

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI

In the Matter of:

PETITION FOR INCREASE IN RATES
BY FLORIDA POWER & LIGHT COMPANY.

VOLUME 8

Pages 893 through 1098

COMMISSION
CLERK

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PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN RONALD A. BRISÉ
COMMISSIONER ART GRAHAM
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Wednesday, August 22, 2012

TIME: Commenced at 1:22 p.m.
Concluded at 4:12 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: DEBRA R. KRICK
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APPEARANCES: (As heretofore noted.)

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1 P R O C E E D I N G S

2 (Transcript follows in sequence from
3 Volume 7.)

4 CHAIRMAN BRISÉ: Okay. We are going to
5 reconvene in a few. Okay. We are still on docket
6 number 120015-EI, and if I am correct, Mr. LaVia
7 was about to begin to cross-examine.

8 MR. LaVIA: Thank you, Chairman. I think I
9 was next in the queue, and I have no questions.
10 Thank you.

11 CHAIRMAN BRISÉ: All right. Thank you.

12 Mr. Saporito?

13 MR. SAPARITO: Thank you, Mr. Chairman. To
14 the extent that chair -- or Commissioner Graham's
15 Prehearing Order in this docket has recently been
16 significantly and abruptly altered with respect to
17 the witness' order of testimony, I was unable to
18 have sufficient opportunity to prepare an
19 examination on cross for this witness, so
20 therefore, I will not be able to participate.
21 Thank you.

22 CHAIRMAN BRISÉ: All right. Mr. Hendricks?

23 MR. HENDRICKS: No questions for this witness.

24 CHAIRMAN BRISÉ: Okay. Staff? Ms. Klancke?

25

1 CROSS EXAMINATION

2 BY MS. KLANCKE:

3 Q Staff does have a few questions for you,
4 Ms. Kennedy. Good afternoon. My name is Caroline
5 Klancke. I am an attorney with the Florida Public
6 Service Commission.

7 MS. KLANCKE: At this time, I am having passed
8 out an exhibit which contains MFR C-41.
9 Theoretically, these will be included in all of the
10 MFRs in Exhibit 487. They have not been moved in
11 yet, and so I would like a number -- a hearing
12 number for the purposes of this.

13 CHAIRMAN BRISÉ: Sure, 514.

14 MS. KLANCKE: 514.

15 CHAIRMAN BRISÉ: Any objections?

16 MR. DONALDSEN: No objections.

17 CHAIRMAN BRISÉ: All right. Thank you.

18 (Whereupon, Exhibit No. 514 was marked for
19 identification.)

20 BY MS. KLANCKE:

21 Q Ms. Kennedy, with, respect to the hearing
22 exhibit, you have cosponsored MFR Schedule C-41 in this
23 proceeding; is that correct?

24 A Yes, ma'am.

25 Q And document before you, the hearing exhibit I

1 just had provided you to, contains MFR C-41, which
2 consists of two pages?

3 A Yes, ma'am.

4 Q This schedule, Schedule C-41, provides a
5 schedule of operation and maintenance expenses by
6 function; is that correct?

7 A By FERC function. Yes, ma'am.

8 Q I would like to spend a little time going
9 through some of the numbers that are reflected on this
10 document. In particular, I would like to focus your
11 attention on column 4. It's titled, 2013 Adjusted O&M
12 Expenses. Do you see that?

13 A Yes, ma'am.

14 Q In particular, on line 1 in column 4, it
15 provides that the 2013 adjusted O&M expenses for
16 production steam is listed in the amount of 85,366,000;
17 is that correct?

18 A That is correct.

19 Q Going down to line 3, it specifies that the
20 2013 adjusted O&M expenses for production nuclear is
21 listed as 406,557,000; is that correct?

22 A That is correct. I am reading the same
23 information from you, but I cannot represent the nuclear
24 side of the business.

25 Q Fair enough. Going down to line 5, Production

1 Other, it specifies that the 2013 adjusted O&M expense
2 for production other is 161,143,000; is that correct?

3 A That is correct.

4 Q Now, the total of these three numbers in these
5 three rows under column 4 would result in a production
6 O&M expense of --

7 Well, first, it would result in the -- what
8 FP&L believes is the appropriate amount of production
9 O -- O&M expense; is that correct?

10 A That is correct.

11 Q And if you were to -- to total those three, it
12 would amount to 653,066,000; would you agree, subject to
13 check?

14 A Subject to check.

15 Q In your testimony, you provide support for
16 FPL's production plant O&M expense for the 2013 test
17 year, which in this proceeding is Issue 89 in the
18 Prehearing Order. Is that correct?

19 A I am sorry. Could you repeat the question?

20 Q Maybe I could simplify the question a bit.
21 Issue 89, you are identified by FPL in the Prehearing
22 Order on page 110 as one of two witnesses that is the
23 witness with respect to this issue. Is that correct?

24 A Yes, ma'am.

25 Q And I have provided to you a copy of the

1 Prehearing Order for your ease of reference, so I will
2 allow you -- if you -- if you would like to go to page
3 110.

4 A Yes, ma'am. I am there.

5 Q Excellent. In particular, I would like to
6 turn your attention to FPL's position on this issue. An
7 in Issue 89, FPL has identified nuclear O&M request in
8 the amount of 410,557,000, as opposed to the 406,557,000
9 contained on the MFR Schedule that we just discussed.
10 Do you see that?

11 A I do see that, and I cannot answer for the
12 nuclear portion of this.

13 Q Would Witness Stall be the witness who would
14 be --

15 A Witness Stall.

16 Q -- able to answer that?

17 A Yes. Yes, ma'am.

18 Q Excellent.

19 Staying on FPL's position, however, FPL in,
20 first line, has requested a production O&M expense in
21 the amount of 663,393,000; do you see that?

22 A If you are referring to in the docket, if you
23 are referring to the total amount there, yes, ma'am. I
24 see that.

25 Q And that's FPL's request with respect to the

1 O&M expense, the production plant O&M expense; is that
2 correct?

3 A That is correct.

4 Q Now, we just totaled the three components in
5 Schedule C-41 that would comprise the basis for
6 production plant O&M expense; do you recall that?

7 A Yes.

8 Q And we totaled it -- the three components
9 amounted to 653,066,000. Do you recollect that?

10 A I recall the difference. Yes, ma'am.

11 Q And yet here, in FPL's issue -- FPL's position
12 on Issue 89, you're proposing a figure in the amount of
13 66 -- 663,393,000?

14 A If possible, I would like to stay focused in
15 the nonnuclear side and like to do the additions
16 associated with steam and production other, which as a
17 witness that I represent.

18 Q Certainly. I was just -- since you are one of
19 the witnesses on Issue 89, there seems to be some
20 confusion with respect to the amount requested. Staff
21 would just like to know the basis for this 10,327,000
22 difference.

23 A Okay. Subject to check, but I just totaled up
24 my numbers for steam and -- and the production other,
25 and when I total up my numbers, it's 246 versus what is

1 referenced in this document, is the 252 number. And
2 what I suspect is the difference is the -- the
3 jurisdictional allocation, and also, the aspect that
4 power supply may be rolled up into my number as well,
5 which is another 6 million. So let me add that in there
6 because I do think power supply is added into mine.

7 Yeah. Adding power supply in there, I get --
8 let me make sure I am right. I -- I am -- I get our
9 number that I am representing here for production --
10 steam production other and power supply. Those are the
11 three that are grouped together, I believe, in this MFR
12 in terms of referencing to this number, the 252.

13 **Q So are you referring to the amount of it -- of**
14 **power supply other in the amount of 6,299,000 that's**
15 **listed on MFR Schedule C-41 on line 7?**

16 A Yes, I believe -- subject to check, but I
17 believe those total into my total.

18 **Q So --**

19 A Because it's all -- this is all nonnuclear
20 O&M, and it's more than just my department. And there
21 are some other smaller departments. Obviously, I am
22 98 percent of that amount, but there are other ones; and
23 I do believe it's power supply.

24 MR. REHWINKEL: Mr. Chairman, this is not
25 really an objection. I -- the -- the witness --

1 and -- and I don't fault her for this. She's
2 saying this document and that doc-- I am not really
3 sure where she's pointing and which numbers --

4 THE WITNESS: I am -- I am sorry.

5 MR. REHWINKEL: -- and the record is a little
6 bit muddy as far as me watching. And I just
7 thought I would ask that if -- if -- if she could
8 answer -- I -- I think the staff is directing her
9 to the Prehearing Order, and they are also
10 directing her to the exhibit they passed out. And
11 it would be helpful if the answers said
12 specifically which document.

13 THE WITNESS: Okay. I am using just the two
14 documents that staff has handed me, and so just for
15 clarification, I am using the MFR Schedule as well
16 as the issue sheet on -- and the summary that's --
17 I am using the numbers that are out -- out of the
18 summary for FPL's position.

19 CHAIRMAN BRISÉ: I -- I think the clarif--
20 clarification is being sought that if -- if you are
21 using numbers from a particular document, that you
22 state that you are --

23 THE WITNESS: Okay.

24 CHAIRMAN BRISÉ: -- using those numbers --

25 THE WITNESS: Yes, sir.

1 CHAIRMAN BRISÉ: -- so that everyone can be on
2 the same page.

3 THE WITNESS: Yes, sir.

4 MR. REHWINKEL: Thank you. I appreciate that.

5 BY MS. KLANCKE:

6 Q Certainly. So just to clarify, the production
7 plant O&M expense amount of 663,393,000, walk me
8 through, please, the components represented on Schedule
9 C-41 that were added together to comprise that figure.

10 A And if you will allow me, I will stay focused
11 into my department, okay, so -- because I -- I represent
12 the numbers for my department.

13 So I would sum, on column 4, line 1, the
14 eighty-five three six six. I would sum, on line 5,
15 again in that same column, one six one one four three,
16 and then I would also add in, on line 7, the six two
17 nine nine.

18 Q Can you point me to another witness that would
19 be able to help staff clarify the figure?

20 MR. BUTLER: I think this would be most
21 appropriate for Ms. Ousdahl.

22 MS. KLANCKE: Ousdahl?

23 MR. BUTLER: Yes. She will be able to sort
24 of confirm the -- the amounts that total up.

25

1 MS. KLANCKE: It is my -- I do not believe
2 that -- she cosponsors Schedule C-41, is that
3 correct, or does she not?

4 MR. BUTLER: She does.

5 MS. KLANCKE: Excellent. Okay. That's all
6 the questions that staff has for you.

7 THE WITNESS: Thank you.

8 CHAIRMAN BRISÉ: All right. Thank you, Ms.
9 Klancke.

10 Commissioner Balbis?

11 COMMISSIONER BALBIS: Thank you, Mr. Chairman.
12 I just have maybe one or two questions for
13 Ms. Kennedy.

14 And I want to preface my question with
15 agreeing that the exhibits behind you that show
16 the -- the reduction in the heat rate have resulted
17 in significant fuel savings for -- for the
18 customers, and I want to applaud FPL for that.

19 My question to you is similar to the one that
20 I asked the previous witness, and although we
21 haven't had that many, the name escapes me, but --
22 and that is, how much of that reduction in heat
23 rate is a result of upgrading or changing out your
24 fleet, and how much has been achieved by true O&M
25 activities?

1 THE WITNESS: In terms for the heat rate?

2 COMMISSIONER BALBIS: Yes.

3 THE WITNESS: It takes a significant movement
4 in terms to -- 99 percent of it is driven by the
5 investments in capital that we have made, such as
6 trans-- transforming our technology from steam to
7 combined cycled. Other examples would be the GE
8 7FA.04 upgrades. It's significant upgrades like
9 that that actually move the heat rate target in the
10 trend that we have that.

11 The day-to-day operations and the other, like
12 Six Sigma projects that we work are much smaller in
13 magnitude. They are in the one to two percent in
14 terms of moving that needle.

15 COMMISSIONER BALBIS: Okay. And last question
16 that I have asked other witnesses, what have you
17 done specifically in your department to maintain or
18 lower overall O&M costs?

19 THE WITNESS: Okay. Thank you.

20 One of the most significant things that we
21 have done here in the recent few years is -- is the
22 inactive reserve strategy that we have implemented,
23 where we have been putting a lot of our older units
24 into an inactive status and redeploying our staff
25 to other areas to -- to fill in to replace

1 contractors or to fill vacant positions, and this
2 is very -- been very effective for us.

3 As a matter of fact, in the 2013 test year, we
4 were able to show a reduction of 20.4 million
5 because of this strategy that we have taken.

6 Other examples that we do are associated,
7 like, with our Six Sigma type project activities
8 that we work. A recent example we just had the
9 last few months, we will did a leaning activity in
10 terms of our West County units. It was taking us
11 16 days to conduct those combustor inspections, and
12 by doing some lean activities, working with
13 Mitsubishi, we were successful in reducing that
14 maintenance time down by five days.

15 And that's a significant savings for us in --
16 in terms for the cost of having rental equipment
17 and other equipment there as well as the
18 contractors that are not -- that are on a time
19 and -- time and material type basis. Those are
20 just a few examples.

21 COMMISSIONER BALBIS: Okay. Thank you, and
22 I -- I think those are very good examples.

23 And I have to ask since you are here on the
24 stand, you have mentioned West County Energy Center
25 3; how is the cooling water for that facility? How

1 is that working out, the reused water that's being
2 used for cooling?

3 THE WITNESS: Oh, from the reclaimed water?

4 COMMISSIONER BALBIS: Yes.

5 THE WITNESS: Oh, it's been a significant
6 improvement for us in terms that we have -- it's
7 enabled us one of those cost reductions that we
8 have been able to achieve because the quality of
9 water was so much better than the groundwater, so
10 it's helped reduce our overall water treatment
11 plant costs and greatly appreciated. So thank you.

12 COMMISSIONER BALBIS: Okay. Thank you.

13 That's all I have.

14 CHAIRMAN BRISÉ: Commissioner Graham?

15 COMMISSIONER GRAHAM: Thank you Mr. Chairman.

16 You may have touched on this a little bit from
17 Commissioner Balbis' question. Looking at the heat
18 chart, I think it's your RRK-4 or the third one
19 from the left.

20 THE WITNESS: Yes, sir.

21 COMMISSIONER GRAHAM: What specifically was
22 done with the 2000, 2001 to cause that inflection,
23 because that's just an incredible change in that
24 graph?

25 THE WITNESS: In the 2001 and 2002 time

1 period, was the time period when we started our
2 repowerings of Sanford and Ft. Myers facilities, so
3 those were the -- the most significant changes that
4 were occurring at that particular time.

5 COMMISSIONER GRAHAM: Okay. And RRK-10, I
6 assume you have that graph in front of you.

7 THE WITNESS: Yes, sir. I do.

8 COMMISSIONER GRAHAM: What was done during
9 that 22-year period of time to cause for the
10 diversion of those two lines? Just the significant
11 changes, I was just kind of curious.

12 THE WITNESS: I think the simple explanation
13 is a conventional unit like -- and I will use Cape
14 Canaveral Modernization Project. That facility was
15 two conventional steam fired units, and in -- in
16 its previous days, it took 135 employees to operate
17 and maintain that facility.

18 The new facility that's going to produce more
19 megawatts, cleaner and all those wonderful things,
20 that they are now running that power plant with 41
21 employees. So it's the technology that has enabled
22 us to operate more efficiently and what is allowing
23 for these -- the departure of these two curves.

24 COMMISSIONER GRAHAM: And looking at the
25 difference you have in these graphs, you would

1 think back in 1990, you were actually shoveling
2 coal one person at a time.

3 THE WITNESS: I assure you by looking at
4 Exhibit 7 with our O&M that you would see that was
5 not true.

6 COMMISSIONER GRAHAM: Okay. Thank you.

7 CHAIRMAN BRISÉ: All right. Any further
8 questions from Commissioners?

9 Okay. Seeing none, redirect?

10 MR. DONALDSEN: No redirect.

11 CHAIRMAN BRISÉ: All right. Thank you very
12 much. This time we are going to deal with
13 exhibits.

14 MR. DONALDSEN: Yes, FPL at this time would
15 like to move into the record Ms. Kennedy's exhibits
16 167 through 176.

17 CHAIRMAN BRISÉ: Okay. If there are no
18 objections, we will move Exhibits 167 -- let me
19 make sure I get this right -- to -- you said 176?

20 MR. DONALDSEN: 1 -- 176.

21 CHAIRMAN BRISÉ: 176, okay. We will move
22 those into the record.

23 (Exhibit No. 167 through 176 were received
24 into evidence.)

25 CHAIRMAN BRISÉ: Ms. Klancke?

1 MS. KLANCKE: At this time, staff would like
2 to ask the witnesses that were referred to about
3 the exhibit that we passed out, and so it will be
4 coming up again.

5 CHAIRMAN BRISÉ: Okay.

6 MS. KLANCKE: We will move it in at that time
7 if it -- if necessary.

8 CHAIRMAN BRISÉ: All right.

9 MR. BUTLER: Mr. Chairman, let me suggest
10 something here. Ms. Klancke had to identify this
11 exhibit because we haven't moved the MFRs into the
12 record yet, and I was really just saving that out
13 to not be premature from it. But it seemed like
14 there weren't any objections to them, your earlier
15 instruction to the parties were that if you have
16 objections, raise them up front. So it may be
17 appropriate to go ahead and move the MFRs into the
18 record at this time, and then we wouldn't need to
19 be pulling particular ones out as separate
20 exhibits.

21 So I would -- I would propose to move Exhibit
22 487 into the record at this point.

23 CHAIRMAN BRISÉ: 487. Okay. Are there any
24 objections?

25 MR. DONALDSEN: We concur.

1 CHAIRMAN BRISÉ: All right. Seeing no
2 objections we will move Exhibit 487 into the
3 record.

4 (Whereupon Exhibit No. 487 was received into
5 evidence.)

6 CHAIRMAN BRISÉ: Okay. And I think that
7 handles all the exhibits for Ms. Kennedy at this
8 time.

9 All right. Thank you.

10 MR. DONALDSEN: I ask that she's excused from
11 her direct testimony.

12 CHAIRMAN BRISÉ: Yes, Ms. Kennedy may be
13 excused from her direct testimony. Thank you.

14 THE WITNESS: Thank you.

15 (Witness excused.)

16 CHAIRMAN BRISÉ: Okay. Our next witness is
17 Mr. George Hardy.

18 MR. DONALDSEN: Chairman Brisé, I don't
19 believe that Mr. Hardy has been sworn.

20 CHAIRMAN BRISÉ: Okay. Raise your right hand.
21 Whereupon,

22 GEORGE HARDY
23 was called as a witness, having been first duly sworn to
24 speak the truth, the whole truth, and nothing but the
25 truth, was examined and testified as follows:

1 CHAIRMAN BRISÉ: Thank you. You may be
2 seated.

3 DIRECT EXAMINATION

4 BY MR. DONALDSEN:

5 Q Good afternoon. Can you please introduce
6 yourself and your business address?

7 A My name is George Keith Hardy. I am the
8 Vice-President of Distribution. My business address is
9 700 Universe Boulevard in Juno Beach, Florida.

10 Q And when you say Vice-President of
11 Distribution, is that for Florida Power & Light?

12 A Yes, it is.

13 Q Okay. Are you the same George K. Hardy that
14 caused to be filed 25 pages of prefiled direct testimony
15 in this matter?

16 A Yes.

17 Q All right. Do you have any changes or
18 revisions to your direct prefiled testimony other than
19 the errata that was filed on August 16th of this year?

20 A No, I do not.

21 Q Okay. If I was to ask you the same questions
22 and answers along with the errata that's been filed,
23 would your answers be the same?

24 A Yes, they would.

25 MR. DONALDSEN: Chairman Brisé, I ask that

1 Mr. Hardy's direct prefiled testimony and the
2 errata be entered into the record as though read.

3 CHAIRMAN BRISÉ: All right. Without any
4 objections, we will move Mr. Hardy's testimony into
5 the record as though read.

6 (Whereupon, testimony inserted.)
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
DIRECT TESTIMONY OF GEORGE K. HARDY
DOCKET NO. 120015-EI

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I. INTRODUCTION

1

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, 700 Universe Blvd., Juno Beach, Florida, 33408.

6 **Q. By whom are you employed and what is your position?**

7 A. I am employed by Florida Power & Light Company ("FPL" or the "Company") as
8 Vice President of the Distribution Business Unit ("Distribution").

9 **Q. Please describe your duties and responsibilities in that position.**

10 A. I am responsible for the planning, engineering, construction, operations,
11 maintenance and restoration of Distribution's infrastructure.

12 **Q. Please describe your educational background and professional experience.**

13 A. I received a Bachelor of Science in Mechanical Engineering from North Carolina
14 State University. I am also a graduate of the Leadership Institute of Boston
15 University's School of Business. My professional background with FPL includes
16 twenty four years of technical, managerial and commercial experience, with
17 progressively more demanding assignments. I have served as Vice President
18 within three FPL business units: Power Generation, Transmission and now
19 Distribution.

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

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

- 22 • Exhibit GKH-1 Summary of Co-Sponsored MFRs
- 23 • Exhibit GKH-2 Distribution Reliability Program Initiatives

1 **Q. Are you co-sponsoring any Minimum Filing Requirements (“MFRs”) in this**
2 **case?**

3 A. Yes. Exhibit GKH-1 contains a listing of the MFRs that I am co-sponsoring.

4 **Q. What is the purpose of your testimony?**

5 A. The purpose of my testimony is to:

- 6 • provide an overview of Distribution’s initiatives to strengthen and improve
7 the storm resiliency and reliability of the distribution system infrastructure;
8 • demonstrate that Distribution provides excellent service reliability and
9 customer service; and
10 • present an overview of Distribution’s effectively managed capital
11 expenditures and operation and maintenance (“O&M”) expenses.

12 **Q. Please summarize your testimony.**

13 A. Distribution is responsible for the planning, engineering, construction, operation,
14 maintenance and restoration of FPL’s distribution infrastructure. Distribution’s
15 infrastructure storm hardening and preparedness initiatives include its storm
16 hardening plan, pole inspection program and vegetation management program, all
17 of which have been previously reviewed and approved by the Florida Public
18 Service Commission (“FPSC”). These programs further strengthen and improve
19 the distribution infrastructure and provide value and long term benefits to our
20 customers. Distribution also continues to deliver excellent system reliability
21 performance to our customers. Over the last decade (2002-2011), Distribution’s
22 reliability, as measured by the best overall indicator of reliability, the System
23 Average Interruption Duration Index (“SAIDI”), has been extremely stable and

1 ranks the best among Florida's other investor owned utilities ("IOUs").
2 Additionally, FPL's Distribution 2006-2010 SAIDI performance ranks in the first
3 quartile in a recently completed Davies Consulting Inc. reliability benchmarking
4 study which included 31 utilities in approximately 30 states, each of which serves
5 between 300,000 and 5 million customers.

6
7 Through the implementation of targeted initiatives, Distribution continually
8 strives to improve and enhance our customer service processes. The cumulative
9 success of these initiatives has resulted in a 48 percent reduction in distribution-
10 related logged FPSC complaints per 10,000 customers over the last decade. In
11 2011, Distribution achieved its best-ever recorded results for this metric for the
12 second consecutive year.

13
14 Distribution's superior reliability and customer service performance are also
15 delivered while maintaining a continual focus on safety. Our safety performance
16 over the last decade, as measured by the industry standard metric for reportable
17 injuries, has improved by 53 percent. In 2011, Distribution achieved its best-ever
18 recorded results for this metric.

19
20 Significantly, Distribution has achieved all of these operational performance
21 improvements, while still effectively managing and controlling costs and helping
22 FPL provide the lowest typical customer electric bill in Florida. In the face of
23 ever-rising costs, Distribution's historical O&M expenses have remained stable.
24 This trend is expected to continue through 2013 ("Test Year"). Additionally, this

1 stability was achieved while adding over 800,000 new service accounts over the
2 last decade and meeting additional regulatory commitments (e.g., costs associated
3 with approved storm hardening and storm preparedness initiatives).

4
5 Historically, Distribution's capital expenditures result primarily from the
6 requirement to fund investments necessary to serve on-going customer growth,
7 reliability programs, day-to-day restoration activities and regulatory commitments
8 associated with the approved storm hardening and preparedness initiatives.

9
10 In short, Distribution has delivered excellent, efficient and balanced performance
11 resulting in substantial value and benefits for our customers. This outstanding
12 outcome was achieved as a direct result of Distribution's management and
13 employee commitment to safely provide superior reliability and customer service
14 at reasonable costs.

15 16 II. OVERVIEW OF DISTRIBUTION

17
18 **Q. Please provide an overview of the Distribution organization and system.**

19 A. Within FPL's 28,000 square mile service territory, there are approximately 67,000
20 miles of distribution electrical conductor, consisting of approximately 42,000
21 miles of overhead wire and approximately 25,000 miles of underground cable.
22 Additionally, FPL's distribution system includes over 1.1 million poles and more
23 than 800,000 transformers serving our customers. Distribution is organized into

1 four regions (North, East, West and Miami-Dade), which are further divided into
2 16 management areas that contain 35 service centers. There are also two network
3 operations centers. As of December 2011, there were approximately 2,200 full-
4 time Distribution bargaining and non-bargaining employees.

6 III. STRENGTHENING THE INFRASTRUCTURE

7
8 **Q. Is Distribution taking actions to improve the strength and resiliency of its
9 distribution infrastructure against major storms?**

10 A. Yes. The seven hurricanes that affected FPL's service territory during 2004 and
11 2005 resulted in significant customer outages and required extraordinary efforts to
12 rebuild and restore the system. As a result, the FPSC and FPL initiated actions to
13 strengthen and improve the resiliency of the electrical distribution infrastructure.
14 For example, the FPSC opened new dockets that resulted in orders and rules
15 requiring, among other actions, an eight-year pole inspection program, plans to
16 address ten new storm preparedness initiatives, as well as storm hardening plans.
17 For FPL, its "Storm Secure Plan," filed with the FPSC in 2006, addressed similar
18 initiatives.

19 **Q. Please provide more specific details about Distribution's actions to
20 strengthen and improve the storm resiliency of its infrastructure.**

21 A. In compliance with FPSC orders and rules, Distribution filed and obtained
22 approval of its plans and programs to satisfy the new storm preparedness and

1 hardening requirements. The following are summaries of these approved
2 plans/actions:

3
4 Pole Inspections – Distribution’s plan to implement an eight-year distribution pole
5 inspection cycle was approved by the FPSC in 2006. Our 1.1 million-plus
6 distribution poles are inspected to ensure they meet National Electrical Safety
7 Code (“NESC”) strength and loading requirements. Poles not meeting these
8 requirements are either reinforced or replaced. Through 2011, Distribution has
9 inspected approximately 800,000 distribution poles, and remains on schedule to
10 complete its first eight-year cycle in 2013.

11
12 Storm Preparedness Initiatives – Distribution’s plans to address the 10 FPSC
13 storm preparedness initiatives were approved in 2006 (Initiatives 2-10) and 2007
14 (Initiative 1). The storm preparedness initiatives include plans for increased
15 vegetation management, audits of joint use poles, improved asset management
16 systems, gathering of storm damage forensics and the evaluation of overhead vs.
17 underground facilities’ storm performance. One key initiative, increased
18 vegetation trimming, includes Distribution’s plan to establish a six-year average
19 cycle for its laterals by 2013 and maintain its three-year average cycle for feeders.
20 Distribution remains on schedule to meet this plan.

