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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Florida Power & Light Company	§ § § § § §	**Docket No.: 120015-EI** **Filed: August 6, 2012**

PREHEARING STATEMENT OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION

Pursuant to Order No. PSC-12-0143-PCO-EI.

A. APPEARANCES:

Kenneth L. Wiseman, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; **Mark F. Sundback**, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; **Lisa M. Purdy**, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; **William M. Rappolt**, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; **J. Peter Ripley**, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; **Blake R. Urban**, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005.

On Behalf of the South Florida Hospital and Healthcare Association

B. WITNESSES:

Witness	Subject Matter
Richard A. Baudino	Return on equity and capital structure
Stephen J. Baron	Class cost of service and rate design
Lane Kollen	Rate base issues, operating income issues, rate of return issues, storm cost recovery, and impact on revenue requirements

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C. **EXHIBITS**:

Exhibits	**Witness**	**Description**
RAB-1	Richard A. Baudino	Resume of Richard A. Baudino
RAB-2	Richard A. Baudino	Historical Bond Yields
RAB-3	Richard A. Baudino	DCF Dividend Yield Calculations
RAB-4	Richard A. Baudino	DCF Growth Rates and ROE Calculation
RAB-5	Richard A. Baudino	CAPM Analysis: Comparison Group
RAB-6	Richard A. Baudino	CAPM Analysis: Historic Market Premium
RAB-7	Richard A. Baudino	Avera Utility Proxy Group Growth Rates
RAB-8	Richard A. Baudino	Five Year VIX Chart
RAB-9	Richard A. Baudino	NextEra Investor Presentations
RAB-10	Richard A. Baudino	Avera Prior Testimony
RAB-11	Richard A. Baudino	Selected FPL Data Responses
RAB-12	Richard A. Baudino	Credit Rating Agency Report
RAB-13	Richard A. Baudino	Florida Corporate State Income Tax and Wage Data

Exhibits	**Witness**	**Description**
SJB-1	Stephen J. Baron	List of Expert Testimony Appearances
SJB-2	Stephen J. Baron	SFHHA Corrected Class Cost of Service Study
SJB-3	Stephen J. Baron	NARUC: Electric Utility Cost Allocation Manual

SJB-4	Stephen J. Baron	Gulf Power Co. Exhibit Re: MDS Customer/Demand Percentages by FERC Account
SJB-5	Stephen J. Baron	Analysis of FPL Account 364 Minimum Size Poles
SJB-6	Stephen J. Baron	MDS, Corrected Demand Allocators
SJB-7	Stephen J. Baron	MDS - 1 CP Prod/Trans. Demand, Corrected Demand Allocators
SJB-8	Stephen J. Baron	SFHHA Recommended Revenue Allocation Methodology
SJB-9	Stephen J. Baron	Rate Class CILC-1D - SFHHA Recommended Rate Design
SJB-10	Stephen J. Baron	FPL's Response to FIPUG's Interrogatory No. 14
SJB-11	Stephen J. Baron	Excerpt from MFR No. E-6b, Attachment No. 2 of 2
SJB-12	Stephen J. Baron	FPL's Response to SFHHA's Interrogatory No. 56
SJB-13	Stephen J. Baron	FPL Cooling Degree Data

Exhibits	**Witness**	**Description**
LK-1	Lane Kollen	Resume of Lane Kollen
LK-2	Lane Kollen	FPL's Response to SFHHA's Interrogatory No. 209
LK-3	Lane Kollen	FPL's Response to SFHHA's Interrogatory No. 210
LK-4	Lane Kollen	FPL's Response to SFHHA's Interrogatory No. 211

LK-5	Lane Kollen	FPL's Response to SFHHA's Interrogatory No. 212
LK-6	Lane Kollen	FPL's Response to SFHHA's Interrogatory No. 213
LK-7	Lane Kollen	SFHHA Reduction in Cash Working Capital in Rate Base
LK-8	Lane Kollen	FPL's Response to SFHHA's Interrogatory Nos. 198 and 199
LK-9	Lane Kollen	SFHHA Adjustment to Nuclear Outage Maintenance Expense and Related Reserves
LK-10	Lane Kollen	FPL's Response to Staff's Interrogatory No. 98
LK-11	Lane Kollen	FPSC Rule 25-6.0141 - Allowance for Funds Used During Construction
LK-12	Lane Kollen	FPL's Response to SFHHA's Document Request No. 9
LK-13	Lane Kollen	FPL's Response to SFHHA's Interrogatory No. 194
LK-14	Lane Kollen	FPL's Response to SFHHA's Interrogatory No. 196
LK-15	Lane Kollen	FPL's Response to OPC's Interrogatory No. 200
LK-16	Lane Kollen	FPL's Response to OPC's Interrogatory No. 134 - Revised
LK-17	Lane Kollen	FPL's Response to OPC's Interrogatory No. 225
LK-18	Lane Kollen	FPL's Response to Staff's Interrogatory No. 200
LK-19	Lane Kollen	FPL's Response to Staff's Interrogatory No. 219

LK-20	Lane Kollen	FPL's Response to OPC's Interrogatory No. 98
LK-21	Lane Kollen	FPL's Response to OPC's Interrogatory No. 199
LK-22	Lane Kollen	FPL's Response to OPC's Interrogatory No. 227
LK-23	Lane Kollen	FPL's Response to OPC's Interrogatory No. 173
LK-24	Lane Kollen	FPL's Response to SFHHA's Interrogatory No. 241
LK-25	Lane Kollen	FPL's Response to SFHHA's Interrogatory No. 242
LK-26	Lane Kollen	SFHHA Adjustment Regarding ADIT in Capital Structure
LK-27	Lane Kollen	SFHHA Cost of Capital Adjustments
LK-28	Lane Kollen	Cost of Capital for Canaveral Step Increase
LK-29	Lane Kollen	Impacts of Cost of Capital Changes to Environmental Clause Cost Recovery

South Florida Hospital and Healthcare Association reserves the right to identify additional exhibits for purposes of cross-examination.

D. <u>STATEMENT OF BASIC POSITION</u>:

When Florida Power & Light Company ("FPL") last filed for an increase in base rates, financial markets were just slowly beginning to see some slight recovery from the deep recession of 2008. In recognition of the difficult economic times, the parties to FPL's last rate case entered into a settlement that provided FPL with a 10% return on equity ("ROE"), the effect of which was to allow FPL to achieve a maximum ROE of 11%.

The base rates that were provided for in that settlement have enabled FPL to flourish. In calendar year 2011, based upon those rates, which remain in effect today, FPL earned a 10.67% ROE before using its depreciation surplus to boost its return to 10.99%. *See* Attachment No. 1 to FPL Response to OPC Interrogatory No. 85. FPL also reported just days ago that its second quarter earnings, which again are based on the current base rates derived under the settlement, were up 17% from second quarter 2011 results. Thus, without any increase to base rates, FPL is earning a healthy return.

Notwithstanding that fact, FPL has proposed to increase its authorized ROE to 11.25% (which would provide it an allowed return of up to 12.25%), along with other adjustments, that would result in a $517 million increase to base rates effective January 1, 2013, followed by an increase of an additional $173 million effective June 1, 2013.

There is no economic justification for FPL's proposal. As is shown in the Direct Testimony of Richard A. Baudino on behalf of the South Florida Hospital and Healthcare Association ("SFHHA"), FPL and its parent company, NextEra Energy, Inc. ("NextEra") have stated in investor presentations that economic conditions in FPL's service territory have been improving in recent years. In addition, as Mr. Baudino points out, hourly wage rates and state corporate taxes in Florida are relatively low, meaning that FPL's service territory likely will experience continued economic development and growth in employment. These economic conditions and financial results suggest FPL's authorized ROE should be reduced below 10%, not increased as FPL requests. That is particularly true given that FPL also earns revenues from a number of cost recovery clauses. FPL observed in its 2011 10-K that the cost recovery clauses are designed to permit full recovery of certain costs and provide a return on certain assets. Further, NextEra itself has represented that there is "investor confidence and demand for [FPL's] debt." *See* Exhibit (RAB-9) at p. 19. Given that interest rates are at historic lows, it seems anomalous for FPL to be requesting a higher ROE, particularly given its strong financial performance.

