BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI
FLORIDA POWER & LIGHT COMPANY

IN RE: PETITION FOR RATE INCREASE BY FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY & EXHIBITS OF:

RENAE B. DEATON

COM 5
AFD 4
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JULY 31, 2012

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Renae B. Deaton. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

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

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

- RBD-9, Impacts of Changes to Rate Increase Limitations
- RBD-10, Comparison of Net Impact of Cape Canaveral Recovery through Energy vs. Demand charges
- RBD-11, Changes to Cape Canaveral Rates due to Revised Allocation Factors

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut the testimony of the Florida Industrial Power Users Group's ("FIPUG") witness Pollock, the South Florida Hospital and Healthcare Association's ("SFHHA") witness Baron, the Federal Executive Agencies' ("FEA") witness Stephens, and the Florida Retail Federation's ("FRF") witness Chriss.

Specifically, I will address the Florida Public Service Commission ("FPSC" or "the Commission") policy on gradualism, FPL's proposed rate design for demand and non-fuel energy charges for the general service demand and the Commercial/Industrial Load Control ("CILC") rate classes, the request to reopen the CILC rate classes and increase the CILC and the Commercial/Industrial Demand Reduction ("CDR") rider credits, the recovery of the proposed Cape Canaveral ("CC') step increase through non-fuel energy charges, and the criteria for assessing FPL's performance in relation to the proposed Return on Equity ("ROE") adder.

II. SUMMARY

Q. Please summarize your rebuttal testimony.

A. The first purpose of my rebuttal testimony is to refute the claim that under the Commission's policy for gradualism rate increases should be limited to 1.5 times the system average increase in base rate revenues rather than total revenues, as outlined in the 2009 FPL rate case, Order No. PSC-10-0153-FOF-EI issued March 17, 2010, in Docket Nos. 080677-EI and 090130-EI.

In applying its gradualism policy, the Commission recognized that increase limits may be needed in instances where a customer would see a significant impact on a total bill basis. Imposing a lower cap on the increase limit based on the base revenues rather than total revenues would do little to address parity and would continue the subsidization of certain rate classes.

I also address several intervenor misconceptions related to previously approved rate design methodology. Specifically, I will address the development of demand and energy rates for the general service demand and CILC rate classes, and the appropriate venue for review of the CILC and CDR rates and credits.

In addition, I will demonstrate that the implementation of the proposed CC increase in energy factors better matches the costs with the associated fuel savings to the customers within a class such that all customers would realize the same net impact on a per kWh basis.

Finally, I will address the claim that FPL did not describe how it would assess its performance in relation to the proposed ROE adder.

III. COMMISSION POLICY ON GRADUALISM AND INTERVENOR PROPOSALS FOR ALLOCATING THE REVENUE INCREASE

Q. Do you agree with SFHHA's witness Baron's testimony on page 44 and FEA witness Stephens' testimony on pages 29-31 that the Commission's policy on gradualism should not be applied based on total revenues?

A. No. FPL's proposal appropriately reflects the allocated costs by rate class and is based on Commission guidance that maximum increase limits be applied to the customers' total bills. The Commission stated in FPL's most recent rate case, Order No. PSC-10-0153-FOF-EI issued March 17, 2010, in Docket Nos. 080677-EI and 090130-EI, "Consistent with our decisions in more recent electric rate cases, we find that in this case no class shall receive an increase greater than 1.5 times the system average percentage increase in total, i.e. with adjustment clauses, and no class should receive a decrease." (p. 179)

In prior cases, the Commission has made clear its goal that rates should be based on the fully allocated cost-of-service ("COS") methodology with the objective of achieving full parity among rate classes. In the FPSC Order that first instituted the rate increase limit process, the Commission distinctly indicated that this guideline was designed to mitigate the impact on the total customer bill. The Commission states in Order No. 10306, issued on September 23, 1981, in Docket No. 810002-EU, approving FPL's request for a rate increase: "All parties in this proceeding agree that the revenue increase should be allocated between classes so as to move toward an equalized rate of return for all classes. While we embrace this concept, we feel the impact on *customers' bills* must be considered in allocating revenues." (emphasis added) (p. 106-107)

Q. On pages 46-47 of SFHHA witness Baron's testimony, three alternative revenue allocations are presented. Do you agree with any of these methodologies?

A. No. SFHHA witness Baron's proposed revenue increase allocations are based on flawed COS methodologies as applied to the FPL system, as addressed by

FPL witness Ender. His methodologies result in a benefit to the customers that he represents by improperly shifting costs and revenue increases out of those customers' rate classes and into others, specifically residential and small general service customers.

