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5 APPEARANCES: (As heretofore noted.)

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## 1 I N D E X

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

2 COMMISSIONER EDGAR: Me either.

3 THE WITNESS: But it was the age of the  
4 jetliner. The peakers we're replacing are the  
5 exact engines that hung on the Boeing 707. The  
6 last 707 rolled off the production line in 1978.  
7 They are not the most fuel-efficient machines.  
8 They are not the most environmentally friendly.  
9 When you start them up, they're great for quick  
10 starts when they work. The problem now is, you  
11 can't find any parts for them. So clean generation  
12 is also a function of being able to replace  
13 equipment with very fuel efficient, very clean  
14 technology. So that all plays into it.

15 And then there is a growing body of regulatory  
16 requirements. Witness Miranda can provide you a  
17 number of those related to particularly to NRC  
18 transmission. We have to pay for those and to meet  
19 those requirements.

20 COMMISSIONER EDGAR: Thank you. Thank you  
21 very much. Mr. Silagy, I'm going to turn to page  
22 24 of your testimony. And I'm looking at lines --  
23 the whole middle paragraph, but basically lines 11  
24 through 13 where you discuss the non-fuel base O&M  
25 expense going down, or being lower is the term here

1 and the achieved -- as you say in your testimony,  
2 the achievement by the employees to accomplish  
3 that. Can you also discuss for me in a little more  
4 detail what the non-O&M efficiencies or  
5 achievements have been and will be to achieve a  
6 lower O&M non-fuel expense?

7 THE WITNESS: So -- gosh, we started this  
8 initiative called Project Momentum within our  
9 company and this is internal view. It's frankly --  
10 it's not just like FPL. And all the employees,  
11 every single one is involved and we've frankly  
12 challenged our own conventional thinking and said  
13 where are the areas where we can be smarter, we can  
14 deploy technology, and we can be more efficient in  
15 how we serve our customers.

16 So, as an example, using the smart meter  
17 technology coupled with the iPad, coupled with  
18 Google Maps, we're -- and algorithms that our  
19 employees actually invented them, and I'm --  
20 proudly to say they've patented them. We're  
21 actually now able to respond to customers in a way,  
22 when there's an outage that we never have before  
23 and so we don't have multiple trucks going out  
24 searching for a problem, we go to the problem. We  
25 respond much faster. That reduces overtime. That

1 reduces just labor to begin with. We can restore  
2 faster. We use less parts. We're now doing  
3 predictive analytics, as an example, which allows  
4 us to actually -- actually allows us to repair  
5 items before they fail. So not running something  
6 to failure saves customers a significant amount of  
7 money, as well as enhances their value because they  
8 haven't had an interruption.

9 So the smart grid data, as an example, allows  
10 us to predict when a patent on a transformer looks  
11 like it may fail within a week or two. We're able  
12 to send a crew out during regular day, regular  
13 business hours instead of overtime and repair or  
14 replace that equipment.

15 There's -- Commissioner, I guess I would say  
16 this. Our approach is not just to look at the  
17 signal big ticket items. Those are great and I  
18 love getting low hanging fruit, if you will, and  
19 Witness Barrett can talk about this in some length,  
20 as well. But, you know, our focus is every little  
21 bit that we can find and sometimes it's a couple  
22 hundred thousand and sometimes it's a million  
23 dollars and sometimes it's tens of millions of  
24 dollars, and those opportunities I think are  
25 largely -- we've done those, but we're trying to

1 add it all up and see what we can do to actually  
2 lower our cost. That's why we've been able to  
3 actually benchmark our O&M is below where we were  
4 four years ago, which is phenomenal considering  
5 that we've been under inflationary pressure like  
6 everybody else.

7 COMMISSIONER EDGAR: Thank you. And then my  
8 last question topic, may have a couple questions  
9 within it, but what seems like a very, very long  
10 time ago already, but in opening statements this  
11 morning, Mr. Litchfield had a set of -- from  
12 exhibits that are in the record, or will be in the  
13 record, but a set of charts. One of them addressed  
14 parogy -- parity. Excuse me. Parity between major  
15 rate classes. That was page seven. I don't know  
16 that you need to look at it, but it was page seven.  
17 And then Mr. Moyle in his cross also had an exhibit  
18 that talked about -- or that showed present  
19 increase by rate class stopped. So that's the  
20 background for my question.

21 So it's my understanding that generally CILC  
22 customers currently enjoy credits that were  
23 included as part of the 2012 settlement agreement  
24 and that those comparable credits are not included  
25 as part of the request that is being litigated in



1 this hearing, is that correct?

2 THE WITNESS: Yes, ma'am.

3 COMMISSIONER EDGAR: Okay. And that,  
4 likewise, as part of the 2012 settlement agreement,  
5 a 12 and 113 methodology is used for production  
6 plant. While this request that we're here  
7 discussing today includes a change to 12 and 25  
8 percent methodology?

9 THE WITNESS: Yes, ma'am.

10 COMMISSIONER EDGAR: Okay. So my question is,  
11 realizing again that other witnesses I know will  
12 discuss this in more detail as the hearing proceeds  
13 and will go into assumptions that are built into  
14 the cost of service survey, can you speak generally  
15 to the approach on the issues in this rate case and  
16 what may or may not have changed, or what is the  
17 general philosophy that leads to those two  
18 differences of the quest that is before us?

19 THE WITNESS: Yes, ma'am. So the -- again,  
20 you know Witness Cohen can go into great details  
21 about how the model actually works on this, but the  
22 general approach has been to structure the cost as  
23 it is -- based on our cost of service to each one  
24 of these customers. And so it is with an  
25 understanding, the parity is always an area that is

1 preferred, that, you know, we have tried to  
2 structure this going forward as cost of service is  
3 incurred based on the class of customer that is  
4 creating that cost. And so there is no cross  
5 subsidy, if you will, for the customers, as much as  
6 possible, recognizing that there are limits in the  
7 cost of service model, as well as -- and I'm not an  
8 expert on the gradualism -- is employed as well.  
9 And so Witness Cohen has spent a lot of time going  
10 through this and making sure that we're modeling it  
11 correctly. So those customers who -- we incur the  
12 cost to serve over, they are charged appropriately  
13 and only that.

14 COMMISSIONER EDGAR: All right. Thank you  
15 very much. That concludes my questions, Madam  
16 Chair.

17 CHAIRMAN BROWN: Thank you, Commissioner  
18 Edgar.

19 Commissioner Jimmy Patronis.

20 COMMISSIONER PATRONIS: Thank you, Madam  
21 Chairman. And thank you, Mr. Silagy, for your  
22 patience today. It's been a long day.

23 Have you ever worked in the restaurant  
24 business?

25 THE WITNESS: No, sir. I have never was a

1 waiter or a bartender, although I wanted to be.  
2 Get the tips. At least as a bartender when I was  
3 young.

4 COMMISSIONER PATRONIS: There's -- that's  
5 primarily a lot of my horse sense comes from, you  
6 know, the restaurant business and the family  
7 business. I'm -- a recent example. A few years  
8 ago we were -- we have a point of sale system.  
9 Lots of computers all over the place and they  
10 require lots of maintenance and upkeep and brother  
11 goes out and gets a proposal and it's you know,  
12 \$22,000 for replacing the computers that need to be  
13 upgraded because of XP is being phased out. So I  
14 call a time-out and I do some of my own  
15 understanding and shopping and I drop ship the  
16 computers directly to our point of sale company and  
17 cut the price in half and they were Dell's with  
18 one-year warranties on them, support, good  
19 equipment.

20 And I guess I kind of wanted to -- kind of  
21 curious. When you wake up every morning, your  
22 company's faced with doing their challenges. Do  
23 you all value engineer? Do you challenge? What  
24 are some of the examples of how you save money for  
25 not just the ratepayer, but also for your

1 stockholders?

2 THE WITNESS: The short answer, Commissioner,  
3 is, yes, we do value engineer. And I will tell you  
4 we also -- and I would welcome you to have the  
5 opportunity to meet some of our vendors. I  
6 would -- some of them maybe said we kind of hammer  
7 our vendors. We work very hard to vet -- to get  
8 the best technology, the best equipment we can,  
9 recognizing that not always is the lowest cost  
10 piece of equipment the best equipment, but we spend  
11 a lot of time making sure that we go out and seek  
12 proposals from around the globe for equipment, for  
13 services, and that we get the best value that we  
14 can both price as well as performance, which is  
15 very important. Because, in my experience, I have  
16 dealt with equipment, let's just say, that didn't  
17 always do as advertised, right, or maybe it did it  
18 for six months, but not for six years that was  
19 advertised that the warranty didn't cover.

20 So these are all things that we -- we spend a  
21 lot of time on it and we have some tremendously  
22 talented people that are much smarter than I am,  
23 engineers, procurement specialists, who work with  
24 all the major and thousands of minor vendors, minor  
25 in the sense of -- not the GE of the world, right.

1 Small. And we look for value. And, you know, we  
2 think that's one of the things that we've been very  
3 successful on, on being innovative, of saying how  
4 can we be different?

5 The .05 is a great example of this. I mean,  
6 we, you know, we push our vendors to be smarter  
7 about their own technology. I mean, that's an  
8 upgrade to existing machinery that we pushed GE to  
9 help us get to be even better than what was  
10 originally designed, which saves customers money.

11 COMMISSIONER PATRONIS: Now are those the  
12 units at Riviera Beach?

13 THE WITNESS: No, sir. Those are -- the units  
14 at Riviera Beach are actually Siemens machines and  
15 so the .05's have to do with GE turbines of older  
16 vintage that we have that we're actually upgrading  
17 the innards of, if you will. But Siemens is  
18 another good example. So, yeah, we went out for a  
19 request for proposals for terminal manufactures  
20 from around the world. And at West County, the  
21 last one we had done before, we had done Mitsubishi  
22 machines. Siemens came in with better technology  
23 and we were the first ones to deploy that  
24 technology at Canaveral first and then we upgraded  
25 it based on that, even at Riviera Beach.

1           COMMISSIONER PATRONIS: Do you even go as far  
2           as to -- I know we do. We take advantage of  
3           opportunities when we know there's going to be a  
4           surplus of equipment, or a surplus. Do you also  
5           kind of predict opportunities? You know, you may  
6           not necessarily need to make this type of  
7           substantial investment now, but you know that  
8           there's an opportunity to seize a value.

9           THE WITNESS: Yes, sir, we do, and I'll tell  
10          you, it's always, you know, a detailed analysis  
11          because there's a cost to carry. There's a cost to  
12          have a bigger inventory. I said we'll take all of  
13          those factors into account as we look at it, but,  
14          you know, it's not part of this proceeding, but  
15          I'll give you a good example. I mean, our Woodford  
16          Reserves, the gas reserves, is a very good example  
17          of that where we saw an opportunity to actually  
18          save customers money over the long term by actually  
19          getting ahead of the curve and locking in, you  
20          know, gas at production costs at a time when it is  
21          relatively low.

22          So we try to be innovative in these areas, but  
23          you also have to balance what are the risks, what  
24          are the costs associated, but we do do this in both  
25          our parts and our inventory, even down to the

1 example of how we source our trucks.

2 COMMISSIONER PATRONIS: Last question, Madam  
3 Chairman.

4 When it comes to downtime, is there an  
5 acceptable -- like at our restaurant we've got  
6 employees that have been there 25, 30 years and  
7 every single day, there's going to be somebody  
8 that's going to steal. So it's just a role of the  
9 numbers. You're going to have so much percentage  
10 is just going to happen everyday. Is there an  
11 acceptable percentage of downtime of -- in your  
12 company that you tolerate?

