1
10	Benefit Employee Adjustment	(4,492)	(5,567)	80 69%	L 8 x L 9
11	Adjusted Benefit Cost	115,055	142,583	80 69%	L 6 - L 10
12	Recommended Expense	107,605	142,583	75 47%	c
13	Benefit Expense Factor Adjustment	(7,450)			L 12 - L 11
14	Total Benefit Adjustment	(11,941)			L 10 + L 13
15	Jurisdictional Allocation	0.985018			b
16	Jurisdictional O&M Adjustment	(11,763)			L.14 x L 16

Source: (a) Company Schedule C-35
(b) Company response to OPC Int. 4-89.
(c) Estimated expense amount based expense factor on line 3

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Payroll Tax Expense Adjustment - 2012

Line No.	Description	$000's Expense	Reference
1	Federal Unemployment Tax	353	a
2	State Unemployment Tax	1,202	a
3	FICA (Social Security) Tax	46,837	a
4	Total Expense Payroll Taxes	48,392	
5	Payroll Expense	754,522	HWS-2;P.3
6	Effective Payroll Tax Rate	6.41%	L.4/L 6
7	Payroll Adjustment	(27,948)	HWS-2;P.1
8	Payroll Tax Adjustment	(1,792)	L.6 x L.7
9	Jurisdictional Allocation	0.98458	a
10	Jurisdictional O&M Adjustment	(1,765)	L.8 x L.9

Source: (a) Company response to OPC Int 4-89

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Distribution Vegetative Management - Tree Trimming

				$000's		
Line No.	Year	Lateral Miles	Feeder Miles	Actual	Budgeted/ Projected	Cost Per Mile
1	2007	2,215	4,454	67,834		$10,172
2	2008	2,078	4,262	63,115	69,649	$9,955
3	2009	2,768	4,151	59,211	75,192	$8,558
4	2010	2,741	5,222	60,488	65,150	$7,596
5	2011	3,367	4,337	62,425		$8,103
6	2012	3,700	4,300		61,269	$7,659
7	2013	3,700	4,800		71,401	$8,400
8	Cycle	6 Year	3 Year			
9	Total Miles	22,700	13,600			
10	Five Year Average 2007-2011			62,615		
						Variance
12	Three Year Actual to Budget			60,938	69,997	0.870582
13	2012 Recommended Per Citizen's				53,339	
14	2012 Requested				61,269	
15	Citizen's Recommended Adjustment				(7,929)	
16	Jurisdictional Adjustment @ 99 9472%				(7,925)	

Source: Lateral miles are from Company response to Staff Int 6-194
Feeder miles are from Company response to Staff Int 6-195
Actual are from Company response to OPC Int. 10-224 and Staff Int 6-193.
Budgeted are from Company response to Staff Int. 6-235.
Projected are from response to OPC Int. 6-134 Revised.
Jurusdictional allocation is from Company response to OPC Int. 10-223.

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Pole Line Inspection Expense

				$000's			
Line No.	Year	Poles Inspected	Pole Failures	Actual	Budgeted/ Projected	Cost Per Pole	Failure Rate
1	2006	96,090	8,785	3,886		$40.44	9.14%
2	2007	141,332	9,801	8,578		$60 69	6.93%
3	2008	143,319	10,040	12,654	14,418	$88.29	7.01%
4	2009	138,970	15,243	10,896	13,024	$78 41	10.97%
5	2010	141,423	15,636	10,662	15,064	$75 39	11.06%
6	2011	137,315	16,585	17,517		$127 57	12.08%
7	2012	137,430			14,566	$105.99	
8	2013	137,430			14,015	$101 98	
9	Actual	798,449	76,090	64,194		0 080398	
10	5 Year Average 2007-2011			12,062	8,095		
						Variance	
11	3 Year Actual to Budget			11,404	14,168	0 804896	
12	2013 Recommended Per Citizen's				11,724		
13	2013 Requested				14,566		
14	Citizen's Recommended Adjustment				(2,842)		
15	Jurisdictional Adjustment @ 99.9472%				(2,840)		

Source: Actual are from Company response to OPC Int 10-224.
Budgeted are from Company response to Staff Int. 6-235.
Projected are from response to OPC Int. 10-199
Per Company response to OPC Int 10-227; 2012 and 2013 is based on 2010 actual cost per pole The 137,430 projection multiplied by the 2010 rate $75 39 equals $10,360,848.

