

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI

In the Matter of:

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

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Pages 2198 through 2294

PROCEEDINGS: HEARING

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

DATE: Friday, August 24, 2012

PLACE: Betty Easley Conference Center  
Room 148  
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Tallahassee, Florida

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APPEARANCES: (As heretofore noted.)

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

(Transcript follows in sequence from  
Volume 16.)

**COMMISSIONER BALBIS:** Okay. We are going to reconvene. And I believe we were at Mr. Wiseman with cross-examination of Ms. Deaton.

**MR. WISEMAN:** Thank you, Mr. Chairman.

**CROSS EXAMINATION**

**BY MR. WISEMAN:**

**Q.** Good afternoon, Ms. Deaton.

**A.** Good afternoon.

**Q.** Ms. Deaton, when I was cross-examining Mr. Ender, he referred questions concerning two documents to you that had been marked as Exhibit Numbers 560 and 561. Do you have copies of those before you?

**A.** I don't know. I'm sorry, I don't think I do.  
Thank you.

**Q.** Tell me when you're ready.

**A.** I'm there.

**Q.** You look like you are one-handed right now.

**A.** Pardon me.

**Q.** Nothing. Nevermind. You ready?

**A.** Uh-huh.

**Q.** All right. First, let's start with Exhibit 560. Now, that is FPL's forecast of load data for the

1 2013 test year, correct?

2 A. Sales and load, yes.

3 Q. Okay. And if you look in particular at Column  
4 4, that has the forecast of total delivered sales in  
5 megawatt hours for each of the rate classes that are  
6 listed here. Is that your understanding?

7 A. That's correct.

8 Q. Now, if you would look at the document that  
9 has been marked as Exhibit Number 561.

10 A. Yes.

11 Q. Do you have that?

12 A. Uh-huh.

13 Q. Would you agree that in the interrogatory  
14 SFHHA asked FPL to provide equivalent information to  
15 that contained in Columns 2, 3, and 4 in MFR E-9 for  
16 calendars years 2009 through 2011, correct?

17 A. Yes.

18 Q. Okay. And so if we go to the attachment in  
19 Exhibit 561, would it be your understanding that the  
20 data in Columns 4, 7, and 10 contain the total delivered  
21 actual sales recorded in 2011, 2010, and 2009,  
22 respectively?

23 A. Yes.

24 Q. All right. Now, let's start with Exhibit 561.  
25 And just in round numbers, would you agree that for the

1 RST-1 rate class, 2011 sales were around 54.7 million  
2 megawatt hours?

3 A. Yes.

4 Q. And 2010 was around 56.5 million megawatt  
5 hours?

6 A. Yes.

7 Q. And in 2009, it was just about 54 million  
8 megawatt hours, right?

9 A. Yes.

10 Q. And if you go back to Exhibit 560, your  
11 forecast is that the total delivered sales for the RST-1  
12 rate class will be only 53 million megawatt hours in  
13 2013, correct?

14 A. Yes. This is a weather-normalized forecast as  
15 opposed to actuals.

16 Q. Right. So that's a number that is lower than  
17 the actual sales in 2009, through -- each year 2009  
18 through 2011, correct?

19 A. Yes.

20 Q. All right. Now, if we go to Exhibit 561, and  
21 if you look at the actual sales to the GSLDT-1 rate  
22 class, would you agree -- I will give you all three  
23 years to shortcut it -- that the actual sales in 2009  
24 through 2011 were approximately 10.8 million megawatt  
25 hours in 2009; 10.6 million in 2010; and approximately

1 10.9 million -- or, I'm sorry, 10.7 million in 2011,  
2 correct?

3 A. I get slightly different numbers. I have 10.8  
4 in -- you're talking about delivered, right?

5 Q. Total delivered, right.

6 A. 10.8 in '09; 10.7 in '10; and 10.8 in '11.

7 Q. All right. Close enough. Would you agree if  
8 you go back to the document that has been marked as  
9 Exhibit 560, so that is MFR E-9, that for the 2013 test  
10 year FPL is forecasting total delivered sales to the  
11 GSLDT-1 rate class of approximately 11.3 million  
12 megawatt hours?

13 A. Yes.

14 Q. Okay. So in that instance, the forecast for  
15 the 2013 test year is higher than actual delivered sales  
16 in any year 2009 through 2011, correct?

17 A. Yes.

18 Q. All right. And if we look at the GSLDT-2 rate  
19 class, again, looking at Exhibit 561, the actual  
20 delivered sales in 2009 were approximately 2.2 million;  
21 in 2010, approximately 2.3 million; and in 2011,  
22 approximately 2.4 million, correct?

23 A. Correct.

24 Q. And if you go to the Schedule E-9, Exhibit  
25 Number 560, you would see that the forecast for the 2013

1 test year for the GSLDT-2 rate class, again, is around  
2 2.45 million, right?

3 A. Yes. It would appear they are less  
4 susceptible to weather.

5 Q. So in other words, the GSLDT-2 rate class,  
6 again, the forecast, unlike for the residential rate  
7 class, is higher than in any year 2009 through 2011  
8 actuals, right?

9 A. Only slightly.

10 MR. WISEMAN: Okay. Now, if I could have  
11 marked for identification as the next exhibit in order,  
12 this would be FPL's Response to SFHHA Interrogatory 102.

13 COMMISSIONER BALBIS: Yes. That will be  
14 marked as Exhibit 564.

15 (Exhibit Number 564 marked for  
16 identification.)

17 CHAIRMAN BRISÉ: Did you say 562?

18 COMMISSIONER BALBIS: 564.

19 CHAIRMAN BRISÉ: 564. Thank you.

20 MS. KAUFMAN: I'm sorry, Commissioner Balbis.  
21 Maybe I've got my numbers wrong. Wasn't MFR 13-A 564,  
22 or do I have that wrong?

23 COMMISSIONER BALBIS: According to my list,  
24 563 was E-11, and that's the last number. And I believe  
25 that last MFR you didn't mark it for -- it wasn't marked



1 for designation.

2 **MS. KAUFMAN:** I'm sorry, I thought I had. I  
3 had marked it down as 564, I think. 563 was Mr.  
4 Wiseman's E-11 and MFR 13-A was 564.

5 **MR. REHWINKEL:** I thought it had been given a  
6 number in the 400s.

7 **MS. KAUFMAN:** Okay. I'm sorry. I'm being  
8 reminded it already had a number. I'm sorry. Thank  
9 you.

10 **BY MR. WISEMAN:**

11 **Q.** All right. Ms. Deaton, in this interrogatory,  
12 SFHHA asked for a breakdown in percentages and numbers  
13 of customer growth for each rate class since 1999,  
14 correct?

15 **A.** Yes.

16 **Q.** Okay. And so if you would turn to the  
17 attachment, and I just want to focus on the numbers on  
18 the top of the first page of the attachment. Those data  
19 would reflect the actual number of customers in each of  
20 the rate classes during those years 1999 through 2011,  
21 correct?

22 **A.** Yes. That would be the average number of  
23 customers for those years.

24 **Q.** Okay. I'd like to focus on the years 2008  
25 through 2011, all right? And, first, let's look at the

1 GSLDT-1 rate class. Would you agree that these data  
2 show slight growth in the number of customers each year  
3 during the period 2008 through 2011?

4 A. Yes.

5 Q. All right. And if you go back to the document  
6 that has been marked as Exhibit 560, that is MFR E-9,  
7 would you agree that FPL is forecasting a greater number  
8 of customers in the GSLDT-1 rate class in 2013 than it  
9 had on average in 2011, based upon Exhibit 564?

10 A. I'm sorry, which exhibit are we on? The one  
11 with the E-9?

12 Q. Yes. Keep two documents in front of you. One  
13 would be Exhibit 560, which is MFR E-9; and the other  
14 one is the one that you were just handed.

15 A. Okay. Thank you.

16 Q. Do you have the question in mind?

17 A. So you want to know the number of customers  
18 forecast for GSLDT-1?

19 Q. No, I don't want to know the number. We don't  
20 need to do that. I just would like you to agree that  
21 the forecast that is reflected in Exhibit 560 for 2013  
22 is reflecting a higher number of customers for the  
23 GSLDT-1 rate class than you had on average in 2011?

24 **MS. CLARK:** Mr. Wiseman, why don't you say  
25 what the numbers are so she can look at it and agree

1 with you?

2 **MR. WISEMAN:** Well, if that would make it  
3 easier, that's fine with me.

4 **BY MR. WISEMAN:**

5 **Q.** According to Exhibit 564, in 2011, you had  
6 3,150 customers in the GSLDT-1 rate class, and in your  
7 forecast year you are forecasting that there would be  
8 3,273 customers in the GSLDT-1 rate class, is that  
9 correct?

10 **A.** Yes.

11 **Q.** Okay. So you are forecasting a growth in the  
12 number of customers 2011 to 2013, right?

13 **A.** Yes.

14 **Q.** All right. Now, let's look at GSLDT-2. Would  
15 you agree that in looking at Exhibit 564 that in 2008  
16 through 2010 you had a slight growth in the number of  
17 customers in that rate class, and then it was basically  
18 flat in 2011, right?

19 **A.** It's the same. In 2010 and 2011 is the same,  
20 and it appears the actual growth rates are on the third  
21 page, if you want to see that.

22 **Q.** Right. So it's showing growth in 2008, 2009,  
23 and 2010, and then just a extremely minor decrease  
24 percentage-wise in 2011, right?

25 **A.** Right.

1           **Q.** All right. Now, going to Exhibit 560, your  
2 forecast year, you're forecasting that there will be 151  
3 customers in the GSLDT-2 rate class in 2013, correct?

4           **A.** That's correct.

5           **Q.** Okay. So your forecast is that you will have  
6 some growth in the GSLDT-2 rate class number of  
7 customers from 2011 to 2013, right?

8           **A.** Yes.

9           **Q.** Okay. And then the last one I want to ask you  
10 about on these two documents is the RST-1 rate class.  
11 Looking at Exhibit 564, you'd agree that the data show a  
12 slight reduction in customers taking service under that  
13 rate class in 2009 followed by slight customer growth in  
14 2010 and 2011, correct?

15          **A.** Yes.

16          **Q.** All right. And if we go over to Exhibit 560,  
17 you're showing that the number of customers in the RST  
18 rate class in 2014 -- you're forecasting that you will  
19 have a greater number of customers than you had on  
20 average in 2011, correct?

21          **A.** Yes.

22          **Q.** All right. So would you agree that, again,  
23 going back, and do you recall the delivered sales  
24 forecast that we talked about just a few minutes ago?

25          **A.** Yes.

1           **Q.**    Okay.  So would you agree that while you're  
2 forecasting growth in all three rate classes we just  
3 discussed, GSLDT-1, GSLDT-2, and RST-1, in terms of  
4 customers that you are forecasting that you will have  
5 greater total delivered sales in 2013 for the GSLDT-1  
6 and 2 rate classes, but you will have fewer sales, lower  
7 sales for the RST-1 rate class, is that correct?

8           **A.**    Yes.  Because it is weather normalized --

9           **MR. WISEMAN:**  Thank you.  I have no further  
10 questions.

11           **MS. CLARK:**  Mr. Chairman, I think she should  
12 be allowed to explain that.  You know, I guess I would  
13 like to inquire, again.  The prehearing order indicates  
14 that witnesses calling for a simple yes or no, shall so  
15 answer first after which the witness may explain his or  
16 her answers.

17           **COMMISSIONER BALBIS:**  Thank you, Ms. Clark.  
18 Mr. Wiseman, did you hear the comments that I made for  
19 Ms. Kaufman concerning allowing a witness to answer yes  
20 or no and a brief --

21           **MR. WISEMAN:**  Yes, I apologize.

22           **COMMISSIONER BALBIS:**  And you can object to  
23 whatever she says, and then we can deal with that issue  
24 after the fact.

25           **MR. WISEMAN:**  All right.

1 Thank you, Mr. Chair.

2 **BY MR. WISEMAN:**

3 Q. So your answer was yes, and then you had a  
4 short explanation?

5 A. Yes. The explanation being this being a  
6 weather normalized forecast provided by Dr. Morley that  
7 accounts for, you know, normal weather and not any --  
8 you know, the historical weather we have had, in the  
9 last couple of years, had very extreme weather  
10 conditions. And it appears that the residential class  
11 is much more susceptible to changes in usage based on  
12 weather than the commercial or industrial customers  
13 would be.

14 **MR. WISEMAN:** Thank you. I have no further  
15 questions.

16 **COMMISSIONER BALBIS:** Okay. And, FEA.

17 **CAPTAIN MILLER:** Just briefly,  
18 Mr. Commissioner.

19 **CROSS EXAMINATION**

20 **BY CAPTAIN MILLER:**

21 Q. Hello, Ms. Deaton. My name is Captain Sam  
22 Miller, and I represent the Federal Executive Agencies.

23 Two of the installations I represent are  
24 Patrick Air Force Base and Cape Canaveral. Are you  
25 aware that those two installations are primarily CILC 1T

1 customers?

2 **A.** Yes, I am.

3 **Q.** Okay. And obviously based on the testimony  
4 that you gave to Ms. Kaufman, you are also aware that  
5 the CILC 1T rate class is facing a 34 percent increase  
6 in this rate class?

7 **A.** Yes, I am. And I am also aware of the overall  
8 bill decreases for the CILC 1T customers.

9 **Q.** Okay. I was just wondering about the  
10 increase. Thanks.