13 THE WITNESS: If downtime means theft, the  
14 answer is no.

15 COMMISSIONER PATRONIS: No. And my theft  
16 is -- I know I'm going to have a certain amount of  
17 theft everyday. Is there -- what's your acceptable  
18 downtime of not providing service to your  
19 customers?

20 THE WITNESS: You know, I don't have an  
21 acceptable downtime because we -- we've even looked  
22 at areas, as an example, for our lineman. We  
23 looked at productivity, daily productivity, and  
24 found that there were opportunities to getting them  
25 engaged, and they want to do this, on changing

1 streetlights when they were having what was  
2 previously downtime. So we're actually being able  
3 to be more productive.

4 And we measure productivity all the time. And  
5 I'll give you another really good example where it  
6 really -- where you see the difference. Storm  
7 response. You know, we have an opportunity,  
8 unfortunately, to travel to different parts of the  
9 country to help other utilities in time of need.  
10 Sandy was one of those unfortunate times where --  
11 Sandy actually hit us first, not in same degree,  
12 but, you know, it was actually a tropical storm.  
13 I'm going to get the number wrong. I'm going to  
14 say it was 65,000 or so customers. Our main time  
15 to restore, I believe, was four hours and then we  
16 pivoted 1,000 people and we moved them up the east  
17 coast.

18 When we got there, it was stunning to us to  
19 see the difference in productivity. We actually  
20 expect during storms that our folks are going to  
21 get 11 hours, 10 to 11 hours of productivity out of  
22 a 16-hour work day. The average productivity  
23 during Sandy was an hour-and-a-half. So -- and for  
24 a variety of reasons. And that's not to be  
25 critical, but that's to say our focus on this is,



1           you know, that makes a huge difference to cost  
2           structures for our customers.

3           So making sure that we have our employees be  
4           productive, but always safe, as well. And there's  
5           that balance because this is a business and if you  
6           don't do it right or people get super tired and  
7           you're pushing them, it will kill you, and I'm  
8           always conscience of that, as well. And so we're  
9           always trying to find that balance.

10          But, you know, there's always an opportunity  
11          when you're on the clock, you're expected to be  
12          working. And, frankly, part of the momentum is  
13          their ideas on how to be more productive. It came  
14          from folks who were actually on the line, a lot of  
15          these ideas, which is one of the things I'm really  
16          proud of.

17          COMMISSIONER PATRONIS: Thank you, Madam  
18          Chair.

19          CHAIRMAN BROWN: All right. Well, you've been  
20          on the stand here long enough. You still have  
21          redirect.

22          MR. LITCHFIELD: Boy, that puts a lot of  
23          pressure on counsel.

24          CHAIRMAN BROWN: Hoping it's limited to stay  
25          within the scope.

1           MR. LITCHFIELD: So thank you, Madam Chairman.  
2           And, Mr. Silagy, I do have just two or three  
3           questions for you.

4                           REDIRECT EXAMINATION

5   BY MR. LITCHFIELD:

6           Q     Starting first with the examination -- or  
7           cross examination, excuse me, from Mr. Coffman  
8           representing AARP. He asked you specifically if you  
9           were aware of what the cost of living adjustment had  
10          been last year with respect to those living on Social  
11          Security income. Do you remember that question?

12          A     Yes, I do.

13          Q     And I think your answer to that specific  
14          question was, I don't know, is that correct?

15          A     Yes, that's correct.

16          Q     Have you done any analysis to assess what the  
17          cost of living adjustments have been for that group over  
18          the last ten years?

19          A     Over the decade I have. Not over the last  
20          year, but over the decade I have.

21          Q     And what is your -- what are the results of  
22          your analysis?

23          A     The cost living increases have been 19.9  
24          percent.

25          Q     19.9 percent. And how would that compare to

1 FPL residential bills over that same period?

2 A Our bills are down 14 percent on average.

3 Q Okay. Mr. Coffman also asked you about  
4 choices that AARP members had with respect to taking  
5 service. Do you recall that line of questioning?

6 A Yes, I do.

7 Q What choices do AARP customers have with  
8 regard to utilities that provide better pricing or  
9 better reliability than FPL?

10 A They don't have any options in the state of  
11 Florida and I would argue anywhere in the country.

12 Q Mr. Moyle asked you several questions about  
13 the credits that are currently available to CILC  
14 customers. Do you recall that series of questions?

15 A I do.

16 Q And do you know what those credits are paid  
17 for? What is the value that FPL gets from those  
18 credits?

19 A Well, the value that we get is the opportunity  
20 to interrupt load if there -- a need arises because we  
21 have to -- you know, we need the generation. So the  
22 value of is the opportunity to interrupt them.

23 Q When was the last time that FPL exercised that  
24 option with respect to that class of customers?

25 A My memory of it is 2010.

1           Q     All right. Mr. Moyle also asked you a  
2     question or two relative to Exhibit 559. This was an  
3     interrogatory that I think, as you will recall, the  
4     discussion had been actually sponsored by Ms. Ousdahl.  
5     Do you remember Mr. Moyle putting that in front of you  
6     and asking you questions about aviation?

7           A     Yes.

8           Q     And flights?

9           A     Yes.

10          Q     And your flights in particular.

11          A     I do.

12               MR. LITCHFIELD: Okay. I'd like to have  
13     distributed an exhibit for purposes of redirect.  
14     And if I could get an exhibit number.

15               CHAIRMAN BROWN: Hold on one second. Mr.  
16     Moyle. I saw them getting up at the beginning. I  
17     thought --

18               MR. LITCHFIELD: I need it to be timed just  
19     right. And I think Mr. Moyle should see the  
20     exhibit before he objects.

21               CHAIRMAN BROWN: Yes. That would be --

22               MR. MOYLE: Okay. That's fair.

23               MR. LITCHFIELD: If I can get a number for  
24     this.

25               CHAIRMAN BROWN: Yes. You may. You can get

1 number -- I believe we're on 578. All right. I'm  
2 on track here.

3 MR. LITCHFIELD: And, for the record, this is  
4 response from FPL to FIPUG third set of  
5 interrogatories, No. 79.

6 CHAIRMAN BROWN: And I know what Mr. Moyle is  
7 going to object to, but this appears to be  
8 something that's already as part of -- it's an  
9 interrogatory that's in the record.

10 MR. LITCHFIELD: I don't know that it's in the  
11 record yet, Madam Chairman. It was an answer that  
12 was provided to FIPUG and I'd like the witness to  
13 read the question and answer.

14 CHAIRMAN BROWN: Well, could you hold on a  
15 second? Okay. Mr. Moyle has a copy of it and I  
16 would entertain his objection at this time.

17 MR. MOYLE: Well, I'm not sure who offered  
18 this interrogatory, whether it's Mr. Silagy. I  
19 asked him some questions about aviation. I asked  
20 him about that exhibit, which was some accounting  
21 entries. You know, it looked like ratepayers made  
22 money on the sale of the falcon so he didn't know  
23 much information about this. You know, this  
24 interrogatory says FPL's not seeking to recover  
25 aviation expenses. I asked Mr. Silagy that and he

1           said ask Ms. Ousdahl. So, you know, I think Ms.  
2           Ousdahl is the right witness for this.

3           MR. LITCHFIELD: Well, Madam Chairman, if I  
4           could, the line of questioning that Mr. Moyle  
5           worked from that Exhibit 559 related to aviation  
6           travel and a strong implication that those costs  
7           were reflected in the case that is before you  
8           today. And my perspective is, if Mr. Moyle knew  
9           about this answer, it was highly improper to work  
10          from another interrogatory sponsored by Ms. Ousdahl  
11          to attempt to make that implication in this case.  
12          If he wasn't aware of this answer, I think it's  
13          fair now since he's opened the door to have the  
14          witness address it definitively.

15          CHAIRMAN BROWN: I'm inclined to agree at this  
16          point. So let's just see how the questions go.

17 BY MR. LITCHFIELD:

18           **Q     Mr. Silagy, would you please just read the**  
19           **question and answer?**

20           A     Yes.

21           Question: Please list and identify how much,  
22           if any, FPL is seeking to recover from ratepayers for  
23           aviation expenses. For this question, aviation expenses  
24           means monies paid directly or indirectly for  
25           non-commercial aircraft.

1           Response: FPL is not seeking to recover  
2           aviation expenses.

3           **Q     Do you have any reason to believe that that is**  
4           **not an accurate representation, Mr. Silagy?**

5           A     I do not.

6           **Q     If Mr. Moyle wanted to verify, however, he**  
7           **could certainly confirm this fact with Ms. Ousdahl,**  
8           **correct?**

9           A     That's correct.

10          MR. LITCHFIELD: No further questions.

11          CHAIRMAN BROWN: No further redirect?

12          MR. LITCHFIELD: No further redirect.

13          CHAIRMAN BROWN: Okay. So we are getting into  
14          exhibits, now, let's just --

15          MR. WRIGHT: Madam Chairman. I'm sorry. Is  
16          the exhibit that Mr. Litchfield just distributed  
17          being marked?

18          CHAIRMAN BROWN: I've marked it. I have not  
19          entered it into the record.

20          MR. WRIGHT: 578?

21          CHAIRMAN BROWN: It is 578. Okay. All right.  
22          Let's get into the prefiled exhibits. FPL first.

23          MR. LITCHFIELD: Thank you. FPL would move  
24          Exhibits 44, 45 and 46.

25          CHAIRMAN BROWN: Okay. Seeing no objections

1 from the parties, I will enter into the record 44,  
2 45, 46.

3 MR. MOYLE: Hold on.

4 CHAIRMAN BROWN: Is there an objection?

5 MR. MOYLE: There is. There is. And, again,  
6 it's back on this whole issue of the hearsay, which  
7 I'm trying really hard to get a standing objection  
8 ruling so I don't have to do this, but the Exhibit  
9 No. 2, ES2, it's clearly hearsay because he says at  
10 the bottom of the footnote, summarized from  
11 exhibits TCC3 and TCC4. So he -- this is not his  
12 own work. It's coming from that of another  
13 witness. Clearly that's hearsay, should not --  
14 subject to the objection and the standard on  
15 hearsay that, you know, another witness has to  
16 authenticate it. And the same objection with  
17 respect to ES3. The little footnote says  
18 summarized from FPL witness testimonies and  
19 exhibits, and then it says CPP2030 based on current  
20 ending.

21 CHAIRMAN BROWN: Mr. Moyle, I know you know  
22 that hearsay is allowed in this -- in this  
23 proceeding as long as it's not the sole source for  
24 making a decision. So you know that.

25 MR. MOYLE: I know that, but here's my



1           problem. I was told at prehearing that if I wanted  
2           to preserve that objection, I needed to do what I'm  
3           doing now.

4           CHAIRMAN BROWN: Okay.

5           MR. MOYLE: So if that's what I need to do,  
6           then that's what, I guess, I need to do. The other  
7           alternative is to register a standing objection to  
8           hearsay being used to support a finding of fact  
9           unless it's corroborated by witness, which,  
10          respectfully, I think would more efficient, but --

11          CHAIRMAN BROWN: Okay. I'm going to hold off  
12          and make a ruling real quickly and just turn to our  
13          legal advisor.

