

**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:

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GEORGE K. HARDY

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1 **I. INTRODUCTION**

2

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

4 A. My name is George K. Hardy. My business address is Florida Power & Light
5 Company ("FPL"), 700 Universe Blvd., Juno Beach, Florida, 33408.

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

7 A. Yes.

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

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

- 10 • GKH-3 Hardening Plan O&M Expenses / Miles Hardened
11 • GKH-4 Pole Inspection Program Costs – Actual vs. Budget

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

13 A. The purpose of my rebuttal testimony is to refute claims made in the direct
14 testimonies of South Florida Hospital and Healthcare Association ("SFHHA")
15 witness Lane Kollen and Office of the Public Counsel ("OPC") witness Helmuth
16 Schultz III which result in their recommendations to reduce FPL's 2013
17 vegetation management, hardening plan and pole inspection O&M expenses.

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

19 A. SFHHA witness Kollen is proposing to adjust FPL's projected 2013 (test year)
20 vegetation management O&M expenses (\$68.7 million, total company) to the
21 2012 budget O&M expense level (\$59.2 million, total company). To support this
22 adjustment, Mr. Kollen asserts that there is no valid justification for a 16%
23 increase in test year vegetation management O&M expenses and that these O&M

1 expenses should be declining, not increasing. Mr. Kollen also suggests that FPL
2 has not quantified or provided any savings associated with its system reliability
3 initiatives (e.g., pole inspections). My testimony shows that: Mr. Kollen's
4 proposed adjustment to vegetation management O&M expenses is not appropriate
5 and should be rejected. Additionally, based on his comments, I believe Mr. Kollen
6 may not understand or be completely familiar with the purpose and justification
7 for implementing FPL's Commission-approved storm hardening plan and storm
8 preparedness initiatives.

9
10 OPC witness Schultz is proposing to reduce FPL's projected 2013 test year
11 vegetation management and hardening plan O&M expenses by \$9.3 million (total
12 company) and pole inspection O&M expenses by \$2.7 million (total company).
13 Mr. Schulz utilizes historic actual vs. budgeted O&M expense performance to
14 calculate his proposed test year O&M expense reductions. My testimony shows
15 that: (1) Mr. Schultz's proposed test year O&M expenses reductions are not
16 appropriate and should be rejected; and (2) even if one accepts his adjustment
17 methodology, he has overstated his total proposed approximately \$12 million
18 O&M expense reduction for vegetation management, hardening plan and pole
19 inspections by over \$8 million or 67%.

1 **II. REBUTTAL TO TESTIMONY OF SFHHA WITNESS LANE KOLLEN**

2

3 **Q. Please comment on SFHHA witness Kollen’s assertion that there is no valid**
4 **justification for a \$9.4 million or 16% test year increase (vs. 2012) in**
5 **vegetation management O&M expenses.**

6 A. Witness Kollen’s proposed vegetation O&M expense reduction should be
7 rejected. Once the 2012 budget is increased by \$3.5 million to properly account
8 for a necessary under-forecast adjustment, the filed 2012 vegetation management
9 O&M expenses increase from \$59.2 million to \$62.7 million. This results in a 9%
10 increase in 2013 instead of the 16% increase used by Mr. Kollen to support his
11 proposed adjustment. The resulting 9% increase is supportable, reasonable and
12 consistent with recent historical increases.

13 **Q. Please provide more information concerning the 2012 \$3.5 million under-**
14 **forecast adjustment.**

15 A. Shortly after the 2012 budget was finalized and approved, FPL realized that its
16 2012 forecast for vegetation management O&M expenses was under-forecast.
17 Based on the recent historical trend for vegetation management costs, (i.e., \$53
18 million, \$58 million, and \$60 million for 2009-2011, respectively) and the fact
19 that FPL has been increasing the annual number of lateral miles trimmed in order
20 to achieve the Commission-approved 6-year average trim cycle by 2013, it
21 became apparent that an adjustment was necessary. Because FPL’s rate request is
22 based on forecasted 2013 costs, FPL did not believe an adjustment to correct for
23 this in its filing was necessary. However, to respond to Mr. Kollen’s assertion and

