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*Speaker of the House of
Representatives*

September 22, 2014

Ms. Carlotta Stauffer, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850


Re: Docket No. 140001-EI

Dear Ms. Stauffer:

Please find attached for filing in the above referenced docket the Direct Testimony & Exhibits of Donna Ramas.

If you have any questions or concerns; please do not hesitate to contact me. Thank you for your assistance in this matter.

Sincerely,


Joseph A. McGlothlin
Associate Public Counsel

JAM:bsr
cc: Parties of Record

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Fuel and Purchased Power Cost
Recovery Clause with Generating
Performance Incentive Factor

_____ /

Docket No. 140001-EI

FILED: September 22, 2014

DIRECT TESTIMONY AND EXHIBIT

OF

DONNA RAMAS

ON BEHALF OF THE CITIZENS OF THE STATE OF FLORIDA

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EXHIBIT

DMR-1 Qualifications of Donna Ramas

1 **DIRECT TESTIMONY**

2 **OF**

3 **DONNA RAMAS**

4 On Behalf of the Office of Public Counsel

5 Before the

6 Florida Public Service Commission

7 Docket No. 140001-EI

8
9 INTRODUCTION

10 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

11 A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of
12 Michigan and Principal at Ramas Regulatory Consulting, LLC, with offices at 4654
13 Driftwood Drive, Commerce Township, Michigan 48382.

14
15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC
16 SERVICE COMMISSION?**

17 A. Yes, I have testified before the Florida Public Service Commission (“PSC” or
18 “Commission”) on several prior occasions. I have also testified before many other state
19 regulatory commissions.

20
21 **Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR
22 QUALIFICATIONS AND EXPERIENCE?**

23 A. Yes. I have attached Exhibit DMR-1, which is a summary of my regulatory experience
24 and qualifications.

1 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

2 A. I am appearing on behalf of the Citizens of the State of Florida for the Office of Public
3 Counsel (“OPC”).
4

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

6 A. In my testimony, I identify and comment on flaws and deficiencies in the support offered
7 by Florida Power & Light Company (“FPL” or “Company”) for its request to flow its
8 planned investments in natural gas exploration, drilling and production ventures, as well
9 as production costs and a return on its capital investment, through the fuel cost recovery
10 clause. This testimony responds, in large part, to the accounting and regulatory recovery
11 proposals presented in the Direct Testimony of FPL witness Kim Ousdahl. While my
12 testimony focuses on the proposed joint venture with PetroQuest to produce gas in the
13 Woodford Shale region (hereafter referred to as the “Woodford Project”) addressed in
14 FPL’s June 25, 2014 Petition (“Petition”), it is equally applicable to other potential such
15 future joint venture investments by FPL.
16

17 **Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE**
18 **OFFICE OF PUBLIC COUNSEL IN THIS CASE?**

19 A. Yes. Mr. Daniel J. Lawton also presents testimony on behalf of OPC in this case.
20

21 SUMMARY OF TESTIMONY

22 **Q. WOULD YOU PLEASE SUMMARIZE THE ISSUES AND**
23 **RECOMMENDATIONS CONTAINED IN YOUR TESTIMONY?**

24 A. Yes. The ultimate issue before the Commission in this case is whether FPL should be
25 permitted to recover costs associated with potential investments in natural gas

1 exploration, drilling and production ventures, inclusive of a return or profit on the
2 associated capital investments, from its captive Florida electric ratepayers through the
3 fuel cost recovery clause. This includes the Woodford Project and potential future
4 ventures into the competitive natural gas exploration and production arena. In this
5 testimony, I present several reasons why FPL's proposed transactions are ineligible for
6 inclusion in the fuel cost recovery clause and why the Commission should deny FPL's
7 Petition. Specifically, I make the following points within this testimony:

- 8
- 9 1. FPL witness Ousdahl attempts to invoke PSC Order No. 14546 in support of
10 FPL's proposal to recover gas exploration, drilling and production
11 investments and associated operating costs through the fuel cost recovery
12 clause. The cited order provides no support for FPL's Petition. In Order No.
13 14546, the Commission indicated its willingness to consider the recovery of
14 certain costs that are "normally recovered through base rates" through the fuel
15 cost recovery clause under certain conditions. However, capital investments
16 in gas exploration, drilling and production joint ventures are so foreign to an
17 electric utility's regulated monopoly business that such items are incompatible
18 with the system of accounts that the Commission prescribes for electric
19 utilities. It follows that such costs are not normally included in the base rates
20 that are developed from the costs captured by the system of accounts
21 prescribed for electric utilities. As such, these costs do not qualify for
22 recovery through the fuel cost recovery clause under the order upon which
23 FPL relies.

1 2. FPL proposes to venture into the extremely competitive gas drilling and
2 production industry and obtain 100% recovery of any investments it makes in
3 such potential ventures, including a return on the investments, until fully
4 recovered from customers, regardless of whether the outcome of the joint
5 venture's drilling and extraction efforts is competitive in the market for
6 natural gas. The return on investment includes an equity return, which is a
7 measurement of earnings (i.e., profit) applied for shareholders' benefit for the
8 use of the investment funds they provide. This proposal would push 100% of
9 the risk associated with FPL entering into this competitive market onto FPL's
10 ratepayers while guaranteeing an equity return for shareholders. The fuel
11 clause is intended to be a mechanism by which the reasonable costs of fuel
12 procured from providers are passed on to FPL's customers. FPL wants to
13 subvert that mechanism into a means of entering a different, competitive
14 industry, thereby resulting in a risk-free expansion of the capital base upon
15 which a return on equity is applied.

16
17 3. An essential function performed by the Commission is the auditing of costs
18 that regulated electric utilities seek to pass on to customers through either base
19 rates or through the various annual clauses, including the fuel cost recovery
20 clause. Yet, the Commission has no jurisdiction over, and therefore could not
21 audit, the entity that would incur the costs that FPL would submit for
22 reimbursement through the fuel cost recovery clause. The joint venture
23 drilling and production costs that FPL intends to recover through the fuel
24 clause would be incurred by its joint venture partner, which is PetroQuest for
25 the Woodford Project, but it could be any number of yet undisclosed partners

1 for future joint ventures under FPL's request. The Commission has no
2 jurisdiction over PetroQuest or any other potential future operating entities in
3 the joint ventures. The Commission and its audit staff would not have the
4 authority to audit the costs incurred by these non-regulated entities that fall
5 outside of its jurisdiction. While FPL states that it would have the ability to
6 audit PetroQuest's books under the contractual agreement, this is essentially
7 asking the Commission to delegate its fundamental regulatory auditing
8 functions to the very utility that is seeking authority to recover the costs.

9
10 4. The ability to effectively perform this vital auditing function would be further
11 hampered by the highly specialized and unique form of energy accounting
12 FPL would apply to the proposed gas exploration, drilling and production
13 activities. FPL would not be using the FERC electric or gas chart of accounts
14 in accounting for the activities. The highly specialized and unique form of
15 energy accounting differs so greatly from the Federal Energy Regulatory
16 Commission Uniform System of Accounts ("FERC USOA" or USOA"),
17 which is prescribed by the Commission for electric utilities subject to its
18 regulation, that FPL has indicated it would need to outsource the associated
19 accounting, recordkeeping and related functions to an outside third party
20 having the requisite experience in such specialized requirements. According
21 to FPL, it would be required to apply the "successful efforts" method of
22 accounting because its unregulated affiliate, USG, applies this method of
23 accounting to its oil and gas production activities. The application of a highly
24 specialized accounting method that differs from the FERC USOA that the
25 Commission's auditors are familiar with and specialize in would add

1 regulatory risk to consumers by complicating the ability to provide effective
2 auditing oversight.

3
4 5. In analogous circumstances, the Commission adopted a market price test to be
5 applied to transactions between Florida Power Corporation (now Duke
6 Energy, Inc.) and Tampa Electric Company and their coal mining affiliates.
7 In fact, the Commission has established, as a general policy, that where a
8 market for the product is reasonably available, market-based pricing of
9 affiliates' fuel services shall be used for purposes of fuel cost recovery. Under
10 its general policy, the Commission should make it abundantly clear to FPL
11 that if FPL purchases gas from a subsidiary participating in a joint venture
12 with PetroQuest, the amount to be recovered from customers through the fuel
13 clause will be limited to the market price of gas.

