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 12

Pages 1387 through 1578

PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN RONALD A. BRISÉ COMMISSIONER LISA POLAK EDGAR COMMISSIONER ART GRAHAM COMMISSIONER EDUARDO E. BALBIS COMMISSIONER JULIE I. BROWN
DATE:	Thursday, August 23, 2012
TIME:	Commenced at 1:07 p.m. Concluded at 3:07 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	DEBRA R. KRICK (850)894-0828
APPEARANCES:	(As heretofore noted.)

PREMIER REPORTING
114 WEST 5TH AVENUE
TALLAHASSEE, FLORIDA
(850) 894-0828

I N D E X

WITNESSES

EXHIBITS

NUMBER:	ID	ADMTD.
181-184		1494
280-293		1456
531-532	1535	
533	1549	
534	1550	
535	1552	
536	1554	
537	1558	
538-539	1573	

P R O C E E D I N G S

(Transcript follows in sequence from Volume 11.)

CHAIRMAN BRISÉ: All right. Good afternoon. We are reconvening. It is -- we are still on docket 120015-EI, and I believe we have Witness Pollock from -- proffered by FIPUG.

MS. KAUFMAN: Thank you.

MS. CLARK: Mr. Chairman, can I enter an appearance --

CHAIRMAN BRISÉ: Sure.

MS. CLARK: -- and give you some information? I am Susan Clark. I am here on behalf of Florida Power & Light.

I wanted to length you know that Public Counsel and FP&L have reached a stipulation on Issue 99, which is the level of executive compensation for the test year. The issue in that was whether or not we had adjusted out the compensation that was disallowed in the last case.

They are satisfied that we have. Other people have taken a position agreeing with Public Counsel. I have checked with them. I have also checked with Mr. Saparito, who had a slightly different position, but he said if Public Counsel has agreed

to it, he agrees.

Staff is checking on their position on it because it was no position pending evidence adduced at the hearing. So we may have a stipulation on 99.

CHAIRMAN BRISÉ: Okay.

MR. REHWINKEL: We just wanted to show we could stipulate. We are willing to accept the company's numbers on this issue. Thank you.

CHAIRMAN BRISÉ: Okay.

MS. KAUFMAN: Thank you, Mr. Chairman. The Florida Industrial Power Users Group calls Mr. Jeffry Pollock, and he has not been sworn. And I would also like to thank the Commission for accommodating him and his need to be in other jurisdictions next week.

CHAIRMAN BRISÉ: Understood.

MS. KAUFMAN: The parties as well.

CHAIRMAN BRISÉ: Mr. Pollock, if you would rise.

Whereupon,

JEFFRY POLLOCK

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

CHAIRMAN BRISÉ: All right. You maybe seated.

DIRECT EXAMINATION

BY MS. KAUFMAN:

Q Good afternoon, Mr. Pollock. Could you state your name and business address for the record, please?

A Jeffry Pollock. My business address is 12655 Olive Boulevard, St. Louis, Missouri.

Q And can you tell us what your occupation is and on whose behalf you're appearing?

A Yes, I am an energy advisor and principle of J. Pollock, Incorporated, and we have been retained by the Florida Industrial Power Users Group to provide testimony in this proceeding.

Q Mr. Pollock, have you caused to be filed in this case 61 pages of testimony along with an affidavit swearing to its veracity?

A Yes.

Q Do you have any changes or corrections to that testimony?

A No.

Q If I asked you the questions contained in your prefiled testimony today, would your answers be the same?

A Yes.

MS. KAUFMAN: Mr. Chairman, we would ask that

Mr. Pollock's prefiled testimony be entered into the record as though read.

CHAIRMAN BRISÉ: Okay. If there are no objections, we will enter Mr. Pollock's prefiled direct testimony into the record as though read.

(Whereupon, testimony inserted.)

1. INTRODUCTION, QUALIFICATIONS, AND PURPOSE

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Jeffry Pollock; 12655 Olive Blvd., Suite 335, St. Louis, MO 63141.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am an energy advisor and President of J. Pollock, Incorporated.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I have a Bachelor of Science Degree in Electrical Engineering and a Masters in Business Administration from Washington University. Since graduation in 1975, I have been engaged in a variety of consulting assignments, including energy procurement and regulatory matters in both the United States and several Canadian provinces. I have participated in regulatory matters before this Commission since 1976. My qualifications are documented in **Appendix A.** A partial list of my appearances is provided in **Appendix B** to this testimony.

Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A I am testifying on behalf of the Florida Industrial Power Users Group (FIPUG). Participating FIPUG companies purchase electricity from Florida Power & Light Company (FPL) primarily on the General Service Large Demand (GSLD), Commercial Industrial Load Control (CILC), and Standby tariffs. These customers require an affordable supply of electricity to power their operations. Therefore, participating FIPUG companies have a direct and significant interest in the outcome of this proceeding.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A I will address the following issues:

- Class revenue allocation;
- FPL's class cost-of-service study (CCOSS); and
- Rate design.

Q ARE YOU FILING ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

A Yes. I am filing **Exhibits JP-1** through **JP-14**. These exhibits were prepared by me or under my direction and supervision.

Q IN SOME OF THESE EXHIBITS, YOU HAVE USED FPL'S CLAIMED REVENUE REQUIREMENTS. DOES THIS CONSTITUTE AN ENDORSEMENT OF THE COMPANY'S PROPOSALS?

A No. My use of FPL's claimed revenue requirements is strictly for illustrative purposes and should not be interpreted as an endorsement of the proposed base revenue increases.

Summary

Q PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A *Class Revenue Allocation*

FPL's proposed class revenue allocation should be rejected. FPL's proposal would allow rates for one class to decrease while subjecting other classes to base rate increases of up to 46%. FPL's proposal also fails to give appropriate recognition to the principle of gradualism. Gradualism constraints are appropriately applied to the percent changes in base rates (not cost-recovery clauses) because only base rates are subject to change in this proceeding. In

addition, while clause revenues are changed on an annual basis (or even more frequently if a mid-course correction is sought), base rates often remain in place for many years.

Further, FPL's proposed allocation of the Cape Canaveral (CC) Step increase should be rejected because it is inconsistent with the methodology that FPL uses to allocate production capacity costs in both its CCOSS and in the Capacity Cost Recovery Clause.

If any base rate increase is authorized in this proceeding, it should be allocated in a manner that moves classes closer to cost using an appropriate CCOSS adjusted for the approved revenue requirement. In general, above-cost classes should receive below-average increases (or no increase as in the case of the Standby rates, which are substantially above cost), and vice versa. The CC Step increase should be allocated in the same manner as the 2013 increase, if awarded. This would continue moving rates closer to cost, while recognizing gradualism.

Class Cost-of-Service Study

FPL's CCOSS is inappropriate and should be revised in several important respects. First, there are errors in FPL's quantification of the "incentive payments" associated with the CILC classes. The incentive payments are the difference in the calculated base revenues between the otherwise applicable firm rate and the CILC rate (excluding the Customer charge). The amount of the incentive payments affects the CCOSS results because they are added to the CILC base revenues that determine the earned rates of return from the CILC classes. FPL similarly added back the Rider CDR credits to the GSLD class

revenues in the CCOSS. However, FPL understated the incentive payments associated with the CILC-1D and CILC-1T classes and overstated the CILC-1G payments. As a result, FPL's CCOSS understates the earned returns for the CILC-1D and CILC-1T classes and overstates the earned return for the CILC-1G class.

Both the CILC incentives and CDR credits are collected in the Energy Conservation Cost Recovery (ECCR) clause. FPL also pays credits for curtailable load under the Curtailable Service (CS) rates. In its CCOSS, FPL has allocated the CS credits to all loads, including non-firm loads. The CILC and CDR payments are similarly allocated to all loads in FPL's ECCR. Allocating non-firm (*i.e.,* CILC, CDR, CS customers) credits to all loads, including non-firm loads, violates cost causation and FPL's planning principles. Non-firm credits should be allocated only to firm loads.

Third, transmission plant-related costs should not be allocated in the same way as production plant-related costs. FPL uses the Twelve Coincident Peak and 1/13th Average Demand (12CP-1/13th AD) method for both production and transmission costs. The rationale supporting 12CP-1/13th AD is that some capacity costs meet year-round peak demand, while other costs are incurred to save fuel costs. While I disagree with this rationale, there is no similar dual functionality for transmission lines and substations. Transmission plant must be sized to meet peak demand. Further, serving loads throughout the year is a by-product (and not a cost-causer) of serving peak demand. For these reasons, transmission plant should be classified and allocated entirely on a demand basis.

Further, the allocation of both production and transmission plant costs should reflect cost causation. Thus, the allocation methodology should closely reflect FPL's system load characteristics. FPL is a strongly summer peaking utility and experiences its tightest reserve margins during the summer months. This suggests that greater emphasis should be placed on summer month demands than is provided in the 12CP-1/13th AD method FPL uses. However, this Commission has adopted the 12CP-1/13th AD method in past cases, and for this reason, I have no objection to retaining it for production plant-related costs. If the Commission once again approves 12CP-1/13th AD for production plant-related costs, it should approve 12CP for transmission plant-related costs.

Fourth, FPL's classification of production operation and maintenance (O&M) expenses between demand and energy should be revised to comport with the *Electric Utility Cost Allocation Manual* published by the National Association of Regulatory Utility Commissioners (NARUC CAM) in January, 1992. Specifically, $99 million of other production O&M expense should be reclassified from energy to demand.

Rate Design

FPL's proposed GSLD/CILC rate designs are not cost-based and should be rejected because the proposed Demand and non-fuel Energy charges are not closely aligned with the corresponding demand and non-fuel energy-related costs. FPL's proposed CC Step rate design is of particular concern because the entire increase would be collected through higher Energy charges. As a result of this rate design, high load factor GSLD and CILC customers would experience cumulative base rate increases that are higher than the class averages. This

result is not cost-based because most of the underlying CC costs are demand-related. Any increases allocated to the GSLD and CILC classes that are not needed to realign the Customer and Energy charges to reflect the corresponding unit costs should be collected in the Demand charge.

The CILC rate should be re-opened. CILC customers are currently receiving an "effective" Demand credit of $3.79 per kW of Load Control demand and $4.79 per kW of Coincident Peak (CP) demand paid for the capacity they provide to FPL. The corresponding credits paid to Rider CDR customers are $4.68 per kW of non-firm demand and $4.90 per CP-kW demand. However, unlike CILC, Rider CDR is *not* closed. In fact, the analysis provided by FPL in its most recent Conservation Goals proceeding (Docket No. 10055-EG) demonstrated that Rider CDR is cost-effective. Therefore, it follows that CILC would also be cost-effective. For this reason, CILC should be re-opened, and the incentive payment should be raised to at least the same level as Rider CDR.

Finally, based on FPL's cost-effectiveness analysis, Rider CDR would remain cost-effective even if the credit is increased to over $12 per kW. Thus, consistent with cost-based ratemaking, the current CILC and Rider CDR Demand credits should be increased in this proceeding.

2. CLASS REVENUE ALLOCATION

Q WHAT IS CLASS REVENUE ALLOCATION?

A Class revenue allocation is the process of determining how any base revenue change the Commission approves should be apportioned to each customer class the utility serves.

Q HOW SHOULD ANY CHANGE IN BASE REVENUES APPROVED IN THIS DOCKET BE APPORTIONED AMONG THE VARIOUS CUSTOMER CLASSES FPL SERVES?

A Base revenues should reflect the actual cost of providing service to each customer class as closely as practicable. Regulators sometimes limit the immediate movement to cost based on principles of gradualism and rate administration.

Q PLEASE EXPLAIN THE PRINCIPLE OF GRADUALISM.

A Gradualism is a concept that is applied to prevent a class from receiving an overly-large rate increase. That is, the movement to cost-of-service should be made gradually rather than all at once because it would result in rate shock to the affected customers.

Q PLEASE EXPLAIN HOW RATE ADMINISTRATION IS RELATED TO RATE CHANGE.

A. Rate administration is a concept that applies when the design of a rate may be tied to the design of other rates to minimize revenue losses when customers migrate from a more expensive to a less expensive rate. FPL applies this

concept in designing the GSLD and derivative rates (*e.g.,* SDTR, HLFT).

Q SHOULD THE RESULTS OF THE COST-OF-SERVICE STUDY BE THE PRIMARY FACTOR IN DETERMINING HOW ANY BASE REVENUE CHANGE SHOULD BE ALLOCATED?

A Yes. Cost-based rates will send the proper price signals to customers. This will allow customers to make rational consumption decisions.

Q ARE THERE OTHER REASONS TO APPLY COST-OF-SERVICE PRINCIPLES WHEN CHANGING RATES?

A Yes. The other reasons to adhere to cost-of-service principles are equity, engineering efficiency (cost-minimization), stability and conservation.

Q WHY ARE COST-BASED RATES EQUITABLE?

A Rates which primarily reflect cost-of-service considerations are equitable because each customer pays what it actually costs the utility to serve the customer – no more and no less. If rates are not based on cost, then some customers must pay part of the cost of providing service to other customers, which is inequitable.

Q HOW DO COST-BASED RATES PROMOTE ENGINEERING EFFICIENCY?

A With respect to engineering efficiency, when rates are designed so that demand and energy charges are properly reflected in the rate structure, customers are provided with the proper incentive to minimize their costs, which will, in turn, minimize the costs to the utility.

Q HOW CAN COST-BASED RATES PROVIDE STABILITY?

A When rates are closely tied to cost, the utility's earnings are stabilized because changes in customer use patterns result in parallel changes in revenues and expenses.

Q HOW DO COST-BASED RATES ENCOURAGE CONSERVATION?

A By providing balanced price signals against which to make consumption decisions, cost-based rates encourage conservation (of both peak day and total usage), which is properly defined as the avoidance of wasteful or inefficient use (not just less use). If rates are not based on an appropriate class cost-of-service study, then consumption choices are distorted.

Q DOES COMMISSION POLICY SUPPORT THE MOVEMENT OF UTILITY RATES TOWARD ACTUAL COST?

A Yes. The Commission's support for cost-based rates is longstanding and unequivocal. The Commission reiterated this principle in the most recent Tampa Electric Company rate case:

> It has been our long-standing practice in rate cases that the appropriate allocation of any change in revenue requirements, after recognizing any additional revenues realized in other operating revenues, should track, to the extent practical, each class's revenue deficiency as determined from the approved cost of service study, and move the classes as close to parity as practicable. The appropriate allocation compares present revenue for each class to the class cost of service requirement and then distributes the change in revenue requirements to the classes. No class should receive an increase greater than 1.5 times the system average percentage increase in total, and no class should receive a decrease. (Docket No. 080317–EI, *Order No. PSC-09-0283-FOF-EI,* Issued: April 30, 2009 at 86-87, footnote omitted).

Therefore, a more gradual movement of FPL's rates closer to cost would be consistent with Commission policy rather than what FPL has proposed.

Q HOW IS FPL PROPOSING TO ALLOCATE THE PROPOSED BASE REVENUE INCREASE IN THIS PROCEEDING?

A FPL's proposed base revenue increase is shown in **Exhibit JP-1**. Page 1 shows the allocation of the proposed 2013 increase, while page 2 shows the allocation of the CC Step increase.

Referring to page 1, the 2013 increase would be an 11.0% base rate increase. The increases by class would range from a 24% *decrease* for SL-2 to a 34% increase for CILC-1T.

Referring to page 2, the CC Step increase would be an additional 3.7% base rate increase. The proposed step increases would range from 0.9% for SL-1 to 9.1% for CILC-1T.

The cumulative base rate increases are shown on page 3. As can be seen, FPL's proposed cumulative base rate increase is 15.1%. The cumulative increases by rate would range from a 20% *decrease* for SL-2 to an over 46% increase for CILC-1T.

Q IS FPL'S PROPOSED 2013 CLASS REVENUE ALLOCATION REASONABLE?

A No. FPL's proposed 2013 class revenue allocation would not move all classes equally closer to cost. This is shown in **Exhibit JP-2**, which quantifies the percentage movement to cost. As can be seen, the GSLD(T)-3, CILC-1D and CILC-1T rates would be moved more than 100% toward cost; that is, FPL

overshot the target by allocating a higher than necessary increase to move these classes closer to cost. Further, some rates would move away from cost (*e.g.*, Residential, SL-1, SST-DST and SST-TST). The SST-TST rate increase is especially puzzling given that this class has the highest parity ratio of any class at current rates (and higher than SL-2, for which FPL is proposing a substantial rate decrease).

Second, by seeking to reduce SL-2 rates, FPL has violated Commission policy, which has traditionally been to maintain the status quo for rates that are currently producing returns above parity, not to decrease rates. Under this policy, no base rate decrease should be awarded to SL-2 and SST-TST.

Q IS FPL'S PROPOSED CAPE CANAVERAL STEP CLASS REVENUE ALLOCATION APPROPRIATE?

A No. The proposed CC Step allocation is unreasonable. First, it was derived irrespective of the 2013 class revenue allocation. This is improper because the CC Step increase is a further extension of this rate case. The same principles used for class revenue allocation should apply equally to both the 2013 and the CC Step increases.

Second, with a few exceptions, the proposed CC Step allocation more closely resembles a pure energy allocation; that is, the increases by class are nearly the same on a per kWh basis (see **Exhibit JP-1**, page 2). An energy allocation bears no semblance to cost-based ratemaking whatsoever. In fact, the allocation factors used to derive the allocated CC Step increase are not consistent with the 12CP-1/13th AD factors that FPL uses to allocate all other production demand-related costs.

Finally, as is evident from the wide disparity between the cumulative proposed base rate increases (from *negative* 20% to 46%) as shown in **Exhibit JP-1,** page 3, FPL has given virtually no recognition to the principle of gradualism.

Q HAS THE COMMISSION ADDRESSED CLASS REVENUE ALLOCATION IN PRIOR LITIGATED CASES?

A Yes. The Commission recently addressed class revenue allocation in the prior FPL and Tampa Electric Company rate cases. In both cases, the Commission limited the increases to 150% of the system average. However, in applying the 150% limitation, the Commission included cost recovery clauses in the prior FPL case, whereas in the Tampa Electric case, the 150% limitation was applied to *base rates*, excluding cost recovery clauses. Thus, it does not appear that the Commission has a consistent policy on this. From a policy perspective, cost recovery clauses should not be included in this analysis because they change on an annual basis whereas base rates generally remain in place for a much longer period of time. And, as we have seen recently, fuel prices, for example, may experience great fluctuation in one year and then dramatically change again in the next year. Thus, it would be inappropriate to include and rely on projections of clause revenues for just one year (the test year) in setting base rates.

Q HOW SHOULD GRADUALISM BE APPLIED?

A FPL is seeking an increase in base rates. The cost recovery clauses are not at issue in this case. In other words, the increase FPL is now seeking has nothing to do with increases or decreases in fuel, energy conservation, environmental, or

capacity costs. For this reason, gradualism should be applied to that portion of the rate that is subject to change in this proceeding—*the base rate*.

Further, gradualism is not a consideration in setting the cost recovery clauses. Thus, a sudden increase or decrease in natural gas prices will not affect how base rates are determined in this case.

The Commission should apply the principle of gradualism to any base revenue increase that may be approved in this case, notwithstanding any predictions about subsequent changes in cost recovery clauses.

Given that the cost recovery clauses are separate ratemaking mechanisms and can have positive or negative impacts on customers depending on the circumstances, any projected short-term changes should not be considered in setting base rates.

Q SHOULD FPL'S PROPOSED CAPE CANAVERAL STEP ALLOCATION BE ADOPTED?

A No. As previously stated, FPL's proposed CC Step class revenue allocation does not recognize either cost-of-service or gradualism principles. This is because the vast majority of the CC costs are demand-related, while FPL's proposed increase more closely resembles a pure energy allocation. To continue moving rates closer to cost, while recognizing gradualism, I recommend that the CC Step increase be allocated in the same manner as the 2013 increase, should an increase be authorized. As discussed later, I am recommending specific changes to FPL's CCOSS that should be made so that it can be used to determine a cost-based revenue allocation and rate design in this proceeding.

Q IF THE COMMISSION APPROVES ANY INCREASE IN FPL'S BASE RATES , HOW SHOULD THEY BE ALLOCATED TO CUSTOMER CLASSES?

A The class revenue allocation should be derived from an approved CCOSS based on the authorized revenue requirement. It should result in classes moving toward cost, subject to appropriate gradualism constraints.

3. CLASS COST-OF-SERVICE STUDY

Background

Q WHAT IS A CLASS COST-OF-SERVICE STUDY?

A A CCOSS is an analysis used to determine each class' responsibility for the utility's costs. Thus, it determines whether the revenues a class generates cover the class' cost-of-service. A class cost-of-service study separates the utility's total costs into portions incurred on behalf of the various customer groups. Most of a utility's costs are incurred to jointly serve many customers. For purposes of rate design and revenue allocation, customers are grouped into homogeneous classes according to their usage patterns and service characteristics. The procedures used to conduct a CCOSS are described in **Appendix C**.

Q WHAT KEY PRINCIPLES SHOULD A CLASS COST-OF-SERVICE STUDY INCORPORATE?

A A properly conducted class cost-of-service study recognizes two key cost causation principles. First, customers are served at different delivery voltages. This affects the amount of investment the utility must make to deliver electricity to the meter. Second, since cost causation is also related to how electricity is used, both the timing and rate of energy consumption (*i.e.*, demand) are critical. Because electricity cannot be stored for any significant time period, a utility must acquire sufficient generation resources and construct the required transmission facilities to meet the maximum projected demand, including a reserve margin as a contingency against forced and unforced outages, severe weather, and load forecast error. Once capacity has been installed to meet peak demand, it can

also be used to meet off-peak demand. In other words, supplying off-peak demand is a by-product of serving on-peak demand. Thus, customers that use electricity during the critical peak hours cause the utility to invest in generation and transmission facilities. Cost causation means allocating demand-related costs relative to peak demand.

Q WHAT FACTORS CAUSE THE PER-UNIT COSTS TO DIFFER AMONG CUSTOMER CLASSES?

A Factors that affect the per-unit cost include whether a customer's usage is constant or fluctuating (load factor), whether the utility must invest in transformers and distribution systems to provide the electricity at lower voltage levels, the amount of electricity that a customer uses, and the quality of service. In general, industrial consumers are less costly to serve on a per unit basis because they:

1. Operate at higher load factors;
2. Take service at higher delivery voltages; and
3. Use more electricity per customer.

These three factors explain why some customers pay higher average rates than others.

For example, the difference in the losses incurred to deliver electricity at the various delivery voltages is a reason why the per-unit energy cost to serve is not the same for all customers. More losses occur to deliver electricity at distribution voltage (either primary or secondary) rather than at transmission voltage, which is generally the level at which industrial customers take service. This means that the cost per kWh is lower for a transmission customer than a

distribution customer. The cost to deliver a kWh at primary distribution, though higher than the per-unit cost at transmission, is lower than the delivered cost at secondary distribution.

In addition to lower losses, transmission customers do not use the utility's distribution system. Instead, transmission customers construct and own their own distribution systems. Thus, distribution system costs are not allocated to transmission level customers. Distribution customers, by contrast, require substantial investments in lower voltage facilities to provide service. Secondary distribution customers require more investment than primary distribution customers. This results in a different cost to serve each type of customer.

Industrial customers typically receive service at transmission voltage. This means that they have invested in their own distribution facilities and impose only minimal distribution costs as compared to the vast majority of other customers.

Two other cost drivers are efficiency and size. These drivers are important because most fixed costs are allocated on either a demand or customer basis.