1 recommendation to reduce these expenses because of the apparent 16% increase
2 in 2013, this adjustment is necessary and appropriate to include at this time. As a
3 result of this under-forecast and FPL's commitment to meet its Commission-
4 approved tree trimming cycle requirements, FPL expects to exceed its approved
5 2012 vegetation management budget. In fact, actual results for the six months
6 ended June 30, 2012 indicate that vegetation management expenses are exceeding
7 the 2012 budget by \$4 million (actual \$32 million vs. budget \$28 million).

8 **Q. Please explain the basis for the \$6 million or 9% increase in 2013 (vs. 2012)**
9 **vegetation management expenses.**

10 A. The primary factors contributing to the 2013 \$6 million increase in expenses are
11 associated with trimming an additional 500 miles of feeders in 2013 (necessary to
12 achieve the Commission-approved 3-year average trim cycle in 2013), increases
13 in vegetation management contractor rates throughout FPL's service territory (per
14 agreements with FPL's vegetation management vendors) and increases in lateral
15 trimming costs due to the geographic location of the lateral miles scheduled to be
16 trimmed in 2013 (e.g., tree trimming costs per mile for a given management area
17 can vary significantly based on factors such as differences in the vegetation
18 density of each mile trimmed, elapsed time since the circuit was last trimmed,
19 accessibility and permitting requirements). Increases associated with other
20 vegetation management activities, (e.g., tree removals and customer trim
21 requests), also contribute to the overall increase. The 9% test year increase is in
22 line with recent historical year-to-year percentage increases.

1 **Q. Do you agree with witness Kollen’s assertion that “if anything, expenses**
2 **should decline in the test year”?**

3 A. No. As previously discussed, FPL needs to trim an additional 500 miles of feeder
4 lines in 2013 in order to achieve the Commission-approved 3-year average trim
5 cycle. The number of lateral and mid-cycle miles to be trimmed in 2013 remains
6 the same as the number of miles planned for 2012. The additional miles to be
7 trimmed along with the other contributing factors previously discussed provide
8 the clear rationale for the necessary 9% increase in 2013. Conversely, Mr. Kollen
9 provides no basis for his assertion that expenses should be declining.

10 **Q. Please comment on witness Kollen’s assertion that FPL “has incurred tens of**
11 **millions of dollars to implement a series of initiatives to improve system**
12 **reliability” (e.g., FPL’s 8-year pole inspection program), yet it is unable to**
13 **quantify or show any associated cost savings (e.g., restoration cost savings) in**
14 **the test year.**

15 A. I disagree with Mr. Kollen’s assertion that FPL has not quantified or provided any
16 showing of savings in restoration costs associated with the initiatives in question.
17 While FPL’s reliability initiatives are generally evaluated and implemented based
18 on the cost to implement and the expected reduction in the number of
19 interruptions, minutes of interruptions and/or momentaries, FPL does consider
20 and include, among other things, expected reliability improvements when
21 projecting restoration expenses. In fact, taking these reliability improvements and
22 other factors into account resulted in restoration expenses for 2013 (\$80.7 million)

1 being approximately \$7 million or 9% lower than those actually incurred in 2010
2 (\$87.7 million) and 2011 (\$88.1 million).

3
4 Additionally, it appears that Mr. Kollen may not understand or be completely
5 familiar with the Commission's proceedings concerning storm hardening and
6 storm preparedness. The primary basis/justification for implementing an 8-year
7 pole inspection cycle, storm preparedness initiatives (e.g., trim cycles for feeders
8 and laterals) and storm hardening plans (e.g., constructing distribution facilities to
9 the National Electrical Safety Code extreme wind loading construction criteria)
10 was avoiding and minimizing storm damage and outages, reducing outage
11 duration and reducing storm restoration costs associated with major storms. In
12 particular, the pole inspection and hardening plan initiatives help to ensure that
13 the distribution pole population is properly maintained and strengthened. While
14 these two initiatives should reduce pole damage, outages, outage duration and
15 storm restoration costs associated with major storms, they will have little impact
16 on day-to-day reliability since historically, non-major storm outages due to pole
17 conditions are negligible (approximately 0.1% per year).