14
15 6. While I strongly disagree with FPL's position that the capital investments of
16 its yet-unnamed subsidiary in a joint venture with PetroQuest (and other
17 potential future joint ventures with other unaffiliated operating entities) are
18 recoverable through the fuel cost recovery clause; if the Commission decides
19 to consider FPL's request, it should protect ratepayers from bearing undue risk
20 by limiting any recovery of the resulting investments and associated costs
21 through the fuel cost recovery clause to actual fuel savings demonstrated by
22 FPL.

1 APPROPRIATENESS OF CLAUSE RECOVERY

2 **Q. PLEASE COMMENT ON MS. OUSDAHL’S ASSERTION THAT THE**
3 **PROPOSED VENTURES INTO THE NATURAL GAS EXPLORATION,**
4 **DRILLING AND PRODUCTION BUSINESS ARE APPROPRIATE FOR**
5 **RECOVERY THROUGH THE FUEL COST RECOVERY CLAUSE.**

6 A. Ms. Ousdahl’s assertion is incorrect. At page 22 of her testimony, Ms. Ousdahl asserts
7 that Item 10 of PSC Order No. 14546 “...provides that Fuel Clause recovery is
8 appropriate for projects that are intended to lower the delivered price of fuel when those
9 costs were ‘not recognized or anticipated in the cost levels used to determine current base
10 rates.’” She claims, at page 23 of her testimony, that “The Woodford Project clearly and
11 directly meets the test for Fuel Clause recovery set forth in Order No. 14546.” She also
12 asserts that this project “...is intended to lower the delivered price of natural gas that FPL
13 burns in its generating units” and that “...there was neither recognition nor anticipation of
14 gas reserve project costs in the 2013 test year that formed the basis for FPL’s current base
15 rates.”

16
17 **Q. WHAT EXACTLY DOES ORDER NO. 14546 INDICATE IN THE ITEM**
18 **REFERENCED BY MS. OUSDAHL?**

19 A. Order No. 14546, issued on July 8, 1985 in Docket No. 850001-EI-B, states that: “. . .
20 the following charges are properly considered in the computation of the average
21 inventory price of fuel used in the development of fuel expense in the utilities’ fuel cost
22 recovery clauses:...” It then goes on to list 10 separate items. Item 10, which is
23 specifically invoked by Ms. Ousdahl in her testimony, states as follows:

24 Fossil fuel-related costs normally recovered through base rates but which
25 were not recognized or anticipated in the cost levels used to determine
26 current base rates and which, if expended, will result in fuel savings to

1 customers. Recovery of such costs should be made on a case by case basis
2 after Commission approval.
3
4

5 **Q. IN YOUR OPINION, DO THE PROPOSED VENTURES INTO NATURAL GAS**
6 **EXPLORATION, DRILLING AND PRODUCTION REQUESTED BY FPL FOR**
7 **RECOVERY IN THE FUEL COST RECOVERY CLAUSE FALL UNDER ITEM**
8 **10 OF ORDER NO. 14546?**

9 A. No, they do not. Item 10 clearly indicates that it applies to fuel related costs "...normally
10 recovered through base rates..." Investments in gas exploration, drilling and production
11 clearly do not fall under items that would be "normally recovered through base rates" for
12 regulated electric utilities. In fact, as addressed later in this testimony, the USOA for
13 electric utilities that FPL is required to follow under Commission Rule 25-6.014 is not
14 even applicable to the highly specialized accounting utilized in the oil and gas production
15 industry. The oil and gas production industry is a highly competitive industry, not a
16 monopoly function of an electric utility regulated by the Commission.

17
18 Additionally, Item 10 of Order No. 14546 also contains the requirement that the items
19 "...will result in fuel cost savings to customers." (emphasis added) As addressed in the
20 Direct Testimony of OPC witness Lawton, the unrealistic assumptions and other
21 deficiencies in FPL's effort to identify potential savings from the joint venture render it
22 unreliable and insufficient to meet the standard of Item 10.

23
24 **Q. AT PAGE 22 OF HER TESTIMONY, MS. OUSDAHL REFERS TO SEVERAL**
25 **OTHER CASES IN WHICH THE COMMISSION PERMITTED FPL TO**
26 **RECOVER COSTS FOR CAPITAL PROJECTS THROUGH THE FUEL COST**
27 **RECOVERY CLAUSE. ARE ANY OF THE SITUATIONS IDENTIFIED BY MS.**

1 **OUSDAHL SIMILAR TO THE PROJECTS PROPOSED BY FPL IN ITS**
2 **PETITION?**

3 A. No. The cases identified by Ms. Ousdahl pertain to: 1) the inclusion of a gas pipeline
4 lateral to an FPL-owned generation facility until the lateral could be incorporated into
5 base rates (Order No. PSC-93-1331-FOF-EI); 2) the acquisition in lieu of the leasing of
6 rail cars used to deliver coal to an FPL generation facility (Order No. PSC-95-1089-FOF-
7 EI); and 3) the costs associated with modifications to existing generation plants and fuel
8 storage facilities to allow for the use of less expensive fuel oil at the facilities (Order No.
9 PSC-97-0359-FOF-EI). None of the examples provided by Ms. Ousdahl are analogous to
10 the investments in gas exploration, drilling and development ventures proposed by FPL
11 in this case. Instead, all of them are examples of utility system improvements made to
12 facilitate the regulated utility's economical *purchases* of fuel from providers.

13
14 **Q. ARE THERE ADDITIONAL KEY DISTINCTIONS BETWEEN THE ASSETS**
15 **ADDRESSED IN THE CASES IDENTIFIED BY MS. OUSDAHL AND THE**
16 **PROJECTS PROPOSED BY FPL IN THIS CASE?**

17 A. Yes, there are. The examples identified by Ms. Ousdahl address assets that would be
18 placed into utility plant accounts under the FERC USOA. FPL and its subsidiary are not
19 proposing to record the investments in gas exploration, drilling and development ventures
20 in Plant in Service accounts that fall under the FERC USOA. Rather, the initial
21 investment would be recorded in accounts titled "Unproved Property Acquisition Costs"
22 and "Proved Property Acquisition Costs."¹ A sample balance sheet provided by FPL as
23 Exhibit KO-5, page 2 of 2, shows that the investments would be included in "Gas
24 Reserves Investment." Similarly, the sample Fuel and Purchase Power Recovery Clause

¹ Exhibit KO-3, which is attached to the Direct Testimony of FPL witness Ousdahl.

1 schedule provided by FPL in Exhibit KO-6 identifies the projects as investments, not as
2 plant in service items. The investments in the projects proposed by FPL or its subsidiary
3 are not for Plant in Service items that would qualify for rate base; rather, they would be
4 for investments in a highly competitive industry.

5
6 COMMISSION LIMITATIONS ON THE APPROPRIATE AMOUNT FOR RECOVERY

7 **Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THE RECOVERY OF**
8 **COSTS TO BE RECOVERED THROUGH THE FUEL CLAUSE ASSOCIATED**
9 **WITH THE EXTRACTION AND PRODUCTION OF FOSSIL FUELS FROM**
10 **RELATED ENTITIES?**

11 A. Yes, it has. The Commission has addressed the recovery of the cost of coal purchased
12 from affiliated entities through the fuel clause on previous occasions. PSC Order No.
13 20604 in Docket No. 860001-EI-G, issued January 13, 1989, addressed an investigation
14 into affiliated cost-plus fuel supply relationships. The Commission's summary at the
15 very beginning of the order states: "We have determined as a matter of policy that
16 utilities seeking the recovery of the cost of coal purchased from an affiliate through their
17 fuel and purchased power cost recovery clauses shall have their recovery limited by a
18 'market price' standard, rather than under the 'cost-plus' standard now in effect." In the
19 Background section of the order, the Commission states: "After considering the post-
20 hearing briefs of the parties and our Staff's recommendations, we, at our September 6,
21 1988 Agenda Conference, determined that affiliated coal should be priced at market price
22 for recovery through the utilities' fuel cost recovery clauses and that affiliated coal
23 transportation and handling services should also be priced at 'market' where it was
24 reasonably possible to construct a market price for the good or service being considered."