14          MS. HELTON: Madam Chairman, we need to hear  
15          from Florida Power & Light, I think, first before  
16          we go forward with respect to why they may or may  
17          not agree with Mr. Moyle.

18          MR. LITCHFIELD: Thank you. Just one quick  
19          point. Mr. Moyle pointed to the footnotes and  
20          those clearly indicate that they're corroborated by  
21          other evidence in this case. So I see absolutely  
22          no reason to exclude these on the basis of the  
23          hearsay rule. In fact, they specifically fall  
24          within the exception.

25          CHAIRMAN BROWN: Okay.

1           MR. MOYLE: But the person hasn't appeared and  
2 testified so, you know, it's appropriate to make  
3 the objection now as I understand it.

4           CHAIRMAN BROWN: He just wants to make the  
5 objection.

6           COMMISSIONER EDGAR: And, Madam Chairman, I  
7 think can acknowledge the objection, then we can  
8 move on.

9           CHAIRMAN BROWN: Okay. And seeing no other  
10 objections, that is what we'll do. We're entering  
11 in 44, 45 and 46.

12           (Whereupon, Exhibit Nos. 44, 45 and 46 were  
13 entered into the record.)

14           CHAIRMAN BROWN: Now I'm going to go down the  
15 order in which the exhibits were provided on the  
16 cross order. Starting with Public Counsel. I  
17 don't believe you've offered any?

18           MS. CHRISTENSEN: No.

19           CHAIRMAN BROWN: Okay. Some we're not used  
20 and so I would suggest to the parties to only  
21 enter -- request admission of those exhibits that  
22 were actually used during cross examination.  
23 Otherwise, they will not be entertained for  
24 admission.

25           So, going to FIPUG. You have Exhibits 559,

1           560, 561 -- actually, you've got it all the way  
2           through 566.

3           MR. MOYLE: Right. So we would move 559  
4           through 565. The 566 was the exhibit I raised with  
5           you earlier that potentially would have been used  
6           if the witness answered the question a different  
7           way. So we don't seek to move in 566. And I would  
8           note that the -- there was one another that I  
9           didn't specifically ask the witness about that  
10          showed the -- it's similar to that CIL seating  
11          chart, but it was for 2017. Only for saving  
12          purposes of time, I didn't ask him about that, so,  
13          but I asked that it be moved in. I mean, he didn't  
14          authenticate it. So I just wanted to make you  
15          aware that all the other ones I had asked about, i  
16          think, you know, he has some familiarity with the  
17          exception of that.

18          MR. LITCHFIELD: So which ones are you not  
19          moving, Mr. Moyle?

20          MR. MOYLE: The only one I'm not moving is  
21          566. I've moved 559 through 565.

22          CHAIRMAN BROWN: FPL, objection?

23          MR. LITCHFIELD: Okay. No objection to 561 or  
24          to 562. No objection to 63 or 65 or 64. Sorry to  
25          back up. I do have -- so 69 --

1 CHAIRMAN BROWN: You mean 569?

2 MR. LITCHFIELD: 69 is someone else's. 59.

3 CHAIRMAN BROWN: Aviation assets?

4 MR. LITCHFIELD: Yeah. 59, it was never  
5 really authenticated by Mr. Silagy. However, if  
6 Mr. Moyle is willing to agree to 578 going in, I'd  
7 let them both go in.

8 CHAIRMAN BROWN: I was actually thinking the  
9 same thing. Mr. Moyle, are you amenable to  
10 entering 578?

11 MR. MOYLE: That's a deal.

12 CHAIRMAN BROWN: All right.

13 (Whereupon, Exhibit No. 578 was entered into  
14 the record.)

15 MR. LITCHFIELD: And as to 560, this was -- no  
16 foundation of relevance was established for  
17 purposes of this.

18 CHAIRMAN BROWN: I had an X by it, as well --

19 MR. LITCHFIELD: The list of lobbyists whose  
20 costs are not recovered through rates could not be  
21 less relevant.

22 CHAIRMAN BROWN: I don't think it's  
23 relevant and you didn't --

24 MR. MOYLE: He authenticated it and said they  
25 have 34 lobbyists, that's what the exhibit shows,

1           so, you know, I don't -- it's in the record that  
2           they have 34 lobbyists based on his understanding.  
3           So, I mean, I think he authenticated it. I think  
4           it should come in.

5           MR. LITCHFIELD: The basis of the objection is  
6           relevance, not authentication, but --

7           CHAIRMAN BROWN: Mr. Moyle.

8           MR. MOYLE: Well, part of that questioning was  
9           to try to find out what's in, what's out. So I  
10          think it was relevant with respect to that.

11          CHAIRMAN BROWN: I don't think the line of  
12          questioning was relevant at all. You didn't have  
13          any followup. In fact, I think he clarified that,  
14          those cost weren't in the rates. So I will -- we  
15          will not move in 560 and we're not moving in 566.

16          (Whereupon, Exhibit Nos. 559, 561 through 565  
17          were entered into the record.)

18          CHAIRMAN BROWN: Moving to Hospital. We've  
19          got 567, 568, 569 and 570. I think all of those  
20          were used on cross. Are there any objections to  
21          moving those in?

22          MR. LITCHFIELD: None from FPL.

23          CHAIRMAN BROWN: All right. We're going to  
24          move them in. 567 through 570.

25          (Whereupon, Exhibit Nos. 567 through 570 were

1 entered into the record.)

2 CHAIRMAN BROWN: All right. Now, 571 through  
3 573, those were also, I believe, all used by Retail  
4 Federation.

5 Okay. Those will be moved in, as well.

6 (Whereupon, Exhibit Nos. 571 through 573 were  
7 entered into the record.)

8 CHAIRMAN BROWN: Sierra Club. You have 574  
9 that I have. That's it?

10 MS. SHANK: Yes.

11 CHAIRMAN BROWN: Any objections to moving the  
12 10-year site plan in?

13 MR. MOYLE: Not to 574, no.

14 CHAIRMAN BROWN: Okay. That will be moved in.

15 (Whereupon, Exhibit No. 574 was entered into  
16 the record.)

17 CHAIRMAN BROWN: And then we -- I've already  
18 moved in a 578 and I have 575, 576 and 577.

19 MR. LITCHFIELD: I'm sorry. You did move 575?  
20 Yeah. 575, as we recall, was not used.

21 MS. SHANK: No, it wasn't.

22 MR. LITCHFIELD: Or 576.

23 MS. SHANK: Right. Out of the four I had, 574  
24 is the only one that's being entered.

25 CHAIRMAN BROWN: Yes. Right. And then we're

1 at 578, which was already moved in.

2 So we are done. Would you like the witness to  
3 be excused or does he get to stay for the rest of  
4 the proceeding?

5 MR. LITCHFIELD: No. I better excuse Mr.  
6 Silagy.

7 CHAIRMAN BROWN: Mr. Silagy, you're excused.  
8 Thank you very much.

9 I know it's at 6:10. We have a -- there's a  
10 big witness coming on. Mr. Reed. I believe you  
11 all have a great deal of questions. I prefer to  
12 get started with the intro, get started with the  
13 witness. We will stop no later than 7:00. So if  
14 Mr. Reed is here, I'd like to have him tendered as  
15 a witness at this time.

16 MR. REHWINKEL: Madam Chair, while we're  
17 setting up, I had thought that Mr. Reed might come  
18 on in the morning. When I said that I wanted to  
19 address the process about exhibits, but I think I  
20 would prefer to at least raise the issue and  
21 hopefully discuss it with the Commission and the  
22 parties before Mr. Reed starts. I think it might  
23 be an appropriate time.

24 CHAIRMAN BROWN: You know what? We'll discuss  
25 it, but staff wants to go over it a little bit more

1 detailed tonight. So you can just -- you,  
2 specifically, can handle the exhibits the way that  
3 you routinely have done it and I don't have a  
4 problem with that at this point. We'll address it,  
5 though, in the morning.

6 MR. REHWINKEL: Okay. That's fine with the  
7 Public Counsel.

8 MR. SUNDBACK: Madam Chair, the Hospitals have  
9 already tendered the exhibits to staff to the  
10 extent that it's you're ruling --

11 CHAIRMAN BROWN: It is my ruling.

12 MR. SUNDBACK: -- to proceed on the  
13 traditional method. Then we'd prefer to do that,  
14 as well.

15 CHAIRMAN BROWN: We're doing this right now as  
16 an exception because staff wants to take an  
17 opportunity to look at it a little bit further.  
18 Although there's strong ground to support it, but  
19 at this time I don't want to get into that  
20 discussion, so I'd rather just move ahead. I don't  
21 think we're going to get to you tonight, so no  
22 worries for you.

23 MR. REHWINKEL: Thank you.

24 CHAIRMAN BROWN: All right. Good evening.  
25 Have you been sworn, Mr. Reed?



1 THE WITNESS: Yes, I have.

2 CHAIRMAN BROWN: Thank you. FPL.

3 MS. MONCADA: May we proceed?

4 CHAIRMAN BROWN: Please do.

5 DIRECT EXAMINATION

6 BY MS. MONCADA:

7 Q Mr. Reed, would you please state your name and  
8 business address for the record?

9 A Yes. My name is John J. Reed. My business  
10 address is 293 Boston Post Road West, Marlborough,  
11 Massachusetts.

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

14 A I'm the Chairman and Chief Executive Officer  
15 of Concentric Energy Advisers.

16 Q Have you prepared and caused to be filed in  
17 this docket 35 pages of prepared direct testimony?

18 A Yes, I have.

19 Q On August 16th, 2016, FPL filed an errata  
20 sheet for your direct testimony and direct exhibits. Do  
21 you have any further changes or revisions to your  
22 prepared direct testimony or your exhibits at this time?

23 A Yes. I have corrections on one other page and  
24 this is at Exhibit JJR6, page 34 of 34.

25 Q Please go ahead and describe the changes at

1     **this time.**

2           A     In the lower half of the table on that page in  
3     the column labeled 2013, you'll see there are three  
4     blanks underneath the numbers 8, 4 and 2. Those blanks  
5     should have been filled in with the same numbers that  
6     appear to the right. That is under underneath the 8  
7     should be a 26, underneath the 4 should be another 4,  
8     and underneath the 2 should be an 8.

9           **Q     Thank you.**

10           MS. MONCADA: Madam Chair, I want to make sure  
11     everyone has had an opportunity to reflect those  
12     changes.

13           MR. MOYLE: Can we get it again?

14           CHAIRMAN BROWN: Yes. Could you repeat it  
15     again, Mr. Reed?

16           THE WITNESS: Yes, I can go back over that  
17     again.

18           Again, it's at Exhibit JJR6, page 34 of 34.  
19     The table at the bottom, the lower half, the column  
20     labeled 2013, and you see there the three blanks  
21     that appear underneath the 8, the 4 and the 2.

22           CHAIRMAN BROWN: Yes.

23           THE WITNESS: And those blanks should be  
24     filled in with the numbers that appear to the  
25     right, that is 26 underneath the 8, 4 underneath

1 the 4, and 8 underneath the 2.

2 BY MS. MONCADA:

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

6 A Yes.

7 MS. MONCADA: Madam Chair, I would ask that  
8 Mr. Reed's prepared direct testimony be inserted  
9 into the record as though read.

10 CHAIRMAN BROWN: We will enter Mr. Reed's  
11 direct testimony into the record as though read.

12 MS. MONCADA: Thank you.

13 (Prefiled direct testimony inserted into the  
14 record as though read.)