21
22 Storm Hardening – Distribution’s hardening plans, first for 2007-2009 and most
23 recently for 2010-2012, were approved by the FPSC in 2007 and 2010,

1 respectively. The FPSC’s “hardening rule” (Rule 25-6.0342) requires the filing,
2 review and approval of detailed hardening plans every three years. These plans
3 include the overall hardening strategy, proposed projects, expected costs and
4 associated benefits. Additionally, annual updates filed with the FPSC each March
5 specify hardening projects and associated costs planned for the current year, along
6 with actual hardening projects and associated costs completed during the previous
7 year. Distribution’s approved hardening plan includes a three-prong approach
8 that: (1) applies Extreme Wind-Loading criteria (“EWL”) to infrastructure that
9 serves critical customers (e.g., hospitals and 911 centers); (2) targets the
10 strengthening of existing infrastructure, up to and including EWL, that serves key
11 community needs (e.g., gas stations, grocery stores and pharmacies); and (3)
12 employs revised design guidelines to apply EWL to new overhead construction,
13 major planned work, relocation projects and daily work activities where feasible
14 and practical. By the end of 2013, Distribution expects it will have hardened to
15 EWL 292 feeders serving critical infrastructure customers, including 100 percent
16 of all feeders serving hospitals, 911 centers and local government emergency
17 operation centers, and 118 major highway crossings. Additionally, 110 feeders
18 serving community needs will have been incrementally hardened, up to and
19 including EWL.

20
21 Investing in Overhead to Underground Conversions – FPL’s Government
22 Adjustment Factor (“GAF”) tariff was first approved by the FPSC in 2007 as a
23 pilot program. In 2010, the tariff was approved on a permanent basis. The goal

1 of the GAF tariff is to lower storm restoration costs for all customers by providing
2 a 25 percent incentive for applicable government-sponsored conversion projects.
3 Through 2011, one county and 10 municipalities have signed a GAF tariff
4 agreement and moved forward with conversion projects.

5 **Q. What benefits do these approved initiatives and programs provide to FPL's**
6 **customers?**

7 A. Distribution's storm strengthening and preparedness initiatives will result in long-
8 term improvements to the distribution system that not only improve the system's
9 resilience against future storms and severe weather events, but also provide an
10 increased level of day-to-day reliability for our customers, both now and in the
11 future. The expected long-term benefits derived from these initiatives include
12 fewer customer outages, reduced outage durations and reductions in storm and
13 non-storm restoration costs.

14

15

IV. RELIABILITY

16

17 **Q. Please provide a general description of Distribution's reliability program,**
18 **initiatives and achieved results.**

19 A. Distribution's comprehensive reliability program is comprised of multiple
20 initiatives designed to improve reliability by preventing outages and reducing
21 outage durations. The results and benefits of such initiatives include reduced
22 customer inconvenience and overall restoration cost savings. Reduced restoration
23 costs help keep our customers' electric bills the lowest in the state.

1 Distribution develops these reliability initiatives by identifying, analyzing and
2 prioritizing causes of past interruptions and then targeting those causes that, if
3 remedied and/or repaired, will yield the largest customer benefits. Distribution
4 has designed an integrated set of initiatives to address the greatest areas of
5 opportunity to further improve reliability. A list of reliability initiatives, with
6 annual costs greater than \$1 million, is provided in Exhibit GKH-2. The
7 effectiveness of each initiative is evaluated on an on-going basis and resources are
8 redeployed, as necessary, to maximize overall performance results.

9
10 As a result of these initiatives, Distribution has consistently delivered and
11 maintained a superior level of reliability to its customers for more than a decade.
12 As previously discussed, SAIDI measures customers' average annual outage time.
13 It is the most relevant and best overall reliability indicator because it encompasses
14 two other standard performance metrics for overall reliability: the System
15 Average Interruption Frequency Index ("SAIFI") and the Customer Average
16 Interruption Duration Index ("CAIDI"). Over the last decade, Distribution's
17 SAIDI performance has remained extremely stable and ranks the best among the
18 Florida IOUs. Additionally, FPL's Distribution 2006-2010 SAIDI performance
19 ranks in the first quartile in a recently completed Davies Consulting Inc.
20 reliability benchmarking study which included 31 utilities in approximately 30
21 states, each of which serves between 300,000 and 5 million customers.

1 **Q. Please provide some specific examples of Distribution’s reliability initiatives**
2 **and how these programs benefit FPL’s customers.**

3 A. Vegetation Management Program – Vegetation-related outages represent one of
4 the top causes of customer interruptions and present a particular challenge in
5 Florida due to the year-round growth cycle. Distribution continues to maintain a
6 three-year average trim cycle for feeders and is implementing its six-year average
7 cycle for laterals through Initiative 1 of its approved FPSC Storm Preparedness
8 Plan. Additionally, trimming on circuits serving critical customers, e.g., hospitals,
9 is completed prior to the peak of each storm season; thereby reducing severe
10 storm-related interruptions and damage to the facilities serving these critical
11 customers.

12
13 In 2011, FPL was recognized for the ninth straight year as a Tree Line USA
14 Utility by the National Arbor Day Foundation. To qualify for this recognition,
15 utilities must adopt certain work practices associated with pruning and working
16 around trees and conduct documented training on these work practices. In
17 addition, utilities must sponsor a community tree-planting program and provide
18 educational information about trees to customers (e.g., planting the appropriate
19 tree species near utility lines). Long-term benefits associated with being a Tree
20 Line USA Utility include lower vegetation management costs and improved
21 customer and community relations.

1 Feeder/Lateral Cable Program – Another significant cause of distribution
2 interruptions is underground cable failures. This program addresses “direct-
3 buried” feeder and lateral cable through rehabilitation by either injecting the cable
4 with silicone, which extends its life, or, when injection is not an option, by
5 replacing the cable. Our experience shows that once a section of cable
6 experiences several failures, replacing or injecting the cable is the best way to
7 avoid increasingly frequent outages. For replacements, Distribution utilizes cable
8 in conduit. This makes subsequent restoration and/or repair quicker and more
9 efficient, thereby reducing water intrusion and decreasing the likelihood of future
10 cable failure.

11
12 Priority Feeder Program – The purpose of this program is to address feeders
13 experiencing the highest number of outages and momentary interruptions on our
14 system. Annually, these feeders are identified and targeted for review and
15 analysis to determine and implement the appropriate corrective measures.

16
17 In summary, Distribution’s reliability initiatives significantly contribute to
18 excellent reliability through the avoidance and minimization of outages and
19 customer inconvenience. These initiatives have made a major contribution
20 towards FPL’s excellent reliability results historically and are expected to do the
21 same in the future.

1 **Q. Given the success of Distribution's reliability programs, what are its plans**
2 **going forward?**

3 A. Distribution will continue to seek ways to further improve the superior reliability
4 provided to and expected by our customers. Although FPL's service territory has
5 not recently been affected by major storm events like those experienced in 2004
6 and 2005, FPL must continue to invest in its hardening and storm preparedness
7 initiatives to meet customer needs and expectations, now and in the future. This
8 includes continuing to construct infrastructure to higher standards, increasing tree
9 trimming through its six-year average vegetation management cycle for laterals
10 and conducting its eight-year pole inspection cycle. These initiatives, coupled
11 with Distribution's more established reliability initiatives, will continue to provide
12 our customers with superior reliability, help avoid and minimize outages and
13 reduce overall restoration costs.

14

15

V. STORM PREPAREDNESS

16

17 **Q. As was evident from the unprecedented 2004 and 2005 seasons, restoration of**
18 **service after hurricanes and tropical storms is an important issue in Florida.**
19 **Please comment on FPL's emergency preparedness efforts.**

20 A. As discussed earlier, Distribution's approved infrastructure hardening and storm
21 preparedness initiatives will help reduce the amount of damage to the distribution
22 system, reduce the number of outages and reduce overall restoration duration.
23 Distribution also continues to hone its comprehensive plans for rapid and safe
24 restoration of customers' service. After a major storm, FPL's primary mission is

1 to safely restore service to the greatest number of customers in the least amount of
2 time, enabling the communities served by FPL to return to normal as rapidly as
3 possible. Our restoration plans, which include working with county emergency
4 preparedness officials to prioritize restoration of critical infrastructure facilities,
5 are thoroughly tested and refined through annual “dry run” exercises and by
6 performance analysis after each event. Our many years of experience have shown
7 that extensive planning, training, process discipline, the expertise of on-site
8 management teams and scalable implementation are critical. Planning and
9 preparation include ensuring that: (1) storm roles and responsibilities are known;
10 (2) adequate training is provided; (3) foreign crews are secured, including
11 additional contractor support and mutual assistance from other electric utilities;
12 (4) staging sites are identified, secured and ready; (5) all equipment and logistic
13 needs are satisfied; and (6) communication plans and processes, for internal as
14 well as external purposes, are in place.

15
16 FPL is recognized as an industry leader in storm restoration. Numerous other
17 utilities have visited FPL to learn and implement our processes and practices.
18 FPL has also received Edison Electric Institute (“EEI”) awards for its emergency
19 response performance in 2000, 2003, 2004 and 2005, further validating FPL’s role
20 as an industry leader in this area. In summary, Distribution’s initiatives to
21 strengthen its infrastructure and continuously improve its storm preparedness
22 plans, systems and processes will allow FPL to continue to be an industry leader

1 in storm preparedness/restoration and provide benefits to our customers now and
2 in the future.

3 4 VI. CUSTOMER SERVICE

5
6 **Q. What measures has Distribution undertaken in order to continue its efforts
7 to provide excellent customer service?**

8 A. Distribution continually strives to improve customer service. One key area where
9 we continue to focus our efforts is the improvement of communications with our
10 customers. For example, our Estimated Time of Restoration (“ETR”) information
11 is provided to our customers when they experience an outage. We continually
12 review and improve the quality of ETR information as well as its method of
13 delivery. A continual review of the voice response unit and messaging used by
14 Customer Care Center representatives ensures that the messaging is consistent,
15 utilizes customer-friendly terms and provides information that is useful to
16 customers. This information includes our crews’ locations, outage cause,
17 restoration status, ETR updates and area-specific emergency messages.

18
19 We also recently implemented our new FPL Power Tracker interactive online
20 map which shows, in near real-time, the location of any power outage across
21 FPL’s service territory. Customers can access this system through FPL’s web
22 page and enter an address, city or ZIP code to find out if there are any power
23 outages currently affecting an area. If a customer is currently experiencing an
24 outage, they can access the map via a battery-powered laptop with internet

1 connection, smart phone, internet devices or by asking a friend or family member
2 to go online from another location. The map information mirrors the information
3 provided to customers who call FPL's Customer Care Center and is based on data
4 that is updated every 15 minutes, 24 hours a day. By clicking on an outage icon,
5 certain detailed information is provided, including the time an outage began or
6 was reported, the number of customers affected, the cause, the latest status report
7 on the progress of the restoration and an estimated time when power will be
8 restored.

9
10 We've also implemented a dedicated email address that customers can now use to
11 send pictures of our facilities where there is or may be an issue. This new visual
12 tool provides customers and FPL another means to describe and discuss what the
13 customer is seeing or experiencing. This allows for quicker resolution of issues.

14 **Q. How do you ensure Distribution is consistently delivering excellent customer**
15 **service throughout its service territory?**

16 A. Distribution maintains a constant focus on process performance and execution of
17 consistent standards and processes. This focus results in more efficient operations
18 and ensures fair and equal treatment of all customers. For example, Distribution
19 has implemented its Operational Model to standardize well-executed processes,
20 replicate best practices and provide a centralized location for information that is
21 readily accessible by all of our employees. This web-based tool is a "one-stop
22 shop" for procedures, processes, forms and training materials.

1 **Q. Can you further explain the role technology plays in delivering enhanced**
2 **customer service?**

3 A. Distribution continually develops improvements to expand existing computer
4 system capabilities to provide customers better and more efficient service and
5 information. Examples of recent enhancements, in addition to those previously
6 discussed, include the implementation and deployment of such tools as the
7 Restoration Spatial View (“RSV”), and sMobile. Below is a brief description of
8 these recently implemented enhancements and their associated benefits to
9 customers:

10

11 RSV – This technology is a Google Earth-based tool that is accessible to our
12 office employees and our field crews, utilizing the computers installed in their
13 trucks. RSV allows for the viewing and monitoring of field conditions; the
14 location of facilities and equipment, including the location of recently installed
15 smart grid technology (e.g., automated feeder switches, which automatically
16 sectionalize lines and isolate faults to restore service), the location of outages, the
17 types of outages being experienced and the location of crews nearest to the
18 outages – all of which allow us to work more efficiently.

19

20 sMobile – This application is another step in modernizing tools utilized by
21 Distribution’s field workforce. Through the use of computers installed in their
22 trucks and vehicles, field crews are now able to electronically receive work
23 orders, receive and submit timesheets, receive turn-by-turn driving instructions

1 and view up-to-date information from various other systems (e.g., asset
2 management and trouble call systems), all of which improve our crews'
3 efficiencies and productivity.

4
5 We are also integrating smart meter data with our Trouble Call Management
6 System, which provides real-time outage information/visibility and will decrease
7 dependence on customer outage calls. Additionally, it provides outage and
8 restoration verification, includes a "ping" button that provides real-time
9 confirmation of a meter's current status and will allow us to provide customers
10 more accurate estimated initial times of restoration.

11 **Q. Have these actions resulted in improved customer service?**

12 A. Yes. As previously noted, the cumulative success of our customer service
13 initiatives has resulted in a 48 percent reduction in distribution-related FPSC
14 logged complaints per 10,000 customers over the last decade. In 2011,
15 Distribution achieved its best-ever recorded performance for this metric for the
16 second consecutive year.

17 18 **VII. SAFETY**

19
20 **Q. Previously you mentioned "safe restoration" and "safely restore the greatest**
21 **number of customers" as priorities of Distribution. How is safety**
22 **emphasized within Distribution?**

1 A. Distribution considers safety to be integral to effective operations. The superior
2 reliability and excellent customer service discussed earlier are delivered while
3 maintaining a continual focus on employee safety. As a result of concerted and
4 sustained efforts, over the last decade, we have improved our Occupational Safety
5 & Health Administration's ("OSHA") industry-standard metric of reportable
6 injuries per 200,000 man-hours by 53 percent. The absolute number of injuries
7 has declined by 70 percent for this same period. In 2011, Distribution achieved
8 best-ever recorded results for the OSHA reportable injury metric. A key reason
9 for this dramatic improvement is our continued commitment to a Total Safety
10 Culture. This program establishes a partnership with employees to institute an
11 environment where actions are guided by the principles of trust, open
12 communication, mutual respect and active caring. Some of the specific aspects of
13 this program include crew visits by supervisors to ensure compliance with safety
14 rules, peer-to-peer safety observations and coaching and constant communication
15 of the safety plan through various means of communication. Additionally,
16 Distribution continues to enhance and refresh its safety program, including
17 initiatives such as the recent corporate-sponsored program Zero Today and
18 Hazard Recognition Training for all Distribution employees. These programs
19 serve to constantly reinforce the need for everyone's continued commitment to
20 safety principles.

1

2

VIII. DISTRIBUTION COSTS

3

4 **Q. Please provide an overview of Distribution's actual and forecasted capital**
5 **expenditures and O&M expenses.**

6 A. Recent history indicates that Distribution's capital expenditures have been driven
7 primarily by four cost categories. These four cost categories are growth,
8 hardening, restoration and reliability. Two remaining cost categories, customer
9 response and field support, also contribute to total Distribution capital
10 expenditures, but to a much lesser extent. Distribution forecasts this trend to
11 continue for the Test Year.

12

13 Recent historical Distribution O&M expenses were driven primarily by two cost
14 categories; restoration and reliability. The remaining cost categories (hardening,
15 customer response, field support, and growth) also contribute to total O&M
16 expenses, but to a much lesser extent. This trend is also expected to continue for
17 the Test Year.

18 **Q. Please provide more details regarding Distribution's forecasted capital**
19 **expenditures for the Test Year.**

20 A. Total Distribution capital expenditures are forecasted to be approximately \$430
21 million for the Test Year. As previously discussed, the four cost categories that
22 contribute most significantly to this total are growth (\$112 million), hardening
23 (\$106 million), restoration (\$92 million) and reliability (\$58 million). Together,

1 they contribute \$368 million or 86 percent of total Test Year Distribution capital
2 expenditures. The remaining cost categories, customer response and field
3 support, contribute \$62 million or 14% of total Test Year Distribution capital
4 expenditures.

5 **Q. Please provide a description and explanation of these capital expenditures**
6 **and long term infrastructure investments.**

7 A. Customer and system growth related capital additions include: the addition of
8 infrastructure (e.g., services) to serve new customers; increased capacity to
9 accommodate the load growth (e.g., additional feeders, capacitor banks and
10 transformers); and new streetlights. Hardening/strengthening activities include
11 expenditures attributable to regulatory commitments such as Distribution's
12 approved eight-year cycle pole inspection program and three-prong hardening
13 plan. FPL makes long-term infrastructure investments to maintain and improve
14 reliability. These expenditures include costs associated with underground feeder
15 and lateral cable rehabilitation, automated feeder switches, thermovision follow-
16 up repairs and replacements and improvements on those feeders experiencing the
17 highest number of interruptions. Restoration expenditures include costs required
18 to repair and restore facilities that have failed and need to be replaced or were
19 damaged as a result of severe weather or other causes. Customer response
20 expenditures are primarily associated with non-reimbursable facility relocation
21 costs resulting from road construction projects. Field support expenditures
22 include the purchase of vehicles and equipment to support construction activities
23 as well as staff support functions.

1 **Q. Please comment on Distribution's recent and forecasted Test Year O&M**
2 **expenses.**

3 A. The primary contributors to both recent and forecasted O&M expenses are
4 associated with restoration and reliability cost categories. These are followed by
5 expenses from hardening, customer response, field support, other business unit
6 distribution related expenses and growth. For the Test Year, total Distribution
7 O&M expenses are forecasted to be approximately \$295 million (see MFR C-6).

8 **Q. Please provide a description and explanation of the activities and programs**
9 **included in Distribution's O&M expenses.**

10 A. The cost categories contained within Distribution's capital expenditures, as
11 described earlier, remain the same for O&M expenses. However, the annual
12 amounts and ratios to total O&M expenses differ. First, the two largest cost
13 categories for the Test Year, restoration (\$92 million) and reliability (\$66
14 million), account for 54 percent of Distribution's O&M expenses. Second, the
15 costs associated with hardening/strengthening the infrastructure (\$37 million),
16 customer response (\$31 million), field support (\$30 million) and costs incurred or
17 associated with other FPL business units that relate to operating and maintaining
18 the distribution system (\$27 million) account for 42 percent of Distribution's total
19 O&M expenses for the Test Year. Lastly, the remaining 4 percent of
20 Distribution's O&M Test Year expenses are associated with growth (\$12 million).

1 **Q. Comparing the 2013 Test Year to the 2012 Prior Year, are there any**
2 **accounts in which the change to Distribution's non-fuel O&M expenses**
3 **exceeds the threshold defined in MFR C-8?**

4 A. No. None of the 19 Distribution Test Year non-fuel O&M expense accounts
5 exceed the MFR C-8 threshold.

6 **Q. How do Distribution's O&M expenses for the Test Year compare to the**
7 **Commission's O&M benchmark (MFR C-41, O&M Benchmark Variance by**
8 **Function)?**

9 A. Distribution Test Year O&M expenses are \$14 million under the Commission's
10 O&M benchmark threshold.

11 **Q. Has Distribution effectively managed its costs?**

12 A. Yes. For the Test Year, capital expenditures are forecasted to be less than actual
13 2011 capital expenditures (\$430 million vs. \$432 million). This reduction is
14 despite projecting to add 17,000 or 70 percent more new service accounts in the
15 Test Year than in 2011 (2013 – 41,000 vs. 2011 – 24,000).

16

17 Distribution O&M expenses for the Test Year are forecasted to grow at an
18 average annual rate of 1.9 percent over actual 2011 expenses (\$295 million vs.
19 \$284 million), which is below the forecasted annual Consumer Price Index
20 ("CPI") growth rate for this period. Additionally, as previously mentioned, all 19
21 Distribution O&M expense accounts as well as the Distribution O&M function
22 total continue to remain under the Commission's established thresholds set forth
23 in MFRs C-8 and C-41.

1 Q. **Does this conclude your direct testimony?**

2 A. Yes.

1 BY MR. DONALDSEN:

2 Q Mr. Hardy, have you also sponsored exhibits to
3 your direct prefiled testimony?

4 A Yes.

5 Q I have and those are identified as J -- GKH
6 Exhibits 1 and 2, listed on staff's exhibit list as 177
7 and 178; is that correct?

8 A That's correct.

9 MR. DONALDSEN: All right. Mr. Chairman, they
10 have been identified for the record.

11 BY MR. DONALDSEN:

12 Q Have you prepared a summary of your direct
13 prefiled testimony?

14 A Yes, I have.

15 Q Can you please present that to the Commission?

16 A Yes. Good afternoon, Commissioners. The
17 Distribution Business Unit is responsible for planning,
18 constructing, operating and maintaining and restoring
19 FPL distribution system.

20 Our distribution system is expansive, spanning
21 over 67,000 miles. We have delivered superior
22 reliability and customer service while effectively
23 managing costs. We also continue to strengthen our
24 distribution infrastructure to increase storm
25 resiliency.

1 Let me highlight some of the excellent
2 results. Our service reliability, as measured by SAIDI,
3 the most relevant reliability measure, ranks the best
4 amongst Florida IOUs. Over the last 10 years, we have
5 improved customer service and reduced our log service
6 comp-- quality complaint percentage by 48 percent. This
7 includes achieving best ever results for 2010 and 2011.

8 Over the last 10 years, we have improved our
9 industry -- industry standard safety metric by
10 53 percent, including achieving best ever results in
11 2011.

12 Our Distribution infrastructure is becoming
13 more storm resilient as we continue to implement our
14 improved storm hardening and preparedness initiatives.

15 And finally, all of these excellent results
16 have been achieved by effectively manage costs despite
17 additional costs from our improved storm hardening
18 initiatives and adding more than 800,000 new service
19 accounts over the last decade. Our O&M expenses are
20 projected to increase by less than CPI from 2011 to
21 2013, and capital expenditures continue to be primarily
22 driven by necessary investments associated with customer
23 growth, reliability, restoration and storm hardening.

24 Commissioners, in summary, Distribution has
25 delivered excellent balanced performance resulting in

1 substantial value and benefits to customers for today
2 and for the future. We continue to remain committed to
3 safely provide superior reliability and excellent
4 customer service at a reasonable and reliable costs --
5 reasonable cost. That concludes my summary.

6 CHAIRMAN BRISÉ: Thank you.

7 MR. DONALDSEN: Chairman Brisé, I just want to
8 ensure Mr. Hardy's errata was also entered into the
9 record as though read.

10 CHAIRMAN BRISÉ: Yes, I think that that was
11 included.

12 MR. DONALDSEN: Okay. I tender the witness
13 for cross-examination.

14 CHAIRMAN BRISÉ: All right. Ms. Kaufman?

15 MS. KAUFMAN: Thank you, Chairman Brisé.

16 CROSS EXAMINATION

17 BY MS. KAUFMAN:

18 Q Good afternoon, Mr. Hardy.

19 A Good afternoon.

20 Q I'm Vicki Kaufman. I'm here on behalf of the
21 Florida Industrial Power Users Group, and I just have a
22 short line of questioning for you. If you would turn to
23 page 10, line 8 of your testimony. You're talking about
24 storm strengthening and preparedness there.

25 A Page 10, line 8.

1 Q Well, yes. The sentence actually begins on
2 line 7.

3 A Okay.

4 Q Okay. And you -- you stay that those
5 activities will result in long-term improvements. What
6 period of time are you talking about when you use the --
7 the phrase, long-term, over what time horizon?

8 A The storm hardening that we are currently
9 undertaking runs until 2023.

10 Q Okay.

11 A That's when it will be complete, but as we
12 progress through this, you know, we -- we will get the
13 benefits of those -- those initiatives that we have
14 already completed.

15 Q Okay. And in that same paragraph, starting on
16 line 11, you talk about the expected long-term benefits
17 derived from these initiatives, and you -- and you --
18 you have some examples, fewer customer outages, et
19 cetera. Do you see that?

20 A Yes, I do.

21 Q Have you quantified in dollars the value of
22 those expected long-term benefits?

23 A We --

24 Q That's really a yes or no question.

25 A Part of those, yes, and -- and some of those

1 were quantified as a result of the docket when we --
2 when we initiated the -- the hardening projects
3 themselves. And part of the basis of the hardening
4 projects were a reduced cost in the event that we were
5 to incur a storm.

6 Q Have you quantified the dollars that you are
7 referring to in lines 11 through 13 on page 10?

8 A No, I have not.

9 Q Now, still on page 10, starting at line 19,
10 you talk about multiple initiatives designed to improve
11 reliability. Do you see that?

12 A Yes, I do.

13 Q Those are programs that are currently in
14 place; is that correct?

15 A Yes, it is.

16 Q And on your Exhibit GKH-2, you have a list of
17 Distribution reliability -- reliability programs,
18 correct?

19 A That's correct.

20 Q Those are -- am I correct that those are all
21 current programs?

22 A That is correct.

23 Q There -- there are no new programs in that
24 list?

25 A These are the programs that we are currently

1 engaged in, yes.

2 Q Now, if you turn to page 11 of your prefiled
3 testimony, please, starting at line 10. You talk about
4 the consistent -- that Distribution has consistently
5 delivered and maintained a superior level of
6 reliability. Do you see that?

7 A Yes.

8 Q What timeframe are you referring to when you
9 say, consistently delivered and maintained?

10 A I -- you want to go back 10 years. If you
11 look at a three-year average, five-year average and
12 10-year average, FPL is rated number one in -- in the
13 state with other IOUs in delivering -- what we measure
14 is SAIDI, which we consider to the best reliability
15 benchmark for customers.

16 Q So it would be correct to say that at least
17 for the past 10 years, you have consistently delivered
18 reliable service and had a -- a superior level --
19 superior level of reliability?

20 A Yes.

21 Q Now, on the next page, on page 12 and actually
22 going on to page 13, you talk about some programs
23 that -- that are currently in place. Is that correct?

24 A Yes.

25 Q Okay. And your -- your first program you talk

1 about is vegetation management, and on -- on line 13, am
2 I correct, that you have been recognized for that
3 program, I think you say, for nine straight years?

4 A Yes.

5 Q And if you look on page 20, please, starting
6 at -- at the top of the page, continuing down to about
7 line 8. You're talking about OSHA improvements that
8 have been made; is that correct?

