

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION FOR RATE INCREASE BY
FLORIDA POWER & LIGHT COMPANY.
_____ /

DOCKET NO. 160021-EI

PETITION FOR APPROVAL OF
2016-2018 STORM HARDENING PLAN
BY FLORIDA POWER & LIGHT
COMPANY.
_____ /

DOCKET NO. 160061-EI

2016 DEPRECIATION AND
DISMANTLEMENT STUDY BY,
FLORIDA POWER & LIGHT COMPANY.
_____ /

DOCKET NO. 160062-EI

PETITION FOR LIMITED
PROCEEDING TO MODIFY AND
CONTINUE INCENTIVE MECHANISM,
BY FLORIDA POWER & LIGHT
COMPANY.
_____ /

DOCKET NO. 160088-EI

VOLUME 16

(Pages 1804 through 1992)

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN JULIE I. BROWN
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER JIMMY PATRONIS

DATE: Thursday, August 25, 2016

TIME: Commenced at 9:30 a.m.
Concluded at 11:50 a.m.

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

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

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

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EXHIBITS

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P R O C E E D I N G S

1
2 **CHAIRMAN BROWN:** All right. Good morning.
3 The time is 9:30, and this hearing is reconvened. And,
4 FPL, I believe we are at Mr. Ned Allis.

5 **MR. BUTLER:** That is correct, yes.

6 **CHAIRMAN BROWN:** Okay. Would you like to call
7 him up?

8 **MR. BUTLER:** He is already at the stand. He
9 has not been sworn.

10 **MR. REHWINKEL:** Madam Chairman, before we do
11 that, can we take care of this little housekeeping item
12 with Exhibit 636?

13 **CHAIRMAN BROWN:** Absolutely.

14 **MR. REHWINKEL:** FPL has provided the Public
15 Counsel with Mr. Barrett's version that he made -- his
16 writing and initialed, and we've reviewed this and it is
17 consistent with our understanding of his testimony and
18 what he did. And I would like to give this copy to the
19 court reporter for the official file.

20 **CHAIRMAN BROWN:** Okay.

21 **MR. BUTLER:** That's fine.

22 **CHAIRMAN BROWN:** All right. Any other
23 housekeeping matters?

24 **MR. REHWINKEL:** That's it. Thank you very
25 much.

1 **CHAIRMAN BROWN:** Thank you. And I want to
2 welcome you all back. I didn't get a chance to do
3 that -- dove right in. But I hope everyone got a good
4 night's rest, and we are prepared to hearing it on
5 today. So I hope you all have a lot of caffeine.

6 **MR. BUTLER:** Thank you. Duly warned.

7 **CHAIRMAN BROWN:** Please stand and raise your
8 right hand.
9 Whereupon,

10 **NED W. ALLIS**

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

14 **CHAIRMAN BROWN:** Thank you. Please be seated.

15 **EXAMINATION**

16 **BY MR. BUTLER:**

17 **Q** Good morning, Mr. Allis.

18 **A** Good morning.

19 **Q** Would you please state your name and business
20 address for the record.

21 **A** Ned Allis, 207 Senate Avenue, Camp Hill,
22 Pennsylvania.

23 **Q** By whom are you employed and in what capacity?

24 **A** Gannett Fleming. I'm a supervisor of
25 depreciation studies.

1 **Q** Thank you. Have you prepared and caused to be
2 filed 54 pages of direct testimony in this proceeding?

3 **A** Yes, I have.

4 **Q** Okay. And on August 16, 2016, FPL filed an
5 errata sheet for your direct testimony. Beyond those
6 filed errata, do you have any further changes or
7 revisions to your direct testimony?

8 **A** No, I have no further changes.

9 **Q** Okay. So with those changes in the errata
10 sheet and subject to the adjustments addressed in
11 Exhibits KO-19 and KO-20, if I asked you the questions
12 contained in your direct testimony, would your answers
13 be the same today?

14 **A** Yes.

15 **MR. BUTLER:** Okay. Madam Chair, I'd ask that
16 Mr. Allis's testimony be inserted into the record as
17 though read.

18 **CHAIRMAN BROWN:** We'll insert Mr. Allis's
19 prefiled direct testimony into the record as though
20 read.

21 **MR. BUTLER:** Thank you.

22

23

24

25

ERRATA SHEET

WITNESS: NED W. ALLIS – DIRECT TESTIMONY AND EXHIBITS

DIRECT TESTIMONY

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
31	10-12	Should read “For the existing <u>Lauderdale and Ft. Myers</u> gas turbines, an economic recovery date of 2028 is recommended, which corresponds to a 57 year life span.”
42	19	Should read “calculation of average remaining life used in the <u>2009</u> Depreciation Study.”
43	14	Should read “for this account can be found on Exhibit NWA-1, pages <u>XI-39</u> and <u>XI-40</u> .”
43	17	Should read “Exhibit NWA-1, page VI- <u>17</u> .”
44	1	Should read “ tabulations presented on Exhibit NWA-1, pages <u>IX-204</u> and <u>IX-205</u> .”

EXHIBIT NWA-1

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
X-7	Paragraph 3, Sentence 3	Should read “Under full-load conditions the boiler <u>burns 322</u> ”
XI-17	Service Life Analysis: Discussion: Paragraph 1, Sentence 1:	Should read “In the 2009 depreciation study the 60- <u>L3</u> survivor curve was”
XI-40	Net Salvage Analysis: Discussion: Paragraph 1, Sentence 1:	Should read “In the 2009 depreication study the recommendation was for <u>(25)</u> percent net salvage,”
XI-43	Account 369.7 (FERC): Services – Underground	Should read “Account <u>369.6</u> (FERC): Services – Underground”
XI-54	Service Life Analysis: Discussion: Paragraph 1, Sentence 1:	Should read “The recommendation in the 2009 depreciation study was the 6- <u>L2</u> survivor curve,”
	Paragraph 2:	Should read “The statistical analysis indicated that the 6-L2.5 survivor curve is a <u>better</u> fit of the historical data <u>than the currently approved 6-L2 survivor curve</u> .”

EXHIBIT NWA-1 (CONTINUED)

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
XI-54	Service Life Analysis: Recommendation:	Should read <u>“Continue to use currently approved 6 year average service life, but change the curve type to the L2.5.”</u>
XI-58	Net Salvage Analysis: Discussion:	Paragraph 1, Sentence 1: Should read <u>“In the 2009 depreciation study the estimated net salvage was 30 percent,”</u>
XI-59	Service Life Analysis: Discussion:	Paragraph 1, Sentence 1: Should read <u>“The recommendation in the 2009 depreciation study was the 10-L0.5 survivor curve,”</u> Paragraph 1, Sentence 4: Should read <u>“The 11-L1.5 survivor curve is a better fit of the historical data than the currently approved 10-L0.5.”</u>
XI-59	Service Life Analysis: Recommendation:	Should read <u>“The recommendation is the 11-L1.5 survivor curve.”</u>

I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Ned W. Allis. My business address is 207 Senate Avenue, Camp Hill, PA 17011.

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

A. I am Supervisor of Depreciation Studies for Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming"). Gannett Fleming provides depreciation consulting services to utility companies in the United States and Canada.

Q. Please describe your duties and responsibilities in that position.

A. As Supervisor of Depreciation Studies, I am responsible for conducting depreciation, valuation and original cost studies, determining service life and salvage estimates, conducting field reviews, presenting recommended depreciation rates to clients, and supporting such rates before state and federal regulatory agencies.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Science degree in Mathematics from Lafayette College in Easton, PA. I joined Gannett Fleming in October 2006 as an analyst. My responsibilities included assembling data required for depreciation studies, conducting statistical analyses of service life and net salvage data, calculating annual and accrued depreciation, and assisting in preparing reports and

1 testimony setting forth and defending the results of the studies. I also
2 developed and maintained Gannett Fleming's proprietary depreciation
3 software. In March 2013, I was promoted to my current position of
4 Supervisor of Depreciation Studies. Since joining Gannett Fleming, I have
5 worked on more than one hundred depreciation assignments.

6
7 I am a member of the Society of Depreciation Professionals (the "Society")
8 and an associate member of the joint American Gas Association ("AGA") and
9 Edison Electric Institute ("EEI") industry Accounting Committee
10 ("AGA/EEI"). The Society has established national standards for depreciation
11 professionals. The Society administers an examination to become certified in
12 this field. I passed the certification exam in September 2011. I have also
13 served on the Executive Board of the Society and am an instructor for
14 depreciation training sponsored by the Society.

15
16 I have submitted testimony on depreciation related topics to the New York
17 Public Service Commission, the Public Utilities Commission of Nevada, the
18 District of Columbia Public Service Commission, and to the Federal Energy
19 Regulatory Commission ("FERC"). I have also assisted other witnesses in
20 the preparation of direct and rebuttal testimony in nineteen other states and
21 two Canadian provinces. Exhibit NWA-2 provides a list of depreciation cases
22 in which I have been involved and also identifies cases in which I submitted
23 testimony.

1 **Q. Have you received any additional education relating to utility plant**
2 **depreciation?**

3 A. Yes. I have completed the following courses conducted by the Society of
4 Depreciation Professionals: "Depreciation Basics," "Life and Net Salvage
5 Analysis" and "Preparing and Defending a Depreciation Study."

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

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

- 8 • NWA-1 2016 Depreciation Study
- 9 • NWA-2 List of Depreciation Assignments and Depreciation
10 Testimony

11 **Q. Are you sponsoring any Minimum Filing Requirements ("MFRs") in this**
12 **case?**

13 A. No.

14 **Q. What is the purpose of your testimony?**

15 A. I am sponsoring the results of a new depreciation study (the "2016
16 Depreciation Study" or "Study"), filed on behalf of Florida Power & Light
17 Company ("FPL" or the "Company") with the Florida Public Service
18 Commission ("FPSC" or the "Commission") on March 15, 2016. The 2016
19 Depreciation Study is Exhibit NWA-1 to my testimony. The Study covers
20 depreciable electric properties in service as of December 31, 2014, and actual
21 and projected plant and reserve balances through the end of 2017.

22 **Q. Please summarize your testimony.**

23 A. My testimony will explain the methods and procedures of the 2016

1 Depreciation Study and will set forth the annual depreciation rates that result
2 from the Study. The Study includes comparison schedules showing current
3 and proposed depreciation parameters, including average service lives, net
4 salvage percentages, depreciation rates, depreciation accruals as well as a
5 comparison of the theoretical reserve to the forecasted booked reserve at
6 December 31, 2017. I also provide additional detail on each section of the
7 Study in my testimony.

8
9 The overall result of the 2016 Depreciation Study is an increase in FPL's
10 depreciation rates over the currently approved rates, which will increase
11 FPL's total depreciation expense as of December 31, 2017 by approximately
12 \$221 million.¹ As I detail later in my testimony, this increase is primarily due
13 to the impact of capital additions for the Company's generating facilities.
14 That overall increase in depreciation expense is partially mitigated by the
15 service lives and net salvage estimates recommended in the Study.

16

17

II. 2016 DEPRECIATION STUDY

18

19 **Q. Please define the concept of depreciation.**

20 **A.** The FERC Uniform System of Accounts defines depreciation as:

¹ Depreciation expense amounts cited in my testimony are based on the pro forma annual depreciation expense calculated as of December 31, 2017 in Exhibit NWA-1. I should note that these may differ from the amounts included in the Company adjustment for 2017 that are referenced in the testimony of FPL witness Ferguson. The Company adjustment is based on the forecast annual depreciation expense to be recorded throughout the year, which will be different from a pro forma amount calculated based on plant balances at the end of the year.

1 *Depreciation*, as applied to depreciable electric plant,
2 means the loss in service value not restored by current
3 maintenance, incurred in connection with the consumption
4 or prospective retirement of electric plant in the course of
5 service from causes which are known to be in current
6 operation and against which the utility is not protected by
7 insurance. Among the causes to be given consideration are
8 wear and tear, decay, action of the elements, inadequacy,
9 obsolescence, changes in the art, changes in demand and
10 requirements of public authorities.²

11 **Q. In preparing the 2016 Depreciation Study, did you follow generally**
12 **accepted practices in the field of depreciation?**

13 A. Yes. The methods, procedures and techniques used in the Study are accepted
14 practices in the field of depreciation and are detailed in my testimony.

15 **Q. Please describe the contents of the 2016 Depreciation Study.**

16 A. The Study is presented in eleven parts:

- 17 • Part I, Introduction, presents the scope and basis for the 2016
18 Depreciation Study;
- 19 • Part II, Estimation of Survivor Curves, explains the process of
20 estimating survivor curves and the retirement rate method of life
21 analysis;
- 22 • Part III, Service Life Considerations, discusses factors and the

² 18 C.F.R. 101 (FERC Uniform System of Accounts), Definition 12.

- 1 informed judgment involved with the estimation of service life;
- 2 • Part IV, Net Salvage Considerations, discusses factors and the
- 3 informed judgment involved with the estimation of net salvage;
- 4 • Part V, Calculation of Annual and Accrued Depreciation, explains
- 5 the method, procedure and technique used in the calculation of
- 6 annual depreciation expense and the theoretical reserve;
- 7 • Part VI, Results of Study, sets forth the service life estimates, net
- 8 salvage estimates, annual depreciation rates and accruals and
- 9 theoretical reserves for each depreciable group. This section also
- 10 includes a description of the detailed tabulations supporting the
- 11 2016 Depreciation Study;
- 12 • Part VII, Service Life Statistics, sets forth the survivor curve
- 13 estimates and original life tables for each plant account and
- 14 subaccount;
- 15 • Part VIII, Net Salvage Statistics, sets forth the net salvage analysis
- 16 for each plant account and subaccount;
- 17 • Part IX, Detailed Depreciation Calculations, sets forth the
- 18 calculation of average remaining life for each property group;
- 19 • Part X, Detail of Generation Plant, provides a description of the
- 20 Company's generating units and provides a discussion of the
- 21 considerations that inform the service life and net salvage
- 22 estimates for each plant account and the probable retirement dates
- 23 for each generating unit; and

1 • Part XI, Detail of Transmission, Distribution and General Plant,
2 provides a description of transmission, distribution and general
3 plant by account and provides a discussion of the considerations
4 that inform the service life and net salvage estimates for each plant
5 account.

6 **Q. Please identify the depreciation method that you used.**

7 A. I used the straight line method of depreciation, remaining life technique, and
8 the average service life (or average service life – broad group) procedure. The
9 annual depreciation accruals presented in my study are based on a method of
10 depreciation accounting that seeks to distribute the unrecovered cost of fixed
11 capital assets over the estimated remaining useful life of each unit, or group of
12 assets, in a systematic and rational manner.

13
14 In compliance with the FPSC depreciation rule prescribed in Rule 25-6.0436,
15 Florida Administrative Code (“F.A.C.”), depreciation rates are also presented
16 using the whole life technique. Theoretical reserves, which will be discussed
17 in more detail later in my testimony, were calculated using the prospective
18 method of calculating theoretical reserves and compared with the actual book
19 reserves.

20 **Q. Would you please explain the difference between the whole life technique**
21 **and the remaining life technique?**

22 A. Yes. When using the whole life technique, the cost of an asset (original cost
23 less net salvage) is allocated over the service life of the asset. For a group of

1 assets, the costs of the assets in the group are allocated over the average
2 service life of the group. However, if the service life or net salvage estimates
3 change, or if activity such as retirements or cost of removal do not occur
4 precisely as forecast, the whole life technique will not recover the full cost of
5 the assets over their service lives without an adjustment to depreciation
6 expense.

7
8 The remaining life technique accounts for the fact that estimates can (and will)
9 change over time. For this technique, the remaining undepreciated cost (that
10 is, the original cost less net salvage less the book accumulated depreciation) is
11 allocated over the remaining life of the asset. For a group of assets, the
12 remaining undepreciated costs are allocated over the average remaining life.
13 Thus, when using the remaining life technique there is an automatic
14 adjustment, or self-correcting mechanism, that will increase or decrease
15 depreciation expense to account for any imbalances between the book and
16 theoretical reserves.

17 **Q. Is the remaining life technique the predominant depreciation technique**
18 **used in the utility industry?**

19 A. Yes. Almost all U.S. jurisdictions, including the FERC, use the remaining life
20 technique.

21 **Q. Did you review prior Commission orders on FPL's depreciation accrual**
22 **rates?**

23 A. Yes. The previous FPL depreciation study ("2009 Depreciation Study"),

1 which was presented in FPSC Docket No. 090130-EI, was performed by my
2 firm. I assisted the depreciation witness in that case, C. Richard Clarke, with
3 the 2009 Depreciation Study, related testimony and attended hearings in that
4 case. I am therefore familiar with all depreciation related testimonies filed in
5 that docket and FPSC Order No. PSC-10-0153-FOF-EI, which included the
6 approval of FPL's current depreciation rates. I have also reviewed the
7 stipulation and settlement orders approved by the Commission in other FPL
8 retail base rate proceedings (Docket Nos. 050045-EI and 120015-EI).

9 **Q. Is the 2016 Depreciation Study consistent with prior Commission orders?**

10 A. Yes. The use of the straight line method, average service life procedure and
11 remaining life technique is consistent with prior Commission orders. The
12 methods used for the estimation of service lives and net salvage are also
13 generally consistent with prior Commission orders.

14

15 In Docket No. 090130-EI, the Commission expressed concerns related to the
16 calculation of the average remaining life for each depreciable group that was
17 presented in the 2009 Depreciation Study. The calculation of the composite
18 remaining life in the 2016 Depreciation Study has been modified from the
19 calculation used in the 2009 Depreciation Study to address the Commission's
20 concerns.

21

22 The ordered depreciation rates in Docket No. 090130-EI also used a
23 somewhat different method to estimate interim retirements for life span

1 property than was presented in FPL's 2009 Depreciation Study. However, the
2 Commission recognized that the method used in FPL's study was an
3 acceptable method. For the current study, I have used the same method for
4 interim retirements as was used in FPL's last study. As I will explain later in
5 my testimony, the method I have used produces better estimates of future
6 interim retirements and properly reflects the dispersion of interim retirements
7 over the life span of the facilities.

8
9 The 2016 Depreciation Study and my testimony also address concerns
10 expressed by the Commission related to the trend of increasing cost of
11 removal for certain mass property accounts. I will discuss that trend in the net
12 salvage section of this testimony.

13 **Q. What are your recommended annual depreciation accrual rates for FPL?**

14 **A.** My recommended annual depreciation accrual rates are the remaining life
15 rates set forth in Table 1 of Exhibit NWA-1 beginning on page VI-4. These
16 rates were developed using the same methods³ used by FPL in the 2009
17 Depreciation Study and follow the rules of depreciation prescribed by the
18 FPSC previously discussed.

19
20

³ Both the prior and current study used the straight-line method, remaining life technique and average service life procedure. As noted above, in order to address concerns of the Commission related to the calculation of the average remaining life, I have used a different manner of calculating the remaining life in the 2016 Depreciation Study than was used in the 2009 Depreciation Study. While this calculation is different than that used in the study Gannett Fleming performed for Docket No. 090130-EI, both the current and previous study use the remaining life technique.

1 **Q. How did you determine the recommended annual depreciation accrual**
2 **rates?**

3 A. I did this in two phases. In the first phase, I estimated the service life and net
4 salvage characteristics for each depreciable group - that is, each plant account
5 or subaccount identified as having similar characteristics. In the second
6 phase, I calculated the composite remaining lives and annual depreciation
7 accrual rates based on the service life and net salvage estimates determined in
8 the first phase. The next two sections of my testimony will explain each of
9 these phases of the study.

10

11 **III. SERVICE LIVES AND NET SALVAGE**

12

13 **Q. Please describe the first phase of the 2016 Depreciation Study, in which**
14 **you estimated the service life and net salvage characteristics for each**
15 **depreciable group.**

16 A. The service life and net salvage study consisted of compiling historic data
17 from records related to FPL's plant; analyzing these data to obtain historic
18 trends of survivor and net salvage characteristics; obtaining supplementary
19 information from management and operating personnel concerning accounting
20 and operating practices and plans; and interpreting the above data and the
21 estimates used by other electric utilities to form judgments of average service
22 life and net salvage characteristics.

23

1 **Q. Did you physically observe FPL's plant and equipment as part of the**
2 **2016 Depreciation Study?**

3 A. Yes. For the 2016 Depreciation Study, I held meetings with operating
4 personnel and made field visits to FPL properties to observe representative
5 portions of plant. I also participated in meetings and field visits for the
6 preparation of the Company's previous study filed in 2009. The meetings and
7 field reviews were conducted to become familiar with Company operations
8 and obtain an understanding of the function of the plant and information with
9 respect to the reasons for past retirements and the expected future causes of
10 retirements. This knowledge, as well as information from other discussions
11 with management, was incorporated in the interpretation and extrapolation of
12 the statistical analyses. Meetings were held with various personnel from
13 FPL's Power Generation, Nuclear and Power Delivery business units, as well
14 as meetings with accounting personnel.

15 **Q. What facilities did you observe?**

16 A. In connection with the preparation of the 2016 Depreciation Study, I visited
17 the following facilities and observed operations and maintenance practices at
18 each location:

- 19 • Riviera Beach Generating Station
- 20 • Martin Generating Station
- 21 • Plumosus Substation
- 22 • Landings Substation
- 23 • Storm Hardening Project, Belvedere Road, West Palm Beach

- 1 • St. Lucie Nuclear Generating Station
- 2 • West County Generating Station
- 3 • Jupiter Substation

4 Additionally, in connection with the preparation of the study filed in Docket
 5 No. 090130-EI, I toured the following facilities:

- 6 • Corporate offices - Juno Beach
- 7 • General offices – Miami
- 8 • Turkey Point Nuclear Generating Station
- 9 • Turkey Point Steam Generating Station
- 10 • Turkey Point Combined Cycle Generating Station
- 11 • Lauderdale Combined Cycle and Gas Turbine facilities
- 12 • FPL system control center
- 13 • Meter technology center

14 I also attended meetings with FPL personnel during the preparation of that
 15 study.

16

17

A. Service Lives

18 **Q. What is the process for the estimation of service lives in the 2016**
 19 **Depreciation Study?**

20 **A.** The process for the estimation of service lives was based on informed
 21 judgment that incorporated a number of factors, including the statistical
 22 analyses of historical data, general knowledge of the property studied, and
 23 information obtained from field trips and management meetings. The method

1 of estimation for each depreciable group depended on the type of property
2 studied for each account. "Mass property" refers to assets such as poles, wires
3 and transformers that are continually added and replaced. Depreciable
4 transmission, distribution and general plant assets were studied as mass
5 property. "Life Span property" refers to assets such as power plants for which
6 all assets at a facility are expected to retire concurrently. The processes of
7 estimating service life for mass property and life span property are described
8 in the following sections.

9

10

1. Mass Property

11 **Q. What historical data did you analyze for the purpose of estimating service**
12 **life characteristics for mass property?**

13 A. I analyzed the Company's accounting entries that record plant transactions
14 during the period 1941 through 2014. The transactions included additions,
15 retirements, transfers and the related balances. The Company records also
16 included surviving dollar value by year installed for each plant account as of
17 December 31, 2014.

18 **Q. What methods are generally used to analyze service life data?**

19 A. There are two methods widely used in a typical depreciation study to estimate
20 a survivor curve for a group of plant assets; these are the simulated plant
21 balances method and the retirement rate method.

22

23 The simulated plant balance method is used for property groups for which the

1 retirements of property by age are not known. However, it does require
2 continuous records of vintage plant additions and year-end plant balances.
3 The method suggests probable survivor curves for a property group by
4 successively applying a number of alternative survivor curves to the group's
5 historical additions in order to simulate the group's surviving balance over a
6 selected period of time. One of the several survivor curves which results in
7 simulated balances that conform most closely to the book balance may be
8 considered to be the survivor curve which the group under study is
9 experiencing.

10

11 The retirement rate method is an actuarial method of deriving survivor curves
12 using the average rates at which property of each age group is retired. It is the
13 preferred method when sufficient data are available. The method relates to
14 property groups for which aged accounting experience is available or for
15 which aged accounting experience is developed by statistically aging unaged
16 amounts. FPL maintains aged accounting data (meaning that the vintage year
17 is recorded for each addition, retirement or transfer), and thus the data at FPL
18 are kept in a manner that enabled the use of the retirement rate method.

19

20 The application of the retirement rate method is illustrated through the use of
21 an example in Part II of the 2016 Depreciation Study. The retirement rate
22 method was used for mass property accounts (i.e., depreciable transmission,
23 distribution and general plant accounts). As I will discuss in the next section

1 on life span property, the retirement rate method was also used for the
2 estimation of interim survivor curves for production plant accounts.

3 **Q. Did you use statistical survivor characteristics to estimate average service**
4 **lives of the property?**

5 A. Yes. I used Iowa-type survivor curves.

6 **Q. What is an "Iowa-type survivor curve," and how did you use such curves**
7 **to estimate the service life characteristics for each property group?**

8 A. Iowa-type curves are a widely used group of generalized survivor curves that
9 contain the range of survivor characteristics usually experienced by utilities
10 and other industrial companies. The Iowa curves were developed at the Iowa
11 State College Engineering Experiment Station through an extensive process of
12 observing and classifying the ages at which various types of property used by
13 utilities and other industrial companies had been retired.

14

15 Iowa-type curves are used to smooth and extrapolate original survivor curves
16 determined by the retirement rate method. Iowa curves were used in this
17 study to describe the forecasted rates of retirement based on the observed rates
18 of retirement and expectations regarding future retirements. Iowa-type curves
19 have been accepted by every state commission and the FERC.

20

21 The estimated survivor curve designations for each depreciable property
22 group indicate the average service life, the family within the Iowa system to
23 which the property group belongs, and the relative height of the mode. For

1 example, an Iowa 40-R2 designation indicates an average service life of forty
2 years; a right-moded, or R-type curve (the mode occurs after average life for
3 right-moded curves); and a moderate height, two, for the mode (possible
4 modes for R-type curves range from 1 to 5).⁴ The Iowa curves are discussed
5 in more detail in Part II of Exhibit NWA-1.

