

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Increase in Rates by Florida Power & Light Company	DOCKET NO. 120015-EI Filed: November 13, 2012
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**CORRECTED SUPPLEMENTAL REBUTTAL
TESTIMONY AND EXHIBITS OF
JEFFRY POLLOCK**

ON BEHALF OF
THE FLORIDA INDUSTRIAL POWER USERS GROUP



J. POLLOCK
INCORPORATED

COM	5
AFD	4
APA	1
ECO	1
ENG	1
GCL	1
IDM	1
TEL	1
CLK	1

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CORRECTED SUPPLEMENTAL REBUTTAL DIRECT TESTIMONY

1 **Q PLEASE STATE YOUR NAME.**

2 A Jeffry Pollock.

3 **Q ARE YOU THE SAME JEFFRY POLLOCK WHO PREVIOUSLY FILED DIRECT**
4 **AND SUPPLEMENTAL TESTIMONY AND EXHIBITS ON BEHALF OF THE**
5 **FLORIDA INDUSTRIAL POWER USERS GROUP (FIPUG) IN THIS**
6 **PROCEEDING?**

7 A Yes.

8 **Q WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL**
9 **TESTIMONY?**

10 A I reply to the assertions by OPC witnesses' Donna M. Ramas and Kevin W.
11 O'Donnell that the Settlement is not in the public interest.

12 **Q ARE YOU SUBMITTING ANY EXHIBITS IN CONNECTION WITH YOUR**
13 **SUPPLEMENTAL REBUTTAL TESTIMONY?**

14 A Yes. I am filing **Exhibits JP-19** and **JP-20**. In addition, I am submitting Errata to
15 **Exhibits JP-15** and **JP-16** that were filed in my Supplemental Direct Testimony.
16 The errata are provided in **Exhibits JP-21** and **JP-22**. All of these exhibits were
17 prepared either by me or under my direction and supervision.

1 **Rebuttal to Donna M. Ramas**

2 **Q ON PAGE 7 OF HER SUPPLEMENTAL DIRECT TESTIMONY, MS. RAMAS**
3 **CRITICIZES EXHIBIT JP-15 BECAUSE (SHE ASSERTS) IT DOES NOT**
4 **DEMONSTRATE THAT THE RESULTING RATES WOULD BE FAIR OR**
5 **REASONABLE BASED ON FPL'S COSTS. DO YOU AGREE WITH HER**
6 **CRITICISM?**

7 **A** No. I acknowledge that rate case participants will view FPL's costs differently
8 and, as a result, it is no surprise that there are differences in the recommended
9 revenue requirements among the various parties. This is the general nature of
10 ratemaking. However, she misconstrues the purpose of **Exhibit JP-15**, which is
11 not to quantify every component of FPL's cost of service, but to demonstrate how
12 the proposed \$378 million is clearly a compromise between competing interests.

13 **Q HOW DOES EXHIBIT JP-15 DEMONSTRATE THAT THE SETTLEMENT IS**
14 **CLEARLY A COMPROMISE BETWEEN COMPETING INTERESTS?**

15 **A** As stated in my Supplemental Direct Testimony, FPL's interest is to establish
16 rates that reflect its cost of providing service. Ultimately, FPL's cost of service is
17 the sum of the return on rate base and operating expenses. Customers'
18 interests, by contrast, are to ensure that FPL provides reliable service at the
19 lowest reasonable rates. These competing objectives can be balanced by
20 providing FPL a reasonable opportunity to earn a reasonable return on rate base
21 and to recover reasonable and necessary operating expenses.

22 In this context, **Exhibit JP-15** focuses on only one segment of FPL's
23 costs that have increased since the last rate case: jurisdictional rate base.

1 Jurisdictional rate base is largely driven by changes in net plant investment due
2 to new infrastructure. It does not consider changes in FPL's non-fuel operating
3 expenses for the 2013 test year. Nor does **Exhibit JP-15** address changes in
4 post-test year infrastructure costs or operating expenses through 2016 except as
5 allowed under the various GBRA adjustments. Thus, FPL will have to manage
6 operating expenses during the test year as well as in future years through 2016.
7 In other words, FPL will have an opportunity, but not a guarantee, to earn the
8 authorized return even if sales increase. When viewed in this context, the
9 Settlement is a compromise between FPL's and customers' interests.

