

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 21

(Pages 2577 through 2727)

PROCEEDINGS: HEARING

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

DATE: Friday, August 26, 2016

TIME: Commenced at 9:30 a.m.
Concluded at 11:59 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
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APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

NAME:	PAGE NO.
MORAY DEWHURST	
Examination by Ms. Brownless	2581
Examination by Mr. Litchfield	2645
MANUEL B. MIRANDA	
Examination by Mr. Guyton	2665
Prefiled Rebuttal Testimony Inserted - 160021	2666
Examination by Ms. Brownless	2691
Examination by Mr. Guyton	2692
Prefiled Rebuttal Testimony Inserted - 160061	2694
Examination by Ms. Christensen	2710

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2
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EXHIBITS

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

NUMBER:		ID.	ADMTD.
134 through 136			2660
693 through 695			2661
697 through 700			2663
701	MFR Schedule D-4a for Projected Test Year Ended 12/31/17	2582	2663
702	Errata Sheet to Moray Dewhurst Direct Testimony	2586	2663
703	FPL's Response to Staff's 1st Set of Interrogatories No. 251	2587	2663
704	FPL's Response to OPC's 1st Set of Interrogatories No. 10	2713	
705	FPL's Response to Staff's 1st Set of Interrogatories No. 327	2722	

P R O C E E D I N G S

1
2 **CHAIRMAN BROWN:** Good morning, everybody. Who
3 got seven hours of sleep? Anyone? It's Friday. We're
4 going to have a great day. We're going to have a great
5 day. The time is about 9:30. And we are on Witness
6 Dewhurst. Are there any preliminary matters to take up
7 right now? Seeing none. All right. Staff.

8 **MR. LITCHFIELD:** I guess I should let the
9 Commission know that Mr. Miranda is here as requested,
10 so he's prepared to appear immediately following
11 Mr. Dewhurst. Thank you.

12 **CHAIRMAN BROWN:** Thank you.

13 All right. Staff.

14 **MS. BROWNLESS:** Thank you, ma'am.

EXAMINATION

15
16 **BY MS. BROWNLESS:**

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

18 **A** Good morning.

19 **Q** Mr. Dewhurst, I'd like to ask you some
20 questions about the embedded cost of long-term debt.
21 And if you would -- and they're going to -- I'll wait
22 for them to hand the schedules out.

23 **CHAIRMAN BROWN:** Staff, we will be starting at
24 Exhibit 701.

25 **MS. BROWNLESS:** Thank you, ma'am. This is

1 already in the record as an MFR, Your Honor.

2 **CHAIRMAN BROWN:** Okay.

3 **BY MS. BROWNLESS:**

4 **Q** Do you have Schedule D-4a in front of you,
5 sir?

6 **A** Bear with me one moment.

7 **CHAIRMAN BROWN:** Suzanne, do you think it
8 would be helpful just to label it?

9 **MS. BROWNLESS:** Sure, we can do that.

10 **CHAIRMAN BROWN:** Okay. Let's label that as
11 701.

12 **MS. BROWNLESS:** Yes, ma'am.

13 **CHAIRMAN BROWN:** And title?

14 **MS. BROWNLESS:** Let's see. The title is MFR
15 Schedule D-4a for the Projected Test Year Ended
16 12/31/1217 (sic).

17 **CHAIRMAN BROWN:** Okay. We will label it as
18 such.

19 (Exhibit 701 marked for identification.)

20 Mr. Dewhurst, do you have a copy of that in
21 front of you?

22 **THE WITNESS:** I do.

23 **CHAIRMAN BROWN:** Okay. Thanks.

24 **BY MS. BROWNLESS:**

25 **Q** And if you have Schedule MFR D-4a for the

1 projected test year ended December 31st, 2017, are you
2 the sole witness sponsoring this schedule, sir?

3 **A** I believe I am.

4 **Q** And can you look at page 1 of 2 on line 26?

5 **A** On line 26? Yes.

6 **Q** 26.

7 **A** 26.

8 **Q** Okay. And here you list a first mortgage bond
9 in the amount of \$300 million; is that correct?

10 **A** That's correct. That was a projection at the
11 time the schedules were put together.

12 **Q** Okay. And the coupon rate for that is
13 4.75 percent.

14 **A** Correct. That was the estimation at the time.

15 **Q** Okay. And this chart indicates that the issue
16 date was March of 2016; is that right?

17 **A** That's correct.

18 **Q** Okay. And was that bond actually issued in
19 March of 2016?

20 **A** No, it wasn't, due to various cattle market
21 factors. We elected not to issue that -- go into the
22 market at that time. Instead, we did a slightly larger
23 short-term note. So we will be coming back to the
24 market at a future date, but that specific issue was not
25 made as we had originally anticipated. That's not

1 uncommon, as you know. The specific issues and the
2 specific timing may vary from what we originally
3 planned.

4 **Q** Thank you. And do you believe that it is
5 appropriate to update FPL's debt cost for actual debt
6 issuances that have not occurred?

7 **A** Yes and no. I believe it's appropriate to
8 update the embedded cost for things that haven't
9 occurred or for where we are today. I don't think it
10 makes a material difference to the projected cost for
11 the test year and beyond on which we're setting rates.
12 I believe that's part of the overall estimating process.
13 From the time that we put together any forecast that
14 supports the filing, there will be what I call puts and
15 takes, variations against that forecast. But I think
16 the appropriate test is is the overall forecast
17 reasonable? So I don't think it's really appropriate to
18 sort of cherry-pick individual items.

19 **Q** And so if I can just make sure I understand
20 your response, with regard to this particular item, you
21 do not think it's inappropriate to make an adjustment?

22 **A** That is correct, yes. There is an offset.
23 Although this item did not occur as scheduled and,
24 therefore, the interest which is included in the total
25 cost base has not been incurred, it was replaced by a

1 different form of issuance and will be replaced at a
2 later date by another long-term issuance. So I don't
3 believe the difference in cost is material in the
4 context of this filing.

5 Q Okay. But on this schedule, you listed it as
6 a historical issuance; is that correct? Not a projected
7 one, a historical one. One that actually took place.

8 A I guess the answer to that is I don't really
9 know. That sounds like sort of a technical question in
10 how these MFRs are constructed. This is for a test
11 year, but it was -- in the context of a test year, yes,
12 it would have been a historical issuance. So maybe I am
13 agreeing with you.

14 Q Okay. Thank you.

15 A I guess that's what I was trying to say
16 earlier. If your objective is to update the embedded
17 cost of debt, then I think it is appropriate to adjust
18 for that. If it's to adjust the expected total cost for
19 2017 on which rates will be set, then I don't think it's
20 appropriate to adjust for that.

21 Q Okay. You filed an errata sheet with your
22 direct testimony; is that correct?

23 A That's correct.

24 Q Okay. And I think that that has been provided
25 to you. Do you have a copy of it?

1 **A** I do.

2 **MS. BROWNLESS:** And we'd mark that, I guess,
3 702. Is that correct, Madam Chair?

4 **CHAIRMAN BROWN:** Yes. We'll mark that as
5 702 .

6 **THE WITNESS:** 702. Okay. Thank you.

7 **MS. BROWNLESS:** Okay.

8 (Exhibit 702 marked for identification.)

9 **BY MS. BROWNLESS:**

10 **Q** And in your errata sheet, you updated
11 information for past debt issuances on MFR Schedule
12 D-4a; is that correct?

13 **A** That's correct.

14 **Q** But you did not include on your errata sheet
15 an update to MFR schedule D-4a to remove the debt
16 issuance on line 26; is that correct?

17 **A** That's correct, for the reasons that I
18 described earlier.

19 **Q** Okay. Now I want you to look at the package
20 that's been handed out that says, "FPL's Response to
21 Staff's 12th Set of Interrogatories No. 251." And I
22 guess that will be -- we'd like it marked as 703,
23 please.

24 **CHAIRMAN BROWN:** Yes. Let's go ahead and do
25 that. We will mark that as 703.

1 (Exhibit 703 marked for identification.)

2 Mr. Dewhurst, do you have a copy of that?

3 **THE WITNESS:** No, I don't. I'm confused now.
4 251?

5 **MS. BROWNLESS:** It says, "FPL's Response to
6 Staff's 12th Set of Interrogatories No. 251."

7 **THE WITNESS:** Okay. I'm with you now.

8 **CHAIRMAN BROWN:** You got it?

9 **THE WITNESS:** And the number?

10 **CHAIRMAN BROWN:** 703.

11 **THE WITNESS:** Thank you.

12 **MS. BROWNLESS:** Thank you.

13 **BY MS. BROWNLESS:**

14 **Q** And did you sponsor what's been marked as
15 Exhibit 703?

16 **A** Yes.

17 **Q** And if you can turn a minute to that response.
18 The request asks FP&L to provide a schedule listing all
19 the long-term debt issuances reported on MFR Schedule
20 D-4a for the projected test year-ended December 31st,
21 2017, from December 1st, 2010, through the present; is
22 that correct?

23 **A** That's correct.

24 **Q** Is the first mortgage bond in the amount of
25 \$300 million at a coupon rate of 4.75 percent that was

1 issued March 26th, 2016, that is included on line 26 in
2 the MFR Schedule D-4a included in the list in FP&L's
3 response to this interrogatory?

4 **A** No, it is not. For the reasons we discussed
5 earlier, we didn't actually make that issuance.

6 **Q** Would you agree that there are no documents in
7 the record that support the inclusion of the first
8 mortgage bond in the amount of \$300 million at a coupon
9 rate of 4.75 percent?

10 **A** Yes and no. Yes, I agree there are no
11 documents that support the -- that specific issuance
12 because, in fact, as I've said, it didn't take place.
13 But the -- I think there is documentary evidence that it
14 was -- maybe it's not documentary evidence, now that I
15 think about it. It was replaced by other debt, and so
16 there is a cost associated with that other debt. But I
17 agree there are no documents to support the March 16th
18 because, in fact, that issuance did not occur.

19 **Q** Thank you. Do you agree that an adjustment
20 should be made to remove the first mortgage bond in the
21 amount of \$300 million at a coupon rate of 4.75 percent
22 that is included on line 26 in the MFR Schedule D-4a for
23 the projected test year ended December 31st, 2017?

24 **A** I think -- I thought I had answered that. My
25 answer is both yes and no. To remove it from the --

1 anything having to do with the embedded cost of debt,
2 yes, I agree with that. To remove the costs or the
3 estimated interest expense associated from -- with it
4 from the overall cost on which rates will be based I
5 don't think is appropriate.

6 **Q** Okay. But there's nothing in this record that
7 supports the substitute financing that was done or the
8 cost rates associated with that; is that correct?

9 **A** I don't know.

10 **Q** Thank you. Do you believe that an adjustment
11 should be made to remove the first mortgage bond in the
12 amount of \$300 million at a coupon rate of 4.75 percent
13 for the subsequent projected test year ended
14 December 31st, 2018, or is your answer the same as for
15 that of 2017?

16 **A** The same.

17 **Q** We're going to change our line of questioning
18 here for a minute and ask you to look at page 9 of your
19 direct testimony.

20 **A** Give me one moment.

21 (Pause.)

22 Page 9, yes.

23 **Q** Yes, sir. If you look at line 1, you state
24 that "FP&L and its customers have enjoyed a low total
25 cost of capital, the ability to support a large capital

1 expenditure program, and the ability to maintain strong
2 liquidity reserves providing necessary financial
3 flexibility, particularly in response to unplanned
4 needs." Did I read that correctly?

5 **A** Yes.

6 **Q** Can you describe what you mean by "strong
7 liquidity reserves"?

8 **A** Yes. Briefly, we have lines of credit, I
9 believe today they total approximately \$3.5 billion,
10 which is the fundamental backstop to all our short-term
11 cash needs for whatever purposes. So to the extent that
12 the operating cash flows of the business don't match up
13 with our needs for liquidity, and I can describe, give
14 you examples of how that might occur, we will draw on
15 those facilities. In practice, the way we draw on those
16 facilities is that they backstop our commercial paper
17 program. So they allow us to go into the short-term
18 debt market, issue commercial paper to get the cash that
19 we need to support whatever the liquidity needs are.

20 **Q** Does FP&L need a strong balance sheet to
21 support natural gas hedging?

22 **A** Yes, to the -- the answer is it depends. You
23 certainly need a balance sheet to support any fuel
24 procurement program, and you certainly need a balance
25 sheet to support a fuel procurement program that employs

1 hedging. Obviously, the degree of hedging will have
2 something to do with how much support you need. But I
3 do want to emphasize that it's really the fuel
4 procurement program that creates the need for liquidity.
5 Hedging is one aspect of that.

6 **Q** Okay. Would reducing FPL's equity ratio from
7 59.6 percent of investor capital to 50 percent of
8 investor capital affect FPL's ability to hedge natural
9 gas?

10 **A** Absolutely, yes. It would make it much more
11 difficult. I don't say it would be impossible, but it
12 would be very difficult. Certainly we could -- I very
13 much doubt we could support the program that we have in
14 place today.

15 **Q** Okay. If the Commission were to reduce FPL's
16 equity ratio to 50 percent of investor capital for
17 ratemaking purposes, what impact would that have on
18 FPL's actual return on equity?

19 **A** I believe we discussed this at my deposition.
20 To some extent, it depends upon the time frame that we
21 look at. But the adjustment to -- the hypothetical
22 adjustment to equity ratio and the ROE in a sense are
23 different things. If there was a -- if we were ordered
24 to change the equity ratio, the consequence, while it
25 might not happen on day one, would be that we would have

1 to go to the market, level up the balance sheet, issue
2 significant amount of incremental long-term debt, draw
3 down the equity in the business to -- until we reached
4 the actual level of equity corresponding to the ordered
5 equity ratio.

6 At that point, if rates had been set on any
7 particular ROE, in theory, we would line up with that
8 ROE. However, because of all the other negative
9 consequences that would attend this hypothetical and
10 very large reduction in equity ratio, in fact, we would
11 not be able to attain that ROE. I understand that's a
12 very long and complicated response, but that is the
13 truth.

14 **Q** Okay. If the Commission were to reduce FPL's
15 equity ratio to 50 percent of investor capital for
16 ratemaking purposes, would Florida Power & Light be able
17 to maintain its actual percentage of common equity
18 capital at 59.6 percent long term?

19 **A** No, we would not. Effectively that would be
20 saying that investors would be only compensated for the
21 50 percent portion, meaning the 9.6 percent would be
22 completely uncompensated, and we would have no option
23 but then to withdraw that equity from the business to
24 meet our fiduciary obligations to our shareholders.

25 **Q** Okay. Is FPL currently pursuing the option of

1 building nuclear generation in the future?

2 **A** Yes.

3 **Q** Is one of the reasons FPL is considering
4 nuclear generation in the future the fact that FPL is
5 currently approximately 72 percent reliant on natural
6 gas-fired generation?

7 **CHAIRMAN BROWN:** Mr. Moyle.

8 **MR. MOYLE:** I'm going to object to -- I mean,
9 he's not with FPL. He hasn't been with FPL for some
10 time. So I'm not sure that he's the right witness to
11 ask about FPL's current plans.

12 **CHAIRMAN BROWN:** Okay.

13 **MS. BROWNLESS:** Well, with all due respect,
14 he's the witness that is being placed on the stand.
15 He's been hired for the purpose of providing this
16 testimony as to the appropriate ROE, the response for
17 the ROE adder.

18 **MR. LITCHFIELD:** And I would add that he's
19 been with the company a long time and certainly has been
20 involved in the company's discussions and even decisions
21 with respect to why it's pursuing new nuclear.

22 **CHAIRMAN BROWN:** Objection Overruled.

23 **THE WITNESS:** I'm sorry, Ms. Brownless. Could
24 you give me the question again?

25 **BY MS. BROWNLESS:**

1 **Q** Yes, sir, I will. Is one of the reasons FPL
2 is considering nuclear generation in the future the fact
3 that FPL is currently approximately 72 percent reliant
4 on natural gas-fired generation?

5 **A** No, I would not say that's one of the reasons.
6 I would say the core reason is the potential for
7 improving the overall customer value proposition. But I
8 would certainly agree that as part of that, a move to
9 change the fuel mix so that we are less dependent on one
10 fuel source would be potentially an incidental benefit,
11 but I don't think it's the core reason that we're
12 pursuing it.

13 **Q** But it is one.

14 **A** It is one.

15 **Q** If the Commission were to reduce FPL's equity
16 ratio to 50 percent of investor capital for ratemaking
17 purposes, would that impact FPL's decision to pursue
18 nuclear diversification?

19 **A** Yes, very definitely.

20 **MR. MOYLE:** Same objection. It calls for
21 speculation.

22 **CHAIRMAN BROWN:** Overruled. Overruled.

23 **THE WITNESS:** As a practical matter, I think
24 that dramatic negative change would eliminate any
25 possibility of us pursuing new nuclear.

1 **BY MS. BROWNLESS:**

2 Q Thank you. If the Commission were to reduce
3 FP&L's equity ratio to 50 percent of investor capital
4 for ratemaking purposes, would that impact FPL's ability
5 to attract, at reasonable rates, the capital necessary
6 to build two nuclear power plants?

7 A Yes, it would very dramatically negatively
8 impact it. As I said, I think it would make it
9 impossible, as a practical matter.

10 Q If you can turn to page 30 of your testimony,
11 please, and look at line 7.

12 A Yes.

13 Q And there you state, "Presently there is no
14 financial incentive for sustained improvement to
15 customer value." Do you see that?

16 A I'm sorry. I have the wrong page reference.

17 Q Page 30, sir, line 7.

18 A 30, okay. I'm sorry. Yes, okay. I'm with
19 you now.

20 Q Okay. And there on line 7 you say, "Presently
21 there is no financial incentive for sustained
22 improvement to customer value"; is that correct?

23 A Yes, that's what's there.

24 Q Okay. Does the Commission utilize a
25 100-basis-point range around the allowed return on

1 equity?

2 **A** Yes.

3 **Q** And I believe this has been stated before, but
4 we'll ask you again. Is the dollar value of 100 basis
5 points for FP&L in this docket approximately
6 \$240 million?

7 **A** Yes.

8 **Q** Is it your testimony that achieving the top of
9 the allowed return on equity range and generating
10 240 million in revenue above the revenue requirement
11 used in setting rates is not an incentive to generate
12 savings and improve productivity?

13 **A** No, that's not my testimony and that's not
14 what I'm referring to here. And if I may, let me
15 explain just briefly.

16 I will certainly concede that in the context
17 of a multiyear settlement agreement or a multiyear rate
18 freeze, there is some positive incentive effect from the
19 plus or minus 100-basis-point band. We can debate how
20 much it is, but I certainly agree that there is some.

21 That is different from what I'm talking about
22 here. Customer value encompasses all attributes that
23 our customers value, including reliability and customer
24 service. So it goes beyond productivity and efficiency.
25 And specifically my argument is that there is -- no may

1 be a little strong, but there is little incentive under
2 current regulatory -- under the current regulatory
3 construct for companies such as ourselves to make
4 investments that may actually pull us down in the short
5 term but that have longer term improvements to customer
6 value: For example, programs to improve reliability.
7 So there are things that you may do in the short term
8 that work for the long-term benefit of customer value,
9 but I don't see a significant incentive in the current
10 regulatory construct, and that's what the ROE
11 performance adder is intended to get at. And that's
12 different from the level of incentive and the nature of
13 incentive that's built into the band.

14 I should also note that the primary purpose of
15 the band, I believe, is still to avoid repetitive
16 administrative procedures because any company is going
17 to fluctuate up and down in the band just based on
18 normal changes in the business.

19 Q Okay. Under your proposal, the
20 50-basis-points adder would be built into rates; is that
21 correct?

22 A That's correct. And as I believe we discussed
23 last night, in that sense I believe it's not a
24 cost-based element.

25 Q What would be the incentive to generate

1 savings and improve performance if FP&L has already
2 received its reward by having the adder already included
3 in rates?

4 **A** Again, I think we discussed it in my
5 deposition. I quarrel with the term "reward." I
6 believe it's an incentive. But the core incentive is
7 essentially the maintenance of a higher than otherwise
8 ROE. That is a very significant incentive. So it's the
9 prospect of that continuing or, correspondingly, the
10 possibility that it might be taken away if we don't
11 continue to deliver superior customer value. That's the
12 nature of the incentive. It's a little bit of an
13 indirect incentive in that sense, but it will be a very
14 powerful one.

15 **Q** Do FPL executives have the opportunity to earn
16 a bonus if certain goals are met?

17 **A** Generally speaking, yes.

18 **Q** Is that bonus paid before or after the fact?

19 **A** It's paid essentially contemporaneous with the
20 delivery of the performance. So in that sense, it's
21 precisely analogous to what I'm talking about here. So
22 the end of a given year, for the compensation for that
23 year, an executive will potentially earn a bonus
24 associated with metrics that are driven by customer
25 value. So I think it's very closely analogous to what

1 we're talking about here. We are today already
2 delivering what I consider superior customer value: low
3 bills, high reliability, excellence in customer service.
4 So I think it's the same concept.