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## ERRATA SHEET

WITNESS: **JOHN J. REED – DIRECT TESTIMONY AND EXHIBITS**

| <u>PAGE #</u>    | <u>LINE #</u>        | <u>CHANGE</u>                                                                                                                                                          |
|------------------|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 17               | 22                   | Change “ten” to “eight”                                                                                                                                                |
| 27               | 15                   | Change “JJR-7” to “JJR-4”                                                                                                                                              |
| JJR-2,<br>Page 6 | 12 (not<br>numbered) | Insert the following row immediately above “Florida Senate Committee on Communication, Energy and Utilities” as shown in attached Updated Exhibit JJR-2, Page 6 of 29: |

|                               |       |                               |                   |                                      |
|-------------------------------|-------|-------------------------------|-------------------|--------------------------------------|
| Florida Power & Light Company | 10/15 | Florida Power & Light Company | Docket No. 150001 | Recovery of replacement power costs. |
|-------------------------------|-------|-------------------------------|-------------------|--------------------------------------|

|                  |          |                                                                                                                                                                                                      |
|------------------|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| JJR-8,<br>Page 1 | Multiple | Replace all instances of “Annual Non-Fuel O&M Savings per Customer” with “Annual Non-Fuel O&M Total Customer Savings” throughout the exhibit as shown in attached Updated Exhibit JJR-8, Page 1 of 1 |
|------------------|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

I. INTRODUCTION

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

A. My name is John J. Reed. My business address is 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

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

A. I am the Chairman and Chief Executive Officer of Concentric Energy Advisors, Inc. ("Concentric").

**Q. On whose behalf are you testifying?**

A. I am submitting this testimony on behalf of Florida Power & Light Company ("FPL" or the "Company").

**Q. Please describe your background and professional experience.**

A. I have more than 35 years of experience in the energy industry and have worked as an executive in, and consultant and economist to, the energy industry for the past 30 years. Over the past 24 years, I have directed the energy services of Concentric, Navigant Consulting and Reed Consulting Group. I have served as Vice Chairman and Co-CEO of the nation's largest publicly-traded consulting firm and as Chief Economist for the nation's largest gas utility. I have provided regulatory policy and regulatory economics support to more than 100 energy and utility clients and have provided expert testimony on regulatory, economic and financial matters on more than 150 occasions before the Federal Energy Regulatory Commission ("FERC"), Canadian regulatory agencies, state utility regulatory agencies,

1 various state and federal courts, and before arbitration panels in the United  
2 States and Canada. A copy of my Curriculum Vitae is included as Exhibit  
3 JJR-1. A list of prior proceedings in which I have provided testimony is  
4 included as Exhibit JJR-2.

5 **Q. Please describe Concentric's activities in energy and utility engagements.**

6 A. Concentric provides regulatory, economic, market analysis, and financial  
7 advisory services to a large number of energy and utility clients across North  
8 America. Our market analysis services include energy market assessments,  
9 market entry and exit analyses, and energy contract negotiations. Our  
10 financial advisory activities include merger, acquisition and divestiture  
11 assignments, due diligence and valuation assignments, project and corporate  
12 finance services, and transaction support services. Our regulatory and  
13 economic services include regulatory policy, utility ratemaking (e.g., cost of  
14 service, cost of capital, rate design, alternative forms of ratemaking), and the  
15 implications of regulatory and ratemaking policies. We also regularly conduct  
16 utility benchmarking studies in which we compare companies, services, and  
17 policies of particular companies or regulatory jurisdictions to a set of  
18 comparable peers to assess performance on a variety of quantitative and  
19 qualitative metrics.

20 **Q. Are you sponsoring any exhibits in this case?**

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

- 22 • JJR-1: Curriculum Vitae
- 23 • JJR-2: Testimony Listing

- 1           • JJR-3:     Situational Assessment Rankings
- 2           • JJR-4:     Productive Efficiency Rankings
- 3           • JJR-5:     Operational Metrics
- 4           • JJR-6:     Benchmarking Workpapers
- 5           • JJR-7:     2014 Assessment and Efficiency Tables
- 6           • JJR-8:     Annual Non-Fuel O&M Savings per Customer
- 7           • JJR-9:     2014 Combined Situational Assessment and Productive
- 8                     Efficiency Rankings
- 9           • JJR-10:  Emissions Comparison
- 10          • JJR-11:  Consumer Price Index and Producer Price Index
- 11          • JJR-12:  Average Weekly Electric Utility Employee Earnings
- 12          • JJR-13:  Handy-Whitman Construction Cost Indices

13   **Q.     How is the remainder of your testimony organized?**

14   **A.     After this introduction, my testimony is presented in the following sections:**

- 15           II.    Testimony Overview and Summary
- 16           III.   Assessment Approach
- 17           IV.   Business Environment and Situational Assessment
- 18           V.    Benchmarking Results
- 19           VI.   Conclusion

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## II. TESTIMONY OVERVIEW AND SUMMARY

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

A. I have been asked by FPL to conduct an analysis of FPL's operational and financial performance over the past ten years through the use of a benchmarking study. I have also been asked to review the macroeconomic and service area economic drivers that have contributed to FPL's requested rate increase.

**Q. Please summarize your testimony.**

A. FPL continues to deliver highly reliable electric service at low prices for the benefit of its customers. My benchmarking analysis shows that the Company has out-performed similarly sized companies across an array of financial and operating metrics. The Company has achieved this result in spite of the fact that it is disadvantaged by various exogenous factors that impact a utility's efficiency, as shown in the situational assessment metrics contained in Exhibit JJR-3. Despite the significant situational pressure FPL faces, the Company's performance over the last ten years compares favorably to its peers that face many fewer natural disadvantages.

On the few individual metrics where FPL has not been a top performer, the characteristics of FPL's service area and other exogenous factors explain much or all of FPL's performance. When relevant, I discuss the factors that contribute to more challenged performance, including FPL's high proportion



1 of residential customers, lower energy consumption per customer, its  
2 customer count growth rates, and other features of the Company's service  
3 territory. As Exhibit JJR-3 demonstrates, FPL has ranked as the most  
4 challenged utility (by factors outside of its control) in seven of the past 10  
5 years relative to its industry peers, and as the most challenged among Florida  
6 and Large utilities in each year of the last decade.

7  
8 In terms of productive efficiency — the ability to maximize output and  
9 minimize costs — FPL is one of the top performers among comparable  
10 companies, as shown in metrics contained in Exhibit JJR-4. FPL has ranked  
11 either first or second of the 27 companies in the Straight Electric Group in  
12 each of the past 10 years, from 2005 to 2014. FPL has been the highest  
13 ranked in the Florida Utility Group and the Large Utility Group throughout this  
14 period. In terms of controlling operation and maintenance expenses  
15 specifically,<sup>1</sup> FPL has been the top performer among the Straight Electric  
16 Group each year except 2006, when it ranked second out of 27. In this metric,  
17 FPL ranked first in the Florida Utilities and Large Utilities each year.

18 It is important to note that FPL's high level of productive efficiency has not  
19 been achieved at the expense of system reliability, as shown in Exhibit JJR-5.  
20 FPL is a top performer in terms of controlling the duration of its distribution  
21 system outages, and has consistently achieved above-average performance on  
22 the frequency of interruptions.

---

<sup>1</sup> As measured by the category "Total Non-Fuel O&M per Customer" in Exhibit JJR-4.

1  
2 With a generating fleet that produces over 82 percent of its electric power  
3 from natural gas, solar, and nuclear resources, FPL is a clean-energy  
4 company. In fact, FPL has one of the lowest emissions profiles among major  
5 U.S. utilities in terms of carbon dioxide, sulfur dioxide and nitrogen oxides.  
6 In nine of the last 10 years, the Company's fossil generation fleet performance  
7 has been in the top decile or best-in-class among comparable companies in  
8 terms of forced outages, and in the top quartile in availability. The  
9 performance of FPL's nuclear fleet is another critical factor in the Company's  
10 ability to achieve its favorable air emissions profile.

11  
12 On an overall basis, FPL's performance continues to stand out as exceptional  
13 compared to its peers across the United States. The Company continues to  
14 excel at controlling costs and achieving high levels of service to its customers,  
15 even in the face of economic drivers over which it has little or no control. The  
16 benefits of the Company's strong performance in terms of financial and  
17 operational metrics are substantial. For 2014 alone, if FPL had been merely  
18 an average performer among the 27 straight electric companies, its non-fuel  
19 operation and maintenance costs charged to customers would have been  
20 approximately \$1.91 billion higher than its actual costs.

21 **Q. Have you completed similar analyses in the past for FPL?**

22 A. Yes, I have. I have presented testimony in three recent rate cases for the  
23 Company. The approach I have taken in the analysis discussed here is

1 substantially similar to the FPL benchmarking evaluations I have completed in  
2 the past.

3

4 As discussed throughout my testimony, FPL has enhanced performance and  
5 operating efficiency in a variety of key utility focus areas. The Company  
6 continues to significantly outperform its industry peers in a variety of key  
7 metrics presented throughout my testimony. This performance has resulted in  
8 significant economic and reliability benefits for FPL's customers.

9

### 10 III. ASSESSMENT APPROACH

11

12 **Q. Please describe your approach to evaluating the Company's performance.**

13 A. Providing reliable and reasonably-priced electric service involves a complex  
14 array of infrastructure, general corporate services, customer services, and  
15 operational and financial resources. Assessing whether a particular company  
16 has successfully achieved both its service obligations and cost control  
17 objectives involves an evaluation of its productive efficiency, operational  
18 efficiency, and service quality. I have measured FPL's productive efficiency  
19 against three different peer groups to evaluate the Company's relative  
20 performance in the ten year period of analysis, 2005 to 2014, and across time  
21 to capture the trend in its performance. I developed additional analyses to  
22 determine whether any cost improvements were made at the expense of  
23 reductions in operational efficiency and system reliability. I have considered

1 all of these aspects of FPL's performance and, where possible, I measured and  
2 quantified the associated customer benefit.

3

4 **Q. In general, what steps did you take in constructing your benchmarking  
5 analysis?**

6 A. The first two steps of the benchmarking analysis were to define the timeframe  
7 over which the analysis was to be performed, and develop the composition of  
8 the peer groups used to compare to FPL. The third step was to define the  
9 operational, financial and reliability/service quality metrics that were to be  
10 used in the benchmarking. Finally, in recognition of the significantly different  
11 service area characteristics that each of the peer group companies face, and  
12 the consequently different performance challenges created by these service  
13 area characteristics, I developed a situational assessment ranking that reflects  
14 the "degree of difficulty" that each peer group member faces in seeking to  
15 maximize its productive efficiency.

16 **Q. What timeframe did you use for your benchmarking analysis?**

17 A. I used the most recent 10 years of available data, 2005 through 2014, for all of  
18 my benchmarking studies, including the situational assessment and the  
19 performance metrics.

20 **Q. Please describe the process you used to develop these benchmarks.**

21 A. For my benchmarking analyses, I developed ordinal rankings for both the  
22 operational and economic performance of the companies in each of three peer  
23 groups. These rankings reflect the performance of each company in each peer

1 group as measured by the level of input cost per unit of “output,” such as  
2 customer expense per customer, or operations and maintenance (“O&M”)  
3 expense per megawatt-hour (“MWh”) sold. I ranked each company in each  
4 peer group according to the 11 measures of productivity that I developed. To  
5 develop an overall assessment based on the rankings of all of the performance  
6 measurement categories, I took an average of the ordinal rankings for all  
7 performance measures, and I ranked the companies in the peer groups based  
8 on those averages. This approach allowed me to compare FPL’s “productive  
9 efficiency” to the other companies in each peer group.