FLORIDA POWER & LIGHT COMPANY
Projected Test Year Ended December 31, 2013

Working Capital Analysis

Line No.	GL_ACCT_DESC	13-month Average	
1	**143099 - OTH ACCTS REC-ACCRUALS**	**73,945,180**	*
2	**143100 - SAP-Other Accounts Receivable**	**20,915,163**	*
3	**143104 - OTH ACCTS RECEIV-INVSMT RCVRY-GEN (ARMS)**	**777,021**	*
4	**143110 - MISC RECEIV-STORM AND DECOMMISSIONING**	**2,398,955**	*
5	**143124 - SAP-OthA/R-NonFPL Retiree Med Benefits**	**1,199,611**	*
6	143125 - FT MYERS REPOWERING CLAIMS	245,443	
7	**143126 - OTHER ACCT RECEIV-RETIREE MED REIMBURSE**	**3,004,786**	*
8	**143127 - OTH ACCTS RECEIV-BENEFIT PLAN REIMBURS**	**210,317**	*
9	**143128 - OTH ACCTS RECEIV-PARTICIP MAINT RESERVE**	**1,006,242**	*
10	**143129 - OTH ACCTS RECEIV-POWER SUPPLY ARMS CLG**	**3,539,891**	*
11	143130 - OTH ACCTS RECEIV-EMT TRADING	2,238,652	
12	143140 - OTH ACCTS RECEIV-TRANSMISSION SERVICE	1,146,960	
13	**143160 - OTHER ACCTS RECEIV-BILL ACTUAL REIMBURSBL**	**4,105,058**	*
14	**143180 - OTH ACCTS RECEIV-ARM-PSL PART BILLINGS**	**2,680,411**	*
15	**143191 - OTH ACCTS RECEIV-ARM-UM INVESTIGT FEES**	**15,805**	*
16	143192 - OTH ACCTS RECEIVABLE-STIMULUS GRANT	24,972,139	
17	**143230 - OTH ACCTS RECEIV-EMPLOYEE TOOLS RECEIVAB**	**16,857**	*
18	**143240 - OTH ACCTS RECEIV-EMPLOYEE PAY ADVANCE**	**4,850**	*
19	143371 - OTH ACCTS RECV-FAS 106 MEDICAL SUBSIDY	496,456	
20	**143450 - SAP- Other Accounts Receivable Fuels**	**681,125**	*
21	**143505 - OTH A/R-FORMER EMPL RELOCAT REIMB-CARMS**	**49,777**	*
22	**143615 - OTH ACCTS RECEIV-APPLIANCEGARD-TAXED**	**13,511**	*
23	**143616 - OTH ACCTS RECEIV-APPLINACEGARD-NO TAX**	**6,834**	*
24	**143620 - PAYRMENT POWER PROGRAM-CIS II BILLINGS**	**689**	*
25	**143625 - OAR-LIGHTNING GUARD PROG-CIS II BILLNGS**	**86,630**	*
26	**143635 - FPL SVCS MKTG PROGRAMS - CIS II BILLINGS**	**201,220**	*
27	143644 - MISC REC-UTILITY GARD PROG-ELECT LINE	673	
28	143645 - MISC REC-UTILITY GARD PROG-WATER LINE	1,791	
29	143647 - MISC REC UTILITY GARD PROG-COMBO LINE	28,372	
30	**143648 - MISC RECEIV-APPLIANCE WARRANTY TAXED**	**20,670**	*
31	**143649 - MISC RECEIV-APPLIANCE WARRANTY NO TAX**	**3,919**	*
32	**143650 - MISC RECEIV-SHIELD SURGE TAXED**	**473,981**	*
33	**143654 - RECV SURGESHELD COMMERCL-TAXED SSC RECV**	**11,501**	*
34	143655 - MISC RECEIV-FUTURE PROGRAM L	2	
35	143800 - SAP-Oth Accounts Recv-Federal & State Inc Tax	35,429,151	
36	143810 - OTH ACCTS RECEIV-STATE INCOME TAXES	1,763,647	
37	143820 - OTH ACCTS RECEIV-FUEL TAX REFUNDS	46,654	
38	143910 - OTH ACCTS RECEIV-DAMAGE CLAIMS (ARM)	1,100,823	
39	**143920 - OTH ACCTS RECEIV-WORK ORDERS (ARM)**	**1,929,421**	*
40	143950 - OTH ACCTS RECEIV-CLAIMS EXCESS PAYMENTS	21,535	
41	**143990 - OTH ACCTS RECEIV-CASH CLEARING**	**(5,196,859)**	*
42	**Other-Accounts Reclevable SAP 2002000**	**13,775,578**	*
43	Grand Total for 2011	$ 193,370,445	
44	*** Account descriptions that do not appear to be necessary for providing utility service are starred and in bold type. ***	$ 125,878,147	
45	Percentage of Line 44 / Line 43	65 10%	
46	Amount of other accounts receivable included in 2013 working capital (Total Co)	$ 138,435,000	
47	Line 46 x Line 45	$ 90,116,880	
48	Florida Jurisdictional allocation factor	0.984059	
49	Reduction of accounts receivable that is not necessary for providing utility service on a Florida Jurisdictional Basis	$ 88,680,327	

Source: Lines 1-42 are based on response to SFHHA Interrogatory No 235.
Lines 43 and 46 are from Company Schedule B-6