5 Q Well, in evaluating a bonus to be paid to an
6 executive, doesn't one normally look back over the past
7 12 months or 24 months and say, "You had these goals and
8 you reached those goals and, therefore, this is your
9 bonus"? So it's a retroactive review in a sense,
10 retrospective?

11 MR. LITCHFIELD: I have one -- maybe it's a
12 clarifying question, if not an objection. But when
13 Ms. Brownless uses the term "executive bonus," I'm
14 wondering if she is qualifying that to mean executive
15 bonuses that are reflected in rates or not reflected in
16 rates that customers pay.

17 CHAIRMAN BROWN: Ms. Brownless.

18 MS. BROWNLESS: Reflected in rates, of course.

19 MR. LITCHFIELD: Okay. Then I object on the
20 grounds of relevance because, in fact, I think the
21 testimony is that those bonuses are not reflected in
22 rates.

23 CHAIRMAN BROWN: Ms. Brownless.

24 MS. BROWNLESS: Well, executive compensation
25 bonuses are not reflected in rates, but other

1 operational bonuses are reflected in rates for your
2 folks. I think Ms. Slattery testified to that.

3 **CHAIRMAN BROWN:** Mr. --

4 **MR. LITCHFIELD:** That's different than
5 executive bonuses. That's really just what I'm trying
6 to clarify.

7 **CHAIRMAN BROWN:** Okay. Ms. Brownless.

8 **MS. BROWNLESS:** Okay, I can change that.

9 **BY MS. BROWNLESS:**

10 **Q** You've asked for a 50-basis-points adder as
11 this reward for past superior behavior. Would something
12 less than --

13 **A** Excuse me. I have to -- that is not my
14 testimony. The request --

15 **Q** Well, a portion is for past --

16 **A** No.

17 **Q** -- is it not?

18 **A** Excuse me. It is not. I tried to be very
19 clear on this.

20 Past actions have something to do with why we
21 are where we are today, but the request is specifically
22 based on the fact that we are today delivering superior
23 customer value. That's the thing that we need to focus
24 on. That's the difference. And we want that to
25 continue and hopefully improve. So I do disagree with

1 the characterization.

2 Q Thank you. You've asked for 50 basis points;
3 correct?

4 A Correct.

5 Q Would something less than 50 basis points
6 provide an appropriate incentive to generate savings and
7 improve productivity?

8 A It could. Obviously it would depend upon how
9 much. I don't -- there's no analytical way that I know
10 that you can come up with the appropriate amount. I can
11 explain how I came up with that amount of why I think
12 it's appropriate, if that would help. But there's no --
13 this is a matter of judgment.

14 Q Thank you. When increasing the upside of the
15 150-basis-point (sic) range above the allowed return on
16 equity to 150 basis points be a workable means of
17 providing a greater incentive for FPL to generate
18 savings and improve productivity?

19 A I think you may have misspoken. I think you
20 said from 150 to 150. I believe you may have --

21 Q Well, let me start over then.

22 Would increasing the upside of the
23 100-basis-point range above the allowed return on equity
24 to 150 basis points be a workable means of providing a
25 greater incentive for FPL to generate savings and

1 improve productivity?

2 **A** The core of my answer is no, in large part for
3 the reasons that we discussed earlier. While I do think
4 that might have some impact on productivity and
5 efficiency, it won't incentivize some other forms of
6 behavior, which I think are perhaps, at this stage, even
7 more important.

8 But in addition to that, the higher you raise
9 that potential, the less practical it becomes. There's
10 only so much one can do at any given point in time. So
11 if you tell me my ROE is 11 percent but I theoretically
12 could go to 15 or 16 percent, there may be no practical
13 way I can get there in any reasonable period of time,
14 and, therefore, the incentive impact may be no greater
15 than what is already in the plus or minus
16 100-basis-point band. So I think the core of my answer
17 is no, but it depends.

18 **Q** Okay. Could benchmarks be established that
19 effectively measure increases in productivity or cost
20 savings that could be used to reward utilities, in this
21 case FP&L, for being especially efficient and thereby
22 provide an incentive for especially efficient
23 production?

24 **A** Yes, they could. They certainly have been --
25 that approach has been used in other situations. I

1 think it is inferior to the approach that we are
2 proposing here for some of the reasons that we've
3 already discussed. I don't want to be repetitive. But
4 certainly that is one way that different regulatory
5 jurisdictions have attempted to focus on productivity.
6 Again, however, that only focuses on the productivity
7 piece, not the total customer value delivery.

8 Q Okay. Can you turn to page 31 of your
9 testimony, please.

10 A Yes.

11 Q And look at line 3. And there you state,
12 "Although not the direct purpose of FPL's proposed
13 adder, it could also work to encourage other electric
14 utilities to strive for continuously improving
15 performance and customer value in innovative ways as
16 well, in hopes of achieving a similar reward." Have I
17 stated that correctly?

18 A You have.

19 Q Do you agree that if the Commission were to
20 establish rewards for all utilities for achieving
21 certain benchmarks, that would provide a more certain
22 incentive for utilities to generate savings and improve
23 productivity?

24 A No, I don't, for all the reasons that I've
25 just been through.

1 **Q** Does FP&L have greater economies of scale than
2 other integrated investor-owned utilities in Florida?

3 **A** Again, we discussed this at my deposition.
4 The answer has to be I don't know. There is no uniform
5 concept of scale. Scale matters to different degrees
6 depending upon the cost element that we are looking at.
7 Many of the other -- in fact, now at this stage the
8 other three principal IOUs in the state are all part of
9 or associated with much larger entities. So the
10 definition of scale in this case can vary, so I don't
11 know the answer to that.

12 In addition, scale, per se, does not drive
13 efficiency. It may provide an opportunity to create
14 efficiency. But as Mr. Reed's benchmarks show,
15 companies within a scale band can still have very
16 different performances. So the answer is I don't know.

17 **Q** Okay. Why should the Commission allow a
18 50-basis-points adder for superior performance to FP&L's
19 allowed return on equity, given the long-term
20 environmental problems with cooling canals at Turkey
21 Point, the environmental violations at the Indian River
22 Lagoon, over 3 billion in hedging losses since 2003, and
23 the fact that FPL has reduced its fuel diversity over
24 time and is now reliant on natural gas for 72 percent of
25 its generation?

1 **A** Well, I object to some of the
2 characterizations that are inherent in that question.
3 However, that being said, the request here is to focus
4 on output, not input; customer value, not how we get
5 there; to focus on the totality of our performance,
6 good, bad, and indifferent. We don't do everything
7 perfectly. We have a long ways to go in a lot of areas.
8 But it is my testimony to you that the purpose of this
9 adder is to shift us towards focusing on the output
10 which we should all value, which is the delivery of
11 customer value, and that it is warranted in this
12 specific instance by FPL's actual delivery of customer
13 value today, which is vastly superior to national and
14 state averages. That is my testimony.

15 **Q** Thank you. And I have one further question.
16 Would you expect an electric utility that has greater
17 economies of scale than other electric utilities to have
18 lower rates, if all other things are equal?

19 **A** Not necessarily, for the reasons that I
20 described earlier.

21 **MS. BROWNLESS:** Thank you. We have no further
22 questions.

23 **CHAIRMAN BROWN:** Thank you, staff.
24 Commissioners, questions. Commissioner
25 Graham.

1 **COMMISSIONER GRAHAM:** Thank you, Madam Chair.

2 Mr. Dewhurst, welcome back this morning.

3 **THE WITNESS:** Thank you.

4 **COMMISSIONER GRAHAM:** I guess to stay on the
5 50-basis-points adder that Ms. Brownless was questioning
6 you, she asked you about the 50 basis points and why not
7 higher and lower. And you were going to say that "I can
8 explain to you why I came up with 50." I want -- I'd
9 actually like to hear why.

10 **THE WITNESS:** Sure. As I indicated, there's
11 some judgment here, and I think you're trying to balance
12 fundamentally two things. The incentive needs to be,
13 you know, significant enough to, frankly, get management
14 teams' attention and investors' attention. That's a key
15 part of the idea. But it also must be, in some sense,
16 proportional to what we're going after, which is the
17 delivery of customer value.

18 So just roughly in my way of thinking about
19 it, relative to the average utility in the U.S. today,
20 every year our customers are benefiting to the tune of
21 somewhere around 3, 3.5 billion each year; right?
22 That's the difference in overall performance level. So
23 relative to that, the 50 basis points is about
24 120 million. So 50 basis points certainly will get
25 people's attention on the investor side, the management

1 team side, but it is still, I think, very small compared
2 with the actual delivery of value today compared with
3 the average. So that was the thinking in there that got
4 me to that rate. But I will fully concede that there is
5 no, you know, perfect analytical way of getting there.

6 **COMMISSIONER GRAHAM:** All right. Earlier, and
7 I can't remember which intervenor you were talking with
8 at the time, you made a statement that we've done not
9 necessarily this in the past but things along this line
10 in the past as far as a basis points adder.

11 **THE WITNESS:** Yes.

12 **COMMISSIONER GRAHAM:** And since I've been
13 here, we've punished, let's say, or I guess you could
14 say we've penalized or incentivized for them to do
15 better when they've done poorly when it comes to
16 customer service, and where we've, you know, decreased
17 50 basis points or 20 basis points or even 10 basis
18 points because they weren't performing to what we
19 thought was satisfactory standards. And -- but that was
20 for past actions, and your vision here is more for
21 future actions; correct?

22 **THE WITNESS:** Well, again, it's really for
23 where are we today and every day in terms of delivery of
24 value as well as going forward? But, yes, it is also
25 intended to -- and I think, frankly, you've captured

1 some of my thinking in here, which is not only in
2 Florida but in other jurisdictions there have been
3 examples of -- I'll call it the downside. If you don't
4 deliver, you're going to get docked. And I'm not saying
5 that that's inappropriate.

6 What I'm arguing is that there aren't many
7 examples of the other side. And in my experience, the
8 other side, the upside, the incentive to try things that
9 are a little bit different to take some risks is often
10 more important. And the way that, I'll call it the
11 traditionally regulatory construct, works is, in my
12 judgment and my experience, having lived it now for 16
13 years, it tends to make us all try and focus on the
14 average. So if I am not too far away from what
15 everybody else is doing, then I'm not a huge risk of
16 disallowance or anything like that. And I think we had
17 an example of that just the other day in this room. If
18 I try something different, I'm open to the objection
19 that, well, why didn't you try that earlier?

20 So I think that's the nature of -- it's just
21 inherent in the way regulation has worked, as I've
22 experienced it. I think we need to change that. I
23 think we need to shift, as I said, to a focus on, and it
24 is forward-looking, how do I improve what it is the
25 customer wants out of this service? And that's what the

1 ROE adder is intended to do.

2 **COMMISSIONER GRAHAM:** So then why wouldn't the
3 other utilities have the right to come in to say that we
4 would like a 50 percent -- or a 50-basis-points adder
5 based on what we can do moving forward, and if we don't
6 do it, then we don't get to have it next time?

7 **THE WITNESS:** I don't -- I personally think
8 that that's a good -- I think the policy principle here
9 is a good one. But I want to be clear that in the
10 specific context of our application, this is just for
11 FPL. So I think the principle is a good one. As I
12 said, based on my experience, I would like to see
13 regulation move more towards that, what I call an output
14 focus. So don't judge us on the inputs. We assemble
15 the input for our business in quite different ways than
16 other companies do. But that is how we get to the place
17 where we are delivering superior customer value. So,
18 I'm sorry, that was a -- I went off your question.

19 **COMMISSIONER GRAHAM:** No, you're fine. No,
20 you're fine.

21 As I told Witness Santos, that I applaud the
22 job that Florida Power & Light has done as far as
23 customer service. I think when it comes to utilities --
24 and we've all have heard many, many, many service
25 hearings where the complaints are you have a monopoly

1 and they have no other choices and they're complaining
2 because the customer service is so bad. When we did the
3 service hearings for you, even people that came to
4 complain, even the Public Counsel stated the fact that
5 your customer service was very good. And so what you
6 were talking about before as far as you used this to
7 penalize people that are doing bad, I agree maybe there
8 should be something out there to use to reward people
9 for doing something that's good. But I look at it more
10 as past actions and not future looking. Because if
11 you're doing a good job, you should be rewarded for the
12 good job, almost just like your bonuses that you spoke
13 of earlier for the executives and for your employees.
14 At the end of the year, those bonuses are rewarded.
15 Those bonuses are not given upfront and then --

16 **THE WITNESS:** Okay. If I could comment on
17 that.

18 **COMMISSIONER GRAHAM:** Sure.

19 **THE WITNESS:** There's another aspect of this
20 which I, frankly, haven't brought out that I should
21 have, which is a part of this notion here is don't set
22 goals and do I achieve the goal or not? Simply look at
23 what is the delivery of value and measure it relative to
24 other people. So reward the thing that you are looking
25 for, and then people will find a way to work towards

1 that.

2 And just if I may, specifically to the analogy
3 with compensation, we have chosen to structure our
4 executive compensation system on that principle as much
5 as we can, and it's very different from most other
6 companies. So our indicators of performance, wherever
7 we can, are measured relative to what others are doing.
8 And so we look at if we're just delivering average
9 performance, we get an average evaluation on that
10 indicator. If we're delivering better than average, we
11 get an above average, and so on. So it's not here are a
12 few goals to go after. Do you meet them? Do you not?
13 That can get -- there are other issues where that
14 doesn't work so well. But it is a focus on what are you
15 actually delivering?

16 **COMMISSIONER GRAHAM:** Well, I agree. And just
17 like other utilities that customer service is
18 something -- like with the water utilities, you really
19 have no -- you have to deal with whatever water you pull
20 out of the ground. Some water, depending on where you
21 are, is better and cleaner than other places, and it
22 takes more effort to clean that water up and deliver it.
23 And so sometimes you don't have a control over the
24 quality.

25 Now with electricity, there's not necessarily

1 a quality, but you do have the fact that it's always
2 going to be there every time you turn that light switch
3 on. So it's the dependability that's there. You have
4 acts of God that are out there that you have no control
5 over, so but what you do have control over is customer
6 service. So less than -- less than satisfactory and
7 moving better than satisfactory is what I think every
8 utility should strive for. And so that's where maybe
9 there should be some sort of, as I refer to it, bonus
10 system set up there so it's forcing utilities or
11 allowing them to strive for better than average to
12 superior.

13 I was trying to figure out where the 50 basis
14 points came from, and I was maybe -- I was thinking
15 maybe the last rate case and this rate case you're not
16 looking for the executive bonuses to be part of the
17 revenue requirement and you're also only looking for
18 50 percent of everybody else's bonuses. And as I talked
19 to Witness Slattery earlier, that number came out to
20 about 29 -- I believe it was \$29 million roughly about
21 what it was.

22 **THE WITNESS:** Yes, subject to --

23 **COMMISSIONER GRAHAM:** Which, to me, that comes
24 out to about 12 basis points. And so past actions going
25 forward, I thought maybe this was kind of a way of

1 making yourself whole and not anything more than that.

2 **THE WITNESS:** No. Honestly, totally distinct.
3 I continue to believe that the full cost of paying our
4 people what we have to to be competitive should be
5 included in rates, but that was not an issue that we
6 wanted to take up on this go-around. We've got enough
7 issues here.

8 **COMMISSIONER GRAHAM:** Okay. Thank you.

9 **CHAIRMAN BROWN:** Thank you.

10 Commissioner Edgar.

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

12 Just a couple of questions. Good morning.

13 **THE WITNESS:** Good morning.

14 **COMMISSIONER EDGAR:** And Ms. Brownless and
15 Commissioner Graham asked a couple of the questions I
16 had, so I apologize if I'm a little duplicative. And
17 I'm trying to adjust in response to the answers that
18 you've given.

19 And I -- so with that in mind, I'm a little
20 perplexed by a couple of the answers that you just gave
21 to Commissioner Graham, so I'd like to delve into that a
22 little bit here.

23 I think Ms. Brownless brought up in one of
24 her, or a few of her questions, is the request for the
25 adder an incentive or a reward? And I realize that in

1 some instances those terms could perhaps be synonymous
2 or interchangeable, but I think it's an important
3 distinction here in light of the regulatory compact.

4 So I thought, in response to Ms. Brownless,
5 you said that the adder is intended to be and requested
6 to be an incentive, not a reward for past performance.
7 But in response to Commissioner Graham, you talked about
8 bonuses as a reward for past performance for employee
9 executives, and I thought you were equating the adder
10 with that type of philosophical approach. So my
11 question with that, because I think I heard two
12 different things from you -- maybe it's a distinction
13 without a difference, but I think it might be not. So
14 is the request for the .5, is it a reward for past
15 performance or is it an incentive?

16 **THE WITNESS:** In my view, it's an incentive
17 fundamentally. But I do agree that this is one of those
18 things where different people reasonably could see it
19 slightly different ways. If I may try and kind of
20 square the circle at the risk of making it worse.

21 **COMMISSIONER EDGAR:** Please, yes. Please,
22 because you perplexed me.

23 **THE WITNESS:** I've done that to other people.
24 To me, they are very analogous, although I
25 will concede that there's a little bit of time frame

1 difference involved. But in our -- to take the
2 compensation analogy, it is based on -- yes, there's a
3 period of a year, but it's based on what is the value
4 delivery in that period? Okay? And this request is
5 based on the value delivery really in the current
6 period, today, tomorrow, what we could reasonably expect
7 going forward, given that we are where we are.

8 So, yes, there's a little bit of difference
9 over the time frame over which we measure it. And in
10 that sense, I think it's appropriate to look, if you're
11 considering this, not merely at customer value delivery
12 literally today, but has that been sustained for a
13 reasonable period of time? And obviously Witness Reed's
14 testimony, I think, supports that. So in that sense,
15 again, I think it's analogous. So the past is relevant,
16 but its relevance is to where we are today. Does that
17 make it any better, or have I made it worse?

18 **COMMISSIONER EDGAR:** Doesn't make it any
19 better. Want to try again?

20 Let me -- incentive versus reward. How is
21 this an incentive? How would the adder increase high
22 performance and value for customers?

23 **THE WITNESS:** I think it's the prospect of its
24 continuance that is the incentive impact. So if there's
25 a single measure that investors are going to look to, it

1 will be the return on equity. So that's why the
2 measure. But if there's the -- you know, you're
3 receiving that today based on current delivery, and the
4 incentive is the continuance of that, if you continue to
5 do that, and hopefully if you continue to improve. So
6 that's the incentive aspect.

7 So I'm thinking about it now, I can see why
8 people would also see it as a little bit of a -- I can
9 see the reward angle to it as well. I think it's -- the
10 more important thing is the incentive signal it sends,
11 but I don't disagree that reasonable people could see
12 that reward angle.

13 **COMMISSIONER EDGAR:** The request that is
14 before us is, my understanding, is that if the full
15 request were -- I believe we had testimony over the last
16 few days that if the full request were to be granted,
17 that FPL commits to not come back for a rate request or
18 a rate case for four years. So with the adder as part
19 of the request that is before us, that would be a
20 .5 adder for four years. So, again, how is it an
21 incentive for high performance, value to customers for
22 four years if it's a given for four years.

23 **THE WITNESS:** So I guess, again, the incentive
24 is the -- is two-fold. The opportunity to see that
25 continue and equivalently the threat that it will be

1 taken away. Potentially it could be taken away even
2 within that period, at least as I see it. I don't think
3 it would ever happen. But if delivery -- actual
4 delivery of customer value somehow collapsed next year,
5 I think it would be entirely appropriate to say end of
6 story. That's not going to happen in the real world.

7 **COMMISSIONER EDGAR:** Okay. Thank you. Just a
8 few more.

9 **CHAIRMAN BROWN:** Absolutely.

10 **COMMISSIONER EDGAR:** Okay. And Commissioner
11 Graham did ask the exact question I was going to ask,
12 which is in response to Ms. Brownless, you had said that
13 you had recommended the .5 could be another amount, and
14 Commissioner Graham asked you to explore that a little
15 bit.

16 My understanding is that some years ago a
17 .2 -- and I don't know if the term "incentive" was used,
18 but was granted or authorized for Gulf some years ago.
19 I was not -- amazingly, I was not here then. That was
20 before me, so I was not a part of those deliberations
21 and, therefore, don't really know what all went into
22 that.

23 But recognizing that that is the one precedent
24 along these lines that I'm aware of in the electric
25 sector to point to of a past Commission decision along

1 these lines, if .2 is what was granted then, why .5 now?

2 **THE WITNESS:** Sure. Okay. And I probably
3 should have said this in response to Commissioner
4 Graham. That part of how I got to the .5 was also a
5 brief look -- and, again, I wasn't there, it's a
6 different company, so I'm pretty limited on this -- but
7 the kinds of things that the Commission took into
8 consideration in that case and the relative level of
9 performance that that company was delivering compared to
10 the level of performance that FPL is delivering to its
11 customers today, and my judgment was that there was a
12 significant difference and it warranted increasing that.