6 **Q. How are Iowa type survivor curves compared to the historical data for**
7 **the purpose of forecasting service lives?**

8 A. For each depreciable property group, original life tables are developed from
9 the Company's historical records of aged additions, transfers and retirements.
10 Original life tables can be developed using the full experience of historical
11 data. Original life tables can also be developed using different ranges of years
12 of activity, such as the most recent 30 or 40 years of experience. The range of
13 transaction years used to develop a life table is referred to as an "experience
14 band," and the range of vintages used for the life table is referred to as a
15 "placement band."

16
17 Once life tables have been developed using the retirement rate method,
18 specific Iowa curves can be compared both visually and mathematically to the
19 life tables. For visual curve matching, Iowa survivor curves are plotted on the
20 same graph as an original life table, and the points of the curves are visually
21 compared to the life table to assess how closely the Iowa curve matches the
22 historical data. For mathematical curve matching, Iowa curves are compared

⁴ There are also half-mode curves (e.g., R1.5) that are the average of the full mode curves.

1 to an original life table mathematically using an algorithm that compares the
2 differences between an Iowa curve and the original life table.

3

4 For both visual and mathematical curve matching, not all of the historical data
5 points should be given the same consideration, as different data points on a
6 life table will have different significance based on both the level of exposures
7 (i.e., the amount of assets that has survived to a given age) and the level of
8 retirements. For example, data points for later ages in an original life table
9 may be based on the experience of a small number of units of property. Due
10 to a smaller sample size, these data points would not provide as meaningful
11 information as earlier ages. Additionally, the middle portion of the curve is
12 where the largest portion of retirements occurs. This portion of the curve
13 therefore typically provides the best indications of the survivor characteristics
14 of the property studied.

15 **Q. Can you provide an example of the process of fitting Iowa curves to an**
16 **original life table?**

17 A. Yes. Account 364.1 Poles, Towers and Fixtures – Wood provides a good
18 example of this process. For this account, the life table for the overall
19 experience and placement bands is shown on Exhibit NWA-1, pages VII-94
20 and VII-95. The original life table develops the percent of plant that has
21 survived to each age for the experience and placement bands. The
22 representative data points from this life table are depicted graphically on
23 Exhibit NWA-1, page VII-93.

1 Also shown on page VII-93 is the 40-R2 survivor curve. As can be seen in
2 the chart, this curve is a visually good match of the historical data, as the
3 smooth line depicting the 40-R2 survivor curve is close to the historical data
4 points for most ages. It is a particularly good fit for the middle portion of the
5 curve, or the data points from about 80% surviving to about 20% surviving.
6 These data points provide the most information on the survivor characteristics
7 for this account. The 40-R2 is also a good mathematical fit of the historical
8 data. The degree of mathematical fit can be measured by the residual
9 measure,⁵ which is a normalized sum of squares difference between the
10 original life table and a given Iowa curve. The residual measure for the 40-R2
11 survivor curve and the representative data points from the original life table is
12 1.36, which is considered to be a very good fit.⁶ The statistical analysis for
13 this account, using both visual and mathematical techniques, therefore
14 indicates that the 40-R2 survivor curve provides a good representation of the
15 historical mortality characteristics for the account.

16 **Q. Is the statistical analysis of historical data based on the retirement rate**
17 **method the only consideration in estimating service life?**

18 A. No. The estimation of service life is a forecast of the future experience of
19 property currently in service, and therefore informed judgment that
20 incorporates a number of factors must be used in the process of estimating
21 service life. The statistical analysis can provide a good indication of what has

⁵ The residual measure is the square root of the total sum of the squares of differences between points on the original and smooth curves divided by the number of points.

⁶ The smaller the residual measure, the more closely the Iowa curve mathematically matches the original life table.

1 occurred for the Company's assets in the past, but other factors can affect the
2 service lives of the assets going forward. Further, the historical data often
3 does not provide a definitive indication of service life. For these reasons other
4 factors must be considered when estimating future service life characteristics.

5 **Q. Can you provide an example of types of factors considered in the process**
6 **of estimating service life?**

7 A. Yes. An example is Account 364, Poles, Towers and Fixtures. I have
8 explained previously that the 40-R2 survivor curve is a good fit of the
9 historical data for wood poles. However, other factors were also considered
10 for this account.

11

12 In previous depreciation studies, Account 364 has been studied as one
13 property group. That is, both wood poles and concrete poles were combined
14 into one property group. In the 2009 Order, the Commission approved the 39-
15 R2 survivor curve for this account. For the current study, data was available
16 for the retirement rate method analysis for the years 1941 through 2014. The
17 historical data indicated a modest increase in the service life for this account
18 and a similar Iowa curve type. The statistical analysis indicated an average
19 service life of around 40 years, and the 40-R2 represented a good fit of the
20 historical data.

21

22 In addition to the statistical analysis, I had discussions with engineering and
23 operations personnel with knowledge of the assets and Company plans.

1 Through these discussions I learned in more detail the Company's storm
2 hardening program wherein FPL is investing to make its transmission and
3 distribution infrastructure more resilient. Additionally, I visited the job site of
4 a storm hardening project to see the installation of a stronger new concrete
5 pole. Through these discussions and observations, I concluded that the
6 service life expectations for wood poles were likely to be different than the
7 expectations for concrete poles.

8
9 Data was available to perform separate retirement rate analyses on historical
10 data for wood poles and concrete poles. As noted previously, the statistical
11 analyses indicated service lives of around 40 years for wood poles, and that
12 the 40-R2 survivor curve was a good fit of the historical data. For concrete
13 poles, the statistical analysis indicated longer service lives than for wood
14 poles. The analysis of historical data indicated average service lives of around
15 45 years for concrete poles, with the 45-R1.5 being a good fit of the historical
16 concrete pole data.

17
18 For wood poles, discussions with management indicated that the results from
19 the statistical analysis provide a reasonable indication of the future service life
20 expectations for this account. However, information obtained from
21 discussions with management and site visits provided reason to expect that
22 newer concrete poles will remain in service for a somewhat longer period of
23 time than older concrete poles have historically remained in service. Concrete

1 poles installed today are stronger poles than those installed 30 or 40 years ago.
2 Retirements due to causes such as damage and deterioration should therefore
3 be expected to occur somewhat less frequently for newer concrete poles.
4 However, poles are also retired for other reasons, such as relocations, loading
5 and clearances, which may not be materially different in the future than what
6 has been experienced in the past. Thus, while the 45-R1.5 is a good fit of the
7 historical data, the future expectations for concrete poles are for somewhat
8 longer service lives than have occurred historically. The 50-R1.5 survivor
9 curve incorporates these expectations and represents a longer service life than
10 the indications based solely on the historical data.

11

12 For these reasons, the recommendation in the 2016 Depreciation Study is for
13 Account 364, Poles, Towers and Fixtures to be subdivided into wood poles
14 and concrete poles. Based on the considerations discussed above, the
15 recommendation for wood poles is the 40-R2 survivor curve, and for concrete
16 poles is the 50-R1.5 survivor curve.

17 **Q. Was the process for estimating service lives for other accounts similar to**
18 **Account 364?**

19 **A.** Yes. A similar process for estimating service life was used for other mass
20 property accounts. The estimated survivor curves for each account can be
21 found in Part VII of the 2016 Depreciation Study. A narrative description of
22 considerations for each estimate can be found in Part XI of the study.

23

1 **Q. Do you have any other recommendations for Account 364 Poles, Towers**
2 **and Fixtures?**

3 A. Yes. In addition to the service life and net salvage estimates for this account,
4 I recommend that the account be formally segregated into two subaccounts,
5 one for wood poles and one for concrete poles. This will allow for plant
6 activity, as well as accumulated depreciation, cost of removal, and gross
7 salvage to be tracked separately for the two types of assets currently in
8 Account 364. This subaccount distinction is in accordance with Rule 25-
9 6.04361, Subcategorization of Electric Plant for Depreciation Studies and
10 Rate Design, F.A.C.

11

12

2. Life Span Property

13 **Q. What method was used to estimate the lives of production facilities?**

14 A. For production facilities the life span method was used to estimate the lives of
15 electric generation facilities, for which concurrent retirement of the entire
16 facility is anticipated. In this method, the survivor characteristics of such
17 facilities are described by the use of interim retirement survivor curves
18 (typically Iowa curves) and economic recovery dates. The interim survivor
19 curve describes the rate of retirement related to the replacement of elements of
20 the facility. For a power plant, examples of interim retirements include the
21 retirement of piping, boiler tubes, condensers, turbine blades, and rotors that
22 occur during the life of the facility. Interim survivor curves were developed
23 using the retirement rate method in a manner similar to that used for mass

1 property. The economic recovery date, an estimate of the probable retirement
2 date of a facility based on its anticipated operating life, affects each year of
3 installation for the facility by truncating the interim survivor curve for each
4 installation year at its attained age as of that date. The life span of the facility
5 is the time from when the plant is originally placed in service to the expected
6 date of its eventual retirement (i.e., the economic recovery date).

7

8 The use of interim survivor curves, truncated at the estimated economic
9 recovery dates, provides a consistent method of estimating the lives of several
10 years' installation for a particular facility inasmuch as a single concurrent
11 retirement for all the years of installation will occur at that specified date.

12 **Q. Has the life span method been used previously by the Commission?**

13 A. Yes. The life span method was approved by the Commission for the
14 Company's current depreciation rates in Docket No. 090130-EI.

15 **Q. Is the life span method widely used in the electric industry to determine
16 the depreciation rates for production plants?**

17 A. Yes. My firm has used the life span method in performing depreciation
18 studies presented to many public utility commissions across the United States
19 and Canada, and the life span method is the predominant method used for
20 property such as production plants.

21 **Q. Are interim survivor curves the most common method of estimating
22 interim retirements for life span property?**

23 A. Yes. The use of interim survivor curves to estimate interim retirements is also

1 the predominant method of estimating interim retirements for assets such as
2 power plants. In Docket No. 090130-EI, the study performed by Gannett
3 Fleming used interim survivor curves. However, the Commission ordered
4 depreciation rates using a somewhat different method that is best thought of as
5 an approximation of the use of interim survivor curves. I will discuss why the
6 use of interim survivor curves is more appropriate later in this section.

7 **Q. What are the economic recovery dates and what was your basis for each**
8 **selection?**

9 A. The economic recovery dates estimated in the study are set forth on Exhibit
10 NWA-1 on pages III-6 and III-7. For each generating unit, the life span used
11 in the 2016 Depreciation Study is either the same as or longer than the life
12 span ordered by the Commission in Docket No. 090130-EI.

13
14 The economic recovery dates are based on a number of factors, including the
15 operating characteristics of the facilities, the type of technology used at each
16 plant, environmental and other regulations, and the Company's outlook for
17 each facility. Economic recovery dates are specific to each generating unit,
18 and, therefore, the characteristics for each generating unit are considered when
19 estimating an economic recovery date. Typically the owner and operator of
20 each facility best understands the operation and the outlook of each power
21 plant, and is therefore in the best position to determine the most probable
22 retirement of each facility. The Company performed an analysis of the life
23 span for its steam and combined cycle plants. I have discussed the estimated

1 life span of each facility with FPL. In addition, FPL has retired a number of
2 generating units in recent years. The experienced life spans of these retired
3 facilities were also reviewed. I have also incorporated my firm's experience
4 performing depreciation studies for other utilities and our knowledge of other
5 generating facilities. I have compared the estimates for FPL's facilities with
6 the estimates typically made for other utilities and have confirmed that FPL's
7 estimates are reasonable and are within the range of estimates typically used
8 in the industry.

9

10 This process results in economic recovery dates for the 2016 Depreciation
11 Study that are in my judgment the most reasonable based on the current
12 information available. Further discussion of these estimates can be found in
13 Part X of Exhibit NWA-1, as well as later in this testimony.

14 **Q. What are the life span estimates for steam generating plants?**

15 A. For each of the Martin, Manatee, St. Johns River Power Park ("SJRPP") and
16 Scherer generating units, the estimated life spans are consistent with the 50-
17 year life span approved in Docket No. 090130-EI. Martin and Manatee are
18 dual fuel (oil and gas-fired) steam power plants, and SJRPP and Scherer are
19 coal-fired generating stations. In recent years a variety of environmental rules
20 have been put in place that have had an impact on the service lives of steam
21 power plants, and in particular on coal-fired generation. Many power plants
22 in the industry have been retired earlier than anticipated due in part to these
23 environmental rules. Given these considerations, in my judgment the

1 approved 50 year life spans continue to be reasonable estimates for these
2 plants.

3 **Q. Has the Company retired any steam generating plants in recent years?**

4 A. Yes. The Company has retired a number of steam generating plants. The
5 facilities retired, as well as the retirement date and life span of each facility,
6 are summarized in Table 1 below. The actual experienced life spans for these
7 units ranged from 41 to 57 years, with an average life span of approximately
8 50 years. This experience further supports a 50 year life span for the
9 Company's remaining steam generating plants.

10 **Table 1: Retirements of FPL Steam Generating Units**
11

<u>Generating Unit</u>	<u>Retirement Date</u>	<u>Life Span</u>
Cape Canaveral Unit 1	2010	45
Cape Canaveral Unit 2	2010	41
Cutler Unit 5	2012	58
Cutler Unit 6	2012	57
Pt Everglades Unit 1	2012	52
Pt Everglades Unit 2	2012	51
Pt Everglades Unit 3	2013	49
Pt Everglades Unit 4	2013	48
Riviera Unit 3	2011	49
Riviera Unit 4	2011	48
Sanford Unit 3	2012	53
Turkey Point Unit 1	2016	49
Turkey Point Unit 2	2013	45

12

13 **Q. What are the life spans for the Company's nuclear generating facilities?**

14 A. The life spans for the Turkey Point and St. Lucie nuclear units are based on
15 the facilities' Nuclear Regulatory Commission ("NRC") operating licenses.

1 Each unit has been granted a 20 year extension to its original 40 year license.
2 The estimated life span for each unit is therefore 60 years.

3 **Q. What is the life span estimate for the Company's combined cycle**
4 **generating facilities?**

5 A. The life span estimate for the combined cycle facilities is 40 years. FPL has
6 performed an analysis on the overall expected life spans of these facilities, and
7 has concluded that 40 years is the most reasonable expectation for the life
8 spans of these facilities at this time. This represents an increase over the 30
9 year life spans approved in Docket No. 090130-EI. The increase in the life
10 span estimates reflects significant investments in the combined cycle fleets to
11 extend the lives of many components, improve efficiency, and mitigate
12 corrosion issues. With these changes, the Company's expectation is that a 40
13 year life span is attainable.

14 **Q. How does a 40 year life span compare to the range of estimates by others**
15 **in the industry for combined cycle power plants?**

16 A. A 40 year life span is at the upper end of the range of typical estimates for
17 combined cycle plants in the industry. Estimates for other utilities typically
18 have ranged from 30 to 40 years, although estimates of 35 or 40 years have
19 been more common in recent years.

20 **Q. Has the Company retired any combined cycle power plants?**

21 A. Yes. The Company has retired both units at its Putnam combined cycle plant.
22 The actual experienced life spans for the two units at this site were 36 and 37
23 years. The life spans of the Putnam units support that 35 to 40 year life spans

1 are reasonable for combined cycle plants, and also offers evidence that a
 2 longer life span estimate would not be appropriate at this time for these types
 3 of facilities.

4 **Table 2: Retirements of Combined Cycle Generating Units**
 5

<u>Generating Unit</u>	<u>Retirement Date</u>	<u>Life Span</u>
Putnam Unit 1	2014	36
Putnam Unit 2	2014	37

6

7 **Q. What are the life span estimates for other facilities?**

8 A. The 2016 Depreciation Study uses the same 40 year life span for the
 9 Company's new peaker facilities and its existing simple cycle plant at Ft.
 10 Myers as is used for combined cycle plants. For the existing Pt. Everglades
 11 gas turbines, an economic recovery date of 2028 is recommended, which
 12 corresponds to a 57 year life span. The currently approved 30 year life span is
 13 recommended for the Company's solar facilities, with the exception of the
 14 Martin Solar facility. Because this facility provides steam to the Martin Unit
 15 8 combined cycle plant, the same economic recovery date is used as for
 16 Martin Unit 8.

17 **Q. In addition to the life span, you have also recommended estimates for
 18 interim retirements. Is the estimation of interim retirements using the
 19 retirement rate method similar to the process of estimating survivor
 20 curves for mass property?**

21 A. Yes. Similar to mass property the interim survivor curve estimates are based

1 on informed judgment that incorporates actuarial analyses of historical data
2 using the retirement rate method of analysis. Iowa survivor curves have been
3 estimated for each plant account which, combined with the life span estimate
4 for each generating unit, provide the overall survivor curve, average service
5 life and average remaining life for each plant account at each generating unit.
6 A narrative discussion of the considerations for the estimation of interim
7 survivor curves for each account can be found in Part X of the 2016
8 Depreciation Study. Graphical depictions of the interim survivor curves
9 estimated for each generation plant account are presented in Part VII of the
10 study.

11 **Q. Were the currently approved depreciation rates developed with interim**
12 **survivor curves?**

13 A. No. As I mentioned earlier, the approved depreciation rates used a slightly
14 different methodology referred to as “interim retirement rates.” While the
15 interim retirement rate methodology also estimates interim retirements, it is
16 based on the assumption that an equal rate of retirements will occur in each
17 year of a plants’ operation. An assumption of an equal rate of annual
18 retirements is often not a realistic assumption for interim retirements for
19 power plants. As a result, the use of interim survivor curves is a more
20 accurate method of estimating interim retirements.

21 **Q. Why is the use of interim survivor curves more accurate for estimating**
22 **interim retirements?**

23 A. Interim survivor curves are more accurate because they recognize the concept

1 of dispersion. That is, survivor curves recognize that retirements will occur at
2 different rates at different ages. For a power plant, typically retirements tend
3 to increase as the assets in the plant age, because wear and tear over time
4 results in more assets needing to be replaced. Thus, the rate of retirement
5 should be expected to increase over time for most types of assets. Interim
6 survivor curves recognize this dispersion, while the interim retirement rate
7 methodology used for the existing depreciation rates does not.

8 **Q. Are there any production plant accounts you would like to discuss in**
9 **more detail?**

10 A. Yes. Account 343 Prime Movers is the largest plant account in Other
11 Production Plant. In the previous study there were different service life
12 estimates for two different types of assets in this account. For the first type of
13 assets, referred to as "capital spare parts," a five year average service life was
14 recommended. For the second type of assets, which contained the remaining
15 balance for this account, a longer service life was recommended because most
16 assets were expected to be in service for the life of the plant.

17

18 The use of different service life estimates for the different types of assets in
19 Account 343 is consistent with the Commission's order in Docket No.
20 090130-EI, in which the Commission adopted a 0.1565 interim retirement rate
21 for capital spare parts (a subset of the assets in this account) that was different
22 than the rate used for the other assets in the account.⁷

⁷ Order No. PSC-10-0153-FOF-EI, p. 32.

1 **Q. What is a “capital spare part” for combined cycle plants?**

2 A. The term capital spare parts, as is used for FPL’s combined cycle plants,
3 refers to a number of different types of assets associated with the combustion
4 turbines for the plant. Capital spare parts include turbine blades, rotor blades
5 and transition nozzles that typically have a shorter life than the overall facility.
6 During outages at regular intervals many of these components are replaced.
7 The parts removed from the plant can be refurbished and reused within FPL’s
8 combined cycle fleet. When capital spare parts are removed from a plant, the
9 Company records a retirement as well as positive net salvage that reflects the
10 fact that the parts can be refurbished and reused. Refurbished parts are then
11 recapitalized when they return to service. Capital spare parts are typically
12 refurbished and reused two times before they are no longer able to be used.

13

14 As a result of these operational characteristics, capital spare parts on average
15 have a shorter service life than the entire facility, but also have a positive net
16 salvage value when retired. It should also be noted that there is a range of
17 lives for the Company’s capital spare parts, with some assets having lives as
18 short as two to three years while others remain in service ten years or longer.

19 **Q. In addition to the statistical life analysis, are there other considerations**
20 **for the service life estimate for capital spare parts in the current study?**

21 A. Yes. FPL has made, and continues to make, significant investments to
22 upgrade its capital spare parts. For instance, the original parts installed for the
23 Company’s General Electric (“GE”) plants, which are referred to as 7FA.03

1 parts, experienced shorter service lives than is expected for new parts installed
2 today. One reason for the shorter service lives is that some of FPL's plants
3 experienced corrosion issues with many of their components. Another reason
4 is that for the plants, the manufacturer has developed more robust components
5 (referred to as 7FA.04 and 7FA.05 parts) that have longer intervals between
6 outages. The result of the longer intervals should be an increase in service life
7 for those capital spare parts.

8
9 For these reasons, the expectation is that the service life of capital spare parts
10 will be longer going forward than is indicated in the historical data. While the
11 historical data indicates an average service life for these assets in the 6 to 7
12 year range, the 9-L0 survivor curve is recommended for interim retirements
13 for capital spare parts. This estimate reflects the impact of the 7FA.04 and
14 7FA.05 parts, as well as the impact of fewer run-hours for some of the
15 Company's combined cycle plants.

16 **Q. Do you have any other recommendations for Account 343 Prime Movers?**

17 A. Yes. In addition to the service life and net salvage estimates for this account,
18 I recommend that the account be formally subdivided into two subaccounts,
19 one for capital spare parts and one for all other assets in the account. This will
20 allow for plant activity, as well as accumulated depreciation, cost of removal,
21 and gross salvage to be tracked separately for the two types of assets currently
22 in Account 343. This subaccount distinction is in accordance with Rule 25-
23 6.04361, Subcategorization of Electric Plant for Depreciation Studies and

1 Rate Design, F.A.C.

2

3

B. Net Salvage

4 **Q. Would you please explain the concept of “net salvage”?**

5 A. Net salvage is the salvage value received for the asset upon retirement less the
6 cost to retire the asset. When the cost to retire exceeds the salvage value, the
7 result is negative net salvage. Net salvage is a component of the service value
8 of capital assets that is recovered through depreciation rates. The service
9 value of an asset is its original cost less its net salvage. Thus, net salvage is
10 considered to be a component of the cost of an asset that is recovered through
11 depreciation.

12

13 Inasmuch as depreciation expense is the loss in service value of an asset
14 during a defined period (e.g., one year), it must include a ratable portion of
15 both the original cost and the net salvage. That is, the net salvage related to an
16 asset should be incorporated in the cost of service during the same period as
17 its original cost, so that customers receiving service from the asset pay rates
18 that include a portion of both elements of the asset’s service value, the original
19 cost and the net salvage value.

20

21 For example, the full recovery of the service value of a \$1,000 transformer
22 may include not only the \$1,000 of original cost, but also, on average, \$300 to
23 remove the transformer at the end of its life less \$150 in salvage value. In this

1 example, the net salvage component is negative \$150 ($\$150 - \300), and the
2 net salvage percentage is negative 15% ($(\$150 - \$300)/\$1,000$).

3 **Q. Please describe the process you used to estimate net salvage percentages.**

4 A. The net salvage estimate for each plant account is based on informed
5 judgment that incorporates the analysis of historical net salvage data. I
6 reviewed net salvage data from 1986 through 2014. Cost of removal and
7 salvage were expressed as a percent of the original cost of the plant retired,
8 both on an annual basis and a three-year moving average bases. The most
9 recent five-year average was also calculated.

10 **Q. Were there other considerations used in developing your final estimates
11 for net salvage?**

12 A. Yes. In addition to the statistical analyses of historical data, I considered the
13 information provided to me by the Company's operating personnel, general
14 knowledge and experience of the industry practices, and trends in the industry
15 in general.

16 **Q. Is the same process used for the estimation of net salvage for production
17 plant?**

18 A. The same process is used for interim net salvage for generating plant accounts
19 as is used for the estimation of net salvage for mass property accounts.
20 However, interim net salvage is applied only to the portion of plant expected
21 to be retired as interim retirements. Assets expected to remain in service until
22 the final retirement of a generating facility will experience terminal net
23 salvage – that is, the cost to dismantle the facility.

1 **Q. Do the depreciation rates used for electric generating facilities have a**
2 **component for dismantlement?**

3 A. No. The dismantlement component of net salvage is not included in the
4 depreciation rates recommended in the 2016 Depreciation Study. Consistent
5 with the longstanding practice of FPL, and as approved by the FPSC, the
6 Company has made estimates of final dismantlement for their fossil and solar
7 generation facilities, but these costs are handled separately and are not part of
8 the 2016 Depreciation Study. Fossil and solar generation dismantlement costs
9 are included separately in this docket, in Exhibit KF-4 sponsored by FPL
10 witness Ferguson. End of life costs for nuclear units are also addressed
11 separately, in decommissioning studies. FPL filed its most recent nuclear
12 decommissioning study with the FPSC on December 14, 2015. Therefore, net
13 salvage estimates for fossil, solar and nuclear production facilities provided in
14 this Study only reflect interim retirement activity.

15 **Q. In Docket No. 090130-EI, did the Commission order that FPL provide**
16 **any additional information regarding the net salvage for certain mass**
17 **property accounts?**

18 A. Yes. For certain plant accounts⁸ the Commission recommended that the
19 Company investigate further the causes of a trend towards increasing cost of
20 removal. For example, the Commission stated for Account 364 Poles, Towers
21 and Fixtures that “[w]e believe it would be a useful exercise for FPL to
22 perform an analysis to determine why this is occurring and whether it is

⁸ Account 364 Poles, Towers and Fixtures; Account 365 Overhead Conductors and Devices; Account 369.1 Overhead Services; and Account 370 Meters.

1 possible for FPL to make internal changes that might mitigate this trend.”⁹

2 **Q. Has the Company investigated the trend of increasing cost of removal for**
3 **these accounts?**

4 A. Yes, and I have discussed the results of the Company’s investigation with its
5 operating personnel. Costs have increased for a number of reasons, including
6 permitting costs, work requirements, environmental regulations, safety
7 requirements, traffic control and labor and contractor costs. In addition to
8 these discussions, I have physically observed a pole replacement project. I
9 observed the work involved in replacing a concrete pole, including the
10 construction crew, equipment, traffic control and work required to complete
11 the replacement project. Discussions with management and observations in
12 the field confirm that there are significant costs to retire assets and that these
13 costs have been increasing.