11 Now, are you aware that the 34 percent  
12 increase to these two federal installations would fall  
13 100 percent on taxpayers?

14 **A.** I'm sorry, the bill that the bases will see is  
15 the bottom line total bill, not just a piece of the bill  
16 in 2013.

17 **Q.** Let's make it simple. Are you aware that any  
18 increase in this rate case, whether it be 34 percent or  
19 slightly less than that that is passed on to the federal  
20 installations that I mentioned, will fall exclusively on  
21 taxpayers?

22 **A.** I think taxpayers will pay the total bill.  
23 They will see the total bill.

24 **Q.** Okay. Thank you. And would you also agree  
25 that the presence of military installations in FPL's

1 service area contributes to the overall economic health  
2 of your customers?

3 A. I would agree. My father was Navy; my husband  
4 was Army, so I'm very aware of the military presence.

5 **CAPTAIN MILLER:** Okay. Thank you.

6 **COMMISSIONER BALBIS:** Office of Public  
7 Counsel.

8 **MR. REHWINKEL:** Thank you, Commissioners.

9 At this time, Commissioner, before I start my  
10 questioning, I passed out a package of six exhibits, and  
11 just for ease, I thought it would be good to just go  
12 through and get them numbers so we can move through  
13 this, hopefully, fairly quickly.

14 I hope that I have assembled this package  
15 correctly. The top document should be order -- it's an  
16 excerpt from Order PSC 11-0579. And this may or may not  
17 need to be entered into the record, so we probably don't  
18 need to give this one a number, but the second one is  
19 entitled September 1, 2011, FPL Fuel Petition.

20 **COMMISSIONER BALBIS:** That will be Number 565.

21 (Exhibit Number 565 marked for  
22 identification.)

23 **MR. REHWINKEL:** Okay. And then the third  
24 document would be testimony September 1, 2011, with  
25 Appendix V.



1                   **COMMISSIONER BALBIS:** That will be 566.

2                   (Exhibit Number 566 marked for  
3 identification.)

4                   **MR. REHWINKEL:** Okay. And then the third one  
5 is MFR A-3 and E-14 excerpts.

6                   **COMMISSIONER BALBIS:** 567.

7                   (Exhibit Number 567 marked for  
8 identification.)

9                   **MR. REHWINKEL:** And then the next one is  
10 excerpts from MFR E Schedules; E-5, E-13a, and E-13c.

11                   **COMMISSIONER BALBIS:** That will be 568.

12                   (Exhibit Number 568 marked for  
13 identification.)

14                   **MR. REHWINKEL:** Okay. And then finally, MFR  
15 E-14, Attachment 4 of 4.

16                   **COMMISSIONER BALBIS:** That would be 569.

17                   (Exhibit Number 569 marked for  
18 identification.)

19                   **MR. REHWINKEL:** Thank you.

20                   **COMMISSIONER BALBIS:** And thank you, Mr.  
21 Rehwinkel, for putting all these together. I think it's  
22 a lot more efficient.

23                   **MR. REHWINKEL:** Thank you.

24                   I can't say that I will always be able to do  
25 this, but under the circumstances I thought it might

1 help. Okay.

2 **CROSS EXAMINATION**

3 **BY MR. REHWINKEL:**

4 Q. All right. Ms. Deaton, my name is Charles  
5 Rehwinkel with the Public Counsel's Office.

6 Good afternoon.

7 A. Good afternoon.

8 Q. You're the Rate Development Manager for FPL,  
9 correct?

10 A. That's correct.

11 Q. And your Exhibit RD-1 lists the MFRs that you  
12 are either totally responsible for or jointly  
13 responsible for, correct?

14 A. Yes.

15 Q. Okay. If you could turn to that just quickly?

16 A. Yes.

17 Q. A-3 is a summary of tariffs?

18 A. Yes.

19 Q. And then E-5 is the source and amount of  
20 revenues?

21 A. Yes.

22 Q. These two, you're 100 percent responsible for  
23 those, correct?

24 A. That is correct.

25 Q. And the same would go for E-13a?

1           A.    Yes.

2           Q.    As well as E-13a for Canaveral?

3           A.    Yes.

4           Q.    And then E-14 and E-15, correct?

5           A.    Yes.

6           Q.    Okay.  Can I take to you Page 3 of your  
7 testimony, and on Lines 11 through 15, you indicate that  
8 you are responsible for developing electric rates at the  
9 retail and wholesale levels, right?

10          A.    Yes.

11          Q.    And that you are responsible for developing  
12 rate design for all electric rates and charges, is that  
13 right?

14          A.    Yes.

15          Q.    Okay.  And for proposing and administering the  
16 tariff language needed to implement those rates?

17          A.    Yes.

18          Q.    Okay.  Now, the responsibility that we just  
19 covered covers rate design for base rates, right?

20          A.    Yes.

21          Q.    As well as other rates; for example, clause  
22 rates?

23          A.    No.

24          Q.    Okay.  So when it says all electric rates and  
25 charges, that does not include the nonbase-rate

1 schedules, or charges, I mean?

2 A. That would be correct. Probably a little  
3 broad there, but --

4 Q. Okay.

5 A. -- I'm aware of the clause factors and how  
6 they are developed, but I'm not in charge of  
7 administering them.

8 Q. Okay. We'll work through this. I have  
9 certainly couched some of my cross based on that  
10 sentence, so hopefully we can get around that.

11 A. That's fine.

12 Q. So when it talks about responsible for  
13 proposing and administering the tariff language for  
14 those rates and charges, does that not cover the clause  
15 rates and charges?

16 A. I do administer filing the BA sheets that have  
17 the clause factors in them.

18 Q. Okay. Let's look at Page 4, Lines 19 through  
19 22, please. And therein your testimony is that you  
20 support the base rates and service charges that will  
21 produce revenues sufficient to recover the total FPL  
22 jurisdictional revenue requirements in the test year,  
23 right?

24 A. Yes.

25 Q. Okay. So once the revenue requirements are

1 determined, what you do is design rates that will  
2 ensure, from the company's standpoint, that you collect  
3 all of your revenue requirements on the base rate side?

4 A. That's correct.

5 Q. Okay. Now, on Page 5, Lines 14 through 18, if  
6 I could get you to look there.

7 A. Yes.

8 Q. You describe -- and I know there have been  
9 some adjustments to your schedule --

10 A. Uh-huh.

11 Q. -- but I want to focus on the items on Lines  
12 14 through 16, first. And you show the bill increasing,  
13 this is the typical residential 1,000 kilowatt hour  
14 bill. And from here on out, when I talk about the  
15 customer bill, I'm talking about that bill that is on  
16 your RBD-2, Page 1.

17 A. Okay.

18 Q. Okay. So that bill will go from 43.26 for the  
19 year of 2012 to 48.49 for the year -- at least for  
20 January 2013, is that right?

21 A. Yes. That's the component of the base bill  
22 that is covered in our rate case filing. Of course, we  
23 will have a base increase for the extended power uprates  
24 that's listed separately, and we are already recovering  
25 West County 3, so that is not included as a part of the

1 impact of the rate case. So that's listed separately,  
2 also.

3 Q. Okay. So the way your Exhibit RBD-2, Page 1,  
4 is portrayed is that where it says base, the amount of  
5 43.26, it does not include West County, because West  
6 County is that thin sliver of gray that says \$1.69, is  
7 that right?

8 A. That is still base. That \$1.69 is still base  
9 revenues, but we are recovering it through the capacity  
10 clause in '12. We're proposing to move it into the base  
11 rates in 2013.

12 Q. Okay.

13 A. But it's still all base.

14 Q. Okay. On Page 10 of your testimony, beginning  
15 -- well, you describe the development of billing  
16 determinants?

17 A. Yes.

18 Q. Okay. Now, you say there, beginning on Line  
19 5, that the West County 3, and we're talking about West  
20 County Energy Center Unit 3, right?

21 A. Right.

22 Q. Capacity factors, and that means the factors  
23 used for revenue requirements recovery in the capacity  
24 cost-recovery clause today, is that right?

25 A. I'm sorry, what line are you on again?

1 Q. I'm talking about factors, the capacity  
2 factors on Line 7.

3 A. I'm sorry, my Line 7 says --

4 Q. Uh-oh.

5 A. -- billing determinants are applied to  
6 currently applicable rates.

7 Q. Did you print yours out on Word?

8 A. Yes.

9 Q. Okay.

10 A. I'm sorry.

11 Q. If I could just have a brief moment to ask  
12 questions. Do you have a PDF version?

13 A. Actually, if I go to the original -- yes, that  
14 might help because I think I have -- okay. Thank you.

15 Yes.

16 Q. Okay. All right. You see on Line 7, when you  
17 talk about capacity factors there, you're talking about  
18 the factors used to recover the revenue requirements  
19 associated with West County 3 through the capacity  
20 cost-recovery clause, is that right?

21 A. Yes. I developed an estimate of the capacity  
22 factors that would be in place in 2013, have no rate  
23 increase.

24 Q. Okay. All right, and then on Page 10, Line  
25 20 through 23, you have a sentence that I want to ask

1 you about. And I'm just going read it, and you can tell  
2 me if I read it correctly. It says starting on Line 20,  
3 "To be consist with this approach, the forecast of base  
4 revenue at present rates properly includes revenue for  
5 WCEC-3 that would continue to be recovered through the  
6 capacity clause but classified as base revenue." Do you  
7 see that?

8 A. Yes.

9 Q. Did I read that correctly?

10 A. Yes.

11 Q. Okay. What do you mean by continue to be  
12 recovered?

13 A. In other words, absent a rate increase, the  
14 settlement provides that we would continue to recover  
15 West County 3 through capacity clause.

16 Q. Okay. I just need to -- so I understand your  
17 testimony, you're not proposing that West County 3 costs  
18 be recovered after the end of 2012 through the capacity  
19 clause?

20 A. No. Our proposal is to include them in base  
21 rates, which was what I have done.

22 Q. Okay. All right. So when I look at your  
23 RBD-2 --

24 A. Yes.

25 Q. -- Page 1 of 5 --



1           A.    Right.

2           Q.    -- the WC-3 item that is shown as \$1.69 --

3           A.    Right.

4           Q.    -- that amount is currently recovered in the  
5 capacity clause today?

6           A.    That's correct.

7           Q.    Okay.  Even though the revenues are --

8           A.    Base.

9           Q.    -- in base.  And in the bar that represents  
10 January 2013, you show base of \$48.49.

11          A.    Right.

12          Q.    And WC-3 of \$1.71, and that is the estimate of  
13 the revenue -- the way you would collect those revenue  
14 requirements for West County 3 in 2013?

15          A.    Yes, that's the estimate of the amount of --  
16 if we didn't have a rate case, so we are looking at  
17 present, you know, rates without a rate case estimated  
18 to be \$1.71.  We're proposing to move that to base.  My  
19 exhibit here is trying to show the impact of the base  
20 rate case only, so we do not include the EPU base rate  
21 impact, or the West County 3 impact that we are already  
22 collecting from customers.

23          Q.    Okay.  Now let me ask you to turn to Page 11,  
24 Lines 3 through 4.

25          A.    Okay.

1           Q.    Okay.  Now the question -- actually, on Line 1  
2 the question says, "How were the currently effective  
3 rates adjusted to include West County 3 factors?"  And  
4 the answer is, "The estimated 2013 capacity clause  
5 factors for West County 3 were added to the currently  
6 effective rates," is that right?

7           A.    That's correct.

8           Q.    I'm just always going to say West County 3  
9 instead of trying to --

10          A.    That's fine.

11          Q.    -- stumble over that.  So when you talk about  
12 currently effective rates, are you referring to tariffed  
13 rates or rates for purposes of making the presentation  
14 that's in RBD-2?

15          A.    No, this is referencing to Attachment 4 of our  
16 E-14, which shows the current tariffed rates and the  
17 capacity clause factors for West County 3, and we add  
18 the two together to develop a present rate for revenue  
19 purposes.

20          Q.    Okay.  Let me just -- okay.  On that same  
21 page, we were on Page 11, you reference on Lines 5 and 6  
22 the 2012 capacity clause projection filing.  Do you see  
23 that?

24          A.    Yes.

25          Q.    Okay.  Now, I passed out an excerpt from an

1 order, and I can give you the entire order if you want,  
2 but this is an excerpt from the 11-0579 order from fuel  
3 clause last year. Have you seen that before? This is  
4 Pages 33 and 34.

5 A. Yes.

6 Q. Okay. And at the bottom of 33 and the top of  
7 34 it describes the inclusion of 166.86 million of  
8 revenue requirements associated with West County 3 for  
9 recovery in the capacity cost-recovery clause. Is that  
10 right?

11 A. Yes.

12 Q. Okay. And then -- do you have Exhibit 565 in  
13 front of you? I don't know, did you write the numbers  
14 down?

15 A. I certainly did, because the last time I  
16 didn't and I was very confused.

17 Q. Okay. And this is the petition that was filed  
18 on September 1, 2011, is that right?

19 A. Yes.

20 Q. Okay. And if I look in the petition on Pages  
21 3 and 4, the bottom of 3 and the top of 4, you see the  
22 reference to that 166.86 million?

23 A. Yes.

24 Q. Okay. And then if you turn to Attachment 1,  
25 Page 1 of 2, to that petition --

1           A.    Yes.

2           Q.    -- in the middle column there under West  
3 County 3 capacity recovery factor, there is that \$1.69,  
4 or that is actually 1.69 cents, right?