13 That being said, I get the policy basis for
14 this from my, more from my common sense reading of the
15 statute than I do from a particular Commission order. I
16 think the statute is, to me, I'm a layman, crystal clear
17 that you are allowed to consider the value of the
18 service that we are delivering, you are allowed to
19 consider the sufficiency, adequacy, and efficiency, that
20 basic standard. We're supposed to meet the reasonable
21 standard, but it then goes on to say you're allowed to
22 consider the degree, in setting rates, to consider the
23 degree of those variables, clearly implying that they
24 can more or less and you can base a decision. That's a
25 common sense -- you know, I'm not a lawyer, but that's

1 how I get to there's a clear policy basis for it.

2 **COMMISSIONER EDGAR:** Thank you. That was very
3 helpful.

4 One of the things when -- over the years when
5 I've looked at these issues that I try to keep in mind
6 is value to customers, and I think that's what I'm
7 hearing you say.

8 Switching gears slightly, you have talked
9 about in your testimony and were asked some questions
10 and the term of, you know, a strong balance sheet, the
11 strength of the FPL balance sheet being good for
12 customers, a good value for customers, and contributing
13 to the high performance of the -- high performance of
14 the company. So can you elaborate on that a little bit?
15 What is the benefit of a strong balance sheet as far as
16 contributing to high performance, value to customers,
17 and flexibility within those sorts of decisions and
18 performance?

19 **THE WITNESS:** Sure. Okay. So there's
20 formally two reasons why it's my judgment that we should
21 have a stronger balance sheet than average: situation
22 and strategy. Situation has to do with the risk profile
23 and all the different things, some of which you and I
24 have been through together. But let me set that aside.

25 Strategy, our core strategy is built on a

1 foundation of financial strength, and the reason for
2 that is that financial strength gives you advantages
3 operationally. I cite some of this, to give you a
4 simple example, directly in my testimony.

5 But as an illustration, my goal, as the CFO,
6 is to make sure that the operating teams, in particular,
7 the folks who are going to deploy capital, don't have to
8 change what they want to do because I don't have the
9 resources to give them. So the whole way in which you
10 sequence and schedule construction activities is very
11 different if you know that you don't have to worry about
12 where the money is coming from. And we see this
13 because, as you know, we operate in many states in
14 the -- I'll call it the independent power sector. And
15 so we see examples of competitors who are constrained
16 financially. And it doesn't mean they can't execute
17 projects, but they have to make compromises. So that's
18 a core one, and it's one of the reasons -- not the only
19 reason, but one of the reasons why we're capable of
20 delivering these complex capital projects at very, very
21 competitive costs.

22 In addition, almost everything we do with our
23 suppliers is conditioned on that strong balance sheet.
24 Knowing that they're going to get paid when they want to
25 get paid essentially, they will give us better terms and

1 better deals than would otherwise be the case. So it is
2 not uncommon for us to be in a situation where we can
3 offer a supplier flexibility on how, when and how they
4 get paid, and in return we get a better deal. Those
5 sorts of things are pervasive throughout the
6 organization.

7 And so certainly as long as I've been in the
8 business, but I think it clearly preceded me, that's
9 been foundational to our overall strategy. I'm not
10 going to sit here and claim it's the only reason, but it
11 is a very important foundation. So if we take away
12 that -- it won't happen overnight, but we will start to
13 lose that edge.

14 **COMMISSIONER EDGAR:** And as you say, that edge
15 is, again, to have some flexibility and some management
16 discretion in order to maximize performance and value
17 for customers?

18 **THE WITNESS:** Absolutely. That's -- and it's
19 a part of the reason why these three modernizations have
20 been so successful and so competitive and are
21 contributing to keeping bills low.

22 **COMMISSIONER EDGAR:** Okay. On that -- keeping
23 along that line but coming back to the point again of
24 the request being basically for four years without a
25 rate case coming in during that time period, how does

1 that four-year, if given, hypothetically, just for
2 purposes of discussion --

3 **THE WITNESS:** Let's be optimistic.

4 **COMMISSIONER EDGAR:** Oh, I don't know about
5 that. But for the -- for four years, that type of
6 stability in rates for customers and certainty as -- for
7 the company, how does that contribute to that strong
8 balance sheet and flexibility as a result? We had some
9 discussion yesterday about, I think it was with
10 Mr. Allis, about, you know, one year versus four years
11 or other time periods, and that's what I'm trying to get
12 to.

13 **THE WITNESS:** Okay. I wasn't present for that
14 one, so I'm not quite sure.

15 **COMMISSIONER EDGAR:** Okay.

16 **THE WITNESS:** But I guess my answer is there's
17 a little bit of -- in some ways it helps and in some
18 ways it doesn't help. So to the extent that there is
19 rate predictability and stability that has a positive
20 impact on our ability to attract capital and all of
21 those kinds of things, there is a little bit of an
22 offset because it also, as I describe in my testimony,
23 does give us a little bit of exposure to potentially
24 rising interest rates, inflation rates. So from an
25 investor perspective, that's a little bit of an offset.

1 So the net from the investor side I think
2 is -- it's a little hard to say whether it's net
3 positive or net negative. Obviously it depends upon the
4 terms of the -- the basic terms of the, I'll call it a
5 settlement agreement. So there are some negative
6 aspects.

7 But all that being said, I don't think it has
8 a huge impact because as long as we continue the kind of
9 financial policies that we've had for a long period of
10 time, including the maintenance of the strong balance
11 sheet, I believe we will continue to be able to execute
12 all the programs that we have that will continue to
13 increase the customer value delivery.

14 **COMMISSIONER EDGAR:** Okay. And I think my
15 final question for the moment, a different line. I
16 think it was Mr. Wiseman who asked you, but that could
17 be wrong and it could have been somebody else, about
18 some of the other FPL, NextEra affiliates. And I
19 think -- and I did not find this in your direct
20 testimony, but I do think I heard it discussed last
21 night, although I was tired, what is NextEra Energy
22 Partners?

23 **THE WITNESS:** NextEra Energy Partners is --
24 it's actually an independent company. We sponsor it and
25 we own still -- when I say "we," NextEra Energy, the

1 parent company, holds a significant piece of the equity.
2 It owns a series of renewable projects that previously
3 were owned by Energy Resources. So it has nothing to do
4 with FPL. And I apologize if there was any confusion
5 about that last night.

6 **COMMISSIONER EDGAR:** And, therefore, nothing
7 to do with the rate case.

8 **THE WITNESS:** Correct.

9 **COMMISSIONER EDGAR:** Okay. All right. Thank
10 you. Thank you.

11 **CHAIRMAN BROWN:** Thank you, Commissioner
12 Edgar.

13 Commissioner Brisé.

14 **COMMISSIONER BRISÉ:** Thank you, Madam Chair,
15 and thank you for being here, Mr. Dewhurst.

16 I'm going to go back to the adder for a little
17 bit and sort of talk about your incentive compensation
18 for your executives and your -- the workforce overall.

19 **THE WITNESS:** Okay.

20 **COMMISSIONER BRISÉ:** When you provide -- when
21 the company provides the incentive pay, does that stay
22 for a certain period of time or is it for a definite
23 piece of time or is that whatever -- because I thought I
24 heard Ms. Slattery speak about a percentage that is
25 added at the end of the year. So does the salary go up

1 to that level, or is that incentive just paid one time
2 as a bonus?

3 **THE WITNESS:** So the answer is it depends.
4 For most people, it is what I'll call a standard, I got
5 my base, I have an opportunity to earn a
6 performance-based cash incentive, and that will get paid
7 out in February of the following year after all
8 evaluations are done.

9 There is a portion, as you go up the firm, as
10 is common, the structure becomes more complex, but there
11 is a portion of particularly executive compensation
12 which is based on a multiyear look. So -- and, again,
13 I'm -- I don't want to open this can of worms again --
14 analogous to what we're looking at here. So it depends
15 a little bit. But for most employees, it will be cash
16 incentive that's paid out.

17 **COMMISSIONER BRISÉ:** And then you have -- then
18 the employee has to earn it again the following year.

19 **THE WITNESS:** Yes. And in that sense, I
20 guess, again, I think of this as analogous. We're
21 asking for it based on what we've done. So it's like
22 coming to the supervisor at the end of December and
23 saying, "I've delivered. Please" -- but I've got to
24 earn it again all the time.

25 **COMMISSIONER BRISÉ:** So who sets the

1 parameters for the evaluation?

2 **THE WITNESS:** Again, it depends on the level.
3 So at the lower levels, I would say they are more --
4 these are task-oriented goals established through
5 negotiation between the individual and the supervisor.
6 All right? As you go up in the firm where it becomes
7 more possible to directly associate your activities with
8 the final results that we're delivering to customers, it
9 is much more likely that you will have measures that are
10 simply things like what's our SAIDI performance relative
11 to everybody else? So it does vary. The lower levels
12 would be through negotiation. We always encourage the
13 principal -- certainly I always did it with my teams,
14 that I would -- my starting point was I would ask people
15 to come and say, "What do I think I should be working on
16 next year and, you know, what do I think the standard
17 you should be holding me to is?" Surprisingly enough, I
18 tended to nudge those up. That's the way those things
19 work.

20 **COMMISSIONER BRISÉ:** So my point is that there
21 are clearly defined benchmarks or things that the
22 employee can look to, and there's sort of a connection
23 to attainment for that.

24 Part of my challenge with the way the adder is
25 being presented is that there isn't a clear benchmark

1 that we can look to and say, well, you know, here's
2 50 -- the 50 points makes sense or 25 makes sense or 15
3 makes sense or whatever based upon these benchmarks that
4 are clearly articulated and a degree of attainment
5 associated with it.

6 **THE WITNESS:** I would respectfully disagree.

7 **COMMISSIONER BRISÉ:** Okay. That's your right.

8 **THE WITNESS:** May not be good judgment, but I
9 think there's plenty of evidence. I will concede
10 there's a -- there is a complication in here. But,
11 again, the focus is customer value. To me, there are
12 four fundamental attributes: There is cost
13 affordability; there is reliability; there is customer
14 service and its execution; and then there is a fourth
15 one which I think is very important in this industry,
16 which is sort of protection against the possibility of
17 future increases in my bill, and specifically our
18 emission profile. So those are the four I think to look
19 at.

20 So I think there is plenty of evidence on all
21 four of those that we are significantly exceeding today
22 reasonable industry benchmarks. On cost, if I take a
23 total cost view, I get to my 3-, 3.5 billion number.
24 Witness Reed's testimony shows that strictly on an O&M
25 basis is about 1.9 billion every year compared with a,

1 you know, benchmark. So I think there's plenty of
2 evidence for you to consider on that.

3 There's plenty of evidence on the reliability
4 front. Reliability gets a little complicated because
5 not everybody measures it the same. But I think, again,
6 everybody -- I would hope everybody would concede that
7 we are doing a significantly better job than average on
8 reliability. I think there's been plenty of evidence,
9 Commissioner Graham has talked about it a little bit, on
10 the execution of customer service. And I think there's
11 plenty of evidence on our emission profile.

12 So in this particular instance, I'm immensely
13 proud of the fact that we are doing a better than
14 average job on all major attributes. So the
15 complication that I will concede is how would you in a
16 hypothetical situation trade those off? What happens if
17 you had an instance where cost was good but reliability
18 was not so good? I think that has to be a matter of
19 judgment. What's great about our situation is we've got
20 all of them at the same time. So it's that total
21 package that I think is pretty unique.

22 **COMMISSIONER BRISÉ:** So do you believe that
23 FPL has the potential to do a lot better?

24 **THE WITNESS:** Over time, absolutely, and we
25 are committed to doing that.

1 **COMMISSIONER BRISÉ:** So why not benchmark your
2 point right now and set a goal that is agreed upon, and
3 when you reach that, at that point the adder kicks in?

4 **THE WITNESS:** You could do that. I would
5 argue that over the long term that will be a less
6 successful system. It is certainly less analogous to a
7 competitive marketplace, which, to me, is, you know,
8 what regulation is intended to serve as a surrogate for.

9 I can explain why I think it's not so good in
10 the long term. But on the other side, the analogy to a
11 competitive marketplace, a competitive marketplace
12 doesn't care how you get there. It just says that's the
13 result, and if you're better, you're going to have a
14 better bottom line. That's -- there is no more powerful
15 force that I know of in the human world than the
16 competitive marketplace. So that's how I get there.

17 **COMMISSIONER BRISÉ:** Okay. One last question
18 on the adder. Is there any indication that if the adder
19 is not a part of the result of this rate case, that
20 investors will react negatively?

21 **THE WITNESS:** That's a very hard question to
22 answer, so let me see if I can address it this way. My
23 testimony is certainly not that the adder is necessary.
24 I think it's good policy. It's not necessary. I'm sure
25 you will see this when parties make their arguments.

1 But we've got to where we are today without having the
2 adder in place. Right? And I can assure you that the
3 folks that I'm leaving behind will do their absolute
4 level best no matter what, but that doesn't mean that
5 the results that you will actually see will be the same.
6 So that's the best I can do.

7 **COMMISSIONER BRISÉ:** All right. I have two
8 more questions. Let me see where they are. I'm going
9 to shift over to risk just a little bit. On page 18 you
10 mention sort of the five areas of risk that the PSC
11 should consider when assessing FPL. Which one of those
12 risks or are there any of those risks that are solely
13 borne by the company, or are they primarily borne by the
14 ratepayers?

15 **THE WITNESS:** Well, the answer first is that
16 in the context of my testimony, I'm looking at it
17 through the eyes of the company and its investors. So
18 these are -- this is inherently an investor focus. To
19 the extent that ultimately our cost structure is driven
20 by some of these factors, then indirectly over the long
21 term I suppose you could argue that customers are also
22 implicitly bearing them. But this specifically was
23 intended from a -- looking at it from an investor
24 perspective. And I was simply here trying to provide
25 the Commission with a kind of summary overview of the

1 totality of the company's risk factors. One of the
2 points that I make in the testimony is every company has
3 a different risk profile is what I call it, a
4 combination of lots of different kinds of risks, and
5 it's the individual profile that leads to a particular
6 response. So different companies will structure
7 themselves differently because they have a different
8 risk profile.

9 And in response to, I believe it was
10 Commissioner Edgar's question earlier, that's the
11 situation piece of why we maintain a stronger than
12 average balance sheet. Our situation, this particular
13 mix of risk factors, to me, says that it is smart to
14 maintain a stronger than average balance sheet. So that
15 was the context there.

16 **COMMISSIONER BRISÉ:** But would you agree with
17 me that the risk is primarily borne by the consumers and
18 the value that is provided to them is the fact that the
19 company can manage those risks and present value to them
20 as a result of engaging in service with the company?

21 **THE WITNESS:** I hadn't thought of it that way,
22 but I agree there is a clear risk shift that is inherent
23 in the provision of the service. We are certainly much
24 better equipped to manage these risks than consumers
25 are. I had not thought of it in those terms, but I

1 think you -- yes, I agree.

2 **COMMISSIONER BRISÉ:** Okay. And so my final
3 question, I asked a similar question to Mr. Silagy, what
4 is your response to the consumer who values your
5 service, agrees that the service is excellent in
6 quality, but they're not in a position to pay more for
7 it? And so how do they manage not only the direct
8 impact but the residual impact that affects them in
9 every other aspect of their lives as a result of the
10 wide impact of the request?

11 **THE WITNESS:** Okay. I'm probably about to
12 show you why I'm a CFO and not in marketing and a
13 communications.

14 So there are two parts to my answer. I will
15 certainly concede that unfortunately there are a number
16 of customers, hopefully a small number, whom we serve
17 who genuinely have true affordability issues and simply
18 don't have the resources, at least relative to the scale
19 of the increase we're asking about.

20 **COMMISSIONER BRISÉ:** I'm not primarily talking
21 about those. I'm talking about --

22 **THE WITNESS:** Okay. But I think you've heard
23 testimony from Ms. Santos that we -- there are programs
24 for those people.

25 **COMMISSIONER BRISÉ:** Sure.

1 **THE WITNESS:** So we're really talking about
2 the others. Okay?

3 **COMMISSIONER BRISÉ:** Sure.

4 **THE WITNESS:** And this is the part where it's
5 the cold-hearted CFO. How I personally can get
6 comfortable looking someone in the eye and saying,
7 "We're asking for a rate increase," is that even with
8 the increase -- and, again, let's be optimistic and
9 assume that, you know, the collective testimony of my
10 colleagues persuades you that you should give us
11 100 percent of the ask -- even with all that, we will
12 continue to have one of, if not the most, affordable and
13 best value propositions for an extraordinarily valuable
14 service. So the value of the service that we deliver
15 far, far, far exceeds the cost.

16 So nobody likes to pay more. I'm sure, you
17 know, we could all into the Apple store and say, "Okay,
18 well, that 395 object, I really like it if I could buy
19 it for 350." But if that's the price, and if the price
20 has been reasonably determined on competent evidence, et
21 cetera, et cetera, that that's what the cost of this
22 service should be, I don't have a -- my conscience is
23 clear on that. We are continuing to deliver a great
24 value proposition.

25 And then if, in addition to that, that very

1 increase is -- in part ensures or provides the
2 opportunity to make sure that we continue to deliver
3 that superior value, I think that's a good thing. So my
4 conscience is very clear on that.

5 **COMMISSIONER BRISÉ:** All right. Thank you
6 very much.

7 **CHAIRMAN BROWN:** Thanks, Commissioner Brisé.
8 Commissioner Patronis.

9 **COMMISSIONER PATRONIS:** Thank you, Chairman.
10 Good morning.

11 **THE WITNESS:** Good morning.

12 **COMMISSIONER PATRONIS:** So how long have you
13 been with the company?

14 **THE WITNESS:** I joined full time in 2001. I
15 had a period prior to that when I was in a consulting
16 role.

17 **COMMISSIONER PATRONIS:** Okay. Last year I
18 went down Riviera Beach along with Mr. Kelly, and I'm
19 glad that we got to tour your facility. But what was so
20 striking to me is -- I grew up in the restaurant
21 business and then became a politician, so it's always
22 been sensitive to customer service and quality and
23 consistency. All the operations that I witnessed
24 through that period or that tour was like a sewing
25 machine. Nobody could have been totally prepared for

1 anybody's tour or visit, but everything that I saw was
2 meticulous. I think every meeting we had started off
3 with a safety briefing, even inside an office building.
4 So in saying that, the consistency that I saw in your
5 operations from top to bottom, from every stage were
6 really impressive. So I just want to just compliment
7 what I witnessed. And I'm glad Bruce Ritchie is here
8 today to make sure we have everything not taken out of
9 context.

10 So -- but in saying that, a few statements.
11 I'll give a lot of credit to Commissioner Edgar with
12 this, but with storm hardening and the smarter
13 technology y'all have embraced, would you agree that's
14 given you greater predictability?

15 **THE WITNESS:** Greater predictability.

16 **COMMISSIONER PATRONIS:** In service.

17 **THE WITNESS:** Oh, it certainly contributed to
18 our improvements in day-to-day reliability. Yes, I
19 absolutely agree with that, and that's one of the
20 reasons why I think it makes sense to continue to
21 execute the storm hardening program, frankly, as quickly
22 as we can.

23 **COMMISSIONER PATRONIS:** Sure. Well, and
24 greater predictability, will that also equate to less
25 downtime?

1 **THE WITNESS:** Yes, overall. That is showing
2 up in day-to-day operations. To be completely candid,
3 we still don't know how the system, as we harden it, is
4 going to perform under stress. There will -- if we have
5 a, you know, a major event, there will be outages, there
6 will be large numbers of outages, it will still take us
7 time to get our customers back in service, but we will
8 be able to do it significantly better than we used to.

9 **COMMISSIONER PATRONIS:** And then with less
10 downtime, would that also equate to less labor, less
11 repairs, less frustration?

12 **THE WITNESS:** Yes, certainly that's our base
13 expectation. I do want to, if I may, put one little
14 caveat on that. Again, this coming from the perspective
15 of the CFO, and I'm paid to worry about risk, or I was
16 paid to worry about risk.

17 I'm not totally convinced yet that the storm
18 hardening initiative changes what I'll call our tail
19 risk profile significantly. What I mean by our tail
20 risk, which is the one I have to be prepared for and why
21 we have to have the liquidity facilities to which I
22 testified, et cetera, et cetera, is the really extreme
23 event where we have multiple storms in succession, as we
24 did in 2004. My nightmare event is you couple that with
25 disruptions in natural gas supply, which we, you know,

1 saw the potential for back in 2004, 2005, and if that
2 comes on top of a time when the capital markets are
3 stressed. That's the core reason why I want to maintain
4 that strong balance sheet. We want to be able to not
5 just survive bad events, but be able to continue to
6 deliver at the standard that we normally do in the face
7 of stress events. So that's my caveat.