Efficiency can be measured in terms of load factor. Load factor is the ratio of average demand (*i.e.,* energy usage divided by the number of hours in the period) to peak demand. A customer that operates at a high load factor is more efficient than a lower load factor customer because it requires less capacity for the same amount of energy. For example, assume that two customers purchase the same amount of energy, but one customer has an 80% load factor and the other has a 40% load factor. The 40% load factor customer would have

twice the peak demand of the 80% load factor customer, and the utility would therefore require twice as much capacity to serve the 40% load factor customer as the 80% load factor. Said differently, the fixed costs to serve a high load factor customer are spread over more kWh usage than for a low load factor customer.

All of these factors explain why it is less costly per kWh to serve industrial customers. Industrial customers typically operate at a higher load factor, are larger in size, and receive power at transmission voltage.

FPL's Class Cost-of-Service Study

Q HAVE YOU REVIEWED THE CLASS COST-OF-SERVICE STUDY FPL FILED IN THIS PROCEEDING?

A Yes.

Q DOES FPL'S CLASS COST-OF-SERVICE STUDY COMPORT WITH ACCEPTED INDUSTRY PRACTICES?

A Yes, in many respects. FPL's CCOSS generally recognizes the different types of costs as well as the different ways electricity is used by various customers. However, there are several significant flaws that must be corrected before the study can be used to design rates in this proceeding. The flaws include:

- Understating the amount of incentive payments attributable to each CILC class;
- Allocating the non-firm credits to all loads;
- Using 12CP-1/13th AD method to allocate transmission plant-related costs; and
- Misclassifying $99 million of production O&M expense to energy rather than to demand.

Each of the above flaws is discussed below.

CILC Incentive Payments

Q WHAT IS THE CILC PROGRAM?

A The CILC (Commercial/Industrial Load Control) program is a non-firm tariff option in which customers agree to curtail load at FPL's direction. The curtailment conditions in the CILC tariff are as follows:

> The Customer's controllable load served under this Rate Schedule is subject to control when such control alleviates any emergency conditions or capacity shortages, either power supply or transmission, or whenever system load, actual or projected, would otherwise require the peaking operation of the Company's generators. Peaking operation entails taking base loaded units, cycling units or combustion turbines above the continuous rated output, which may overstress the generators.

By allowing FPL to curtail controllable load when resources are needed to maintain system reliability (that is, when there are insufficient resources to meet customer demand), FPL can maintain service to firm (*i.e.*, non-interruptible) customers. For this reason, FPL removes CILC loads in assessing resource adequacy. Thus, CILC is a lower quality of service than firm power, because it can be interrupted as described above. In exchange for an agreement to curtail load at FPL's control, CILC customers pay a lower base rate than firm customers.

Q HOW ARE CILC CUSTOMERS COMPENSATED FOR THE CAPACITY THEY PROVIDE FPL?

A The Load-Control On-Peak demand charge is a reduced rate that reflects the current value of non-firm capacity. The other applicable demand charges (*i.e.*, Firm On-Peak and Maximum Demand) recover the allocated transmission and

distribution demand-related costs and are, thus, similar in concept to FPL's other firm rates.

Q WHAT ARE THE CILC INCENTIVE PAYMENTS?

A The CILC incentive payments are the differential in base rate revenues (excluding Customer charges) between the CILC rate and the corresponding firm (*i.e.*, GSD(T), GSLD(T)-1, and GSLD(T)-3) rates.

Q WHY ARE THE CILC INCENTIVE PAYMENTS RELEVANT IN THE CLASS COST-OF-SERVICE STUDY?

A FPL's CCOSS assumes that all customer classes receive firm service. This is obviously not the case for CILC customers, which receive non-firm service. Accordingly, to prevent a mismatch between the costing (firm) and pricing (non-firm) assumptions, FPL restates the CILC revenues to the level they would otherwise be if service were provided on a firm basis. The amount of the restated revenues is based on FPL's analysis of the incentive payments to each of the CILC classes.

Q DOES FPL MAKE SIMILAR REVENUE ADJUSTMENTS FOR ANY OTHER CLASSES?

A Yes. Many GSLD customers also take non-firm service under either the CDR or Curtailable Service (CS) tariffs. These tariffs provide specific dollar credits to reflect the lower cost of providing non-firm service. FPL restated the GSLD class revenues by adding back the CDR credits. Similarly, FPL reallocated the CS credits to all customer classes in the CCOSS.

Q WHERE ARE THE NON-FIRM CREDITS RECOVERED?

A The CILC incentive payments and CDR credits are recovered in the ECCR. The CS credits are recovered in base rates.

Q DO YOU AGREE IN PRINCIPLE WITH HOW FPL RESTATED THE CILC AND GSLD CLASS REVENUES TO REMOVE THE INCENTIVE PAYMENTS AND CDR CREDITS?

A Yes. Restating sales revenues to exclude the non-firm credits is appropriate in principle. I disagree, however, with two aspects of FPL's proposed revenue restatement. First, FPL did not appropriately quantify the CILC incentive payments. Second, as discussed later, the non-firm credits (*i.e.*, CILC incentive payments and the CDR/CS credits) are not properly allocated.

Q HOW DID FPL DETERMINE THE AMOUNT OF THE INCENTIVE PAYMENTS TO EACH CILC CLASS?

A FPL used historical analysis to determine the proportion of the CILC incentive payments that were assigned to each CILC class. The problem with FPL's analysis is that the restated revenues do not reflect the revenues that each CILC class would generate under the otherwise applicable firm rate. This is shown in **Exhibit JP-3** and in the Table below. Page 1 is a comparison of the incentive payments between FPL's CCOSS and as calculated at present and proposed rates. Detailed calculations at proposed rates are shown on Page 2.

Analysis of CILC Incentive Payments At Proposed Rates ($000)				
CILC Class	GSLD Rate	CILC Rate	Calculated Incentive Payment	Incentive Payment Per FPL
CILC-1T	$29,627	$21,205	$8,423	$7,374
CILC-1D	$86,184	$68,533	$17,650	$16,797
CILC-1G	$5,238	$4,639	$599	$1,026
Total	$121,401	$94,377	$26,672	$25,197

As can be seen, FPL's estimated incentive payments do not accurately reflect the cost differential between firm and non-firm service. Specifically, FPL's incentive payments to the CILC-1T and CILC-1D classes are understated, while the incentive payments to CILC-1G class are overstated.

Q WHAT IS THE IMPACT OF OVER- OR UNDER-STATING THE AMOUNT OF THE CILC INCENTIVE PAYMENTS?

A Understating the CILC-1T and CILC-1D incentive payments means that the earned returns from these classes as derived in FPL's CCOSS are understated. This, in turn, means that the CILC-1T and CILC-1D revenue requirements are overstated. The opposite would be true for the CILC-1G class.

Q SHOULD THE INCENTIVE PAYMENTS BE REVISED?

A Yes. Consistent with the principle that the CILC incentive payments should reflect the cost differential between firm and non-firm service, the calculated incentive payments at proposed rates by class as shown in the Table above should be used.

Allocation of Non-Firm Credits

Q HOW ARE THE NON-FIRM CREDITS ALLOCATED TO CUSTOMER CLASSES?

A FPL proposes to allocate the CS credits to all classes and all loads using its proposed production plant allocator (*i.e.*, 12CP-1/13th AD). FPL uses a similar approach to allocate the CILC incentive payments and CDR credits in its ECCR. As previously stated, the CILC and CDR credits are recovered in the ECCR, while the CS credits are recovered in base rates.

Q IS FPL'S ALLOCATION OF NON-FIRM CREDITS APPROPRIATE?

A No. Using the production demand allocator allocates the non-firm credits to both firm and non-firm customers. This violates the principle of cost causation. It is also inconsistent with FPL's planning principles.

Q WHAT DO YOU MEAN BY COST CAUSATION?

A Cost causation is the principle that governs a CCOSS. Under this principle, costs should be allocated to the customers that cause the costs to be incurred.

Q DO NON-FIRM LOADS CAUSE FPL TO INCUR NON-FIRM CREDITS?

A No. Non-firm customers provide capacity to FPL when FPL needs additional capacity to maintain service to its firm loads. They do so by curtailing service when called upon by FPL. In return for agreeing to curtail load, FPL pays a credit to the non-firm customers. In other words, the non-firm credits are the payment FPL makes for the purchase of capacity from non-firm loads. Thus, the non-firm credits are a cost to provide service to firm loads. Accordingly, they should be allocated only to firm loads and should not be allocated to non-firm loads. The

appropriateness of allocating non-firm credits only to firm loads is further illustrated in **Exhibit JP-4**.

Q PLEASE EXPLAIN EXHIBIT JP-4.

A **Exhibit JP-4** shows two different methods of allocating costs to non-firm customers. *Method 1* is to exclude interruptible load from the CCOSS. *Method 2* reflects the basic approach that FPL used in its CCOSS (*i.e.,* to treat non-firm load as firm) except that the non-firm credits are allocated to the firm classes. As can be seen, the two treatments are mathematically equivalent, but only if the credits are allocated to firm loads.

The illustration shows the allocation of $10,000 in production capacity costs to two equal size classes: A and B. Class A is comprised of only firm load, while Class B's load is 50% firm and 50% interruptible. The interruptible load provides $1,500 in revenue. *Method 1* allocates zero production capacity costs to interruptible customers (column 4, line 8). The revenues provided by interruptible customers are used to lower the cost to provide firm service (columns 2 and 3, line 9). This results in allocating the $10,000 as follows: Class A $5,667; Class B $4,333 ($2,833 plus $1,500), of which the firm load would be charged $2,833.

Method 2 treats interruptible load as firm, but allocates the interruptible credits only to firm load. The interruptible credits are the difference between the revenues at firm rates (or $2,500) and the revenues paid by the interruptible customers (or $1,500). Thus, in the illustration, the interruptible credits are $1,000. As can be seen on line 13, the $10,000 of production capacity costs is allocated as follows: Class A $5,667; Class B $4,333 ($2,833 + $1,500), of

which firm Class B customers are allocated $2,833. However, this is the same allocation as if no production capacity costs were allocated to interruptible customers in the first place (*i.e., Method 1*).

Q WHAT DOES EXHIBIT JP-4 DEMONSTRATE?

A **Exhibit JP-4** demonstrates that non-firm credits should be allocated in proportion to *firm* loads. It would be inappropriate to allocate the credits to total loads, including controllable load, because that would effectively charge CILC, CDR and Curtailable customers for the production plant costs they avoid. This would be contrary to the principle of cost causation and regulatory precedent.

Q IS THE ALLOCATION OF NON-FIRM CREDITS TO ALL LOADS COMPATIBLE WITH FPL'S OWN SYSTEM PLANNING PRACTICES?

A No. FPL removes non-firm loads in determining the need for new capacity. Thus, it does not incur production capacity costs to serve interruptible customers, and no such costs should be allocated to them. The fundamental principle of utility cost allocation is that costs are allocated to those customers that cause them to be incurred. Non-firm customers do not cause capacity costs to be incurred, and thus those costs should not be allocated to them.

Q HAVE YOU DEVELOPED REVISED PRODUCTION DEMAND ALLOCATION FACTORS THAT EXCLUDE NON-FIRM LOADS?

A Yes. This is shown in **Exhibit JP-5**. The non-firm loads were identified based on the proportion of controllable load (in the case of the CILC classes) and demand subject to either the CDR or CS credits to total billing demand. The allocation factors derived in **Exhibit JP-5** should be used to allocate the CS credits in the

CCOSS and CILC/CDR credits in the ECCR.

Q WOULD YOUR RECOMMENDED ALLOCATION OF NON-FIRM CREDITS CONSTITUTE A CHANGE IN CURRENT PRACTICE?

A Yes. This change is necessary to correct the inequity that non-firm customers are being forced to pay for capacity costs that FPL incurs to serve firm customers. Additionally, requiring non-firm customers to subsidize firm service unnecessarily diminishes the value of non-firm service despite its demonstrated cost-effectiveness (as discussed later), which results in lower rates to firm customers. Further, allocating non-firm credits to firm loads is consistent with cost causation. Thus, it comports with Commission policy, which is to embrace cost causation.

Allocation of Production/Transmission Plant-Related Costs

Q WHAT METHODOLOGY DOES FPL USE TO ALLOCATE PRODUCTION AND TRANSMISSION PLANT-RELATED COSTS?

A FPL uses the 12CP-1/13th AD method to allocate both production and transmission plant-related costs. The 12CP-1/13th AD method allocates costs partially on a coincident peak demand basis and partially on an average demand, or energy, basis. Further, the coincident peak portion is based on customer demands in all twelve months of the calendar year. Thus, 12CP-1/13th AD assumes that production and transmission plant-related costs are caused by year-round coincident peaks and average demand. As discussed later, FPL's predominant seasonal loads indicate that another allocation method that places greater emphasis on summer peak demands is more appropriate than 12CP-

1/13th AD. However, the Commission has consistently approved this method. Thus, I am not contesting its use for allocating production plant costs in this case.

Q DOES IT MAKE SENSE TO USE 12CP-1/13TH AD TO ALLOCATE TRANSMISSION PLANT-RELATED COSTS?

A No. First, transmission plant is sized to meet system peak demands. Energy or average demand does not determine the amount of transmission capacity FPL needs to maintain reliable service. To illustrate, **Exhibit JP-6** assumes that the utility serves two customer classes: Class A and Class B. Each utility uses 2,400 kWh of energy over a 24-hour period. Thus, both classes have an average demand of 100 kWh (2,400 kWh ÷ 24 hours). However, Class A has a cyclical load shape while Class B has a flat load shape. Because of its cyclical load shape, Class A's maximum demand is 200 kW. Class B's maximum demand is 100 kW. To serve both classes, the utility would require 300 kW (ignoring reserves). Had the utility provided only 200 kW (which is the combined average load of the two classes), it could not have provided reliable service. In summary, cost causation is primarily a function of peak demand. Thus, a proper cost allocation method should emphasize peak demand.

Second, unlike production plant, there is no difference in the cost of transmission plant as a function of generation technology (*i.e.*, nuclear, hydro, coal, combined cycle gas turbines, combustion turbines). The capital cost/operating cost tradeoffs that are characteristic of production plant is not a factor that determines the cost of transmission plant. For this reason, it does not matter whether a substation is used to step-up power from generators to the

transmission grid or to step-down power from the transmission grid to the distribution system.

Finally, there is also a double-counting problem inherent in an energy-based allocation method that allocates a portion of investment on average demand and a portion on peak demand. The double-counting problem is discussed in **Appendix D**.

Q HOW SHOULD TRANSMISSION PLANT BE ALLOCATED TO DETERMINE THE ALLOCATION OF THESE COSTS TO FPL'S RETAIL CUSTOMER CLASSES?

A For the reasons described above, transmission plant should be allocated on a 100% demand basis. This properly recognizes cost causation.

Q IS 12CP SUPPORTED BY FPL'S LOAD/SUPPLY CHARACTERISTICS?

A No. FPL experiences its maximum annual demand for electricity in either the summer or winter months. This is shown in **Exhibit JP-7**, **page 1**, which is an analysis of FPL's monthly firm peak demands as a percent of the annual system peak for the years 2007 through 2011 and the 2013 Test Year. The peak demands in the other months are typically well below the summer and winter peak demands. These characteristics are further summarized in **Exhibit JP-7**, **page 2:**

- FPL's minimum month peak averages only 70% of the annual system peak.
- Monthly peak demands are only 86% of the annual system peak.
- Summer peak demands average about 18% (or higher) of the non-summer peak demands.
- FPL's annual load factor is below 60%.

These ratios confirm that FPL has seasonal load characteristics. Thus, electricity demands in the spring and fall months are not relevant in determining the amount of capacity needed for FPL to provide reliable service.

Q ARE THE MONTHLY PEAKS IN THE SPRING/FALL MONTHS IMPORTANT BECAUSE FPL HAS TO REMOVE GENERATION FOR SCHEDULED MAINTENANCE?

A No. Although FPL does schedule most planned outages during the spring and fall months, this does not make these months important from a cost causation perspective. Specifically, despite planned outages, FPL generally has higher reserve margins during the non-summer months than during the summer months. This is shown in **Exhibit JP-8**. The reserve margins were calculated as the margin (available capacity less scheduled outages less firm peak demand) divided by firm peak demand. FPL's summer month reserve margins, adjusted for scheduled outages, range from 27% to 63% of the corresponding non-summer month reserve margins.

Q WHAT DO THE PEAK DEMAND AND RESERVE MARGIN ANALYSES DEMONSTRATE?

A The analyses demonstrate that the summer peaks (and to a lesser extent, the winter peak) determine FPL's capacity requirements. The other months are irrelevant. Thus, the 12CP method does not reflect cost causation when measured by FPL's load and supply characteristics.

Q PLEASE SUMMARIZE YOUR RECOMMENDATION ON HOW PRODUCTION AND TRANSMISSION PLANT-RELATED COSTS SHOULD BE ALLOCATED?

A Although FPL's load characteristics support a more seasonal allocation methodology, I do not oppose retaining the 12CP-1/13th AD method for allocating production plant costs, since this method has been previously approved in prior FPL rate cases. However, transmission plant-related costs should be allocated on a purely demand basis. If the Commission adopts 12CP-1/13th AD for production plant, it should adopt the 12CP method for transmission plant.

Classification of Production O&M Expense

Q DO YOU AGREE WITH FPL'S CLASSIFICATION OF PRODUCTION O&M EXPENSE?

A No. FPL has classified $99 million of expense to energy which, according to the Electric Utility Cost Allocation Manual published by the National Association of Regulatory Utility Commissions (NARUC CAM), should be classified to demand.

Q HOW ARE PRODUCTION O&M EXPENSES CLASSIFIED IN THE NARUC CAM?

A **Exhibit JP-9** is an excerpt from the NARUC CAM showing how production O&M expenses should be classified. Production O&M expense consists of both labor and materials expense. The former is related to the number of employees, while the latter is based on the materials consumed to operate and maintain the various generating units. The NARUC CAM generally considers labor expenses as demand-related. This is because, in general, operating labor-related expenses are related to the staffing levels at each plant. They do not change

with the level of output. Materials expenses are generally considered to be energy-related because they include consumables used in the production of electricity. In addition, certain maintenance expenses are classified either entirely to demand or entirely to energy.

Q WHAT EXPENSES HAVE FPL CLASSIFIED TO ENERGY THAT SHOULD BE CLASSIFIED TO DEMAND?

A For the most part, FPL followed the NARUC CAM in classifying production O&M expense. There are some notable exceptions, including nuclear operation and supervision and other production O&M expenses. Had FPL also followed the NARUC CAM for these expenses, it would have classified 84% (not 69%) of nuclear operation and supervision expense and 98% (not 44%) of other non-fuel production O&M expense to demand.

Q ARE THE DIFFERENCES IN COST CLASSIFICATIONS BETWEEN FPL AND THE NARUC COST ALLOCATION MANUAL SIGNIFICANT?

A Yes. The differences are shown in **Exhibit JP-10**. As can be seen, FPL has classified about $323 million of production O&M expense to demand (column 2), while applying the methodology in the NARUC CAM would result in classifying about $422 million (or $99 million more) to demand (column 7).

Q PLEASE SUMMARIZE YOUR RECOMMENDATION.

A Consistent with the NARUC CAM, $422 million of production O&M expense should be classified to demand.

Revised Class Cost-of-Service Study

Q HAVE YOU CONDUCTED A CLASS COST-OF-SERVICE STUDY THAT INCORPORATES YOUR RECOMMENDED CHANGES TO FPL'S STUDY?

A Yes. The revised CCOSS at present rates is provided in **Exhibit JP-11**. The results are also summarized in the Table below. The revised CCOSS incorporates the following changes:

- The CILC incentive payments were restated to reflect the firm/CILC rate differentials at FPL's proposed 2013 rates;
- CS Credits were allocated relative to firm loads;
- The 12CP method was used to allocate transmission plant-related costs; and
- $99 million of production O&M expense was reclassified from energy to demand.

Q PLEASE EXPLAIN HOW THE CLASS COST-OF-SERVICE STUDY RESULTS SHOWN IN EXHIBIT JP-11 ARE MEASURED.

A The results of the revised CCOSS presented in **Exhibit JP-11** are measured in three ways: (1) rate of return; (2) parity index; and (3) interclass subsidies.

Rate of return is the ratio of net operating income (revenues less allocated operating expenses) to the allocated rate base. Net operating income is the difference between operating revenues and allocated operating expenses. If a class is presently providing revenues sufficient to recover its cost-of-service (at the current system rate of return), it will have a rate of return equal to or greater than the Florida retail jurisdictional return of 5.50% at present rates.

The ***parity index*** is the ratio of each class's rate of return to the Florida retail average rate of return. A parity index above 100 means that a class is providing a rate of return higher than the system average, while a parity index

below 100 indicates that a class is providing a below-system average rate of return.

The ***interclass subsidy*** measures the difference between the revenues required from each class to achieve the system rate of return and the revenues actually being recovered. A negative amount indicates that a class is being subsidized each year (*i.e.*, revenues are below cost at the system rate of return), while a positive amount indicates that a class is providing a subsidy each year (*i.e.*, revenues are above cost).

4. RATE DESIGN

Q WHAT RATE DESIGN ISSUES WILL YOU ADDRESS?

A In this section, I will discuss the appropriate design of the GSLD and CILC rates. Specifically, I will discuss:

- Demand and Non-Fuel Energy charges;
- Why the CILC tariff should be re-opened; and
- The justification for increasing both the CILC and the CDR credits.

Demand and Non-Fuel Energy Charges

Q DESCRIBE THE DEMAND AND NON-FUEL ENERGY CHARGES.

A These charges are designed to recover base rate (non-fuel) costs. Demand charges are billed relative to a customer's maximum metered (kW) demand in the billing month, while the non-fuel Energy charges are billed on the kWh purchased.

Q HOW IS FPL PROPOSING TO CHANGE THE DEMAND AND NON-FUEL ENERGY CHARGES?

A FPL's proposed GSLD(T)-1, GSLD(T)-3 and CILC rate designs are shown in **Exhibit JP-12**. As can be seen, FPL's proposed rate design would substantially increase (by triple digits, in some cases) Energy charges and de-emphasize Demand charges. The only significant change that FPL is proposing for Demand charges is in Rates GSLDT-1 and GSLDT-2. All other demand charges would increase only minimally or decrease (*e.g.*, by 11% in GSLDT-3). There would be a corresponding (but much larger) increase in the Energy charges, especially during on-peak hours. Particularly noteworthy is FPL's proposal to recover the

entirety of the CC Step increase through higher energy charges. The resulting post-CC Step energy charges would be 38% to over 200% higher than the current charges.

Q IS FPL'S PROPOSAL FOR THE DEMAND AND NON-FUEL ENERGY CHARGES APPROPRIATE?

A No. Coupled with the disproportionately large base rate increases that FPL proposes to allocate to the GSLD(T) and CILC classes, a rate design that substantially de-emphasizes Demand charges would result in high load factor customers receiving larger base rate increases than the corresponding class average. De-emphasizing Demand charges will send the wrong price signals and discourage load management. Allowing demand-related costs to be collected in Energy charges will create revenue (and income) instability. Neither outcome is consistent with cost-based ratemaking.

FPL's proposed CC Step rate design is especially inappropriate given that a substantial portion of the CC Step increase is comprised of demand-related costs.

In summary, FPL has underpriced the Demand charge and overpriced the Energy charges (based on FPL's proposed revenue levels, which I do not endorse but have used for illustrative purposes).

Q HOW SHOULD THE GSLD/CILC RATES BE DESIGNED?

