

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI

In the Matter of:

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

VOLUME 24

Pages 3641 through 3810

COMMISSION
CLERK

12 SEP -4 AM 9:06

RECEIVED-FPSC

PROCEEDINGS: HEARING

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

DATE: Wednesday, August 29, 2012

TIME: Commenced at 9:04 a.m.
Concluded at 10:56 a.m.

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

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6734

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

NAME: PAGE NO.

THOMAS J. FLAHERTY

Direct Examination by Mr. Butler	3648
Prefiled Errata Sheet Inserted	3651
Prefiled Rebuttal Testimony Inserted	3652
Cross Examination by Mr. Moyle	3687
Cross Examination by Ms. Christensen	3693
Cross Examination by Mr. Saporito	3718
Cross Examination by Mr. Hendricks	3719
Redirect Examination by Mr. Butler	3727

KIM OUSDAHL

Direct Examination by Mr. Butler	3734
Prefiled Errata Sheet Inserted	3736
Prefiled Rebuttal Testimony Inserted	3737
Cross Examination by Mr. Moyle	3790
Cross Examination by Mr. Wiseman	3798
Cross Examination by Captain Miller	3807

EXHIBITS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

NUMBER :

ID.

ADMTD.

121

3733

404

3732

405

3732

406

3732

407

3732

594

3711

3733

595

3809

P R O C E E D I N G

1
2 (Transcript continues in sequence from Volume
3 23.)

4 **CHAIRMAN BRISÉ:** Good morning. We are
5 reconvening this morning, Docket Number 120015-EI. We
6 have at least one preliminary matter to take up this
7 morning.

8 Staff?

9 **MR. YOUNG:** Good morning, Commissioners.
10 Mr. Saporito, Mr. Thomas Saporito filed an emergency
11 motion for expedited reconsideration of the Commission's
12 denial of his previous motion for a motion in limine
13 that he filed on August 20th, 2012, regarding the
14 testimony related to the proposed settlement agreement
15 between Florida Power & Light and the noted signatories
16 discussed earlier during the course of the hearing.

17 Staff recommends that, no, that Mr. Saporito
18 failed to meet the standard, that point -- absent a fact
19 of law, mistake of fact or law, and recommends denial of
20 the motion.

21 **CHAIRMAN BRISÉ:** Okay. Thank you.

22 Commissioners? Commissioner Brown.

23 **COMMISSIONER BROWN:** Thank you.

24 Commissioners, I think you all have done a
25 great job at keeping the settlement out of this hearing.

1 The parties for the most part have followed Chairman
2 Brisé's directive to keep that outside of this hearing.
3 And Mr. Rehwinkel's objection occurred
4 non-contemporaneously last night at the time of
5 Mr. Moyle's examination of the witness.

6 As I stated last night, I think Mr. Rehwinkel
7 in essence waived his right at the time to strike the
8 question by not, by not objecting contemporaneously.
9 So, on a, on a going-forward basis though, I think,
10 given the sensitive nature of this case, I would advise
11 the parties that anything outside of the testimony will
12 not be favorably viewed upon.

13 **CHAIRMAN BRISÉ:** Commissioner Graham.

14 **COMMISSIONER GRAHAM:** Yes. I move that we
15 deny the motion.

16 **COMMISSIONER BROWN:** Second.

17 **CHAIRMAN BRISÉ:** Okay. It's been moved and
18 seconded. Further discussion?

19 Commissioner Edgar.

20 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.
21 I do not believe that the objection was made timely. I
22 do not agree with Mr. Saporito's claim in his motion
23 that his due process rights have been harmed. And I
24 think we should proceed as we have been, because I think
25 that it has worked well for all parties and for the

1 process, and so I agree and support the motion by
2 Mr. Graham, Commissioner Graham.

3 **CHAIRMAN BRISÉ:** All right. Commissioner
4 Balbis.

5 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.
6 And I support the motion. I don't believe that
7 Mr. Saporito pointed out a mistake of fact or law that
8 we made or met the threshold for reconsideration.

9 However, he did cite what had occurred
10 yesterday, and I just wanted to bring out when I was
11 chairing these proceedings on Friday, we had a situation
12 where one of the Intervenors was cutting off and
13 interrupting one of the witnesses during the answer, and
14 I informed the parties that, you know, to not assume a
15 combative or argumentative role, to let the witness
16 answer and then state your objection, and then I can
17 deal or the presiding officer can deal with the
18 objection at that time.

19 So I thought it was pretty clear that the
20 objection was to be made at that time. So I support the
21 motion that is on the floor.

22 **CHAIRMAN BRISÉ:** All right. So we have a
23 motion and a second. All in favor, say aye.

24 (Vote taken.)

25 Okay. Thank you very much. We will move on.

1 I will say this for, for the purposes of
2 moving forward. We have addressed this issue at the
3 beginning, we had had to maybe do one reminder along the
4 way, and so this is the third reminder, I suppose. So
5 we trust that everyone understands the ground rules and
6 will all respect the ground rules moving forward. Okay?
7 And we certainly appreciate that. And we'll get through
8 today and through tomorrow, and this process will go
9 forward as, as it should. Okay.

10 **MR. BUTLER:** Are you ready for us to call our
11 first witness?

12 **MR. MOYLE:** Mr. Chairman, can I, can I, can I
13 just, since I was sort of at the crux of this, just make
14 a comment.

15 **CHAIRMAN BRISÉ:** Mr. Moyle.

16 **MR. MOYLE:** I, I, I really just want to say
17 that Mr. Rehwinkel and I have had a chance to discuss
18 this issue lawyer to lawyer, which is how I think it,
19 you know, it should be addressed, and we've handled
20 that. I don't feel compelled, you know, to do anything
21 more than just to, to say that we've handled it lawyer
22 to lawyer and discussed it lawyer to lawyer, and I think
23 that's the appropriate way to do it and not, you know,
24 not bring all of this in front of this tribunal. So
25 thank you.

1 **CHAIRMAN BRISÉ:** Thank you.

2 And, FPL, you may call your next witness.

3 **MR. BUTLER:** Thank you, Mr. Chairman. We call
4 to the stand Thomas J. Flaherty. And Mr. Flaherty was
5 not here when you previously administered the oath.

6 **CHAIRMAN BRISÉ:** Okay. Is there anyone here
7 today that is going to testify that needs to be sworn in
8 that has not previously been sworn? Okay. All right.
9 Whereupon,

10 **THOMAS J. FLAHERTY**

11 was called as a witness on behalf of Florida Power &
12 Light Company and, having been duly sworn, testified as
13 follows:

14 **DIRECT EXAMINATION**

15 **BY MR. BUTLER:**

16 **Q** Mr. Flaherty, would you state your name and
17 business address for the record.

18 **A** Yes. My name is Thomas J. Flaherty,
19 F-L-A-H-E-R-T-Y, senior partner with Booz & Company, 901
20 Main Street, Suite 6500, Dallas, Texas.

21 **Q** And what is your role at Booz & Company?

22 **A** A senior partner within the firm.

23 **Q** Have you prepared and caused to be filed 34
24 pages of prefiled rebuttal testimony in this docket?

25 **A** Yes, I have.

1 Q Okay. And have you prepared and caused to be
2 filed on August 16, 2012, an errata sheet to your
3 prefiled rebuttal testimony?

4 A Yes, I have.

5 Q Okay. Do you have any other changes or
6 revisions to your prefiled rebuttal testimony?

7 A No, I do not.

8 Q Okay. With the changes reflected in the
9 August 16 errata filing, if I asked you the questions
10 contained in your rebuttal testimony today, would your
11 answers be the same?

12 A Yes, they would.

13 **MR. BUTLER:** Okay. Mr. Chairman, I would ask
14 that Mr. Flaherty's prefiled rebuttal testimony be
15 inserted into the record as though read.

16 **CHAIRMAN BRISÉ:** Okay. At this time we will
17 enter Mr. Flaherty's prefiled testimony into the record
18 as though read, seeing no objections.

19 **MR. BUTLER:** Thank you.

20 **BY MR. BUTLER:**

21 Q Mr. Flaherty, did you also prepare exhibits
22 TJF-1 through TJF-5 to your rebuttal testimony?

23 A Yes, I did.

24 **MR. BUTLER:** Okay. Mr. Chairman, I would note
25 that those are marked in the Comprehensive Exhibit List

1 as Exhibits 404 through 408.

2 **CHAIRMAN BRISÉ:** Thank you.

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

ERRATA SHEET

WITNESS: **THOMAS J. FLAHERTY - REBUTTAL**

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
TJF-1, page 1	Line 7, (not numbered)	“Beaumont, Texas” should be a main bullet, not an indented sub-bullet
TJF-1, page 3	Line 12, (not numbered)	“Illinois Commerce Commission” should be a main bullet, not an indented sub-bullet

1 **I. INTRODUCTION AND QUALIFICATIONS**

2

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

4 A. My name is Thomas J. Flaherty, and I am a Senior Vice President in the Energy,
5 Chemicals and Utilities practice of Booz & Company. My business address is
6 901 Main Street, Suite 6500, Dallas, Texas 75202.

7 **Q. On whose behalf are you testifying in these proceedings?**

8 A. I am testifying on behalf of Florida Power and Light Company (“FPL”).

9 **Q. What is your educational background?**

10 A. I graduated from the University of Oklahoma with a B.B.A. degree in Accounting
11 and immediately joined Touche Ross & Co., where I began my career as a
12 management consultant. Subsequently, I worked for Deloitte & Touche (formed
13 by the merger of Touche Ross and Deloitte, Haskins & Sells in 1989) for more
14 than 30 years until joining Booz Allen Hamilton as a Senior Vice President. In
15 2008, a corporate transaction was announced with the Federal consulting practice
16 of Booz Allen Hamilton being acquired by the Carlyle Group and Booz &
17 Company being created as an independent entity with a focus on commercial
18 sector clients. I continue to be a Senior Vice President of Booz & Company in
19 the post-transaction organization. Additional information about my background
20 and experience may be found in Exhibit TJF-1.

21 **Q. Have you previously testified before any regulatory commissions?**

22 A. Yes, I have pre-filed direct testimony and appeared for cross-examination in the
23 states of Arizona, California, Colorado, Delaware, Georgia, Iowa, Idaho, Illinois,
24 Indiana, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Minnesota,

1 Mississippi, Missouri, Montana, New Jersey, New Mexico, North Carolina, Ohio,
2 Oklahoma, Oregon, Texas, Utah, Washington, Wyoming, in the District of
3 Columbia, and before the Federal Energy Regulatory Commission (“FERC”).

4 **Q. Do you hold any professional certifications?**

5 A. Yes. I am a Certified Management Consultant and a member of the Institute of
6 Management Consultants.

7 **Q. Are you sponsoring any exhibits in this proceeding?**

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

- 9 ● TJF-1 - Prior Regulatory Experience
- 10 ● TJF-2 - Comparative Service Company Composition
- 11 ● TJF-3 - Direct Charge Levels for Various Utilities
- 12 ● TJF-4 - Trend of FPL MWh and Customers
- 13 ● TJF-5 – Form 1 Benchmarking Summary – FPL Compared to Average

14 15 II. PURPOSE OF TESTIMONY

16
17 **Q. Have you provided any consulting support to this particular proceeding?**

18 A. Yes, I was engaged for the purposes of providing advice and support information
19 to FPL’s counsel related to the incurrence, distribution and recovery of charges
20 for corporate services performed.

21
22 I conducted a variety of interviews and analyses that provided insights into: the
23 nature of affiliate services and charges; the level of costs incurred; the manner in
24 which these services and charges were planned, budgeted and managed; the

1 nature of the cost allocation process utilized to distribute these costs, and; the
2 comparability of these costs to those of similar companies. In each topical area,
3 specific attributes were utilized as a basis for evaluating the related activities,
4 processes and costs with the analyses conducted consistent with other similar
5 assignments we have completed regarding to the subject of the reasonableness of
6 affiliate charges.

7
8 My analyses evaluated the nature of these costs to determine whether they are
9 necessary to support the needs of affiliate or operating companies; whether they
10 are necessary to meet FPL's responsibilities to customers, shareholders, and
11 governmental entities; whether they provide identifiable benefits to FPL; whether
12 these costs are appropriately controlled and managed; whether these costs are
13 appropriately allocated among the affiliates; and whether these costs are
14 reasonable when compared against other similar companies.

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

16 A. The purpose of my rebuttal testimony is to respond to the comments of Office of
17 Public Counsel's witness David Vondle who raises concerns regarding FPL's
18 current affiliate relationships and transactions, proposes alternative structures and
19 methodologies and recommends adjustments to FPL's affiliate charges.
20 Specifically, I address the assertions made by Mr. Vondle regarding FPL's
21 affiliate service delivery model, lack of service agreements, asymmetric pricing
22 procedures and, use of a general allocator.

23

1 **III. INTERVENOR COMMENTS AND RECOMMENDATIONS**

2

3 **Q. What were the principal issues raised by Mr. Vondle in this testimony to**
4 **which you respond?**

5 A. Mr. Vondle's assertions relating to affiliate charges that I will address can be
6 summarized as follows:

- 7 1. There is no service company as a legal entity that encompasses the common
8 support services provided by FPL, which complicates the determination of
9 the appropriateness of affiliate transactions.
- 10 2. FPL has service agreement-like contracts for only two of its several
11 affiliates.
- 12 3. Asymmetric pricing is not used by FPL for all affiliate transactions for
13 goods and services provided
- 14 4. FPL uses the general allocator too much and the direct charge method too
15 little.
- 16 5. The Massachusetts Formula used by FPL is biased against customers
17 because it doesn't address "growth and change."

18

19 Additional responses to other assertions of Mr. Vondle are contained in the
20 rebuttal testimony of FPL witness Ousdahl.

21 **Q. What adjustments did Mr. Vondle propose in order to address the issues he**
22 **raised?**

23 A. Mr. Vondle recommends FPL's 2013 charges to affiliates be increased by 20% to
24 \$180.7 million and 2013 charges from affiliates to FPL be reduced by 20% to

1 \$17.8 million. In addition, Mr. Vondle recommends that the Florida Public
2 Service Commission (“Commission”) also open an investigation into FPL’s
3 affiliate relationships and transactions.

4 **Q. Do you agree with Mr. Vondle’s assertions and recommendation?**

5 A. No, for the reasons I discuss below.

6

7 **IV. FPL’s STRUCTURE AND AFFILIATE SERVICE DELIVERY MODEL DO**

8 **NOT NEED TO BE RESTRUCTURED**

9

10 **Q. What has Mr. Vondle stated about FPL’s current affiliate service delivery**
11 **model?**

12 A. Mr. Vondle states that FPL’s current delivery model for affiliate services is
13 complicated and “less than transparent,” which leads to an “extra step” for
14 allocating common and shared costs. His concerns appear to be grounded in his
15 lack of familiarity with the FPL model and its difference from other service
16 company-based models with which he states he is more familiar. According to
17 Mr. Vondle, the absence of a formal service company structure means that
18 “...[FPLs] costs must first be segregated between its pure utility operating
19 company costs and the common or shared costs that should be allocated among
20 FPL and its affiliates.” To Mr. Vondle, this additional requirement creates an
21 incentive for FPL to classify costs as purely utility operating costs that are not
22 allocated to unregulated affiliates, thus overstating the level of costs that should
23 be borne by customers.

1 **Q. Do you agree with Mr. Vondle’s assertions about complexity and lack of**
2 **transparency?**

3 A. No, I do not. Mr. Vondle’s assertions are simply that – personal opinions not
4 supported by the facts related to how FPL structures and executes its role in
5 performance of a range of services on behalf of itself and its affiliates. Moreover,
6 his assertions are primarily the result of his fundamental lack of familiarity with
7 FPL, rather than any deficiency in the underlying affiliate services delivery
8 structure that exists today at FPL. Mr. Vondle appears to be used to dealing with
9 a specific affiliate service delivery model (i.e., a service company model), and
10 doesn’t have familiarity with FPL’s “primary operating entity” approach, which is
11 an equally effective model.

12 **Q. Is FPL’s service delivery model unique?**

13 A. No. Mr. Vondle stated that companies with operations in more than one state –
14 typically those companies that were “registered” under the Public Utility Holding
15 Company Act of 1935 (“PUHCA”) and are today operating in multiple states
16 under a holding company structure -- frequently utilize a formal service company.
17 But companies that were not registered holding companies or today operate in
18 single states are free to adopt operating and delivery models that they believe
19 provide the optimal blend of operating effectiveness and cost efficiency.

20

21 The differential between FPL and the formal service company model is not
22 atypical, given that the regulatory requirements embodied in PUHCA only
23 applied to approximately 25 companies within the industry. Thus, the rest,
24 including FPL, were not constrained by these structural requirements. They

1 maintained a great deal of flexibility and autonomy with respect to operating and
2 organizational model design, including even whether shared services
3 organizations were implemented. Even where service companies were formed,
4 these retained this flexibility as evidenced by the wide variation in the functional
5 composition of such entities.

6 **Q. How do other utilities organize to provide similar affiliate services?**

7 A. Generally, there have been three primary approaches to creating an affiliate
8 service delivery model: adopt a service company model if the company was a
9 registered holding company under PUHCA; create a shared services entity; or,
10 deliver common services directly from the corporate and business support
11 functional organizations, sometimes known as the “hosted” model. Any of these
12 models can provide for effective delivery of services across the business and any
13 of these models can enable service performance costs to be efficiently incurred.

14 **Q. Is there a standard operating model that utilities adopt for affiliate service
15 delivery?**

16 A. Frankly, there is no common model except for those entities that were registered
17 holding companies and required to adopt a formal service company that would
18 contain employees providing common services to regulated and/or non-regulated
19 affiliates. However, even with a service company in place, the manner in which
20 companies implemented this structure in terms of business role, functional
21 composition, and even allocation factors, could be different. For example, my
22 Exhibit TJF-2 provides an illustrative summary of a sub-set of the service
23 companies and identifies the functions that are formally part of these
24 organizations. As shown, there is wide disparity with respect to whether

1 companies place functions such as fuel, nuclear, engineering and, customer
2 service within these formal organizations. In addition, these companies could
3 also create separate service companies for nuclear operations, such as Southern
4 Company and Entergy do, which they believe provides more focus to their fleets
5 for relevant operating support functions. Thus, a variety of functional elements
6 could be formally part of a service company depending on the purpose of this
7 organization and the operating model within the business.

8
9 Even if a service company was implemented, companies still maintained
10 flexibility with respect to organizational design around this entity. For example,
11 Southern Company created Southern Company Services which is both a legal and
12 operating entity with distinct executive leadership and a strong identity still today.
13 On the other hand, Xcel Energy was a registered holding company that also
14 created a formal service company to “house” common employees for compliance
15 with PUHCA, however, a separate shared services organization was also created
16 and consisted of far fewer functions than the service company and maintains a
17 less visible role within the business. Thus, the manner in which companies
18 implemented PUHCA gave wide latitude to managements in designing their
19 affiliate service delivery models.

20 **Q. How do those companies that are not required to become registered holding**
21 **companies deliver affiliate services?**

22 A. As would be expected, companies not required to adopt a service company
23 structure as part of being a registered holding company can exercise even greater
24 flexibility in how they elect to organize and deliver services to affiliates.

1 Consequently, a number of companies have elected to create a shared services
2 structure as the basis for delivering services across multiple operating segments.
3 However, as I noted, even with a shared services structure, companies markedly
4 differ on the functional composition of this group. This means that some common
5 corporate support functions will exist outside this structure and be delivered
6 directly from the corporate functions. Moreover, adopting a shared services
7 structure is not a universal choice of delivery model. Some companies also
8 simply deliver services from their corporate functions directly to the business
9 segments.

10
11 As an example of how companies work within their own differentiated structures,
12 Sempra Energy is a diversified energy company headquartered in San Diego,
13 California. It operates both regulated and non-regulated business segments across
14 its electric and gas transmission and distribution utilities, merchant generation,
15 pipeline and, energy services businesses. Thus, it is similar to NextEra Energy,
16 Inc. and FPL in that it has significant scale, multiple non-regulated businesses and
17 utility operations. While it has implemented a partial shared services group for
18 selected functions such as legal, regulatory, and human resources, it has not
19 adopted a comprehensive organization to house all of its common corporate
20 services, such as finance and accounting and supply chain. In fact, while it retains
21 certain shared functions at the corporate center level, it also has moved certain
22 support functions to one of the operating utilities to house performance of these
23 activities. Consequently, the Company allocates cost from within and outside the
24 corporate center to its affiliated companies. It follows similar processes as FPL to

1 appropriately distribute costs among its affiliates by using accepted direct charge,
2 direct assignment and general allocation protocols.

3
4 Similarly, Spectra Energy, a Houston-based energy company with pipelines,
5 gathering systems, joint ventures and, utility operations, has a small shared
6 services organization that contains limited functions, such as information
7 technology and facilities management, but does not include other corporate center
8 functions such as finance and accounting, supply chain and human resources.
9 While the company provides enterprise-wide support on behalf of all of its
10 affiliates, it does so from both within and outside the shared services organization.
11 Like Sempra Energy, Spectra Energy is able to provide necessary services to its
12 affiliates using a model that differs from a comprehensive shared services model,
13 and it has adopted a cost distribution process to govern assignment of cost
14 responsibility.

15
16 Other companies within the utilities industry, such as MDU Resources and DTE
17 Energy also operate in a similar manner (i.e., a mix of shared services *and*
18 corporate center functions), with no uniformity in the composition of whatever
19 shared services entity that exists. Like Sempra Energy and Spectra Energy, these
20 companies also utilize similar cost distribution approaches to those in place at
21 FPL (i.e., direct charge for services provided, direct assignment based on causal
22 factors and use a general allocator for all other elements that cannot be more
23 specifically identified).

24

1 Thus, there are no truly common models for service companies, shared services
2 groups or stand-alone corporate centers with respect to defining an “optimal”
3 affiliate service delivery model.

4 **Q. Would Mr. Vondle’s proposal for a “virtual service company” improve the**
5 **delivery or oversight of services within NextEra Energy, Inc.?**

6 A. Mr. Vondle does not elaborate on what he means by a “virtual service company”
7 so it is difficult to imagine what he intends as an outcome. However, in my
8 opinion, FPL already operates in this manner for the following reasons: it
9 functions like a shared services group, in that common corporate services are
10 provided for the benefit of the enterprise; the corporate center functions provide
11 the same services (and more) than a commonly designed shared services group,
12 and; it uses similar processes to distribute costs across the enterprise or to the
13 entity for whom services have been directly provided.

14 **Q. Does FPL’s current affiliate service delivery model create any harm to**
15 **customers?**

16 A. No, it does not. In fact, it provides for effective service delivery and efficient cost
17 performance. It provides for centralization, just like a service company or a
18 shared services group, which enables lower costs to be incurred.

19
20 FPL has provided its Cost Allocation Manual (“CAM”) to this Commission in the
21 past and has been providing affiliate services under this document since the early
22 2000s. FPL has also delivered and received affiliate services consistent with the
23 expectations for conformance established through this document and within the
24 standards and processes contained within this document.

1

2 An established process for cost distribution is contained within this model that is
3 consistent with the approaches utilized by other utilities throughout the United
4 States. Given the comparability of the framework contained within the CAM to
5 what is adopted in other states, I believe that FPL's current affiliate service
6 delivery model fully protects the interests of FPL's customers and provides
7 tangible benefits to them.

8 **Q. Is there any need to restructure FPL's current affiliate service delivery**
9 **model?**

10 A. No, there is not. FPL's "hosted" approach to corporate center functional
11 performance is not "broken" as it operates effectively and efficiently. No
12 legitimate issues have been demonstrated by Mr. Vondle to suggest that the
13 outcomes would be any more cost efficient under a revised approach. More
14 importantly, FPL would still deliver the same services and assign or allocate costs
15 in the same manner. Mr. Vondle has not appropriately considered at least two
16 fundamental elements: 1) FPL's current affiliate service delivery model is
17 already consistent with his call for a "virtual service company," and; 2) FPL's
18 effective control of corporate center costs already puts it within the top quartile
19 within the industry. Both of these factors suggest the current "hosted" model
20 works well.