14 **Q. Can you provide an example of how costs have increased?**

15 A. Yes. Distribution poles provide a good example of factors that have resulted
16 in increasing costs to retire assets. FPL has both wood and concrete
17 distribution poles. The retirement of a wood pole requires a multiple
18 person crew as well as equipment including a pole truck. For concrete poles,
19 additional equipment such as a crane is typically required. In addition to the
20 replacement of the actual pole, the Company must also transfer the primary
21 and secondary cable, as well as other devices, from the old pole to the new
22 pole.

⁹ Docket No. 090130-EI, Order, p. 67.

1 Costs for retiring poles have increased for a number of reasons. Labor and
2 contractor costs have increased over time. Crew sizes have also increased as a
3 result of enhanced safety practices. An additional crew member acting as an
4 observer is now standard for a crew when replacing a pole. The cost of
5 cutting poles has also increased. Cutting costs are higher for concrete poles,
6 as cutting a concrete pole requires more effort than for a wood pole. Other
7 factors have also contributed to higher project costs. For example, work
8 requirements such as traffic control and limitations on when work can be
9 performed have resulted in higher project costs.

10

11 Each of the factors described here contribute to higher cost of removal going
12 forward than was the case ten or twenty years ago. This trend is consistent
13 with the historical net salvage data, which indicates increasing cost of removal
14 for distribution poles.

15 **Q. Is the trend to higher cost of removal consistent with the experience of**
16 **other utilities in the industry?**

17 A. Yes. My firm conducts depreciation studies for utilities across the country.
18 The trend towards increasing cost of removal is consistent with the experience
19 of many others in the industry. The reasons that FPL's costs have increased
20 are also experienced by other utilities.

21

22

23

1 **IV. REMAINING LIVES AND DEPRECIATION RATES**

2

3 **Q. Please describe the second phase of the 2016 Depreciation Study, in which**
4 **you calculated composite remaining lives and annual depreciation accrual**
5 **rates.**

6 A. After I estimated the service life and determined net salvage characteristics to
7 use for each depreciable property group, I calculated the annual depreciation
8 accrual rates for each group based on the straight line remaining life method,
9 using remaining lives weighted consistent with the average life procedure.
10 The study used actual plant and reserve balances as of December 31, 2014.
11 Actual plant and reserve activity through September 30, 2015, estimated plant
12 and reserve for the remainder of 2015, and estimated activity for 2016 and
13 2017 were then used to develop depreciation rates based on plant and reserve
14 balances as of December 31, 2017.

15 **Q. Please describe the straight line remaining life method of depreciation.**

16 A. The straight line remaining life method (also referred to as the straight line
17 method and remaining life technique) of depreciation allocates the original
18 cost of the property, less accumulated depreciation, less future net salvage, in
19 equal amounts to each year of remaining service life.

20 **Q. Please describe the average service life procedure for calculating**
21 **remaining life accrual rates.**

22 A. The average service life procedure defines the group for which the remaining
23 life annual accrual is determined. Under this procedure, the annual accrual

1 rate is determined for the entire group or account based on its average
2 remaining life, and this rate is applied to the surviving balance of the group's
3 cost. The average remaining life for the group is determined by first
4 calculating the average remaining life for each vintage of plant within the
5 group. The average remaining life for each vintage is derived from the area
6 under the survivor curve between the attained age of the vintage and the
7 maximum age. Then, the average remaining life for the group is determined
8 by calculating the dollar-weighted average of the calculated remaining lives
9 for each vintage. The annual depreciation accruals for the group are
10 calculated by dividing the remaining depreciation accruals (original cost less
11 accumulated depreciation less net salvage) by the average remaining life for
12 the group.

13 **Q. Have you used the same method to calculate the average remaining life as**
14 **used in Gannett Fleming's previous study filed in Docket No. 090130-EI?**

15 A. No. While the average service life procedure and remaining life technique
16 were used in the previous study, I have used a different method of calculating
17 the average remaining life for each depreciable group in the current study. In
18 Docket No. 090130-EI, the Commission expressed concern with the
19 calculation of average remaining life used in the 2016 Depreciation Study
20 performed by my firm for that proceeding. While my opinion is that the
21 methodology used in the prior study was correct and is widely accepted by
22 regulatory commissions, I have addressed the Commission's concerns by
23 using a different methodology in this case than was used in Docket No.

1 090130-EI. In the current Study, the average remaining life is calculated for
2 each depreciable group based on “average service life weighting.”¹⁰ Average
3 service life weighting is an acceptable method for calculating the average
4 remaining life for a depreciable group that is consistent with Rule 25-
5 6.0436(1)(e) and addresses the Commission’s concerns from Docket No.
6 090130-EI.

7 **Q. Please use an example to illustrate the development of the annual**
8 **depreciation accrual rate for a particular group of property in the 2016**
9 **Depreciation Study.**

10 A. For purposes of illustrating this process I will use Account 368, Line
11 Transformers. The survivor curve estimate for this account is the 34-S0, and
12 the net salvage estimate is for negative 15 percent net salvage. A discussion
13 of these estimates, as well as the statistical analyses that support the estimates
14 for this account can be found on Exhibit NWA-1, pages XI-41 and XI-42.
15 The calculation of the annual depreciation related to the original cost of
16 Account 368, Line Transformers, at December 31, 2017, is presented on
17 Exhibit NWA-1, page VI-13. The calculation is based on the 34-S0 survivor
18 curve, negative 15 percent net salvage, the attained age, and the book reserve.
19 The calculated annual depreciation accrual and rate are based on the estimated
20 survivor curve and net salvage, the original cost, book reserve, future accruals
21 and composite remaining life for the account. The calculation of the
22 composite remaining life as of December 31, 2017 is provided in the

¹⁰ For a further discussion of the calculation of average service lives using average service life weighting, please refer to pages 138 and 139 of NARUC’s *Public Utility Depreciation Practices*.

1 tabulations presented on Exhibit NWA-1, pages IV-204 and IV-205. The
2 tabulation sets forth the installation year, the original cost, the average service
3 life, the whole life annual depreciation rate and accruals, the remaining life
4 and theoretical future accruals factor and amounts. The average service life
5 weighted composite remaining life of 23.37 years is equal to the total
6 theoretical future accruals divided by the total whole life depreciation
7 accruals.

8 **Q. Did you use this same methodology for the general plant accounts?**

9 A. Yes. This methodology was used for the general plant accounts that are
10 depreciated. However, most of the general plant accounts are amortized in
11 accordance with amortization periods prescribed by the FPSC.

12 **Q. What were your overall results of the 2016 Depreciation Study?**

13 A. The Study resulted in an increase in average service lives for many accounts.
14 This is generally a reflection of the study using longer service lives as well as
15 increases in the life span estimates for combined cycle plants. The trend
16 towards longer service lives is not uncommon in the electric utility industry
17 today. Additionally, for some types of property, such as transmission and
18 distribution poles and capital spare parts for combined cycle plants, changes in
19 the composition of assets in the account resulted in the estimation of longer
20 service lives than indicated by the historical data. For example, the Company
21 has replaced wood poles with concrete poles that are expected to have a
22 longer service life, and has upgraded capital spare parts to components that
23 have longer inspection intervals. Both of these changes have resulted in

1 longer average service lives.

2

3 The 2016 Depreciation Study also resulted in increases in negative net salvage
4 (i.e. net salvage estimates that are more negative) for some accounts, which is
5 attributable to the increasing cost of removal discussed previously. A trend to
6 more negative net salvage is also consistent with the experience of many other
7 utilities.

8

9 The Study results in an increase of total company depreciation expense of
10 approximately \$221 million as of December 31, 2017. This increase is
11 primarily due to the addition of plant for the Company's production plant
12 accounts and is somewhat mitigated by the overall results of the service life
13 and net salvage studies. I will discuss factors affecting the Study results in the
14 next section.

15

16 V. FACTORS AFFECTING DEPRECIATION EXPENSE

17

18 **Q. What are the major factors that affect the depreciation expense resulting**
19 **from application of the 2016 Depreciation Study?**

20 A. The changes in annual depreciation rates and expense are shown in Table 3 of
21 the 2016 Depreciation Study and summarized below by class of plant:

22

23 Steam Production: The depreciation expense for this class of plant increased

1 by approximately \$42 million. The increase in expense is due primarily to the
2 additions of assets such as pollution control equipment that have occurred
3 since the 2009 Depreciation Study. The life spans used for each facility are
4 the same as those ordered by the Commission in Docket No. 090130-EI.

5
6 Nuclear Production: This class of plant showed an increase in depreciation
7 expense of approximately \$165 million. The increase in depreciation expense
8 is due primarily to the significant additions for the nuclear plants, such as
9 additions for the extended power uprates (“EPUs”).

10

11 Other Production (Combined Cycle): This class of plant showed an overall
12 increase in depreciation expense of approximately \$59 million. For this
13 Study, the estimated service lives for capital spare parts as well as the
14 estimated life spans for combined cycle plants have been increased, which all
15 else equal would result in a decrease in depreciation expense. The overall
16 increase in depreciation expense is therefore largely driven by significant
17 additions to the Company’s facilities. Most of the increase is for the West
18 County, Canaveral, Riviera and Pt. Everglades combined cycle plants. These
19 facilities account for \$35 million, or 60%, of the increase for combined cycle
20 production plants. The last ordered depreciation rates for these plants did not
21 incorporate any interim retirements, and as a result, the approved depreciation
22 rates were lower for these facilities than for the Company’s other combined
23 cycle plants. The increase in depreciation for these plants is due primarily to

1 this cause, and would be even higher if the estimated life spans for combined
2 cycle plants were not proposed to be increased from the Commission ordered
3 30 years to 40 years. For the other plants, a significant portion of the increase
4 in depreciation expense is due to increased balances for capital spare parts and
5 other interim additions that have occurred since the 2009 Depreciation Study.

6

7 Other Production (Peaker Plants): The depreciation expense for this class of
8 plant decreased by approximately \$300,000. Most of the decrease is the result
9 of extending the life spans for these plants from 30 to 40 years.

10

11 Other Production (Solar): The depreciation expense for this class of plant
12 decreased by approximately \$1 million. The decrease is the result of a change
13 in the economic recovery date for Martin Solar.

14

15 Transmission Plant: The depreciation expense for this class of plant
16 decreased by approximately \$14 million. The decrease in depreciation
17 expense was due primarily to longer service lives for most accounts, which
18 was offset to some degree by more negative net salvage for certain accounts.

19

20 Distribution Plant: The depreciation expense for this class of plant decreased
21 by approximately \$26 million. The decrease in depreciation expense was due
22 primarily to longer service lives for most accounts and less negative net
23 salvage estimates for certain accounts. The decrease in expense for these

1 accounts was offset to some degree by more negative net salvage for certain
2 accounts.

3 General Plant: Depreciation expense for this class of plant decreased by
4 approximately \$4 million. A portion of the decrease was due to longer service
5 lives, but the impact of plant and reserve balances on the remaining life
6 calculation was also a factor.

7 **Q. Why do capital additions for production plant result in an increase in
8 depreciation rates?**

9 A. Additions to life span property typically will result in an increase not only to
10 depreciation expense due to a resulting higher plant balance, but also because
11 additions typically increase the depreciation rate for this type of property. For
12 life span property, interim additions (that is, additions added subsequent to the
13 original in service date of the facility) will have a shorter service life than the
14 original installation of the facility. This occurs because the facility has a final
15 retirement date at which time all assets will be retired. Thus, for interim
16 additions, the length of time between installation and the end of the life span
17 of the facility is shorter than for the original installation of the plant.

18
19 To help illustrate this concept, consider as an example a power plant that is
20 installed in 1970 for \$1 million. For simplicity, assume that there will be no
21 interim retirements and no net salvage. If the plant is retired in 2030, the life
22 span of the facility is 60 years. The average service life for the 1970 vintage
23 is also 60 years. The depreciation rate at the time of the original installation is

1 1.67%.¹¹ Assume that in 2000 an additional \$500,000 is added to the facility.
2 These assets will not have an average service life of 60 years, but instead will
3 have an average service life of 30 years since they will be retired in 2030.
4 That is, the interim additions have a shorter service life than the original
5 addition of the facility.

6
7 For this reason, the overall average service life of life span property will
8 decrease as new interim additions are made. Similarly, the annual
9 depreciation rate will tend to increase over time as interim additions occur.
10 After the installation of the 2000 vintage assets the depreciation rate increases
11 to 2.22%¹² from 1.67%. Thus, although the service life estimate for the plant
12 did not change, the depreciation rate increased due to the interim additions to
13 the facility.

14
15 This same concept explains increases in depreciation rates for FPL's
16 production plant facilities, as significant additions have occurred at steam,
17 nuclear and combined cycle plants. All else equal, these additions cause
18 increases in depreciation rates and are the primary factor contributing to the
19 overall increase in depreciation expense resulting from the 2016 Depreciation
20 Study.

21
22

¹¹ Equal to 1/60

¹² Equal to $(\$1,000,000/60 + \$500,000/30) / (\$1,000,000 + \$500,000)$

1 **Q. Pursuant to Commission orders in the previous two rate cases, there has**
2 **been an amortization of the theoretical reserve imbalance that had been**
3 **calculated in Docket No. 090130-EI based on the depreciation parameters**
4 **that were approved by the Commission at that time. How has the impact**
5 **of that amortization been incorporated into the 2016 Depreciation Study?**

6 A. The adjustment ordered by the Commission in Docket No. 090130-EI totaled
7 approximately \$1.2 billion.¹³ This amount was a reduction to accumulated
8 depreciation. FPL recorded a reduction to accumulated depreciation on its
9 books subsequent to the Commission order and transferred these amounts to
10 either the capital recovery schedules or a separate account for the amortization
11 of the reserve imbalance. The calculations as of December 31, 2017 therefore
12 include this adjustment to accumulated depreciation.

13 **Q. What is the impact of this reserve credit on the current depreciation**
14 **expense?**

15 A. The impact of decreasing the reserve is (all else equal) an increase in the
16 future depreciation accruals. The annual depreciation accruals in the 2016
17 Depreciation Study are higher than they would be had the Commission not
18 ordered the adjustment based on the theoretical reserve imbalance in Docket
19 No. 090130-EI.

20 **Q. What is the overall change in annual depreciation expense for 2017?**

21 A. As noted above, comparison between existing rates and proposed rates using

¹³ A portion of this \$1.2 billion offset capital recovery schedules in Docket No. 090130-EI and a portion was amortized over a period of time. However, the full \$1.2 billion was an adjustment to accumulated depreciation for the accounts included in the 2009 Depreciation Study for which there were no capital recovery schedules.

1 the plant at December 31, 2017, showed an overall increase in total company
2 depreciation expense of \$221 million.

3

4

VI. THEORETICAL RESERVE IMBALANCE

5

6 **Q. What is a theoretical reserve imbalance?**

7 A. A theoretical reserve imbalance (“TRI” or “imbalance”) is calculated as the
8 difference between a company’s book accumulated depreciation, or book
9 reserve, and the calculated accrued depreciation, or theoretical reserve. I
10 should note that in prior proceedings in both Florida and other jurisdictions,
11 different terms have been used for the theoretical reserve imbalance, including
12 “theoretical reserve variance,” “reserve excess,” “reserve surplus” or “reserve
13 deficit” and “theoretical excess depreciation reserve.” For this testimony I
14 will use the term “theoretical reserve imbalance,” which is consistent with the
15 terminology used in the National Association of Regulatory Utility
16 Commissioners’ (“NARUC”) publication *Public Utility Depreciation*
17 *Practices*.

18 **Q. What is the book reserve?**

19 A. The book reserve, also referred to as the “book accumulated depreciation” or
20 the “accumulated provision for depreciation,” is a running total of historical
21 depreciation activity. It is equal to the historical depreciation accruals, less
22 retirements and cost of removal, plus historical gross salvage. The book
23 reserve also represents a reduction to the original cost of plant when

1 calculating rate base.

2 **Q. What is the theoretical reserve?**

3 A. The theoretical reserve is an estimate of the accumulated depreciation based
4 on the current plant balances and depreciation parameters (service life and net
5 salvage estimates) at a specific point in time. It is equal to the portion of the
6 depreciable cost of plant that will not be allocated to expense through future
7 whole life depreciation accruals based on the current forecasts of service life
8 and net salvage. The theoretical reserve is also referred to as the "Calculated
9 Accrued Depreciation" or "CAD."

10 **Q. Is the theoretical reserve the "correct" reserve?**

11 A. No, the theoretical reserve is an estimate at a given point in time based on the
12 current plant balances and current life and net salvage estimates. It can
13 provide a benchmark of a Company's reserve position, but it should not be
14 thought of generally as the "correct" reserve amount.

15

16 In Wolf and Fitch's *Depreciation Systems*, this point is explained as follows
17 on page 86:

18 The CAD is not a precise measurement. It is based on a
19 model that only approximates the complex chain of events
20 that occur in an actual property group and depends upon
21 forecasts of future life and salvage. Thus, it serves as a
22 guide to, not a prescription for, adjustments to the
23 accumulated provision for depreciation.

1 **Q. If a TRI exists, does a utility normally take action to address the**
2 **imbalance?**

3 A. No. In most jurisdictions an explicit adjustment to the book reserve is not
4 made. Instead, the remaining life technique is used. When using remaining
5 life technique, there is an automatic adjustment, or self-correcting mechanism,
6 that will increase or decrease depreciation expense to account for any
7 imbalances between the book and theoretical reserves.

8

9 The 2016 Depreciation Study uses the remaining life technique. The
10 depreciation rates presented in the study therefore already include an
11 adjustment for the theoretical reserve imbalance. No further adjustment is
12 needed.

13 **Q. What is the theoretical reserve imbalance, based on the estimates from**
14 **the current study and plant and reserve balances as of December 31,**
15 **2017?**

16 A. The 2016 Depreciation Study estimates a negative theoretical reserve
17 imbalance of approximately \$99 million. That is, the book reserve is
18 approximately \$99 million less than the estimated theoretical reserve. While
19 \$99 million may seem like a large number without context, this amount is
20 quite small in terms of a theoretical reserve imbalance. The \$99 million
21 represents less than 1% of the calculated theoretical reserve of approximately
22 \$13.5 billion at December 31, 2017 and is an even smaller percentage when
23 compared to the \$46.0 billion in original cost of plant in service as of the same

1 date. Given that the 2016 Depreciation Study is the forecast of events that
2 will occur over many decades, a difference of only 1% between the book and
3 theoretical reserves should be considered a minor difference.

4 **Q. Do you believe an adjustment based on the theoretical reserve imbalance**
5 **estimated in the 2016 Depreciation Study is needed for FPL at this time?**

6 A. No. The theoretical reserve imbalance is small when compared to the
7 theoretical reserve. An adjustment to any reserve imbalances (other than the
8 use of the remaining life technique) would therefore imply a level of precision
9 that is not possible, as depreciation is a process of forecasting events that will
10 occur many years in the future. Theoretical reserve imbalances will change
11 from study to study, which occurs due to both changes in estimates and due to
12 plant and reserve activity. Future studies will estimate a different TRI (either
13 more positive or more negative) than is calculated in the 2016 Depreciation
14 Study.

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

16 A. Yes.

1 **BY MR. BUTLER:**

2 Q Mr. Allis, do you have exhibits that were
3 identified as NWA-1 and NWA-2 attached to your prepared
4 direct testimony?

5 A Yes.

6 Q And were those prepared under your direction
7 and supervision?

8 A Yes.

9 **MR. BUTLER:** I would note, Madam Chair, that
10 those have been identified as Exhibits 113 and 114, and
11 at this point turn him over to staff.

12 **CHAIRMAN BROWN:** Thank you.

13 **EXAMINATION**

14 **BY MS. BROWNLESS:**

15 Q Good morning, Mr. Allis.

16 A Good morning.

17 Q Have you had an opportunity to review Exhibit
18 No. 579 and the exhibits that are identified with your
19 name thereon?

20 A Yes, I have.

21 Q Okay. And in reviewing those exhibits, are
22 they true and correct to the best of your knowledge and
23 belief?

24 A Yes, they are.

25 Q And were they prepared by you or under your

1 direct supervision?

2 **A** Yes. I cosponsored some of them, but yes.

3 **Q** Okay. And if you were to be asked those same
4 questions today, would your responses be the same?

5 **A** Yes, they would.

6 **Q** Okay. Are any of these materials
7 confidential, Mr. Allis?

8 **A** I believe Attachment 4 to OPC's first POD
9 No. 38 is confidential.

10 **MS. BROWNLESS:** Okay. Thank you. That's all
11 we have.

12 **CHAIRMAN BROWN:** Thank you.

13 FPL.

14 **MR. BUTLER:** Thank you.

15 **EXAMINATION**

16 **BY MR. BUTLER:**

17 **Q** Mr. Allis, would you please summarize your
18 direct testimony?

19 **A** Yes. Good morning, Commissioners, Madam
20 Chair.

21 My direct testimony presents and explains the
22 2016 depreciation study conducted by my firm, Gannett
23 Fleming. Depreciation is the allocation of the full
24 cost of the company's assets over the period of time
25 these assets will be in service. In order for customers

1 to pay the proper share of the usage of these assets,
2 reasonable estimates must be made of useful lives and
3 net salvage for each depreciable group.

4 The depreciation study is based on accepted
5 depreciation methods, procedures, and techniques, and
6 sets forth the proposed depreciation rates for each
7 depreciable group of assets. The recommended estimates
8 of service life and net salvage in the study are
9 supported by the statistical analysis of the company's
10 actual experience, as well as knowledge of the company's
11 property and future -- and the future outlook of the
12 company's assets. The resulting estimates, therefore,
13 incorporate both the company's historical data and the
14 expectations of future experience.

15 The depreciation rates recommended in my study
16 result in an overall increase in depreciation expense of
17 approximately \$221 million; however, this increase is
18 primarily due to capital additions to the company's
19 power plants, which, all else equal, will increase
20 depreciation rates automatically. The increase in
21 depreciation is not the result of the recommended
22 service life and net salvage estimates in my study.
23 Instead, these mitigate the increase in depreciation
24 expense.

25 For many types of assets the depreciation

1 study recommends increases in average service lives,
2 resulting in lower depreciation expense, all else equal.
3 One example is for the company's combined cycle
4 production plants, which comprise almost a quarter of
5 the company's depreciable plant in service. Significant
6 investments made by FPL to upgrade components of these
7 facilities have resulted in longer service lives of both
8 components of the plants and for the overall facilities
9 themselves.

10 Another example is a recommendation for longer
11 service lives for transmission and distribution poles,
12 which is, in part, the result of the company's storm
13 hardening program in which stronger concrete poles have
14 replaced older wood and concrete poles.

15 While service lives have increased for many
16 accounts, cost of removal has also increased, resulting
17 in more negative net salvage estimates. Cost of removal
18 is the cost associated with retiring an asset: For
19 example, the cost to remove a pole from the ground and
20 also the cost to dispose of that pole. The treatment
21 (phonetic) to higher cost of removal that is reflected
22 in the 2016 depreciation study is consistent with the
23 results of the company's previous depreciation study,
24 and it's also consistent with the experience of other
25 electric utilities. Removal costs have increased for

1 FPL for a number of reasons, including labor and
2 equipment costs, environmental and disposal
3 requirements, and safety and permitting requirements.

4 In summary, the results of the depreciation
5 study provide the most reasonable estimates of future
6 service lives and net salvage based on the information
7 and data available today. The depreciation rates in the
8 study should therefore be adopted to ensure the
9 allocation of the company's capital cost over their
10 service lives and to ensure that customers pay the cost
11 of the assets from which they receive electric service.
12 And that concludes my direct testimony summary.

13 **MR. BUTLER:** Thank you, Mr. Allis.

14 I tender the witness for cross-examination.

15 **CHAIRMAN BROWN:** Thank you.

16 And good morning, Mr. Allis.

17 **THE WITNESS:** Good morning.

18 **CHAIRMAN BROWN:** Mr. Rehwinkel, are you
19 prepared to proceed?

20 **MR. REHWINKEL:** Yes, ma'am, I am.

21 **CHAIRMAN BROWN:** Thank you.

22 **MR. REHWINKEL:** Thank you very much. Good
23 morning.

24 **EXAMINATION**

25 **BY MR. REHWINKEL:**

1 **Q** Good morning, Mr. Allis.

2 **A** Good morning.

3 **Q** Before we get underway, I wanted to ask you
4 about something you said in your summary. I think you
5 mentioned about depreciation rates being decreased
6 versus the last study. I'll let you --

7 (Pause.)

8 **MR. REHWINKEL:** Madam Chairman, I've passed
9 out four exhibits that I may or may not need to use, and
10 the parties are free to look at them.

11 **CHAIRMAN BROWN:** Excellent. Please proceed.

12 **MR. REHWINKEL:** Thank you.

13 **BY MR. REHWINKEL:**

14 **Q** I apologize, Mr. Allis. I'll start my
15 question over because I -- the distribution process, I
16 think, interrupted your listening.

17 In your summary, I think you were referring to
18 the additions to plant, and I thought you said they will
19 automatically increase rates. But did you mean they
20 would increase expense?

21 **A** No, I didn't. I meant they -- for life span
22 property, they increase depreciation rates as well. And
23 to explain, about 75 or 80 percent of the total increase
24 is for nuclear production plant. And so nuclear
25 production plant has a -- it's -- the life span of the

1 overall plant is based on the nuclear operating license
2 life. That's a 60-year life span. But if you add
3 something subsequent to the date the plant is installed,
4 it has a shorter life because it will be retired at the
5 end of the life of the overall plant. And so that
6 results in an increase in depreciation rates whenever
7 something is added and you recalculate depreciation
8 expense. The company has added somewhere in the order
9 of \$3.5 billion to its nuclear facilities in the past
10 five or six years, so that's really the primary reason
11 depreciation rates have gone up in my study.