10 **Q ON PAGE 8 OF HER SUPPLEMENTAL TESTIMONY, MS. RAMAS STATES**
11 **THAT SHE COULD NOT VERIFY THE ACCURACY OF THE INFORMATION**
12 **PRESENTED IN EXHIBIT JP-15. IS THIS STILL AN ISSUE?**

13 **A** No. FIPUG will provide the documents requested by OPC that show the source
14 of the information that Ms. Ramas asserts was impeding her ability to analyze the
15 exhibit. As she will discover, all of the information was taken from MFR
16 schedules filed in this case, information provided in the pending Capacity Cost
17 Recovery case, and information attached to the final Order in FPL's last rate
18 case. Had discovery requests been served the week following the date that
19 Supplemental Testimony was filed (October 12, 2012), Ms. Ramas would not
20 have had to speculate about the source of the information in her Supplemental
21 Testimony.

1 **Q IN PREPARING FIPUG'S RESPONSES TO OPC'S FIRST REQUEST FOR**
2 **PRODUCTION OF DOCUMENTS, DID YOU FIND ANY PROBLEMS WITH**
3 **EXHIBIT JP-15?**

4 A Yes. In preparing the response I discovered an error in the calculation of
5 incremental jurisdictional rate base. Specifically, I did not remove the costs
6 associated with the Cape Canaveral modernization project, which will be
7 collected through a separate GBRA mechanism and not base rates. I also
8 updated the information pertaining to West County Unit No. 3 based on FPL's
9 recent filing in Docket No. 120001-EI. The latter costs were initially reflected in
10 FPL's proposed rate base. Under the Settlement, they will continue to be
11 collected in the Capacity Cost Recovery clause. Finally, the amortization of the
12 depreciation surplus was already reflected in depreciation expense and should
13 not have been separately netted against the revenue deficiency.

14 **Q HOW WOULD THESE CHANGES AFFECT EXHIBIT JP-15?**

15 A FPL's infrastructure related revenue deficiency would be \$14.2 million lower than
16 reflected in the original exhibit. These changes are reflected in an errata
17 document to my direct testimony that, as a convenience, I have attached as
18 **Exhibit JP-21**. The supporting calculations were provided to OPC.

19 **Q MS. RAMAS WAS ALSO PERPLEXED BY YOUR ASSUMPTION THAT THE**
20 **REMAINING SURPLUS DEPRECIATION WOULD BE AMORTIZED OVER 18**
21 **MONTHS. IS THE AMORTIZATION PERIOD RELEVANT?**

22 A No. Ms. Ramas quoted the Commission's Order No. PSC-11-0089-S-EI, which
23 stated that the Commission could order a different treatment than the one

1 authorized in FPL's last rate case. (Ramas Supplemental Testimony at 9-10).
2 Thus, the Commission is free to judge the reasonableness of the Settlement in
3 any way that it chooses, including using a different amortization period for the
4 remaining surplus depreciation.

5 **Q WOULD YOUR OPINION CHANGE IF YOUR ANALYSIS IS UPDATED TO**
6 **REFLECT FPL'S POST-HEARING CHANGES?**

7 A No. **Exhibit JP-19** is a revised calculation using the changes in rate base, rate
8 of return, and operating expenses reflected in FPL's post-hearing brief. As can
9 be seen on line 7, FPL's infrastructure-related revenue deficiency would be \$391
10 million. This includes an amortization of the remaining depreciation surplus in
11 2013 as the Commission ordered in FPL's last rate case.

12 **Q PLEASE SUMMARIZE YOUR REBUTTAL TO MS. RAMAS.**

13 A The 2013 base rate increase is only one of many components of the proposed
14 Settlement. When viewed in the context of **Exhibits JP-19** and **JP-21**, it is clear
15 that the Settlement revenue requirement is a compromise between FPL's and
16 customers' interests.