5           A.    Right, .169 cents.

6           Q.    .169. And that number is the West County  
7 portion of the total capacity factor requested for 2012  
8 in 2011, right?

9           A.    That is correct.

10          Q.    And that is also the derivation of the \$1.69  
11 that's in your RBD-2, Page 1, right?

12          A.    That's correct.

13          Q.    Okay. And just one last thing on this \$1.69  
14 there. Do you have 566 in front of you?

15          A.    Yes.

16          Q.    And this is the testimony of Terry Keith. Do  
17 you know who he is?

18          A.    I'm sorry, you said 566?

19          Q.    Yes. This is the testimony --

20          A.    I have that as the petition.

21          Q.    Okay. Do you have two petitions?

22          A.    567 says testimony of Terry J. Keith. I must  
23 have wrote it down wrong.

24          Q.    All right. So the testimony --

25          A.    Yes.

1           **MR. REHWINKEL:** Let me make sure. For the  
2 record, I have 566 as the testimony.

3           **COMMISSIONER BALBIS:** That is correct.

4           **MR. REHWINKEL:** Okay.

5           **THE WITNESS:** So the petition was --

6           **COMMISSIONER BALBIS:** The petition was 565.

7           **MR. REHWINKEL:** Yes.

8           **THE WITNESS:** 565; sorry.

9           **MR. REHWINKEL:** That's okay. I may have  
10 stated it wrong. Okay.

11           **THE WITNESS:** I have got the other one as --  
12 I've got them all mixed up.

13 **BY MR. REHWINKEL:**

14           **Q.** All right. 566 is the testimony, and this is  
15 Terry Keith. I don't know if you know who he is.

16           **A.** Right. Yes, I know Terry Keith.

17           **Q.** Okay. I don't know if it's a man or woman.

18           **A.** He's a man.

19           **Q.** Okay. Terry Keith, and he filed testimony  
20 asking that -- in support of, among other things, the  
21 \$1.69, right?

22           **A.** That's correct.

23           **Q.** Okay. And if I turn back in his testimony,  
24 first of all, to Page 10 and 11, he references Appendix  
25 V, which I assume is 5?

1           A.    Uh-huh.

2           Q.    And identifies the development of the \$1.69,  
3 or, I'm sorry, the 169.  So if I turn back to Appendix  
4 V, Page 10.

5           A.    Page 10, yes.

6           Q.    This is the revenue requirement that  
7 corresponds to the 166.8 million?

8           A.    Yes.  And I actually developed these for him.

9           Q.    Okay.  And then if we turn to Page 12, there's  
10 the actual development of the factors related to West  
11 County 3, based on that 166.8 million revenue  
12 requirement?

13          A.    That's correct.

14          Q.    Okay.  And as we will talk about in a minute,  
15 this Page 12 of Attachment V to Mr. Keith's testimony is  
16 very similar to E-14, Attachment 4 of 4, that develops  
17 the 171?

18          A.    Yes.  I used the same formats.

19          Q.    Okay.  Now, again, let me take you to your  
20 testimony on Page 11, Lines 10 through 11.  And therein  
21 you testify that the proposed base rates are designed to  
22 recover the total jurisdictional revenue requirement  
23 including West County 3, right?

24          A.    Yes.

25          Q.    Okay.  Now, just so I'm clear, when you say

1 total jurisdictional revenue requirement, you're talking  
2 about base rates only, right?

3 A. Yes.

4 Q. Okay. So that would not include any revenue  
5 requirement recovered through the clauses?

6 A. Other than the base revenue requirement of  
7 West County 3, which is a base rate item.

8 Q. Okay. Now we're talking about on -- really  
9 from Line 1 all the way down to Line 16, you're talking  
10 about the development of rates that will be in effect  
11 for 2013, right?

12 A. Yes.

13 Q. Okay. And during this time period, West  
14 County 3 would not be recovered through any clauses,  
15 correct?

16 A. That's correct.

17 Q. Okay. On Page 12, Lines 15 through 16, you  
18 reference MFR A-3 as listing the currently approved base  
19 tariff charges adjusted to include West County 3  
20 factors, right?

21 A. Yes.

22 Q. Okay. Is there a separate tariff for capacity  
23 cost-recovery?

24 A. A tariff? There's a tariff page that lists  
25 all of the factors.

1 Q. Okay.

2 A. The fuel capacity, conservation,  
3 environmental, and then there is a separate sheet for  
4 storm.

5 Q. Okay. And that's different from the tariff  
6 that you show on A-3, right?

7 A. The rates that are shown on A-3 do not include  
8 the clause factors.

9 Q. Okay. So on Page 12, Lines 15 through 16, you  
10 are describing that A-3 and the tariffs there include  
11 all of West County 3 in base rates for cost-recovery in  
12 the tariffs and as well as on the bill that you show on  
13 RBD-2?

14 A. Right.

15 Q. All right. What I'd like to do now, I hope  
16 your 567 is MFR A-3 and E-14 excerpts?

17 A. Okay. It is now.

18 Q. Good. And if I could take you to that 567.  
19 All right. I have numbered 567. If you could look in  
20 the -- it's really the upper right-hand column, but kind  
21 of on the side, on the margin there it says H-R-G-E-X,  
22 and then it has a bunch of numbers. Do you see that?

23 A. Uh-huh.

24 Q. This is a 7-page exhibit.

25 A. Okay.



1 Q. So the last page will be 7, so I'm just going  
2 to refer you to 1, 2, 3, 4, 5, 6, or 7.

3 A. Okay.

4 Q. If I could ask you to turn to Page 7. Now,  
5 I'm looking here -- first of all, this is Attachment 4  
6 of 4, Page 2 of 21, from MFR E-14, right?

7 A. Yes.

8 Q. Okay. And this is something you sponsored and  
9 developed, right?

10 A. Yes.

11 Q. Okay. The RS rate in Column 3, Line 4, is,  
12 well, the energy charge, and this is base energy charge  
13 cents per kilowatt hour is 3.736, is that right?

14 A. Sorry. I must be on the wrong page.

15 Q. I'm sorry, I'm looking on Page 7.

16 A. Page 7.

17 Q. The very last page.

18 A. Yes.

19 Q. Okay. And then there in Column 4 there is the  
20 West County 3 factor of 171, right?

21 A. That's correct.

22 Q. And together those two yield a total rate of  
23 3.907, right?

24 A. Yes.

25 Q. And this would be your proposed, if you got

1 all \$516.5 million of your revenue requirement  
2 request --

3 A. No.

4 Q. Oh, I apologize. These are just present  
5 rates. So this is before you consider the rate  
6 increase.

7 A. These are the rates I used to calculate  
8 revenue at present rates.

9 Q. Gotcha.

10 A. That we give to Finance, and then Witness  
11 Ousdahl then determines our revenue deficiency and how  
12 much of an increase we need. So the West County 3  
13 factors are already in revenue at present rates.

14 Q. Okay. So this 3.907 includes West County?

15 A. Yes.

16 Q. And if I take you back to Page 1 of this  
17 exhibit, and this is A-3, Page 1, correct?

18 A. Yes.

19 Q. And you're the responsible witness on this?

20 A. Yes.

21 Q. So 3.907 is shown as the current rate,  
22 correct?

23 A. Yes.

24 Q. And then the proposed rate is 4.320?

25 A. That's correct.

1           Q.    And to this number, the answer to my earlier  
2 question is correct, if you get all \$516 million and  
3 include West County 3 in base rate recovery, this is the  
4 energy charge that would result, correct?

5           A.    That's correct.

6           Q.    Okay.  And, of course, you would have to get  
7 all the other billing determinants and rates?

8           A.    Assuming everything is --

9           Q.    Yes.

10          A.    -- as filed.

11          Q.    If I could get you to turn to Page 2.  
12 Actually this is numbered at the bottom.  This is the  
13 tariff that accompanies E-14 in legislative format,  
14 correct?

15          A.    Yes.

16          Q.    And this is the -- halfway down this shows the  
17 nonfuel base energy charge for the first 1,000 kilowatt  
18 hours, right?

19          A.    Right.

20          Q.    And what you are showing is striking 3.736  
21 cents per kilowatt hour and substituting 4.320, correct?

22          A.    That is right.

23          Q.    Now, that 3.736 is not a number we have talked  
24 about just yet, right?

25          A.    I believe we did talk about it.

1 Q. Okay. That's the one on Page 7.

2 A. Page 7, yes.

3 Q. It is actually the rate in the tariff?

4 A. That is the current rate, yes.

5 Q. So you have to add the 171 to that to get the  
6 3.907, right?

7 A. That is correct.

8 Q. Okay. And then just for completeness sake,  
9 Page 4 of this exhibit just shows the tariff in a clean  
10 format, right?

11 A. Yes.

12 Q. Okay. And this shows what you would get if  
13 you go everything. What the energy charge would be,  
14 right?

15 A. That's correct.

16 Q. Okay. For base rates?

17 A. Right.

18 Q. And then if you turn to the next page, this  
19 just shows in legislative format changing the 4.320,  
20 which assumes that you would get everything?

21 A. Right.

22 Q. And then adjusts it for Canaveral, right?

23 A. Yes, but this does not include the corrected  
24 Canaveral factors that we provided the Commission in  
25 here, yes.

1 Q. Okay. So the numbers you are showing on the  
2 updated RBD-2 would affect this number, this 4.494?

3 A. That's correct.

4 Q. Okay. But what we went through with respect  
5 to West County would not change based on that change?

6 A. Right. That's correct. This is just correct  
7 on Canaveral.

8 Q. And just one last area on this. If I could  
9 take you to 568. Do you have that document?

10 A. I don't know. Tell me which one it is.

11 Q. Oh, I'm sorry. We call that E-5, E-13, and  
12 E-13c.

13 A. Okay. That one I did have numbered right.

14 Q. All right. Okay. And, again, all of these  
15 MFRs, these are excerpts from the MFRs, and these are  
16 all under your sponsorship, correct?

17 A. That is correct.

18 Q. All right. Can you turn -- I have  
19 handwritten, hand-numbered these pages. I hope they  
20 showed up in the copying -- in the upper right-hand  
21 corner Page 4. And this should be Page 4 of 44 of  
22 E-13c, is that right?

23 A. Okay. Yes.

24 Q. Okay. Now, this is the base revenue by rate  
25 schedule, is that right, or it's a summary of that, of a

1 portion of that?

2 A. I'm sorry, Page 4?

3 Q. It is handwritten Page 4. It is also Page 4  
4 of 44.

5 A. Okay. Yes, this is the calculation of present  
6 and proposed rates for billed sales.

7 Q. Okay. Now, if I look over on Line 6 in Column  
8 3, I see an amount of .03907, do you see that?

9 A. Yes.

10 Q. Okay. And that's the energy charge that we  
11 talked about earlier?

12 A. With West County 3, yes.

13 Q. And that includes West County. And so if you  
14 take the units in Column 2 times that rate, it gives you  
15 a revenue?

16 A. Yes.

17 Q. Okay. And this will be present revenues  
18 before any rate increase?

19 A. Yes.

20 Q. Okay. And that yields in Line 11 a total of  
21 2.53 billion, correct?

22 A. Yes.

23 Q. And then if we go over to Column 7 in Line 6,  
24 there is that tariffed rate of 4.32, is that right?

25 A. Yes.

1 Q. Okay. And that also includes West County in  
2 it?

3 A. Yes.

4 Q. And it would include all 516 million of the  
5 revenue increase requested, right?

6 A. That's correct.

7 Q. And the same calculation with the same number  
8 of assumed units yields a revenue of 1.529 billion that  
9 then develops or rolls up to a \$2.8 billion number,  
10 right?

11 A. Yes.

12 Q. Okay. And if you turn, if I can get you to  
13 turn to the prior page, Page 3, which is E-13a, this is  
14 also one of your MFRs, right?

15 A. Yes.

16 Q. And if I get you to look on Line 25, in the  
17 RS-1 line, in both Column 1 and Column -- I mean, Column  
18 2 and Column 3?

19 A. Yes.

20 Q. We see those same \$2.53 billion and \$2.80  
21 billion numbers we just talked about, right?

22 A. That's correct.

23 Q. Okay. And they roll up to total numbers at  
24 the bottom on Line 38 of 4.239 billion and  
25 4.707 billion, correct?

1           A.    That is right.

2           Q.    And the difference between those is 467  
3 million, right?

4           A.    Yes.

5           Q.    And that is shown in Column 4, Line 38?

6           A.    That's correct.

7           Q.    Okay.  And then, finally, if you can go to  
8 Page 1 of this exhibit.  In column -- this is Schedule  
9 E-5, Page 1 of 2, is that right?

10          A.    Uh-huh.

11          Q.    And Page 4, Line 2, there's that  
12 \$4,239,000,000 number, right, that is derived in part  
13 from the present rate calculation that is the 3.907  
14 cents per kilowatt hour that we talked about?

15          A.    Yes.

16          Q.    Okay.  And if you follow that column all the  
17 way down on Line 45, there is a \$516.2 million number.

18          A.    I'm sorry.

19          Q.    In Column 2, on Page 1.  Yes, Page 1 of this  
20 exhibit.

21          A.    Yes.

22          Q.    Okay.  So the 467 million, which was the  
23 difference between current and proposed rates back there  
24 on Page 3 of the same exhibit?

25          A.    Right.



1           **Q.** Once you add in unbilled revenues and other  
2 revenues, it gives you the 516 million.

3           **A.** That's correct.