1 **Q. HOW DID THE COMMISSION ADDRESS THE APPROPRIATE PRICING OF**
2 **FOSSIL FUELS IN THAT ORDER?**

3 A. In the Conclusion section of Order No. 20604, the Commission addressed several key
4 regulatory policy issues that are highly relevant to the case at hand. In addressing cost-
5 plus pricing and the application of cost-of-service analysis required in such pricing, the
6 Commission stated:

7 Implicit in cost-plus pricing is the requirement that one is capable of
8 conducting a cost-of-service analysis of a business to determine that its
9 expenses are both necessary and reasonable. This is a methodology that is
10 demanded for monopoly utility services, and which usually proves to be
11 complex, expensive and time consuming. It is a methodology which requires
12 a high degree of familiarity with the capital requirements and expenses
13 necessitated by the operations of the business being reviewed. Cost-of-
14 service analysis of affiliate operations places additional demands upon the
15 regulatory agency in terms of time, expense and acquiring additional
16 expertise. All come at some additional cost that must eventually be borne by
17 the ratepayer, either in his role as a customer or as a taxpayer. Furthermore,
18 there seems to be no end to the types of affiliated businesses that we are
19 expected to become sufficiently familiar with so that we might judge the
20 reasonableness of their costs on a cost-of-service basis. For example, in this
21 docket and the companion TECO docket we are confronted with the
22 following types of affiliated businesses whose costs are included in the
23 purchase price of the coal: (1) land companies owning coal reserves; (2)
24 financial services companies; (3) equipment leasing companies; (4) coal
25 mining companies; (5) river barge and tug companies; (6) transloading and
26 bulk storage facilities; (7) ocean barge and tug services; (8) marine
27 management and services companies; (9) rail car repair companies; (10)
28 diversified holding companies; and (11) others.

29
30 Cost-of-service regulation for public utilities is necessitated by their
31 monopoly status and the attendant lack of significant competition, if any, for
32 their end product. Cost-of-service regulation exists as the proxy for
33 competition to insure that utilities provide efficient, sufficient and adequate
34 service and at a cost that includes only reasonable and necessary expenses.
35 Cost-of-service regulation of some type is essential when there is no
36 competitive market for the product or service being purchased; it is
37 superfluous when such a competitive market exists.

38 (footnotes excluded.)
39

40 The very same concerns highlighted by the Commission in Order No. 20604 are
41 applicable to the transaction proposed in FPL's Petition. The transaction involves FPL

1 establishing a subsidiary which would participate in natural gas exploration, drilling and
2 production through joint ventures. Similar to the coal operations addressed in the 1989
3 order, the natural gas operations would require a “high degree of familiarity with the
4 capital requirements and expenses necessitated by the operation of the business being
5 reviewed” and would place “additional demands upon the regulatory agency in terms of
6 time, expense and acquiring additional expertise.” Also applicable to FPL’s Petition is
7 the fact that the natural gas exploration, drilling and production industry, like the
8 ownership of coal reserves and coal mining, is not a monopoly service because a
9 competitive market exists.

10
11 **Q. DID THE COMMISSION FURTHER ADDRESS THE APPROPRIATE PRICING**
12 **OF FUELS ACQUIRED FROM AFFILIATED ENTITIES IN ORDER NO. 20604?**

13 A. Yes, it did. In the Conclusion section of Order No. 20604, the Commission also stated:
14 “Considering the many advantages offered by a market pricing system, we, as a policy
15 matter, shall require its adoption for all affiliated fuel transactions for which comparable
16 market prices may be found or constructed.” The Commission also stated: “In
17 concluding, we note the following: (1) from the record in this case, we are convinced
18 that market prices can be established for the affiliated coal; ... (3) cost-of-service
19 methodologies should be avoided, if possible...” In the ordering paragraphs, the
20 Commission also ordered that “...as a matter of general policy, market-based pricing for
21 affiliate fuel and fuel transportation services shall be used for the purposes of fuel cost
22 recovery where a market for the product or service is reasonably available.”

23
24 Clearly, these same principles would apply to the transactions proposed by FPL in its
25 Petition.

1 **Q. FPL IS PROPOSING TO ESTABLISH A WHOLLY-OWNED SUBSIDIARY TO**
2 **ENTER THE JOINT VENTURE WITH PETROQUEST. IS THIS DISTINCTION**
3 **RELEVANT IN EVALUATING WHETHER OR NOT THE COMMISSION’S**
4 **POLICIES ARTICULATED IN ORDER NO. 20604 APPLY?**

5 A. Absolutely not. While an affiliate is not always a subsidiary, a subsidiary is always, by
6 definition, an affiliate. The Master Glossary of the Accounting Standards Codification
7 defines affiliate as “A party that directly or indirectly through one or more intermediaries,
8 controls, is controlled by, or is under common control with an entity.” The decision to
9 have the joint venture agreement transferred from USG to a subsidiary of FPL (which is
10 an affiliate under the control of FPL), instead of staying with USG or being transferred to
11 a separate affiliate not directly controlled by FPL, is a corporate decision that should not
12 impact whether or not the Commission’s general policy of using market-based pricing for
13 affiliate fuel services applies. Similarly, if FPL decides to go forward with potential
14 future gas exploration, drilling and production ventures directly through a subsidiary, the
15 subsidiary would still be an affiliate and the Commission’s general policy of using
16 market-based pricing for affiliate fuel services would still apply. Additionally, if FPL
17 were not to establish a wholly-owned subsidiary and were to instead include the joint
18 venture within its own operations, its joint venture activities would not require cost-of-
19 service pricing because a competitive market exists for natural gas. As indicated by the
20 Commission in Order No. 20604, “Cost-of-service regulation of some type is essential
21 when there is no competitive market for the product or service being purchased; it is
22 superfluous when such a competitive market exists.” Thus, even if the operations were to
23 be established within FPL, cost-of-service regulation should not apply to natural gas
24 exploration, drilling and production operations, as a robust, competitive market exists for
25 the pricing of natural gas.

1 **Q. WHAT DO YOU RECOMMEND THAT THE COMMISSION REQUIRE AS**
2 **PART OF ITS ORDER IN THIS CASE?**

3 A. Consistent with the Commission’s prior findings related to the acquisition from affiliated
4 entities of fossil fuels for which a competitive market exists, the Commission should
5 make it abundantly clear in this case that if FPL purchases gas from the proposed joint
6 venture between PetroQuest and FPL’s yet-unnamed subsidiary (or even if it directly
7 enters into the joint venture with PetroQuest), and from other potential future joint
8 ventures, the amount to be recovered from customers through the fuel cost recovery
9 clause will be limited to, and will not exceed, the market price of gas. The market price
10 of natural gas is readily available to the Commission and its staff.
11

12 TRANSACTION ACCOUNTING

13 **Q. BEFORE ADDRESSING SPECIFIC ACCOUNTING ISSUES AND CONCERNS**
14 **INHERENT IN FPL’S REQUEST, WOULD YOU PLEASE BRIEFLY**
15 **SUMMARIZE YOUR UNDERSTANDING OF THE COMMISSION’S MISSION**
16 **AND OVERSIGHT FUNCTIONS PERFORMED WITH REGARD TO THE**
17 **COSTS THAT UTILITIES SEEK TO RECOVER THROUGH THE FUEL COST**
18 **RECOVERY CLAUSE?**

19 A. Yes, I will. The stated mission of the Florida Public Service Commission is “To facilitate
20 the efficient provision of safe and reliable utility services at fair prices.”² The
21 Commission has identified a number of goals it pursues in following its mission. One of
22 the established goals for economic regulation is to: “Provide a regulatory process that
23 results in fair and reasonable rates while offering rate base regulated utilities and

² <http://www.psc.state.fl.us/about/mission.aspx> (last viewed on September 22, 2014)

1 opportunity to earn a fair return on their investments.”³ One of the identified goals for
2 regulatory oversight is to “Provide appropriate regulatory oversight to protect
3 consumers.”⁴

4
5 To accomplish its mission, the Commission performs an essential function in auditing
6 and monitoring the costs electric that utilities seek to include for recovery. The auditors
7 in the Bureau of Auditing of the Commission’s Office of Auditing and Performance
8 Analysis conduct examinations of utility records and independently verify the supporting
9 documentation for filings made by regulated companies. This includes financial audits of
10 utilities’ requests for increases in rates through the annual clauses, such as the fuel cost
11 recovery clause, “...to ensure ratepayers only pay for prudently incurred expenses.”⁵
12 This audit function is a vital element in achieving the Commission’s mission and
13 ensuring that costs recovered from customers are fair and reasonable, were prudently
14 incurred, and are cost based. In fulfilling its obligations, it is important for the Bureau of
15 Auditing to be able to review and confirm the costs that utilities seek to include in the
16 fuel cost recovery clause and to have confidence that such costs are accurate and fairly
17 stated.