1 **Rebuttal to Mr. Kevin W. O'Donnell**

2 **Q MR. O'DONNELL ASSERTS THAT A 10.7% RETURN ON EQUITY IS TOO**
3 **HIGH, AND FURTHER, IT IS NOT CONSISTENT WITH THE RETURNS**
4 **AUTHORIZED BY OTHER STATE REGULATORY COMMISSIONS. IS THIS A**
5 **REASON TO REJECT THE SETTLEMENT?**

6 A No. The authorized ROE (and associated rate of return) is just one of many
7 aspects of the Settlement. As previously stated, the Settlement does not
8 address the ratemaking treatment of test year (*i.e.*, 2013) expenses, future
9 infrastructure investment and post-test year (*i.e.*, 2014-2016) expenses (except
10 for the specific power plants that are subject to the GBRA mechanism). Further,
11 although I disagree with portions of Mr. O'Donnell's analysis, I do not dispute his
12 conclusion that a 10.7% ROE is above-average relative to returns authorized by
13 state regulatory commissions for integrated investor-owned electric utilities. This
14 is not, however, a sufficient ground to reject the Settlement.

15 **Q ARE OTHER ELECTRIC UTILITIES AUTHORIZED TO EARN HIGHER**
16 **RETURNS ON EQUITY THAN THE 10.7% UNDER THE SETTLEMENT?**

17 A Yes. Several integrated investor-owned electric utilities have authorized ROEs
18 that are higher than 10.7%. These include:

- 19 • Alabama Power Company (13.75%);
- 20 • Alaska Electric Light & Power Company (12.88%);
- 21 • Dominion Virginia Power Company (over 11%);
- 22 • Appalachian Power Virginia (between 10.53% and 11.4%);
- 23 • Pacific Gas & Electric Company (11.35%);

- 1 • Tampa Electric Company (11.25%);
2 • Georgia Power Company (11.15%);
3 • South Carolina Electric & Gas Company (10.7% and 11%); and
4 • Otter Tail Power Company Minnesota (10.74%).

5 Thus, 10.7% is not the highest authorized ROE. Further, FPL must compete for
6 capital with other utilities, including those that are authorized to earn ROEs
7 above 10.7%.

8 **Q HAVE YOU REVIEWED MR. O'DONNELL'S EXHIBIT KWO-13?**

9 A Yes. Exhibit KWO-13 is Mr. O'Donnell's analysis of the ROEs authorized by
10 state regulators in 2012.

11 **Q DO YOU HAVE ANY CONCERNS ABOUT MR. O'DONNELL'S ANALYSIS?**

12 A I have several concerns with the analysis. First, not all of the utilities listed in
13 Exhibit KWO-13 are integrated electric utilities (*e.g.*, Commonwealth Edison,
14 Orange & Rockland Utilities, Delmarva Power & Light, and Potomac Edison).
15 Second, Mr. O'Donnell omitted all regulatory orders in Virginia and excluded
16 Progress Energy Florida. Further, he ignored regulatory decisions rendered prior
17 to 2012.

18 **Q TURNING TO YOUR FIRST CONCERN, IS IT REASONABLE TO INCLUDE**
19 **NON-INTEGRATED ELECTRIC UTILITIES?**

20 A No. Non-integrated electric utilities do not own generation capacity. As such,
21 they face different risks than integrated electric utilities that supply both
22 generation and delivery services.

1 Q DID MR. O'DONNELL EXPLAIN WHY HE EXCLUDED VIRGINIA FROM THE
2 ANALYSIS?

3 A No. As previously stated, FPL must compete with other utilities for capital. This
4 includes Dominion Virginia Power and Appalachian Power Company, which are
5 regulated by the Virginia State Corporation Commission. Since FPL's last rate
6 case, these utilities have been authorized to earn ROEs ranging from 10.53% to
7 11.4% for Appalachian Power Company and from 11.65% to 12.4% for Dominion
8 Virginia Power.

9 Q HOW WOULD THESE CONCERNS IMPACT MR. O'DONNELL'S ANALYSIS?

10 A Had Mr. O'Donnell excluded non-integrated electric utilities and included both
11 Virginia and Progress Energy Florida, the average authorized ROE in 2012
12 would have been 10.18% nationwide and 10.8% for electric utilities located in
13 southeastern states.

