

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 160021-EI

PETITION FOR RATE INCREASE BY
FLORIDA POWER & LIGHT COMPANY.

_____ /

DOCKET NO. 160061-EI

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

_____ /

DOCKET NO. 160062-EI

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

_____ /

DOCKET NO. 160088-EI

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

_____ /

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING:

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

DATE: Thursday, October 27, 2016

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TIME: Commenced at 9:30 a.m.
Concluded at 1:12 p.m.

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

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

-and-

ANDREA KOMARIDIS
Premier Reporting
(850)894-0828

1 APPEARANCES:

2 JOHN T. BUTLER, R. WADE LITCHFIELD, and MARIA
3 MONCADA, ESQUIRES, 700 Universe Boulevard, Juno Beach,
4 Florida 33408-0420, appearing on behalf of Florida Power
5 & Light Company.

6 J.R. KELLY, PUBLIC COUNSEL; CHARLES REHWINKEL;
7 and PATRICIA A. CHRISTENSEN, ESQUIRES, Office of
8 Public Counsel, c/o the Florida Legislature, 111 West
9 Madison Street, Room 812, Tallahassee, Florida
10 32399-1400, appearing on behalf of the Citizens of the
11 State of Florida.

12 MARK F. SUNDBACK, KENNETH L. WISEMAN, and
13 WILLIAM M. RAPPOLT, ESQUIRES, Andrews Kurth, LLP,
14 1350 I Street NW, Suite 1100, Washington, DC
15 20005, appearing on behalf of South Florida Hospital and
16 Healthcare Association.

17 MAJOR ANDREW UNSICKER, ESQUIRE, USAF Utility
18 Law Field Support Center, Air Force Legal Operations
19 Agency, 139 Barnes Drive, Suite 1, Tyndall Air Force
20 Base, Florida 32403, appearing on behalf of Federal
21 Executive Agencies.

22 DIANA CSANK, ESQUIRE, 50 F Street, NW, 8th
23 Floor, Washington, DC 20001, appearing on behalf of
24 Sierra Club.

1 APPEARANCES (Continued):

2 STEPHANIE EATON, 110 Oakwood Drive, Suite
3 500, Winston-Salem, North Carolina 27103, appearing on
4 behalf of Wal-Mart Stores East, LP, and Sam's East, Inc.

5 ROBERT SCHEFFEL WRIGHT and JOHN T. LaVIA, III,
6 ESQUIRES, Gardner Law Firm, 1300 Thomaswood Drive,
7 Tallahassee, Florida 32308, appearing on behalf of the
8 Florida Retail Federation.

9 JACK MCRAY, 200 West College Avenue,
10 #304, Tallahassee, Florida, 32301, appearing on behalf
11 of AARP.

12 SERENA MOYLE, JON C. MOYLE, JR., and KAREN
13 PUTNAL, ESQUIRES, Moyle Law Firm, P.A., 118 North
14 Gadsden Street, Tallahassee, Florida 32301, appearing on
15 behalf of Florida Industrial Power Users Group.

16 SUZANNE BROWNLESS, KYESHA MAPP, ADRIA HARPER,
17 DANIJELA JANJIC, and MARGO LEATHERS, ESQUIRES, General
18 Counsel's Office, 2540 Shumard Oak Boulevard,
19 Tallahassee, Florida 32399-0850, appearing on behalf of
20 the staff of the Florida Public Service Commission.

21 KEITH HETRICK, ESQUIRE, General Counsel, and
22 MARY ANNE HELTON, ESQUIRE, FPSC General Counsel's
23 Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida
24 32399-0850, appearing as advisors to the Florida Public
25 Service Commission.

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2 **CHAIRMAN BROWN:** Thank you so much. And I'd
3 like to call this hearing to order in Docket 160021, the
4 FPL rate case, the sequel. The date is October 27th,
5 2016. And, staff, can you please read the notice.

6 **MS. BROWNLESS:** Yes, ma'am. By notice issued
7 on October 12th, 2016, by the Commission Clerk, this
8 time and place has been set for a hearing in Dockets
9 Nos. 160021-EI, 160061-EI, 160062-EI, and 160088-EI,
10 petition for increase in rates by Florida Power & Light
11 Company, petition for approval of the 2016 to 2018 storm
12 hardening plan by Florida Power & Light Company, 2016
13 depreciation and dismantlement study by Florida Power &
14 Light Company, and petition for limited proceeding to
15 modify and continue incentive mechanism by Florida Power
16 & Light Company, to take supplemental testimony on the
17 terms and conditions of the settlement agreement dated
18 October 6th, 2016, and any other outstanding matters.

19 **CHAIRMAN BROWN:** Thank you, Ms. Brownless.
20 And please note that Commissioner Edgar is unable to
21 attend in person due to an illness, but she will be
22 participating by phone. And they're patching her in
23 right now.

24 At this time, we'll take appearances, and it's
25 great to see you all again.

1 **MR. LITCHFIELD:** Thank you. Good morning,
2 Madam Chair, Commissioners. Wade Litchfield, John
3 Butler, and Maria Moncada for Florida Power & Light
4 Company.

5 **CHAIRMAN BROWN:** Thank you.

6 **MR. REHWINKEL:** Good morning, Commissioners.
7 Charles Rehwinkel, J.R. Kelly, and Patricia Christensen
8 for the people of Florida. Thank you.

9 **CHAIRMAN BROWN:** Thank you.

10 **MR. SUNDBACK:** Good morning, Madam Chair and
11 Commissioners. Mark Sundback for the South Florida
12 Hospital and Healthcare Association, along with my
13 partner Ken Wiseman and William Rappolt of our firm.
14 Thank you.

15 **CHAIRMAN BROWN:** Thank you.

16 **MAJOR UNSICKER:** Good morning, Commissioners.
17 Major Andrew Unsicker on behalf of Federal Executive
18 Agencies.

19 **CHAIRMAN BROWN:** Thank you.

20 **MS. CSANK:** Good morning, Madam Chair,
21 Commissioners. Diana Csank for Sierra Club.

22 **CHAIRMAN BROWN:** Thank you.

23 **MS. EATON:** Good morning, Madam Chairman and
24 Commissioners. Stephanie Eaton for Wal-Mart.

25 **CHAIRMAN BROWN:** Thank you.

1 **MR. WRIGHT:** Good morning, Madam Chair and
2 Commissioners. It's great to be back as well. Robert
3 Scheffel Wright and John T. Lavia, III, on behalf of the
4 Florida Retail Federation.

5 **CHAIRMAN BROWN:** Thank you. Could you push
6 your button, please? It's tricky.

7 **MR. McRAY:** Got it. Good morning. Jack McRay
8 appearing on behalf of AARP.

9 **CHAIRMAN BROWN:** Thank you.

10 **MS. MOYLE:** Good morning. Serena Moyle, Jon
11 Moyle, and Karen Putnal on behalf of FIPUG, Florida
12 Independent (sic) Power Users Group.

13 **CHAIRMAN BROWN:** Thank you, and welcome
14 Ms. Moyle, Mrs. Moyle.

15 **MS. MOYLE:** Yes, thank you.

16 **CHAIRMAN BROWN:** Staff.

17 **MS. BROWNLESS:** Good morning. Suzanne
18 Brownless on behalf of the staff of the Florida Public
19 Service Commission. And I'd also like to enter an
20 appearance for Danijela Janjic, Kyesha Mapp, Margo
21 Leathers, and Adria Harper.

22 **CHAIRMAN BROWN:** Okay. Thank you. Staff, are
23 there any preliminary matters at this time that we need
24 to address? Pardon me?

25 **MS. HELTON:** Did you want me to make an

1 appearance?

2 **CHAIRMAN BROWN:** Yeah, you should make an
3 appearance.

4 **MS. HELTON:** Mary Anne Helton. I'm here as
5 your advisor today. And I'd also like to make an
6 appearance for your General Counsel, Keith Hetrick.

7 **CHAIRMAN BROWN:** Thank you. Now preliminary
8 matters.

9 **MS. BROWNLESS:** Yes, ma'am. My understanding
10 is that Mr. Skop is unable to attend today, and he's
11 asked that he be excused from the proceeding, and also
12 that he has filed -- just filed a written statement in
13 lieu of appearance. Did everybody get a copy of that?
14 And he'd ask -- he's asking that that be read as his
15 opening statement.

16 **CHAIRMAN BROWN:** Any comments?

17 **MR. LITCHFIELD:** I'm sorry. We have no
18 objection, but I had understood he wanted it inserted
19 into the record as though read but not necessarily read.

20 **CHAIRMAN BROWN:** That's correct.

21 **MS. BROWNLESS:** That's fine.

22 **CHAIRMAN BROWN:** I'll -- let me read the email
23 real quickly sent at 5:10 in the morning.

24 "Due to exigent circumstances, I'm unable to
25 attend the FPL settlement hearing as planned this

1 morning. Prior to the hearing I'll be filing a written
2 statement with the Clerk and provide you and the other
3 parties with a copy of the document. The Larsons
4 respectfully request that the opening statement be
5 entered into the record as though read."

6 You are correct. Thank you.

7 So any other preliminary matters?

8 **MS. BROWNLESS:** No, ma'am.

9 **CHAIRMAN BROWN:** Okay. Let's get to exhibits
10 first.

11 **MS. BROWNLESS:** Okay. The staff has prepared
12 a second Comprehensive Exhibit List, which includes all
13 exhibits attached to the supplemental witnesses'
14 prefiled testimony, as well as the staff exhibit, which
15 is the Comprehensive Exhibit List itself. The list
16 itself is marked as Exhibit 807 and has been provided to
17 the parties, the Commissioners, and the court reporter.
18 At this time, we would request that Exhibit 807 be
19 entered into record and that all other exhibits be
20 marked as identified therein.

21 **CHAIRMAN BROWN:** Okay. We -- seeing no
22 objection, we will go ahead and enter Exhibit 807 into
23 the record as though read and mark for identification
24 Exhibit 808, 809, 810, 811. 808 is Tiffany Cohen, which
25 is attached as TCC-10 to her prefiled testimony; 809 is

1 TCC-11; 810 is TCC-12; and 811 is Mr. Ferguson, KF-9.

2 (Exhibits 807 through 811 marked for
3 identification.

4 (Exhibit 807 admitted into the record.)

5 All right. Moving on to opening statements.
6 The signatories to the settlement agreement shall have
7 ten minutes, to be divided among them as they see fit,
8 and each non-signatory party may have -- shall have five
9 minutes each. But I will note that you -- the
10 non-signatories and as well as the signatories do not
11 have to use all of the time or any of the time.

12 We will begin with Florida Power & Light,
13 followed by Office of Public Counsel, Hospitals, and
14 FRF. Then we'll move to the non-signatories beginning
15 with AARP, followed by FIPUG, FEA, Wal-Mart, Sierra
16 Club.

17 All right. And with that, are there any
18 questions before we begin? And I'll be timing.

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

20 **COMMISSIONER EDGAR:** Madam Chair.

21 **CHAIRMAN BROWN:** That is Commissioner Edgar.

22 **COMMISSIONER EDGAR:** Thank you. I just did
23 want to make sure that you could hear me. I can hear
24 you and, for the record, I am participating by phone.

25 **CHAIRMAN BROWN:** Thank you.

1 Okay. With that --

2 **MR. LITCHFIELD:** Thank you, Madam Chair. Wade
3 Litchfield for Florida Power & Light Company.

4 Commissioners, good morning. I can assure you
5 that even collectively among the signatories to the
6 joint settlement agreement we will be well short of
7 ten minutes.

8 Without getting into the details, obviously,
9 of the settlement discussions that culminated in filing
10 the agreement that you have before you and you will be
11 considering for purposes of potential approval, I think
12 it's at least permissible for me to note a couple of
13 things.

14 One, these discussions did not happen
15 overnight. In fact, as you might expect, a lot of
16 complex issues, a lot of lengthy discussions over
17 several months occurred, and it was only October 6th
18 that we were able to put together a proposal that we all
19 agreed upon and decided to submit it for your approval.

20 I'd also like to, if I could, comment on the
21 tenor of the negotiations, again without getting into
22 details, which I would be precluded from doing. I just
23 want to note that even though we had very lengthy
24 conversations, the issues, as I said, were very, very
25 complex and we obviously were attempting, as you well

1 know based on the filed positions in this docket,
2 attempting to bring together some pretty divergent
3 interests. I just want to note that at all times those
4 discussions were absolutely professional, civil,
5 cordial, and I just think that's a tribute to everybody
6 who was involved, and I just wanted you to know that.

7 The discussions led to an agreement that we
8 are submitting to this Commission for approval as
9 reflecting an appropriate resolution of all of the
10 issues in this case. We hope that based on the
11 underlying record, which is very, very extensive, as
12 well as the additional testimony that you will take
13 today, that when you do take this up for actual
14 decision, that you will agree with that view expressed
15 by the signatories.

16 The Commission does have, as you well know, a
17 long-standing and oft-stated policy in favor of
18 settlement. We recognize today that we are not
19 presenting a document to you that has the signature of
20 each and every intervenor in this case. We do have the
21 Office of Public Counsel, the Florida Retail Federation,
22 and the Hospital Association. We also have three other
23 intervenors who have indicated that they will take no
24 position on the settlement, which we respect, but which
25 we, at least at FPL, believe is meaningful in terms of a

1 statement in that regard.

2 There are three who continue to oppose the
3 settlement agreement. You'll hear from them today, and
4 we respect their right to express their views,
5 obviously. But with as many intervenors as we do see in
6 these cases, particularly base rate cases these days,
7 even intervenors who have competing interests among
8 themselves, it is, in our view, at least FPL's view,
9 almost a virtual impossibility that we would be able to
10 bring an agreement that included every individual
11 intervenor's signature on it, impossible, in our mind,
12 to satisfy the interests of each and every intervenor
13 and, therefore, not surprising that we don't have
14 complete unanimity with respect to this agreement.