A Consistent with cost causation, the Customer, Demand and Energy charges should closely reflect the customer-related, demand-related, and energy-related unit costs as derived in the CCOSS. Ironically, FPL followed this practice in

designing the proposed Customer charges, but it ignored this practice in designing the proposed Demand and non-fuel Energy charges.

Q WHAT ARE THE UNIT ENERGY COSTS DERIVED FROM FPL'S CLASS COST-OF-SERVICE STUDY?

A The 2013 unit energy costs and the corresponding proposed charges for the GSLD-2 and GSLD-3 classes are as follows:

Non-Fuel Energy (¢/kWh)			
Rate	Unit Cost	Present Charge	Proposed Charge
GSLD-1	0.704¢	0.922¢	1.004¢
GSLD-3	0.682¢	0.640¢	1.064¢

As can be seen, FPL's proposed non-fuel Energy charges would be 143% and 156% higher than the corresponding non-fuel energy costs, respectively. The present GSLDT-1 Energy charge already exceeds unit cost. The fact that the proposed standard Energy charges would exceed unit cost means that the corresponding Demand charges are understated, and a significant amount of demand-related costs would be collected in the Energy charge. The proposed time-of-use (TOU) rates, which are derived from the standard rates, were also designed to collect a significant amount of demand-related costs in the proposed On-Peak Energy charges, as shown in the Table below.

Non-Fuel Energy (¢/kWh)					
		Present Rates		Proposed Rates	
Rate	Unit Cost	On-Peak Charge	Off-Peak Charge	On-Peak Charge	Off-Peak Charge
GSLDT-1	0.704¢	2.047¢	0.426¢	1.717¢	0.704¢
GSLDT-3	0.682¢	0.739¢	0.604¢	2.155¢	0.682¢
CILC-1D	0.700¢	0.646¢		2.719¢	0.700¢
CILC-1G	0.710¢	1.175¢		3.479¢	0.710¢
CILC-1T	0.680¢	0.599¢		2.155¢	0.682¢

Q HAS FPL ADEQUATELY EXPLAINED WHY THE NON-FUEL ENERGY CHARGES ARE MUCH HIGHER THAN ACTUAL ENERGY COSTS?

A No. FPL's workpapers indicated that the Energy charges were adjusted to achieve the desired class revenue targets. Further, in response to discovery (SFHHA Interrogatory No. 56), FPL asserts that higher energy charges will be offset by fuel savings. Such an assertion has nothing to do with cost-based ratemaking. In addition, fuel savings are speculative and subject to extreme changes. For example, if natural gas prices returned to the levels experienced prior to the economic recession, FPL's proposed rate design would be especially harmful to those high load factor customers that must compete in both domestic and global markets. Any proposal to link base rate design with speculative fuel cost savings should be rejected.

Q ARE FPL'S PROPOSED ON-PEAK ENERGY CHARGES APPROPRIATE?

A No. As previously stated, the proposed On-Peak Energy charges would recover significant demand-related costs. Rather than triple digit increases in Energy charges, which adversely affect high load factor customers, it would be far more reasonable to allocate most of the increase (over and above any required increase to raise the Energy charges at least up to unit cost) to the Demand charges.

Q PLEASE SUMMARIZE YOUR RECOMMENDED RATE DESIGN.

A The GSLDT-1, GSLDT-3 and CILC rates should be designed so that the charges more closely reflect unit cost. For this reason, I agree with FPL's proposed Customer charges. However, for the reasons stated previously, I disagree with

FPL's proposed Demand and non-fuel Energy charges. Based on my analysis, any increase allocated to the GSLD(T)-1 class should be entirely in the Demand charge. The GSLD(T)-3 and CILC Energy charges should be increased by the amount necessary to reflect the unit cost as indicated in the Table on page 38. Any remaining revenue deficiency should be recovered in the Demand Charge.

Reopening the CILC Rate

Q WHY IS CILC A CLOSED RATE SCHEDULE?

A The CILC rate is currently closed and has been since 1996. The stated reason for closing CILC was that the rate was fully subscribed and that additional CILC load would not be cost-effective at that time (see Order No. PSC-96-0468-FOF-EG in Docket No. 960130-EG).

Q SHOULD THE CILC RATE REMAIN CLOSED?

A No. Circumstances have changed dramatically since 1996, when the CILC rate was closed. Further, FPL has not imposed similar restrictions on Rider CDR.

Q PLEASE EXPLAIN.

A FPL continues to add non-firm load on Rider CDR. As discussed later, Rider CDR has a higher capacity payment than CILC at FPL's proposed 2013 rates, and it is cost-effective.

Further, equipment costs for new generation capacity were much lower in 1996. Now, the cost of new generation capacity has increased dramatically. The avoided unit currently being used to establish the capacity payments in Schedule QS-2 is estimated to cost $930/kW. By comparison, the installed cost of FPL's

combustion turbines is only $123/kW. Rising equipment costs mean that additional CILC load is now very cost-effective.

Interruptible power has also received increasing attention from legislative and regulatory policy makers. For example, the Energy Policy Act of 2005 (EPACT 2005) specifically encourages the development of demand response programs, which are a form of non-firm service:

> ``(d) Demand Response.—The Secretary shall be responsible for—
> ``(1) educating consumers on the availability, advantages, and benefits of advanced metering and communications technologies, including the funding of demonstration or pilot projects;
> ``(2) working with States, utilities, other energy providers and advanced metering and communications experts to identify and address barriers to the adoption of demand response programs; and
> ``(3) <<NOTE: Deadline. Reports.>> not later than 180 days after the date of enactment of the Energy Policy Act of 2005, providing Congress with a report that identifies and quantifies the national benefits of demand response and makes a recommendation on achieving specific levels of such benefits by January 1, 2007.``
> (e) <<NOTE: 16 USC 2642 note.>> Demand Response and Regional Coordination. --
> (1) In general.—It is the policy of the United States to encourage States to coordinate, on a regional basis, State energy policies to provide reliable and affordable demand response services to the public.
> (2) Technical assistance.—The Secretary shall provide technical assistance to States and regional organizations formed by two or more States to assist them in—
> (A) identifying the areas with the greatest demand response potential;
> (B) identifying and resolving problems in transmission and distribution networks, including through the use of demand response;
> (C) developing plans and programs to use demand response to respond to peak demand or emergency needs; and
> (D) identifying specific measures consumers can take to participate in these demand response programs.

Following the enactment of EPACT 2005, the FERC issued Order No. 693 directing NERC to submit a modification to reliability standard BAL-002, which includes a requirement that explicitly allows demand-side management (DSM) to be used as a resource for contingency reserves provided that it is treated on a comparable basis and meets similar technical requirements as other resources providing this service. Various regional market organizations and independent system operators have been working to integrate demand response into their organized markets that allow non-firm loads to provide capacity when it is needed to maintain system reliability or is more economical than operating generation.

Q IS INTERRUPTIBLE POWER AN IMPORTANT RESOURCE FOR THE STATE OF FLORIDA?

A Yes. The interruptible tariffs have been in place for decades. They have been and currently are a valuable resource to FPL and to the state as a whole. When capacity is needed to serve firm load customers, interruptible customers, statewide, may be called upon (with or without notice and without limitation as to the frequency and duration of curtailments) to discontinue service so that the lights will stay on for the firm customer base. Such interruption often causes production to be shut down resulting in losses for the interruptible customer.

Q HOW CAN THE COMMISSION NURTURE THIS VALUABLE RESOURCE?

A The Commission should re-open the CILC rate. Further, it should raise the payments to both CILC and CDR customers to more appropriately compensate them for the capacity they provide. The latter point is discussed below.

Q **WHAT EVIDENCE SUPPORTS RE-OPENING THE CILC RATE?**

A As previously stated, FPL continues to recruit new non-firm load under Rider CDR. However, Rider CDR customers are paid more for their non-firm capacity than CILC customers. This is demonstrated in **Exhibit JP-13**.

Q **PLEASE EXPLAIN EXHIBIT JP-13.**

A **Exhibit JP-13** shows the derivation of an "effective" per unit CILC credit. The per unit credit is measured on a per kW of Load Control Demand (column 4) and on a per coincident peak (CP) kW basis (column 5). The starting point for both calculations is the amount of incentive payments (column 1) derived in **Exhibit JP-3**.

A previously stated, CILC customers pay lower Demand charges for their non-firm or load control demand. The load control billing determinants are shown in column 2. The corresponding CP-kW demands are shown in column 3. As can be seen, based on the proposed 2013 rate differentials, the average CILC credit is $3.79 per kW of Load Control demand and $4.79 per CP-kW. However, the corresponding Rider CDR credits are $4.68 per kW and $4.90 per CP-kW.

Therefore, CILC customers are being paid less for capacity than similar non-firm customers on Rider CDR. Yet, as previously stated, Rider CDR remains open.

Q **IS THE CDR PROGRAM COST-EFFECTIVE?**

A Yes. FPL's Demand Side Management Plan (which was filed in Docket No. 100155-EG) revealed that Rider CDR was producing a 3.1 benefit-to-cost ratio. This is shown in **Exhibit JP-14**. In other words, Rider CDR is cost-effective

based on the current $4.68 per kW month credit that FPL is paying CDR customers. Because CILC customers are being paid less, the CILC rate is also cost-effective, and it should be re-opened. Further, to eliminate discrimination, the CILC incentive payments should be increased to at least the same level as Rider CDR.

Q WHY IS IT REASONABLE TO ASSUME THE CILC RATE IS COST-EFFECTIVE JUST BECAUSE THE CDR IS COST-EFFECTIVE?

A Rider CDR is very similar to CILC. For example, under Rider CDR, load may be curtailed under any of the following circumstances:

- Control Condition:
- The Customer's controllable load served under this Rider is subject to control when such control alleviates any emergency conditions or capacity shortages, either power supply or transmission, or whenever system load, actual or projected, would otherwise require the peaking operation of the Company's generators. Peaking operation entails taking base loaded units, cycling units or combustion turbines above the continuous rated output, which may overstress the generators.

Thus, curtailments may occur during shortages of either generation or transmission capacity. These conditions are similar to the ones applicable to CILC customers, as stated previously. Further, FPL, not the customer, makes curtailments under both Rider CDR and CILC.

And, both Rider CDR and CILC customers are required to have load control equipment installed to provide FPL direct control over the customer's electrical load. This equipment is paid for by the customer through an additional Customer charge. CILC customers pay higher Customer charges than the corresponding firm rate customers.

Rider CDR Credit

Q SHOULD THE CDR CREDIT BE INCREASED?

A Yes. The Rider CDR credit has not changed since 2004. However, as previously discussed, costs for new generation capacity, upon which the CDR credit is based, have increased since 2004.

Q WHAT SPECIFIC EVIDENCE INDICATES THAT THE CDR RIDER CREDIT SHOULD BE INCREASED?

A **Exhibit JP-14** shows that the current $4.68 per kW credit produces a 3.1 benefit-to-cost ratio. If this ratio were set at 1.2, the credit would increase by 158% to $12.07 per kW. In other words, Rider CDR would remain cost-effective even if the credit were set at $12.07 per kW.

Q PLEASE SUMMARIZE YOUR RECOMMENDATION.

A The CDR program would remain cost-effective even if the credit is raised to $12.07 per kW. Because CDR and CILC are similar programs, a similar increase in the CILC incentive payments would not only be cost-effective, it would also be consistent with cost-based ratemaking.

Q DOES THIS CONCLUDE YOUR TESTIMONY?

A Yes, it does.

APPENDIX A

Qualifications of Jeffry Pollock

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Jeffry Pollock. My business mailing address is 12655 Olive Blvd., Suite 335, St. Louis, Missouri 63141.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am an energy advisor and President of J. Pollock, Incorporated.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I have a Bachelor of Science Degree in Electrical Engineering and a Masters in Business Administration from Washington University. I have also completed a Utility Finance and Accounting course.

Upon graduation in June 1975, I joined Drazen-Brubaker & Associates, Inc. (DBA). DBA was incorporated in 1972 assuming the utility rate and economic consulting activities of Drazen Associates, Inc., active since 1937. From April 1995 to November 2004, I was a managing principal at Brubaker & Associates (BAI).

During my tenure at both DBA and BAI, I have been engaged in a wide range of consulting assignments including energy and regulatory matters in both the United States and several Canadian provinces. This includes preparing financial and economic studies of investor-owned, cooperative and municipal utilities on revenue requirements, cost of service and rate design, and conducting site evaluation. Recent engagements have included advising clients on electric

restructuring issues, assisting clients to procure and manage electricity in both competitive and regulated markets, developing and issuing requests for proposals (RFPs), evaluating RFP responses and contract negotiation. I was also responsible for developing and presenting seminars on electricity issues.

I have worked on various projects in over 20 states and several Canadian provinces, and have testified before the Federal Energy Regulatory Commission and the state regulatory commissions of Alabama, Arizona, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, New Jersey, New Mexico, Ohio, Pennsylvania, Texas, Virginia, Washington, and Wyoming. I have also appeared before the City of Austin Electric Utility Commission, the Board of Public Utilities of Kansas City, Kansas, the Bonneville Power Administration, Travis County (Texas) District Court, and the U.S. Federal District Court. A partial list of my appearances is provided in **Appendix B**.

Q PLEASE DESCRIBE J. POLLOCK, INCORPORATED.

A J.Pollock assists clients to procure and manage energy in both regulated and competitive markets. The J.Pollock team also advises clients on energy and regulatory issues. Our clients include commercial, industrial and institutional energy consumers. J.Pollock is a registered Class I aggregator in the State of Texas.

BY MS. KAUFMAN:

Q Mr. Pollock, did you also cause to be filed 14 exhibits labeled JP-1 to 14, and they have been identified as Exhibit 280 to 293 on our exhibit list?

A Yes, I did.

Q Were those exhibits prepared by you or under your supervision and direction?

A Yes.

Q Do you have any changes or corrections?

A No.

Q Okay. With that, Mr. Pollock, have you prepared a summary for the Commission?

A I have.

Q If you would go ahead. Thank you.

A Good afternoon, Mr. Chairman and Commissioners.

My testimony addresses the very stimulating subjects of cost allocation rate design. Let me begin by discussing an issue you have already heard about, which is our position that interruptible credits should be increased. You heard FP&L's president say that interruptible customers are a valuable asset on the FP&L system.

This is because non-firm service, besides being very cost-effective, allows FP&L to maintain

reliable service because interruptible customers can be instantaneously shut off during a capacity shortfall so the lights can stay on for the firm customers. And these curtailments can occur not only if FP&L has a problem, but also utilities around the state.

Despite their value, the CILC and Rider CDR rates are underpaid. Other witnesses have told you that Consumer Price Index has increased, equipment costs have gone up, avoided costs have gone up. But the truth is, the credits for Rider CDR and CILC have remained relatively flat since their inception. For example, in 2000, Rider CDR credit was 475. Today, it's 468. Twelve years have passed and -- and no change.

And the same is true of the CILC rate. And for that reason, the CILC should be reopened. The incentive payments should be raised to as least the same level as Rider CDR. It wouldn't be fair to let the these customers be undervalued relative to the value they create and provide to FP&L and require them to wait.

That is rate case, and consistent with FP&L's cost-effectiveness analysis, the Rider CDR credits can easily be increased by -- to over $12 and remain cost-effective. There should be a commensurate increase for the CILC incentive payments as well, since, again,

this is a cost-based rate. This is a rate case, and it should be implemented with any authorized base rate change.

I want to now discuss FP&L's proposed class revenue allocation. That is how an increase, if any, will be spread among the classes once you determine the pot of dollars that FP&L will get.

The objective should be to move all classes closer to parity. However, in the company's proposed allocation, certain classes would remove from below parity to above parity. And base rates, for example, standby rates, would increase, even though they are farther above parity than the increase to a street lighting rate, which would get decrease.

FP&L's proposed allocation violates the principle of gradualism, which is intended to limited rate shock, and for that reason, it should be rejected. For example, the CILC-1T class will experience a 46 percent base rate increase with the Canaveral Step. If 46 percent is not rate shock, I am not sure what is. This is not the time to send the wrong signal to business who is struggling in this faltering economy.

Gradualism constraints are appropriately applied to the percentage change in base rates, not including the cost recovery clauses because only the

base rates are changing in this case. Clause revenues change. They may change annually. They may change more often, but base rates usually remain in effect for many years.

In addition, the proposed allocation of the Canaveral Step Increase should be rejected because it's not consistent with the way FP&L allocates production capacity costs, either in its cost of service study or in the Capacity Cost Recovery Clause.

Future capacity additions occur because capacity is needed to meet peak demands. Without load growth, it could not be certified and/or built.

Every new power plant, the new technology will create fuel savings, yet this does not make fuel savings the cost causer. To the extent savings materialize, they are a byproduct of meeting peak demand, so the costs should still being allocated on a peak demand basis not on a fuel savings.

I am also recommending several refinements to FP&L's class cost of service study, including the quantification of the incentive payments associated with the CILC program, the allocation of non-cert firm service credits, which should be allocated to firm loads because it's the firm loads that utilize the additional reliability provided by the non-firm service. And I am

also recommending that certain production O&M costs be reclassified to demand consistent with the guidelines published in the National Association of Regulatory Utility Commissioners.

Twenty years have elapsed since this Commission seriously examined the design of the CILC rates. FPL's proposed CILC rate designs with triple digit increases in the on-peak energy charges should rejected because they are not cost-based. A cost-based rate design, customer demand and energy charges should closely reflect the allocation customer demand and energy related costs.

FIPUG appreciates the opportunity to provide its views to you on these important rate design cost allocation issues. We hope that you take this opportunity to design fair, just and reasonable rates. That concludes my summary.

MS. KAUFMAN: Mr. Pollock is available for cross-examination.

CHAIRMAN BRIS : Okay. I think we have an order that we have laid out, and based upon that order, South Florida Hospital Association is first on cross-examination.

MR. LITCHFIELD: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. LITCHFIELD:

Q Good afternoon, Mr. Pollock. How are you?

A Good afternoon. I'm good.

Q Mr. Pollock, can you refer to page seven of your testimony, specifically lines 6 through 8?

A Yes.

Q All right. Now, you state there that you have no objection to the Commission retaining the use of the 12CP and 1/13th methodology; is that correct?

A Yes, for production related costs.

Q Thank you for that clarification.

Am I correct that under the 12CP and the 1/13th methodology, FPL allocates approximately 92 percent of the costs of production plant to individual rate schedules based upon each rate schedule's contribution to the average of the 12 monthly coincident peaks on FPL system?

A That's correct.

Q Okay. And let's define some terms so it's clear what we are talking about. The coincident peaks that we are discussing, that -- that would be the maximum load that FPL serves in an hour in each of the 12 months of the year, right?

A That's correct. The 12CP method looks at the

highest demand in each month and then assigns responsibility based on each class' contribution to that demand in each of the 12 months.

Q Okay. And we have been using the term, production plant. Would you agree that that refers to generating plants?

A Yes.

Q Now, would you agree that FPL is a summer peaking utility?

A Generally, that's -- that's true. They -- they have incurred more summer peaks. Occasionally do have some winter peaks, but the summer peaks are a lot broader in nature.

Q Okay. Would you accept, subject to -- to check -- if you don't know, you may -- that except for the year 2010, the highest coincident peak experienced each year on FPL's system from 2005 through 2011 has occurred during the summer months?

A That -- that's correct. In fact, if you look at Exhibit JP-7, page one, that shows -- really, that's a bar chart that shows when the system peaks actually occur, and -- and the red bars clearly demonstrate with the exception of 2010, the -- the highest demand has occurred during summer period.

Q Now, your aware that SFHAA, through its

witness, Mr. Baron, opposes the use of the 12CP and the 13th methodology, correct?

A Yes.

Q And you are aware, are you not, that Mr. Baron has proposed on behalf of the hospitals that the Commission adopt a summer CP allocation methodology for production costs; is that right?

A Yes.

Q Okay. Now, under Mr. Baron's proposal, FPL would allocate the cost of production plant to each rate schedule based upon each rate schedule's contribution to the summer coincident peak; is that right?

A Yes.

Q Now, you would agree with the statement that FPL has been adding capacity to its system, generating capacity, in order to serve its summer peak?

A Certainly, the -- the peak load is the primary driver, as I indicated in my summary. Without load growth, and particularly growth during the -- the summer and occasionally in the winter period when you do get really cold weather, the company has to have enough capacity to provide reliable service to -- to cover those peaks.

Q Well, so would you agree, then, that FPL's incurring -- has incurred over the past several years in

forecasts to incur in the next few years, hundreds of millions, in fact, billions of dollars to add generating plant to its system?

A Yes.

Q All right. And that generating plant is to serve the summer peak, right?

A It will ensure that FPL has sufficient reserve generating capacity to comfortably meet the -- the projected peak demands on the system.

Q Well, would you agree with me that FPL is not incurring these capital costs in order to meet its average monthly coincident peaks?

A I would agree, and -- and you look at Exhibit JP-6, that kind of explains the rationale why utilities build plant. They have to build plant in order to meet the maximum demand that they expect to be imposed on that plant.

If they only build for the average, they won't have enough capacity to provide reliable service year-round, so therefore, when you look at that cost causation, it's peak demand that's the driver. That's driving the decision, and -- and once you have installed capacity to meet the peak demand, then really serving loads at other times is a byproduct of that. So the cost causer still is peak demand. The other loads

are -- are there, and they obviously have to serve them. But they are -- they are not the driver.

Q In fact, wouldn't you agree that FPL actually has no need to add capacity to serve the average monthly coincident peaks on its system?

A I haven't looked at the analysis, but -- and again, it's the peak demands that drives capacity --

Q All right.

A -- expansions.

Q Would you agree with me that by assigning costs to rate schedules based upon their contribution to the summer peak demand, that Mr. Baron's summer CP methodology sends a more accurate price signal than the 12CP in the 13th methodology?

A It -- it certainly has the potential. If -- if the goal is to reduce the summer period demand and therefore slow down the amount of future capacity additions, and -- and assuming the rates recognize that, by -- by assigning higher costs during the summer period, that certainly would be the case.

Q Well, would you agree that use of the summer CP methodology would properly assign cost responsibility with cost causation?

A I would say, generally, it would do a better job than the 12CP, only because the company is a summer

peaking -- predominantly a summer peaking utility, and if you look at the analysis that I have done, it also shows that the supply is generally a lot tighter during the summer months than during the non-summer months, even when in one year the peak occurred in January.

MR. LITCHFIELD: Thank you, Mr. Pollock. I have no further questions.

CHAIRMAN BRISÉ: Okay. Thank you.

FEA?

CAPTAIN MILLER: No questions, Mr. Chairman.

CHAIRMAN BRISÉ: Okay.

FPL?

MS. CLARK: I'm sorry. Were you waiting on me?

CHAIRMAN BRISÉ: Yes, ma'am.

MS. CLARK: I'm sorry.

CROSS EXAMINATION

BY MS. CLARK:

Q I just have a couple. Mr. Pollock, you did present testimony in the last case as well, correct?

A I did, yes.

Q And didn't you take the same position with regard to the cost allocation for production plant?

A I -- I think I took a position. You would probably have to refresh my recollection.

Q I think it's the same position you have taken in this case, is that you wouldn't -- you don't object to the use of the 12CP and 1/13th; is that correct?

A Yes, while -- while I think another method would be better to track cost causation, we have -- we have kind of accepted that the 12CP and the 1/13th is -- is the Commission practice currently.

Q And you -- you do not agree with the summer -- single summer peak methodology?

A Well, in theory, I -- I support the summer peak methodology because -- for the reasons that I have just discussed, that -- that you still have to have enough capacity to meet the highest demand, and the highest demands typically has occurred during the summer period. So, in theory, I think it -- it's a good effort to measuring cost causation. We are not recommending that method in this case.