21

22 In my view, Mr. Vondle is suggesting that some form of a service company model
23 – virtual or otherwise – would be preferable simply because he is less familiar

1 with FPL's model. This is an insufficient reason to restructure an entity that has
2 continuously delivered low cost corporate services from its current structure.

3
4 **V. SERVICE AGREEMENTS ARE NOT NECESSARY TO ENSURE**
5 **EFFECTIVE SERVICE DELIVERY**

6
7 **Q. Please summarize Mr. Vondle's assertions regarding the absence of service**
8 **agreements.**

9 A. Mr. Vondle suggests that it is good regulatory practice for utilities that provide
10 services to affiliates to utilize service agreements to assure affiliate relationships
11 are structured to comply with affiliate rules and regulations. He goes on to say
12 that service agreements provide a starting point for affiliate audits and provide the
13 ability to assure that the affiliate relationship is structured correctly and is being
14 operated as designed.

15 **Q. What are service agreements?**

16 A. Service Agreements are specific instruments utilized with respect to providing
17 common services from a specific functional organization to various entities within
18 an enterprise. These agreements formally document the relationship between a
19 service provider and a service recipient and codify the scope and expectations for
20 service performance.

21 **Q. Are service agreements normally utilized in support of a cost assignment or**
22 **allocation process?**

23 A. For those service companies that were part of registered holding companies, use
24 of formal service agreements or service level agreements ("SLAs") was common

1 and preferred by the Securities and Exchange Commission which administered
2 PUHCA. Other shared services groups also have adopted SLAs – in varying
3 levels of comprehensiveness – as a means to document and govern the service
4 delivery relationship between a performing organization and a receiving business
5 entity.

6
7 An SLA would typically address the following service delivery elements: scope
8 of service; terms of service; roles and responsibilities; performance standards;
9 pricing and; billing protocols. As part of the pricing section, a description of the
10 basis for charging for the services provided would be explained. The pricing
11 mechanisms described within these SLAs would be governed by a CAM that
12 would provide overarching guidance on how costs would be distributed where not
13 direct charged by the unit to a particular affiliate.

14
15 As originally conceived, SLAs were intended to simply define the service
16 provider - client relationship and specify the expectations and requirements for
17 service delivery. Unfortunately, a number of companies allowed these SLAs to
18 expand and become administratively onerous to implement and maintain. Over
19 time, companies have either made their SLAs more streamlined, straightforward
20 and shorter in length, or else they have moved away from routine reliance on
21 SLAs.

22 **Q. Does FPL utilize service agreements?**

23 A. Only in a targeted manner. FPL does have agreements known as Corporate
24 Support Services Agreements with certain business entities, but does not utilize

1 SLAs in the same manner as service companies or shared services groups.

2 **Q. Is it unusual that FPL does not more broadly utilize service agreements?**

3 A. No. They were not required under PUHCA and more importantly, many utilities
4 have never believed them necessary to achieve effective control and efficient
5 performance. As noted above, the SLAs simply document the relationship and
6 add definition to the affiliate service delivery process. They would not enhance
7 the performance of these services, nor would they change the manner in which the
8 affiliates interact with FPL.

9 **Q. Does the absence of broad application of SLAs impair FPL's ability to**
10 **manage affiliate costs?**

11 A. No, it does not. FPL uses multiple other mechanisms to ensure that there is
12 understanding between it and its affiliates with respect to the scope of services
13 and the manner in which they will be billed. First, the budgeting process provides
14 for adequate interaction between the organizations on the nature of requirements
15 and needs prior to agendas being set, plans being finalized, costs being incurred
16 and, services being provided. This helps to define corporate roles and align
17 service performance constraints and requirements and set affiliate expectations,
18 much like a formal SLA does. Second, the CAM provides the basis for
19 understanding how the costs of services will be charged, e.g., fully distributed
20 costs or allocation bases, so that misunderstanding of services, costs and charges
21 is avoided. Both of these processes provide some of the same elements as
22 afforded by an SLA. More importantly, the long-standing relationship between
23 FPL and many of its affiliates provides a basis for familiarity with the role of
24 these corporate functions, the necessity for functional performance and the

1 methods for how services are provided, which are elements sometimes reflected
2 in more formal SLAs.

3 **Q. Would the adoption of broad service agreements enhance the affiliate cost**
4 **control process?**

5 A. No, it would not. While the notion of SLAs seems simple enough, there is not a
6 fundamental gap that needs to be filled. An SLA can be informative and useful,
7 but it does not substantially enhance the quality of the understanding between the
8 corporate center functions and the affiliate. Further, the SLA only codifies
9 expectations; it does not enhance the management of actual service delivery.
10 SLAs generally do not provide for varying service levels between functions and
11 the affiliate since many of the services relate to the enterprise-wide role of the
12 service company and cannot be differentiated by entity. This is particularly true
13 for FPL (and for most companies where corporate center services are provided)
14 and it should be recognized that it is centralization in the corporate center and
15 standardization that create the efficiencies in performance that the affiliates seek.
16 Thus, FPL cannot simply adjust its service level to meet unique affiliate needs.
17 Recognition of these needs occurs either through direct charging or the use of
18 specific causation based allocators, e.g., information technology infrastructure
19 utilization which already exist.

20

1 provided by the utility on a fully allocated cost basis. This language does not
2 mention the need for market pricing and undermines Mr. Vondle's assertion that
3 FPL must determine market prices to allocate costs fairly to its affiliates.

4
5 In addition FERC Rule 707-A permits a single-state holding company system that
6 does not have a centralized service company to provide "at cost" to other affiliates
7 in the system the kinds of services typically provided by centralized service
8 companies, except for costs that have a clearly identifiable market price. Mr.
9 Vondle acknowledges that it is more difficult to determine market price for shared
10 common support services that do not easily lend themselves to competitive
11 bidding and recommends doing market studies in such cases.

12
13 While these rules provide a formal context for considering how costs are
14 developed and distributed and offer bases for not performing market studies, a
15 more practical limitation exists with respect to their conduct – market alternatives
16 are not always readily available and many services simply would not be provided
17 through external sources and any obtained cost is irrelevant. I will further address
18 these points later in my testimony.

19 **Q. Does FPL currently utilize any specific means to develop a perspective on**
20 **market prices?**

21 A. Yes. Though not required to do so for all its affiliate charges, as mentioned
22 above, FPL does develop or obtain market prices for cost benchmarking purposes.
23 As part of my review, I gathered a sample of functional benchmarking activities
24 performed at FPL. In these benchmarking exercises, FPL often gathers market

1 information to compare against its internal costs. For instance, employee salaries
2 are benchmarked to peer groups annually using data from sources such as Hewitt
3 Associates. As another example, FPL conducts periodic market reviews of office
4 space rental costs and uses that information to assess rent that FPL charges its
5 affiliates. Even though FPL does not provide a market price for all its affiliate
6 charges, it does so when possible, practical and meaningful.

7 **Q. What would a “Market Test” entail?**

8 A. Market tests to determine price of services would involve varying levels of effort
9 and time. The simplest market test involves determining the per unit cost of
10 goods or services that are not highly differentiated or specialized. Such items are
11 easily available in the market from multiple vendors who can readily provide their
12 prices, such as accounting firms for internal audit support or law firms for real
13 estate services. Other examples include obtaining quotes on cost per square foot
14 of office space and software installation purchase and support.

15
16 A more difficult market test would be to determine the price of a service that is
17 highly customized and would require a special level of expertise not easily or
18 widely found in the market. An example would be specialized environmental
19 assessment services for air and water requirements compliance. A relevant
20 market test would likely require more formal interaction with potential providers
21 and perhaps even a specific RFP.

22
23 Finally, certain services are performed within FPL that do not lend themselves to
24 a market test, e.g., those activities related to fiduciary role execution (closing of

1 the books and SEC reporting) or confidential matters, e.g., those activities where
2 information would not be shared (financial forecasting) or the requirements for
3 performance are rightfully the role of the company, e.g., regulatory compliance.

4 Thus, considering a market test means that companies need to understand which
5 services lend themselves to a market test. As a practical matter, there are a
6 substantial number of services in the areas of corporate governance, finance,
7 accounting, strategic planning and, fiduciary oversight among others, that could
8 never be obtained externally so any attempt to conduct a market test would be
9 fruitless.

10 **Q. Are market tests straightforward to conduct?**

11 A. No, they are not. Market tests involve a considerable amount of work, especially
12 for services that involve a high level of expertise and customization based on an
13 affiliate's needs. Market surveys or RFP issuance and subsequent review are time
14 consuming exercises. These activities involve creating a detailed description of
15 the services required, issuing an RFP or other inquiry through relevant channels
16 and reviewing and aligning responses to determine if the vendor actually meets
17 the RFP's requirements. Based on the range of services provided by FPL to its
18 affiliates, such a process for each cost item would be complex, time consuming
19 and cumbersome.

20
21 A practical consideration is that the sources of alternative service performance do
22 not readily provide information if they suspect that the inquirer is not truly serious
23 about follow-through. This point is acknowledged by Mr. Vondle in his
24 testimony.

1

2 Finally, the extra time involved in issuing an RFP process before budgeting
3 resources may be impractical for affiliates which may incent them to purchase
4 services from outside vendors. This would be detrimental to FPL since it would
5 have to incur the costs that it would have otherwise allocated to an affiliate.

6 **Q. Would market tests provide useful information to an entity like FPL?**

7 A. I am skeptical that a comprehensive market test, beyond the types that naturally
8 occur during targeted benchmarking exercises, would provide FPL meaningful,
9 useful information and provide sufficient value to justify the complexity and cost
10 of the assessment. FPL is a mature entity with extensive experience operating
11 electric assets. The services it provides to affiliates cannot, broadly speaking, be
12 easily compared or obtained in the market. This is because the services provided
13 reflect both requirements of how FPL philosophically chooses to manage its
14 business, e.g., rigorous budgeting and cost control processes, as well as unique
15 requirements that are enabled by the longstanding familiarity between the
16 affiliates, e.g., technical expertise and knowledge of vendor markets. Hence,
17 market tests can be useful in understanding what relatively similar services may
18 cost, but these services may not be truly comparable to what FPL provides. A
19 market test not conducted well or not well-responded to would not be useful in
20 determining how FPL and service provider costs compare. Further, even if a
21 market test identified that an initial cost advantage might be available, the impact
22 on the quality of the services delivered would still need to be assessed, which
23 could easily negate an observed economic benefit. This often occurs as
24 companies choose to avoid additional risks from external performance.

1

2

VII. FPL'S DIRECT CHARGE LEVEL IS NOT UNUSUALLY LOW, NOR IS

3

ITS MASSACHUSETTS FORMULA ALLOCATION UNUSUALLY HIGH

4

5 **Q. What did Mr. Vondle state about FPL's use of direct charging?**

6 A. Mr. Vondle asserts that FPL under-utilizes positive time reporting for direct
7 charges and cost pools, and over-utilizes the Massachusetts Formula for general
8 allocation. Mr. Vondle, however provides no basis or evidence for his assertion
9 that FPL under-utilizes direct charging. He does not perform any analysis or
10 provide sufficient explanation to support his statement.

11 **Q. How does FPL utilize direct charging?**

12 A. FPL follows a hierarchical system for charging affiliates as reflected in its CAM.
13 Direct charging is used for the cost of services that can be directly traced to a
14 particular activity. Direct charges are processed through internal orders, which in
15 effect go through review before being allowed. For example, the salary of an
16 engineer working on an affiliate project would fall under the direct charge
17 method. The direct charge method uses the most precise information available,
18 i.e., an employee's exact hours spent on a particular task.

19 **Q. In your view, is the amount of FPL direct charging unusually low?**

20 A. No. Direct charging involves cost of services that can be directly traced to a
21 particular activity performed by a specific source. FPL's corporate support costs
22 are directly billed to affiliates to the extent practicable, and this is the most
23 frequently used method of billing affiliates constituting close to 47% of affiliate
24 charges in 2011. To determine if FPL's direct charging is unusually low, I

1 compared FPL's direct charge levels to five other similar utilities of as shown in
2 Exhibit TJF-3. While FPL's level of direct charges has been higher in prior years,
3 I used the planned test year level contained in the current rate case for
4 comparison. The data set is somewhat limited as this information can only be
5 obtained from rate case filing and utilities do not file such requests annually. The
6 information for these companies was taken from specific cases where I have
7 previously testified regarding allocations or was involved with case preparation.
8 As Exhibit TJF-3 shows, FPL's direct charge level is at the top of the peer group
9 which suggests that Mr. Vondle's assertion about FPL under-utilizing direct
10 charging is without any basis. This is particularly important to note since three of
11 the four companies incorporate service companies and the other has a broad
12 shared services entity in place.

13 **Q. Would it be realistic to assume that direct charging can be substantially**
14 **expanded by FPL?**

15 A. No. FPL employees perform multiple activities, often on behalf of multiple
16 affiliates, and many do not lend themselves to direct charging, such as governance
17 related activities and costs. As reflected in the CAM, costs are
18 apportioned in a hierarchical system, whereby costs are directly billed to
19 affiliates to the extent practicable. However, costs jointly incurred on behalf of
20 more than one business unit or affiliate, have to be allocated because such costs
21 are not readily divisible and assignable. Hence, costs that cannot be directly
22 charged are assigned based on cost causative factors (e.g., square footage of office
23 space used). Furthermore, costs that cannot be assigned (e.g., costs related to
24 NextEra Board of Directors) are allocated using the Massachusetts Formula.

1 Expanding direct charging substantially into these categories would be
2 impractical since they are assigned or allocated precisely because they cannot be
3 direct charged.

4
5 Further, FPL's budgeting process involves affiliates providing input with regard
6 to cost levels they are expected to incur. The budgeting process ensures that
7 direct charging is used as frequently as possible. Given the processes in place it
8 would be unrealistic to expect FPL to substantially increase direct charging.

9 **Q. Does FPL's level of direct charging suggest that its Massachusetts Formula**
10 **allocations are unusually high?**

11 A. No. As shown in Exhibit TJF-3, FPL's direct charge levels compare favorably to
12 other utilities. This indicates that FPL's Massachusetts Formula allocations are
13 not excessive or out of the norm for similar companies.

14 **Q. Does use of a general allocator bias against direct charging?**

15 A. No. Direct charging is totally unaffected by the use of a general allocator as it is
16 the first method used to apportion costs and reflects actual service consumption.
17 A general allocator is used to apportion indirect costs to affiliates. By definition it
18 addresses the types of services and costs that cannot be more directly attributed.
19 Since the Massachusetts Formula-based method utilizes an average of general
20 bases of revenues, gross Property Plant and Equipment ("PP&E") and payroll to
21 distribute costs, it broadly reflects the requirements associated with managing a
22 large and diverse business.

23

1 **VIII. USE OF MASSACHUSETTS FORMULA DOES NOT BIAS AGAINST**
2 **CUSTOMERS**

3
4 **Q. What limitations in use of the Massachusetts Formula has Mr. Vondle**
5 **identified?**

6 A. Mr. Vondle has two main issues with the Massachusetts Formula, the general
7 allocator used by FPL. First, he alleges it is biased in the direction of
8 overcharging FPL and undercharging unregulated affiliates because the formula
9 reflects a size driven allocation methodology. Secondly, Mr. Vondle asserts that
10 the Massachusetts Formula gives no weight to “growth and change”, (i.e., new
11 companies may not receive an appropriate allocation because though they are
12 small, they require disproportionate management attention because they are
13 growing entities).

14 **Q. Do you agree with his assertions regarding the inherent bias within this**
15 **allocation method?**

16 A. No. I do not understand how Mr. Vondle can suggest this is a possible outcome
17 given the attention that FPL pays to its affiliate services planning, control and
18 billing. Further, with the attention given to controlling utility costs, incurring and
19 retaining higher costs than necessary would run counter to management’s
20 objectives of managing these costs.

21
22 The Massachusetts Formula is a size driven allocation methodology which uses
23 scale as a proxy for the level of management attention needed to ensure the
24 portfolio of companies are operating effectively. Thus, the Massachusetts

1 Formula aligns cost with how benefits from service performance are realized. A
2 company's size is directly indicative of the level of management required or
3 benefits it receives from performance of affiliate service activities.

4 **Q. Can you explain his comment that this method does not recognize "growth
5 and change?"**

6 A. Mr. Vondle asserts that the Massachusetts Formula does not account for smaller
7 developing unregulated assets commanding a disproportionate amount of
8 attention from management – indicating that the size of a company is not a good
9 measure of how much management attention it needs. There are several problems
10 with this assertion. First, Mr. Vondle does not acknowledge that forward-looking
11 data is used in this filing to calculate the allocation factors in the Massachusetts
12 Formula. The use of forward-looking data thus does consider expected growth of
13 the affiliates. In addition, the largest FPL affiliate, NextEra Energy Resources,
14 which receives 33% of the AMF in 2013, is a large, mature entity just as is FPL.
15 It is not a fast growing start-up entity requiring disproportionate management
16 attention. Finally, several of the smaller, growing entities have their own
17 executive functions and do not require extensive and disproportionate
18 management attention. For example, Lone Star Transmission, LLC has its own
19 President and is also overseen by senior management of its parent company,
20 NextEra Energy Transmission, LLC.

21 **Q. Why are general allocators, like the Massachusetts Formula, utilized for cost
22 allocation?**

23 A. General allocators are primarily used because certain costs jointly incurred on
24 behalf of more than one business unit or affiliate are not readily divisible and

1 assignable through direct charging or cost causative factors. Examples of such
2 costs are those related to traditional financial planning and control functions and
3 internal governance of the business, both of which support the effectiveness of the
4 enterprise as a whole. The time and costs for these functions cannot be practically
5 direct charged or assigned, hence the need for a general allocator.

6 **Q. Does the Massachusetts Formula adequately align cost incurrence and**
7 **benefits realization?**

8 A. Yes. The general allocator used by FPL, the Massachusetts Formula, allocates
9 costs based on the size (revenues, payroll and gross PP&E) of the affiliate.
10 Though not as precise as direct charging, the Massachusetts Formula does
11 adequately align cost incurrence and benefits realization because the size of the
12 organization or affiliate is a reasonable measure of how much management
13 attention it needs and how much it benefits from service performance. This is
14 because the larger the organization the more it is responsible for the financial state
15 of the enterprise (e.g., revenue contribution which is one of the factors in the
16 Massachusetts Formula).

17 **Q. Is there a bias against customers from the use of the Massachusetts Formula?**

18 A. No. The Massachusetts Formula is commonly used by utilities as a general
19 allocator and has been routinely approved by the Commission for use in Florida
20 for many years. Customers are not adversely affected from its use and continue to
21 bear a fair and representative level of FPL costs reflecting the benefits that FPL
22 receives from service performance.

23

1 **IX. INSUFFICIENT EVIDENCE HAS BEEN PRESENTED TO SUPPORT ANY**
2 **ADJUSTMENT TO FPL'S AFFILIATE COSTS**

3
4 **Q. What did Mr. Vondle recommend with respect to recovery of FPL's affiliate**
5 **costs?**

6 A. Mr. Vondle recommends that the Commission increase the 2013 projected FPL
7 charges to affiliates by 20% to \$180.7 million and reduce the 2013 charges from
8 affiliates to FPL by 20% to \$17.8 million.

9 **Q. Has Mr. Vondle provided any specific basis for his recommendation?**

10 A. No. Mr. Vondle considers 20% as an appropriate representation of the order of
11 magnitude of the alleged ratepayer subsidization with no empirical foundation. I
12 have never seen any commission make an adjustment to affiliate charges on such
13 an arbitrary and unsubstantiated basis.

14 **Q. Do you believe Mr. Vondle's recommendation is justified?**

15 A. No. As I have previously discussed in my testimony, there are numerous
16 deficiencies in his assertions, such that there is no legitimate basis for his
17 recommended adjustments. Furthermore, Mr. Vondle provides no basis for the
18 20% in affiliate charges that he recommends be adjusted. Speculation about
19 affiliate service delivery model issues and broad and unsupported assertions do
20 not provide a legitimate basis for such an adjustment. Lacking any sort of
21 objective or empirical analysis, Mr. Vondle's recommendation is arbitrary and
22 should be rejected by the Commission.

1 **Q. What does Mr. Vondle say about FPL's economies of scale?**

2 A. Mr. Vondle asserts that deficiencies that he has identified in FPL's affiliate
3 service delivery models are contributing to FPL and Florida customers failing to
4 benefit from actual economies of scale. Mr. Vondle points to FPL's costs that are
5 projected to increase faster than inflation as his evidence that FPL is failing to
6 realize economies of scale.

7 **Q. How does Mr. Vondle come to this conclusion?**

8 A. Mr. Vondle calculates the A&G Expense per customer and O&M Expense (Less
9 Fuel) per kWh sold from 2009 to 2013. According to his calculations, A&G
10 Expense per customer increases by 25.9% and O&M Expense per kWh sold
11 increases by 25.7%, both of which are higher than the Consumer Price Index.
12 However, Mr. Vondle does not acknowledge that the kWh sold has declined since
13 2007 and number of customers has barely increased over the same period, as
14 shown in Exhibit TJF-4. While FPL's fixed costs (or the numerators) in Mr.
15 Vondle's equation remain largely static, a downward trend in kWh sold and
16 minimal growth in customers results in the high cost growth ratios pointed out by
17 Mr. Vondle. A largely static customer base and shrinking kWh sold (likely
18 related to effects of the recession) will cause the expense growth results to far
19 exceed normal inflation and explains Mr. Vondle's ratios – not FPL's failure to
20 benefit from economies of scale.

21 **Q. Do you have any supporting evidence that speaks to FPL's cost performance
22 and indicates whether it benefits from economies of scale?**

23 A. Yes. In the analyses I conducted for FPL, I benchmarked FPL's costs to multiple
24 peer groups across various metrics. The use of multiple peer groups allows for a

1 comprehensive view of relative cost performance. As indicated in Exhibit TJF-5,
2 FPL performed better than average (i.e., lower comparative costs) in all of the
3 benchmark metrics analyzed across the peer groups for each time period,
4 reflecting the outcomes of effective cost control.

5
6 Across all of the chosen peer groups FPL performs extremely well; this is
7 reflective of a longstanding commitment to cost management and business
8 optimization that translates into extremely competitive positioning against peers.
9 Economies of scale is an important factor that explains low costs. This is clear
10 empirical evidence that FPL's costs are not unreasonable, and Mr. Vondle's
11 assertions that it is not benefiting from economies of scale is unjustified.

12 **Q. Has Mr. Vondle also recommended that other requirements be imposed on**
13 **FPL?**

14 **A.** Yes. Mr. Vondle recommends that several requirements to be imposed on FPL.
15 The ones related to my testimony are:

- 16 1. FPL should establish a service company legal entity or virtual service
17 companies within FPL.
- 18 2. FPL should be required to use service agreements between FPL and each of
19 its affiliates.
- 20 3. FPL should be required to provide proof of asymmetric pricing for all FPL
21 affiliate transactions.
- 22 4. FPL should substantially increase the use of direct charges.

1 5. FPL should be required to develop a general allocator that better reflects the
2 consumption of management attention and staff services by growing
3 unregulated affiliates.

4 **Q. Are these additional requirements justified, and should they be accepted by**
5 **the Commission?**

6 A. No. As I have discussed in my testimony, Mr. Vondle's assertions regarding
7 FPL's lack of a service company, lack of service agreement utilization, absence of
8 demonstrated asymmetric pricing through market tests, level of direct charges
9 and, use of the Massachusetts Formula are not supported and imposing these
10 requirements on FPL would be unjustified. Mr. Vondle does not provide
11 evidence that any of these additional requirements are necessary or would benefit
12 Florida customers and address the concerns he raises about FPL's corporate
13 structure and the processes in place to ensure fair cost apportionment to FPL's
14 affiliates.