4           **MR. REHWINKEL:** Okay. I appreciate you taking  
5 the time for me to go through the record on this doing  
6 some arithmetic. I just needed to make this line of  
7 cross, but that's all I have for you.

8           Thank you, Mr. Chairman.

9           **THE WITNESS:** Thank you.

10          **COMMISSIONER BALBIS:** Okay. And the Retail  
11 Federation.

12          **MR. LaVIA:** Thank you, Mr. Chairman.

13                 Just one minor housekeeping matter. I would  
14 like to approach the witness and show her previously  
15 admitted Exhibit 510, which is FPL's responses to FRF's  
16 Interrogatories Numbers 1 through 10. Numbers 2 through  
17 10 were sponsored by Ms. Morley, and Number 1 is  
18 sponsored by the witness. I just want to ask her if  
19 it's hers.

20          **COMMISSIONER BALBIS:** Any objections from FPL?

21          **MS. CLARK:** No. We're looking for it in our  
22 stack.

23          **COMMISSIONER BALBIS:** Mr. LaVia, just so we  
24 can follow along from the bench, could you please let us  
25 know which document you're referring to?

1           **MR. LaVIA:** I will. I'm referring to Exhibit  
2 Number 510, which is FPL's response to FRF's  
3 Interrogatories Numbers 1 through 10, and it was  
4 admitted with Ms. Morley's testimony. She sponsored  
5 Responses 2 through 10. I have one extra copy, if it  
6 would help. It has been previously admitted.

7           **COMMISSIONER BALBIS:** I'll take it.

8           (Laughter.)

9           **MR. LaVIA:** May I approach?

10                           **CROSS EXAMINATION**

11       **BY MR. LaVIA:**

12           **Q.** Good afternoon, Ms. Deaton. Did you have a  
13 chance to review the document?

14           **A.** I have it in front of me, yes.

15           **Q.** Can you take a look at Response Number 1?

16           **A.** Yes.

17           **Q.** Did you assist in preparing that response or  
18 prepare that response?

19           **A.** Yes.

20           **Q.** Is your response the same today?

21           **A.** Yes.

22           **MR. LaVIA:** Thank you. No further questions.

23           **COMMISSIONER BALBIS:** Mr. Saporito.

24           **MR. SAPORITO:** No questions, Mr. Chairman.

25           **COMMISSIONER BALBIS:** Mr. Hendricks.

1           **MR. HENDRICKS:** No questions. Thank you.

2           **COMMISSIONER BALBIS:** Staff.

3           **MR. HARRIS:** Yes, sir, thank you. I would  
4 like to say that my erudite fellow graduate of the  
5 University of Florida reduced our questions  
6 significantly. Mr. Rehwinkel, thank you. And I'm sure  
7 he did a much better job than I would have.

8                           **CROSS EXAMINATION**

9           **BY MR. HARRIS:**

10           **Q.** But we do have one line of questions for you,  
11 Ms. Deaton, and these relate to Issue 148, which is the  
12 late payment charge. And the initial question I have is  
13 am I correct in understanding that FPL is essentially  
14 proposing an increase in this charge to the greater of  
15 1.5 percent or \$5?

16           **A.** That's correct.

17           **Q.** Okay. And this is, by the way, on Page 15,  
18 Line 21 of your Direct Testimony. And do you know if  
19 this charge is cost-based?

20           **A.** No. It's not cost-based, although customers  
21 who pay late do cause the utility to incur cost. It is  
22 a method of incenting customers to not pay late.

23           **Q.** Okay. Would you agree, as a general matter,  
24 that rates and charges should be cost-based?

25           **A.** As a general matter, if they can be cost-based

1 they should be. And, again, this is something that is  
2 not generally -- penalties are not generally cost-based.

3 Q. And would you agree that, where possible,  
4 charges should be set such that the charge in question  
5 recovers costs from the cost-causer?

6 A. That is correct. Any revenue collected from  
7 customers who pay late is used to offset the revenue we  
8 need to collect from the other customers.

9 Q. And is it your testimony that FPL's requested  
10 change in the late payment fee will more closely align  
11 FPL's costs with the cost-causers?

12 A. Yes, it is.

13 Q. And do you believe that FPL's requested change  
14 to the late payment charge will provide an incentive for  
15 customers to make payments in a timely manner?

16 A. Yes.

17 Q. And just as a final question on this subject,  
18 do you know approximately what level of customer bill  
19 would generate the \$5 charge?

20 A. I'm sorry --

21 Q. Subject to check?

22 A. -- I should know that, but--

23 Q. Subject to check, would you agree it is  
24 approximately \$300.

25 A. Subject to check, it sounds right.

1           **MR. HARRIS:** Okay. Thank you. Those are all  
2 the questions I have. Thank you.

3           **COMMISSIONER BALBIS:** Okay. Now I will turn  
4 to the Commission. Not seeing any questions, since I  
5 don't have lights in front of me.

6           (Laughter.)

7           And, again, Mr. Rehwinkel asked all the  
8 questions that I had, but I see Commissioner Edgar has a  
9 question. I thought you were waving no.

10          Commissioner Edgar.

11          **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.

12          Just one question, I think. For the proposed  
13 late fee charge as requested, how would that, if  
14 approved, align with the late fee that is allowed for  
15 other IOUs in Florida?

16          **THE WITNESS:** That is the amount that is  
17 allowed for other the IOUs that do have late payment  
18 charges. They all charge a minimum of \$5 or 1.5  
19 percent.

20          **COMMISSIONER EDGAR:** Thank you.

21          **COMMISSIONER BALBIS:** Okay. Redirect.

22          **MS. CLARK:** I do have a couple.

23                                   **REDIRECT EXAMINATION**

24          **BY MS. CLARK:**

25           Q. Ms. Deaton, do you recall the questions you

1 got from Ms. Kaufman on fuel costs?

2 **A.** Yes.

3 **Q.** Do you know whether FPL has a fuel hedging  
4 program?

5 **A.** Yes, I'm aware that we do have a fuel hedging  
6 program that is approved by this Commission.

7 **Q.** And does the hedging program mitigate the  
8 impact of higher fuel prices?

9 **A.** I think it mitigates the volatility.

10 **Q.** How will the increased efficiencies of FPL's  
11 generating plants affect fuel costs?

12 **MS. KAUFMAN:** I'm going to object to that  
13 question. I don't think -- I think that is outside the  
14 scope of cross. I didn't ask her anything about the  
15 increased efficiency of generating plants. I don't  
16 think anyone did.

17 **MS. CLARK:** Mr. Chairman, she did talk about  
18 fuel costs; energy efficiency affects that.

19 **COMMISSIONER BALBIS:** If you can rephrase the  
20 question and maybe associate it with something that is  
21 in her testimony.

22 **MS. CLARK:** Well, Mr. Chairman, it is with  
23 reference to Ms. Kaufman asking about the fuel prices,  
24 or the fuel costs and fuel charges to customers and the  
25 volatility of those, and the impact on customer rates.

1 I'm simply asking how will increased efficiency of FPL's  
2 generating fleet affect fuel costs, and, therefore,  
3 affect the fuel clause.

4 **MS. KAUFMAN:** Mr. Chairman, I appreciate  
5 Ms. Clark's explanation, but it's still way beyond  
6 anything that I asked the witness. I was asking her  
7 about the fuel costs and natural gas. I don't think I  
8 mentioned anything about the generating plants. We were  
9 focused on the volatility of natural gas.

10 **COMMISSIONER BALBIS:** I agree. If you can  
11 move on to the next question.

12 **MS. CLARK:** I have no further questions.

13 **COMMISSIONER BALBIS:** Okay. We have exhibits.

14 **MS. CLARK:** Mr. Chairman, I would move 217  
15 through 224.

16 **COMMISSIONER BALBIS:** Any objections to 217  
17 through 224?

18 Hearing none, let the record show that those  
19 have been moved.

20 (Exhibit Number 217 through 224 admitted into  
21 the record.)

22 **MR. WISEMAN:** Mr. Chair, I would move the  
23 admission of Exhibits 560, 561, and 564.

24 **MS. CLARK:** No objection.

25 **COMMISSIONER BALBIS:** Okay. Let the record

1 show that those have been moved.

2 (Exhibit Numbers 560, 561, and 564 admitted  
3 into the record.)

4 **MR. REHWINKEL:** The Public Counsel would move  
5 565 through 568.

6 **COMMISSIONER BALBIS:** Any objections?

7 **MS. CLARK:** No objections.

8 **COMMISSIONER BALBIS:** Also 569, as well?

9 **MR. REHWINKEL:** I did not use it, and you can  
10 have the number back or -- I mean, all it is, it was a  
11 more complete section of an attachment to the MFR  
12 schedule. I really didn't get into it. It doesn't hurt  
13 to move it in, but it's already in the record.

14 **COMMISSIONER BALBIS:** Okay. We won't move it  
15 into the record, but we will just have it as a number  
16 and move on it 570 for the next exhibit number. Okay.  
17 I believe those are all of the exhibits.

18 (Exhibit Numbers 565 through 568 admitted into  
19 the record.)

20 **MS. CLARK:** May she be excused for her direct  
21 testimony?

22 **COMMISSIONER BALBIS:** Any objections to the  
23 witness being excused?

24 Thank you, Ms. Deaton.

25 **THE WITNESS:** Thank you.



1           **MS. CLARK:** Mr. Chairman, that concludes FPL's  
2 direct case, and the MFRs are in the record already.

3           **MR. YOUNG:** Yes, sir, Mr. Chairman, that does  
4 conclude FPL's direct case.

5           Next up is Mr. Saporito.

6           **MR. SAPORITO:** Mr. Chairman, can we have a  
7 brief break so I can use the facilities.

8           **COMMISSIONER BALBIS:** Yes. We'll take a  
9 five-minute recess.

10           (Recess.)

11           **COMMISSIONER BALBIS:** Okay. We are going to  
12 go ahead and get started if everyone is ready. And we  
13 have Mr. Saporito as our next witness.

14           And, Mr. Saporito, have you been sworn?

15           **MR. SAPORITO:** Yes, I have, Mr. Chairman.

16                           **THOMAS SAPORITO**

17 was called as a witness, Pro se, and having been duly  
18 sworn, testified as follows:

19           **COMMISSIONER BALBIS:** Okay. We are in an  
20 usual situation in that you are representing yourself,  
21 so I'll just try to go from here.

22           But would you like to summarize your  
23 testimony?

24           **MR. SAPORITO:** Okay. Well, my name is Thomas  
25 Saporito. My address is 6701 Mallards Cove Road,

1 Apartment 28H, Jupiter, Florida 33458.

2 I will be testifying on behalf of myself as a  
3 pro se party. I prepared Direct Testimony consisting of  
4 seven pages, and I have no changes or corrections to my  
5 testimony.

6 Mr. Chairman, I ask that my testimony be  
7 entered into the record as though read. And I also  
8 prepared 11 exhibits identified as TS-1 through TS-11,  
9 and I have no changes or corrections to my exhibits.

10 **COMMISSIONER BALBIS:** Okay. Are there any  
11 objections for his testimony being entered into the  
12 record?

13 **MR. RUBIN:** No, Mr. Chairman. Although, I am  
14 only showing TS-1 through TS-10.

15 **MR. SAPORITO:** I have one late-filed exhibit,  
16 which was TS-11. I would like to have that entered into  
17 the record the same as some of the other late-filed  
18 exhibits in this proceeding.

19 **MR. RUBIN:** Mr. Chairman, that's not a  
20 late-filed exhibit to a deposition or otherwise  
21 requested by staff or counsel, so we would maintain an  
22 objection that.

23 **MR. YOUNG:** Mr. Chairman, for the record, FPL  
24 did note the objection, as noted in the Prehearing  
25 Order, that they objected to TS-11 of Mr. Saporito.

1                   **COMMISSIONER BALBIS:** Did the Prehearing  
2 Officer rule on that exhibit?

3                   **MR. YOUNG:** No, sir, because the exigent  
4 circumstances in terms of the exhibit is not coming  
5 up -- because no questions were asked on the exhibit,  
6 and we were not in the hearing posture at that time, you  
7 could not have ruled on the exhibit before that.

8                   **MR. BUTLER:** Mr. Chairman.

9                   **COMMISSIONER BALBIS:** Yes, Mr. Butler.

10                  **MR. BUTLER:** Our objection is really to the  
11 timeliness of it. I mean, we have prefiling  
12 requirements for both the testimony and the exhibits.  
13 It was substantially late by that measure. And we just  
14 don't think really that it adds anything, or that there  
15 is anything special about it where he couldn't have had  
16 the information, you know, in time to file it along with  
17 the rest of his prefiled testimony. So that was the  
18 basis for the objection.

19                  **COMMISSIONER BALBIS:** Okay. I agree.  
20 Considering that, Mr. Saporito, you are essentially  
21 sponsoring yourself, so the cross-examination posture is  
22 where the cross-examiners could enter exhibits. So I  
23 don't think that this is the proper process or procedure  
24 to enter it in. So I will agree with FPL's objection  
25 and keep it out.

1  
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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**In re: Petition for increase in rates by  
Florida Power & light Company**

**Docket No. 1200015-EI  
Served: 28 June 2012**

8  
9

**INTERVENOR, THOMAS SAPORITO'S PREFILED TESTIMONY  
DIRECT TESTIMONY OF THOMAS SAPORITO**

10

**I. INTRODUCTION AND QUALIFICATIONS**

11

Q. Please state your name and address.

12

A. My name is Thomas Saporito and my residence is at Mallard Cove Apartments, 6701  
Mallards Cove Road, Building 28, Apartment "H", Jupiter, Florida 33458.