12 Q Okay. Thank you. Mr. Allis, let me ask you
13 about your errata sheet. And I would have done this
14 with your attorney ahead of time had I not been kind of
15 caught up. I'm not -- I'm truly trying to understand
16 and make sure that the record is correct. Actually I
17 think we've only done the errata for your direct; is
18 that right?

19 A Yes, that's correct.

20 Q Okay. So I can deal with your -- this is
21 about your rebuttal, so I'll deal with your attorney
22 about that. Thank you.

23 I don't think we're going to need to use it,
24 but do you have a copy, in case we do need to, of your
25 deposition?

1 **A** Yes, I do.

2 **Q** Okay. Thank you. For your first deposition,
3 an eight-hour deposition was quite an adventure, I'm
4 sure, and I commend you for sitting through that, and
5 everyone else who listened in as well.

6 **A** Yeah. I think it was tougher for them than it
7 was for me.

8 **Q** I think we even had someone crying on the
9 record.

10 **CHAIRMAN BROWN:** That's funny. Court
11 reporter?

12 (Laughter.)

13 **BY MR. REHWINKEL:**

14 **Q** So with the changes in your errata and subject
15 to the second amended notice changes that were
16 referenced in Ms. Ousdahl's schedules, you have no
17 changes to your testimony. You're not changing it in
18 any way; is that right?

19 **A** That's correct, I'm not changing my testimony
20 in any way.

21 **Q** All right.

22 **A** Other than those two things you cited.

23 **Q** Okay. Would you agree with me that judgment
24 is important when establishing the life and net salvage
25 parameters in your depreciation study?

1 **A** Yes, but I'd qualify that. Typically the term
2 used is informed judgment, and so we're predicting
3 what's going to happen over the next 50 to 100 years.
4 So obviously there's some judgment involved with that,
5 but it needs to be informed judgment informed by the
6 facts and evidence available. So judgment would not be,
7 for example, ignoring billions of dollars of activity
8 because you don't like the results.

9 **Q** And you define judgment as the more subjective
10 part of the depreciation study where you are
11 incorporating all kinds of information when determining
12 a final estimate; right?

13 **A** That sounds like a reasonable definition.

14 **Q** Okay. And you would agree with me that in
15 judgment -- or informed judgment, as you referred to it,
16 is a process?

17 **A** That's an interesting question. There is a
18 process to determining the estimates. But I think
19 judgment is -- it's more of when -- as you assemble all
20 the information together to come up with a final answer,
21 if you will.

22 **Q** Well, how about if I asked you if the exercise
23 of judgment is a process?

24 **A** Yes, I would agree with that.

25 **Q** Can just anyone exercise judgment when it

1 comes to doing depreciation estimates?

2 **A** You mean anyone in the world?

3 **Q** Yeah.

4 **A** Again, I used the term "informed judgment," so
5 I think based on that definition certainly somebody with
6 expertise in depreciation would be better suited to make
7 informed judgments.

8 **Q** So not just anyone can exercise judgment about
9 depreciation parameters in a way that a commission can
10 rely upon for setting depreciation parameters,
11 determining depreciation expense, and then setting rates
12 in reliance thereupon, can they?

13 **A** Could you repeat?

14 **Q** Sure.

15 **A** I couldn't tell whether it was a yes or a no.

16 **Q** So not just anyone can exercise judgment about
17 depreciation parameters in a way that a commission can
18 rely upon for setting depreciation parameters,
19 determining depreciation expense, and setting rates in
20 reliance thereupon, can they?

21 **A** Yes, I think that would be correct. Not
22 anybody would be able to just come and do a depreciation
23 study. And it's not just a judgment. There's an awful
24 lot of technical knowledge of the mathematics behind it
25 as well.

1 **Q** So you would agree with me that one needs
2 something more than the ability to exercise judgment in
3 order to have the necessary expertise to exercise
4 judgment correctly and in a way that a commission can
5 rely upon; right?

6 **A** Yes, I would. And I would say that one of the
7 more important parts of that is knowledge of the
8 property studied and the specifics of the assets that
9 you're studying for that particular company.

10 **Q** Okay. And you consider the NARUC depreciation
11 manual to be authoritative?

12 **A** Yes, that would be one depreciation textbook
13 that I would consider to be authoritative.

14 **Q** And is it something that you rely upon in
15 developing and presenting your studies for utility
16 commission consideration?

17 **A** Not exactly. I don't think "relied upon" is
18 what I'd use for a textbook, but it's certainly one that
19 I'm familiar with, that I've read. There's others as
20 well. And, you know, I have about a decade of
21 experience in this, so I'm incorporating all kinds of
22 things I've learned from the numerous studies I've
23 participated in.

24 **Q** Okay. So do you utilize the public utility
25 depreciation practices that is compiled and edited by

1 the Staff Subcommittee on Depreciation of the NARUC
2 Finance and Technology Committee of the National
3 Association of Regulatory Utility Commissioners?

4 **A** Can you clarify what you mean by "utilize"?

5 **Q** Is it something that you consult and that you
6 use as a guide in presenting your studies to the
7 Commission?

8 **A** It's something that I consult from time to
9 time, sure.

10 **Q** Okay. Did you do so in this case?

11 **A** I believe that somewhere along the line I've
12 cited it a few times.

13 **Q** Okay. Now would you agree with me that it is
14 important for a depreciation professional to clearly
15 identify the significant and meaningful items of
16 information that formed his specific judgment for each
17 of his life and net salvage proposals?

18 **A** I think to the extent that's possible, that's
19 what you try to do. Judgment isn't necessarily
20 something that you can just write out in words
21 incredibly easily. So I've certainly tried to do that
22 to the best of my ability.

23 **Q** But you would agree that it is important to,
24 to the extent possible, to identify that exercise of
25 judgment to the Commission so they can evaluate it when

1 making their decisions based on your recommendations;
2 correct?

3 **A** Yes, to the extent possible.

4 **Q** If you don't do that, the Commission, here or
5 anywhere else where you're testifying, would not be able
6 to determine which proposal to adopt if different
7 parties, relying on judgment, propose different life or
8 net salvage parameters; correct?

9 **A** That would be correct. And I think I've
10 explained pretty clearly why my estimates are most
11 reasonable in the depreciation study.

12 **Q** Okay. And you would further agree with me
13 that it is important for a depreciation professional to
14 prioritize the significant and meaningful items of
15 information that formed each of his specific informed
16 judgments for each of his life and net salvage
17 proposals?

18 **A** Again, to the extent that's possible, but it's
19 not really so clear that you -- I mean, judgment isn't
20 necessarily mathematically weighting everything. That
21 wouldn't be judgment. That would be mathematics. So,
22 you know, I think it's certainly important to try to
23 explain judgment as best as possible. And, again, one
24 of the things I've relied on in the study is the
25 company's actual data. So it's nice to have that

1 mathematical support. So I think to the extent that's
2 possible, yes.

3 **Q** Okay. Would you also agree with me that it is
4 important to weight, w-e-i-g-h-t, the significant and
5 meaningful items of information that form your specific
6 judgment for each of the life and net salvage proposals?

7 **A** No, not exactly. I think I just explained
8 that you can't really weight and mathematically
9 calculate things that are involved with judgment.

10 **Q** Okay. So if that was a principle that was
11 enunciated in the NARUC depreciation manual, that's
12 something you would sort of differ from them on?

13 **A** I'd have to look at the exact context of what
14 you're talking about. Again, when I hear the word
15 "weight," I think of mathematical weighting or something
16 quantitative. Judgment is more of a qualitative
17 process.

18 **Q** Okay. Is it fair to state that you relied on
19 your education; experience; interpretation; and
20 extrapolation of statistical analyses; information
21 obtained from FPL subject matter experts; your knowledge
22 of the plant based, to some degree, on your field
23 inspections; and discussions with other members of your
24 firm in producing your study?

25 **A** Yes. I think those would all be things that

1 were incorporated into my study. I'm not sure if you
2 mentioned -- I mean, certainly knowledge from conducting
3 all sorts of studies through the years is something else
4 I would bring into account.

5 Q Okay. I guess I would consider that under the
6 rubric of experience. But if there's anything I left
7 out of that list --

8 A Yeah, that would fall under experience.

9 Q Okay. Now isn't it true that you began your
10 professional experience in the field of depreciation in
11 late 2006?

12 A Yes.

13 Q Okay. And you took the basic course about --
14 that was offered by the Society of Depreciation
15 Professionals, I believe, about the same time as you did
16 your initial visit of FPL's property; is that right?

17 A It sounds like it would be around the same
18 time period.

19 Q Okay. Sometime in the 2008 time --

20 A Actually, no, I'm sorry. The first course I
21 would have taken the year before, I think, I would have
22 done the second course.

23 **CHAIRMAN BROWN:** Mr. Rehwinkel, I just want to
24 stop you for a second. Are you attempting to voir dire
25 this witness?

1 **MR. REHWINKEL:** Madam Chair, absolutely not.
2 My purpose -- we have a witness testifying in the field
3 that he's testified that experience and judgment are of
4 paramount importance. My goal is to give the Commission
5 context of the level of his experience so that you can
6 evaluate the quality of his testimony. And it is not --
7 I am not here to question that is he an expert witness
8 in the field of depreciation. We accept him as one.

9 **CHAIRMAN BROWN:** Okay.

10 **BY MR. REHWINKEL:**

11 **Q** So you think the basic course you took in
12 2007, is that --

13 **A** Yes, that sounds correct.

14 **Q** Okay. Can you tell me how many hours of
15 training the basic or fundamental course consists of?

16 **A** The Society of Depreciation Professionals
17 does -- it's roughly week-long trainings. I don't know
18 the exact number of hours. That's obviously not the
19 only training I've done. Our company, who has a number
20 of depreciation professionals, provides a lot of
21 in-house training as well.

22 **MR. REHWINKEL:** Madam Chairman, I'd like to
23 ask for an exhibit number.

24 **CHAIRMAN BROWN:** Okay. We are at 648. Which
25 document would you like marked?

1 **MR. REHWINKEL:** This is the one that is
2 entitled SDP 2015 Training Course Schedule.

3 **CHAIRMAN BROWN:** Okay. So we will mark that
4 as Exhibit 648.

5 **MR. REHWINKEL:** Okay.

6 (Exhibit 648 marked for identification.)

7 **THE WITNESS:** Exhibit 648?

8 **CHAIRMAN BROWN:** Yes.

9 **MR. REHWINKEL:** Yes.

10 **BY MR. REHWINKEL:**

11 **Q** Do you have that document before you?

12 **A** Yes.

13 **Q** Okay. Now before I ask you about this, let me
14 make sure I get the context correct. You are -- I think
15 you've testified either in your testimony or in
16 deposition to me that you are an instructor with the
17 Society of Depreciation Professionals of which you are a
18 member; is that correct?

19 **A** Yes, I am. I've been an instructor for five
20 or six years at this point.

21 **Q** Okay. So if I ask you to look at what is
22 the -- been identified as Exhibit 648, which I represent
23 to you is a schedule of an Introduction to Depreciation
24 class, do you recognize this?

25 **A** Yes. This looks like the -- this appears to

1 be the agenda for the various trainings that I taught
2 last year.

3 Q Okay. So were you one of the instructors in
4 this one?

5 A I was one of the -- there's actually, I think,
6 five or six courses here. I was an instructor for parts
7 of five of them.

8 Q Okay. Is the course that you took in 2007 one
9 of -- is it described?

10 A Yes. That would be the third one,
11 Depreciation Fundamentals.

12 Q Okay. So that is on the third page of the
13 exhibit, and the top of it is Depreciation Fundamentals.
14 And for this particular year, it was September 22nd.

15 A Yes, that's correct.

16 Q Okay. And is -- I -- this is in 2015. You
17 did yours in 2007.

18 A I did Depreciation Fundamentals in 2007, and
19 then for the next two years I did two of the other
20 courses in here. And then, like I said, I -- last year
21 I taught five of them, including one of these courses is
22 a course that I helped develop.

23 Q Okay. Thank you. And the fundamentals
24 course, is that about a 17-hour course?

25 A I'd have to add them up. That sounds like

1 that could be about correct. It goes, like I said,
2 almost a week -- Tuesday afternoon through Friday.

3 Q Okay. Thank you. Now is it true that you
4 first submitted written testimony in a depreciation case
5 in mid-2013?

6 A That sounds to be about right.

7 Q Okay. Would that be the Sierra Pacific case?

8 A I may have first filed the Consolidated Edison
9 Company of New York case. I don't remember the exact
10 chronology.

11 Q Are you referencing NWA-2?

12 A Yes, that's what I'm looking at.

13 Q Okay. And isn't it true that the testimony in
14 the Sierra Pacific Power case related to a single
15 depreciation -- your testimony in the Sierra Pacific
16 Power case related to a single depreciation issue which
17 did not address life and net salvage parameters that
18 were being proposed by the utility?

19 A Yes, that would be true for this specific
20 testimony. I also was very involved with that study and
21 worked with the life and net salvage estimates, as I've
22 done with many of these 140 or so projects listed on my
23 Exhibit NWA-2.

24 Q Now isn't it true that the issue that you
25 testified on was related to the theoretical reserve

1 amortization?

2 **A** The theoretical reserve imbalance, yes.

3 **Q** Okay. Correct. And did the Nevada commission
4 adopt your recommendation?

5 **A** The Nevada commission adopted something that
6 was kind of between my recommendation and one of the
7 other parties.

8 **Q** Okay. So the answer is, no, not exactly?

9 **A** That would be correct.

10 **Q** Okay. Now you performed your analysis for
11 this FPL study in the 2016 case for the most part in the
12 year 2015; is that right?

13 **A** Yes.

14 **Q** Okay. The study was filed, I think, in mid --
15 or early March of this year; correct?

16 **A** Yes, that's correct.

17 **Q** Okay. But it would have been substantially
18 complete in 2015?

19 **A** Yes, it would have been. In order to make a
20 March filing date, you have to be pretty much done a few
21 months ahead of that.

22 **Q** Okay. And I guess it's kind of obvious, but
23 you filed -- you did that study about eight years after
24 your first class in depreciation basics, is that right,
25 or depreciation fundamentals?

1 **A** My first class? That sounds about right.

2 **Q** Okay. Now, again, so the Commission has some
3 context of your professional experience and education,
4 you are not a professional engineer; is that correct?

5 **A** That's right, I'm not a professional engineer,
6 although I've -- through doing studies, I have had
7 meetings with engineers probably 40 or 50 times on
8 studies.

9 **Q** And also you do not have an accounting degree,
10 nor are you CPA?

11 **A** That would be correct as well.

12 **Q** Okay. Now, Mr. Allis, with respect to the
13 2016 study, wouldn't it be true to state that you
14 testify that you performed a detailed and thorough
15 study?

16 **A** I don't know if I stated -- I don't recall if
17 I stated those exact words, but, yes, I do think I
18 performed a detailed and thorough study.

19 **Q** Okay. Would you also testify here today that
20 you present a detailed and clear explanation of what you
21 relied upon and considered in order to determine your
22 various proposals?

23 **A** Yes. I think I explained earlier, I think to
24 the best of my ability I did that. I would also that
25 the thoroughness and detail of this study for FPL is --

1 frankly, it goes much -- far beyond what we've done for
2 many other studies.

3 Q If we were to turn to any given account in
4 your 2016 depreciation study, would the Commission be
5 able to clearly see how all of the various factors you
6 considered in your judgment process yielded the
7 depreciation parameter that you recommend for that
8 account?

9 A Yes and no. I mean, again, I think I've
10 presented that to the best of my ability. But, again,
11 there's some expertise and judgment involved, so unless
12 you have that expertise and judgment, there may be some
13 things that are a little more difficult to see.

14 Q Is there any account you could point to that
15 would be lacking in clear explanation of what you've
16 relied upon for your recommendation?

17 A No, there are none that I can think of. And I
18 think we've responded to an awful lot of discovery to
19 try to help clarify any questions OPC would have had or
20 the Commission would have had.

21 Q Okay. Do you have a copy of Exhibit
22 NWA-1 with you, which is your study? And can I ask to
23 you turn to page 704 of that study and Account 350.2?

24 A Account 350.2 easements?

25 Q Yes, sir. Okay. Now isn't it true that you

1 propose a 75-year average life for this account?

2 **A** Yes, that's correct. For this account I
3 proposed to continue to use the survivor curve that had
4 already been -- that had been approved by the Commission
5 in the previous study.

6 **Q** Okay. But you proposed it not because it was
7 in the previous study but because that's what you
8 thought it should be and you recommend; is that right?

9 **A** Yes.

10 **Q** Okay. Now in the prior Gannett Fleming study
11 that I think you had some level of participation on but
12 you were not the witness on, didn't you/Gannett Fleming
13 propose a 50-year average life for this same account?

14 **A** Yes. The proposal in the previous study was a
15 50-year average service life.

16 **Q** Okay. And wouldn't -- would you not agree
17 that Ned Allis's proposal in this case is 50 percent
18 longer than Gannett Fleming's witness judged to be the
19 appropriate life in the most recent previous FPL study?

20 **A** Yes, it would be. And, of course, there's
21 more information available today that informs that
22 decision.

23 **Q** Okay. Now it's not your testimony that your
24 field visits in 2008 or the one that you did for this
25 study provided you with special knowledge that informed

1 your judgment as to why the 50 percent increase in
2 average life for this account in your proposal today was
3 appropriate, was it?

4 **A** Can you rephrase that? I didn't completely
5 understand the question.

6 **Q** Okay. You're not testifying that you did
7 something and you saw something in a field visit in
8 2008 -- I assume you made field visits in 2008 as a part
9 of the 2008 study; correct?

10 **A** Yes, that's correct.

11 **Q** And you also made field visits as a part of
12 the 2016 study; correct?

13 **A** Yes, that's correct.

14 **Q** Okay. Did you see something in either of
15 those two studies that gave you special knowledge that
16 informed your judgment that said 75 years was better
17 than 50 years?

18 **A** I'll note that the --

19 **MR. BUTLER:** Excuse me. Excuse me.
20 Mr. Rehwinkel, just for clarification of the record, I'm
21 looking through page 704, and it refers several times to
22 the 2009 depreciation study. Is that what you're
23 referring to as the 2008 study?

24 **MR. REHWINKEL:** Yes, sir. I apologize for the
25 record. I -- yeah.

1 **BY MR. REHWINKEL:**

2 Q When I say 2008, the field work was done in
3 2008. The study was presented in 2009; is that fair?

4 A That's correct, the field work was in 2008.

5 **MR. REHWINKEL:** Okay. So for the record, when
6 I've said "2008 study," I meant the study that was filed
7 in 2009 for -- thank you, Mr. Butler.

8 **MR. BUTLER:** Thank you for clarifying.

9 **BY MR. REHWINKEL:**

10 Q Okay. So do you understand my question? I
11 was asking you whether something you saw in either of
12 the field visits you took in '08 or in '15 for the '09
13 or the '16 study gave you some special knowledge as to
14 why 75 years was better than 50.

15 A I mean, I certainly would have seen some
16 transmission lines, but that wouldn't have necessarily
17 been a major factor in forming the judgment for this
18 account. There were other factors that informed that.

19 Q Okay. Did you reveal your factors for why 75
20 years was more appropriate than 50 years?

21 A Yes, I did. Well, first of all, the 50 years
22 was not approved, so 75 years is what the Commission
23 approved. There's seven more years of data. And this
24 is -- I mean, we're looking at -- just to be clear,
25 Account 350.2 easements is somewhat of a challenging

1 account in the sense that there's not a lot of
2 historical retirement data. So with seven more years of
3 data, that indicated that a life longer than 50 years
4 would be appropriate, so I didn't think it was
5 appropriate to go back to the 50-year life that we had
6 proposed before. I also didn't see any reason that the
7 75-year average service life that was approved in the
8 2009 study would need to change. It's consistent with
9 what we've proposed for other utilities for similar
10 assets, and I explain that all on this page.

11 Q Okay. But you would agree, I guess,
12 consistent with what you just testified about, is there
13 has been -- not been a dramatic change in the type of
14 easements in this account between the 2009 and 2016
15 studies, has there?

16 A There have been some changes. Again, there's
17 more data available. And also the assets that are
18 installed on the easements, I've recommended longer
19 lives for those. So I think that also supports a longer
20 life than what our recommendation was in the 2009 study.

21 Q Okay. In the service life analysis that you
22 show on page 704 in the discussion, I think you state
23 there that the results of the life analysis do not
24 provide definite results for this account; is that
25 right?

1 **A** Yes, that's correct.

2 **Q** Okay. Now we can get it out, but would you
3 accept, subject to check, that in the -- in your 2009
4 study, that the -- I think in the same analysis it said
5 that the results were poor?

6 **A** I don't recall the exact wording. That
7 wouldn't surprise me. That sounds like Witness Clark's
8 words. And I think that means something fairly similar
9 in that you don't have -- again, for this account
10 there's not an enormous amount of retirement experience,
11 so you can't really make a definitive determination of
12 the survivor curve. But, again, with seven more years,
13 there was enough to give an indication of a longer life
14 than there was last time.

15 **Q** While we're kind of touching on the issue of
16 field visits, you made field visits in this case I think
17 in -- was it, like, the week before Christmas in 2015?

18 **A** No. I think my field visits --

19 **Q** I'm sorry. That was the first study, the '08
20 study.

21 **A** I believe that's correct. The first study was
22 --

23 **Q** The '09 study and the '08 field visits.

24 **A** I believe that's correct.

25 **Q** These field visits were in June for the '16

1 case; is that right?

2 **A** I'd have to check my notes to be sure, but
3 subject to check, I think that's right.

4 **Q** Okay. Now you visited some plants that
5 were -- that were related to the issue of capital spare
6 parts?

7 **A** Are you referring to combined cycle power
8 plants?

9 **Q** Yes, sir.

10 **A** Yes, I've visited quite a few of those.

11 **Q** Okay. Now did you just visit the plants, or
12 did you watch a -- one of the parts that is in the
13 capital spare parts subaccount that you're recommending
14 be created, did you watch any of those be replaced?

15 **A** I have been to some plants when they've been
16 on outages. I don't recall if that was true for the FPL
17 ones or not. I've certainly also met with FPL's
18 engineers that know exactly how these operate. I think
19 we've heard actually quite a bit over the last few days
20 about the combustion turbine parts or the combined cycle
21 and how there's regular outages where you need to
22 replace and refurbish parts at regular intervals.

23 So I don't recall if I saw some of the
24 specific parts within a specific combustion turbine, but
25 I certainly was able to gain a lot of knowledge from

1 both the site visits, and I've taken three of them for
2 FPL at this point in time, as well as numerous meetings
3 with FPL's operations personnel.

4 Q So would you agree with me that there are
5 nothing in your notes that reflect, from your field
6 visits, that you viewed the replacement of any of the
7 parts that comprise the capital spare parts subaccount?

8 A I would agree that there's nothing in my notes
9 that I viewed the replacement, but I think there's quite
10 a bit in my notes about the operations and the lives of
11 those types of parts.

12 Q Okay. You also, as a part of the field visit
13 you made related to this study, I believe you viewed a
14 pole replacement process or at least part of the
15 process; is that correct?

16 A Yes. I didn't -- it was a multi-day, if not
17 weekly, project. It was a pretty long storm hardening
18 project where they were replacing all of the poles along
19 the line. So I didn't see the whole thing, but I saw at
20 least one pole being replaced and also prepping for
21 other ones and kind of the work that went involved with
22 that.

23 Q When you say you saw the pole being replaced,
24 did you see one being taken and one being put in or one
25 being put in?

1 **A** I saw one being put in next to one that was
2 there. They were prepping to transfer the wires. I
3 don't recall whether they had actually cut the top of
4 the pole or not.

5 **Q** All right. Isn't it true that you provided a
6 statement in your 2016 study that the typical industry
7 range for Account 350.2 is 60 to 80 years?

8 **MR. BUTLER:** Can you point him to where in
9 your testimony -- or in his testimony you're referring,
10 Mr. Rehwinkel?

11 **MR. REHWINKEL:** Yes. Yes.

12 **BY MR. REHWINKEL:**

13 **Q** I think this is on the same page 704, right
14 below the passage relating to "does not provide definite
15 results." The next sentence, do you see that?

16 **A** Yes, I do. The typical industry range, I say,
17 is in the 60- to 80-year range.

18 **Q** Okay. Now was that statement, the 60- to 80-
19 year range, is that something that was an independent
20 professional judgment of yours, or was it based on
21 something that you gleaned from someone or someone else
22 at Gannett Fleming?

23 **A** It would have been a bit of both. I suppose I
24 reviewed results of our studies, and those were kind of
25 the typical range of estimates for that particular

1 account. Again, the currently approved estimate by the
2 Commission for that account was within that range.

3 Q Okay. Well, would you agree with me that in
4 the 2009 study, Gannett Fleming stated that the typical
5 industry range for this account was 40 to 60 years?

6 A Subject to check, that sounds like that was
7 the statement. And that was seven years ago, so, you
8 know, typical industry ranges evolve over time as more
9 and more studies are conducted. So that wouldn't
10 surprise me.

11 Q Okay. Would it be true that you cannot show
12 the Commission anywhere in your 2016 study what the
13 basis for your claim that the typical industry range --
14 or why the typical industry range increased by 20 years,
15 or 50 percent, in the low end of the range in such a
16 short period of time, seven years?

17 A If you're asking about the specific study,
18 that would be correct. It's not common to put in every
19 estimate a company's ever -- that we've ever made for
20 every other utility because it's not necessarily that
21 germane to the company we're studying. I did provide
22 some data to that effect in discovery.

23 Q Okay. And can you tell me what a perpetual
24 easement is?

25 A A perpetual easement? That would be one where

1 there's an easement where there's the option to continue
2 to use it into perpetuity.

3 Q Okay. As a part of your judgment process
4 where one of the factors is knowledge of the asset, can
5 you show us where you identified that almost all of the
6 easements are perpetual in nature, FPL's easements?

7 A I don't think I identified in the study.
8 That's not necessarily uncommon for utility companies.
9 It also doesn't mean an infinite life.

10 Q Okay. Do you think that whether an easement
11 is perpetual or not makes a difference when determining
12 an appropriate life for that investment?