Furthermore, while FPL witnesses in this case argue the Company faces significant risks, when addressing investors, FPL takes an entirely different tact stating that it "is one of the best utility franchises in the U.S." Exh. RAB-9 at p. 10. FPL risk is reduced by the large amount of revenue recovered pursuant to the cost recovery clauses, which (according to FPL) "are expected to be a significant source of earnings growth." Exh. RAB-9, p. 25. While FPL's earnings are growing and its market is rebounding, its unregulated affiliate, NEXEra Energy Resources ("NER"), is "experiencing strong headwinds "including losses on trading activities. See Exh. RAB-9, at pp. 35, Exh. RAB-12 at p. 2 (S&P states that "NER's risks permanently hinder NextEra's credit quality, especially in light of the influence that marketing and high-risk proprietary trading results have on NER's earnings and cash flows.")

As a result, that portion of FPL's requested rate increase that is based upon FPL's request to increase its ROE to 11.25%, which FPL seeks to justify in part based upon NER's higher risk profile, should be summarily rejected. As Mr. Baudino shows, a ROE of 9.00% is clearly reasonable, in fact generous, given the particularly thick equity component of FPL's capital structure.

However, FPL's request for an inflated ROE is not the only problem with FPL's filing. Both SFHHA witness Kollen, and witnesses on behalf of the Office of Public Counsel ("OPC"), point out numerous instances in which FPL's filing inappropriately attempts to increase its purported revenue requirement. Viewed in light of the evidence they have presented to date, it is clear FPL does not need an increase in revenues. If anything, its revenue requirement is going in the opposite direction.

In addition, the time has come for the Commission to properly align cost responsibility with cost causation. In doing so, it should send a strong message to FPL that the Commission will reject FPL's efforts to shift cost responsibility to large commercial class ratepayers, such as hospitals, that do not cause FPL to incur the costs FPL would have those customers bear. In particular, FPL has hidden for decades behind a long-standing practice in Florida of allocating costs among customer classes using the 12 CP and 1/13th demand methodology. Whatever the merits of that methodology in a prior era, it is no longer appropriate on FPL's system. The evidence in this case clearly will show that the only factor that causes FPL to install new generating capacity is the need to meet summer peak load. In fact, but for the need for it to serve its summer peak, it could be decades before FPL would need to add generating capacity to its system. The evidence will show that FPL's current winter reserve margin is far above a 20% reserve margin, in fact, exceeding 40% after taking into consideration FPL's current planned additions and retirements.

That begs the question, do large high load factor customers contribute to the need for this new capacity? The clear answer is no. Evidence will be presented showing monthly demand for large commercial class customers at a relatively flat level throughout the year, contrasted with evidence that will show that other rate classes' monthly peaks rise significantly in summer months. That evidence will show that the 12 CP and 1/13th methodology, which treats the contribution to each of the twelve monthly peaks equally for purposes of assigning cost responsibility, is inconsistent with actual customer behavior that is driving the need for additional generating capacity on FPL's system. The Summer CP methodology recommended by SFHHA witness Baron, on the other hand, properly assigns cost responsibility by allocating costs based upon rate classes' contributions to the summer peak and FPL's need to add generating capacity.

Further, the evidence shows that FPL relies upon flawed data to apportion responsibility for rate increases between customer classes. As a simple mathematical matter, FPL has skewed apportionment of responsibility for revenue by changing data related to one class of customers.

In addition, SFHHA has presented evidence to show that it is entirely appropriate for the Commission to recognize a methodology for classifying distribution costs that: is set forth in the NARUC Manual; is accepted in other jurisdictions; was recently accepted by the Commission in a partial settlement of the Gulf Power Company rate case; is consistent with the way FPL plans its system; and is far from a radical methodology as FPL portrays it. The Minimum Distribution System ("MDS") methodology recognizes an indisputable fact, *i.e.*, that certain facilities, such as poles, overhead conductors, underground conductors and transformers, are required to connect a customer, regardless of the level of the customer's usage. FPL's methodology classifies all distribution costs as demand. By doing so, FPL's methodology effectively assumes that these minimum facilities will disappear if a customer were to reduce its usage to 0 kW. Of course, that is not the case. By using its methodology, FPL grossly overstates cost responsibility of large commercial class customers for these minimum facilities. For instance, FPL's methodology assumes that 35 residential customers can be served by a single pole, whereas it takes 14 poles to serve a single GSLD(T)-2 customer. That assumption is erroneous on its face. Accordingly, the

Commission should take the opportunity presented by this case to correct FPL's long-standing misclassification of costs that improperly assigns cost responsibility to customer classes.

The Commission also will have to address significant rate design issues. SFHHA will show that FPL is proposing to increase the on-peak energy charge of the CILC-1D rate class in excess of 320%. FPL also is proposing to recover 100% of the Canaveral revenue increase for Rates GSLD(T)-1, 2 and 3 and for CILC through the on-peak and off-peak energy charges, despite the fact that over 80% of the Canaveral revenue requirements are demand related. FPL has not provided any reasonable basis for its proposal. Moreover, its proposal to recover the Canaveral increase through energy charges exclusively is fundamentally inconsistent with the representations it made to the Commission in the need proceeding in which it proposed to convert the Canaveral plant to a combined cycle facility. Further providing FPL the recovery of 100% of the increased costs through energy charges provides a strong potential for FPL to substantially over-recover costs in the future. In addition, FPL has misapplied the Commission's policy that has limited the rate increase for any rate class to maximum of 1.5 times the retail average. Finally, the Commission also should correct FPL's filing that understates revenues by relying on a 20-year history to determine normal weather patterns, notwithstanding indisputable evidence that during the last ten years, weather conditions in FPL's service territory have been 1.64% hotter than over the 20-year period used by FPL for projecting revenues. Correcting FPL's revenue projection to more accurately account for the higher level of mWh sales that are driven by hotter weather would offset some of FPL's claimed revenue deficiency in this case.

For all these and other reasons, the Commission should reject the entirety of FPL's requested increase in base rates. It also should reallocate class cost responsibility by recognizing that FPL's so-called parity results are erroneous and result in large commercial class customers bearing responsibility for significant levels of costs that arise because of service FPL provides to other rate classes.

E. ISSUES AND POSITIONS:

LEGAL ISSUES[1]

ISSUE 1: **Absent a stipulation of parties in this case, does the Commission possess legal authority to grant FPL's proposal to continue utilizing the storm cost recovery mechanism that was one of the terms of the settlement agreement that the Commission approved in Order No. PSC-11-0089-S-EI?**

SFHHA: No. The storm cost recovery mechanism was an element of the settlement agreement approved in Docket No. 090130-EI. Paragraph 10 of the settlement agreement specifies that "No party will assert in any proceeding before the Commission that this Agreement or any of the terms in the Agreement shall have

[1] Please be advised that the issues that are in bold only are agreed upon issues that were raised at our final issue identification meeting on Friday, July 27, 2012. Moreover, the agreed upon modifications to certain issues appear in bold only. Finally, ALL ISSUES THAT ARE SUBJECT TO AN OBJECTION APPEAR IN BOLD AND ITALICS.

any precedential value." Further, terms applicable to the recovery mechanism include proposals that are unrelated to base rates and beyond the scope of this proceeding.

ISSUE 2: Does the Commission have the legal authority to approve FPL's requested base rate step increase for the Canaveral Modernization Project (CMP) if the CMP does not go into service until after the 2013 test year?

SFHHA: No. The Commission does not have authority to approve FPL's requested step increase if the CMP goes into service after the 2013 test year. In requesting a test year, utilities must provide "[a] general statement of major plant expansions . . . which: 1. Have occurred in the most recent 18 months or since the last test year, whichever is less; 2. Will occur during the requested test year." F.A.C. § 25-30.430.

ISSUE 3: **Does Commission Rule 25-6.1351, "Cost Allocation and Affiliate Transactions," require FPL to implement and apply the criteria (greater of market price or fully allocated cost for charges to affiliates, lesser of market price or fully allocated cost for charges paid to affiliates) and related requirements of the rule to all affiliate transactions? (OPC)**

SFHHA: SFHHA supports OPC's position.

ISSUE 4: **With respect to amounts that FPL charges or pays to affiliates, who has the burden of proof in this proceeding to demonstrate the amounts comply with Commission Rule 25-6.1351 and should be allowed in the cost of service borne by customers? (OPC)**

SFHHA: SFHHA supports OPC's position.