8 **COMMISSIONER PATRONIS:** It's funny, I have a
9 -- it's actually one of your neighbors down in Riviera
10 Beach was frustrated. He was eating at our family's
11 restaurant, and he says, "My concern is what happens if
12 the natural gas line gets broke?" I said, "Well," I
13 said, "you'd see the big diesel tank outside the
14 combined cycle." I said, "It's a dual fuel." And it
15 was funny, he's a large business operator down there,
16 and those type of "what if" factors, that's another
17 thing that impressed me about your operation. I mean,
18 and I've gotten to -- I'm a big customer service person.
19 I really am. And, you know, when we went and saw your
20 emergency operations, I mean, you're taking every
21 extreme possible frustration and taking it off the
22 table. If the neighborhood is wiped out, you have Wi-Fi
23 trucks. If, you know, there's individuals that can't be
24 communicated to through normal means because they've
25 turned off their phone lines because they've gone

1 wireless, you're, you know, embracing social media in
2 ways that -- it looked like a command center just to
3 deal with social media just to keep your customers and
4 your clients engaged and involved and informed. You
5 know, so to -- you leave no stone unturned. It was
6 impressive.

7 And then in all that, I see that creates less
8 frustration. I mean, if I'm the customer and you've
9 given me so many outlets to make sure that I'm informed
10 about a looming threat and then you've taken all of
11 those concerns off the table, to me that also helps the
12 morale of the company in general. That -- I mean, would
13 you not agree?

14 **THE WITNESS:** Absolutely. I worked as a
15 consultant for probably, over the course of my career,
16 20 percent of the Fortune 500 companies. I think we
17 have a very unusual culture, and I have loved being a
18 part of it.

19 **COMMISSIONER PATRONIS:** Well, I know when --
20 it's kind of funny, in the restaurant business, the
21 nights that are slow are usually the nights that we have
22 the most problems. The nights that we're running as
23 hard and as fast as we can, it's -- nobody has a chance
24 to think and they go into just, you know, function mode
25 and they seem to do their job much better.

1 I guess -- and where I'm getting at is getting
2 back to the adder, you do so many things so well right
3 now. How is the adder going to change what I've
4 witnessed?

5 **THE WITNESS:** So I guess my -- the answer to
6 that question has to be in two parts. There's what I'll
7 call the abstract part that you have to believe that
8 results will be different under a different incentive
9 structure. So I'll leave that one aside because I think
10 we've already talked about it.

11 The other aspect is really the how do I come
12 up with things that I don't even know how to do right
13 now? So -- and that's why it's a different environment.
14 So, you know, if we had identified something else to
15 improve, it would already be on the list. Right? We're
16 committed to that. This is all about how do you create
17 a culture that is constantly thinking ahead. And back
18 to the response of Commissioner Graham's question,
19 that's why I think it's important to have a piece on the
20 upside. It's incentivizing taking risks, trying
21 different things, and that's what the traditional --
22 I'll call it the traditional regulatory model doesn't
23 do.

24 But you can't put your finger on any one -- I
25 can't point to any one specific action that any

1 individual employee would take that would be different,
2 and yet I know in my heart of hearts that the results
3 will be different. Maybe not next year, maybe not the
4 year after. But if you have a system like that, ten
5 years later it will be different.

6 **COMMISSIONER PATRONIS:** Thank you.

7 **CHAIRMAN BROWN:** A lot of good questions asked
8 by my colleagues. I just have two questions, very
9 direct. The -- well, just to set the premise, the 50
10 basis point, you said, is about 120 million?

11 **THE WITNESS:** Revenue requirement, yes.

12 **CHAIRMAN BROWN:** The revenue. What would FPL
13 do with that additional revenue if the Commission
14 actually granted that?

15 **THE WITNESS:** As a practical matter, it would
16 go into -- you know, the cash associated with that would
17 go into the overall cash flow, and essentially it would
18 get plowed back into the business. We are in a
19 situation where we have significant future opportunities
20 to continue to invest capital for the good of the
21 customer. We don't -- it's a very strong business, but
22 we don't generate as much cash as we need, so it will
23 get, as a practical matter, reinvested in the business.

24 **CHAIRMAN BROWN:** So would it go to salaries?
25 Would it go to bonuses? Where would it -- has that been

1 contemplated?

2 **THE WITNESS:** From a cash perspective --

3 **CHAIRMAN BROWN:** Yes.

4 **THE WITNESS:** -- as a practical matter, it
5 will go into capital investments.

6 **CHAIRMAN BROWN:** Capital investments.

7 **THE WITNESS:** Yeah. But --

8 **CHAIRMAN BROWN:** Okay. Go ahead. No, please
9 clarify. Please do.

10 **THE WITNESS:** Just a caveat. A dollar is a
11 dollar; right? So it's a total pool --

12 **CHAIRMAN BROWN:** 120 million is more than a
13 dollar.

14 **THE WITNESS:** One dollar is like another in
15 the sense that it displaces, you know, so we might not
16 have to go out and raise so much external capital as we
17 otherwise would.

18 **CHAIRMAN BROWN:** Okay. In your testimony, you
19 talk about risk and FPL's risks -- risk and you set out
20 a variety of factors, and you say that FPL's risk is
21 somewhat greater than most utilities in the country. I
22 have a hard time believing that. Can you elaborate on
23 that more?

24 **THE WITNESS:** Yeah. So, first of all, that's
25 a very general statement, and risk isn't just higher or

1 lower. Risk comes in lots of different forms. It
2 affects different perspectives differently. But in
3 particular, what's different about us is, as I was
4 discussing a little bit earlier in response to an
5 earlier question, this notion of tail risk and hence our
6 need to be able to support stressed scenarios. There is
7 no other utility in the country that is as exposed as we
8 are by nature of our geography and the way the overall
9 grid works. That's true from a storm exposure point of
10 view. But, you know, we are -- I often describe to
11 investors that Florida is like a cantilever anchored at
12 the Georgia border. All the people are down here. Not
13 all the people. Excuse me. Big concentrations of
14 people are down here. There's not much flow of
15 electricity down here, there's a flow of gas down here,
16 but the tendency is to go down like that. (Witness
17 indicating.) There is -- that has real operational
18 consequences. There is no other company in the country
19 that has that sort of situation on the -- certainly on
20 the scale that we do, and so that requires us to respond
21 in a different way.

22 **CHAIRMAN BROWN:** So the risk, you would say,
23 is primarily based on geographic location of the
24 territory?

25 **THE WITNESS:** The biggest single challenge is

1 driven by that geography, yes.

2 **CHAIRMAN BROWN:** And you think that
3 differentiates FPL from all other utilities in the
4 state?

5 **THE WITNESS:** In degree, yes, because while
6 most of the rest of the state is affected to some
7 degree, you know, if you -- we're further south. So to
8 the extent that our neighbors -- I still call them
9 Progress/Duke -- have issues, they may be able to draw
10 on Southern Company or they may be able to draw on us.
11 I love The Bahamas but --

12 **CHAIRMAN BROWN:** I got married there, just
13 adding. Thank you. Redirect.

14 **MR. LITCHFIELD:** Thank you, Madam Chair.

15 **CHAIRMAN BROWN:** Oh, before we get to that,
16 Commissioner Graham has another question.

17 **COMMISSIONER GRAHAM:** She wanted to skip right
18 over me.

19 **CHAIRMAN BROWN:** I did.

20 **COMMISSIONER GRAHAM:** Kind of summing up what
21 my fellow Commissioners were talking about, and you can
22 see that the whole adder idea is something that's very
23 intriguing to us. We've talked and we've spent a lot of
24 time talking about the things that Florida Power & Light
25 does very well, and you mentioned before that, you know,

1 you guys aren't perfect, there's things that you guys
2 don't do well. And back to what Commissioner Brisé was
3 talking about, benchmarking, how do you -- it's
4 difficult to arbitrarily go out there and say, "25, 50,
5 75 basis points. What's the best way? How do you
6 change it next time?" How do you go about benchmarking
7 the things that you do well and the things that you
8 don't do well so there's a hard, fast line? It takes
9 away the objectivity and you know if you hit this mark,
10 that's where it is. If you hit that mark, that's where
11 it is. I mean, even some of the things you do negative,
12 there's no risk to it for you, but it still should
13 affect that incentive.

14 **THE WITNESS:** I'm not sure -- I'm not sure
15 that I completely understand the question. I will
16 certainly concede that it would be nice if you could
17 reduce the whole problem to discrete measures and, you
18 know, measure everything, but I don't think that's
19 really practical. I think we are collectively somewhat
20 stuck with having to judge thousands of different
21 things. And that is what leads me to the conclusion
22 that the right thing to focus on is not the individual
23 pieces -- let us worry about that -- but focus on the
24 output. What are we actually delivering to our
25 customers?

1 So as I think you have seen in the last few
2 days, we benchmark pretty much everything in sight that
3 we can. But different things will have different
4 degrees of actionability at a different point in time
5 based on where the organization is. Those are things we
6 should be worrying about.

7 I think the most important thing is to get the
8 focus on customer value delivery, that combination of
9 low bills, high reliability, excellence in customer
10 service, and low emission profile. And if we can just
11 collectively move the framework a little bit in that
12 direction, even if it takes us some time to get there, I
13 think that will be, in the long run, the best thing for
14 customers.

15 **COMMISSIONER GRAHAM:** Thank you.

16 **CHAIRMAN BROWN:** Commissioners, before I go to
17 Mr. Litchfield, any other questions? We'll get a chance
18 to talk with you again on your rebuttal.

19 Redirect.

20 **MR. LITCHFIELD:** Thank you, Madam Chair.

21 **EXAMINATION**

22 **BY MR. LITCHFIELD:**

23 **Q** I'm going to start with reference to the
24 discussion that has just been had between you,
25 Mr. Dewhurst, and several of the Commissioners here with

1 respect to the ROE adder, and part of that discussion
2 related to whether the request that was being made by
3 the company is for past performance or future
4 performance. Do you recall those questions and your
5 discussion?

6 **A** Yes.

7 **Q** Okay. Could I ask you to turn to page 27 of
8 your direct testimony --

9 **A** Sure.

10 **Q** -- lines 6 through 10?

11 **A** Yes.

12 **Q** And if you could read that -- go ahead and
13 read it out loud, I suppose.

14 **A** The question is, "Please describe the ROE
15 performance adder proposed by the company." And my
16 response is, "FPL is asking the Commission to increase
17 the authorized ROE established in this case by 50 basis
18 points, both to reflect what FPL has already
19 accomplished in its effort to deliver superior value to
20 its customers and as an incentive to promote further
21 efforts to improve the customer value proposition."

22 **Q** Is that -- I'm sorry. Go ahead.

23 **A** And so I think, back to my discussion,
24 Commissioner Edgar, with you, in a sense there is a
25 little bit of an element of both. I think the

1 important, the more important thing in a sense for the
2 long term is the incentive, but there is a mix of those
3 two.

4 Q And you were asked last evening by Mr. Moyle
5 with regard to whether you thought that this was a
6 policy initiative for the Commission to undertake. Do
7 you recall that line of questioning?

8 A Yes.

9 Q And I believe your answer was policy perhaps
10 as it relates to FPL, not to the industry or to the
11 state. Was that your answer?

12 A Yes. To be quite clear, I think -- and,
13 again, I'm not a lawyer, but I think there's plenty of
14 room for the Commission to make a judgment in this
15 particular case based on the facts of this particular
16 case that don't depend on situations outside of this
17 case. It's specific to this instance.

18 Q Now if the Commission, at the conclusion of
19 this hearing, determined that an ROE adder was warranted
20 based on past performance or as an incentive for future
21 performance or based on both, would that be within their
22 discretion or judgment?

23 A As I understand it, yes.

24 Q Commissioner Graham asked you a question about
25 compensation and specifically incentive compensation.

1 It was also in the course of discussing the ROE adder.
2 Do you recall that topic?

3 **A** Generally, yes.

4 **Q** I'll be more specific. He asked you a
5 question relative to the incentive portion of employees'
6 compensation, and then he had done some rough math and
7 translated that into basis points. Do you recall that?

8 **A** I honestly don't. I don't -- oh, yes, okay.
9 The 12 basis points. Yes.

10 **Q** Okay.

11 **A** I'm with you.

12 **Q** I was going to move on, but your present
13 recollection is miraculously refreshed. So my question
14 is this. I want to understand whether that portion of
15 salary incentive compensation is in addition to
16 market-based compensation or a part of? How does the
17 compensation package work in that regard?

18 **A** No. It's all part of the total package, which
19 is the reason why, in my view, it is a part of the
20 legitimate cost on which service -- on which rates
21 should be based. So in order to attract and retain
22 competent, talented people who are going to help us do
23 the things we need, we have to go out and have a total
24 compensation opportunity for them that's competitive
25 with what they could get there. How we choose to

1 structure that is a separate issue. So in my mind, the
2 appropriate basis for determining the cost to be
3 included in rates is the total compensation. However,
4 we have chosen, for reasons of -- to take an issue off
5 the table to exclude a portion of that in this case.

6 Q Commissioner Edgar asked you about the Gulf
7 decision in which the Commission awarded an ROE adder.
8 Do you recall that?

9 A Yes.

10 Q And she conceded that she was not on the
11 Commission at the time. Do you recall that?

12 A Yes.

13 Q Was former Commissioner Deason on the
14 Commission at the time?

15 A Yes.

16 Q Is he a witness in this case?

17 A Yes.

18 Q Also --

19 **MR. SUNDBACK:** I'm sorry, Madam Chair. We've
20 had a series of leading questions on redirect. We
21 haven't objected to them yet, but this is getting out of
22 hand. He's posing yes, no questions repeatedly, and
23 that's improper as a form, and we'd like to lodge a
24 going-forward objection to this practice.

25 **CHAIRMAN BROWN:** And, Mr. Litchfield, you do

1 understand leading questions are not appropriate on
2 redirect.

3 **MR. LITCHFIELD:** I do. Predicate leading
4 questions to get to the point are certainly appropriate,
5 but I will endeavor to structure my questions in a way
6 that will be as least offensive to Mr. Sundback as
7 possible.

8 **CHAIRMAN BROWN:** Thank you.

9 **BY MR. LITCHFIELD:**

10 **Q** What was the ROE adder awarded by the
11 Commission in the Gulf case?

12 **A** 25 basis points.

13 **Q** Commissioner Edgar also asked you a question
14 about financial strength. Do you recall that?

15 **A** Yes.

16 **Q** And your answer, as I recall, was that that
17 has allowed the company to undertake complex projects at
18 competitive rates for customers. Is that your answer?

19 **A** In part. I was using that as an illustration
20 of the ways one of -- several ways in which the strong
21 balance sheet supports our strategy and improves
22 customer value.

23 **Q** And what would have been, generally speaking
24 over that time period, the company's equity ratio,
25 return on equity, and/or weighted average cost of

1 capital?

2 **MR. MOYLE:** You know, I'm going to object to
3 this on a number of grounds. First is it's putting new
4 information into the record. This is a bigger problem,
5 and out of respect -- you know, you have all the
6 prefiled testimony, you rely on it, and then all the
7 sudden questions get asked and it gets greatly expanded.
8 I think this is brand new information, as I can recall,
9 and I think it's above and beyond the question.

10 Commissioner Edgar asked the question; she got
11 an answer. And now he's saying, "What's the ROE related
12 to all that?" It's basically an invitation to greatly
13 expand his prefiled written testimony, as I see it. So
14 it's beyond his prefiled testimony would be the
15 objection.

16 **CHAIRMAN BROWN:** Mr. Litchfield.

17 **MR. LITCHFIELD:** Candidly, while I disagree
18 with Mr. Moyle, those data are a part of a number of
19 orders that the Commission has entered. It's a matter
20 of record. It will be a part of the record in this
21 case. I actually don't need him to answer that
22 question.

23 **CHAIRMAN BROWN:** Thank you.

24 **BY MR. LITCHFIELD:**

25 Q Do you have Exhibit 694 in front of you,

1 Mr. Dewhurst?

2 **CHAIRMAN BROWN:** That is the equity ratio
3 comparison proffered by FIPUG.

4 **THE WITNESS:** Yes.

5 **BY MR. LITCHFIELD:**

6 **Q** And specifically the table that is attached to
7 that answer?

8 **A** Yes.

9 **Q** The equity ratios here that are listed on this
10 table --

11 **MR. MOYLE:** Can we have non-leading, if we
12 could, please?

13 **MR. LITCHFIELD:** I'm sorry, Mr. Moyle. Was
14 that an objection?

15 **CHAIRMAN BROWN:** It sounded like an objection.
16 Was that an objection?

17 **MR. MOYLE:** It sounded like he was engaging on
18 a leading question, so I was trying to cut him off at
19 the pass.

20 **MR. LITCHFIELD:** Okay.

21 **CHAIRMAN BROWN:** Please proceed,
22 Mr. Litchfield.

23 **BY MR. LITCHFIELD:**

24 **Q** Do you see the table on the exhibit in front
25 of you?

1 **A** Yes, I do.

2 **Q** And do you see the authorized equity ratios
3 listed on that table?

4 **A** Yes, I do.

5 **Q** And I'm asking you whether you know if these
6 are ratios based on investor-supplied capital or all
7 sources.

8 **A** I do not know. As footnote one says, it's
9 based on decision of settlement, which could be based on
10 investor sources or regulatory capital structures. As I
11 think I discussed last night, SNL is -- and this is no
12 disrespect to them, it's not always clear from their
13 data what the basis is.

14 So in the case of FPL, for example, that
15 59.6 percent is on investor sources, and it drops down
16 to about 45 percent on total sources because of, among
17 other things, the large deferred tax component, which in
18 turn is a function of our investment profile. But rates
19 are set obviously on the actual total capital structure,
20 including the zero cost of capital elements, which is
21 one of the reasons why I say in my testimony at page 25
22 --

23 **MR. MOYLE:** I think this is beyond. The
24 question was if he knew the source. He said, "No," and
25 now he's going back to his testimony.

1 **CHAIRMAN BROWN:** I'm going to allow him an
2 opportunity to explain his answer.

3 **THE WITNESS:** Just briefly, it's why I say on
4 page 25 that the capital structure would result in a
5 total weighted average cost of capital at 6.61 percent.

6 **BY MR. LITCHFIELD:**

7 **Q** And when you said that rates are set on the
8 basis of actual capital structure, what is that number
9 with respect to FPL?

10 **A** Approximately 45 percent.

11 **Q** Do you have Exhibit 698 in front of you?

12 **CHAIRMAN BROWN:** That is an excerpt from
13 NextEra 2015 Form 10K SEC filing proffered by Hospitals.

14 **THE WITNESS:** Yes.

15 **BY MR. LITCHFIELD:**

16 **Q** Can I refer you to the last page of that
17 exhibit? It is noted as page 74. And as represented
18 last evening by Mr. Sundback, it is one page from an
19 annual report.

20 **A** Yes.

21 **Q** From a 10K. Excuse me.

22 **A** Yes.

23 **Q** Okay. And if you'll recall, Mr. Sundback
24 asked you to focus on a dividend payout.

25 **A** Yes, I remember some discussion of dividend

1 payout.

2 **MR. SUNDBACK:** And I'm sorry. I'm going to
3 object to that question. That's simply incorrect. We
4 did not ask a question about dividend payout based on
5 698's data.

6 **MR. LITCHFIELD:** All right.

7 **MR. SUNDBACK:** We asked about the two numbers
8 on the bottom, the number of common shares outstanding.
9 So the question mischaracterizes the questioning that
10 was occurring last night.

11 **CHAIRMAN BROWN:** Okay.

12 **MR. LITCHFIELD:** I can ask the question
13 without reference to 67 -- 698.

14 **BY MR. LITCHFIELD:**

15 **Q** Mr. Dewhurst, do you remember being examined
16 last night with regard to dividend payout ratios?

17 **A** Specifically, I think it was the growth in the
18 dividend associated with a change in dividend policy.
19 Yes, I remember that discussion.

20 **Q** Please explain the change in dividend policy.

21 **A** The change in dividend policy recently --

22 **MR. SUNDBACK:** I'm sorry, Madam Chair. I'll
23 object to that one too. That issue was raised in
24 answering testimony by the customers, and the company
25 had every opportunity to meet the issue at that point.

1 Instead, apparently it chose not to address the issue
2 and decided to wait till now. We presented a narrow
3 line of cross-examination based on data of the company.
4 We didn't even reference a change in the payout ratio
5 going forward. We simply looked at numbers in terms of
6 growth -- growing dividends. We didn't talk about a
7 change in payout ratio after 2015. We talked about the
8 payout ratio between 2011 and 2015, but not going
9 forward. So this is an attempt to expand the
10 cross-examination and attempt to put in what is in
11 essence surrebuttal testimony. Thank you.