13 A Yes and no. I mean, there's other factors as
14 well. That would include, you know, kind of the
15 operations of the company and whether there will be a
16 need for transmission in certain sites in the future.

17 Q Do you know if it is difficult, for example,
18 for FPL to obtain transmission line rights,
19 rights-of-way in the area from Miami to Jupiter Beach in
20 order to serve that particular large and concentrated
21 load center?

22 A I don't know specifically. That's probably a
23 question better for Witness Miranda. It wouldn't
24 surprise me if that were the case.

25 Q Okay. Do you know if it's been the company's

1 policy and practice to replace transmission towers,
2 poles, and conductors when those assets retire so as to
3 continue to provide service to its customers?

4 **A** I think you'll have to define a little bit
5 better what you mean. Is it historic practice, future
6 practice? Is there a certain time frame?

7 **Q** Well, let's take historic. Do you think it's
8 been their practice to have done that on a historical
9 basis?

10 **A** I would say that -- I mean, I wouldn't know
11 for sure. I would think that, when possible, they would
12 try to do that. But at the same time, you know, if
13 there's a transmission line that's no longer needed, you
14 wouldn't necessarily need to use the easements anymore.
15 So it would depend.

16 **Q** Well, would you think that in the high density
17 urban corridors that a company would abandon a
18 transmission line easement easily?

19 **A** Not necessarily. And, again, I've recommended
20 a -- really what's a pretty long life for this account.
21 And I should make clear too that the 75-year is an
22 average. That means a number of the assets will last
23 for quite a bit longer, 100 years or more. I think
24 that's a pretty long time, and I don't know for certain
25 what's going to -- what the electric system is going to

1 look like in 100 years.

2 Q Okay. So can FPL continue to provide -- well,
3 let's -- we talked about historical. You're saying you
4 don't know whether in the future they would intend to
5 want to do their utmost to preserve their access to
6 these transmission line corridors?

7 A I think I said I don't know what 75 to
8 100 years in the future is going to look like. I think
9 it would be premature to just assume that easements are
10 going to last forever at this point in time.

11 Q Okay. When you -- do you recall stating in
12 discovery that your proposed 75-year average life for
13 easements is, quote, consistent with or longer than the
14 overall life cycle of other transmission plant accounts?

15 A Is there a specific question we can point to?
16 I recall saying something to that effect.

17 Q Okay. Well, do you agree with that statement?

18 A Could you say it again?

19 Q Yes. A 75-year average life for easements is
20 consistent with or longer than the overall life cycle of
21 other transmission plant accounts.

22 A Yes, that's correct. And that would mean that
23 the maximum life of easements is even longer.

24 Q Okay. If that's true, would you want the
25 Commission to gauge your judgment for all other accounts

1 based on what your application of judgment is for this
2 account?

3 **A** No. I think every account should be looked at
4 specifically. I mean, we're talking about an account
5 where there's -- again, the data is not all that
6 definitive, so it's a little bit harder to put your
7 finger on a precise number. For most of the other
8 accounts in here, there's really quite good data. FPL,
9 to be honest, has some of the best data that I've worked
10 with in depreciation studies, so there's a lot more to
11 go on for those other accounts.

12 **Q** Is it your judgment that because FPL has only
13 relatively minor levels of investment dollars in
14 easements that are currently over age 62, that such
15 investment cannot be expected to last on average more
16 than 75 years?

17 **A** That would be -- so 75 years would be the
18 average service life I've recommended. Based on the
19 information I have today, I think that's the best
20 recommendation for this particular account.

21 **Q** Okay. Do you define speculation as making an
22 assumption about a fact or an observation without having
23 much knowledge behind it?

24 **A** Yes, that sounds like a reasonable definition
25 of speculation.

1 Q Okay. Let's turn back to NWA-2, if we can.

2 And I want to -- before I conclude here today,
3 I want to talk about your experience so that the
4 Commission can understand and evaluate your testimony.
5 So I would ask you is it correct that you list
6 141 different assignments and depreciation testimonies
7 in NWA-2?

8 A Yes, that's correct.

9 Q Have there been anymore since you filed this
10 testimony?

11 A I believe there would be. This was filed in
12 March. So we -- our firm does a lot of depreciation
13 studies each year.

14 Q Okay. So are there anymore that you would add
15 to this?

16 A Yes, I think I would. I would have to go back
17 and look at what I've done since March to say for sure.
18 I know I've filed testimony in, I think, three cases
19 subsequent to this.

20 Q Okay. Have you -- has anything changed with
21 respect to what we discussed in your deposition with
22 respect to whether a decision had been rendered or
23 testimony had been given live?

24 A In terms of testimony that had been given
25 live, there's nothing further. I'd have to check

1 whether there's a formal decision in the Consolidated
2 Edison case, Consolidated Edison of New York case.

3 Q Okay. Well, let me walk through this a little
4 bit. Do you believe that Exhibit NWA-2 presents a fair
5 and complete listing of your experience that contributes
6 to your judgment process in this proceeding?

7 A Well, yes and no. I think it provides a list
8 of the projects I've worked on. But, I mean, I think
9 that's a lot more that goes into that as well. I mean,
10 as an example, like I said earlier, I've been on 40 or
11 more site visits. I've met with engineers from
12 companies maybe 40 or 50 times. So there would
13 certainly be more to it than just a list. I've learned
14 something on every assignment I've worked on.

15 Q Okay. So you graduated from Lafayette College
16 with a degree in math in 2002; correct?

17 A Yes, that's correct.

18 Q Okay. And you began your employment with
19 Gannett Fleming in late 2006, as we've discussed; right?

20 A Yes, that's correct.

21 Q So in that time frame you initially worked as
22 more of a number cruncher and data gatherer in the
23 initial stage of your employment there?

24 A What time frame are you referring to?

25 Q 2006, 2007.

1 **A** Initially I would have been more of an
2 analyst, which means I would have been running the
3 numbers. But I did actually quite a bit more than that.
4 I led the project -- I developed our software that we
5 use for depreciation studies. That was a tremendous
6 project. I really learned an awful lot about the math,
7 about how all these models work. And over time, you
8 know, I'd contribute more and more to the service life
9 estimates, that sort of thing.

10 The analysts that we -- when we hire analysts
11 and they start out, we like to bring analysts on field
12 visits and site visits right away so you start learning
13 more and more about the engineering side of things,
14 about the assets we're studying. So I certainly was
15 doing number crunching, but I was doing a lot more than
16 that as well.

17 **Q** In 2006 and 2007?

18 **A** 2006, 2007, I think I would have gone on at
19 least one or two site visits, and pretty soon thereafter
20 was when I kind of took on the software development
21 project. That was a multi-year project. They're pretty
22 complicated mathematical models that we've used that are
23 used for depreciation studies.

24 **Q** Of the 141 items that you list on NWA-2, would
25 it be fair to say that about almost half of them relate

1 to either railroad companies, gas companies,
2 non-regulated companies, or other non-electric
3 utilities?

4 **A** I don't know that I could say that. I'd have
5 to go through and add them up. I've certainly worked
6 with quite a few electric companies.

7 I would add that working with other utilities
8 I think brings a lot of knowledge as well, and I
9 actually have a good example of that. Railroad
10 companies, you know, they operate in many states, many
11 different regions of the country, and, you know, they
12 have assets that are subject to similar forces of
13 deterioration, things like that, as an electric company.
14 So a railroad company has a lot of ties subject to
15 deterioration similar to wood poles. So one thing I've
16 learned from that is that there's hazard maps that the
17 railroads have about where -- which parts of the country
18 are most subject to deterioration, and Florida sits
19 right in the worst part of that. So, you know, that's
20 something, some knowledge I bring to this study. I
21 would expect wood poles to have shorter lives for FPL
22 than for companies in, say, northern Nevada or some
23 place like that.

24 **Q** Well, would you agree with me, subject to
25 check, that there are ten railroad engagements, 12

1 non-regulated engagements, and 44 gas or water
2 engagements on here, which would total 66?

3 **A** I would have to check, but that -- it wouldn't
4 surprise me if that's correct.

5 **Q** Okay. And if my math is correct, 66 out of
6 141 is 47 percent.

7 **A** That sounds about right, sir. That still
8 leaves 60-plus electric assignments.

9 **Q** Okay. So -- well, that would be, what, 70 --
10 75. 66 and 75 is 141; is that right? Did I do my math
11 right?

12 **A** Subject to check.

13 **Q** Okay. So of your 75 or so remaining listings,
14 is there a high concentration of listings with a few
15 utilities?

16 **A** I don't know that that's necessarily true.
17 We've certainly done repeat assignments where we've --
18 where I've worked on the same study more than once. So
19 there would be some of those.

20 **Q** Okay. So Pacific Corp., I counted
21 six engagements out of the 100 -- out of the remaining
22 75; Pacific Gas & Electric, ten; UGI Electric, nine; and
23 Ameren, A-m-e-r-e-n, Electric, six, which would be
24 31 out of those remaining 75. Would you accept that?

25 **A** Those numbers sound like they could be

1 correct, but there were different types of engagements.
2 Pacific Corp., for example, we went on multiple site
3 visits because they own assets in six different states.
4 So it was kind of more than one study to do all of that.

5 Q Okay. So you testified for the first time, I
6 guess, on the stand in the Sierra Pacific case on the
7 theoretical reserve imbalance issue; right?

8 A I actually -- if I remember correctly, I think
9 I was on the stand first for the Consolidated Edison
10 Company of New York.

11 Q Okay. So the Consolidated -- if you take the
12 Pacific, the Sierra Pacific case out of the picture, the
13 remaining testimony engagements, which I think are six,
14 would be ones where you testified as to the life and net
15 salvage parameters?

16 A Not -- I've actually testified for Sierra
17 Pacific recently. I've submitted testimony on the life
18 and net salvage parameters.

19 Q Okay. But I mean taking that first one out of
20 the picture, you have six where you testified and
21 presented the full depreciation studies; is that fair?

22 A I would have testified on the full
23 depreciation study. It may have been either on a panel
24 or -- I think the Consolidated Edison one, we -- the
25 first one we did rebuttal testimony. The subsequent

1 ones I worked on the study.

2 Q Okay. So of those six, Orange & Rockland,
3 Consolidated Edison in 2015, and the PG&E case at FERC
4 were all settled; is that fair?

5 A You said Orange & Rockland, the --

6 Q 2015 Con Ed case and the PG&E case at FERC.

7 A Yes, those were all settled.

8 Q Okay. So can you tell me how settled cases
9 provide you with unbiased and meaningful judgment?

10 A I don't think I understand the question. I
11 would have -- I mean, for the ones that I've worked on
12 the depreciation study, the process would have been the
13 same no matter what the outcome of the case was. We go
14 in and do studies the same way no matter who we're doing
15 them for and what the circumstances are.

16 Q Okay. Well, would the results that were
17 adopted in settled cases sometimes involve compromises
18 in the life -- in the depreciation parameters that were
19 used, if they were even referenced?

20 A That certainly happens. I think a lot of
21 times settlements are compromises on all kinds of
22 issues.

23 Q Okay. So of the three cases that were not
24 settled and that you were a witness, are two of those
25 cases in New York?

1 **A** That were not settled?

2 **Q** Yes, sir.

3 **A** No, I don't think that is correct. I think
4 the New York ones all were settled or are still ongoing.

5 **Q** Okay. And when you testify in New York, is it
6 always part of a panel?

7 **A** It has been. That's been the practice in New
8 York. And not just depreciation, but usually it's an
9 accounting witness or a tax witness that's on the panel
10 as well.

11 **MR. REHWINKEL:** Okay. All right. Madam
12 Chairman, those are all the questions I have.

13 Thank you, Mr. Allis.

14 **THE WITNESS:** Thank you.

15 **CHAIRMAN BROWN:** Thank you, Mr. Rehwinkel.

16 Mr. Moyle. Good morning, Mr. Moyle.

17 **MR. MOYLE:** Good morning. I have a few
18 questions for this witness.

19 **CHAIRMAN BROWN:** Sure.

20 **EXAMINATION**

21 **BY MR. MOYLE:**

22 **Q** Good morning, sir.

23 **A** Good morning.

24 **Q** When you reviewed with staff the exhibits that
25 they asked you if you were familiar with at the very

1 start of your testimony, approximately how many pages
2 did those exhibits represent?

3 **A** Thousands.

4 **Q** Okay.

5 **A** I don't know the exact number. There was a
6 lot of discovery on depreciation.

7 **Q** Okay. Thank you. I just wanted -- the
8 record -- it's hard to go find that stuff, so thousand.
9 More than one or two or --

10 **A** I think -- I mean, certainly when it gets into
11 the work papers and all those things, it's well into the
12 thousands. I think my study and testimony is close to a
13 thousand.

14 **Q** And the work papers, I guess, I assume, would
15 be more; is that right?

16 **A** Yes.

17 **Q** Okay. So you did the depreciation study, and
18 if I have questions about it, I can delve into it and
19 you're here on the stand, you could explain it to me or
20 discuss it with me just like you did with Mr. Rehwinkel;
21 is that right?

22 **A** Yes.

23 **Q** If you weren't here and I had questions, could
24 I ask -- would Mr. Ferguson know this information as
25 well as you would?

1 **A** The depreciation study?

2 **Q** Right.

3 **A** Mr. Ferguson has done a really good job of
4 coming up to speed on it, but I think I'm certainly the
5 expert on depreciation.

6 **Q** Because you wrote it.

7 **A** Because I wrote the study?

8 **Q** Didn't you write the study or primarily
9 responsible for it?

10 **A** Yes.

11 **Q** You use something called interim survivor
12 curves; is that right?

13 **A** Yes.

14 **Q** Okay. And there's no order in any other
15 jurisdiction that adopts survivor curves as the
16 predominant method of establishing interim retirements
17 for power plants; correct?

18 **A** No, that's not correct. When we get to my
19 rebuttal testimony, I believe I cited at least one
20 order. And I would add to that that most times interim
21 survivor curves aren't even challenged. In fact, OPC's
22 witness is the only person I've ever seen challenge the
23 practice. We use it almost exclusively, and it's been
24 accepted in probably almost every state.

25 **Q** And with respect to citing orders, there's

1 only one order that says this is how you do it that you
2 can reference?

3 **A** Off the top of my head, that's correct.
4 That's because, again, it's such a predominant practice,
5 that it's rarely challenged.

6 **MR. MOYLE:** That's all I have. Thank you.

7 **CHAIRMAN BROWN:** Thank you, Mr. Moyle.

8 Hospitals? Mr. Wiseman, good morning.

9 **MR. WISEMAN:** Good morning. No questions.

10 **CHAIRMAN BROWN:** Thank you.

11 Retail Federation.

12 **MR. LaVIA:** Good morning. No questions.

13 **CHAIRMAN BROWN:** Thank you.

14 FEA.

15 **MR. JERNIGAN:** Thank you. No questions.

16 **CHAIRMAN BROWN:** Thank you, Mr. Jernigan.

17 Sierra Club.

18 **MS. CSANK:** No questions, Madam Chair.

19 **CHAIRMAN BROWN:** Thank you, Ms. Csank.

20 Wal-Mart.

21 **MS. ROBERTS:** No questions.

22 **CHAIRMAN BROWN:** Thank you.

23 AARP.

24 **MR. COFFMAN:** No questions, Your Honor.

25 **CHAIRMAN BROWN:** Thank you.

1 Larsons.

2 **MR. SKOP:** Good morning, Madam Chair. I think
3 Mr. Rehwinkel covered it in great detail, so we have no
4 questions.

5 **CHAIRMAN BROWN:** Great. Thank you.

6 And staff.

7 **MS. BROWNLESS:** No questions, ma'am.

8 **CHAIRMAN BROWN:** Thank you.

9 Commissioners? Commissioner Edgar, I know
10 you're trying.

11 **COMMISSIONER EDGAR:** Thank you, Madam Chair.

12 So this may -- I'm sure this is not a
13 surprise, but I am not a depreciation expert,
14 Mr. Rehwinkel, and I'll go ahead and stipulate to that.

15 So at a high level, would you, as an expert,
16 would you generally describe the approach that is used
17 for the request that is before us in the backup
18 information as aggressive, as conservative, other?

19 **THE WITNESS:** I would say other. I think it's
20 appropriate. I think if -- aggressive, to me, just to
21 define those terms, would -- at least the terms that
22 OPC's witnesses use, would mean that -- aggressive would
23 mean that you're, I guess, trying to increase
24 depreciation expense. I certainly have not done that in
25 any way, shape, or form. Conservative would potentially

1 mean the opposite. I think, if anything, the study is
2 conservative.

3 In the opening statements, they presented a
4 graph from my rebuttal testimony which, just to kind of
5 put a little color around that, just from calculating,
6 updating the depreciation rates to current balances, and
7 I kind of talked through the example of why that happens
8 with a nuclear plant, depreciation was going to go up by
9 a lot. A just purely mathematical calculation because
10 of the changes that have happened.

11 The recommendations I've made in the study
12 reduced that by about \$560 million, so I don't think
13 there's any way you can characterize that as aggressive.
14 If anything, it would be conservative.

15 **COMMISSIONER EDGAR:** Okay. Thank you. And
16 just one more question -- well, unless I then have
17 another one. So Mr. Rehwinkel asked you some questions
18 about the exercise and use of professional judgment and
19 the, you know, roll of mathematical analysis, et cetera.
20 So, again, at a very high level and perhaps
21 overgeneralizing, but what areas of the analysis would
22 you consider to include more exercise of judgment versus
23 mathematical?

24 **THE WITNESS:** That's a good question. There's
25 some degree of judgment with everything. I think it's

1 often a function of, number one, how complete the data
2 is for an account and, number two, whether there's
3 changes that are ongoing where -- you know, so we do
4 analysis of what's happened in the past. And then one
5 of the questions you have to ask yourself is is the
6 future going to be different from what's happened in the
7 past? So there's a little bit more judgment if that's
8 the case because you obviously don't have data to go on.

9 You know, a couple of examples were I talked
10 about -- in my opening statement about the, you know,
11 capital spare parts, which are the parts of combustion
12 turbines that we've gone through a lot through the last
13 few days.

14 The -- based on the investments the company
15 has made, the outage intervals for those are going to be
16 longer than they were in the past. So there was some
17 judgment -- try to quantify it as much as possible, but
18 there's some judgment in increasing the life over what
19 was shown in the historical data.

20 There are some accounts. Easements would be
21 one where there is just not a lot of data either because
22 they're relatively young or because they have very long
23 lives or some combination of the two. So there's a
24 little bit more judgment involved there. It's a lot
25 tougher to just put your finger on and ask for an

1 answer.

2 Even when there's data, there is some
3 extrapolation. Some of that is looking at -- you know,
4 you may have data for 80 percent of the life cycle of an
5 asset. You need to kind of extrapolate what's going to
6 happen in the next 20 percent. And, you know, I think
7 I've explained this in great detail, but the
8 extrapolations I've made are much more reasonable
9 because they're consistent both with the historical
10 experience and what you'd expect in a place like Florida
11 where, you know, there's salt in the air, there's
12 corrosion, there's all kinds of things like that. So I
13 hope that answers your question.

14 **COMMISSIONER EDGAR:** It does. Thank you very
15 much.

16 Thank you, Madam Chair.

17 **CHAIRMAN BROWN:** Thank you.

18 Redirect.

19 **MR. BUTLER:** Thank you, Madam Chair.

20 **EXAMINATION**

21 **BY MR. BUTLER:**

22 **Q** Mr. Allis, are you a certified depreciation
23 professional?

24 **A** Yes, I am.

25 **Q** Would you please describe how you went about

1 obtaining your certification?

2 **A** Absolutely. So you've gotten to learn about
3 both the Society of Depreciation Professionals and now
4 certified depreciation professionals, but there's a
5 rigorous exam involved with that. It's a, you know, 4-
6 to 8-hour exam, 4- to 8-hour, just to make sure I didn't
7 say that wrong. It also involves five years of
8 experience. I mean, it's -- that's a point in time when
9 the Society of Depreciation Professionals considers that
10 you've had enough experience to be able to do this kind
11 of work. And, you know, certainly part of that is going
12 through the training of the program and that sort of
13 thing. So, you know, that's generally what's involved
14 with getting the examination.

15 **Q** And when did you attain your certification?

16 **A** About five years ago. And soon thereafter
17 they -- the Society of Depreciation Professionals
18 invited me to come and be an instructor, and I've been
19 an instructor for a number of their classes.

20 **Q** Thank you. One other set of questions. You
21 were asked by Mr. Rehwinkel about Account 350.2.

22 **A** Yes.

23 **Q** Do you know approximately what percentage of
24 FPL's plant balance is in Account 350.2?

25 **A** I'd have to look to see the actual numbers,

1 but it's a pretty small balance certainly compared to
2 some of the bigger accounts such as the capital spare
3 parts that I just talked about -- poles, substation
4 equipment, that sort of thing.

5 Q Would you have relatively accessible the
6 percentage that it represents?

7 A Sure. It looks like it's less than half of a
8 percent, give or take.

9 Q Thank you. Would you turn to page 204 in
10 Exhibit NWA-1.

11 A I'm three.

12 Q Is this the survivor curve for Account 350.2?

13 A This is actually 352. 350.2 would be a couple
14 of pages before.

15 Q My bad. I'm sorry. Would you turn to page
16 201. I was off by one account.

17 A Yes, I'm there.

18 Q Okay. Would you describe what this shows in
19 terms of the projected aging years at retirement for,
20 say, the last 25 percent of the surviving easements?

21 A Could you say that again?

22 Q Would you describe what this shows for, say,
23 the last 25 percent of the surviving easements in terms
24 of the age in years when they would retire?

25 A Yeah, and I think that gets to what I kind of

1 alluded to earlier, that forecasting that a portion of
2 the plant is going to be in service for 80 or 100 years
3 or even more. So, again, the 75 is just the average
4 service life.

5 Q Okay.

6 MR. BUTLER: Thank you. That's all the
7 questions that I have.

8 CHAIRMAN BROWN: Thank you, Mr. Butler.

9 On to exhibits. This witness has two attached
10 to his prefiled testimony, 113 and 114.

11 MR. BUTLER: Yes. We would move those into
12 evidence.

13 CHAIRMAN BROWN: Are there any objections?

14 Seeing none, we will move in 113 and 114 into
15 the record.

16 (Exhibits 113 and 114 admitted into the
17 record.)

18 Public Counsel, you have one exhibit, 648.

19 MR. REHWINKEL: We would move that.

20 CHAIRMAN BROWN: Any there any objections?

21 MR. BUTLER: No objection.

22 CHAIRMAN BROWN: Okay. We'll move 648 into
23 the record.

24 (Exhibit 648 admitted into the record.)

25 Would you like this witness excused?

1 **MR. BUTLER:** That would be very good. Please.

2 **CHAIRMAN BROWN:** Goodbye.

3 **THE WITNESS:** Goodbye. Thank you.

4 **CHAIRMAN BROWN:** FPL, can you call your next
5 witness, please?

6 **MR. BUTLER:** That would be Ms. Slattery.

7 **CHAIRMAN BROWN:** Was Ms. Slattery sworn in
8 previously?

9 **MR. BUTLER:** I don't believe so.

10 **CHAIRMAN BROWN:** Okay.

11 **MR. BUTLER:** And I'm sorry, but we're going to
12 have a little bit of the changing of the guard here, so
13 if you'll indulge us a minute or two.

14 **CHAIRMAN BROWN:** Sure.

15 (Pause.)

16 FPL, are you ready?

17 **MS. CLARK:** Good morning, Madam Chairman,
18 Commissioners. I'm Susan Clark here today on behalf of
19 FPL. And I do not believe Ms. Slattery has been sworn
20 in.

21 **CHAIRMAN BROWN:** Okay. Thank you. And it's
22 nice to see you, Ms. Clark. Welcome.

23 **MS. CLARK:** Nice to see you as well.

24 **CHAIRMAN BROWN:** Ms. Slattery, can you please
25 stand and raise your right hand?

1 Whereupon,

2 **KATHLEEN SLATTERY**

3 was called as a witness on behalf of Florida Power &
4 Light Company and, having first been duly sworn,
5 testified as follows:

6 **CHAIRMAN BROWN:** Thank you, please be seated.

7 **EXAMINATION**

8 **BY MS. CLARK:**

9 **Q** Would you please state your name and business
10 address for the record.

11 **A** Yes. My name is Kathleen Slattery. My
12 address is 700 Universe Boulevard, Juno Beach, Florida.

13 **Q** By whom are you employed and in what capacity?

14 **A** I'm employed by Florida Power & Light Company
15 as senior director executive services and compensation
16 in Human Resources.

17 **Q** And have you prepared and caused to be filed
18 28 pages of direct testimony in this case?

19 **A** Yes.

20 **Q** And you did not file an errata; is that
21 correct?

22 **A** That is correct.

23 **Q** Okay. If I asked you the questions contained
24 in your direct testimony, would your answers be the
25 same?

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A Yes.

MS. CLARK: Madam Chairman, I would ask that Ms. Slattery's prepared direct testimony be inserted in the record as though read.

CHAIRMAN BROWN: We'll insert Ms. Slattery's prefiled direct testimony into the record as though read.

I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Kathleen Slattery. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

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

A. I am employed by Florida Power & Light Company (“FPL” or “Company”) as the Senior Director of Executive Services and Compensation.

Q. Please describe your duties and responsibilities in that position.

A. I am responsible for the Company’s total rewards programs, including the overall design and administration of all compensation programs and management of executive benefits and services.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Science degree from Florida State University and am a graduate of the Florida State University College of Law. I have been a member of the Florida Bar since 1992. Before joining FPL, I worked in labor relations and served as a trustee of two outside electrical worker unions’ pension and health and welfare funds. I began working at FPL in September 1996 as a benefit plan administrator and have held various positions of increasing responsibility in Human Resources since that time. My experience at FPL has included qualified and non-qualified benefit plan design and administration, salary and incentive compensation plan design and

1 administration, and legal compliance of such plans and programs. I have
2 extensive knowledge of FPL's compensation and benefits philosophy, plans
3 and practices, and of its payroll system. As part of my responsibilities, I
4 regularly rely on surveys and reports produced by third party organizations to
5 stay abreast of trends in compensation and benefits throughout the utility
6 industry and other businesses with which FPL competes for talent.