ISSUE 5: OBJECTION: ***Does the Commission possess legal authority to grant increased profit as a performance based reward over and above fair, reasonable, just and compensatory rates without specific legislative authority such as that granted to the Commission by the legislature in §366.82 Fla. Stat.? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 6: OBJECTION: ***If the answer to Issue 5 is yes, does the Commission possess the legal authority to reward FPL based on performance relative to other businesses, many of which are FPL counterparties, and none of which are comparable to FPL in size, location, resources, customer base, etc., rather than on absolute measurements of performance? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 7: OBJECTION: ***If the answer to Issue 6 is yes, must the Commission consider the negative policy implications of rewarding FPL for performance relative to it's counterparties in giving FPL an incentive to use its market power and legislative lobbying power to keep other Florida electric utility rates higher than its own in order to reap the incentive reward for performance measured relative to such entities? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 8: OBJECTION: ***Is there an inherent conflict between the interests of the ratepaying public and the interests of NextEra Energy, Inc. shareholders such that the Commission must disallow FPL expenses benefiting shareholders rather than ratepayers in order to comply with its statutory mandate under §366.01 Fla. Stat. to protect the public welfare? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

TEST PERIOD AND FORECASTING

ISSUE 9: Is FPL's projected test period of the 12 months ending December 31, 2013 appropriate?

SFHHA: No Position at this time.

ISSUE 10: Are FPL's forecasts of Customers, KWH, and KW by Rate Class and Revenue Class, for the 2013 projected test year appropriate? If not, what forecasts of Customers, KWH, and KW by Rate Class and Revenue Class should the Commission use in determining revenues and setting rates in this case?

SFHHA: No. FPL inappropriately relies on a 20 year normal weather assumption to determine weather patterns, which forms the basis of FPL's projected billing determinants and rate class revenues in this case. Alternatively, a 10 year actual weather history using cooling degree hours as the weather metric would produce a higher level of mWh sales and revenues than assumed by FPL in this proceeding.

ISSUE 11: Are FPL's projected revenues from sales of electricity by rate class at present rates for the 2012 prior year and projected 2013 test year appropriate? If not, what are the appropriate projected amounts of revenues from sales of electricity for the 2012 prior year and projected 2013 test year?

SFHHA: No. First, FPL improperly replaces the actual 3-year January CP and GNCP residential class load factors with alternate values and improperly performs a "reconciliation" test to determine whether monthly GNCP demand is less than or equal to monthly NCP demand. Second, FPL improperly uses a 12 CP and 1/13th average demand allocation methodology, rather than a summer 1 CP demand allocation methodology. Third, FPL's methodology to allocate distribution plant costs to retail rate classes fails to recognize a customer component of primary or secondary lines, poles, or transformers by classifying these costs as demand related. Fourth, FPL improperly developed target revenue increases for each rate class and applied the 1.5 times limitation rule to the target revenue increases for each rate class based on "total revenues," not "base and miscellaneous revenues," which are the rates at issue in this case. The appropriate adjustments and appropriate revenue increases for each rate class are set forth in Baron Exhibit SJB-8.

ISSUE 12: What, if any, provisions should the Commission make in setting FPL's rates for the 2013 test year to address uncertainty related to projected billing determinants and revenues?

SFHHA: FPL should correct flaws in its calculation of demand allocation factors, incorporate the minimum distribution system methodology, use the 1 CP demand allocation methodology, and develop target revenue increases for each rate class based on "base and miscellaneous revenues." Schedules A through D in Baron Exhibit SJB-8 present the results of these adjustments. Also, a 10 year actual weather history would produce a more accurate level of mWh revenues.

ISSUE 13: What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the 2013 test year budget?

SFHHA: The appropriate trend factor for use in forecasting the 2013 test year budget includes the actual weather history in the FPL service territory for the past 10 years, using cooling degree hours as the appropriate weather metric, which is the principal weather variable used by FPL in its net energy for load (mWh) forecast. Baron Exhibit SJB-13 presents the results of FPL's actual weather history using cooling degree hours.

ISSUE 14: Is FPL's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate?

SFHHA: No Position at this time.

QUALITY OF SERVICE

ISSUE 15: Is the quality and reliability of electric service provided by FPL adequate?

SFHHA: No Position at this time.

RATE BASE

ISSUE 16: Should the revenue requirement associated with the West County Energy Center Unit 3 currently collected through the Capacity Cost Recovery Clause be included in base rates?

SFHHA: No Position at this time.

ISSUE 17: Should FPL's adjustment to extend the amortization period of the new SAP general ledger system from 5 years to 20 years be approved?

SFHHA: No Position at this time.

ISSUE 18: Has FPL made the appropriate adjustments to remove all non-utility activities from Plant in Service, Accumulated Depreciation and Working Capital for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 19: OBJECTION: ***Whether FPL's allegation that a base rate increase is needed to construct the poles, wires, and transformers needed to serve an anticipated 100,000 new customer accounts from the end of 2010 through the end of 2013 is accurate and true? (Mr. Saporito's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 20: Are FPL's overhead costs (salaries, materials and supplies, benefits, etc.) related to in-house capital improvement projects properly recorded in rate base?

SFHHA: No Position at this time.

ISSUE 21: Has FPL properly reduced rate base by contributions in aid of construction related to underground placement of distribution and transmission facilities?

SFHHA: No Position at this time.

ISSUE 22: Is FPL's requested level of Plant in Service in the amount of $30,424,227,000 ($31,078,941,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No Position at this time.

ISSUE 23: Should capital recovery schedules be approved for Cutler Units 5 and 6, Sanford Unit 3, and Port Everglades? If so, what are the appropriate capital recovery schedules?

SFHHA: No Position at this time.

ISSUE 24: Is FPL's requested level of Accumulated Depreciation in the amount of $11,901,711,000 ($12,970,028,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No Position at this time.

ISSUE 25: For purposes of this rate case, should the Commission exercise its authority under Rule 25-6.0141(1)(g) to exclude a proportion of costs incurred by FPL to finance projects during construction from Construction Work in Progress ("CWIP") to be recovered upfront in rate base, and instead treat that proportion of costs **subject to** an allowance for funds used during construction ("AFUDC") to be recovered over the lives of the underlying assets?

SFHHA: Yes. Several CWIP projects included in rate base are long-lived generation and transmission assets, the costs of which should be borne by the customers served by such assets consistent with cost causation principles. CWIP imposes the costs on current rate-payers, who may not be taking service from FPL when the asset ultimately is placed in service. Removing these CWIP projects from rate base and authorizing AFUDC treatment provides FPL the opportunity to recover its financing costs and protects current customers from having to pay a portion of the costs prior to the assets being placed in service.

ISSUE 26: If the answer to Issue 25 is in the affirmative, what proportion of costs incurred by FPL to finance projects during construction should be treated as CWIP to be recovered upfront in rate base, and what proportion should be treated **subject to** AFUDC to be recovered over the lives of the underlying assets?

SFHHA: The Commission should reduce the CWIP in rate base proposed by FPL ($501.676 million) by approximately 50%, or $251.676 million, to a level of $250 million. The portion removed from CWIP should qualify for AFUDC treatment.

ISSUE 27: Is FPL's requested Construction Work in Progress in the amount of $501,676,000 ($514,978,000 system) for the 2013 projected test year appropriate?

SFHHA: No. Because the Commission should modify the criteria for the accrual of AFUDC in order provide for intergenerational equity and allow recovery of long-life assets over the long term, rather than providing for upfront recovery, $251.676 million of FPL's CWIP in rate base should be removed and instead qualify for AFUDC treatment, thereby reducing CWIP in rate base to $250 million for the 2013 projected test year. *See* Issue Nos. 25 and 26.

ISSUE 28: Is FPL's proposed accrual of Nuclear End of Life Material and Supplies and Last Core Nuclear Fuel for the 2013 projected test year appropriate?

SFHHA: No. FPL's proposed accrual of Nuclear End of Life Material and Supplies and Last Core Nuclear Fuel is not appropriate because such costs are simply an estimate for rulemaking purposes, and FPL cannot project these costs with any degree of certainty.

ISSUE 29: Is FPL's requested level of Nuclear Fuel of $565,229,000 ($576,317,000 system) for the 2013 projected test year appropriate?

SFHHA: No. FPL's proposed level of Nuclear Fuel is not appropriate because it is significantly more than FPL has incurred or budgeted in prior years and more than it projects to incur in later years, and is simply an estimate for ratemaking purposes.

ISSUE 30: Should the Commission approve FPL's request to include the Fort Drum, McDaniel, and Hendry County proposed generation sites in Plant Held For Future Use?