Q. How would SFHHA witness Baron's proposal affect the various rate classes?

A. Under SFHHA witness Baron's approach, fewer rate classes would reach parity levels and a greater level of cross-subsidization would continue for the foreseeable future. Specifically, Mr. Baron's approach would result in a continued subsidy, i.e., the residential and general service rate classes overpaying, of approximately $66 million, as shown in Exhibit RBD-9, Page 1 of 1, Column (E). The Residential, RS(T)-1 class would end up shouldering the bulk of the subsidization, as target revenues would need to be increased an additional $59 million. The General Service, GS(T)-1 rate class would be allocated most of the remaining subsidization as it would receive an additional increase of $7 million. The General Service Demand, GSD(T)-1 and General Service Large Demand, 1 GSLD(T)-1 rate classes would receive most of the benefit in a $53 million reduction in target revenues.

IV. RATE DESIGN FOR DEMAND-BASED RATES

Q. Do you agree with FIPUG witness Pollock's statement on page 37 of his testimony that FPL has underpriced the demand charge and overpriced energy charges for the GSLD(T) and CILC rate classes?

A. No. The COS, as proposed, was closely followed in the rate design process. However, following a strict unit rate for demand charges would distort the relationships between the general service demand classes and make it difficult to achieve target revenues while maintaining time-of-use ("TOU") design goals and principles. As stated in FPL's response to FIPUG's Third Set of Interrogatories, No. 15, part (e), "the adjustments to the per unit demand costs are made to mitigate the impact to low load factor customers and to help achieve revenue neutrality with the optional rate schedules. A larger adjustment was made to the GSD(T)-1 customer class than the GSLD(T)-1 and GSLD(T)-2 classes because the GSD(T)-1 class has a lower load factor on average."

FPL's proposed rate design adheres to the Commission's position on this issue in past rate cases. In Order No. PSC-10-0153-FOF-EI issued March 17, 2010, in Docket Nos. 080677-EI and 090130-EI, the Commission stated: "However, consideration of rate stability and rate shock are also important considerations in rate design. Increases in the demand charge impact low load factor customers to a greater extent than high load factor customers because they are less able to offset the higher demand costs with lower energy costs and are thus less able to affect their total bill." (p. 189)

Additionally, FPL offers High Load Factor ("HLFT") rates for those customers that prefer a higher demand and lower energy charge.

Q. Do you agree with FIPUG witness Pollock on page 39 of his testimony and SFHHA witness Baron on pages 50-51 of his testimony that FPL's proposed on-peak energy charges for TOU rate classes are not appropriate?

A. No. As stated in FPL's response to Staff's Third Set of Interrogatories, No. 42, the methodology that FPL used to set the proposed on- and off-peak energy charges for TOU rates followed the rate design methodologies approved in Order No. PSC-10-0153-FOF-EI issued March 17, 2010, in Docket Nos. 080677-EI and 090130-EI, and in Order No. PSC-92-1197-FOF-EI issued October 22, 1992 in Docket No. 910890-EI. In compliance with these Orders, FPL set off-peak charges to the class' unit cost of energy and only adjusted the on-peak charges to achieve revenue neutrality with the parent rate. In cases where the revenue neutrality calculation resulted in an on-peak charge being lower than the off-peak charge, FPL set the on-peak and off-peak charges to be equal and adjusted both by equal amounts to achieve revenue neutrality.

These charges were proposed to comply with the Commission's prior guidance as referenced above and in recognition of the investigation into FPL's TOU rates in Docket No. 100358-EI (Investigation into the design of Commercial Time-of-Use rates by Florida Power & Light). Following that investigation, the Commission issued Order No. PSC-11-0216-PAA-EI on May 11, 2011, which stated: "The purpose of price signals is to encourage customers to shift usage to less costly periods of use, such as off-peak periods when plant utilization is low." (p. 7) The Commission also encouraged FPL to increase the differential in the on- and off-peak rates through use of marginal fuel prices.

In this case, FPL has followed the Commission's directions for designing TOU rates and maximized the difference in the on- and off-peak rates.

Q. Do you agree with SFHHA witness Baron's and FIPUG witness Pollock's recommendations that it would be more appropriate to recover the required increases for CILC rate classes (above that needed to raise energy charges to unit costs), only on the demand charges of the rate instead of the on-peak energy charge?