18
19 The Commission’s Division of Accounting and Finance fulfills another essential function
20 in allowing the Commission to pursue several of the goals it has established to achieve its
21 important mission. The Division of Accounting and Finance reviews the revenue
22 requirements of rate base regulated utilities, such as FPL, and monitors earnings of the
23 utilities. Its duties include reviewing the petitions submitted in the fuel cost recovery

³ *Ibid.*

⁴ *Ibid.*

⁵ Florida Public Service Commission, Statement of Agency Organization & Operations, March 2014, page 6.

1 docket and making recommendations to the Commission on the same.⁶ In order to make
2 recommendations on fuel cost recovery petitions, it is essential that the Division of
3 Accounting and Finance is knowledgeable of the costs that electric utilities are seeking to
4 recover through the clause.

5
6 **Q. PLEASE IDENTIFY THE ACCOUNTING REQUIREMENTS THAT THE**
7 **COMMISSION PRESCRIBES FOR INVESTOR-OWNED ELECTRIC**
8 **UTILITIES THAT ARE SUBJECT TO ITS JURISDICTION.**

9 A. PSC Rule 25-6.014 – Records and Reports in General states as follows:

10 (1) Each investor-owned electric utility shall maintain its accounts and
11 records in conformity with the Uniform System of Accounts (USOA) for
12 Public Utilities and Licensees as found in the Code of Federal Regulations,
13 Title 18, Subchapter C, Part 101, for Major Utilities as revised April 1, 2002,
14 which is hereby incorporated by reference into this rule, and as modified
15 below. All inquiries relating to interpretation of the USOA shall be
16 submitted to the Commission’s Division of Accounting and Finance in
17 writing.

18
19 As mentioned earlier in my testimony, these accounting rules are often referred to as the
20 “FERC USOA” or “USOA.”

21
22 **Q. WHAT ROLE DOES THE USOA PLAY IN THE COMMISSION’S**
23 **REGULATION OF INVESTOR OWNED UTILITIES SUCH AS FPL?**

24 A. The USOA is an invaluable tool that is essential to the effective regulation of public
25 utilities subject to the Commission’s jurisdiction. It contains clear and precise accounting
26 instructions for how transactions are to be recorded and what costs are to be recorded in
27 which specific accounts. It also gives clear instructions regarding accounting for capital
28 investments that are used in providing regulated services. It allows for consistency in
29 reporting and in accounting for items between utilities utilizing the USOA. It also

⁶ *Id.* at 7.

1 enhances the Commission staff's ability to more efficiently and effectively audit utility
2 operations and the costs that utilities are seeking to recover from customers in rates, be it
3 through base rates, the fuel cost recovery clause, or other applicable clauses.
4

5 **Q. IS FPL PROPOSING TO APPLY THE USOA FOR ELECTRIC UTILITIES OR**
6 **NATURAL GAS COMPANIES FOR ITS PROPOSED VENTURE INTO THE**
7 **EXPLORATION, DRILLING AND PRODUCTION OF NATURAL GAS?**

8 A. No, it is not. If the Commission approves FPL's request in this case, FPL's affiliate,
9 USG Properties Woodford I, LLC ("USG") would transfer the Woodford Project to a yet-
10 unnamed and wholly-owned subsidiary of FPL. FPL does not propose that the unnamed
11 subsidiary apply the FERC USOA for electric utilities or natural gas companies.
12 According to the Direct Testimony of FPL witness Ousdahl, at page 16, the "[a]ccounting
13 for oil and gas production is a highly specialized and unique form of energy accounting"
14 and that "[n]either the FERC Electric nor Natural Gas chart(s) of accounts is consistent
15 with the standard accounting utilized in the oil and gas production industry." Thus, FPL
16 apparently views the venture it is proposing in this case as inconsistent with regulated
17 monopoly operations for which the FERC USOA would apply. Ms. Ousdahl further
18 indicates, at page 16 of her testimony, that FPL would be subject to Accounting Standard
19 Codification ("ASC") 932 – Accounting for Oil and Gas Exploration for the Woodford
20 Project (as well as for future proposed gas exploration and production ventures) and
21 would use the successful efforts accounting method contained in ASC 932 to record
22 activities related to the proposed gas exploration and production investments.
23

24 **Q. DOES THE COMPANY CONTEND THAT IT MUST FOLLOW THE**
25 **SUCCESSFUL EFFORTS METHOD OF ACCOUNTING FOR THE PROPOSED**

1 **GAS PRODUCTION ACTIVITIES, NOTWITHSTANDING THE**
2 **COMMISSION’S PRESCRIPTION OF THE USOA?**

3 A. Yes, it does. FPL’s response to Staff Interrogatory No. 61 states, in part, as follows:

4 . . . SEC Staff Accounting Bulletin Topic 12.C (“SAB Topic 12.C”) states
5 that a consolidated entity must apply a consistent accounting method for
6 all subsidiaries. FPL’s parent, NextEra Energy, Inc. has elected the
7 successful efforts method of accounting through its subsidiary, USG.
8 Therefore, FPL is also required to follow the successful efforts method of
9 accounting.

10
11 Thus, according to FPL, since an unregulated subsidiary that participates in the
12 competitive gas exploration and production industry utilizes the successful efforts method
13 of accounting for its oil and gas production activities, FPL must also utilize this method
14 of accounting for its potential oil and gas production activities. If FPL proceeds with its
15 proposed joint venture, apparently the Commission would be required to accept a method
16 of accounting selected by USG, FPL’s unregulated affiliate. I believe that fact supports
17 OPC’s position, developed in a Motion to Dismiss that is pending at the time I am
18 preparing this testimony, that the activities fall outside the Commission’s regulatory
19 purview.

20
21 **Q. ARE THE GUIDELINES CONTAINED IN ASC 932 AND THE SUCCESSFUL**
22 **EFFORTS ACCOUNTING METHOD SIMILAR TO THE FERC USOA FOR**
23 **ELECTRIC UTILITIES THAT INVESTOR-OWNED ELECTRIC UTILITIES**
24 **REGULATED BY THE PSC ARE REQUIRED TO USE IN MAINTAINING**
25 **THEIR ACCOUNTS AND RECORDS UNDER PSC RULE 25-6.014?**

26 A. No, they are not. In fact, the accounting requirements that FPL proposes to apply to the
27 Woodford Project and to potential future gas exploration and production ventures are so
28 foreign to the accounting prescribed in the FERC USOA that FPL intends to outsource
29 the accounting, recordkeeping, reporting and ratemaking functions associated with

1 investments in such ventures.⁷ FPL states that the accounting for the costs of gas
2 exploration and production projects is “...very specialized, utilizing a unique chart of
3 accounts and specialized financial systems” and that it “...intends to use one of the
4 several well-established third party providers of accounting and recordkeeping services in
5 order to maintain oversight and control over the accounting for the Woodford Project and
6 any other gas reserve projects consistent with FPL’s role as a non-operator.”⁸ FPL also
7 states that the potential third party providers “...have the proper systems and experience
8 to deliver the full scope of back-office services necessary to effectively participate as a
9 non-operator in oil and gas production.”⁹ Thus, the specialized accounting, reporting and
10 recordkeeping functions associated with the proposed investments in gas reserves differ
11 so greatly from the accounting system that FPL uses for its regulated utility operations
12 that it does not have the proper systems and experience that are needed to “effectively
13 participate” in gas production without retaining outside expertise.

14
15 **Q. WHO WOULD INCUR THE COSTS TO WHICH FPL EXPECTS TO APPLY**
16 **THE SPECIALIZED SYSTEM OF ACCOUNTING?**

17 **A.** For the Woodford Project, PetroQuest would be the operator. Thus, FPL’s unnamed
18 subsidiary would be reliant upon PetroQuest (and potentially other as yet-unnamed
19 entities for future ventures) as the operator for both the operation of the venture and for
20 the resulting financial effects. In other words, PetroQuest (and potentially other entities
21 for future gas exploration and production ventures) would initially incur, record, and
22 account for the costs incurred in the operation of the exploration, drilling and production

⁷ Direct Testimony of FPL witness Ousdahl, pages 6, 20, and 21.