SFHHA: No Position at this time.

ISSUE 31: Should the Commission approve FPL's request to include nine proposed transmission line sites for which projected in-service dates are either 2022-2023 or indeterminate ("TBA") within Plant Held For Future Use?

SFHHA: No Position at this time.

ISSUE 32: Is FPL's requested level of Property Held for Future Use in the amount of $230,192,000 ($237,400,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No Position at this time.

ISSUE 33: Should any adjustments be made to FPL's fossil fuel inventories for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 34: Should unamortized rate case expense be included in Working Capital?

SFHHA: No. The Commission's long-standing practice of excluding unamortized rate case expense from working capital apportions the cost of a rate case between ratepayers and shareholders customers. Customers should not be required to pay a return on funds spent to increase their rates. Further, the amortization period proposed is short, which minimizes carrying costs. Such costs are typically financed with short-term debt, and excluding such costs eliminates the potential for overrecovery.

ISSUE 35: Should Account 143, Other Accounts Receivable, be included in working capital for the 2013 test year?

SFHHA: No Position at this time.

ISSUE 36: Should an adjustment be made to the amount of Account 182.3, Other Regulatory Assets, included in working capital for the 2013 test year?

SFHHA: No Position at this time.

ISSUE 37: Should an adjustment be made to the amount of Account 186, Miscellaneous Deferred Debits, included in working capital for the 2013 test year?

SFHHA: No Position at this time.

ISSUE 38: Should unbilled revenues be included in working capital for the 2013 test year?

SFHHA: No. The unbilled revenues represent an estimate of revenues earned during a particular month, but not yet billed. There is no related carrying cost because unbilled revenues serve as an accounting placeholder for a future receivable and do not represent a cost that FPL must finance at the end of each month. Further, FPL does not incur incremental costs to earn unbilled revenue.

ISSUE 39: Should the net over-recovery/under-recovery of fuel, capacity, conservation, and environmental cost recovery clause expenses be included in the calculation of the working capital allowance?

SFHHA: No Position at this time.

ISSUE 40: What is the appropriate methodology for calculating FPL's Working Capital for the 2013 projected test year?

SFHHA: The Commission should adopt a proxy for the results of a lead/lag approach because FPL has not prepared a cash working capital study using the lead/lag approach and refused to perform one. In comparison to FPL's balance sheet approach, which is outdated and fails to accurately quantify FPL's cash working capital investment, the lead/lag approach more accurately quantifies the investment by tracking and measuring the timing of cash flows related to revenues and expenses.

ISSUE 41: If FPL's balance sheet approach methodology for calculating its Working Capital is adopted, what adjustments, if any, should be made to FPL's proposed Working Capital?

SFHHA: The Commission should set FPL's cash working capital at $0 as a proxy for the results of the lead/lag approach, which is a conservative approach given that lead/lag studies frequently result in substantially negative cash working capital rate base amounts due to sophisticated cash management techniques used by utilities to minimize investments in cash working capital. This results in a net reduction to FPL's working capital of $156.284 million on a jurisdictional basis.

ISSUE 42: Are FPL's adjustments to the Asset Retirement Obligation (ARO) revenue neutral as required by Commission rule?

SFHHA: No Position at this time.

ISSUE 43: **Should the nuclear maintenance reserve be modified to reflect post-paid reserve accounting in lieu of pre-paid reserve accounting? (SFHHA)**

SFHHA: Yes. The nuclear maintenance reserve should be modified from a pre-paid to a post-paid variation of reserve accounting for at least two reasons. First, the prepaid variation of reserve accounting is more expensive to FPL customers. Second, the prepaid variation of reserve accounting can lead to a stranded liability at the end of a unit's life.

ISSUE 44: Is FPL's requested level of Working Capital in the amount of $1,217,209,000 ($2,032,805,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No.

ISSUE 45: Is FPL's requested rate base in the amount of $21,036,823,000 ($21,470,413,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No. FPL's requested jurisdictional rate base for the 2013 projected test year should be reduced by a minimum of $395.756 million to a level of $20,641.067 million. This incorporates SFHHA's recommendations regarding cash working capital, nuclear maintenance reserve, unamortized rate case expense and CWIP in rate base.

COST OF CAPITAL

ISSUE 46: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

WAS:185123.5

SFHHA: If SFHHA's adjustments to FPL's as-filed rate base components are adopted by the Commission, then a corresponding adjustment should be made to the amount of ADIT included in FPL's capital structure. As shown in Exhibit LK-27, page 1, Section II, SFHHA's rate base adjustments would increase FPL's ADIT capitalization by $3.898 million. As a result the total amount of ADIT that should be included in FPL's capital structure is $4,369.074 million.

ISSUE 47: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

SFHHA: No Position at this time.

ISSUE 48: What is the appropriate cost rate for short-term debt for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 49: What is the appropriate cost rate for long-term debt for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 50: What is the appropriate cost rate for customer deposits for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 51: What is the appropriate equity ratio that should be used for FPL for ratemaking purposes in this case?

SFHHA: At a ROE of no greater than 9.00%, SFHHA would not oppose FPL's as-filed for common equity balance of $9,684.101 million. *See* Direct Testimony of Baudino, page 42:1-2.

For ROE levels above 9.00%, FPL's equity ratio should decrease by 200 basis points for every 50 basis point ROE increase. FPL's equity ratio (59.7%) of investor-supplied capital exceeds that of every electric utility holding company included in FPL's Utility Proxy Group. *See* Issues Nos. 59, 61.

ISSUE 52: OBJECTION: ***What is the FPL "average residential bill" for detached single family dwellings, as opposed to apartments, separately metered garages, etc? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

WAS:185123.5

ISSUE 53: OBJECTION: ***To the extent the data is available, what is the current hypothetical average 1000 Kwh residential bill for every investor owned utility in the United States? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 54: Should FPL's request for a 25 basis point performance adder to the authorized return on equity and proposed annual review mechanism be approved?

SFHHA: No. FPL has failed to demonstrate that it provides superior service that would authorize such an adder. The evidence that FPL purports to offer in support is the result of FPL's circumstances, not the efforts of its management. In addition, there have been recent examples of poor management. FPL has experienced massive cost overruns in construction of nuclear facilities. FPL's smart meter installation is over budget, failing to produce savings supposedly benefitting ratepayers. FPL continues to pursue a corporate financing strategy that burdens its ratepayers with excessive capital costs from equity, while failing to lock-in low, long-term debt rates. FPL also benefits from having a single continuous service territory that FPL and credit rating agencies describe as being one of the best in the nation. The success that has been enjoyed by the company is largely the product of those circumstances, not its management.

ISSUE 55: OBJECTION: ***What are the historical ROE figures for FPL for every year of its existence? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 56: OBJECTION: ***What are the current ROE figures for every investor owned utility in the United States? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 57: OBJECTION: ***Is the existing FPL rate structure, which resulted in a 21% total return to shareholders of NextEra Energy, Inc. in 2011, and a total 10 year shareholder return of 209%, beating the S&P 500 by over 600%, on its face unjust, unreasonable or excessive such that the Commission should dismiss the instant rate case and, on its own motion under §366.06 and/or §366.07, and lower FPL Return on Equity to a figure more appropriate to the current economic conditions and the current cost of borrowing? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 58: What is the appropriate authorized return on equity (ROE) to use in establishing FPL's revenue requirement?

SFHHA: 9.00% based upon the DCF methodology applied to a group of comparison electric utility companies with similar bond ratings that derive at least 50% of their revenue from electric utility operations. SFHHA's CAPM results also fall well below 9.00%.

FPL's recommended 11.5% ROE was based on a flawed analysis. The DCF utility proxy group utilized by FPL did not support the recommendation. Instead, FPL emphasized a non-utility proxy group that was not comparable to FPL. Because utilities have captive customers in franchised service territories, equity investors experience less risk by investing in utilities. In addition, FPL's recommendation was based upon various in appropriate adders, such as a flotation cost adjustment and a performance adder. FPL has not provided evidence that it incurred any flotation costs given that its shares are not publicly-traded, and the performance adder is inappropriate. *See* Issue 43.

ISSUE 59: What is the appropriate capital structure that should be used by FPL for ratemaking purposes in this case?

SFHHA: So long as the Commission sets FPL's ROE at 9.00%, FPL's as-filed for capital structure, as adjusted for SFHHA's rate base adjustments, is appropriate for ratemaking purposes in this case. *See* Direct Testimony of Baudino, page 42, and Exh. LK-27, Page 1, Section II.