10

11 In order to put the benchmarking results in context, I also conducted a  
12 “situational assessment” to rank the level of challenges to performance that  
13 the companies in each peer group face. Similar to the productive efficiency  
14 metrics, I took an average of all the ordinal values to determine FPL’s overall  
15 level of exogenous, performance challenges.

16 **Q. How did you select the companies to include in your benchmarking peer**  
17 **groups?**

18 A. My objective in determining the sets of peer group electric utilities was to  
19 achieve the largest group of companies for which consistent data were  
20 available and which were, broadly speaking, operationally similar to FPL.  
21 Because FPL is a large electric-only utility with ownership in generating  
22 resources, I established one peer group of companies with electric-only utility  
23 operations that have at least 500,000 customers and own generating resources.

1 I refer to this group of 27 comparable companies as the “Straight Electric  
2 Group.” I established a second peer group consisting of investor-owned  
3 electric utilities that own generating resources and are subject to regulation by  
4 the Florida Public Service Commission. This “Florida Group” includes FPL,  
5 Duke Energy Florida, Gulf Power Company, and Tampa Electric Company.  
6 Lastly, I established a third peer group made up of large electric utility  
7 companies with at least two million electric customers. This “Large Utility  
8 Group” consists of seven companies in addition to FPL. The composition of  
9 each of my comparable groups is shown in Exhibit JJR-6, page 1.

10 **Q. Why did you use the number of customers served as a criterion for  
11 determining the companies in your Straight Electric Group?**

12 A. The purpose of this benchmarking analysis is to develop a meaningful  
13 comparison of FPL’s costs and economic metrics that are indicative of utility  
14 performance. Many of the challenges and opportunities for a company are a  
15 function of its size. Because my focus is on controllable economic  
16 efficiencies, size is an important attribute, and a utility’s size tends to vary  
17 most directly as a function of the number of customers it serves.

18 **Q. Does the fact that the dataset does not have values for all metrics for all  
19 years affect the conclusions you reach in your benchmarking analysis?**

20 A. No. There are a variety of reasons that certain data may be unavailable for  
21 one or more companies in a given metric from time to time. Such instances  
22 are rare and they do not adversely affect the conclusions of this assessment.  
23 Whether a company ranks as the strongest performer out of 12 or out of 27 is

1 not material. What determines a company's overall ranking in the productive  
2 efficiency and situational assessments is its relative position compared to the  
3 industry.

4 **Q. How did you conduct your situational assessment, and what is the**  
5 **purpose of this analysis?**

6 A. Using benchmark studies to compare the performance of utilities is inherently  
7 difficult because no two utility companies face the same set of circumstances  
8 in terms of service area economic and operational factors. The purpose of a  
9 situational assessment is to recognize each utility's cost advantages or  
10 disadvantages that are not within its control. For example, among the factors  
11 that affect a utility's cost performance are: (a) growth in number of customers,  
12 (b) growth in demand, (c) density of customers, (d) presence of locally-  
13 produced energy supplies for generating plants, (e) system load factor,  
14 (f) proportion of small residential customers, and (g) dependency on a  
15 transmission system.

16

17 Often, a utility's above-average or below-average performance on a single  
18 performance metric can be explained by the results of the situational  
19 assessment. I use my situational assessment to evaluate FPL's performance in  
20 the proper context.

21

22

23

1 **Q. What data sources did you rely on for the performance measures that you**  
2 **developed?**

3 A. For the benchmarking analysis, I compiled data from several sources. I  
4 obtained much of the data from FERC Form 1 reports (as reported by SNL  
5 Financial). For supplemental metrics related to FPL's operational  
6 performance, I obtained data from the North American Electric Reliability  
7 Corporation ("NERC"), ABB's Velocity Suite,<sup>2</sup> reports by investor owned  
8 electric utilities to the Florida Public Service Commission, and the Institute of  
9 Nuclear Power Operations ("INPO").

10 **IV. BUSINESS ENVIRONMENT AND SITUATIONAL ASSESSMENT**

11

12

**Business Environment**

13 **Q. What economic trends and factors did you consider in your analysis?**

14 A. I considered a number of local, regional, state-wide and national economic  
15 factors that affect FPL's performance trends over time, and relative to the peer  
16 group companies. These economic factors influence the Company's need for  
17 rate relief and the level of rate relief that it is requesting in this proceeding.  
18 The most relevant period for considering the economic drivers is the period  
19 subsequent to FPL's last rate case, which was filed in March 2012 and in  
20 which a final order was issued in January 2013.

21

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<sup>2</sup> ABB's Velocity Suite was formerly owned by Ventyx, and is known as the Ventyx Velocity Suite.



1 **Q. Please describe the national economic trends that have most affected**  
2 **FPL's costs.**

3 A. Two common measures of the national economy's general price level that are  
4 indicators of inflationary pressures on FPL's costs are the Consumer Price  
5 Index for urban consumers ("CPI-U") and the Producer Price Index for  
6 finished goods ("PPI"). Exhibit JJR-11 shows the performance of the CPI-U  
7 and PPI for finished goods since 2012. The CPI-U has increased by 2.21  
8 percent between December 2012 and December 2014, while the PPI for all  
9 manufactured goods has increased by 0.72 percent.

10

11 The cost of utility labor also has a significant impact on FPL's costs. Exhibit  
12 JJR-12 shows electric utility employee average weekly earnings as reported  
13 by the Bureau of Labor Statistics. Since December 2012, average weekly  
14 earnings have increased from approximately \$1,471 to approximately \$1,517,  
15 or 3.1 percent in nominal growth.

16

17 Lastly, overall utility construction costs, which directly affect the cost of  
18 additions to rate base, have increased significantly in recent years. The  
19 Handy-Whitman Index of Public Utility Construction Costs provides a good  
20 indication of the rising cost of construction incurred by FPL. This index is  
21 calculated on a regional basis and incorporates all construction costs including  
22 materials and labor. Exhibit JJR-13 presents the Handy-Whitman Index for  
23 the South Atlantic region between July 2012 and July 2014. Exhibit JJR-13

1 demonstrates that the separate data series for Steam Production Plant,  
2 Hydraulic Production Plant, Nuclear Production Plant, Other Production  
3 Plant, Transmission Plant, and Distribution Plant have all increased  
4 significantly over this period. The Other Production Plant index, which  
5 includes major natural gas generation components, has the greatest growth  
6 rate, 6.7 percent between December 2012 and December 2014. Since FPL's  
7 last rate case was decided, these six construction cost indices have increased  
8 between 3.4 percent and 6.7 percent.

9 **Q. Please describe the current state and local economic conditions in FPL's**  
10 **service territory and the impact of these economic conditions on FPL's**  
11 **revenues.**

12 A. The world wide recession that started in late 2007 had a dramatic effect on  
13 Florida, as measured by a number of indices. The unemployment rate steadily  
14 increased from 4.7 percent in December 2007, to a high of 12.0 percent in  
15 December 2010. Unemployment has declined significantly in the period since  
16 that time, but the recovery has been protracted, and economic indicators  
17 continue to show effects of the recession.

18  
19 As explained by FPL witness Morley, FPL's weather normalized retail  
20 sales per customer have been declining since the last rate case was decided,  
21 yet the number of new service accounts has grown. Growth requires FPL to  
22 continue to invest in its infrastructure today in order to be ready to serve its  
23 customers in the future. The combination of the costs associated with

1 continued growth in new service accounts and declining weather normalized  
2 sales per customer puts greater pressure on FPL's financial performance.

3 **Q. Please describe the impact of current state and local economic conditions**  
4 **in FPL's service territory on FPL's costs.**

5 A. FPL continues to add customers to its system, and reasonably projects to add  
6 even more in the future. The Company has made significant investments in  
7 its generation fleet and transmission infrastructure in response to this growth  
8 in customers and to maintain and improve reliability. The increasing cost of  
9 material and labor, as previously discussed, has resulted in capital cost  
10 challenges that FPL continues to manage effectively. Transmission and  
11 substation capital expenditures to maintain reliability of delivery service are  
12 forecasted to compose a significant portion of the overall increase in net plant  
13 over the period between 2013 and 2018. Maintenance of the Company's  
14 generation fleet will require significant capital resources as well. FPL's  
15 forecast of capital expenditures is addressed in the testimony of FPL witness  
16 Barrett.

17

18

#### **Situational Assessment**

19 **Q. Please describe your situational assessment.**

20 A. I started by identifying exogenous factors that would influence a utility's  
21 performance, positively or negatively, as compared to other companies in a  
22 different relative position. Using publicly reported data, I examined ten  
23 exogenous factors.

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The results of my situational assessment are presented in Exhibit JJR-3, pages 1 through 10. This exhibit shows the rank order of each of the companies in each of the comparison groups for each situational measure, as well as an overall score in the far right column based on the average rank. These metrics generally provide insight regarding the operational challenges and opportunities that the peer group companies face that could be expected to affect cost. In my situational assessments, a ranking of one indicates the company with the highest level of challenge for a particular measure.

**Q. What other exogenous factors, beyond economic conditions, did you consider as part of your situational assessment?**

A. The factors I considered and my conclusions regarding each factor are summarized below.

- Percent Sales Residential: On a dollars per kilowatt-hour (“kWh”) basis, residential customers are more expensive to serve than commercial and industrial customers. As a result, utilities with a higher proportion of residential customers tend to have higher costs and higher rates. FPL has the highest Percent Sales Residential in the Large Utility Group each year, and the highest in the Straight Electric Group and the Florida Group in nine of the last 10 years. 48.9 percent of FPL’s sales by volume were sales to residential customers in 2014.

- 1                   • Percent Sales Other: Sales Other<sup>3</sup> are non-retail sales, which  
2                   represent the lowest unit cost sales for a utility company. FPL has  
3                   the lowest Percent Sales Other in the Large Utility Group and in  
4                   the Florida Group each year, and the lowest in the Straight Electric  
5                   Group in nine of the last 10 years. All else being equal, this would  
6                   indicate that FPL's unit costs should be higher than the other  
7                   companies in these groups.
- 8                   • Use per Customer<sup>4</sup>: Because many of the costs of serving an  
9                   individual customer are fixed, utilities with lower use per customer  
10                  tend to have higher unit costs. Like Percent Sales Other, FPL has  
11                  among the lowest use per customer in the Florida Group in each  
12                  year, and the lowest or the second lowest use per customer in the  
13                  Large Utility Group. In the Straight Electric Group, FPL is in the  
14                  bottom quartile for use per customer each year.
- 15                 • Change in Customers (percent): Volatility in the growth of  
16                 customers creates challenges in terms of managing capital  
17                 expenditures and resource utilization over time. FPL's customer  
18                 growth rate has been volatile: in the Straight Electric Group, FPL  
19                 has been in the lowest quartile of customer growth in four of the  
20                 last 10 years, the third quartile in three years, the second quartile in  
21                 two years, and in the first quartile in one year.

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<sup>3</sup> "Sales Other" represents all sales other than sales to residential, commercial, and industrial customers. This is typically Sales for Resale.

<sup>4</sup> Use per customer measures the average volume of sales for all electric customers.