A. No. Both the demand and energy charges are developed as approved by the Commission in Order No. 22747, issued on March 28, 1990 and amended on April 26, 1990, approving the CILC program in Docket No. 891045-EG. The CILC rate classes' demand charges are set to recover the production, transmission, and distribution demand related revenue requirements, without adjustment. Any differential in target revenues needed to bring the class to parity are properly recovered from CILC customers' firm and non-firm load through the energy charge. As discussed above, all TOU rates are set pursuant to Commission Order and guidance, with the off-peak charge set to the energy unit costs. Therefore, the on-peak energy charge is properly adjusted to recover the remaining target revenue increase.

Additionally, the CILC base target revenue increases reflect the fact that the CILC credits incorporated in the rates are recovered through the Energy Conservation Cost Recovery ("ECCR") clause. The credits included in the test year reflect the forecast provided by the Demand Side Management ("DSM") program department and are based on the difference in base demand and energy revenues under the CILC rate and the otherwise applicable firm rate schedule, as required in Commission Order No. 22747, issued on March 28, 1990, and amended on April 26, 1990, approving the CILC program in Docket No. 891045-EG. CILC revenues at present rates are adjusted to reflect the CILC Incentive Offset as detailed in MFR E-5, row 6. Without this adjustment, the target revenues for the CILC rate classes would be higher by $25.2 million.

V. APPROPRIATE VENUE FOR REVIEW OF CILC & CDR RATES AND CREDITS

Q. Do you agree with FIPUG witness Pollock's assertions beginning on page 40 of his testimony that the CILC Rate Schedule should be reopened and the credits for CILC and the CDR Rider should be increased in this docket?

A. No. The CILC and CDR rates are conservation programs initiated as part of FPL's DSM plan. The proper venue for addressing conservation programs is in the DSM plan docket. FPL's DSM plan was recently assessed by the Commission in Docket No. 100155-EG. The Commission concluded in that docket that FPL's current programs should continue without modification. In Order No. PSC-11-0346-PAA-EG, the Commission stated, "We find that the programs currently in effect, contained in FPL's existing plan, are cost effective and accomplish the intent of the statute. Therefore, exercising the specific authority granted us by Section 366.82(7), F.S., we hereby modify FPL's 2010 Demand-Side Management Plan, such that the DSM Plan shall consist of those programs that are currently in effect today." (p. 5)

Since the CILC program was frozen and closed to new customers in Order No. PSC-99-0505-PCO-EG issued on March 10, 1999, in Docket No. 990002-EG, re-opening the program would be contrary to the Commission's Order to continue the current programs without modification. Likewise, increasing the credits for either CILC or CDR would be contrary to the Commission's Order. Any request to reopen the CILC rate classes and increase the CILC and CDR rider credits should be addressed in a DSM docket and not a base rate docket.

Q. Do you agree with FIPUG witness Pollock's assertions on page 24 of his testimony that FPL's CILC incentives do not accurately reflect the cost differential between firm and non-firm service and that the incentives should be increased?

A. No. Witness Pollock's calculation of the firm and non-firm differential is flawed. Witness Pollock assumes that all CILC-1G incentives are calculated based on the differential in the GSDT-1 rate, all CILC-1D incentives are calculated based on the differential in the GSLDT-1 rate and all CILC-1T incentives are calculated based on the differential in the GSLDT-3 rate. This is an incorrect assumption. First, customers under the CILC-1D rate are eligible to take service under either the GSLD-1 or the GSLD-2 rates or their optional alternative rates. Second, FPL calculates the CILC incentives based on the differential in the revenue under the CILC base rate, excluding the customer charge, and the rate each customer was on at the time they started taking service under the CILC program, whether that is the standard rate or one of the optional rate alternatives.

If the differential between the proposed CILC rates and the firm general service demand rates does not exactly equal the forecasted CILC incentives, I do not agree with witness Pollock's conclusion that the incentive should be increased. Instead, FPL should adjust the CILC rates such that the differential is closer to the incentives. The CILC-1G rate should be reduced and the CILC-1D and 1T rates should be increased. The level of the differential between the firm and non-firm rate is built into the rate by factoring in the incentives under current rates.

VI. CAPE CANAVERAL STEP INCREASE RATE DESIGN

Q. Do you agree with FIPUG witness Pollock at page 37 of his testimony and SFHHA witness Baron on pages 51-53 of his testimony that the CC step increase rate design is inappropriate?