15 But the test is not whether, and the standard
16 is not whether the agreement meets the stated or alleged
17 interests of each and every intervenor. Neither is the
18 standard whether each and every intervenor agrees that
19 the proposed agreement is in the public interest.
20 Rather, the standard is simply whether overall the
21 agreement, in your view, does meet the public interest.

22 We, of course, as the joint signatories and as
23 FPL, we believe that the agreement is in the public
24 interest, and to that end we are appreciative of the
25 opportunity today to present additional testimony in

1 support of the agreement consistent with the procedural
2 order that this Commission issued on October 12th. We
3 thank you. We are prepared to proceed accordingly.

4 **MR. REHWINKEL:** Thank you, Madam Chairman and
5 Commissioners. The Public Counsel's Office, on behalf
6 of all the citizens that we represent in this case,
7 strongly believe that this agreement is in the public
8 interest taken as a whole. The public interest (sic)
9 also strongly believes that the settlement before you
10 produces a reasonable result for all customers, given
11 the range of likely outcomes based on the Public
12 Counsel's judgment after conclusion of the evidentiary
13 record in this docket. Thank you.

14 **CHAIRMAN BROWN:** Thank you.

15 **MR. SUNDBACK:** Madam Chair, Commissioners, we
16 are certainly going to make good on FPL's pledge to be
17 done in well less than ten minutes. The settlement,
18 from our perspective, reflects a resolution of numerous
19 intertwined issues in an appropriate manner, and we'd
20 urge you to take into account the complexity of the
21 settlement and its interwoven nature when you evaluate
22 it and, of course, urge that you approve it. Thank you.

23 **CHAIRMAN BROWN:** Thank you. You were right.

24 Go ahead.

25 **MR. WRIGHT:** Thank you, Madam Chairman,

1 Commissioners. The Florida Retail Federation supports
2 this settlement. This settlement was reached through
3 extended discussions, as Mr. Litchfield said, literally
4 over a period of some months. This agreement represents
5 a reasonable and mutually acceptable resolution of, as
6 you see before you, many complex issues. Given the
7 facts, the law, the evidence, and the parties' competing
8 positions, we urge you to approve it. Thank you.

9 **CHAIRMAN BROWN:** Okay. That was five minutes
10 and 35 seconds.

11 **MR. WRIGHT:** Yay us.

12 **CHAIRMAN BROWN:** Quite impressive.

13 All right. We will begin now with AARP. Good
14 morning.

15 **MR. McRAY:** Good morning, and thank you.
16 Members of the Commission or Commissioners, AARP opposes
17 the settlement stipulation at issue in this hearing.
18 It's apropos that this hearing is occurring near
19 Halloween. It is customary for celebrants of Halloween
20 to don masks and costumes in order to obscure their
21 appearances or to assume identities as someone or
22 something else, my analogy such as the case for this
23 stipulation.

24 AARP contends that if you strip the costume
25 and mask from the stipulation, what remains is the devil

1 in the details: To wit, the parties/intervenors have
2 not unanimously joined in the stipulation, not even a
3 majority of them have joined in the stipulation.
4 Proponents of the stipulation posit that FPL would be
5 giving back benefits to ratepayers by accepting base
6 rate increases lower than what FPL requested in the rate
7 hearing commenced in August. This is a slight of hand
8 ploy because the record supports that FPL should be
9 reducing rates, not increasing rates.

10 The stipulation also pulls what I call a
11 proverbial rabbit out of the hat by conditioning the
12 proposal on a concept that was not included in the
13 record at the initial hearing; that is, a theoretical
14 depreciation reserve surplus and depreciation reserve
15 amortization scheme that in essence guarantees that
16 FPL's return on equity will be no lower than 9.6 and up
17 to 11.6 percent, which amount exceeds the amount
18 requested by FPL in the original rate hearing, and
19 that's for each year of the four years to which the
20 stipulation would apply regardless of AA -- excuse me --
21 FPL's actual performance. Testimony will demonstrate
22 why this is a gift to shareholders at the expense of
23 ratepayers and the 11.6 ROE is far greater than what
24 most states have granted to regulated electric utility
25 providers.

1 Proponents of the stipulation would also have
2 you believe that the stipulation provides -- the
3 stipulation provides certainty for ratepayers during the
4 four-term (sic) year of the stipulation. But the
5 stipulation offers only certainty of higher rates and is
6 replete with provisos that would allow FPL to seek rate
7 increases during the term of the stipulation and to
8 increase surcharges to ratepayers and put over
9 \$1 billion more depreciation on ratepayers' tab after
10 the year 2020.

11 AARP contends that the four-year rate plans
12 are detrimental to consumers, are replete with
13 uncertainties, and should not be relied upon by FPL or
14 by this Commission. AARP urges the Commissioners to
15 carefully consider the provisions of this settlement
16 because, continuing the Halloween analogy, as the
17 proponents ring the doorbell of the PSC and yell, "Trick
18 or treat," the treat is protection for FPL's
19 shareholders, but the trick is on ratepayers who will
20 clearly bear higher electric rates to support an
21 excessive return on equity for shareholders.

22 We urge the Commission to reject the proposed
23 stipulation because it is inconsistent with the evidence
24 admitted into the record in this rate case previously,
25 it's not in the public interest, and will not result in

1 just and reasonable rates for FPL's customers. AARP
2 urges the Commission to rely on the evidentiary record
3 already before it and to determine rates only for the
4 2017 test year. Thank you.

5 **CHAIRMAN BROWN:** Thank you, Mr. McRay.

6 Next up is Ms. Moyle with FIPUG.

7 **MS. MOYLE:** FIPUG does not take a position on
8 the pending motion to approve settlement and otherwise
9 waives its right to make an opening statement.

10 **CHAIRMAN BROWN:** Thank you. FEA.

11 **MAJOR UNSICKER:** Thank you, ma'am. FEA does
12 not oppose the agreement as well and takes no position
13 and waives opening statement.

14 **CHAIRMAN BROWN:** Thank you.

15 Wal-Mart.

16 **MS. EATON:** Good morning, Madam Chair.
17 Wal-Mart does have an opening statement.

18 On behalf of Wal-Mart Stores East, LP, and
19 Sam's East, Inc., collectively Wal-Mart, I hereby make
20 this opening statement in this proceeding related to the
21 petition of Florida Power & Light for approval to modify
22 its rates and charges for electric utility service.

23 This Commission conducted proceedings on
24 Docket No. 160021-EI and others, which we call the
25 consolidated dockets, throughout the weeks of

1 August 22nd and August 29th, 2016. Wal-Mart actively
2 participated in the proceeding and caused to be admitted
3 into the evidentiary record the direct testimony and
4 exhibits of Steve W. Chriss, Wal-Mart's senior manager,
5 energy regulatory analysis.

6 Through the testimony of Mr. Chriss, Wal-Mart
7 addressed key issues regarding FPL's request for an
8 increase in base rates, including the company's proposed
9 ROE; the company's proposal to allocate production
10 capacity costs using a 12 coincident peak and 25 percent
11 energy methodology; the company's rate design for
12 GSLD-1, GSLDT-1, GSD-1, and GSDT-1 for 2017; the
13 company's proposal to institute an incremental change in
14 2018; and the company's application of the 2019
15 Okeechobee LSA.

16 Following the proceedings in August, the
17 parties engaged in negotiations for the purpose of
18 reaching a comprehensive stipulation and settlement of
19 all issues in the consolidated dockets. During the
20 negotiations, Wal-Mart communicated with various parties
21 led by the Office of Public Counsel. These negotiations
22 led to the October 6, 2016, submission of the joint
23 motion for approval of settlement agreement by the
24 settling parties.

25 Ultimately Wal-Mart decided not to join the

1 settlement agreement because Wal-Mart cannot
2 affirmatively support the high ROE of 10.55 percent
3 agreed upon by the settling parties in paragraph 3, page
4 3, of the stipulation and settlement based upon reasons
5 set forth in Wal-Mart's post-hearing brief filed on
6 September 19th, 2016, and in the testimony of Mr. Chriss
7 cited therein. However, on balance, Wal-Mart does not
8 oppose approval of the settlement as a whole.

9 We want to address two specific issues listed
10 in the stipulation and settlement. Paragraph 10, page
11 12, FPL projects that it will undertake construction of
12 approximately 300 megawatts of new solar generation
13 reasonably projected to go into service during the
14 minimum term or within one year following expiration of
15 the minimum term. Wal-Mart is interested in solar
16 growth using customer utility partnerships. Wal-Mart
17 understands and believes that FPL is also interested in
18 discussions about programs for large users like Wal-Mart
19 to purchase renewable power from FPL.

20 Also, paragraph 19, page 23, FPL and
21 interested parties to this agreement will jointly
22 request a Commission workshop to address a pilot
23 demand-side management opt-out program, including
24 eligibility criteria, verification procedures, cost
25 recovery, and other implementation issues.

1 Wal-Mart supports the opening of a workshop on
2 the opt-out. And as the stipulation and settlement
3 expressly states that participation in the workshop and,
4 if applicable, any opt-out program will not be limited
5 to the parties to the stipulation and settlement
6 agreement, Wal-Mart welcomes the opportunity to
7 participate in the workshop and, if applicable, any
8 opt-out program that may be developed by the parties in
9 the consolidated dockets.

10 In conclusion, while Wal-Mart is not a
11 signatory to the stipulation and settlement, it does not
12 oppose the agreement reached by the settling parties.
13 Wal-Mart appreciates the opportunity to participate in
14 these proceedings and the time and efforts of the
15 Commission staff and other parties in the consolidated
16 dockets. Thank you.

17 **CHAIRMAN BROWN:** Thank you, Ms. Roberts (sic).
18 Sierra Club.

19 **MS. CSANK:** Good morning, Madam Chair,
20 Commissioners. Sierra Club is pleased that under the
21 proposal FPL will not receive a blank check to build
22 more unnecessary fracked gas-burning plants. Sierra
23 Club is also pleased that additional solar is on the
24 table, solar being Florida's homegrown energy resource
25 and a far better deal than FPL's dangerous overreliance

1 on fracked gas imports. However, Commissioners, the
2 proposal before you still contains significant legal
3 flaws. In particular, it takes away your ability to
4 complete the fact-finding process on whether FPL should
5 recover any of the more than \$1 billion the company has
6 dedicated to building more fracked gas-burning peaker
7 power plants.

8 In this very hearing room, FPL admitted that
9 those peakers would be obsolete in as few as four years
10 and that energy storage and solar are competitive
11 alternatives, yet throughout the entirety of this
12 proceeding, FPL has failed to put forward analysis on
13 those alternatives and, in fact, cites this Commission
14 instead to only other fracked gas power plants, in plain
15 violation of Florida law.

16 With so much money on the line, this
17 Commission and stakeholders must not waive their ability
18 to use all lawful means to protect the millions of
19 Floridians who will be stuck with needlessly higher
20 electricity bills, and this includes the fixed income
21 and low income Floridians who, number one, face a
22 disproportionate burden to pay those bills and, number
23 two, also often face a disproportionate burden from the
24 pollution from all that fracked gas.

25 So in conclusion, Commissioners, Sierra Club

1 maintains that the proposal before you is not in the
2 public interest and also maintains its objection to the
3 proposal. Thank you.

4 **CHAIRMAN BROWN:** Thank you.

5 Okay. Commissioners, any comments or
6 questions before we get into swearing in the witnesses?

7 Okay. At this time, I'd like to call all of
8 the witnesses who are going to be testifying to stand up
9 and raise your right hand with me, and I'll be swearing
10 you all in together.

11 Do you swear or affirm to provide the truth in
12 this proceeding?

13 (Chorus of affirmative responses.)

14 Thank you. Please be seated.

15 Okay. Pursuant to the second Prehearing Order
16 here, witness summaries shall be limited to three
17 minutes. AARP has timely filed a notice of witness
18 appearance of Mr. Michael Brosch. Is that the correct
19 way to pronounce his name? Thank you. Who will follow
20 FPL's witnesses.

21 FPL will then be allowed to re-call one or
22 more of its direct witnesses to present rebuttal
23 testimony to Mr. Brosch, should FPL deem that necessary.
24 And the order of the direct rebuttal witnesses, as laid
25 out in the second Prehearing Order, are as follows:

1 Tiffany Cohen; Keith Ferguson; Sam Forrest; Robert
2 Barrett, Jr.; and then the intervenor will appear,
3 Mr. Brosch; and then we'll get to rebuttal.

4 So with that, Florida Power & Light, will you
5 please call your first witness.

6 **MS. MONCADA:** FPL calls Ms. Tiffany Cohen.

7 **CHAIRMAN BROWN:** Thank you. Welcome, Ms.
8 Cohen.

9 Whereupon,

10 **TIFFANY COHEN**

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

14 **EXAMINATION**

15 **BY MS. MONCADA:**

16 **Q** Good morning, Ms. Cohen.

17 **A** Good morning.

18 **Q** Could you please state your full name and
19 business address for the record.

20 **A** It's Tiffany Cohen, 700 Universe Boulevard,
21 Juno Beach, Florida 33408.

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

23 **A** Florida Power & Light as the senior manager of
24 rate development.

25 **Q** Ms. Cohen, did you prepare and cause to be

1 filed four pages of prefiled testimony in this
2 proceeding on October 13th, and that testimony being
3 entitled "Proposed Settlement Agreement Direct
4 Testimony"?

5 **A** Yes.

6 **Q** Do you have any changes or revisions to that
7 prefiled testimony?

8 **A** No.

9 **Q** If I asked you the same questions today that
10 were posed in your prefiled testimony, would your
11 answers be the same?

12 **A** Yes.

13 **MS. MONCADA:** Madam Chair, I ask that
14 Ms. Cohen's prefiled direct testimony of October 13th be
15 inserted into the record as though read.