⁸ *Id.* at 6 and 20.

⁹ *Id.* at 20.

1 operations. PetroQuest would then invoice the FPL subsidiary monthly for costs
2 incurred.

3
4 **Q. WOULD THE COMMISSION BE ABLE TO AUDIT PETROQUEST OR**
5 **SIMILAR JOINT VENTURE OPERATORS?**

6 A. No, it would not. PetroQuest is not regulated by the Commission and does not fall under
7 the Commission's jurisdiction. While the Commission has access to FPL and FPL's
8 affiliate records under PSC Rule 25-6.0151 – Audit Access to Records, it has no
9 jurisdiction over PetroQuest or other potential future gas venture operators. Thus, the
10 PSC auditors would not have the ability to audit and confirm the costs incurred by
11 PetroQuest (and other potential future gas venture operators) in constructing,
12 maintaining, and operating the natural gas drilling and production facilities. The fact that
13 the Commission would have no authority to audit the entity incurring the joint venture
14 costs that would travel through the fuel cost recovery clause is relevant to OPC's position
15 that these investment ventures fall outside the Commission's regulatory purview.

16
17 **Q. WHAT DOES FPL SAY ABOUT CONFIRMING THE ACCURACY OF THE**
18 **OPERATOR'S RECORDS AND THE REASONABLENESS OF INVOICED**
19 **COSTS?**

20 A. FPL attempts to use provisions in the contract with PetroQuest as a surrogate for the
21 inability of the Commission to audit the entity incurring the costs. Ms. Ousdahl states at
22 page 20 of her testimony that under the PetroQuest Agreement, FPL, through its
23 unnamed subsidiary, would have the right to audit the invoices from PetroQuest. She
24 also states that "FPL's external auditors will conduct substantive controls testing around
25 these transactions to the extent necessary as a part of its overall external audit."

1 However, while FPL's subsidiary may have the right under the agreement to audit the
2 invoices received from the operator, the fact remains that the Commission — the agency
3 being asked to require FPL's customers to pay those costs — would not. Presumably
4 FPL, or its subsidiary, would need to utilize outside expert assistance if FPL does elect to
5 audit the invoices since they do not have the internal expertise in the specialized methods
6 of accounting utilized for such operations. The Commission would have no ability to
7 directly and independently confirm the accuracy and reasonableness of the gas
8 production and drilling costs incurred by the operator. Essentially, FPL is asking the
9 Commission to defer to FPL's subsidiary and accept being one important step removed
10 from monitoring, confirming, and auditing the charges from the gas project operators.
11 The fact that FPL is basically asking the Commission to delegate the role of auditing
12 FPL's recovery request to FPL is germane to OPC's position that the transactions fall
13 outside the limits of the Commission's regulatory domain.

14
15 **Q. FPL IS REQUESTING THAT ITS INVESTMENTS IN GAS RESERVES AND**
16 **THE COSTS ASSOCIATED WITH EXTRACTING NATURAL GAS BE**
17 **INCORPORATED IN ITS FUEL COST RECOVERY CLAUSE. WOULD THE**
18 **SPECIALIZED ACCOUNTING AND RECORDKEEPING REQUIREMENTS**
19 **FURTHER IMPEDE THE PSC AUDITORS' ABILITY TO PERFORM THEIR**
20 **DUTIES?**

21 **A.** In my opinion, yes. The accounting and recordkeeping system that FPL says the joint
22 venture must employ would hinder the PSC auditors' ability to do their jobs effectively.
23 FPL has acknowledged that the accounting is very specialized, utilizes a unique chart of
24 accounts that differs from the FERC USOA, and requires specialized financial systems.
25 It is my opinion that the use of a unique chart of accounts differing from the FERC

1 USOA, the use of specialized accounting requirements that are foreign to the FERC
2 USOA, and the use of specialized financial systems would greatly impact the ability of
3 the PSC auditors and of parties (such as OPC) to independently determine the accuracy
4 and the reasonableness of the charges FPL would seek to include and recover from its
5 captive electric customers. FPL itself has indicated that the accounting, reporting,
6 recordkeeping and ratemaking functions are so specialized that it would need to retain
7 outside services to accomplish these tasks.

8
9 **Q. IS AN ACCOUNTANT EXPERIENCED IN ADDRESSING REGULATORY**
10 **ACCOUNTING ISSUES NECESSARILY QUALIFIED IN WHAT FPL HAS**
11 **DESCRIBED AS THE “VERY SPECIALIZED” ACCOUNTING AND THE**
12 **“UNIQUE CHART OF ACCOUNTS AND SPECIALIZED FINANCIAL**
13 **SYSTEMS” THAT FPL INDICATES IS ASSOCIATED WITH THE**
14 **ACCOUNTING, REPORTING AND RATEMAKING FUNCTIONS**
15 **ASSOCIATED WITH INVESTMENTS IN GAS RESERVES?**

16 **A.** No. For instance, while I have researched and addressed regulatory accounting issues
17 throughout my regulatory career spanning approximately 23 years, I do not have any
18 experience or expertise in what FPL describes as the “very specialized” accounting,
19 “unique chart of accounts and specialized financial systems” associated with investments
20 in gas reserves. Likewise, Ms. Ousdahl, who holds the position of Vice President,
21 Controller and Chief Accounting Officer of a large, sophisticated electric utility,
22 acknowledges in her testimony that FPL must secure such expertise from outside the
23 company. Investing in natural gas reserves, drilling and production is neither a normal
24 nor a necessary function of an investor-owned electric utility in providing electric service
25 to customers; thus, this is the first case in which I have seen a request such as that

1 proposed by FPL. While the Commission has some very qualified and experienced
2 auditors and analysts on its staff, I suspect that the PSC audit and technical staff also lack
3 the specialized expertise in the unique and “very specialized” accounting requirements
4 associated with the competitive gas exploration, drilling and production industry.

5
6 **Q. OPC WITNESS DANIEL LAWTON ADDRESSES SEVERAL RISKS**
7 **ASSOCIATED WITH FPL’S PROPOSED VENTURE. DOES THE**
8 **ACCOUNTING ASSOCIATED WITH THE PROPOSED VENTURES ADD**
9 **ADDITIONAL RISK NOT ADDRESSED IN MR. LAWTON’S TESTIMONY?**

10 **A.** Yes. It is my opinion that the unique and specialized accounting requirements associated
11 with FPL’s proposed venture into natural gas production that is foreign to the Florida
12 regulators and outside of the recordkeeping requirements of the Commission would add
13 an additional layer of regulatory risk that would be passed on to the captive electric
14 ratepayers. The PSC audit staff would be largely dependent on FPL (or possibly third
15 party accountants engaged by FPL) in adequately monitoring, auditing and reporting on
16 the gas drilling and production operations and in disclosing any accounting or cost
17 recovery issues that may be the result of the unique and specialized accounting
18 provisions. By way of example, the Commission would never agree to place FPL in
19 charge of the Commission’s auditing of the costs of oil that FPL submits for recovery in
20 the fuel cost recovery clause proceeding, or the Commission’s auditing of plant additions
21 and operating expenses that FPL claims during a base rate case. For the same reasons,
22 the Commission should not agree in this case to effectively delegate to FPL’s subsidiary
23 its role of auditing the cost recovery issues relating to FPL’s proposed ventures into the
24 gas exploration, drilling and production industry.

1 CAPITAL INVESTMENT COST RECOVERY

2 **Q. UNDER FPL'S PROPOSED ACCOUNTING METHOD, HOW WOULD THE**
3 **CAPITAL INVESTMENTS ASSOCIATED WITH THE GAS VENTURES BE**
4 **DEPRECIATED?**

5 A. At page 18 of her testimony, FPL witness Ousdahl describes the form of depreciation that
6 would be used for the gas venture capital investments under the proposed successful
7 efforts method of accounting:

8 . . . In the case of gas and oil production accounting, depreciation is
9 recorded in the form of "depletion," which is measured on a unit-of-
10 production basis rather than on a remaining life or whole life basis.
11 Depletion for a gas reserve investment plays the same role as depreciation
12 would for an electric plant asset providing for recognition of the use of the
13 asset in the financial statements and in rates. As permitted under ASC
14 932, for depletion purposes FPL plans to aggregate its investments at a
15 reservoir or field level because they share common geological structural
16 features. This will help simplify the depletion accounting.