12 **CHAIRMAN BROWN:** Mr. Litchfield.

13 **MR. LITCHFIELD:** Yes, I'm prepared to address
14 that objection. I may have misreferenced the exhibit
15 that was used for this line of cross. I have here 697,
16 and if you turn to page, what is listed as page 46, it
17 clearly addresses dividend per share growth, and the
18 columns on that table are 2015 and 2018. And
19 Mr. Dewhurst, in fact, was examined last night on
20 dividend payout, and I would respectfully request he be
21 given the opportunity to explain his answer.

22 **CHAIRMAN BROWN:** I do recall that
23 conversation, and I will allow him to explain that.
24 Please proceed.

25 **THE WITNESS:** The decision to increase the

1 target payout ratio was based on changes in the cash
2 flow profile and investor expectations associated with
3 NextEra Energy Resources. It had nothing to do with
4 FPL.

5 **BY MR. LITCHFIELD:**

6 **Q** Last evening we had extensive discussion about
7 the Martin-Riviera lateral. Do you recall that?

8 **A** Yes.

9 **Q** What is the revenue requirement impact of that
10 request in this case?

11 **A** The revenue requirement? Zero.

12 **Q** Actually is FPL --

13 **A** May I explain?

14 **CHAIRMAN BROWN:** Where is -- oh, yes. I know.
15 Where is it coming from?

16 (Laughter.)

17 **THE WITNESS:** I'm sorry, madam Chair.

18 We included that in the application in the
19 spirit of transparency. The intention is if we come up
20 with a good proposal, to bring it back. But because we
21 were thinking that this is a -- what we're proposing is
22 a base rate moratorium and this would end up being
23 moving an item from base to cause, that it was -- it
24 would be good to be transparent about that upfront. But
25 to be clear, the -- we expect to come back in if we can

1 negotiate a suitable deal that's good for FPL and its
2 customers. We would apply at that time. We would
3 expect to be required to justify that, and all parties
4 would have an opportunity to intervene. That was what
5 we were trying to do.

6 **CHAIRMAN BROWN:** Thank you.

7 **BY MR. LITCHFIELD:**

8 **Q** And if the Hospitals were willing to pay
9 Mr. Sundback and his colleagues to come back at that
10 time when the company presented that proposal to the
11 Commission, they'd be free to do that; correct?

12 **A** Yes. Yes.

13 **Q** You were asked by Mr. Sundback several
14 questions relative to your use of the term "compensate
15 investors" in your testimony. Do you recall those
16 series of questions?

17 **A** Generally, yes.

18 **Q** Let me refer you to your testimony, page 26,
19 with the question beginning on line 20. And if you
20 could just read that short Q and A into the record.

21 **A** Question, "Is FPL's requested ROE consistent
22 with maintaining financial strength?"

23 Answer, "Yes. An adequate ROE is important to
24 fairly compensate equity investors for the use of their
25 capital and," it should have, "to enable the company to

1 offer a return sufficient to compete with other firms
2 and attract new capital on reasonable terms, which in
3 turn helps to ensure that FPL can achieve and maintain
4 the necessary financial strength to meet its obligations
5 to its customers."

6 **Q** What is the compensation to which you're
7 referring there?

8 **A** It is an ROE commensurate with what those
9 investors could expect to return -- to earn on the
10 opportunity set, alternative investments of roughly
11 comparable risk characteristics.

12 **Q** Mr. Sundback, in connection with this line of
13 questioning, referenced you to a discussion on
14 pipelines. Do you recall that?

15 **A** I recall we had some discussion of pipelines,
16 yes.

17 **Q** How is an investment in a pipeline
18 compensated?

19 **A** In the same way. And investor who commits --
20 capital and equity investor who commits capital to a gas
21 pipeline operating company should expect to return -- to
22 earn a return on that equity commensurate with the
23 opportunity set for that investment, just like any other
24 investment. This is a general principle. It applies to
25 FPL, but it applies to others as well.

1 **Q** So that -- is that principle true or the same
2 or different depending on who the investor in the
3 pipeline is, who the owner is?

4 **MR. SUNDBACK:** We're going to object to this
5 line of questions going forward. Our opportunity to
6 cross-examine the witness on these issues was curtailed
7 at FPL's insistence through a series of objections.

8 **CHAIRMAN BROWN:** I'm confused. Are you
9 objecting to this particular question or going forward?

10 **MR. LITCHFIELD:** That is my last question.

11 **MR. SUNDBACK:** Starting with this question,
12 we're going to object to it.

13 **CHAIRMAN BROWN:** Okay.

14 **MR. LITCHFIELD:** That is my last question,
15 Madam Chair.

16 **CHAIRMAN BROWN:** Objection sustained.

17 **MR. LITCHFIELD:** Okay. Thank you.

18 **CHAIRMAN BROWN:** Thank you.

19 We are on to exhibits. Okay. FPL.

20 **MR. LITCHFIELD:** We would move
21 Exhibits 134 through 136.

22 **CHAIRMAN BROWN:** Are there any objections?
23 Seeing none, we will move in Exhibits 134 through 136
24 into the record.

25 (Exhibits 134 through 136 admitted into the

1 record.)

2 All right. FIPUG, you have 693, 694, and 695.

3 **MR. MOYLE:** We'd like to move those, please?

4 **CHAIRMAN BROWN:** Any objection? We'll move
5 693, 694, and 695 into the record.

6 (Exhibits 693 through 695 admitted into the
7 record.)

8 Public Counsel, you have 696.

9 **MR. REHWINKEL:** We effectively withdrew that
10 and we do not move it at this time.

11 **CHAIRMAN BROWN:** Excellent.

12 Hospitals, you've got 697 through 700.

13 **MR. SUNDBACK:** Yes. We'd move the admission
14 of those at this time, please.

15 **CHAIRMAN BROWN:** Any objection?

16 **MR. LITCHFIELD:** One minute, Madam Chair.
17 697, we would simply ask that the portion of this
18 presentation that actually addresses Florida Power &
19 Light Company be included as well, and we have a copy of
20 that for the court reporter.

21 **CHAIRMAN BROWN:** Okay.

22 **MR. SUNDBACK:** Madam Chair, if it's useful, I
23 think we should have the entire presentation put into
24 the record.

25 **CHAIRMAN BROWN:** Any objection?

1 **MR. LITCHFIELD:** No objection.

2 **CHAIRMAN BROWN:** So we will insert the entire
3 NextEra 2015 presentation to EEI into the record for
4 697.

5 **MR. SUNDBACK:** If it would be acceptable to
6 the Chair, could we tender that to the reporter on
7 Monday --

8 **CHAIRMAN BROWN:** Yes.

9 **MR. SUNDBACK:** -- once FPL has had a chance to
10 make sure it's complete?

11 **CHAIRMAN BROWN:** Absolutely.

12 **MR. SUNDBACK:** Thank you.

13 **CHAIRMAN BROWN:** Okay.

14 **MR. LITCHFIELD:** And same result with respect
15 to 699, would that be acceptable, Counselor?

16 **CHAIRMAN BROWN:** The Europe 2015 presentation.

17 **MR. SUNDBACK:** If it's acceptable from the
18 panel's perspective, we're certainly happy to do that.

19 **CHAIRMAN BROWN:** No problem. We will move
20 699 into the record, with the full and complete copy to
21 be provided to the court reporter on Monday.

22 What about 698, the Form 10K?

23 **MR. LITCHFIELD:** No objection.

24 **CHAIRMAN BROWN:** We'll move 698 into the
25 record. And finally 700.

1 **MR. LITCHFIELD:** That was the subject of the
2 stipulation last evening.

3 **CHAIRMAN BROWN:** Oh, that's right. So we'll
4 move that into the record. Thank you for the reminder.

5 (Exhibits 697 through 700 admitted into the
6 record.)

7 Staff, 701 and 702 are already in the record;
8 correct?

9 **MS. BROWNLESS:** Yes, ma'am.

10 **CHAIRMAN BROWN:** Can you please --

11 **MS. BROWNLESS:** For completeness, we'd just
12 request that 701, 702, and 703 be placed in the record,
13 and that way the transcript can track the exhibits.

14 **CHAIRMAN BROWN:** No problem. No objection --
15 seeing no objections, we'll move 701 through 703 into
16 the record.

17 (Exhibits 701 through 703 admitted into the
18 record.)

19 At this time, would you like Mr. Dewhurst
20 excused until next week when we get to see him?

21 **MR. LITCHFIELD:** Until next week. Thank you,
22 Madam Chair.

23 **CHAIRMAN BROWN:** Thank you. Thank you for
24 joining us. We'll see you next week. Safe travels.

25 While we're switching to the next witness,

1 let's take about a few minute break -- five-minute
2 break.

3 (Recess taken.)

4 **CHAIRMAN BROWN:** All right. My understanding
5 is that we are going to take Mr. Miranda out of order,
6 as agreed upon previously. So we will be getting to the
7 rebuttal portion at this time.

8 **MR. GUYTON:** That's correct. And before I
9 call him, I want to express appreciation on behalf of
10 Florida Power & Light to both the Commission and to the
11 parties for accommodating this. We are facing a
12 potential storm in South Florida, and Mr. Miranda needs
13 to get back and take care of business, should it hit,
14 and address restoration. So thank you very much.

15 **CHAIRMAN BROWN:** Yes. I want to thank the
16 parties too. And, again, we will all strive to work
17 to -- accordingly with everyone's else's schedule moving
18 forward as well.

19 So Mr. Miranda was sworn in.
20 Whereupon,

21 **MANUEL B. MIRANDA**

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

25 **EXAMINATION**

1 **BY MR. GUYTON:**

2 Q Would you please state your name for the
3 record.

4 A Yes. My name is Manuel B. Miranda.

5 Q And I assume you're still employed in the same
6 capacity.

7 A That's correct.

8 Q All right. Have you prepared and caused to be
9 filed 27 pages of rebuttal testimony in the rate case
10 proceeding?

11 A Yes, I have.

12 Q And if I were to ask you the same questions
13 that appear in your rebuttal testimony in the rate case
14 proceeding, would your answers be the same today?

15 A Yes, they would be.

16 **MR. GUYTON:** Madam Chair, I'd ask that
17 Mr. Miranda's rebuttal testimony in Docket No. 160021,
18 the rate case, be inserted into the record as though
19 read.

20 **CHAIRMAN BROWN:** We will insert Mr. Miranda's
21 refiled rebuttal testimony into the record as though
22 read.

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Manuel B. Miranda. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

Q. Are you sponsoring rebuttal exhibits in this case?

A. Yes. I am sponsoring the following rebuttal exhibit:

- MBM-7: FPL’s Response to OPC Interrogatory No. 13

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to refute the direct testimonies of Office of Public Counsel (“OPC”) witnesses Helmuth W. Schultz and Ralph Smith to reduce FPL’s 2017 and 2018: distribution vegetation management and pole inspection expenses; transmission and distribution (“T&D”) storm hardening capital expenditures; and T&D Property Held for Future Use (“PHFFU”) costs. Additionally, I address OPC witness Jacob Pous’ comments concerning FPL’s increasing removal costs and provide several examples of initiatives that have been implemented to mitigate upward cost pressures affecting FPL’s removal costs.

Q. Please summarize your rebuttal testimony.

A. My testimony demonstrates that Mr. Schultz’s proposed recommendations to reduce FPL’s forecasted 2017 and 2018 distribution vegetation management

1 and pole inspection expenses and T&D hardening capital expenditures are
2 arbitrary, methodologically inconsistent, incorrectly calculated, opportunistic
3 and unwarranted. Therefore, they should be rejected.

4
5 Additionally, my testimony shows that Mr. Smith's recommendations to
6 remove certain T&D properties and their associated costs from FPL's 2017
7 and 2018 forecasted PHFFU balances should be rejected as these properties
8 are essential components for: meeting future customer and load growth;
9 improving reliability; complying with North American Electric Reliability
10 Corporation ("NERC") standards; and/or integrating future generation into the
11 grid. Exclusion of these properties would compromise FPL's ability to
12 implement its dynamic planning process for locating and acquiring alternative
13 properties to build necessary transmission and distribution facilities.

14
15 Finally, in response to comments contained in Mr. Pous' testimony
16 concerning FPL's increasing removal costs, my testimony shows that FPL has
17 taken steps to mitigate the upward cost pressures affecting FPL's removal
18 costs.

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REBUTTAL TO TESTIMONY OF HELMUTH SCHULTZ III

II. VEGETATION MANAGEMENT PROGRAM / EXPENSES

Q. Does witness Schultz’s direct testimony include any inaccurate claims/representations concerning FPL’s distribution vegetation management program?

A. Yes. There are several inaccurate claims/representations included in Mr. Schultz’s testimony, which I will identify and briefly address.

Q. What inaccurate claims/representations have you identified in witness Schultz’s direct testimony?

A. First, on page 29, lines 5 and 6, of his testimony, Mr. Schultz states that “This vegetation management plan includes cycle trimming but not the removal of danger and/or hazard trees.” This statement is inaccurate. FPL’s vegetation management program does, in fact, address danger/hazard trees.

Second, on page 30, lines 5 and 6, Mr. Schultz reaches the conclusion that FPL’s system trim cycle “equates to a trim cycle of 2.4 years.” This statement also is incorrect, as his 2.4 years trim cycle calculation inappropriately includes over 7,000 miles of mid-cycle feeder trimming (i.e., trimming fast growing vegetation before the next scheduled cycle trim date). FPL’s combined feeder and lateral system (currently 36,256 miles) is effectively on a 4.4-year cycle, as FPL cycle trims approximately one-third of its feeder miles

1 (approximately 4,500 miles) and one-sixth of its lateral miles (approximately
2 3,800) annually. These trim cycles have been approved by the Commission.

3

4 Third, on page 31, lines 11-17, Mr. Schultz again refers to his inaccurately
5 calculated 2.4-year system trim cycle, suggesting that FPL's actual system
6 trim cycle is "accelerated" when compared to FPL's approved three-year
7 (feeders) and six-year (laterals) cycles. FPL's three-year feeder and six-year
8 lateral cycle trimming is not "accelerated," as it is completed per its
9 Commission-approved plan.

10 **Q. Witness Schultz utilizes a comparison of FPL's 2013-2015 actual vs.**
11 **budgeted distribution vegetation management expenses as the basis to**
12 **adjust FPL's forecasted 2017 and 2018 distribution vegetation**
13 **management expenses. Do you agree with witness Schultz's methodology**
14 **and his resulting proposed adjustments?**

15 A. No. FPL's forecasted vegetation management expenses were developed by
16 knowledgeable experts who understand both the program and FPL's system.
17 Based on Mr. Schultz's inaccurate statements, which I previously discussed,
18 Mr. Schultz does not appear to understand FPL's vegetation management
19 program or FPL's system. As a result, he utilizes a simplistic approach that is
20 based on a three-year (2013-2015) comparison of actual to budget vegetation
21 management expenses. This simplistic approach is arbitrary and unwarranted.

22

23

24

1 **Q. Please explain.**

2 A. Mr. Schultz’s Exhibit HWS-6 contains FPL’s distribution vegetation
3 management actual vs. budget variances for the five-year period 2011-2015.
4 As shown on his Exhibit HWS-6, the three-year (2013-2015) actual to budget
5 variance average factor is 96.6%, the five-year (2011-2015) actual to budget
6 variance average factor is 98.8% (with variance factors ranging from 94.1% -
7 103.9%) and the 2015 actual to budget variance factor, the most recent year
8 comparison, is 99.7%. To effect his proposed vegetation management expense
9 reduction, Mr. Schultz opted to use the 2013-2015 (three-year) actual vs.
10 budget variance. This results in an actual vs. budget variance (3.4%) that is
11 nearly three times larger than that produced by the 2011-2015 (five-year)
12 actual vs. budget variance (1.2%) and more than 10 times larger than that
13 produced by the 2015 actual vs. budget variance (0.3%). He provides no
14 support for his selection of the three-year average, which simply appears to be
15 opportunistic for the purpose of creating the largest possible adjustment.

16 **Q. Is witness Schultz’s selection and use of the three-year historical average**
17 **consistent with his testimony in other proceedings where he has proposed**
18 **similar adjustments to budgeted vegetation management costs?**

19 A. No. In previously filed testimony in another proceeding¹, Mr. Schultz’s
20 testimony includes discussions where he is challenging another investor-

¹ Case 07-E-0523, New York State Public Service Commission; Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company New York, Inc for Electric Service

1 owned electric utility's level of forecasted O&M expenses. In these
2 discussions, Mr. Schultz mentions on multiple occasions how the company
3 provided "limited" historical cost information, i.e., the company provided
4 three years of data instead of the requested five years of data. Additionally,
5 Mr. Schultz goes on to explain that: "Five years of information provides an
6 opportunity to evaluate spending over a period of time in which fluctuations in
7 any one year or two can be identified. It also allows for a comparison of
8 requested costs to historical data to assess whether the request is reasonable.
9 In fact, a number of jurisdictions use five or more years of data to develop an
10 average for expenses such as uncollectibles, storms and tree trimming, which
11 are then used in determining the utility's revenue requirements." For tree
12 trimming expenses, Mr. Schultz specifically states that: "Although there is a
13 preference to utilize a five-year average, if an average were to be used, we can
14 only recommend a three-year average because the Company did not provide
15 the five years of expenditures requested."

16
17 In FPL's current proceeding, Mr. Schultz's Exhibit HWS-6, includes FPL's
18 actual vs. budget results for the most recent five-year period (2011-2015).
19 However, Mr. Schultz does not utilize the five-year period results, even
20 though he previously stated this was his preference. Instead, Mr. Shultz
21 ignores the five-year variance average and opts to use the 2013-2015 (three-
22 year) actual vs. budget variance average. Because he has provided no
23 explanation or basis for using the three-year variance average instead of his

1 previously preferred five-year variance average, it appears it was selected only
2 because it produces the largest proposed reduction to FPL's 2017 and 2018
3 vegetation management expenses.

4 **Q. After considering the information you have provided, are witness**
5 **Schultz's proposed reductions to the 2017 and 2018 distribution**
6 **vegetation management expenses warranted and appropriate?**

7 A. No. Witness Schultz has not provided any basis or rationale for utilizing the
8 three-year (2013-2015) actual vs. budget variance average to reduce FPL's
9 2017 and 2018 vegetation management expenses. Since he has previously
10 testified that a five-year historical average is preferred, it appears the three-
11 year has been utilized only because it produces a larger proposed reduction in
12 FPL's expenses.

13

14 As can be seen in in his Exhibit HWS-6, over the last five years, FPL's actual
15 vegetation management expenses have exceeded the budget twice and differed
16 from budget, on average, by only 1.2%. Additionally, in 2015, actual
17 vegetation management expenses differed from budget by only 0.3%. As a
18 result, Mr. Schultz's proposed reductions to FPL's 2017 and 2018 are
19 unwarranted and inappropriate and should be rejected. FPL's 2017 and 2018
20 vegetation management expenses are reasonable and appropriate as filed and
21 should be approved by the Commission.

22

23

1 **Q. Are there any other reasons the Commission should not accept witness**
2 **Schultz's proposed reductions to FPL's 2017 and 2018 vegetation**
3 **management expenses?**

4 A. Yes. In addition to the reasons I have previously discussed, Mr. Schultz's
5 calculation for his proposed reduction is mathematically incorrect.

6 **Q. Please explain.**

7 A. In Mr. Schultz's Exhibit HWS-6, on line 12, Mr. Schultz calculates his
8 recommended 2017 vegetation management expense amount of \$60.953
9 million, by multiplying FPL's 2015 budget amount (\$63.1 million) by his
10 three-year (2013-2015) actual to budget variance average factor (0.965969).
11 Even if one accepted his flawed methodology, Mr. Schultz should have
12 applied his three-year actual to budget variance average (0.965969) to FPL's
13 2017 forecast expense (\$65.6 million), as he did when he similarly adjusted
14 FPL's pole inspection expenses in his Exhibit HWS-7. Correcting for this
15 error would have resulted in an adjustment that was immaterial (i.e. increasing
16 even Mr. Schultz's recommended vegetation management expense amounts to
17 \$63.368 million (from \$60.953 million) for 2017 and \$64.635 million (from
18 \$62.172 million) for 2018). Again, Mr. Schultz's choice of budget year
19 against which to apply his adjustment appears to be result-driven.

20 **Q. How does this correction impact witness Schultz's proposed reductions to**
21 **FPL's 2017 and 2018 vegetation management expenses?**

22 A. Correcting for Mr. Schultz's calculation error lowers his proposed reductions
23 for 2017 and 2018 by 52% and 33%, respectively.