Q Well, isn't it true, if you were only serving a single hour of summer peak, you wouldn't -- you would build a peaking plant for that?

A Well, again, it -- it gets to the question of what's the cost causer, and what are the byproducts? The cost causer, in order for the company to be able to certify and build a plant, it has to show a need. That need is demonstrated by the fact that load is growing.

When load grows, it raises demands year-round, but the company still has to provide the service year-round. That year-round service is provided when the company has sufficient capacity in service to meet the projected peak demand. Once that is done, that capacity can be used to meet demands throughout the year. That's the byproduct, not the cost causer.

Q Would you agree with me the objective is to provide the least cost year-round?

A In -- the theory -- the objective is, is to provide reliable service at the lowest reasonable cost to customers.

Q Thank you, Mr. Pollock.

CHAIRMAN BRIS : Okay. The Office of Public Counsel?

MR. REHWINKEL: We have no questions.

CHAIRMAN BRIS : Okay. FRF?

MR. LaVIA: No questions.

CHAIRMAN BRIS : Mr. Saparito?

MR. SAPARITO: No questions, Mr. Chairman.

CHAIRMAN BRIS : Mr. Hendricks?

MR. HENDRICKS: No questions.

CHAIRMAN BRISÉ: Staff?

MR. HARRIS: Yes, sir. Thank you.

CROSS EXAMINATION

BY MR. HARRIS:

Q Mr. Pollock, I have one question. Well, I hope I have one question for you, and it's to help me understand your testimony a little bit more. And that is essentially, you have mentioned both the CILC rate and the Rider CDR, and I am wondering if you could explain to me what advantages you believe customers would have from taking service on the CILC rate that are not available to those customers under the CDR rate schedule?

A Well, the CILC rate provides another option. It's another -- it's a rate with a different structure and -- and creates some different incentives. In terms of the way the rate is priced, it -- it -- it -- you know, very, very specifically includes a lower demands charge for -- for firm on peak demands -- or for controlled -- low controlled demand, and it has other advantages like that.

And -- and customers are -- that are on that rate are -- are going to be somewhat constrained and be able to use more of that power, you know, should they should expand, and so they have a natural interest in wanting to reopen that rate so they can take advantage of it, assuming, again, it's properly priced.

Q So if -- if I understand you correctly, it's essentially that reopening that rate would provide a different set of incentives that customers could take that might make it more attractive to those customers than CDR would be?

A It -- it very well could because a CDR is a credit against a -- a standard rate. Whereas the CILC is just a lower rate, so it -- it builds in a slightly different incentive. But it's a very strong incentive because of the time and use provisions contained therein.

And -- and it also gives the customers other options and -- and if you are getting essentially the same curtailment with two different rates, there is no reason not to have one rate available and not the other.

MR. HARRIS: Thank you. I think that's all we have.

CHAIRMAN BRIS : Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Chairman. I have two questions for Mr. Pollock.

You indicated -- and -- and I will try and quote you, that if a 46 percent increase is not rate shock, then I don't know what is.

THE WITNESS: Yes.

COMMISSIONER BALBIS: What percent increase --

what would be the maximum percent increase that would not provide rate shock?

THE WITNESS: Generally, we follow the guideline that -- that implying in gradualism that you should limit the increases to about a one-and-a-half times system average, so if the system average base rate increase -- bear with me just a minute.

So let's say that the system average overall increase, both the proposed base rate and step increase is 15.1, one-and-a-half times that would be about 20, 22, 23 percent base rate increase. As long stay within the one-and-a-half times -- and I know the Commission has -- has -- has, you know, done that in the past; they have applied it differently -- but as long as it would not exceed one-and-a-half times 15.1, or whatever base rate percentage increase y'all authorize FPL, that would -- that would be in the realm of recognizing gradualism.

COMMISSIONER BALBIS: Okay. And then my last question, and -- and this may be a more appropriate question for staff during the decision-making process. But you indicate that C -- CILC incentives are paid through the ECCR clause.

THE WITNESS: That's correct.

COMMISSIONER BALBIS: And why shouldn't the adjustment of that be made during the clause proceedings, and why do you think it should be made during a rate case proceeding?

THE WITNESS: Because a -- it's more appropriate to adjust all rates in a rate case because you have the opportunity to look at the bigger picture and examine the effect on customers.

A rate case does that. It brings together everything -- all -- all the rate issues in one setting, and you can look at, based on your decisions about the rate setting, you know, what effect that will have on different customers. But ultimately, in a rate case, your goal is to try to move everybody closer to cost.

Resetting the CILC rate as well as the CDR credit, that's basically the same step. It's trying to reset those rates to better reflect cost and providing a payment to those customers that reflect the -- the cost savings that they create.

COMMISSIONER BALBIS: Okay. Thank you. That's all I had.

THE WITNESS: Thank you.

CHAIRMAN BRISÉ: Okay. Any further questions

by Commissioners?

Seeing none, Ms. Kaufman, redirect?

MS. KAUFMAN: I have no redirect, Mr. Chairman. Thank you.

CHAIRMAN BRISÉ: Okay. Exhibits.

MS. KAUFMAN: We would move Exhibits 280 through 293.

CHAIRMAN BRISÉ: Okay. Are there any objections to Exhibit 280 to 93?

Okay. Seeing none, we will move Exhibit 280 to 293 into the record.

(Whereupon, Exhibit Nos. 280 through 293 were received into evidence.)

MS. KAUFMAN: And I assume Mr. Pollock may be excused.

CHAIRMAN BRISÉ: Mr. Pollock may be excused.

THE WITNESS: Thank you, Commissioners, for accommodating my schedule. I greatly appreciate it.

CHAIRMAN BRISÉ: All right. Travel safe.

(Witness excused.)

MR. BUTLER: FPL will call Mr. Stall.

MS. KAUFMAN: Mr. Chairman, I'm sorry. I might have misspoke. Did I say 280 to 293? Okay.

CHAIRMAN BRISÉ: Yes, 293.

MS. KAUFMAN: Thank you.

CHAIRMAN BRISÉ: Go right ahead.

MR. LITCHFIELD: Thank you, Chairman.

Mr. Stall has not yet been sworn.

CHAIRMAN BRISÉ: Okay. Before I swear in Mr. Stall, is there anyone else that needs to be sworn in? Okay. Raise your right hand.

Whereupon,

J. ART STALL

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

CHAIRMAN BRISÉ: Thank you.

MR. LITCHFIELD: May I proceed?

CHAIRMAN BRISÉ: Sure, go right ahead.

MR. LITCHFIELD: Thank you.

DIRECT EXAMINATION

BY MR. LITCHFIELD:

Q Good afternoon, Mr. Stall.

A Good afternoon.

Q Please state your full name and business address for the record, sir?

A My name is Art Stall. My business address is 1803 SW Foxpoint Trail, Palm City, Florida.

Q By whom are you employed and in what capacity?

A I am a self-employed nuclear consultant.

Q Have you prepared and caused to be filed 27 pages of prefiled direct testimony in this proceeding on March 19, 2012?

A Yes.

Q Did you also cause to be filed errata to your testimony on August 16, 2012?

A Yes, I did. And additionally, I also filed updated Exhibits JAS-3 and JAS-4.

Q Do you have any further changes or revisions to your prefiled direct testimony or to the errata?

A Yes, I do. On JAS-4, the data are correct as of today, rather than December 31st, 2011.

Q Thank you, Mr. Stall. With those changes, if I asked you the same questions contained in your prefiled direct testimony, would your answers be the same?

A Yes.

MR. LITCHFIELD: Mr. Chairman, I would ask that the prefiled direct testimony of Mr. Stall be inserted into the record as though read.

CHAIRMAN BRISÉ: All right. We will enter Mr. Stall's direct testimony into the record as though read, seeing no objections.

MR. LITCHFIELD: Thank you, sir.

(Whereupon, testimony inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF J.A. STALL

DOCKET NO. 120015-EI

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is J. A. (Art) Stall. My address is 1803 SW Foxpoint Trail, Palm City, Florida 34990.

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

A. I am currently a consultant for NextEra Energy, Inc. ("NextEra"). I previously worked for FPL Group, Inc. (now NextEra) as President, FPL Group Nuclear, and in other nuclear operational positions for NextEra's subsidiaries. In that position, I reported directly to the Chairman and Chief Executive Officer, independent of line management of NextEra's nuclear power operations.

Q. Please describe your previous duties and responsibilities as President, FPL Group Nuclear.

A. The Nuclear organization reports directly to the Chief Operating Officer of NextEra. Accordingly, I was responsible for the overall strategic direction for all of NextEra's nuclear assets, consisting of the four nuclear units owned by Florida Power & Light Company ("FPL" or the "Company") in Florida (two at Turkey Point Nuclear Plant and two at St. Lucie Nuclear Plant), and the four nuclear units owned by FPL's affiliates outside of Florida (one unit at Seabrook Station in Seabrook, New Hampshire; one unit at Duane Arnold Energy Center in Palo, Iowa; and two units at Point Beach Nuclear Plant in Two Rivers, Wisconsin).

Q. Please describe your educational background and overview of your experience in nuclear operations.

A. I earned my Bachelor of Science degree in nuclear engineering from the University of Florida in 1977. I also earned a Master's degree in Business Administration from Virginia Commonwealth University in 1983. I am a career nuclear professional with approximately 35 years of nuclear operating experience. I joined Virginia Power Company in 1977, where I held various positions of increasing responsibility, including superintendent of operations, assistant station manager for safety and licensing, and superintendent of technical services. I also held a senior nuclear reactor operator license from the U.S. Nuclear Regulatory Commission ("NRC") while working at Virginia Power Company's nuclear plants. In 1996, I joined FPL as the Site Vice President at the St. Lucie Nuclear Plant. From 2000 to 2001, I was Vice President for Nuclear Engineering at FPL. I was named Senior Vice President, Nuclear Operations, and Chief Nuclear Officer at FPL in June 2001, and in 2008, I was named Executive Vice President, Nuclear Operations, and Chief Nuclear Officer. In these positions, I was responsible for the day-to-day operations of all of FPL and NextEra Energy Resources' (formerly known as FPL Energy) nuclear plants. In January 2009, I was named President, FPL Group Nuclear, and on May 1, 2010, I retired.

Q. What are your current duties and responsibilities as a consultant to the Company?

A. In my current position as a consultant to the Company, I provide advice and counsel to the Company on nuclear power issues. For example, at the Company's request, I provided a presentation to members of the Florida Legislature in March 2011 on the details of the Fukushima nuclear accident in Japan.

Q. Are you sponsoring any exhibits in this case?

A. Yes, I am sponsoring the following Exhibits:

- JAS-1, Schedule of Minimum Filing Requirements
- JAS-2, NRC Performance Indicators
- JAS-3, NRC Inspection Findings
- JAS-4, NRC Regulatory Status

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

A. Yes, I am sponsoring the MFRs listed in JAS-1.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to: (1) provide an overview of FPL's nuclear operations; (2) describe how FPL's nuclear fleet performance has yielded significant benefits to FPL customers; (3) describe challenges facing FPL, including recent industry events; and (4) discuss the capital and O&M expenditures for the 2013 Test Year for FPL's nuclear operations.

Q. Please summarize your testimony.

A. FPL's nuclear power plants are a source of safe, reliable, clean and cost effective base-load energy for FPL's customers. These plants are a key component of FPL's energy mix that provide significant value to FPL's customers in terms of fuel savings, enhanced system fuel diversity, and reductions of greenhouse gas ("GHG") emissions. My testimony summarizes FPL's efforts to help ensure the continued safe, reliable, clean and cost effective operation of FPL's nuclear power plants to meet the significant operational and regulatory challenges facing these plants.

II. BACKGROUND ON FPL'S NUCLEAR ENERGY OPERATIONS

Q. Please describe FPL's nuclear plants.

A. FPL's long and successful involvement with nuclear power started in the mid-1960s with the first order for nuclear generation in the south. FPL's plans to build nuclear units at the Turkey Point Plant were announced in 1965, and the first nuclear unit achieved commercial operation in 1972. FPL is currently licensed by the NRC to operate the St. Lucie Nuclear Plant, Units 1 and 2, and the Turkey Point Nuclear Plant, Units 3 and 4. Turkey Point Units 3 and 4 are pressurized water reactors designed by Westinghouse. Unit 3 commenced commercial operation in 1972, and Unit 4 did so in 1973. St. Lucie Units 1 and 2 are pressurized water reactors designed by Combustion Engineering (now owned by Westinghouse). Unit 1 went into commercial operation in

1976, and Unit 2 did so in 1983. The investment to build these units in the 1960s, 70s, and 80s has yielded significant value to FPL's customers in terms of safe, reliable, clean, cost-effective, base-load energy.

Q. Describe the ownership structure for FPL's nuclear units.

A. FPL owns 100 percent of Turkey Point Units 3 and 4 and St. Lucie Unit 1. FPL owns 85.10449 percent of St. Lucie Unit 2. The balance of St. Lucie Unit 2 is owned by the Florida Municipal Power Agency, which owns 8.806 percent, and the Orlando Utilities Commission, which owns 6.08951 percent.

Q. How long are FPL's nuclear units currently licensed to operate?

A. In the late 1990s, FPL had the foresight to begin the process to renew the operating licenses so that the benefits of those nuclear units could continue well into the 21st century. In June 2002, FPL received renewed operating licenses from the NRC for Turkey Point Units 3 and 4, and in October 2003, FPL received renewed operating licenses from the NRC for St. Lucie Units 1 and 2. The renewed licenses give FPL the authority to operate each unit for 20 years past the original license expiration date. Accordingly, the current license expiration dates are for Turkey Point Unit 3, 2032; for Turkey Point Unit 4, 2033; for St. Lucie Unit 1, 2036; and for St. Lucie Unit 2, 2043.

III. FPL'S NUCLEAR PLANT PERFORMANCE

Q. What metrics are used by FPL to measure the performance of FPL's nuclear plants?

A. FPL uses many metrics to measure the performance of its nuclear plants, including nuclear safety, regulatory performance (as measured by the NRC), overall plant performance (as measured by an objective numerical index maintained by the Institute for Nuclear Power Operations ("INPO")), personnel safety, and reliability. INPO is an organization that promotes the highest levels of safety and reliability by promoting excellence in the operation of nuclear electric generating plants. FPL is a member of INPO.

Q. How does the NRC measure FPL's nuclear safety record?

A. Nuclear safety is by far the most important aspect of owning and operating FPL's nuclear fleet. FPL takes its commitment to protect the health and safety of the public very seriously. The nuclear safety aspects of FPL's nuclear operations are comprehensively regulated by the NRC, which maintains and tracks a set of performance indicators as objective measures of nuclear safety performance for commercial U.S. nuclear plants. These indicators monitor the performance of initiating events, safety systems, fission product barrier integrity, emergency preparedness, occupational and public radiation safety, and physical protection (security). As shown in Exhibit JAS-2, all four of FPL's nuclear units are in the "green" band of all NRC Performance Indicators in 2011, indicating the best or highest band for these ratings of

nuclear safety performance. As shown in Exhibit JAS-3, the NRC inspection findings for 2011 were also "green," again indicating the best or highest band for these ratings of nuclear safety performance.

Q. How do FPL's nuclear plants compare to the remainder of the industry in terms of the NRC performance system?

A. Based on the NRC's performance indicators, FPL's plants compare favorably with the remainder of the U.S. nuclear industry. The NRC uses its Performance Indicators and inspection activities to determine the appropriate level of agency oversight and response, including the need for supplemental inspections, senior management meetings, and regulatory actions.

All of the U.S. nuclear plants are listed in the NRC's Action Matrix which categorizes each plant into one of five regulatory status columns based on overall regulatory performance. The five regulatory columns in order of best-to-worst regulatory performance are: (1) licensee response; (2) regulatory response; (3) degraded cornerstone; (4) multiple/degraded cornerstone; and (5) unacceptable performance.

Approximately 12.5 percent of the 104 nuclear plants in the United States are characterized by the NRC as having a level of plant performance requiring increased NRC regulatory oversight. Of those plants: (1) the "regulatory response" category includes nine plants having at least one regulatory finding of low to moderate safety significance in the past 12 months; (2) the

"degraded cornerstone" category includes three plants having more than one finding of low to moderate safety significance in the last 12 months; and (3) the "multiple/repetitive degraded cornerstone" category includes one plant having multiple regulatory findings of low to moderate safety significance, a regulatory finding of substantial safety significance, or a finding of high safety significance (or some combination of these), usually coupled with inadequate corrective actions.

As illustrated by the NRC Action Matrix Summary, Exhibit JAS-4, none of FPL's units falls into these categories requiring increased regulatory oversight. This regulatory structure places a premium on FPL's ability to identify and correct problems. Degraded nuclear safety performance can result in increased NRC inspection activity, which in turn would require increased management attention to these NRC inspections and increased O&M costs. Due to FPL's consistent regulatory performance in 2011, FPL's nuclear units have remained in the "licensee response" column of the NRC's Action Matrix which results in the normal baseline inspection program. In summary, FPL is proud of its nuclear performance, both from a safety and regulatory standpoint. However, this performance cannot be sustained without continued investment in our nuclear plants and our people.

Q. Please describe the operational performance of FPL's nuclear fleet as measured by the numerical index maintained by INPO.

A. The operational performance of FPL's nuclear fleet reflects a strong nuclear safety and reliability record. FPL measures its nuclear plant performance using the INPO index. The INPO index is a metric of nuclear plant safety and reliability widely used in the U.S. nuclear power industry. The INPO index is calculated by summing weighted values of the following key indicators:

1. Unit Capability Factor (15 percent);
2. Forced Loss Rate (15 percent);
3. Unavailability of High Pressure Safety Injection System (10 percent);
4. Unavailability of Auxiliary Feedwater System (10 percent);
5. Unavailability of Emergency AC Power System (Site Average) (10 percent);
6. Unplanned Automatic Reactor Trips (10 percent);
7. Collective Radiation Exposure (10 percent);
8. Nuclear Fuel Reliability/Fuel Rod Defects (10 percent);
9. Quality of Secondary Water Chemistry (five percent); and
10. Industrial Safety (five percent).

The INPO index calculation was modified for 2011, but FPL continued to internally track the INPO index based on the prior definition through the end of 2011 for consistency in comparing current results to prior performance indicators.

FPL's INPO index is currently trending below the industry average. This is primarily driven by down time of the nuclear units in 2010 and 2011. There are times when a conservative decision made by FPL management to shut down a unit or keep a unit shut down to address a potential safety issue adversely impacts the INPO index. Conservative decision-making means that safety issues will be addressed and broken equipment will be repaired when nuclear safety could otherwise be adversely impacted, even if longer down time is required. Depending on the nature of the shutdown, unit down time can impact multiple inputs to the INPO index, including unit capability factor, forced loss rate, unplanned automatic reactor trips, collective radiation exposure, and the quality of secondary water chemistry.

Q. Please describe the personnel safety performance of FPL's nuclear fleet.

A. FPL has a "Zero Injury" goal for all workers, including employees and contractors. FPL measures its personnel safety performance using a standard from the Occupational Safety and Health Administration ("OSHA") of the U.S. Department of Labor. The standard is known as an OSHA recordable injury and the nuclear fleet measures personnel safety performance using an INPO performance indicator known as the Total Industrial Safety Accident ("TISA") rate. The TISA rate measures the injury rate for all employees and contractors that work at our nuclear sites, and it is based on the total number of injuries per 200,000 man-hours worked over an 18 month period. An injury rate is an effective measure of personnel safety performance because it takes into account the amount of work undertaken during the reporting period

in man-hours. The current TISA rate over the 18 month period ending December 31, 2011 for the nuclear fleet is 0.08 (*i.e.*, 8 injuries ÷ 19,284,779 man-hours worked X 200,000 man-hours). The injuries are industrial in nature and not radiological. The TISA rate includes injuries that would involve radiological consequences, but there have been none. FPL is committed to conducting its nuclear operations in a safe and responsible manner that avoids injuries of all kinds and promotes the physical safety and well being of its employees.

Q. Please describe FPL's nuclear generation for 2011.

A. FPL's nuclear plants generated over 22 million megawatt hours ("MWh") of energy in 2011. FPL has safely generated this electricity by following its Nuclear Excellence Model ("NEM"), which is the foundation of its commitment to achieve and sustain excellence in all aspects of its nuclear operations. The strategic focus areas of the NEM are: (1) Operational Excellence; (2) Organizational Effectiveness; (3) Generation Reliability; and (4) Effective Business and Financial Performance. This strategic focus has yielded significant value to FPL's customers in terms of safe, reliable, clean, cost-effective, base-load energy. In addition to being proactive in the design, maintenance and operation of its nuclear plants, FPL stands ready to face emerging issues in accordance with the core principles of the NEM to provide the best service possible to its customers.

Q. Please summarize the benefits of nuclear generation in Florida to FPL's customers.

A. FPL's nuclear generating assets are necessary to maintain fuel cost savings, enhanced system fuel diversity, and reductions in FPL's system GHG, sulfur dioxide, nitrogen oxides and Particulate Matter emissions, all for the benefit of FPL's customers. FPL's nuclear generation has resulted in over $14 billion in fuel savings from January 2000 through December 2011. This translates into direct savings for FPL customers as these cost savings are passed directly to the customers through lower Fuel Cost and Purchased Power Recovery Clause charges.

In addition, FPL's nuclear operations in Florida have a significant positive impact on our local communities. FPL's families live, work and go to school in the communities near our plants. There are thousands of contract workers at FPL's sites that eat in local restaurants, shop in stores, and stay in hotels providing a tremendous economic benefit.

Q. Please describe the benefits to FPL's customers of being affiliated with an even larger nuclear fleet.

A. FPL and its affiliates collectively comprise the third largest nuclear operator in the United States, owning and operating eight nuclear units at five locations. FPL's affiliates own interests in and operate the Duane Arnold Energy Center in Iowa, the Point Beach Nuclear Plant, Units 1 and 2, in Wisconsin, and Seabrook Station in New Hampshire.

There are important benefits and synergies to FPL and its customers from the affiliation with a larger nuclear fleet. First, FPL is able to use operational experience from its affiliate plants and incorporate lessons learned to the FPL nuclear fleet. By doing so, FPL has made improvements that have increased equipment reliability which prevent events from occurring, resulting in improved nuclear safety and plant reliability. FPL also receives operational experience in occupational health and safety matters that improve plant industrial and radiological safety. Second, FPL continuously pursues standardization of programs and procedures, where applicable, and both shares and receives data on best practices to the benefit of FPL's nuclear fleet, improving nuclear safety, efficiencies, and reducing costs. Third, FPL is able to leverage contracts for goods and services among the nuclear fleet, resulting in more favorable pricing and contract terms for its nuclear fleet. Fourth, FPL is able to maintain and have access to a staff of subject matter experts to address specific technical or regulatory issues that may arise at its nuclear fleet. It is increasingly difficult and expensive for smaller nuclear operators or operators of single nuclear units to retain such in-house expertise. Fifth, in a similar manner, each of FPL's and its affiliates' nuclear plants maintains an inventory of spare parts, enabling plants to share critical spare parts in some circumstances. Sixth, with the increased demand for nuclear workers in the nuclear industry and the increase in retirements associated with an aging workforce, recruiting and retaining talent has become a significant challenge. One of the key benefits of operating a large nuclear fleet is the existence of

numerous business opportunities for employees to pursue career advancement in our nuclear program in different jobs at different locations. All of these benefits to FPL and its customers and the local communities in Florida are not available to the operator of a smaller nuclear fleet or a single nuclear site.