15

16 X. CONCLUSIONS

17

18 **Q. Please summarize your conclusions.**

19 A. In my opinion, Mr. Vondle's recommendations are based primarily on his
20 fundamental lack of familiarity with FPL's operations and therefore, should be
21 rejected. FPL's system for affiliate charges is effectively designed and properly
22 controlled. Further, FPL's customers receive substantial benefits from the manner
23 in which corporate services are delivered in that utility costs are reduced through
24 the application of the CAM to distribute costs to the affiliates.

1

2 Mr. Vondle recommendations are not sufficiently supported to provide any basis
3 for his adjustment. Making broad structural and process change
4 recommendations and using an arbitrary adjustment factor to shift cost flows
5 reflects nothing more than unsupported judgment. His assertion about FPL not
6 benefiting from economies of scale also does not stand the test of even cursory
7 scrutiny in light of FPL's favorable cost performance compared to its peers.

8

9 Mr. Vondle's recommendations requiring FPL to adopt a "virtual service
10 company" model, implement formal service agreements between FPL and each of
11 its affiliates, conduct market test for all affiliate transactions, substantially
12 increase the level of direct charging and, develop a different general allocator than
13 the commonly used Massachusetts Formula should simply be ignored.

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

15 A. Yes

1 **BY MR. BUTLER:**

2 Q Mr. Flaherty, do you have a summary of your
3 rebuttal testimony?

4 A Yes, I do.

5 Q Would you give that at this time, please.

6 A Yes. Thank you.

7 Good morning. My name is Thomas J. Flaherty,
8 and I'm a Senior Vice President in the energy,
9 chemicals, and utilities practice of Booz & Company. I
10 have over 38 years of experience working with utilities
11 and have conducted approximately 50 engagements with
12 respect to service companies, shared services, or
13 affiliate service delivery models, including
14 organizational, operating performance, and cost
15 reasonableness reviews in conjunction with regulatory
16 proceedings.

17 I have presented prefiled direct testimony in
18 more than 25 states before the Federal Energy Regulatory
19 Commission, many of which related to the topic of
20 affiliate services and charges.

21 I am providing rebuttal testimony to respond
22 to the comments of Office of Public Counsel witness
23 David Vondle, who discusses FPL's current relationships
24 and transactions, proposes alternative services of
25 restructures and methodologies, and recommends

1 adjustments to FPL's affiliate charges.

2 Specifically, I address Mr. Vondle's
3 assertions in his rebuttal testimony regarding FPL's
4 affiliate service delivery model, lack of service
5 agreements, conduct of market tests, and use of a
6 general allocator.

7 I was engaged by FPL for the purposes of
8 providing advice and supporting information and analysis
9 related to the incurrence and recovery of charges for
10 the services FPL performs on behalf of its affiliates.

11 I conducted a variety of analyses that
12 provided insights into the nature of affiliate services
13 and charges, the level of costs incurred, the manner in
14 which these services and charges were planned, budgeted,
15 and managed, the nature of the cost allocation process
16 utilized to distribute these costs, and the
17 comparability of these costs to those of similar
18 companies. My findings are contained in a report that
19 is part of the workpapers for my rebuttal testimony.

20 In my opinion, Mr. Vondle's recommendations
21 reflect the lack of direct familiarity with FPL's
22 operating model, as well as a misunderstanding of the
23 structure, processes, and mechanisms in place to plan,
24 manage, and control affiliate service costs. I believe
25 that FPL's current system for providing services to

1 affiliates across the NextEra family of companies is
2 effectively designed and executed and is not dissimilar
3 from that employed by other utilities.

4 Further, FPL's customers receive substantial
5 benefits from the manner in which corporate services are
6 delivered, because utility costs are reduced as charges
7 are spread across more affiliates.

8 Mr. Vondle's recommendations are not
9 appropriate, as they are insufficiently supported to
10 justify the structural and process changes he suggests
11 or as proposed adjustment to FPL's affiliate service
12 cost distribution.

13 His sweeping recommendations for structural
14 realignment, service agreement adoption, and cost
15 redistribution are neither necessary nor beneficial for
16 FPL or its customers. Notably, his assertion that FPL
17 does not benefit from the economies of scale afforded by
18 the current affiliate service delivery model fails to
19 take into account FPL's highly favorable cost
20 performance compared to its peers.

21 Mr. Vondle's recommendations for FPL to adopt
22 a virtual service company model, implement formal
23 service agreements with affiliates, conduct market tests
24 for all affiliate transactions, substantially increase
25 the level of direct charging, and develop a new general

1 allocator do not add value to FPL's current affiliate,
2 affiliate service delivery model and should simply be
3 ignored.

4 Finally, Mr. Vondle provides no supported
5 justification for his proposed 20% increase in FPL's
6 charges to affiliates or a 20% decrease in affiliate
7 charges to FPL. These adjustments are in my opinion
8 entirely unwarranted.

9 Thank you.

10 **MR. BUTLER:** Thank you, Mr. Flaherty.

11 I tender the witness for cross-examination.

12 **CHAIRMAN BRISÉ:** Mr. Moyle.

13 **MR. MOYLE:** Thank you, Mr. Chairman.

14 **CROSS EXAMINATION**

15 **BY MR. MOYLE:**

16 **Q** Good morning, sir.

17 **A** Good morning.

18 **Q** What is your understanding with respect to who
19 has the, the burden of proof to show that affiliate
20 transactions have been handled properly?

21 **A** Well, the companies have the burden of proof.

22 **Q** Okay. And in your summary and also in your
23 testimony on page 4, line 18, you say that you were
24 engaged to provide advice and support information to
25 FPL's counsel related to the incurrence, distribution,

1 and recovery of charges for corporate services
2 performed; is that right?

3 **A** Correct.

4 **Q** So did you provide them advice that is outside
5 of your testimony?

6 **A** During the course of our review we identified
7 some areas for enhancement, and that would constitute
8 advice I think as you're thinking about it.

9 **Q** I'm sorry. You said you identified what, some
10 areas of enhancement?

11 **A** Areas for enhancement to the process. I think
12 that would constitute advice as you're thinking about
13 it.

14 **Q** And what were those areas for enhancement? I
15 guess that enhancement is sort of analogous to
16 improvement, ways to do things better?

17 **A** They weren't so much changes as they were
18 enhancements. They were small things. You know, for
19 example, compilation of the various benchmarking and
20 outsourcing initiatives that were conducted for easier
21 access.

22 At the time of the analysis, this was before
23 the system cut over to SAP, the ability to extract
24 information was, was cumbersome, difficult. And with
25 SAP's conversion that mitigated some of the observations

1 about the ability to analyze costs or compile them
2 differently, and perhaps to get greater exposure to
3 things like direct charges. That's the nature of what
4 I'm referring to.

5 Q Anything else?

6 A I think that kind of constitutes it. They
7 were enhancements as opposed to large scale changes. We
8 did not identify those, any changes that needed to be
9 made of that magnitude.

10 Q Were you concerned that the cumbersome nature
11 of the data information resulted in the transactions
12 being less transparent than they might otherwise be?

13 A No, not at all.

14 Q What was your concern?

15 A It's just more difficult to extract
16 information and compile it in certain ways. The
17 information is all there.

18 Q The -- in, in preparing your, your testimony,
19 you didn't make any effort to analyze any cost
20 allocation matters related to the test year, did you?

21 A No. Our work was done in 2011, early 2012.
22 We were working with, at the start of 2010, actual
23 information, then over the course of the year, 2011
24 budget.

25 Q Okay. Just so I'm clear, I mean, you're aware

1 this, this case centers around a 2013 test year?

2 A That's correct.

3 Q Okay. And you haven't looked at anything or
4 verified any allocations amongst affiliates as projected
5 for the test year; correct?

6 A The, the allocation amounts?

7 Q Could you just yes or no and then explain?

8 A The allocation amounts, no, we did not look at
9 2013.

10 Q And when you filed your testimony, isn't it
11 true that you were not aware that FPL had an affiliate,
12 FiberNet?

13 A No. We're aware they had that affiliate.

14 Q But you didn't have any specific information
15 about FiberNet, did you?

16 A As our report stated, our work was focused on
17 the corporate services performed by FPL on behalf of the
18 affiliates.

19 Q So that would be a no, that you didn't have
20 any information, specific information about FiberNet?

21 A We did not ask for any, but we're aware of its
22 existence.

23 Q And you haven't reviewed the service agreement
24 between FiberNet and FPL, have you?

25 A I've seen it, yes.

1 Q Did you review it before or after you filed
2 your testimony?

3 A After.

4 Q And after your deposition as well?

5 A Yes.

6 Q In your testimony you also say that you had
7 conducted interviews as part of your, your work; is that
8 right?

9 A Yes, sir.

10 Q Who did you interview?

11 A There's about 35 interviews that were
12 conducted. A number of the executives responsible for
13 each of the corporate center areas, HR, human
14 resources -- excuse me -- human resources, information
15 technology, finance, communications, engineering,
16 construction, corporate services, all of the principal
17 areas.

18 Q So, so just as we sit here today can you name
19 a couple of them?

20 A Sure. Mr. Barrett from finance, Mr. Froggatt
21 from NextEra Finance, Ms. Ousdahl.

22 Q Did you keep notes of those interviews?

23 A Yes, they were, and they were provided as part
24 of the work papers.

25 Q And the final line of inquiry, did you do any

1 analysis with respect to the affiliates of -- the
2 affiliate use of the FPL name?

3 **A** No, we did not.

4 **Q** Did you look at that issue at all?

5 **A** No, we did not.

6 **Q** So, do you -- I guess it follows then you
7 don't have an -- well, do you have an opinion as to
8 whether, whether the name FPL has value?

9 **MR. BUTLER:** Excuse me. I think this is
10 pretty clearly beyond the scope of Mr. Flaherty's
11 rebuttal testimony.

12 **CHAIRMAN BRISÉ:** Okay. Mr. Moyle, if you
13 could show where in the rebuttal testimony that is.

14 **MR. MOYLE:** Well, I guess, I guess he, the
15 point -- it's a negative. I think he said he didn't,
16 didn't look at it, so I think it's relevant with respect
17 to the scope of, of his review. You know, if he says I
18 reviewed affiliate matters and he didn't review the
19 issue related to the value of the, of the name FPL, I
20 think that's probative as to, you know, what he did and
21 what he didn't do, and, you know, the nature of his
22 assignment.

23 So I think he answered. He said he didn't,
24 you know, he didn't do anything.

25 **CHAIRMAN BRISÉ:** Okay. If you could move on.

1 **MR. MOYLE:** Okay. That's all I have. Thank
2 you.

3 **CHAIRMAN BRISÉ:** Thank you.

4 Mr. Wiseman.

5 **MR. WISEMAN:** No questions, Mr. Chairman.

6 **CHAIRMAN BRISÉ:** Captain Miller.

7 **MR. MILLER:** No questions, Mr. Chairman.

8 **CHAIRMAN BRISÉ:** Ms. Christensen.

9 **MS. CHRISTENSEN:** Yes, we have a few
10 questions.

11 **CHAIRMAN BRISÉ:** Sure.

12 **CROSS EXAMINATION**

13 **BY MS. CHRISTENSEN:**

14 **Q** Okay. Good morning, Mr. Flaherty.

15 **A** Good morning.

16 **Q** Okay. Just to be clear, when exactly were you
17 engaged by FPL?

18 **A** When?

19 **Q** Yes.

20 **A** Late March 2011.

21 **Q** Okay. And you did not file direct testimony
22 in this case, did you?

23 **A** No, I did not.

24 **Q** Okay. Referring to page 6 of your rebuttal
25 testimony, you list -- let me give you a minute to get

1 there.

2 A Yes, I have it.

3 Q You list five criticisms of Mr. Vondle that
4 you have with him; correct?

5 A Those are Mr. Vondle's criticisms.

6 Q Right. But those are the ones you chose to
7 list as criticism -- rebuttable criticisms you were
8 going to address in your testimony; correct?

9 A That's, that's correct.

10 Q Okay. You did not mention in your list of
11 Mr. Vondle's criticisms of FPL's use of exclusion time
12 reporting for affiliate transactions rather than
13 positive time reporting; correct?

14 A I didn't. I think you may mean exception time
15 reporting.

16 Q Okay. Yes. Exception time reporting. Thank
17 you for the clarification.

18 You also did not list Mr. Vondle's criticism
19 of payroll factor used in the Massachusetts Formula as
20 FPL's general allocator; correct?

21 A I didn't refer to it specifically, but I talk
22 about the Massachusetts Formula and its validity.

23 Q Okay. You also did not discuss in your
24 rebuttal of Mr. Vondle's criticisms of FPL's lack of
25 documentation of the benefit to ratepayers; correct?

1 **A** I did not address that specifically, no.

2 **Q** Okay. And you also did not discuss
3 Mr. Vondle's criticism of FPL's use of sole source
4 contracts; correct?

5 **A** Correct.

6 **Q** And your testimony did not address
7 Mr. Vondle's criticism of the lack of payment for use of
8 the FPL name by affiliates; right?

9 **A** That's correct. I didn't address them because
10 I did not identify issues.

11 **Q** Okay. You would agree that FPL does not have
12 a separate legal entity, i.e., a service company that
13 houses the employees that provide services to FPL and at
14 least one of its affiliates; correct?

15 **A** I would agree that it doesn't, nor does it
16 need one.

17 **Q** Okay. And you would also agree that FPL does
18 not have a separate division or group within FPL that
19 houses its employees that do work for FPL and one or
20 more of its affiliates; correct?

21 **A** If I understand your question, I think your
22 operative words are separate group, something like a
23 formal shared services entity; would that be correct?

24 **Q** Either a shared services entity within FPL or
25 within the holding company.

1 **A** There is not a, excuse me, formal group, not a
2 service company nor a shared services entity that is an
3 umbrella organization over each of the individual
4 functions, but the functions are the same.

5 **Q** Okay. So it would be correct that FPL has
6 employees working throughout its different divisions
7 that may provide work to FPL and one or more of its
8 affiliates?

9 **A** Just as it would be true in the service
10 company or a shared service entity, yes.

11 **Q** Right. But they're not housed in a separate
12 division, they're housed in each of the individual
13 units; correct?

14 **A** They're housed -- yes. Sorry. They're housed
15 in the functions, not a separate structural unit.

16 **Q** Okay. And under the terms used in your
17 testimony, the way FPL has employees distributed amongst
18 the divisions, you would call that a hosted model or a
19 primary operating entity; correct?

20 **A** That's correct.

21 **Q** Now, you would agree that employees who
22 provide work for FPL and affiliates who are not direct
23 charged would need to use, I think you said exception
24 reporting; correct?

25 **A** They are budgeted under their anticipated

1 usage or deployment. And if things change, then
2 exception reporting is required.

3 Q Okay. And you would agree that to use
4 exception reporting for recording your time requires
5 that the employee first note when they're spending time
6 on non-utility projects.

7 A Correct.

8 Q Okay. And you would agree that the default
9 cost allocation with exception reporting is that the
10 utility will be charging -- will be charged, excuse
11 me -- for that employee's time; correct?

12 A Yes.

13 Q Now let's turn to page 9 of your rebuttal
14 testimony. You state that, I think it's pronounced
15 PUHCA, P-U-H-C-A, required registered holding companies
16 that they have service companies; correct?

17 A If they were part of the '35 act, if they
18 satisfied the criteria under the '35 act, they were
19 required to have service companies, formal service
20 companies.

21 Q Okay. And you would agree that, even though
22 FPL was not required to form a service company under the
23 PUHCA, it could have formed a service company if it
24 chose?

25 A It could have, but it had no reason to do so.

1 Q Okay. You would also agree that it is typical
2 for a holding company to have a shared services
3 organization; correct?

4 A It is not unusual. I would not say that it's
5 typical. There are a number of examples where there is
6 not a formal shared services organization for a holding
7 company.

8 Q Well, would you agree that it's more usual for
9 them to have a shared services organization of some
10 form?

11 A No.

12 Q Well, let me ask you this. Is it correct that
13 a shared services organization creates separation
14 between the employees that work for the company and more
15 than one of its affiliates and those employees that work
16 solely for the company?

17 A Could I have your question again, particularly
18 the last part of that?

19 Q Absolutely. Is it correct that a shared
20 services organization creates separation between
21 employees that work for a company and more than one of
22 its affiliates as opposed to those employees that work
23 solely for the company?

24 A Not entirely. So an employee can work within
25 a service company and still be a dedicated employee for

1 utility operations. An employee can work within a
2 shared services entity and still be a dedicated employee
3 within the function that they happen to exist within.

4 Q Well, if they were a dedicated employee for
5 the utility and -- well, strike that question. Let me
6 ask you this question.

7 If Mr. Vondle's definition of virtual service
8 company requires a separate division within FPL that
9 holds employees that do work for FPL and one or more of
10 its affiliates, would that requirement that a separate
11 division be, that a separate division, would that be
12 consistent with your use of the term shared services
13 organization?

14 A I'm not entirely sure what Mr. Vondle was
15 referring to was a virtual service company. Virtual, I
16 guess, would be the operative word, because he did not
17 recommend a service company per se. FPL's current
18 organization, what I call a hosted entity, is in effect
19 a virtual service company because the functions are
20 housed within -- the activities, excuse me -- are housed
21 within the functions that would comprise the service
22 company. So a virtual service company is an artificial
23 construct.

24 MS. CHRISTENSEN: Chairman, I'm sorry. I
25 don't think he's actually answering the question that I

1 asked him.

2 **CHAIRMAN BRISÉ:** Okay. If you could restate
3 the question.

4 **BY MS. CHRISTENSEN:**

5 **Q** Okay. The question that I asked you was
6 whether -- if Mr. Vondle's definition of virtual service
7 company, not yours, Mr. Vondle's requires a separate
8 division within FPL that holds employees that do work
9 for FPL and one or more of its affiliates, would this be
10 consistent with your use of the term a shared services
11 organization?

12 **A** It could be.

13 **MR. BUTLER:** Excuse me. I'm going to object
14 to the question as assuming facts not in evidence.
15 That's not my understanding of what Mr. Vondle's
16 proposal was regarding a virtual service company.

17 **MS. CHRISTENSEN:** Well, since Mr. Butler is
18 not the person that testified, I think this is a fair
19 question. I'm trying to question the witness and ensure
20 that we're talking about similar terms. And I think
21 this is perfectly within bounds.

22 **CHAIRMAN BRISÉ:** I think it's a legitimate
23 question as well.

24 **BY MS. CHRISTENSEN:**

25 **Q** Okay. Would you agree that service agreements

1 are agreements between company and affiliate on a
2 corporate level?

3 A Depending on the use of the terminology, they
4 could be. They could also be at a more detailed level.

5 Q Well, let me ask you this. In your testimony
6 on page 15, you introduce the terminology "service level
7 agreement." Correct?

8 A Correct.

9 Q Okay. And your definition of service level
10 agreements, or SLAs, as you used the acronym, are
11 agreements that are provided from a functional group to
12 another functional group; is that correct?

13 A Those service level agreements can exist from
14 an entity to an entity or from an entity to a functional
15 group or a functional group to a functional group.

16 Q Okay. If I'm reading it, however, in your
17 testimony, you also use the term "corporate support
18 services agreements." And if I'm understanding your use
19 in here, you would agree that those are treated in your
20 testimony as a service agreement between corporations;
21 correct?

22 A Correct.

23 Q Okay. And you also have stated in your
24 testimony that these service agreements or, in your
25 terms, corporate service agreements look like mini

1 versions of the cost allocation manual; correct?

2 **A** Correct.

3 **Q** Okay. And would you agree that the majority
4 of your criticism regarding the use of service level
5 agreements -- are regarding the use of service level
6 agreements, not corporate service agreements; correct?

7 **A** They are. But I'm responding specifically to
8 Mr. Vondle's testimony at page 30.

9 **Q** Okay.

10 **A** Where he speaks to service levels.

11 **MS. CHRISTENSEN:** Your Honor, Commissioner, I
12 believe he's responded to my question.

13 **CHAIRMAN BRISÉ:** Yeah. But I think --

14 **MR. BUTLER:** I think he's explaining his
15 answer.

16 **CHAIRMAN BRISÉ:** But I think he was finishing
17 the response. So if he can --

18 **THE WITNESS:** Yes.

19 **CHAIRMAN BRISÉ:** Please continue.

20 **THE WITNESS:** Responding to Mr. Vondle's
21 testimony at page 30, where he's talking about a
22 different level of detail that would exist in a
23 corporate or entity to entity support services
24 agreement, he speaks to the service levels to be
25 achieved and how the transactions will be priced.

1 That's a service level agreement, not a service
2 agreement.

3 **BY MS. CHRISTENSEN:**

4 Q To your knowledge, FPL has only two corporate
5 service agreements, one for FiberNet and the other one
6 for Lone Star; correct?

7 A Correct.

8 Q And you agree these corporate level service
9 agreements are good business practice; correct?

10 A In the absence of anything else, they'd be
11 good business practice. In this particular circumstance
12 they don't substitute for the CAM. The CAM actually is
13 more detailed than support service agreements. I would,
14 I would suppose that having them as opposed to not is
15 better than not, but I'm not persuaded that those
16 service agreements are effectively providing what, what
17 you may be seeking.

18 Q But in -- I believe that you agree that having
19 service level agreements at the corporate level is a
20 good practice.

21 A It's not a bad practice, yes, it's -- in and
22 of itself.

23 Q Okay. Now let me refer you to page -- excuse
24 me, I'm going to move back a little bit -- 14 of your
25 testimony. You discussed the cost allocation manual

1 that's a requirement of the Florida trans -- cost
2 allocation and affiliate transaction rule; correct?

3 **A** Correct.

4 **Q** And you would agree that Rule 25-6.1351 is the
5 Commission's rule that governs cost allocation and
6 affiliate transactions.

7 **A** Correct.

8 **MS. CHRISTENSEN:** Okay. Commissioners, I have
9 an exhibit that I would ask to be handed out.

10 **CHAIRMAN BRISÉ:** Sure. For identification
11 purposes it's going to be 594.

12 **MS. CHRISTENSEN:** We, Your Honor, we may
13 not -- excuse me, Commissioner. We may not need to give
14 this a hearing exhibit number since it is a copy of the
15 rule.

16 **CHAIRMAN BRISÉ:** Okay.

17 **MS. CHRISTENSEN:** And I'm handing it out for
18 ease of reference so that we can all be looking at the
19 rule at the same time.

20 **BY MS. CHRISTENSEN:**

21 **Q** Okay. Now that I think everyone has a copy of
22 the rule, you would agree that FPL must comply with the
23 Commission's affiliate rule?

24 **A** Best efforts to comply, yes.

25 **Q** Let me have you look at the rule, Section

1 (3) (b), and if I could get you to read the first
2 sentence out loud, starting a utility must.

3 A Yes. A utility must charge an affiliate the
4 higher of fully allocated costs or market price for all
5 non-tariffed services and products purchased by the
6 affiliate from the utility.

7 Q Okay. And you would agree that under the
8 affiliate rule, FPL must charge affiliates the higher
9 fully allocated or market price according to the rule;
10 correct?

11 A I actually have to read this rule in the
12 context of the second sentence as well as (4) (c) within
13 the same rule.

14 Q Okay.

15 A Because in the second sentence, you know, it
16 indicates, except, a utility may charge an affiliate
17 less than fully allocated costs or market price if the
18 charge is above incremental cost.

19 Costs that are coming out of the service
20 company and allocated to the service entities are above
21 incremental cost. And if I look at section (4) (c), the
22 language there I think is also, you know, instructive.