Nevertheless, FPL has employed an excessive equity ratio to boost returns of its owners at the expense of ratepayers. FPL claims that its equity rich capital structure lowers capital costs passed onto ratepayers by lowering its risk. However, the thick equity component has not been demonstrated to produce the lowest reasonable rates. FPL's investor-supplied equity ratio should be decreased by 2% (i.e. equity decreased by $327.446 million) for every 0.50% increase in ROE above 9%. *See* Issue Nos. 51 and 61. That adjustment is necessary to hold FPL accountable for its claim that its equity rich capital structure lowers FPL's risk and capital costs.

ISSUE 60: Is the combination of regulatory ROE, debt costs, capital structure and performance adder (if any) appropriate?

SFHHA: *See* Responses to Issues 58, 59 and 61.

ISSUE 61: What is the appropriate weighted average cost of capital?

SFHHA: So long as FPL's ROE is set at 9.00%, FPL's weighted average cost of capital should be 5.85%. *See* Direct Testimony of Baudino, page 42; Exh. LK-27, Page 1, Section II. However, for every 0.50% increase in FPL's ROE above 9.00%, FPL's equity should be adjusted downward 2%, and FPL's debt should be increased by a corresponding amount. *See* Table 4 of SFHHA Witness Baudino's Direct Testimony, page 43.

NET OPERATING INCOME

ISSUE 62: Has FPL maximized the sources of net jurisdictional revenue that are projected to be reasonably available and technically viable for the 2013 test year? If not, what action, if any, should the Commission take in setting FPL's rates in this case? (For purposes of this issue, "net jurisdictional revenue" may include net revenue related to the supply of CO2 captured from an FPL facility.)

SFHHA: No Position at this time.

ISSUE 63: **Does FPL properly account for revenues received from FPL Fibernet and other telecommunications companies for utilizing long-haul fiber optic facilities hosted by FPL's electric transmission system? (FIPUG)**

SFHHA: No Position at this time.

ISSUE 64: What are the appropriate projected amounts of other operating revenues for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 65: Is FPL's projected level of Total Operating Revenues of $4,407,253,000 ($4,505,007,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No Position at this time.

ISSUE 66: Has FPL made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

SFHHA: No Position at this time.

ISSUE 67: Should an adjustment be made to transfer incremental security costs from the Capacity Cost Recovery Clause to base rates?

SFHHA: No Position at this time.

ISSUE 68: If incremental security costs continue to be recovered in the Capacity Cost Recovery Clause, should the Commission approve FPL's adjustment to transfer incremental security payroll loadings from base rates to the Capacity Cost Recovery Clause?

SFHHA: No Position at this time.

ISSUE 69: Has FPL made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause?

SFHHA: No Position at this time.

ISSUE 70: Has FPL made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause?

SFHHA: No Position at this time.

ISSUE 71: Should FPL's adjustment to remove all costs for the Substation Pollution Discharge Prevention Program from base rates and include them in the Environmental Cost Recovery Clause be approved?

SFHHA: No Position at this time.

ISSUE 72: Has FPL made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Energy Conservation Cost Recovery Clause?

SFHHA: No Position at this time.

ISSUE 73: Should FPL's adjustment to remove ECCR clause related payroll loadings of $1,815,000 for FICA and unemployment taxes from base rates and include them in the Energy Conservation Cost Recovery Clause be approved?

SFHHA: No Position at this time.

ISSUE 74: Has FPL made the appropriate adjustments to remove all non-utility activities from operating revenues and operating expenses for the 2013 projected test year?

SFHHA: Supports the position of OPC.

ISSUE 75: Is the percentage value used to allocate NextEra Energy, Inc. corporate costs and/or expenses to FPL appropriate?

SFHHA: Supports the position of OPC.

ISSUE 76: Should the percentage value of NextEra Energy, Inc. corporate costs and/or expenses allocated to FPL be equal to the percentage value of NextEra Energy, Inc. corporate costs and/or expenses allocated to NextEra Energy Resources?

SFHHA: Supports the position of OPC.

ISSUE 77: Are the amounts of the NextEra Energy, Inc. corporate costs and/or expenses (including executive compensation and benefits) allocated to FPL fair, just, and reasonable?

SFHHA: No Position at this time.

ISSUE 78: OBJECTION: ***What portion of NextEra Energy, Inc. expenses borne by FPL customers are not useful in serving the FPL ratepaying public but rather benefit NextEra Energy, Inc. shareholders? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 79: Should any adjustments be made to FPL's operating revenues or operating expenses for the effects of transactions with affiliated companies for the 2013 projected test year?

SFHHA: Supports the position of OPC.

ISSUE 80: What additional action (including, but not limited to, establishing a separate investigatory docket), if any, should the Commission take related to affiliate transactions as a result of the evidence taken in this docket?

SFHHA: Supports the position of OPC.

ISSUE 81: Are FPL's overhead costs (salaries, materials and supplies, benefits, etc.) allocated to capital projects properly deducted from operating expenses?

SFHHA: No Position at this time.

ISSUE 82: Has FPL made appropriate reductions in operating expenses where capital projects are not done in-house, but employee salaries and related overhead costs have been included in rate base?

SFHHA: No Position at this time.

ISSUE 83: Has FPL properly reduced operating expenses in amounts equal to overheads reimbursed by third parties through contributions in aid of construction related to underground placement of distribution and transmission facilities?

SFHHA: No Position at this time.

ISSUE 84: Has FPL properly reduced operating expenses in amounts equal to any overheads charged to third parties as contributions in aid of construction, fees or other payments to FPL?

SFHHA: No Position at this time.

ISSUE 85: Should FPL salaries, costs and overheads for activities associated with (a) public relations or external affairs, (b) shareholder services, (c) attempted acquisitions of electric facilities, and (d) efforts opposing municipalizations pursuant to a franchise agreement be removed from operating expenses?

SFHHA: No Position at this time.

ISSUE 86: Should FPL costs to pay contractors for legal, public relations or other consulting services be borne by customers or FPL shareholders?

SFHHA: No Position at this time.

ISSUE 87: What is the appropriate amount of FPL's tree trimming expense for the 2013 projected test year?

SFHHA: There is no valid justification for an increase of $9.425 million in FPL's vegetation management expense in 2013 compared to 2012. FPL's vegetation management expense for 2013 should be limited to its budgeted 2012 level, which equates to a reduction of $9.447 million grossed up from FPL's proposed rate increase. The 2012 level is approximately equal to the actual 2011 level, which followed two years of significant increases by FPL.

ISSUE 88: What is the appropriate amount of FPL's pole inspection expense for the 2013 projected test year?

SFHHA: SFHHA supports OPC's recommended reduction of $2.740 million from FPL's proposed pole inspection expense in 2013.

ISSUE 89: What is the appropriate amount of FPL's production plant O&M expense for the 2013 projected test year?

SFHHA: FPL proposes $663.392 million for its production plant O&M expense for the 2013 projected test year. SFHHA recommends a reduction to this expense for 2013, including at a minimum, *inter alia*, $15.183 million for FPL's nuclear outage maintenance expense, using the average of the three most recent years, and $37.402 million, reflecting the excessive amount for the amortization of the regulatory reliability due to FPL's flawed methodology. SFHHA also agrees with OPC's recommended reductions to this expense.

ISSUE 90: What is the appropriate amount of FPL's transmission O&M expense for the 2013 projected test year?

SFHHA: FPL proposes $55.677 million for its transmission expense for the 2013 projected test year. SFHAA agrees with OPC's recommended reductions to this expense.

ISSUE 91: What is the appropriate amount of FPL's distribution O&M expense for the 2013 projected test year?

SFHHA: FPL proposes $286.058 million for its distribution O&M expense for the 2013 projected test year. SFHAA recommends a reduction to this expense for 2013, including, *inter alia*, a reduction of $9.447 million on FPL's vegetation management expense and $23.687 million due to savings from AMI meters. SFHAA also agrees with OPC's recommended reductions to this expense.

ISSUE 92: OBJECTION: ***Is the proposed advertising expense of $516,478 for the test year of 2013, which is a 332% increase over 2011's advertising expense of $155,397 and which would raise the per customer cost 367% from $.03 to $.11, a legitimate cost, used and useful in serving the public? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 93: OBJECTION: ***Is an advertising expense of $155,397 for the test year of 2013 inadequate to serve the needs of the public? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 94: What is the appropriate amount of advertising expenses for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 95: If in its resolution of Legal Issue 1 the Commission determines it has legal authority to do so, should it approve FPL's proposed storm cost recovery mechanism?