14 Q IS IT REASONABLE TO LIMIT AN ANALYSIS ONLY TO REGULATORY
15 DECISIONS RENDERED IN 2012.

16 A No. This is too short of a period to measure the reasonableness of a settlement
17 that will remain in effect for four years. While Mr. O'Donnell cites the influence of
18 rising utility stock prices and declining interest rates on the cost of equity, it is
19 clear that these phenomena has been ongoing since prior to FPL's last rate case.
20 This is demonstrated in **Exhibit JP-20**, which shows the trends in utility stock
21 prices (page 1) and the 30-year Treasury Bonds (page 2). As can be seen, utility
22 stock prices have been trended upward since the first quarter of 2009. The

1 yields on 30-year Treasury Bonds fluctuated around 3.5% through September
2 2011 and have trended downward since.

3 **Q DOES THE TREND IN AUTHORIZED ROES GENERALLY CORRESPOND**
4 **WITH THE TRENDS IN UTILITY STOCK PRICES AND YIELDS ON 30-YEAR**
5 **TREASURY BONDS?**

6 **A** As can be seen in the table below, authorized ROEs nationwide remained
7 relatively flat following FPL's last rate case through 2011 and, thus far, have
8 declined in 2012. However, during this same period, authorized ROEs have
9 increased for integrated investor-owned electric utilities located in the southeast.

Authorized ROEs for Integrated Investor-Owned Electric Utilities		
Period	Nationwide	Southeast
3/10-12/10	10.34%	10.77%
CY 2011	10.35%	10.69%
1/12-9/12	10.18%	10.80%
3/10-9/12	10.30%	10.76%

10 The period data was originally provided in **Exhibit JP-16** and was revised to
11 include West Virginia as a southeast state. The revised analysis is provided in
12 **Exhibit JP-22.**

13 **Q PLEASE SUMMARIZE YOUR REBUTTAL TO MR. O'DONNELL.**

14 **A** Similar to Ms. Ramas, Mr. O'Donnell has chosen to criticize one aspect of the
15 Settlement, the authorized ROE, to bolster his claim that the Settlement is not in
16 the public interest. The authorized ROE is only one of many compromises
17 reflected in the Settlement. Other compromises will primarily benefit FPL's
18 customers. This includes a four-year base rate freeze, movement of rates closer

1 to parity and requiring FPL to absorb higher test year (*i.e.*, 2013) operating
2 expenses, future infrastructure investment and additional post-test year (*i.e.*,
3 2014-2016) expenses in order to earn the authorized ROE. In other words the
4 Settlement will provide the opportunity, but not the guarantee, that FPL will earn
5 a 10.7% ROE. For this reason, I believe that the Settlement is in the public
6 interest and should be adopted.

7 **Q DOES THIS CONCLUDE YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?**