A. No. Both witness Pollock and witness Baron assert that the CC rate design is inappropriate and that the CC increase should be recovered through both demand and energy charges. I disagree. Applying the step increase to energy charges rather than demand charges better matches the increased cost associated with CC with the benefit of the fuel savings associated with CC that will be reflected in the fuel factors when CC goes into service.

Exhibit RBD-10, Page 1 of 1, illustrates how customers would be impacted by the proposed change to the application of the CC step increase. For GSD customers, the proposed CC base energy factor is 0.153¢/kWh with estimated fuel savings of (0.104)¢/kWh, resulting in an estimated net increase of 0.049¢/kWh for all GSD customers.

If the increase were recovered through demand charges instead, the demand rate would increase by $0.53 per kW. In that case, an average load factor customer would still realize a net increase of .049¢/kWh. However, a 30% load factor customer would see a net increase of 0.139¢/kWh and an 80% load factor customer would see a net decrease of (0.013)¢/kWh. This example illustrates that recovery of the CC step increase through non-fuel energy rates, rather than through the demand charge, most closely matches costs with benefits.

Q. Did FPL file additional information on the Cape Canaveral step increase factor?

A. Yes, on April 27, FPL filed a Notice of Identified Adjustments. One of the identified adjustments was a revision to the cost allocation factors for the Cape Canaveral step increase. The revised allocations and factors are shown on Exhibit RBD-11.

Q. Did FPL also provide an update to the 1000 kWh typical residential bill at that time?

A. Yes, FPL included an updated typical residential bill impact that included the changes in the Cape Canaveral step increase factor, the revised EPU factor reflecting the updated estimates provided in the April 27 NCR filing, and updated 2013 estimated fuel factors reflecting April 2 fuel curves.

Q. Is FPL providing a further update to the bill comparisons reflected in Exhibit RBD-2 as part of its rebuttal testimony?

A. No. FPL plans to provide an update to Exhibits RBD-2 and ES-2 close to the beginning of the hearings, which will allow us to incorporate the updated information on fuel projections that will be used for FPL's projected 2013 Fuel Clause filing.

VII. PERFORMANCE BASED ROE ADDER

Q. Do you agree with FRF witness Chriss' statement on page 9 of his testimony that FPL has "proposed a performance-based adder that rewards positive performance but does not address how the ROE adder would be removed from rates were FPL's future benchmark results to show that the Company should no longer receive the adder?"

A. No. On lines 9 – 23 of page 23 and lines 1-3 of page 24 of my direct testimony, I describe the proposed criteria for assessing FPL's performance, when and how the Commission would be notified, and the per kWh amount of FPL's rate adjustments based on the results of that assessment.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Florida Power & Light
Comparison of FPL Proposed Revenue Increases to SFHHA Recommended Revenue Increases by Rate Class

Line No.	Rate Class	FPL Revenue Increases as filed MFR E-8	SFHHA Recommended Revenue Increases (SJB-8, Schedule D)	$ Change (D) - (C)	% Change (E) / (C)
(A)	(B)	(C)	(D)	(E)	(F)
1	CILC-1D	13,033,363	5,951,649	(7,081,714)	-54%
2	CILC-1G	336,683	12,958	(323,725)	-96%
3	CILC-1T	5,679,018	2,904,845	(2,774,173)	-49%
4	GS(T)-1	3,470,985	10,758,309	7,287,324	210%
5	GSCU-1	38,622	169,940	131,318	340%
6	GSD(T)-1	97,178,003	55,145,807	(42,032,196)	-43%
7	GSLD(T)-1	66,064,545	55,336,918	(10,727,627)	-16%
8	GSLD(T)-2	13,054,948	10,188,255	(2,866,693)	-22%
9	GSLD(T)-3	593,621	419,656	(173,965)	-29%
10	MET	553,357	429,827	(123,530)	-22%
11	OL-1	1,303,240	1,185,428	(117,812)	-9%
12	OS-2	123,455	105,933	(17,522)	-14%
13	RS(T)-1	306,518,843	365,887,605	59,368,762	19%
14	SL-1	7,990,430	7,944,529	(45,901)	-1%
15	SL-2	(225,723)	3,030	228,753	-101%
16	SST-DST	58,322	66,451	8,129	14%
17	SST-TST	749,583	10,014	(739,569)	-99%
18	TOTAL RETAIL	516,521,295	516,521,154	(141)	

Comparison of Net Impact of Canaveral Step Increase
Recovered through the Energy vs. Demand Charges (Using Rate Schedule GSD as an example)