14

Q. By whom are you employed and in what capacity?

15

A. I am not employed.

16

Q. Please summarize your educational background and work experience.

17

A. I have an Associates Degree in Electronics Technology. I have worked in the nuclear  
industry as an Instrument Control Technician at various nuclear power plants in the  
United States including Florida Power & Light Company, Progress Energy, Arizona  
Public Service Company, and Houston Light and Power Company. Since my work in  
the nuclear industry, I have held positions at various other companies unrelated to the  
nuclear industry.

23

**II. PURPOSE AND SUMMARY OF TESTIMONY**

24

Q. What is the purpose of your direct testimony?

25

A. The purpose of my direct testimony is to oppose Florida Power & Light Company's

1 (FPL's) request to increase their base-rate for electric power charged to their  
2 customers in Docket No. 1200015-EI, and instead, request that (1) the Florida Public  
3 Service Commission ("PSC" or "Commission") order FPL to lower its base-rate by  
4 \$600-million dollars; and (2) that the Commission lower FPL's Return on Equity  
5 (ROE) to 6%. My testimony will assist the Commission in reaching a fair and  
6 reasonable decision in their review of this important matter.

7 Q. Do you have any exhibits to your testimony?

8 A. Yes. I am sponsoring the following exhibits: Exhibit TS-1, which is a spec. sheet for a  
9 typical 40-gallon electric water heater; Exhibit TS-2, which is a spec. sheet for an  
10 EcoSmart Tankless Water Heater; Exhibit TS-3, which is a Typical Electric Usage of  
11 Various Appliances; Exhibit TS-4, which is print-out of FPL's website pages showing  
12 an FPL online base-rate increase calculator and my May 2012 FPL electric bill;  
13 Exhibit TS-5, which is a print-out of Ally Bank's website showing High Yield  
14 Certificate of Deposit (CD) rates; Exhibit TS-6, which is FPL's "Facts About Florida  
15 Power & Light Company's Rate Request" from [www.FPL.com](http://www.FPL.com); Exhibit TS-7, which  
16 is Bureau of Labor Statistics Data - Consumer Prices for Food and Medical Care;  
17 Exhibit TS-8, which is specific extracted pages from the Nextera 2011 Annual  
18 Report; Exhibit TS-9, which is a Bureau of Labor Statistics for Florida's  
19 Unemployment Rate; and Exhibit TS-10, which is the Bloomenergy ES-5700 Energy  
20 Server and Bloomenergy Customer Listings.

21 **III. SUMMARY OF TESTIMONY**

22 Q. Could you please summarize your testimony?

1 A. On January 17, 2012, FPL filed a request with the Commission to increase its base-  
2 rate for electric power charged to its customers by \$690.4-million dollars or \$7.09 per  
3 customer. FPL alleges that the requested increase is needed because (1) they expect to  
4 add nearly 100,000 new customer accounts from the end of 2010 through the end of  
5 2013 which will require a significant investment on the part of the company to  
6 construct the poles, wires and transformers needed to serve these new customers; (2)  
7 that the increase is needed due to a combination of inflation and customer growth  
8 which will be the primary driver leading to higher expected operating and  
9 maintenance costs (O&M); (3) that the increase is needed for the company's 1-billion  
10 dollar Cape Canaveral natural gas plant which will provide its customers with a net-  
11 savings of \$600-million dollars over the life of the plant; and (4) that the increase is  
12 needed to reset the company's Return on Equity (ROE) to a total of 11.50% and that  
13 the adjustment would provide a more competitive level consistent with maintaining a  
14 good credit rating and to encourage and attract investment with FPL.

15 For the following reasons, I am requesting (1) that the Commission deny and  
16 reject FPL request for a \$690.4-million dollar increase to its base-rate for electric  
17 power charged to its customers; (2) that the Commission Order FPL to lower its  
18 base-rate for electric power charged to its customers by an amount of **\$600-million**  
19 dollars; and (3) that the Commission lower FPL's Return on Equity (ROE) to 6%.

20 First, although FPL alleges that the requested increase is needed for  
21 infrastructure to provide electric service to an estimated 100,000 new customers – the  
22 current dire economic conditions in Florida do not support that FPL will add 100,000

1 new customers. Indeed, recent report by the Zillow property index showed an  
2 increase in rental properties and a decrease in home values – which indicates that any  
3 new FPL customers would likely be renter-tenants or buyers of foreclosed homes –  
4 both of which structures are already connected to FPL's electric grid – and need no  
5 further build-out of infrastructure. Moreover, Florida's unemployment rate stands  
6 about 8.6% and firmly about the national average. (Exhibit TS-9). Therefore, it is  
7 more likely that FPL will lose residential customers who leave the state in search of  
8 employment elsewhere.

9 Notably, FPL's own report (Exhibit TS-8 at p.7) shows that from (2007 to  
10 2008) FPL gained 11,000-residential customers; and from (2008 to 2009) FPL **lost**  
11 **8,000-residential customers**; and from (2009 to 2010) FPL gained 20,000-residential  
12 customers; and from (2010 to 2011) FPL gained 23,000-residential customers. In  
13 summary, from (2007 to 2011) FPL gained a total of only **46,000-residential**  
14 **customers**. Therefore, considering Florida's dire economic conditions, high  
15 unemployment rates, high home foreclosure rates, and the fact that FPL only gained a  
16 total of 46,000-residential customers over the last 4-year period – it is not realistic to  
17 believe that FPL will add 100,000 new residential customer accounts as alleged. If all  
18 the above were not enough – FPL's Energy Sales decreased from (2010 to 2011) by  
19 1.316-million kWhs which supports that Florida's economy is slowing down further.  
20 (Exhibit TS-8 at p.3).

21 Next, FPL's allegation that O&M costs will rise due to a combination of  
22 inflation and customer growth is not supported by the facts. Indeed, as previously

1 stated, it is highly unlikely that FPL will add 100,000 new residential customer  
2 accounts over the next 5-year period - and the U.S. Federal Reserve has repeatedly  
3 stated that there is no inflation in sight – and the agency has kept interest rates at  
4 record lows and near zero-percent. Thus, FPL's O&M costs will not likely rise due to  
5 inflation or customer growth over the next 5-years.

6 Next, FPL's allegation that its 1-billion dollar Cape Canaveral gas-fired plant  
7 justifies its request to raise rates is not supported by common sense or reasoning.  
8 First, approximately two-thirds of the power output of the plant is lost in  
9 transmission. Completion of this plant during such dire economic times is not prudent  
10 where the unemployment rate in Florida remains well-above the national average –  
11 and where FPL will likely not add any additional new residential customers. There are  
12 better alternatives for FPL to provide electric power to its customer – other than a 1-  
13 billion dollar natural gas plant. The Bloomenergy company manufactures a fuel-cell  
14 Energy Server which can be configured to supply any specific amount of electric  
15 power needed as a “Distributed Generation” system thereby significantly reducing  
16 transmission losses – and much more economically. (Exhibit TS-10).

17 Moreover, another alternative to the Cape Canaveral plant would be for FPL to  
18 provide tankless “on-demand” electric water heaters for its 4.6-million customers at a  
19 cost of about \$200 each. (Exhibit TS-2). These water heaters use about 60% less  
20 electric power than a typical 40-gallon electric water heater. (Exhibit TS-1). This  
21 reduction in electric power from FPL's electric grid – would likely negate FPL's need  
22 to complete its 1-billion dollar Cape Canaveral plant – and could actually require FPL



1 to shutter existing power plants. In addition to these alternatives, FPL could further  
2 assists its customers with installation of PV solar systems in connection with the  
3 Commission's net-metering rule. Notably, a 10-kW PV solar system would typically  
4 provide excess electric power back to FPL's electric grid. Collectively or singularly,  
5 these alternatives should be employed by FPL – rather than allowing FPL to complete  
6 the 1-billion dollar Cape Canaveral plant. It is more prudent and reasonable for FPL  
7 to employ these alternatives to provide safe and reliable electric service to its  
8 customers at a price that is within their means.

9 Finally, FPL's request for a ROE of 11.50% is not only unreasonable in these  
10 dire economic times, it is absurd. FPL alleges that such an increase in ROE is needed  
11 to provide a more competitive level consistent with maintaining a good credit rating  
12 and to encourage and attract investment with FPL. However, FPL has a very high  
13 credit rating and the company pays a quarterly dividend of 60-cents per share on their  
14 company stock. The company's dividends have increase from \$1.64/yr in 2007 to  
15 \$2.40/yr in 2012. Moreover, shareholders received a 209% return on their investment  
16 over a 10-year period from (1/1/2002 to 12/31/2011) compared to a 33% return by the  
17 S&P 500 index. (Exhibit TS-8 at p.4). Clearly, FPL's current ROE at 10% is way too  
18 high and should be lowered to about 6% which is more than 3-times the going rates  
19 on high yield certificates of deposit. (Exhibit TS-5 at p.2). With an ROE at 6%, FPL  
20 will have more than sufficient means to attract investment in these dire economic  
21 times.

22 In concluding my testimony, FPL's requested base rate increase is not prudent,

1 and is unreasonable, and would otherwise economically harm customers of FPL and  
2 place electric service out of reach for many financially challenged customers who  
3 must sustain themselves on a fixed income in these dire economic times. Such an  
4 increase in FPL's base rates would also cause severe economic harm to Florida  
5 businesses and schools and local government agencies and otherwise disrupt the lives  
6 of thousands of customers and economically harm communities.

7 Q. Does this end your testimony?

8 A. Yes.

1                   **MR. SAPORITO:** Can you restart the clock? I'm  
2 going start my testimony now.

3                   **COMMISSIONER BALBIS:** Sure. Go ahead.

4                   **MR. SAPORITO:** As a pro se intervenor in this  
5 docket, this has for most part been a learning  
6 experience for me. For example, I learned from one of  
7 FPL's polished attorneys the exact number of times that  
8 the very same question can be asked of a witness.

9                   In all seriousness, I appear before this  
10 Commission to testify not as an expert in any field, but  
11 rather as a residential customer of FP&L to share a bit  
12 of common sense with you about the outrageous demands  
13 sought by FPL in this docket. In my view, the Florida  
14 Legislature created this Commission to act as a  
15 regulator watchdog, to protect the public interest in  
16 general, and to ensure that FPL is held firmly to its  
17 duty to provide safe and reliable electric service to  
18 its customers at the lowest reasonable price. In  
19 return, the Legislature intended that this Commission  
20 ensure that FPL is allowed a fair and reasonable return  
21 on equity to attract investment in the company.

22                   Now I would like to testify about some of the  
23 specifics of FPL's request to raise base rates in this  
24 docket. First, let's apply a bit of common sense to  
25 FPL's request for a .25 ROE performance adder. To the

1 extent that FPL is a monopoly utility, it has a  
2 protected service territory and has a duty and is  
3 expected to provide superior service to all of its  
4 customers at the lowest reasonable price.

5 Over this year -- over the years this  
6 Commission has repeatedly rewarded FPL for superior  
7 service to its customers. Notably, this Commission has  
8 allowed FPL a fair and reasonable ROE which has an upper  
9 and lower range assigned. When FPL has demonstrated  
10 superior performance to its customers, this Commission  
11 has allowed FPL an ROE adjusted to the upper end of the  
12 ROE range approved by the Commission.

13 In this manner, the Commission has  
14 historically rewarded FPL for superior performance. To  
15 the extent that the Commission already rewards FPL for  
16 superior performance through an assigned range adjusted  
17 ROE, FPL's request for an additional ROE performance  
18 adder of .25 percent is purely excessive profits for the  
19 company's shareholders and must be denied by this  
20 Commission as a matter of law.

21 **MR. BUTLER:** Mr. Chairman, I would ask  
22 Mr. Saporito to point where in his Prefiled Testimony  
23 his summary relates to.

24 **COMMISSIONER BALBIS:** I will allow the witness  
25 to continue with his summary.

1                   **MR. SAPORITO:** Second, the record in this  
2 docket contains testimony and evidence that FPL's  
3 current ROE stands at approximately 8.25 percent.  
4 Therefore, given current market conditions where the  
5 Federal Reserve has committed to keeping interest rates  
6 near zero until the end 2014, an ROE of 8.25 percent is  
7 more than sufficient to attract investment in FPL. To  
8 the extent that FPL maintains superior performance for  
9 its customer base going forward, this Commission should  
10 provide FP&L with an assigned adjusted ROE of 100 basis  
11 points.

12                   History shows that when market conditions are  
13 adverse, investors seek security of U.S. bonds and the  
14 security of investment in financially strong utility  
15 companies like FP&L. Notably, FPL reported a 17 percent  
16 gain in its earnings last quarter demonstrating that it  
17 is a financial strong company. Following the  
18 devastation that Hurricane Andrew caused in South  
19 Florida, the lights remained on for the better part of  
20 Florida due to FPL's superior performance in hardening  
21 its infrastructure over the years.

22                   Therefore, investors are driven to FPL not  
23 only because it is a financially strong company, but  
24 also because it is a low-risk company as evidenced by  
25 the survival of the Turkey Point Nuclear Plant from the

1 devastation caused by Hurricane Andrew. For these very  
2 reasons, I have personally invested a majority of my net  
3 worth in FPL stock through its parent NextEra Energy,  
4 Inc.