IV. INDUSTRY AND FPL CHALLENGES

Q. Please describe the significant natural disaster that occurred in Japan in 2011 and its impact on nuclear power plants.

A. On March 11, 2011, the Great East Japan Earthquake, rated a magnitude 9.0, occurred 81 miles east of the Sendai Region in Japan. The earthquake triggered powerful tsunami waves. The earthquake and tsunami produced widespread devastation across northeastern Japan, significantly impacting the infrastructure in the northeastern coastal areas of Japan. The combination of events resulted in a loss of cooling to the reactors and the spent fuel pools at Fukushima Daiichi ("Fukushima") that severely damaged the nuclear fuel in the four southerly Fukushima units, 1 through 4, causing several large hydrogen explosions at the site.

Q. What has FPL done in response to the event in Japan?

A. FPL convened a response team within several hours of learning of the consequences of the events in Japan and monitored the events in the days and weeks following the tsunami. In addition, FPL has been conducting technical

reviews of all aspects of the event in conjunction with INPO, the NRC and the Nuclear Energy Institute ("NEI").

Q. Have the reviews and analyses performed by FPL and the NRC following the Fukushima event reaffirmed that FPL's nuclear plants meet or exceed all safety requirements?

A. Yes. Based on FPL's reviews and those conducted by the NRC, FPL's plants are safe and meet or exceed all applicable safety requirements. There are many differences between the circumstances in Japan that caused the natural disaster and the nuclear event and the circumstances in Florida. Broadly, these differences include:

1. Different plant designs

The Fukushima plants were Boiling Water Reactors ("BWR") and FPL's plants are Pressurized Water Reactors ("PWR"). The FPL PWR design is fundamentally different than the BWR design used at Fukushima and the PWR features are considered to have more defense-in-depth in response to an event like the Japanese earthquake.

2. Different seismology

FPL's nuclear power plants are outside of known "high hazard" earthquake zones. Nevertheless, each plant has been specially designed to withstand a variety of natural events such as earthquakes, storm surges and flooding associated with hurricanes, tornadoes and high winds without losing capability

to perform required safety functions. For instance, the Turkey Point Plant withstood the direct impact of Category 5 Hurricane Andrew in 1992.

3. Different operating standards

Through regulatory requirements imposed by the NRC, guidance provided by INPO, and initiatives and actions taken by FPL in response to industry events such as Three Mile Island, Chernobyl, and the events of September 11, 2001, FPL has significantly improved processes, procedures, training, and plant equipment to improve safety at its plants. Those same responses and changes have not been incorporated at plants in other nations.

Each of these differences favors Florida and FPL with respect to nuclear safety.

Q. Do those differences mean that FPL will not have to make any changes as a result of the events at Fukushima?

A. No. Those differences mean that FPL's plants are safe. One of the core values for FPL's nuclear fleet is that it is a learning organization and has a self improving culture. Furthermore, a hallmark of the U.S. nuclear industry is that when events occur anywhere in the world, the industry learns from those events and takes actions to prevent the possibility of similar events occurring elsewhere. For example, the U.S. nuclear industry made thousands of changes to its plants and processes following the 1979 accident at Three Mile Island

and after the terrorist attacks of September 11, 2001. These changes are, in part, the reason that U.S. plants remain safe.

Q. What types of actions will FPL take and what types of changes will FPL make as a result of the Fukushima accident?

A. Even though FPL and the NRC have concluded that all U.S. plants are safe, the NRC has published its "*Recommendations for Enhancing Reactor Safety in the 21st Century*," in an 82-page report dated July 12, 2011. In that report, the NRC has set out a comprehensive list of near-term and long-term actions that it plans to take to enhance safety. Those actions include imposing orders on licensees to take actions and promulgating new regulatory requirements. FPL must and will comply with all of the requirements that result from applicable orders and regulations.

Q. Please provide a summary of the types of actions that the NRC is recommending that will impact FPL.

A. The following list is a high-level summary of some of the actions that the NRC is recommending:

1. Establish a new regulatory framework that balances defense in depth and risk considerations;

2. Reevaluate and upgrade seismic and flooding protection of structures, systems and components for each operating reactor;

3. Evaluate potential enhancements to the capability to prevent or mitigate seismically induced fires and floods;

4. Strengthen station blackout mitigation capability at all operating and new reactors for design basis and beyond design basis external events;

5. Identify insights about hydrogen control and mitigation inside containment to prevent destructive hydrogen explosions;

6. Enhance spent fuel cooling and makeup capability and instrumentation;

7. Strengthen and integrate onsite emergency response capabilities;

8. Require that facility emergency plans address prolonged station blackout and multi-unit events; and

9. Pursue emergency planning topics related to decision making, radiation monitoring, and public education.

Q. Were there any other natural events which impacted nuclear plants in the U.S?

A. Yes. On August 23, 2011, a magnitude 5.8 earthquake occurred near Mineral, Virginia, close to the North Anna Power Station, Units 1 and 2. The earthquake caused the reactor plants to automatically shut down, which resulted in a loss of off-site power. The plant declared an "Alert," which is the second lowest of the four emergency classification levels used by U.S. nuclear plants. The systems required to maintain the station in a safe condition were not damaged in this event and following safety reviews and inspections by the NRC, both North Anna units were returned to full power on November 28, 2011.

In addition, during the summer of 2011, the Cooper Nuclear Station and the Fort Calhoun Nuclear Power Plant, both in Nebraska, declared Unusual Events, the lowest of the four emergency classification levels used by U.S. nuclear plants, due to flooding from the Missouri River. There were no radiological consequences from these events in Virginia and Nebraska.

Q. What is the current status of the NRC's regulatory efforts concerning these natural events?

A. The events in Japan are still unfolding. However, the recommendations made by the NRC, to date, will have significant financial impacts on the nuclear industry. The NRC is currently prioritizing its recommendations as a result of all of these natural events, and is expected to begin issuing orders and promulgating new rules in 2012.

Q. Will the new NRC rules and orders financially impact FPL?

A. Yes. FPL has included O&M and capital costs of $144,000 and $2.5 million, respectively, in the 2013 test year related to these anticipated new requirements. However, the total financial impact of all of these new requirements is not yet known, and FPL believes that over time, the costs of these new regulatory efforts could become much greater. These enhancements will be in addition to the equipment reliability upgrades and other capital projects that are ongoing to maintain and improve the performance of the units as they become older.

Q. Is FPL facing other challenges at its nuclear plants?

A. Yes. Our nuclear professionals are working very hard to maintain and improve the reliability of the systems, structures and components at our facilities as that equipment continues to age. This work involves inspections and continuous monitoring, predictive maintenance, corrective maintenance, engineering analyses, and capital improvements. In addition, the NRC continues to impose more and more requirements that require both human and financial capital to address. These activities all become more challenging due to the fact that our workforce will begin to retire in large numbers in the next few years.

V. FINANCIAL EXPENDITURES TO SUSTAIN LONG TERM PERFORMANCE

Q. Please summarize FPL's capital expenditures for the Nuclear Business Unit.

A. FPL has been proactively participating with the industry, including the NRC, NEI and INPO to ensure that our plants remain safe and our response efforts to the events in Fukushima are appropriately managed. In addition, as the systems, structures and components in the plants continue to age, FPL is challenged to improve its plant monitoring, assessment and improvement efforts. FPL will continue to invest in equipment programs, staffing, and training to enhance nuclear safety and improve equipment reliability.

Q. What is included in FPL's capital investment effort?

A. FPL will invest the necessary capital to update equipment and maintain its nuclear facilities in order to maximize fuel savings, enhance system fuel diversity, and permit the safe and reliable operation of its nuclear units into their renewed license terms, with a current projection of $222 million (excluding fuel) during 2013.

Q. Please describe some examples of FPL's capital investment efforts.

A. FPL will continue to implement long term equipment reliability projects that address ongoing component issues as part of the day to day operations of St. Lucie and Turkey Point. The primary components addressed in these projects consist of replacement and refurbishment of pumps, motors, valves and breakers. FPL estimates capital expenditures of $64 million on these projects in 2013. St. Lucie has implemented the Reactor Coolant Pump ("RCP") Motor Replacement Program which is a multi-year effort to replace and refurbish the original RCPs at St. Lucie to ensure safe and reliable operation into the renewed license term. FPL estimates capital expenditures of $40 million for this project in 2013. Also, St. Lucie has implemented a multi-year effort to replace the Emergency Diesel Generators ("EDGs"), voltage regulators and radiators. The EDGs provide backup power to various pumps and components to maintain the plant in a safe condition upon the loss of offsite power. With few if any spare parts available for this equipment, it is necessary for FPL to replace this equipment to maintain the high reliability

required of the EDGs. FPL estimates capital expenditures of $16 million for this project in 2013.

Q. Does the forecast for 2013 Test Year O&M costs for the Nuclear Business Unit exceed the Commission's benchmark using adjusted 2010 as the benchmark year?

A. No. FPL's 2013 Test Year O&M for the Nuclear Production does not exceed the Commission's benchmark using adjusted 2010 as the benchmark year.

Q. What efforts has the Nuclear Business Unit implemented to reduce O&M costs from 2010 to 2013?

A. The Nuclear Business Unit focused efforts to retain its workforce through the economic downturn which resulted in fewer turnovers and the need for fewer new hires to overlap staffing for knowledge transfer. This resulted in reduced payroll, retention and relocation costs. In addition, the Nuclear Business Unit has been able to enter into more flexible fleet contractual arrangements and is now able to better leverage its fleet service and material purchases through a well-organized and staffed fleet team and improved processes. The combination of these efforts reduced O&M expenditures by $20 million when comparing the 2013 expense to the 2010 rate case decision adjusted for inflation.

Q. Please discuss the challenges associated with developing and maintaining a qualified high performing nuclear workforce.

A. There is growing competition for talent in the nuclear industry, which is being driven by a shrinking skilled labor pool, coupled with a high demand for

skilled workers. There is also general attrition related to retirements because of the aging nuclear workforce. Another factor is the decrease in the number of U.S. nuclear engineering degree programs, from 65 in 1980 to just over 30 in 2011. There has also been talent migration from commercial nuclear operators to contracting firms, suppliers and engineering firms. Finally, there is renewed interest in nuclear power, based on the number of NRC combined construction/operating license submittals to date and announced submittals, placing a higher premium on qualified nuclear workers.

There are also special cost factors driven by federal regulatory requirements applicable to operators who must be licensed by the federal government to operate FPL's nuclear plants. Federal law and NRC regulations found at 10 Code of Federal Regulations Part 55 require that any person who manipulates the controls of a nuclear power plant must have a personal, site-specific operator license issued by the NRC. NRC regulations further require each nuclear power plant control room to have a continuous presence of two licensed reactor operators ("ROs") and one senior reactor operator ("SRO") per nuclear unit. The hours that each RO and SRO can work are also limited by NRC requirements, so there must be an adequate number of licensed operators at each site that accounts for illness and attrition. Further, the licensing process for individual operators is time-consuming and costly.

It can take as long as eight to nine years to develop an operator candidate into an SRO. In general, the cost to FPL of training, examination development, and licensing of a single candidate to obtain an SRO license is in excess of a million dollars, including payroll and benefits of each candidate, and the fees charged by the NRC for its review of the examination materials and oversight of the training and examination process.

Q. Please describe the impacts of the aging nuclear workforce.

A. A substantial percentage of the nuclear workforce is approaching retirement age, creating challenges for maintenance of needed expertise and creating demands for staffing adjustments and training of new workers. In particular, certain highly skilled classes of employees within the Nuclear Business Unit will have approximately 832 employees eligible to retire within the next five years. This is approximately 44 percent of the total employees in FPL's Nuclear Business unit. The entire nuclear industry faces this issue.

Q. What is FPL doing to address and mitigate the impact of the aging nuclear workforce issue?

A. In 2006, FPL partnered with the Homestead campus of Miami Dade College ("Miami Dade") and the Indian River State College ("IRSC") to create an Associate of Science degree in electrical power technology to help meet FPL's need for more nuclear workers. As part of the FPL Professional Training Pipeline, FPL agreed with each of Miami Dade and IRSC, through 2016, to provide that a maximum of 30 internships will be made available by FPL each summer for candidates who complete all requirements of the first

year of the program. FPL agreed to hire at least 20 (if available) candidates per year who successfully complete the two-year program. FPL has also entered into a Memorandum of Understanding with its labor union, the International Brotherhood of Electrical Workers, System Council U-4, to implement a nuclear employee apprentice program to develop additional nuclear workers for St. Lucie and Turkey Point. FPL expects to incur an annual cost of approximately $216,000 per year to administer this apprentice program. This low cost option will provide FPL a mechanism to help address the attrition and retirements in its nuclear maintenance organization.

Q. Does this conclude your direct testimony?

A. Yes.

BY MR. LITCHFIELD:

Q Are those -- I am sorry. Are you also sponsoring exhibits to your testimony?

A Yes, I am.

Q And are those exhibits identified as JAS-1 and JAS-2 and updated Exhibits JAS-3 and JAS-4 also shown as Exhibits 181 to 184 on Staff's Exhibit List?

A Yes.

Q Have you prepared a summary of your testimony?

A Yes, I have.

Q Would you please provide that summary to the Commission?

A Yes. Thank you.

Good afternoon, Commissioners. FPL's nuclear power plants are a source of safe, reliable, clean and cost-effective base load energy that provide significant value to FPL's customers in terms of fuel savings, enhanced reliability, fuel diversity and reductions of greenhouse gas emissions.

FPL is expending significant efforts to ensure the continued ability of FPL's nuclear power plants to meet the significant operational and regulatory challenges facing these plants.

FPL uses several metrics to measure nuclear plant performance, including nuclear safety and

regulatory performance metrics, as measured by the United States Nuclear Regulatory Commission, and overall plant performance, personnel safety and reliability measures, as measured by the Institute for Nuclear Power Operations.

Nuclear safety is the highest priority of FPL's nuclear fleet. FPL takes its commitment to protect the health and safety of the public very seriously. Additionally, the nuclear safety aspects of FPL's nuclear operations are comprehensively regulated by the Nuclear Regulatory Commission. As measured by NRC and NPO indicators, FPL's nuclear power plants continue to operate in a manner that ensures the protection of the publics health and safety.

FPL's nuclear plants also provide significant benefits to FPL's customers. FPL nuclear plant operations have resulted in over $14 billion in fuel savings from January of 2000 through December of 2011. This translates into direct savings for FPL's customers.

Recent natural events have affected the nuclear industry, resulting in near-term and long-term planned actions to enhance safety. Even though the NRC has concluded that all United States plants are safe, new NRC requirements intended to enhance safety margins will have a significant financial impact on the nuclear

industry. The NRC is currently prioritizing its requirements as a result of the natural events and began issuing orders in promulgating new rules in 2012.

FPL has included O&M and capital cost of $144,000 and $5 million respectively in the 2013 test year related to these anticipated new requirements. However, the total financial impact of all of these new requirements is not yet known, and FPL believes that over time, the costs of these new regulatory efforts will likely become much greater.

These enhancements will be in addition to the equipment reliability upgrades and other capital projects that are ongoing to maintain the members of these units.

FPL will continue to invest in necessary capital to update equipment and maintain its nuclear facilities in order to permit the safe and reliable operation of its plants, maximize fuel savings and enhance system fuel diversity. In the 2013 test year, FPL expects that its capital expenditures in nuclear will be approximately $222 million to address these initiatives.

In summary, FPL's nuclear power plants are a source of safe, reliable, clean and cost-effective base load energy for FPL's customers. However, this benefit

cannot be sustained without continued investment in the nuclear plants. This concludes my summary.

MR. LITCHFIELD: Thank you, Mr. Stall. FPL tenders Mr. Stall for cross-examination.

CHAIRMAN BRISÉ: Sure.

Ms. Kaufman?

MS. KAUFMAN: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MS. KAUFMAN:

Q Good afternoon, Mr. Stall.

A Good afternoon.

Q I just wanted to ask you about your testimony on page 19, the -- your answer begins at line 5, and you reference this in your summary. Are you there?

A Yes. Page 19, line 5.

Q That's where your answer begins, and -- and in that answer and in your summary, you -- you have talked about requirements that you expect the NRC to issue in response to the Fukushima accident, correct?

A Yes, ma'am.

Q And if you look on line 8, you say that the NRC has set out a near-term list and a -- a long-term list, I guess; is that right?

A Yes.

Q And I just want to understand, when you say

near-term, what time period do you have in mind there?

A Those are already ongoing. For example, all the sites in the United States, including FPL's units, are conducting --

MS. KAUFMAN: Excuse me, Mr. Chairman. Again, I -- I am just trying to get some timeframes here. I didn't ask him what had to be done. I just asked him what did he mean when he used the -- the term, near-term?

CHAIRMAN BRISÉ: If you could answer the question.

THE WITNESS: Near-term means they are ongoing as we speak.

BY MS. KAUFMAN:

Q So they are current requirements?

A Current requirements.

Q Okay. And what did you mean when you, in that same sentence, talked about long-term, I think you said, actions?

A Long-term action also follow based upon the results of the -- of near-term walk downs and -- and will result in a number of actions that will go on for several years, if not longer.

Q And so -- so long-term, you mean several years or longer?

A Yes.

Q Okay.

MS. KAUFMAN: Thank you, Mr. Chairman.

CHAIRMAN BRISÉ: Okay. South Florida Hospital Association?

MR. LITCHFIELD: No questions.

CHAIRMAN BRISÉ: Okay. FEA?

CAPTAIN MILLER: No questions.

CHAIRMAN BRISÉ: OPC?

MR. REHWINKEL: No questions.

CHAIRMAN BRISÉ: FRP?

MR. LaVIA: No questions, Mr. Chairman. Thank you.

CHAIRMAN BRISÉ: Mr. Saparito?

MR. SAPARITO: No questions, Mr. Chairman.

CHAIRMAN BRISÉ: Mr. Hendricks?

MR. HENDRICKS: No questions.

CHAIRMAN BRISÉ: Staff?

MS. KLANKE: No questions.

CHAIRMAN BRISÉ: Commissioners?

Okay. Oh, I am sorry. Commissioner Brown.

COMMISSIONER BROWN: Thank you. Thank you.

Mr. Stall, I think you are in a very interesting field of the industry, so I just have a -- one little question about the green

indication. Have the recent events impacted FPL's green rating, so to speak?

THE WITNESS: Yes, ma'am. The -- the current status is that we have several units that are in what are called the regulatory response column by the NRC, and just to provide a little context, at this moment in time, of the 104 nuclear units in this country, about 30 percent are in that column right now. And it's based upon either an inspection finding, or performance indicators can cause the utility to go into the regulatory response column.

We would expect that we will be returning to all green certainly by the end of the year, is what we expect at this point in time, and that's been the history at the company generally over time, is our plants have generally operated in the green band. But from time to time, it's not unexpected for any particular unit at any time to go into a regulatory response band.

MS. BROWN: Okay. Thank you.

THE WITNESS: You're welcome.

CHAIRMAN BRISÉ: Any further questions by Commissioners?

Okay. Seeing none.

MR. LITCHFIELD: No redirect.

CHAIRMAN BRISÉ: All right. No redirect. Let's deal with the exhibits.

MR. LITCHFIELD: FPL would move Exhibit 181 to 184 into the record.

CHAIRMAN BRISÉ: Okay. Without any objections, we will move 181 to 184 into the record. Seeing no objections, those will now -- now be part of the record.

(Whereupon, Exhibit Nos. 181 through 184 were received into evidence.)

CHAIRMAN BRISÉ: All right. And --

MR. LITCHFIELD: Thank you, Mr. Chairman. May Mr. Stall be excused?

CHAIRMAN BRISÉ: Sure.

MR. LITCHFIELD: Thank you.

CHAIRMAN BRISÉ: Mr. Stall, you may be excused.

THE WITNESS: Thank you.

(Witness excused.)

MS. CLARK: Mr. Chairman, FPL would call Kathleen Slattery. I don't believe she's been sworn.

CHAIRMAN BRISÉ: Okay. Ms. Slattery, if you would rise, please.

Whereupon,

KATHLEEN SLATTERY

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

CHAIRMAN BRISÉ: Okay. You may be seated.

DIRECT EXAMINATION

BY MS. CLARK:

Q Would you please state your name and business address?

A Kathleen Slattery. 700 Universe Boulevard, Juno Beach, Florida.

Q By whom are you employed and in what capacity?

A I am employed by Florida Power & Light Company as Senior Director, Executive Services and Compensation.

Q Have you prepared and caused to be filed in this proceeding 26 pages of direct testimony?

A Yes.

Q And do you have any changes to that direct testimony?

A No.

Q And if I asked you the same questions contained in that testimony, would your answers be the same?

A Yes.

MS. CLARK: Mr. Chairman, I would ask that the direct testimony be inserted in the record as though read.

CHAIRMAN BRISÉ: At this time, we will insert Ms. Slattery's direct testimony into the record as though read. Seeing no objections.

Okay. Seeing none.

(Whereupon, testimony inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF KATHLEEN SLATTERY

DOCKET NO. 120015-EI

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kathleen Slattery. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

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

A. I am employed by Florida Power & Light Company ("FPL" or "Company") as the Senior Director of Executive Services and Compensation.

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

A. I am responsible for the Company's total rewards programs, including the overall design and administration of all compensation programs and management of executive benefits and services.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Science degree from Florida State University and am a graduate of the Florida State University College of Law. I have been a member of the Florida Bar since 1992. Before joining FPL, I worked in labor relations and served as a trustee of two outside electrical worker unions' pension and health and welfare funds. I began working at FPL in September 1996 as a benefit plan administrator and have held various positions of increasing responsibility in Human Resources since that time. My experience at FPL has included qualified and non-qualified benefit plan design and administration, salary and incentive compensation plan design and administration, and legal compliance of such plans

and programs. I have extensive knowledge of FPL's compensation and benefits philosophy, plans and practices, and of its payroll system.

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring the following exhibits:

- Exhibit KS-1, MFRs Sponsored and Co-Sponsored by Kathleen Slattery
- Exhibit KS-2, Position to Market (2011 Base Pay)
- Exhibit KS-3, FERC Total Salaries & Wages 2010
- Exhibit KS-4, Merit Pay Program Awards, 2009 to 2011
- Exhibit KS-5, Relative Value Comparison—2011 Total Benefit Program
- Exhibit KS-6, Relative Value Comparison—2011 Active Employee Medical Plan
- Exhibit KS-7, Average Medical Cost Per Employee, 2007 – 2012
- Exhibit KS-8, Relative Value Comparison—2011 Pension & 401(k) Employee Savings Plan

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

A. Yes. Exhibit KS-1 contains a listing of the MFR schedules that I am sponsoring or co-sponsoring.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present an overview of the gross payroll and benefit expenses as shown in MFR C-35, demonstrating the reasonableness of FPL's forecasted payroll and benefit expenses.

Q. Please summarize your testimony.

A. FPL designs and manages its compensation and benefits programs as parts of a total rewards package. In order to address changing workforce dynamics, to control costs, and to attract, retain, and engage the required workforce, FPL places more focus on flexible, performance-based variable compensation than on less flexible fixed-cost compensation and benefit programs. This focus has allowed the Company to react to market conditions and drive the superior performance documented by other FPL witnesses, while remaining focused on managing total program costs. The total rewards package, emphasizing pay for performance, has served the Company and its customers well. FPL has successfully provided value to its employees and its customers through efficient use of compensation and benefits to drive a culture that provides improved efficiency, reliability, and service. As FPL moves forward, it must continue to provide a competitive total rewards package to its employees in order to attract and retain the necessary talent. The 2013 projected level of total compensation and benefits expense is reasonable and necessary to serve FPL's customers and to attract and retain the caliber of employees that create a high-performance organization; indeed, it is beneficial to FPL's customers, and it should be used to establish FPL's rates.