SFHHA: No. The proposed mechanism is unnecessary and would be harmful to customers. The reserve is significantly funded at this time. Further, the 2012 settlement agreement cannot serve as precedent. FPL's proposal is flawed because, *inter alia*, it would allow recovery regardless of an existing reserve, the recovery is effectively self-executing without Commission review, the recovery period is unnecessarily short (12-month), and would fully restore the reserve.

ISSUE 96: What is the appropriate annual storm damage accrual and storm damage reserve for the 2013 projected test period?

SFHHA: No accrual is necessary. FPL has a substantial storm damage reserve and has mechanisms available to it to obtain funds in the event of excessive storm damages. The cost to ratepayers of those alternative mechanisms (such as securitization) would be less than the cost of an annual accrual.

ISSUE 97: OBJECTION: ***What portion of NextEra Energy, Inc. executive compensation expenses borne by FPL customers are not useful in serving the FPL ratepaying public but rather benefit NextEra Energy, Inc. shareholders? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 98: OBJECTION: ***What has been the total compensation for the head of FPL or, if a subsidiary, its parent company, for every year of FPL's existence? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 99: Should an adjustment be made to FPL's level of executive compensation for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 100: Should an adjustment be made to FPL's level of non-executive compensation for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 101: Are FPL's proposed increases to average salaries for the 2013 projected test year appropriate?

SFHHA: No Position at this time.

ISSUE 102: Is FPL's projected level of employee positions for the 2013 projected test year appropriate?

SFHHA: No. FPL's projected level of employee positions for 2013 (*i.e.*, 10,147) is excessive. The average number of employees in 2011 was 9,971 (*see* Schedule C-35). In April 2012, the employee count was just 9,932 (*see* OPC Int. No. 33). FPL has a history of not filling the number of its authorized positions and FPL Witness Slattery stated that the industry continues to face a severe shortage of skilled workers.

ISSUE 103: What is the appropriate amount of Other Post Employment Benefits Expense for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 104: What is the appropriate amount of FPL's requested level of Salaries and Employee Benefits for the 2013 projected test year? (Fallout Issue)

SFHHA: No Position at this time.

ISSUE 105: What is the appropriate amount of Pension Expense for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 106: Should an adjustment be made to the amount of the Directors and Officers Liability Insurance expense that FPL included in the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 107: What is the appropriate amount of accrual for the Injuries & Damages reserve for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 108: What is the appropriate amount and amortization period for Rate Case Expense for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 109: What is the appropriate amount of uncollectible expense and bad debt rate for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 110: What is the appropriate accounting methodology for the Nuclear Outage Maintenance Expense?

SFHHA: The appropriate accounting methodology for the Nuclear Outage Maintenance Expense is the post-paid variation of reserve accounting. SFHHA supports the post-paid variation of reserve accounting because, compared with the pre-paid variation of reserve accounting, the post-paid variation of reserve account is less expensive to FPL customers and does not cause a stranded liability at the end of a unit's life.

ISSUE 111: What is the appropriate amount of the Nuclear Outage Maintenance Expense and Nuclear Outage Maintenance Reserve for the 2013 test year?

SFHHA: The appropriate amount of the Nuclear Outage Maintenance Expense for the 2013 test year should consist of the average of the Nuclear Outage Maintenance Expense for the years 2012, 2011, and 2010.

ISSUE 112: Has FPL included the appropriate amount of expense associated with the AMI smart meters in the 2013 projected test year?

SFHHA: No. FPL proposes to increase its projected annual AMI meter expense for 2013 from $10.458 million in its prior rate case to $20.739 million in this rate case. The Commission relied on FPL's projection of expenses when it approved FPL's base rate increase in the prior FPL proceeding, and should hold FPL to its projections. During 2009-2013, FPL's estimate of the cost of the meters in 2012 has *surged* by more than 50%. *See* Issue No. 113.

ISSUE 113: Has FPL included the appropriate amount of savings associated with the AMI smart meters in the 2013 projected test year?

SFHHA: No. In 2009, FPL estimated savings in 2012 of $18 million from the AMI smart meters; now however, that estimate of 2012 savings has collapsed by 50%. The Commission relied on FPL's projection of savings when it approved FPL's rate base increase in the prior FPL proceeding, and should hold FPL to its projections. *See* Issue No. 112.

ISSUE 114: Is FPL's requested level of O&M Expense of **$1,542,322,000** ($1,568,633,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No. FPL's requested level of O&M Expense of $1,565,788,000 ($1,568,633,000 system) for the 2013 projected test year is not appropriate, in part, because FPL overestimates its proposed nuclear outage maintenance, vegetation management, and AMI meters expenses. FPL also underestimates savings attributable to AMI meters for the 2013 projected test year. FPL's overestimations and underestimations have the net impact of overestimating FPL's requested level of O&M Expense.

ISSUE 115: What is the appropriate amount of depreciation and fossil dismantlement expense for the 2013 projected test year?

SFHHA: No Position at this time.

ISSUE 116: Is FPL's requested amortization of $191,000,000 the appropriate amount of the theoretical depreciation reserve surplus to be amortized for the 2013 projected test year?

SFHHA: No Position at this time. However, Order No. PSC-11-0089-S-EI directed FPL to complete the amortization of $894 million of depreciation surplus between 2010-2013. While the $191 million proposed by FPL for 2013 and the estimated $703 million through December 31, 2012 sums to $894 million, SFHHA notes the actual remaining depreciation reserve surplus at December 31, 2012 may be more or less than FPL projected for purposes of this proceeding.

ISSUE 117: Given that in Order No. PSC-11-0089-S-EI the Commission directed FPL to complete the amortization of $894 million of depreciation surplus during the period 2010-2013, and in light of the Commission's decision regarding the amount of remaining reserve surplus to be amortized in the 2013 test year in conjunction with the resolution of Issue 116, should the Commission direct FPL to discontinue recording amortization of reserve surplus on its books after 2013 unless authorized or directed by subsequent Commission order?

SFHHA: Yes. Further, FPL cannot continue on its own volition an accounting adjustment for the negative depreciation expense after 2013 and effectively defer an additional $191 million each year without Commission authorization. This approach would be unsupported, a stealth rate increase, and inconsistent with Generally Accepted Accounting Principles ("GAAP").

ISSUE 118: Is FPL's requested level of Depreciation and Amortization Expense of $802,761,000 ($819,794,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No Position at this time.

ISSUE 119: Is FPL's requested level of Taxes Other Than Income of $371,710,000 ($378,853,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No Position at this time.

ISSUE 120: Should the Commission adjust FPL's test year current state income taxes or rate base to recognize benefits, if any, that FPL has provided, or will provide, to any affiliates in furtherance of the affiliate's ability to elect to apportion adjusted Federal income tax under s.220.153, Florida Statutes (single sales factor)?

SFHHA: No Position at this time.

WAS:185123.5

ISSUE 121: Is FPL's requested level of Income Taxes of $513,276,000 ($528,838,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No Position at this time.

ISSUE 122: Is FPL's requested level of (Gain)/Loss on Disposal of Plant of negative $2,641,000 (negative $2,641,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No Position at this time.

ISSUE 123: Is FPL's requested level of Total Operating Expenses of $3,250,894,000 ($3,317,404,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No Position at this time.

ISSUE 124: Is FPL's projected Net Operating Income of $1,156,359,000 ($1,187,603,000 system) for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No Position at this time.

REVENUE REQUIREMENTS

ISSUE 125: What are the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FPL?

SFHHA: No Position at this time.

ISSUE 126: Is FPL's requested annual operating revenue increase of $516,521,000 for the 2013 projected test year appropriate? (Fallout Issue)

SFHHA: No Position at this time.

ISSUE 127: What economic impact will FPL's request for a rate increase have on customers, businesses and communities in Florida, including economic development activities and raising capital in Florida?

SFHHA: FPL's rate increase will drain revenue from the Florida economy. The biggest component of the disparity in parties' positions in this case is ROE. ROE amounts achieved by FPL are being used to help subsidize merchant projects outside of Florida, and to pay investors (many of whom live outside of Florida) excessive returns.

BASE RATE STEP ADJUSTMENT

ISSUE 128: Should the Commission approve a base rate step adjustment for the Canaveral Modernization Project?