23 Q I think you may be going a little bit beyond
24 what my question was.

25 MR. BUTLER: I'm sorry. She asked him what

1 the requirements of the rule are. It's certainly fair
2 if he has a different view of how the requirements of
3 the rule interact to let him explain what his
4 understanding is.

5 **CHAIRMAN BRISÉ:** I think that that can be
6 handled on redirect.

7 **BY MS. CHRISTENSEN:**

8 **Q** I just want to make sure that I'm clear. You
9 would agree that the language in that sentence does use
10 the word "market price"; correct?

11 **A** As far as that goes in that sentence, yes,
12 that's correct.

13 **Q** Okay. And you would also agree, looking at
14 Section (3)(d), that when FPL receives services or goods
15 from an affiliate, the affiliate must charge FPL the
16 lower of fully allocated costs or market price; correct?

17 **A** I think (3)(d) is talking about assets.

18 **Q** Oh, I'm sorry.

19 **A** But generally the concept is correct, yes.

20 **Q** Okay. Let me -- and you would also agree that
21 the language of the rule mentions the word market price;
22 correct?

23 **A** It mentions it, as well as fully allocated
24 costs or incremental costs.

25 **Q** Okay. And would you agree that this is an

1 asymmetrical pricing scheme?

2 A As understood, yes.

3 Q Okay. To your knowledge, do you know if FPL
4 sought a waiver of the affiliate transaction rule?

5 A I don't have knowledge of that specifically.

6 Q Okay. Let me turn your attention to page 20
7 of your rebuttal testimony, lines 5 through 11.

8 A Yes, ma'am. I have it.

9 Q Okay. In there you refer to the FERC rule;
10 correct?

11 A Correct. Rule 707.

12 Q Okay. You would agree that the FERC rule does
13 not supersede the Florida affiliate transaction rule;
14 correct?

15 A I'm not going to take a position on what
16 supersedes. I think both rules the company has -- is
17 required to respond to.

18 Q Okay.

19 A I'm not a lawyer to tell you which one is more
20 controlling than the other.

21 Q Okay. Fair enough. You would agree that both
22 apply and must be complied with by FPL; correct?

23 A Yes, ma'am.

24 Q Okay. Now, turning to page 22, and I think
25 following onto the next page you discuss -- well, let me

1 ask you this. Is it your testimony that merely because
2 market testing requires expertise and customization, FPL
3 cannot ascertain market prices?

4 A Well, that's one reason. I think the
5 presumption is that there's always a market from which
6 services can be obtained, and that, that's a false
7 premise. There most often is not a market that you can
8 actually compare services from a service company to. So
9 the predicate for any of the tests we described simply
10 isn't there.

11 Q Okay. I think also on your testimony, line --
12 page 22, line 21 through 23, you discuss -- you say a
13 practical consideration is that the source of
14 alternative services performance do not readily provide
15 information if they suspect that an inquirer is not
16 truly serious about follow-through. Is that your
17 testimony?

18 A Yes, based on my experience in doing them,
19 yes. It's very much, very much the case.

20 Q Okay. And I'm -- is it -- would you agree
21 that you're not testifying that if FPL were to put out a
22 service, service or good out for bid, that it would not
23 seriously consider all serious bidders in favor of
24 giving that service or good to an affiliate; correct?

25 A I think it does that now when it put services

1 and goods out for bid. So it's already doing what
2 that's speaking to on selected services, but it's
3 selected as opposed to comprehensive.

4 Q I'm not sure I understood your, your
5 testimony. Let me just try this again.

6 You would agree that if FPL puts out an RFP,
7 you're not stating here that FPL would ignore a bid for
8 goods or services that was put out in lieu of giving it
9 to an affiliate; correct?

10 A Well, let me break your question I think into
11 two parts. When they issue an RFP, it's for a selected
12 service. Who the provider will be would be based on who
13 the best qualified providers would be. It could be
14 inside or outside affiliates, or, excuse me, inside
15 affiliates or outside providers.

16 If FPL believed that the vendor or supplier
17 were qualified, most qualified, they most likely would
18 accept them. But I don't think they would be precluding
19 anybody on the surface. It's just who is the most
20 qualified to deliver what kinds of services that are
21 being requested.

22 Q Okay. So if I'm understanding your, your
23 testimony correctly here today, that, that if they were
24 to make bids, that FPL would take those bids seriously
25 and would consider an outside bidder as well as an

1 affiliate bidder; correct?

2 **A** I think it does that today, yes.

3 **Q** Okay. And you're not suggesting that a law
4 firm from the outside of FPL could not provide legal
5 services to FPL, are you?

6 **A** I think the way I would respond to that is an
7 outside law firm certainly could provide selected legal
8 services to FPL, but not necessarily all services to
9 FPL.

10 **Q** Okay. And you're not suggesting that an
11 outside consulting firm like yours do not provide
12 services to FPL; correct?

13 **A** I think my answer would be the same, selected
14 but not all.

15 **Q** Okay. Let me turn your attention to page 24
16 of your rebuttal testimony.

17 **A** Yes, ma'am. I have it.

18 **Q** Okay. You talk about direct charging;
19 correct?

20 **A** Correct.

21 **Q** Would you agree that direct charging an
22 employee's exact hours spent on a particular task is the
23 preferred method of cost allocation?

24 **A** If it is a discernible task, yes.

25 **MS. CHRISTENSEN:** Okay. I have another

1 exhibit that I would like to have passed out at this
2 time.

3 **CHAIRMAN BRISÉ:** Okay. This one will be 594.

4 (Exhibit 594 marked for identification.)

5 Are there any objections to this document?

6 Okay.

7 **BY MS. CHRISTENSEN:**

8 **Q** Okay. And referring to the exhibit that was
9 just handed out to you, you would agree that the trend
10 for FPL's use of direct charges, that the percentage of
11 direct charges is decreasing from 2008 to 2011; correct?

12 **A** The trend is decreasing, but it is still
13 greater than what I typically see.

14 **Q** Okay. And you would agree that the trend for
15 FPL's use of allocation, including the use of the
16 Massachusetts Formula, has increased from 2008 to 2011;
17 correct?

18 **A** That is correct as far as you said, but those
19 two points are connected. If there is a difference in
20 the amount of direct charges, it would naturally
21 probably flow back to the allocated method.

22 **Q** Let me ask you also regarding your testimony
23 on page 27, you talk about Mr. Vondle's criticism of
24 FPL's general allocator, the Massachusetts Formula's
25 bias for overcharging FPL rather than the affiliate

1 because of its size driven and does not account for
2 growth and change of the, of the affiliates that take
3 more management time; correct?

4 **A** Correct.

5 **Q** You would agree that all companies do not use
6 the Massachusetts Formula as their general allocator;
7 correct?

8 **A** There are many versions of what could be
9 called a multifactor formula. Massachusetts is just one
10 of those, those elements.

11 **Q** Okay. And I believe you identify a modified
12 Massachusetts Formula, the Mass Formula, or possibly
13 some other variation; correct?

14 **A** Correct.

15 **Q** So FPL could develop or modify the
16 Massachusetts Formula to take into account the growth
17 and change of its newer affiliate companies and to
18 correct for the size bias; correct?

19 **A** I don't see why that it would.

20 **Q** Well, I didn't ask you why that it would. I
21 asked you if it could do that.

22 **A** Well, it already uses forecast information, so
23 that reflects growth. Mr. Vondle in his deposition
24 talked about growth being a factor in other companies'
25 allocations, and I'm unaware of any single company --

1 **CHAIRMAN BRISÉ:** Mr. Flaherty, if you could
2 answer yes or no, and then you could move on to your
3 statement.

4 **MS. CHRISTENSEN:** Okay. And maybe it would be
5 helpful if I reasked the question.

6 **CHAIRMAN BRISÉ:** Sure. That would be helpful.

7 **BY MS. CHRISTENSEN:**

8 **Q** Could FPL develop or modify the Massachusetts
9 Formula to take into account the growth and change of
10 its newer affiliate companies and to correct for the
11 size bias?

12 **A** It could if it thought that would be an
13 improvement.

14 **Q** Okay. Let's look at some of your exhibits to
15 your testimony, specifically TJ-2.

16 **A** Yes, ma'am. I have it.

17 **Q** And one moment, and I'm getting there as well.
18 Okay.

19 TJ-2 includes companies on this exhibit that
20 have separate service companies; correct?

21 **A** Yes.

22 **Q** And you would agree that these companies all
23 have accounting, business administrative services,
24 executive overhead, external affairs, human resources,
25 legal, ethics and compliance, and regulatory relations

1 as part of their service companies; correct?

2 A Yes, they do.

3 Q Okay.

4 A As registered holding companies under the act.

5 Q Okay. So they include separate service
6 companies?

7 A Yeah. Just to be clear, all of these are
8 registered holding -- were registered holding companies
9 under the act, therefore had service companies. They
10 were not holding companies.

11 Q Okay. Let's turn to your Exhibit TJF-3. I
12 just want to make sure I'm clear. You only included
13 four companies in this exhibit; correct?

14 A Correct.

15 Q And of those four companies, the information
16 that you're relying on contains data that's as old as
17 2006 for ComEd; correct?

18 A Correct.

19 Q And 2009 for PNM; correct?

20 A Correct.

21 Q And Oncor at 2010; correct?

22 A Correct.

23 Q Okay. Let me ask you this. I believe in your
24 rebuttal testimony you discuss the benchmarking that FPL
25 did; is that correct?

1 **A** Correct.

2 **Q** Okay. Would you agree that FPL did not do any
3 benchmarking of corporate communications?

4 **A** As an explicit function?

5 **Q** Correct.

6 **A** I'm not aware that it has.

7 **Q** Okay. And would you agree that FPL did not do
8 any bench working [sic] regarding finance and
9 accounting?

10 **A** Now, are you speaking to the filing or to
11 business in general?

12 **Q** As, as a function, as a corporate services
13 center function, did they do any benchmarking that
14 you're aware of regarding finance and accounting?

15 **A** Let me just review the benchmarking analysis.
16 (Views document.)

17 The benchmarking summary that we provided does
18 not include finance. The outsourcing one does, which
19 implies they had a point of comparison.

20 **Q** Did you include that as part of your rebuttal
21 testimony, the, what you're referring to now?

22 **A** The report that we provided --

23 **Q** Did you --

24 **A** -- was part of our work papers.

25 **Q** Correct. But did you include that as part of

1 your rebuttal testimony as an exhibit?

2 A Just work papers.

3 Q So you would agree that you did not include it
4 as an exhibit to your rebuttal testimony; correct?

5 A It's not one of the five specific exhibits,
6 no. It's the work papers for the exhibits.

7 Q Okay. Well, let's refer to one of the five
8 actual exhibits you did attach to your testimony. On
9 TJF-5, it purports to be a benchmarking summary that
10 talks about administrative and general charges that are
11 adjusted; correct?

12 A Correct.

13 Q You would agree you did not normalize the A&G
14 cost categorizations --

15 MR. BUTLER: I'm sorry.

16 MS. CHRISTENSEN: -- for comparison purposes
17 for this exhibit, did you?

18 MR. BUTLER: I'd ask Ms. Christensen to define
19 what she means by normalizing the costs.

20 BY MS. CHRISTENSEN:

21 Q Did you -- well, let me start with another
22 predicate question. Maybe that'll help get there.

23 You would agree that all companies define
24 their administrative and general costs and include
25 different costs in their administrative and general

1 costs; correct?

2 A I believe you said all companies. I don't
3 know how to respond to that. There can be some
4 differences in terms of what companies include within
5 A&G.

6 Q All right. And, and that's what, just what I
7 wanted to make sure I understood. So there can be
8 differences in what's included in administrative and
9 general costs.

10 Did you look at the administrative and general
11 costs of the companies that you compared to ensure that
12 all of the costs, the administrative and general costs
13 that were included for comparison purposes were the
14 same?

15 A Well, you can't know that they are all the
16 same, but we adjusted for pension and benefits, which is
17 one of the principal areas where you obtain differences
18 between the companies. The rest of the categories
19 generally are the same.

20 Q Okay. Okay. So, but the answer to that was
21 you did not go through and make that comparison to
22 ensure that they were all exactly the same
23 administrative and general costs, other than your
24 caveated answer.

25 A We did not. That would be impossible to

1 determine, but we adjusted for the single largest
2 factor.

3 **MS. CHRISTENSEN:** Okay. I have no further
4 questions. Thank you.

5 **CHAIRMAN BRISÉ:** Thank you.

6 Mr. Wright.

7 **MR. WRIGHT:** No questions, Mr. Chairman.

8 **CHAIRMAN BRISÉ:** Mr. Saporito.

9 **MR. SAPORITO:** Just one or two brief
10 questions, Mr. Chairman.

11 **CROSS EXAMINATION**

12 **BY MR. SAPORITO:**

13 **Q** My name is Thomas Saporito. I'm here pro se.

14 Could you offer this Commission an opinion,
15 all things considered equal, would FP&L's establishment
16 of a service company or service division to separate the
17 nonaffiliated transactions from those related to the
18 utilities be more transparent?

19 **A** No. In fact, it might make it less
20 transparent, because now we introduce a separate entity
21 that did not exist before. And the same things that are
22 done from a cost distribution and assignment to
23 regulated or non-regulated would have to be done again.
24 It adds complexity and it adds cost. I don't think it
25 adds anything in terms of additional transparency.

1 **MR. SAPORITO:** No further questions.

2 **CHAIRMAN BRISÉ:** Mr. Hendricks.

3 **MR. HENDRICKS:** Yeah, just a couple of
4 clarifications here.

5 **CROSS EXAMINATION**

6 **BY MR. HENDRICKS:**

7 **Q** On page 9 of your testimony you set up the
8 table that's in TGF-2 exhibit. And you, you seem to be
9 making the point with it that, that there's some
10 diversity in the functions that are included within the
11 service companies.

12 **A** Yes, sir. And the exhibit illustrates that.
13 Correct.

14 **Q** And I just heard you say a moment ago, I
15 think, that, that all of these companies were, these
16 holding, these service companies were established as
17 regulated holding companies because of the previous
18 legislation.

19 **A** I think the accurate term would be registered
20 holding companies, as opposed to regulated.

21 **Q** Correct.

22 **A** Some were initially established as part of the
23 1935 act itself. Others became subject to the act based
24 upon some things like corporate transactions and
25 mergers.

1 Q Right. Okay. If you would turn over to that
2 table for just a moment, please.

3 A Yes, sir, I have it.

4 Q Number 2. First of all, could I ask you about
5 the source of this?

6 A Yes.

7 Q This data in Table 2.

8 A Yeah. Basically it's, it's the form 60s.

9 Q Okay. So you went and found it on their, on
10 their regulatory filings?

11 A Yes. Well, it used to be the SEC U13-60.
12 Jurisdiction was transferred to the FERC. It's the Form
13 60.

14 Q So is, is this reasonably current data?

15 A Yes.

16 Q You seem to be making the point that there's
17 diversity here. However, just looking at the table, it,
18 it suggests that there are quite a few functions that
19 are, are commonly performed in this, in this group of,
20 of, I think it's 30 functions and ten companies, that
21 all of them, the minimum is 16 functions performed and
22 the maximum is 29 of the 30. So they're actually not,
23 not all that diverse, wouldn't you say?

24 A Well, I think you have to look at selected
25 functions. Remember, if you look at the items on the

1 left-hand side, the vast majority of those are corporate
2 center functions, things like HR, accounting and
3 finance, information technology. If you begin to look,
4 for example, at distribution, to some extent customer
5 service, fuel, generation, you begin to -- and, and, to
6 a lesser extent transmission, you begin to see that some
7 companies populate their service, service company
8 entities with broadly comprehensive corporate support
9 and operation support areas, others only corporate
10 support.

11 You would expect to see the corporate support
12 functions there, but you do have a great deal of
13 diversity about the rest of the composition of the
14 service companies.

15 Q But since the, the repeal of the legislation
16 required these services to be provided by a service
17 company, these companies could get rid of it now and
18 integrate it with their operation if they preferred; is
19 that correct?

20 A FERC has some rules about multistate
21 companies. I think it would be more cumbersome and
22 costly for them to unbundle or undo a service company.
23 I think they technically could, but I think it's not
24 without cost and complexity.

25 Q How would, how would that apply to FPL in this

1 case, in terms of going the other direction?

2 A Could I just ask for clarification in terms of
3 how that would apply, my comments about cost and
4 complexity; is that what you're referring to?

5 Q If FPL decided to set up a service company,
6 would they have to go through a similarly complex
7 process?

8 A Well, I wouldn't necessarily call it a service
9 company in the same sense that we've referred to service
10 companies here, because they were the old service
11 companies under the, under PUHCA. A shared services
12 entity might be the more appropriate option, and that
13 option would be create a, an administrative function
14 that could, as one of several options, pull together
15 those kind of administrative support functions to be
16 centrally managed, or it could pull together selected
17 functions that are corporate center functions to be
18 separately managed. Both, both things are actually used
19 in practice.

20 But what it does, it doesn't -- it creates
21 another entity, it creates another level of planning,
22 budgeting, cost reporting, cost analysis activities that
23 otherwise would not exist, because the composition of
24 those shared service entities would be the same as
25 presently exist today as either finance, HR,

1 communications, external relations, information
2 technology, supply chain, all of those factors exist
3 today. All we've done is just put a box around them
4 with no, no other particular benefit.

5 Q Okay. So, so you don't think, I would take it
6 from what you just said, correct me if I'm wrong, that,
7 that you don't think it would be regulatorily a problem
8 to, for FPL to do so, to set up a service function. I
9 mean, you were commenting about the administrative
10 issues.

11 A I don't think there's anything that I
12 understand that constrains FPL's ability to establish a
13 shared services entity as opposed to a service company.

14 Q Thank you.

15 A But, again, I don't see anything that creates
16 an economic advantage to doing that either.

17 Q Well, it -- it's a subject that has both pros
18 and cons obviously.

19 Let me direct your attention for just one
20 moment, and this will be the last item, to this handout
21 that we have, which is the page from the Booz study, the
22 chart.

23 A Yes, sir.

24 Q It has a number on it, but mine doesn't have a
25 number, so I don't know which one it was.

1 Was this, was this prepared by your group? Do
2 you recognize it?

3 **A** Yes, it was.

4 **Q** It's interesting that it seems to suggest that
5 the use of direct charges has gone down substantially
6 over the last few years; is that correct?

7 **A** It has, because there have been some
8 structural changes within FPL.

9 **Q** Did this have anything to -- you also mention
10 the SAP implementation. That just has fairly recently
11 gone into production; is that correct?

12 **A** July of 2011, yes, sir.

13 **Q** So does this reflect -- this reflects activity
14 before that implementation?

15 **A** Well, it reflects before and after. I don't
16 think that the SAP implementation affects the numbers at
17 all.

18 **Q** Changed it.

19 Was it your testimony a little bit earlier
20 today that you made some enhancement recommendations
21 which would go to increasing the number of direct
22 charges now that SAP makes it more convenient?

23 **A** No, that wasn't the nature of my, my
24 statement. I may have misspoken or not been clear.

25 My statement was that under the old system

1 it's very, it was very cumbersome and complex to sort
2 numbers the way you would sometimes want to sort
3 numbers. Information was there, it just took more work
4 to do it. SAP solves that by making it, you know, part
5 of its, its overall capabilities.

6 My point around the direct charges was just
7 getting better visibility at a, at a functional level
8 about direct charges. And the other point was just
9 being able to get better visibility into total charges
10 by, by source. That's what SAP helped to cure, or helps
11 to cure. But it was not more direct charging. They
12 direct charge what they can now. It's just to get
13 better visibility in terms of where that direct charging
14 occurs and be able to compile it in an easier manner.

15 Q Okay. But your, your testimony then was that,
16 that they will be able to improve their handling of the
17 allocated charges more than converting allocated to
18 direct?

19 A I don't know that I would say that it improves
20 handling. I'm not sure quite what you mean by handling.
21 I think it's just going to give them better capability
22 and more flexibility than their old system did and
23 require less work hours to extract the kind of
24 information that the company has filed in this case and
25 through discovery with respect to these affiliate

1 charges. It'll just give them better access to
2 information.

3 **MR. HENDRICKS:** Okay. Thank you. No more
4 questions.

5 **CHAIRMAN BRISÉ:** Staff?

6 **MR. HARRIS:** Yes, Chairman. In lieu of
7 cross-examination, staff would seek to introduce the
8 deposition of Mr. Flaherty. This has been previously
9 distributed to the parties along with an errata sheet,
10 and it's been identified in the Comprehensive Exhibit
11 List as hearing Exhibit 121.

12 **CHAIRMAN BRISÉ:** Okay. All right. Any
13 objections to this?

14 **MR. WRIGHT:** Mr. Chairman? Mr. Chairman, no
15 objection. I just want to be clear whether the errata
16 are part of the deposition since they have two separate
17 exhibit cover sheets on them.

18 **MR. HARRIS:** I think, yes, what we've been
19 doing is attaching the errata to the deposition. I
20 think they're both assigned the same exhibit number.

21 **MR. WRIGHT:** Thank you.

22 **CHAIRMAN BRISÉ:** All right. And we'll deal
23 with the entering of it at the time when we take up
24 exhibits.

25 Commissioners?

1 All right. Redirect.

2 MR. BUTLER: Thank you, Mr. Chairman.

3 REDIRECT EXAMINATION

4 BY MR. BUTLER:

5 Q Mr. Flaherty, would you turn to your exhibit
6 TJF-3.

7 A Yes, sir. I have it.

8 Q Okay. Ms. Christensen had asked you a few
9 questions about this. Can you describe the basis upon
10 which you chose the four companies appearing on here
11 that are compared to FPL with respect to their direct
12 charge levels?

13 A Yes. Their limiting factors and their rate
14 cases aren't filed every day every year by every
15 company. So rather than reach for information that I
16 was not familiar with, I reached for those cases where I
17 actually provided testimony and knew the numbers rather
18 than, you know, try to reach beyond that.

19 Q Okay. Did you exclude any companies for which
20 you had that sort of information?

21 A No, I did not.

22 Q You were asked by Ms. Christensen about the,
23 this Commission's affiliate transaction rule, Rule
24 25-6.1351, and specifically some questions about the
25 first sentence of subsection (3)(b). Do you recall

1 that?

2 **A** Yes, sir, I do.

3 **Q** Okay. You were providing something of an
4 explanation of how you understand the sections to
5 interrelate, and I think your explanation was
6 abbreviated. And I was invited to ask you about it on
7 redirect, so I am.

8 Would you please at this point explain your
9 understanding of the interrelationship of subsection
10 (3)(b) and I guess its counterpart (3)(c) with the other
11 subsections in the rule?

12 **A** Yes, sir. And I'm not a lawyer, so I'm not
13 going to try and interpret these in that context. But
14 it appears to me, just as a, as a layman, that some of
15 the language in (3)(b) and (4)(c) is a bit murky, if not
16 in conflict.

17 In both (3)(b) and (4)(c) mention is made of
18 fully allocated cost or market price, but I think that
19 the second sentence in (3)(b) is also instructive. The
20 utility may -- except, the utility may charge an
21 affiliate less than fully allocated costs or market
22 price of the charges above incremental costs.

23 I don't know what's behind that, but certainly
24 the charges right now that are allocated out are above
25 incremental costs, but they are based on fully allocated

1 costs. The reason a market price is often not used is
2 there's not a market offering available or a market to
3 test against.

4 When I look at (4)(c), it says, indirect costs
5 shall be distributed to each non-tariffed service and
6 product provided by the utility on a fully allocated
7 cost basis. That's what I see FPL being in conformance
8 with. I can't explain the differences in the language,
9 but I, but I do know that fully allocated cost is the
10 basis that companies around the country and the
11 commissions around the country rely on. Market tests
12 are very --

13 **MS. CHRISTENSEN:** I'm going to object. I
14 think this goes way beyond the scope of Mr. Butler's
15 question and the rule in Florida.