5 NextEra serves to attract investment in FPL  
6 because of NextEra's diverse portfolio in renewable  
7 energy throughout the United States. Notably, over the  
8 last ten-year period, the company's stock has  
9 outperformed the S&P 500 Index by approximately 209  
10 percent, and now yields a dividend of 60 cents per  
11 share. For all these reasons, this Commission should  
12 establish FPL's ROE at 8.25 percent with an assigned  
13 100 basis point range to reward the company for  
14 demonstrating continued superior performance going  
15 forward.

16 In concluding my testimony, it matters not  
17 whether FPL provides safe, reliable, and superior  
18 service to its customers, if its customers cannot afford  
19 such electric service as intended by the Florida  
20 Legislature.

21 Thank you.

22 **COMMISSIONER BALBIS:** Okay. Since that  
23 concludes his summary, the witness is available for  
24 cross-examination. We will start with Florida Power &  
25 Light.

1                   **MR. RUBIN:** Thank you, Mr. Chairman.

2                                   **CROSS EXAMINATION**

3           **BY MR. RUBIN:**

4                   **Q.** Good afternoon, Mr. Saporito.

5                   **A.** Good afternoon, sir.

6                   **Q.** Mr. Saporito, when you filed your petition to  
7 intervene in this case back in April, you identified  
8 your address on Military Trail in Jupiter, Florida,  
9 correct?

10                   **A.** That's correct.

11                   **Q.** And today you told us about an address in  
12 Mallards Cove Boulevard?

13                   **A.** That's true.

14                   **Q.** I want to ask you a couple of questions about  
15 that, only because I want to question you about your  
16 status as an intervenor, okay? In terms of your  
17 addresses, I just want to establish that you have been  
18 an FPL customer continuously since you filed your  
19 intervention.

20                   **MR. SAPORITO:** Mr. Chairman, I would object.  
21 It's a matter of -- it's FPL that has the records for  
22 the change of service address, and they are fully aware  
23 of it. You know, I don't feel it's a fair question. It  
24 doesn't do anything --

25                   **COMMISSIONER BALBIS:** I think it's a fair

1 question.

2 **THE WITNESS:** -- to my Direct Testimony in  
3 this proceeding.

4 **COMMISSIONER BALBIS:** Okay. Thank you. I  
5 think it's a fair question.

6 FPL, you may proceed.

7 **MR. RUBIN:** I'm sorry, I'm not sure if the  
8 witness answered.

9 **COMMISSIONER BALBIS:** He did not. He objected  
10 to the question, and so I instructed him to answer your  
11 question. And if you could please repeat it, that would  
12 be great.

13 **MR. RUBIN:** Yes, sir. Thank you.

14 **BY MR. RUBIN:**

15 **Q.** Mr. Saporito, since you filed your petition to  
16 intervene in this case in April of 2012, have you  
17 continuously been a customer of FPL?

18 **A.** Yes.

19 **Q.** Thank you, sir.

20 Mr. Saporito, you are now sitting in the  
21 witness chair. You have been in a unique position in  
22 this case for most of the hearing. You were seated over  
23 here at our table asking questions of witnesses just  
24 like all the other attorneys and Mr. Hendricks. I just  
25 want to make sure before I get into my questions that



1 you understand, sir, that now seated in the witness  
2 chair you are answering questions as a witness under  
3 oath.

4 **A.** Yes.

5 **Q.** Okay. And what we say over here at this table  
6 is part of the record, but it's not evidence. What you  
7 are about to say now is evidence. You understand that?

8 **A.** Yes.

9 **Q.** Thank you.

10 You have mentioned a number of times during  
11 the proceedings this week and just now in your summary  
12 that you are an FPL investor, correct?

13 **A.** Yes.

14 **Q.** And in your questions to Mr. Silagy earlier  
15 this week you advised that you owned substantially more  
16 than one share of NextEra stock, correct?

17 **MR. SAPORITO:** I would object on relevance.  
18 That has no bearing on bringing any material evidence  
19 into this record in this docket.

20 **MR. RUBIN:** Mr. Chairman, I just was repeating  
21 something that Mr. Saporito said during his summary just  
22 a few moments ago, and I just wanted it to be confirmed  
23 on the record.

24 **COMMISSIONER BALBIS:** I thought your statement  
25 indicated that when he was questioning some of the FPL

1 witnesses he indicated that he was a shareholder. And  
2 as you indicated, that was not testimony, and now he is  
3 providing testimony. So if you can ask your questions  
4 on either the summary he provided or the testimony that  
5 has been entered into record that would be helpful.

6 **MR. RUBIN:** Yes, sir.

7 **BY MR. RUBIN:**

8 **Q.** Based upon the summary that you just gave to  
9 us a few moments ago, Mr. Saporito, did I hear you  
10 correctly that you have substantial investment or own  
11 substantially more than one share of NextEra stock?

12 **A.** Yes, I do have substantial investment in FPL  
13 through its parent.

14 **Q.** All right. And can you tell us how many  
15 shares you own of the stock?

16 **A.** 1200.

17 **Q.** Thank you, sir.

18 You have said throughout these proceedings and  
19 most recently to Mr. Dewhurst this morning that you are  
20 appearing pro se on your own behalf in this proceeding,  
21 correct?

22 **A.** Correct.

23 **Q.** You are representing yourself, correct?

24 **MR. SAPORITO:** Asked and answered.

25 **MR. RUBIN:** I'll ask a different question, Mr.

1 Chairman.

2 **BY MR. RUBIN:**

3 Q. Mr. Saporito, are you representing anyone here  
4 other than yourself?

5 A. No.

6 Q. Mr. Saporito, has anyone assisted you in  
7 preparing your testimony?

8 A. No.

9 Q. You have done it all by yourself?

10 **MR. SAPORITO:** That's asked and answered.

11 **MR. RUBIN:** I just want to confirm for the  
12 record.

13 **MR. SAPORITO:** I just answered that question.

14 **COMMISSIONER BALBIS:** I agree. He answered  
15 it. The answer was no.

16 **BY MR. RUBIN:**

17 Q. Mr. Saporito, has anyone assisted you in  
18 preparing your theory of this case?

19 A. No.

20 Q. Has anyone assisted you in preparing your  
21 cross-examination or questions in this case?

22 A. No.

23 Q. Has anyone assisted you in preparing the  
24 pleadings that you have filed in this case?

25 **MR. SAPORITO:** I'm going to have to object to

1 this entire line. It's not relevant or material to  
2 substantiating any type of material fact in this docket.

3 **COMMISSIONER BALBIS:** I'm going to allow this  
4 line of questioning as it pertains to your testimony and  
5 what assistance you received or not, so I'll allow it.

6 **MR. SAPORITO:** Could you repeat the last  
7 question?

8 **MR. RUBIN:** Yes, sir.

9 **BY MR. RUBIN:**

10 **Q.** Has anyone assisted you in preparing your  
11 pleadings in this case?

12 **A.** No.

13 **MR. RUBIN:** I have no other questions. Thank  
14 you.

15 **COMMISSIONER BALBIS:** From FIPUG?

16 **MR. MOYLE:** No questions.

17 **COMMISSIONER BALBIS:** Mr. Wiseman.

18 **MR. WISEMAN:** No questions.

19 **COMMISSIONER BALBIS:** FEA.

20 **CAPTAIN MILLER:** No questions.

21 **COMMISSIONER BALBIS:** Office of Public  
22 Counsel.

23 **MS. CHRISTENSEN:** No questions.

24 **COMMISSIONER BALBIS:** Retail Federation.

25 **MR. LaVIA:** No questions.

1                   **COMMISSIONER BALBIS:** Mr. Hendricks.

2                   **MR. HENDRICKS:** No questions.

3                   **COMMISSIONER BALBIS:** Staff.

4                   **MR. YOUNG:** No questions.

5                   **COMMISSIONER BALBIS:** Commissioners.

6                   Commissioner, Edgar.

7                   **COMMISSIONER EDGAR:** Thank you, Commissioner.

8                   Mr. Saporito, on Page 3 of your prefiled  
9                   testimony, in the -- well, starting at Line 15, you have  
10                   a paragraph that basically summarizes what your  
11                   recommendation would be for the rates on a go-forward  
12                   basis.

13                   And the second one says to lower the base rate  
14                   by an amount of 600 million. In that paragraph there,  
15                   Line 18, when you say to lower by 600 million, are you  
16                   referring to the rates as they currently exist or the  
17                   rates that are being requested in the petition that is  
18                   before us?

19                   **THE WITNESS:** I was referring to -- it was my  
20                   layman's attempt to try to get a refund for the FPL  
21                   customers who lost that amount of money in the  
22                   mismanagement in my view of the uprate program in their  
23                   nuclear plants.

24                   **COMMISSIONER EDGAR:** All right. Thank you.

25                   **COMMISSIONER BALBIS:** Okay. Since it would be

1 impossible to redirect, and no other questions, Mr.  
2 Saporito, you are excused.

3 **MR. SAPORITO:** Mr. Chairman, can I move my  
4 exhibits into the record, please?

5 **COMMISSIONER BALBIS:** Yes. Any objections?

6 **MR. BUTLER:** Other than to Number 11, no.

7 **COMMISSIONER BALBIS:** Okay. And Number 11 has  
8 been excluded, so let the record show that the Exhibits  
9 TS-1 through TS-10 have been entered into the record.

10 (Exhibit Numbers 380 through 389 admitted into  
11 the record.)

12 **MR. YOUNG:** And that is, Mr. Chairman, on the  
13 Comprehensive Exhibit List Number 380 to 389, Page 36 of  
14 the Comprehensive Exhibit List.

15 **COMMISSIONER BALBIS:** Okay. Thank you. Mr.  
16 Saporito, you are excused.

17 **MR. YOUNG:** Next, Mr. Chairman, is  
18 Mr. Hendricks.

19 **COMMISSIONER BALBIS:** Good afternoon,  
20 Mr. Hendricks.

21 **MR. HENDRICKS:** Good afternoon. It's a little  
22 different from this perspective.

23 **COMMISSIONER BALBIS:** Have you been sworn?

24 **THE WITNESS:** Yes, I have. I also have this  
25 suggested introduction format. Do you want me to use

1 this?

2 **COMMISSIONER BALBIS:** Yes, please.

3 **JOHN W. HENDRICKS**

4 was called as a witness, Pro se, and having been duly  
5 sworn, testified as follows:

6 **MR. HENDRICKS:** Okay. My name is John  
7 Hendricks. My address is 367 Southshore Drive,  
8 Sarasota, Florida. I'm testifying on behalf of myself  
9 as a Pro se party. I prepared Direct Testimony  
10 consisting of 14 pages without the exhibits being  
11 numbered.

12 Mr. Chairman, I ask that my testimony be  
13 entered into the record as though read.

14 **COMMISSIONER BALBIS:** Are there any  
15 objections?

16 **MR. RUBIN:** No objection.

17 **COMMISSIONER BALBIS:** Okay. Let the record  
18 show that his testimony will be entered into the record  
19 as though read.

20  
21  
22  
23  
24  
25

1 **1. INTRODUCTION**

2

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

4 **A** My name is John W Hendricks. My address is 367 S. Shore Drive, Sarasota, Fl  
5 34234.

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

7 **A** I am the Managing Partner of a small technology strategy consulting firm, Strategic  
8 Technologies International, LLC. In this case I am appearing to represent my own  
9 interest, as a citizen of Florida and a customer of Florida Power & Light, in securing  
10 a reasonable outcome of this rate case that will efficiently and effectively support a  
11 reliable, low cost supply of electricity for FPL customers.

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

13 **A** I have a B.S. degree in Electrical Engineering from the University of Texas at Austin  
14 and a M. Phil. Degree in Political Science (concentrating on planning and  
15 economics) from Yale University. My business experience includes engineering,  
16 product management and marketing in the computer industry, research on energy  
17 policy and management consulting on information technology strategy, business  
18 operations and planning.

19 **Q Are you sponsoring any exhibits in this case?**

20 **A** Yes. I am sponsoring the following exhibits.

- 21 • JWH-1 – Components of the Cost of Investor Capital
- 22 • JWH-2 – Utility Proxy Group 2D View
- 23 • JWH-3 – Utility Proxy Group with FPL & NEE N-R

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- 1                   • JWH-4 – Historical Utility and Treasury Bond Yields
- 2                   • JWH-5 – Historical Relationship between Utility Allowed ROE and
- 3                   Bond Yields
- 4                   • JWH-6 – Customer View of Cost of Capital vs. Equity Percentage

5

6   **Q What is the purpose of your testimony?**

7   **A** The purpose of my testimony is to recommend looking at the interrelated issues of  
8   allowed return on equity (ROE) and regulatory capital structure more from a  
9   customer (ratepayer) point of view and in the context of current opportunities. This  
10   could identify outcomes that will be better for most, if not all, parties, but might not  
11   be recognized by only following the usual rate hearing routine.

12

13   I have observed that FPL is doing a good job of modernizing its generation assets as  
14   required to deliver cost-efficient energy to Florida customers, but I am concerned  
15   that the cost of capital may make continued investments in improvements too  
16   burdensome for customers in this difficult economy. This would lead to higher costs  
17   for consumers a few years in the future and lower returns for FPL investors. Pushing  
18   hard for the most cost effective capital structure now could be worth the extra effort  
19   for all parties.