16 **CHAIRMAN BROWN:** We will go ahead and insert
17 Ms. Cohen's prefiled testimony into the record as though
18 read.

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

2 A. My name is Tiffany C. Cohen. My business address is Florida Power & Light
3 Company (“FPL” or the “Company”), 700 Universe Boulevard, Juno Beach,
4 Florida 33408.

5 **Q. Did you previously submit direct and rebuttal testimony in this**
6 **proceeding?**

7 A. Yes.

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

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

- 10 • TCC-10 1,000-kWh Typical Residential Bill Comparison
- 11 • TCC-11 2017-2020 Typical Bills under the Proposed Settlement
- 12 Agreement
- 13 • TCC-12 Parity of Major Rate Classes

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

15 A. The purpose of my testimony is to present the rates projected to result from
16 the Stipulation and Settlement filed on October 6, 2016 (the “Proposed
17 Settlement Agreement”). Under the Proposed Settlement Agreement, the bills
18 for all customers are projected to remain among the lowest in the state and
19 nation. As shown on TCC-10, the projected 2020 typical residential 1,000-
20 kWh bill would remain 30 percent below the current national average and 13
21 percent below the current Florida average, even without taking into account
22 likely increases in other utilities’ rates over the Minimum Term for which the
23 Proposed Settlement Agreement would be in effect. Additionally, rates that

1 are projected to result from the Proposed Settlement Agreement were
2 designed in accordance with the Florida Public Service Commission's ("the
3 Commission") gradualism principle, and rate classes as a whole move towards
4 greater parity.

5 **Q. Please describe the base rate adjustments currently scheduled under the**
6 **Proposed Settlement Agreement.**

7 A. The Proposed Settlement Agreement reflects scheduled general base rate
8 adjustments of \$400 million effective January 1, 2017, and \$211 million
9 effective January 1, 2018. It also includes a \$200 million limited scope
10 adjustment for the costs associated with the Okeechobee Unit effective upon
11 the commercial operation date, currently estimated to be June 2019.

12 **Q. What are the projected bills for the major rate classes under the**
13 **Proposed Settlement Agreement?**

14 A. Exhibit TCC-11 shows the projected typical bills for 2017-2020 under the
15 Proposed Settlement Agreement for the major rate classes. These projected
16 bills reflect the revenue-neutral transfer of the West County Energy Center
17 Unit 3 to base rates, which increases the base portion of customer bills and
18 decreases the capacity charge by the same amount.

19
20 Based on current projections of fuel prices and other expected changes to
21 clauses and base rates, the Proposed Settlement Agreement reflects average
22 annual growth of the typical residential bill through 2020 of less than 2
23 percent.

1 **Q. Do the rates under the Proposed Settlement Agreement conform to the**
2 **Commission's gradualism principle?**

3 A. Yes. All rates were designed in accordance with the Commission's
4 gradualism principle. The concept of gradualism limits the revenue increase
5 for each rate class to 1.5 times the total system average increase, including
6 adjustment clauses, and provides that no rate class receives a decrease in rates.

7 **Q. Do the rates under the Proposed Settlement Agreement move rate classes**
8 **as a whole closer to parity?**

9 A. Yes. This is shown on Exhibit TCC-12, Parity of Major Rate Classes. The
10 parity of all classes that are outside the range of 90 percent to 110 percent is
11 improved under the Proposed Settlement Agreement. Additionally, under the
12 Proposed Settlement Agreement, 9 of 17 rate classes move to within 10
13 percent of parity in 2017 and 11 of 17 rate classes move to within 10 percent
14 of parity in 2018.

15 **Q. Should the Proposed Settlement Agreement rates be approved?**

16 A. Yes. As discussed by FPL witness Barrett, the proposed rates provide
17 customers with predictability and stability as part of the overall Proposed
18 Settlement Agreement. And as noted above, the projected 2020 typical
19 residential bill would remain 30 percent below the current national average
20 and 13 percent below the current Florida average.

21 **Q. Does this conclude your testimony?**

22 A. Yes.

1 **BY MS. MONCADA:**

2 Q Ms. Cohen, were exhibits identified as TCC-10,
3 11, and 12 attached to your prepared testimony?

4 A Yes.

5 Q Were these prepared under your direction,
6 supervision, or control?

7 A Yes.

8 **MS. MONCADA:** Madam Chair, I would note that
9 these are marked as 808 through 810.

10 **CHAIRMAN BROWN:** Thank you. Now we'll turn to
11 Ms. Brownless.

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

13 **EXAMINATION**

14 **BY MS. BROWNLESS:**

15 Q Ms. Cohen, have you been given a copy of
16 FP&L's responses to staff's 42nd -- 43rd set of
17 interrogatories, No. 507 through 548, and FP&L's
18 responses to staff's 22nd request for production of
19 documents No. 101?

20 A Yes.

21 **MS. BROWNLESS:** Okay. And we would like -- I
22 think everybody has been provided that exhibit, Your
23 Honor, and we'd like that to be marked for
24 identification as Exhibit No. 812.

25 **CHAIRMAN BROWN:** Okay. We will go ahead and

1 mark that as Exhibit 812.

2 (Exhibit 812 marked for identification.)

3 **BY MS. BROWNLESS:**

4 **Q** And were the responses to staff
5 interrogatories Nos. 508 through 509, 511, 520, 524, 537
6 through -41, 543 through -45, and 548 prepared by you or
7 under your direct supervision and control?

8 **A** Yes.

9 **Q** If you were asked the same questions today as
10 those in the interrogatories, would your answers be the
11 same?

12 **A** Yes.

13 **Q** Are those answers true and correct to the best
14 of your knowledge and belief?

15 **A** Yes.

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

17 **CHAIRMAN BROWN:** Thank you. And I would note,
18 please silence your phones and other electronic devices
19 too so that we can have a nice clear record too. Thank
20 you.

21 FPL.

22 **MS. MONCADA:** I apologize. That was my
23 computer. I silenced it.

24 **CHAIRMAN BROWN:** It was you.

25 **MS. MONCADA:** It was me.

1 **CHAIRMAN BROWN:** Thank you.

2 **EXAMINATION**

3 **BY MS. MONCADA:**

4 **Q** Ms. Cohen, would you please provide to the
5 Commission a very brief summary of your very brief
6 testimony.

7 **A** Yes. Good morning, Madam Chair and
8 Commissioners. My name is Tiffany Cohen, and my
9 testimony describes the rates that result from the terms
10 of the proposed settlement agreement.

11 First, under the proposed settlement
12 agreement, the bills for all customers are projected to
13 remain among the lowest in the state and the nation.
14 The projected 2020 typical residential bill would remain
15 30 percent below the current national average and
16 13 percent below the current Florida average even
17 without taking into account any increases in other
18 utilities' rates through 2020.

19 Based on current fuel and clause projections
20 and scheduled base rate changes, rates under the
21 proposed settlement reflect average annual growth of the
22 typical residential bill through 2020 of less than
23 2 percent, and 1 to 2 percent for commercial and
24 industrial typical bills. The bills for most customers
25 are projected to remain lower in 2020 than 2006.

1 Second, FPL designed the settlement rates in
2 accordance with the Commission's guidelines, which means
3 that no customer received more than 1.5 times the system
4 average increase and no customer received a rate
5 decrease.

6 In conclusion, Commissioners, the proposed
7 settlement provides customers with predictable and
8 stable rates over the term of the agreement, and we ask
9 that you approve the rates as proposed. This concludes
10 my summary. Thank you.

11 **MS. MONCADA:** Thank you, Ms. Cohen.

12 Madam Chair, the witness is available for
13 cross.

14 **CHAIRMAN BROWN:** Thank you. And we will start
15 out with AARP.

16 **MR. McRAY:** No questions.

17 **CHAIRMAN BROWN:** Thank you.

18 FIPUG.

19 **MS. MOYLE:** No questions.

20 **CHAIRMAN BROWN:** Wal-Mart.

21 **MS. EATON:** No questions.

22 **CHAIRMAN BROWN:** Thank you.

23 Sierra Club.

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

25 **CHAIRMAN BROWN:** Staff.

1 **MS. BROWNLESS:** Yes, ma'am. We have a few
2 questions.

3 **CHAIRMAN BROWN:** Did I miss anybody? FEA.
4 Oh, I think I may have missed you. Pardon me, FEA.

5 **MAJOR UNSICKER:** No questions, ma'am.

6 **CHAIRMAN BROWN:** Thank you.
7 Staff.

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

9 **EXAMINATION**

10 **BY MS. BROWNLESS:**

11 **Q** Good afternoon. Good morning. Whatever it
12 is.

13 **A** Good morning.

14 **Q** Good morning. Is it correct that the rate
15 development of the settlement is based on the billing
16 determinants as filed in the 2016 rate petition?

17 **A** Yes.

18 **Q** And can you explain why the rate development
19 of the settlement does not include an adjustment to the
20 billing determinants to account for Adjustment 4 in
21 FP&L's first notice of identified adjustments filed on
22 May 3rd of 2016?

23 **A** I believe we provided that answer in
24 discovery. Just one minute.

25 The changes that were identified in the first

1 notice of adjustment would not have had a material
2 impact on the final rates that were determined under the
3 settlement agreement.

4 **Q** Thank you. Can you please refer to your
5 responses to staff's 43rd set of interrogatories
6 No. 509. When does FP&L anticipate filing its next
7 demand-side management proceeding in which the CILC and
8 CDR tariffs and its credits might be reevaluated?

9 **A** My understanding is that the goals proceeding
10 would take place in 2019.

11 **Q** Thank you. And can you confirm for us that if
12 the Commission modifies the CILC or CDR credits in the
13 next DSM proceedings, CILC or CDC -- I'm sorry -- CDR
14 customers would not be impacted by that decision during
15 the term of the settlement agreement?

16 **A** That is correct.

17 **Q** And if you could refer to your interrogatory
18 responses to staff's interrogatories No. 543 and 544.
19 In interrogatory No. 543, the negotiated methodology for
20 allocating distribution plant differs from that used in
21 the MFRs and reflects consideration of the economic
22 impact of an alternative method approved by the
23 Commission in prior settlements. Could you please
24 identify for us what the alternative method approved by
25 the Commission in prior settlements is?

1 **A** Your question is what -- the method that was
2 approved in prior settlements? It's MDS, which is
3 different than what we've implemented here.

4 **Q** Okay. Would you elaborate further regarding
5 how the negotiated method for allocating distribution
6 plant differs from that used in your MFRs? Did you use
7 an MDS system similar to that of TECO and Gulf?

8 **A** We used an average of TECO and Gulf's proposed
9 methodology for MDS. How our calculation differs here
10 is that we did not conduct our study, a study on FPL's
11 system.

12 Second, we kept the customer charge for
13 residential customers at \$7.87. Under the methodology
14 that -- it could have gone up to \$12, and part of the
15 negotiation, part of the settlement agreement was the
16 residential customer charge would remain at \$7.87 for a
17 typical 1,000 kilowatt hour bill.

18 **MS. BROWNLESS:** Thank you, ma'am. We have no
19 further questions.

20 **CHAIRMAN BROWN:** Thank you. Commissioners,
21 any questions?

22 Commissioner Edgar, you are still on the
23 phone; correct?

24 Okay. I do have a question for you,
25 Ms. Cohen. Your testimony provides --

1 **COMMISSIONER EDGAR:** Chairman Brown, I'm so
2 sorry to interrupt. I couldn't find the mute button.
3 Yes, I am here and I heard every word.

4 (Laughter.)

5 **CHAIRMAN BROWN:** Good, good, good. I want to
6 make sure if you have any questions for Ms. Cohen.

7 **COMMISSIONER EDGAR:** I'm fine right now.
8 Thank you.

9 **CHAIRMAN BROWN:** Ms. Cohen, I do have a
10 question. Your testimony on page 4 provides that bills
11 will remain 30 percent below the national average with
12 the settlement agreement, as well as 13 percent below
13 the current Florida average over the life of the
14 settlement agreement --

15 **THE WITNESS:** Through 2020.

16 **CHAIRMAN BROWN:** -- through 2020. But that
17 does not contemplate the implementation of the SoBRA.

18 **THE WITNESS:** Even with the SOBRAs, our bills
19 would remain -- it's still about 30 percent on the
20 national average, and I believe it's about 10 percent on
21 the Florida -- lower than the Florida average.

22 **CHAIRMAN BROWN:** Okay. Thank you. All right.
23 Redirect.

24 **MS. MONCADA:** No redirect, Madam Chair.

25 **CHAIRMAN BROWN:** Okay. Thank you. Exhibits.

1 **MS. MONCADA:** FPL would ask that 808 through
2 810 be moved into the record.

3 **CHAIRMAN BROWN:** Seeing no objections, we will
4 go ahead and enter 808 through 810 into the record.

5 (Exhibits 808 through 810 admitted into the
6 record.)

7 Staff, you have 812.

8 **MS. BROWNLESS:** That will have to be moved
9 into the record when all of the FP&L witnesses have
10 testified.

11 **CHAIRMAN BROWN:** Thank you.

12 All right. Would you like this witness
13 excused?

14 **MS. MONCADA:** Yes. There -- we don't -- for
15 the direct portion but not for rebuttal.

16 **CHAIRMAN BROWN:** Stay around, Ms. Cohen.

17 **THE WITNESS:** Yes, ma'am.

18 **CHAIRMAN BROWN:** Thank you.

19 All right. The next witness is Mr. Ferguson.

20 Welcome back, Mr. Ferguson.

21 **THE WITNESS:** Good morning.

22 Whereupon,

23 **KEITH FERGUSON**

24 was called as a witness on behalf of Florida Power &
25 Light Company and, having first been duly sworn,

1 testified as follows:

2 **EXAMINATION**

3 **BY MR. BUTLER:**

4 **Q** Mr. Ferguson, were you sworn in when the Chair
5 swore in all of FPL's witnesses?

6 **A** Yes, I was.

7 **Q** Okay. Would you please state your name and
8 business address for the record.