II. TOTAL COMPENSATION AND BENEFITS

Q. What is FPL's projected total compensation and benefits cost for 2013?

A. FPL's gross total compensation and benefits cost is projected to be $1.261 billion for 2013.

Q. What are the objectives of FPL's total compensation and benefits programs?

A. There are several key objectives of FPL's total compensation and benefits approach. The Company designs its compensation and benefits program to attract, retain and engage and competitively reward its employees based on national and local comparative markets. FPL's compensation program also reflects a pay-for-performance philosophy, linking total compensation to attainment of corporate, business unit, and individual goals such as excellent reliability and customer service. In addition, FPL's total compensation and benefits approach is designed to control fixed costs by placing greater emphasis on variable cash compensation rather than on the traditional programs that are not performance-based, such as long-term retirement benefits. Finally, the Company strives to manage its various compensation and benefits programs holistically in order to keep its total program expenses at a reasonable level. To that end, FPL continuously monitors and benchmarks the compensation and benefits components of the total rewards package individually, since no composite benchmarks are available for the combined programs, to ensure that the total program is in line with the median of the combined compensation and benefits programs of the appropriate comparator groups.

Q. How has FPL designed and managed its compensation and benefits programs to achieve these objectives?

A. FPL's approach to the design and management of compensation and benefits is to consider them as parts of one total rewards package. About 15 years ago, FPL made a strategic decision to realign its pay and benefits programs, implementing changes that shifted value from the fixed-cost benefit programs to more flexible pay programs, while simultaneously controlling total program costs. Specifically, in 1997 the Company converted its pension plan to a cash balance plan and also eliminated post-retirement medical coverage for all new hires. At the same time, the Company increased its focus on performance-based variable cash compensation. FPL's strategic decision in 1997 to develop and emphasize a pay-for-performance compensation program has been an important tool in the Company's ability to achieve efficiency, reliability, and customer service improvements over the past fifteen years, all of which contribute to FPL's ability to deliver superior value for its customers and the state of Florida. Moreover, the flexibility provided by these strategic changes has been an essential part of the Company's success in dealing with the workforce challenges confronting the utility industry.

Q. Please describe the challenges faced by the utility industry and FPL in attracting, retaining, and engaging a workforce with the required skills.

A. At a time when the industry continues to face growing demand for electricity, it is challenged by a severe shortage of skilled workers. There are several key factors creating the shortage of skilled workers:

(1) Aging Workforce: The aging of the electric utility industry workforce has been a growing concern of government and industry leaders. The Task Force on America's Future Energy Jobs, experts from industry, labor, and academia convened by the National Commission on Energy Policy, projected that 40 percent of the electric utility industry's 400,000 workers will retire or leave by 2013, taking their skills and experience with them. In addition, the Center for Energy Workforce Development ("CEWD"), a nonprofit industry consortium, specifically projects that 46 percent of skilled technicians and 51 percent of power engineers will need to be replaced by 2015. Similarly, the Bureau of Labor Statistics ("BLS") has predicted that half of the electric utility workforce will retire or leave by 2020, impacting all workforce and skill types.

(2) Skill Gaps in Talent Pool: A second factor is a shortage of available workers with the requisite qualifications and skills. A long-term trend of declining enrollment in technical disciplines relevant to the industry as well as a substantial reduction of relevant curricula at educational institutions is a key factor in the shortage of available skilled workers. The American Society for Engineering Education ("ASEE") reported in 2009 that enrollment in electrical/computer engineering disciplines dropped by 29 percent over the prior ten years.

(3) Demands of Emerging Technologies: The growing demand for renewable generation solutions and the upgrade to a smart grid are creating additional demand for skilled workers and will further impact the skill shortage. The Electrical Worker, which is the official publication of the International Brotherhood of Electrical Workers ("IBEW"), suggests that advanced power

technologies, including new nuclear plants, could create a demand for as many as 300,000 new jobs by 2030, many of which will require special skills.

Q. Will these workforce challenges disproportionately impact utilities with nuclear operations?

A. Yes. The same workforce issues are likely to be more critical for nuclear utilities based on the decline in the number of nuclear engineers trained in the United States and industry plans to build a considerable number of new nuclear plants in the coming years. This increased demand for talent will come at a time when companies are already challenged to maintain existing levels of skilled nuclear operators and maintenance workers.

One key challenge has been the decline in nuclear training programs and the resulting shrinking of the available supply of workers. In July of 2011, BusinessWeek, a business magazine published by Bloomberg, summarized the impact of the decreased emphasis on nuclear training over the past few decades:

- The number of educational institutions offering nuclear engineering degrees declined from 77 in 1975 to 32 in 2010;
- Bachelor degrees awarded in nuclear engineering decreased from 863 in 1978 to 120 in 2010.

In addition, the challenge for nuclear utilities to attract and retain the required workforce for both current plants and potential new nuclear plants will be significant. Carol Berrigan, a Senior Director at the Nuclear Energy Institute,

testifying before a Congressional Blue Ribbon Commission on America's Energy Future in late 2010, outlined some of the workforce challenges facing the industry:

- About 38 percent of the current nuclear utility employees, approximately 21,600 workers, will be eligible to retire by 2014;
- Non-retirement attrition of the current nuclear utility workforce is expected to create the demand for an additional 6,000 workers;
- Construction of new nuclear plants is projected to create the need for between 8,000 and 17,500 new workers by 2030 to operate the plants.

Clearly, there are a number of factors driving the skill shortage in the utility industry and challenging FPL's and other companies' ability to attract and retain the required workforce. Although the industry and educational institutions have recognized the challenges and started to address future demands, in the short term, the factors discussed above are creating competition for skilled resources and applying pressure on compensation levels.

Q. To what extent have these industry challenges impacted FPL's efforts to attract and retain the necessary workforce?

A. FPL is clearly facing the same workforce challenges as the other electric utilities, particularly those with nuclear facilities. As reported in the June 2011 "Review of the Aging Workforce of the Florida Electric Industry" conducted by the Florida Public Service Commission's ("FPSC" or the "Commission") Office of Auditing and Performance Analysis, about 20 percent of FPL's workforce is currently

eligible to retire, and nearly 40 percent of the workforce will be eligible to retire within five years. Within the nuclear division specifically, the number of workers over 55 has doubled since 2003, while the number between the ages of 35 and 44 decreased by about 40 percent. In addition, retention continues to be a challenge among FPL's nuclear workforce. The limited pool of available experienced workers has led to an industry-wide practice of "poaching" talent from peer organizations. FPL has had to implement retention programs to prevent turnover of critical talent, and the market value of a number of utility industry positions, particularly in the nuclear business unit, has increased at a faster rate than non-industry positions and had a direct impact on the Company's total compensation and benefits cost.

Q. How has the redesign of the compensation and benefit programs allowed FPL to respond to current and future workforce challenges and meet the program objectives?

A. As a result of the total compensation and benefit design changes, FPL and its customers are in a better position than many other utilities because FPL is not nearly as burdened with the considerable cost of pension and post-retirement medical obligations and is therefore better able to address the changing workforce dynamics. The changes have allowed the Company to better focus on the elements of the total rewards package that have more value for attraction, retention, and engagement of the required workforce. The Company is able to provide a core level of compensation and benefits to all positions based on market analysis and performance, but has the flexibility to respond to the dynamics of an

ever-changing workforce. The redesign has been part of FPL's efforts to keep its expenses down in the face of ever-rising costs, thus saving our customers money without sacrificing service.

III. TOTAL COMPENSATION

Q. What is FPL's total compensation philosophy?

A. As discussed previously, FPL considers compensation and benefits as components of a total rewards program. FPL's philosophy has been, and continues to be, to provide competitive, market-based salaries with consideration of an individual's performance and contribution to the Company's key goals. The performance-based pay programs have enabled FPL to develop a culture of employee commitment and ownership in the performance of the Company. Each exempt employee's compensation has a portion of pay that is variable. The variable pay is linked to individual, business unit and corporate objectives which benefit our customers, including budget goals and operating efficiency milestones such as plant availability, service reliability, and quality of customer service. The strategic emphasis on the variable pay program, rather than fixed salary and benefits costs, encourages performance at an individual employee level and adds flexibility in recognizing that performance.

Q. What resources does FPL use to evaluate its compensation program?

A. FPL uses a variety of compensation survey resources to evaluate its program, because the Company's recruiting department searches nationally for personnel to

fill managerial, professional, and technical positions. Most of the key nuclear energy and engineering positions cannot be filled from the local labor pool, so FPL must remain competitive in national as well as local markets. FPL utilizes nationally recognized third party compensation survey sources to aggregate and provide comparative data from other national and regional employers, both in general industry and the utility industry. It is important to utilize both general and utility comparative market information since FPL's workforce encompasses multi-industry talents. FPL relies on the following primary information sources for compensation survey data:

- Towers Watson, an international human resources consulting firm;
- William M. Mercer Incorporated, an international human resources consulting firm;
- Aon Hewitt, an international human resources consulting firm;
- WorldatWork, a global human resources association of more than 30,000 compensation, benefits and human resources professionals;
- Bureau of Labor Statistics (the Consumer Price Index or CPI).

Q. How does FPL's cash compensation program compare to the market?

A. FPL's base pay levels are comparable to the rates paid by its competitors for employees performing similar jobs and with similar skill sets. FPL performs a detailed annual benchmarking analysis of its base pay rates to determine "position to market." The most recent market analysis completed in 2011 included market survey data from approximately 50 sources, including Towers Watson, Aon Hewitt, and Mercer. Exhibit KS-2 demonstrates that, as of the date of this latest

study, FPL has maintained its average base pay, in the aggregate, for exempt and non-exempt jobs below market, i.e. below the median or 50th percentile.

Q. What are FPL's total compensation costs for the projected 2013 Test Year?

A. FPL's gross total compensation cost, represented as Gross Payroll on MFR C-35, is projected to be $1.049 billion for the Test Year.

Q. Is FPL seeking recovery for all of its projected total compensation expense in 2013?

A. No. FPL has excluded from its expense request the portions of executive and non-executive incentive compensation that were excluded from the 2010 rate order, Order No. PSC-10-0153-FOF. FPL has chosen to forego recovery of these expenses in this rate case in an effort to narrow the items at issue. However, FPL continues to believe these expenses are necessary and reasonable, are effective tools in attracting, retaining and engaging our workforce, and therefore are properly recoverable in rates.

Q. How has FPL's total compensation cost changed since the last rate case and is the cost reasonable?

A. For the period from 2009 to 2013 represented on MFR C-35, FPL's total compensation or gross payroll expense is forecasted to increase from about $973 million to about $1.049 billion. Gross payroll as represented on MFR C-35 includes all wages and salaries, overtime pay, premium pay and miscellaneous other earnings. It also includes those costs that are ultimately allocated to other subsidiaries as well as the aforementioned incentive compensation costs that FPL is not seeking to recover. The 2009 to 2013 increase in gross payroll is

approximately 7.8 percent as compared to the projected CPI growth of 8.3 percent and a projected compensation increase of 11.2 percent by the WorldatWork Index for the same period. The FPSC has previously recognized WorldatWork's market projections as an appropriate basis for compensation comparisons. A contributing factor in managing the gross payroll expense is the reduction in staffing over the period. The Company's culture of continuous improvement and an ongoing focus on efficiency have enabled it to maintain high levels of performance with less staffing.

Q. How does FPL's gross payroll cost compare with that of other utilities?

A. FPL's total compensation cost compares favorably to that of other utilities as demonstrated by review of Federal Energy Regulatory Commission Form No. 1 report data. FPL has reviewed its total compensation cost and compared it to that of other comparable utilities. The companies in the comparison included other regional utilities as well as other vertically integrated utilities of similar size. As shown on Exhibit KS-3, FPL continues to be one of the more efficient utilities from a total compensation standpoint. This efficiency is particularly evident when one looks at total compensation -- whether on a per-customer, operating revenue, or operating expense basis.

Q. Please describe FPL's annual performance-based merit program.

A. There are two components to FPL's annual performance-based merit program. The first component is a merit award determined by an individual's performance level and salary position relative to market. The second component is a variable pay program that provides a payment based on each individual's contribution as

well as Company and business unit results in comparison to pre-established objectives. FPL's variable compensation is awarded based on an individual's contribution to corporate, business unit, and individual performance indicators. These performance indicators include controlling customer-related costs and operating efficiency milestones such as plant availability, service reliability, and quality of customer service.

Q. How does FPL's annual pay increase program compare to market?

A. FPL regularly benchmarks its annual pay increase program and variable pay awards against relevant market data. As shown in Exhibit KS-4, the annual merit base and variable incentive pay awards have been at or below market for the period from 2009 through 2011.

IV. BENEFITS

Q. Please describe FPL's benefits package.

A. Again, FPL's benefits program is designed and managed as part of the total rewards package. The benefits package includes a full complement of benefits, comprised of three primary components: health and welfare benefits, retirement plans, and various benefits required by law.

Q. What are FPL's projected benefits costs for the Test Year?

A. Total benefits costs are projected to be about $212 million in 2013, the major components of which are as follows:

		2013	
Health and welfare benefits			$120,057,000
Retirement benefits			
	Pension plan	($38,641,000)	
	Post-employment benefits	$22,325,000	
	Employee savings plan	$32,200,000	
Total Retirement Benefits			$15,884,000
Benefits required by law			$76,172,000
Total Benefits Cost			$212,113,000

Benefits required by law include social security tax, federal and state unemployment taxes, and workers' compensation. I will discuss in more detail the major benefit plans, specifically the medical and retirement plans.

Q. How has FPL's total benefits cost changed since 2009?

A. Total benefits cost is projected to increase from a total of $175 million in 2009 to $212 million in the 2013 Test Year.

Q. What is driving the increase in the benefits cost?

A. The primary driver of the increased benefits cost is an increase to the pension plan expense. The Company experienced slight increases in health and welfare benefits ($4.2 million or 3.6 percent) and benefits required by law ($2.2 million or 3 percent), in addition to an increase in retirement benefits expense of $30.6 million, primarily driven by the increase in pension expense. The pension increase is typical of that experienced by companies across the utility and general

industry and is the result of the stock market crash of 2008 and subsequent instability in the markets.

Q. How does FPL evaluate the design and cost of its benefit plans and how do the plans compare to those of other companies?

A. FPL uses the Aon Hewitt Benefit Index, an actuarial tool that compares the value of benefit plans. Aon Hewitt is an internationally recognized benefits consulting firm that provides analysis and consultation on the competitiveness of participating companies' benefit programs and produces the Aon Hewitt Benefit Index. The study methodology first analyzes the value of each benefit plan for each individual in the plan and then converts the individual values to a composite value for the entire employee population by applying a standard set of actuarial and employee participation assumptions. The index base point of 100.0 is set as the average of the values of the base companies selected for the comparison. FPL has used the Aon Hewitt study to compare its benefits programs to those of companies in the general industry and utility industry sectors, and to those of Fortune 500 companies participating in the study.

Exhibit KS-5 displays the relative value of FPL's total benefits program for 2011 compared to a base utility comparator group composed of 14 electric utilities that are most similar to FPL in terms of revenue and workforce composition or that are Florida-based. The graph also displays relative value comparisons to a broader utility group (composed of the 22 utilities that participate in the survey), to a general industry grouping, and to Fortune 500 companies that participated in the

study. The graph shows that FPL's Benefit Index for the total benefit program is below average compared to the base utility comparator group and each of the other industry groupings. FPL's total benefits program rated 89.9 as compared to a 100.0 average for the base utility comparator group and to a 100.2 average for the broader utility group. These results are consistent with the Company's objective to emphasize cash compensation over traditional long-term benefits, which helps keep costs low for the benefit of customers.

Q. What is FPL's projected medical cost for the 2013 Test Year?

A. FPL's projected medical cost is $97.3 million for active employees in the 2013 Test Year. As shown on MFR C-35, this represents an increase of about two million dollars or 2.2 percent for the 2009 to 2013 period. It is below the 8.3 percent increase in CPI and significantly below the utility industry health care trend of 27.1 percent.

Q. How does FPL determine the plan design of medical benefits for each year?

A. FPL's benefits department reviews trends in health care claims as well as plan designs and programs available across various industries, to determine the optimal plan design and pricing structure that will provide competitive, cost-effective benefits for all employees.

Q. How does FPL's medical plan compare to industry standards?

A. The relative value of FPL's medical plan for active employees is slightly below average when compared to other utility and general industry companies participating in the 2011 Aon Hewitt Benefits Index. As illustrated by Exhibit KS-6, FPL's plan had a relative value of 84.7 as compared to the average of 100.0

for the 14 utilities in the base utility comparator group and the average of 100.9 for the broader utility group. FPL's relative value for active medical is also below both the general industry and Fortune 500 company averages.

Q. How do FPL's projected medical costs for 2012 and 2013, as represented on MFR C-35, compare to those of other utilities and the national average?

A. Although the various factors driving health care costs higher both nationally and specifically at FPL are projected to result in medical cost increases in 2012 and 2013, FPL's average medical cost per employee has remained at or below the utility industry average from 2007 to 2011 and is projected to remain below the industry average in 2012, as illustrated in Exhibit KS-7. The increases in FPL's health care costs for 2012 and 2013 are consistent with national and utility industry trends provided by Aon Hewitt. In fact, Aon Hewitt's forecasted utility industry benchmark for 2012 is still approximately 8.7 percent above FPL's projected cost per employee of $12,049 in 2012.

Q. What has been FPL's experience in managing health care costs?

A. FPL's ability to keep per employee health care costs below the utility industry benchmarks and to project that costs remain below the utility industry benchmarks in 2012 and beyond has been the direct result of aggressive management of the drivers of health care costs. Exhibit KS-7 illustrates FPL's medical costs per employee for 2007 to 2011 and the projected costs for 2012 as compared to Fortune 500 and utility industry benchmarks. FPL has and will continue to look for ways to provide employees with a choice of quality medical plans at the most cost competitive level. However, health care cost inflation is a

national concern in both the public and private sectors. Thus, while FPL has been successful in managing per-employee medical costs below the utility industry average, the Company expects total annual health care costs to increase in 2013 and beyond at a rate comparable to the forecasted national trend of approximately eight percent per year. Rising health care costs continues to be one of the largest concerns for companies and their employees.

Q. What specific initiatives has FPL pursued to control health care costs?

A. FPL has made health care cost control a key strategic initiative, applying continuous improvement process to develop an integrated health strategy that will optimize value and control costs for both the Company and employees. The Company's successful cost control strategy has included a variety of initiatives, including:

- Price incentives to encourage cost effective plan selections, including spousal surcharges;
- Dependent eligibility audits;
- Subrogation;
- Emphasis on employee/consumer responsibility;
- Per child pricing to align cost of coverage with benefit received;
- Comprehensive health promotion and care management programs;
- Incentives to drive behavior changes, including migration to outcome-based incentives for 2012;
- Aggressive vendor management;

- Value-based pharmacy design to promote therapeutic compliance, especially for employees with chronic health conditions; and
- Cost transparency with pharmacy benefit manager.

Q. How has FPL's successful management of its health care program and costs been a benefit to customers?

A. As I mentioned previously, FPL's medical costs increased only 2.2 percent from 2009 to 2013 compared to the utility industry health care trend of 27.1 percent for the same period. This success in controlling medical costs reduces the Company's revenue requirements, which is a direct benefit to customers.

Q. Are there other initiatives FPL has taken to control health care costs?

A. Yes. A key long-term cost control initiative has been the aggressive promotion of the employee's responsibility for health and the creation of a healthy work environment, as evidenced by the Company's comprehensive health and well-being programs. FPL's comprehensive health and well-being programs, developed over the past 20 years, have led to reductions in health risk factors for the employees who have participated in them, which will benefit our employees through better health and our customers through lower plan cost in the Test Year and beyond.

Q. Has FPL received recognition for successful management of its health care programs and costs?

A. Yes. The effectiveness of the programs has been acknowledged through frequent national recognition, including:

- "Best Employers for Healthy Lifestyles" Platinum Award from the National Business Group on Health—2005, 2006, 2007, 2009, 2010, 2011;
- 2007 Leadership Award in Health from the Florida Health Care Coalition;
- 2008 "Innovations in Prevention" Gold Award from the Department of Health and Human Services;
- 2007 feature on FPL-WELL program on ABC World News Tonight for impact on managing health and well-being; and
- 2011 "Corporate Health & Productivity Award" from the Institute for Health and Productivity Management.

Q. What factors are driving the substantial increases in health care costs projected to occur over the next few years in the U.S.?

A. There are a number of factors impacting recent increases in national health care costs that will continue to cause costs to climb:

- Growing number of uninsureds putting pressure on the health care system, most recently due to increased unemployment;
- Technological enhancements in medical treatments and services driving greater utilization and cost;
- Continued focus on direct consumer advertising by pharmaceutical companies;
- Increased utilization and pricing of prescription drugs;
- Impact of specialty pharmacy;
- Threat of malpractice leading physicians to practice defensive medicine;

- Efforts by hospitals and other large medical providers to consolidate and leverage insurance companies in contract negotiations;
- Collective physician groups leveraging size in negotiations with health plans;
- Increase in obesity over the last 20 years (overall poorer health of the American population);
- Fee-for-service payment model; and
- Federal and state mandates, i.e., mental health parity and mandated coverage for dependents up to age 26.

Q. Does FPL offer retirement plans to employees and is that consistent with industry practices?

A. Yes, FPL offers its employees retirement plans consisting of a pension plan and a 401(k) employee savings plan, as do approximately 75 percent of utility industry companies included in the Aon Hewitt Benefits Index. The Company also provides post-employment medical, life, and disability benefits; however, as discussed previously, the post-employment medical and life benefits were discontinued for employees hired on or after April 1, 1997.

Q. What is FPL's projected retirement expense in the Test Year?

A. The projected expense for the 2013 Test Year is $15.8 million. This is the net expense of the pension plan credit of $38.6 million together with the 401(k) employee savings plan expense of $32.2 million and the post-employment medical, life, and disability benefits expense of $22.3 million.

Q. Why is the employee pension benefit reflected as a credit?

A. The assets of the pension plan have been beneficially invested such that the fair value of the assets exceeds the actuarially determined projected obligation.

FPL's pension benefit is calculated based on Financial Accounting Standards Board ("FASB") Codification, ASC 715 which covers retirement benefits. Whereas many utilities must recover a pension cost associated with providing a retirement plan to its employees from customers, FPL has, through prudent investment over time, been able to grow its pension assets at a faster rate than the costs of its plan obligations. Even after the major market correction, the pension trust still exceeds its obligations, and therefore, creates a negative expense (a credit) to the benefit of customers.

Q. How do FPL's retirement plans compare to the industry?

A. As shown in the Aon Hewitt Benefit Index's comparison chart (Exhibit KS-8), FPL's retirement plans are valued well below the averages of the comparator companies and the utility industry (100.0 for the comparator and 100.8 for the utility companies).

Q. How does this evaluation demonstrate the reasonableness of FPL's qualified retirement plans?

A. FPL provides both a pension and 401(k) employee savings plan to its employees in order to attract and retain high quality employees. FPL has been able to do this despite the fact that the relative value of these plans is considerably less than average in the utility industry as demonstrated by the Aon Hewitt Benefits Index.

Q. Does this conclude your direct testimony?

A. Yes.

BY MS. CLARK:

Q And Ms. Slattery, are you sponsoring any exhibits, and are they Exhibits KS-1 through KS-8?

A Yes. Mr. Chairman, I think those exhibits are on the list, staff's list, as 185 to 192.