16 **MR. BUTLER:** I think Mr. Flaherty is simply
17 explaining his understanding of how the rule sections
18 interrelate. I think it's appropriate to allow him an
19 opportunity to explain.

20 Ms. Christensen was, you know, deliberate in
21 focusing her questions, wanting him only to talk about a
22 single sentence in one of the subsections of the rule,
23 and it frankly creates what we believe is sort of a
24 misimpression as to the effect of the rule.

25 Mr. Flaherty has a great deal of experience

1 around the country, as well as an understanding of this
2 rule. He's simply providing that explanation.

3 **MS. CHRISTENSEN:** Well, and my objection
4 didn't go to his explanation of the other portions of
5 the rule. It's to his interjection of what other state
6 commissions or other rules do, which is beyond the scope
7 of what the Florida rule was, and beyond the scope of my
8 question.

9 **CHAIRMAN BRISÉ:** Understood.

10 Mr. Flaherty, I will allow you to finish your
11 response to the question that was posed by Mr. Butler.

12 **THE WITNESS:** Yes, sir. I think I can, I can
13 wrap it up quickly.

14 I believe that the rules do rely in both
15 places on fully allocated costs. They do mention market
16 price, but there's an assumption that there is a market
17 against which to price.

18 My analysis in these kinds of matters before
19 indicate that the vast majority, over 90%, of the
20 services that relate to the costs that come through
21 affiliate charges cannot be market tested. So that
22 leaves you with 10% or less that actually a market
23 exists that's not governance (phonetic), fiduciary,
24 strategic, or financial control.

25 So it's, it's hard to find a market to apply

1 this rule against, and most commissions can't and don't
2 try.

3 **BY MR. BUTLER:**

4 Q Thank you, Mr. Flaherty. You were also asked
5 by Ms. Christensen some questions about positive time
6 reporting and sort of its counterpart, exception time
7 reporting. Do you remember that?

8 A Yes, sir.

9 Q And I had written down a phrase you used in
10 responding to her, that within FPL initially the charges
11 are budgeted according to intended use. Do you remember
12 that?

13 A Yes, sir.

14 Q Okay. Would the intended use be only charges
15 to FPL, or could that intended use also apply to charges
16 out to affiliates?

17 A Both.

18 Q Okay. And then how would the exception
19 reporting apply if, for example, a particular function
20 had charges that were budgeted to both FPL and to the
21 affiliate or to affiliates?

22 A If circumstances were to change over the
23 course of a year, for example, a new project appeared or
24 materialized that required attention, then it might
25 redirect some of the resources toward that. That would

1 be a requirement for direct charging, which is a broader
2 form of exception reporting.

3 Q Okay. I think Ms. Christensen had asked you
4 about whether under that form of exception time
5 reporting an employee, an individual would have to be
6 able to identify that he was doing work or doing
7 additional work for an affiliate in order to notice and
8 record an exception; is that right?

9 A Correct.

10 Q Okay. Would positive time reporting also
11 require that individuals identify the work that they are
12 being, or that they are doing for affiliates?

13 A Yes, it would.

14 MR. BUTLER: Okay. I have no further
15 questions. Thank you, Mr. Flaherty.

16 CHAIRMAN BRISÉ: All right. Exhibits.

17 MR. BUTLER: FPL would move exhibits
18 404 through 408.

19 CHAIRMAN BRISÉ: Okay. Seeing no objections,
20 we will move 404 to 408 into the record.

21 (Exhibits 404 through 408 admitted into the
22 record.)

23 Ms. Christensen?

24 MS. CHRISTENSEN: Office of Public Counsel
25 would move Exhibit 594 into the record.

1 **CHAIRMAN BRISÉ:** Okay. Seeing no objections,
2 we will move Exhibit 594 into the record.

3 (Exhibit 594 admitted into the record.)

4 Staff?

5 **MR. HARRIS:** Staff would move Exhibit 121,
6 including the errata sheet.

7 **CHAIRMAN BRISÉ:** Okay. Seeing no objections,
8 we will move Exhibit 121 into the record, including the
9 errata sheet.

10 (Exhibit 121 admitted into the record.)

11 **MR. BUTLER:** May Mr. Flaherty be excused?

12 **CHAIRMAN BRISÉ:** Mr. Flaherty -- Mr. Flaherty,
13 Flaherty, you may be -- tough morning today. You may be
14 excused. Safe travels.

15 **THE WITNESS:** Thank you.

16 **MR. BUTLER:** FPL would call its next witness,
17 Ms. Ousdahl.

18 **CHAIRMAN BRISÉ:** All right. Mr. Butler?

19 **MR. BUTLER:** I believe Ms. Ousdahl was
20 previously sworn as a direct witness.
21 Whereupon,

22 **KIM OUSDAHL**

23 was called as a witness on behalf of Florida Power &
24 Light Company and, having been duly sworn, testified as
25 follows:

DIRECT EXAMINATION

1
2 **BY MR. BUTLER:**

3 **Q** Ms. Ousdahl, would you please state your name
4 and business address.

5 **A** Kim Ousdahl, 6700 Universe Boulevard, Juno
6 Beach, Florida.

7 **Q** Thank you. By whom are you employed and in
8 what capacity?

9 **A** Florida Power & Light as Vice President,
10 Controller, and Chief Accounting Officer.

11 **Q** Have you prepared and caused to be filed in
12 this docket 51 pages of prefiled rebuttal testimony?

13 **A** I have.

14 **Q** Okay. Did you also prepare and cause to be
15 filed on August 16, 2012, an errata sheet to your
16 prefiled rebuttal testimony?

17 **A** I did.

18 **Q** Okay. Do you have any further changes or
19 revisions to your prefiled rebuttal testimony?

20 **A** I do not.

21 **Q** Okay. With those changes, if I asked you the
22 questions contained in your rebuttal testimony today,
23 would your answers be the same?

24 **A** They would.

25 **MR. BUTLER:** Okay. Mr. Chairman, I would ask

1 that Ms. Ousdahl's prefiled rebuttal testimony be
2 inserted into the record as though read.

3 **CHAIRMAN BRISÉ:** Okay. At this time we will
4 enter Ms. Ousdahl's prefiled testimony into the record
5 as though read, seeing no objections.

6 **BY MR. BUTLER:**

7 **Q** Ms. Ousdahl, did you also prepare exhibits
8 KO-14 through KO-20 that are attached to your rebuttal
9 testimony?

10 **A** I did.

11 **MR. BUTLER:** Okay. Mr. Chairman, I would note
12 that those are identified in the Comprehensive Exhibit
13 List as Exhibits 397 through 403.

14 **CHAIRMAN BRISÉ:** Okay. Thank you.
15
16
17
18
19
20
21
22
23
24
25

ERRATA SHEETWITNESS: **KIM OUSDAHL - REBUTTAL**

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
10	6-7	Strike the following sentence: "In fact, all of the accounts listed in his Exhibit HWS-11 relate to the provision of electric service by FPL to its customers."
10	8	Remove "Moreover," and capitalize "All"
20	4	Insert "weighted average" between "the" and "cost"
20	5	Remove "methodology"
20	6	Remove "methodology"
44	19-20	Remove "...for a breakdown of this amount..."

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kim Ousdahl, and my business address is Florida Power & Light Company (“FPL or “the Company”), 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

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

A. Yes. I am sponsoring the following exhibits:

- KO-14 – Summary of ARO Accounts in Rate Base
- KO-15 – FPL Responses to Discovery Served by Intervenors
- KO-16 – Identified Adjustments Summary
- KO-17 – Affiliates – Sole Source Arrangements
- KO-18 – Identified Adjustment – Cost of Removal
- KO-19 – Identified Adjustment – DOE & AMI
- KO-20 – Identified Adjustment – Change in Customer Deposit Rule

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to demonstrate that certain recommendations in the testimonies of the Office of Public Counsel’s (“OPC”) witnesses Vondle, Schultz and Ramas, South Florida Hospital and Healthcare Association’s (“SFHHA”) witness Kollen, and Florida Executive Agencies’ (“FEA”) witness Gorman are incorrect, not based on evidence and

1 should be rejected. I also address adjustments to FPL's Test Year revenue
2 requirements calculations that FPL has identified as being necessary
3 subsequent to filing its petition, direct testimony and MFRs. Specifically, I
4 will address the following topics:

- 5 1. Working Capital
 - 6 a. Unbilled Revenues
 - 7 b. Asset Retirement Obligations ("ARO")
 - 8 c. Other Accounts Receivable
 - 9 d. Other Regulatory Assets
 - 10 e. Miscellaneous Deferred Debits
- 11 2. Cost of Capital
- 12 3. Canaveral Step Increase Calculation
- 13 4. Affiliate Transactions
- 14 5. Nuclear Maintenance Reserve Accrual Methodology
- 15 6. Rate Case Audit – Historical Period
- 16 7. Employee Benefits Adjustment
- 17 8. Certain Identified Adjustments
 - 18 a. Cost of Removal
 - 19 b. Department of Energy ("DOE") – Automated Meter
20 Infrastructure ("AMI")
 - 21 c. Seminole Transmission Service Bill Credits
 - 22 d. Change in Customer Deposit Interest Rates

23

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

2 A. My rebuttal testimony will demonstrate that the Company's request is
3 reasonable and that the intervenor's recommendations are unsupported and
4 should be rejected by the Commission. I will address the need for consistent
5 ratemaking treatment for the nuclear maintenance reserve accrual. I will
6 demonstrate that, contrary to intervenor assertions, the Company's
7 calculations of cost of capital, inclusion of certain items in working capital
8 and the Canaveral Step Increase were properly treated and calculated. For
9 affiliate transactions, I will demonstrate that the intervenor witness is simply
10 unfamiliar with FPL, the Federal Energy Regulatory Commission ("FERC")
11 and Florida Public Service Commission ("FPSC") rules and practices and that
12 the controls and current Company practices in place continue to be reasonable
13 and fully compliant with Rule 25-6.1351 F.A.C. (the "Florida Affiliate Rule")
14 and that affiliates are accordingly paying their fair share of FPL expenses. I
15 will discuss the audit report issued by Commission Staff, and lastly, present
16 and discuss the revenue requirement impact of certain recently identified
17 adjustments.

18

19 **II. WORKING CAPITAL**

20 **Unbilled Revenues**

21

22 **Q. Should the Commission adopt SFHHA witness Kollen's recommendation**
23 **to remove unbilled revenues from working capital?**

1 A. No. Unbilled revenues, as witness Kollen describes on page 16, lines 1
2 through 2 of his testimony, are “estimated revenues that will be billed for
3 service that was provided during the month, but that were not yet billed at the
4 end of the month.” I agree with witness Kollen that the Company has
5 provided service. Therefore, FPL has incurred costs all of which have been
6 accrued or paid to deliver the energy that gave rise to both customer accounts
7 receivables and the receivable for unbilled revenues. As such, the Company
8 must finance the costs of providing that service and earn a return on the
9 promise of payment whether invoiced or not. For this reason, the Commission
10 has a long standing practice of including unbilled revenues in working capital.
11 The Commission has previously included unbilled revenues in FPL’s working
12 capital calculation in the following rate cases: Docket No. 820097-EU, Order
13 No. 11437; Docket No. 830465-EI, Order No. 13537; and Docket No.
14 080677-EI, Order No. PSC-10-0153-FOF-EI.

15 **Q. On page 16, lines 18 through 21, witness Kollen states that “If the**
16 **Company does not accrue unbilled revenues for fuel clause recovery**
17 **revenues, then it also does not accrue accounts payable for the related**
18 **fuel expense and there is no incremental amount in the accounts payable**
19 **account to offset the nonfuel unbilled revenues.” Do you agree?**

20 A. No, I do not. FPL records payables in full at the end of each calendar period
21 as required under Generally Accepted Accounting Principles (“GAAP”).
22 It reflects a calendar month of revenue and expense, and likewise records the
23 balance of receivables and payables.

1 It is not necessary to record unbilled revenues associated with clause
2 recoveries for GAAP or ratemaking purposes. Accounting for clause activity
3 renders the recording of clause unbilled revenues unnecessary. Accounting
4 Standard Codification (“ASC”) 980 (former FAS 71) allows FPL to defer to
5 the balance sheet the over/under recoveries resulting from differences between
6 recorded clause revenues and recorded clause expenses. Therefore, accrual of
7 additional revenues (unbilled revenues) would also require a posting of an
8 additional entry equal to the clause revenue. The entry would be as follows:

9 1) Debit Receivable for clause unbilled revenue

10 Credit Unbilled clause revenue

11 To record the unbilled clause revenue; and

12 2) Debit Unbilled clause revenue

13 Credit Regulatory Liability-Overrecovery or

14 Credit Regulatory Asset-Underrecovery

15 To record the deferral of additional clause revenue to the balance sheet.

16

17 For GAAP and ratemaking purposes, the effect of the unbilled clause revenues
18 is offset and therefore, unnecessary.

19

Asset Retirement Obligations (“ARO”)

1

2

3 **Q. On page 43, lines 13 through 16 of OPC witness Schultz’s testimony, he**
4 **states that the ARO related adjustments are not revenue neutral. Is this**
5 **correct?**

6 A. No, it is not. The ARO liability adjustment on MFR B-2, adjustment No. 33,
7 represents the sum of two ARO accounts: FERC account 230 - Other Non
8 Current Liability - ARO (Test Year MFR B-6, page 11, line 11) and FERC
9 account 254 - Other Regulatory Liability - ARO (MFR B-6, Page 12, line 28).
10 The ARO account balances in the 2013 Test Year rate base and their
11 corresponding rate base adjustments are equal and net to zero. Refer to
12 Exhibit KO-14. Therefore, in compliance with Rule No. 25-14.014 F.A.C.,
13 the AROs included in FPL’s 2013 Test Year are revenue neutral for
14 ratemaking purposes.

15 **Q. Witness Schultz states on page 42 of his testimony, that the Company in**
16 **the response to OPC Twelfth Set of Interrogatories, Question No. 252, did**
17 **not provide explanations for any balances in FERC account 254 - Other**
18 **Regulatory Liabilities which resulted in a debit balance after**
19 **adjustments. Please explain why the Company did not provide an**
20 **explanation for any debit balances in FERC account 254 as requested in**
21 **subpart E of the interrogatory.**

22 A. As can be seen on Attachment 2 of the Company’s response to subpart D,
23 which requested the FERC account 254 - Other Regulatory Liability balances,

1 before and after adjustments, there were no debit balances in the account for
2 either FPL's Prior Year or Test Year after adjustments. Therefore, no
3 explanations were required in the response to subpart E of the interrogatory.
4 Also, the response clearly shows that the net balance after adjustments to
5 FERC account 254 ARO liability is zero. This response is attached as part of
6 Exhibit KO-15, pages 1 through 6.

7 **Q. OPC witness Schultz on page 43, lines 10 and 11, of his testimony includes**
8 **a listing of ARO adjustments and concludes from this table that ARO**
9 **related adjustments were not revenue neutral (page 43, lines 14 through**
10 **16). Is witness Schultz's conclusion correct?**

11 A. No, it is not correct. Witness Schultz includes in his table the adjustment for
12 the Accumulated Provision for Nuclear Decommissioning, which is removed
13 from rate base since it is a funded reserve and earns its own return per Order
14 No. 10987, Docket No. 810100-EU(CI). As shown on witness Schultz's
15 schedule, page 43, line 10, the ARO adjustments net to zero and are revenue
16 neutral since all of the ARO account balances included in the unadjusted rate
17 base are removed from rate base through Commission adjustments. This is
18 more clearly illustrated on Exhibit KO-14.

19

20 **Other Accounts Receivables**

21

22 **Q. Pages 44 and 45 of OPC witness Schultz's testimony address the**
23 **appropriate amount of Other Accounts Receivables (FERC account 143)**

1 **to be included in FPL's working capital for the 2013 Test Year. Should**
2 **an adjustment be made to remove a portion of accounts receivables from**
3 **working capital in the 2013 Test Year?**

4 A. No. Witness Schultz's adjustment is based solely on account descriptions for
5 actual 2011 account balances and the contention that they are unrelated to
6 providing service to customers. In fact, all of the accounts listed in his Exhibit
7 HWS-11 relate to the provision of electric service by FPL to its customers.
8 Moreover, all amounts recorded to FERC account 143 are in accordance with
9 the accounting treatment prescribed by FERC in the Uniform System of
10 Accounts for account 143, which in part reads,

11 *"this account shall include amounts due to the utility upon open*
12 *accounts, other than amounts due from associated companies and*
13 *from customers for utility services and merchandising, jobbing and*
14 *contract work."*

15 The audit conducted by the Commission Staff in connection with this rate case
16 docket determined that FPL's other accounts receivable accounts included in
17 FPL's 2011 Historical Year all relate to utility activities and were properly
18 included in working capital. See FPSC Staff witness Welch's Exhibit KLW-2
19 for copy of the audit report, which shows the results of Staff's review and
20 testing of FPL's other accounts receivable balances. Therefore, there is no
21 justification for removal of FERC account 143 amounts from FPL's 2013
22 calculation of working capital.

23

Other Regulatory Assets

1

2

3 **Q. Pages 46 and 47 of OPC witness Schultz's direct testimony address the**
4 **inclusion of FERC 182.3 - Other Regulatory Assets subaccounts in FPL's**
5 **2013 working capital calculation. Do you agree with his assertion that the**
6 **Company did not address the purpose for inclusion of these subaccounts**
7 **in working capital in detail and, therefore, they should be excluded?**

8 A. No, I do not. As noted in FPL's response to OPC's Twelfth Set of
9 Interrogatories, Question No. 249, the balance sheet approach defines working
10 capital as current assets and deferred debits that are utility related and do not
11 already earn a return, less current liabilities, deferred credits and operating
12 reserves that are utility related and upon which the Company does not already
13 pay a return. Refer to Exhibit KO-15, pages 7 through 8. FERC account
14 182.3 – Other Regulatory Assets represents assets that do not already earn a
15 return. Accordingly, FERC account 182.3 is properly included in working
16 capital in the Test Year.

17 **Q. Please provide FPL's business purpose of each of the Other Regulatory**
18 **Asset subaccounts OPC witness Schultz lists on page 47 of testimony that**
19 **he recommends should be removed from working capital.**

20 A. First of all, I should note that OPC witness Schultz's position that certain
21 Other Regulatory Asset subaccounts should be disallowed in the working
22 capital calculation because their utility-related purpose was not fully described
23 is illogical. By definition, action of the regulator gives rise to a regulatory

1 asset. Therefore, it must be related to the utility. If an asset were not utility-
2 related, it simply could not be recorded as a regulatory asset. With that being
3 said, detailed explanations of the subaccounts questioned by OPC witness
4 Schultz are provided below:

- 5 • Other Regulatory Assets – Other: Primarily includes the balance
6 associated with ASC 740 Accounting for Income Taxes. This amount
7 reflects the gross-up of the equity component of the AFUDC to the
8 revenue requirement level which provides full recovery through rates. The
9 offset of this account is reflected in accumulated deferred income taxes.
- 10 • Other Regulatory Assets – Under Recovered Conservation Costs: Reflects
11 under recoveries associated with FPL’s Conservation Cost Recovery
12 Clause (“ECCR”). This account balance, when netted against FPL’s
13 ECCR over recoveries reflected in FERC account 254, result in a net over
14 recovery position in FPL’s 2013 Test Year. Pursuant to Commission
15 precedent and as ordered in our last rate base proceeding, FPL is required
16 to exclude net under recoveries from rate base and include net over
17 recoveries.
- 18 • Other Regulatory Assets – Under Recovered ECRC Costs: Reflects under
19 recoveries associated with the Environmental Cost Recovery Clause
20 (“ECRC”). This account balance, when netted against the FPL’s ECRC
21 over recoveries reflected in FERC account 254, result in a net over
22 recovery position in FPL’s 2013 Test Year. Pursuant to Commission
23 precedent and as ordered in our last rate base proceeding, FPL is required

1 to exclude net under recoveries from rate base and include net over
2 recoveries.

- 3 ● Other Regulatory Assets – Convertible Investment Tax Credits (“CITC”)
4 Depreciation Loss: This amount reflects the reduction in the tax basis of
5 the solar projects for which CITC was received. The Company is required
6 to reduce the tax basis of the assets for 50% of the amount of the CITC
7 received. Since the CITC is flowed back to the customer through the
8 ECRC over the life of the assets, the reduction in the tax basis is reflected
9 as a regulatory asset and is recovered over the life of asset so as to include
10 all the effects applicable to the CITC in the clause. The offset to this
11 account is accumulated deferred income taxes.

12

13 Thus, each of the above accounts that OPC witness Schultz recommends be
14 removed from working capital clearly captures activities related to FPL’s
15 business purpose of providing electric service to customers and therefore are
16 properly included in the Company’s working capital for the 2013 Test Year.

17

18 **Miscellaneous Deferred Debits**

19

20 **Q. On pages 47 through 49 of OPC witness Schultz’s testimony, he**
21 **recommends an adjustment to remove certain Miscellaneous Deferred**
22 **Debits from FPL’s 2013 Test Year. Do you agree with his**
23 **recommendation?**

- 1 A. No, I do not. As noted in the prior discussion, the balance sheet approach
2 defines working capital as current assets and deferred debits that are utility
3 related and do not already earn a return, less current liabilities, deferred credits
4 and operating reserves that are utility related and upon which the Company
5 does not already pay a return. Account 186 – Miscellaneous Deferred Debits
6 represent assets that do not already earn a return. Accordingly, FERC account
7 186 is properly included in working capital in the test year.
- 8 **Q. Do you agree with his recommendation that an adjustment should be**
9 **made to FPL’s 2013 Test Year working capital based on account**
10 **descriptions for actual 2011 miscellaneous deferred debit account**
11 **balances that in his opinion are unrelated to providing service to**
12 **customers?**
- 13 A. No. All of the miscellaneous deferred debit accounts listed on page 48 of
14 witness Schultz’s testimony, lines 16 through 22, relate solely to FPL’s
15 business purpose of providing and delivering electric service to customers. In
16 fact, all amounts recorded to FERC account 186 are in accordance with the
17 accounting treatment prescribed by FERC in the Uniform System of
18 Accounts. In addition, the audit conducted by the Commission Staff in
19 connection with this rate case docket determined that FPL’s deferred debit
20 amounts for the 2011 Historical Year all relate to utility activities and were
21 properly included in working capital. See FPSC Staff witness Welch, Exhibit
22 KLW-2. Therefore, there is no justification for removal of any amounts

1 reflected in FERC account 186 from FPL's 2013 calculation of working
2 capital.

3 **Q. Did OPC witness Schultz rely on data from the proper period in**
4 **calculating the amount of deferred debits to be excluded?**

5 A. No. Not only has witness Schultz failed to provide any valid reason to adjust
6 the deferred debit balances, but the calculation he proposes to implement his
7 adjustment is incorrect. OPC witness Schultz utilized data included in FPL's
8 response to OPC's Twelfth Set of Interrogatories, Question No. 251, subpart
9 C, which contained the 13-month average balance of *actual* data ending
10 March 31, 2012. This response is included in Exhibit KO-15, page 9 through
11 11. This rate case is setting rates using a *forecasted* 2013 Test Year. As such,
12 witness Schultz's adjustment is taking into account historical 13-month
13 average balances to calculate a proposed disallowance in a completely
14 different time period.