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

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

- 9 • Exhibit KS-1 MFRs Sponsored and Co-Sponsored by Kathleen
10 Slattery
- 11 • Exhibit KS-2 Total Salaries & Wages 2014
- 12 • Exhibit KS-3 Position to Market (2015 Base Pay)
- 13 • Exhibit KS-4 Merit Pay Program Awards, 2013 to 2015
- 14 • Exhibit KS-5 Total Benefit Program – Relative Value Comparison –
15 2015
- 16 • Exhibit KS-6 Active Employee Medical Plan – Relative Value
17 Comparison – 2015
- 18 • Exhibit KS-7 Average Medical Plan Expense Per Employee 2011 to
19 2016
- 20 • Exhibit KS-8 Pension & 401(k) Employee Savings Plan – Relative
21 Value Comparison – 2015

22

23

1 **Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements**
2 **("MFRs") in this case?**

3 A. Yes. Exhibit KS-1 contains a listing of the MFRs that I am sponsoring or co-
4 sponsoring.

5 **Q. What is the purpose of your testimony?**

6 A. The purpose of my testimony is to present an overview of the gross payroll
7 and benefit expenses shown in MFR C-35 and to demonstrate the
8 reasonableness of FPL's forecasted payroll and benefit expenses.

9 **Q. Please summarize your testimony.**

10 A. FPL designs and manages its compensation and benefits programs as parts of
11 a total rewards package. In order to address changing workforce dynamics, to
12 control costs, and to attract, retain, and engage the required workforce, FPL
13 places more focus on flexible, performance-based variable compensation than
14 on less flexible fixed-cost compensation and benefit programs. This focus has
15 allowed the Company to react to market conditions and drive the superior
16 performance documented by other FPL witnesses, while remaining focused on
17 managing total program costs.

18
19 FPL's total rewards costs are reasonable and do not include any types of
20 expense that the Commission has not previously approved for recovery.
21 FPL's gross total compensation and benefits in 2017 and 2018 are projected to
22 be less than FPL's gross total compensation and benefits cost in 2013. Total
23 benefits, for example, are projected to decrease from \$224.3 million in 2013

1 to \$164.3 million in 2017 and \$168.2 million in 2018. Additionally, from
2 2013 through 2017, total compensation costs are projected to increase 1.2
3 percent – far lower than the projected Consumer Price Index (“CPI”) of 6.3
4 percent over the same period (with a modest increase still lower than inflation
5 from 2017-2018). In addition, measurement of the compensation and benefits
6 programs against relevant industry benchmarks demonstrates both programs
7 are very competitive and generally below the market value of benchmarked
8 utility and general industry companies. The Company has diligently managed
9 costs to both engage employees and provide value to customers.

10

11 The total rewards package, emphasizing pay for performance, has served the
12 Company and its customers well. FPL has successfully provided value to its
13 employees and its customers through efficient use of compensation and
14 benefits to drive a culture that rewards improved efficiency and performance.
15 As FPL moves forward, it must continue to provide a competitive total
16 rewards package to its employees in order to attract and retain the necessary
17 talent. The projected levels of total compensation and benefits expense for
18 2017 and 2018 are reasonable and necessary to serve FPL’s customers and to
19 attract and retain the caliber of employees that create a high-performance
20 organization and deliver superior value for customers.

21

22

23

1 **II. TOTAL COMPENSATION AND BENEFITS**

2

3 **Q. How do FPL's projected gross total compensation and benefits costs for**
4 **2017 and 2018 compare to such costs in the last base rate case?**

5 A. The projected costs are below the Company's total compensation and benefits
6 costs at the time of the last rate case, and the Company's request does not
7 include any type of expense that the Commission has not previously approved
8 for recovery.

9 **Q. What are the objectives of FPL's total compensation and benefits**
10 **programs?**

11 A. There are several key objectives of FPL's total compensation and benefits
12 approach. The Company designs its compensation and benefits program to
13 attract, retain, engage and competitively reward its employees based on
14 national and local comparative markets. FPL's compensation program also
15 reflects a pay-for-performance philosophy, linking total compensation to
16 attainment of corporate, business unit, and individual goals such as excellent
17 reliability and customer service. In addition, FPL's total compensation and
18 benefits approach is designed to control fixed costs by placing greater
19 emphasis on variable cash compensation rather than on the traditional
20 programs that are not performance-based, such as long-term retirement
21 benefits. Finally, the Company strives to manage its various compensation
22 and benefits programs holistically in order to keep its total program expenses
23 at a reasonable level. Because no composite benchmarks are readily available

1 for the combined programs, FPL continuously monitors and benchmarks the
2 compensation and benefits components of the total rewards package
3 individually. This ensures that the total program is in line with the median of
4 the combined compensation and benefits programs of the appropriate
5 comparator groups.

6 **Q. How has FPL designed and managed its compensation and benefits**
7 **programs to achieve these objectives?**

8 A. FPL's approach to the design and management of compensation and benefits
9 is to consider them as parts of one total rewards package. Nearly 20 years
10 ago, FPL made a strategic decision to realign its pay and benefits programs,
11 implementing changes that shifted value from the fixed-cost benefit programs
12 to more flexible pay programs, while simultaneously controlling total program
13 costs. Specifically, in 1997 the Company converted its pension plan to a cash
14 balance plan and also eliminated post-retirement medical coverage for all new
15 hires. At the same time, the Company increased its focus on performance-
16 based variable cash compensation. FPL's strategic decision in 1997 to
17 develop and emphasize a pay-for-performance compensation program has
18 been an important tool in the Company's ability to achieve efficiency,
19 reliability, and customer service improvements over the past two decades, all
20 of which contribute to FPL's ability to deliver superior value for its
21 customers. Moreover, the flexibility provided by these strategic changes has
22 been an essential part of the Company's success in dealing with the workforce
23 challenges confronting the utility industry.

1 **Q. Please describe the challenges faced by the utility industry and FPL in**
2 **attracting, retaining, and engaging a workforce with the required skills.**

3 A. At a time when the industry continues to face growing demand for electricity,
4 it is challenged by a severe shortage of skilled workers. The staffing firm
5 Manpower, in a 2014 report, "Strategies to Fuel the Energy Workforce,"
6 identified the challenge of obtaining the necessary skilled workers as one of
7 the top concerns of industry executives, 58 percent identifying it as a current
8 problem and 74 percent indicating the challenge will get worse. There are a
9 couple of key factors creating the shortage of skilled workers:

10

11 (1) Aging Workforce and Shortage of Replacement Workers: The aging of
12 the electric utility industry workforce has been a growing concern of
13 government and industry leaders. The Center for Energy Workforce
14 Development has estimated that as much as 50 percent of the utility workforce
15 will retire during this decade. Exacerbating the loss of workers to retirement
16 is a shortage of available workers with the requisite qualifications and skills.
17 New workers are not entering the workforce at the same rate as the workers
18 that are retiring, and this gap has been widened by baby boomers that delayed
19 retirement following the financial crisis of 2008.

20 (2) Demands of Emerging Technologies: The growing demand for renewable
21 generation solutions and the transition to a smart grid operating model are
22 creating additional demand for skilled workers and will further impact the
23 skill shortage. The emerging technology will place a greater focus on

1 information technology, distribution resources, and customer interaction. In
2 its 2014 report, Manpower projected 100,000 net new industry jobs by 2020,
3 many of them requiring a “tech-savvy” skill set, while the Bipartisan Policy
4 Center’s Task Force on America’s Future Energy Jobs predicted in 2013 that
5 utilities will require 150,000 new workers by 2030 in “information-technology
6 intensive roles” (Harvard Business Review, “Solving the Looming Talent
7 Shortage in the Energy Industry,” August, 2013).

8 **Q. To what extent have these industry challenges impacted FPL’s efforts to**
9 **attract and retain the necessary workforce?**

10 A. FPL is facing the same workforce challenges as other electric utilities.
11 Currently, 26 percent of FPL’s workforce is eligible to retire, and 47 percent
12 of the workforce is projected to be retirement eligible in five years. In
13 addition, among the operations groups (generation and power delivery) the
14 numbers are slightly higher, with 29 percent eligible to retire now and 50
15 percent in five years.

16

17 Clearly, there are a number of factors driving the skill shortage in the utility
18 industry and challenging FPL’s and other companies’ ability to attract and
19 retain the required workforce. Although the industry and educational
20 institutions have recognized the challenges and started to address future
21 demands, in the short term, the factors discussed above are creating
22 competition for skilled resources and applying pressure on compensation
23 levels.

1 **Q. How has the redesign of the compensation and benefit programs helped**
2 **FPL to respond to current and future workforce challenges and meet the**
3 **program objectives?**

4 A. As a result of the total compensation and benefit design changes, FPL and its
5 customers are in a better position than many other utilities, because FPL is not
6 nearly as burdened with the considerable cost of pension and post-retirement
7 medical obligations and is therefore better able to address the changing
8 workforce dynamics. The changes have allowed the Company to better focus
9 on the elements of the total rewards package that have more value for
10 attraction, retention, and engagement of the required workforce, such as
11 variable performance-based pay. The Company is able to provide a core level
12 of compensation and benefits to all positions based on market analysis and
13 performance, but has the flexibility to respond to the dynamics of an ever-
14 changing workforce. The redesign has been part of FPL's efforts to keep its
15 expenses down, thus saving our customers money while improving service.

16

17

III. TOTAL COMPENSATION

18

19 **Q. What are FPL's gross total compensation costs for the projected 2017**
20 **Test Year and the 2018 Subsequent Year?**

21 A. FPL's gross total compensation cost, represented as Gross Payroll on MFR C-
22 35, is projected to be \$1.077 billion for the 2017 Test Year and \$1.103 billion
23 for the 2018 Subsequent Year.

1 **Q. Is FPL seeking recovery for all of its projected total compensation**
2 **expense in 2017 and 2018?**

3 A. No. FPL has excluded from its expense request the portions of executive and
4 non-executive incentive compensation that were excluded by the 2010 Rate
5 Order, Order No. PSC-10-0153-FOF-EI. FPL continues to believe these
6 expenses are necessary and reasonable and properly recoverable in rates. They
7 are effective tools in attracting, retaining and engaging our workforce, and
8 play a significant role in delivering value to customers. Nonetheless, FPL has
9 chosen to forego recovery of these expenses in this rate case in an effort to
10 narrow the items at issue.

11 **Q. How has FPL's total compensation cost changed since the last rate case,**
12 **and is the cost reasonable?**

13 A. For the period from 2013 to 2017 represented on MFR C-35, FPL's total
14 compensation or gross payroll expense is forecasted to increase by 1.2
15 percent, from \$1.065 billion to \$1.077 billion. Gross payroll as represented on
16 MFR C-35 includes all wages and salaries, overtime pay, premium pay and
17 miscellaneous other earnings. It also includes those costs that are ultimately
18 allocated to other subsidiaries as well as the aforementioned incentive
19 compensation costs that FPL is not seeking to recover. The 2013 to 2017
20 increase in gross payroll of approximately 1.2 percent is much lower than the
21 projected CPI increase of 6.3 percent for the same period, and even lower yet
22 compared to a projected compensation increase of 12.0 percent by the
23 WorldatWork Index for the same period (assuming the 2013-2016 annual

1 three percent increase continues through 2017). The FPSC has previously
2 recognized WorldatWork's market projections as an appropriate basis for
3 compensation comparisons.

4
5 A contributing factor in managing the gross payroll expense below CPI is the
6 reduction in staffing over the period. The Company's culture of continuous
7 improvement and an ongoing focus on efficiency have enabled it to maintain
8 high levels of performance with less staffing. However, FPL's compensation
9 cost trend since the last rate case is also in line with or below the inflation
10 indices on a gross payroll per employee basis (line 4 of MFR C-35) which
11 removes the impact of staffing reductions. From 2013 to 2017, gross payroll
12 per employee is projected to increase by 5.8 percent, which is 0.5 percent
13 below the projected CPI trend and substantially below the WorldatWork
14 inflation factor.

15
16 The projected growth in compensation cost from the 2017 Test Year to the
17 2018 Subsequent Year is also reasonable. Gross payroll from 2017 to 2018 is
18 projected to increase by \$25.8 million, or 2.4 percent, which is below the
19 projected CPI increase of 2.6 percent.

20
21 Clearly, the change in the Company's compensation cost since the last rate
22 case is reasonable in both the Test and Subsequent Years.

23

1 **Q. How does FPL's gross payroll cost compare with that of other utilities?**

2 A. FPL's total compensation cost compares very favorably to that of other
3 utilities as demonstrated by review of Federal Energy Regulatory Commission
4 Form No. 1 report data. FPL has reviewed its total compensation cost and
5 compared it to that of other comparable utilities. The companies in the
6 comparison included other regional utilities as well as other vertically
7 integrated utilities of similar size. As shown on Exhibit KS-2, FPL continues
8 to be one of the more efficient utilities from a total compensation standpoint.
9 This efficiency is particularly evident when one looks at total compensation –
10 whether on a per-customer, or megawatt hour, basis.

11 **Q. What is FPL's total compensation philosophy?**

12 A. As discussed previously, FPL considers compensation and benefits as
13 components of a total rewards program. FPL's philosophy has been, and
14 continues to be, to provide competitive, market-based salaries with
15 consideration of an individual's performance and contribution to the
16 Company's key goals. The performance-based pay programs have enabled
17 FPL to develop a culture of employee commitment and ownership in the
18 performance of the Company. Each salaried employee's compensation has a
19 portion of pay that is variable. The variable pay is linked to individual,
20 business unit and corporate objectives that benefit our customers, including
21 budget goals and operating efficiency milestones such as plant availability,
22 service reliability, and quality of customer service. The strategic emphasis on
23 the variable pay program, rather than fixed salary and benefits costs,

1 encourages performance at an individual employee level and adds flexibility
2 in recognizing that performance.

3 **Q. What resources does FPL use to evaluate its compensation program?**

4 A. FPL uses a variety of compensation survey resources to evaluate its program,
5 because the Company's recruiting department searches nationally for
6 personnel to fill managerial, professional, and technical positions. Most of the
7 key nuclear energy and engineering positions cannot be filled from the local
8 labor pool, so FPL must remain competitive in national as well as local
9 markets. FPL utilizes nationally recognized third party compensation survey
10 sources to aggregate and assess comparative data from other national and
11 regional employers, both in general industry and the utility industry. It is
12 important to utilize both general and utility comparative market information,
13 since FPL's workforce encompasses multi-industry talents. FPL utilizes
14 several information sources for compensation survey data, including:

- 15 • Willis Towers Watson, an international human resources consulting
16 firm;
- 17 • Mercer, LLC, an international human resources consulting firm;
- 18 • Aon Hewitt, an international human resources consulting firm;
- 19 • WorldatWork, a global human resources association of more than
20 30,000 compensation, benefits and human resources professionals;
- 21 • Bureau of Labor Statistics (the Consumer Price Index or CPI).

22

23

1 **Q. How does FPL's base compensation program compare to the market?**

2 A. FPL's base pay levels are comparable to the rates paid by its competitors
3 (generally companies of similar size, scale, and complexity) for employees
4 performing similar jobs and with similar skill sets. FPL performs a detailed
5 annual benchmarking analysis of its base pay rates to determine "position to
6 market." The most recent market analysis completed in 2015 included market
7 survey data from approximately 50 sources, including Willis Towers Watson,
8 Aon Hewitt, and Mercer. Exhibit KS-3 demonstrates that, as of the date of
9 this latest study, FPL has maintained its average base pay, in the aggregate,
10 below market, i.e., below the median or 50th percentile.

11 **Q. Please describe FPL's annual performance-based merit program.**

12 A. There are two components to FPL's annual performance-based merit program.
13 The first component is a merit award determined by an individual's
14 performance level and salary position relative to market. The second
15 component is a variable pay program that provides a payment based on each
16 individual's contribution as well as Company and business unit results in
17 comparison to pre-established objectives. FPL's variable compensation is
18 awarded based on an individual's contribution to corporate, business unit, and
19 individual performance indicators. These performance indicators include
20 controlling customer-related costs and operating efficiency milestones such as
21 plant availability, service reliability, and quality of customer service.

22

1 **Q. How do FPL's annual pay increase program and variable pay awards**
 2 **compare to market?**

3 A. FPL regularly benchmarks its annual pay increase program and variable pay
 4 awards against relevant market data. As shown in Exhibit KS-4, FPL's annual
 5 pay program, including merit base increases and variable incentive pay
 6 awards, has been below market for the period from 2013 through 2015.

7

8 **IV. BENEFITS**

9

10 **Q. Please describe FPL's benefits package.**

11 A. Again, FPL's benefits program is designed and managed as part of the total
 12 rewards package. The benefits package includes a full complement of
 13 benefits, comprised of three primary components: health and welfare benefits,
 14 retirement plans, and various benefits required by law.

15 **Q. What are FPL's projected benefits costs for the 2017 Test Year and 2018**
 16 **Subsequent Year?**

17 A. Total benefits costs are projected to be \$164.3 million in 2017 and \$168.2
 18 million in 2018, the major components of which are as follows:

19

	<u>2017</u>	<u>2018</u>
21 • Health and welfare benefits	\$101,427,000	\$104,126,000
22 • Retirement benefits		
23 ○ Pension plan	(\$60,529,000)	(\$62,555,000)

1	○ Post-employment benefits	\$13,855,000	\$13,949,000
2	○ Employee savings plan	<u>\$33,638,000</u>	<u>\$35,044,000</u>
3			
4	• Total Retirement Benefits	(\$13,036,000)	(\$13,562,000)
5	• Benefits required by law	<u>\$75,924,000</u>	<u>\$77,610,000</u>
6	Total Benefits Cost	\$164,315,000	\$168,174,000

7

8 Benefits required by law include social security and medicare tax, federal and
9 state unemployment taxes, and workers' compensation.

10 **Q. How has FPL's total benefits cost changed since the last rate case?**

11 A. Total benefits cost is projected to decrease from a total of \$224.3 million in
12 2013 to \$164.3 million in the 2017 Test Year and \$168.2 million in the 2018
13 Subsequent Year. However, 2013 included a one-time expense of \$33.8
14 million for an Early Retirement Program ("ERP") as part of a cost savings
15 initiative. Without the one-time ERP expense, the decrease in benefits cost is
16 projected to be \$26.2 million from 2013 to the 2017 Test Year and \$22.3
17 million from 2013 to the 2018 Subsequent Year.

18 **Q. What is driving the decrease in the benefits cost?**

19 A. The primary driver of the decrease in projected benefits cost is an increase of
20 about \$20 million in the pension credit, resulting in a net decrease of \$20
21 million in the total benefits cost. The significant recovery from the stock
22 market crash of 2008 with the resulting favorable impact on investment
23 performance of pension assets has been the largest factor in the favorable

1 increase. The Company is also forecasting decreases of five to seven percent
2 in health and welfare benefits since the last rate case, despite significant
3 increases in the industry trend for medical expense. This is addressed in
4 greater detail later in this testimony.

5 **Q. How does FPL evaluate the design and cost of its benefit plans and how**
6 **do the plans compare to those of other companies?**

7 A. FPL uses the Aon Hewitt Benefit Index, an actuarial tool that compares the
8 value of benefit plans. Aon Hewitt is an internationally recognized benefits
9 consulting firm that provides analysis and consultation on the competitiveness
10 of participating companies' benefit programs and produces the Aon Hewitt
11 Benefit Index. The study methodology first analyzes the value of each benefit
12 plan for each individual in the plan and then converts the individual values to
13 a composite value for the entire employee population by applying a standard
14 set of actuarial and employee participation assumptions. The index base point
15 of 100.0 is set as the average of the values of the base companies selected for
16 the comparison. Index values below 100.0 indicate that a company is being
17 more successful than average in managing plan design as a means of
18 controlling benefits cost. FPL has used the Aon Hewitt study to compare its
19 benefits programs to those of companies in the general industry and utility
20 industry sectors, and to those of Fortune 500 companies participating in the
21 study.

22

1 Exhibit KS-5 displays the relative value of FPL's total benefits program for
2 2015 compared to a base utility comparator group composed of 13 electric
3 utilities that are most similar to FPL in terms of revenue and workforce
4 composition or that are Florida-based. The graph also displays relative value
5 comparisons to a broader utility group (composed of the 36 utilities that
6 participated in the survey), to a general industry grouping, and to Fortune 500
7 companies that participated in the study. The graph shows that FPL's Benefit
8 Index for the total benefit program is below average compared to the base
9 utility comparator group and each of the other industry groupings. FPL's total
10 benefits program rated 88.9 as compared to a 100.0 average for the 13 utilities
11 in the base utility comparator group and to a 100.3 average for the broader
12 utility group and 91.0 average for Fortune 500 companies. These results are
13 consistent with the Company's objective to emphasize cash compensation
14 over traditional long-term benefits, which helps keep costs low for the benefit
15 of customers.

16 **Q. What is FPL's projected medical cost for the 2017 Test Year?**

17 A. FPL's projected medical cost is \$86.0 million for active employees in the
18 2017 Test Year. As shown on MFR C-35, this represents a decrease of over
19 \$2 million or 2.8 percent for the 2013 to 2017 period. It is well below the 6.3
20 percent projected increase in CPI and significantly below the utility industry
21 health care trend of a 21.2 percent increase.

22

23

1 **Q. What is FPL's projected medical cost for the 2018 Subsequent Year?**

2 A. FPL's projected medical cost is \$88.2 million for active employees in the
3 2018 Subsequent Year as shown on MFR C-35, which represents no increase
4 from the Company's medical expense in 2013. This projected flat expense
5 compares to an increase of 8.9 percent in CPI and a significant increase of
6 27.7 percent in the utility industry health care trend, as forecast by Aon
7 Hewitt, over the same time frame.

8 **Q. How does FPL determine the plan design of medical benefits for each**
9 **year?**

10 A. FPL's benefits department reviews trends in health care claims as well as plan
11 designs and programs available across various industries, to determine the
12 optimal plan design and pricing structure that will provide competitive, cost-
13 effective benefits for all employees.

14 **Q. How does FPL's medical plan compare to industry standards?**

15 A. The relative value of FPL's medical plan for active employees is below
16 average when compared to other utility and general industry companies
17 participating in the 2015 Aon Hewitt Benefits Index. As illustrated by Exhibit
18 KS-6, FPL's plan had a relative value of 85.0 as compared to the average of
19 100.0 for the 13 utilities in the base utility comparator group and the average
20 of 103.2 for the broader utility group. FPL's relative value for active medical
21 is also below both the general industry and Fortune 500 company averages.

22

1 **Q. How do FPL's projected medical costs per employee compare to those of**
2 **other utilities and the national average?**

3 A. FPL tracks medical plan expense per employee on an ongoing basis as a
4 means of comparing its costs to those of other companies. Exhibit KS-7
5 illustrates FPL's medical plan expense per employee for 2011 to 2015 and the
6 projected cost for 2016 as compared to the utility industry benchmark. FPL's
7 average expense per employee has remained below the utility industry average
8 from 2011 to 2015 and is projected to remain below the industry average in
9 2016, as illustrated in Exhibit KS-7. The increases in FPL's health care plan
10 expense per employee for 2011 through 2014 have been below the utility
11 industry trend reported by Aon Hewitt, and per employee plan expense
12 actually decreased slightly in 2015. Furthermore, Aon Hewitt's forecasted
13 utility industry benchmark for 2016 is approximately 15 percent above FPL's
14 projected medical plan expense per employee of \$12,900 in 2016.

15 **Q. What specific initiatives has FPL pursued to successfully control health**
16 **care costs?**

17 A. FPL has made health care cost control a key strategic initiative, applying a
18 continuous improvement process to develop an integrated health strategy that
19 will optimize value and control costs for both the Company and employees.
20 FPL's ability to keep per employee health care costs below the utility industry
21 benchmarks and to project that costs remain below the utility industry
22 benchmarks in 2016 and beyond has been the direct result of aggressive

1 management of the drivers of health care costs. The Company's successful
2 cost control strategy has relied upon a variety of initiatives, including:

- 3 • Plan design featuring consumerism, choice, and price incentives to
4 encourage cost-effective plan selections;
- 5 • Comprehensive health promotion together with implementation of
6 wellness incentives and utilization and care management
7 programs;
- 8 • Dependent eligibility audits and per dependent pricing to align cost
9 of coverage with benefit received;
- 10 • Aggressive vendor management and contracting, including multi-
11 medical plan administrator approach; and
- 12 • Aggressive specialty pharmacy management to encourage use of
13 more cost-effective specialty drugs.

14 **Q. Are there other initiatives FPL has taken that have contributed to the**
15 **successful management of health care costs?**

16 A. Yes. A key long-term cost control initiative has been the creation of a healthy
17 work environment and the aggressive promotion of the employee's personal
18 responsibility for his or her own health, as evidenced by the Company's
19 comprehensive health and well-being programs. FPL's comprehensive health
20 and well-being programs, developed over the past 20 years, have led to
21 reductions in health risk factors for the employees who have participated in
22 them, which will benefit our employees through better health and our

1 customers through lower plan cost in the Test and Subsequent Years and
2 beyond.

3 **Q. Has FPL received recognition for successful management of its health
4 care programs and costs?**

5 A. Yes. The effectiveness of the programs has been acknowledged through
6 frequent national recognition, including the “Best Employers for Healthy
7 Lifestyles” Platinum Award from the National Business Group on Health
8 every year from 2009 through 2015, and the Edington Next Practice Award
9 from Edington Associates in 2015.

10 **Q. What are FPL’s expectations for the rate of increase in medical costs?**

11 A. Aon Hewitt is forecasting utility industry health care cost increases of
12 approximately 19 percent from 2016 to 2018, driven by a number of factors:
13 the aging population, the growing burden of chronic diseases, various federal
14 and state mandates, an increase in utilization and costs of prescription drugs
15 including specialty drugs, hospital/provider consolidations, and enhancements
16 in medical technology that will increase utilization. Thus, while FPL has been
17 successful in controlling total medical costs and in managing per-employee
18 medical costs below the utility industry average, rising health care costs
19 continue to be a concern going forward. However, as noted previously, for
20 purposes of the rate request in this case, FPL projects medical costs at or
21 below 2013 levels, representing a significant achievement in cost control and
22 remarkable achievement within the industry.