9 A That's correct.

10 Q And on line 7 you say, in 2011, you -- you
11 achieved best ever recorded results, correct?

12 A That's correct.

13 Q What -- what timeframe was looked at in regard
14 to that Distribution achievement?

15 A Well, when we say best ever, we went back, I
16 would say, at least 10 years, but when you look at
17 the -- at our safety performance last year, we did have
18 the best performance that this business unit has ever
19 had. We went back 10 years. I am not sure that we have
20 records that would have gone back further than that, but
21 at least 10 years.

22 Q But when you're referencing 2011 --

23 A Yes.

24 Q -- were you looking at 2010 data?

25 A No, this was -- this was 2011 data where we

1 achieved our best ever -- ever.

2 Q Okay. Was that for the whole year of 2011?

3 A Yes, it was.

4 MS. KAUFMAN: Thank you, Mr. Chairman. Thank
5 you, Mr. Hardy. That's all I have.

6 CHAIRMAN BRISÉ: All right. Thank you.

7 South Florida Hospital Association.

8 MR. URBAN: Good afternoon, Mr. Chairman and
9 Commissioners. My name is Blake Urban, and I am
10 one of the attorneys representing South Florida
11 Hospital Healthcare and Association.

12 CROSS EXAMINATION

13 BY MR. URBAN:

14 Q Good afternoon, Mr. Hardy.

15 A Good afternoon.

16 Q I have a few questions on your testimony
17 regarding vegetation management. As Vice-President of
18 Distribution, does one of your responsibilities include
19 overseeing or managing FPL's Vegetation Management Plan?

20 A Yes.

21 Q So is it safe to say that you are familiar
22 with planning, development and implementation of FPL's
23 Vegetation Management Plan?

24 A Yes.

25 Q Can you please turn to page eight of your

1 direct testimony, lines 17 to 21, please? You reference
2 FPL's Vegetation Management Plan for its six-year
3 average trend cycle on laterals and three-year average
4 trend cycle on feeders.

5 Would you agree that under FPL's Vegetation
6 Management Plan that was implemented in 2004 for feeders
7 and 2007 for laterals, it is FPL's goal to trim the
8 vegetation around its right-of-ways on either a three or
9 six year basis depending on the type of Distribution
10 power lines that run through the right-of-way?

11 A Yes.

12 Q So we get a picture of FPL's distribution
13 system that it manages vegetation for, on page six,
14 lines 20 to 21, you state that there are approximately
15 42,000 miles of overhead wire in FPL's service
16 territory, which would include both laterals and
17 feeders, correct?

18 A Correct.

19 MR. URBAN: I would like to present an exhibit
20 to the witness.

21 CHAIRMAN BRISÉ: Sure. That would be Exhibit
22 515.

23 MR. URBAN: Thank you, Chairman.

24 CHAIRMAN BRISÉ: Are there any objections to
25 this exhibit? You haven't received it.

1 MR. DONALDSEN: I haven't gotten it yet.

2 CHAIRMAN BRISÉ: Okay.

3 MR. DONALDSEN: No objection.

4 CHAIRMAN BRISÉ: Okay.

5 (Whereupon, Exhibit No. 515 was marked for
6 identification)

7 BY MR. URBAN:

8 Q Mr. Hardy, was this exhibit prepared under
9 your direction or supervision?

10 A Yes.

11 Q And how many miles of laterals does FPL
12 maintain according to this exhibit -- overhead laterals,
13 I should clarify.

14 A Yes, 22,700 overhead laterals miles.

15 Q Thank you.

16 MR. URBAN: At this time, I would like to
17 present another exhibit to the witness.

18 THE WITNESS: Sure.

19 CHAIRMAN BRISÉ: Thank you. This would be
20 516.

21 (Whereupon, Exhibit No. 516 was marked for
22 identification.)

23 MR. URBAN: Thank you.

24 CHAIRMAN BRISÉ: Are there any objections to
25 this document?

1 MR. DONALDSEN: No objections.

2 CHAIRMAN BRISÉ: Okay. You may proceed.

3 BY MR. URBAN:

4 Q Was this also an exhibit prepared under your
5 supervision or direction?

6 A Yes.

7 Q And how many miles of feeders in overhead
8 feeders does FPL maintain according to this exhibit?

9 A 13,600.

10 Q Thank you. Now, based on my calculation, that
11 would be make 36,300 miles of overhead lines that FPL
12 maintains, correct, subject to check on that?

13 A Yes.

14 Q So which one is correct? Your testimony of
15 42,000 or 36,300, as depicted in these exhibits?

16 A Subject to check, but I think that the
17 difference is the hybrid feeders that are listed here.
18 That has a combination of overhead and underground.

19 Q Thank you for that clarification.

20 Is it correct that FPL's current trim cycles
21 for both its laterals and its feeders will conclude in
22 the beginning of 2013?

23 A Can you restate that again?

24 Q Sure. Is it correct that FPL's current trim
25 cycles, in other words, what they are undertaking

1 currently, for both its laterals and its feeders will
2 conclude in the beginning of 2013?

3 A We -- we trim on a three-year and six-year
4 cycle, so I am -- I am not sure -- no, I don't believe
5 that that's true. I mean, we will continue to trim
6 every year, so there is no real conclusion to it.

7 Have trim -- we will conclude on interim cycle
8 this year, and they will be -- say, some of those will
9 be on a -- have completed a four-year cycle, five-year
10 cycle. Our intent is by the end of 2013, we will have
11 reached our -- the minimum mileage that we have to
12 complete on our laterals to maintain our six-year cycle
13 there.

14 I am not sure that I understood your question
15 correctly, but I just want to clarify, I mean, these --
16 these are done on a -- on a continuous basis.

17 Q Right. No, I understand. I'm sorry.

18 But each trim cycle is -- essentially, it's
19 the goal of FPL to say -- well, just to simplify the
20 matter, take your three-year cycle on feeders, it would
21 be FPL's goal to go ahead and trim the vegetation on all
22 of its feeders within a three-year period, correct?

23 A That's correct.

24 Q Okay. And so to meet the current cycles that
25 have been approved by this Commission in 2007, is that

1 **timeframe actually -- has it been the three and six-year**
2 **periods are lining up in 2013? In other words, has it**
3 **been -- we will break it down to simplify it, if it**
4 **helps.**

5 A Let me -- we are completing feeders on a
6 three-year cycle, not all feeders will be completed in a
7 given year. In a given year, some of them will have
8 been trimmed -- it will be one year since they were last
9 trimmed two years or three years, so they are not all
10 done, all be complete in one single year. It's a
11 continuous process to where they could be in a -- in
12 a -- in a -- on their third year, or it could be -- in
13 the case of laterals, it could be on the sixth year. So
14 we are on schedule to complete our -- our three and
15 six-year schedules.

16 Q **Right. But you have to keep score somehow --**

17 A Yes.

18 Q **-- to know whether you have actually completed**
19 **the vegetation management --**

20 A Yes, correct.

21 Q **-- whether you have done all of your laterals**
22 **in the six-year?**

23 A Correct.

24 Q **And is that score card essentially running out**
25 **in 2013?**

1 A Yes.

2 Q Thank you.

3 Can you please refer to the sentence beginning
4 on page 14, line 7 of your direct testimony? In this
5 sentence, you indicate that it's -- that it's FPL's plan
6 going forward to increase tree trimmings on its laterals
7 through its six-year trim cycle. However, isn't correct
8 that FPL essentially will be going through the second
9 phase of the six-year process of trimming vegetation on
10 its laterals when it begins the second trim cycle in
11 2013 that we just discussed?

12 A Say that again, which line are you on? Excuse
13 me.

14 Q The first sentence of lines -- actually, it's
15 page 14, line 7.

16 A Okay.

17 Q And the question that you're asked when
18 answering this was, what are -- what are FPL's plans
19 going forward? And you refer to that FPL is going to be
20 increasing trimming going forward, correct? Is that
21 accurate?

22 A I am not sure what your question is.

23 Q All right. I will read the sentence so it's
24 clear.

25 A Okay.

1 **Q** It begins on line 7. It says, this includes
2 continuing to construct infrastructure to it higher
3 standards, comma, increasing tree trimming through its
4 six-year average vegetation management cycle for
5 laterals. That's what I was referring to.

6 A Right. Okay. What that's referring to is
7 that per the order, we have to be -- we have to be
8 trimming the average number of lateral miles in order to
9 meet a six-year trim cycle by the end of 2013, and
10 that's what that is saying, is that we are continuing to
11 ramp up. And that ramp up is to conclude in 2013. In
12 2013 and from there on -- from that point forward, we
13 will be trimming the minimum number of miles required
14 to -- to achieve a six-year cycle.

15 So from the time that this order was
16 originally instituted, we have been ramping up those
17 lateral miles to get to the minimum miles that we have
18 to trim on an annual basis. That has to be concluded
19 and we have to reach that minimum mileage in 2013.

20 **Q** Yeah. But your -- so the increasing is only
21 referring to 2013 and not indefinitely going forward,
22 like beyond actually 2013?

23 A That's correct. We have been ramping up to
24 the minimum number of miles that we have to trim --

25 **Q** Thank you.

1 A -- on an annual basis.

2 **Q Thank you, Mr. Hardy.**

3 I would like to turn next to -- your attention
4 to page 12, lines 19 to 21, please. This is where you
5 discuss being associated with Tree Line USA Utility and
6 how it lowers vegetation management costs.

7 A Yes.

8 **Q Can you please tell us the amount by which**
9 **FPL's vegetation management costs have been reduced by**
10 **the Tree Line USA Utility program?**

11 A I can't quantify that. We don't have a means
12 to track that.

13 **Q Thank you, Mr. Hardy.**

14 MR. URBAN: I have no further questions.

15 CHAIRMAN BRISÉ: All right. Thank you very
16 much.

17 FEA?

18 LT. COL. FIKE: Nothing from FEA,

19 Mr. Chairman.

20 CHAIRMAN BRISÉ: All right. Thank you.

21 The Office of Public Counsel.

22 MR. REHWINKEL: Thank you, Mr. Chairman.

23 CROSS EXAMINATION

24 BY MR. REHWINKEL:

25 **Q Good -- good afternoon, Mr. Hardy. My name is**

1 Charles Rehwinkel with the Public Counsel's Office.

2 A Good afternoon.

3 Q I just have a brief line of cross for you,
4 or -- and -- and I want to ask you, do -- could you turn
5 to Exhibit GKH-1, please? And these are the MFR
6 schedules that you cosponsored; is that right?

7 A That's correct.

8 Q Okay. Do you have a copy of MFR B-15 with
9 you?

10 A Yes.

11 Q Okay. It's one of the -- it's one of the MFRs
12 listed on that exhibit?

13 A Yes.

14 Q Okay. And this -- I could maybe shorten it by
15 asking it to you this way, were you either in the room
16 or listening when I asked Roxane Kennedy about her
17 involvement with B-15 --

18 A Yes.

19 Q -- one? Okay. If I asked you those same
20 questions, would your answers be any different than
21 hers?

22 A I don't know. You better -- I wasn't paying
23 that much attention.

24 Q Let's do that. I thought I would try to
25 shorten it.

1 CHAIRMAN BRISÉ: Good try.

2 BY MR. REHWINKEL:

3 Q Tell me, if you would, Mr. Hardy, what your
4 responsibility was with respect to the development of
5 the numbers in B-15.

6 A Well, I think what this is, is just an
7 accumulation of the -- of the current property that we
8 have held for distribution for future reuse, so it's
9 just a summation of those properties distribution.

10 Q Did you say future use?

11 A Yes.

12 Q Okay. Let me see if I can go to this. On --
13 look at lines 10 through 15. Is your responsibility
14 within FPL, does it have anything to do with the
15 development of the numbers that are developed on those
16 lines?

17 A No, I don't believe so.

18 Q Okay.

19 MR. DONALDSEN: For the record, you were
20 referring to the other production on that exhibit?

21 MR. REHWINKEL: Would you ask your question
22 again?

23 MR. DONALDSEN: Lines 10 through 15 were under
24 the title --

25 MR. REHWINKEL: Other production, yes.

1 MR. DONALDSEN: -- other production?

2 MR. REHWINKEL: Yes.

3 MR. DONALDSEN: Okay.

4 MR. REHWINKEL: Those are all the questions I
5 have. Thank you.

6 CHAIRMAN BRISÉ: All right. Thank you,
7 Mr. Rehwinkel.

8 Mr. LaVia?

9 MR. LaVIA: No questions, Mr. Chairman.

10 CHAIRMAN BRISÉ: Okay. Mr. Saparito?

11 MR. SAPARITO: For the reasons stated earlier,
12 I have no questions.

13 CHAIRMAN BRISÉ: Okay. Mr. Hendricks?

14 MR. HENDRICKS: No questions.

15 CHAIRMAN BRISÉ: All right. Staff?

16 MS. BROWN: Just a few.

17 CHAIRMAN BRISÉ: Sure.

18 CROSS EXAMINATION

19 BY MS. BROWN:

20 Q Good afternoon, Mr. Hardy. I am Martha Carter
21 Brown with the Commission legal staff. I have just a
22 very few questions for you that relate to Staff's 16th
23 Set of Interrogatories, Number 456, which I passed out
24 earlier. That's been identified in this record and
25 moved -- moved as part of Exhibit 53. Do you see that?

1 A I do.

2 Q Are you familiar with it?

3 A I am.

4 Q What I would like to you do to start with is
5 to give a -- the Commission a brief explanation of the
6 problem that was identified and addressed in this
7 interrogatory and what FP&L did to correct it.

8 A Yes. This was a -- a complaint was lodged by
9 a customer who had had a -- a problem. We had a wire
10 that came down in his -- on his property and actually
11 damaged his car, and as we got into this and we talked
12 more with this customer, there were a number of events
13 that had occurred over the past 17 years on his
14 property.

15 And as a result of that and his bringing it to
16 our attention and -- and going back and reviewing the
17 difference incidences that have occurred -- and I might
18 note that some these incidences were a result of -- of
19 some problems that we had. Some of the other incidences
20 were vehicles that had hit poles and things like that
21 that had caused wires -- a wire to come down.

22 But irregardless of that, we have been working
23 very closely with this customer, and, in fact, I just
24 got a report today that all of the repairs that -- we
25 have re-conducted those that entire area. And those

1 repairs are complete, and we don't anticipate that we
2 are going to have any other problems there.

3 Q All right. That's good to hear. Excuse me.

4 In the response, you discuss -- the way you
5 corrected it, as I understand it, was to reengineer that
6 line and connect it to the transmission line that was --
7 was there as well?

8 A That's correct. Yes, that's correct.

9 Q What was the timeframe between the
10 construction of the transmission line adjacent to that
11 problem line and the decision to finish moving the
12 distribution segments to the new line?

13 A I don't believe I have that detail.

14 Q Do you have a ballpark idea?

15 A I don't know when that transmission line was
16 constructed. I know that -- and what we call the
17 underbuild, but the underbuild is what we have just --
18 just recently completed, so. But I don't know when --
19 when that -- when the project was originally identified
20 to be under built.

21 MS. BROWN: All right. Well, that's all we
22 have. Thank you.

23 THE WITNESS: Thank you.

24 CHAIRMAN BRISÉ: Okay. Commissioners,
25 Commissioner Brown?

1 COMMISSIONER BROWN: Thank you. Thank you for
2 your testimony today.

3 I think having an accurate ETR is always
4 critical and key for customers, and I am curious
5 what FPL is doing to -- what steps FPL is taking to
6 provide more accurate estimated time of
7 restorations?

8 THE WITNESS: Well, I tell you that's one of
9 the -- the key initiatives that -- that I have
10 undertaken since I have been here is, is that --
11 because you're exactly right, is being able to
12 accurately communicate with our customers if their
13 power is out, when it will be restored.

14 We have actually completed several projects
15 since I have been in -- in this particular position
16 in -- in Distribution and primarily looking at ways
17 in which we can reach out to our customers where
18 we -- how we can proactively communicate with them.

19 The other thing that we have done is that we
20 have looked at some of the automated tools that we
21 have. In the event -- in -- when there is not a
22 storm and it's sort of normal activity, we have an
23 automated system that looks at the type of outage
24 that has occurred, and it goes ahead and assigns an
25 ETR based upon the type of outage that has

1 occurred. We have gone back and rereviewed some of
2 those automatic and some of the configurations
3 there and have determined there were some -- some
4 improvements to be made, which we have made. So
5 that's one of the things that we have done.

6 But more importantly, during a storm activity,
7 whether it be a significant storm, say, in the
8 afternoon or whether it be hurricanes or tropical
9 storms, we have changed our structure to where we
10 have people that are specifically assigned the
11 purpose of updating ETRs, people in the field with
12 the crews that are actually working so that they
13 have realtime information. So if they see ETRs are
14 going to move one way or the other, that they are
15 constantly moving that information so it's made
16 available to the customers.

17 We take this very seriously. It's
18 something that -- we know it's a disruption to
19 their lives, and -- and it's something that's a
20 very important piece of information because without
21 it, they can't plan. And so it's something that
22 we -- we have paid a lot of attention to. We have
23 made a lot of improvements. There is still more to
24 be done, though.

25 COMMISSIONER BROWN: Thank you. I agree. You

1 should be hurrying up and getting home.

2 CHAIRMAN BRISÉ: All right. Commissioner
3 Balbis?

4 COMMISSIONER BALBIS: Thank you, Mr. Chairman,
5 I just have one question for this witness, and --
6 and I believe Ms. Klancke is going to hand you a
7 sheet from the MFR that I requested about so that
8 it's easy.

9 And I want to focus on O&M expenses because on
10 page 24 of your testimony, you indicate that the
11 projected O&M expenses, it's going to be
12 295 million, and -- which is up from the 284
13 million of the prior year. And so my question is,
14 what was the O&M -- what were the O&M expenses for
15 the year prior to that in 2010?

16 Because I am looking at this MFR on page 4 and
17 5 of -- of 6, and if I am reading that correctly,
18 was it -- you add up both the operating and the
19 maintenance expenses that are summed at the bottom,
20 on line 32 of page 4? And then you add, on the
21 next page, the sum of Distribution maintenance
22 expenses, which would be line 10 of that page.

23 MR. DONALDSEN: I'm sorry, Commissioner
24 Balbis, which MFR are you referring to?

25 COMMISSIONER BALBIS: It is MFR C-6 --

1 MR. DONALDSEN: Thank you.

2 COMMISSIONER BALBIS: -- that he references in
3 his testimony. Well, the question is, what -- what
4 were the O&M expenses for 2010? And I assume you
5 could use that MFR to get that or if you know that.

6 THE WITNESS: So you are interested in -- in
7 what has changed in the 2010-11 timeframe?

8 COMMISSIONER BALBIS: Yes.

9 THE WITNESS: Okay. Primarily, if you --
10 if -- without going into the detail of these line
11 items, it's primarily been driven by vegetation.
12 We have continued to -- to increase the number of
13 miles -- as I indicated before, the number of
14 lateral miles that we are doing.

15 In addition to that, in 2011 -- or 2 -- 2012,
16 this year, what is shown in the MFRs of
17 approximately 284 million is actually understated
18 by 3.5 million. Unfortunately, my vegetation
19 budget this year was under forecast, and so there
20 is an additional \$3.5 million that was not shown in
21 this particular MFR.

22 And so when you look at the -- the cost from
23 11, 12 and 13, it was roughly 284 for 10, about --
24 I am going to say about two -- 287, 288 and then
25 294. And the changes in 11 and -- or the changes

1 in 12 and 13 primarily were driven by vegetation,
2 as we continue to increase the number of miles that
3 were we are -- we are trimming.

4 COMMISSIONER BALBIS: Okay. Thank you.
5 That's all I have.

6 CHAIRMAN BRISÉ: All right. Thank you.
7 Commissioners, any further questions?
8 Okay. Seeing none, redirect?

9 MR. DONALDSEN: No redirect.

10 CHAIRMAN BRISÉ: Okay. So let's deal with the
11 exhibits.

12 MR. DONALDSEN: FPL, at this time, would like
13 to enter into the record Mr. Hardy's exhibits,
14 Numbers 177 and 178.

15 CHAIRMAN BRISÉ: Okay. We will enter into the
16 record Exhibits 177, 178, if there are no
17 objections.

18 Okay. All right. Seeing no objections.

19 (Whereupon, Exhibit No. 177 and 178 were
20 received into evidence.)

21 CHAIRMAN BRISÉ: South Florida Hospital
22 Association.

23 MR. URBAN: Yes, South Florida Hospital would
24 like to move in Exhibit No. 515 and 516 into the
25 record.

1 CHAIRMAN BRISÉ: Okay.

2 MR. DONALDSEN: No objection.

3 CHAIRMAN BRISÉ: Seeing no objections,
4 Exhibits 515 and 516 will be entered into the
5 record.

6 (Whereupon, Exhibit No. 515 and 516 were
7 received into evidence.)

8 CHAIRMAN BRISÉ: All right. Thank you very
9 much for your testimony today.

10 Are we seeking to excuse?

11 MR. DONALDSEN: Yes, for the record. Thank
12 you.

13 CHAIRMAN BRISÉ: Okay. We are going to excuse
14 Mr. Hardy from direct testimony.

15 (Witness excused.)

16 CHAIRMAN BRISÉ: Okay. So next we will have
17 Mr. Miranda.

18 MR. DONALDSEN: I don't believe Mr. Miranda
19 has been sworn.

20 CHAIRMAN BRISÉ: Okay. Let me do this for
21 efficiency, if there is anyone else that is
22 scheduled for today to testify, if you have not
23 been sworn in, please rise at this time so you can
24 be sworn in.

25 MR. BUTLER: Unfortunately, we are moving too

1 quickly. We don't have our other witnesses over
2 here yet, but they will be here shortly.

3 CHAIRMAN BRISÉ: Okay.

4 MR. DONALDSEN: That doesn't mean that they
5 should take their time with Mr. Miranda.

6 CHAIRMAN BRISÉ: Please raise your right hand.
7 Whereupon,

8 MANUEL MIRANDA

9 was called as a witness, having been first duly sworn to
10 speak the truth, the whole truth, and nothing but the
11 truth, was examined and testified as follows:

12 CHAIRMAN BRISÉ: Thank you very much. You may
13 be seated.

14 DIRECT EXAMINATION

15 BY MR. DONALDSEN:

16 **Q Can you please introduce yourself and your**
17 **business address?**

18 A My name is Manuel B. Miranda with Florida
19 Power & Light, 700 Universe Boulevard, Juno Beach.

20 **Q And what is your occupation, sir?**

21 A I am the Vice-President of Transmission and
22 Substation Business Unit.

23 **Q Mr. Miranda, have you prepared or caused to be**
24 **filed 23 pages of direct prefiled testimony in this**
25 **matter?**

1 A Yes, I did.

2 Q Do you have any changes or revisions to that
3 direct prefiled testimony?

4 A No, I do not.

5 Q If I was to ask you the same questions that
6 are listed in the direct prefiled testimony, would your
7 answers remain the same?

8 A Yes.

9 MR. DONALDSEN: Chairman, at this time, I
10 would ask Mr. Miranda's direct prefiled testimony
11 be entered into the record as though read.

12 CHAIRMAN BRISÉ: All right. Without
13 objections, Mr. Miranda's prefiled testimony will
14 be entered into the record as though read.

15 (Whereupon, testimony inserted.)
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
DIRECT TESTIMONY OF MANUEL B. MIRANDA
DOCKET NO. 120015-EI

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I. INTRODUCTION

Q. Please state your name and business address.

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

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (“FPL” or the “Company”) as Vice President of Transmission and Substation.

Q. Please describe your duties and responsibilities in that position.

A. I am responsible for FPL’s bulk and regional transmission planning, operations, maintenance, engineering and construction activities, including ensuring the reliability and security of the FPL transmission and substation facilities in a safe and effective manner, consistent with the applicable reliability standards.

Q. Please describe your educational background and professional experience.

A. I joined FPL in 1982 and have served in a variety of positions within Customer Service, Distribution and Transmission. These positions include engineering, dispatch operations, commercial and industrial manager, Director of Distribution Operations and Vice President of Distribution System Performance, responsible for FPL’s Storm Secure initiative to substantially strengthen the distribution infrastructure against future hurricanes. My current position is Vice President of Transmission & Substation.

1 I have a Bachelor of Science in Mechanical Engineering from the University of
2 Miami and a Master's in Business Administration from Nova Southeastern
3 University.

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

5 A. Yes. I am sponsoring the following exhibits, which are attached to my direct
6 testimony:

- 7 • MM-1, Summary of Sponsored MFRs
- 8 • MM-2, 2011 SGS Statistical Services ("SGS") Transmission Reliability
9 Benchmarking Study All Voltages 2008-2010 (3 years)

10 **Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements**
11 **("MFRs") filed in this case?**

12 A. Yes. Exhibit MM-1 shows my co-sponsorship of MFRs.

13 **Q. What is the purpose of your testimony?**

14 A. The purpose of my testimony is to: (1) describe the solid track record of the
15 Transmission and Substation Business Unit ("Transmission"), based on system
16 performance and reliability, including the programs that help to provide FPL
17 customers with a high level of reliable service in a cost-effective manner; (2)
18 address the initiatives that improve the storm resiliency of the transmission
19 system's infrastructure; (3) explain the ongoing need for capital investments
20 required to maintain FPL's high level of reliability for customers; (4) describe
21 how Transmission effectively manages Operations & Maintenance ("O&M")
22 expenses for the 2013 test period compared to the Commission Benchmark; and

1 (5) discuss FPL's efforts to meet its commitments to customers and to ensure
2 compliance with all applicable regulatory and reliability standards.

3 **Q. Please summarize your testimony.**

4 A. Transmission provides a high level of reliable service through a proactive
5 approach to reliability. Transmission has consistently provided customers with a
6 superior level of reliable service in a cost-effective manner. The requested base
7 rate increase will permit FPL to maintain this level of reliability for customers
8 while promoting compliance with all applicable regulatory commitments.

9
10 In a 2011 industry transmission reliability benchmarking study conducted by SGS
11 Statistical Services ("SGS"), FPL's System Average Interruption Duration Index
12 ("SAIDI") for 2010 data and for aggregate data from 2008 through 2010 was in
13 the top 10% of survey participants. In 2010, FPL's Transmission SAIDI was
14 3.99, improving in 2011 to a SAIDI of 3.17 (21% improvement from 2010).
15 During the five years ending with 2010, Transmission had the best average
16 Transmission SAIDI of the Florida investor-owned utilities. This overall
17 performance is a direct result of the commitment of FPL's management and
18 employees to providing superior reliability and service at a reasonable cost.

19
20 The foundation of Transmission's reliability program is condition-based
21 maintenance which is used to evaluate equipment and determine remaining useful
22 life. Combining equipment assessment with a comprehensive risk management
23 approach leads to the development of an appropriate, cost-effective plan to extend

1 the life of FPL's transmission and substation assets and replace those assets only
2 when appropriate. An important part of this process involves the Company's use
3 of both FPL and industry experience to focus on predictive maintenance and
4 prevention of recurrence of events to reduce the frequency and duration of
5 customer outages.