9 **A** Yes. It's Keith Ferguson, 700 Universe
10 Boulevard, Juno Beach, Florida 33408.

11 **Q** And by whom are you employed and in what
12 capacity?

13 **A** Florida Power & Light. I'm the controller.

14 **Q** Have you prepared and caused to be filed
15 seven pages of prefiled direct testimony in this
16 proceeding on October 13th, 2016, entitled "Proposed
17 Settlement Agreement Direct Testimony"?

18 **A** Yes, I have.

19 **Q** Do you have any changes or revisions to your
20 prefiled direct testimony?

21 **A** No.

22 **Q** Okay. So if I asked you the same questions
23 contained in your prefiled direct testimony today, would
24 your answers be the same?

25 **A** Yes.

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MR. BUTLER: Madam Chair, I ask that
Mr. Ferguson's prefiled direct testimony be inserted
into the record as though read.

CHAIRMAN BROWN: We will go ahead and insert
Mr. Ferguson's prefiled direct testimony into the record
as though read.

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Keith Ferguson, and my business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

Q. Are you sponsoring any exhibits related to the Stipulation and Settlement filed on October 6, 2016 (“Proposed Settlement Agreement”) in this case?

A. Yes. I am sponsoring the following exhibit:

- KF-9 – Depreciation Parameter Changes in Proposed Settlement Agreement

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the following provisions of the Proposed Settlement Agreement: (1) the proposed revised depreciation parameters, and resulting depreciation rates and theoretical depreciation reserve surplus; and (2) the deferral of FPL’s filing of its depreciation and dismantlement studies. My testimony will show that these provisions are appropriate and key elements as part of the overall Proposed Settlement Agreement.

Q. Please summarize your testimony.

A. As FPL witness Barrett explains, the Proposed Settlement Agreement has a four-year term, which provides an extended period of rate certainty and avoids

1 the need for expensive and disruptive base rate proceedings during that term.
2 The two provisions that I address in my testimony are essential elements of
3 the Proposed Settlement Agreement because they help make the four-year
4 term feasible. These provisions have been deployed by this Commission
5 previously, and they work together in the context of the overall settlement for
6 the benefit of customers.

7

8 II. PROPOSED DEPRECIATION RATES

9

10 **Q. Please briefly describe the proposed depreciation rates included in the**
11 **Proposed Settlement Agreement.**

12 A. FPL filed a comprehensive depreciation study in Docket No. 160062-EI, on
13 March 15, 2016 (the “2016 Depreciation Study”), consistent with Rule 25-
14 6.0436, F.A.C. The 2016 Depreciation Study developed service lives and net
15 salvage parameters for each depreciable property account based on FPL’s
16 historical experience operating its portfolio of assets and expectations about
17 future conditions. In Hearing Exhibit 331, Attachment 2, FPL calculated the
18 depreciation rates and expense that result if the same parameters developed in
19 the 2016 Depreciation Study are applied to the December 31, 2016 plant and
20 reserve balances. Those same depreciation parameters form the basis for the
21 depreciation rates set forth in Exhibit D of the Proposed Settlement
22 Agreement, with the exception of the changes detailed in Exhibit KF-9 that is
23 attached to this testimony.

- 1 The changes reflected on Exhibit KF-9 were negotiated with the signatories to
2 the Proposed Settlement Agreement, as a compromise on certain alternative
3 depreciation parameters based on the positions taken by the intervenors in the
4 course of this rate proceeding. Some of the alternative parameters are
5 reflected in the testimony and exhibits presented at hearing by South Florida
6 Hospital and Healthcare Association witness Lane Kollen and Federal
7 Executive Agencies witness Brian Andrews. Other parameters were
8 negotiated for the purpose of the Proposed Settlement Agreement. Broadly,
9 the changes reflect longer estimated lives and greater (typically, less negative)
10 net salvage for certain types of depreciable property than FPL had proposed in
11 the 2016 Depreciation Study. These negotiated parameters reflect a consistent
12 theme of the intervenor positions on depreciation in this proceeding, in which
13 they assert that there is a trend toward longer service lives and greater net
14 salvage for many types of depreciable property. This is one of the
15 compromises that allows the parties to reach a four-year settlement agreement.
- 16 **Q. What is the impact on 2017 depreciation expense and the theoretical**
17 **depreciation reserve imbalance of applying the depreciation rates set**
18 **forth in Exhibit D of the Proposed Settlement Agreement?**
- 19 A. The application of those rates results in a \$125.8 million reduction in 2017 test
20 year depreciation expense (compared to application of the depreciation rates
21 shown in Exhibit 331, Attachment 2) and a theoretical depreciation reserve
22 surplus estimated to be \$1,070.2 million at January 1, 2017.

1 **Q. Would using the depreciation parameters and depreciation rates shown in**
2 **Exhibit D for the purpose of the Proposed Settlement Agreement be**
3 **reasonable?**

4 A. Yes, they reflect a compromise with the signatories to the Proposed Settlement
5 Agreement and are not unreasonable within the overall context of a four-year
6 settlement.

7

8 **III. DEFERRAL OF DEPRECIATION**
9 **AND DISMANTLEMENT STUDIES**

10

11 **Q. Why does the Proposed Settlement Agreement defer filing the**
12 **depreciation and dismantlement studies until FPL files its next petition to**
13 **change base rates?**

14 A. The FPSC rules regarding depreciation and dismantlement studies require
15 FPL to file studies at least every four years *or pursuant to Commission order*
16 *and within the time specified in the order.* [Emphasis added]. FPL's next
17 studies are currently due to be filed by March 15, 2020. Under the Proposed
18 Settlement Agreement, these studies would not be due until the time that FPL
19 files to reset its base rates in a general base rate proceeding. This timing
20 aligns the review of FPL's next depreciation and dismantlement studies with
21 the review of FPL's next base rate petition. The current due date for the
22 studies of March 15, 2020 and the filing date for FPL's next petition to change
23 base rates may coincide if FPL decides to file for an adjustment in base rates

1 at the end of the Proposed Settlement Agreement's Minimum Term (i.e., to be
2 effective January 1, 2021). However, providing that the filing date for the
3 studies could be deferred until FPL's next rate petition would help facilitate
4 the possibility that the rate petition could be delayed to a later date.

5 **Q. Does this conclude your testimony?**

6 A. Yes.

1 **BY MR. BUTLER:**

2 Q Mr. Ferguson, do you have an exhibit
3 identified as KF-9 attached to your prepared direct
4 testimony?

5 A Yes, I do.

6 Q Okay. Was that exhibit prepared under your
7 direction, supervision, or control?

8 A Yes, it was.

9 **MR. BUTLER:** I note that that's been marked as
10 811 on the Comprehensive Exhibit List.

11 **BY MR. BUTLER:**

12 Q Mr. Ferguson, are you sponsoring any of FPL's
13 responses to staff's discovery request that are
14 identified on the Comprehensive Exhibit List?

15 A Yes.

16 **CHAIRMAN BROWN:** Go ahead, Ms. Brownless.

17 **MR. BUTLER:** Ms. Brownless.

18 **EXAMINATION**

19 **BY MS. BROWNLESS:**

20 Q Good morning, sir.

21 A Good morning.

22 Q Were the responses to staff interrogatories
23 Nos. 510, 512 through -14, 531 through -36, 542 and POD
24 No. 1 prepared by you or under your direct supervision
25 and control?

1 **A** Yes.

2 **Q** If you were asked the same questions today as
3 those in the interrogatories, would your answers be the
4 same?

5 **A** Yes.

6 **Q** Are these answers true and correct to the best
7 of your knowledge and belief?

8 **A** Yes.

9 **Q** With regard to POD No. 101, is the information
10 contained in these documents true and correct to the
11 best of your knowledge and belief?

12 **A** Yes.

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

14 **CHAIRMAN BROWN:** Thank you.

15 **MR. BUTLER:** Thank you.

16 **EXAMINATION**

17 **BY MR. BUTLER:**

18 **Q** Mr. Ferguson, would you please provide your
19 summary to the Commission.

20 **A** Yes. Good morning, Madam Chair and
21 Commissioners. Thank you for the opportunity to speak
22 with you today.

23 The purpose of my settlement testimony is to
24 show how the provisions pertaining to depreciation in
25 the proposed settlement agreement negotiated by the

1 signatories help make the four-year term possible --
2 feasible. These provisions have been deployed by this
3 Commission previously, and they work together in the
4 context of the overall settlement for the benefit of
5 customers.

6 My testimony makes four points about the
7 negotiated depreciation parameters. First, the starting
8 point of the depreciation rates reflected in Exhibit D
9 to the proposed settlement agreement are the parameters
10 resulting from FPL's 2016 depreciation study which have
11 been adjusted to take into account certain changes
12 negotiated with the signatories. Some of the changes
13 and parameters are reflected in intervenor testimony and
14 exhibits presented at the technical hearing in August.

15 Second, the negotiated depreciation rates
16 result in a decrease in depreciation expense for 2017 of
17 125.8 million compared to the application of
18 depreciation rates from FPL's 2016 depreciation study.
19 This is primarily a result of longer estimated lives and
20 greater net salvage for certain types of assets.

21 Third, in addition to lower depreciation
22 expense, the negotiated depreciation rates also yield a
23 theoretical depreciation reserve surplus estimated to be
24 approximately 1,070,000,000 at January 1st, 2017.

25 And finally, under the proposed settlement

1 agreement, FPL's next depreciation dismantlement studies
2 would not be filed until the time that FPL petitions to
3 reset its base rates in a general base rate proceeding.
4 The deferral of the studies until FPL's next rate
5 petition would help facilitate the possibility that a
6 rate petition could potentially be delayed to a later
7 date.

8 In conclusion, the provisions of the proposed
9 settlement agreement related to depreciation reflect a
10 compromise with the other signatories and they work
11 together in the context of the overall agreement for the
12 benefit of customers. That concludes my summary.

13 **MR. BUTLER:** Thank you, Mr. Ferguson. I
14 tender the witness for cross-examination.

15 **CHAIRMAN BROWN:** Thank you. And AARP.

16 **MR. McRAY:** No questions.

17 **CHAIRMAN BROWN:** Thank you. FIPUG.

18 **MS. MOYLE:** No questions.

19 **CHAIRMAN BROWN:** Wal-Mart.

20 **MS. EATON:** No questions.

21 **CHAIRMAN BROWN:** Sierra.

22 **MS. CSANK:** No questions.

23 **CHAIRMAN BROWN:** FEA.

24 **MAJOR UNSICKER:** No questions.

25 **CHAIRMAN BROWN:** Staff.

1 **MS. BROWNLESS:** A few questions.

2 **EXAMINATION**

3 **BY MS. BROWNLESS:**

4 **Q** Good morning, Mr. Ferguson.

5 **A** Good morning.

6 **Q** I'm looking now at paragraph 12 of the
7 settlement agreement on pages 18 through 20.

8 **A** Okay. Let me get there. Okay.

9 **Q** And I hope you will excuse my non-technical
10 lawyer language. This section deals in part with the
11 creation of a reserve amount consisting of two parts; is
12 that correct?

13 **A** That's correct.

14 **Q** And the first part is any funds that remain
15 from the 2012 rate case reserve amount; correct?

16 **A** That's correct.

17 **Q** Plus about approximately 1 billion of
18 theoretical depreciation reserve surplus created in this
19 proceeding.

20 **A** That's correct.

21 **Q** Okay. And that depreciation reserve surplus
22 as a result of this proceeding, broadly speaking, comes
23 from the application of longer service lives and higher
24 net value -- net salvage values than that originally
25 proposed by FP&L; is that correct?

1 **A** That's correct.

2 **Q** Okay. Now for each year of the minimum
3 four-year term FP&L has the ability to use this reserve
4 amount to maintain an ROE of up to 11.6 percent; is that
5 correct?

6 **A** Yes. The reserve amount is available at FPL's
7 discretion to stay within the band of 9.6 to 11.6.

8 **Q** Right. But it must maintain during this
9 four-year term an ROE of at least 9.6 percent; correct?

10 **A** That's correct.

11 **Q** Now given the basic structure of how this
12 reserve amount is going to be dealt with, what is --
13 what are the differences in the mechanism between what's
14 been agreed to here and what was approved in the 2012
15 settlement agreement?

16 **A** There's not really significant differences
17 between the mechanisms in the current settlement
18 agreement and the 2012. The 2012 settlement agreement,
19 as you may recall, included kind of the remaining amount
20 from the 2009 settlement agreement plus a portion of the
21 dismantlement reserve. That was also available for
22 FPL's discretion up to 400 million at the time. It got
23 reduced to 370. This is very similar in that same
24 mechanics as that one.

25 **Q** Okay. And if I look at paragraph 14 of the

1 settlement agreement, it appears to me that this is
2 waiving the filing of the next depreciation and
3 dismantlement study until the next rate case; is that
4 correct?

5 **A** Yes, in the way that during the minimum term
6 in the settlement agreement we wouldn't be required to
7 file a dismantlement or depreciation study. They may
8 coincide. Right? If we just do the minimum term of the
9 settlement agreement then apply for revised rates
10 beginning in 2021, then the timing would coincide with
11 what our normal cadence would be for those studies. But
12 we wanted to allow for the flexibility in case we're
13 able to extend it beyond the minimum term.

14 **Q** Because otherwise you'd have to be filing
15 every four years pursuant to the rule; correct?

16 **A** That's correct. Yeah.

17 **Q** Okay. And how do you believe deferring the
18 filing of a new dismantlement and depreciation study
19 will help facilitate the possibility that you can stay
20 out longer than four years?

21 **A** Well, to the extent you're filing depreciation
22 dismantlement studies and you're not changing base rates
23 or applying for base rate changes at the time, then you
24 have kind of a mismatch in the way that you've filed for
25 changes in rates without -- depreciation rates without

1 the commensurate changes in base rates.