CHAIRMAN BRISÉ: Yes.

BY MS. CLARK:

Q And were those exhibits prepared by you or under your supervision?

A Yes.

Q Have you prepared a summary of your direct testimony?

A Yes, I have.

Q Would you give that now, please?

A Yes.

Good afternoon, Mr. Chairman and Commissioners. FPL's projected total compensation of benefits expense is reasonable, prudent and necessary to attract, retain and motivate the caliber of employees that drives FPL's high performance organization.

My testimony provides evidence of the reasonableness of FPL's total compensation and benefits costs, as measured by inflation indicis, market surveys and benchmark comparisons with competitors. Moreover, the results, FPL's superior operating performance and

low rates prove that the programs are working and are appropriate.

FPL designs and manages its compensation and benefits programs as parts of one total rewards package. A chief objective is to provide a market competitive employment package that will allow the company to attract, retain and motivate talented high-performing employees at all levels of the organization.

FPL continuously monitors and benchmarks the compensation and benefits components of the total rewards package to ensure that the total program is in line with the programs of appropriate comparator companies. In the aggregate, FPL base salaries are 2.8 percent below market median for comparable positions in comparable companies, and annual merit base salary increases and variable incentive pay wards have been at market for the period of 2009 through 2011. Total benefit program value is also below the industry average. In total, the employment package is competitive and not above market.

Another objective of FPL's total rewards approach is to control overall costs by placing emphasis on performance based variable pay, rather than on less flexible fixed cost pay and traditional benefits. This lowers the company's and customers' exposure to steadily

increasing salary an fringe benefit costs.

In 1997, to implement this objective, FPL reduced benefit costs by changing its pension plan design to provide leaner pension benefits and also eliminated post-retirement medical coverage for all new hires. At the same time, the company increased its focus on performance-based variable pay and shifted part of the savings and in benefits cost to the performance-based pay program. Ultimately, this saves money and drives superior operating performance for the benefit of the customer while providing employees with the necessary security and motivation.

FPL's strategic decision in 1997 to develop and emphasize a pay-for-performance compensation program has been a key driver in the company's ability to achieve efficiency, reliability and customer service improvements over the past 15 years. The flexibility provided by these strategic changes has been an essential part of the company's success in dealing with changing workforce dynamics, including aging workforce challenges and a shortage of skilled utility workers.

FPL has demonstrated that its approach to total rewards is working very well. Numerous FPL witnesses have detailed the superior performance and cost management that FPL has been able to provide to its

customers. FPL customers have the lowest bill in the state and reliability that is among the best in the country. These results are driven by FPL's total compensation and benefits program and pay-for-performance culture.

FPL's total rewards approach has served its customers and its employees well and allowed the company to adapt to changing workforce dynamics in the utility industry into attract, retain and engage the required workforce in.

Even in a difficult economy, FPL must compete for resources. As FPL moves forward, it must continue to provide a market competitive total rewards package to its employees at all levels of the organization. The 2013 projected levels of total compensation and benefits expense are reasonable, prudent and necessary to attract and retain the caliber of employee that I drives FPL's high performance organization.

This concludes my summary.

CHAIRMAN BRISÉ: Thank you.

MS. CLARK: Mr. Chairman, we tender the witness for cross.

CHAIRMAN BRISÉ: All right. FIPUG, Mr. Moyle?

*****

CROSS EXAMINATION

BY MR. MOYLE:

Q Good afternoon.

A Good afternoon.

Q Do you know what the average wage of an FPL employee is?

A As shown on Exhibit KS-2 attached to my testimony, the average salary of FPL non-bargaining employees is 78,200.

Q How about when you combine the bargaining employees?

A As shown on MFR C-35, the average total gross payroll per employee for the test year is a little over 103,000.

Q Does that include benefits?

A No, that is inclusive of all wages and salaries, including overtime and incentive compensation, but it is not inclusive of benefits. Including benefits, the total payroll and fringe benefits per employee on MFR C-35 is forecasted to be 124,258 in the test year.

Q And that's the -- for the average employee? That's the average, right?

A That's the average.

Q And do you know in the state of Florida

currently what the per capita income is?

A I -- I do believe I know from the Department of Labor, Bureau of Labor Statistics that it's about 43,000, I believe.

Q And on page 14, am I reading correctly that from the last rate case to this rate case, on lines 17, 18 and 19, that you're seeking an increase in compensation of approximately 76 million for -- for payroll expense?

A Yes.

Q And same question on page 17, with respect to total benefits, according to my math, that the total ben -- benefit increase from the last rate -- rate case to this rate case is up 37 -- 37 million; is that right?

A Yes, although a major driver of that is the pension credit going down in the last couple of years.

Q And -- and given -- given these increases, you're also aware that the -- the Florida economy kind of continues to struggle, correct?

A I am aware that these have been tough economic times, yes.

Q And are you aware that there are a number of businesses and governments and others who, since the last rate case, have not given their employees a -- a raise or benefit increases?

A Yes, I am aware of that. Although, it's not pert-- pertinent to benchmarking utility industry jobs.

Q On page five, if I understand, your testimony in general terms -- and I can refer to you the page, but I think -- I don't know if it's necessary -- that you, as a philosophy, you being Florida Power & Light, focus a significant portion of the compensation on a variable component that, as I understand it, is kind of designed to recognize and reward performance; is that right?

A Well, first, I need to correct the characterization as a major -- you know, or large percentage of total compensation expense. It represents approximately 11 percent of salaried employee base salaries, but we do focus on performance-based variable compensation in lieu of fixed cost benefits because it is a better motivator of performance that benefits our customers, yes.

Q And -- and is that 11 percent -- is that 11 percent across all categories of -- of employees, so the line -- line person has 11 percent at-risk as compared to a vice president? Or is there a variability in that that a vice president may have, you know, a higher amount at-risk as compared to somebody who works on a -- on a line?

A There is variability. Our pay-for-performance

philosophy includes the premise that the higher up in the organization you go, the more impact you have on company performance, and therefore, the higher percentage of pay at risk should be.

Q Do you -- do you provide or publish the amount that is at-risk or at variable -- the variable component for your employees?

MS. CLARK: I'm not sure I understand what you mean by provide or publish.

MR. MOYLE: Provided to the -- if I can, Mr. Chairman.

CHAIRMAN BRISÉ: Sure.

BY MR. MOYLE:

Q Provided to the -- to the employee. I mean, if I was an employee at Florida Power & Light, would I be told in advance, Mr. Moyle, here is your package; this percent is at risk or -- or variable? Is that information provided upfront so that it's known and measurable so that you kind of know what the goal is, or is it something that is not provided upfront?

A Yes, we do communicate opportunity ranges for employees. So, for example, a front line supervisor would be communicated during the annual partners and performance process that they had an opportunity of approximately seven percent to 15 percent. And as you

can see, 11 percent is really the midpoint there.

Q Okay. Because I was confused because of the testimony earlier today from the vice president who is responsible for tree trimming. He was asked by Public Counsel some questions about his compensation and, I think, specifically about his at-risk compensation, and I thought he said he wasn't aware of what that at-risk compensation was. Were you in the room if that testimony?

A I was not, no.

Q Would that surprise you if that's what he said?

A Well, I -- I would have to know exactly what he said rather than a summary of it from -- from you, Mr. Moyle, because I -- I need to have a better understanding of what the confusion is here because I -- I assure you he is communicated on an annual basis what his opportunity is for variable pay. But if he thought the question was, you know, what percentage of my total compensation is variable pay versus fixed pay, he may not have had that figure handy.

Q Do -- do you think, as a matter of -- you're an expert in -- in employment, labor, salary, incenting people to perform; is that correct?

A That's correct.

Q Do you think it's more effective to tell someone, Mr. or Mrs. Employee, you know, 20 percent of your salary of 100,000 is -- is at-risk, so we are going to make a judgment as to your level of performance. Here are the goals, and you provide that upfront, or compared to telling maybe a senior manager, a -- a significant portion of your salary is -- is at-risk and variable and not telling them?

I mean, it seems to me that -- that it could possibly work either way. If you -- if you don't know, you will hustle, but if you know and it's not enough, maybe I won't hustle as much. I mean, could you comment on that?

A Yes, I believe that when an employee understands the opportunity and in particular what the performance goals of the organization, the business unit and that individual are, they are going to perform better. Historically, FPL has been less clear with employees about what their opportunity for pay at-risk is, but in more recent times, we have been much more explicit with them.

Q Why -- why were you less clear and now you're more clear?

A It was just a communication strategy as far as not setting any kind of entitlement mentality in our

workforce. We want to be very clear with people that this is pay that has to be reearned every year. There is no guarantee of it. It is at-risk. It must be earned through performance of the individual, the business unit and the company.

And we have always been very clear with them about that, but we have more narrowly targeted in recent communications your opportunities of percentage of base salaries between within these guidepost.

Q So what percentage of your employees are eligible for this incentive compensation? What percentage of them actually qualify and -- and get some money that is in the incentive bucket?

A If your question is, what percentage of eligible employees receive an award? Over the past several years, the average has been about 95 percent, and then the other five percent receive zero. But within that 95 percent that receive some award, there is tremendous scalability. So some of them will receive significantly lower in the range of opportunity based on their performance versus others.

Q On -- on page eight, line 1, you -- you have some testimony about an aging workforce. Do you see that?

A Yes, I do.

Q Okay. And you're aware that the current unemployment rate in Florida is, you know, 8.2, 8.4, 8.6, in that neighborhood; is that right?

A I am -- I am aware of that. I recently saw a media report that indicated that although it has improved more than two percent since this time last year, that it's still at those levels. Yes.

Q Okay. And -- and you also recognize that month-to-month from -- from June to July, that the -- more people have been unemployed in the manufacturing sector and in the health care and education sector?

A No, I was not aware of that. Although, it's, you know, not a -- a data point that I study since the utility industry skills in many of our jobs are very specific, and these skills are not transferable from other industries.

Q I guess -- I guess I was surprised in your testimony about the -- the aging workforce being a problem given the relative high unemployment in the -- in the state of Florida and, you know, anecdotally reports of college graduates coming out and having to wait tables and -- and things like that.

Wouldn't you agree that -- that the high unemployment level, or the current unemployment level in Florida works against the problem of your aging

workforce?

A No, I do not agree with that at all. Our -- our workforce is an aging workforce. The average age of FPL employees is over 46, and for example, in an organization that has 1,900 Nuclear Division employees, there aren't many other industries where the skills are transferable.

And as described by FPL Witness Stall in his testimony, regarding college graduates in, you know, the nuclear engineering programs of universities in the United States have declined recent -- declined precipitously over recent years. We are down to about 32 nuclear engineering programs in the U.S. compared to over 65 in 1985. So although there are college graduates, if they are not graduating from the disciplines or with the degrees that we are looking for, we are not able to utilize them in -- in our jobs.

MR. MOYLE: Mr. Chairman, I have two exhibits I would like to use if I could get some assistance in passing them out.

CHAIRMAN BRISÉ: Sure.

These will be marked 531 and 532.

(Whereupon, Exhibit Nos. 531 and 532 were marked for identification.)

MS. HELTON: Mr. Chairman, can I ask which

exhibit is given which number? I missed that.

CHAIRMAN BRISÉ: No, we just -- there are exhibits coming and assigned to slots. Now, we are going to assign the actual exhibit.

MR. MOYLE: Things were running so smoothly, I thought I would confuse it. No, I'm kidding.

Five -- let's put 531 to -- FPL Response to OPC's Second Set of Interrogatories Number 37, so that will be 531. And then 532 will be FPL's Response to OPC's Second Set of Interrogatories No. 53.

CHAIRMAN BRISÉ: Okay. Are there any objections to these exhibits?

MS. CLARK: Mr. Chairman, I know that on what is now marked on 531, it says Witness Reed, John Reed. Has that been entered before or?

MR. MOYLE: No. No, it was not used with Mr. Reed.

MS. CLARK: Okay. This is just --

MR. MOYLE: I think this might be one of those footballs that gets punted, or I mean, I just -- it's better to use with this witness because she has, I think, better information about the salary and the payroll. So I didn't use it with Mr. Reed.

MS. CLARK: Okay. So we should correct it and

say it's Kathleen Slattery?

MR. MOYLE: Yes.

MS. CLARK: Thank you.

BY MR. MOYLE:

Q So are you -- are you familiar with exhibit -- what's been handed to you and marked as 531?

A Yes, I am.

Q So I -- in terms of looking at this table, the -- the table shows the increases, the salary increases that have been provided, I guess, from 2009 through 2012; is that right?

A That's correct.

Q And it looks like there are five salary increases, is that right, on this chart?

A For bargaining unit employees, there have been five, and for non-bargaining, four.

Q Non-bargaining, what?

A For the non-bargaining employees, this chart shows four increases.

Q Okay. And -- and FPL, whether they're -- it's -- someone is in bargaining or non-bargaining, they have to agree to an increase, correct?

A I don't understand your question.

Q I mean, it's not -- giving a salary increase is not compelled, like you don't have a choice, you have

to do it because of a -- you know, the Commission tells you to do it or a law tells you to do it? You have free will as to whether to provide a salary increase or not as a company, correct?

A Well, with -- with one caveat. On the bargaining unit side, once we enter into a collective bargaining agreement, we are bound by the terms of that agreement, including increases that are required under it. However, in the non-bargaining side, the company decides from year to year, based on market data that we receive regarding what market competitive pay increases will be for non-bargaining as to what the appropriate salary increase budget is for the year, and each of these non-bargaining increases was based on market competitive data which supported them.

Q Do bargaining unit people do better than the non-bargaining people unit, at least according to this chart; is that fair?

A No, that's -- that's not exactly true. In 2009, there were two increases because we were negotiating a new collective -- collective bargaining agreement with the Florida IBD -- IBEW in 9 -- in 2009, and it was delayed -- the ratification was delayed. And we ended up with two increases sort of on top of each other. I would consider the first one there to be a

catch up for the period of time in which we were at an impasse.

Q And -- and so the numbers we are talking about, the bargaining, in -- in August of 2009, you awarded a 2.6 percent increase, and then in November of 2009, you also awarded a 2.95 percent increase; is that right?

A That's -- that is true because of the delay in awarding the first increase due to the extended period of negotiation before we came to terms with them.

Q So my understanding of collective bargaining is, is you sit down at the table and you work through, and typically, you come out with a -- with a deal. And then, it's tentatively agreed, and you take -- the union takes it to the union members; and -- and management takes it to management. The bargaining team takes it to management. Isn't that typically how it occurs?

MS. CLARK: Mr. Chairman, I -- I would object to this question. It's a narrative. I think the -- Mr. Moyle is testifying. He can ask the question of the witness.

MR. MOYLE: I'm -- I'm crossing her. I am -- I am allowed to ask leading questions. It's a leading question with respect to how they came to award a five percent pay increase as reflected on

this exhibit.

MS. CLARK: I don't object to that question.

CHAIRMAN BRISÉ: Okay. Go ahead. You may ask the question.

BY MR. MOYLE:

Q And -- and it might save some time, but would -- did I improperly or wrongly characterize the collective bargaining process?

A I did not completely follow your narrative, Mr. Moyle.

Q Okay.

A I apologize. If you could repeat it.

Q Collective bargaining typically works where it's a negotiation; the unions are represented at the bargaining table, and management is represented at the bargaining table. Is that right?

A That's correct.

Q And usually tentative agreements are reached as to a package of -- of key terms, correct?

A That's correct.

Q And then, management has to ratify those terms, as does the union, correct?

A Yes. And with the union, that requires a vote of the membership.

Q Okay. And typically, that's done not in a

piecemeal fashion, but kind of in toto. Is that not right?

A It is correct that the collective bargaining agreement is usually comprehensive of work rules, benefits, compensation and all other issues, yes, and that that is ratified together, not separately.

Q But notwithstanding that, in August of 2009, there was a 2.6 percent increase followed three months later by a 2.95 percent increase, and those were not part of the same collective bargaining?

A That was part of the same collective bargaining agreement, and this has to do with the fact that there was a delay in the parties coming to terms and the agreement being ratified as well as the fact that it had been some period of time since the last increase for the bargaining unit.

Q Okay. And I had asked you earlier if -- you know, if you were required to give raises, and you said, no, with the caveat that may be in a -- a union collective bargaining agreement, you might be compelled to if you negotiated -- I assume if you negotiated a long-term deal --

A Uh-huh.

Q -- that had for incremental raises; that's what you are referring to. Is that right?

A Yes. Once we have a valid collective bargaining agreement, we must abide by it.

Q Okay. But based on this chart, that's not the case with your company. If I -- if I read it -- or maybe you can help me because it looks like either the agreement is reopened to negotiate salary on an annual basis, or you have predetermined an increase that comes -- comes in every years because you gave an increase in '09, '10, '11 and '12. So which is it?

MS. CLARK: Mr. Chairman, I -- I just want to -- I think the question is vague. I don't know if he is talking about bargaining employees or non-bargaining employees at this point.

MR. MOYLE: This is all bargaining. This is the chart that relates to bargaining.

CHAIRMAN BRISÉ: I thought the question was prefaced with bargaining.

MS. CLARK: I was confused by what he was talking about in terms of when the salaries came in. I am sorry.

CHAIRMAN BRISÉ: So -- so Mr. Moyle, if you could restate the question. Maybe the witness might have been confused as well.

MR. MOYLE: Okay.

BY MR. MOYLE:

Q The -- do you know if your current collective bargaining agreement, whether it has a reopener annually to negotiate salary, or does the collective bargaining agreement have a provision that plugs in raises automatically because it has been previously been negotiated and you have, in effect, an automatic annual increase as part of the contract?

A The collective bargaining agreement has an increase built into it rather than a reopener at the time that we, you know, ratify that agreement. We go back to the table, you know, every one to three years, depending on the term of the prior agreement, to renegotiate.

Q And then with respect to the non-bargaining, that's just a management decision that is periodically reached; is that right?

A Yes, that is management decision that's made consistent with our philosophy of paying at market. Based on market survey data that we receive, we make a decision each year as to what the appropriate salary increase budget will be to stay competitive with the market.

Q So just -- just to -- last question on this chart, but would you agree that since the last rate case

in 2009, that the bargaining salaries for FPL employees have gone up cumulatively more than 10 percent?

A Yes, I would agree with that.

Q And for non-bargaining employees, they have gone up 7 percent? No, maybe 10 percent. What -- how much have non-bargaining employees gone up?

A 10 percent.

Q All right. Let me refer to you the -- the next exhibit, 532. And I guess before we talk about the exhibit, you made a comment on page 11 of your direct prefiled testimony related to pensions goes. You said on line 16, FPL is not nearly as burdened with the considerable cost of pension, and you -- you talk about medical obligations. I want to focus on -- you know, on -- on the pension cost?

A Uh-huh.

Q FPL does provide as one of its benefit -- benefits, pensions; is that right?

A Yes, we do have a pension.

Q Okay. And are you aware of a trend in the industry that -- that most companies offering pensions have moved away from that because of concerns about long-term cost?

A I am not aware of a trend in our industry, no. I do know that because of the decision we made in 1997,

we are much less burdened by expense than other utilities. We are somewhat at the leading edge of the retreat, I call it. When we converted from a traditional final average pay program to a cash balance program back before, that was a term that was very common.

Q So back to the interrogatory, the first sentence says that, in December 31st, 2011, the fair market value of the qualified pension assets exceeded the obligation by more than $1 billion, 1.021 billion, is that -- as we sit here today, is that still accurate?

A I don't know, Mr. Moyle. I am not -- not the witness who can testify as to how pension expense or pension assets relate to the case. That would be FPL Witness Ousdahl.

Q I think she may be headed back to deal with the storm, but -- do you have any information?

MR. LITCHFIELD: That will be incorrect. She will be back on rebuttal.

MR. MOYLE: Oh, I'm sorry. Ms. -- Ms. Ousdahl is coming back?

MS. CLARK: Yes.

BY MR. MOYLE:

Q Okay. Just final, then, and I will save some of this. But with respect to the pension, I mean,

you're the -- the benefits person. The -- do you have an understanding about the -- the pension and its -- and its funding and whether it's properly funded, or are you just focused on how it would work?

A I focus on how it works and how it benchmarks with the marketplace, and I demonstrate that in an exhibit to my testimony.

Q Okay. And -- and there is benchmarking -- you said that you bench -- try to benchmark your salaries against others; is that right?

A That's correct. We benchmark our salaries compared to, you know, comparable employees at comparable companies, similarly sized.

Q And have you made any effort, again, with respect to the Florida utilities to benchmark your -- your employees to Florida utility IOU, investor-owned utility, employees?

A Well, Mr. Moyle, that's not the most effective comparison because one of the basic principles of benchmarking is that there is a strong correlation between pay levels and company size, and that's because the larger the organization is, the more complex some of the jobs are. The scope of the responsibilities, the scale of the enterprise, the expertise and skill required to perform those jobs escalates as the company

gets bigger in size, so it's more appropriate for market comparison purposes to benchmark with similarly sized companies rather than much smaller companies. And in Florida, of course, we are, you know, by far the largest utility. We are the third largest utility in the nation.

Q I think that may have changed since you prefiled your testimony, and I am referring obviously to the Duke/Progress merger?

A Yes.

Q You're aware that those have merged?

A Yes.

Q So I guess the answer, and you have heard the Chairman, I mean, the answer to the question is -- is probably, no, you have not benchmarked your employees' salary levels, vis-a-vis other Florida investor-owned utilities, correct?

A Well, with one caveat. Progress Energy is a comparator company that we use in our compare groups for benchmarking, but TECO and Gulf are not. Again, they are not appropriately sized to be a relevant comparator for us.

Q And is my assumption correct, that when you're doing this comparative sizing, that the bigger the company, the bigger the salaries as compared to the

smaller the company, the smaller the salaries as a general rule of thumb?

A That is a general guiding principle. It's not true of all jobs, of course, but for a -- a number of jobs, it is true, yes.

MR. MOYLE: If I could just have a minute. Thank you, Mr. Chairman. That's all I have.

CHAIRMAN BRISÉ: All right. Thank you.

South Florida Hospital Association?

MR. URBAN: Thank you, Mr. Chairman, Commissioners.

CROSS EXAMINATION

BY MR. URBAN:

Q Good afternoon, Ms. Slattery. My name is Blake Urban, and I am one of the attorneys representing South Florida Hospital Healthcare and Association. How are you today?

A I am well. Thank you. How are you?

Q Fine. Thank you.

Ms. Slattery, can you please refer to your testimony beginning on page 15, line 20, please, and continuing through page 16, line 6 where you describe FPL's annual performance-based merit program?

A Yes, I am there.

Q Under this program, eligible employees may

receive a merit award and variable compensation based upon their performance during the prior year, correct?

A That's correct.

MR. URBAN: I would like to provide an exhibit for the witness, Mr. Chairman. Which number are we at?

CHAIRMAN BRISÉ: Sure. We are at 532 -- 533.

MS. KLANKE: I believe we are at 533.

CHAIRMAN BRISÉ: 533, yes.

MR. URBAN: Thank you.

(Whereupon, Exhibit No. 533 was marked for identification.)

CHAIRMAN BRISÉ: Thank you.

MS. CLARK: Excuse me, Mr. Chairman. I would just like to ask him the page and line number, again, that he is referring to.

CHAIRMAN BRISÉ: Sure. Is it Mr. Urban?

MR. URBAN: Mr. Urban, yes.

CHAIRMAN BRISÉ: Yes, if you could provide the line and page number again.

MR. URBAN: Sure, I was generally referencing her testimony on page 15, line 20 to page 16, line 6.

CHAIRMAN BRISÉ: Okay. Are there any objections to this exhibit?