15

16 III. COST OF CAPITAL

17

18 **Q. On page 22 of his testimony, FEA witness Gorman questions the**
19 **determination of the cost rate used for the investment tax credits ("ITC")**
20 **in the capital structure. Do you agree with his recommendation to**
21 **include short-term debt in the weighted cost for ITC?**

22 A. No. The requirements for the determination of the weighted cost rate for
23 ITC, as set forth in the Code of Federal Regulations, Title 26, IRS Treasury

1 Regulations are to use the permanent sources of capital. Specifically,
2 Regulation Section 1.46-6(b)(3) of the regulations defines rate base as
3 follows:

4 *(i) For purposes of this section, "rate base" is the monetary amount*
5 *that is multiplied by a rate of return to determine the permitted return*
6 *on investment.*

7 *(ii) (A) In determining whether, or to what extent, a credit has been*
8 *used to reduce rate base, reference shall be made to any accounting*
9 *treatment that affects rate base. In addition, in those cases in which*
10 *the rate of return is based on the taxpayer's cost of capital, reference*
11 *shall be made to any accounting treatment that reduces the permitted*
12 *return on investment by treating the credit less favorably than the*
13 *capital that would have been provided if the credit were unavailable.*
14 *Thus, the credit may not be assigned a "cost of capital" rate that is*
15 *less than the overall cost of capital rate, determined on the basis of a*
16 *weighted average, for the capital that would have been provided if the*
17 *credit were unavailable.*

18 *(B) For purposes of determining the cost of capital rate assigned*
19 *to the credit and the amount of additional interest that the*
20 *taxpayer would pay or accrue, the composition of the capital that*
21 *would have been provided if the credit were unavailable may be*
22 *determined—*

- 1 (1) *On the basis of all the relevant facts and circumstances;*
2 *or*
3 (2) *By assuming for both such purposes that such capital*
4 *would be provided solely by common shareholders,*
5 *preferred shareholders, and long-term creditors in the same*
6 *proportions and at the same rates of return as the capital*
7 *actually provided to the taxpayer by such shareholders and*
8 *creditors.*
9 *For purposes of this section, capital provided by long-term*
10 *creditors does not include deferred taxes as described in*
11 *section 167(e)(3)(G) or 168(e)(3)(B)(ii).” (Emphasis added).*

12 Therefore, the determination of the cost rate should only include the long-term
13 sources of capital; common and preferred stock and long-term debt. To
14 include short-term debt would violate the normalization rules applicable to
15 ITC.

16
17 In addition, this methodology is consistent with the Commission’s decision in
18 FPL’s last base rate proceeding, Docket No. 080677-EI, Order No. PSC-10-
19 0153-FOF-EI, when OPC tried unsuccessfully to make this same adjustment.
20 The order noted that, “We find that the investments that qualify for ITCs are
21 those that are financed with long-term investor sources of capital.
22 Accordingly we find that FPL’s methodology for calculating the balance of

1 and the cost rate for ITCs is appropriate and in accordance with IRS
2 requirements.”

3 **Q. On page 19, lines 16 through 21, of FEA witness Gorman’s testimony, he**
4 **proposes a method for the allocation of deferred taxes in the capital**
5 **structure based on a ratio of rate base retail plant-in-service to system**
6 **total utility plant-in-service. Is this method appropriate for the**
7 **reconciliation of rate base to capital structure?**

8 A. No, it is not. Witness Gorman’s method assumes that all deferred taxes are
9 related to plant-in-service, which is not the case. In addition, witness
10 Gorman’s method proposes to reconcile the rate base and capital structure
11 based on how deferred taxes originate rather than its use as a source of funds.
12 The Commission has been consistent in its method to reconcile FPL rate base
13 to capital structure on a pro rata basis over all sources of capital. This remains
14 the right approach.

15 **Q. What is the proper method for the reconciliation of rate base to capital**
16 **structure?**

17 A. Rate base adjustments should be reconciled to capital structure pro rata over
18 all sources of capital. This is consistent with how FPL pays its bills and funds
19 its assets, from a pool of funds that is generated from all sources of capital.
20 While *sources* of funds are readily calculated from their capital structure
21 components on the balance sheet, *uses* of the funds are generally not traceable
22 to specific capital structure components. This approach of reconciling rate
23 base pro rata over all sources of capital is consistent with how allowed rates of

1 return for base rates, cost recovery clauses and AFUDC are calculated in
2 Florida. Witness Gorman's allocation method for base rates would allocate
3 less deferred taxes to rate base adjustments such as CWIP and clause plant-in-
4 service; leaving more deferred taxes in the base rate capital structure, thereby
5 lowering FPL's overall rate of return. Thus, witness Gorman's method is
6 clearly inconsistent with how returns are calculated per Commission practices
7 for clause recoverable investment and the application of AFUDC.

8 **Q. In your opinion, could witness Gorman's method result in a potential tax**
9 **normalization violation?**

10 A. Yes, I believe that the method proposed by witness Gorman might cause a tax
11 normalization violation. Tax normalization rules require that any ratemaking
12 adjustments with respect to the utility's tax expense, depreciation expense, or
13 reserve for deferred taxes be consistently applied with respect to the other two
14 items and with respect to rate base. When rate base adjustments are removed
15 from capital structure using the same proportion of capital structure on which
16 they earn a return, generally there is no inconsistency in the treatment of the
17 rate base adjustments. Inconsistent treatment of capital sources for rate base
18 adjustment and rate of return purposes would increase the risk of tax
19 normalization violations. The consequence of violating normalization
20 requirements is the loss of the ability to claim accelerated depreciation for
21 income tax purposes and the resulting loss of this cost free capital to
22 customers. Consistent with past FPSC orders and tax normalization rules,
23 FPL has properly allocated pro rata adjustments to all sources of capital.

1 **IV. CANAVERAL STEP INCREASE REVENUE REQUIREMENTS**

2 **CALCULATION**

3

4 **Q. Do you agree with OPC witness Ramas that the cost of capital**
5 **methodology used to calculate revenue requirements for the Canaveral**
6 **Step Increase should be the same methodology that was used for the**
7 **January 2013 Base Rate Increase?**

8 A. No. FPL removed all rate base components of the Cape Canaveral
9 Modernization Project from its 2013 Test Year using an incremental
10 methodology as reflected on MFR D-1b, and then utilized the same
11 methodology to calculate the Canaveral Step Increase. Witness Ramas's
12 recommendation would result in using inconsistent methodologies for
13 removing rate base components from the Test Year and then including rate
14 base components in the Canaveral Step Increase.

15 **Q. What do you believe is the appropriate capital structure to use for FPL's**
16 **requested Cape Canaveral Step Increase?**

17 A. As reflected on MFR D-1a for the Canaveral Step Increase, the capital
18 structure should reflect incremental sources of capital only. The purpose of
19 the Canaveral Step Increase is to recover the incremental costs associated with
20 the first year operation of the Cape Canaveral Modernization Project. Since
21 generation plants are long-lived assets, which typically are financed
22 incrementally, only common equity and long-term debt should be included in
23 the incremental capital structure. In addition, all forecasted deferred taxes

1 related to the construction of the Cape Canaveral Modernization Project and
2 generated during its first year of operations are appropriately included as a
3 reduction to rate base. This approach was used to develop the revenue
4 requirements in FPL's need determination hearings and was also consistently
5 used to develop the incremental base rate increases associated with cost
6 recovery for FPL's Turkey Point Unit 5, West County Unit 1, West County
7 Unit 2 and West County Unit 3 generation plants under FPL's 2005 and 2011
8 Settlement Agreements, Order No. PSC-05-0902-S-EI, Docket No. 050188-EI
9 and Order No. PSC-11-0089-S-EI, Docket No. 080677-EI, respectively.

10 **Q. Page 69 of FEA witness Gorman's testimony states that the Canaveral**
11 **Step Increase of \$174 million excludes the return on equity ("ROE")**
12 **performance adder. Is that statement correct?**

13 A. No, the statement is incorrect. The Company calculated the revenue
14 requirement associated with the Canaveral Step Increase taking into account
15 the ROE performance adder. Refer to MFR D-1a for the Canaveral Step
16 Increase, line 7, column 9.

17 **Q. On page 50 of SFHHA witness Kollen's testimony, he states that the**
18 **accumulated deferred income taxes ("ADIT") included in the Canaveral**
19 **Step Increase in rate base is understated since only the tax depreciation**
20 **shown on Schedule C-22 should be used to calculate ADIT. Do you agree**
21 **with witness Kollen?**

22 A. No. Witness Kollen is identifying only one temporary difference shown on
23 MFR C-22 for the calculation of ADIT and is ignoring the other temporary

1 differences listed on the same MFR. The other differences include: (1) the
2 book depreciation recorded for the period; (2) temporary differences related to
3 the debt component of AFUDC; and (3) the capitalization of construction
4 period interest for tax. During the construction period, the Company accrues
5 debt AFUDC for book purposes and capitalizes construction period interest
6 for tax purposes, which are recognized as temporary differences between the
7 book basis and tax basis of the assets. ADITs are provided for these
8 temporary differences which will turn around over the life of the asset. In
9 FPL's adjustment to remove the Cape Canaveral Modernization Project assets
10 from the 2013 Test Year rate base, the ADIT balances identified with each of
11 these temporary differences were removed in total from the capital structure.
12 The net ADIT amounts related to these timing differences were also included
13 in the \$121.936 million (13-month average) ADIT amounts used to reduce
14 rate base calculated for the Canaveral Step Increase. The system \$121.936
15 million amount also included the turn around of these temporary differences
16 during the 12-month period ending May 31, 2014. The amounts included in
17 the ADIT related to the various temporary differences were included in OPC's
18 Second Request for Production of Documents Question No. 12; refer to
19 Exhibit KO-15, pages 12 through 13. The ADIT was recalculated to be
20 \$121.529 million (system) based on the revised plant-in-service amounts and
21 was provided in response to OPC's Sixth Request for Production of
22 Documents Question No. 62, refer to Exhibit KO-15, pages 14 through 15.

23

1 The original amount filed and the revised amounts are as follows:

2	(\$000)	Original as filed	Revised
3	Book/Tax Depreciation	(\$140,469)	(\$138,967)
4	Debt Component of AFUDC	(9,283)	(9,172)
5	Construction Period Interest	<u>27,816</u>	<u>26,610</u>
6	Total ADIT	<u>(\$121,936)</u>	<u>(\$121,529)</u>

7

8 The effect of this change in the revenue requirements related to the change in
 9 Cape Canaveral Modernization plant-in-service has been included in Exhibit
 10 KO-16, Item 18.

11

12

V. AFFILIATE TRANSACTIONS

13

14 **Q. On page 5 of witness Vondle's testimony, he alleges that there is a strong**
 15 **financial incentive to misallocate or shift costs to regulated companies, so**
 16 **that unregulated affiliates can reap the benefits. Please comment on his**
 17 **allegation.**

18 **A. FPL is subject to the close oversight and scrutiny of this Commission, FERC,**
 19 **and numerous other governmental and regulatory bodies. FPL must ensure**
 20 **full compliance with applicable laws, regulations, and Commission policies,**
 21 **which include those dealing with affiliate transactions and cost allocation.**
 22 **Not only is compliance required; it is good business practice.**

23

1 FPL is a registrant subject to the Security Exchange Commission (“SEC”)
2 reporting requirements and as a result, must provide audited financial
3 statements and undergo a separate detailed review of its internal control over
4 financial reporting as required under the Public Company Accounting
5 Oversight Board (“PCAOB”) standards. Affiliate billings are subject to
6 review for these separate company financial statements just as any other
7 transaction which gives rise to audited results. FPL has clear requirements to
8 report its costs accurately in these audited financial statements.

9
10 FPL has worked hard to earn the trust of its customers and regulators.
11 Maintaining good affiliate cost allocation practices is vital to continuing to
12 earn and maintain that trust. In order to achieve good affiliate cost allocation
13 practices, FPL commits the necessary time and resources to ensure that
14 customers of FPL do not bear any of the costs associated with affiliates.

15 **Q. Does the budget and variance reporting process at FPL also mitigate**
16 **witness Vondle’s perceived risk of shifting costs to the regulated**
17 **companies?**

18 A. Yes. One of FPL’s primary management tools for controlling costs is the
19 development and management of the departmental budget. Managers are
20 charged with developing budgets and managing spending levels to budgeted
21 amounts. The budget threshold for FPL is net of all affiliate billings. All
22 variances to budget are analyzed and reported in detail to executive
23 management. Managing costs is a key component of performance-based

1 variable compensation plans. To the extent an FPL manager ignored the
2 proper billing of affiliate support costs, he/she would risk a budget overrun.
3 Any overrun would result in management review of that overrun and could
4 jeopardize performance evaluation results and commensurate performance-
5 based variable compensation reward. Affiliates similarly use budgets as a
6 management and performance tool, and their managers closely monitor
7 charges coming in from FPL for the same reason. This positive tension works
8 to produce accurate financial reporting that complies with company
9 procedures and Commission rules.

10 **Q. Please describe the Company's policies concerning integrity, compliance**
11 **with laws and regulations, record keeping, and information provided to**
12 **regulators.**

13 A. All employees of FPL and its affiliates are subject to the NextEra Energy, Inc.
14 ("NEE") Code of Business Conduct and Ethics (the "NEE Code"). The NEE
15 Code in relevant part requires all representatives of the Company and its
16 affiliates to: (1) act in accordance with the highest standards of personal and
17 professional integrity and to comply with all applicable laws, regulations and
18 Company policies; (2) maintain all records accurately and completely; and (3)
19 ensure that the information provided to regulators is accurate and not
20 misleading. All employees of FPL and its affiliates are required to review and
21 commit to abide by the NEE Code.

- 1 **Q. Is FPL subject to reporting requirements with respect to its affiliate**
2 **transactions?**
- 3 A. Yes. FPL's affiliate reporting provides a high degree of transparency
4 concerning all of its dealings with its affiliates, as evidenced in MFR C-31,
5 FPL's Diversification Report. FPL complies with strict affiliate accounting
6 and reporting requirements mandated by the Commission.
- 7 **Q. On page 13 of OPC witness Vondle's testimony, he alleges that affiliates**
8 **have an incentive to charge a disproportionate amount of their costs to**
9 **FPL for services they provide. Do you agree there is a risk of excessive**
10 **affiliate costs borne by FPL customers for those services?**
- 11 A. No. The controls previously discussed are symmetric and apply to all
12 intercompany charges. Both the transactional controls which require both the
13 providing manager and the receiving manager to approve an internal order for
14 intercompany transactions and the budgetary controls discussed above protect
15 the customers from excessive charges from affiliates.
- 16 **Q. On page 33 of his testimony, witness Vondle makes the following**
17 **observation: "Asymmetric pricing is not used by FPL for all affiliate**
18 **transactions for goods and services as required by the affiliate transaction**
19 **rule. Asymmetric pricing is only adhered to for assets transfers." Do you**
20 **agree with this statement?**
- 21 A. No. Pricing for goods and services provided to and from affiliates is in
22 accordance with FERC and FPSC rules and orders. When market prices can
23 be objectively determined, they are used. Examples of market-referenced

1 charges include office space, furniture rental, purchase of network services
2 from FiberNet, sale and purchase of goods. We are not in the business of
3 providing engineering, human resources, treasury, accounting and legal
4 functions to third parties and in competition with others, so there are no
5 existing market references for the integrated, enterprise services we provide.
6 At the same time, our services are distinct and individualized, such that there
7 are typically no third parties that would be in a position to provide truly
8 comparable services to FPL and our affiliates. Therefore, we are not able to
9 determine the market value of those services either by reference to what others
10 pay for our services or what third parties charge for truly comparable services.
11 This topic is discussed by FPL witness Flaherty in greater detail.

12 **Q. Has FERC directed companies operating within a single-state holding**
13 **company structure that do not have a centralized service company, to**
14 **provide general administrative and management services at cost?**

15 A. Yes. FERC specifically ruled that FPL and similarly situated companies
16 within a single-state holding company system that do not have a centralized
17 service company be allowed to provide general administrative and
18 management services at fully loaded cost. (FERC Order 707A, issued July 17,
19 2008, paragraphs 23 thru 31)

20 **Q. Can you describe the key findings in the referenced FERC order which**
21 **led them to their conclusion?**

22 A. Yes. First, FERC observes that defining a market price for general and
23 administrative services in these circumstances is subjective. Second, where a

1 utility is not making sales of a service to a non-affiliate, it is not foregoing any
2 profit for customers by providing the services to affiliates at fully loaded cost.
3 Third, efficiencies and economies of scale associated with providing these
4 types of services and the goods to support those services between members
5 within the single-state holding company system can benefit captive customers
6 because the goods and services often can be provided less expensively, at cost,
7 than if they were purchased from outside the system by individual system
8 members.

9 **Q. On page 33, witness Vondle states that “the preferred allocation**
10 **methodologies of direct charges and rates for affiliate cost allocations are**
11 **used too little, and the use of the less preferred general allocator is used**
12 **too much.” Do you agree with witness Vondle’s assertion?**

13 A. No, I do not. Whenever possible, FPL utilizes the direct charge method. As
14 witness Vondle indicates in his testimony, FPL forecasts charges to affiliates
15 in 2013 will be 41% by direct charges, 9% by service fees and 50% by the
16 AMF. Of the 50% charged via the AMF, 40% of those charges were
17 determined using specific drivers, not the Massachusetts Formula that he
18 characterizes as a “less preferred general allocator”. Combining direct
19 charges, service fees and charges using specific drivers within the AMF
20 means that FPL is only using the Massachusetts Formula for about 30% of its
21 affiliate charges. Witness Vondle’s assertion that direct charges are
22 underutilized is without any factual basis for his claim, and ignores the fact
23 that a substantial majority of FPL’s affiliate charges are based on specific

1 identification or drivers. This topic is discussed by FPL witness Flaherty in
2 greater detail.

3 **Q. In his findings, witness Vondle states that positive time reporting for all**
4 **service company type functions is underutilized making cost accounting**
5 **less accurate. Is witness Vondle correct?**

6 A. No. Witness Vondle's conclusion is based on a misunderstanding of
7 exception time reporting, which FPL uses when positive time reporting is not
8 well suited to the nature of the work being charged. Positive time reporting is
9 useful and appropriate when personnel are paid directly on the basis of the
10 hours that they work and/or when that work varies across many activity types.
11 However, for much of the workforce supporting affiliate transactions, that is
12 not the case. FPL either uses exception time reporting, which utilizes default
13 internal orders to charge 2,080 hours a year to the appropriate entities, or in
14 limited cases, specially established internal orders that are themselves charged
15 to FPL and the appropriate affiliates. Each time period, the employee reports
16 all time exceptions. Every hour spent in direct support of an affiliate is
17 accounted for as an exception and charged appropriately. Exception reporting
18 allows the employee to minimize administrative time and focus on reporting
19 the exceptions. The transactional oversight associated with the payroll
20 Sarbanes Oxley ("SOX") control process is another control intended to ensure
21 that exception reporting is used accurately for direct charging of affiliate
22 services.

23 **Q. Witness Vondle claims that FPL does not document the benefit of**

1 **purchases of goods and services from affiliates to FPL customers. Do you**
2 **agree?**

3 A. No, I do not. Each new purchase of services from affiliates must comply with
4 FPL's procurement SOX processes just as a purchase from a third party
5 vendor, which includes demonstration and documentation of the
6 reasonableness and appropriateness of the vendor selection and price paid.
7 These controls ensure that the Company and the customers get the most
8 favorable terms.

9 The services routinely purchased from affiliates can be categorized into four
10 major categories:

- 11 • Insurance costs for coverage provided by Palms Insurance Company,
12 Limited ("Palms Insurance") – The insurance products are incurred as
13 FPL's share of the overall enterprise risk management program which
14 is managed and executed by Palms Insurance. Prices for coverage
15 provided by Palms are periodically market tested to ensure
16 reasonableness.
- 17 • Telecommunications services provided by FiberNet – The prices for
18 these services are benchmarked against market prices on a periodic
19 basis to insure that customers are benefiting from the transactions. In
20 addition as additional services are required, each new installation is
21 measured against market alternatives. This results in the customer
22 receiving the best possible price for the service required whether from
23 FiberNet or a third party provider.

- 1 ● Services for shared information technology (“IT”) systems – Nuclear
2 IT applications are managed at Seabrook for the entire fleet. These
3 services can only be uniquely provided within the family of companies
4 due to their nuclear expertise and familiarity with the company’s
5 information systems.
- 6 ● Legal services where the combined resources of both the NextEra
7 Energy Resources, Inc (“NEER”) and FPL departments are managed
8 to share expertise across the organization. These activities serve the
9 enterprise with employees from FPL and NEER. The fully loaded
10 costs of the support are billed appropriately as these services are not
11 and cannot be provided externally in the same manner.

12 **Q. Witness Vondle indicates that the use of sole source contracts with**
13 **affiliates is inappropriate. Do you agree?**

14 A. No. As indicated above, FPL adheres to its procurement SOX processes with
15 respect to all purchases. In his testimony, witness Vondle references nine
16 transactions reported in MFR C-31, 2010 Diversification Report, that he
17 claims FPL did not adequately justify. I address the details of those
18 transactions in my Exhibit KO-17 and show for each transaction that sole
19 source contracting was appropriate and justified.

20 **Q. Witness Vondle also claims that FPL does not assure that affiliates’ bills**
21 **to FPL of fully loaded cost are accurate. How do you respond to that**
22 **claim?**

23 A. Once again, witness Vondle has either ignored or misunderstood the facts. As

1 described previously, enterprise-wide internal controls are used to ensure the
2 accuracy of billings from the affiliates. Additionally, as I explained to witness
3 Vondle in the informal June 2012 conference call that he references in his
4 testimony, FPL relies on the same SAP system configuration and internal
5 controls for affiliate payroll charges it uses to record all transactions including
6 those used in billing affiliates. The configuration in SAP that captures and
7 records payroll and overhead costs between entities is the same as that used to
8 settle payroll and overheads to projects and/or to the balance sheet. The
9 system configuration settles actual payroll and applied overheads across all
10 activities in the same way. There is little opportunity for an affiliate to
11 intentionally or unintentionally record its payroll costs and loaders for work
12 performed to FPL any differently than it records costs for work performed in
13 projects across its own business.

14 **Q. On page 24 of his testimony, witness Vondle questions the relationship**
15 **between FPL and FPL Energy Services (“FPLES”) arguing that the**
16 **services are not being charged at the higher of cost or market. What is**
17 **your position on his claims?**

18 A. The relationship between FPL and FPLES for the services described by
19 witness Vondle was the subject of a separate investigation and audit by the
20 Commission in 2010 under Docket No. 100077-EI. The result of that
21 extensive review did not indicate any noncompliance with affiliate billing
22 requirements of the FPSC rule.

23 **Q. Witness Vondle claims on pages 24 and 25 of his testimony that FPL has**

1 **not received adequate compensation for its establishment of vendor**
2 **relationships. Do you agree with that assessment?**

3 A. No, I do not. The unregulated business of NEER is a mature operation and
4 there continue to be vendor relationships first established by the unregulated
5 affiliates that subsequently benefit FPL. As an example, in June 2010, NEER
6 executed a Materials & Services Agreement (“MSA”) with Westinghouse for
7 the NEER nuclear sites. Incorporated in that agreement were discounts
8 applicable to spare parts for its entire nuclear fleet. The following year, all
9 terms and conditions of this NEER MSA were incorporated into an MSA
10 covering the entire nuclear fleet, including FPL. The more favorable
11 negotiated terms and conditions from the initial NEER MSA (i.e. favorable
12 warranty, limitations of liability provisions) were incorporated in the fleet
13 MSA used by FPL.

14 **Q. On pages 26 and 27 of his testimony witness Vondle claims that FPL’s**
15 **A&G expenses are increasing faster than inflation which is the basis for**
16 **his conclusion that FPL is not receiving the expected benefits from**
17 **economies of scale. Do you agree with his assessment?**

18 A. No, I do not. The testimony of FPL witness Reed demonstrates the
19 performance of FPL in terms of A&G growth relative to its peers which rebuts
20 witness Vondle’s unsubstantiated claims. In addition, a review of the growth
21 of the cost pools which include the functions billed under the AMF compared
22 to the growth of the affiliate billings shows the economic benefits delivered to
23 customers through FPL’s enterprise shared services approach.