2 Q So it's mainly an -- your idea mainly is to
3 keep your rate case increases and your dismantlement
4 studies simultaneously filed.

5 A That's correct. We believe that's probably
6 the most appropriate timing of those studies is to kind
7 of align them with the base rate increases.

8 Q Okay. Looking at your response to our
9 interrogatory No. 534 --

10 A Okay.

11 Q -- can you please confirm that any unamortized
12 balance of the newly proposed reserve amount will remain
13 in accumulated depreciation over the settlement term and
14 therefore reduce the rate base until it's amortized?

15 A That's correct, yes.

16 Q Now if you could turn to paragraph 6A of the
17 settlement agreement.

18 A Yes, I'm there.

19 Q Okay. Is it accurate to say that, based upon
20 this paragraph, storm cost recovery will be limited to
21 the estimate of incremental costs above the level of the
22 storm reserve prior to the storm and to the
23 replenishment of the storm reserve to the level in
24 effect as of August 31st of 2016?

25 A Yes, that's correct.

1 **Q** And was the storm reserve level in effect as
2 of August 31st, 2016, approximately \$112 million?

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

4 **Q** And what do you project the storm reserve to
5 be as of January 1, 2017?

6 **A** As we filed with the Commission on Friday, we
7 expect to deplete that reserve down to zero, and we'll
8 be likely petitioning this Commission for interim
9 recovery under our current settlement agreement by the
10 end of the year.

11 **Q** And that would be the 2012 settlement
12 agreement.

13 **A** That's correct, the 2012.

14 **Q** And basically, just so we have the record
15 complete, why was your reserve depleted to zero?

16 **A** We had a little storm called Hurricane Matthew
17 that had a significant impact on our service territory
18 in October.

19 **Q** And do you know what the storm reserve is
20 under the provision of the 2012 settlement agreement?

21 **A** Yes. It's approximately \$117 million.

22 **MS. BROWNLESS:** Thank you. That's all we
23 have, sir.

24 **CHAIRMAN BROWN:** Thank you.

25 Commissioners?

1 Ms. Brownless, you asked all my storm reserve
2 questions, all of them. I could come up with one.

3 Mr. Ferguson, do you foresee the cessation of
4 an accrual, though, being an impediment moving forward
5 under the settlement agreement?

6 **THE WITNESS:** The accrual of -- I'm sorry.

7 **CHAIRMAN BROWN:** The storm reserve, on the
8 storm reserve, because it's no longer accruing and
9 you're going to be coming in for a request for a
10 surcharge. But really the reserve level under the
11 settlement agreement can only go up to 112 million.

12 **THE WITNESS:** Yeah. It's actually 117, which
13 is what it was as of January 1st, 2017. So -- sorry,
14 2013.

15 No, you know, I don't see it as an impediment
16 in terms of it's the mechanism that's been in place
17 since the 2012 settlement agreement and, you know, has
18 kind of, you know, served us well. While fortunately we
19 haven't had significant major storms until this
20 year, you know, I think it's a mechanism that's -- that
21 works.

22 **CHAIRMAN BROWN:** So after the surcharge, FPL
23 intends, though, to get that reserve level up to -- is
24 it the 117 or the --

25 **THE WITNESS:** That's correct, yeah.

1 **CHAIRMAN BROWN:** Okay. Got it.

2 Commissioners, any other questions?

3 Thank you. Redirect.

4 **MR. BUTLER:** One brief redirect.

5 **EXAMINATION**

6 **BY MR. BUTLER:**

7 **Q** Mr. Ferguson, you were asked about the
8 recovery under the interim storm recovery mechanism for
9 the -- under the current settlement agreement for
10 Hurricane Matthew, and I think you may have referred to
11 recovering the estimated cost through the surcharge. My
12 question to you is whether or not there would ultimately
13 be a true-up to the actual amount of the storm costs.

14 **A** Yes. You know, as the nature of these storm
15 costs are typically that they come in over a period of
16 time. And so, you know, while we'll file a petition
17 with kind of our first -- our estimate of what those
18 costs were as the actual costs come in, we would true-up
19 to those actual costs.

20 **MR. BUTLER:** Thank you. That's all the
21 redirect that I have.

22 **CHAIRMAN BROWN:** Thank you. Exhibits?

23 **MR. BUTLER:** Yes. We would move into evidence
24 Exhibit 811.

25 **CHAIRMAN BROWN:** Seeing no objection, we'll go

1 ahead and move into the record 811.

2 (Exhibit 811 admitted into the record.)

3 Mr. Ferguson --

4 **MR. BUTLER:** May he be temporarily excused?

5 **CHAIRMAN BROWN:** Temporarily excused.

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

7 **THE WITNESS:** Thank you.

8 **CHAIRMAN BROWN:** Thank you.

9 Okay. Calling FPL's next witness, Mr. Sam
10 Forrest.

11 **MR. BUTLER:** Sam Forrest, yes.

12 Whereupon,

13 **SAM FORREST**

14 was called as a witness on behalf of Florida Power &
15 Light Company and, having first been duly sworn,
16 testified as follows:

17 **EXAMINATION**

18 **BY MR. BUTLER:**

19 **Q** Mr. Forrest, were you sworn in with the other
20 FPL witnesses a few moments ago?

21 **A** Yes, I was.

22 **Q** Okay. Would you please state your name and
23 business address for the record.

24 **A** Yes. Sam Forrest, vice president of energy
25 marketing and trading. Business address is 700 Universe

1 Boulevard, Juno Beach, Florida 33408.

2 Q Okay. I think you just said by whom you were
3 employed and in what capacity, so I'll skip that.

4 Have you prepared and caused to be filed
5 five pages of prefiled direct testimony in this
6 proceeding on October 13, 2016?

7 A Yes.

8 Q Do you have any changes or revisions to your
9 prefiled direct testimony?

10 A No, I do not.

11 Q So if I asked you the same questions contained
12 in your prefiled direct testimony today, would your
13 answers be the same?

14 A Yes, they would.

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

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

21
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1 **Q. Please state your name and business address.**

2 A. My name is Sam Forrest. My business address is Florida Power & Light
3 Company (“FPL”), 700 Universe Boulevard, Juno Beach, Florida 33408.

4 **Q. Did you previously submit direct and rebuttal testimony in this**
5 **proceeding?**

6 A. Yes.

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

8 A. The purpose of my testimony is to address the provision of the Stipulation and
9 Settlement filed on October 6, 2016 (“Proposed Settlement Agreement”)
10 under which FPL would terminate financial hedging prospectively with
11 respect to natural gas requirements during the Proposed Settlement
12 Agreement’s Minimum Term.

13 **Q. Has FPL agreed to terminate natural gas financial hedging prospectively**
14 **for the Minimum Term of the Proposed Settlement Agreement?**

15 A. Yes, as part of the negotiated resolution of the disputed issues that led to the
16 Proposed Settlement Agreement, FPL has agreed to terminate its natural gas
17 financial hedging prospectively for the Minimum Term of the Proposed
18 Settlement Agreement.

19 **Q. Within the overall context of the Proposed Settlement Agreement, is**
20 **terminating natural gas financial hedging prospectively for the Minimum**
21 **Term reasonable?**

22 A. Yes, the decision to terminate financial hedging of natural gas prospectively
23 for the Minimum Term of the Proposed Settlement Agreement reflects a

1 compromise with the signatories and is not unreasonable within that context.
2 This provision is one element of the Proposed Settlement Agreement, the
3 overall benefits and public interest of which are addressed by FPL witness
4 Barrett.

5 **Q. What does the Proposed Settlement Agreement provide with respect to**
6 **hedging following the expiration of the Minimum Term?**

7 A. The Proposed Settlement Agreement does not prohibit FPL from filing a
8 petition and proposed risk management plan with the Florida Public Service
9 Commission (the “Commission”) to address natural gas financial hedges for
10 periods following expiration of the Minimum Term. Of course, any signatory
11 to the Proposed Settlement Agreement and other intervenors would be free to
12 take whatever position they choose on any proposal that FPL might file.

13 **Q. If the Commission approves the Proposed Settlement Agreement, how**
14 **does FPL plan to implement the requirement that it terminate natural**
15 **gas financial hedging prospectively for the Minimum Term?**

16 A. FPL annually files a Risk Management Plan that describes the level of hedges
17 it will place in a given year, which secures the price for a portion of the
18 volumes of natural gas to be procured during the following year. On August
19 4, 2016, FPL filed its 2017 Risk Management Plan in the Fuel Clause
20 proceeding, which would provide for FPL to continue executing financial
21 natural gas hedging transactions in 2017 for natural gas to be procured in
22 2018. FPL’s 2017 Risk Management Plan reflects a target hedging level that
23 is 25 percent lower than in previous years consistent with the joint motion that

1 FPL and the three other major investor-owned utilities filed in Docket No.
2 160096-EI on April 22, 2016. Unless and until the Proposed Settlement
3 Agreement is approved, FPL will not withdraw that Risk Management Plan.
4 However, on October 19, 2016, FPL will file an alternative 2017 Risk
5 Management Plan in Docket No. 160001-EI under which it would financially
6 hedge zero percent of its natural gas requirements for 2018. FPL will ask the
7 Commission to approve the alternative plan instead of the August 4 plan if the
8 Proposed Settlement Agreement is approved. Similarly, FPL's 2018 and 2019
9 Risk Management Plans would seek approval to financially hedge zero
10 percent of its natural gas requirements for 2019 and 2020, respectively, if the
11 Proposed Settlement Agreement is approved.

12 **Q. Has FPL already executed most of its 2016 Risk Management Plan, as**
13 **previously approved by the Commission?**

14 A. Yes.

15 **Q. Will FPL make any changes to its existing hedges that were put in place**
16 **as part of the 2016 Plan?**

17 A. No.

18 **Q. How does FPL intend to execute its 2016 Risk Management Plan through**
19 **the end of 2016 if the Proposed Settlement Agreement is approved?**

20 A. FPL's approved 2016 Risk Management Plan allows FPL to execute a portion
21 of the annual hedges within a specific range each month of the year. Upon
22 Commission approval of the Proposed Settlement Agreement, FPL will
23 continue to execute only the minimum trades required to meet the lower end

1 of that range, consistent with Paragraph 16 of the Proposed Settlement
2 Agreement. FPL fully expects that no additional hedges would need to be
3 placed in December 2016 to meet the requirements of the 2016 Risk
4 Management Plan.

5 **Q. Is it possible that FPL will need to rebalance its hedges for 2017 executed**
6 **pursuant to the approved 2016 Risk Management Plan?**

7 A. Yes. However, in accordance with Paragraph 16 of the Proposed Settlement
8 Agreement, FPL will execute only the minimum trades necessary to stay in
9 compliance with the 2016 Risk Management Plan.

10 **Q. Does this conclude your testimony?**

11 A. Yes.

1 **MR. BUTLER:** I note that Mr. Forrest does not
2 have any exhibits attached to his prepared testimony,
3 but I believe that he is sponsoring some of staff's
4 discovery responses.

5 **CHAIRMAN BROWN:** Yes. Ms. Brownless.

6 **MS. BROWNLESS:** Thank you.

7 **EXAMINATION**

8 **BY MS. BROWNLESS:**

9 **Q** Were the responses to staff interrogatories
10 No. 521 through -22, 525 through 529 prepared by you or
11 under your direct supervision and control?

12 **A** Yes, ma'am, they were.

13 **Q** And if you were asked the same questions today
14 as those in the interrogatories, would your answers be
15 the same?

16 **A** Yes, they would.

17 **Q** Are these answers true and correct to the best
18 of your knowledge and belief?

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

20 **MS. BROWNLESS:** That's all I have.

21 **THE WITNESS:** Okay.

22 **CHAIRMAN BROWN:** Thank you.

23 FPL.

24 **EXAMINATION**

25 **BY MR. BUTLER:**

1 **Q** Mr. Forrest, would you please provide a
2 summary of your testimony to the Commission.

3 **A** Yes. Madam Chair, Commissioners, as part of
4 the negotiations that led to the proposed settlement
5 agreement, FPL has agreed to terminate its natural gas
6 financial hedging respectively for the minimum term of
7 the proposed settlement agreement. This decision
8 reflects a compromise with the signatories to the
9 agreement and is not unreasonable within that context.

10 FPL's approved 2016 risk management plan is
11 largely executed at this late stage in the year. FPL
12 plans to continue to execute hedges in 2017 -- or,
13 excuse me, for 2017 to the minimum extent required to
14 stay in compliance with the 2016 plan but would cease
15 hedging upon Commission approval of the proposed
16 settlement agreement. Thereafter, FPL would not plan to
17 make any changes to the existing hedges that have been
18 put in place as part of the 2016 plan other than
19 executing the minimum rebalancing trades required
20 necessary to stay in compliance with that plan. This
21 approach is consistent with paragraph 16 of the proposed
22 settlement agreement.

23 FPL recently filed an alternative 2017 risk
24 management plan in order to effectuate the termination
25 of hedging next year consistent with the proposed

1 settlement agreement. Under this alternative 2017 plan,
2 FPL would financially hedge zero percent of its natural
3 gas requirements for 2018. Similarly, upon approval of
4 the proposed settlement agreement, FPL will file and
5 seek approval for 2018 and 2019 risk management plans
6 that provide for FPL to financially hedge zero percent
7 of its natural gas requirements for 2019 and 2020
8 respectively. And this concludes my summary.

9 **MR. BUTLER:** Thank you, Mr. Forrest.

10 I tender the witness for cross-examination.

11 **CHAIRMAN BROWN:** Thank you. AARP.

12 **MR. McRAY:** No questions.

13 **CHAIRMAN BROWN:** No questions.

14 FIPUG.

15 **MS. MOYLE:** No questions.

16 **CHAIRMAN BROWN:** Thank you.

17 Wal-Mart.

18 **MS. EATON:** No questions.

19 **CHAIRMAN BROWN:** Sierra Club.