1 **Q. Does this mean that you are proposing that FPL reduce its 2017 and 2018**
2 **vegetation management expenses by these corrected adjusted amounts?**

3 A. No. I am simply pointing out additional arbitrary aspects of Mr. Schultz's
4 inappropriate and results-oriented approach. As discussed earlier, these
5 adjustments are unwarranted and should be rejected. When the budgeted and
6 actual expenses are compared on an appropriate basis for 2011-2015, it is
7 clear that the variances are immaterial and, in fact, FPL's 2017 and 2018
8 forecasted vegetation management expenses are reasonable and appropriate as
9 filed and should be approved by the Commission.

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11

III. POLE INSPECTION PROGRAM/COSTS

12

13 **Q. Witness Schultz utilizes a comparison of FPL's 2013-2015 actual vs.**
14 **budgeted distribution pole inspection expenses as the basis to adjust**
15 **FPL's forecasted 2017 and 2018 distribution pole inspection expenses. Do**
16 **you agree with witness Schultz's methodology and his resulting proposed**
17 **adjustments?**

18 A. No. Similar to his proposed recommendation to reduce FPL's vegetation
19 management expenses, his methodology to reduce FPL's 2017 and 2018 pole
20 inspection expenses is arbitrary, unwarranted and opportunistic.

21 **Q. Please explain.**

22 A. Mr. Schultz provides no basis or rationale for using a three-year (2013-2015)
23 actual vs. budget variance average to calculate his proposed reduction in

1 distribution pole inspection expenses. Once again, it appears it has been
2 utilized only because it produces higher proposed reductions in expenses. For
3 example, Mr. Schultz's three-year (2013-2015) actual to budget variance
4 average produces reductions in distribution pole inspection expenses of
5 \$1.664 million for 2017 and \$1.693 million for 2018. Utilizing the five-year
6 (2011-2015) average (which previously he has supported), Mr. Schultz's
7 proposed reductions would be 58% lower for 2017 and 2018. Utilizing the
8 2015 (one-year) actual to budget variance, the proposed reductions would be
9 83% lower for 2017 and 2018.

10 **Q. Are there other considerations that should be taken into account when**
11 **reviewing FPL's distribution pole inspection program costs?**

12 A. Yes. It is important also to recognize that total pole inspection program costs
13 include both O&M expenses and capital expenditures. In fact, the vast
14 majority of pole inspection costs are classified as capital expenditures. These
15 capital components primarily are associated with the remediation and
16 replacement of poles that have failed inspections. As shown in Exhibit MBM-
17 7, which contains FPL's response to OPC Interrogatory No. 13, total actual
18 distribution pole inspection program costs have exceeded the budget during
19 2011-2015, using a one year comparison (2015), three-year (2013-2015)
20 average comparison or five-year (2011-2015) average comparison.

21

22

23

1 **Q. After considering the information you have provided, are witness**
2 **Schultz's proposed reductions to the 2017 and 2018 distribution pole**
3 **inspection expenses warranted and appropriate?**

4 A. No. Mr. Schultz has not provided any basis or rationale for his simplistic
5 approach which utilizes the three-year (2013-2015) actual vs. budget variance
6 average to reduce FPL's 2017 and 2018 distribution pole inspection expenses.
7 In fact, utilizing the five-year (2011-2015) actual to budget variance average
8 or the 2015 actual to budget variance significantly reduces (by 58% and 83%,
9 respectively) his recommended expense adjustments. Additionally, from a
10 total distribution pole inspection program cost (capital expenditures and O&M
11 costs) perspective, FPL's actual costs have exceeded the budget during 2011-
12 2015. Therefore, Mr. Schultz's adjustments are unwarranted and should be
13 rejected. FPL's 2017 and 2018 pole inspection costs are reasonable and
14 appropriate as filed and should be approved by the Commission.

15 **Q. If the Commission were to accept witness Schultz's proposed**
16 **methodology and proposed reductions in FPL's 2017 and 2018 pole**
17 **inspection expenses, would other adjustments be necessary?**

18 A. Yes. To avoid Mr. Schultz's inconsistently applied "one-sided" expense
19 adjustment and recognize that FPL's pole inspection program costs include
20 capital expenditures as well as O&M expenses, a comparable adjustment to
21 increase FPL's budgeted distribution pole inspection capital expenditures for
22 2017 and 2018 would be appropriate.

23

1 **Q. Are you proposing these adjustments?**

2 A. No. Again, I'm simply highlighting additional arbitrary aspects of Mr.
3 Schultz's analysis. As discussed earlier, these adjustments are unwarranted
4 and should be rejected. FPL's 2017 and 2018 pole inspection expenses are
5 reasonable, appropriate as filed and should be approved by the Commission.

6

7 **IV. FPL's FPSC HARDENING CAPITAL EXPENDITURES**

8

9 **Q. In his testimony, witness Schultz claims that FPL's proposed 2016-2018**
10 **increase in storm hardening capital expenditures is "overly optimistic"**
11 **because the combined proposed spending in 2016 and 2017 (\$1.075**
12 **billion) is significantly higher than the spending from 2012-2015 (\$1.001**
13 **billion) and the total spending for 2016-2018 (\$1.943 billion) is nearly**
14 **double the amount spent for the previous four years. Does FPL believe its**
15 **2016-2018 FPSC hardening plans and associated capital expenditures are**
16 **achievable?**

17 A. Yes. As shown in Mr. Schultz's Exhibit HWS-9 and acknowledged on page
18 36, line 10, of his testimony, during 2012-2015, FPL has met its annual storm
19 hardening capital expenditure budget 100% of the time during this period.

20

21 Additionally, as can be seen on line 13 of Mr. Schulz's Exhibit HWS-9, the
22 projected annual percentage increases in storm hardening capital expenditures
23 for 2016-2018 (ranging from 128% - 144% annually, with an annual average

1 increase of 136%) have been previously achieved by FPL during 2013-2015,
2 as FPL achieved annual percentage increases ranging from 116% to 152%
3 annually, with an annual average increase of 136%.

4

5 Results demonstrate that FPL has the technical expertise and a decade of
6 experience to successfully execute its storm hardening plans. This includes
7 executing similar percentage increases in annual projects/capital expenditures.
8 As a result, I am extremely confident that FPL can continue to execute these
9 proposed levels of annual projects and capital expenditures.

10 **Q. Witness Schultz recommends reducing FPL's 2017 and 2018 storm**
11 **hardening expenditures based on a ratio (94.78%), calculated by**
12 **comparing his projection of FPL's storm hardening capital expenditures**
13 **(determined by annualizing FPL's May 2016 year-to-date actual storm**
14 **hardening capital expenditures) to FPL's 2016 storm hardening capital**
15 **expenditures budget (\$446.4 million/\$471 million). Do you agree that**
16 **witness Schultz's proposed reductions are appropriate?**

17 A. No. This is another example of Mr. Schultz using simplistic and inappropriate
18 methodologies to reduce FPL's projected costs. FPL's storm hardening capital
19 expenditures, year-to-date through June 2016, actual to budget, are \$229
20 million vs. \$233 million. This means that as of June 2016, FPL's storm
21 hardening capital expenditures are currently under budget by less than 2%.
22 Mr. Schultz's annualizing methodology also fails to recognize that FPL's
23 storm hardening budget is slightly higher during the second half of 2016

1 (\$238 million vs. \$233 million). Considering this immaterial year-to-date
2 actual vs. budget variance and FPL's recent historical track record of meeting
3 its storm hardening capital expenditure budget 100% of the time, there is no
4 justifiable reason or explanation to assume that FPL will not meet its 2016
5 storm hardening capital expenditures budget.

6 **Q. Witness Schultz's skepticism appears to also be supported by his concern**
7 **that making up any current "underspent" amounts would be difficult to**
8 **achieve in the second half of the year because of the approaching storm**
9 **season. Do you agree?**

10 A. It is possible that, as a result of a major storm or several major storms, FPL's
11 ability to achieve its proposed storm hardening capital expenditure levels
12 could be impacted. As we all know, the impacts associated with responding to
13 major storms can have significant and widespread ramifications on all aspects
14 of FPL's operations and costs; that is part of the reason why storm hardening
15 is necessary and desirable. However, I disagree that this potential impact
16 should be used as a basis to support an adjustment to reduce FPL's projected
17 storm hardening capital expenditures.

18 **Q. Please summarize your thoughts concerning witness Schultz's**
19 **recommendations to reduce FPL's 2017 and 2018 FPSC hardening**
20 **capital expenditures.**

21 A. Although Mr. Schultz recognizes FPL for making "significant strides in
22 hardening the system" and achieving planned expenditure levels during the
23 years 2012 through 2015, his skepticism leads him to find a means to reduce

1 FPL's "overly optimistic" 2016-2018 storm hardening capital expenditures.
2 His simplistic and unwarranted methodology to reduce FPL's 2017 and 2018
3 storm hardening capital expenditures by annualizing FPL's year-to-date May
4 2016 storm hardening capital expenditures, combined with his potential storm
5 season impacts, are not sound or justified. Instead, the Commission should
6 rely on FPL's demonstrated technical expertise, experience and results.

7
8 Over the period 2012-2015, FPL has met its storm hardening capital
9 expenditure budget 100% of the time. Also, as of June 2016, FPL's storm
10 hardening capital expenditures are less than 2% under budget. Additionally,
11 FPL has already achieved comparable percentage increases in annual FPSC
12 hardening capital expenditures spending levels. As a result, witness Schultz's
13 proposed reductions are unwarranted and should be rejected. FPL's 2017 and
14 2018 storm hardening capital expenditures are reasonable, appropriate and
15 should be approved by the Commission.

16 **Q. You previously stated that Mr. Schultz's proposed adjustments were**
17 **methodologically inconsistent. Please explain.**

18 A. With his recommendations to reduce FPL's 2017 and 2018 vegetation
19 management and pole inspection expenses, Mr. Schultz argues that an historic
20 failure to spend an entire budget warrants an adjustment to a forecast.
21 However, with his proposed adjustment to reduce FPL's 2017 and 2018 storm
22 hardening capital expenditures, Mr. Schultz disregards the fact that FPL has
23 had no such historical variance between actual and budgeted expenditures.

1 Rather than consistently utilizing his previously adopted adjustment
2 methodology, Mr. Schultz abandons it, apparently because its application
3 would result in no reduction to FPL’s 2017 and 2018 storm hardening capital
4 expenditures. This inconsistency is arbitrary, inappropriate, unwarranted and
5 should be rejected.

6

7 **REBUTTAL TO TESTIMONY OF OPC WITNESS RALPH SMITH**

8

9 **V. T&D PROPERTY HELD FOR FUTURE USE**

10

11 **Q. What is OPC witness Smith’s rationale for excluding the transmission
12 and distribution PHFFU properties that he identified?**

13 A. Mr. Smith proposes that the specific properties he identified be removed from
14 rate base because they have expected in-service dates of 2027 and 2028,
15 which are beyond the 10-year planning process and, therefore, are not used
16 and useful. Mr. Smith additionally notes that many of the sites have been
17 classified as PHFFU for many years.

18 **Q. What is your general response to the rationale offered by OPC witness
19 Smith for his recommendation to exclude these specific properties from
20 PHFFU?**

21 A. Mr. Smith’s rationale fails to take into account the realities of electric system
22 planning and the importance of obtaining and holding property for future
23 T&D needs to meet future growth and/or improve reliability. These properties

1 have been identified as being geographically and strategically located and
2 necessary to meet future customer load growth, improve customer reliability,
3 comply with NERC standards regulating the reliability of the grid and/or
4 integrate future generation into the grid.

5
6 The annual planning study's ten-year horizon is not an appropriate cut-off for
7 purposes of determining what property to acquire or when to acquire. The ten
8 year horizon simply provides FPL with a view on what may be required in
9 terms of design, new builds, or other considerations during that time frame. If
10 FPL were to wait to acquire property for future transmission needs when we
11 had a definitive in-service date for new transmission or for a specific need to
12 manifest itself in the ten-year planning cycle, often we would be left with
13 limited or perhaps no suitable choices, and/or face potentially higher costs
14 (e.g., less preferred and more contested corridors, and/or paying higher prices
15 to sellers who are aware of the time pressure we face to acquire the necessary
16 properties).

17
18 As presented in witness Deason's rebuttal testimony, the Commission has not
19 applied an arbitrary ten-year standard for purposes of PHFFU. Such a cut-off
20 simply does not work in the real world of electric system planning in order to
21 ensure we are able to meet the needs of the system and ensure we are able to
22 move an adequate and reliable supply of power across the system to meet an
23 ever evolving set of electrical grid conditions and needs.

1 **Q. Please describe some of the considerations that FPL must take into**
2 **account in acquiring and holding transmission PHFFU.**

3 A. First, new T&D substations and transmission lines can take years to plan,
4 design and construct. This includes securing necessary sites and properties.
5 The process to initiate construction can be lengthy and typically involves
6 rezoning from local entities and permitting from local, state and federal
7 agencies. Additionally, the annual planning process is very dynamic and, by
8 virtue of its close linkage to the load growth forecast, can and often does
9 result in modifications each year to system expansion plans. This includes
10 revising in-service dates for PHFFU sites. While certain projects with a 2027
11 or 2028 in-service date fall just outside ten years of the 2017 test year or 2018
12 subsequent year in this case, this is not the appropriate test for determining
13 whether it is appropriately included in PHFFU. The test should be whether the
14 facility is needed or likely to be needed. Sometimes it could also be as simple
15 as applying common sense given certain key factors like location, population
16 density, anticipated growth, relative availability of alternate corridors, and
17 proximity or contiguity to other substations and transmission lines.

18
19 While each of the PHFFU properties Mr. Smith has identified is currently
20 outside the 10-year planning cycle, FPL believes these properties are still
21 necessary to meet future needs. Therefore, these properties should remain in
22 PHFFU.

23

1 **Q. Please explain why each of the properties identified by OPC witness**
2 **Smith for removal from PHFFU should remain in the 2017 and 2018**
3 **PHFFU balances.**

4 A. The following summarizes why each of the properties, identified in FPL's
5 planning, study should remain in PHFFU:

6 **Transmission**

7 Galloway-South Miami Loop to Southwest Sub (\$1.8 Million): Land rights
8 for this right-of-way are required to provide service to the proposed Southwest
9 distribution substation and relieve two existing substations serving the area,
10 which are projected to have summer loads exceeding their capacity.

11 Harbor-Punta Gorda #2 – Easements (\$0.7 million): These transmission line
12 property easements are for construction of an additional transmission line in
13 Charlotte County to allow for dual, continuous feeds to several existing
14 distribution substations. FPL acquired the property rights to accommodate the
15 remaining three mile section of 138kV overhead transmission between Harbor
16 and Punta Gorda substations, of which approximately one mile has been
17 constructed. In addition to the completed one mile section between Harbor
18 and Punta Gorda, a significant portion of the overall Charlotte-Harbor 138kV
19 #2 project south of Punta Gorda has already been completed. The project will
20 be completed to improve reliability by providing continuous looped service to
21 three existing distribution substations serving customer load.

22 Rima Sub and Rima-Volusia 230kV R/W Line (\$0.6 million): The Rima
23 Substation property and associated transmission right-of-way was acquired for

1 construction of a 500/230kV transmission substation west of Daytona Beach.
2 The property is strategically located adjacent to and underneath a current
3 500kV transmission corridor. The Rima-Volusia right-of-way is planned to
4 accommodate up to six 230kV lines to tie the new substation into our 230kV
5 grid in eastern Volusia County. This project's strategic location positions FPL
6 well for load growth response, and it will be completed when load growth
7 materializes in the area.

8 Turkey Point-Levee (Levee-South Dade) (\$1.4 million): This right-of-way is
9 required for new transmission lines to integrate additional generation at the
10 Turkey Point site into our 500kV transmission backbone, along the southeast
11 coast of peninsular Florida. FPL currently plans to build two 500kV lines and
12 one 230kV line in the right-of-way.

13 **Distribution**

14 Ariel Substation (\$0.8 million) – This property is geographically and
15 strategically located along US 1, south of New Smyrna Beach, to support
16 initiatives to improve reliability for high exposure distribution feeders at the
17 closest substation which is near capacity. The projected in-service date for this
18 substation is December 2028.

19 Chester Substation (\$0.4 million) – This property is geographically and
20 strategically located north of Jacksonville, near the north end of FPL's service
21 territory, to support initiatives to improve reliability for high exposure
22 distribution feeders. The projected in-service date for this substation is
23 December 2028.

1 Deerwood Substation – (\$0.8 million) – This property is geographically and
2 strategically located near St. Augustine and is expected to be utilized for
3 reliability purposes and/or future load growth. The projected in-service date
4 for this substation is December 2028.

5 Ely Substation Expansion (\$0.6 million) – This parcel is adjacent to existing
6 FPL property and will be needed to support the proposed 269 acre downtown
7 Pompano redevelopment, new railroad transit hub and beach redevelopment.
8 The projected in-service date for this property is December 2028.

9 Hargrove Substation (\$0.9 million) - This property is geographically and
10 strategically located just west of Palm Coast and is expected to be utilized for
11 reliability purposes and/or future load growth. The projected in-service date
12 for this substation is December 2028.

13 Minton Substation (formerly Henry) (\$1.0 million) – This property is
14 geographically and strategically located adjacent to transmission in Melbourne
15 to support initiatives to improve reliability for high exposure distribution
16 feeders. The projected in-service date for this substation is December 2028.

17 Pacetti (\$0.2 million) - This property is geographically and strategically
18 located north of St. Augustine and is expected to be utilized for reliability
19 purposes and/or future load growth for stations nearing capacity. The
20 projected in-service date for this substation is December 2028.

21 Sartori (\$0.1 million) – This property is geographically and strategically
22 located west of Palm Bay to support initiatives to improve reliability for high

1 exposure distribution feeders. The projected in-service date for this substation
2 is December 2028.

3 Speedway Substation (formerly Pelican) (\$0.5 million) - This property is
4 geographically and strategically located just south of the Daytona Speedway
5 racetrack and is expected to be utilized for reliability purposes and/or future
6 load growth. The projected in-service date for this substation is December
7 2028.

8 Timucan Substation (\$1.7 million) - This property is geographically and
9 strategically located in Bradenton to support load growth and initiatives to
10 improve reliability for high exposure distribution feeders at stations which are
11 reaching capacity. The projected in-service date for this substation is
12 December 2028.

13 Township – (\$0.01 million) - This property is geographically and strategically
14 located adjacent to transmission southeast of Palm Bay near US1 to support
15 initiatives to improve reliability for high exposure distribution feeders. The
16 projected in-service date for this substation is December 2028.

17 Pennsucco Expansion (\$1.6 million) – This parcel is needed for expansion to
18 accommodate a new 230kV line associated with the Turkey Point 6 and 7
19 project. The expected in-service date for this property is June 2027.

20 Vermont Substation (\$0.7 million) – This property is geographically and
21 strategically located west of St. Augustine and is expected to be utilized for
22 reliability purposes and/or future load growth. The projected in-service date
23 for this substation is December 2028.

1 Challenger (formerly Harrison St.) (\$0.3 million) - This property is
2 geographically and strategically located in Titusville to support initiatives to
3 improve reliability for high exposure distribution feeders at a nearby station
4 reaching capacity. The projected in-service date for this substation is
5 December 2028.

6 Southwest Substation (\$0.6 million) – Property currently is supporting a
7 storage unit pilot that is already in service. Property is also being considered
8 as part of a land swap with local railroad company. The projected in-service
9 date for this substation is December 2028.

10 **Q. Please summarize your thoughts concerning witness Smith’s**
11 **recommendations to reduce FPL’s 2017 and 2018 T&D PHFFU costs.**

12 **A.** The combined effects of increasing population growth and residential and
13 commercial development, ensuring and maintaining reliability and more
14 restrictive environmental regulations are some examples of factors that will
15 make it more difficult for FPL to find and acquire alternative properties to
16 build necessary future substations and transmission lines. If sold, these
17 properties could be very difficult to replace and would likely result in
18 increased total project costs. The purchase of the above listed rights-of-way,
19 easements, and land plots are prudent acquisitions due to their strategic
20 locations for development and/or reliability. FPL’s T&D planners evaluate the
21 usefulness of the T&D PHFFU properties as they are reviewing plans for
22 upcoming projects. Adjustments to expected in-service dates for T&D PHFFU
23 properties are made, as needed, according to the outcome of these evaluations.

1 Establishing a 10-year threshold for eliminating PHFFU properties and
2 associated costs is not appropriate and should be rejected. For the reasons
3 previously stated, FPL's T&D PHFFU properties with 2027 and 2028 in-
4 service dates are appropriate and should be approved by the Commission.