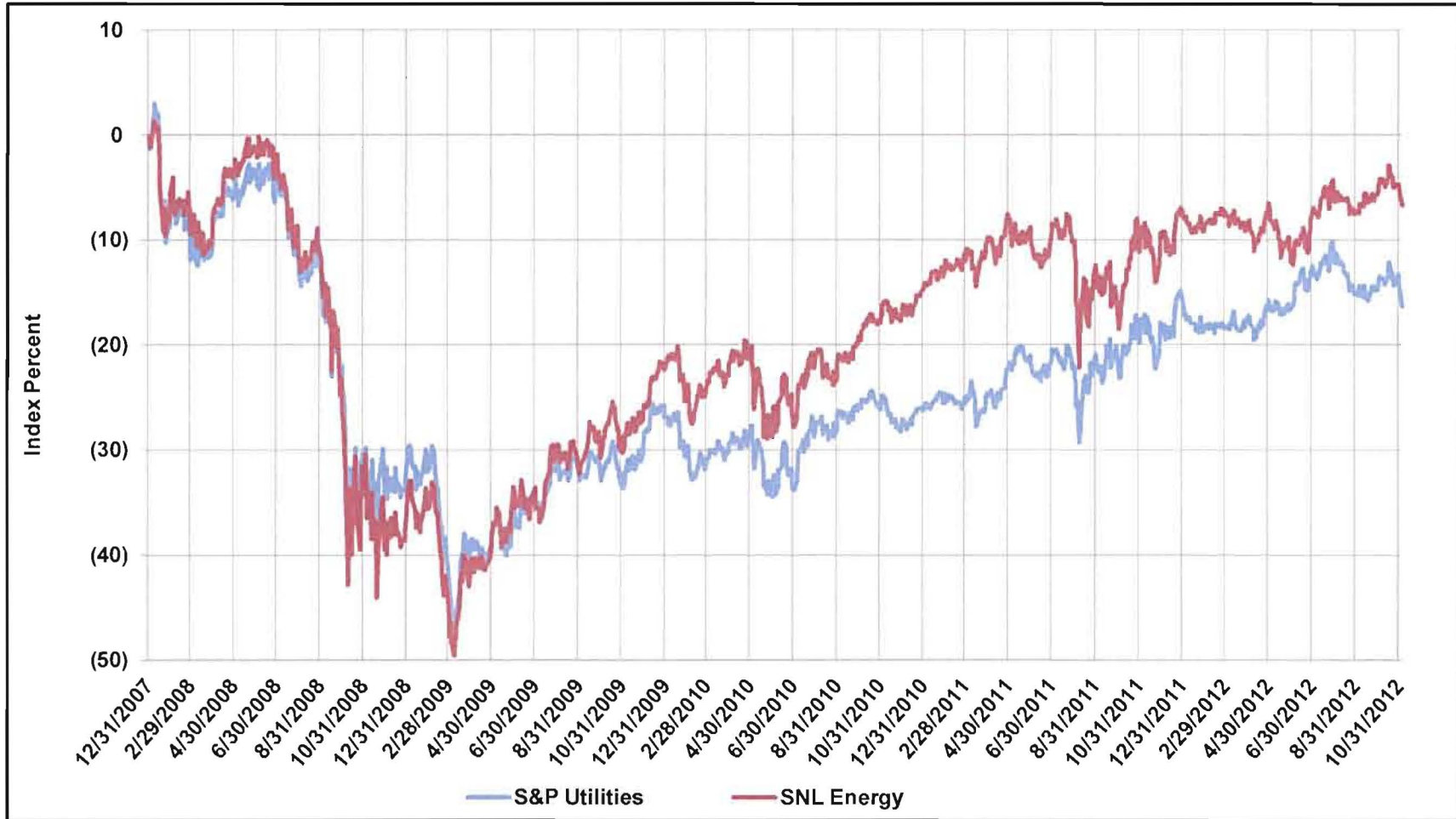
8 **A Yes.**

FLORIDA POWER & LIGHT COMPANY
Revenue Requirement Associated With
Additional Infrastructure-Related Costs
Since FPL's Last Rate Case
Updated Based on FPL's Post-Hearing Brief
Test Year Ending December 31, 2013
(Dollar Amounts in \$000)

Line	Description	Incremental Infrastructure Costs
		(1)
1	Jurisdictional Adjusted Rate Base	\$3,663,266
2	Pre-Tax Return at 10.70% ROE	9.65%
3	Return and Associated Taxes	\$353,322
4	Property Insurance	\$5,266
5	Depreciation (excluding Decommissioning)	\$22,667
6	Property Tax	\$9,483
7	Revenue Deficiency	\$390,738
8	Settlement Base Revenue Increase	\$378,000