6
7 Notwithstanding these programs, Transmission will require funding to maintain
8 the level of system stability and service reliability that customers expect. The
9 required capital expenditures are driven by the need for transmission
10 infrastructure improvements, storm hardening efforts, and regulatory
11 commitments. While FPL must continue to refurbish or replace aging facilities,
12 the Company also must invest in transmission system expansion projects and
13 added capacity where technology improvements and equipment upgrades already
14 have maximized the efficiency of the existing infrastructure. Given current
15 capacity limitations and FPL's assessment of its system, the Company has
16 developed a sound plan to replace infrastructure and add new capacity through
17 projects that I will describe later in my testimony. FPL must responsibly move
18 forward with this work to maintain a safe and reliable system for the benefit of its
19 current and future customers.

20

II. RELIABILITY

1

2

3 **Q. Please describe the FPL transmission and substation system.**

4 A. As of January 1, 2012, the FPL transmission and substation system was
5 comprised of 6,721 circuit miles of transmission lines operating at voltages from
6 69 kiloVolt (“kV”) to 500 kV, 518 distribution substations and 98 transmission
7 substations. The FPL transmission system is designed to integrate all of FPL’s
8 generation resources in a reliable and cost-effective manner to serve FPL’s
9 customers. FPL is required to plan, design, construct, operate and maintain its
10 transmission and substation system to meet all applicable reliability standards.

11 **Q. How is Transmission’s reliability performance measured, and how does FPL
12 compare to other electric utilities?**

13 A. To evaluate reliability performance, FPL uses standard industry measures for
14 frequency and duration of outages such as SAIDI. These standard industry
15 measurements provide a comprehensive and useful indication of the level of
16 reliability FPL provides to its customers.

17

18 In a 2011 industry transmission reliability benchmarking study conducted by
19 SGS, FPL’s SAIDI for 2010 data and for aggregate data from 2008 through 2010
20 was in the top 10% of survey participants. In 2010, FPL’s Transmission SAIDI
21 was 3.99, improving in 2011 to a SAIDI of 3.17 (21% improvement from 2010).
22 During the five years ending with 2010, Transmission had the best average
23 Transmission SAIDI of the Florida investor-owned utilities. This overall

1 performance is a direct result of the commitment of FPL's management and
2 employees to providing superior reliability and service at a reasonable cost.

3 **Q. Please describe Transmission's reliability programs.**

4 A. Transmission reliability programs are Facility/System Assessments, Targeted
5 Maintenance, Prevention through Prediction, Prevention of Recurrence,
6 Vegetation Management, and Smart Grid Technology. These programs utilize
7 diagnostic tools to assess equipment and facility conditions. The information
8 obtained from these assessments is used to develop a plan for maintenance and
9 replacement. Resulting processes and initiatives are executed in a cost-effective
10 manner that maintains grid reliability and reduces the frequency and duration a
11 customer is without electricity due to transmission and substation events. The
12 two main processes used to execute these programs are the Condition Assessment
13 Process and Event Response Process.

14

15 The Condition Assessment Process has three main components that involve
16 transmission line and substation assessments, remaining useful life determination
17 for assets, and risk management. The second key process, Event Response
18 Process, is designed to determine the root cause for every unplanned outage of
19 transmission and substation equipment. Each event is recorded, classified and
20 analyzed. The results of each outage cause analysis are then used in the
21 Condition Assessment Process and incorporated into the design and engineering
22 of future facilities. This approach supports prevention of recurrence and
23 mitigation of future events, together with a resulting reduction in the frequency

1 and duration of customer outages. These two processes support Transmission's
2 reliability programs.

3 **Q. Please provide some examples of Transmission's reliability programs and**
4 **explain how these programs benefit FPL's customers.**

5 A. The following are some examples of Transmission's reliability programs:

6

7 • **Facility/System Assessments** – Transmission line and substation assessments
8 are conducted using equipment diagnostics and both on-site and remote
9 system surveillance. The assessments include oil sampling and testing,
10 equipment and protective system testing, thermal imaging of components, and
11 climbing inspections and station assessments, all of which provide
12 information used to prevent or predict equipment or facility failures. Part of
13 system surveillance is accomplished through equipment performance
14 monitoring and diagnostics, consistent with Smart Grid initiatives, using
15 remote monitoring tools and analysis programs which are deployed in the
16 Transmission and Performance Diagnostic Center ("TPDC").

17

18 • **Targeted Maintenance** – Information obtained during condition assessment
19 is evaluated using predictive models. A plan is then developed to replace or
20 conduct targeted maintenance on major equipment and facilities. Targeted
21 maintenance for equipment and facilities extends the useful life of the
22 equipment while minimizing cost and significantly deferring the need for
23 substantial investment in new equipment and capital projects.

- 1 • **Prevention through Prediction** – By combining remaining useful life
2 determination with risk assessment of the transmission system, a plan is
3 developed to replace major equipment and facilities in a predictive manner.
4 Predictive replacements minimize customer impact and cost while
5 maximizing asset utilization. When predictive replacements are made,
6 customers benefit from FPL’s use of technological advances and design
7 improvements. These improvements reduce the likelihood of interruptions
8 and mitigate the effects on customers when interruptions do occur.
9
- 10 • **Prevention of Recurrence** – Through the use of the Event Response Process
11 described above, Transmission develops countermeasures to prevent the
12 recurrence of similar events that could cause outages.
13
- 14 • **Smart Grid Technology** – FPL is incorporating intelligent technology into
15 the substation systems to improve reliability and to better anticipate and
16 respond to system disturbances. For example, Distribution Substation
17 Transformer Relay Scheme upgrades will utilize microprocessor-based
18 systems to gather power system data, assess equipment operating conditions
19 and enable the use of auto-restoration and self-healing systems. In addition to
20 improvements in reliability, the project aims to increase the situational
21 awareness of grid operations and optimize asset utilization.
22

1 • **Vegetation Management** – The growth of vegetation into overhead power
2 lines represents a major challenge to electric utilities. This is particularly true
3 in much of Florida with the year-round growing season. Transmission’s
4 Vegetation Management Program involves trimming and right-of-way
5 clearance and has two main focuses: System Stability and Customer Impact
6 Reliability. From the perspective of System Stability, this work focuses on
7 preserving right-of-way requirements for higher voltage transmission lines
8 (500 kV and 230 kV) that can affect the entire system. The Customer Impact
9 Reliability work includes condition assessments of the lower voltage
10 transmission lines, in order to determine appropriate maintenance trimming
11 requirements.

12

13 In summary, FPL’s reliability initiatives significantly contribute to the prevention
14 and minimization of outages and customer inconvenience, while at the same time
15 extending the life of equipment and infrastructure in an appropriate and cost-
16 effective manner.

17 **Q. How has FPL used technology to improve the monitoring and control of its**
18 **transmission system?**

19 A. FPL is implementing the following initiatives to improve the overall reliability of
20 the transmission system:

21

22 • **FPL System Control Center** – The FPL System Control Center (“SCC”) is a
23 state-of-the-art facility that plays a key role in the efficient operation of FPL’s

1 transmission and substation systems. The quality and availability of tools and
2 information on the status of FPL's system are hallmarks of FPL's SCC.
3 Coordination among FPL and the other members of the Florida Reliability
4 Coordinating Council to improve system management demonstrates FPL's
5 continuous commitment to the reliable operation of the electric system.

6
7 FPL operates its transmission system in full compliance with all applicable
8 standards. The North American Electric Reliability Corporation ("NERC")
9 Critical Infrastructure Protection ("CIP") standards provide a cyber security
10 framework for the identification and protection of critical cyber assets to
11 support the reliable operation of the Bulk Electric System ("BES"). The CIP
12 standards include controlling and monitoring both physical and electronic
13 access to the related cyber asset in support of the SCC. The CIP standards
14 also require procedures for securing these cyber assets and training programs
15 to instruct operations employees on expectations. Transmission has
16 implemented cyber security measures to fully comply with the NERC CIP
17 standards.

- 18
19 • **Transmission and Performance Diagnostic Center** – Another example of a
20 major transmission reliability initiative is the creation of the TPDC. The
21 TPDC is a center for monitoring the critical operating parameters of
22 transmission equipment and performing analyses. Current and near-future
23 assessment methods provide early prediction of asset failures by monitoring

1 and using real-time statistical analysis of equipment performance to identify
2 abnormal conditions. Through the use of dashboards and other informational
3 displays, the health of transmission and substation equipment is continuously
4 monitored. The TPDC also provides analyses of system events and acts as a
5 transmission and substation support team.

6
7 The TPDC enhances FPL's predictive capabilities by providing remote
8 analysis of transmission and substation asset performance. The actual
9 performance of equipment is compared to various equipment technical
10 operating parameters to determine the present condition of installed
11 equipment. Deviations from the technical operating parameters of the
12 equipment can then be further assessed and investigated to minimize impacts
13 on the system.

14
15 The TPDC also coordinates with the SCC and Distribution Dispatch to
16 respond with analyses of system events. TPDC personnel gather relay targets,
17 sequence of events from the Supervisory Control and Data Acquisition system
18 and other pertinent forensic information immediately following an outage, all
19 while the first responder is still in route to the site of the event. Armed with
20 this information upon arrival, first responders are able to perform the
21 restoration more quickly than in the past. In fact, for feeder breaker failures,
22 the contributions from TPDC have resulted in an improvement in restoration
23 times.

1 III. INFRASTRUCTURE IMPROVEMENTS – STORM RESILIENCY

2

3 **Q. Please provide an update on efforts to improve the strength and resiliency of**
4 **FPL transmission infrastructure in the event of a major storm.**

5 A. In April of 2006, the Florida Public Service Commission issued Order No. PSC-
6 06-0351-PAA-EI, requiring investor-owned electric utilities to file plans for ten
7 (10) ongoing storm preparedness initiatives. As a result of initiative four (4) in
8 this order, FPL accelerated two (2) programs for strengthening and improving
9 resiliency of existing transmission structures in the event of a major storm. These
10 programs are described as follows:

11

12 • **Replacement of Wood Transmission Structures:** FPL has implemented
13 plans to replace all wood transmission structures throughout its service
14 territory. New structures are made from engineered materials (such as
15 concrete or steel). FPL transmission line structural designs are governed by
16 Florida Statute Section 366.04. Under this Statute, all high voltage
17 transmission structures must satisfy the requirements as specified by the
18 National Electrical Safety Code (“NESC”, an American National Standard
19 Institute (“ANSI”) publication, C 2). The ANSI C 2 document addresses
20 extreme wind load criteria (Rule 250 C) which covers all wind sensitive
21 factors and wind related effects that need to be considered in the design
22 calculations. Between January 1, 2006 and December 31, 2011, the number
23 of wood transmission structures at FPL decreased from 26,147 to 15,542.

1 FPL has committed to replace all wood structures. As of December 31, 2011,
2 over 75% of the transmission structures at FPL are made from either concrete
3 or steel.

- 4
- 5 • **Replacement of Ceramic Post Insulators on Concrete Structures:** FPL is
6 also replacing ceramic post insulators on concrete structures. New insulators
7 are made from polymer materials, meet current design standards, and
8 minimize cascading type events. Between January 1, 2006 and December 31,
9 2011, the number of concrete transmission structures with ceramic post
10 insulators at FPL decreased from 5,562 to 2,139. As of December, 31 2011,
11 less than 4% of FPL's transmission structures are concrete with ceramic post
12 insulators.

13

14 IV. REGULATORY COMPLIANCE

15

16 **Q. Please describe how federal regulations impact FPL's transmission business.**

17 A. Transmission is a heavily regulated sector of the electric utility industry. Under
18 the direction of the Federal Energy Regulatory Commission ("FERC"), NERC
19 has developed and issued 116 reliability standards, of which 104 standards,
20 containing 1,080 requirements and sub-requirements govern FPL's Transmission
21 operation and maintenance of the BES. NERC's purpose for implementing these
22 standards is to ensure the provision of reliable electric service while allowing for
23 planned and unplanned contingencies. Compliance with these enforceable

1 standards and requirements incrementally increases both capital and O&M
2 expenditures for new and existing assets, the institution of enhanced processes
3 and related training. Additionally, new NERC CIP standards, dealing with cyber
4 security of the BES, are requiring significant incremental resources to protect
5 FPL's most critical transmission assets from malicious cyber attack. NERC also
6 imposes initiatives, for example, the recent Facilities Ratings, which further
7 impacts the resource requirements of the Transmission business unit. For
8 example, NERC's Facilities Rating Alert involves verification of transmission
9 line compliance with NERC's method of determining electrical ratings. FPL is
10 contracting aircraft to fly 6,721 miles of transmission lines from 2011 through
11 2013 while utilizing Light Detection and Ranging ("LiDAR") technology to
12 capture the actual location of the lines. Conflicts identified from the LiDAR
13 assessment are followed up to verify any NERC defined discrepancies. Should
14 any NERC defined discrepancies be verified, FPL has one year, from the date of
15 identification, to remediate. The projected incremental cost for this remediation
16 through 2014 is \$26 million.

17
18 These mandatory reliability measures, administrative requirements, associated
19 processes and required training associated with compliance to NERC Reliability
20 Standards place an ongoing and incremental resource impact on Transmission
21 which will continue to evolve as NERC's compliance enforcement program
22 grows.

23

1 **V. TRANSMISSION O&M EXPENSE**

2

3 **Q. Comparing the 2013 Test Year to the 2012 Prior Year, are there any**
4 **accounts in which the change to Transmission's non-fuel O&M expenses**
5 **exceeds the threshold defined in MFR C-8?**

6 A. No. Transmission has no accounts where the change in non-fuel expenses
7 exceeds the threshold as defined on MFR C-8.

8

9 **Q. What are some of the major components associated with Transmission O&M**
10 **expense actual and projected costs?**

11 A. In order to maintain FPL's high level of reliable service while at the same time
12 addressing aging infrastructure, Transmission engages in a number of initiatives
13 which impact Transmission O&M expenses. These initiatives generally fall into
14 the following categories:

15

16 • **Enhanced Transmission and Substation Maintenance and Condition**
17 **Assessment Activities:** As transmission and substation facilities age, the
18 maintenance costs increase. In order to maximize the life of major
19 transmission and substation equipment, proper and timely maintenance is
20 required. Transmission's Condition Assessment Program uses risk
21 assessments, life-cycle projections and predictive techniques to prioritize
22 maintenance activities and equipment repair on an appropriate schedule to
23 extend the life of the equipment. Without this program, FPL's costs would be

1 greater because equipment replacement costs are higher than life extension
2 costs.

3

4 • **System Control Center:** SCC operations require around the clock support of
5 major computer systems, complex technical applications, infrastructure and a
6 team of control center operators and computer systems support personnel.
7 The SCC operators are required to have certification from the NERC and
8 annual training is required as part of the NERC operator certification. The
9 SCC computer system support personnel are highly skilled in power system
10 operation tools, infrastructure support and NERC CIP requirements.

11

12 • **Regulatory:** Regulatory commitments include compliance oversight and
13 computer enhancements, vegetation management programs, training
14 certification and re-certification programs, and storm hardening and pole
15 inspection programs.

16 **Q. How do FPL's projected 2013 O&M expenses for the Transmission**
17 **functional area compare to the Commission Benchmark (MFR C-41; using**
18 **the 2010 rate case decision adjusted for inflation and customer growth)?**

19 A. FPL's projected 2013 O&M expenses for the Transmission functional area are
20 below the Commission Benchmark. FPL's O&M expenses for the Transmission
21 functional area result from aggressively managing operating cost.

22

VI. TRANSMISSION CAPITAL EXPENDITURES

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Q. What are Transmission's capital expenditures for 2013.

A. Transmission's capital expenditures for the 2013 test year are projected to be \$183 million.

Q. What are the major cost drivers for Transmission's capital expenditures?

A. The major cost drivers associated with Transmission's capital expenditures are:

- **Infrastructure replacement refurbishment and reliability, \$53 million:** As substation equipment such as transformers, breakers, capacitor banks and other associated equipment approach the end of their useful life, FPL optimizes the replacement process with respect to interruption avoidance, resource allocation, and asset utilization. Replacement and refurbishment of substation equipment will minimize service interruptions to customers. The opportunities to improve transmission line reliability are identified through an analysis of existing system performance. Based on the analysis, reliability improvement projects are developed to reduce the major cause of poor reliability on the worst performing facilities.

The Substation Reliability Improvement program uses innovative technology and systems upgrades to enhance and improve the reliability experienced by our customers and simultaneously reduces the reliability exposure of our critical multi-million dollar transformer fleet. Through this program,

1 imminent issues are either identified early to preempt occurrence of an event,
2 or in the occurrence of an event, the upgrades significantly improve
3 restoration time and thereby reduce customer outage and dissatisfaction.

- 4
- 5 • **Projects to meet transmission system requirements, \$35 million:** While
6 load growth has slowed recently, over the next several years load is forecasted
7 to increase again. NERC reliability standards mandate minimum
8 requirements to accommodate system load growth. To meet these
9 requirements, FPL has developed a phased-in plan to expand facilities and add
10 new capacity through system expansion requiring capital expenditures in 2013
11 of \$35 million, \$29 million of which is the Bobwhite-Manatee 230 kV Line,
12 as described below.

- 13 ○ **Bobwhite-Manatee 230 kV Line, \$29 million:** Additional capability
14 of the transmission network serving the Southwest area is needed to
15 comply with NERC standards and provide transmission customer
16 service connection requests. This project was subject to the Florida
17 Transmission Line Siting Act guidelines, which provides for
18 certification of electrical transmission lines which are 230 kV or
19 larger; cross a county line; and are 15 miles or longer. Prior to
20 issuance of a corridor certification, the Department of Environmental
21 Protection, Fish and Wildlife Conservation Commission, Department
22 of Community Affairs, Public Service Commission, local
23 governments, water management districts, and regional planning

1 councils through the jurisdiction in which the corridor would pass are
2 required to assess the potential effects of the proposed transmission
3 lines to ensure through available and reasonable methods that the
4 location of transmission line corridors and construction and
5 maintenance of transmission lines will produce minimal adverse
6 effects on the environment and public health, safety, and welfare.

7
8 Bobwhite-Manatee was certified by the Siting Board (Governor and
9 Cabinet) on November 6, 2008. This project will improve the
10 reliability as well as serve local and wholesale transmission customers
11 in the Manatee-Sarasota area. The total cost of the project is estimated
12 at \$47.6 million, \$29 million in the test year, and it is scheduled to be
13 completed in 2014.

14
15 • **FPSC mandated programs, \$31 million:** The transmission infrastructure
16 requires refurbishment to keep the facilities serviceable and to maintain
17 reliability. The replacement of all wooden transmission structures over the
18 next 25 – 30 years is in progress to address Transmission’s storm hardening.
19 Inspections of transmission facilities through reliability programs or following
20 an outage event have identified the need for follow-up refurbishment work.
21 These refurbishments are major cost drivers which involve all types of
22 components associated with the transmission system such as cross arms,
23 insulators, overhead ground wires, poles and splices with a capital expenditure

1 of \$26 million in 2013. In addition, in order to maintain our long term
2 hardening goal, capital expenditures of \$2.0 million to replace wooden
3 transmission structures and \$1.7 million to replace ceramic post insulators on
4 concrete poles are projected for 2013. Capital expenditures of \$0.8 million in
5 2013 are projected for substation insulator replacement to reduce failures due
6 to windblown salt and other contaminants.

- 7
- 8 • **Projects to meet distribution system requirements, \$23 million:** As part of
9 its annual capacity planning process, FPL examines existing and projected
10 loading conditions and evaluates the need for additional distribution
11 substations, expansion and/or modification of existing distribution substations,
12 and the need for additional feeders to ensure that increased capacity
13 requirements are met and reliable electric service is maintained. FPL's plans
14 for 2013 may include the site preparation of one new distribution substation,
15 increasing capacity and/or modifying 11 existing distribution substations, and
16 adding six new feeders.

- 17
- 18 • **Projects resulting from revisions to FERC/NERC standards, \$19 million:**
19 These projects are improvements to FPL's system to meet NERC and FERC
20 standards in addition to projects planned to meet transmission system
21 requirements. They include protection redundancy, Digital Fault Recorders,
22 Breaker/Bus Rating and Coupling Capacitor Voltage Transformer

1 replacements. They also include projects resulting from the recent NERC
2 initiative Facilities Rating alerts previously discussed.

3

4 • **Projects related to technology upgrades to FPL's SCC, \$8 million:**

5 Technology capital budget and plan is driven by three main factors: (1)
6 replacement and/or upgrade of technology components for FPL's SCC due to
7 obsolescence or end-of-life; (2) major technology upgrades to add or improve
8 functionality for SCC applications; infrastructure, and associated
9 communication systems and networks; and (3) other technology projects that
10 support the business unit mission in improving its operational efficiency. The
11 technology budget for 2013 includes the following major projects: (1) SCC
12 equipment replacements and/or upgrades due to end-of-life (e.g., network
13 infrastructure equipment and application servers); (2) replacement for the Unit
14 Commitment application; (3) cyber security enhancements; and (4) the
15 conversion of the substation communications infrastructure from a Frame
16 Relay technology to either the Multiprotocol Label switching or fiber optic
17 technology.

18

19 • **Transmission 500 kV System Program, \$8 million**

20 FPL will continue its reliability initiatives on the 500 kV transmission line
21 system. Replacement of insulators and vibration spacer-damper systems are
22 planned for 2013 with a projected expenditure of \$4.4 million. Replacement
23 of structures and structural components are also planned for 2013 with a

1 projected expenditure of \$3.6 million. FPL requires a reliable 500 kV system
2 for bulk transmission power flow within its service area and to meet
3 regulatory commitments and maintain transmission grid stability. These
4 replacements are part of FPL's ongoing 500 kV reliability plan which is based
5 on the previously described Condition Assessment Process.

6

- 7 • **Non-Reimbursable Relocations, \$6 million:** Forced relocations are the result
8 of siting transmission facilities in right-of-ways where FPL does not have a
9 compensable interest, most common being road rights-of-way. FPL has the
10 legal obligation to State and county governments to relocate facilities located
11 in road right-of-way when these facilities are in conflict with proposed road
12 improvements. Failure to execute projects as scheduled may result in road
13 contractor delay claims.

14 **Q. Please summarize Transmission's accomplishments.**

15 A. In summary, Transmission's accomplishments and operations are an example to
16 the industry. We work hard every day to maintain the current high level of
17 reliability our customers expect and deserve while promoting compliance with all
18 applicable regulatory commitments. We have maintained this excellent record
19 while carefully selecting where we must expand, replace, and refurbish the
20 transmission system for the benefit of our customers now and in the future.
21 Finally, we have accomplished the results and implemented the initiatives,
22 processes and procedures described in my testimony while minimizing the costs
23 for our customers.

1 Q. **Does this conclude your direct testimony?**

2 A. Yes.

1 BY MR. DONALDSEN:

2 Q Mr. Miranda, are you also sponsoring some
3 exhibits to your direct prefiled testimony?

4 A Yes, I am.

5 Q Okay. And do those exhibits consist of two
6 pages entitled, MM-1 and MM-2, which are listed on
7 Staff's Comprehensive Exhibit List 179 and 17 -- and
8 180?

9 A Yes.

10 MR. DONALDSEN: Just for the record, those
11 have been already premarked for identification
12 purposes.

13 CHAIRMAN BRISÉ: Okay.

14 BY MR. DONALDSEN:

15 Q Mr. Miranda, have you provided a summary of
16 your direct prefiled testimony?

17 A Yes, I have.

18 Q I can you please present at that to the
19 Commission?

20 A I will. Thank you.

21 Good afternoon, Chairman and Commissioners.
22 The Transmission Business Unit is responsible for FPL's
23 bulk and regional transmission planning, operations,
24 maintenance, engineering and construction activities,
25 including ensuring the reliability and security of the

1 FPL transmission substation facilities in a safe and
2 effective manner consistent with all applicable
3 regulatory standards.

4 Today, I would likes to describe the solid
5 track records of the Transmission Business Unit based on
6 the system performance that provides FPL customers were
7 with a high level reliable service in a cost-effective
8 manner. Transmission will require funding to maintain
9 this level of reliability that our customers expect.

10 Capital expenditures are required for
11 Transmission regulatory commitments, including storm
12 hardening, reliability improvements and meeting customer
13 load growth. These programs provide necessary upgrades
14 to, one, improve the strength and resiliency of the
15 Transmission infrastructure in the event of a major
16 storm. Two, refurbish, replace or extend the life of
17 aging facilities. Three, invest in expansion capacity,
18 and four, implement technology to maximize the
19 efficiency of the infrastructure.

20 FPL must move forward responsibly with
21 investments to a maintain a safe and reliable system for
22 the benefit its current and future customers.

23 During the five years ending 2010,
24 Transmission had the best System Average Interruption
25 Duration Index, or SAIDI, in the reliability measure of

1 the Florida investor-owned utilities. The requested
2 base rate will permit FPL to maintain this level of
3 reliability for our customers while ensuring compliance
4 with all regulatory standards. In 2010, FPL's
5 Transmission SAIDI was 3.99 minutes, improving by
6 21 percent in 2011 to a SAIDI of 3.17 minutes.

7 Transmission is also in a heavily regulated
8 sector of the electric utility industry. Under the
9 direction of the Federal Energy Regulatory Commission,
10 FERC, the North American Electric Reliability
11 Corporation, NERC, has developed an additional 116
12 reliability standards, of which 104 standards requiring
13 1,080 requirements and sub-requirements, govern FPL's
14 operation and trans -- and maintenance of the
15 transmission grid.

16 These mandatory reliability measures,
17 administrative requirements, associated processes and
18 the required training associated with these NERC
19 standards incrementally increase both capital and O&M
20 expenditures. These compliance standards will continue
21 to evolve as NERC's compliance enforcement program
22 grows. Notwithstanding those cost pressures,
23 Transmission effectively manages these expenses making
24 FPL's projected 2013 O&M expenses for the Transmission
25 functional area below the Commission benchmark.

1 In summary, Transmission's accomplishments and
2 operations are an example to the industry. We work each
3 and every day to maintain the best reliability in the
4 state for our customers while aggressively managing
5 expenses and meeting all applicable regulatory
6 commitments. This concludes my summary.

7 CHAIRMAN BRISÉ: Thank you.

8 MR. DONALDSEN: Thank you, Mr. Miranda. I
9 tender the witness for cross-examination.

10 CHAIRMAN BRISÉ: All right. Ms. Kaufman?

11 MS. KAUFMAN: Mr. Chairman, please note we
12 have no question.

13 CHAIRMAN BRISÉ: All right. South Florida
14 Hospital Association?

15 MR. URBAN: We also have no questions for the
16 witness. Thank you.

17 CHAIRMAN BRISÉ: All right. FEA?

18 LT. COL. FIKE: No questions, Mr. Chairman.

19 CHAIRMAN BRISÉ: All right. Office of Public
20 Counsel.

21 MR. REHWINKEL: Thank you, Mr. Chairman.

22 CROSS EXAMINATION

23 BY MR. REHWINKEL:

24 **Q Mr. Miranda.**

25 A I listen to Keith very carefully.

1 Q I -- I have questions for you about your
2 Exhibit MM-1, and as with the prior two witnesses, I --
3 when you get there, I wanted to ask you a question about
4 B-15.

5 A Okay.

6 Q And specifically -- do you have that? Do you
7 have B-15?

8 A Yes, I do.

9 Q Okay. And you are -- listed as a cosponsor of
10 that MFR, correct?

11 A That's correct.

12 Q And my questions for you are, do you have any
13 responsibility for supporting the numbers that are
14 contained in lines 10 through 15 relating to other
15 production future use?