5

6

V. MITIGATING INCREASES IN REMOVAL COSTS

7

8 **Q. In his testimony, OPC witness Pous includes a reference to the**
9 **Commission's 2010 order regarding FPL's 2009 depreciation study,**
10 **where the Commission suggested that FPL investigate possibilities for**
11 **internal changes to mitigate increasing removal costs. Has FPL taken**
12 **steps to mitigate those costs since that 2010 order?**

13 **A.** Yes. FPL continuously seeks opportunities to increase efficiencies and reduce
14 costs. Initiatives that FPL has implemented that help to mitigate the trend of
15 increasing removal costs include:

16 (1) Controlling contractor labor costs by utilizing the competitive bidding
17 process to focus on achieving the lowest overall project cost;

18 (2) Controlling labor and equipment costs by better coordinating multiple
19 work activities that include removal of facilities (e.g., hardening and pole
20 inspections) and "batching" related removal work located in close proximity
21 in order to achieve more efficient use of labor and equipment;

22 (3) Improving coordination and scheduling with attaching entities to better
23 identify poles that are ready to be removed once all attached facilities are

1 removed; once identified, they can then be included in the process explained
 2 in (2) above; and
 3 (4) Training/qualifying personnel with sufficient skills required to remove
 4 facilities (e.g., bare poles), who then can be used in place of more qualified
 5 and higher priced skilled labor.

6
 7 In summary, while there are certain factors that have placed upward cost
 8 pressure on removal costs (e.g., increasing contractor labor costs, traffic
 9 control costs and other work requirements), FPL has aggressively acted to
 10 mitigate these cost increases.

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

12 A. Yes.

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1 **BY MR. GUYTON:**

2 Q Mr. Miranda, you had an exhibit that was
3 identified along with that rebuttal testimony as MBM-7?

4 A Yes.

5 Q As was MBM-7 prepared under your direction,
6 supervision, and control?

7 A It was.

8 **MR. GUYTON:** Madam Chair, I'd note that that
9 exhibit has been identified as Exhibit 350 on the
10 exhibit list.

11 **CHAIRMAN BROWN:** So noted. And staff.

12 **EXAMINATION**

13 **BY MS. BROWNLESS:**

14 Q Yes, sir. Hey, Mr. Miranda.

15 A Good morning.

16 Q Did you have an opportunity to review staff
17 Exhibit 579, specifically FPL rebuttal witness
18 testimony, your testimony, the exhibits that are
19 identified there, Exhibit 522?

20 A Yes.

21 Q And is that exhibit -- your portion of that
22 exhibit prepared by you or under your direct supervision
23 or control?

24 A It was.

25 Q And if I were to ask you those responses

1 today, would your answers be the same?

2 **A** They would be.

3 **Q** And are your answers true and correct to the
4 best of your knowledge and belief?

5 **A** Yes, they are.

6 **Q** And are any aspects of your portion of Exhibit
7 522 confidential?

8 **A** No, they are not.

9 **MS. BROWNLESS:** Thank you, sir.

10 **EXAMINATION**

11 **BY MR. GUYTON:**

12 **Q** Mr. Miranda, have you also prepared and caused
13 to be filed 15 pages of rebuttal testimony in the storm
14 hardening proceeding?

15 **A** Yes, I have.

16 **Q** And do you have any further changes or
17 revisions to that rebuttal testimony?

18 **A** I do not.

19 **Q** So if I asked you the same questions today
20 that appear in your rebuttal testimony in the storm
21 hardening proceeding, your answers would be the same?

22 **A** Yes, they would be.

23 **MR. GUYTON:** Madam Chair, I'd ask that
24 Mr. Miranda's prepared rebuttal testimony in Docket No.
25 160061 be inserted into the record as though read.

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CHAIRMAN BROWN: We will insert that into the
record as though read.

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Manuel B. Miranda. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

Q. Are you sponsoring a rebuttal exhibit in this case?

A. Yes. I am sponsoring the following rebuttal exhibit:

- MBM-3: FPL’s Responses to OPC’s 16th Set of Interrogatories Nos. 363-365

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to rebut the purported issues and concerns with FPL’s 2016-2018 Electric Infrastructure Storm Hardening Plan (“Plan”) raised in the direct testimony of Office of Public Counsel (“OPC”) witness Helmuth W. Schultz III.

Q. Please summarize your rebuttal testimony.

A. In his testimony, OPC witness Schultz raises what he believes to be concerns with FPL’s proposed Plan, which FPL has filed in compliance with Rule 25-6.0342 (F.A.C.), Electric Infrastructure Storm Hardening (“Infrastructure Hardening Rule”). None of his concerns provides any valid basis for the Florida Public Service Commission (“FPSC” or the “Commission”) not to approve the Plan, on the procedural track that it has laid out for doing so.

1 Specifically, Mr. Schultz’s concerns and assertions are invalid in the
2 following key respects:

- 3 • The Commission in fact has scheduled consideration of the Plan
4 contemporaneously with its consideration of FPL’s base rate case, so all of
5 the issues of costs and cost recovery for the Plan and associated storm
6 hardening activities will be addressed together;
- 7 • The level of expenditures proposed under the Plan are not excessive and,
8 in fact, are necessary to continue making progress toward the ultimate goal
9 of providing storm hardening benefits for all of FPL’s customers within a
10 reasonable time frame; and
- 11 • FPL has provided consistent information through discovery on the costs
12 for the Plan and associated storm hardening activities; witness Schultz’s
13 claims to the contrary suggest that he has not taken FPL’s testimony and
14 discovery responses fully into account.

15

16 **II. COORDINATION OF PLAN AND RATE CASE DECISIONS**

17

18 **Q. Witness Schultz expresses concerns over considering FPL’s Plan and the**
19 **associated base rate costs on a separate basis. Is this concern valid?**

20 **A.** No. The Commission’s process and the timing of this process has, in fact,
21 been in place since May 2007, when FPL and the other Florida investor-
22 owned utilities (“IOUs”) submitted their initial storm hardening plans for
23 Commission review and approval, as required by the Infrastructure Hardening

1 Rule. Since 2007, FPL and the other Florida IOUs have filed updated three-
2 year plans in May (e.g., May 2010 and May 2013), as required by the
3 Infrastructure Hardening Rule and FPSC orders. In approving a utility's
4 Infrastructure Hardening Rule plan, the Commission considers whether the
5 plan "meets the desired objectives of enhancing reliability and reducing
6 restoration costs and outage times in a prudent, practical and cost-effective
7 manner." It has always been the Commission's practice to review the
8 expenditures resulting from storm hardening plans "when cost recovery is
9 requested" (page 16, FPSC Order No. PSC-07-1023-FOF-EI).

10
11 Equally important, Mr. Schultz seems to misunderstand the intended
12 procedure in this consolidated proceeding. As shown in Order No. PSC-16-
13 0182-PCO-EI, the case schedule provides for a single hearing on all four of
14 the consolidated dockets (August 22 to September 2, 2016) and a single brief
15 for all those dockets (September 16, 2016). Additionally, FPL understands
16 that the Commission will decide all issues from the consolidated dockets at
17 the same special agenda conference, currently scheduled for October 27,
18 2016. Thus, it is clear that the Commission fully intends to consider FPL's
19 Plan and its impact on base rates contemporaneously.

1 **Q. If the requirement and practice of the Florida IOUs has been to file**
2 **proposed storm hardening plans in May, every three years, why did FPL**
3 **file its Plan on March 15, 2016, six weeks earlier than usual and**
4 **contemporaneously with its base rate request?**

5 A. The timing associated with previous FPL three-year Infrastructure Hardening
6 Rule plan filings (filed in May 2010 and May 2013) and FPL's most recent
7 base rate request filings, Docket Nos. 080677-EI (filed in March 2009) and
8 120015-EI (filed March 2012), were not aligned such that the Plan and FPL's
9 base rate request were filed in the same year. However, this year, the timing of
10 filing FPL's base rate request and its Infrastructure Hardening Plan happened
11 to occur in the same year. As a result, FPL believed that filing its proposed
12 Plan six weeks early (rather than in May) and contemporaneously with its
13 base rate request would be more efficient and provide all parties more time to
14 review the Plan and its associated base rate impacts.

15 **Q. Witness Schultz states that because FPL's Plan does not address**
16 **vegetation management and pole inspections, it "makes it very difficult to**
17 **tease out only storm hardening issues from the rate case issues and**
18 **address them in an isolated way in this docket." Do you agree with**
19 **witness Schultz's assertion?**

20 A. No. It appears that witness Schultz is not familiar with the filing requirements
21 of the Infrastructure Hardening Rule, even though I discussed them on pages 8
22 -10 of my direct testimony. Vegetation management and pole inspections are
23 not addressed in the Infrastructure Hardening Rule. Accordingly, FPL's

1 vegetation management and pole inspection plans and costs have never been
2 included and submitted for approval in an Infrastructure Hardening Rule plan
3 filing. These issues have always been addressed independently.

4 **Q. Is witness Schultz’s concern that the Commission’s “decision to approve**
5 **the plan in Docket No. 160061-EI could result in automatic assumption**
6 **that the costs associated with the Plan will be allowed as part of Docket**
7 **No. 160021-EI” valid?**

8 A. No. As I previously noted, his thinking that the two dockets are somehow
9 disconnected and will not be addressed together is inaccurate. The only thing
10 that is different for these two dockets is the filing schedule for testimony,
11 which the Commission established “to manage a prehearing process focused
12 on the issues to be litigated.” All other dates and activities for the two dockets
13 are identical. Also, FPL’s early filing and the consolidation of the dockets
14 ensures that the two proceedings will be addressed contemporaneously.
15 Finally, as I previously stated, it has always been the Commission’s practice
16 to review the expenditures resulting from storm hardening plans “when cost
17 recovery is requested.”

18 **Q. Witness Shultz claims that, “In Docket No. 160061-EI, FPL witness**
19 **Miranda does not address costs at all in his testimony on storm**
20 **hardening.” Do you agree?**

21 A. No. On pages 2 and 9 of my direct testimony in Docket No. 160061-EI, I
22 refer to the cost estimates in the Plan, which is attached as Exhibit MBM-1 to
23 that testimony. These estimated annual costs (\$360 million in 2016, \$490

1 million for 2017 and \$750 million for 2018), are addressed multiple times in
2 the Plan (see also pages 6, 20 and 25).

3

4

III. PLAN EXPENDITURES ARE REASONABLE

5

6 **Q. Do you agree with witness Schultz’s concern that the level of proposed**
7 **infrastructure hardening expenditures in FPL’s Plan is excessive and not**
8 **necessary because a “lower historic level of spending has already made**
9 **FPL’s (system) one of the most storm-resilient and reliable in the systems**
10 **in the nation”?**

11 A. No. As provided in my direct testimony, while FPL’s efforts to strengthen,
12 modernize and improve the reliability of the electric grid have produced
13 superior results, our work is far from done, as a significant portion of our
14 system remains to be hardened. Among Florida’s electric utilities, FPL’s
15 system is the most susceptible to storms within Florida, the most hurricane-
16 prone state in the nation. While we have been fortunate that FPL has not been
17 recently impacted by a major storm (even though there were 32 named storms
18 that formed in the Atlantic in 2013-2015), we cannot reasonably rely upon this
19 continuing good fortune in the future.

20

21 Additionally, even with the proposed increase in storm hardening plan
22 spending over historical levels, FPL will continue to provide great value for
23 our customers, as total residential customer bills are expected to “grow

1 roughly in line with inflation from today through 2020 (based on current fuel
2 curves), which is likely to keep FPL's bills among the lowest in the state"
3 (witness Barrett's direct testimony, page 12, lines 5-7).

4

5 As a result, FPL believes completing infrastructure storm hardening
6 expeditiously not only is not excessive, it is the right thing to do.

7 **Q. You mentioned that "our work is far from done." Please discuss how**
8 **much of FPL's feeder system is currently hardened or underground, how**
9 **much will be hardened/underground at the end of its proposed Plan, and**
10 **FPL's plans to complete the hardening of its feeder system.**

11 A. At year-end 2016, after ten years of Commission-approved storm hardening
12 initiatives, 40% of FPL's distribution feeders will be hardened or
13 underground. At year-end 2018, assuming FPL's Plan is executed as expected,
14 60% of FPL's feeder system will be hardened or underground. At this time,
15 FPL's plans beyond 2018 have not been finalized. Future three-year plans
16 beyond 2018 will need Commission review/approval. However, if FPL were
17 to harden the same number of feeders per year that are contained in its current
18 proposed Plan (approximately 250 - 300 feeders per year), it would take until
19 2023 or 2024 to complete the hardening of FPL's feeder system. Today, and
20 even at year-end 2018, a significant portion of FPL's feeder system remains to
21 be hardened and is subject to a greater risk (vs. hardened feeders) of incurring
22 storm damage, with more customers experiencing storm related outages and
23 longer storm restoration times.

1 **Q. Doesn't FPL's Plan also include, for the first time, the hardening of**
2 **laterals?**

3 A. Yes. As discussed in its Plan, in 2018, FPL will initiate the hardening of its
4 laterals. Laterals, which tap off of feeders, are the final step in the distribution
5 primary voltage system and make up a significant portion of the overhead
6 miles in FPL's distribution system. In 2018, FPL plans to target and harden
7 850 - 950 laterals, approximately 1% of FPL's total lateral population.

8 **Q. Is FPL's proposed Plan consistent with the Commission's initial**
9 **intentions and expectations regarding storm hardening?**

10 A. Yes. When the Commission began implementing its storm hardening
11 initiatives to enhance the reliability of Florida's electric grid during extreme
12 weather events, it recognized that storm hardening would take a considerable
13 period of time and significant financial resources. In its 2007 report to the
14 Legislature, dated July 2007, regarding its various storm initiatives, the
15 Commission made several recommendations. These included maintaining a
16 high level of storm preparation, no matter whether recent hurricane seasons have
17 been mild or severe and strengthening Florida's electric infrastructure to better
18 withstand the impacts of severe weather events, which should include a wide
19 range of hardening activities that will take years to complete. The Commission
20 also observed in its report (see page 4) that, "Achieving a transmission and
21 distribution system capable of better withstanding hurricanes will take time and

1 require financial resources.”¹ The Commission also stated the following (see
 2 page 6), which is just as true today as it was in 2007: “Reliable electric service is
 3 the cornerstone of Florida’s economy. Citizens and businesses rely on an
 4 adequate reliable supply of electricity. Accordingly, utilities need to be able to
 5 rapidly recover from the destruction caused by hurricanes. Strengthening
 6 Florida’s electric transmission and distribution grids to better withstand the
 7 effects of these extreme weather events helps to reduce power outages and the
 8 time and cost incurred to restore electric service.”

9

10 **IV. PLAN DISCOVERY RESPONSES ARE CONSISTENT**

11

12 **Q. In his testimony, witness Schultz states that he believes there are**
 13 **inconsistencies among FPL’s proposed Plan, its testimony and its**
 14 **discovery responses. Do you agree that there are inconsistencies?**

15 A. No. His purported concerns are unfounded and appear to mostly result from
 16 his misunderstanding of FPL’s testimony, interrogatory responses and what is
 17 or is not included in an Infrastructure Hardening Rule filing. Several of his

¹ Report to the Legislature On Enhancing the Reliability of Florida's Distribution and
 Transmission Grids During Extreme Weather. Florida Public Service Commission (July
 2007), available at
[https://www.psc.state.fl.us/Files/PDF/Utilities/Electricgas/EnergyInfrastructure/UtilityFilings/
 docs/stormhardening2007.pdf](https://www.psc.state.fl.us/Files/PDF/Utilities/Electricgas/EnergyInfrastructure/UtilityFilings/docs/stormhardening2007.pdf)

1 concerns were also directly addressed by FPL in its responses to OPC
2 interrogatories.

3 **Q. Please explain.**

4 A. On page 9 of his testimony, witness Schultz discusses what he believes to be
5 inconsistencies with information contained in FPL's responses to OPC's 4th
6 Set of Interrogatories, Interrogatory Nos. 111 and 113, and pages 5 and 6 of
7 Exhibit MBM-1, Docket No. 160061-EI. These exact same purported
8 inconsistencies were explicitly addressed by FPL in its responses to OPC
9 Interrogatory Nos. 363-365, which were provided to OPC on June 14, 2016,
10 and are attached as Exhibit MBM-3 to my rebuttal testimony.

11 **Q. Please explain why witness Schultz is wrong to conclude that there are**
12 **inconsistencies.**

13 A. Witness Schultz believes there are inconsistencies in the references to 2017
14 costs for storm hardening that have been provided in FPL's responses to OPC
15 Interrogatory No. 111 (\$604 million), Interrogatory No. 113 (\$487 million)
16 and Exhibit MBM-1 in Docket No. 160061-EI (\$490 million). Let me be
17 clear, there are no inconsistencies. A more careful review of the information
18 provided in FPL's direct testimony and interrogatory responses, indicates that:

19 • The \$604 million amount contains more than the costs (\$487 million)
20 incurred to comply with the Infrastructure Hardening Rule (i.e., the \$604
21 million also includes costs associated with distribution and transmission
22 pole inspections and replacing wood transmission structures, as well as
23 other costs).

- 1 • The estimated 2017 costs of \$490 million referenced in Exhibit MBM-1 in
2 Docket No. 160061-EI include costs for feeder hardening and hardening
3 critical poles but no costs for lateral hardening, as FPL's lateral hardening
4 initiative is not initiated until 2018. This is discussed in my direct
5 testimony and referenced multiple times throughout Exhibit MBM-1.
- 6 • The two percentages for feeders remaining to be hardened at the end of
7 2018 (54% from FPL's response to OPC Interrogatory No. 113 and 40%
8 from Exhibits MBM-1 and MBM-2) are different because they are
9 comparing two different populations of feeders (i.e., FPL's response to
10 OPC Interrogatory No. 113 shows the number of overhead feeders
11 hardened per the Infrastructure Hardening Rule as a percentage of the total
12 number of overhead feeders in the system, while Exhibits MBM-1 and
13 MBM-2 show the total number of feeders hardened or undergrounded vs.
14 the total number of all feeders in the system).

15

16 Witness Schultz also has concerns that FPL has created inconsistencies by not
17 including certain base rate cost impacts (e.g., vegetation management and pole
18 inspections) in its Infrastructure Hardening Plan filing. As previously
19 mentioned, the Infrastructure Hardening Rule does not address vegetation
20 management and pole inspection plans and costs, which is why they are not
21 addressed in the Plan. I would note that those topics likewise were not
22 addressed in any of FPL's prior infrastructure storm hardening plans approved
23 by the Commission.

1 Finally, witness Schultz notes that pole inspection costs are decreasing, yet
2 hardening costs are more than doubling and material supply inventory costs
3 are increasing due, in part, to storm hardening. Apparently, his point is to once
4 again indicate that storm costs should not be looked at separately in Docket
5 Nos. 160021-EI and 160061-EI. While these concerns are not valid (e.g., the
6 decrease in pole inspection costs is not related to increasing Infrastructure
7 Hardening Rule costs), as noted previously, the Commission has consolidated
8 these two dockets to facilitate precisely the kind of review contemplated by
9 witness Schultz.

10 **Q. Should the Commission approve FPL's 2016-2018 Plan?**

11 A. Yes. As described throughout my direct and rebuttal testimonies and exhibits
12 in this proceeding, FPL's 2016-2018 Plan meets the requirements set out in
13 Rule 25-6.0342, F.A.C. Our proposed Plan also broadens the scale and scope
14 of feeder hardening to expeditiously address all feeders within FPL's system,
15 initiates lateral hardening in 2018 and is appropriate and necessary because it:

- 16 • helps to address customers', public officials' and other stakeholders'
17 expectations for increased storm resiliency, fewer outages and prompt
18 service restoration, as evidenced by recent storm events (e.g., Hurricane
19 Sandy in the northeast);
- 20 • expands the benefits of hardening, including improved day-to-day
21 reliability, to all customers throughout the system;
- 22 • is aligned with the goals of the U.S. DOE (i.e., developing a more resilient
23 and reliable system to meet future demands); and

1 • continues to provide great value for our customers.

2 Therefore, since witness Schultz’s testimony provides no basis for a contrary
3 conclusion, FPL’s Plan should be approved by the Commission.

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

5 **A. Yes.**

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1 **BY MR. GUYTON:**

2 Q Mr. Miranda, you had an exhibit identified as
3 MBM-3 attached to your prepared rebuttal testimony in
4 the storm hardening docket?

5 A Yes.

6 Q And was that prepared under your direction,
7 supervision, and control?

8 A Yes, it was.

9 **MR. GUYTON:** Madam Chair, Commissioners, I'd
10 note that that's been pre-identified in staff's
11 Comprehensive Exhibit List as Exhibit 349.

12 **CHAIRMAN BROWN:** Thank you. So noted.

13 **MR. GUYTON:** Madam Chair, Commissioners, we're
14 going to ask Mr. Miranda, in the interest of time,
15 getting him on and off, to summarize both of his
16 testimonies together.

17 **CHAIRMAN BROWN:** That is great.

18 **BY MR. GUYTON:**

19 Q Mr. Miranda, would you please provide a
20 summary of your rebuttal testimonies in the storm
21 hardening proceeding and the rate case?

22 A Yes, I would. Thank you.

23 Good morning, Madam Chairman, Commissioners.
24 Before I get started, I want to thank you for allowing
25 me to come here this morning. As all of you know, we've

1 got a little storm that's coming our way. And I also
2 want to thank the customers who are represented here
3 this morning.