- 1                   • Percent Generation Nuclear: The non-fuel costs for nuclear  
2 generation are higher than those for coal-fired, oil-fired, gas-fired  
3 and hydroelectric generating resources. For 2005-2009, FPL's  
4 percentage of nuclear generation is ranked first in the Florida  
5 Group. As of September 2009, FPL is the only Florida utility with  
6 operating nuclear units. This places significant pressure on FPL's  
7 cost structure relative to its peers in the region. In comparison to  
8 the Straight Electric Group, FPL is in the second quartile each  
9 year.
- 10                   • Energy Losses: Energy losses are a product of the transmission  
11 and distribution infrastructure through which the energy is  
12 transmitted. Electric utilities that are relatively transmission-  
13 dependent tend to experience higher losses than utilities that are  
14 able to site generation closer to load centers. This metric  
15 demonstrates a significant challenge faced by FPL. In both the  
16 Florida Group and the Large Utility Group, FPL has had the  
17 highest energy losses in seven of the last ten years. In the Straight  
18 Electric Group, FPL has been in the top quartile in eight of the last  
19 10 years.
- 20                   • Accumulated Provision for Depreciation as a Percent of Gross  
21 Plant: I use this metric as a reasonable proxy for the age of a  
22 utility's asset base. Utilities with a higher proportion of  
23 accumulated depreciation to gross plant tend to have an older asset

1 base. FPL's rankings clearly reflect the investments that have been  
2 made in the last several years to strengthen the reliability of its  
3 transmission and distribution systems and to connect new  
4 customers to its system. The Company's ranking compared to its  
5 peers in all three comparable utility groups rose significantly  
6 between 2010 and 2014, indicating that FPL has made  
7 comparatively greater investments over this period than have its  
8 peer utilities. This trend is also consistent with the Company's  
9 growth in customers over the period, which has outpaced FPL's  
10 peers.

11 **Q. Please summarize your conclusions regarding your situational**  
12 **assessment.**

13 A. While only a high-level snapshot, these analyses indicate that FPL is the most  
14 "challenged" or disadvantaged company relative to the Florida Utility Group  
15 and Large Utility Group in every year of my analysis due to exogenous  
16 factors. In the Straight Electric Group, FPL is the most challenged in seven of  
17 the last 10 years and the second most challenged in the remaining three years.  
18 That said, it is important to keep the situational assessment in context when  
19 viewing performance metrics. I offer these metrics as a means of "getting the  
20 lay of the land" in understanding the productive efficiency metrics. This is  
21 not a perfect means of capturing all of the challenges or advantages of FPL  
22 and the companies in the comparables groups, but it represents a reasonable

1 cross-section of key factors influencing a utility's operations based on  
2 publicly available information.

3

4 **V. BENCHMARKING RESULTS**

5

6 **Q. What metrics did you use to assess FPL's operational and financial**  
7 **performance?**

8 A. I measured FPL's performance across a variety of expense, corporate and  
9 operational categories. With regard to expense performance, I considered:

- 10
- 11 • Total Non-Fuel O&M expenses
  - 12 • Non-Fuel Production O&M expenses
  - 13 • Transmission O&M expenses
  - 14 • Distribution O&M expenses
  - 15 • Administrative and General ("A&G") expenses
  - 16 • Customer expenses
  - 17 • Uncollectible expenses

18

19 In addition to O&M expense performance, I measured corporate performance  
20 using the following metrics:

- 21 • Days sales outstanding
- 22 • Labor efficiency
- 23 • Gross asset base
- Additions to plant relative to customer growth



1

2

To ensure that FPL's performance on cost and corporate metrics did not occur

3

at the expense of reliability or safety, I compiled metrics to measure FPL's

4

operational performance, including:

5

- Fossil plant heat rate

6

- Fossil plant equivalent availability factor

7

- Fossil plant equivalent forced outage rate

8

- Nuclear capacity factor

9

- Nuclear equivalent availability factor

10

- Nuclear forced loss rate

11

- Nuclear industrial safety accident rate

12

- Distribution system average interruption duration index ("SAIDI")

13

- Distribution system average interruption frequency index

14

("SAIFI")

15

- Customer average interruption duration index ("CAIDI")

16

- Emissions from generating stations

17

The detailed definitions of each of the productive efficiency and operational

18

metrics I used are presented on page 2 of Exhibit JJR-6.

19

**Q. Did you adjust the metrics to account for companies of different sizes?**

20

A. Yes. Most metrics are calculated on an expense per customer or an expense

21

per MWh sold basis. The productive efficiency metrics presented in my

22

analysis are an average of the per customer values and the per MWh values

23

for each cost element. For example, the A&G expenses productive efficiency

1 metric reflects each utility's A&G expenses per MWh sold and A&G  
2 expenses per customer, and presents the average performance rank on these  
3 two metrics as the measure of A&G productive efficiency.

4 **Q. Which metrics provide the best indication of FPL's overall performance**  
5 **relative to the comparable groups?**

6 A. While each metric is significant and may help identify particular areas of  
7 strength or weakness, the best indication of FPL's overall level of  
8 performance in controlling costs is total non-fuel O&M expenses. This  
9 category covers all four primary operating functions (generation, transmission,  
10 distribution and customer service), and also includes all administrative and  
11 general functions. Further, this metric has the advantage of removing the  
12 effects of differences in fuel costs, which can vary due to availability,  
13 location, and state or local environmental policies.

14  
15 FPL's performance controlling its non-fuel O&M expense per customer is  
16 particularly strong in each year of my analysis. FPL is the top performer in  
17 the Florida Group and in the Large Utility Group. In the Straight Electric  
18 Group, FPL ranks highest in all years except 2006 and 2010, when it ranked  
19 second among a broad group of peers, as illustrated by Exhibit JJR-6, page 30.

20  
21 FPL's performance has translated into real cost savings to its customers each  
22 year. In 2014 alone, this performance saved customers approximately \$1.91  
23 billion as compared to costs that customers would have incurred if FPL's non-

1 fuel O&M expenses had been merely average (i.e., consistent with the average  
2 of the companies in the Straight Electric Group). Exhibit JJR-8 presents the  
3 non-fuel O&M savings that have accrued to FPL customers in comparison to  
4 each group of comparable companies between 2005 and 2014.

5 **Q. Please summarize the results of your assessment of the other productive**  
6 **efficiency metrics.**

7 A. I assessed the following productive efficiency metrics in addition to total non-  
8 fuel O&M expense:

- 9 • Production, Transmission, and Distribution O&M Expense: These  
10 three expense metrics provide more detailed measures of expense  
11 control performance to supplement the total non-fuel O&M  
12 expenses metric. FPL is consistently a high performer in the  
13 category of Non-Fuel Production O&M Expense per Customer.  
14 FPL has been in the top quartile of the Straight Electric group each  
15 year, and the top performer in both the Florida Group and the  
16 Large Utility Group for eight of the past 10 years. FPL has also  
17 performed well in controlling Transmission O&M Expenses. In  
18 addition to the “per customer” and “per MWh” measurement used  
19 in other metrics, the overall merit-order ranking for Transmission  
20 O&M also takes into account Transmission O&M expenses per  
21 mile of transmission line. Lastly, FPL has shown excellence in  
22 controlling its Distribution O&M expenses. Since 2007, FPL has  
23 ranked among the best performers in all three comparable groups.

- 1                   • A&G, Customer, and Uncollectible Expenses: FPL is consistently  
2                   a top performer in controlling A&G Expenses. Since 2005, FPL  
3                   has been the top performer in the Florida and Large Utility groups.  
4                   FPL has been in the top quartile in the Straight Electric Utility  
5                   Group each year, and among the top two performers since 2006.  
6                   In terms of controlling customer expenses, FPL is consistently the  
7                   top performer in the Florida Utility group and is consistently in the  
8                   top quartile or the upper end of the second quartile of the Straight  
9                   Electric Group and the Large Utility Group. FPL's control of  
10                  Uncollectible Expenses is consistent with this performance. FPL is  
11                  usually in the top quartile of the Straight Electric Group, and is the  
12                  top performer in both the Florida Utility Group and Large Utility  
13                  Group in all but one year in the last decade.
- 14                 • Days Sales Outstanding: In analyzing Days Sales Outstanding,  
15                 which is a measure of the average level of accounts receivable in  
16                 relation to total electricity sales over a year, FPL exhibited mid-  
17                 level performance in the Straight Electric and Florida Utility  
18                 Groups and performs in the first or second quartile in the Large  
19                 Utility Group.
- 20                 • Labor Efficiency: Labor Efficiency is a combined metric that  
21                 includes Salaries, Wages, Pension and Benefits on a per employee  
22                 and per customer basis, as well as employees per customer. FPL  
23                 has demonstrated consistently strong performance in these areas.

1 FPL is routinely the top performer in the Florida Utility Group and  
2 has been in the top quartile each year in the Straight Electric  
3 Group.

- 4 • Gross Asset Base and Additions to Plant: FPL's level of Gross  
5 Asset Base per customer and per kWh of retail sales has exhibited  
6 strong performance, ranking in the first quartile in the Straight  
7 Electric group and among the lowest cost performers in the Florida  
8 and Large Utility groups throughout the past 10 years. FPL's  
9 Additions to Plant per new customer has generally been in the first  
10 quartile of all three comparable groups, indicating that FPL has  
11 been effective at controlling its costs, despite experiencing  
12 comparatively higher growth than most other utilities.

13 **Q. How does FPL compare in the overall rankings for these productive**  
14 **efficiency metrics?**

15 A. As shown in Exhibit JJR-7, FPL was the top performer in the Florida Utility  
16 Group and the Large Utility Group each year between 2005 and 2014, and  
17 among the top two performers in the Straight Electric Group each year. It  
18 should be noted that these results are "raw" in that they are based entirely on  
19 the ranking of the performance metrics without consideration of the  
20 Situational Assessment.

21

22

23

1 **Q. Have you considered both the results of your situational assessment and**  
2 **your analysis of productive efficiency in your overall benchmarking of**  
3 **FPL's performance?**

4 A. Yes. Exhibit JJR-9 does just that, combining the productive efficiency  
5 rankings and the situational assessment rankings. When viewed together, a  
6 bandwidth around the diagonal line running from the upper left corner to the  
7 lower right corner (shown in the middle band on the chart) reflects the utilities  
8 whose productivity is consistent with the challenges identified in the  
9 situational assessment. The further away (either above or below) a utility's  
10 performance is from this line, the more exceptional is its performance (either  
11 exceptionally good or exceptionally poor). As shown in Exhibit JJR-9, FPL's  
12 performance has been exceptionally good during the study period, and FPL  
13 outperformed all of its straight electric peers on a basis that considers both  
14 absolute productivity measures and the relative challenges it faced.

15 **Q. Did you consider other factors beyond cost in your benchmarking**  
16 **analysis of FPL's performance?**

17 A. Yes. In looking at economic efficiencies, it is easy to assume that all of the  
18 companies are created equal in terms of safety, reliability, and other important  
19 operational standards, but that is not the case. If a utility's management  
20 decides to launch major service quality initiatives, these initiatives may well  
21 have attendant costs, but the cost impact may also be off-set by service  
22 improvement. To examine these issues, I have separately analyzed FPL's  
23 trends and performance with regard to a set of operational metrics.

1 **Q. Has FPL's level of operational performance diminished in any way as a**  
2 **result of FPL's cost control activities?**

3 A. No. I analyzed a number of operational performance metrics to examine  
4 FPL's level of performance over time and relative to the industry. These  
5 results are presented in Exhibit JJR-5. This exhibit presents FPL's  
6 performance for each of the operational metrics for each year that data were  
7 available.