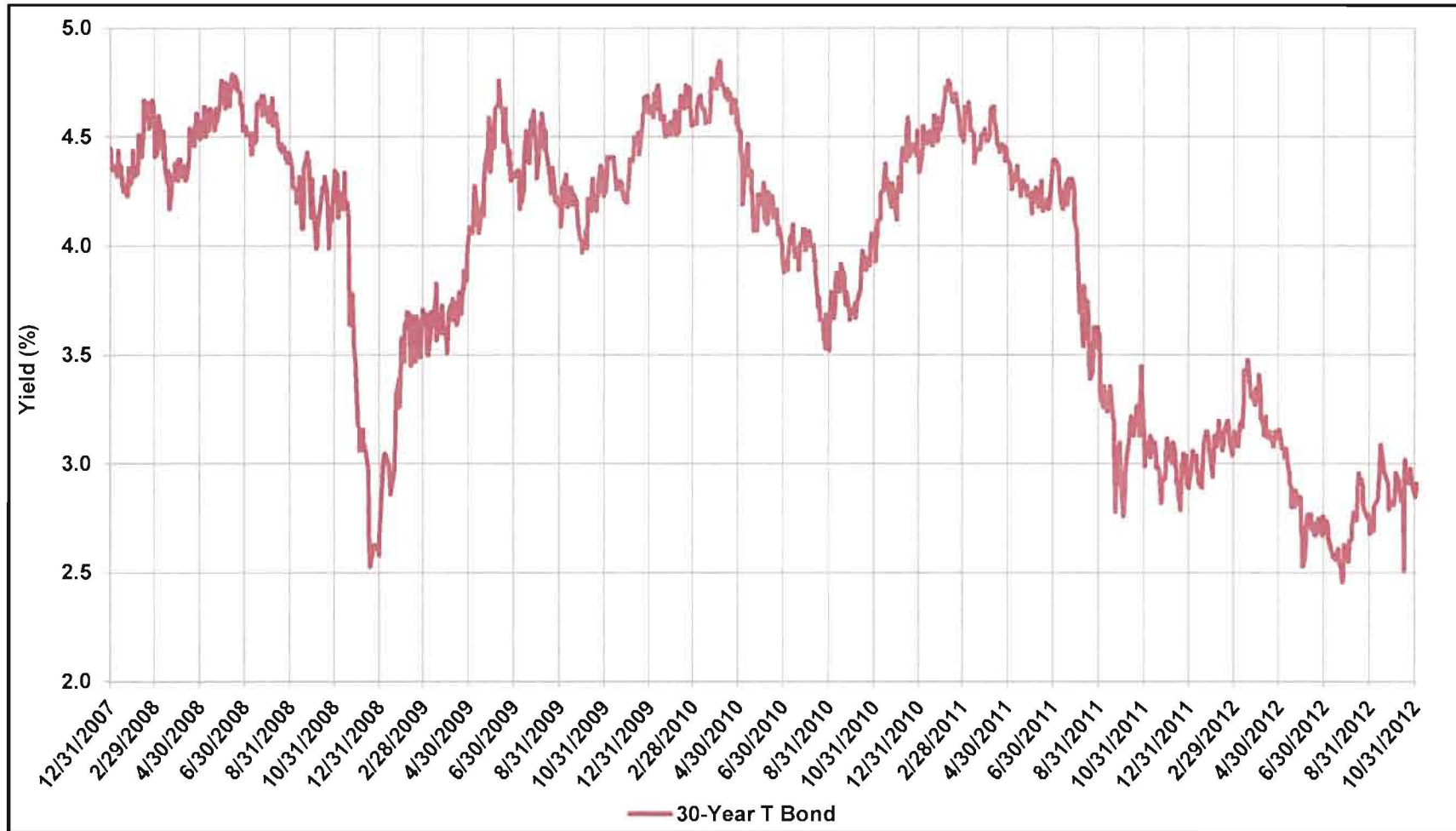
FLORIDA POWER & LIGHT COMPANY
S&P Utility and SNL Energy Index Prices
2008 to Present