## 2. ROE AND CAPITAL STRUCTURE

1  
2 **Q Please discuss why these factors and their relationships may not be fully taken**  
3 **into account.**

4 **A** The importance of the allowed rate of return on shareholder equity (ROE) in directly  
5 driving the cost of customer bills is generally recognized, as is its role in providing  
6 the returns that make utility stocks attractive to investors. ROE is often a headline  
7 number in describing and discussing a utility rate issue. However, the importance of  
8 capital structure and other incentives as well as the relationships between all these  
9 factors is less straightforward and often difficult to visualize. Failure to take into  
10 account the impact of all these factors can lead to decisions that leave “money on the  
11 table” by failing to get the best outcomes that are feasible, given the balance being  
12 struck between, for example, the interest of customers in lower bills and the interest  
13 of stockholders in higher returns on their investments.

14 **Q How do the allowed ROE and regulatory capital structure relate to the effective**  
15 **cost of capital that drives customer bill costs?**

16 **A** Exhibit JH-1 presents a simple graphical representation of a Customer View of the  
17 cost of investor capital, assuming FPL’s proposed full rate increase. This chart  
18 shows how the proposed 11.5% full increase ROE and the approximately 60%  
19 equity ratio for investor capital would combine to create a weighted average cost of  
20 capital of about 9.1% as seen by investors. Interest payments made to debt holders  
21 are not subject to income tax (either state or federal) at the FPL level, but returns on  
22 equity are. The approximately 40% income tax rate that is built into the Revenue

1 Multiplier for equity creates an additional cost of about 4.1% to cover the income tax  
2 FPL will have to pay before providing the approved 11.5% return on equity to their  
3 investors. These components add up to about a 13.2% weighted cost of investor  
4 capital before income taxes. This is the cost of capital that drives customer bills and  
5 is labeled Customer View Total in Exhibit JWH-1.

6 **Q Does the much higher cost of equity capital mean that more debt and less equity  
7 are always better for customers?**

8 **A** No. If it were possible to just shift more capital from equity to debt without  
9 changing any of the other parameters, this would reduce costs because the debt  
10 yields are lower and debt has no income tax revenue requirement. However, since  
11 the yields on both debt and equity typically change as the capital structure and other  
12 variables change, finding the most cost effective capital structure is a more complex  
13 problem.

14 **Q Can we rely principally on general guidelines such as ‘maintaining a supportive  
15 regulatory environment’, a “strong capital structure” or an “equity cushion” to  
16 determine the appropriate capital structure?**

17 **A** No. The higher equity percentages and ROE that these objectives are often used to  
18 justify are undoubtedly attractive for utility investors and can provide utility  
19 management more flexibility for future financing, but their costs are borne by  
20 customers as substantially higher capital costs in the present. It is not reasonable for  
21 customers to accept higher capital costs now unless it can be convincingly shown  
22 that these costs (and any other disadvantages of a particular proposal) are less than  
23 the expected present value of the longer-term benefits of the proposed choice over a

1 reasonable time horizon. Many documents have been produced in this case (and I  
2 may have missed some), but I don't recall seeing any quantitative analysis that  
3 addressed the net value question for the requested combination of ROE and capital  
4 structure or compared its expected net value to alternative ROE and capital structure  
5 choices.

### 3. PROXY GROUP COMPARISONS

1

2 **Q What about the several proxy group comparisons provided in testimony by FPL**  
3 **witness Avera?**

4 **A** The proxy group comparisons are an important source of information about market  
5 expectations at the holding company level, but the results depend on the analyst's  
6 choice of a specific set of assumptions and they only establish a range of possibly  
7 reasonable ROE and capital structure. The Avera analysis (1) uses proxy group  
8 selection criteria that impair their relevance for identifying FPL returns that are  
9 reasonable from the ratepayers' perspective, and (2) the analysis does not appear to  
10 adequately recognize the impact of interaction between ROE and investor  
11 debt/equity ratios among all operating units of each holding company in translating  
12 the results from the holding company level to the utility operating companies.

13 **Q What are the issues with the proxy group selection criteria?**

14 **A** Three out of the four utility proxy group selection criteria tend to exclude most  
15 holding companies that use lower percentages of equity capital, so it is not surprising  
16 that the utility proxy group contains companies that yield an average ROE and  
17 capital structure that is almost identical to that of NextEra Energy (NEE). These  
18 particular selection criteria and use of average comparisons almost presuppose the  
19 answer that NEE requires a continuation of its previous combination of ROE and  
20 capital structure. Most companies that use a higher debt/equity ratio are simply  
21 excluded from the proxy group by the selection criteria. This biases the range of  
22 ROE and equity percentage that are identified as "reasonable" and centers them on

1 the existing NEE position

2

3 Even with this narrow proxy group, however, we can see some interesting  
4 relationships in a two dimensional view that shows both ROE and capital structure  
5 (see Exhibit JWH-2). The “Linear Trend Line” illustrates a substantial relationship  
6 ( $R^2=0.5$ ) between the percent of common equity and ROE. As we would expect,  
7 lower ROE is associated with higher equity percentages and higher ROE with lower  
8 equity percentages. There are a few examples of holding companies with a capital  
9 structure similar that of NEE, but a substantially lower ROE. There is only one  
10 rather odd example of a company with a much lower equity percentage.

11

12 **Q What are the issues with translating between NEE and FPL requirements?**

13 **A** The second major problem with the utility proxy group analysis lies in translating the  
14 NEE equity requirements (as determined by the comparisons to other publically  
15 traded corporations selected for the proxy group) into reasonable equity requirements  
16 for FPL.

17

18 Exhibit JH-3 adds points for FPL data to the previous exhibit of holding company  
19 data. Shown are FPL (2010) (with ROE based on witness Dewhurst’s testimony,  
20 page 37, line 20) and the FPL Full Request (2013). This graph (Exhibit JH-3)  
21 illustrates how far removed the FPL capital structure is (at almost 60% equity) from  
22 that of NEE and the group average (at about 45% equity), as well as all of the  
23 individual proxy group companies.

1

2 A proxy for the NEE Non-Regulated operations (2010) is also shown, based on their  
3 reported percent of common equity (about 24%) and an ROE calculated to yield the  
4 total NEE position. A proxy for NEE Non-Regulated operations in the case of the  
5 FPL Full Request (2013) cannot be estimated since the required data in Schedule D-2  
6 is redacted, but the last year for which data is shown indicates that the NEE Non-  
7 Regulated operations percentage of equity was continuing to decline.

8

9 Reviewing Exhibit WEA-3 (Comparison of Proxy Group Risk Indicators), I was  
10 curious how the FPL risk data was sourced since FPL is not a publically traded  
11 company. I was surprised to find that the data in this exhibit is mislabeled (and  
12 misleading) with three of the four metrics for FPL actually reporting data for NEE,  
13 not FPL. Witness Avera does note this fact in his testimony (page 38, lines 8-10),  
14 but then proceeds to state that the comparisons in WEA-3 indicate that investors  
15 would view the firms in the proxy groups as risk-comparable to FPL (page 38, lines  
16 11-23), and conclude “that investors would likely conclude that the overall  
17 investment risks for FPL are comparable to those of the firms in the Utility and non-  
18 Utility Proxy Groups.” (Page 39, lines 1-5).

19

20 Exhibit JWH-3 illustrates the fact that this conclusion would support an ROE in the  
21 neighborhood of the FPL full rate request of 11.5%, but paired with a common  
22 equity percentage in the neighborhood of 45%, far from the almost 60% equity  
23 requested. If the investor perceived risk for FPL is identical to that of NEE and the

1 NEE ROE is appropriate for FPL, why are different capital structures required?

2

3 **Q Why is there this apparent disconnect between the requested ROE and capital**  
4 **structure?**

5 **A** That is a difficult question because a number of complex adjustments, calculations  
6 and comparisons are involved in the FPL analysis, but one key issue appears to be  
7 developing the requested ROE primarily from holding company data (as graphed in  
8 Exhibit JWH-3 and discussed above) and developing the requested capital structure  
9 primarily from utility operating company data.

10

11 In Interrogatory No. 3 to FPL I requested data about the operating companies used in  
12 the Avera analysis, but the FPL response was that, "Dr. Avera has not compiled data  
13 regarding the allowed ROEs or embedded debt costs of the individual utility  
14 operating companies listed in Exhibit WEA-15, as this information was not  
15 necessary to support his analyses and conclusions." This implies that the allowed  
16 ROEs that were approved in combination with the regulatory capital structure at  
17 these proxy operating companies are not of any interest in determining a reasonable  
18 combination of ROE and equity percentage for FPL. This may be standard operating  
19 procedure, but it makes the analysis a black box lacking transparency. If the  
20 requested rates are reasonable, why not confirm the ROE and equity percentage  
21 requested by engaging with this rather obvious data about the proxy utility operating  
22 companies used for comparison?

23



#### 4. CURRENT FINANCIAL CONDITIONS

1  
2 **Q Should the current financial conditions and those reasonably expected during**  
3 **the next three years or so be taken into account in assessing the reasonableness**  
4 **of proposed rates?**

5 **A** Yes. The FPL witness statements I have reviewed quite reasonably refer to difficult  
6 financial conditions and risks of future disruptions as reasons for the requested ROE  
7 and capital structure. I suggest that we also should take into account some of the  
8 historical financial trends as a context for our current conditions and those that might  
9 reasonably be expected over the next few years.

10

11 Exhibit JWH-4 shows historical data from 1974 to 2011 for average utility ROE and  
12 bond yields (sourced from Exhibit WEA-11, Page 3) and Treasury bond rates from  
13 the US Federal Reserve website. The most striking feature of this data is the long  
14 term downward trend in Treasury bond yield which has descended to historic lows  
15 this year. The Fed has also repeatedly stated they expect to have a similar policy  
16 through at least 2014, which makes it likely that Treasury yields will remain near  
17 their historic lows for several more years.

18

19 Average utility bond yields have followed long term Treasury yields down with  
20 some increase in spread over long Treasuries, but not a dramatic one. Average  
21 utility allowed ROE has trended down at a much more modest rate. FPL ROE has  
22 tended to be around a percent or so above the average. There has been a long term

1 trend for the spread between average utility bonds and average allowed ROE to  
2 widen, with an acceleration of this trend in the last several years.

3

4 **Q What are the implications of these long term financial trends for this rate case?**

5 **A** Exhibit JWH-5A isolates the average allowed ROE and utility bond yield data from  
6 the clutter of the previous chart. It clearly shows the substantial and accelerating  
7 trend for the margin of ROE over bond yield. Exhibit JWH-5B presents the utility  
8 equity premium over utility bonds as a percent of the utility bond yield. Over the last  
9 ten years or so, this premium has doubled, moving the cost of equity from being  
10 about 50% higher than the cost of debt to being about 100% higher.

11

12 With the cost of equity now averaging about twice that of debt, the incentives to  
13 reduce the percentage of equity are much higher now than they have been in the last  
14 forty years. Add to this the tax advantages of debt as illustrated in Exhibit JWH-1  
15 and the effective cost differences from the ratepayer view now approach a 3:1 ratio,  
16 which certainly should merit some consideration in determining the regulatory  
17 capital structure. The next section describes an idealized model that can illustrate the  
18 tradeoffs involved in considering alternative debt/equity ratios.

## 5. ILLUSTRATING CAPITAL STRUCTURE TRADEOFFS

**Q How can we think about quantifying some of the tradeoffs in decisions about regulatory capital structure?**

**A** I will describe a very simple model that represents some key tradeoffs based several idealized assumptions. It is not intended to be an authentic representation of the details of this case. The most important assumption is that the investor view of a capital investment (for example FPL's new Cape Canaveral plant) has a total risk that does not change with the capital structure used to finance it. If markets are efficient and investors are rational, they are not fooled by capital structure. The total cost of investor capital for a given facility will stay the same because the rates of return will change to reflect the amount of risk being shouldered by each type of investor.

Exhibit JWH-6 shows the components of the "customer view of the cost of investor capital" assuming that the FPL requested full rate increase at a 60% equity percentage is the appropriate starting point, the increase in equity cost with increasing use of debt is quite steep and that results in a debt interest rate that is relatively flat. The investor income shifts in favor of more debt, but the total remains almost the same because the total investor risk has not changed. There is a small increase due to the assumption that the debt is long term fixed rate with a

1 much longer maturity than the equity financing (assuming 30 year debt and the  
2 equivalent fixed rate period for equity at about three years).

3 In this simple example the total cost of capital from the utility customer point of  
4 view is reduced by a modest, but meaningful amount for each incremental move to a  
5 lower equity percentage, due entirely to the tax advantage of debt. The savings in  
6 money sent to Washington more than makes up the added cost of the longer maturity  
7 of debt. Even more important at a time of historically low utility debt costs, the  
8 percentage of investment financed with fixed rate debt could increase from 40% to a  
9 total of 60%. Locking in a historically low fixed rate for a much larger part of the  
10 capital is a major advantage now and by most estimates this advantage will be  
11 available for new investments for at least the next several years. It removes the rate  
12 risk associated with equity and short-term debt for the life of the debt term (assumed  
13 to be 30 years, approximately the working life of many facilities). The example of a  
14 30 year fixed mortgage versus an adjustable mortgage that is at risk for periodic rate  
15 adjustments is a reasonable analogy. The historical data in Exhibit JWH-4  
16 illustrates how dramatically variable rates can change over a 30 year period.

17  
18 This model illustrates the two most important advantages of using more debt  
19 financing: (1) Tax savings that arise from investors not having to compensate utility  
20 equity holders for the costs of the FPL corporate income tax and (2) locking in more  
21 fixed rate financing to replace risky variable rate equity. These factors should to be  
22 taken into account, preferably in a quantitative analysis, when considering high  
23 equity capital structures, especially with the current economic conditions.