SFHHA: The Commission should approve a base rate step adjustment for the Canaveral Modernization Project only if the project commences commercial operation within the test year and, at a maximum, only at the adjusted level recommended in the testimony of SFHHA's witness, Lane Kollen.

ISSUE 129: Should deferred taxes be included in the capital structure rather than as a reduction to rate base for the Canaveral Modernization Project base rate step adjustment?

SFHHA: At a minimum, the ADIT amount for the Canaveral Modernization Project ("CMP") should be $166.768 million, as opposed to the FPL's as-filed amount of $121.936 million. The decrease is necessary to account for the nature of the bonus depreciation associated with the project, which is available in its entirety on the day the asset is placed into service for taxes purposes.

ISSUE 130: Is FPL's requested rate base of $821,325,000 ($837,297,000 system) for the Canaveral Modernization Project appropriate?

SFHHA: No Position at this time.

ISSUE 131: What is the appropriate weighted average cost of capital, including the proper components, amounts and cost rates associated with the capital structure, to calculate the base rate step adjustment for the Canaveral Modernization Project?

SFHHA: The appropriate weighted average cost of capital for the CMP is 7.49%. *See* Exh. LK-28 at Page 1, Section III. That cost reflects an adjustment to FPL's as-filed CMP capitalization. FPL failed to remove CWIP from its common equity and debt that it had removed from its base rate capitalization. The CMP capitalization should match its base rates. FPL's CMP equity and long-term debt ratios should be 59.58% and 40.42%, respectively.

ISSUE 132: Is FPL's requested net operating loss of $32,092,000 ($32,712,000 system) for the Canaveral Modernization Project appropriate?

SFHHA: No Position at this time.

ISSUE 133: Is FPL's requested Net Operating Income Multiplier of 1.63188 for the Canaveral Modernization Project appropriate?

SFHHA: No Position at this time.

ISSUE 134: Is FPL's requested base rate step increase of $173,851,000 for the Canaveral Modernization Project appropriate?

SFHHA: No. FPL's requested base rate step increase should be reduced by at least $26.378 million to reflect reductions of: $6.052 million related to additional ADIT-bonus depreciation; $1.451 million to set common equity and long-term debt at the same levels applicable to the base revenue requirement; and $18.876 million to set the ROE at 9.0%.

ISSUE 135: What is the appropriate effective date for implementing FPL's requested base rate step increase for the Canaveral Modernization Project?

SFHHA: The effective date for the requested base rate step increase for the Canaveral Modernization Project, if any, should be the date of commercial operation of the project so long as that date is in the test year. If commercial operation commences after the test year, FPL must make a separate filing to place rates into effect.

COST OF SERVICE AND RATE DESIGN ISSUES

ISSUE 136: OBJECTION: ***Are the proposed FPL rates fair, reasonable, just and compensatory? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 137: OBJECTION: ***Are the proposed FPL rates unjust, unreasonable, excessive or unjustly discriminatory or preferential? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 138: OBJECTION: ***Are existing FPL rates fair, reasonable, just and compensatory? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 139: Should FPL employ a minimum distribution system ("MDS") cost of service methodology to classify and allocate distribution costs; if not, what methodology should be used?

SFHHA: Yes. Certain distribution costs are incurred due to the presence of a customer on the system, regardless of the level of the customer's demand. The MDS methodology recognizes that fact and reflects a classification that allocates such costs to rate classes by tying rate class cost responsibility to rate class cost causation. The NARUC cost allocation manual describes the MDS methodology as one of two methodologies that properly recognize this cost causation/cost responsibility principle.

ISSUE 140: What is the appropriate cost of service methodology to be used to allocate production costs to the rate classes?

SFHHA: Summer month reserve margin requirements are the binding constraint for planning FPL's system. Customer class demands during off-peak fall and spring months do not cause FPL to add new generation capacity to the system. Accordingly, a summer coincident peak methodology is the appropriate methodology for allocating production costs. It assigns cost responsibility to rate classes based upon each rate classes' contribution to the need for additional generation capacity to meet the summer reserve margin.

ISSUE 141: What is the appropriate cost of service methodology to be used to allocate transmission plant-related costs to the rate classes?

SFHHA: Transmission plant-related costs should be allocated to rate classes based upon a 100 percent demand basis. The appropriate demand allocator is the summer coincident peak methodology; however, at a minimum, transmission plant-related costs should be allocated using 12 CP.

ISSUE 142: Has FPL properly allocated costs to the rate classes?

SFHHA: No. FPL's classification method for distribution costs is based upon customer demand, regardless whether costs were incurred to provide service to any particular customer class. FPL's methodology overstates the cost responsibility of large general rate schedules, for instance, by assigning them costs associated with vacant residential dwellings or vacant small commercial buildings. Additionally, FPL's 12 CP and 1/13th average demand methodology for assigning production costs is inappropriate because it assigns responsibility by treating a customer class' contribution to each monthly peak equally, even though no monthly peak other than the summer peak causes FPL to need additional generation capacity. FPL places significant weight on the "parity" results from its cost of service study when assigning increases to rate classes. The proposed increases to its general service rate classes are substantially higher than the system average increase due to FPL's flawed parity results. Finally, FPL's demand allocation factors have not been properly calculated do to substitutions of actual data and improper adjustment process.

ISSUE 143: Is FPL's proposed allocation of the Cape Canaveral Modernization step increase reasonable?

SFHHA: No Position at this time.

ISSUE 144: How should the change in revenue requirement be allocated among the customer classes?

SFHHA: FPL's revenue requirement, as determined in this case, should be allocated among customer classes consistent with SFHHA's recommendations as set forth in Exhibit SJB-8, Schedule D. That exhibit incorporates: (1) the corrections to the demand allocators that are required for the reasons explained at pages 11 through 21 of Mr. Baron's testimony on behalf of SFHHA; (2) the MDS methodology for classifying certain distribution costs; and (3) a Summer CP methodology. Schedules A through C of Exhibit SJB-8 set forth alternatives that more appropriately would allocate FPL's revenue requirement if the Commission were to adopt one or more, but not all of, Mr. Baron's recommendations. At a minimum, it is necessary to adopt Schedule A of Exhibit SJB-8 to correct FPL's error in using "total revenues" rather than base revenues: (1) to allocate its Step 1 proposed increase and (2) for purposes of determining compliance with the Commission's policy that limits an increase for any rate class to a maximum of the average retail increase.

ISSUE 145: Should FPL's current time-of-use residential rate be closed to new customers, effective January 1, 2013?

SFHHA: No Position at this time.

ISSUE 146: Should the Commission approve FPL's new Residential Time-of-Use Rider?

SFHHA: No Position at this time.

ISSUE 147: Should FPL's proposal to credit the fuel charge for lighting customers who are required to turn off outside lights during turtle nesting season be approved?

SFHHA: No Position at this time.

ISSUE 148: Should FPL's proposed change to the late payment charge be approved?

SFHHA: No Position at this time.

ISSUE 149: OBJECTION: ***Is the proposed new minimum late charge of $5.00 or 1.5% per month unjust, unreasonable or excessive? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 150: OBJECTION: ***Is the existing late charge of 1.5% per month fair, reasonable, just and compensatory? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 151: OBJECTION: ***What is the actual legitimate cost to FPL of late payments? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 152: OBJECTION: ***Is there evidence of public acceptance of a new $5.00 minimum late charge? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 153: OBJECTION: ***What is the historic distribution of the amounts of late payments? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 154: OBJECTION: ***What percentage of late payments are under $5.00? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 155: OBJECTION: ***What percentage of late payments are caused by apparent clerical errors, such as being a penny off, transposing cents and ten cents, etc.? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 156: OBJECTION: ***Is it appropriate to raise the minimum late payment charge to $5.00 resulting in a 103% increase to FPL of revenue from late fees, an additional $33 million? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 157: Should FPL's proposed change to the temporary construction service rate be approved?

SFHHA: No Position at this time.

ISSUE 158: Should FPL's proposed change to the Returned Payment Charge be approved?

SFHHA: No Position at this time.