1 **Q. How has FPL's successful management of its health care program and**
2 **costs been a benefit to customers?**

3 A. As I mentioned previously, the Company has reduced health care program
4 costs from 2013 to 2015 and maintained both total program costs and per
5 employee medical costs well below CPI and Aon Hewitt's reported health
6 care cost trends. This success in controlling medical costs reduces the
7 Company's revenue requirements, which is a direct benefit to customers.

8 **Q. Does FPL offer retirement plans to employees, and is that consistent with**
9 **industry practices?**

10 A. Yes. FPL offers its employees retirement plans consisting of a pension plan
11 and a 401(k) employee savings plan, as do approximately 85 percent of the
12 utility industry comparator group included in the 2015 Aon Hewitt Benefit
13 Index. The Company also provides post-employment medical, life, and
14 disability benefits; however, as discussed previously, the post-employment
15 medical and life benefits were discontinued for employees hired on or after
16 April 1, 1997.

17 **Q. What is FPL's projected retirement expense in the 2017 Test Year?**

18 A. The projected expense for the 2017 Test Year is a credit of \$13.0 million.
19 This is the net result of the pension plan credit of \$60.5 million that is partially
20 offset by the 401(k) employee savings plan expense of \$33.6 million and the
21 post-employment medical, life, and disability benefits expense of \$13.9
22 million.

1 **Q. What is FPL's projected retirement expense in the 2018 Subsequent**
2 **Year?**

3 A. For the 2018 Subsequent Year, FPL's projected retirement expense is a credit
4 of \$13.6 million, the components being a pension plan credit of \$62.6 million
5 partially offset by expenses of \$35.0 million for the employee savings plan
6 and \$13.9 million for post-employment medical, life, and disability benefits.

7 **Q. Why are the retirement expense and the employee pension benefit**
8 **reflected as a credit?**

9 A. The assets of the pension plan have been beneficially invested such that the
10 fair value of the assets exceeds the actuarially determined projected
11 obligation. The size of the pension plan credit is sufficient to offset the
12 employee savings plan and post-employment benefit expenses -- thus the net
13 credit for retirement expense.

14
15 FPL's pension benefit is calculated based on Financial Accounting Standards
16 Board ("FASB") Codification, ASC 715 which covers retirement benefits.
17 Whereas many utilities must recover a pension cost associated with providing
18 a retirement plan to its employees from customers, FPL has, through prudent
19 investment over time, been able to grow its pension assets at a faster rate than
20 the costs of its plan obligations. Even after the major market correction, the
21 pension trust still exceeds its obligations and, therefore, creates a negative
22 expense (a credit) to the benefit of customers.

23

1 **Q. How do FPL's retirement plans compare to the industry?**

2 A. As shown in the Aon Hewitt Benefit Index's comparison chart (Exhibit KS-8),
3 FPL's retirement plans are valued at 86.8, well below the averages of the
4 comparator companies and the utility industry (100.0 for the comparator and
5 97.8 for the utility companies).

6 **Q. Does this evaluation demonstrate the reasonableness of FPL's qualified
7 retirement plans?**

8 A. Yes. FPL provides both a pension and 401(k) employee savings plan to its
9 employees in order to attract and retain high quality employees. However,
10 through careful management of the plans, FPL has been able to keep their
11 relative value considerably below the average in the utility industry as
12 demonstrated by the Aon Hewitt Benefits Index (Exhibit KS-8).

13 **Q. Please summarize your testimony concerning FPL's total compensation
14 and benefits costs for 2017 and 2018.**

15 A. With its emphasis on pay for performance, FPL's total rewards package has
16 served the Company and its customers well. The Company has made good
17 progress in controlling costs as evident on MFR C-35, and the total
18 compensation and benefits costs are very competitive when measured against
19 relevant benchmarks (as demonstrated on Exhibits KS-2 through KS-8). The
20 2017 and 2018 projected levels of compensation and benefits expense are
21 reasonable and necessary to attract and retain the caliber of employees that
22 create a high-performance organization.

23

1 Q. **Does this conclude your direct testimony?**

2 A. Yes.

1 **A** Yes.

2 **Q** Okay. And are they true and correct to the
3 best of your knowledge and belief?

4 **A** Yes.

5 **Q** Okay. And if you were asked those same
6 questions today as are in these responses, would your
7 answers be the same?

8 **A** Yes.

9 **MS. BROWNLESS:** Now I've handed out an exhibit
10 that says, "OPC's 19th set of interrogatories Nos. 392
11 to 396."

12 **CHAIRMAN BROWN:** Ms. Brownless, would you like
13 that labeled?

14 **MS. BROWNLESS:** Yes, ma'am.

15 **CHAIRMAN BROWN:** All right. We're at 649.

16 **MS. BROWNLESS:** Thank you, ma'am.

17 **CHAIRMAN BROWN:** And it will be identified as
18 you stated.

19 **MS. BROWNLESS:** Thank you.

20 (Exhibit 649 marked for identification.)

21 **BY MS. BROWNLESS:**

22 **Q** And that exhibit, can you look through that,
23 Ms. Slattery?

24 **A** Yes.

25 **Q** And did you prepare or have prepared under

1 your direct supervision the responses to this exhibit?

2 **A** Not for interrogatory No. 396.

3 **Q** Okay. But for interrogatories No. 392, 393,
4 394, and 395 corrected, you prepared those responses?

5 **A** Yes.

6 **Q** Okay. And are they true and correct to the
7 best of your knowledge and belief?

8 **A** Yes.

9 **Q** If you were asked those same questions today,
10 would your answers be the same?

11 **A** Yes.

12 **Q** And are those the responses that are
13 identified on the Comprehensive Exhibit List as Exhibit
14 No. 477?

15 **A** Yes.

16 **MS. BROWNLESS:** Thank you, Ms. Slattery.

17 **CHAIRMAN BROWN:** FPL.

18 **EXAMINATION**

19 **BY MS. CLARK:**

20 **Q** Ms. Slattery, will you provide a summary of
21 your direct testimony.

22 **A** Yes. Good morning, Madam Chairman and
23 Commissioners.

24 The purpose of my direct testimony is to
25 present an overview of the gross payroll and benefits

1 level shown in MFR C-35 and to demonstrate the
2 reasonableness of FPL's forecasted payroll and benefits
3 expense, which do not include any types of expense the
4 Commission has not previously approved for recovery.

5 My testimony provides evidence of the
6 reasonableness of FPL's total compensation and benefits
7 costs as measured by inflation indices, market surveys,
8 and benchmark comparisons with competitors. In fact,
9 FPL's total gross compensation and benefits costs in
10 2017 and '18 are projected to be lower than they were in
11 2013. Total gross compensation cost increases for the
12 2013 through 2017 period are forecasted to be below
13 Consumer Price Index inflation and WorldatWork salary
14 growth indices for the same period. Moreover, the
15 results, FPL's superior operating performance and low
16 bills, prove that the compensation programs are working
17 and are appropriate.

18 FPL designs and manages its compensation and
19 benefits programs as parts of one total rewards package.
20 A chief objective is to provide a market-competitive
21 total employment package that will allow the company to
22 attract, retain, and motivate talented high performing
23 employees at all levels of the organization. FPL
24 continuously monitors and benchmarks compensation and
25 benefits to ensure that the total rewards program is in

1 line with the programs of appropriate comparator
2 companies, which are companies of similar size, scale,
3 and complexity.

4 In the aggregate, FPL base salaries are
5 slightly below market median for comparable positions in
6 comparable companies, and annual merit-based salary
7 increases and variable incentive pay awards have been
8 slightly below market for the period from 2013 through
9 2015. Total benefit program value is well below the
10 average of relevant industry benchmarks. In total, the
11 employment package is competitive and not above market.

12 Another objective of FPL's total rewards
13 approach is to control overall costs and drive superior
14 performance by placing emphasis on performance-based
15 variable pay rather than on less flexible fixed-cost pay
16 and traditional benefits, thus lowering the company's
17 and customers' exposure to steadily increasing salary
18 and fringe benefit costs.

19 FPL has demonstrated that its approach to
20 total rewards is working well. Numerous FPL witnesses
21 have detailed the superior performance and cost
22 management that FPL has been able to provide to its
23 customers for well over a decade. For example, FPL
24 customers have the lowest typical residential bill in
25 this state and enjoy nationally award winning customer

1 service. These results are driven by FPL's total
2 rewards program and pay-for-performance culture.

3 FPL's total rewards approach has served not
4 only its customers well but also its employees, allowing
5 the company to adapt to changing workforce dynamics in
6 the utility industry and to attract, retain, and engage
7 the required workforce. As FPL moves forward, it must
8 continue to provide a competitive total rewards package
9 to its employees at all levels of the organization.

10 The 2017 and 2018 projected levels of total
11 compensation of benefits expense do not include any
12 types of expense the Commission has not previously
13 approved for recovery, and they are reasonable and
14 necessary to serve FPL's customers and to attract and
15 retain the caliber of employees that create a high
16 performance organization and deliver superior value to
17 customers. This concludes my summary.

18 **MS. CLARK:** Thank you, Ms. Slattery. We
19 tender the witness for cross-examination.

20 **CHAIRMAN BROWN:** Thank you. And good morning,
21 Ms. Slattery.

22 **THE WITNESS:** Good morning.

23 **CHAIRMAN BROWN:** Mr. Rehwinkel.

24 **MR. REHWINKEL:** Thank you, Madam Chairman.
25 Good morning, Ms. Slattery.

1 **THE WITNESS:** Good morning.

2 **MR. REHWINKEL:** I have, Madam Chairman, one
3 exhibit to pass out, and it is a copy of Ms. Slattery's
4 prefiled direct testimony in the 120015 case.

5 **CHAIRMAN BROWN:** Would you like it marked at
6 this time?

7 **MR. REHWINKEL:** Yes, ma'am.

8 **CHAIRMAN BROWN:** Okay. We're going to mark
9 that as 650, with the title Direct Testimony of Kathleen
10 Slattery in Docket No. 120015-EI.

11 (Exhibit 650 marked for identification.)

12 Ms. Slattery, do you have a copy of it in
13 front of you?

14 **THE WITNESS:** Yes, I do.

15 **CHAIRMAN BROWN:** Okay. Please proceed.

16 **MR. REHWINKEL:** Thank you.

17 **EXAMINATION**

18 **BY MR. REHWINKEL:**

19 **Q** Just a few questions. Can I get you to turn,
20 please, to page 5 of your direct in this case, lines
21 10 through 17. And after you've had a chance to look at
22 it, I wanted to ask you isn't it your testimony that FPL
23 designs its compensation and benefits program in a way
24 that will control costs and attract and retain its
25 workforce?

1 **A** Yes.

2 **Q** Has FPL's compensation and benefits program
3 changed in any way since the last rate case, 120015, so
4 that it is improved over the one that you had in place
5 at the time of that case.

6 **A** There have been no significant or substantial
7 changes because our program has been working well. We
8 continue to benchmark compensation benefits to ensure
9 that we're still in line with the market and have not
10 needed to make any substantial changes.

11 **Q** Okay. So essentially the answer is no to my
12 question?

13 **A** Correct.

14 **Q** Okay. I don't think we're going to need to
15 use the exhibit then. We might be able to retrieve the
16 number.

17 In docket 860677, which was two rate cases
18 ago -- do you recall that case?

19 **A** Yes. Yes, I to.

20 **Q** Was the projected test year 2010?

21 **A** Yes, it was.

22 **Q** Okay.

23 **A** Yes.

24 **Q** Would you accept, subject to check, that in
25 that docket, 080677, FPL requested an employee

1 complement of 11,111 for the 2010 year?

2 **A** Yes. At the time that it filed the case in
3 2009, that is what it was forecasting as optimal
4 staffing level for 2010. After the outcome of the rate
5 case and because of the economic climate, our plans did
6 change a bit for 2010.

7 **Q** Okay. I'll always remember that number. It's
8 one of the easiest numbers to remember.

9 Are you familiar with Mr. Schultz's testimony
10 and exhibits? And I know we're on direct. Do you have
11 a copy of his testimony with you?

12 **A** I don't believe I do. I --

13 **Q** Okay.

14 **A** As you said, it's direct, and I was expecting
15 to speak of that during rebuttal.

16 **Q** Okay. We can deal with that then.

17 Do you know or would you agree that the actual
18 employee complement for 2010 was 10,195? I was just
19 going to take you to his testimony because I think the
20 data in it is accurate.

21 **A** Could you please repeat that?

22 **Q** 10,195.

23 **A** That's about right, yes.

24 **Q** Okay. Would you agree that in Docket 120015,
25 which was the last rate case, that the number of

1 positions that the company included for its test year
2 was 10,147?

3 **A** Yes, that's correct.

4 **Q** Okay. Would you also agree that the
5 corresponding number projected and included in the
6 filing for 2013 was 10,147?

7 **A** Mr. Rehwinkel, are you referring to test year
8 2013 --

9 **Q** Yes.

10 **A** -- headcount as filed in that rate case? Yes,
11 10,147.

12 **Q** Okay. Would you agree that the actual
13 employee complement for 2013 was 9,506?

14 **A** Yes, it's true that that was the actual
15 average headcount for the year. And I'd also like to
16 point out, although this is not rebuttal, that the total
17 gross payroll forecast as filed in the 2012 case for
18 test year 2013 planned was actually 1.54 percent actual
19 total gross payroll, as shown in the 2016 MFR C-35,
20 which means although we did not have the average
21 staffing that we had forecasted at optimal staffing
22 levels, we still had to get the work done and rely on
23 somewhat less efficient staffing models such as overtime
24 and temporary labor, and, therefore, we did spend the
25 payroll we forecasted.

1 **Q** So tell me about the 1.54 percent number, just
2 so I understand. It was 1.54 percent more or less?

3 **A** More.

4 **Q** Okay. Let me ask you to turn to page 9 of
5 your direct testimony in this case, lines 1 through 4.
6 Is it your testimony here that the industry continues to
7 be challenged by a severe shortage of skilled workers?

8 **A** Yes.

9 **Q** Okay. Without the need to reference your
10 testimony in the last case, would you agree that you
11 made the identical claim in that case?

12 **A** I don't recall if it was identical, but I know
13 that the problem did exist in 2012 when we filed our
14 case, and the aging workforce in the utility industry
15 was an issue then, as it is now.

16 **Q** Okay. Well, then maybe we will. Let's take a
17 look at 650, Exhibit 650. And I would like you to turn
18 there to page 7, lines 19 through 22.

19 And on lines 21 through 22, is that sentence
20 the same as the sentence in your testimony in this case
21 on page 9, lines 3 and 4?

22 **A** Yes.

23 **Q** Can you tell me, would the specific utility
24 skilled workers referenced in your testimony in this
25 case be bargaining type employees?

1 **A** Not only bargaining employees. Technical
2 craft workers and professional workers as well.

3 **Q** Okay. Would they be primarily bargaining
4 workers?

5 **A** I'm not sure if it would be primarily. I know
6 that line workers are one area where there's a
7 challenge. I know that technical craft workers is
8 another area where there's a challenge. Tech-savvy and
9 digitally-savvy skill sets in information management and
10 engineers as well.

11 **Q** Okay. Let me get you to -- we can put 650
12 aside and look at KS-2, your Exhibit KS-2, page 2 of 2.
13 Can you tell me if the companies referenced in this
14 testimony -- in this exhibit are similar to the
15 companies that are included in your compensation surveys
16 that you used to determine how FPL stacks up to other
17 utilities?

18 **A** Yes. Many of the companies in this
19 benchmarking using FERC Form 1 data are participants in
20 compensation and benefits surveys that we also
21 participate in, yes.

22 **Q** Okay. Do you -- are there any on KS-2 that
23 are not in the surveys that you compare yourself to?

24 **A** I do not know because we utilize, in our most
25 recent benchmarking study, about 41 surveys from 12

1 different companies. So I haven't gone through and
2 compared each one's participant list to this list. But
3 whenever we do a -- whenever we select a peer group, we
4 try to choose companies of similar size, skill, and
5 complexity with similar workforces and also Florida
6 companies.

7 **Q** Okay. So there would be a great deal of
8 overlap between the companies on KS-2 and the companies
9 in your comparable surveys; is that fair?

10 **A** I agree that I would expect there to be some
11 overlap.

12 **Q** Okay. On KS-3, if you could look at that
13 exhibit, do you base your opinion that FPL's
14 compensation is reasonable based on this comparison?

15 **A** I base it on KS-3 and KS-4 --

16 **Q** Okay.

17 **A** -- which benchmark base salaries and variable
18 performance-based pay. And in addition, we -- I go on
19 in some of these exhibits to demonstrate that our total
20 rewards package is reasonable when we add in the
21 benefits element.

22 **Q** Okay. Do you know if PG&E, or Pacific Gas &
23 Electric, was part of the market median, which is --

24 **A** I do not know because, as I mentioned before,
25 we used 41 surveys from 12 survey sources. So within

1 that data, there's going to be variability between which
2 companies participated. For example, in a Towers Watson
3 survey versus a Mercer survey.

4 **Q** Okay. Can you tell me if San Diego Gas &
5 Electric was part of the market median?

6 **A** Same answer.

7 **Q** Same answer. So any utility I ask you by
8 name, you wouldn't know?

9 **A** I do not have that comparison with me.

10 **MR. REHWINKEL:** Okay. All right. Madam
11 Chairman, those are all the questions I have.

12 Thank you, Ms. Slattery.

13 **THE WITNESS:** Thank you.

14 **CHAIRMAN BROWN:** Thank you, OPC.

15 Mr. Moyle.

16 **MR. MOYLE:** Thank you, Madam Chair. I do have
17 some exhibits with this witness, if I could get some
18 help passing them out.

19 **CHAIRMAN BROWN:** Yes. Staff will gladly help.

20 Mr. Moyle, while they're distributing, I just
21 wanted to let you know we will be starting at 651.

22 **MR. MOYLE:** Okay. I apologize. One of them
23 had a stapling accident, so.

24 **CHAIRMAN BROWN:** That sounds serious.

25 All right. It looks like they're almost all

1 distributed at this point. Would you like to label them
2 at this time or wait?

3 **MR. MOYLE:** We'll go ahead and do it now, if
4 we can.

5 **CHAIRMAN BROWN:** Okay.

6 **MR. MOYLE:** So the Wage Rate Increases would
7 be the first one. That would be --

8 **CHAIRMAN BROWN:** Okay. All right. We will
9 identify Wage Rate Increases as Exhibit 651, 651.

10 **MR. MOYLE:** 651.

11 **CHAIRMAN BROWN:** Sorry.

12 (Exhibit 651 marked for identification.)

13 **MR. MOYLE:** And the Percent and Number of
14 Employees Receiving Incentive Compensation would be 652.

15 **CHAIRMAN BROWN:** 652, we will mark that.

16 (Exhibit 652 marked for identification.)

17 **MR. MOYLE:** The Supplemental Employee
18 Retirement Plan would be 653.

19 **CHAIRMAN BROWN:** The Supplemental -- oh, you
20 did have a staple incident. Hold on one sec.

21 All right. So the Supplemental Employee
22 Retirement Plan will be identified -- marked, pardon me,
23 as 652 (sic). And then the final --

24 (Exhibit 653 marked for identification.)

25 **MR. MOYLE:** 653.

1 There's an Employee Benefit Program one that
2 will be --

3 **CHAIRMAN BROWN:** 654.

4 **MR. MOYLE:** -- 654.

5 **CHAIRMAN BROWN:** I'm going to repeat them for
6 everyone.

7 (Exhibit 654 marked for identification.)

8 **MR. MOYLE:** Actually, I believe I have one
9 more.

10 655 would be Incentive Compensation Goals.

11 **CHAIRMAN BROWN:** I don't think I have that.
12 We are short one. We don't have 652.

13 **MR. MOYLE:** Do you have one entitled Incentive
14 Compensation Goals?

15 **CHAIRMAN BROWN:** Uh-huh, yes.

16 **MR. MOYLE:** Okay. That was the one with the
17 bad stapler.

18 **CHAIRMAN BROWN:** Okay. We've got four. I'm
19 going to read them to you for clarity.

20 651 we have as Wage Rate Increases. 652 we
21 have as Incentive Compensation Goals. No, he just --
22 that's also 652. Right, Mr. Moyle?

23 **MR. MOYLE:** I have 652, Percent and Number of
24 Employees Receiving Incentive Compensation.

25 **CHAIRMAN BROWN:** That's the one we don't have.

1 Staff, can you please assist Mr. Moyle? Can you read
2 staff the title of that?

3 **MR. MOYLE:** Sure.

4 **CHAIRMAN BROWN:** Mr. Moyle, can you read the
5 title of the one you just stated? Read the title.

6 **MR. MOYLE:** I apologize.

7 **CHAIRMAN BROWN:** You're confusing me.

8 **MS. BROWNLESS:** The 652 is Percent of Number
9 of Employees Receiving Incentive Compensation,
10 Mr. Moyle; is that correct?

11 **MR. MOYLE:** Yes.

12 **COMMISSIONER GRAHAM:** That's the one we do not
13 have.

14 **CHAIRMAN BROWN:** We do not have that.

15 All right. Let's try this again.

16 Okay. For clarity and for the record, 651,
17 Wage Rate Increases; 652, Percent and Number of
18 Employees Receiving Incentive Compensation; 653,
19 Supplemental Employee Retirement Plan; 654, Employee
20 Benefit Program; and 655, Incentive Compensation Goals.
21 Is that correct, Mr. Moyle?

22 **MR. MOYLE:** Yes, ma'am. Thank you.

23 (Exhibit 655 marked for identification.)

24 **CHAIRMAN BROWN:** Okay. And, Ms. Slattery, do
25 you have all of those documents?

1 **THE WITNESS:** Yes, I do.

2 **CHAIRMAN BROWN:** Okay. Mr. Moyle, you may
3 proceed.

4 **MR. MOYLE:** Thank you.

5 **EXAMINATION**

6 **BY MR. MOYLE:**

7 **Q** Good morning.

8 **A** Good morning.

9 **Q** What's a bonus?

10 **A** A bonus is a pad of performance-based
11 incentive pay. We don't use the term "bonus" in our
12 organization. We use the term "performance-based
13 incentive compensation."

14 **Q** Why don't you use "bonus"?

15 **A** "Bonus" implies that performance is not
16 involved or that there, you know, that there could be
17 some other use of the word "bonus." We like to be very
18 specific with our employees.

19 I'll give you an example, Mr. Moyle. The SEC
20 has a different definition of it as well, and proxy
21 statements have a different column for performance-based
22 cash incentive than it does for bonus.

23 **Q** Just in terms of common usage, a lot of times
24 people, at the end of the year, if they're paid their
25 wage, sometimes they ask about if they get a bonus. But

1 I guess it's a synonymous term but just not used in the
2 company; is that fair?

3 **A** That's fair.

4 **Q** A couple of broad questions. What's your
5 current headcount?

6 **A** Let me see.

7 **Q** And when I say "headcount," that's the term
8 used in the industry for how many employees you have; is
9 that right?

10 **A** That's correct, average headcount. We had a
11 late-filed exhibit on this. Let me just refer to that.

12 The last headcount figure I have for the
13 company is 9,092, July 2016.

14 **Q** So 9,092?

15 **A** Yes.

16 **Q** And do you know -- if I asked you the average
17 wage of the employee, would that be fair?

18 **A** Yes.

19 **Q** What would that number be?

20 **A** Well, I think that Exhibit KS-3 to my direct
21 testimony reflects that for non-bargaining employees
22 there's an average salary figure for salaried employees
23 and there's also an average figure for hourly employees
24 for salary on that exhibit.

25 **Q** Right. And there's two variables, if I

1 understand your KS-3. One is bargaining versus
2 non-bargaining; correct?

3 **A** Well, KS-3 does not have bargaining unit
4 employees on it.

5 **Q** Right. Those are people that are in unions;
6 correct?

7 **A** Correct.

8 **Q** And then this also has a variable about exempt
9 and non-exempt; correct?

10 **A** Correct.

11 **Q** Non-exempt are people who are paid by the
12 hourly and exempt are people who are on salary?

13 **A** Correct. It's defined under the Fair Labor
14 Standards Act.

15 **Q** Okay. So the question I asked, which is
16 what's the average wage paid to an FPL employee, I was
17 hoping that you could aggregate and include bargaining,
18 non-bargaining, exempt, non-exempt and just give me an
19 answer to that question, if you can. If you can't, I'll
20 come at it another way.

21 **A** No. Here on this exhibit, I just have the
22 non-bargaining average salaries.

23 **Q** Do you know the average wage of an employee in
24 Florida?

25 **A** Well, Mr. Moyle, I'm aware of it as a

1 Floridian who reads, you know, the newspaper, that there
2 are many different figures reported for average median
3 income for a family, average per capita wages, but I
4 haven't memorized any of them because they're not
5 pertinent to my job at FPL where I need to benchmark
6 apples to apples. In other words, I have to benchmark
7 the jobs of FPL employees with those of, you know,
8 performing similar duties with similar responsibilities
9 at companies of similar size, scale, and complexity.
10 Therefore, average wages in Florida or household median
11 income, any of that stuff, is not pertinent to the work
12 I do, nor is it relevant to the reasonableness of FPL
13 compensation and benefits, which I've demonstrated in my
14 testimony is reasonable.

15 Q Okay. That probably should have come after
16 the yes or the no.

17 A No.

18 Q Okay. So let's look at your KS-3.

19 A Yes, I'm there.

20 Q So the median base salary for a salaried
21 employee is nearly \$100,000; is that right? 99,805?

22 A That's correct. And it is 1.2 percent below
23 the median benchmark value of the jobs.

24 Q Okay. Does that number include benefits?

25 A No, this is salary.

1 **Q** Okay. If you include benefits, what does that
2 number escalate to?

3 **A** I do not have the data compiled that way.

4 **Q** Do you have a general understanding with
5 respect to what percentage benefits -- sometimes I think
6 they call them loaders. You have a benefit loader; is
7 that right? Am I using the right term?