MS. CLARK: No, Mr. Chairman.

CHAIRMAN BRISÉ: Okay.

BY MR. URBAN:

Q Ms. Slattery, was that response prepared under your supervision or direction?

A Yes, it was.

Q And the table roughly in the middle of the page shows amounts that FPL allocated to each components of the merit program, correct?

A That's correct.

Q And at the time you submitted this data, it was accurate?

A Yes.

Q Thanks. I would also like us to take a look at another exhibit.

A Uh-huh.

CHAIRMAN BRISÉ: Sure.

MR. URBAN: And this one will be marked for No. 534 for identification purposes.

CHAIRMAN BRISÉ: That's correct.

(Whereupon, Exhibit No. 534 was marked for identification.)

CHAIRMAN BRISÉ: Are there any objections to this document?

MS. CLARK: No, Mr. Chairman.

CHAIRMAN BRISÉ: Okay. Thank you. Seeing no objections, you may proceed.

BY MR. URBAN:

Q Was this a response also prepared under your supervision or direction?

A Yes, it was.

Q And at the time you submitted this data, was it also accurate?

A Yes.

Q And I know Mr. Moyle asked a question along these lines, but just looking at this table, would you agree that very few eligible employees have not received performance-based variable compensation during the last three years?

A I -- I would say based on this table, that close to 4 percent did not receive any in 2011, and over 6 percent did not receive any in 2010 or 2009. But as I explained to Mr. Moyle, this is simply the number of employees who received absolutely nothing under the variable pay program. That is a scalable program where, you know, many employees received awards that were below there --

Q Thank you.

A -- opportunity.

Q I think you got my question.

A Thank you.

MR. URBAN: I would like to submit a response by FPL to FIPUG's Interrogatory No. 9 for the witness to be marked --

CHAIRMAN BRISÉ: 535.

MR. URBAN: 535. Thank you, Mr. Chairman.

(Whereupon, Exhibit No. 535 was marked for identification.)

CHAIRMAN BRISÉ: Are there any objections to this exhibit?

MS. CLARK: No, Mr. Chairman.

CHAIRMAN BRISÉ: Okay. Seeing none, you may proceed.

BY MR. URBAN:

Q Was this response also prepared under your supervision or direction?

A Yes, it was.

Q And this exhibit provides FPL's general guidelines on distributing performance awards to employees, correct?

A That's correct.

Q And these guidelines provide that managers are not allowed to distribute merit awards to employees above their budget amount, correct?

A That's correct.

Q These guidelines also permit managers the discretion to either award or not award eligible employees with merit awards and to what extent that award should -- should be, correct?

A Yes.

Q So would you agree that FPL's merit program gives managers a pool of money to divvy up among the employees within their work unit?

A Yes, I agree with that subject to guidelines as to the appropriate distribution of such dollars.

Q And these guidelines are the same exhibit that we are looking at here, correct?

A This is a general description of the factors that a supervisor or manager should take into consideration when distributing the awards, yes.

Q And it would naturally follow that as a manager's pool is increased, the more money that will be -- more money will be divvied up, correct?

A If you could please repeat the question so I am sure I understand it.

Q Sure. It naturally follows that as a manager's pool of -- is increased, more money will be divvied out, correct?

A Yes, it's true that when a pool increases, there is more money in it. Yes.

Q And that money naturally will likely be divvied out to the employees?

A It will likely be, yes.

MR. URBAN: Next, I would like to turn to another response provided by FPL from OPC. It's marked Interrogatory No. 40. Can we mark that as an exhibit, Mr. Chairman?

CHAIRMAN BRISÉ: Sure, 536.

(Whereupon, Exhibit No. 536 was marked for identification.)

MR. URBAN: Thank you.

CHAIRMAN BRISÉ: Are there any objections to this exhibit?

MS. CLARK: No, Mr. Chairman.

CHAIRMAN BRISÉ: Okay. Thank you. You may proceed.

BY MR. URBAN:

Q Was this response prepared under your supervision or direction as well?

A Yes, it was.

Q Can you please take a look at the first sentence in the last paragraph where FPL states that, it occasionally creates a limited participation project specific incentive program?

A Yes.

Q In order to create a project of this type that allows a manager to award compensation to participating employees, what criteria must the program possess?

A With regard to this language regarding limited participation incentive programs, that -- that is not something that would be empowered to supervisors or managers. This would be corporate or a business unit level decision.

For example, I know that there are some incentive programs that we utilize in our Customer Service and Distribution Business Units historically, and also, in -- in the instance of a construction project, there may be some incentive for the supervisors responsible for it to bring it in on time and on budget.

Q Is there any general criteria, though, that must be applied in all instances in order to award a -- an employee a certain -- some of this variable compensation, for example, or a merit award?

A Yes, all of these programs are subject to senior leadership approval before any distribution of any awards.

Q Is there any requirement that the -- the program itself must relate or somehow benefit consumers?

A There is no specific requirement that variable pay programs have a specific enumerated consumer

benefit, but all of them do benefit our customers because they are designed to motivate our employees.

Q Thank you. Thank you.

MS. CLARK: Mr. Chairman, I would just like qualify -- some clarification on that.

CHAIRMAN BRISÉ: Sure.

MS. CLARK: I understand under the Prehearing Order, you can give a yes or no, and then you can explain. And I appreciate not having the witness go on too much, but I don't think it's appropriate for them to be interrupted in the way it's been done. So I would ask that she be allowed to finish her --

CHAIRMAN BRISÉ: To finish her sentence, yeah.

MR. URBAN: Well, I just asked her pretty much a -- a straight yes or no question, and the witness ended up continuing to elaborate. And that's why I decided to move on to the next question. I got the yes or no response, and it's time to move on to the next question.

CHAIRMAN BRISÉ: All right. As -- as we move forward in a matter of efficiency for everyone, if it's a yes or no answer, we prefer yes or no. If it requires elaboration, if we can be concise in the elaboration specifically to the question that

is posed.

THE WITNESS: Okay.

CHAIRMAN BRISÉ: Okay.

MR. URBAN: Thank you, Mr. Chairman.

BY MR. URBAN:

Q Okay, can we turn --

MS. CLARK: Can she finish her answer?

CHAIRMAN BRISÉ: Yes, you may finish your sentence.

THE WITNESS: I say all of our variable pay programs have customer focused measures that are -- that are part of the program, so they benefit customers through cost containment, operating efficiency and safety.

BY MR. URBAN:

Q On page 13, line 18 of your testimony and once again on page 15, line 13 of your testimony -- I will give you a second so you can look at those -- but you use the word, comparable --

A Yes.

Q -- to support FPL's level of compensation to employees. However, you failed to define this term in your testimony. Can you please tell us what makes two utilities comparable when assessing the level of compensation?

A As I described before in -- in answering some of Mr. Moyle's questions, comparable utilities are similarly sized, and that's an -- an important underlying benchmarking philosophy. The market for jobs in different divisions is different.

For example, an obvious example, is you know, the Nuclear Division, there are a limited number of nuclear operators around the United States, so it's a pretty well-defined market. And it's easy to define what the comparable companies are.

Q In your Exhibit No. KS-3 attached to your testimony --

A Uh-huh.

Q -- you list certain utilities to provide a comparison between FPL and those utilities on compensation, correct?

A Yes, uh-huh.

MR. URBAN: At this time, I would like to present another exhibit by -- provided as -- this is a response provided by FPL to SFHAA's Interrogatory No. 164. Can we mark that?

CHAIRMAN BRISÉ: Sure. That would be 537.

(Whereupon, Exhibit No. 537 was marked for identification.)

MR. URBAN: Thank you.

CHAIRMAN BRISÉ: Are there any objections to this exhibit?

MS. CLARK: No, Mr. Chairman.

CHAIRMAN BRISÉ: Okay. You may proceed.

BY MR. URBAN:

Q And was this response prepared under your supervision or direction?

A Yes.

Q And was the data correct at the time you submitted?

A Yes.

Q Now, looking at the values that FPL supplied for each utility that you referenced in Exhibit No. KS-3, it appears -- it appears that FPL's not similarly situated in terms of size or volume to most of the companies; wouldn't you agree?

A Well, I would say that FPL is the third largest in revenue size of these companies, so it's about -- it's at about probably the 80th to 85th percentile in size.

Q Okay. So are you claiming that all of these utilities say, like say Tampa Electric or Arizona Public Service Commission with about 671,000 customers or 1.1 million customers respectively and an operating income about 2.2 billion or 3.2 billion, is comparable to FPL,

which has four-and-a-half -- over four-and-a-half million customers with an operating income of nearly 10.5 billion?

A No, as I stated before, I don't consider that to be a comparable company for compensation benchmarking, but the purpose of this exhibit was to demonstrate the general efficiency of FPL's total salaries and wages per employee when compared to a broad group of companies for which we could obtain FERC Form 1 comparable data.

By comparable, in this case, I just mean the same data that FPL submits on FERC Form 1.

Q Sure.

A So on this exhibit, FPL is about 80 -- 85th percentile in size, and its compensation comes in about the 37th percentile, which is below median. And therefore demonstrates that it's lower than one what would expect based on size of the company.

Q All right. So the use of this exhibit and your testimony in comparing these companies, you wouldn't actually use all these companies in your determining compensation?

A No, because, for example, one of our primary sources of survey data is a utility industry survey that's published by Towers Watson, and they provide

about 125 utility companies in the survey. But then, they cut it by -- by revenue size. So we are in the six billion plus revenue category --

Q Can you -- can you just try to answer the question yes or no for me?

A Sure. I just wanted to make sure you understood.

Q Right. I am just curious whether the -- I will repeat the question so you -- you understand it.

A Okay.

Q I want to know if these companies you list in your KS-3 attachment, whether those companies are -- all those companies you refer to in there are used for compensation?

A No, not all of these are used in our compensation benchmarking.

Q Thank you.

MR. URBAN: Thank you, Ms. Slattery. I have no further questions.

CHAIRMAN BRISÉ: All right. Thank you.

FEA?

CAPTAIN MILLER: Just one second, sir.

CHAIRMAN BRISÉ: Sure.

CROSS EXAMINATION

BY CAPTAIN MILLER:

Q Just a couple of questions, Ms. Slattery. FPL's last rate case, is it true an that an expert witness was brought in to testify to the fairness and reasonableness of the employees of FPL's --

MS. CLARK: I -- I would object to the question?

CAPTAIN MILLER: FPL's salaries?

MS. CLARK: Could he be more specific?

CHAIRMAN BRISÉ: Yeah. If you could probably be more specific as to what witness and so forth.

CAPTAIN MILLER: I can't recollect the witness' actual name right now. I think the question I asked was pretty specific as to whether there was an expert that testified on the salaries being just and reasonable -- fair and reasonable. I don't know if I can get much more specific than that.

MS. CLARK: Well, then I would object to the question as being vague.

MR. YOUNG: Mr. Chairman, perhaps I can propose a solution. You can request ask the witness if he -- if she, excuse me, remembers a witness testifying as to FPL salaries.

BY CAPTAIN MILLER:

Q Do you remember a witness testifying as to the FPL salaries at FP&L's last rate case?

A I remember a witness testifying primarily as to executive compensation, yes.

Q And were those -- did that witness testify as to whether or not that compensation was fair and reasonable?

A I don't recall the specific testimony, only the topic. I am sure that was purpose to bring them in to support the appropriateness of those compensation expense items, yes.

Q And has a similar witness been brought in to testify at this rate case concerning the salaries of the executives?

A No.

Q Okay. I would like to draw your attention to the previously admitted Exhibit 531?

A I am sorry. Mine are not marked with the exhibit number. If you could please describe which one you're looking at.

Q This is a -- this is FPL's Response to OPC's Second Set of Interrogatories, Number 37. And I just wanted to confirm that the cumulative average presented at the collective bargaining table between 2009 and

present was, in fact, 14.65 percent?

A This page does not contain a sum, and I don't have a calculator. So I can't verify your math.

Q Subject to check --

A Subject to check.

Q -- would you verify that those numbers do add up to 14.65?

A Uh-huh, subject to check.

Q Okay. Thank you.

CHAIRMAN BRISÉ: All right. The Office of Public Counsel?

MR. REHWINKEL: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. REHWINKEL:

Q Good afternoon, Ms. Slattery.

A Good afternoon.

Q I would like to ask you, please, to turn to your testimony on direct to page 6 and then further direct you to lines 18 through 20.

A Yes.

Q Is it your testimony that FPL monitors and benchmarks the compensation and benefits components of the total reward package individually since no composite program is in line with the median of the combined benefits -- of the combined compensation and benefits

programs of the appropriate comparator groups?

A Yes.

Q And then, if I could get you to turn to page 12 and ask you there, do you refer to compensation survey resources to evaluate the company's compensation?

A Yes.

Q And on page 13, don't you also reference some of the firms that you rely on in evaluating compensation?

A Yes, I do.

Q Okay. And also on page 13, you reference your Exhibit KS-2 that makes a comparison of average FPL base salary to the market, right?

A Yes, that's correct.

Q Can you turn to KS-4 for me, please?

A I am sorry. Which exhibit?

Q KS-4.

A KS-4, okay.

Q The title of this exhibit is Merit Pay Program Awards, correct?

A Correct.

Q What's the purpose of this schedule for the purposes of this case?

A The purpose of this schedule is to demonstrate that FPL's merit pay programs have been at market on

average for the last three years.

Q Okay. Now, in your testimony on page 18, you refer -- you reference Exhibit KS-5, correct?

A That's correct.

Q All right. And there in your testimony, you indicate that that exhibit displays the value of FPL's total benefit program compared to other utilities, right?

A Yes.

Q Is Exhibit KS-5 a comparison of total compensation to benefits only?

A No, it is not a comparison of total compensation to benefits. KS-5 is -- try to find it. KS-5 is a comparison of total benefit value. It is not related to compensation.

Q Thank you.

And on page 19 of your testimony, isn't it true you refer to Exhibit KS-9 and indicate that this is a comparison of FPL's medical plan to other utilities and the general industry?

A I don't reference KS-9 in direct testimony. I think -- oh, I am sorry. No, I definitely don't -- I don't reference KS-9 because that's part of rebuttal. If you -- possibly KS-6 is referenced on page 19.

Q Yes, I had my numbers upside down.

A Okay. I am there.

Q Okay. You are indicating that this is a comparison of FPL's medical plan to other utilities and to the general industry, correct?

A Yes.

Q Now, let me look -- ask you to look at KS-6, please.

A Uh-huh. Yes.

Q Am I understanding that this chart shows that utilities, in general, and FPL have an average higher cost per employee for medical than the Fortune 500 companies?

A Yes, that is correct. In part, that's due to our older than average workforce compared to Fortune 500.

Q Okay.

A As I mentioned before the average age is 46 in both FPL and in the industry.

Q Okay. Isn't it true that FPL looks at national data for salaried positions and regional data for hourly positions?

A That's generally true. Although for some hourly positions that are in our operations group that are technical in nature, we will look at national data as well.

Q Okay. So apart from, say, your Nuclear Division, you -- your hourly positions are evaluated or compared on a regional basis?

A Well, we will -- apart from Nuclear, Transmission and Substation and Power Generation, yes.

Q Okay. And you believe, since you have offered it, that Exhibit KS-12 is relevant to the Commission's determination in this proceeding?

A I don't have an Exhibit KS-12.

Q I am sorry, KS-2. I apologize.

A Yes, KS-2.

Q I was up too late last night.

Okay. Let me take you back to page 136 your testimony, your direct.

A Uh-huh.

Q And ask you to look at lines 1 through 9. Therein, do you indicate that FPL utilizes third-party compensation surveys to evaluate FPL pay?

A Yes, I do.

Q Are you familiar with what is included in and/or excluded from such survey data?

A As a general rule, yes.

Q Okay. Do these studies also include other utilities?

A Yes, they do.

Q Okay. Do the surveys that include other utilities' salary information reflect an adjustment to the salary information for any Commission disallowances of compensation, such as incentive compensation and/or what may have been deemed inappropriate for rate-making purposes?

A No, they definitely do not. They are reported on a gross basis.

Q Okay. Thank you.

MR. REHWINKEL: Thank you, Ms. Slattery, that's all I have for you today. Thank you.

CHAIRMAN BRISÉ: Okay. Mr. LaVia?

MR. LaVIA: No questions, Mr. Chairman.

CHAIRMAN BRISÉ: Mr. Saparito?

MR. SAPARITO: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. SAPARITO:

Q Good afternoon, Ms. Slattery. My name is Thomas Saparito. I am here pro se.

A Good afternoon.

Q I just have a few brief questions. Do you still have an exhibit in front of you that was identified in the record as Exhibit No. 536, which is OP -- no, response by Florida Power & Light to OPC's Second Set of Interrogatories and specifically

Interrogatory No. 40?

A Yes, I do.

Q And if you would go down to the last paragraph in the first sentence, it says there, occasionally a limited participation project specific incentive program is created to address a specific project or business unit need. Do you see that?

A Yes.

Q Now, you -- you provided some comments to some questions from different counsels, so I am not going to go over that. My question is very specific in nature. This -- these special projects, the compensation that's linked to these special projects, is that -- that's part of this rate case that you're testifying in?

A Yes. If we had any such programs budgeted for the test year, they would be included in the revenue request.

Q Okay. And the -- in the dollar amount of the revenue request, did you compensate that dollar amount -- not compensate it, but offset it by the amount of approximately $600 million that was a -- an overrun in the Nuclear up -- Uprate Program that was undertaken by Florida Power & Light?

MR. RUBIN: Object to the form of the question. It's a mischaracterization. Assumes

facts not in evidence.

CHAIRMAN BRISÉ: Okay.

BY MR. SAPARITO:

Q Let me rephrase that. Ms. Slattery, are you aware there was a cost overrun in FPL's Nuclear Uprate Program?

MR. RUBIN: Object to the form of the question.

CHAIRMAN BRISÉ: Okay.

MR. YOUNG: Mr. Chairman, I think the witness -- I think he is allowed to -- okay.

CHAIRMAN BRISÉ: Maybe if you restate the question.

BY MR. SAPARITO:

Q Ms. Slattery, Florida Power & Light engaged in -- in a Nuclear Uprate Program for both the Turkey Point Nuclear Plant and the St. Lucie Nuclear Plant; is that correct?

A Yes.

Q And were you aware that there was a cost overrun involved in that project?

A No, I have no information about that.

Q All right.

MR. SAPARITO: I would like to put a couple documents on -- identify in the record,

Mr. Chairman.

MR. RUBIN: Mr. Chairman, I probably could object without seeing the documents because this witness has just indicated that she's not familiar with -- with that subject, so I am not sure if there is any relevance in moving forward with this witness with this document.

We -- we just had Mr. Stall on the stand, and that might have been at least a nuclear expert to discuss this issue with. But this is not Ms. Slattery's area.

CHAIRMAN BRISÉ: Okay.

MR. SAPARITO: This attorney has capability that I am just certainly not aware of because he didn't even see the document I am offering in, Your Honor.

CHAIRMAN BRISÉ: Right. I think we will make the determination after the document is distributed.

MR. SAPARITO: To my recollection, it would be 538 and 539.

CHAIRMAN BRISÉ: We are at 538.

MR. SAPARITO: 53 -- 538, the short title would be August 17th, 2012, U.S. Bureau of Labor Statistics News Release, and 539, short title would

be August 21st, 2012, U.S. Bureau of Labor Statistics News Release.

CHAIRMAN BRISÉ: Okay. So 538 is the 17th, and 539 is the 21st, right?

MR. SAPARITO: Yes, sir.

CHAIRMAN BRISÉ: Okay.

MR. RUBIN: I miss anticipated. I apologize.

CHAIRMAN BRISÉ: It happens to all of us every once in a while.

Any objections to this -- to these exhibits?

MS. CLARK: No, Mr. Chairman.

CHAIRMAN BRISÉ: Okay.

(Whereupon, Exhibit Nos. 538 and 539 were marked for identification.)

MR. SAPARITO: And Mr. Chairman, just to be clear on the record, these are excerpts from the entire news release. I have the entire news release if anybody wants to look at it.

BY MR. SAPARITO:

Q Ms. Slattery, have you had an opportunity to review exhibit that was identified in the record as 538, which would be the August 17th news release?

A It contains six pages of information, so, no, I have not had the opportunity to review it.

Q Okay. I am just going to direct you really

quick to page 4, which -- they are numbered at the bottom, but it's the second from the last page. Could you turn there for me?

A Yes.

Q Do you see that on a column on the left, they are marked the states, and underneath -- the fourth one is identified as the State of Florida. Do you see that?

A Yes, I do.

Q And the two columns to the right are unemployment rates. One is for June 2012 --

A Uh-huh.

Q -- and the one adjacent to it is for July 2012. Do you see those columns?

A I do.

Q And if you move from the -- horizontally for the state of Florida, you will see that in June 2012, the unemployment rate was reported at 8.6 percent and in July at 8.8 percent; do you see that?

A Yes, I do.

Q Is that representing, in your view, an increase in the unemployment rate for Florida in that period -- period of time?

A For that one month period, yes, but it's still a decrease of 1.8 percent from the same period in the prior year.

Q And can you turn to Exhibit 539 for me, please?

A Yes.

Q And the very first page, I will direct you to the bottom of the first paragraph where it states -- states that unemployment amongst youths increased by 836,000 from April to July 2012 compared with an increase of 745,000 for the same period in 2011; do you see that?

A Yes.

Q Now, in view of -- in view of the two exhibits that you and I just reviewed, you feel that an increase in -- in wages of 10 percent for Florida Power & Light employees might be a bit excessive?

A First of all, the -- the wage increase for Florida Power & Light Company year over year is certainly not 10 percent. It's a market competitive three percent budget for the test year, but, yes, I do feel it's completely appropriate for FPL to be consistent with its long held practice of providing market competitive salary programs to ensure that we can attract and retain the workforce we need to deliver on promises to our customers.

And it would be shortsighted to abandon a practice that has worked well for us, as demonstrated by

our productivity improvements over the past 15 years, because of factors which are not as pertinent to the utility industry as to certain other industries.

Q And in your view, in light of these employment conditions we talked -- we -- we discussed with the unemployment rate and -- and the -- the other exhibit -- the higher unemployment rate for our young people, do -- in your view, do you think the Florida Power & Light raising their electric rates is going to be beneficial to them or non-beneficial to them?

A I don't think I am the witness to comment on -- on those issues, but it's two totally unrelated things. You're asking me to compare two things which are not comparable.

I am here to discuss the appropriateness of our compensation programs based on market data that we have provided in these proceedings and to talk about the skill shortage we face in our industry, which although we certainly are interested in attracting young people to our industry, we need them to come in with the requisite skills and degrees.

So this information about unemployment among the youth of America is -- is really not pertinent to our discussion here.

MR. SAPARITO: Okay. Thank you for your

testimony today.

CHAIRMAN BRISÉ: Thank you, Mr. Saparito.

Mr. Hendricks?

MR. HENDRICKS: No questions.

CHAIRMAN BRISÉ: Staff?

MS. BROWN: Mr. Chairman, if we are approaching our break, perhaps we could take some time to go over our questions to see if we could get rid of some.

CHAIRMAN BRISÉ: Okay. It is almost 3:00. We will take a 15 minute break.

MS. BROWN: Thank you.

CHAIRMAN BRISÉ: Okay.

MR. SAPARITO: Mr. Chairman, can I move in exhibits?

CHAIRMAN BRISÉ: We will do that when we are done with the witness. All right.

(Brief recess.)

(The transcript continues in sequence to Volume 13.)

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 1390 through 1577, 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

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #DD797877
EXPIRES JULY 13, 2012