ISSUE 159: OBJECTION: ***Is the proposed increase in the minimum returned check fee from $23.24 to up to $40 unjust, unreasonable or excessive? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 160: OBJECTION: ***Is the existing minimum returned check fee of $23.24 fair, reasonable, just and compensatory? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 161: OBJECTION: ***Is the existing minimum returned check fee of $23.24 unjust, unreasonable, or excessive? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 162: OBJECTION: ***What is the actual legitimate cost to FPL of a returned check? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 163: OBJECTION: ***Is there evidence of public acceptance of a new minimum returned check fee of up to $40? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 164: OBJECTION: ***Is it appropriate to raise the minimum returned check fee with a resulting 41% increase in returned check fee revenue to FPL, an additional $2 million? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 165: What is the appropriate monthly kW credit to be provided customers who own their own transformers pursuant to the Transformation Rider? (8.820)

SFHHA: No Position at this time.

ISSUE 166: Has FPL correctly quantified the incentive payments associated with the Commercial/Industrial Load Control (CILC) classes?

SFHHA: No. FPL incorrectly estimated incentive payments by inaccurately calculating the cost differential between firm and non-firm service. As a result, FPL understated incentive payments to rate schedules CILC-1T and CILC-1D, and overstated incentive payments to the CILC-1G rate schedule.

ISSUE 167: Should the CILC rate be reopened?

SFHHA: Yes. FPL's recent analysis in Docket No. 10055-EG of its Demand Side Management Plan demonstrates that Rider CDR is cost-effective. As discussed in the testimony of Jeffry Pollock, it therefore follows that the CILC rate must be cost-effective as well. As a result, there is no reason not to open up the CILC rate. Further, it is necessary to open up the CILC rate to eliminate discrimination relative to Rider CDR.

ISSUE 168: Is FPL's proposed design of the demand and non-fuel energy charges for the CILC rate appropriate?

SFHHA: No. FPL proposes an on-peak energy charge increase in excess of 320% for CILC-1D because of the protocols it adopted for CILC-1D rate design. Specifically, the Firm On-peak demand charge, the Load Control On-peak demand charge, the Max Demand charge and off-peak non-fuel energy charge are all set at unit cost based on proposed revenue levels at equal rate of return. All additional revenue is recovered from the On-peak energy charge. Exhibit SJB-9 sets forth a revenue neutral alternative based on setting non-fuel energy charges of CILC-1D at unit cost, which is $0.00700/kWh, and then uniformly increasing all three of the CILC-1D demand charges by an equal percentage to meet the revenue target.

ISSUE 169: Should the Commercial/Industrial Demand Reduction Credit Rider (CDR) credit be increased?

SFHHA: Yes. The credit should be increased to $12.07 per kw. As shown in Mr. Pollock's testimony, the current credit is based upon the costs of new generation as determined in 2004. The costs of generation have increased since that time. The credit therefore should be increased to reflect those cost increases. Raising the credit to $12.07 per kw would recognize the increased costs, and Rider CDR would remain economic at that level.

ISSUE 170: Should CILC and CDR credits be allocated to non-firm loads?

SFHHA: No Position at this time.

ISSUE 171: What is the appropriate level and design of the charges under the Standby and Supplemental Services (SST-1) rate schedule?

SFHHA: No Position at this time.

ISSUE 172: What is the appropriate level and design of charges under the Interruptible Standby and Supplemental Services (ISST-1) rate schedule?

SFHHA: No Position at this time.

ISSUE 173: What is the appropriate method of designing time of use rates for FPL?

SFHHA: No Position at this time.

ISSUE 174: What are the appropriate customer charges for January 1, 2013?

SFHHA: No Position at this time.

ISSUE 175: OBJECTION: ***Is the proposed residential RS-1 monthly customer charge of $7.00 unjust, unreasonable or excessive? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 176: OBJECTION: ***Is the existing residential RS-1 monthly customer charge of $5.90 fair, reasonable, just and compensatory? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 177: OBJECTION: ***Is the existing residential RS-1 monthly customer charge of $5.90 unjust, unreasonable, or excessive? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 178: OBJECTION: ***Was the cost of monthly RS-1 customer service $5.89 per month in 2010 and/or 2011 as stated by S.E. Romig, FPL Director, Rates and Tariffs, in his letter of August 5, 2011 to Mr. Thomas Saporito filed on August 8, 2011 in Docket 05554? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 179: OBJECTION: ***In reference to the letter in Issue 178, what are the specific customer accounts and amounts making up the $3.69 of the $5.89 which is designated as "Miscellaneous Customer Accounts" in the attachment to Mr. Romig's letter? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 180: OBJECTION: ***What is the actual legitimate cost of providing monthly RS-1 service? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 181: OBJECTION: ***Is there evidence of public acceptance of a $7.00 RS-1 monthly customer charge? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 182: OBJECTION: ***Is it appropriate to raise the RS-1 monthly customer charge 19% with a resulting increase in revenue to FPL of $54 million? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 183: What are the appropriate demand charges for January 1, 2013?

SFHHA: The appropriate demand charges for rate CILC-1D should be based on the methodology as set forth in Mr. Baron's Exhibit SJB-9. No position at this time regarding other rate schedules.

ISSUE 184: What are the appropriate energy charges for January 1, 2013?

SFHHA: The appropriate energy charges for rate CILC-1D should be based on the methodology as set forth in Mr. Baron's Exhibit SJB-9. No position at this time regarding other rate schedules.

ISSUE 185: What are the appropriate lighting rate charges for January 1, 2013?

SFHHA: No Position at this time.

ISSUE 186: What is the appropriate effective date for FPL's revised rates and charges, prior to a Base Rate Step adjustment, if any, associated with the Canaveral Modernization project?

SFHHA: January 1, 2013.

ISSUE 187: What are the appropriate charges after the Canaveral Modernization Project comes on line?

SFHHA: The Canaveral increases should be recovered from the GSLD(T) and CILC rate classes in both demand and energy charges (*see* Baron at 53:8-12) based on FPL's classification of Canaveral revenue requirements between demand and energy in its cost of service study. FPL's proposal to recover 100% of the Canaveral increase from these rate classes in energy charges is inconsistent with FPL's need claim to convert the Canaveral facility and could lead to future over-collections.

OTHER ISSUES

ISSUE 188: OBJECTION: ***Whether FPL's investment in energy conservation; advertisements; consumer energy efficient appliances; and consumer electric***

generating systems is prudent, appropriate, and/or reasonable? (Mr. Saporito's Issue Objected to by FPL)

SFHHA: No Position at this time.

ISSUE 189: OBJECTION: ***Whether FPL's incentive to expand its capital base in order to increase or maintain NextEra Energy, Inc. total shareholder return is in conflict with the mandate of the Florida Legislature to promote co-generation and demand side renewable energy which does not increase FPL's capital base? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 190: OBJECTION: ***What actions has FPL taken to promote or discourage utilization of demand side renewable energy systems, solar energy, and cogeneration that the Commission is mandated by §§366.80 - 366.85 to consider in establishing the appropriate rates in the instant rate case? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 191: OBJECTION: ***How many of Florida's 54 other electric utilities (other than FPL) buy electric power from FPL? (Mr. Nelson's Issue Objected to by FPL)***

SFHHA: No Position at this time.

ISSUE 192: Should FPL be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

SFHHA: Yes.

ISSUE 193: Should this docket be closed?

SFHHA: No Position at this time.

F. <u>STIPULATED ISSUES</u>:

No stipulated issues.

G. <u>PENDING MOTIONS</u>:

On July 24, 2012, SFHHA filed a Motion to Compel FPL to Respond to Certain Requests to Produce Documents ("Motion to Compel"). FPL responded to the Motion to Compel on July 31, 2012. On August 1, 2012, SFHHA filed a Supplement to the Motion to Compel. On August

2, 2012, FPL filed a Motion to Strike SFHHA's Supplement to the Motion to Compel. As of the date of this filing, the Commission has not yet issued a ruling on the Motion to Compel, Supplement to the Motion to Compel, or Motion to Strike.

H. **PENDING REQUESTS FOR CONFIDENTIAL CLASSIFICATION:**

SFHHA does not have any pending requests for confidential classification at this time.

I. **OBJECTION TO WITNESSES' QUALIFICATIONS:**

SFHHA has no objections to witnesses' qualifications.

J. **REQUIREMENTS OF THE PREHEARING ORDER THAT CANNOT BE MET:**

SFHHA is not aware of any requirements of the prehearing order that cannot be met.

/s/ Kenneth L. Wiseman

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Attorneys for the South Florida Hospital and Healthcare Association

August 6, 2012

CERTIFICATE OF SERVICE
DOCKET NO. 120015-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic mail and U.S. mail to the following parties on this 6th day of August, 2012:

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