16 A I do not.

17 MR. REHWINKEL: That's all I have. Thank you.

18 Thank you, Mr. Miranda.

19 CHAIRMAN BRISÉ: All right. Thank you.

20 Mr. LaVia?

21 MR. LaVIA: No questions, Mr. Chairman.

22 CHAIRMAN BRISÉ: All right. Mr. Saporito?

23 MR. SAPARITO: For the reasons stated earlier
24 on the record, I have no questions, Mr. Chairman.

25 CHAIRMAN BRISÉ: Okay. Mr. Hendricks?

1 MR. HENDRICKS: No questions.

2 CHAIRMAN BRISÉ: All right. Staff?

3 MS. KLANCKE: Staff has a few brief questions
4 for this witness.

5 Good afternoon. My name is Caroline Klancke.
6 I am an attorney with the Florida Public Service
7 Commission. I am having passed out two hearing
8 exhibits, and I will address them sequentially.

9 In particular, the first of the two hearing
10 exhibits contains a supplemental response to
11 Staff's Seventh Set of Interrogatories and -- and
12 in particular Interrogatory 249, and it's just the
13 supplement. Staff inadvertently left this
14 supplement out of Exhibit No. 44, which was already
15 moved in.

16 And for completeness of the record, we would
17 have -- we would like to have this given an exhibit
18 number, and staff intends to move it into the
19 record at the appropriate time.

20 CHAIRMAN BRISÉ: Okay. This would be 517.

21 (Whereupon, Exhibit No. 517 was marked for
22 identification.)

23 CHAIRMAN BRISÉ: Any objections to this
24 document?

25 MR. DONALDSEN: This is Interrogatory 249? No

1 objections.

2 MS. KLANCKE: This is just the supplement.
3 There was an attachment and the original narrative
4 explanation moved in in 44.

5 MR. DONALDSEN: No objections.

6 MS. KLANCKE: Excellent. Just making sure we
7 are all on the same page.

8 CROSS EXAMINATION

9 BY MS. KLANCKE:

10 Q Okay. I would now like to turn your attention
11 to the second handout that's been provided to you. This
12 handout contains MFR Schedule C-41. In your --
13 Mr. Miranda, in your Exhibit MM-1, it specifies that you
14 have cosponsored MFR Schedule C-41. Is that correct?

15 A That's correct.

16 Q And the document before you contains MFR
17 Schedule C-41?

18 A Yes, it does.

19 Q I would like to get a better understanding
20 of -- of one of the numbers that's reflected on this
21 document, and in particular, I would like to focus your
22 attention on column four. Do you see that?

23 A Yes, I do.

24 Q Column 4 contains the 2013 adjusted O&M
25 expenses. Do you see that?

1 A Yes, I do.

2 Q In particular, I would like to focus your
3 attention on line 9. Under the function column, it
4 identifies it as Transmission, and under column 4, it
5 specifies that the 2013 adjusted O&M expense for
6 Transmission is 47,189,000. Do you see that?

7 A Yes, do.

8 Q And this figure represents the amount that FPL
9 believes is the appropriate amount of Transmission
10 expense, correct?

11 A That's correct.

12 Q You have been identified in the Prehearing
13 Order by FPL as the witness on Issue 90, which deals
14 with the appropriate amount of FPL's Transmission O&M
15 expense for the 2013 test year; is that correct?

16 A That's correct.

17 Q Are you aware that in FPL's position on the
18 appropriate amount of Transmission expense for the 2013
19 test year, it contains the figure 55,677,000, not the
20 47,189,000 we just discussed coming from Schedule C-41?

21 A Yes, I understand.

22 Q Could you explain the basis for the difference
23 between the 55,677,000 and the 47,189,000 that comes
24 from your MFR Schedule C-41?

25 A I am going to refer this to Witness Ousdahl,

1 but just briefly, the -- Issue 90, from what I
2 understand, has the FERC jurisdictional accounts versus
3 the budget accounts, the functional accounts that is
4 reflected in this C-41. So Witness Ousdahl will be
5 better position to explain the credits and so forth that
6 were taken here to con -- you know, to get the two
7 figures to -- to match up.

8 **Q With the understanding that Witness Ousdahl**
9 **may be better at explaining these figures -- to the**
10 **extent that you are the witness that's identified on**
11 **this issue solely, to the best of your knowledge, can**
12 **you explain the difference or at least attempt to do so?**

13 **A** Again, I think the Issue 90 was jur--
14 jurisdictional FERC accounts, which includes other
15 business unit outside of my business units. They are
16 just the FERC accounts, may include some generation
17 expenses and some other components in there that make up
18 for Transmission accounts, if you will, and that's the
19 difference between that and this document, which I think
20 is more budget wise, if you will, within my Transmission
21 Business Unit.

22 MS. KLANCKE: Okay. We have no further
23 questions for this witness.

24 CHAIRMAN BRISÉ: All right. Commissioner
25 Balbis?

1 COMMISSIONER BALBIS: Very quick question,
2 Mr. Chairman. Welcome, Mr. Miranda. I -- I serve
3 on the NARUC Critical Infrastructure Committee, and
4 we have had numerous webinars and conference calls
5 associated with cyber security. And you mentioned
6 in page 14 of your testimony additional dollars to
7 be spent in meeting the new NERC standards in
8 additional investigation.

9 My question for you is, the funding requested
10 this in this rate request, is it adequate to meet
11 those standards and protect your infrastructure?

12 THE WITNESS: The answer is yes. However, as
13 you know, continue -- we get continued growing
14 efforts by NERC on cyber security issues. This is
15 a continued threat to, not only the utilities, but
16 the nation as a whole.

17 And, you know, when you look at some of the
18 CIP versions, CIP version 5 that is on the -- on
19 the books, if you will -- right now, CIP 4, which
20 is the latest standard, we are -- we -- this will
21 put us in full compliance. CIP version 5, which
22 again, starts to define more of a bright line, if
23 you will, of what facilities get incorporated into
24 the cyber security umbrella, will continue to put
25 more and more cost pressures on us.

1 And -- but we will obviously have -- we
2 comply, make every effort to comply with those as
3 we -- we believe it's a real threat. To get a
4 control of our SCADA systems, our EMS systems is,
5 you know, the most serious concern we have in the
6 transmission organization.

7 COMMISSIONER BALBIS: Okay. Thank you.
8 That's all I have.

9 CHAIRMAN BRISÉ: Okay. Any further questions
10 by commissioners for this witness?

11 All right. Seeing none, redirect?

12 MR. DONALDSEN: No redirect.

13 CHAIRMAN BRISÉ: Okay. Now, we will deal with
14 the exhibits.

15 MR. DONALDSEN: FPL, at this time, would like
16 to enter into the record Mr. Miranda's exhibits on
17 Staff Exhibit List 179 and 180.

18 CHAIRMAN BRISÉ: Okay. Are there any
19 objections?

20 Okay. Seeing none, we will enter Exhibits 179
21 and 180.

22 (Whereupon, Exhibit Nos. 179 and 180 were
23 received into evidence.)

24 MS. KLANCKE: At this time, staff would like
25 to enter in Exhibit No. 517.

1 CHAIRMAN BRISÉ: Okay. I think we dealt with
2 objections on that earlier.

3 MR. DONALDSEN: No objections.

4 MS. KAUFMAN: Mr. Chairman, I don't have an
5 objection. I just want to can ask a point of
6 clarification, if I could.

7 CHAIRMAN BRISÉ: Sure.

8 MS. KAUFMAN: This Exhibit M -- MFR C-41 is
9 part of the MFRs that Mr. Butler already moved in,
10 and also, it's numbered as Exhibit 514. I just --

11 MS. KLANCKE: That's correct. This -- the one
12 that staff passed out with respect to 517 is FPL's
13 response to staff's 7th set of interrogatories, not
14 MFR Schedule C-41.

15 MS. KAUFMAN: So let me just ask, to the
16 extent we intend to use MFR, even though they are
17 already in the record, you would like us to give
18 them an additional exhibit number? I just want the
19 record to be clear.

20 CHAIRMAN BRISÉ: No.

21 MS. KAUFMAN: No. Okay.

22 MS. KLANCKE: I passed out C-41 with respect
23 to this witness purely for demonstrative purposes
24 for the record. However, I do intend move in 517.

25 MS. KAUFMAN: Okay. Thank you for the

1 clarification.

2 CHAIRMAN BRISÉ: All right. So 517, which is
3 the supplemental -- Supplementary Interrogatory to
4 49. Okay. We will move that into the record at
5 this time.

6 (Whereupon, Exhibit No. 517 was received into
7 evidence.)

8 CHAIRMAN BRISÉ: Okay. And I think that's it
9 for Mr. Miranda at this time.

10 THE WITNESS: Thank you.

11 MR. DONALDSEN: May he be excused with regards
12 to his direct testimony?

13 CHAIRMAN BRISÉ: Sure. Mr. Miranda, you may
14 be excused --

15 THE WITNESS: Thank you.

16 CHAIRMAN BRISÉ: -- for your direct testimony.
17 (Witness excused.)

18 MR. BUTLER: Mr. Chairman, that concludes the
19 series of operational witnesses who we had asked
20 and everybody had indulged us to move forward for
21 their direct testimony. We are kind of as at a
22 crossroads with respect to them because there has
23 been the possibility put forward, and so far, there
24 isn't an agreement to it on whether to have them
25 back here tomorrow for their rebuttal testimony or

1 not.

2 If there is -- we certainly would prefer that.
3 It's going to be a lot better for them if they can
4 just be done when they head back to South Florida
5 for -- in preparing for the possible storm
6 responses, but if it's not going to happen, then
7 they will, you know, end up leaving here probably
8 this evening.

9 So I was wondering if we could put to the
10 parties sort of a polling again to see whether it's
11 going to be possible to bring them back for their
12 rebuttal testimony tomorrow.

13 CHAIRMAN BRISÉ: Okay. Mr. Rehwinkel?

14 MR. REHWINKEL: And I am not speaking for
15 anybody but the Public Counsel, but what I would
16 ask is, we -- we have made a lot of progress with
17 these witnesses very quickly. We are kind of in a
18 transition point. We need to catch up and kind of
19 reload here, and I think it would also be useful if
20 we took a few minutes and had this discussion off
21 the record and see where we are with all kinds of
22 witness scheduling issues and then report it back
23 if we could have a brief -- brief break on that.

24 CHAIRMAN BRISÉ: Okay. If you all think that
25 that will get us somewhere. It is 2:40. How much

1 time do you all need?

2 MR. REHWINKEL: Could we just come back at
3 3:00?

4 CHAIRMAN BRISÉ: Okay. That will work. We
5 will do that. We hope that we can have a
6 resolution then.

7 (Brief recess.)

8 CHAIRMAN BRISÉ: Okay. It's about three
9 o'clock. If everyone could find their places so
10 that we can reconvene.

11 Okay. I know that the parties were meeting
12 over the break discussing the order of witnesses,
13 considering the storm -- the impending storm and
14 that people could get back for operational purposes
15 in terms of the company to deal with some of those
16 issues. Do we have any proposals?

17 MR. YOUNG: Yes, sir. The parties have agreed
18 that the witnesses will be presented in the
19 following order: We have Barrett, then Ousdahl.
20 Then, we will break for the night -- Ousdahl and
21 then Barret excuse me, then break for the night,
22 and then we will pick up with Santos on rebuttal.

23 These rebuttal witnesses, Santos, Kennedy,
24 Hardy and Miranda, they will present their rebuttal
25 testimony tomorrow, and in -- in -- and sometime

1 tomorrow, Pollock will take the stand for FEA -- I
2 mean, FIPUG.

3 CHAIRMAN BRISÉ: Okay. Okay. Is everyone
4 clear in and in agreement with that?

5 MS. KAUFMAN: Yes, sir.

6 CHAIRMAN BRISÉ: Okay. I saw heads nod,
7 right? Okay.

8 MR. YOUNG: Okay. Following that,
9 Mr. Chairman, then we will move with the order of
10 Stall, Slattery, Avera, Dewhurst, Ender, Deaton,
11 and if -- and I think that would close -- that
12 would end FPL's direct case, and if possible, if we
13 are moving at a good speed, the pro se litigants,
14 Mr. Hendricks and Mr. Saporito, has graciously
15 agreed to move in that spot following FPL's direct.

16 OPC has indicated -- has agreed amongst the
17 parties that they will start their case on Monday,
18 and the first witness on Monday for OPC will be
19 Mr. Woolridge.

20 CHAIRMAN BRISÉ: All right. So we are seeking
21 to be completed with the Petitioner's portion of
22 the case and the pro se portion of -- of witnesses,
23 at least the direct portion of it, by Friday
24 afternoon?

25 MR. YOUNG: Yes, sir.

1 CHAIRMAN BRISÉ: Okay.

2 MR. YOUNG: If possible.

3 CHAIRMAN BRISÉ: Okay. So at this time, there
4 is a comment.

5 MS. CHRISTENSEN: Yeah. Patty Christensen for
6 the Office -- Office of Public Counsel. I just
7 want to make sure that we are clear, due to travel
8 arrangements, we are having our witnesses to then
9 come in on Sunday to be prepared to be here to
10 testify on Monday morning.

11 CHAIRMAN BRISÉ: Well, you know, if -- if it's
12 up to me, you know, I will be prepared to do that.
13 It all depends upon how everyone manages their
14 time. You know, because obviously if -- if people
15 are lined up to go and we have this order and we
16 sort of agreed on this order of where we are going
17 to go, if a certain section of the case isn't
18 completed, then hopefully, we will be able to
19 finish that and then move forward. So I hope
20 everyone understands that and works along with
21 that.

22 MS. CHRISTENSEN: Yes, we -- we understand
23 that. The only witness that we would have that has
24 to be finished on Monday is Dr. Woolridge.

25 CHAIRMAN BRISÉ: I understand.

1 MS. CHRISTENSEN: He has class that he has to
2 teach on Monday later that evening, so he needs to
3 be finished Monday morning. Otherwise, our
4 witnesses will be available then to be taken up
5 Monday or thereafter.

6 CHAIRMAN BRISÉ: Understood.

7 MS. CHRISTENSEN: Thank you.

8 CHAIRMAN BRISÉ: All right. I just hope we
9 all govern ourselves accordingly.

10 MR. BUTLER: Mr. Chairman --

11 MR. YOUNG: Mr. Chairman, I think to make sure
12 everyone is on board, also staff will send an
13 e-mail out of the facts stated here.

14 CHAIRMAN BRISÉ: Okay. Mr. Butler?

15 MR. BUTLER: Yeah, I'm sorry. Mr. Chairman,
16 the one thing that we hadn't mentioned in our
17 colloquy here is that we are fine with OPC moving
18 Dr. Woolridge to the beginning of the order, doing
19 him Monday morning, you know, whatever works out
20 with that. We -- our only contingency, or only
21 condition, is that we don't want it to occur before
22 our cost of capital witnesses have gone on,
23 Mr. Dewhurst and Dr. Avera.

24 So I don't think that's going to be an issue,
25 frankly, we are more focused on the other end of

1 the spectrum that we move forward so quickly that
2 we are not going to try to go ahead with the
3 Intervenor case before Monday, but if we got slowed
4 down again, we would want to put our cost of
5 capital experts on before Dr. Woolridge.

6 CHAIRMAN BRISÉ: Understood.

7 MS. CHRISTENSEN: And Office of Public Counsel
8 would concur with that as well.

9 CHAIRMAN BRISÉ: Okay. Understood. All
10 right, so I think that I issue is resolved at this
11 point. If there are individuals who are going to
12 testify that have not been sworn in, please stand
13 so that you can be sworn in at this time.

14 Whereupon,

15 KIM OUSDAHL

16 was called as a witness, having been first duly sworn to
17 speak the truth, the whole truth, and nothing but the
18 truth, was examined and testified as follows:

19 CHAIRMAN BRISÉ: All right. Thank you very
20 much, you may be seated.

21 DIRECT EXAMINATION

22 BY MR. BUTLER:

23 Q Thank you.

24 Ms. Ousdahl, you would please state your name
25 and business address for the record?

1 A I am Kim Ousdahl. The business address is 700
2 Universe Boulevard, Juno Beach, Florida.

3 **Q By whom are you employed and in what capacity?**

4 A I am Vice President, Controller and Chief
5 Accounting Officer of Florida Power & Light Company.

6 **Q Have you prepared and caused to be filed in**
7 **this docket 34 pages of prefiled direct testimony?**

8 A I have.

9 **Q Do you have any changes or revisions to your**
10 **prefiled direct testimony other than those that were**
11 **filed last week on August 16th?**

12 A I do not.

13 **Q Okay. With those changes, if I asked you the**
14 **questions contained in your direct testimony, would your**
15 **answers be the same today?**

16 A They would.

17 MR. BUTLER: Mr. Chairman, I would ask that
18 Ms. Ousdahl's direct testimony be inserted into the
19 record as though read.

20 CHAIRMAN BRISÉ: Okay. We will insert
21 Ms. Ousdahl's direct testimony into the record as
22 though read.

23 (Whereupon, testimony inserted.)

24

25

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1 **I. INTRODUCTION**

2

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

4 A. My name is Kim Ousdahl, and my business address is Florida Power & Light
5 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

6 **Q. By whom are you employed and what is your position?**

7 A. I am employed by Florida Power & Light Company (“FPL” or the
8 “Company”) as Vice President, Controller and Chief Accounting Officer.

9 **Q. Please describe your duties and responsibilities in that position.**

10 A. I am responsible for financial accounting and internal and external financial
11 reporting for FPL. In these roles, I am responsible for ensuring that the
12 Company’s financial reporting complies with requirements of Generally
13 Accepted Accounting Principles (“GAAP”) and multi-jurisdictional regulatory
14 accounting requirements.

15 **Q. Please describe your educational background and professional
16 experience.**

17 A. I graduated from Kansas State University in 1979 with a Bachelor of Science
18 Degree in Business Administration, majoring in Accounting. That same year,
19 I was employed by Houston Lighting & Power Company in Houston, Texas.
20 During my tenure there, I held various accounting and regulatory management
21 positions. Prior to joining FPL in June 2004, I was the Vice President and
22 Controller of Reliant Energy.

1 I am a Certified Public Accountant (“CPA”) licensed in the State of Texas and
2 a member of the American Institute of CPA’s, the Texas Society of CPAs and
3 the Florida Institute of CPAs.

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

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

- 6 • KO-1 -- MFRs Sponsored and Co-sponsored by Kim Ousdahl
- 7 • KO-2 -- MFR A-1 for the 2013 Test Year
- 8 • KO-3 -- Listing of MFRs & Schedules Directly Supporting Requested
9 Revenue Increase
- 10 • KO-4 -- 2013 ROE Calculation Without Rate Relief
- 11 • KO-5 -- Removal of Rate Base and Net Operating Income Items
12 Related to the Canaveral Modernization Project
- 13 • KO-6 -- Capital Recovery Schedule
- 14 • KO-7 -- Capitalized Executive Incentive Removal Calculation
- 15 • KO-8 -- Revenue Requirement Impact of ROE Performance Adder
- 16 • KO-9 -- FPL’s Cost Allocation Manual
- 17 • KO-10 -- Direct Charges to Affiliates
- 18 • KO-11 -- Schedule of FPL Service Fee Cost Pools and Billings
- 19 • KO-12 -- Affiliate Management Fee Cost Drivers
- 20 • KO-13 -- Affiliate Management Fee Massachusetts Formula Ratios

21

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to support the calculation of the rate relief
3 requested by FPL in this proceeding. I will present and discuss accounting
4 and ratemaking issues which will impact the determination of FPL's rate base,
5 working capital, rate of return, capital structure and net operating income.
6 Specifically, this includes:

- 7 1. The calculation of rate relief requested for the January 2013 Base Rate
8 Increase ("2013 Test Year");
- 9 2. The calculation of the step increase that FPL is requesting in order to
10 recover the non-fuel revenue requirements of the Canaveral
11 Modernization Project which is scheduled to go into commercial
12 operation on June 1, 2013 (the "Canaveral Step Increase");
- 13 3. Adjustments that FPL proposes to rate base and net operating income
14 in order to better reflect the 2013 Test Year results for ratemaking
15 purposes;
- 16 4. Treatment of FPL's Theoretical Depreciation Reserve Surplus
17 ("Surplus") for the 2013 Test Year;
- 18 5. Treatment of WCEC3 revenues in the 2013 Test Year;
- 19 6. Impact of the ROE Performance Adder on revenue requirements for
20 the 2013 Test Year; and
- 21 7. The methods employed by the Company for allocating shared costs to
22 affiliates and compliance with the Florida Public Service

1 Commission's ("FPSC") rules to ensure that no subsidization exists
2 between FPL and its affiliates.

3 **Q. Please summarize your testimony.**

4 A. I will present and discuss the following items:

- 5 1. Test Year Base Rate Revenue Increase – The information necessary to
6 support the calculation of the rate relief requested by FPL for the 2013
7 Test Year period. Absent base rate relief for the 2013 Test Year, FPL's
8 adjusted jurisdictional ROE is estimated to be 8.2%.
- 9 2. Canaveral Step Increase – The information necessary to support the
10 calculation of the Canaveral Step Increase for recovery of costs and
11 expenses related to the Canaveral Modernization Project being placed
12 in service on June 1, 2013.
- 13 3. Company Adjustments – The accounting adjustments which impact the
14 determination of FPL's rate base, working capital, rate of return,
15 capital structure and net operating income that ultimately drive the
16 revenue requirements for the Company. With the adjustments
17 proposed, I conclude that the Minimum Filing Requirements
18 ("MFRs") fairly present FPL's financial condition and requested
19 revenue increases based on the projected results for the 2013 Test Year.
- 20 4. Theoretical Depreciation Reserve Surplus – The Company has
21 amortized its Surplus in accordance with FPSC Order No. PSC-11-
22 0089-S-EI (the "2010 Rate Settlement"). FPL is proposing to fix the
23 amortization of depreciation surplus at \$191 million for the 2013 Test

- 1 Year period. This represents the amount forecasted to remain in 2013
2 out of the original \$894 million of Surplus that FPL was directed to
3 amortize.
- 4 5. WCEC3 – In accordance with the 2010 Rate Settlement, the Company
5 has been collecting revenues associated with the WCEC3 through the
6 Capacity Cost Recovery Clause (“CCRC”) and recording such
7 revenues as base revenues for accounting and monthly earnings
8 surveillance reporting purposes. For the 2013 Test Year, the revenues
9 associated with WCEC3 will continue to be reflected as base revenues
10 in the MFRs.
- 11 6. ROE Performance Adder – I support the calculation of the revenue
12 requirements associated with the 25 basis point increase in ROE that
13 FPL would receive under the proposed ROE Performance Adder.
- 14 7. Affiliate Transactions – I conclude my testimony by demonstrating the
15 reasonableness of the methods FPL uses to charge costs to its affiliates,
16 the results of those allocations, and the controls in place to ensure
17 retail customers do not subsidize FPL’s affiliates.
- 18

1 **II. SPONSORSHIP OF MINIMUM FILING REQUIREMENTS**

2

3 **Q. Are you sponsoring or co-sponsoring any MFRs in this case?**

4 A. Yes. Exhibit KO-1 provides a listing of my sponsorship and co-sponsorship
5 of MFRs.

6 **Q. Are you sponsoring or co-sponsoring any schedules in support of FPL's**
7 **request for a step adjustment to base rates to address the additional**
8 **revenue requirements associated with the Canaveral Step Increase?**

9 A. Yes. Exhibit KO-1, page 5 shows my sponsorship of the Canaveral Step
10 Increase schedules.

11 **Q. What is the basis and time periods covered by the MFRs and schedules**
12 **that FPL is filing in this proceeding?**

13 A. As further described in FPL Witness Barrett's testimony, FPL is filing MFRs
14 based upon forecasts completed in early 2012 and is utilizing a 2013 Test Year
15 as the basis for its overall jurisdictional revenue requirement calculation. The
16 periods covered in FPL's MFRs are the 2011 Historic Period, 2012 Prior Year
17 and 2013 Test Year. In addition, FPL has prepared a set of schedules that
18 follow the format of certain MFRs showing FPL's proposed step increase on
19 June 1, 2013. This proposed base rate adjustment will reflect the Canaveral
20 Modernization Project which is projected to go into commercial operation on
21 June 1, 2013. The Canaveral Step Increase schedules will cover the twelve
22 months ended May 31, 2014, which represents the first full year of operations
23 for the plant.

1 **Q. Please describe the Canaveral Step Increase schedules.**

2 A. Page 5 of my Exhibit KO-1 lists the schedules that I am supporting for the
3 Canaveral Step Increase. These schedules include the revenue requirement
4 calculation based on the net operating income and rate base impacts due to the
5 additional Canaveral Modernization Project capital and annual operating
6 costs. As a result of this project, FPL is requesting an additional base rate
7 increase of \$173.9 million in revenue requirements to be effective from the
8 date the unit is placed in service. FPL witness Kennedy discusses the
9 Canaveral Modernization Project in further detail, FPL witness Barrett
10 discusses the need for the Canaveral Step Increase and FPL witness Deaton
11 discusses the proposed tariff sheets for that increase in her testimony.

12

13 **III. 2013 TEST YEAR REVENUE REQUIREMENT AND CANAVERAL STEP**
14 **INCREASE CALCULATIONS**

15

16 **Q. Which exhibit shows the calculation of the base revenue increase that**
17 **FPL is requesting for the Test Year?**

18 A. Exhibit KO-2, which is MFR A-1 for 2013 Test Year, shows the calculation of
19 our requested base revenue increase of \$516.5 million.

1 **Q. Does FPL's requested base revenue increase for 2013 Test Year of \$516.5**
2 **million reflect the Company's proposed adjustments to appropriately**
3 **reflect costs in either base rates or clause recoveries?**

4 A. Yes. The revenue increase requested considers three adjustments, which I will
5 discuss in further detail later in my testimony, which move costs between base
6 rates and FPL's cost recovery clauses. The adjustments are the following: (1)
7 payroll loadings associated with incremental security payroll costs in the
8 CCRC; (2) certain payroll loadings associated with payroll costs in the Energy
9 Conservation Cost Recovery Clause ("ECCR"); and (3) expenses associated
10 with the Substation Pollutant Discharge Prevention Project included in the
11 Environmental Cost Recovery Clause ("ECRC"). These adjustments are
12 summarized on MFR C-2.

13 **Q. Which MFRs directly support the 2013 Test Year revenue increase**
14 **calculation on Exhibit KO-2?**

15 A. Exhibit KO-3, Page 1 lists the MFRs that directly support the overall Test Year
16 jurisdictional revenue requirement increase of \$516.5 million requested by
17 FPL. Those MFRs include schedules that support adjusted jurisdictional rate
18 base of \$21 billion, adjusted jurisdictional net operating income of \$1.2 billion
19 and the calculation of the jurisdictional revenue expansion factor of 1.63188
20 used to arrive at the requested overall jurisdictional revenue requirement.
21 Additionally, I sponsor the jurisdictional adjusted capital structure and the
22 overall rate of return ("ROR") of 7.0%, which reflects FPL's requested ROE
23 of 11.5%, (including a 25 basis point ROE performance adder) that is further

1 discussed in the testimony of FPL witness Dewhurst. Related Commission
2 and Company adjustments applicable to the above schedules are included in
3 the MFRs filed in this case.