20 **MS. CSANK:** No questions.

21 **CHAIRMAN BROWN:** FEA.

22 **MAJOR UNSICKER:** No questions, ma'am.

23 **CHAIRMAN BROWN:** Staff.

24 **MS. BROWNLESS:** We have a few questions.

25 **CHAIRMAN BROWN:** That's okay.

EXAMINATION

BY MS. BROWNLESS:

Q Hi, Mr. Forrest. Nice to see you.

A Good morning.

Q Okay. Is the basic gist of paragraph 16 of the settlement agreement that FP&L will allow existing hedges to settle without being replaced or renewed?

A That is correct, yes.

Q And that FP&L will immediately stop any further hedging activities for the four-year minimum term as you explained?

A Yes, ma'am, that's correct.

Q Okay. If the settlement agreement is approved, will FP&L have any hedges in place for 2018?

A No, we will not.

Q And as that being the case, is it correct that FP&L's forecast of natural gas prices for 2018 will not include any hedging effects?

A That is correct, yes.

Q FP&L would also be completely unhedged for 2019 and 2020; correct?

A That's correct, yes.

Q So the bottom line is that during the course of the next year, whatever hedges you put in place pursuant to your 2016 risk management plan will be

1 allowed to settle, and as time carries on through 2017,
2 you'll end up with zero at January 1?

3 **A** Yes, ma'am, but if I could restate that just a
4 little bit.

5 **Q** Sure.

6 **A** So we have hedges in place for 2017 today.
7 Those hedges will be allowed to expire in place. We
8 will continue to hedge 2017 until such time that the
9 Commission rules on this settlement agreement. If they
10 approve the settlement agreement, then we would stop
11 hedging basically at that point. We will have met the
12 minimum requirements of our 2016 risk management plan.
13 So at the end of 2017, once those hedges have rolled
14 off, then starting January 1st of 2018 no additional
15 hedges will be in place at that point. So we'll be
16 unhedged for 2018, '19, and '20.

17 **Q** Okay. Assume near the end of the settlement
18 period that's in or about the year 2020 a decision was
19 made to resume hedging. How easy or difficult would
20 that be?

21 **A** Well, similar to how things occur today with a
22 filing of a risk management plan in the fall prior to
23 the year. So we would file a risk management plan in
24 the fall of 2019 which would be our 2020 risk management
25 plan for execution of hedges starting in 2021 and

1 beyond. So it would not be challenging, obviously. We
2 would hopefully participate in whatever process came out
3 of the joint stipulation with the other IOUs, go through
4 that process. And, again, if the Commission is still
5 supportive of hedging at the end of the minimum term, we
6 would just reimplement our hedging policies consistent
7 with whatever comes out of the workshops that'll be
8 held.

9 Q And when you say "joint stipulation," you're
10 talking about the joint stipulation that was filed in
11 the fuel clause docket.

12 A Yes, ma'am, that's correct. Yeah, sorry.

13 Q Okay. Do you agree that as part of
14 calculating your fuel recovery rates, FP&L projects the
15 commodity cost of natural gas for the upcoming year?

16 A Yes, ma'am, that's correct.

17 Q And if you can look at your response to our
18 interrogatory No. 529.

19 A Okay.

20 Q Got that? Okay.

21 Assume a commodity cost of natural gas of
22 \$3 per MMBtu is built into the 2018 fuel rates. If
23 natural gas prices rise to \$4 per MMBtu or higher for
24 the last six months of 2018, FP&L would reach the
25 10 percent threshold for reporting a fuel cost

1 under-recovery according to Rule 25-6.0424. Is that
2 right?

3 **A** That is correct, yes, assuming that the first
4 half of the year is basically exactly zero. Right? So
5 starting July 1 forward a \$1 move would, yeah, would
6 trigger the 10 percent. Yes.

7 **Q** Okay. Assuming a \$3 per MMBtu commodity cost
8 for natural gas in 2018 fuel rates, a \$1 swing in the
9 price for six months will trigger this reporting
10 requirement; correct?

11 **A** Yes. We would have an obligation to notify
12 the Commission that we've hit the 10 percent threshold.

13 **Q** Okay. And it's also true, is it not, that
14 FP&L does not have to wait to reach the 10 percent
15 threshold to file for a midcourse correction in its fuel
16 rates; is that right? You can ask for a midcourse
17 correction before you reach the 10 percent; is that
18 right?

19 **A** I'm not aware of that, but I'll trust you, if
20 that's the case.

21 **MS. BROWNLESS:** Thank you, sir. That's all
22 the questions we have. Thank you.

23 **CHAIRMAN BROWN:** Thank you.

24 Commissioners? Commissioner Brisé.

25 **COMMISSIONER BRISÉ:** Thank you, Madam Chair.

1 And a couple of questions, though, following
2 up on staff's question regarding the hedging program.

3 Part of the whole concept of hedging is sort
4 of stability in rates for consumers. So does FPL feel
5 that as a result of this agreement that they can
6 maintain that level of price stability that customers
7 have seen for the last few years with the impact of
8 hedging the way it has played out over the past few
9 years moving forward, considering the conditions of this
10 agreement?

11 **THE WITNESS:** We have long supported hedging
12 and have been supportive of the Commission in that
13 regard. Certainly, you know, beyond 2017 with the years
14 '18, '19, and '20 not being hedged, there is an element
15 of volatility there that's just not being protected
16 against. So, you know, we think we've long, again,
17 supported hedging. We continue to support hedging if
18 the Commission seems supportive of it at the end of the
19 minimum term. But there is a level of volatility that
20 will be introduced not being hedged.

21 **COMMISSIONER BRISÉ:** Okay. So from the
22 perspective of the utility being the responsible party
23 with respect to consumers, is this provision in the
24 settlement, from FPL's position, responsible?

25 **THE WITNESS:** I think it's responsible in the

1 grander scheme of the overall settlement. It's
2 obviously a package that's being presented to the
3 Commission for approval. So I think in that regard,
4 yes, it is responsible. And Witness Barrett, I think,
5 speaks to the public interest of the overall agreement.
6 So, yeah, I mean from that perspective, yes, we
7 absolutely do believe it's responsible.

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

9 **CHAIRMAN BROWN:** Commissioners, any other
10 questions?

11 I have a question for you kind of along the
12 same lines. This is one of the provisions in the
13 settlement agreement that I'm not really crazy about,
14 given the duration, the four-year moratorium. And I
15 want to be clear that if anything comes out of the
16 workshop, which I assume FPL will -- if approved in the
17 01 docket, will FPL be participating in that workshop,
18 number one?

19 **THE WITNESS:** Yes, we would like to. Yes.

20 **CHAIRMAN BROWN:** Okay. And if anything comes
21 out of that workshop, inevitably the only way that
22 Florida Power & Light could comply with whatever comes
23 out would be to amend the settlement agreement.
24 Otherwise, it has to wait until 20 -- the expiration of
25 the settlement agreement.

1 **THE WITNESS:** That is correct. It would
2 require the agreement of all the parties that are
3 signatories to the agreement.

4 **CHAIRMAN BROWN:** Okay. Any other questions?
5 Redirect?

6 **MR. BUTLER:** No redirect. Thank you.

7 **CHAIRMAN BROWN:** Okay. Thank you. This
8 witness --

9 **MR. BUTLER:** Ask that he be temporarily
10 excused.

11 **CHAIRMAN BROWN:** Yes, we will go ahead and do
12 that. He has no exhibits attached to his testimony.
13 Thank you.

14 All right. The next witness is Mr. Barrett.

15 **MR. LITCHFIELD:** Correct. Mr. Barrett was
16 sworn earlier, which I will confirm with him when he
17 takes the stand.

18 Whereupon,

19 **ROBERT E. BARRETT, JR.**

20 was called as a witness on behalf of Florida Power &
21 Light Company and, having first been duly sworn,
22 testified as follows:

23 **EXAMINATION**

24 **BY MR. LITCHFIELD:**

25 **Q** Are you well situated, Mr. Barrett?

1 **A** Yes, thank you.

2 **Q** Okay. You were sworn earlier; correct?

3 **A** Yes.

4 **Q** Would you please provide your name and address
5 for the record.

6 **A** Yes. Robert Barrett, Jr., 700 Universe
7 Boulevard, Juno Beach, Florida 33408.

8 **Q** And by whom are you employed and in what
9 capacity?

10 **A** Florida Power & Light as the vice president of
11 finance.

12 **Q** And you've prepared and caused to be filed 13
13 pages of prefiled direct testimony in this proceeding
14 submitted on October 13, 2016?

15 **A** Yes.

16 **Q** And I would note that Mr. Barrett did not have
17 any exhibits in connection with that testimony.

18 Do you have any changes or revisions to your
19 prefiled direct testimony, Mr. Barrett?

20 **A** No.

21 **Q** If I were to ask you then the same questions
22 reflected in that testimony today, would your answers be
23 the same?

24 **A** Yes.

25 **MR. LITCHFIELD:** Madam Chair, I'd ask that

1 Mr. Barrett's prefiled direct be inserted into the
2 record as though read.

3 **CHAIRMAN BROWN:** We will go ahead and insert
4 Mr. Barrett's prefiled direct testimony into the record
5 as though read.

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Robert E. Barrett, Jr. My business address is Florida Power & Light Company (“FPL” or “the Company”), 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain why the Stipulation and Settlement filed on October 6, 2016 (the “Proposed Settlement Agreement”), taken as a whole, is appropriate and in the public interest. My testimony will also discuss the reserve amortization mechanism contained in the Proposed Settlement Agreement and its critical role in enabling the four-year term of the agreement. Next, my testimony will explain the solar base rate adjustment (“SoBRA”) mechanism and discuss the process set forth in the Proposed Settlement Agreement for Florida Public Service Commission (“FPSC” or “the Commission”) review of the cost-effectiveness of future solar generating facilities and approval of the recovery of the revenue requirements associated with those facilities. My testimony will also discuss the battery storage pilot program and the benefits of such a program for FPL’s customers. Finally, my testimony will explain the provision of the Proposed Settlement Agreement to

1 request a Commission workshop to address a pilot demand-side management
2 (“DSM”) opt-out program.

3

4

II. SUMMARY

5

6 **Q. Please provide an overview of the Proposed Settlement Agreement and**
7 **describe why it is in the public interest.**

8 A. The Proposed Settlement Agreement would resolve all of the issues in FPL’s
9 base rate case filed on March 15, 2016 (“2016 Rate Petition”) as well as the
10 issues in FPL’s filed Depreciation and Dismantlement Study and the Incentive
11 Mechanism docket in a fashion that balances the interests that customers have
12 in receiving low bills, high reliability and excellent customer service with the
13 opportunity for investors to have the potential to earn a fair rate of return. The
14 signatories also have affirmed that the Proposed Settlement Agreement would
15 call for the Commission to approve FPL’s Storm Hardening Plan and Wooden
16 Pole Inspection Program, as filed.

17

18 Through its terms, the Proposed Settlement Agreement provides for a
19 reduction in FPL’s base rate request, while allowing for scheduled base rate
20 increases in 2017, 2018 and a limited scope adjustment when the Okeechobee
21 Clean Energy Center enters commercial operation, currently scheduled in June
22 2019. Taken as a whole, the Proposed Settlement Agreement will provide for
23 a high degree of base rate certainty to all parties and FPL customers for a

1 fixed term of four years; encouraging management to continue its focus on
 2 improving service delivery, realizing additional efficiencies in its operations
 3 and creating stronger customer value, while maintaining residential bills that
 4 are projected to continue to be among the lowest in the state and nation. This
 5 negotiated outcome resolves a number of competing considerations in a way
 6 that produces an overall result that is in the public interest.

7

8 **III. AMORTIZATION OF RESERVE AMOUNT**

9

10 **Q. What is the Reserve Amount as defined in the Proposed Settlement**
 11 **Agreement?**

12 A. Paragraph 12(c) of the Proposed Settlement Agreement defines the Reserve
 13 Amount as comprised of two parts: (1) the actual remaining portion as of
 14 December 31, 2016 of the reserve amount that the Commission authorized
 15 FPL to amortize in Order No. PSC-13-0023-S-EI (adjusted for the Cedar Bay
 16 Settlement in Order No. PSC-15-0401-AS-EI) plus (2) up to \$1,000 million of
 17 the theoretical depreciation reserve surplus effected by the depreciation
 18 parameters and resulting rates set forth in Exhibit D of the Proposed
 19 Settlement Agreement, subject to certain restrictions. FPL witness Ferguson
 20 describes the Reserve Amount in more detail.

21

22

1 **Q. What does the Proposed Settlement Agreement provide as it relates to**
2 **amortization of the Reserve Amount?**

3 A. Paragraph 12 of the Proposed Settlement Agreement provides FPL with the
4 ability to amortize the Reserve Amount, at its discretion, during the settlement
5 term conditioned by the following: (1) for any period in which FPL's actual
6 FPSC adjusted return on equity ("ROE") would otherwise fall below 9.6%,
7 FPL must amortize any remaining Reserve Amount to at least increase the
8 ROE to 9.6%; and, (2) FPL may not amortize the Reserve Amount in an
9 amount that results in FPL achieving an FPSC adjusted ROE greater than
10 11.6%.

11 **Q. Is this provision critical to the settlement?**

12 A. Yes. The reserve amortization mechanism provides the Company the
13 flexibility necessary to achieve reasonable financial results during the four-
14 year settlement period while also agreeing to substantially lower base revenue
15 increases compared to those requested in the 2016 Rate Petition. Without this
16 flexibility, base rates could not be held constant for such an extended period
17 due to the risk of weather, inflation, rising interest rates, mandated cost
18 increases and other factors affecting FPL's earnings that largely are beyond
19 the Company's control.