8 **A** Yes, you are. Oh, I have not --

9 **Q** So the benefit loader on a salary for FPL --
10 in some industries it's a third, some it's a little
11 more. Do you have an idea what the loader is?

12 **A** I do work with benefit loaders, but I don't
13 recall our current benefit loader rate. I know that MFR
14 C-35 does contain, you know, the total estimated
15 benefits expense for the employees. I do not have it
16 calculated as a percentage of salary.

17 **Q** So if somebody came in and -- I was coming in
18 and talking to you about getting a job hypothetically,
19 and I said, "Okay, well, my salary is \$100,000," you
20 would explain all the benefits to me. And if I said,
21 "How much are those benefits worth?" could you say,
22 "20,000, 30,000, 50,000"? Just wouldn't be able to
23 answer the question?

24 **A** Not in that way, no.

25 **Q** Okay. Where -- why did you not put bargaining

1 employees on this chart?

2 **A** We don't benchmark bargaining positions the
3 same way that we benchmark non-bargaining positions. We
4 use salary surveys, which are data compilations provided
5 by third-party salary -- survey companies in order to
6 benchmark the non-bargaining jobs. We benchmark every
7 job in the company based on the job content.

8 With bargaining unit positions we rely on some
9 Davis-Bacon wages and other MOUs in order to determine
10 what typical lineworkers make, and it's negotiated
11 between the union and the company. So we don't
12 benchmark it the same way.

13 **Q** Do bargaining and non-bargaining employees
14 hold the same position in FPL?

15 **A** No.

16 **Q** So if you have a position, lineworker, whether
17 you're part of the union or not part of the union,
18 collective bargaining, works for you -- if I'm a
19 Lineworker 1, let's just call it that, right, do I get
20 paid the same if I'm non-union as a Lineworker 1 who is
21 union?

22 **A** We do not have non-union employees working in
23 union positions in our company.

24 **Q** So how much of your workforce is unionized and
25 how much is not unionized?

1 **A** That is -- we have answered many
2 interrogatories on this topic. I just want to make sure
3 I give you the accurate data.

4 I previously told you that the last headcount
5 figure I had was 9,092. Of those, 2,985 are bargaining
6 union employees.

7 **CHAIRMAN BROWN:** Can you please repeat that
8 number?

9 **THE WITNESS:** 2,985.

10 **CHAIRMAN BROWN:** Thank you.

11 **BY MR. MOYLE:**

12 **Q** So a little over 30 percent, maybe 35 percent?

13 **A** Correct.

14 **Q** Do you know if wages increased for bargaining
15 unit employees, have gone up at a higher percentage than
16 for non-bargaining employees?

17 **A** The base salary rates have definitely not gone
18 up at a higher percentage. We provided that through
19 discovery, a table of all of the increases under the MOU
20 over the last few years.

21 **Q** I'm sorry. You said that they have gone up
22 per --

23 **A** They have not gone up higher than
24 non-bargaining.

25 **Q** Okay. That was my question.

1 **A** Uh-huh.

2 **Q** And actually I guess this first document I
3 handed you ties into it a little bit, 651?

4 **A** That's correct.

5 **Q** So you sponsored this interrogatory?

6 **A** Yes, I did.

7 **Q** Okay. And it shows, if I'm reading it
8 correctly, it shows an annual increase for
9 non-bargaining employees of 3 percent every year?

10 **A** That's correct. And that's consistent with
11 the WorldatWork, Aon Hewitt and Conference Board surveys
12 regarding salary, inflation, and growth over those
13 periods.

14 **Q** Do you know if it's --

15 **A** It's been at 3 percent.

16 **Q** Do you know if it's consistent with Mr. Reed's
17 testimony about the average increased wage for a utility
18 worker?

19 **A** Mr. Reed's testimony was not illustrating the
20 same points my testimony is illustrating.

21 **Q** Should it -- I should have asked you before I
22 asked Mr. Reed.

23 So the bargaining units, what's the average
24 wage for the bargaining units? Do you know that? It's
25 a little higher in some years, a little lower in other

1 years?

2 **A** Well, this exhibit is the increase to base
3 wages. So it was, for example, 3.05 percent for 2011,
4 2.85 percent for 2012, 2.85 percent for 2013,
5 2.85 percent for 2014, and 3 percent for 2015.

6 **Q** And that was for bargaining?

7 **A** That's bargaining.

8 **Q** And for non-bargaining it's just 3 percent for
9 every same time increment; is that right?

10 **A** That's correct. The bargaining unit
11 negotiations include a number of other items such as
12 medical plan design and cost sharing and work rules. We
13 negotiate the entire employment package for them at one
14 time.

15 **Q** Do you know if it's typical in the Florida
16 business economy for a raise to be given every year of
17 3 percent?

18 **A** No. I'm not an expert on all Florida
19 businesses. I do benchmark the utility industry. For
20 example, the WorldatWork annual salary increase survey,
21 which covers more than 2,000 U.S. employers and includes
22 more than 100 utilities is one of the sources of our
23 benchmarking to support the 3 percent per year. There
24 are also Aon Hewitt and Conference Board surveys that
25 are similarly a large sample of utilities.

1 **Q** So what -- the frequency of raises for people
2 in other fields -- teachers, police officers, lawyers,
3 others -- that's not something that you track or
4 consider when making compensation decisions at FPL; is
5 that right?

6 **A** No, I'm not an expert in other sectors such as
7 public sector jobs because it's not pertinent to
8 comparing the FPL employee positions with comparable
9 jobs at comparable companies, which is the only
10 appropriate benchmark comparison.

11 **Q** Okay. And in your terms of your duties and
12 responsibilities, I should have made this point clear
13 more, are you one of the people that say, "Well, we'll
14 increase the wage by X or Y?" Are you involved in those
15 policy decisions?

16 **MS. CLARK:** Madam Chairman, I'd like to pose
17 an objection to the line of questions regarding these
18 salary levels. There are two issues which Ms. Slattery
19 speaks to. They're 105 and 104, I believe. Yeah.

20 For 105, that relates to the appropriate level
21 of salaries and benefits. And FIPUG, SFHHA, FEA, AARP,
22 excuse me, AARP, Sierra Club, and Wal-Mart have taken no
23 position on this issue. FRF and Larsons agree with
24 OPC's positions. I would note that OPC's positions only
25 relate to incentive compensation --

1 **CHAIRMAN BROWN:** Please allow her to address
2 the Commission. Okay.

3 **MS. CLARK:** -- incentive compensation and also
4 to headcount. None of the wages, particular wages of
5 any group or employees were put at issue.

6 **CHAIRMAN BROWN:** I'm going to allow
7 Mr. Moyle's question and see if this witness is capable
8 of answering it. Objection overruled.

9 **MR. MOYLE:** Thank you. I didn't agree to much
10 on the prehearing stip anyway, so I appreciate that.

11 **BY MR. MOYLE:**

12 **Q** But -- so I think the pending question was --
13 I just want to understand your role as to whether you're
14 administering the benefits that, you know, the
15 operations committee decides or whether you're part of
16 the group that says, "We should give a 3 percent raise
17 increase," and bring that to the operations committee.
18 Just how does that work?

19 **A** My team and I perform the benchmarking, and
20 based on the benchmarking, make the recommendations to
21 senior leadership for consideration. And then they
22 determine what the salary merit -- the merit budget will
23 be. These are base salary merit program budgets we're
24 talking about.

25 **Q** So you bring it to them with a recommendation

1 and they make a decision?

2 **A** Yes.

3 **Q** Okay. Is that the same situation with respect
4 to reviews of number of employees to perform certain
5 functions? For example, call center employees, do you
6 have responsibility for looking at staffing levels on
7 call centers and saying, "Well, we need more, we need
8 less"?

9 **A** No. Each of our experienced business leaders
10 develops a staffing plan for his or her function based
11 on their planned work and their experience in
12 determining what the optimal staffing levels would be.
13 And that's what our staffing level plan reflects, their
14 best estimate of what optimal staffing levels are
15 required to perform their planned work, and then those
16 are aggregated into the company's staffing plan
17 forecast.

18 **Q** Are you familiar with the term "stretch goal"?

19 **A** Yes, I am.

20 **Q** What is it?

21 **A** A stretch goal is a goal that we set to
22 encourage employee performance in the achievement of a
23 performance objective, generally an operating
24 performance objective.

25 **Q** And it's usually something that someone has to

1 really roll up their sleeves and work at. It's not a,
2 you know, roll out of bed kind of thing; is that fair?

3 **A** That is correct.

4 **Q** Let me --

5 **A** One thing I'd like to add to that, when we --
6 you know, when we talk about stretch goals in our
7 organization, we prefer to have them be based on, you
8 know, qualitative data when possible. So we prefer to
9 set our goals based on industry benchmarks, where
10 available, rather than just arbitrarily picking what we
11 think would work.

12 **Q** Okay. So let me direct you to 652. This is
13 the percent and number of employees receiving incentive
14 compensation.

15 **A** Yes.

16 **Q** Did you sponsor this interrogatory answer?

17 **A** Yes, I did.

18 **Q** And I'll represent to you that the handwriting
19 on this document is mine. But this document shows, I
20 guess, for years 2011 to 2015 the number of people who
21 were eligible for incentive compensation, the number
22 that received and the number that did not receive; is
23 that right?

24 **A** Yes, that's correct. And over this five-year
25 period, on average about 97 percent of those eligible to

1 receive an award received one. An important note is
2 that not all salaried employees are eligible. We
3 exclude from this calculation those who are hired in the
4 fourth quarter of a year.

5 Q Okay. But just, for example, so 2015 there
6 were 4,173 people eligible. 4,066 received incentive
7 compensation, 107 did not. So the people that did not
8 were 2.63 percent; is that right?

9 A That's correct. And as I said, this excludes
10 fourth quarter hires. And it reflects the performance
11 management that we do in our company to ensure that
12 folks who are not able to perform up to our expectations
13 are -- don't usually choose to stay in our workforce.

14 Q Do you attend the operations meetings when
15 goals are being discussed or set? Are you part of that
16 meeting when that takes place, or do you set it
17 yourself?

18 A No. If you're referring to the company's
19 operating performance review meetings with senior
20 leadership, I'm generally not part of those meetings.
21 However, I do participate in the compilation of the
22 annual incentive plan goals, and I'm responsible for its
23 recordkeeping.

24 Q Okay. Have discussions ever come up where
25 they say, "Well, every year we've done this, 95 percent

1 of our people are," you know, "more than 95 percent of
2 our people are getting the bonus? You know, should we
3 make the bar a little higher?" Does that -- has that
4 ever been brought up in any of those discussions?

5 **A** Well, as I said, I don't participate in
6 monthly operating performance review meetings, which you
7 initially addressed. But I would like to point out,
8 Mr. Moyle, I've been in my position for nearly 20 years,
9 so I can assure you over the years that the percentage
10 of eligible employees receiving has increased a little
11 bit over the years because of robust performance
12 management of our workforce. Quite frankly, we have a
13 high-performing workforce because we very carefully
14 select the talent, engage the talent, motivate the
15 talent. And folks tend to self-select out of our
16 workforce if they're not, you know, going to be part of
17 that team and put in that kind of effort.

18 **Q** Okay. So the question I had on the floor was
19 have you attended operating committees when anyone has
20 brought up the question, "Are we setting the performance
21 goals at the appropriate level, given the overly --
22 given the numbers that are achieving the goal?" And I
23 think that's no; is that correct? If you could just
24 yes, no.

25 **A** No, I do not attend those meetings; however, I

1 do attend meetings with senior leadership to discuss the
2 compilation of these goals into the annual plan. And as
3 I mentioned before, the goals are based on industry
4 benchmarks and are set at top quartile or top decile of
5 the industry. Our goals are not arbitrarily set.
6 They're based on industry benchmarks, and some of them
7 are set above top decile.

8 **Q** Okay. Let's move on to the next exhibit, 653.

9 **MS. CLARK:** Madam Chairman, I would object to
10 this exhibit and questions on this exhibit.

11 **CHAIRMAN BROWN:** Okay. Mr. Moyle, before you
12 proceed with any questions, can you please describe the
13 relevancy of this?

14 **MR. MOYLE:** Well, the relevancy, in my
15 understanding, is this is the person for compensation
16 and she covers compensation. And FPL has the rate case
17 filed here where they're asking for ratepayers to pay
18 for all the compensation, so she's the person to answer
19 questions about things like supplemental employee
20 retirement plans.

21 **CHAIRMAN BROWN:** Ms. Clark.

22 **MS. CLARK:** As I said before, the only party
23 that took a position on the issue was Public Counsel,
24 which FRF and then the Larsons agreed with. The other
25 parties took no position on the issue. The SERP plan is

1 not part of the position on the issue that OPC has
2 taken.

3 **MR. SKOP:** Madam Chair, may I be heard also?

4 **CHAIRMAN BROWN:** Oh, sure. Go ahead.

5 **MR. SKOP:** Thank you. With all due respect to
6 Ms. Clark, I appreciate her --

7 **CHAIRMAN BROWN:** Can you speak into the
8 microphone, please?

9 **MR. SKOP:** Yes, ma'am. Sorry. With all due
10 respect to Ms. Clark and her objection, again binding
11 the parties to a preliminary position in the prehearing
12 statement I don't think is appropriate.

13 **CHAIRMAN BROWN:** Okay. Thanks. Let's deal
14 with this objection, though. My trusty advisor.

15 **MR. MOYLE:** If we want to take time, I --

16 **CHAIRMAN BROWN:** Just a second. Just one
17 second.

18 **MS. HELTON:** Madam Chairman, can we have one
19 minute to confer?

20 **CHAIRMAN BROWN:** Yes. Why don't we take about
21 a five-minute break. Sound good? We'll reconvene at
22 11:35.

23 **MR. WISEMAN:** Madam Chair, if we're going to
24 take a break, can I ask a question related to that?

25 **CHAIRMAN BROWN:** Let's just take a five-minute

1 break. Thanks. 11:35.

2 (Recess taken.)

3 **CHAIRMAN BROWN:** I think it's been about five
4 minutes, but I see some of the parties are not back, at
5 least one that objected. We're going to go ahead and
6 proceed.

7 Our legal counsel has had an opportunity to
8 review several documents, including the Prehearing
9 Order. And so with that, you're up, Mr. Hetrick.

10 **MR. HETRICK:** Thank you, Madam Chair. To try
11 to keep this simple, the Prehearing Order on page
12 6 where it discusses waiver of issue also makes an
13 important point that when an issue and position have
14 been properly identified, any party may adopt that issue
15 and position in its post-hearing statement. Regardless
16 of whether a party has taken an issue at this time, they
17 may take or adopt some other party's position on this
18 issue post-hearing. So to the extent that even if they
19 haven't taken a position right now, our best advice to
20 you is that this line of questioning by Mr. Moyle or any
21 other party should be allowed, as long as it's limited
22 to the issue in the case. These two issues that this
23 witness is testifying to are pretty broad topics dealing
24 with compensation, so we would advise you that you can
25 allow this line of questioning.

1 **CHAIRMAN BROWN:** Thank you. Objection
2 overruled. Please proceed.

3 **MS. CLARK:** Madam Chairman, just so I can be
4 clear on this, we are not objecting to those -- to the
5 cross-examination that goes to the items that Public
6 Counsel has put at issue. And if an item isn't put at
7 issue, it's waived. That's what you say in your OEP.

8 **MR. MOYLE:** There is an objection --

9 **MS. CLARK:** The Supplemental Employee
10 Retirement Plan has not been put at issue by Public
11 Service Commission. I understand that other parties who
12 have not taken a position can subsequently adopt the
13 position of the other parties. This does not relate to
14 any of those positions.

15 **CHAIRMAN BROWN:** Mr. Moyle, I did already
16 rule.

17 **MR. MOYLE:** I understand. I'm in the middle
18 of my cross-examination. An objection has been
19 interposed. The objection was stated. Counsel gave you
20 advise. You made a ruling. She's bringing up another
21 issue. There might be another time and place to talk
22 about that. But if it's okay, given your ruling, I'd
23 like to finish my cross.

24 **CHAIRMAN BROWN:** That is acceptable. Please
25 proceed.

1 **BY MR. MOYLE:**

2 **Q** The pending question, I believe, is what is
3 the Supplemental Employee Retirement Plan?

4 **A** The Supplemental Executive Retirement Plan,
5 it's for executives and it serves an important purpose.
6 It's to ensure market competitive retirement benefits
7 for employees who are negatively impacted by IRS rules
8 limiting the amount of recognizable compensation that
9 can be taken into consideration when calculating a
10 qualified employee retirement benefit under the
11 qualified employee pension plan and 401K. So
12 essentially, you know, the primary purpose is to restore
13 what the IRS cutbacks eliminate and also to ensure that
14 the final retirement benefit for these folks is an
15 appropriate percentage of final pay.

16 **Q** Just so I make clear, so under the pension
17 plan, which is governed by ERISA, there are limits as to
18 how much executives can get from that pension plan,
19 correct, set by the government or by Congress?

20 **A** There are limits as to what anybody can get
21 from a qualified plan regardless of whether they're an
22 executive or non-executive, yes.

23 **Q** Okay. And I assume that at some limit if
24 you're an executive and you receive more than that, then
25 there are certain tax consequences that flow from that;

1 is that right?

2 **A** It's not tax consequences. It's simply a
3 limit of how -- of what the benefits can be.

4 **Q** Okay. Well, I thought that this money was, as
5 you described it, was provided to executives who
6 suffered some consequence based on their participation,
7 some fiscal consequence based on their participation in
8 the plan; is that not right?

9 **A** That's correct. And I'd like to clarify a
10 little bit further.

11 **Q** Please.

12 **A** The retirement benefits are generally
13 benchmarked as a percentage of final average pay or of
14 career average pay. That's the way to determine how one
15 company's pension plan compares to another company's
16 pension plan. And when we perform that benchmarking for
17 folks who are above the IRS limit or who have a
18 significant portion of their compensation in the form of
19 incentive compensation rather than base pay, we find
20 that they are under market as far as their benchmark
21 position on retirement benefits. And so these types of
22 plans have been put in place at our company and other
23 companies, including most of the utility industry, to
24 ensure that the final pension benefit is market
25 competitive so that we can attract and retain the senior

1 leaders who drive the performance of the rest of the
2 organization. Without it we would be noncompetitive.

3 Q So there should be another S, I guess, in
4 this; right? Supplemental Executive Employee Retirement
5 Plan? It's only -- are only executives eligible for
6 this?

7 A Well, first of all, you're reading from the
8 question, so the company did not describe it as
9 Supplemental Employee Retirement Plan. This came in
10 from one of the parties.

11 Q It's in the response, isn't it?

12 A No. It says, "Level of SERP expense," which
13 is Supplemental Executive Retirement Plan.

14 Q Okay. So the question was phrased "employee."

15 A Yes.

16 Q And you don't call it employee. You call it
17 executive?

18 A Correct.

19 Q Okay. Thank you. So who's eligible for this?

20 A Only executives and -- yeah, that's it.

21 Q And are executives defined by title or level
22 of pay? How do you determine who's an executive?

23 A It's officers of the company.

24 Q Are vice presidents all officers?

25 A Not all vice presidents are officers, no.

1 **Q** How many officers of the company does FPL
2 have, if you know?

3 **A** Let's see. I believe about 45.

4 **Q** So if I did the math, this 3,065,000 is an
5 annual sum; is that right?

6 **A** Yes. That's actuarially calculated under
7 complex FASB rules related to retirement benefit
8 calculations.

9 **Q** When you make a judgment and say, well, as I
10 understood your answer, you think certain executives are
11 not receiving what maybe they should otherwise receive,
12 does the money get distributed on a pro rata base? Do
13 you just take the 45 people and distribute the money, or
14 do you pick -- you know, do it on a per executive basis?

15 **A** The calculations under this plan work almost
16 identically to the qualified employee pension plan and
17 qualified 401K plan as far as how benefits accrue. The
18 difference is that this plan recognizes any portion of
19 base salary subject to the IRS cutback, and it
20 recognizes certain annual incentives paid in the form of
21 cash as well.

22 **Q** Do you know what your average level of
23 executive compensation is?

24 **A** Not off the top of my head, no.

25 **Q** Ballpark?

1 **A** I am not going to speculate. I don't recall,
2 and I don't want to ballpark or wing a number.

3 **Q** Is it more than that number that you pay for
4 the non-exempt, the non-exempt people on KR-3?

5 **MS. CLARK:** Madam Chairman --

6 **CHAIRMAN BROWN:** Hold on, Mr. Moyle.

7 **MS. CLARK:** -- I object. Asked and answered.

8 **MR. MOYLE:** I didn't ask her if executives got
9 paid more than the \$100,000 sum on her Exhibit 3. I
10 assume they do, but I didn't ask her that question
11 previously.

12 **CHAIRMAN BROWN:** Move along.

13 **THE WITNESS:** Mr. Moyle, if I could just
14 interject, that our executives -- only the FPL portion
15 of base salary is in this rate request and absolutely no
16 portion of their incentive compensation is in our rate
17 request. And, furthermore, without a high performing
18 executive team, we would not be able to deliver the
19 performance that we do to customers because they drive
20 the performance of the rest of the organization. We
21 have to pay them what is necessary and reasonable in
22 compensation and benefits, including the Supplemental
23 Executive Retirement Plan benefit, or we could not
24 attract, retain -- or retain our team.

25

1 **BY MR. MOYLE:**

2 Q So in addition to engineers and computer-savvy
3 people, you should also, in response to your previous
4 question about areas where you have shortages, should
5 have said key executives?

6 A I didn't say we have a shortage of key
7 executives. But as I said in my summary today, it's
8 important that we're able to attract, retain, and
9 motivate high performing employees at all levels of the
10 organization by providing necessary and reasonable
11 compensation and benefits at all levels of the
12 organization.

13 Q Okay. Let's move on to your exhibit that's
14 been marked as 654.

15 **CHAIRMAN BROWN:** That would be Employee
16 Benefit Program, Ms. Slattery.

17 **MR. MOYLE:** That's right. Thank you, Madam
18 Chair.

19 **BY MR. MOYLE:**

20 Q Did you sponsor this exhibit?

21 A Yes, I did.

22 Q Okay. And the question asked to provide a
23 description of the company's employee benefits in effect
24 currently as well as for the test years; correct?

25 A That's correct.

1 **Q** Okay. And it's a pretty long list, isn't it?

2 **A** It is a comprehensive list of benefits that
3 are provided to our employees. And as we've
4 demonstrated in Exhibit KS-5 of my testimony, it is
5 below industry median.

6 **Q** All right. So medical, pharmacy, mental
7 health, dental, vision, flexible spending accounts,
8 NextEra health and well-being programs, defined
9 contribution 401K, defined benefit pension, retiree
10 medical and life, holidays, vacation, vacation buy,
11 sick, sick and family, short- and long-term disability,
12 life insurance, dependent life insurance, group legal,
13 adoption assistance, education assistance, executive
14 medical, non-qualified Supplemental Executive Retirement
15 Plan, those are all the benefits?

16 **A** Yes, they are. They're comparable to what you
17 would find in any other company in our industry. And as
18 demonstrated on Exhibit KS-5 to my testimony, our total
19 benefits program is below industry median.

20 **Q** And you don't benchmark these benefits to
21 other industries or other sectors other than the utility
22 industry; is that right?

23 **A** No, we absolutely do. And that benchmarking
24 is also shown on Exhibit KS-5 to my testimony. It shows
25 that we benchmark to general industry and Fortune 500,

1 and our total benefit program is below general industry
2 benchmark and Fortune 500 benchmark.

3 Q The -- can someone get a pension and a defined
4 contribution 401K at the same time?

5 A Yes. Our employees participate in both. And
6 Exhibit KS-8 to my testimony shows the benchmarking for
7 those two plans combined, which is below the industry
8 median.

9 Q So you can do the 401K where the company
10 matches, what is it, up to 3 percent? How much does the
11 company match of your salary? Let's say you're the
12 \$100,000 person shown on your chart, the non-bargaining
13 person, how -- what's the maximum amount someone can
14 contribute to a 401K?

15 A Well, the 401K is a contributory plan that
16 employees either choose to participate in or they don't.
17 About 84 percent of our employees participate. They
18 get -- the first 3 percent of the salary, their salary
19 that they contribute is matched 100 percent. And then
20 there's kind of a sliding scale through 7 percent of
21 their salary. So the maximum match is 4.75 percent of
22 salary.

23 Q Okay. So let's say I'm an FPL employee and I
24 was hired in 2010 and I'm making 100,000, just because
25 the math is easy. In addition to getting the 401K, I

1 can participate in a defined benefit pension?

2 **A** That's correct.

3 **Q** Okay. And if I understand how that works,
4 again, I'm hired in 2010, for every year that I'm an
5 employee, I get a 4 percent credit toward a pension; is
6 that right?

7 **A** Well, let me correct you. First of all, there
8 is a one-year wait before you're eligible to participate
9 in the pension. And then for the first five years of
10 employment, the credit rate is 4.5 percent.

11 And I'd also like to point out that of the
12 utility industry companies that participate in the Aon
13 Hewitt Benefits Index, as shown on Exhibit KS-8 to my
14 testimony, 85 percent of them provide both a 401K and a
15 pension. And we are still well below that median.

16 (Transcript continues in sequence in Volume
17 17.)
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1 STATE OF FLORIDA)
2 COUNTY OF LEON) : CERTIFICATE OF REPORTER

3
4 I, LINDA BOLES, CRR, RPR, Official Commission
5 Reporter, do hereby certify that the foregoing
6 proceeding was heard at the time and place herein
7 stated.

8 IT IS FURTHER CERTIFIED that I
9 stenographically reported the said proceedings; that the
10 same has been transcribed under my direct supervision;
11 and that this transcript constitutes a true
12 transcription of my notes of said proceedings.

13 I FURTHER CERTIFY that I am not a relative,
14 employee, attorney or counsel of any of the parties, nor
15 am I a relative or employee of any of the parties'
16 attorney or counsel connected with the action, nor am I
17 financially interested in the action.

18 DATED THIS 26th day of August, 2016.

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