8 **Q. Please describe the operational metrics you examined, and the results of**  
9 **this analysis.**

10 A. I examined fossil generating plant performance, nuclear generation plant  
11 performance, and distribution system reliability. The results of this analysis  
12 are summarized below:

- 13 • Fossil Plant Heat Rate: FPL has improved the heat rate of its fossil  
14 generation fleet by 12 percent since 2005. The average heat rate of  
15 FPL's fossil fleet in 2014 was 7,549 Btu/kWh compared to an  
16 industry average of 9,795 Btu/kWh, which indicates that the  
17 industry average heat rate is 30 percent less efficient than that of  
18 FPL's fossil units. At current gas prices, this efficiency advantage  
19 translates to nearly \$430 million in 2014 alone in fuel cost  
20 savings.<sup>5</sup>

---

<sup>5</sup> Calculated based on delivered fuel prices and megawatt hours generated in 2014. For heat rate comparisons, I have used ABB's Velocity Suite database of generating units across the United States. FPL's heat rate calculation includes all FPL solar and fossil units. For the industry heat rate comparison, I eliminated all FPL units, all plants that had no generation in 2014, and any plants that had heat rates above 25,000 Btu/kWh.

- 1                   • Fossil Plant Equivalent Availability Factor: FPL’s fossil generation  
2                   fleet has consistently outperformed its peers in terms of plant  
3                   availability. In nine of the past 10 years, FPL has been in the top  
4                   quartile when compared to industry peers. In fact, in five of these  
5                   years, FPL’s performance was in the top decile or best-in-class.<sup>6</sup>
- 6                   • Fossil Plant Equivalent Forced Outage Rate: FPL’s fossil units  
7                   have performed exceptionally well compared to the industry on  
8                   this metric. In nine of the past ten years, FPL has been in the top  
9                   decile or best-in-class when compared to industry peers.  
10                  Throughout this period, FPL’s average Equivalent Forced Outage  
11                  Rate fell consistently (indicating improvements on its existing  
12                  strong performance), and averaged just 1.6 percent compared to an  
13                  industry peer average of 7.3 percent.<sup>7</sup>
- 14                 • Nuclear Plant Capacity Factor: The capacity of FPL’s nuclear  
15                 units has fallen below the industry average in recent years.  
16                 However, it is important to note that the dip in FPL’s nuclear  
17                 capacity factor in 2012, illustrated on pages four and five of  
18                 Exhibit JJR-5, is largely the result of planned outages for the  
19                 Extended Power Uprate project. As is discussed by Company  
20                 witness Goldstein, FPL has taken considerable steps since 2012 to  
21                 improve the capacity factor of its nuclear units.

---

<sup>6</sup> For fossil plant reliability metrics (including Equivalent Availability Factor and Equivalent Forced Outage Rate), data comes from the North American Electric Reliability Council (“NERC”). The peer group consists of industry NERC-reporting, large, fossil steam and combined cycle fleets (typically with greater than 5,000 MW of owned capability).

<sup>7</sup> Ibid.



- 1                   • Nuclear Equivalent Availability Factor: <sup>8</sup> FPL's nuclear  
2                   generation fleet has operated at or close to industry average in four  
3                   of the last eight years. In 2014, FPL's nuclear units had an  
4                   equivalent availability factor of 87.82 percent compared to an  
5                   industry average of 90.48 percent.
- 6                   • Nuclear Plant Forced Loss Rate: FPL's nuclear forced loss rate, a  
7                   measure of how well important plant equipment is maintained and  
8                   operated, has shown improvement since 2008. FPL's commitment  
9                   to investing in its nuclear generation fleet has resulted in a  
10                  reduction in forced loss rate by approximately one half to 1.9 in  
11                  2014.
- 12                 • Nuclear Industrial Safety Accident Rate: The nuclear industrial  
13                  safety accident rate tracks the number of accidents that result in  
14                  lost work time, restricted work, or fatalities per 200,000 work  
15                  hours. FPL has significantly outperformed its peers in this metric  
16                  in five out of the last six years. In 2014, FPL had no industrial  
17                  safety accidents, and its three year average rate was 0.02 compared  
18                  to an industry average of 0.05.
- 19                 • Distribution System SAIDI, SAIFI, and CAIDI: Compared to  
20                  other Florida investor-owned utilities, FPL is a top performer.  
21                  Measured by SAIDI, which is the best overall reliability indicator

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<sup>8</sup> Nuclear reliability data are not publicly available. I have relied on the Company for data pertaining to nuclear Forced Loss Rate, Nuclear Equivalent Availability Factor, and the Nuclear Industrial Safety Accident Rate.

1                   because it encompasses both SAIFI and CAIDI, FPL has been the  
2                   top performer among Florida investor-owned utilities each year  
3                   from 2006 through 2014. Observing SAIFI, FPL has been the  
4                   highest performer among Florida utilities each year beginning in  
5                   2010.<sup>9</sup>

6   **Q.    What conclusions have you reached regarding FPL's operational**  
7   **performance?**

8   A.    FPL's superior performance on the productive efficiency benchmarks has not  
9   occurred at the expense of fossil plant performance or system reliability. As  
10  in years past, FPL has achieved-above average results, with no concerning  
11  trend.

12 **Q.    Did you consider any other operational area as you evaluated FPL's**  
13 **relative performance?**

14 A.    Yes. Given concerns over air emissions in Florida and nationwide, I  
15  calculated FPL's approximate level of sulphur dioxide, nitrogen oxides and  
16  carbon dioxide emissions relative to a peer group.

17 **Q.    How did you compare FPL to other utilities in terms of these air**  
18 **emissions?**

19 A.    I created a dataset of comparable companies whose energy generation was  
20  within 60 percent (above or below) of FPL's 2014 generation level. Exhibit  
21  JJR-10 shows that FPL's net generation in 2014 was 111 million MWh.  
22  There were six utility companies within  $\pm 60$  percent of FPL's figure (the

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<sup>9</sup> Reliability comparisons are made only to other Florida utilities because of the limitations in the data that are publicly available.

1 Industry group). I also separately considered Duke Energy Florida, Gulf  
2 Power Company, and Tampa Electric Company, the Florida utilities that own  
3 regulated generation assets.

4  
5 FPL emitted an average of 0.48 tons of carbon dioxide emitted per MWh  
6 compared to a proxy group average of 0.79 tons per MWh. FPL emitted 0.34  
7 pounds of nitrogen oxides emitted per MWh compared to a proxy group  
8 average of 1.09 lbs per MWh. In addition, FPL's sulfur dioxide emissions of  
9 0.15 lbs per MWh are approximately one tenth that of the proxy group, which  
10 emitted an average of 1.60 lbs of sulfur dioxide per MWh.<sup>10</sup>

11  
12 FPL's generating stations have a profoundly strong effect on the emissions  
13 profile of the state of Florida. Removing FPL's units from the analysis would  
14 raise the average carbon intensity of Florida generation (in tons per MWh) by  
15 approximately 32 percent. Nitrogen oxide emissions per MWh would be  
16 approximately 64 percent higher, and sulfur dioxide emissions would be 133  
17 percent higher without the effect of the Company's stations. FPL's  
18 performance in terms of greenhouse gas emissions is exceptional.

19  
20

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<sup>10</sup> In each of these emissions comparisons, FPL is compared to the generation-weighted average of proxy group emissions.

It should be noted that these figures represent the emissions profile of each company's fossil fleet only. With FPL's nuclear generation included, the Company's emissions profile compares even more favorably.

1 **Q. Are there benefits associated with FPL's commitment to a clean energy**  
2 **portfolio that are not reflected in base rates?**

3 A. Yes. While FPL's investments in making its fossil-fueled generating portfolio  
4 significantly more efficient are reflected in FPL's base rates, the savings  
5 associated with this improved efficiency are ultimately reflected in lower fuel  
6 and environmental compliance costs, which are recovered through separate  
7 adjustment clauses.

8 **Q. What are your conclusions regarding FPL's performance relative to the**  
9 **comparable groups?**

10 A. FPL has performed very well in comparison to its peers. In particular:

- 11 • FPL has ranked in the top quartile of the 27 companies in the Straight  
12 Electric Group in every year for the past 10 years and in the top decile for  
13 the past eight years.
- 14 • FPL has ranked as the top (out of four) Florida utility in each of the past  
15 10 years.
- 16 • FPL has ranked as the top large utility (out of seven) in each of the past 10  
17 years.
- 18 • The Company has outperformed comparable utilities in productive  
19 efficiency despite facing significantly greater situational challenges  
20 compared to its peers in the industry.

21

22



1 BY MS. MONCADA:

2 Q Mr. Reed, you also have exhibits that were  
3 identified as JJR1 through JJR13 attached to your  
4 prepared direct testimony?

5 A Yes, I do.

6 Q And were these prepared under your direction  
7 or supervision?

8 A Yes, they were.

9 MS. MONCADA: Madam Chair, I would note that  
10 these have been identified in Staff's comprehensive  
11 exhibit list as Nos. 31 through 43.

12 CHAIRMAN BROWN: Noted.

13 MS. MONCADA: Thank you.

14 BY MS. MONCADA:

15 Q Mr. Reed, have you prepared a summary of your  
16 direct testimony?

17 A Yes, I have.

18 Q Would you please provide your summary to the  
19 Commission at this time?

20 A I will. Thank you.

21 Good evening, Madam Chair and Commissioners.

22 My testimony presents the results of an analysis of  
23 FPL's operational and financial performance from 2005 to  
24 2014 through the use of a benchmarking study. In this  
25 benchmarking study, I've compared FPL's performance

1 across an array of metrics relative to the company's  
2 peers. My study involved measuring FPL's productive  
3 efficiency against three peer groups. A group of 27  
4 companies that generally resemble FPL called the  
5 Straight Electric Group. Second, the Florida Investor  
6 Owned Utilities. And, third, a set of large utility  
7 companies. In addition, I've reviewed a number of  
8 operational measures to ascertain whether any cost  
9 improvements were achieved at the expense of service  
10 quality.

11 My review of FPL's performance demonstrates  
12 that the company has consistently and significantly  
13 outperformed similar companies across a broad array of  
14 financial and operational metrics. For example, FPL is  
15 a top performer in managing non-fuel O&M expenses and  
16 the cost of adding necessary infrastructure to serve new  
17 customers. In addition, FPL's generation fleet  
18 continues to be highly efficient and produces far less  
19 CO2 per-megawatt hour than its peers.

20 The company has achieved these outstanding  
21 results in spite of the fact that it is challenged by  
22 several external factors that have had an adverse impact  
23 on a utility's cost. These factors reflect the degree  
24 of difficulty, to borrow an olympics terms, that each  
25 peer group member faces in seeking to manage its costs.

1           For example, FPL's customer base consists of a  
2 high percentage of residential customers with relatively  
3 low usage, which are more expensive to serve than  
4 commercial and industrial customers. In addition, the  
5 company is more transmission-dependent than many of the  
6 companies in its peer group. Even with these  
7 challenges, in terms of overall productive efficiency,  
8 FPL has ranked either first or second of the 27  
9 companies in the Straight Electric Group in each of the  
10 past ten years. FPL has been the highest ranked utility  
11 in the Florida utility group and the large utility group  
12 throughout every year of this period.