4 **Q. Did FPL include any costs or expenses related to the Canaveral**
5 **Modernization Project in calculating its 2013 Revenue Requirements as**
6 **reflected on MFR A-1?**

7 A. No. As discussed later in my testimony, these projected costs were removed
8 from rate base and operating expenses as Company adjustments in FPL's 2013
9 Test Year MFRs. As described by FPL witness Barrett, the Company is
10 requesting a step increase adjustment for recovery of costs and expenses
11 related to the Canaveral Modernization Project. Therefore, FPL has removed
12 all amounts associated with the Canaveral Modernization Project from its
13 2013 Test Year revenue requirements increase requested to be effective
14 January 1, 2013.

15 **Q. What would be the resulting ROE for the 2013 Test Year absent the**
16 **requested rate relief?**

17 A. Exhibit KO-4 shows that absent the requested rate relief, the 2013 Test Year
18 adjusted jurisdictional ROE is projected to be 8.2%. The necessity of a base
19 rate increase is supported by FPL witnesses Barrett and Dewhurst.

20

1 **IV. ADJUSTMENTS TO 2013 TEST YEAR RESULTS**

2

3 **Q. Are there any adjustments FPL is proposing to rate base or net operating**
4 **income that are necessary to properly reflect 2013 Test Year results for**
5 **ratemaking purposes?**

6 A. Yes. These adjustments are detailed in MFR B-2 and MFR C-3.

7 **Q. Would you please describe the adjustments FPL is proposing?**

8 A. Below is a brief description of each adjustment. Additional information
9 regarding each adjustment can be found in the above mentioned MFRs.

10

11 **Proposed Adjustments Impacting Revenue Requirements**

12

13 • **Rate Case Expenses** – FPL is requesting a four-year amortization period for
14 estimated rate case expenses associated with this case totaling \$5.5 million.
15 Also, FPL is requesting that the unamortized balance be included in rate
16 base in the 2013 Test Year in order to avoid a disallowance of reasonable
17 and necessary costs. Full recovery of necessary rate case expenses is
18 appropriate but will not occur unless FPL is afforded the opportunity to earn
19 a return on the unamortized balance of those expenses.

20 • **Removal of the Canaveral Modernization Project** – Included in the 2013
21 Test Year MFRs are amounts associated with the Canaveral Modernization
22 Project. As discussed previously, FPL is requesting a step increase for the
23 revenue requirements associated with this unit. Therefore, FPL has made an

1 adjustment from the 2013 Test Year to remove \$594 million from its 13-
2 month average rate base and \$37 million before taxes from operating
3 expenses. Exhibit KO-5 provides detail of the amounts removed from the
4 2013 revenue requirements associated with the Canaveral Modernization
5 Project. In the event the Commission does not approve the Canaveral Step
6 Increase, this company adjustment should be reversed and the amounts
7 applicable to the Canaveral Modernization Project should be restored to the
8 test period used for setting rates in this filing.

- 9 • **Capital Recovery Schedules for Cutler Units 5&6 (“PCU 5&6”),**
10 **Sanford Unit 3 (“PSN 3”) and Port Everglades (“PPE”)** – As addressed
11 by FPL witness Kennedy, the Company is proposing to retire its inactive
12 PCU 5&6 and PSN 3 effective November 2012 in accordance with its
13 current generation plan. In addition, the Company has petitioned for a
14 determination of need in Docket No 110309-EI to modernize the 1960’s
15 Port Everglades Plant into a high-efficiency combined cycle natural gas
16 energy center. Assuming approval of this plan, all of the existing PPE units
17 would be retired effective January 2013. There will be an unrecovered net
18 book value remaining at PCU and PSN and an overrecovery at PPE at the
19 time of retirement. In accordance with Rule No. 25-6.0436 (10) F.A.C. the
20 Company is requesting to include these amounts on a capital recovery
21 schedule and amortize them over a period of four years beginning January 1,
22 2013. Exhibit KO-6 contains the detail of the net book values for each of

1 these units by plant account and the resulting net credit to annual
2 amortization of \$1.4 million.

3

4 Note the capital recovery schedule for PPE does not include amounts
5 associated with the Electrostatic Precipitators (“ESPs”), which are currently
6 being recovered in the ECRC and for which FPL proposes to complete
7 recovery in the ECRC via capital recovery schedules.

- 8 • **Amortization of SAP Costs** – In 2011, the Company implemented a new
9 general ledger accounting system (SAP) to replace its legacy system
10 (Walker) along with certain other key systems and sub-ledgers. FPL’s
11 policy for accounting for new software requires capitalization of the cost in
12 plant account 303.5, Capitalization of Software, and amortization on a
13 straight-line basis over a period of five years, which is the current
14 amortization period approved for this account. The Company is requesting
15 to extend the amortization period of this system from five to twenty years in
16 order to more appropriately recognize the longer benefit period expected
17 from this major business system. The impact of this change is a decrease in
18 amortization expense for the Test Year of \$15 million and a decrease in
19 accumulated amortization of \$7.5 million.
- 20 • **Capitalized Executive Incentive Compensation** – Consistent with the
21 removal of executive incentive compensation charged to O&M as a
22 Commission adjustment pursuant to Order No. PSC 10-0153-FOF-EI
23 (“2010 Rate Order”), the Company is proposing to remove the estimated

1 portion of plant-in-service included in the 2013 Test Year rate base that
2 represents capitalized executive incentive compensation. As the amount of
3 capitalized executive incentive in revenue requirements is relatively
4 immaterial and the Company is unable to precisely track amounts that have
5 closed to each individual account in plant-in-service, FPL has developed a
6 simple method to estimate the amount to be removed from plant-in-service
7 in its 2013 Test Year. This calculation is shown on Exhibit KO-7. First,
8 FPL computed an average percentage of total capital executive incentive
9 compensation dollars to total capital expenditures using historical and
10 forecasted data for the period of 2008-2013, resulting in 0.136%. Next, this
11 percent was multiplied by forecasted base capital expenditures for the 2013
12 Test Year, resulting in a 13-month average rate base adjustment of \$1.5
13 million. The related depreciation expense adjustment was not estimated due
14 to immateriality and a desire to maintain simplicity so that this calculation
15 can be routinely replicated in surveillance reporting. For monthly earning
16 surveillance reporting purposes, FPL proposes to apply the same fixed
17 percentage to actual, future base capital expenditures in order to reflect the
18 removal of dollars associated with capitalized executive incentive
19 compensation until a future base rate proceeding. This earnings surveillance
20 report adjustment would commence in January 2013 and would be a
21 cumulative adjustment applied on a prospective basis.

- 22 • **Payroll Loadings Associated with Affiliate Transactions** – During the
23 forecasting process, certain loaders to affiliate charges were not properly

1 identified and removed from revenue requirements. All of FPL's Service
2 Fees, which are explained in further detail later on in my testimony, and a
3 portion of nuclear direct charges did not contain the appropriate payroll
4 loaders. Therefore, FPL has removed \$5.5 million of payroll related
5 loadings associated with the Service Fees and nuclear direct charges in order
6 to properly reflect the amounts charged to affiliates from the 2013 Test
7 Year.

8

9 **Adjustments to Move Items between Base Rates and Clause Recovery**

10

- 11 • **Incremental Security Payroll Loadings from Base to Clause** – Following
12 the terrorist attacks of 9/11, the FPSC allowed the Company to recover, via
13 clause recovery, its incremental security costs to comply with new
14 regulation associated with the protection of generation facilities. At the time
15 incremental security costs were approved for clause recovery, there were no
16 Company payroll dollars charged to the clause; instead, only outside
17 contractors were used. As the years progressed, the aforementioned has
18 changed and no longer holds true. Currently, FPL has incremental security
19 employee payroll dollars flowing through the CCRC; however, payroll
20 related costs (i.e. Federal and State Unemployment Taxes, Pension &
21 Welfare), which vary directly with payroll dollars are still recovered in base
22 rates. As a matter of proper accounting, all payroll related costs should post
23 consistently with the direct payroll dollars to which they relate. Had FPL

1 intended to utilize company personnel at the time the security costs were
2 approved for clause recovery, it would have also requested Commission
3 approval to recover all payroll related costs through clause recovery.
4 Therefore, in this instant filing, FPL is requesting to move \$444 thousand of
5 2013 Test Year payroll loadings associated with incremental security from
6 base rates to the CCRC.

7 • **Payroll Loadings on ECCR Payroll from Base to Clause** – Currently,
8 FPL makes an adjustment to the ECCR clause to reduce total payroll
9 loadings for FICA and unemployment taxes on compensation associated
10 with employees who charge time to the conservation programs. This
11 adjustment is made pursuant to a finding in Docket No. 850002-PU in which
12 these items were determined to have been included in base rates at that time.
13 In order to avoid double recovery, the Commission required the exclusion of
14 the FICA and unemployment costs from the ECCR recoverable costs when
15 setting base rates back in 1980's. Since then, FPL has been recording
16 monthly entries to remove the FICA and unemployment loadings from
17 ECCR recoverable costs and reclassify those amounts as base rate costs.
18 FPL is making an adjustment to decrease base rate operating expenses in the
19 amount of \$1.8 million for the 2013 Test Year in order to match the
20 recovery of the payroll loadings with the ECCR related payroll costs
21 themselves. The effect of this adjustment would be to consistently and
22 properly reflect all payroll loadings, which vary directly with associated
23 ECCR payroll dollars as clause recoverable expenses.

1 • **Substation Pollutant Discharge Prevention Program Expense**
2 **Reclassification from Base to Clause (ECRC)** – In Order No. PSC-97-
3 1047-FOF-EI, the Commission required expenses related to the Substation
4 Pollutant Discharge Prevention program recovered through FPL’s ECRC to
5 be adjusted downward by the level of O&M expense which FPL had
6 historically experienced for substation transformer gasket replacement,
7 substation soil contamination remediation and the painting of the substation
8 transformers, because those historical cost levels were deemed to be already
9 recovered through base rates. Although these are properly recoverable
10 ECRC costs, the intention of the order was to avoid double recovery of
11 expenses. In accordance with the Order, the Company has subsequently
12 been recording a monthly adjustment of \$47 thousand to reduce clause
13 recoverable expenses and reclassify the same amount as base rate O&M
14 cost. The Company is asking the Commission to discontinue the current
15 treatment and approve the Company’s adjustment to decrease test year
16 O&M in the annual amount of \$560 thousand and to permit such actual
17 costs to be included as incurred on an ongoing basis in the determination of
18 ECRC recoverable costs. In order to facilitate this change, FPL proposes to
19 remove all costs for the Substation Pollutant Discharge Prevention program
20 from the 2013 Test Year, so that FPL can recover them in the ECRC without
21 creating a double recovery.

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Other Adjustments to Base Rate Revenue Requirements

Q. Are there any other adjustments made to base rate revenue requirements you wish to discuss?

A. Yes. They are related to Nuclear Cost Recovery (“NCR”) costs which are either recovered through the Capacity Clause until they go into service or base rates thereafter. Also the recovery of capital expenditures for the 800 MW ESPs Project in ECRC. These adjustments are reflected as Commission Adjustments on MFR B-2 and C-3.

Q. How does Rule No. 25-6.0423 (“Nuclear Cost Recovery Rule”) allow FPL to recover the in-service revenue requirements in base rates for nuclear uprate projects once they are placed into service?

A. The Nuclear Cost Recovery Rule allows the Company to include the estimated revenue requirements for nuclear uprate costs being placed into service during a calendar year in that year’s estimated NCR clause filing along with the estimates for construction in that year. Then, prior to the beginning of the calendar year following that in-service date, a base rate filing request is made for the actual in-service revenue requirement to be included as an increase in base rates on or about January 1st of that new year. FPL also requests true-ups of the prior year’s base rate increase in a separate base rate petition. Therefore, in this current base rate request, FPL has excluded the forecasted uprate plant in-service balances thereby excluding any uprate interim in-service amounts as well, so that the company has the ability to true-

1 up its base rate increase requests based on the plant in-service balances in
2 future periods as afforded under the Rule.

3 **Q. Has FPL made corresponding adjustments to remove any new nuclear**
4 **and uprate-related costs from the 2013 Test Year in this proceeding?**

5 A. Yes. All projected construction and plant in-service amounts for uprates for
6 2012 and 2013 are excluded from the base rate revenue requirements through
7 Commission adjustments as shown on MFRs B-2 and C-3. In addition, all
8 clause revenue and expenses associated with the new nuclear and uprate
9 projects are identified and removed from base revenue requirement
10 consideration.

11 **Q. Please describe the rate base adjustment associated with the capital**
12 **expenditures for installation of 800 MW ESP Project at the Manatee and**
13 **Martin Plants.**

14 A. On December 21, 2011, the Environmental Protection Agency released the
15 final Maximum Achievable Control Technology (“MACT”) rule governing
16 new and existing coal and oil-fired electric generating units. In order for the
17 Company to comply with this new regulation and specific emission limit,
18 ESPs will have to be installed on the Manatee and Martin 800 MW units since
19 uncontrolled emissions from these units would exceed the final rule emission
20 limits. Pursuant to Order No PSC-11-0553-FOF-EI, the Commission stated,
21 “FPL is authorized to include all the prudently incurred costs associated with
22 the project in the normal process of ECRC recovery after the EPA publishes
23 the final MACT rule.” Therefore, the Company is reflecting a Commission

1 adjustment to reduce base rates for the capital expenditures associated with
2 this project to be recovered prospectively through the ECRC.

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V. THEORETICAL DEPRECIATION RESERVE SURPLUS

5

6 **Q. How is the Company reflecting the net \$894 million Surplus amortization**
7 **outlined in the 2010 Rate Order and 2010 Rate Settlement in its books**
8 **and records?**

9 A. Consistent with the 2010 Rate Settlement, the Company is amortizing the net
10 Surplus at amounts that allow FPL to achieve an ROE of 11.0% during the
11 period that the settlement is in effect. FPL forecasts that this will result in
12 amortizing \$703 million through the term of the settlement period, which ends
13 on December 31, 2012.

14 **Q. How much Surplus amortization has FPL forecasted that it will amortize**
15 **in the 2013 Test Year?**

16 A. The Company projects to amortize a net Surplus of \$703 million through the
17 end of 2012 and \$191 million for 2013. The amount for 2013 represents the
18 remainder of the \$894 million, which FPL is amortizing over the four-year
19 period from 2010-2013, in accordance with the 2010 Rate Settlement.

1 **Q. Is FPL requesting that the Surplus amortization be set for the 2013 Test**
2 **Year at \$191 million, regardless of the amount of Surplus that is**
3 **ultimately amortized through 2012?**

4 A. Yes. This is the most reasonable and balanced approach based on information
5 known at the time that the 2013 Test Year forecast was prepared. As the
6 surplus amortization may be materially impacted by the effects of weather on
7 FPL's revenue, neither the Commission nor the Company can accurately
8 predict the total amount of net Surplus that will be amortized through the end
9 of 2012. Accordingly, FPL will not know what portion of the original \$894
10 million will remain to be amortized at the time a final order is issued in this
11 proceeding. Therefore, FPL requests that the Commission approve a fixed
12 amount of \$191 million net Surplus amortization for 2013 based on the
13 Company's current forecast, which assumes normal weather, and include this
14 fixed forecasted amount in revenue requirements for rate making purposes.
15 The Company would likewise record the \$191 million of net Surplus
16 amortization to the cost of removal component of depreciation reserve in 2013
17 to ensure that the amount of net Surplus amortization on the financial
18 statements equal the amount of net surplus amortization reflected in rates.
19 This methodology is fair to both customers and the Company because no one
20 can predict whether the actual amount of net surplus that will be amortized
21 through 2012 will be higher or lower than the forecasted amount.

22

1 **VI. TREATMENT OF WCEC3 IN 2013 TEST YEAR**

2

3 **Q. How are the revenues associated with WCEC3 currently treated in FPL's**
4 **monthly earnings surveillance report?**

5 A. Consistent with the 2010 Rate Settlement, the revenues associated with
6 WCEC3 are currently collected through FPL's CCRC. Because the O&M
7 expenses and return on investment for WCEC3 are recorded to base, these
8 revenues are then reclassified on FPL's books and records from CCRC
9 revenues to base revenues. Therefore, the amounts reported in FPL's monthly
10 earnings surveillance report already reflect revenues associated with WCEC3
11 as base revenues.

12 **Q. How are the revenues associated with WCEC3 reflected in the 2013 Test**
13 **Year?**

14 A. Consistent with the 2010 Rate Settlement and with the treatment noted above
15 for monthly surveillance reporting, the revenues associated with WCEC3 are
16 forecasted and reflected as base revenues.

17 **Q. Is FPL requesting to recover WCEC3 revenue requirements in base rates**
18 **as part of this filing?**

19 A. Yes. Pursuant to the 2010 Rate Settlement, the Company is reflecting revenue
20 requirements associated with WCEC3 in base rates.

1 **Q. Does FPL propose to continue to limit its recovery to that equal to its**
2 **estimated fuel savings for WCEC3?**

3 A. No. Although the 2013 estimated WCEC3 fuel savings are adequate to
4 recover WCEC3 costs, this treatment should not continue beyond the rate
5 settlement period. Instead, FPL proposes to recover the full estimated costs of
6 the revenue requirement associated with WCEC3, as it does with any other
7 asset used and useful on behalf of its customers and in accordance with
8 Section 366.06 of the Florida Statutes.

9 **Q. If the Commission approves FPL's proposal to recover WCEC3 revenue**
10 **requirements costs through base rates, will FPL discontinue recovery of**
11 **those revenue requirements through the CCRC?**

12 A. Yes. If the Commission agrees to allow FPL to move the recovery of WCEC3
13 revenue requirements from the CCRC to base rates in the 2013 Test Year,
14 then the revenues associated with WCEC3 will not be included in the 2013
15 CCRC billing factors. FPL witness Deaton outlines the rate effects of this
16 request.

17 **Q. If the Commission does not approve recovery of WCEC3 revenue**
18 **requirements through base rates in this proceeding, should FPL be**
19 **permitted to continue recovery through the CCRC?**

20 A. Yes. The Commission made an affirmative determination of need for
21 WCEC3 in Order No. PSC-08-0591-FOF-EI, finding it to be a cost-effective
22 addition to FPL's generating system that meets the customer's demand and
23 energy requirements with clean, fuel-efficient combined cycle generation. In

1 regulatory accounting terms, WCEC3 is utility plant in service, which is used
2 and useful in providing electric service to FPL's customers. As such, FPL
3 must be permitted the opportunity to fully recover the WCEC3 revenue
4 requirements either as a component of base rates or as a component of the
5 CCRC billing factor.

6

7

VII. ROE PERFORMANCE ADDER

8

9 **Q. Has the Company reflected its proposed ROE Performance Adder in its**
10 **calculations of revenue requirements for the 2013 Test Year?**

11 A. Yes. As explained in more detail by FPL witnesses Dewhurst and Deaton, the
12 purpose of the ROE Performance Adder is to recognize the value provided to
13 customers for FPL's typical residential bill, which is the lowest of all 55
14 utilities in the state of Florida. The Company is requesting that the
15 Commission increase the authorized ROE by 25 basis points to 11.5%. The
16 11.5% ROE is reflected on MFR D-1a which was used to compute revenue
17 requirements for the 2013 Test Year.

18 **Q. Have you calculated the impact on revenue requirements associated with**
19 **the 25 basis point ROE Performance Adder?**

20 A. Yes. To calculate that impact, FPL would use the same MFR D-1a data in its
21 entirety and would simply replace the cost of equity on line 4, column 9 with
22 the 11.25% cost of equity which excludes the adder. This result in a
23 difference in revenue requirements of \$39 million associated with the ROE

1 Performance Adder. This calculation is shown on Exhibit KO-8. The impact
2 on rates due to this ROE reduction is included in FPL witness Deaton's
3 testimony.

4

5

VIII. AFFILIATE TRANSACTIONS

6

7 **Q. Please describe the NextEra Energy, Inc ("NEE") organizational**
8 **structure and FPL's role in that structure.**

9 A. FPL has long been the primary operating entity of NEE (formerly FPL
10 Group). In the course of the years since the formation of NEE, FPL has
11 continued to operate and grow in concert with the growth of its service area.
12 At the same time, new operating affiliates within the NEE corporate umbrella
13 have been formed.

14

15 As the primary operating entity, FPL has provided resources and incurred the
16 related costs in order to perform all necessary operating and support functions
17 with the ultimate goal to provide affordable and reliable electric service to
18 customers. In doing so, it has acted as the service company for its parent
19 company and affiliates with respect to many of the staff functions and
20 activities, as well as operating support activities such as those performed by
21 the nuclear and power generation divisions. While the activities embedded in
22 FPL today continue to be necessary to support the provision of electric service
23 to FPL's Florida retail customers; charging a portion of these support services

1 to its affiliates has allowed FPL to reduce its share of these necessary fixed
2 costs for the benefit of its retail customers and shareholders. This structure
3 has been proven over the years to be efficient and effective from an operating
4 perspective. The special skills and talents of FPL's employees or contractors
5 hired by the Company can be leveraged over the largest organizational reach.
6 Furthermore, by spreading the fixed cost of the support activities over a
7 broader base, the retail utility customers' cost responsibility is reduced below
8 what they would otherwise incur.

9 **Q. How does FPL implement its cost sharing activities with affiliates?**

10 A. FPL implements this cost sharing via an integrated structure of billings and
11 allocations that are codified in its Cost Allocation Manual ("CAM").
12 Maintaining the CAM is a requirement of Rule 25-6.1351, Cost Allocations
13 and Affiliate Transactions. The CAM largely follows the published
14 guidelines recommended by the National Association of Regulatory Utility
15 Commissioners ("NARUC"). FPL's CAM is included as Exhibit KO-9.

16 **Q. Please describe the three major categories of shared support provided by**
17 **FPL to affiliates.**

18 A. The first category encompasses activities best classified as strategic and
19 governance related. These activities are shared by FPL and the rest of the
20 NEE organization, and they are the types of activities that are traditionally
21 required to be performed in managing large, publicly held energy companies.
22 These individuals and organizations are engaged primarily in strategic, policy
23 and compliance related activities. Governance support would also include

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **FLORIDA POWER & LIGHT COMPANY**
3 **DIRECT TESTIMONY OF KIM OUSDAHL**
4 **DOCKET NO. 120015-EI**
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1 activities such as those associated with the Board of Directors, Investor
2 Relations, Internal Audit and the Office of the General Counsel.

3
4 The second category of shared activities are those associated with the fleet
5 construction and operations support, which are provided by groups such as the
6 Power Generation Division, Nuclear Division, Transmission, Engineering and
7 Construction, and Environmental departments. FPL has leveraged its fleet
8 construction, compliance and operating capabilities over the broader
9 enterprise for many years in order to optimize results for its customers. The
10 larger scale of the enterprise fleet has historically allowed for shared expertise,
11 resulting in a competitive advantage.

12
13 The third category of shared activities comprises general corporate support.
14 This includes for example, compliance and payroll processing by Human
15 Resources, Information Management, Treasury, Corporate Communications
16 and Corporate Tax.

17 **Q. What specific methods are used by FPL to charge costs to affiliates?**

18 A. There are three ways FPL charges costs of shared activities to its affiliates:

19 1. Direct Charges – Costs of resources used exclusively to provide
20 service for the benefit of one company are directly charged to that
21 company. Typically, direct charges are used when the activity or
22 service is short term in nature or project based. Exhibit KO-10 recaps
23 the actual direct charges for the historical year and the forecasted

- 1 direct charges for the prior and test years. Since these charges are
2 largely project related, they have historically not included solely
3 embedded FPL resources. In many cases, the costs actually incurred
4 and billed are sourced from contractor or other third party services
5 engaged by FPL for a one-time enterprise wide project. FPL direct
6 charges affiliates whenever feasible.
- 7 2. Service Fees – Service fees are utilized by many of the fleet support
8 operations. All service fees are charged monthly based on actual cost
9 pools for the enterprise support activity. FPL currently has three
10 service fees:
- 11 a. Nuclear – Services include nuclear operations, fuels support,
12 nuclear business management team, engineering and assurance
13 support. Costs are fully loaded and allocated based on the
14 percentage of generating units across the enterprise;
- 15 b. Energy, Marketing, & Trading (“EMT”) – Services include
16 back office support for the trading and marketing function of
17 FPL’s affiliate, NextEra Energy Resources. Costs are fully
18 loaded and allocated based on time studies or specific analysis
19 by function; and
- 20 c. Nuclear Information Management – Services include nuclear
21 procurement and work management system application
22 support, Information Management Business Unit management
23 team support, data services and infrastructure support to

1 NextEra Energy Resources' nuclear plants. Costs are fully
2 loaded and allocated based on the percentage of nuclear
3 generating units across the enterprise.

4 Exhibit KO-11 recaps these three current service fees to affiliates for
5 the historical year and the amounts forecasted to be charged out to the
6 affiliates for the prior and test years.

- 7 3. Affiliate Management Fee ("AMF") – A significant portion of the
8 governance costs and general corporate support services that benefit
9 both FPL and the affiliates are billed through the AMF.
- 10 a. Where distinct cost "drivers" are identified, the cost of ongoing
11 services shared jointly to support utility and affiliate operations
12 are allocated using specific factors. These factors have a direct
13 relationship to the causation of the expense and the effect this
14 activity has on the operations of the benefiting entity.
15 Examples of these cost pools include corporate systems
16 applications, support for computer mainframe operations,
17 payroll processing, benefit programs and corporate security.
18 The drivers to allocate these costs are carefully selected in
19 order to properly allocate between FPL and its affiliates;
20 ensuring that customers are not subsidizing affiliate activities.
21 AMF Specific Cost Drivers for 2011, 2012 and 2013 are
22 provided on Exhibit KO-12.

1 b. Cost pools which do not have distinct cost drivers are allocated
2 using the Massachusetts Formula, a methodology widely
3 accepted by utility regulators as a fair and reasonable way to
4 allocate common costs among affiliates. The Massachusetts
5 Formula has three components: (1) property, plant and
6 equipment; (2) revenue; and (3) payroll. The annual amounts
7 forecasted for each of these components are used as the basis in
8 calculating the percentage to be charged to each affiliate.
9 Averaging the percentages for property, plant and equipment,
10 revenues and payroll has proven to be a reasonable means of
11 allocating corporate governance and general support services.
12 Examples of activities allocated using the Massachusetts
13 formula include strategic and governance costs, board of
14 director fees, budgeting and planning, external financial
15 reporting, corporate communications and investor relations.
16 Exhibit KO-13 depicts the Massachusetts Formula ratios that
17 were used in forecasting the Affiliate Management Fee for the
18 years 2012 Prior Year and 2013 Test Year.

19 **Q. Please describe the controls that FPL designs, maintains and uses to**
20 **ensure that FPL retail customers do not subsidize the operation of an**
21 **affiliate.**

22 A. FPL has documented the practices and procedures that must be adhered to by
23 each employee in the conduct of shared services and appropriate billings.