Net Impact of Energy Based CC Factor

CC Base Energy Factor for GSD Rate Schedule	0.153	
Estimated CC Fuel Savings for GSD Rate Schedule	-0.104	
Net CC Increase in Energy	**0.049**	**¢/kWh**

Net Impact of Demand Based CC Factor

Demand:	50	kW
GSD CC Base Demand Factor	0.53	$/kW
CC Increase in Demand	**26.60**	**$/month**

Fuel Savings at various load factors

Load Factor	Energy Use:	CC Increase in Demand	Estimated CC Fuel Savings	CC Charges net of Fuel Savings	Net Canaveral Costs ¢/kWh	Load Factor Category
48%	17,384	26.60	(18.08)	8.52	**0.049**	Average
80%	29,200	26.60	(30.37)	(3.77)	**(0.013)**	High
30%	10,950	26.60	(11.39)	15.21	**0.139**	Low

Changes to Cape Canaveral Rates due to Revised Allocation Factors

Line	Rate Class	Total Sales kWh (1)	Canaveral Revenue Requirement Allocation - As Filed % (2)	Canaveral Revenue Requirement Allocation - Revised % (3)	Canaveral Revenue Requirement - As Filed $000s (4)	Canaveral Revenue Requirement Revised $000s (7)	Difference $000s (8)	2013 Canaveral Energy Factor As Filed $ / kWh (9)	2013 Canavera l Energy Factor Revised $ / kWh (12)	Difference $ / kWh (13)	Difference % (14)
1	CILC-1D	2,865,110,154	2.5%	2.1%	4,384	3,622	-762	0.00153	0.00126	-0.00027	-17.6%
2	CILC-1G	177,812,951	0.2%	0.1%	278	233	-45	0.00156	0.00131	-0.00025	-16.0%
3	CILC-1T	1,342,962,457	1.1%	0.9%	1,979	1,600	-378	0.00147	0.00119	-0.00028	-19.0%
4	GS(T)-1	5,851,293,153	5.7%	5.8%	9,967	10,004	37	0.00170	0.00171	0.00001	0.6%
5	GSCU-1	37,911,020	0.0%	0.0%	58	47	-12	0.00154	0.00123	-0.00031	-20.1%
6	GSD(T)-1	25,106,278,915	23.6%	22.1%	41,042	38,504	-2,538	0.00163	0.00153	-0.00010	-6.1%
7	GSLD(T)-1	11,323,169,609	10.5%	9.8%	18,253	17,008	-1,245	0.00161	0.00150	-0.00011	-6.8%
8	GSLD(T)-2	2,453,405,165	2.2%	1.9%	3,784	3,244	-540	0.00154	0.00132	-0.00022	-14.3%
9	GSLD(T)-3	199,703,548	0.2%	0.1%	301	255	-46	0.00151	0.00128	-0.00023	-15.2%
10	MET	92,800,603	0.1%	0.1%	151	152	0	0.00163	0.00163	0.00000	0.0%
11	OL-1	99,468,089	0.1%	0.0%	127	44	-82	0.00127	0.00045	-0.00082	-64.6%
12	OS-2	12,592,879	0.0%	0.0%	19	16	-3	0.00151	0.00130	-0.00021	-13.9%
13	RS(T)-1	53,081,851,668	53.3%	56.8%	92,615	98,703	6,087	0.00174	0.00186	0.00012	6.9%
14	SL-1	532,201,007	0.4%	0.1%	674	233	-441	0.00127	0.00044	-0.00083	-65.4%
15	SL-2	32,761,953	0.0%	0.0%	52	41	-10	0.00158	0.00126	-0.00032	-20.3%
16	SST-DST	7,621,954	0.0%	0.0%	11	8	-3	0.00144	0.00103	-0.00041	-28.5%
17	SST-TST	97,718,947	0.1%	0.1%	157	137	-20	0.00161	0.00141	-0.00020	-12.4%
18	Total	103,314,664,074	100.0%	100.0%	173,851	173,851	0	0.00168	0.00168	0.00000	0.0%
19											
20		Revenue from Billed Sales	Billed		173,659						
21		Revenue from Unbilled Sales	Unbilled		192						
22		Total	Total		173,851						

23
24 **Notes:**
25 * Base Operating Revenue at proposed rates effective January 1, 2013.
26 Sales forecast is consistent with that used in FPL's January 2013 Base Rate increase
27 TOTALS MAY NOT ADD DUE TO ROUNDING