1 The compound rate of growth for a 10 year period (2004 to 2013) is as
2 follows:

3	Total Cost Pool	6.24%
4	AMF billed to Affiliates	14.78%
5	FPL A&G	4.18%

6 Clearly FPL customers are benefiting from the reduction in revenue
7 requirements over and above the growth in A&G.

8 **Q. On page 25 witness Vondle asserts that “FPL should be compensated for**
9 **the value of the relationships and contracts utilized by affiliates”. Do you**
10 **agree?**

11 A. No. The relationship between the utility and affiliates results in benefits to
12 both entities. The following are some examples of benefits passed on to
13 FPL’s customers as a result of its affiliate relationship for which NEER does
14 not receive any compensation:

- 15 • To address new Nuclear Regulatory Commission (“NRC”) requirements
16 for fire protection equipment, a program was developed at NEER’s Duane
17 Arnold Energy Center (“DAEC”) that is being used subsequently across
18 all locations in the NEE fleet. The knowledge gained from the program is
19 being used in the development of the upcoming submittals for the Turkey
20 Point (“PTN”) and St. Lucie (“PSL”) power plants. As a result, FPL will
21 be more efficient in upcoming submittals for its nuclear power plants. This
22 experience and the resulting efficiencies gained are cost free to FPL’s
23 customers who benefit from them.

1 ● The Company has an extensive Quality Program which is commonly
2 referred to as Six Sigma. The Power Generation Division (“PGD”)
3 Technical Services group initiated a Six Sigma Project that investigated
4 and developed countermeasures for a damage mechanism that occurs in
5 the components that control final steam temperature in the Heat Recovery
6 Steam Generators at Lamar, a NEER site. The knowledge gained from
7 this project has reduced maintenance of these components throughout both
8 entities. The project also spurred a subsequent project that developed a
9 novel method to control final steam temperature control using model
10 based control algorithms. In this example, the customers of the utility
11 benefit from the knowledge, experience and cost savings of the project at
12 our plants in NEER. FPL’s customers receive that benefit for free.

13 **Q. Witness Vondle asserts that the non-regulated business at NextEra**
14 **benefits from FPL name recognition and an assessment should be**
15 **imputed to FPL so that FPL customers are made whole for the benefit**
16 **they provide. Do you agree?**

17 A. No, I do not. FPL is compensated for all goods and services it provides to
18 affiliates consistent with Rule 25-6.1351 F.A.C., *Cost Allocations and*
19 *Affiliate Transactions*. Witness Vondle’s suggestion of royalties for use of the
20 FPL abbreviation shows that he has little understanding of our company and
21 our long history. All affiliated companies with names that currently contain
22 “FPL” were founded during the decades when the corporate parent company’s
23 name was FPL Group and the competitive affiliate’s name was FPL Energy;

1 both have now been changed to contain the term “NextEra Energy”. It can be
2 very expensive to change the name of a company due to the legal
3 requirements and related costs so some of NextEra Energy’s smaller
4 companies have not changed their names because there is no compelling
5 reason to do so. Furthermore, asserting that there is enterprise-wide value to
6 the FPL name seems inconsistent with our decision to effect a name change
7 for our parent and largest affiliate in 2010.

8 **Q. Please summarize the basis for the affiliate adjustments to the 2013 Test**
9 **Year as presented by witness Vondle.**

10 A. There is no logic or evidence to support the recommendations of witness
11 Vondle. His recommendation to increase charges to affiliates by 20% and
12 decrease charges from affiliates by 20% is arbitrary and not based on any
13 evidence despite the massive amount of discovery information provided, and
14 is not supported by the results of the recent Commission audit. He has not
15 used analysis or fact-based assessment to demonstrate problems in the
16 Company’s affiliate transactions methodologies that would justify *any*
17 adjustment to FPL’s 2013 Test Year affiliate charges.

18 **Q. Do you agree with witness Vondle’s recommendation that the**
19 **Commission should open an investigation into FPL’s affiliate**
20 **relationships and transactions to address the deficiencies he addressed in**
21 **his testimony?**

22 A. No. FPL provided responses to numerous affiliate interrogatories, production
23 of documents and audit requests totaling thousands of pages. In addition, I

1 held an informal call at OPC’s request in June 2012 to specifically answer
 2 OPC witness Vondle’s telephonic questions. The Commission Staff
 3 completed their audit in connection with this docket and found no major
 4 affiliate transaction deficiencies. The Company’s organizational structure
 5 along with its billing methodologies for support and fleet services are
 6 consistently applied over many years, well understood by regulators, and have
 7 been fully explored, analyzed, questioned and vetted in both the 2009 base
 8 rate proceeding and again in this filing. In 2010, the Commission initiated a
 9 docket to review the affiliate billing relationship between FPLES and FPL and
 10 no deficiency or non compliance with the Commission order was observed.
 11 FPL witnesses Reed and Flaherty demonstrate the FPL cost performance
 12 results for A&G which are positively impacted by the affiliate cost sharing
 13 which reduces cost to customers. Witness Vondle was unable to determine
 14 any single instance of noncompliance with evidentiary support and analysis
 15 and therefore appears to be trying to cast suspicion over FPL’s rigorous billing
 16 practices in one final effort to taint the Commission’s perception.

17

VI. NUCLEAR MAINTENANCE RESERVE ACCRUAL

19

20 **Q. On Page 32, line 13 of SFHHA witness Kollen’s testimony, he states that**
 21 **FPL’s “nuclear outage maintenance expense accrual methodology is**
 22 **flawed”. Do you agree with this statement?**

1 A. No, I do not. FPL accounts for its nuclear outage maintenance expense
2 accruals in accordance with Commission Order No. PSC-96-1421-FOF-EI,
3 Docket No. 961164-EI, which authorized FPL to establish accruals for nuclear
4 refueling outage maintenance reserve in order to levelize the amount of
5 expense for both financial and ratemaking purposes. It was the Commission's
6 determination in the referenced order that the accrue in advance method was
7 appropriate in order to avoid distortion of expenses in the utility's test year.

8 **Q. Are you aware of any other IOU within the FPSC jurisdiction that**
9 **follows the accrue in advance method?**

10 A. Yes, I am. Progress Energy follows the same methodology as FPL. In Order
11 No. 11628, Docket No. 820100-EU, dated February 17, 1983, the FPSC
12 allowed Progress to use the accrue in advance method for these expenses.

13 **Q. Is there a difference between the accrue in advance, and defer and**
14 **amortize methods?**

15 A. The methods create a difference only in the timing of recognition of the
16 expense. This one time rate reduction results solely from the cumulative
17 effect of a change in accounting principle. Implementation of this change
18 results in costs being deferred and paid for by future customers.

19 **Q. Do you agree with witness Kollen's nuclear maintenance expense**
20 **transition adjustment calculation for switching from the accrue in**
21 **advance method to defer and amortize method?**

22 A. No, I do not agree. First, witness Kollen starts his calculation with two
23 incorrect assumptions. As reflected on his Exhibit LK-9, he derived a number

1 for the December 31, 2012 Nuclear Maintenance Reserve balance of \$42.964
2 million rather than utilizing the forecasted 2013 beginning balance of the
3 reserve provided on MFR B-21 of \$34.804 million. He also declines to use
4 the proper forecasted Test Year expense of \$105.463 million. Second, he is
5 incorrect in his calculation of 2013 expense from amortization of the
6 regulatory asset, as he erred in the calculation of the amortization for PTN 4-
7 27 on page 7 of 7, of his Exhibit LK-9. He used the wrong ending date for the
8 outage amortization period (September 2014 vs. June 2014) which serves to
9 extend and reduce the amortization amount. Finally, witness Kollen selects a
10 three year amortization period for the transition regulatory liability which is
11 not supported and is not consistent with the five year amortization period of
12 gains and losses used consistently by the Commission.

13 **Q. On pages 36 and 37 of SFHHA witness Kollen's testimony, he argues that**
14 **there will be a stranded liability under the accrue in advance method. Do**
15 **you agree with this observation?**

16 **A.** No. Witness Kollen states that at the end of the last outage for each of FPL's
17 nuclear units, the Company would continue accruing for the next outage. The
18 end of life of a nuclear unit is a significant event that the Company and the
19 Commission anticipate and plan for well in advance. At the point when
20 retirement is probable and the last outage is evident, the Company would
21 suspend any outage accruals. Therefore, there would be no stranded liability
22 at the end of life at the nuclear plant as he claims.

1 **Q. If the Commission were to reconsider its order and direct FPL and**
2 **Progress to change its accounting to the defer and amortize method, how**
3 **should that change be effected?**

4 A. This would not be an insignificant matter from a financial reporting,
5 forecasting or rate making perspective, and therefore would have to be
6 carefully analyzed and considered. The change would result in a one time
7 reduction in rates, but the longer term impacts would need to be carefully
8 calculated and fully understood as well.

9

10 **VII. RATE CASE AUDIT - HISTORICAL PERIOD**

11

12 **Q. Did you review the audit report issued by Commission Staff witness**
13 **Welch in connection with the current rate case?**

14 A. Yes, I have. There were three items that relate to the historic period. One
15 issue relates to earnings surveillance reporting and the other two were
16 transactions associated with actual books and records. For those findings that
17 affected books and records, FPL agreed to record two adjusting entries, both
18 of which were immaterial. They were recorded during the months of June and
19 July 2012. For the audit findings related to non-recurring expenses in the
20 forecasted period, please see FPL witness Barrett's rebuttal testimony for
21 details.

22

VIII. EMPLOYEE BENEFITS ADJUSTMENT

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. Do you agree with the adjustment that OPC witness Schultz proposed on page 27 of his testimony related to employee benefits?

A. No, I do not. Witness Shultz is suggesting that we arbitrarily change the accounting for employee benefits expense to move a portion of these costs from expense to the balance sheet. Interestingly, he reduces O&M but does not pick up the other side of the adjustment which must be made to increase rate base and depreciation expense for the corresponding reduction in benefits charged to operating expense. Besides the one sided erroneous expense reduction, he suggests that we have consistently overstated the amount of benefits to be charged to expense. This suggestion is incorrect, as explained by Witness Slattery in her rebuttal testimony.

IX. ADJUSTMENTS IDENTIFIED BY FPL

Q. Has FPL identified adjustments that it believes should be made to the revenue requirements for the January 2013 Base Rate Increase and the Canaveral Step Increase?

A. Yes. The adjustments that FPL has identified as appropriate during the course of this proceeding are shown on Exhibit KO-16. These adjustments include those that were filed in this docket in April of this year as well as additional adjustments that have been identified since that time.

1 **Q. How does FPL propose that the Commission use the Exhibit KO-16**
2 **adjustments in this proceeding?**

3 A. The Commission should include the effect of the Exhibit KO-16 adjustments
4 in determining FPL's revenue requirements for the January 2013 Base Rate
5 Increase and the Canaveral Step Increase. Some of those adjustments will
6 result in increases to revenue requirements while others will result in
7 decreases, but the adjustments are appropriate to reflect in setting FPL's rates
8 regardless of whether they result in increases or decreases. I should note that
9 the net impact of the Exhibit KO-16 adjustments on the 2013 Base Rate
10 Increase would be an increase in revenue requirements. FPL is not proposing
11 that the adjustments be used by the Commission to determine a 2013 Base
12 Rate Increase that is greater than FPL's rate request of \$516.5 million that is
13 reflected in the March 19, 2012 petition.

14 **Q. What are the main adjustments shown on Exhibit KO-16?**

15 A. Each of the main adjustments shown on Exhibit KO-16 is described below:

16

17

Cost of Removal

18

(Exhibit KO-16, Items 1 & 13)

19

20 **Q. To which projects does the Company's 2013 Test Year cost of removal**
21 **adjustment relate?**

22 A. As reflected in FPL's Notice of Identified Adjustments filed with the
23 Commission on April 27, 2012 as part of this docket, FPL identified

1 adjustments to cost of removal associated with its Extended Power Uprates
2 (“EPU”) Project and smart meter project in the 2013 Test Year. Refer to
3 Exhibit KO-16, items number 1 and 13 for overall revenue requirement
4 impact.

5 **Q. Please explain the cost of removal adjustment associated with the EPU**
6 **project.**

7 A. As reflected on MFR B-2 and C-3 for the 2013 Test Year, FPL excluded EPU
8 costs from the calculation of its 2013 revenue requirements for this
9 proceeding because they are recovered through the Nuclear Cost Recovery
10 (“NCR”) process. In doing so, the removal cost charges related to nuclear
11 property that was retired early in connection with the EPU project were
12 inadvertently excluded as well. As these removal costs are properly base rate
13 costs and not part of the EPU NCR recoveries, the charges should have
14 remained in the calculation of base rates. Because they were inadvertently
15 excluded, FPL's rate base for the 2013 Test Year was understated by
16 approximately \$72 million. See Exhibit KO-18, page 1, for the supporting
17 calculation. Correcting this exclusion would increase FPL's 2013 Test Year
18 revenue requirements by \$7.4 million.

19 **Q. Please explain the cost of removal adjustment associated with the smart**
20 **meter project.**

21 A. During the course of this proceeding, FPL determined that \$9.9 million of
22 smart meter-related removal costs were inadvertently reflected as an increase
23 to plant-in-service instead of a decrease to depreciation reserve in FPL's

1 forecast. This adjustment to the forecast, results in an overstatement of
2 depreciation expense in the 2013 Test Year of \$0.6 million. See Exhibit KO-
3 18, page 2 for the calculation of these amounts.

4 **Q. What is the total impact to FPL's 2013 Test Year revenue requirements**
5 **associated with FPL's proposed cost of removal adjustments related to**
6 **EPU Project and AMI?**

7 A. The total impact of FPL's cost of removal adjustments increases FPL's 2013
8 Test Year revenue requirements by \$6.8 million.

9

10 **DOE Grant and AMI Meters**

11 **(Exhibit KO-16, Item 7)**

12

13 **Q. Please explain the 2013 Test Year forecast issues for the DOE grant and**
14 **AMI Meters.**

15 A. As discussed in FPL's response provided in OPC's Twelfth Set of
16 Interrogatories, Question No. 254, refer to Exhibit KO-15, pages 16 through
17 25, FPL identified three forecast issues surrounding the DOE grant and AMI
18 Meters in the 2013 Test Year:

19 1) FPL incorrectly included a total credit of \$123 million for a
20 breakdown of this amount in the AMI Meters amount reflected on line
21 14, page 4 of 6, on MFR B-7. Only a portion of this amount,
22 approximately \$91 million, actually relates to capital expenditure

- 1 reimbursement received from the DOE for Energy Smart Florida
2 (“ESF”) projects;
- 3 2) FPL’s forecast did not include any capital expenditures for the projects
4 expected to be reimbursed by the DOE. This would have resulted in
5 an offset to the \$91 million of capital DOE reimbursement that was
6 included in the forecast. Therefore, FPL has understated plant-in-
7 service in the 2013 Test Year by this amount; and
- 8 3) FPL included a \$3.8 million credit in working capital that should have
9 been classified as a reduction to O&M expenses over the period of
10 October 1, 2011 through December 31, 2012. Therefore, working
11 capital is understated by this amount in the 2013 Test Year.

12 **Q. Would you please provide more detail of the \$123 million credit included**
13 **in the AMI Meters plant-in-service amount reflected on line 14, page 4 of**
14 **6, on MFR B-7?**

- 15 A. Yes. The \$123 million credit is comprised of the following three items:
- 16 1) \$91 million related to DOE reimbursements received but not yet
17 applied as Contributions in Aid of Construction against capital
18 expenditures associated with the ESF projects, none of which relate to
19 AMI;
- 20 2) \$24 million for capital projects not relating to DOE reimbursement.
21 These projects are identifiable at the functional level but have not yet
22 been classified to a specific plant account, supporting the correct
23 application of the \$24 million credit; and

1 3) \$8 million for the overstatement of capital expenditure
2 reimbursements from the DOE in October 2011. This amount should
3 not have been included in the filing as all DOE reimbursements were
4 reflected on FPL's books as of September 2011.

5 **Q. What adjustments are required to FPL's 2013 Test Year for these**
6 **forecast issues?**

7 A. The 2013 Test Year needs to reflect the removal of the \$123 million credit to
8 the AMI Meter plant-in-service balance and the reclassification of the \$24
9 million credit to plant-in-service to the proper functions. These adjustments
10 result in a net increase to plant-in-service of \$99 million. In addition,
11 accumulated depreciation and depreciation expense for the 2013 Test Year
12 will increase \$10.6 million and \$7.6 million, respectively. Refer to Exhibit
13 KO-19 which contains the support for each of these adjustments.

14 **Q. What is the total impact to FPL's 2013 Test Year revenue requirements**
15 **associated with proper treatment of the \$123 million credit?**

16 A. The resulting impact from applying the proper treatment to all of the amounts
17 related to the \$123 million credit incorrectly included in the AMI Meters
18 plant-in-service amount (reflected on MFR B-7, page 4 of 6, on line 14)
19 increases FPL's 2013 Test Year revenue requirements by \$16.8 million.

20 **Q. Would you please explain further the \$3.8 million balance associated with**
21 **O&M projects reimbursed by the DOE that should not have been**
22 **included in the 2013 Test Year?**

1 A. Yes. As discussed in subparts j. and k. of FPL's response to OPC's Twelfth
2 Set of Interrogatories, Question No. 254, the \$3.8 million is reflected in
3 working capital in Account 253, Deferred Credits, on line 23, page 3 of 5, on
4 MFR B-17 for the 2013 Test Year, and represents the actual deferral as of
5 September 30, 2011 of DOE reimbursements pending offset to incremental
6 O&M expenses incurred for ESF projects. The deferred credit remained in
7 the forecast from September 30, 2011 through December 31, 2013; when it
8 should have been reduced over the forecasted period from October 2011
9 through December 2012 as the related O&M is expected to be spent.
10 Therefore, FPL's 2013 Test Year working capital needs to be increased to
11 remove this deferred credit. FPL did not include in the forecast the
12 incremental O&M expenses for related projects that are expected to be
13 incurred over the period October 2011 through December 2013. Therefore,
14 since neither the O&M expenditures nor the offsetting DOE credit to O&M
15 were included in the forecast there is no adjustment required for O&M
16 expense for either the 2012 Prior or 2013 Test Years.

17 **Q. What is the total impact to FPL's 2013 Test Year revenue requirements**
18 **associated with the removal of the \$3.8 million from working capital?**

19 A. The total impact resulting from the removal of the \$3.8 million from working
20 capital increases FPL's 2013 Test Year revenue requirements by
21 approximately \$0.4 million, which is included in the total adjustment for DOE
22 Grant and AMI Meters of \$17.2 million shown on Exhibit KO-16, page 1,
23 item 7.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19

Seminole Transmission Service Bill Credits

(Exhibit KO-16, Item 10)

Q. Can you please provide an explanation of the Seminole Transmission Service Bill Credits and how they are reflected on FPL's books and records?

A. Yes. FPL provides Seminole Electric Cooperative, Inc. ("Seminole"), wholesale transmission service under a Network Service Agreement. As a reduction to the tariffed cost of this service, FPL provides transmission credits to Seminole pursuant to Section 30.9 of FPL's Open Access Transmission Tariff ("OATT"). Calculation of the transmission credits are addressed in a letter agreement executed by FPL and Seminole in 2004, which was approved by FERC and incorporated into Seminole's Network Service Agreement. Pursuant to the terms of the letter agreement, FPL applies a \$0.6 million credit offset to Seminole's monthly transmission service bill, which equates to \$6.8 million on an annual basis. The net amount of the bill, *i.e.*, the total network transmission service charges billed minus application of the credit offset, has previously been recorded on FPL's books and records as firm transmission revenue to FERC Account 456, Other Electric Revenues.

1 **Q. How should these credits have been recorded for financial reporting**
2 **purposes?**

3 A. The gross amount of revenue from Seminole should have been recorded
4 monthly to FERC Account No. 456 and the network credit should have been
5 recorded to Transmission expense in FERC Account No. 566.

6 **Q. What gave rise to the need to provide these credits to Seminole?**

7 A. The transmission credits are provided to Seminole pursuant to OATT Section
8 30.9 (Network Customer Owner Transmission Facilities), which directs
9 Transmission Providers to provide such credits when one of its network
10 customers demonstrate that its transmission facilities are integrated into the
11 plans or operations of the Transmission Provider to serve its power and
12 transmission customers. FERC recognizes through the use of these credits
13 that network facilities provided by customers deliver benefits to the overall
14 transmission network including improved reliability and reduced congestion.
15 In 2004, it was determined that certain transmission facilities owned by
16 Seminole were sufficiently integrated into FPL's plans and operations that
17 Seminole was entitled to receive a credit offset to its network service
18 transmission charges.

19 **Q. Please explain the issue regarding the inclusion of Seminole Transmission**
20 **Service Bill Credits in the 2013 Test Year.**

21 A. For the 2013 Test Year, FPL included the net amount forecasted for the
22 Seminole bill in FERC Account 456 – Other Electric Revenues –
23 Transmission Service Demand (Long-Term) - as 0% retail jurisdictional,

1 which is incorrect. The forecasted amount of total transmission service charge
2 revenues excluding the Seminole bill credits should have been reflected as 0%
3 retail jurisdictional. The Seminole bill credits, however, should have been
4 reflected as 89.4724% retail jurisdictional as these credits represent FPL
5 payments to Seminole for the use of network assets that are integrated into
6 FPL's transmission operations and which benefit all of FPL's retail and
7 wholesale transmission customers. See MFR C-4, page 2 of 13, line 11.

8 **Q. What is the total impact to FPL's 2013 Test Year revenue requirements**
9 **associated with the proper treatment of the Seminole Transmission**
10 **Service Bill Credits?**

11 A. The total retail impact resulting from the proper accounting and ratemaking
12 treatment of the Seminole transmission credits increases FPL's 2013 revenue
13 requirements by \$6.1 million (\$6.8 million annual credit times 89.4724%).
14 Refer to Exhibit KO-16, page 1, item 10.

15

16 **Change in Customer Deposit Interest Rates**

17 **(Exhibit KO-16, Item 12)**

18

19 **Q. Why has FPL calculated an adjustment related to changes in customer**
20 **deposit interest rates?**

21 A. In connection to Docket No. 120125-PU, and approved in Order No. PSC-12-
22 0358-FOF-PU, the Commission implemented a change to Rule No. 25-6.097

1 F.A.C. related to Customer Deposits. This rule change decreases customer
2 deposit interest as follows:

- 3 • For residential customers from 6% to 2% and;
4 • For business customers from 7% to 3%.

5 The change became effective on July 26, 2012. As such, FPL has calculated
6 the revenue requirement impact of the ordered change in interest rates on its
7 2013 Test Year and included it along with all other identified adjustments on
8 Exhibit KO-16.

9 **Q. What is the impact to FPL's 2013 revenue requirements as a result of this**
10 **change?**

11 A. The change in the customer deposit cost rate reflected on MFR D-1a of 5.99%
12 decreases 4.00% to 1.99%, which results in a decrease to FPL's 2013 revenue
13 requirements by \$17.2 million. Exhibit KO-20 contains details of the
14 calculation.

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

16 A. Yes.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BY MR. BUTLER:

Q And with that, Ms. Ousdahl, would you please summarize your rebuttal testimony.

A Thank you.

Good morning, Commissioners. My rebuttal testimony will defend the reasonableness of the company's requested revenue requirements and demonstrate that the Intervenor recommendations are fundamentally flawed.

I show that, contrary to unfounded Intervenor assertions, the company's calculations of cost of capital, working capital, affiliate transactions, and the step increase for the Canaveral modernization project were properly reflected in the filing.

Finally, I describe adjustments to FPL's test year revenue requirement calculations that were identified subsequent to filing the direct case and should be considered by, by yourselves in the final determination of base rates.