4 My rebuttal testimony addresses issues raised
5 by several OPC witnesses concerning FPL's vegetation
6 management, pole inspection expenses, storm hardening
7 capital expenditures, property held for future use, and
8 the mitigation of removal costs. These investments in
9 FPL's transmission and distribution are reasonable and
10 necessary.

11 Mr. Schultz proposes to reduce FPL's
12 forecasted 2017 through 2018 vegetation management, pole
13 inspection expenses, and storm hardening capital
14 expenditures utilizing an arbitrary and inconsistent
15 actual to budget variance approach. To do so, he
16 abandons his five-year actual to budget variance
17 approach, which he previously testified was preferred.
18 Instead, for two of his adjustments, he utilizes a
19 three-year average, and then for the other, a five-month
20 period is used to affect his proposed cost reductions.
21 Since he provides no explanation or justification for
22 abandoning his preferred approach, it appears he's done
23 so only to create or increase his proposed reductions.
24 By using Mr. Schultz's previously preferred five-year
25 actual to budget variance approach and correcting for

1 his calculation errors, his proposal reductions become
2 immaterial or zero.

3 Mr. Smith recommends that certain transmission
4 distribution property that is held for future use should
5 be removed from FPL's rate base because they have
6 in-service dates that are beyond the ten-year planning
7 process. Mr. Smith's proposal simply does not work in
8 the real world of electric system planning. If FPL
9 waited to acquire property for substation and
10 transmission corridors until their in-service dates were
11 known, our choices could be limited or non-existent.
12 This would most likely result in higher costs for our
13 customers. These properties are geographically and
14 strategically located and are expected to be utilized to
15 meet future load growth, improve reliability, and/or
16 integrate future generation into the grid.

17 Finally, Mr. Pous references FPL's 2009
18 depreciation study order where the Commission suggested
19 FPL investigate possibilities for internal changes to
20 mitigate removal costs. As suggested, FPL has
21 implemented several initiatives that have helped to
22 offset increasing removal costs: For example,
23 controlling contractor labor and equipment costs by the
24 use of the competitive bid process, improve scheduling
25 and coordination of work internally and with attaching

1 entities, and by training qualifying personnel to
2 perform certain work performed by more qualified,
3 higher-priced skilled labor.

4 Madam Chairman and Commissioners, in summary,
5 our vegetation management, pole inspection expenses,
6 storm hardening capital expenditures, property held for
7 future use, and removal costs are reasonable and
8 appropriate. The recommendations offered by the OPC
9 witnesses to reduce certain FPL transmission
10 distribution costs are unwarranted and should be
11 rejected. This concludes my summary.

12 **MR. GUYTON:** We tender the witness.

13 **CHAIRMAN BROWN:** Thank you. And good morning,
14 Mr. Miranda.

15 **THE WITNESS:** Good morning.

16 **CHAIRMAN BROWN:** Ms. Christensen.

17 **MS. CHRISTENSEN:** Thank you, and good morning.
18 And good morning, Mr. Miranda.

19 **EXAMINATION**

20 **BY MS. CHRISTENSEN:**

21 **Q** I just wanted to make sure that we're clear on
22 the record here, you're testifying today in regards to
23 your rebuttal testimony; is that correct?

24 **A** That's correct.

25 **Q** And you have concluded your testimony in the

1 direct case earlier this week; is that correct?

2 **A** That's correct.

3 **Q** And, Mr. Miranda, you are not offering any
4 evidence on Issues 46 through 48; is that also correct?
5 Those are not issues you testified to; is that correct?

6 **A** I'm sorry. If you could read the issues.

7 **Q** Well, your issues you're talking to are storm
8 hardening, vegetation management, pole management, the
9 plants, plant held for future use, and those are the
10 issues you are addressing in rebuttal testimony;
11 correct?

12 **A** That's correct.

13 **Q** Okay. Let me -- and for ease of the record,
14 I'm going to be mainly referring to the rebuttal
15 testimony you filed August 1st, 2016.

16 Can you please refer to page 5 of your
17 rebuttal testimony.

18 **A** I'm there.

19 **MS. CHRISTENSEN:** And just before we get
20 started, just to -- I do have a couple of exhibits that
21 we could pass out.

22 **CHAIRMAN BROWN:** Thank you, Ms. Christensen.
23 I just want to make sure that Commissioners know that
24 that's the rebuttal testimony for August 1st.

25 **MS. CHRISTENSEN:** August 1st.

1 **CHAIRMAN BROWN:** Thank you.

2 **MS. CHRISTENSEN:** Just so you know which
3 testimony I'm referring to for this line of questions.

4 **CHAIRMAN BROWN:** Okay. Great. And we will be
5 starting on Exhibit 704, Ms. Christensen, if you'd like
6 to have them marked now or as you go.

7 **MS. CHRISTENSEN:** I think as we go is probably
8 more efficient.

9 **CHAIRMAN BROWN:** Okay.

10 **MS. CHRISTENSEN:** Okay. Thank you. And I --
11 have all the exhibits been passed out or --

12 **CHAIRMAN BROWN:** Yes. Please proceed,
13 Ms. Christensen.

14 **MS. CHRISTENSEN:** Great. Thank you very much.

15 **BY MS. CHRISTENSEN:**

16 **Q** Again, let me direct you to page 5 of your
17 August 1st testimony, lines 5 through 9. And it would
18 be correct that you have taken exception to
19 Mr. Schultz's testimony and suggested he has made
20 several inaccurate claims or representations; is that
21 correct?

22 **A** That's correct.

23 **Q** Okay. And on lines 10 through 15, do you
24 indicate that Mr. Schultz is incorrect regarding FPL's
25 vegetation management plan when he states, "The plan

1 does not include the removal of danger and hazard
2 trees"; is that correct?

3 **A** That's correct.

4 **Q** Okay. So let's explore that a little bit.
5 I'd like to refer you to FPL's response to OPC's first
6 set of interrogatories No. 10. And if we could have
7 that --

8 **CHAIRMAN BROWN:** And we're going to mark that
9 at this time, Ms. Christensen, as 704.

10 **MS. CHRISTENSEN:** 704. Thank you very much.

11 (Exhibit 704 marked for identification.)

12 **BY MS. CHRISTENSEN:**

13 **Q** Okay. If I could have you turn to the first
14 page, and we'll be discussing the information included
15 on this page. Now looking at this document, there's a
16 number of budgeted trimmed miles for 2011 through 2018;
17 is that correct?

18 **A** That's correct.

19 **Q** Okay. And there's an asterisk as the title
20 which -- for miles trimmed; is that correct?

21 **A** Yes.

22 **Q** Okay. And that asterisk on the bottom of the
23 page is a single asterisk, and it says, "It includes
24 feeder and lateral cycles as well as feeder mid-cycle
25 miles trimmed"; is that correct?

1 **A** That's correct.

2 **Q** Okay. And there is also a column -- let me
3 ask you this first. Is there a column that reflects the
4 budgeted number of tree removals?

5 **A** There's a column, yes.

6 **Q** Okay. And that column -- there's a column
7 that's labeled Trees Removed; is that correct?

8 **A** Yes.

9 **Q** Okay. And are you saying that tree removals
10 and trees removed are the same thing? I just want to
11 make sure I'm clear.

12 **A** Could you restate that? I'm sorry.

13 **Q** I think I asked you earlier, is there a column
14 that reflects the budgeted number of tree removals, and
15 I think you said, "Yes." But I want -- and then --

16 **A** I'm sorry. You have me a little confused.

17 **Q** Okay. Let's go back to the first question I
18 asked. Is there a column in this exhibit that reflects
19 the budgeted number of tree removals?

20 **A** There's a column that says the number of trees
21 that we removed.

22 **Q** Okay. Is that the same thing as tree
23 removals?

24 **A** Yes.

25 **Q** Okay. Let me put your attention to the bottom

1 of the page. There's a double asterisk by 2017 and
2 2018; is that correct?

3 **A** Yes.

4 **Q** And you would agree that the double asterisk
5 indicates that the number of trees is not specifically
6 forecasted for those years; correct?

7 **A** The number of trees that we would remove for
8 that year, correct.

9 **Q** Okay. All right. Beginning on page 5, line
10 17, and continuing over on to page 6, through line 2,
11 you indicate that Mr. Schultz is incorrect regarding
12 FPL's tree trimming cycle being 2.4 years; is that
13 correct?

14 **A** That's correct.

15 **Q** Okay. And as part of your criticism, you
16 indicate that it was inappropriate to include the
17 7,000 miles of mid-cycle feeder trimming; is that
18 correct?

19 **A** That's correct.

20 **Q** Okay. Now you would agree that the
21 7,000 miles of mid-cycle feeder trimming will have an
22 impact on the system's performance; correct?

23 **A** Yes, but let me explain. So just pull up a
24 little bit of what mid-cycle trimming is for us so we
25 have a clear understanding. So we have our feeders,

1 which are a main backbone of our facilities. We have
2 about 13,400 miles of feeder backbone, and then we have
3 about 22,800 miles of lateral backbones. As you recall,
4 as part of the Commission order and when we met on the
5 10-point plan, our vegetation program is part of that.
6 So we do our feeders on a three-year cycle and our
7 laterals on a six-year cycle. There are many types of
8 species that are on these feeders that we cannot clear
9 enough distance, or the type of tree that's on there,
10 for example, a palm tree, that you can't clear enough to
11 support a three-year. So what we do is we call it a
12 mid-cycle trim. And all it is is we might come after
13 one year or two years and have to clip some palm fronds
14 or some other branches in order to maintain the
15 three-year cycle. So effectively it's not improving --
16 it's not enhancing the three-year cycle at all. All
17 it's doing is sustaining the three years so that that
18 circuit stays clear so that when we come back in another
19 three years, you know, we have maintained the integrity
20 of that line. But it does not expand the amount of
21 feeder miles that we're doing. It just sustains the
22 initial three-year vegetation trim.

23 Q Okay. But getting back to the exhibit that
24 was handed out, your response to OPC interrogatory No.
25 10, you indicated that the budgeted miles trimmed is

1 reflected on this response in the budgeted column; is
2 that correct?

3 **A** That's correct.

4 **Q** Okay. And is it correct that, according to
5 the asterisk, for the budgeted column and the actual
6 trim column, that the miles trimmed included feeder
7 miles or feeder mid-cycle miles trimmed?

8 **A** That's correct.

9 **Q** Okay. And I think -- let me move on to my
10 next set of questions. Well -- and I -- let me ask you
11 this. Would you agree that it's not appropriate to
12 ignore the fact that you performed 7,000 miles of feeder
13 mid-cycle mile trimming when you're evaluating your
14 vegetation maintenance cycle?

15 **A** We absolutely do not ignore it. It's part of
16 our vegetation plan, and it's -- again, it's ordered to
17 maintain the integrity of the initial three-year trim.
18 If we don't do that, what will happen is those lines --
19 again, a great example is palm trees. You know, there's
20 just no effective way to trim a palm tree, a palm frond
21 from staying off that line for a three-year period.
22 Palm fronds, as you know, especially in the South
23 Florida area, will grow back pretty rapidly. Sometimes
24 six months, sometimes -- you know, and they grow back
25 quickly and big, and we've got to go back and trim it.

1 And all we do is we're going back -- and I would say
2 it's kind of a hair clip, if you will, and all we're
3 doing is sustaining that so that when we come back and
4 trim the bigger trees later on. So they're absolutely a
5 big part of our budget. But at the end of the day, our
6 feeder trim stays on a three-year cycle. So the proper
7 math and the cycle is not to include the mid-cycle miles
8 as part of the overall trim. It's just to support and
9 maintain the integrity of the three-year and six-year
10 trim.

11 Q All right. Well, let me ask you this. On the
12 response to interrogatory No. 10 from OPC, the number of
13 miles that the company responded, the actual miles
14 trimmed for 2017 is 15,244; is that correct?

15 A That's correct.

16 Q And in the same response, the total system
17 miles for feeder and lateral miles for 2015 is 36,256;
18 is that correct?

19 A That's correct.

20 Q Okay. And you would agree that if you divide
21 the 36,256 by 15,244, the result would end up being
22 2.38; is that correct, subject to check?

23 A That's correct. The math is absolutely
24 correct.

25 Q Okay.

1 **A** But I think what's being missed, and I'll
2 point out to the analysis that Mr. Schultz did, that's
3 not the appropriate math. The appropriate math is
4 really to take the 36,000 miles and to divide it by the
5 amount of trim that we're doing as part of the
6 three-year and six-year. So as part of our three-year,
7 we trim about 4,500 miles of feeders, about 3,800 miles
8 of laterals. So the right math is 36,200 divided by the
9 8,300. Right? So effectively the trim cycle on that
10 type of math, it would be 4.4 years, if you wanted to
11 use that average.

12 **Q** Well, let me -- let's move on to a different
13 topic, Mr. Miranda. On page 7, lines 1 through 15, you
14 continue with your explanation as to why you believe the
15 three-year approach is not justified or supported; is
16 that correct?

17 **A** All we're stating is the inconsistency with
18 previous analysis.

19 **Q** Okay. Well, let's take a look again at OPC --
20 or FPL's response to OPC No. 10, and let's kind of work
21 our way through that.

22 For 2017, the budgeted miles for tree trimming
23 is 15,100; is that correct?

24 **A** That's correct.

25 **Q** Okay. And then if you look at '18, similarly

1 it's 15,100; correct?

2 **A** Correct.

3 **Q** And '14 is also very similar at 15,000.

4 **A** They're all generally in that same area.

5 **Q** Okay. Well, let's take our attention to 2011.

6 The budgeted miles for 2011 were 12,225; is that
7 correct?

8 **A** That's correct.

9 **Q** Okay. And then the budgeted miles for 2012
10 were 12,700; is that correct?

11 **A** That's correct.

12 **Q** So you would agree that 2011 and '12 are
13 significantly lower than the budgeted miles from 2013
14 on; is that correct?

15 **A** Yes.

16 **Q** Okay. And so you would agree that it's not
17 appropriate for an apples-to-apples comparison to
18 include the lower 2011 and '12 less aggressively
19 budgeted miles when you were looking at a levelized
20 budgeted amount around 15,000 since 2013.

21 **A** I don't agree with that. I think it's -- you
22 know, you have to look at the historical trend and the
23 historic, more longer-term period to really get a true
24 perspective on things. You know, what we didn't want --
25 what we wanted to point out is you just can't

1 cherry-pick time periods in time to really support your
2 case. And, you know, we provided all the information
3 that was requested. And, again, this is our historical
4 actuals and they have occurred over a period of time.

5 Q And you would agree that FPL trims or it --
6 according to its storm plan, the tree trimming cycle is
7 on a three-year cycle; correct?

8 A Our storm hardening -- our vegetation program
9 is three years on feeders and six years on laterals.

10 Q Okay. So -- and your -- one of your
11 criticisms is that he uses a five-year average when he
12 performed this similar analysis in New York City; is
13 that correct?

14 A That's correct.

15 Q Okay. Are you familiar with the tree trimming
16 practices in other jurisdictions?

17 A Just here in Florida.

18 Q Okay. And would you agree that in the
19 northern states, the vegetation does not grow as rapidly
20 as it does in Florida?

21 A I don't have -- I don't know.

22 Q You would agree that northern states have
23 winter and trees don't generally tend to grow in winter;
24 is that correct?

25 A Again, it's a different vegetation requirement

1 based on the trees and the type of trees that they have
2 in those areas.

3 Q Okay. Well, let's -- I'm going to refer you
4 to another exhibit that I handed out, and that is FPL's
5 response to staff's 21st set of interrogatories No. 327.

6 CHAIRMAN BROWN: We're going to mark that one
7 as 705.

8 (Exhibit 705 marked for identification.)

9 MS. CHRISTENSEN: Okay.

10 CHAIRMAN BROWN: Mr. Miranda, do you have a
11 copy of that in front of you?

12 THE WITNESS: Yes, I do.

13 BY MS. CHRISTENSEN:

14 Q Okay. Great. Now let me know when you get
15 that opened and have a chance to look at it.

16 A One second, please. Yes, I'm here.

17 Q Okay. Great. Now do you see the dollar
18 amounts for 2011 and 2012 for vegetation management?
19 Excuse me.

20 A I'm sorry. It's a little faded. For 2011?

21 Q And 2012.

22 A Yes, I do.

23 Q Okay. Great. Let me -- do you have a copy of
24 Mr. Schultz's rebuttal testimony in front of you?

25 A I do not.

1 **Q** Okay. Well, we'll try and do this without a
2 copy of the rebuttal testimony that you're responding
3 to.

4 Did you review Mr. Schultz's testimony?

5 **A** Yes, I did.

6 **Q** Okay. And do you recall that, looking at
7 Mr. Schultz's Exhibit HWS No.6, he includes a table on
8 the distribution vegetation management tree trimming for
9 2017?

10 **A** Yes, I have a copy of that.

11 **Q** Okay. Good. That'll make this so much
12 easier.

13 **A** Yes, ma'am.

14 **Q** Wonderful. Okay. Now referring back to those
15 amounts, do you see the amounts for 2011 and '12 in
16 Mr. Schultz's exhibit? And if you look at the response
17 to staff's interrogatory No. 327, would you agree that
18 those amounts match?

19 **A** On the vegetation?

20 **Q** On the three-year vegetation management cycle
21 for distribution under 2011 O&M and 2012 O&M.

22 **A** Yes, they do, for the actuals.

23 **Q** All right. And you would agree that the
24 description under the response in interrogatory 327 is
25 the three-year vegetation management cycle for

1 distribution; is that correct?

2 **A** That's what it states.

3 **Q** Okay.

4 **A** But it's -- again, it's, you know, it's the
5 overall -- it's three years for feeders and six years
6 for laterals.

7 **Q** Okay.

8 **A** It's really the whole vegetation budget that
9 includes removal costs and all the other aspects of it.

10 **Q** All right. Well, let's move on to page 9 of
11 your testimony.

12 **CHAIRMAN BROWN:** Ms. Christensen, is it at the
13 August 1st testimony?

14 **MS. CHRISTENSEN:** Yes. I'm staying in the
15 August 1st line of testimony throughout this line of
16 questioning, so we'll just -- I'll just refer to it by
17 page number. And I'll also be referring to
18 Mr. Schultz's testimony, basically the exhibits.

19 **CHAIRMAN BROWN:** Great.

20 **BY MS. CHRISTENSEN:**

21 **Q** Okay. We are looking at page 9 of your
22 August 1st testimony, lines 14 through 21. Okay. And
23 are you suggesting here that comparing the actual to
24 budget for the five years is more appropriate than what
25 Mr. Schultz is proposing?

1 **A** All we're stating is it was just inconsistent
2 with his previous approach.

3 **Q** Okay. Let's refer back to HWS-6, which is
4 Mr. Schultz's exhibit.

5 **A** Yes.

6 **Q** Okay. Would you agree that the actual
7 spending from 2011 through 2015 is approximately the
8 same or what we call pretty levelized?

9 **A** It's -- on average for the three years, I
10 think it's \$61,500.

11 **Q** Okay.

12 **A** And then for the five years, \$61,360.

13 **Q** Okay. And would you agree that the 2011 and
14 '12 budgeted miles are approximately 18 to 20 percent
15 less than the budgeted miles for 2013 through 2015 and
16 the proposed 2017 rate test year?

17 **A** Yes, as you look at the budget. But I think
18 what you have to also focus in on is the actual. For
19 the purpose of his analysis, he was looking at what we
20 actually spent in those years. So if you look at the
21 actual spent for '11, it's 60,600. In 2012, it's
22 61,700. As you can see, those amounts are even greater
23 than they were in 2014.

24 **Q** All right. Well, let's -- we'll get there.
25 Let me just get through a few more questions and we can

1 talk about that in a little bit.

2 And I think we discussed earlier that the
3 miles for -- okay, let me ask this. You indicated
4 earlier that the miles used by Mr. Schultz to calculate
5 the tree trimming cycle was not correct; is that right?

6 **A** Correct.

7 **Q** Okay. Now we -- I want you to look back to
8 FPL's response to interrogatory No. 10.

9 **A** Okay.

10 **Q** Okay. Are you suggesting that since the
11 actual miles trimming are similar for 2011 through 2015,
12 that the actual miles trimmed should be used?

13 **A** All I was pointing out is that for his
14 analysis purposes, the way that he calculated -- made
15 his calculations, he just omitted the '11 and '12 time
16 frame. And if you included the '11 and '12 and used a
17 five-year average, it changes the multiplier that he
18 developed. Instead of being the point -- 96.6 percent
19 would have been 98.8 percent.

20 (Transcript continues in sequence in Volume
21 22.)

1 STATE OF FLORIDA)
 : CERTIFICATE OF REPORTER
2 COUNTY OF LEON)

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 29th day of August, 2016.

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