17
18 Ms. Ousdahl also explains that the reserve estimates used in calculating the depletion
19 rates must be updated annually, and that FPL would be relying on reserve estimate
20 reports provided by third party reserve engineers.¹⁰ Thus, each year the depletion rate
21 applied to the gas produced from the wells would be revised and the resulting depletion
22 expense would also vary each year. FPL intends to include the annual depletion expense,
23 as well as the return on the net undepleted gas reserve investment balance, for recovery in
24 the fuel cost recovery clause. The amount of depreciation expense (or depletion expense)
25 would fluctuate on an annual basis and would be dependent upon the amount of natural
26 gas extracted during the year as well as the amount of estimated reserves.

¹⁰ *Id.* at 19.

1 **Q. IS THE ANNUAL REVISION TO THE DEPLETION RATES CONSISTENT**
2 **WITH THE DEPRECIATION REQUIREMENTS UNDER THE COMMISSION'S**
3 **RULES?**

4 A. No, it is not. As indicated above, FPL indicates that under gas and oil production
5 accounting, depreciation is recorded in the form of “depletion” and “[d]epletion for a gas
6 reserve investment plays the same role as depreciation would for an electric plant asset
7 providing for recognition of the use of the asset in the financial statements and in rates.”¹¹
8 Under the PSC Rules for investor-owned electric utilities, Rule 25-6.0436 – Depreciation
9 – contains specific instructions with regards to the depreciation rates to be applied to
10 utility plant investments. Rule 25-6.0436(2)(a) states: “No utility shall change any
11 existing depreciation rate or initiate any new depreciation rate without prior Commission
12 approval.” Under its Petition, FPL (or its subsidiary) would be revising the depletion
13 rates that would be used in determining the depletion expense to include in the fuel clause
14 each year.

15
16 **Q. ARE THERE ANY EVENTS THAT COULD CAUSE THE DEPLETION RATES**
17 **AND/OR THE DEPLETION EXPENSE TO FLUCTUATE SIGNIFICANTLY?**

18 A. Yes. The annual depletion expense that FPL proposes to include in the fuel clause each
19 year is dependent upon the amount of gas extracted in a given year and the estimated
20 amount of extractable reserves. The depletion rate would need to be evaluated and
21 recalculated each year. If, for some reason, the estimated amount of extractable reserves
22 changes significantly, it could have a correspondingly material impact on the resulting
23 depletion rate that is applied.

¹¹ *Id.* at 18.

1 **Q. IF AN EVENT OCCURS THAT CAUSES PRODUCTION AT THE WOODFORD**
2 **PROJECT (OR OTHER FUTURE PROJECTS) TO CEASE PRIOR TO FPL**
3 **FULLY RECOVERING ITS CAPITAL INVESTMENT IN THE PROJECT, DOES**
4 **FPL INTEND TO STILL RECOVER THE REMAINING CAPITAL**
5 **INVESTMENT (AND RETURN ON THAT INVESTMENT) FROM ITS**
6 **RATEPAYERS?**

7 **A.** Yes. It is FPL's intent that 100% of its potential investments and profits in natural gas
8 exploration, drilling and production activities be recovered from its captive electric
9 ratepayers, regardless of the performance of its proposed gas ventures. In response to
10 OPC Interrogatory No. 38, subparts (b) and (d), FPL addressed the issue of potential
11 undepleted (unrecovered) capital balances as follows:

12 b. In the unlikely event that there is a sudden unforeseen cessation of
13 production, FPL would consider the facts and circumstances associated
14 with the event. If the unrecovered balance is limited to one or a few wells
15 and given the relatively small investment that would likely be remaining
16 once production had already begun, FPL would seek to recover the
17 undepleted investment in the fuel clause in the current period.
18 Alternatively, an analogy could be made to the Commission treatment for
19 unrecovered investment in retired utility plant whereby its practice has
20 been to consider the use of capital recovery schedules to amortize
21 remaining unrecovered balance through rates. This could be applied if
22 necessary to the clause recovery of any retired but unrecovered gas reserve
23 investment. The Company believes the likelihood of these scenarios to be
24 remote.

25 . . .

26 d. As discussed in response to part b. above, FPL has many examples of
27 retirement of assets before they are fully depreciated. Absent a finding of
28 imprudence, the full return of the cost of the asset is recovered through
29 rates. The Commission has discretion to determine the proper recovery
30 period and has utilized capital recovery schedules in many cases to
31 amortize those remaining costs into rates. The appropriate treatment for
32 this investment would be no different.

33
34 Thus, FPL not only wants to venture into the extremely competitive gas drilling and
35 production industry, but it also seeks the Commission's assurance that it would obtain

1 100% recovery of any investments it makes in such potential ventures, plus profits,
2 regardless of the performance of the drilling and extraction efforts relative to that
3 competitive market. Under FPL's approach, 100% of the risk associated with FPL
4 entering into gas exploration, drilling and production projects — whether from
5 unconventional or conventional sources — would be pushed onto ratepayers. According
6 to the responses quoted above, FPL wants to create an equivalency between its potential
7 investments in competitive, non-monopoly gas exploration, drilling, and extraction
8 projects and the generation, distribution, and transmission plant used to provide
9 regulated, monopoly utility service to its captive electric customers, and thereby shield
10 such investments from the risks of engaging in that competitive industry that is not
11 regulated by the Commission.

12
13 **Q. IS FPL'S ATTEMPTED EQUIVALENCY BETWEEN THE INVESTMENTS IN**
14 **THE COMPETITIVE GAS EXPLORATION INDUSTRY AND FPL'S**
15 **REGULATED RATE BASE VALID?**

16 **A.** No, it is not. One need look no further than the regulated and unregulated affiliates of
17 NextEra Energy, Inc. to see that the monopoly utility and gas exploration industries, and
18 thus the investments in respective industries, are fundamentally different.

19
20 **Q. PLEASE EXPLAIN.**

21 **A.** If the Commission approves FPL's request without modification, the result would be that
22 FPL's investors, who are ultimately the shareholders of NextEra Energy, Inc., would earn
23 additional returns through the operation of FPL's fuel cost recovery clause and such
24 returns would be guaranteed. This would result as FPL would be applying a rate of
25 return to the associated capital costs in the fuel clause calculations. That return includes a

1 return on equity component at the Commission's authorized rate of return on equity for
2 FPL, which is essentially the earnings or profit that is applied on behalf of investors.
3 Under the fuel clause, the return on equity (or profit) would also be grossed-up to cover
4 the income taxes on the resulting profit.

5
6 Under the NextEra Energy, Inc. umbrella, there are affiliates of FPL that currently
7 participate in the competitive natural gas exploration, drilling and production industry.
8 USG (which consists of several different legal entities with "USG" in the name) has
9 made investments in shale formations located in Texas, Oklahoma, Wyoming, North
10 Dakota, and Louisiana.¹² Its investments are exposed to the risks of loss that exist in a
11 competitive market. In other words, although the investments in shale plays made by
12 USG and those contemplated by sister company FPL are similar in nature, the risk
13 avoidance and guaranteed return sought by FPL are not applicable to investments in
14 natural gas exploration, drilling and production made by USG. This observation supports
15 the proposition that it is the nature (regulated [monopoly] or unregulated [competitive])
16 of the activity, and not the name of the entity engaging in that activity, that determines
17 whether the investment qualifies for the status of regulated utility rate base.

18
19 Risks associated with FPL's proposed natural gas exploration, drilling and production
20 ventures are addressed further by OPC witness Lawton in his Direct Testimony.

21
22 **Q. IF THE COMMISSION DECIDES, NOTWITHSTANDING OPC'S TESTIMONY**
23 **AND ARGUMENTS, TO APPROVE CLAUSE RECOVERY OF FPL'S**
24 **PROPOSED INVESTMENTS IN SOME FORM, ARE YOU AWARE OF ANY**

¹² Response to OPC Interrogatory No. 19.