20 **Q. What are the benefits of allowing FPL to amortize the Reserve Amount**
21 **during the settlement term?**

22 A. The amortization of the Reserve Amount provides rate certainty and avoids
23 the need for expensive and disruptive base rate proceedings over the four-year

1 settlement period. The Commission approved a similar mechanism in Order
2 No. PSC-13-0023-S-EI, so the Proposed Settlement Agreement provides
3 nothing new in that regard. Specifically, the reserve amortization mechanism
4 allows the Company to forgo a portion of the cash revenue increases it
5 petitioned for, providing significant benefit to customers through lower rates
6 over the four-year period.

7

8 IV. SOLAR BASE RATE ADJUSTMENT

9

10 **Q. Please provide an overview of the SoBRA included in the Proposed**
11 **Settlement Agreement.**

12 A. The SoBRA is very similar to the generation base rate adjustment (“GBRA”)
13 mechanism the Commission has approved in the past. For purposes of SoBRA
14 cost recovery pursuant to the Proposed Settlement Agreement, FPL may
15 construct approximately 300 MW of solar generating capacity per calendar
16 year, projected to go into service no later than 2021. The cost of the
17 components, engineering and construction for any solar project undertaken
18 pursuant to the Proposed Settlement Agreement will be reasonable and will
19 not exceed \$1,750 kWac. Through the SoBRA mechanism, FPL will be
20 allowed to recover the annual base revenue requirements reflecting the first
21 twelve months of operations of each solar generation project.

1 **Q. How will the solar projects and attendant cost recovery pursuant to the**
2 **SoBRA mechanism be reviewed and approved by the Commission?**

3 A. For solar projects 75 MW or greater that are subject to the Florida Electrical
4 Power Plant Siting Act (“Siting Act”), FPL will file a petition for a
5 Determination of Need with the Commission. If approved, FPL will calculate
6 and submit for Commission confirmation the SoBRA amount for each such
7 solar project using the annual Capacity Clause projection filing for the year
8 that solar project is scheduled to go into service.

9
10 Solar projects less than 75 MW, and therefore not subject to the Siting Act,
11 also will be subject to Commission approval through FPL’s Fuel and
12 Purchased Power Cost Recovery Clause docket (“Fuel Docket”). The petition
13 for approval will be made in the annual true-up filing. The cost effectiveness
14 will be determined by whether the solar project lowers FPL’s projected
15 system cumulative present value revenue requirement (“CPVRR”). If the
16 solar project is approved as cost-effective, FPL will calculate and submit for
17 Commission confirmation the amount of the SoBRA for each such solar
18 project using the annual Capacity Clause projection filing for the year that
19 solar project is scheduled to go into service and base rates will be adjusted
20 consistent with that amount upon commercial operation of the respective solar
21 project(s).

1 **Q. How will the SoBRA revenue requirement be calculated?**

2 A. Each SoBRA will be calculated to recover the estimated revenue requirements
3 for the first twelve months of operation using a 10.55% ROE and the
4 appropriate incremental capital structure consistent with that used for the
5 Okeechobee Limited Scope Adjustment reflected in FPL's 2016 Rate Petition
6 adjusted to reflect the inclusion of investment tax credits on a normalized
7 basis. As the solar generating facilities are expected to increase system
8 efficiency by lowering the overall system fuel cost, FPL also will seek
9 approval in the Fuel Docket for fuel factors that reflect those savings
10 coincident with the projected in-service dates of the various solar projects.

11 **Q. Does the proposed SoBRA mechanism provide for adjustments to the
12 projected SoBRA factors to account for actual capital expenditures?**

13 A. Yes. Similar to the previous and existing GBRA mechanism, the initial
14 SoBRA factor will be adjusted automatically if actual capital expenditures are
15 lower than projected. In that event, a revised SoBRA factor will be calculated
16 and a one-time credit will be made through the Capacity Clause, with base
17 rates adjusted on a go-forward basis for the revised factor.

18

19 If actual capital expenditures are higher than projected, FPL at its option, may
20 initiate a limited proceeding, to address the limited issue of whether FPL has
21 met the requirements of Rule 25-22.082(15), F.A.C. (i.e., that such costs were
22 prudently incurred and due to extraordinary circumstance). All parties would
23 have the right to participate in the limited proceeding and challenge whether

1 FPL has met the Rule 25-22.082(15) requirements. If the Commission finds
2 that FPL has met the requirements of Rule 25-22.082(15), then FPL may
3 increase the SoBRA by the corresponding incremental revenue requirement
4 due to such additional capital costs. This process also is identical to the
5 process that was available, but never employed, under the terms that governed
6 the GBRA mechanism throughout the period since a GBRA was first
7 established under FPL's 2005 settlement agreement in Order No. PSC-05-
8 0902-S-EI.

9 **Q. Is FPL allowed to recover more than an incremental 300 MW of solar**
10 **generating capacity in a calendar year?**

11 A. No. FPL may not receive approval for incremental SoBRA recovery of more
12 than 300 MW of solar projects in a calendar year; provided, however, to the
13 extent that FPL receives approval for SoBRA recovery of less than 300 MW
14 in a year, the surplus capacity can be carried over to the following years for
15 approval and recovery. For example, if FPL receives approval for SoBRA
16 recovery in 2017 of 200 MW of solar capacity, it would be entitled to increase
17 its request for SoBRA recovery in subsequent year(s) by an additional 100
18 MW. Additionally, in 2017, FPL may at its option and for administrative
19 efficiency, petition for approval of up to 300 MW for 2017 SoBRA recovery
20 and up to 300 MW for 2018 SoBRA recovery; provided however, that no base
21 revenue increase may occur in 2017 until the Commission has approved the
22 2017 SoBRA and those projects have entered commercial service.

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V. BATTERY STORAGE PILOT PROGRAM

Q. Please explain the battery storage pilot program.

A. The battery storage pilot program will allow FPL to deploy 50 MW of battery storage technology designed to serve commercial, industrial and retail customers. Parties to this Proposed Settlement Agreement agree that this pilot program is a prudent investment and provides benefits for FPL’s customers. Through this program, FPL will be able to gain a better understanding of how battery storage can improve the reliability and efficiency of the system. FPL has agreed that the average installation cost of the battery storage projects will not exceed \$2,300/kWac during the term of the agreement, and FPL will not seek incremental recovery of the revenue requirements associated with the pilot program until its next general base rate increase.

VI. WORKSHOP FOR PILOT DSM OPT-OUT PROGRAM

Q. Please explain the pilot DSM Opt-Out Program workshop provision of the Proposed Settlement Agreement?

A. FPL and interested parties will jointly request a Commission workshop to consider a pilot DSM Opt-Out Program. Some of the items to be considered at that workshop will include eligibility criteria for opting out of FPL’s DSM programs, procedures for verifying continued compliance with those eligibility criteria, impacts on FPL’s cost recovery for DSM and other

1 implementation issues. The workshop will not be limited to the signatories to
2 the Proposed Settlement Agreement, but may include anyone who otherwise
3 would be eligible to participate as determined by the Commission. There is no
4 commitment among parties to the Proposed Settlement Agreement with regard
5 to the appropriate outcome of such a workshop, beyond requesting the
6 workshop and participating in good faith.

7 **Q. When will FPL and the interested parties make their request for the**
8 **proposed Commission workshop?**

9 A. FPL and the interested parties will work with the Commission Staff to
10 determine the appropriate time for the parties to make such a request.

11

12 **VII. CONCLUSION**

13

14 **Q. Should the Commission approve the Proposed Settlement Agreement as**
15 **consistent with the public interest?**

16 A. Yes. As in any settlement context, parties will have made concessions relative
17 to their positions in the case. This settlement is no different and must be
18 viewed and accepted (or not) on its whole. There are several factors which
19 FPL would offer in support of the Commission entering an order approving
20 the Proposed Settlement Agreement. First, the Proposed Settlement
21 Agreement provides customers with predictability and stability in their
22 electric rates, while allowing FPL to maintain the financial strength to make
23 investments it believes are necessary to provide customers with safe and

1 reliable power. Second, the Proposed Settlement Agreement also will increase
2 the amount of emissions-free solar power and energy that will be available to
3 serve customers on a cost-effective basis. Third, the Proposed Settlement
4 Agreement reflects an average annual growth in rates of slightly less than 2%,
5 below the expected rate of inflation. For these reasons, FPL submits that the
6 Proposed Settlement Agreement, taken as a whole, is in the public interest and
7 should be approved by this Commission.

8 **Q. Does this conclude your testimony?**

9 A. Yes.

1 **MR. LITCHFIELD:** And I believe that
2 Mr. Barrett is sponsoring certain of staff's discovery
3 responses.

4 **CHAIRMAN BROWN:** Ms. Brownless.

5 **EXAMINATION**

6 **BY MS. BROWNLESS:**

7 **Q** Good morning, Mr. Barrett.

8 **A** Good morning.

9 **Q** Can you please refer to what's been marked as
10 Exhibit No. 812. Were the responses to staff
11 interrogatories No. 515 through -19, 523, 530, 546, 547
12 prepared by you or under your direct supervision and
13 control?

14 **A** Yes.

15 **Q** If you were asked the same questions today as
16 those in the interrogatories, would your answers be the
17 same?

18 **A** Yes.

19 **Q** And are these answers true and correct to the
20 best of your knowledge and belief?

21 **A** Yes, they are.

22 **MS. BROWNLESS:** Thank you.

23 **CHAIRMAN BROWN:** Thank you.

24 **EXAMINATION**

25 **BY MR. LITCHFIELD:**

1 **Q** Thank you, Mr. Barrett. Would you provide a
2 brief summary to the Commission.

3 **A** Yes. Good morning, Madam Chair and
4 Commissioners.

5 My testimony demonstrates that the proposed
6 settlement agreement taken as a whole represents a fair
7 and balanced outcome for all parties and is in the
8 public interest. This negotiated agreement resolves all
9 the issues in FPL's pending rate filing. Principally it
10 provides for base rate increases in 2017, '18, and the
11 limited scope adjustment for Okeechobee that are
12 substantially reduced from the levels FPL proposed in
13 its filed request. It also establishes FPL's authorized
14 return on equity at 10.55 percent with a range of 9.6 to
15 11.6 percent. The proposed settlement agreement
16 provides a high degree of base rate certainty over the
17 four-year period while encouraging management to
18 continue its focus on improving service delivery,
19 realizing additional efficiencies in the organization
20 and creating stronger customer value.

21 My testimony also addresses certain key
22 provisions of the proposed settlement agreement
23 including the reserve amortization mechanism; the solar
24 base rate adjustment, or SoBRA; the battery storage
25 pilot program; and the proposed workshop for a pilot

1 demand-side management opt-out program.

2 The reserve amortization mechanism in the
3 proposed settlement agreement helps make it possible for
4 FPL to accept the substantial reduction in cash-based
5 revenue increases compared to the filed request while
6 maintaining the flexibility FPL needs to achieve
7 reasonable financial results over the four-year minimum
8 term.

9 The reserve amortization mechanism provides
10 confidence to customers and the Commission that FPL will
11 be able to avoid the need for expensive and disruptive
12 base rate proceedings over the four-year settlement
13 period. The SoBRA mechanism will allow FPL to recover
14 costs for up to 300 megawatts of solar generating
15 capacity for each calendar year during the settlement
16 term. The cost for each utility under SoBRA must be
17 reasonable and not exceed \$1,750 per kilowatt. These
18 solar facilities will also be subjected to Commission
19 review and approval to ensure cost-effectiveness, which
20 will be determined by whether the solar facility results
21 in lower projected costs for customers over the life of
22 the facility.

23 Upon approval by the Commission, the SoBRA for
24 each facility will become effective once the facility is
25 placed in service. At that time, FPL's fuel charges

1 will also be adjusted downward to reflect the projected
2 fuel savings. The SoBRA mechanism is very similar to
3 the generation base rate adjustment the Commission has
4 approved in the past.

5 In summary, the proposed settlement agreement
6 is in the public interest as it provides customers with
7 four years of predictability and stability in their
8 electric rates, while allowing FPL to continue improving
9 upon its industry leading performance and maintain the
10 financial strength to make investments it believes are
11 necessary to provide customers with safe and reliable
12 power. That concludes my summary.

13 **MR. LITCHFIELD:** Thank you. Mr. Barrett is
14 available for cross-examination.

15 **CHAIRMAN BROWN:** Thank you.

16 AARP.

17 **MR. McRAY:** No questions.

18 **CHAIRMAN BROWN:** All right. FIPUG.

19 **MS. MOYLE:** No questions.

20 **CHAIRMAN BROWN:** Okay. Wal-Mart.

21 **MS. EATON:** Just a few questions.

22 **EXAMINATION**

23 **BY MS. EATON:**

24 **Q** Good morning, Mr. Barrett.

25 **A** Good morning.

1 Q Can you hear me okay?

2 A Yes.

3 Q Do you have your settlement testimony handy --

4 A I do.

5 Q -- in case you have to refer to it? I may
6 refer to a couple of pages in your settlement testimony,
7 if you need to look at it.

8 I believe you said in your summary that you
9 believe that the settlement agreement taken as a whole
10 is fair and balanced and in the public interest; is that
11 right?

12 A That's right.

13 Q And so one of the issues that you testified
14 about in your direct was about the workshop for a pilot
15 DSM opt-out program. I think that was on page 11 of
16 your direct testimony.

17 A Yes.

18 Q And I'm just going to call that the workshop.
19 Okay?

20 A Okay.

21 Q So is it, in your opinion -- is it your
22 opinion that the workshop, as part of the settlement
23 agreement, is one of the elements that makes the
24 settlement as a whole in the public interest and fair
25 and balanced?

1 **A** Yes.

2 **Q** Are you aware that, as proposed, the workshop
3 would be open to any interested party, not just
4 signatories to the proposed settlement agreement?

5 **A** Yes.

6 **Q** And are you aware that although not a
7 signatory to the settlement agreement, the workshop is
8 very important to Wal-Mart?

9 **A** I understand that, yes.