18
19 **III. REBUTTAL TO TESTIMONY OF OPC WITNESS HELMUTH SCHULTZ III**

20
21 **Q. Do you agree with OPC witness Schultz's proposed adjustment of \$9.240**
22 **million (total company) for 2013 vegetation and hardening plan O&M**

1 **expenses, which was determined by multiplying FPL's 2013 costs by a**
2 **historical (2008-2010) budget to actual variance percentage (87.06%)?**

3 A. No. FPL's 2013 vegetation management and hardening plan O&M expenses are
4 appropriate as filed and Mr. Schultz's proposed adjustment should be rejected.
5 His methodology and calculations fail to account for certain significant items. As
6 a result, his calculations are distorted and his proposed O&M expense reductions
7 are overstated, inappropriate and should be rejected.

8 **Q. Why is witness Schultz's proposed adjustment to reduce 2013 vegetation**
9 **management O&M expenses by approximately \$8.9 million inappropriate?**

10 A. Mr. Schultz's methodology and calculations fail to account for a significant event
11 that must be incorporated and appropriately accounted for before evaluating
12 vegetation management budget vs. actual expenses for 2008-2010. Failure to
13 include this event and its associated impacts distort the actual-to-budget
14 performance of vegetation management O&M expenses during this period.

15 **Q. Please explain.**

16 A. In the latter part of 2008, FPL successfully negotiated and obtained vegetation
17 management contractor rate concessions which resulted in significant savings. At
18 that time, FPL estimated the savings associated with these reduced rates for 2008
19 and 2009 to be approximately \$3.9 million and \$11.6 million, respectively.
20 Because the 2008 and 2009 budgets were already approved at that time, the
21 savings were not incorporated into the budget calculations. Incorporating these
22 adjustments for the purpose of this analysis is appropriate and significantly
23 reduces the original actual-to-budget variances for 2008 and 2009.

1 **Q. How did the estimated 2008 and 2009 vegetation management savings**
2 **compare to the actual realized savings?**

3 A. The actual savings realized exceeded the above-mentioned estimated savings for
4 2008 and 2009 and this continued to carry over into 2010 as well. As a result,
5 FPL's adjusted actual-to-budget performance during this 3-year period averaged
6 approximately 95%, which is much better than the 87.06% factor utilized by Mr.
7 Schultz.

8 **Q. How does the adjusted actual-to-budget performance of 95% during 2008-**
9 **2010 compare to previous years' actual-to-budget performance?**

10 A. From 1998-2007, the average actual-to-budget ratio performance for vegetation
11 management O&M expenses was excellent, averaging 99.1%, or less than 1%
12 below budget.

13 **Q. What was FPL's 2011 actual-to-budget performance for vegetation**
14 **management O&M expenses?**

15 A. In 2011, FPL returned to an excellent actual-to-budget performance level,
16 achieving an actual-to-budget performance level of 100.4%.

17 **Q. Do you agree with witness Schultz's assumption that it is reasonable to**
18 **believe that FPL's 2013 vegetation management O&M expenses should be**
19 **less than what was actually expended in 2011?**

20 A. No. His assumption is based on the 2012 budget (\$59.2 million) for vegetation
21 O&M expenses being less than 2011 actual (\$60.4 million). As previously
22 mentioned, the 2012 budget for vegetation management O&M expenses was
23 under-forecast by \$3.5 million. Adjusting for this under-forecast increases the

1 original 2012 budget amount from \$59.2 million to \$62.7 million. This resulting
2 increase in the 2012 budget vs. the actual 2011 vegetation management O&M
3 expenses eliminates the basis for Mr. Schultz's assumption.