Let me touch briefly on the principal Intervenor adjustments that my testimony addresses. The Intervenors are apparently unfamiliar with the Florida practice of reconciling rate base to capital structure and the inclusion of working capital using the balance sheet approach. They express a preference for using a

1 lead lag study.

2 No lead lag study exists. However, that
3 doesn't stop them from proposing unsupported adjustments
4 to FPL's balance sheet approach under the guise of
5 making it look more like a lead lag study.

6 One witness removes customer receivables,
7 unbilled revenue, and accounts payables, all of which
8 are relevant and measurable in a true lead lag study.
9 Another excludes a laundry list of other receivables,
10 regulatory assets, and miscellaneous deferred debits by
11 using historical amounts as unsubstantiated proxies for
12 what he asserts is reflected in FPL's forecasted test
13 year.

14 In adjusting capital structure to rate base,
15 Intervenors overstate the availability of cost free
16 capital by assigning a greater portion of that capital
17 to support rate base while adjusting all other sources
18 on a pro rata basis. This deviates from the consistent
19 approach used by FPL and validated by this Commission.

20 It would be improper to double-count the
21 impact of deferred taxes in setting rates and risk
22 violating the normalization rules of the Internal
23 Revenue Service.

24 The Intervenors recommend that the same
25 weighted average cost of capital be used for both the

1 Canaveral step increase and the January 2013 base rate
2 increase. I demonstrate that this recommendation is
3 inconsistent and unreasonable.

4 FPL has used an incremental cost of capital
5 calculation consistently for both removing Canaveral
6 costs from the January 2013 base rate increase and in
7 calculating the step increase.

8 Additionally, I provide the correct
9 calculation of deferred taxes to be used in the revenue
10 requirement calculation for that Canaveral step
11 increase.

12 OPC Witness Vondle's criticism of FPL's
13 procedures for affiliate transactions is misguided and
14 portrays an unfamiliarity with FPL, the Federal Energy
15 Regulatory Commission, and the Florida Public Service
16 Commission rules and practices. I demonstrate that
17 FPL's controls continue to be reasonable and work to
18 ensure full compliance with the affiliate rules.

19 FPL has produced a massive volume of
20 documentation in formal and informal discovery
21 concerning affiliate charges, and the staff auditors
22 likewise conducted a thorough review. Despite all of
23 this evidence to the contrary, Mr. Vondle recommends an
24 arbitrary and unfounded reduction in revenue
25 requirements. Replacing a calculation that produces

1 reasonable results with one that is wholly unsupported
2 would be arbitrary and unfair.

3 I rebut Intervenor proposals to adopt an
4 unwarranted change in accounting principles for nuclear
5 maintenance. They seek to achieve a one-time rate
6 reduction that's inconsistent with current Commission
7 policy, as evidenced in recent orders -- I'm sorry -- in
8 orders for both Progress and FPL.

9 Lastly, I identify and describe on Exhibit
10 KO-16 certain adjustments that correct for errors that
11 have been identified over the course of discovery in
12 this docket.

13 With the company's direct and rebuttal
14 testimonies, its prefiled case, and the adjustments on
15 KO-16, the Commission has available to it all financial
16 information necessary and relevant to determine the
17 proper base rate increase for FPL on January 13 --
18 January 1st, 2013, and for the Canaveral step increase.

19 This completes my summary.

20 **MR. BUTLER:** Thank you, Ms. Ousdahl.

21 I tender the witness for cross-examination.

22 **CHAIRMAN BRISÉ:** Thank you.

23 Mr. Moyle.

24 **MR. MOYLE:** Thank you, Mr. Chairman.

25 **CROSS EXAMINATION**

1 BY MR. MOYLE:

2 Q Good morning, Ms. Ousdahl.

3 A Good morning.

4 Q Does the FPL name have value?

5 A I don't know.

6 Q So with respect to the, your testimony about
7 affiliate transactions on page 23, line 18, you say FPL
8 is subject to close oversight and scrutiny of the
9 Commission and numerous other governmental bodies and
10 regulatory bodies; correct?

11 A That's correct.

12 Q And that FPL must ensure full compliance with
13 applicable laws, regulation, and Commission policies; is
14 that right?

15 A That's correct.

16 Q Okay. Is it your testimony that you indeed
17 are in full compliance with the applicable laws,
18 regulations, and Commission policies?

19 A Yes, it is.

20 Q Okay. So if for the purposes of my question I
21 asked you to assume that FPL's name had value, would
22 your testimony be the same with respect to being in
23 compliance with the laws and rules and regulations?

24 A It's a little bit difficult question. Let
25 me -- I'll try to answer it. The Commission rules and

1 the FERC rules in my estimation don't consider something
2 as difficult as an intangible, like value of a name or
3 an association. They instead look very clearly at
4 subsidization, and they clearly prohibit any
5 subsidization by the company in the -- for the benefit
6 of its affiliates.

7 And in doing so, you look at the prices that
8 you could obtain in the market for services versus what
9 you're billing your affiliates. That's the origin of
10 the asymmetric pricing rule.

11 When you start to look at something like a
12 name, it becomes very difficult to assess any real value
13 and to determine, if there were such an assessment, how
14 it would be applied.

15 I think, Mr. Moyle, because there is no
16 assessment for FPL's name, it's really not a relevant
17 exercise in this proceeding.

18 Q So if I understand your testimony, it's not
19 that it's impossible, it's just difficult to, you know,
20 to value a name? I mean, is that right?

21 A I would submit that it would be impossible to
22 get a precise value of the name of the company.

23 Q And have you made any inquiry with appraisers
24 or others, we've had a lot of experts here, but have you
25 made any inquiry with respect to efforts to place a

1 value on, on FPL's name?

2 A No, because it's not required in order to be
3 compliant with the rule.

4 Q And factually, like FPL FiberNet, you don't
5 charge FPL FiberNet any monies or do any allocation with
6 respect to that separate standalone company using the
7 name FPL; correct?

8 A Your question was a little bit difficult for
9 me.

10 Q Okay.

11 A We don't do any allocations associated with a
12 assumed value of the name. We perform a number of
13 transactions, both in receipt of services from FiberNet
14 and provision of services to FiberNet --

15 Q Yes, ma'am.

16 A -- in compliance with the rule.

17 Q I'm just focusing on the name.

18 A Okay.

19 Q So I understand that.

20 A I just wanted to make sure.

21 Q Okay. I appreciate that clarification.

22 So, just so the record is clear, with respect
23 to the name, there's no, there's no allocation relative
24 to the value of the name when FPL FiberNet uses the FPL
25 name; correct?

1 A That's correct, as I stated before.

2 Q And the same question with respect to any
3 other affiliate that uses the FPL name, there's no
4 allocation related to that; correct?

5 A Right. There is no value that we could
6 derive, so therefore there's no subsidization.

7 Q And how long has FPL been in business?

8 A I believe since the early '20s.

9 Q Do you believe that it has a good name?

10 A I'm sorry?

11 Q Do you believe that it has a good name?

12 A I'm, I'm not a branding expert.

13 Q Just in your opinion. I'm not -- just as you
14 sit here today.

15 A I don't have an opinion on it. I think the
16 evidence for this Commission to consider is that the
17 company abandoned the use of the FPL name for its parent
18 and its largest affiliate in 2010. If the FPL name had
19 such tremendous value, I would find that to be an odd
20 thing for us to do.

21 Q And isn't it true the reason that they made
22 the name change was because of confusion relative to the
23 holding company and the operating company?

24 A Not that I'm aware of.

25 Q Let me refer you to your Exhibit KO-17.

1 Actually, you know what, before I, before I go back to
2 that, you would agree that, that FPL has the burden of
3 proof with respect to affiliate transactions; correct?

4 **A** Yes, I do.

5 **Q** Okay. And so, and so to the extent, if, if
6 this Commission were to make a judgment that, well,
7 maybe there is some value in the FPL name, and you've
8 offered nothing relative to the value of the FPL name,
9 wouldn't you believe it would be within their discretion
10 to make an adjustment along the lines suggested by the
11 OPC witness, where you say, well, they didn't, they
12 didn't present any evidence, they didn't carry their
13 burden of proof, we'll do a 20%, 10%, 15%, some type of
14 an adjustment relative, you know, to the, to the name
15 issue?

16 **MR. BUTLER:** I'm going to object to the
17 question as calling for a legal conclusion.

18 **MR. MOYLE:** I asked her for her understanding.
19 I mean, lawyers can brief the legal conclusion of it.

20 **MR. BUTLER:** I think, if I understood the
21 question, it was whether the Commission would have the
22 authority to make that sort of adjustment, which sounds
23 to me like a legal conclusion.

24 **CHAIRMAN BRISÉ:** Maybe if you could rephrase
25 the question, Mr. Moyle.

1 BY MR. MOYLE:

2 Q You, are you aware that in a lot of decisions
3 that this Commission has to make, ROE and others, that
4 they are able to exercise discretion?

5 A Based on the record evidence.

6 Q Okay. And, and you're not aware of anything
7 that would suggest that likewise they can't make a
8 decision with respect to affiliate transactions either
9 based on the record evidence or based on the lack of
10 record evidence; correct?

11 A I would disagree that it would be appropriate
12 for the Commission to issue an order that would cause us
13 to have a revenue requirements reduction based on no
14 evidence in the record. I would disagree with that.

15 Q But, but, but you haven't brought forward any
16 evidence relative to the value of the FPL name; correct?

17 A I've stated that there is no assessed value.

18 Q And are you aware of there being any evidence
19 in this record with respect to the value of the FPL
20 name?

21 A I think we've got evidence in the record that
22 we believe it's not an appropriate revenue requirement
23 reduction based on the rule. I think we've met our
24 burden in that regard, yes.

25 Q So by not putting any evidence in, you would

1 take the position you win on that issue?

2 **A** I think I've got evidence in my testimony that
3 states that there's no assessment of the value of the
4 name. There's no, there's no evidence that that name is
5 providing value to the affiliates or resulting in a
6 subsidization that would harm our customers.

7 **Q** Do you think, do you think FPL or you as a
8 senior manager in FPL would be willing to sell me the
9 name FPL for \$10,000?

10 **A** I do not know.

11 **Q** Your Exhibit KO-17.

12 **A** Yes.

13 **Q** This is, if I understand this exhibit, it is a
14 list of sole source contracts that you have; is that
15 right?

16 **A** The exhibit is a list responding to comments
17 made by Witness Vondle in his testimony. So it is an
18 excerpt of items that he called out in his testimony,
19 and I'm responding to those.

20 **Q** So I'm wanting to refer you to the last page
21 of your Exhibit 17.

22 **A** There's only one page of my Exhibit 17.

23 **Q** Thank you. And the document is entitled sole
24 source arrangements, is that right, over on the
25 right-hand side?

1 **A** Right. That's correct.

2 **Q** And on item 4 it says, in July 2010 FPL
3 entered into an agreement with FPL Ready Power, LLC, to
4 purchase two generators with liquid propane tanks and
5 fuel for the hurricane shelters at FPL's Turkey Point
6 plant. Is it your understanding that, that there was no
7 other provider of generators?

8 **A** No. The definition of sole source is that
9 there is a preferred provider for various reasons,
10 whether it's reliability, knowledge, speed of the
11 ability to serve, price, whatever it may be.

12 **Q** And then down on, on line 8, this is an item
13 that relates to renewable energy credits; correct?

14 **A** That's correct.

15 **Q** Do renewable energy credits have value?

16 **A** They, they may.

17 **Q** Do you know why FPL bought renewable energy
18 credits?

19 **A** We didn't. This states that it was
20 transferred at zero cost.

21 **Q** Okay. Do you know why, why FPL received via a
22 transaction renewable energy credits?

23 **A** No. I think it was just part of an enterprise
24 association. We were obtaining lead certification and
25 environmental certification for the building that we

1 share, and NextEra Energy Marketing is a provider of
2 credits, and those were transferred to the company at
3 zero cost.

4 Q Okay. And then finally, on line 9 there's a
5 Palms Insurance Company?

6 A That's correct.

7 Q You're aware that there are a whole host of
8 insurance companies in the state of Florida that are
9 regulated and authorized to do business, in addition to
10 Palms Insurance Company; correct?

11 A That's correct.

12 MR. MOYLE: That's all I have.

13 CHAIRMAN BRISÉ: Mr. Wiseman.

14 MR. WISEMAN: Thank you, Mr. Chair.

15 **CROSS EXAMINATION**

16 **BY MR. WISEMAN:**

17 Q Good morning, Ms. Ousdahl.

18 A Good morning.

19 Q Would you agree that maintenance costs for
20 nuclear, nuclear outages are often quite large?

21 A Yes, they are.

22 Q And in fact they can run tens of millions of
23 dollars just for a single outage; isn't that correct?

24 A That's correct.

25 Q And would you agree that an outage can take

1 place over the course of a, a month or more?

2 **A** Yes. In the past our outages tended to lapse
3 30 days, and they're, they're longer today due to the
4 uprate projects.

5 **Q** Okay. And am I right that FPL tries to
6 schedule its nuclear outages approximately every
7 month -- every 18 months? Sorry.

8 **A** That's correct.

9 **Q** Okay. Now, if FPL were not a regulated
10 utility and if the Commission hadn't authorized it to do
11 so, it would be required to expense its nuclear outage
12 expenses at the time that those costs were incurred; is
13 that correct?

14 **A** That's not correct.

15 **Q** It would be able to use reserve accounting
16 even if it were not a regulated, a regulated company?

17 **A** It would defer and amortize. It would be
18 allowed to defer and amortize those maintenance costs.

19 **Q** You used the phrase in your testimony,
20 accrue and -- when referring to the accrual method that
21 FPL uses, you refer to it as accrue in advance; is that
22 correct?

23 **A** That's correct.

24 **Q** And in Mr. Barrett's testimony he refers to it
25 as reserve in advance; right?

1 **A** I don't recall.

2 **Q** Okay. And -- well, do you recall Mr. Kollen
3 refers to it as a prepaid methodology?

4 **A** I do.

5 **Q** Regardless of which of those terminologies we
6 use, those would all refer to the same methodology;
7 would you agree with that?

8 **A** The methodology we use today, that's correct.

9 **Q** Okay. Now, under the methodology that's in
10 effect today, the reserve in advance, you estimate the
11 cost of future outages and determine an accrual amount
12 to make each month in order to get the reserve balance
13 up to a level that would match the projected costs
14 before an actual outage occurs; is that right?

15 **A** Yes.

16 **Q** Okay. And it's the computed accrual amount in
17 a month that gets expensed, to get on books; right?

18 **A** That's correct.

19 **Q** Now, you'd agree that it's set up in that way
20 so that current customers are paying for costs that will
21 be incurred some months in the future; right?

22 **A** I would agree that customers would pay that
23 expense in rates as it's accrued, and that is while the
24 unit is being operated, which is what gives rise to the
25 maintenance at the end of that period. So much like

1 depreciation, we're accruing it during the --

2 **MR. WISEMAN:** Your Honor, Your Honor, I think
3 the question is now going beyond the question asked.

4 **CHAIRMAN BRISÉ:** If we could, just a reminder
5 that yes, no, brief comment, if necessary, specifically
6 to the question that's posed.

7 **THE WITNESS:** Yes, sir.

8 **BY MR. WISEMAN:**

9 **Q** Ms. Ousdahl, just to go back to the question,
10 isn't it a fact that under the system, the methodology,
11 the way it works right now, is that current customers
12 are paying costs that, you know, the maintenance outage
13 expenses may be incurred in 2014 or 2015; isn't that
14 correct?

15 **A** Yes, it's correct we're paying the expense --
16 the customers are paying the expense as it's accrued
17 prior to the outage.

18 **Q** Now, would you agree that FPL doesn't always
19 know the full scope of an outage until the outage
20 actually occurs?

21 **A** Yes. As with many items in accounting, we
22 have to estimate the incurred cost prior to the event.

23 **Q** And the actual expenses of the outage may be
24 more or less than what FPL projects; is that fair?

25 **A** That's fair.

1 Q And, in fact, isn't it right that sometimes
2 the outage dates change? For instance, I believe that
3 the Port St. Lucie outage was delayed from the spring of
4 2013 to the fall of 2013; is that right?

5 A Yes, the dates can change.

6 Q Okay. So you'd agree then there's no
7 certainty before an outage occurs as to the actual
8 amount of expenses that will be incurred, as to the
9 actual time of the outage, or as to the scope of the
10 outage; correct?

11 A Well, I wouldn't agree there's no certainty.
12 I would, I would agree that there's estimation risk.

13 Q And so -- and things change and the estimates
14 may be off; correct?

15 A That's correct.

16 Q Okay. But the goal is to have the estimated
17 outage costs accrued in reserve before the outage
18 occurs; is that right?

19 A That's correct.

20 Q Now, and then the actual costs, when they are
21 incurred, those will be applied on the books against the
22 reserve balance; right?

23 A That's correct. The reserve is debited.

24 Q Okay. And then when the outage actually
25 occurs there's in effect a true-up against the actual

1 costs; right?

2 **A** Well, when estimates change throughout the
3 accrual period, we're truing it up at that point in
4 time. You don't wait until the end. So if we know
5 there's going to be a schedule change or a scope change,
6 we would begin to reflect that change in the accrual,
7 but during the period.

8 **Q** And when the actual outage occurs and the
9 expenses have, are then known, don't you do some sort of
10 a true-up against the reserve balance?

11 **A** If it's necessary, if we haven't adequately
12 reflected the change during the accrual period.

13 **Q** All right. Now, Mr. Kollen proposed that FPL
14 use a postpaid methodology instead of the reserve in
15 advance methodology; right?

16 **A** Yes.

17 **Q** Okay. And under the postpaid methodology,
18 costs would be reserved when they actually are incurred;
19 is that your understanding?

20 **A** Yes. The company would bear the costs, and
21 then they would become amortized and recovered from
22 customers.

23 **Q** Okay. And under the postpaid methodology,
24 ratepayers would only pay the actual amount that was
25 incurred; correct?

1 **A** Well, I think the ratepayer is indifferent,
2 but, yes, they would pay the amount. Expense would
3 begin to be recorded after the actual amounts were
4 known. That's correct.

5 **Q** Okay. And under the postpaid methodology,
6 costs that are reserved would be amortized over a period
7 of time and reflected as an expense; is that right?

8 **A** Right. Essentially the same amortization
9 period --

10 **Q** Right.

11 **A** -- going from the end of an outage to the
12 beginning of the next.

13 **Q** And do you recall Mr. Kollen recommended that
14 the amortization period be 18 months; is that right?

15 **A** Well, the amortization period is a function of
16 the fuel requirements. And, yes, it typically runs
17 about 18 months.

18 **Q** All right. Now, can you refer to page 38 of
19 your rebuttal testimony, specifically to line 15. Just
20 review that, if you would.

21 **A** Yes.

22 **Q** Would you agree that you're, what you're
23 saying there is the only difference between the prepaid
24 or accrue in advance methodology and the postpaid
25 methodology is the timing of the recognition of the

1 expenses?

2 **A** Yes.

3 **Q** Okay. Now, whether FPL uses a prepaid
4 methodology or a postpaid methodology, the net present
5 value to FPL is the same; correct?

6 **A** Yes. Regulatory accounting ensures that, you
7 know, there really is no difference.

8 **Q** Would you agree that there is a different
9 impact on ratepayers, however, of using the reserve in
10 advance methodology versus the postpaid methodology?

11 **A** No.

12 **Q** Well, when you, when you pay the, when you use
13 the reserve in advance methodology, doesn't FPL have to
14 pay income tax on that amount?

15 (Technical difficulties with sound system.)

16 **CHAIRMAN BRISÉ:** I guess it will probably be
17 appropriate for us to take a brief recess until we're
18 back on.

19 (Recess taken.)

20 All right. We're going to go ahead and
21 reconvene at this time. Actually, let me give everybody
22 about a minute, if they can hear us outside or whatever,
23 so that they can find their way.

24 Okay. You may proceed, Mr. Wiseman.

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

1 you, Mr. Chairman.

2 **BY MR. WISEMAN:**

3 **Q** Ms. Ousdahl, I think before the break the
4 question I had asked you is isn't the prepaid variation
5 more expensive to customers because they lose a portion
6 of the return on their prepayment due to the fact that
7 FPL has to pay income taxes on the prepaid, on the
8 prepaid amounts; isn't that correct?

9 **A** It's correct -- is this working? Oh, I'm
10 sorry.

11 It's correct that there is a deferred tax
12 asset recorded for the amount of taxes we pay. I'm, I'm
13 not agreeing with your statement that it's more
14 expensive to customers or more harmful to customers. I
15 mean, if, if -- in the defer and amortize method, what
16 Witness Kollen calls the postpaid method, the customers
17 would be paying a return on the regulatory asset net of
18 a deferred tax liability. So regulatory accounting is
19 set up to contemplate the proper weighting of prepayment
20 versus a post payment.

21 **Q** Does FPL pay income tax on the, on the
22 prepayment that the customers make?

23 **A** If the expense we -- yes. If the expense we
24 receive from customers is higher in that period than the
25 actual costs incurred, because that's how it's treated

1 for tax purposes, then there would be deferred taxes
2 recorded and the customer (phonetic) would pay a return
3 on those deferred taxes.

4 **MR. WISEMAN:** Thank you very much. Thank you,
5 Ms. Ousdahl. And, Mr. Chairman, that's all I have.

6 **CHAIRMAN BRISÉ:** All right. Thank you very
7 much.

8 Next we have FEA. All right. I guess we'll
9 move on and maybe come back to him if, if he has
10 questions, unless somebody knew if he was out in the
11 lobby and -- okay.

12 (Pause.)

13 I did say ten minutes, huh?

14 **CAPTAIN MILLER:** I actually have one question.

15 **CHAIRMAN BRISÉ:** Sorry that we didn't have
16 military precision in terms of time. So you may
17 proceed.

18 (Laughter.)

19 **CROSS EXAMINATION**

20 **BY CAPTAIN MILLER:**

21 **Q** Would you say, considering the Uniform System
22 of Accounts that you use for FPL, is there a category
23 for goodwill?

24 **A** There is something similar, an acquisition
25 adjustment category. Yes.

1 **Q** And in that category is any value attributed
2 to FPL's name?

3 **A** No.

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

5 **CHAIRMAN BRISÉ:** Mr. Rehwinkel, OPC.

6 **MR. REHWINKEL:** Yes. Mr. Chairman, just a
7 housekeeping matter, by agreement with counsel for FPL,
8 I will ask Ms., Ms. Ousdahl about the item from her
9 direct testimony that was part of a late-filed filing,
10 and then Ms. Christensen will replace me and ask about
11 affiliate transaction issues.

12 **CHAIRMAN BRISÉ:** Okay.

13 **MR. REHWINKEL:** What I would like to do, the
14 staff has passed out several documents, and the last
15 document in the stack is identified by the label, FPL
16 uncollectible account reserve information. And I spoke
17 with staff counsel, and just, since they're ready to
18 put -- they've distributed this.

19 **MS. KLANCKE:** For the sake of expediting the
20 passing out process, we utilized the break to pass out
21 the documents. And OPC is referring to this document,
22 which is the last one in your paper-clipped stack.

23 **CHAIRMAN BRISÉ:** Thank you. So it's addendum
24 to Exhibit 110, the errata?

25 **MS. KLANCKE:** No. It's -- this is the one

1 that's at the very bottom, called FPL uncollectible
2 account reserve information.

3 **CHAIRMAN BRISÉ:** Perfect. Got it. Thank you.

4 **MR. REHWINKEL:** Sorry about the confusion.

5 So, Mr. Chairman, I guess this should be given
6 a number.

7 **CHAIRMAN BRISÉ:** Yes. And we are at 594 --
8 95. I'm sorry.

9 **MS. KLANCKE:** Yes.

10 **CHAIRMAN BRISÉ:** 595.

11 (Exhibit 595 marked for identification.)

12 (Transcript continues in sequence with Volume
13 25.)