13           FPL has achieved these levels of efficiency  
14 while undertaking significant expenditures to ensure  
15 that its transmission and distribution system is  
16 resilient, operates reliably, and its generation fleet  
17 produces clean energy at low cost.

18           The benefits of the company's strong  
19 performance in terms of financial and operational  
20 metrics are substantial. For the year 2014 alone, if  
21 FPL had been an average performer among the 27 companies  
22 in the Straight Electric Group, its non-fuel operation  
23 and maintenance cost would have been approximately 1.9  
24 billion dollars higher than its actual cost. These O&M  
25 cost benefits are in addition to the reliability,



1 environmental, customer service, and fuel cost benefits  
2 that the company has also achieved.

3           While I am speaking to the analyses behind  
4 these results, I have to say that the results truly  
5 speak for themselves. If I can be direct, you don't  
6 achieve the best in class performance in a highly  
7 sophisticated industry for ten years in a row, in fact  
8 for the past 17 years, by simply being big or lucky or  
9 complacent.

10           The Commission can be confident that FPL is  
11 doing an outstanding job of managing its costs and  
12 maintaining its high quality of service. I believe that  
13 FPL's performance warrants recognition by the Commission  
14 for the benefit that it has produced for its customers  
15 and for the state as a whole.

16           That concludes my summary.

17           MS. MONCADA: Thank you, Mr. Reed.

18           Madam Chair, is it your pleasure that I should  
19 tender the witness for cross examination or would  
20 you like to pause at this time?

21           CHAIRMAN BROWN: I think we should just go  
22 right on into it. I think -- I'm hoping to stop  
23 around 6:30, so at least 15 minutes of questioning.

24           All right. Mr. Sayler.

25           MR. SAYLER: Thank you, Madam Chairman.

1           CHAIRMAN BROWN: And, pardon me, they are  
2           trying to fix the air. It's very hot in here.  
3           Please feel free to take off your jackets,  
4           gentleman, if you need so -- and ladies, too. Yes.  
5           Ladies, too. They're working on it, but it is  
6           quite hot right now.

7           But go ahead, Mr. Sayler.

8           MR. SAYLER: All right. Thank you, Madam  
9           Chairman, Commissioners.

10                                           CROSS EXAMINATION

11       BY MR. SAYLER:

12           Q     **Good afternoon, evening, Mr. Reed, how are you**  
13           **doing today?**

14           A     Doing well. Good evening.

15           Q     **I believe you have testified a few times**  
16           **before this Commission, is that correct?**

17           A     Yes, I have.

18           Q     **All right. And for this rate case, you**  
19           **provided some benchmarking testimony, is that correct?**

20           A     That's correct.

21           Q     **And you also did benchmarking testimony in the**  
22           **last rate case?**

23           A     Yes. The last FPL rate case.

24           Q     **For this rate case, what are your fees that**  
25           **you're charging FPL for this, your testimony in this**

1 **case?**

2 A The fees for our firm are --

3 MS. MONCADA: I'm sorry, Mr. Reed. I hate to  
4 interrupt your answer.

5 Madam Chair, we have disclosed in discovery  
6 Mr. Reed's rates and they are confidential.

7 MR. SAYLER: My apologies. I was not trying  
8 to get into confidential information.

9 MS. MONCADA: Thank you.

10 MR. SAYLER: Is it just the rates, his hourly  
11 rate that's confidential, or is it his entire  
12 amount?

13 CHAIRMAN BROWN: FPL.

14 MS. MONCADA: You can ask Mr. Reed that  
15 question, but at a minimum the hourly rates are  
16 confidential.

17 CHAIRMAN BROWN: Please proceed gently.

18 BY MR. SAYLER:

19 **Q All right. Mr. Reed, without disclosing any**  
20 **confidential information, what is your retainer or how**  
21 **much is FP&L paying you for your testimony in this rate**  
22 **case?**

23 A Our work is compensated on a time and  
24 materials basis. There is no retainer. There is no  
25 minimum or maximum. It's based how many hours we spend.

1           Q     All right.  And how much -- if you can recall,  
2     were your fees in the last rate case?

3           A     I'm sorry.  I don't recall.

4           Q     All right.  If it is not confidential, how  
5     much have you billed FP&L to date?

6           A     In this case?

7           Q     Yes.

8           A     Again, I don't know the number.  It's in  
9     excess of \$50,000, but I can't be any more specific.  I  
10    don't know.

11          Q     All right.  And was there a maximum amount in  
12    your contract?

13          A     No.  Again, simply tied to hours spent.

14          Q     Now, for your Exhibit JJR3, your situational  
15    assessment rankings.  Let me know when you are there.

16          A     Do you have a specific page in that exhibit?

17          Q     Yes.  Go ahead and turn to your ten of ten.

18          A     I have that.

19          Q     On the very top where it says Straight  
20    Electric Group, if you move along to the right where it  
21    says energy losses total energy disposition.  Do you see  
22    that?

23          A     I do.

24          Q     All right.  And you would agree that these  
25    energy losses are cost -- excuse me.  Let me back up.

1 Those energy losses, those include line losses and  
2 transformation losses, is that correct?

3 A That's correct.

4 Q And those energy losses are cost to FP&L, is  
5 that correct?

6 A They are, yes.

7 Q All right. And you would agree that any  
8 energy loss costs are recovered from the ratepayers  
9 through the fuel cost recovery clause?

10 A That is my understanding, yes.

11 Q And while FPL's ranking in this category is  
12 10, does that mean it's -- explain the ranking of ten.

13 A That it's challenge relative to the other 27  
14 companies is slightly greater. So it's slightly more  
15 challenged. Meaning as has -- it's more  
16 transmission-dependent is the nature of this metric.

17 Q Okay. However, while these costs are being  
18 recovered from the ratepayers, none of these costs are  
19 being recovered from the shareholders, is that correct?

20 A All of the costs are used to establish rates,  
21 which are charged to customers.

22 Q All right. And you would agree that since  
23 2001, Florida Power & Light has invested millions, if  
24 not billions, of dollars in investment in its fossil  
25 fuel fleet, as well as its transmission and distribution

1 **systems?**

2 A I can agree with that.

3 Q All right. And you would agree that FPL's  
4 plant modernization programs have lead to improved  
5 productive efficiency rankings, as well as improved  
6 operational metrics?

7 A Yes. There have been improved performance  
8 metrics in both operational metrics, as well as on  
9 productive efficiency and by benchmarking.

10 Q Okay. And your productive efficiency rankings  
11 are illustrated in your Exhibit JJR4 and your  
12 operational metrics in JJR5, is that correct?

13 A That's correct.

14 Q Regarding the plant investments, you would  
15 agree that these plant investments have lead to improved  
16 plant heat rates, is that correct?

17 A Yes, that's what our analysis shows.

18 Q Improved availability factors?

19 A In some cases, yes.

20 Q Also have lead to a decrease in the number and  
21 frequency of plant outages, is that correct?

22 A Number and frequency was your comment?

23 Q Yes.

24 A It's difficult to separate number and  
25 frequency from duration. We examine the aggregate of

1 all three and it has resulted in improvement of the  
2 aggregate of all three.

3 **Q Okay. So the number of outages had decreased?**

4 A What I can say is the percentage of time  
5 measured by number of outages, plus duration of outages,  
6 that lost time, if you will, has decreased in aggregate.

7 **Q And you would agree that as compared with the  
8 plants that were replaced through these modernizations,  
9 FPL has incurred lower fuel costs, is that correct?**

10 A Yes.

11 **Q And you would also agree that FPL and its  
12 customers have benefited from historically low natural  
13 gas prices over the last several years, is that correct?**

14 A Its customers certainly have. FPL itself does  
15 not profit from or derive a direct benefit from lower  
16 fuel costs.

17 **Q Thank you for that clarification.**

18 And you would agree that the investment and  
19 its distribution system, among other things, has also  
20 lead to improved productivity -- productive efficiency  
21 rankings in operational metrics as shown in your two  
22 exhibits, is that correct?

23 A Yes.

24 **Q All right. And these distribution investments  
25 have lead to an improved System Average Interruption**

1 **Duration Index, or SAIDI ranking?**

2 A Yes, that's correct. This system is more  
3 reliable than it had been in the past and substantially  
4 more reliable than its peers.

5 Q It has also lead to improved System Average  
6 Interruption Frequency Indexes for safety rankings?

7 A That's also correct.

8 Q Customer Average Interruption Duration Index,  
9 CAIDI, rankings have also improved?

10 A Yes, they have.

11 Q And all of those investments have also  
12 improved FPL's ability to quickly respond to any  
13 outages, is that correct?

14 A Yes. I think the answer is that's what's  
15 reflected in the CAIDI and SAIDI indices.

16 Q Thank you. And who is reimbursing Florida  
17 Power & Light for all the investments in fossil fuel  
18 plant and distribution system investments?

19 A All of the cost go into the revenue  
20 requirement and cost of service that's used to derive  
21 rates.

22 Q And you would agree that while Florida Power &  
23 Light may have fronted the money, the customers will  
24 repay Florida Power & Light every dime of its prudent  
25 investment, plus some may call it a handsome rate of



1 **return, is that correct?**

2 A Without accepting your characterization on the  
3 return, I would say that, again, the rates provide a  
4 reasonable opportunity for a return on and of capital,  
5 which is the regulatory standard.

6 **Q Okay. So your answer was yes?**

7 A Not quite. Customers don't pay expenses.  
8 Don't pay investments. They pay rates. Rates are  
9 derived based upon the revenue requirements which  
10 reflect those elements of the cost of service.

11 **Q Now, with all the modernization that Florida  
12 Power & Light has done to its fossil fuel plants, its  
13 distribution systems, wouldn't a reasonably prudent  
14 utility manager expect to see these improvements in all  
15 these areas we have just covered?**

16 A Yes. A prudent investor or prudent manager  
17 would expect to see improvements and that's what the  
18 entire industry is experiencing as technology's embraced  
19 and capital expenditures are made. What differentiates  
20 FPL is the degree to which it's been able to achieve  
21 that success.

22 **Q But you would agree that a prudent utility  
23 manager wouldn't invest in new plants and expect less  
24 efficiency, do you?**

25 A Presumably not.

1           Q     And you would agree if FP&L has spent billions  
2 of dollars on these plant and distribution improvements  
3 only to see its reliability or plant efficiencies or any  
4 of these other metrics decrease, you would agree that  
5 that would be a problem, correct?

6           A     All other things being held equal, if the  
7 improvements were intended promote efficiency and  
8 promote reliability and they did not do so, that would  
9 be a problematic. That's, of course, not the case here.

10           CHAIRMAN BROWN: Mr. Sayler, a few more  
11 questions and then we'll conclude today.

12           MR. SAYLER: Madam Chair, I was planning to  
13 conclude right now.

14           CHAIRMAN BROWN: Excellent.

15           MR. SAYLER: Thank you, Mr. Reed.

16           CHAIRMAN BROWN: Thank you. We will reconvene  
17 tomorrow morning at 9:00, not 9:30. 9:00. I hope  
18 it's emblazoned in your heads. 9:00.

19           Okay. And we will take up any preliminary  
20 matters at that time and then we will have the  
21 witness take the stand.

22           (Transcript continues in sequence in Volume  
23 5.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA     )  
COUNTY OF LEON     )

I, DANA W. REEVES, Professional Court Reporter, certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages are a true and correct record of the aforesaid proceedings.

I further certify that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 23rd day of August, 2016.



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DANA W. REEVES  
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