4 **Q. After considering the information you have provided and the necessary**
5 **adjustments that must be incorporated into the analysis, please summarize**
6 **your comments regarding Mr. Schultz's proposed reduction to the 2013**
7 **vegetation management O&M expenses.**

8 A. After considering FPL's excellent actual-to-budget performance from 1998-2007,
9 incorporating the previously discussed significant impacts associated with the
10 2008 contractor rate reductions (which significantly improve the actual-to-budget
11 performance results for 2008 and 2009) and FPL's return to excellent actual-to-
12 budget performance results in 2011, an adjustment based on Mr. Schultz's actual
13 vs. budget performance methodology is not warranted or appropriate. FPL's 2013
14 vegetation management expenses of \$68.7 million are appropriate as filed and
15 should not be reduced.

16 **Q. Using this same budget-to-actual methodology for hardening plan expenses,**
17 **witness Schultz is also proposing a reduction to FPL's hardening plan O&M**
18 **expenses of \$0.4 million. Do you agree that his adjustment is appropriate?**

19 A. No. Mr. Schultz's proposed reduction for hardening plan O&M expenses is not
20 appropriate and should be rejected.

21 **Q. Please explain.**

22 A. Hardening costs are primarily a function of: (1) the type of hardening construction
23 being employed, i.e., extreme wind loading standard hardening (used to harden

1 critical infrastructure facilities serving hospitals and 911 centers) or incremental
2 hardening (used on facilities serving other community needs like gas stations and
3 grocery stores); and (2) the number of miles being hardened. Exhibit GKH-3,
4 provides hardening plan O&M expenses and total miles hardened by year. As
5 illustrated, the hardening O&M expenses per mile for 2013 compare extremely
6 favorably to historical results, with the 2013 O&M expense per mile amount
7 being over 40% lower than the 5-year average and over 22% lower than any one
8 year. This demonstrates that FPL's hardening plan expenses for 2013 are
9 reasonable and that the adjustment proposed by Mr. Schultz is not appropriate and
10 should be rejected.

11 **Q. Witness Schultz proposes to reduce 2013 pole inspection O&M expenses by**
12 **approximately \$2.7 million, utilizing the same historical budget-to-actual**
13 **methodology that has been previously discussed. Do you agree that FPL's**
14 **2013 pole inspection expenses should be reduced?**

15 A. No. FPL's 2013 pole inspection O&M expenses are appropriate. Reducing these
16 O&M expenses would prevent FPL from being able to complete all the necessary
17 work associated with its pole inspection program.

18 **Q. Please explain.**

19 A. It is important to recognize that pole inspection costs include capital expenditures
20 as well as O&M expenses. Since implementing the pole inspection program in
21 mid-2006, capital expenditures have accounted for 70% and O&M expenses 30%
22 of total pole inspection costs. Exhibit GKH-4 provides 2007-2011 actual vs.
23 budgeted capital expenditures and O&M expenses for FPL's pole inspection

1 program. As illustrated, capital expenditures and O&M expenses have separately
2 maintained larger actual to budget variances (with capital expenditures usually
3 exceeding budget and O&M expenses more often being under budget). However,
4 combined capital and O&M expenses have an average actual-to-budget
5 performance ratio of 103%. Stated another way, total program costs for FPL's
6 pole inspection program have exceeded its total budget, on average, by three
7 percent. It is also important to note that the 2013 pole inspection expenses are
8 nearly 20% lower than those actually incurred in 2011. Incorporating a "one-
9 sided" adjustment for expenses without a comparable adjustment for capital
10 expenditures is not appropriate. Mr. Schultz's proposed reduction in FPL's 2013
11 pole inspection expenses are unsupported and should be rejected. FPL's 2013 pole
12 inspection expenses of \$14.1 million should not be reduced and are appropriate as
13 filed.