1 **RECENT COMMISSION PRECEDENT THAT SHOULD PROVIDE THE BASIS**
2 **FOR MODIFYING THE TREATMENT REQUESTED BY FPL?**

3 A. Yes. The Commission issued Order PSC-12-0498-PAA-EI on September 27, 2012 in
4 Docket No. 120153-EI involving Tampa Electric Company. In that order, at pages 4–5,
5 the Commission stated as follows:

6 Although TECO’s forecasts and assumptions appear reasonable, we note
7 that the price and performance variables could impact fuel savings and,
8 ultimately, the amount of recoverable costs of the project during the five-
9 year recovery period. If markets were to change substantially during the
10 five-year recovery period, or plant performance fell short of expectations,
11 the current fuel savings projections would be affected. Therefore, we find
12 that certain conditions shall be placed upon the recovery of costs: TECO
13 shall be permitted to recover the projected conversion costs through the
14 Fuel Clause beginning on the date the unit is placed into service, **limited**
15 **to the actual fuel savings**; TECO shall depreciate the Polk Unit One
16 conversion over the next five years using the straight line depreciation
17 method; and TECO shall use the actual weighed average cost of capital in
18 TECO’s most current May earning surveillance reports to calculate the
19 revenue requirement. (Emphasis added)
20

21 **Q. PLEASE COMPARE THE TECO PROJECT THAT THE COMMISSION**
22 **ADDRESSED IN ORDER NO. PSC-12-0498-PAA-EI WITH FPL’S PROPOSAL**
23 **IN THIS CASE.**

24 A. The fuel conversion project at issue in the recent TECO docket was for the type of
25 regulated utility system improvement project that would “normally” be recovered through
26 base rates, whereas the highly competitive gas exploration and production ventures
27 proposed by FPL in its Petition are not investments that would normally be recovered
28 through base rates. Rather, the gas exploration and production ventures proposed by FPL
29 are associated with becoming a producer, through a subsidiary, of a fossil fuel
30 commodity that is readily available in the market and is more analogous to the acquisition
31 of coal from affiliated entities previously addressed in this testimony.

1 Additionally, TECO proposed a five-year recovery period, whereas the Woodford Project
2 entails a fifty-year recovery period for the associated investments. While the
3 Commission expressed concern regarding the forecasts and the impact of price and
4 performance variables over the five-year recovery period proposed by TECO, the forecast
5 risk increases substantially when going from a five-year to a fifty-year forecast period.
6 This forecast risk is addressed further in Mr. Lawton's Direct Testimony.

7
8 In the TECO case the Commission addressed the possibility that TECO's project might
9 not produce savings sufficient to outweigh the costs of the capital investment that TECO
10 sought to recover through the fuel cost recovery clause. As Mr. Lawton develops, that
11 possibility is a major issue and concern in this case.

12
13 **Q. IF THE COMMISSION DOES GRANT FPL'S PETITION IN SOME FORM,**
14 **SHOULD THE RECOVERY SOUGHT BY FPL IN ITS PETITION BE SUBJECT**
15 **TO ANY CONDITIONS?**

16 **A.** Before responding to the question, I must first reiterate that FPL's request should be
17 rejected outright. The Commission should make it abundantly clear that if FPL or its
18 unnamed subsidiary goes forward with the proposed Woodford Project acquisition, or
19 other potential future transactions of a similar nature, the recovery of the cost of natural
20 gas obtained by FPL from such joint ventures will be limited to the market price of gas.

21
22 If the Commission does not adopt this recommendation, it should take steps to ensure that
23 any recoveries by FPL of its proposed investments each year are limited to the actual
24 resulting fuel savings. In other words, the Commission should not permit any costs in
25 excess of the demonstrated actual savings to customers to be passed to ratepayers through

1 the fuel cost recovery clause. The Commission's authorization of the proposed
2 investments in the Woodford Project and other potential future gas ventures, and
3 recovery of the resulting investments and associated costs and returns (profits) in the fuel
4 cost recovery clause, should not be the equivalent of a blank check by which FPL is
5 enabled to embark on multiple natural gas exploration, drilling and production joint
6 ventures with the full risk going to FPL's ratepayers and no risk to FPL's investors.

7

8 **Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?**

9 A. Yes, it does.

CERTIFICATE OF SERVICE
DOCKET NO. 140001-EI

I HEREBY CERTIFY that a true and correct copy of the attached **DIRECT TESTIMONY & EXHIBIT OF DONNA RAMAS** has been furnished by electronic mail to the following parties on this 22nd day of September, 2014:

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EXHIBIT DMR-1
QUALIFICATIONS OF DONNA RAMAS

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant, licensed in the State of Michigan, and a senior regulatory consultant and Principal of the firm Ramas Regulatory Consulting, LLC, located in Commerce Township, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated with honors from Oakland University in Rochester, Michigan in 1991. From 1991 through October 2012, I was employed by the firm of Larkin & Associates, PLLC. In November 2012, I formed Ramas Regulatory Consulting, LLC. As a certified public accountant and regulatory consultant, I have analyzed utility rate cases and regulatory issues, researched accounting and regulatory developments, prepared computer models and spreadsheets, prepared testimony and schedules and testified in regulatory proceedings. While employed by Larkin & Associates, PLLC, I also developed and conducted five training programs on behalf of the Department of Defense - Navy Rate Intervention Office on measuring the financial capabilities of firms bidding on Navy assets and one training program on calculating the revenue requirement for municipal owned water and wastewater utilities. Additionally, I have served as an instructor at the Michigan State University - Institute of Public Utilities as part of their Annual Regulatory Studies programs, Advanced Regulatory Studies Program, and in a Basics of Utility Regulation and Ratemaking course.

I have prepared and submitted expert testimony and/or testified in the following cases, many of which were filed under the name of Donna DeRonne:

Arizona: Ms. Ramas prepared testimony on behalf of the Staff of the Arizona Corporation Commission in the following case before the Arizona Corporation Commission: Southwest Gas Corporation (Docket No. G-01551A-00-0309).

California: Ms. Ramas prepared testimony on behalf of the Division of Ratepayer Advocates of the California Public Utilities Commission in the following cases before the California Public Utilities Commission:

San Gabriel Valley Water Company, Fontana Water Division (Docket No. A.05-08-021), Request for Order Authorizing the Sale by Thames GmbH of up to 100% of the Common Stock of American Water Works Company, Inc., Resulting in Change of Control of California-American Water Company (Application 06-05-025), California Water Services Company (Docket No. 07-07-001*), Golden State Water Company (Docket No. 08-07-010), and Golden State Water Company (Docket No. 11-07-017*), Golden State Water Company – Rehearing (Docket No. 08-07-010*), and California Water Services Company (Docket No. 12-07-007*).

Ms. Ramas also prepared testimony on behalf of the Department of Defense in the following cases before the California Public Utilities Commission: San Diego Gas and Electric Company (Docket No. 98-07-006) and Southern California Edison Company and San Diego Gas & Electric Company (Docket No. 05-11-008*).

Additionally, Ms. Ramas prepared testimony on behalf of the City of Fontana in the following rate cases before the California Public Utilities Commission: San Gabriel Valley Water Company, Fontana Water Division (Docket No. A.08-07-009) - Phases 1 and 2; San Gabriel Valley Water Company, Los Angeles Division (Docket No. A.10-07-019*), and San Gabriel Valley Water Company, Fontana Water Division (Docket No. A.11-07-005).

Ms. Ramas also prepared testimony on behalf of The Utilities Reform Network in the following rate case before the California Public Utilities Commission: California American Water Company (Docket No. 10-07-007).

Connecticut: Ms. Ramas has prepared testimony on behalf of the Connecticut Office of Consumers Counsel in the following cases before the State of Connecticut, Department of Public Utility Control:

Connecticut Light & Power Company (Docket No. 92-11-11), Connecticut Natural Gas Corporation (Docket No. 93-02-04), Connecticut Natural Gas Corporation (Docket No. 95-02-07), Southern Connecticut Gas Company (Docket No. 97-12-21), Connecticut Light & Power Company (Docket No. 98-01-02), Southern Connecticut Gas Company (Docket No. 99-04-18 Phase I), Southern Connecticut Gas Company (Docket No. 99-04-18 Phase II), Connecticut Natural Gas Corporation (Docket No. 99-09-03 Phase I), Connecticut Natural Gas Corporation (Docket No. 99-09-03 Phase II), Connecticut Light & Power Company (Docket No. 00-12-01), Yankee Gas Services Company (Docket No. 01-05-19), United Illuminating Company (Docket No. 01-10-10), Connecticut Light & Power Company (Docket No. 03-07-02), Southern Connecticut Gas Company (Docket No. 03-11-20), Yankee Gas Services Company (Docket No. 04-06-01*), The Southern Connecticut Gas Company (Docket No. 05-03-17PH01), The United

Illuminating Company (Docket No. 05-06-04), Connecticut Natural Gas Corporation (Docket No. 06-03-04* Phase I), Yankee Gas Services Company (Docket No. 06-12-02PH01*), Aquarion Water Company of Connecticut (Docket No. 07-05-19), Connecticut Light & Power Company (Docket No. 07-07-01), The United Illuminating Company (Docket No. 08-07-04), Connecticut Light & Power Company (Docket No. 09-12-05), and Yankee Gas Services Company (Docket No. 10-12-02).