1           **MR. HENDRICKS:** I have also prepared an  
2 exhibit consisting of six pages, JWH-1 through 6. I  
3 have no changes or corrections to my exhibits.

4           Mr. Chairman, my exhibits have been identified  
5 in Staff's Composite Exhibit as Exhibit Number -- and I  
6 don't have that number.

7           **MR. YOUNG:** 373 through 379.

8           **MR. HENDRICKS:** 373 through 379. Thank you.

9           **COMMISSIONER BALBIS:** Would you like to  
10 summarize your testimony?

11          **MR. HENDRICKS:** Yes, I would. Thank you.

12          The purpose of my testimony today is to  
13 recommend that the Commission, in addition to using the  
14 traditional analysis, also consider looking at the  
15 approved ROE and regulatory capital more from a  
16 ratepayer point of view.

17          I observed that the importance of ROE in  
18 driving the customer bills is widely recognized, but  
19 that the impact of the combination of ROE and capital  
20 structure are more difficult to visualize, and this lack  
21 of transparency makes it more difficult to approach  
22 economic efficiency and appropriately balance interests  
23 of different parties for both the short and long-term  
24 affects.

25          As an example, I offer several exhibits to

1 illustrate, and illustrate a simple model for your  
2 consideration. The first example that I provide,  
3 Exhibit 1, depicts what I have referred to as a  
4 ratepayer review of the components of investor capital  
5 costs which includes the effect of income tax provisions  
6 that are embedded in the revenue multiplier.

7 In the investor view of the proposed new rate  
8 structure, the cost of this capital is about 9.1. In  
9 and the ratepayer view it is about 13.2 percent, by my  
10 calculation. This view highlights the importance of  
11 both ROE and equity ratio in driving the rates for  
12 Florida ratepayers, FPL ratepayers.

13 Exhibits 2 and 3 show what I have labeled as  
14 the two dimensional view of the utility proxy group data  
15 from Dr. Avera's analysis, and I raised some issues with  
16 his analysis and illustrate the positioning of FPL and a  
17 proxy for the non-FPL assets of NEE in this ROE equity  
18 space in these graphs.

19 Exhibits 4 and 5 present historical graphs of  
20 average utility ROE and bond yields that can support a  
21 discussion of the importance of market conditions in  
22 determining the equity percentage.

23 Perhaps most important or controversially,  
24 perhaps, I describe a simple model that represents some  
25 of the key trade-offs based on several idealized

1 assumptions. It's not intended to be an authentic  
2 representation of the details of this case. The most  
3 important assumption in this model of the investor view  
4 of a capital investment is that the total risk does not  
5 change with the capital structure used to finance it,  
6 because investors look through the veil of the capital  
7 structure, and if it has the same amount of risk they  
8 will demand the same amount of return on it.

9 It shows the components of the cost of  
10 investor capital assuming that the FPL requested full  
11 rate increase at 60 percent equity percentage is the  
12 appropriate starting point and then it looks what would  
13 happen based on these simple assumptions if you move the  
14 equity ratio down to 40 percent. The investor income  
15 shifts in favor of more debt, but the total remains  
16 almost the same, because the total investor risk has not  
17 changed.

18 There is a small increase due to the  
19 assumption that debt is a long-term fixed rate with a  
20 much longer maturity than equity financing. Even more  
21 important at a time -- the recommended change does  
22 reduce the amount of the overall cost. But even more  
23 important, when we have historically low utility debt  
24 costs is that it moves the percentage of investment  
25 finances fixed rate debt from 40 percent to a total of

1 60 percent, thereby locking in historically low fixed  
2 rates for a much larger part of the capital.

3 The example would be a 30-year fixed mortgage  
4 versus an adjustable mortgage that is at risk for a  
5 periodic rate adjustment and that forms a reasonable  
6 analogy. And the historical data in Exhibit Number 4  
7 illustrates how dramatically variable rates can rise  
8 over a 30-year period.

9 This model illustrates the two most important  
10 advantages of using more debt financing. Number one,  
11 tax savings that arise from investors not having to  
12 compensate utility equity holders for the cost of FPL  
13 corporate income tax. And, two, locking in more fixed  
14 rate function -- financing, excuse me, to replace  
15 variable rate risky equity. I think it also  
16 demonstrates that we need to take into account more  
17 quantitative analysis when considering high equity  
18 capital structures especially under the current economic  
19 conditions.

20 Thank you.

21 **COMMISSIONER BALBIS:** Thank you.

22 And Mr. Hendricks is available for cross.

23 **MR. RUBIN:** No questions from FPL.

24 **MR. MOYLE:** I just have a couple.

25 **CROSS EXAMINATION**



1 **BY MR. MOYLE:**

2 Q. Mr. Hendricks, you are the managing partner of  
3 a strategic consulting firm, is that right, Strategic?

4 A. That's correct.

5 Q. Okay. And your website indicates that you  
6 provide consulting services in energy, is that right?

7 A. Yes.

8 Q. Okay. And so have you ever previously or are  
9 you currently providing any consulting services to any  
10 investor-owned utilities?

11 A. No, I'm not.

12 Q. Okay. And then the question that FPL asked,  
13 has any third party helped you in any way in terms of  
14 putting on testimony or helping you in this case other  
15 than me loaning you my notebook for one witness?

16 A. That was about it, Jon.

17 **MR. MOYLE:** Okay. That's all I have.

18 **MR. HENDRICKS:** I wish I had had more.

19 **MR. MOYLE:** Thank you.

20 **COMMISSIONER BALBIS:** Okay. South Florida  
21 Hospitals.

22 **MR. WISEMAN:** No questions.

23 **COMMISSIONER BALBIS:** FEA.

24 **CAPTAIN MILLER:** No questions.

25 **COMMISSIONER BALBIS:** Office of Public

1 Counsel.

2 MS. CHRISTENSEN: No questions.

3 COMMISSIONER BALBIS: Retail Federation.

4 MR. LaVIA: No questions.

5 COMMISSIONER BALBIS: Mr. Saporito.

6 MR. SAPORITO: No questions, Mr. Chairman.

7 COMMISSIONER BALBIS: Staff.

8 MR. YOUNG: No questions.

9 COMMISSIONER BALBIS: Commissioners.

10 I have one question or clarification. You  
11 state in your testimony on Page 3 that the purpose is to  
12 provide testimony looking at return on equity and  
13 capital structure from a customer point of view. And  
14 I'm trying to understand what that perspective is,  
15 because you provide detailed exhibits and a lot of  
16 specific recommendations that normally those are  
17 provided in this process by expert witnesses in those  
18 fields.

19 So explain to me what the customer point of  
20 view is and why it's important?

21 MR. HENDRICKS: Okay. Well, I just used that  
22 phrase, but the reason I used it is that if you look at  
23 the calculation for how you get from the capital costs  
24 to driving the rate structure, you go through the  
25 revenue multiplier. And the revenue multiplier adds in

1 the taxes, and makes some other adjustments, but the  
2 change is adding in the tax capability, the tax  
3 compensation for the utility so it can pay its  
4 investors.

5 And I think when we start to look at the cost  
6 that goes into actually making the rates, it creates the  
7 revenue requirement and the revenue requirement then  
8 drives the revenue that drives the rate structure. That  
9 we really need to look at that cost that includes the  
10 cost of that tax compensation that is built into the  
11 revenue multiplier. And I think if you do that -- and  
12 then you also want to look at the --

13 **COMMISSIONER BALBIS:** Mr. Hendricks, maybe you  
14 didn't understand my question. I understand your  
15 testimony on arriving at the specific recommendations  
16 for capital structure and ROE.

17 **THE WITNESS:** Okay.

18 **COMMISSIONER BALBIS:** My question is from a  
19 customer perspective, again, we receive testimony from  
20 experts on those specific issues. And what difference,  
21 what does the customer perspective provide to the  
22 Commission on those two specific issues? Not what your  
23 recommendations were, because you have explained that  
24 pretty well.

25 **THE WITNESS:** All right. Maybe it was

1 misleading to use the word customer view. What I  
2 intended to convey with it is the elements that the  
3 customers should care about, because they are the  
4 elements that will drive the costs that they will see on  
5 their bill.

6 And the costs that they will see on their bill  
7 are driven by the tax-included view of the ROE. And  
8 they are also driven over the longer run by the amount  
9 of fixed rate debt that the utility builds in, because  
10 otherwise in the future ratepayers are going to be  
11 liable for paying a higher rate on equity, if the equity  
12 rates go up, versus a fixed rate on fixed rate debt. I  
13 think what is important to customers is the longer term  
14 risk and the current bills.

15 **COMMISSIONER BALBIS:** Okay. Thank you, and  
16 thank you for your testimony.

17 I see Commissioner Brisé has a question? No.  
18 Okay. With that, any exhibits?

19 **MR. YOUNG:** Yes. I think Mr. Hendricks had on  
20 Page 35 of the Comprehensive Exhibit List 273 through  
21 279. I mean, 373 through 379.

22 **COMMISSIONER BALBIS:** Okay. Any objections to  
23 those exhibits being entered?

24 **MR. RUBIN:** No objections from FPL.

25 **MR. YOUNG:** And I think --

1           **MR. HENDRICKS:** Do I need to request them to  
2 be entered?

3           **COMMISSIONER BALBIS:** I think he took care of  
4 that for you. So let the record show they have been  
5 entered into the record.

6           (Exhibit Number 373 through 378 admitted into  
7 the record.)

8           **MR. YOUNG:** Yes. And just for clarification,  
9 I think Mr. Hendricks indicated that he had six  
10 exhibits. It's actually seven.

11           **MR. HENDRICKS:** Yes, I'm sorry. That was a  
12 mistake. I noticed it at the last minute. I forgot to  
13 mention that I originally had seven, and I didn't use  
14 the seventh one, so I forgot to change the seven to a  
15 six in the documentation.

16           **MR. YOUNG:** So we need to withdraw --

17           **MR. HENDRICKS:** Do I need an errata sheet?

18           **MR. YOUNG:** No. We can just withdraw JWH-7,  
19 the comparison of the alternative capital structure and  
20 ROE combinations. Is that the one?

21           **MR. HENDRICKS:** Yes. It was the one that  
22 actually was included --

23           **COMMISSIONER BALBIS:** Mr. Hendricks, if you  
24 could please speak into the microphone, that would be  
25 great.

1           **MR. HENDRICKS:** I'm sorry. Yes, it was -- the  
2 data that I was going to build into that separate  
3 exhibit was actually used in the text, so I didn't need  
4 to build it, so it never got made, if that was what you  
5 are asking.

6           **COMMISSIONER BALBIS:** And just to confirm that  
7 all of Mr. Hendrick's exhibits included in his testimony  
8 have been entered into the record, correct?

9           **MR. YOUNG:** That's fine.

10          **MR. HENDRICKS:** And there are six of them.

11          **MR. YOUNG:** Yes, with the implication that  
12 just for clarity of the record, 379 is drawn.

13          **COMMISSIONER BALBIS:** Okay. Thank you. And  
14 Mr. Hendricks, you are excused.

15          **MR. HENDRICKS:** Thank you.

16          **MR. YOUNG:** Mr. Chairman, with that, I think  
17 by the agreement of all the parties --

18          **COMMISSIONER BALBIS:** Yes.

19          **MR. YOUNG:** -- by the agreement of all the  
20 parties, we will start in terms of the witness testimony  
21 with the Office of Public Counsel, Witness Woolridge.

22          **COMMISSIONER BALBIS:** Okay. And I believe  
23 that the Chairman indicated a starting time of 9:00 a.m.  
24 on Monday return.

25          **MR. YOUNG:** Yes, sir.

1                   **COMMISSIONER BALBIS:** So I want to thank  
2 everyone for their participation today in what I think  
3 was a smooth process.

4                   Mr. Saporito.

5                   **MR. SAPORITO:** Mr. Chairman, could you ask  
6 your staff, in case this hurricane comes, like, faster  
7 at us, that if there is going to be change from Monday  
8 to e-mail us or something. What is the procedure for  
9 that?

10                  **COMMISSIONER BALBIS:** We will provide proper  
11 notification, and we'll make sure that they e-mail all  
12 the parties.

13                  And I will pass it back to our Chairman.

14                  **CHAIRMAN BRISÉ:** Thank you very much.

15                  And thank you very much, Commissioner Balbis.  
16 Great job.

17                  Yes. As we said, we intend to begin, as  
18 Commissioner Balbis stated, we intend to begin at 9:00  
19 o'clock on Monday morning. If anything changes over the  
20 weekend that forces us to change our plans, we will  
21 notify you as soon as we make that decision. But if  
22 things stay the way they are, based upon the models that  
23 are out there, we intend to begin promptly at  
24 9:00 o'clock Monday morning.

25                  I do want to thank everyone for working within

1 our structure and trying to do their best to make sure  
2 that we move this process along as quickly as possible  
3 and ensuring that everyone has an opportunity to get on  
4 the record everything that they need to get on the  
5 record. And with that, I can't say we adjourn. We will  
6 recess until Monday.

7 (The hearing adjourned at 5:25 p.m.)

8 (The transcript continues in sequence with  
9 Volume 18.)

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STATE OF FLORIDA )

: CERTIFICATE OF REPORTER


COUNTY OF LEON )

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said 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 29th day of August, 2012.

  
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JANE FAUROT, RPR  
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