1 These procedures may be found in the CAM, which can be accessed readily
2 by each and every employee through the internal NEE corporate website. In
3 addition, each employee's supervisor is responsible under the Company's
4 Sarbanes Oxley ("SOX") processes to review the biweekly payroll
5 distribution to ensure that any payroll related to shared services is
6 appropriately charged. Also, the Company maintains a Cost Measurement
7 and Allocations department whose responsibilities include the monitoring of
8 the affiliate billing process. These employees perform the following
9 functions: 1) annually review services that should be allocated to the affiliates
10 during the budgeting and forecasting process for the upcoming year with each
11 corporate staff group; 2) perform the calculation of the Mass formula
12 allocation percentages included in the Affiliate Management Fee; 3) analyze
13 actual provider results compared to budget to insure that costs expected to be
14 included in the cost pools appear reasonable; and 4) prepare and review
15 intercompany billing reports to ensure costs are billed as planned and results
16 are reasonable. This group is the primary control and oversight organization
17 whose mission is to ensure that FPL complies with Rule 25-6.1351. Lastly,
18 affiliate billings are subject to internal audits as well.

19 **Q. Is FPL subject to reporting requirements to its regulators with respect to**
20 **its affiliate transactions?**

21 A. Yes. FPL's affiliate reporting provides a high degree of transparency
22 concerning all of its dealings with its affiliates. FPL complies with strict
23 affiliate accounting and reporting requirements mandated by the Commission.

1 That reporting includes annual filing of the Diversification Report outlining
2 transactions with affiliates.

3 **Q. Does FPL conduct self-assessments of its affiliate transactions to ensure**
4 **that they are properly documented and comply with the Commission's**
5 **rule?**

6 A. Yes. The affiliate billing process is included in the Company process of
7 internal control review for SOX 404 compliance. The objectives of that
8 review are to insure that adequate controls are in place to insure that:

9 1) Intercompany charges are appropriately estimated and accurately
10 recorded;

11 2) Intercompany charges are recorded in the proper accounting period; and

12 3) The current intercompany charge process provides reasonable assurance
13 that all costs with affiliate benefit are included in the charges to affiliates.

14 **Q. Is the shared service and fleet operating structure utilized by FPL in**
15 **servicing the broader enterprise providing benefit to its customers?**

16 A. Yes. FPL is committed to delivering superior value in the form of high
17 reliability, low bills and excellent customer service. Consistent with that
18 commitment, FPL has used its current fleet operating model for more than ten
19 years, which has resulted in a lower overall cost to FPL customers. In
20 addition to reduced costs overall, the opportunity to manage the construction
21 and operations of the larger fleet of assets brings scale, breadth and depth of
22 knowledge and experience that could not be achieved by FPL on a standalone
23 basis. FPL customers have also benefited in real terms from the enhanced

1 purchasing power of the larger enterprise, which allows FPL to achieve
2 greater economies of scale and bargaining power in purchasing decisions than
3 would be if FPL were making purchases only for the needs of its own system.
4 This too results in tangible savings realized by customers. In summary, FPL's
5 operating model for affiliate support continues to provide cost advantages that
6 benefit FPL customers each and every year.

7 **Q. Are affiliate costs subsidized by FPL customers?**

8 A. No. The Company engages in active oversight of the controls associated with
9 its affiliate billing responsibilities, to ensure that all affiliate transactions occur
10 consistent with Rule 25-6.1351, which is intended to avoid such subsidies.
11 FPL has worked hard to earn the trust of its customers and regulators.
12 Maintaining good affiliate cost allocation practices is vital to continuing to
13 earn and maintain that trust. In order to achieve good affiliate cost allocation
14 practices, FPL commits the necessary time and resources to ensure that
15 customers of FPL do not bear costs associated with support of affiliates.

16 **Q. Does this conclude your direct testimony?**

17 A. Yes.

1 BY MR. BUTLER:

2 Q Ms. Ousdahl, are you also sponsoring exhibits
3 KO-1 through KO-13 to your direct testimony?

4 A I am.

5 MR. BUTLER: Mr. Chairman, I would note that
6 those have been identified as Hearing Exhibits 148
7 through 160.

8 CHAIRMAN BRISÉ: Okay.

9 BY MR. BUTLER:

10 Q And Ms. Ousdahl, have you prepared a summary
11 of your direct testimony?

12 A I have.

13 Q Would you please give that at this time?

14 A I am Kim Ousdahl, Vice President, Controller,
15 Chief Accounting Officer of FPL.

16 My testimony provides the calculation of the
17 increase in revenue requirements totaling 516.5 million
18 for this Commission to rely on to set rates. It
19 includes the proper adjustment to remove all of
20 Canaveral Modernization Project costs from the forecast
21 test year in order to provide the proper step increase
22 calculation of 173.9 million, which coincides with its
23 commercial operation in 2 -- 2013.

24 I demonstrate that the methods used to
25 allocate support services provided by FPL on behalf of

1 the entire enterprise to affiliates are reasonable and
2 that the charges to those affiliates provide benefits to
3 customers through lower rates.

4 Finally, I provide the adjustments to capital
5 structure in order to reconcile classes of capital to
6 rate base, and in turn, to deliver a rate of return of
7 seven percent to be used to set rates.

8 Specifically, I show that the company
9 adjustments to per book forecasted results are
10 appropriate for the development of the base rate revenue
11 requirement required to allow the company an opportunity
12 to earn a reasonable return of and on its rate base and
13 to recover it's operation and maintenance expenses.

14 Also, I will demonstrate that each accounting
15 adjustment to rate base, working capital, rate of
16 return, capital structure and net operating income is
17 appropriately reflected based on Commission rule,
18 practice, prior order and/or sound regulatory policy.
19 Those adjustments reflect the proper inclusion of zero
20 cost deferred income taxes and capital structure
21 consistent with this Commission's practice and Internal
22 Revenue Service normalization requirements.

23 My testimony provides the calculation of the
24 step increase for inclusion of Canaveral Modernization
25 Project and base rates consistent with its projected

1 commercial operation date. All of the amounts
2 associated with the project have been removed from cost
3 of service in the forecasted test year and included at
4 commercial operation on a consistent incremental basis
5 reflecting its first full year's revenue requirement.

6 I describe the methods used by FPL to charge
7 shared activities to affiliates and the controls in
8 place to ensure that FPL customers do not subsidize
9 those affiliates.

10 FPL's shared service and fleet operating model
11 continues to provide benefits to customers through
12 improved capabilities at lower cost. My testimony and
13 exhibits provide both qualitative and quantitative
14 evidence of the benefits associated with FPL's services
15 operating model, which has been serving the enterprise
16 in a cost-effective manner for many years.

17 The company's methods fully comply with
18 Florida Public Service Commission and FERC affiliate
19 rules while providing benefits to customers. The
20 financial benefit of our services model shifts
21 significant costs from FPL to affiliates totaling nearly
22 \$159 million in 2013 alone.

23 In summary, FPL has properly considered
24 regulatory directive, practice and policy as it
25 calculates and presents the required revenue requirement

1 for 2013 and will continue to ensure that its customers
2 see benefits such as those reflected in the rate filing
3 associated with the conduct of its enterprise wide
4 shared services that completes my summary.

5 CHAIRMAN BRIS : Thank you.

6 MR. BUTLER: Thank you, Ms. Ousdahl. I tender
7 the witness for cross-examination.

8 CHAIRMAN BRISÉ: All right. Mr. Moyle.

9 CROSS EXAMINATION

10 BY MR. MOYLE:

11 Q Good afternoon, Ms. Ousdahl.

12 A Good afternoon.

13 Q If -- if this Commission -- well, if you
14 didn't file a rate case for new rates to go into effect,
15 1/1/13, am I right that you would earn 8.2 percent?

16 A Yes, if base rates did not increase on
17 1/1/2013, our projected book return would be
18 8.23 percent. That's correct.

19 Q And that -- that -- how long have you -- have
20 you been with FPL?

21 A Eight years.

22 Q Okay. You would -- do you know, has FPL at
23 previous points in time in their -- in their long
24 history earned less than -- than 8.2?

25 A I don't know.

1 Q And isn't it true that the amount that you all
2 project for your pension fund to fund your -- your
3 pension growth is 7.5 percent?

4 A 7.75, that's the projected return on our
5 pension assets on the trust. And if I could just
6 explain, that's a long-term rate of return. So if you
7 think about the trust funding obligations over many,
8 many years, that's the projected long-term return.

9 Q But the pension invest in some things that
10 are -- some people might consider a little more risky,
11 like international funds --

12 A I'm not --

13 Q -- and large capitalization. Are you the best
14 witness to talk to with respect to the investments in
15 the pension fund vis-a-vis the -- the rate of return
16 you're -- you're asking this Commission to provide?

17 A Witness Dewhurst is, I am sure, much closer to
18 the actual investment profile. However, it's clear, I
19 think, to everyone that we have had very disciplined
20 investing in the fund, and it's, you know, returned
21 significant --

22 Q Would -- I am sorry.

23 A It's returned a significant amount of return
24 on that investment.

25 Q Would it be too simple to think that if -- if

1 the FPL pension monies were invested in FPL without a
2 rate increase, that they would do better than the
3 long-term projected 7.75 -- I am sorry. 7.75, that's
4 your pension number, right?

5 A 7.75 is the long-term rate of return projected
6 in our pension calculation for Generally Accepted
7 Accounting Principals purposes, yes. I -- I will have
8 to ask you to repeat that question again.

9 Q I guess I was just exploring the various
10 numbers that we have in -- in the case. The 8.2 is if
11 you didn't file or there was no award, and then you're
12 asking that the Commission award 11.5, is that right, on
13 the ROE?

14 A With the adder, 11.25 with the 25 basis points
15 adder. The -- the two have relatively nothing to do
16 with each other, a return on invested funds versus
17 projected book net income for the company.

18 Q But that projected -- well, I will ask some of
19 these questions of Mr. -- Mr. Dewhurst, but you said the
20 two have nothing to do with -- with each other. I am
21 for the sure -- explain -- explain that.

22 A Well, there is virtually no relevance between
23 the 7.75 that is our projected return over a long period
24 of time -- I think it's a 12 to 20-year tender in terms
25 of most of the investments -- and the return on that --

1 on those investments invested in a trust fund to be used
2 to serve obligations -- cash obligations for employees
3 versus a book return calculated for the estimated
4 results for the company in 2013 as a result of its
5 business operations.

6 Q I guess probably -- you would agree that it's
7 relevant from the standpoint in that FPL with, respect
8 to the pension fund, is really in the role of an
9 investor, in that they are looking to invest money to
10 achieve this 7.75 long-term projected return, correct?

11 A The only -- the only correlation I can suggest
12 is that when you make an investment in a fund, you're
13 considering risk and return tradeoffs, but we are
14 running a business. The 8.23 percent projected book
15 return is a result of operating a business. It's not
16 like investing in a -- in a pension fund.

17 Q Yeah. But you are aware that these ROE
18 experts that we will be hearing from later, that they --
19 a lot of their testimony is based on what would an
20 investor do? What's an investor looking for? You are
21 aware of that, correct?

22 A The investments made in the pension trust --

23 Q No, just --

24 A -- are not equity investments.

25 Q Let me just have a yes or no and then an

1 explanation.

2 A Could you repeat the question, please?

3 Q Sure. Are you aware that a lot of the
4 testimony that's going to be forthcoming from experts in
5 this case with respect to return on equity, it attempts
6 to make judgments about what investors would do, what
7 investors are looking for relative to an investment and
8 return in risk, and yes or no and if you could explain?

9 A Yes, I am aware.

10 Q And -- and you would also agree that FPL or
11 the trustees of the funds when they are making
12 investment decisions, they look and balance similar
13 things, risk, return, in this case, long-term return --
14 long-range return, correct?

15 A The objectives of the investments are entirely
16 different. Again, I am going to hand off to Witness
17 Dewhurst.

18 Q Okay. And you been here or have watched the
19 proceedings for some time, I take it?

20 A I -- I have watched off and on. I certainly
21 haven't watched everything.

22 Q Okay. All right. There is a provision in the
23 Prehearing Order that says witnesses shall answer, yes,
24 no, and the Chairman has said that a couple of times. I
25 think it would probably speed our conversation along if

1 you could say, yes, no, and then explain if you need to,
2 but -- but I think that just -- in my mind, it's more
3 clear --

4 A Understood.

5 Q So I appreciate your help with that.

6 A Understood.

7 Q We talked a little bit in your deposition
8 about security costs, and y'all are seeking a -- a
9 change with respect to how security costs are recovered,
10 correct?

11 A You --

12 MR. BUTLER: Object to the form of the
13 question, assuming facts not in evidence. Are you
14 referring to the moving it to base?

15 MR. MOYLE: Yes.

16 CHAIRMAN BRISÉ: Mr. Butler, I didn't -- I
17 couldn't hear you.

18 THE WITNESS: I couldn't hear, Johnny.

19 MR. BUTLER: I was asking Mr. Moyle what he
20 referring to is a change in our proposed
21 incremental security cost recovery. He said that
22 we are proposing one. I am not sure what he is
23 referring to.

24 CHAIRMAN BRISÉ: Okay.

25 MR. MOYLE: Well, on -- on page 10 of her

1 testimony, she's asked about certain adjustments,
2 base revenue increase reflect proposed adjustments
3 to appropriately reflects cost in either base rate
4 or clause recoveries, and on line 7, there is a
5 term, incremental security payroll costs. That's
6 what I am getting at.

7 MR. BUTLER: Okay.

8 THE WITNESS: Yes, I am familiar with the
9 company adjustment I am proposing.

10 BY MR. MOYLE:

11 Q Okay. And what -- what is your understanding
12 of what the company is asking?

13 A Well, we have had a handful of items that a
14 certain portion of otherwise clause recoverable costs
15 got hung up in base rates, and it was simply a function
16 of when the Commission decided -- earlier Commission
17 orders decided to move some then base rate costs to
18 clause, they were concerned about a double-dip. And
19 they hung up payroll loadings, is this instance that
20 Counsel Moyle is talking about.

21 So we have some very small amounts that we
22 have to manually deal with -- our accountants have to
23 manually deal with each and every reporting period so
24 that we can ensure that we have properly taken these
25 payroll loading dollars, and these are a million, \$1.8

1 million or less, that are associated with much more
2 significant recoveries and clause. And we can get the
3 two pieces right.

4 We are simply asking this Commission to do
5 what the prior commissions intended to do all along,
6 which is reconnect or -- or attribute those payroll
7 loadings back to the payroll dollars themselves that are
8 being recorded and recovered through clause.

9 Q So you are, in effect, looking to consolidate
10 those -- those -- how it's handled from an accounting
11 perspective?

12 A Yes. The way financials --

13 Q And that's -- that -- that's fine.

14 I guess, just to move it along a little bit,
15 right now, you're proposing to take these payroll
16 loadings out of base rates and put them in the clause.
17 Is that right?

18 A That's correct.

19 Q Okay. And it could just as easily be done the
20 other way, could it not, where you take the security
21 cost out of the clause and put them in base rates; that
22 would achieve the consolidation purpose, correct?

23 A Yes, it would achieve the consolidation. It
24 would disrupt the desired recovery of those costs over
25 many, many years through clause. We are trying to take

1 the little -- we -- we are not trying to have the tail
2 wag the dog. We are just trying to get the little
3 amount of payroll loaders over with the much more
4 significant amounts of payroll that are in clause.

5 Q Ms. Morley, when she testified about the
6 hurricane -- I mean, I am sorry -- the normal weather
7 model, she said that FPL had previously used data from,
8 I think, 1946 up until present, but then they now use 20
9 years worth of data because that's what the other
10 utilities do. Were you here for her testimony in that
11 respect?

12 A Yes, I think she said 1948.

13 Q Okay.

14 A I did hear part of that testimony.

15 Q But -- but she also said that they made the
16 change because of how other utilities view normal
17 weather or calculate normal weather, correct?

18 A Well, she mentioned that as one reason.

19 Q Yes or no?

20 A That was one reason. It's not a yes or no
21 question.

22 Q Okay.

23 A She had -- was that one of her reasons. The
24 other was that she believed the contemporary -- the
25 contemporary periods were much more reasonable, and she

1 was focused on 20 years.

2 Q Okay. So do you think that -- that -- that to
3 the extent the other utilities were recovering security
4 costs, not through clause but through base rates, that
5 for the same reasoning that she suggested, the change
6 relative to normal weather was made, that maybe the
7 change could be made with respect to how security costs
8 are recovered? Do you follow me on that?

9 A I -- I got lost. I really apologize.

10 Q Okay. If all the other utilities are
11 recovering their security costs through base rates and
12 not clause, wouldn't that seem to make sense, that
13 rather than you being different in trying to move the
14 monies out of base rates and into clause, that instead,
15 like the other utilities, you move the monies from the
16 clause into -- into base rates?

17 A And your question is, would that make sense?

18 Q Yes.

19 A I think it's one consideration, yes. I think
20 consistency on the part of the Commission is an
21 important consideration, but you do have to look at
22 whether there are other differences that exist that
23 would -- that would cause the Commission to make a
24 different decision.

25 Q Okay. But and -- as we sit here today, you

1 don't know whether the other utilities are -- do you
2 know how the other utilities are having security costs
3 recovered?

4 A Incremental security costs, is that what you
5 are referring to?

6 Q The -- the security cost that is the subject
7 of your testimony?

8 A That's incremental security. I was just
9 trying to make sure because, obviously, we all have some
10 base rate recovery of security costs, and then we have a
11 bucket.

12 In the case of FPL that's being recovered, the
13 incremental portion due to the September 11th event is
14 being recorded through clause. I do understand that the
15 other Florida utilities have, at some point in time,
16 moved the recoveries of security costs back to base.

17 Q Okay. Thank you.

18 A couple of other things I want to ask you
19 about. With respect to the West County -- monies for
20 West County, they were previously recovered in clause,
21 correct?

22 A Yes, as a result of settlement.

23 Q Okay. And what -- and the -- in this
24 proceeding, you're suggesting that they now be recovered
25 in base rates; is that right?

1 A Yes. We are attempting to do what the
2 settlement agreement intended, which is to ultimately
3 move these base rate recoverable costs to base rates.

4 **Q So out -- out of the monies that you're**
5 **requesting in your case, how many dollars are associated**
6 **with this change with respect to West County, if you**
7 **know?**

8 A Well, it's -- I think that's a little more
9 complicated. We have been -- if I can explain.

10 **Q Sure. I didn't ask a yes no, so.**

11 A Yeah. It's approximately, I would say, on the
12 order of a \$100 million in revenue a year. We have
13 been, all along, under the settlement agreement
14 recovering the revenue in clause but recording those as
15 base rate recoverable because all of the expenses for
16 Canaveral are -- I am sorry -- for West County are in
17 base rates. So there is really not an increase to the
18 base rate request. It's a technical issue, and we are
19 just trying to get agreement that we would capture that
20 amount of revenue now in base through the base bill.

21 **Q And -- and if I understood your answer, is**
22 **that because even though the monies are now being**
23 **recovered through clause, that you, in effect, are**
24 **booking them in sort of a base rate category?**

25 A Right. We are reflecting it that way through

1 surveillance reporting and have been all along.

2 Q Thank you for that.

3 You -- you're the -- the witness with respect
4 to the value of FPL's name and affiliate transactions
5 best able to speak to those issues, correct?

6 A I think by default, yes.

7 Q Congratulations.

8 A Yes.

9 Q FPL -- do you know how much FPL spends
10 annually approximately in advertising?

11 A It -- it varies. No. I -- I don't know if
12 there is an average that I can give you.

13 Q Just a ball park. I mean, do you think it's
14 10 million, a million or 50 million?

15 A No, I -- I know in our -- well, I don't know.
16 I think it's maybe a couple million, but you know what,
17 I am -- I am guessing. I don't know. I don't know.

18 Q Okay. But -- but you do know that FPL
19 advertises, correct?

20 A Yes, I did.

21 Q And you would agree that advertising -- part
22 of advertising is to -- to get a name out there, promote
23 good will, public recognition, correct?

24 A Well, I think there are probably many
25 different objectives of advertising campaigns. I would

1 agree that that could be some of the reason you would
2 engage in advertising.

3 **Q Do you believe that the -- the name FPL has**
4 **value?**

5 MR. BUTLER: Excuse me. I am going to -- I am
6 not sure if it's an objection or a redirection, but
7 this is something that Ms. Ousdahl speaks to in
8 some specificity in her rebuttal testimony. It's
9 not really a direct testimony topic, and I think it
10 might be more appropriate for these questions to be
11 brought up with respect to her rebuttal testimony.

12 CHAIRMAN BRISÉ: Okay. I think for
13 consistency, we have sort of been working down that
14 path all day today, so if we could keep rebuttal
15 issues for rebuttal testimony.

16 MR. MOYLE: Okay. I am fine on doing that. I
17 just don't want Mr. Butler or others trying to
18 twist my arm later on and say, well, maybe we can
19 stipulate Ms. Ousdahl's rebuttal, and she only has
20 five pages. So with that understanding, I am fine.

21 CHAIRMAN BRISÉ: Sure.

22 MR. BUTLER: That wasn't on my mind.

23 BY MR. MOYLE:

24 **Q The -- the final area I want to have a**
25 **conversation with you about is the FPL Fibernet and**

1 affiliate transactions. FPL Fibernet is a wholly-owned
2 subsidiary of NextEra, the -- the publicly traded
3 holding company; isn't that right?

4 A Yes, Fibernet is a subsidiary of our parent,
5 NextEra.

6 Q And what -- can you tell the Commission about
7 what business Fibernet is in?

8 A It's a telecommunications provider of
9 telecommunications services, both metro and long haul.

10 Q Okay. And so they are similar to AT&T and
11 Verizon and -- and folks like; is that fair?

12 A I -- perhaps. I am certainly not an expert in
13 their business.

14 Q All right.

15 A We -- we do have similar services being
16 provided by AT&T and Verizon, so I think that's probably
17 a fair statement.

18 Q Okay. And do I understand it's the policy of
19 F -- FPL is to try to competitively procure or secure
20 goods and commodities that are subject to being
21 competitively procured and only sole sourcing contracts
22 in extraordinary situations; is that fair?

23 A Let me make sure I understood your question.
24 You asked if we are -- if we have a policy to try to
25 secure the lowest price for our products and services?

1 Q To try to use market forces. If there is --
2 if you are buying widgets and you have a company that
3 makes widgets, that you would test the market with
4 respect to the value of widgets before you did a deal
5 with your own company for widgets?

6 A Yes. I mean, our objective in purchasing,
7 obviously, is to try to get the lowest -- lowest price
8 with a comparable amount of service, right, looking at
9 reliability and the quality and the other aspects of
10 purchasing, but that goes straight to reducing costs for
11 customers. So obviously, that's our objective.

12 Q And with respect to your telecommunications
13 services with FPL Fibernet, they do provide
14 telecommunication services to your company; isn't that
15 correct?

16 A In part, yes.

17 Q Okay. And isn't it also correct that, that
18 service is not competitively bid?

19 A No, that's not correct. We have provided
20 substantial discovery on the bidding for many of the
21 Fibernet services. We have provided interrogatories
22 that demonstrate, in some cases, circuits cannot be
23 provided by other parties; in some cases they
24 considerations, and I think we demonstrate very clearly
25 that we are procuring those like services at the -- at

1 the most -- at the at the lowest cost.

2 Q So to the extent that -- that Fibernet has an
3 arrangement to provide telecommunication services on a
4 particular circuit, you don't have in place any kind of
5 policy or procedure whereby you go back every two years
6 or five years and check the market price relative to the
7 service that's being provided by Fibernet; is that
8 correct?

9 A Yes. That would be correct. Let me -- let me
10 explain why. It's important to explain. When you --
11 when you develop agreements with your vendors, they
12 have --

13 MR. MOYLE: Mr. Chairman, I mean -- we have
14 been pretty good about yes, no and, you know --

15 THE WITNESS: Okay.

16 MR. MOYLE: He can have a chance on redirect,
17 I think.

18 THE WITNESS: Okay.

19 CHAIRMAN BRISÉ: Sure.

20 MR. MOYLE: Okay.

21 CHAIRMAN BRISÉ: If you can restate the
22 question so she can answer.

23 MR. MOYLE: Well, I think she said yes. I
24 asked if there was a policy or practice with
25 respect to circuits that Fibernet provided, whether

1 they went and checked every two years or five years
2 with respect to market conditions.

3 And I think she said no, let me explain, and I
4 am satisfied with the no. And if she can explain,
5 she can explain later.

6 MR. BUTLER: I am sure he is.

7 MR. MOYLE: Let me -- let me -- let me just
8 end on that. How about that?

9 Thank you. Thank you, Ms. Ousdahl. I
10 appreciate it.

11 CHAIRMAN BRISÉ: South Florida Hospital
12 Association?

13 MR. URBAN: We have no questions.

14 CHAIRMAN BRISÉ: Okay. FEA?

15 LT. COL. FIKE: No questions.

16 CHAIRMAN BRISÉ: Okay. Office of Public
17 Counsel?

18 MR. REHWINKEL: I have questions.

19 CHAIRMAN BRISÉ: Sure.

20 CROSS EXAMINATION

21 BY MR. REHWINKEL:

22 **Q Good afternoon, Ms. Ousdahl. My name is**
23 **Charles Rehwinkel with the Public Counsel's Office.**

24 A Good afternoon.

25 **Q I think I had indicated to your counsel that**

1 I -- two attorneys in our office were going to split
2 subjects, but I think just in the interest of time, we
3 will just -- I will ask all the questions on affiliated
4 transactions and the accounting adjustments. So it will
5 just be me.

6 A Okay. All righty.

7 Q I would like to first direct you, if I could,
8 to your testimony at page 26 and ask you just generally,
9 it's true that you are the witness on affiliated
10 transactions for the company in this case, correct?

11 A Yes, I am.

12 Q Okay. And on page 26, you state that FPL has
13 acted as a service company for its parent company and
14 affiliates with respect to many of the staff functions
15 and activities as well as operating and support
16 activities such as those performed by the nuclear and
17 power generation divisions, correct?

18 A That's correct.

19 Q It's also true, is it not, that FPL does not
20 have a separate division within the company for its
21 employees that provide services to FPL and one or more
22 of its affiliates, right?

23 A Right. We have what we call an embedded
24 shared services model where FPL houses the activities in
25 these matrixed organizations, which provide services to

1 the entire enterprise.

2 Q Thank you.

3 And on page 27, on this -- here, in your
4 testimony, you discuss the cost allocation manual, or
5 CAM, C-A-M, that is a requirement of Rule 25-6.1351,
6 correct?

7 A That's correct.

8 Q You would agree with me that Rule 25-6.1351 is
9 the Commission rule that governs cost allocation and
10 affiliate transactions?

11 A That's correct.

12 Q Rather than cite that rule again and again, I
13 will call it the Affiliate Transaction Rule. Does that
14 work for you?

15 A Sure.

16 Q Okay. And you would also agree that FPL must
17 comply with the Affiliate Transaction Rule?

18 A Yes.

19 Q Under the Affiliate Transaction Rule, FPL must
20 charge affiliates the higher of fully allocated costs or
21 market price, correct?