14 **Q. If the Commission was to accept witness Schultz's proposed actual-to-budget**
15 **methodology to reduce vegetation management, hardening plan and pole**
16 **inspection O&M expenses, would you propose any adjustments to his**
17 **calculations and proposed reduction amounts?**

18 A. As stated earlier, Mr. Schultz's proposed actual-to-budget performance
19 adjustment methodology is not appropriate. However, if the Commission accepted
20 this methodology, the previously discussed budget adjustments for the contractor
21 rate concessions obtained in late 2008 and utilizing a more current 5-year average
22 (2007-2011 vs. the 3-year 2008-2010 utilized by Mr. Schultz) actual-to-budget
23 performance rate would be necessary and appropriate. These corrections would

1 lower his total proposed adjustment by over \$8 million (total company) or 67%.
2 Specifically, Mr. Schultz's total company vegetation management O&M expense
3 adjustment would be reduced from \$8.885 million to \$2.053 million; his
4 hardening plan O&M expense adjustment would increase from \$0.355 million to
5 \$0.602 million; and his pole inspection O&M expense adjustment would decrease
6 from \$2.734 million to \$1.277 million.

7 **Q. Does this mean that you are proposing that FPL reduce 2013 O&M expenses**
8 **by these corrected adjustment amounts?**

9 A. No. As discussed earlier, I believe FPL's vegetation management, hardening plan
10 and pole inspection O&M expenses are appropriate as filed.

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

12 A. Yes.

Hardening Plan O&M Expenses / Hardening Plan Miles

Line No.		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	5 Year <u>Average</u>	<u>2012</u>	<u>2013</u>
1	Miles Hardened	135	239	322	172	145	203	198	250
2	O&M Expenses (000)	\$2,592	\$5,178	\$6,561	\$2,888	\$2,043	\$3,852	\$2,052	\$2,746
3	OM Exps./Mile (000)	\$19.20	\$21.67	\$20.38	\$16.79	\$14.09	\$19.01	\$10.36	\$10.98
4									
5	EWL Miles	52	166	299	157	125	166	124	158
6	Incremental Miles	<u>83</u>	<u>73</u>	<u>23</u>	<u>15</u>	<u>20</u>	<u>37</u>	<u>74</u>	<u>92</u>
7	Total Miles	135	239	322	172	145	203	198	250

2013 hardening plan O&M expenses / mile are 42% lower than 2007-2011 average and 22% lower than any previous year (2011).

Pole Inspection Program Costs - Capital Expenditures and O&M Expenses, Actual vs. Budget (\$ Millions)

Line No.	Expenditure Type	2007	2007	2008	2008	2009	2009	2010	2010	2011	2011	5 Year	5 Year	5 Year Average	2012	2013
		Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Total	Total			
1	Capital	\$ 26.9	\$ 18.9	\$ 27.2	\$ 24.9	\$ 25.1	\$ 26.4	\$ 39.3	\$ 37.0	\$ 49.5	\$ 48.2	\$ 168.0	\$ 155.4	108%	\$ 47.8	\$ 51.9
2	O&M Expenses	\$ 8.6	\$ 8.4	\$ 12.7	\$ 14.4	\$ 10.9	\$ 13.0	\$ 10.7	\$ 15.1	\$ 17.5	\$ 15.5	\$ 60.4	\$ 66.4	91%	\$ 14.6	\$ 14.0
3	Total Program Costs	\$ 35.5	\$ 27.3	\$ 39.9	\$ 39.3	\$ 36.0	\$ 39.4	\$ 50.0	\$ 52.1	\$ 67.0	\$ 63.7	\$ 228.4	\$ 221.8	103%	\$ 62.4	\$ 65.9
4	Actual/Budget %		130%		102%		91%		96%		105%			103%		

Total 2007-2011 actual pole inspection program costs exceed budget by 3%

Total 2013 pole inspection program costs are < 2011 actual

2013 pole inspection program expenses are 20% < 2011 actual and 4% < 2012 forecast expenses