Ms. Ramas also assisted the Connecticut Office of Consumer Counsel by conducting cross-examination of utility witnesses in the following cases: Southern Connecticut Gas Company (Docket No. 08-12-07), Connecticut Natural Gas Corporation (Docket No. 08-12-06), UIL Holdings Corporation and Iberdrola USA, Inc. (Docket No. 10-07-09), and Northeast Utilities/NSTAR Merger (Docket No. 12-01-07).

Ms. Ramas also assisted the Connecticut Public Utility Regulatory Authority staff in the following cases for which testimony was not provided. As part of the assistance, Ms. Ramas conducted cross examination on behalf of staff: Connecticut Light & Power Company Major Storm case (Docket No. 13-03-23).

District of Columbia: Ms. Ramas prepared testimony on behalf of the Office of the People's Counsel of the District of Columbia in the following case before the Public Service Commission of the District of Columbia: Washington Gas Light Company (Formal Case No. 1054*), Potomac Electric Power Company (Formal Case No. 1076), Potomac Electric Power Company (Formal Case No. 1087), Washington Gas Light Company (Formal Case No. 1093), and Potomac Electric Power Company (Formal Case No. 1103).

Florida: Ms. Ramas prepared testimony on behalf of the Florida Office of Public Counsel in the following cases before the Florida Public Service Commission:

Southern States Utilities (Docket No. 950495-WS), United Water Florida (Docket No. 960451-WS), Aloha Utilities, Inc. – Seven Springs Water Division (Docket No. 010503-WU), Florida Power Corporation (Docket No. 000824-EI*), Florida Power & Light Company (Docket No. 001148-EI**), Tampa Electric Company d/b/a Peoples Gas System (Docket No. 020384-GU*), The Woodlands of Lake Placid, L.P. (Docket No. 020010-WS), Utilities, Inc. of Florida (Docket No. 020071-WS), Florida Public Utilities Company (Docket No. 030438-EI*), The Woodlands of Lake Placid, L.P. (Docket No. 030102-WS), Florida Power & Light Company (Docket No. 050045-EI*), Progress Energy Florida, Inc. (Docket No. 050078-EI*), Florida Power & Light Company (Docket No. 060038-EI), Water Management Services, Inc. (Docket No. 100104-WU), Gulf Power Company (Docket No. 110138-EI), Florida Power & Light Company (Docket No. 120015-EI), Tampa Electric Company (Docket No. 130040-EI*), and Florida Public Utilities Company (Docket No. 140025-EI*).

Illinois: Ms. Ramas prepared testimony on behalf of the Illinois Office of the Attorney General, Apple Canyon Lake Property Owners Association and Lake Wildwood Association, Inc. in the following cases before the Illinois Commerce Commission: Apple Canyon Utility Company (Docket No. 12-0603) and Lake Wildwood Utilities Corporation (Docket No. 12-0604).

Louisiana: Ms. Ramas prepared testimony on behalf of various consumers in the following case before the Louisiana Public Service Commission: Atmos Energy Corporation d/b/a Trans Louisiana Gas Company (Docket No. U-27703*).

Maryland: Ms. Ramas prepared testimony on behalf of the Maryland Office of People's Counsel in the following case before the Public Service Commission of Maryland: Potomac Electric Power Company (Case No. 9336).

Massachusetts: Ms. Ramas prepared testimony on behalf of the Massachusetts Attorney General's Office of Ratepayer Advocacy in the following cases before the Massachusetts Department of Public Utilities: New England Gas Company (DPU 10-114), Fitchburg Electric Company (DPU 11-01), Fitchburg Gas Company (DPU 11-02); NStar/Northeast Utilities Merger (DPU 10-170); and Bay State Gas Company d/b/a Columbia Gas of Massachusetts (DPU 13-75).

New York: Ms. Ramas prepared testimony on behalf of the New York Consumer Protection Board in the following cases before the New York Public Service Commission: New York State Electric & Gas Corporation (Case No. 05-E-1222), KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island (Case Nos. 06-G-1185 and 06-G-1186*), Consolidated Edison Company of New York, Inc. (Case No. 06-G-1332*), and Consolidated Edison Company of New York, Inc. (Case No. 07-E-0523).

Nova Scotia: Ms. Ramas prepared testimony on behalf of the Nova Scotia Utility and Review Board – Board Counsel in the following case: Halifax Regional Water Commission (W-HRWC-R-10); Nova Scotia Power Incorporated (NSPI-P-892*); Heritage Gas Limited (NG-HG-R-11*); NPB Load Retention Rate Application – NewPage Port Hawkesbury Corp. and Bowater Mersey Paper Company Ltd. (NSPI-P-202); Nova Scotia Power Incorporated (NSPI-P-893*); and Halifax Regional Water Commission (W-HRWC-R-13).

North Carolina: Ms. Ramas assisted Nucor Steel-Hertford, A Division of Nucor Corporation in the review of an application filed by Dominion North Carolina Power for an Increase in rates (Docket no. E-22, Sub 459**). The case was settled prior to the submittal of intervenor testimony.

Utah: Ms. Ramas prepared testimony on behalf of the Utah Committee of Consumer Services in the following cases before the Public Service Commission of Utah:

PacifiCorp dba Utah Power & Light Company (Docket No. 99-035-10), PacifiCorp dba Utah Power & Light Company (01-035-01*), PacifiCorp dba Utah Power & Light Company (Docket No. 01-035-23 Interim (Oral testimony)), PacifiCorp dba Utah Power & Light Company (Docket No. 01-035-23**), Questar Gas Company (Docket No. 02-057-02*), PacifiCorp (Docket No. 04-035-42*), PacifiCorp (Docket No. 06-035-21*), Rocky Mountain Power (Docket Nos. 07-035-04, 06-035-163 and 07-035-14), Rocky Mountain Power (Docket No. 07-035-93), Questar Gas Company (Docket No. 07-057-13*), Rocky Mountain Power (Docket No. 08-035-93*), Rocky Mountain Power (Docket No. 08-035-38*), Rocky Mountain Power Company (Docket No. 09-035-23), Questar Gas Company (Docket No. 09-057-16**), Rocky Mountain Power Company (Docket No. 10-035-13), Rocky Mountain Power Company (Docket No. 10-035-38), Rocky Mountain Power Company (Docket No. 10-035-89), Rocky Mountain Power Company (Docket

No. 10-035-124*), Rocky Mountain Power Company (Docket No. 11-035-200*) and Rocky Mountain Power Company (Docket No. 13-035-184*).

Vermont: Ms. Ramas prepared testimony on behalf of the Vermont Department of Public Service in the following cases before the Vermont Public Service Board: Citizens Utilities Company – Vermont Electric Division (Docket No. 5859), Central Vermont Public Service Corporation (Docket No. 6460*), and Central Vermont Public Service Corporation (Docket No. 6946 & 6988).

Washington: Ms. Ramas prepared testimony on behalf of the Public Counsel Section of the Washington Attorney General's Office in the following case before the Washington Utilities and Transportation Commission: PacifiCorp (Docket No. UE-090205*).

West Virginia: Ms. Ramas has prepared testimony on behalf of the West Virginia Consumer Advocate Division in the following cases before the Public Service Commission of West Virginia: Monongahela Power Company (Case No. 94-0035-E-42T), Potomac Edison Company (Case No. 94-0027-E-42T), Hope Gas, Inc. (Case No. 95-0003-G-42T*), and Mountaineer Gas Company (Case No. 95-0011-G-42T*).

* Case Settled / ** Testimony not filed/submitted due to settlement