13



Source: SNL Financial

FLORIDA POWER & LIGHT COMPANY
30-Year Treasury Bond Yields
2008 to Present

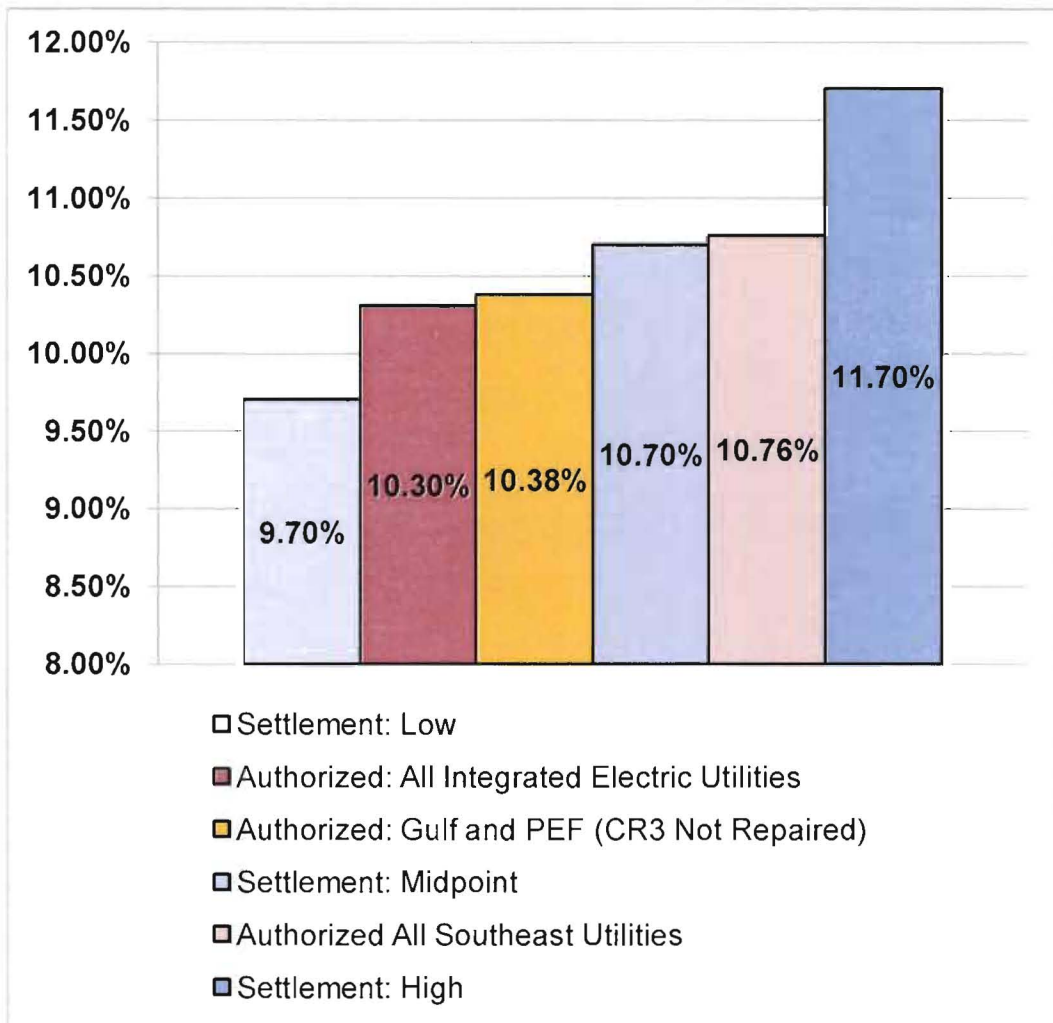


Source: SNL Financial

FLORIDA POWER & LIGHT COMPANY
Revenue Requirement Associated With
Additional Infrastructure-Related Costs
Since FPL's Last Rate Case
Test Year Ending December 31, 2013
(Dollar Amounts in \$000)

<u>Line</u>	<u>Description</u>	<u>Incremental Infrastructure Costs</u>
		(1)
1	Jurisdictional Adjusted Rate Base	\$3,480,006
2	Pre-Tax Return at 10.70% ROE	<u>9.78%</u>
3	Return and Associated Taxes	\$340,245
4	Property Insurance	\$5,266
5	Depreciation (excluding Decommissioning)	\$16,769
6	Property Tax	<u>\$9,483</u>
7	Revenue Deficiency	\$371,764
8	Settlement Base Revenue Increase	\$378,000

FLORIDA POWER & LIGHT COMPANY
Authorized Versus Settlement
Return on Equity



BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Increase in Rates by Florida Power & Light Company	DOCKET NO. 120015-EI Filed: November 13, 2012
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AFFIDAVIT OF JEFFRY POLLOCK

State of Missouri)
) SS
County of St. Louis)

Jeffry Pollock, being first duly sworn, on his oath states:

1. My name is Jeffry Pollock. I am President of J. Pollock, Incorporated, 12655 Olive Blvd., Suite 335, St. Louis, Missouri 63141. We have been retained by Florida Industrial Power Users Group to testify in this proceeding on its behalf;


2. Attached hereto and made a part hereof for all purposes is my Corrected Supplemental Rebuttal Testimony and Exhibits, which have been prepared in written form for introduction into evidence in Florida Public Service Commission Docket No. 120015-EI; and,

3. I hereby swear and affirm that the answers contained in my testimony and the information in my exhibits are true and correct.



Jeffry Pollock

Subscribed and sworn to before me this 12 day of November, 2012.



Kitty Turner, Notary Public
Commission #: 11390610

My Commission expires on April 25, 2015.