22 A In part, yes.

23 MR. REHWINKEL: Mr. Chairman, I -- for
24 purposes of cross-examination, I would just like to
25 pass out the rule. I don't know that we really

1 need to enter it into the record. If -- if the
2 staff wants it to be given a -- an exhibit --

3 If it would be your preference, Mr. Chairman,
4 we could give it an exhibit number.

5 CHAIRMAN BRISÉ: I don't think that that will
6 be necessary.

7 MR. REHWINKEL: Okay.

8 BY MR. REHWINKEL:

9 **Q Ms. Ousdahl, do you have a copy of the**
10 **Affiliate Transaction Rule?**

11 A I do.

12 **Q Okay. I know you are not an attorney, but**
13 **would it be fair to state for purposes of this case that**
14 **you are responsible for implementing this rule with**
15 **respect to affiliate transactions?**

16 A Yes, I am responsible for ensuring that the
17 company complies with this rule.

18 **Q Okay. So you are familiar with it on that**
19 **basis, correct?**

20 A I am.

21 **Q Can I get you to focus on Section 3(b) on the**
22 **first page of the exhibit that I passed out?**

23 A B, as in boy, or D as in --

24 **Q B as if boy, yes.**

25 A B, as in boy, okay. Yes.

1 Q Do you see where it says, a utility must
2 charge an affiliate the higher of fully allocated costs
3 or market price for all non-tariff services and products
4 purchased by the affiliate for the utility?

5 A I do.

6 Q Do you see also where it says, a utility must
7 charge an affiliate the higher of fully allocated costs
8 or market price if the charge is above incremental cost?

9 A Yes. I do.

10 Q Okay. Under the affiliate rule, when FPL
11 receives services or goods from an affiliate, the
12 affiliate must charge FPL the lower of fully allocated
13 costs or market price, correct?

14 A That's correct.

15 Q And that's stated in Section 3(c), right?

16 A Yes.

17 Q Okay. You would agree, would you not, that
18 this is an asymmetrical pricing scheme?

19 A Yes, this is a longstanding approach used by
20 regulators at the federal level and across the country.

21 Q Okay.

22 A It's very commonly understood.

23 Q Would you also agree with me that FPL has the
24 burden to prove that its affiliate transactions comply
25 with this rule?

1 A Yes, as we have done for many, many years.

2 Q Okay. And when I said, this rule, I mean the
3 **Affiliate Transaction Rule?**

4 A Yes.

5 Q Okay. Let me ask you to turn to page 31 of
6 your testimony. Would it be correct on this page of
7 your testimony that you generally describe FPL's choice
8 of the Massachusetts Formula as its general allocator?

9 A Yes. This section is talking about the
10 allocation of costs that can't be attributed more
11 precisely to specific cost drivers.

12 Q Would you agree that FPL was not obligated to
13 use the Massachusetts Formula as it's general allocator?

14 A No. The -- the rules at the FERC Commission
15 level don't require any specific set of drivers or
16 allocators to be used. It's up to the company to
17 ascertain the proper way to allocate.

18 Q I apologize. Did you say the FERC or the
19 Florida Commission, I --

20 A Both.

21 Q Okay. So you would also agree, then, that FPL
22 could have chosen a different general allocator?

23 A Yes.

24 Q Thank you. Okay. I am done with the
25 affiliate transaction issue. Thank you.

1 Let me turn to a familiar line of cross and
2 ask you to turn to Exhibit KO-1. Okay. And just so I
3 understand the scheme that is in KO-1, this -- these are
4 the MFRs and schedules that you either sponsored or
5 cosponsored, correct?

6 A That's correct.

7 Q Okay. So page one of five and two of five
8 list the MFRs that you are the sole sponsor of; is that
9 correct?

10 A With the exception of D-4b.

11 Q D --

12 A It says I am sponsoring the accounting
13 treatment portion there on page two of the exhibit.

14 Q Okay. So was there an errata that changed
15 that?

16 A No. It says -- the third line from the bottom
17 on page two.

18 Q Yes.

19 A D-4b.

20 Q Yes.

21 A Test prior. It also specifies which period,
22 but reacquired bonds, the accounting treatment.

23 Q Okay. You're saying you are not the sponsor
24 of this?

25 A I think it -- I think there is a joint

1 sponsorship on that.

2 Q Okay. Perhaps I am -- on my Exhibit KO-1,
3 it -- it indicates you're the sole sponsor on that. I
4 am just trying to understand. Is there -- does yours
5 say --

6 A So under sponsor -- I am sorry to interrupt.

7 Q Does -- does yours say that you are a
8 cosponsor?

9 A No, under the sponsorship column where -- all
10 down that row column. I am sorry --

11 Q I see.

12 A It says entire schedule, mine specifies it's
13 the accounting treatment. I hope yours does, too.

14 Q I understand. Okay. You are the sole sponsor
15 of the accounting treatment for those?

16 A Yes.

17 Q I got you. Okay. And then on KO-1, page
18 three of five and four of five, you are cosponsor, as
19 indicated?

20 A Yeah -- yes. Or I have certain sections,
21 like, I have the history section versus the forecast
22 section, yes.

23 Q Okay. And then, of course, for page five, you
24 are the, as indicated, sponsor with respect to the
25 Canaveral Step Increase MFRs, right?

1 A As indicated, yes.

2 Q Okay. All right. So let's go back to page
3 three of five, and I want to ask you a question about
4 B-15. This is the Property Held for Future Use - 13
5 Month Average, is the title of that MFR. Do you have
6 that with you?

7 A Thank you. Yes.

8 Q Okay. And so you have B-15 in front of you?

9 A Yes.

10 Q Okay. And I have asked prior witnesses about
11 lines 10 through 15 on page one of two, and I would ask
12 you, what is your role with respect to the numbers
13 contained in those lines of MFR B-15 with respect to
14 what you sponsor?

15 A Well, I think the -- these -- these are the
16 result in B-15 of the forecast, and I am not the
17 forecast witness. I do have responsibility for test
18 year jurisdictional factors, so I am assuming that's,
19 you know, why -- why I had a role in this schedule. But
20 I am not the individual who forecasted these results.

21 Q Okay. Do you have any responsibility for the
22 land that's in these accounts that would be on lines,
23 say, 11, 12 and 13?

24 MR. BUTLER: I'm sorry. May I ask what you
25 mean by responsibility for the land? For the

1 dollar amounts that are in here or for the
2 actual --

3 MR. REHWINKEL: Yeah. I had not finished my
4 question.

5 MR. BUTLER: Okay.

6 BY MR. REHWINKEL:

7 **Q Do -- what -- can you tell me what your**
8 **responsibility is for the land with respect to the**
9 **decisions about whether these items are appropriate for**
10 **inclusion in MFR 15 -- B-15?**

11 A Well, I would -- I am the accounting witness,
12 so if your question goes to whether or not these items
13 should be in property held for future use from an
14 accounting perspective, I should definitely answer those
15 questions. If your questions go to how were these
16 amounts are, you know, derived or developed, it needs to
17 be Witness Barrett.

18 **Q Okay. Do you have any responsibility with**
19 **respect to the inclusion of the dollars associated with**
20 **the items on lines 11, 12 and 13 with respect to the**
21 **negotiation of the purchase of that land?**

22 A No, I am generally familiar with the -- the
23 sites, and, you know, I have just a general familiarity.
24 But -- but no, I was not a part of the decision-making
25 to make those investments.

1 Q Okay. Okay. I may come back to B-15, but let
2 me move on to another area. You're identified as the
3 witness for Issue Number 120; is that correct?

4 A Thank you.

5 Q And I am looking on page 134 of the Prehearing
6 Order.

7 A Yes, I am.

8 Q Okay. Can you testify to this Commission that
9 no dollars associated with the rate base that is
10 requested for recovery in this case are used as the
11 basis for FPL or its affiliate qualifying for tax
12 benefits under Section 220.153 Florida Statutes?

13 A Would I testify that no amounts of rate base
14 were utilized? No, because FPL, obviously, is a tax
15 payer in the State of Florida, and property is part of
16 the factor analysis that determines the tax. So rate
17 base is pertinent.

18 Q Okay. Are you generally aware of the
19 provisions of Section 220.153 as they -- as they relate
20 to the payment of state income taxes by FPL or its
21 affiliates?

22 A Generally, yes.

23 Q Isn't it true that for a tax payer to receive
24 the benefit that is provided by this statute, that there
25 is a threshold amount of investment that must be made

1 over a two-year period?

2 A I do not know.

3 Q You're familiar with it to that degree?

4 A Not to that degree.

5 Q Is it your testimony that FPL does not reflect
6 any reduction in income tax as a result of the single
7 sales factor election provided for under this statute?

8 A Yes, our -- well, my testimony is, and our
9 discovery responses have shown, that FPL's business
10 takes place in the state of Florida. We have very
11 little of our operations outside of Florida, only a
12 small portion of an undivided interest in a share plant
13 in Georgia. So the company is indifferent, and
14 therefore, its ratepayers are indifferent, whether we
15 file under the single sales factor method or the three
16 factor method. It -- it just has no -- virtually no
17 impact.

18 Q Well, isn't it taxpayer NextEra with respect
19 to the payment of state income tax to the state of
20 Florida for all of the NextEra affiliates?

21 A No, FPL is a taxpayer in the state of Florida,
22 as is our parent.

23 Q So FPL pays a -- files a separate tax return?

24 A In the state of Florida.

25 Q For the state of Florida?

1 A Uh-huh.

2 **Q Okay. Is it your testimony that -- that FPL's**
3 **rate base is not used for eligibility of NextEra in**
4 **receiving any benefits that might be provided under the**
5 **elections available under Section 220.153?**

6 A What NextEra does in the filing of its tax
7 returns is not relevant to this proceeding, and it's not
8 something I am familiar with. This company and this
9 Commission have always appropriately used, as it says in
10 this position, the separate return method.

11 We prepare our cost of service, including our
12 tax obligation, on a stand-alone basis as though FPL
13 were operating alone. That is the way we have always
14 conducted ourselves. We do not want to have our
15 customers take on the risks of our affiliates, nor
16 should they share in any of those benefits. So we are
17 consistent with that.

18 **Q So can you state that FPL's rate base, the**
19 **regulated rate base, is not utilized by NextEra to**
20 **receive any tax benefits under the -- the tax return**
21 **that they would file under Section 220.153?**

22 A No, I cannot. I am -- I am not aware of
23 what's used by NextEra, and it's not relevant to this
24 proceeding.

25 **Q Okay. Let me get you to turn to pages 23 and**

1 24 of your direct.

2 A I am there.

3 Q Similar to a line of questioning that Mr.
4 Moyle asked you about, I want to ask you about West
5 County Energy Center 3. You indicate that FPL is
6 requesting to recover the revenue requirements
7 associated with West County Energy's Unit 3 in base
8 rates as a result of this filing in this case, correct?

9 A That's correct.

10 Q And just to be clear, the associated West
11 County 3 rate base and net operating income balances are
12 including included in the 2013 adjusted test year
13 balances that are used to calculate the requested
14 increase presented in your March filing amounting to
15 \$516 million, correct?

16 A Yes. Since West County went into commercial
17 operation, under the settlement agreement, we have
18 always recorded the cost of West County as a base rate
19 cost for surveillance reporting purposes. So this
20 Commission has always seen the results of West County's
21 operation as a base rate item, even though the despite
22 the fact it was being collected, the revenues, through
23 clause.

24 Q The recovery of the unit today in 2012, West
25 County Unit 3, is in the Capacity Cost Recovery Clause,

1 correct?

2 A The revenues are recovered through a rate
3 applied through the Capacity Clause. We then classify
4 those revenues for accounting purposes to base so that
5 they can be married up with the costs that are a part of
6 base, the plant cost and operating costs, and report
7 those for surveillance. But, yes, the revenue portion
8 is derived from bills in clause, rates in clause.

9 Q Okay. So on page 24, lines 9 through 16,
10 there is Q and A, and the Q is -- or the question, is if
11 the Commission approves FPL's proposal to recover WCEC 3
12 revenue requirements costs through base rates, will FPL
13 discontinue recovery of those revenue requirements
14 through the CCRC?

15 And your brief answer is, yes. Is that right?

16 A That's correct.

17 Q Okay. In order to effectuate what is intended
18 in this Q and A, you would have to file to discontinue
19 recovery through the Capacity Cost Recovery Clause,
20 correct?

21 A Right. The way it would work, I believe, is
22 that in the filing that will be made shortly, those
23 revenue associated with West County 3 would not be
24 included.

25 Q And what filing to be made shortly are you

1 referring to?

2 A Well, we are on the eve of having to make our
3 filings associated with clause projections for next
4 year.

5 Q Okay.

6 A So, yes, there are a number of items that
7 interrelate in that way, and this would be one.

8 Q I understand.

9 So even though it's not part of the tariffs
10 that are filed with respect to the \$516 million rate
11 increase that's the subject of the MFRs that -- that you
12 sponsor, that is something that would have to be done to
13 effectuate the company's proposal that's reflected on
14 lines 9 through 16; is that right?

15 A That is a question Witness Deaton will have to
16 answer.

17 Q Okay.

18 A I am not the rate design witness, and she will
19 have to describe whether it's in the tariff or not.

20 Q Okay. But if -- just assume hypothetically
21 that the company got \$516 million as a result of the
22 filing here and you implemented the tariffs that you
23 filed associated with your case, that would -- doing
24 that would recover West County in the base rate side of
25 the customer's bill, correct?

1 A That's correct.

2 Q And to not double recover, you would have to
3 make a corresponding adjustment to the CCRC tariffs to
4 take it out of that side of the customer's bill, right?

5 A Clearly.

6 Q Okay. Now, on line -- on page 24, lines 17
7 through the end and -- and continuing over to page 25,
8 there is a Q and A that addresses the contingency that
9 if for some reason the Commission would not allow
10 recovery of West County 3 as you propose, correct?

11 A Okay.

12 Q Okay. And I just wanted to ask you for
13 clarification on page 25 -- well, on page 25, your
14 answer is -- or your testimony states, as such, FPL must
15 be permitted the opportunity to fully recovery the West
16 County Energy Center 3 revenue requirements, either as a
17 component of base rates or as a component of the CCRC
18 billing factor. Do you see that?

19 A Yes, I do.

20 Q Just so I understand, what you're saying there
21 is it's got to be one way or the other, right?

22 A Yes. We would need to continue to recover the
23 costs.

24 Q Okay. Now, unlike the issue that you address
25 with Mr. Moyle with respect to this relatively small

1 million dollars items with the security, it would be one
2 or the other; there would be no mixing and matching,
3 it's either in base rates, or it's -- it's in CCRC; is
4 that correct?

5 A Well, if the -- if the Commission said, keep
6 doing what you are doing, it's kind of a little of both.
7 We are only collecting the dollars once, but the revenue
8 are coming in through clause. And then the base rates
9 are -- are -- and they are being matched up with the
10 base rates.

11 Q Okay.

12 A So I doubt if that's what you were referring
13 to, but yes, you can only recover the revenue
14 requirement one time.

15 Q Okay. And on the bill, it's -- you're --
16 you're proposing that it would either be recovered in
17 base rates on the bill or in the CCRC on the bill, but
18 not a little bit in one and a little bit in the other?

19 A Yes.

20 Q Okay. And that's what your testimony means
21 right here?

22 A Yes.

23 Q Okay. Going back to your exhibit that relates
24 to the MFRs you sponsor. Again, there are no changes to
25 your responsibilities, as indicated in the sponsorship

1 columns of these five pages; is that right?

2 A I don't believe so.

3 Q Okay. Let me ask you to look on page five of
4 your testimony, lines 2 through 3. Are you there?

5 A Yes.

6 Q Okay. You indicate there that the purpose of
7 your testimony is to support the calculation of the rate
8 relief requested by FPL in this proceeding; is that
9 right?

10 A That's correct.

11 Q Okay. Am I also correct that you're -- you
12 are responsible for sponsoring many of the revenue
13 requirement calculations in this case?

14 A I am.

15 Q Okay. And I have some questions that -- that
16 are general, and I am not intending to inquire into your
17 rebuttal testimony at this time. Although, the -- in
18 the discovery process, FPL has identified a number of
19 errors contained in the original MFRs that were filed,
20 which impact the revenue requirements that are
21 presented; is that correct?

22 A Yes. We have laid out for the Commission's
23 consider -- well, for all parties' consideration all of
24 the errors in the forecast that we uncovered as a result
25 of the thorough discovery process, yes.

1 Q Okay. Can you just briefly recount to me how
2 you went about confirming that the amounts contained in
3 the exhibits and the MFRs you re-- you sponsored were
4 accurate?

5 A Preparation of the rate filing is a process,
6 and it involves functions all over the company sharing
7 information, aggregating that information into a
8 forecast, taking that forecast and reducing it to the
9 discrete requirements of the hundreds of MFRs. We
10 review each and every one of those MFRs in our
11 workgroups. We cross-check those MFRs. We try to
12 perform roll forwards. We go through a rigorous
13 preparation process that takes some number of weeks.

14 Because of the massive amount of information
15 and the complexities of our business, there are always
16 going to be some items that we have misstated, and those
17 have been laid out in KO-16, they are -- you know, the
18 absolute value of all those errors is probably \$50 or
19 \$60 million out of our \$10 billion of revenue
20 requirements overall, so we think it's a demonstration
21 that it's a very well-prepared filing.

22 Q Okay. And that's what you do to kind of get
23 it in shape to file, right, that process you just
24 recounted?

25 A That's correct.

1 Q Okay. Now, when -- when you get the discovery
2 in and you're kind have an opportunity to sit back
3 and -- and look at it with a -- a little bit hectic pace
4 preceding the filing, you inevitably discover errors; is
5 that right?

6 A Yes, it's certainly not less hectic. It's a
7 nine-month sprint.

8 Q Okay.

9 A But we -- you know, the intervenors ask
10 questions that drill into areas, and we discover usually
11 there is a been a disconnect in the communication from a
12 business area to Bob Barrett's forecast group or myself
13 where we are trying to aggregate information from all
14 over the company.

15 Q Okay. Now, when you discover an error in that
16 process, can you explain what process FPL goes through
17 with respect to whether to -- how to address those
18 errors?

19 A Well, yes. During the discovery process, in
20 each case, when we saw that there was clearly an error,
21 we noted that in the response to the discovery request.
22 So when parties received our answers, we noted that we
23 saw an error. In some cases, we could describe in that
24 discovery response exactly what was wrong. In other
25 cases, we had to go perform some more research. So we

1 are tackling it as we -- as we find it.

2 Q Okay. And what is the -- the decision-making
3 process with respect to whether or not errors impacting
4 the revenue requirement are disclosed to the parties?

5 A They must be disclosed. I mean, we have an
6 obligation to provide a filing and information that this
7 Commission can rely on. As you can see in that list,
8 there are some really immaterial items, and there are
9 others that are certainly not material to the filing
10 overall but are larger. We have tried to provide
11 disclosure of everything we have seen.

12 Q Okay. And is it your testimony that all the
13 errors impacting the revenue requirements for which you
14 are aware have been disclosed to the parties in this
15 case?

16 A There is another error that -- since the
17 filing of KO-16 that I have found. It took me a long
18 time to get through, and it was a result of Witness
19 Shultz's testimony on the uncollectibles expense. And
20 we do have an error in the roll forward on
21 uncollectibles.

22 Q You do have a what?

23 A An error in the roll forward in
24 uncollectibles.

25 Q Okay.

1 A So he suggested an adjustment. It overstates
2 the error a little bit, but you can see I didn't rebut
3 that. I was still trying to sort my way through it.

4 **Q Okay.**

5 A And it does look to be an error in the roll
6 forward.

7 **Q So --**

8 A But other than that -- and it's \$1.4 million,
9 I think, other than that, that is every error that I am
10 aware of in the filing.

11 **Q And we will address at that on your**
12 **rebuttal --**

13 A Well --

14 **Q -- has that -- has that been submitted?**

15 A -- I just addressed it.

16 **Q Okay. All right. And I apologize. I have**
17 **been sort of distracted. Have -- has there been**
18 **anything filed in discovery or supplemental?**

19 A We have -- I mean, I kind of dotted the I's
20 and crossed the T's on this the last couple of face
21 here.

22 **Q Okay. And will there be something forthcoming**
23 **on that?**

24 A We can. We can make a filing.

25 MR. REHWINKEL: Okay. Perhaps, Mr. Chairman,

1 so we don't get into late-filed exhibit space,
2 whatever this is, we will at least see it maybe
3 between now and -- and rebuttal.

4 MR. BUTLER: That's fine. We can provide
5 something that will describe the adjustment, and
6 you can ask questions during her rebuttal testimony
7 on it if you wish.

8 MR. REHWINKEL: Okay. Thank you.

9 BY MR. REHWINKEL:

10 Q And just to close this line of questioning,
11 other than that, that's all you're -- other than that
12 meaning the uncollectibles issue you just described,
13 those are all the errors that you are aware of?

14 A Yes. I -- I am sorry, yes.

15 Q Thanks.

16 Okay. Can you please turn to KO-7, please?

17 A Yes.

18 Q All right. This is Calculation of Capitalized
19 Incentive Adjustment; is that right?

20 A That's correct.

21 Q Am I correct, the purpose of this adjustment
22 is to remove the amount included in the 13-month average
23 plant and service balances associated with share base
24 and annual executive incentives?

25 A Yes. It's -- as all parties know, the company

1 endeavored to remove all of the executive incentive
2 compensation from its request, and we do capitalize a
3 small portion of executive compensation and incentives.
4 And we endeavor to come up with a simple method that
5 would enable us to remove the capital portion of those
6 incentives. It needed to be a simple method because we
7 have to replicate that for surveillance purposes going
8 forward.

9 Q Okay.

10 A So, yes, that's the purpose.

11 Q In this adjustment, you only remove the
12 estimated amount that will be capitalized in the test
13 year, or 2013, from plant and service; is that right?

14 A That's correct.

15 Q Can you tell me why you do not also adjust
16 plant and service to remove the amount of share base and
17 annual executive incentives that were capitalized in
18 prior years?

19 A Yes. I mean, obviously, they are quite small,
20 and we would have had to -- to actually go through that
21 calculation, we would have had to determine what the
22 depreciation amounts were because those would no longer
23 be in plant and service.

24 And the amounts have been distributed across
25 many plant accounts, so to go through that exercise was,

1 in our view, not going to materially affect --
2 materially affect customers, nor be logistically really
3 possible. The whole adjustment is \$1.5 million.

4 **Q The whole adjustment, meaning in the test**
5 **year?**

6 A In the test year, that's correct.

7 **Q Okay. So you would also agree with me that**
8 **the amount of share base and annual executive incentives**
9 **capitalized as part of plant and service on FPL's books**
10 **prior to 2013 remain in the adjusted test year rate**
11 **base?**

12 A I would agree with you that there is some
13 amount. We don't what that amount is. It's unlikely
14 it's been fully depreciated, but some portions of those
15 small amounts could remain in the balance sheet.

16 **Q Okay. All right. And just a final line of**
17 **cross.**

18 MR. REHWINKEL: And Mr. Chairman, I would like
19 to ask that an exhibit be given a number and
20 distributed.

21 CHAIRMAN BRISÉ: Sure.

22 MR. REHWINKEL: And this is FPL's Response to
23 Staff's 15th Set of Interrogatories, Number 450,
24 Rate Case Expense.

25 CHAIRMAN BRISÉ: For identification purposes,

1 this is Exhibit No. 518.

2 (Whereupon, Exhibit No. 518 was marked for
3 identification.)

4 BY MR. REHWINKEL:

5 **Q Okay. Okay. I see your counsel has one, and
6 you have one -- a copy of this?**

7 **A I do.**

8 CHAIRMAN BRISÉ: Are there any objections to
9 this document?

10 MR. BUTLER: No objection to the exhibit.

11 CHAIRMAN BRISÉ: Okay.

12 BY MR. REHWINKEL:

13 **Q Ms. Ousdahl, are you familiar with this
14 Interrogatory Response No. 450?**

15 **A Yes, I am.**

16 **Q Okay. I previously referred to you the
17 Prehearing Order, and I also want to ask you again
18 under -- about that document. Under Issue 108, your
19 position -- or the company's position indicates that the
20 estimated rate case expense is \$3,925,000, and you are
21 identified as the witness. Is that right?**

22 MR. BUTLER: Could you furnish the page,
23 please, Mr. Rehwinkel?

24 THE WITNESS: Yes, I see it. It's page 123.

25

1 MR. REHWINKEL: Yes, I -- thank you,
2 Mr. Butler, 123.

3 BY MR. REHWINKEL:

4 Q And if I could ask you to turn to the second
5 page inside the cover of that exhibit, which is in the
6 format of MFR C-10. Do you see that?

7 A Yes.

8 Q Okay. And that would be one of your sole
9 responsible MFRs?

10 A Yes.

11 Q Yes, okay.

12 Do you see in line 10 -- I am. Sorry, line
13 19, column 10, the amount of 3,925,000?

14 A Yes, I do.

15 Q Is that the source of the 3,925,000 that's
16 identified in the -- the Prehearing Order?

17 A Yes, it is.

18 Q Okay. On line 9 of that same page, it shows a
19 forecasted amount of \$225,000 for Bates White, LLC with
20 the services described as impact of base rate increase.
21 Do you see that?

22 A Yes, I do.

23 Q Is this related to the rebuttal testimony
24 provided by Mr. Deramus?

25 A That's my understanding.

1 Q Okay. Can you tell me how this projected
2 \$225,000 cost was derived?

3 A All of these projections were gathered by a
4 team of folks in the company working with the outside
5 services providers in developing estimates. At the
6 time, of course, we -- we are basing it on assumptions
7 about how long we would be in Tallahassee and what hours
8 of work would be required for these folks.

9 Q Okay. And on line six, it shows 200,000 for
10 Terry Deason?

11 A Yes.

12 Q If I asked you about how that was derived,
13 would your answer be different than your --

14 A No.

15 Q Okay. And the same for the Radey and Gunster
16 law firms?

17 A Yes.

18 Q Would you be the appropriate person to testify
19 about the respective duties of the two law firms and --
20 and the reasons for they're being retained?

21 A Well, generally I can respond to questions on
22 that.

23 Q Okay. Well, do you know how their duties are
24 being split up between each in representing FPL?

25 A Well --

1 **Q For purposes of the development of the numbers**
2 **here?**

3 MR. BUTLER: I will observe that it will
4 become apparent through the duties of attorneys
5 from those respective firms appearing here at
6 counsel's table presenting the witnesses and
7 otherwise participating in our presentation of the
8 case.

9 MR. REHWINKEL: After Mr. Butler's testimony,
10 I can end my cross. Thank you. Thank you,
11 Ms. Ousdahl.

12 MR. BUTLER: I should have done that earlier.

13 (The transcript continues in sequence to
14 Volume 9)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA R. KRICK, Professional Court Reporter, certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages, numbered 896 through 1097, are a true and correct record of the aforesaid proceedings.

I further certify that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 27th day of August, 2012.



DEBRA R. KRICK
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