10 **Q** All right. And so you would agree that as an
11 interested party, Wal-Mart would be able to actively
12 participate in the workshop and at such appropriate time
13 as the Commission staff -- the Commission staff and FPL
14 and the interested parties make the request for the
15 workshop?

16 **A** Yes.

17 **MS. EATON:** Thank you. That's all I have.

18 **CHAIRMAN BROWN:** Thank you, Wal-Mart.
19 Sierra Club.

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

21 **CHAIRMAN BROWN:** Thank you.

22 FEA.

23 **MAJOR UNSICKER:** No questions, ma'am.

24 **CHAIRMAN BROWN:** Thank you.
25 Staff.

EXAMINATION

BY MS. BROWNLESS:

Q Hey, Mr. Barrett.

A Good morning.

Q Does the -- does Florida Power & Light's most recent Ten-Year Site Plan project that Florida Power will have a generation mix of approximately 70.7 percent natural gas in 2018?

A Subject to check, I would agree that that's probably right.

Q If you can look at paragraph 10D of the settlement agreement, and that's on page 14, I think.

A Okay.

Q Okay. Would you agree that under the settlement agreement, FPL is limited to 1,200 megawatts of solar generation recoverable through the SoBRA mechanism?

A Yes.

Q And assuming that you do build the 1,200 megawatts of solar generation, do you know at this time whether or not that would delay any of Florida Power & Light's upcoming natural gas combined cycle facilities?

A No, I don't know the answer to that.

Q Would you agree that the Commission will have an opportunity to review the cost-effectiveness of the

1 solar generation proposed by FP&L either through the
2 Power Plant Siting Act or through the fuel clause?

3 **A** Yes. The agreement itself is very explicit
4 about the Commission's ability to review the
5 cost-effectiveness of these plants that we would be
6 putting forward.

7 **Q** Okay. For those SoBRA projects that will be
8 reviewed through the fuel clause and not through the
9 Power Plant Siting Act, what methods will FP&L use to
10 minimize the cost of these projects?

11 **A** Well, much like we have done in the solar
12 projects that we are just completing and bringing online
13 this year, I would expect that we would go out and
14 competitively bid for the major components of the
15 project itself. You may recall in my earlier testimony
16 that roughly 90 percent or so of the economic value of
17 those projects that we're building in '16 were
18 competitively bid, that being the panels, the inverters,
19 the EPC, to make sure that we were getting the lowest
20 possible prices that the marketplace was offering. And
21 in addition to that, there's a cap in the agreement
22 itself such that if the costs were above the 1,750, the
23 SoBRA recovery mechanism only provides recovery of the
24 1,750 unless we made a subsequent petition to the
25 Commission for any excess. But there's sufficient

1 protection in the agreement as far as a cap, and then
2 the process itself of having to demonstrate
3 cost-effectiveness to the Commission I think would
4 provide the assurance that we're getting a reasonable
5 cost.

6 **Q** Okay. Will FP&L be using CO2 emissions costs
7 in its determination of cost-effectiveness for the SoBRA
8 projects?

9 **A** Yes. We would evaluate these projects much
10 like we evaluate -- or the same as we evaluate all of
11 our generation additions, which would include the cost
12 of emissions.

13 **Q** Okay. If you can refer to paragraph 18 in the
14 settlement agreement, and I think that's on page --

15 **A** Page 22.

16 **Q** -- 22. This paragraph talks about a battery
17 storage pilot program for 50 megawatts with a cap of
18 \$2,300 per kilowatt, or a maximum investment of
19 115 million; is that correct?

20 **A** Yes.

21 **Q** Can you please describe what review FP&L will
22 be requesting from the Commission before implementing
23 this pilot program?

24 **A** Well, it's the intent of the parties to the
25 settlement agreement that this pilot program be such

1 that the parties have agreed that the investment would
2 be a prudent investment. It would be one that we would
3 not be seeking recovery of until the next time that we
4 set base rates, which would be, at the earliest, after
5 the expiration of the minimum term, which would be 2021.

6 So we view this as an opportunity to make a
7 modest investment into this new technology to try to
8 figure out how in different applications it plays on our
9 system and where we can provide value to customers. But
10 realizing that it is a pilot, we're not asking
11 explicitly for recovery as part of the increases in this
12 particular settlement agreement. We would be coming
13 back after the expiration of this agreement.

14 **Q** And would that battery storage pilot be
15 available to residential customers, small commercial
16 customers, industrial customers, to basically everybody?

17 **A** Well, the agreement calls for us to work with
18 the signatories to the agreement to try to determine
19 where would be some good applications. I would imagine
20 there might be some large customers, some smaller
21 customers, et cetera. I don't think that we have
22 determined yet where that might be. And ultimately we
23 have to make the decision of, from the electrical grid,
24 where does it make the most sense to invest these
25 dollars to get the best learning of how it's going to

1 interact with our system.

2 Q Okay. Paragraph 18 seems to address
3 investment cost only. Is that your understanding?

4 A Yes. The cost of installing. If you're
5 referring to the cap itself, it's the installation cost.

6 Q Okay. Does FP&L anticipate requesting
7 recovery of O&M or energy costs associated with the
8 battery storage pilot?

9 A Well, to the -- no, as part of this settlement
10 agreement. Obviously we've said in this paragraph that
11 we would seek recovery of the investment and any other
12 costs beyond the term of this agreement in the next base
13 rate proceeding.

14 I might add, though, to the extent that the
15 50 megawatts of batteries provides, for instance, fuel
16 savings, that will flow right through to customers
17 during this term. But we're not going to be asking for
18 any of the cost recovery until the next rate case.

19 Q Either capital or O&M.

20 A Correct.

21 **MS. BROWNLESS:** Thank you.

22 **CHAIRMAN BROWN:** Thank you.

23 Commissioners? Commissioner Graham.

24 **COMMISSIONER GRAHAM:** Thank you, Chairwoman.

25 Excuse me.

1 Mr. Barrett, how are you today?

2 **THE WITNESS:** I'm well.

3 **COMMISSIONER GRAHAM:** Can you walk me through
4 what you -- what this DSM workshop looks like and what
5 you guys are anticipating?

6 **THE WITNESS:** I can't really walk you through
7 what it looks like because I don't know. The settlement
8 agreement, basically we've agreed to request the
9 Commission to hold a workshop to consider the
10 eligibility of people to be able to opt out of DSM, some
11 verification procedures where we could, for instance,
12 have some assurance that folks that are opting out are
13 carrying their weight, that they're paying their fair
14 share, if you will, of demand-side programs, whether it
15 be self-installed or contributing to the systemwide DSM.
16 There's yet a lot to be determined about what the scope
17 of that workshop would be, and we've committed to work
18 with staff and the other parties to put forward an
19 agenda that makes sense at the time that it makes sense
20 for the Commission to consider that workshop.

21 **COMMISSIONER GRAHAM:** So opt out is not
22 anybody specific. It's anybody and everybody that wants
23 to opt out?

24 **THE WITNESS:** That's for the workshop to kind
25 of flesh out what that looks like.

1 I think pragmatically people that would opt
2 out of the DSM program, from my perspective, they would
3 need to demonstrate that they are contributing to
4 demand-side management reductions through their own
5 investments or their own programs to enable them to be
6 able to opt out of the broader scale program. But I
7 don't have a lot of the details about what that might
8 look like.

9 **COMMISSIONER GRAHAM:** And let's go to the
10 settlement. This doesn't bind, in your opinion, the
11 Commission to do anything. And now if you come before
12 us with a proposal for a workshop and it just doesn't
13 make sense to us, this is still not binding us to move
14 forward with that workshop until we come to the
15 determination this is something we want to do.

16 **THE WITNESS:** That's correct. The settlement
17 agreement says that we've agreed as parties to request a
18 workshop.

19 **COMMISSIONER GRAHAM:** Okay. Let's go to the
20 battery storage. Walk me through that a little bit.

21 **THE WITNESS:** Okay. We think that there is --
22 that battery storage technology is becoming a more
23 viable and more cost-effective technology, even though
24 today it may not be cost-effective in terms of lowering
25 costs. We think it makes sense to get ahead of the

1 curve and understand what value can be -- can accrue to
2 the system from deploying batteries, whether it be with
3 large customers, small customers, distribution level
4 substations, whatever that might be. We have a small
5 pilot going on right now. This allows us to kind of
6 expand that to a sizable, meaningful pilot program where
7 we think that over the next four years as we do this
8 we'll be able to get some additional learnings, we'll
9 begin to see some scale efficiencies and maybe some cost
10 declines, and that we be better positioned after this
11 pilot to know what's the potential to do further
12 deployment in the future.

13 So we've asked -- you know, the parties have
14 agreed through negotiations that a cost cap makes sense
15 of \$2,300 a kilowatt. So as we talk about a \$115
16 million total investment, up to that number, but we
17 would not be requesting a return on or of that capital
18 through rates until the next time we set base rates. So
19 we would need to cover that in our normal course of
20 business.

21 **COMMISSIONER GRAHAM:** Do you foresee any sort
22 of mechanism for the Commission to be involved in this
23 program as you're ruling it out and moving forward, and
24 also taking into account some of the knowledge that
25 you've already gained from the small one you've already

1 got started?

2 **THE WITNESS:** I'm sure we would welcome the
3 Commission's insights and thoughts regarding this. I'm
4 not sure what the right vehicle for that is or the right
5 mechanism for that is. Working with, you know,
6 receiving feedback from staff maybe as to what we might
7 do. We haven't really contemplated any kind of notice
8 provision or workshop or anything like that for this
9 level of investment. We would just -- our engineering
10 teams would get together and determine where it makes
11 sense to do this electrically, and I would imagine we'd
12 be responsive to whatever the Commission wants to hear
13 about it.

14 **COMMISSIONER GRAHAM:** Thanks. Thanks,
15 Chairman.

16 **CHAIRMAN BROWN:** Thank you.

17 Commissioners? Commissioner Brisé.

18 **COMMISSIONER BRISÉ:** Thank you, Madam Chair.

19 And these two questions are more generic in
20 nature. So if I understand the settlement properly, the
21 agreement decreases the initial revenue request by
22 roughly 500 million.

23 **THE WITNESS:** Yeah. 826 was kind of our last
24 number for 2017, so a little over 400 million, yes.

25 **COMMISSIONER BRISÉ:** Okay. And so a lot of

1 what I heard during the initial hearing was that, you
2 know, we would be improving reliability and excellent
3 customer service and all of that. Does the settlement
4 in any way impact the company's ability to continue to
5 provide the excellent customer service and continue to
6 provide the reliability that the company was seeking to
7 continue?

8 **THE WITNESS:** No. We see this settlement to
9 be wholly consistent with our ability to continue
10 investing in our infrastructure and improving our
11 customer service, improving our reliability, and
12 delivering great value for our customers.

13 **COMMISSIONER BRISÉ:** Okay. So the inverse of
14 that question is there will be an increase of
15 \$800 million in essence as a result of this rate
16 settlement. What tangible things are consumers getting
17 for the \$800 million?

18 **THE WITNESS:** Well, as we talked about in the
19 general rate proceeding and my testimony and the
20 testimony of particularly our operating witnesses, we're
21 going to continue to invest heavily in our
22 infrastructure through reliability investment projects
23 through storm hardening efforts, which we've just seen
24 some good empirical evidence of the performance of our
25 system that has been hardened. We're going to continue

1 to invest in new technologies on the generation side.
2 So part of this is paying for the new solar plants we're
3 just bringing online this year. The peaker program,
4 which is providing substantial savings to customers. So
5 all of those capital initiatives that I principally
6 testified to are going to be paid for, if you will, by
7 the revenues that are generated from this settlement
8 agreement.

9 **COMMISSIONER BRISÉ:** So it's still a capital
10 intensive --

11 **THE WITNESS:** Yes.

12 **COMMISSIONER BRISÉ:** Okay. Thank you.

13 **CHAIRMAN BROWN:** Thank you.

14 Mr. Barrett, getting back to the SoBRA, in the
15 rate case, could you refresh my recollection if there
16 was any commitment and what that was in the general rate
17 case proceeding for solar investment?

18 **THE WITNESS:** The only solar that was included
19 in the rate case general proceeding back in August was
20 the recovery of the three plants that were coming online
21 this year.

22 **CHAIRMAN BROWN:** What did that total? What
23 amount was that in megawatts?

24 **THE WITNESS:** 224.

25 **CHAIRMAN BROWN:** Okay. So this is an

1 exciting, aggressive rollout that FPL is contemplating.

2 **THE WITNESS:** Yes.

3 **CHAIRMAN BROWN:** 1,200 megawatts over a period
4 of four years. Does FPL contemplate the type of
5 projects that it is going to roll out?

6 **THE WITNESS:** They would be very similar to
7 what we are rolling out this year. The great thing is
8 we continue to see from a customers' perspective good
9 downward pressure on panel prices. And we think that as
10 we particularly launch into this large program, large in
11 our scale of what we've done to date, that we'll begin
12 to see even better pressure on vendors in terms of being
13 able to bring these to market at a good price.

14 So -- but it's the same technology basically
15 as PV technology. We're probably looking at multiple
16 sites to get a little geographic diversity. And -- so,
17 but I would think it would be more of the same. And the
18 more they can look sort of similar, the more we can kind
19 of standardize on design, standardize on construction,
20 and even reap more benefits.

21 **CHAIRMAN BROWN:** So how many projects are you
22 projecting to do a year?

23 **THE WITNESS:** Well, four projects at about a
24 75 megawatt number would be 300 megawatts.

25 **CHAIRMAN BROWN:** Okay. And your last project,

1 what was the price kWatt, per kWatt?

2 **THE WITNESS:** Per kilowatt?

3 **CHAIRMAN BROWN:** Yeah.

4 **THE WITNESS:** I believe they were around 1,850
5 per kilowatt for the 2016 project. So the parties
6 negotiated an aggressive cost reduction cap of 1,750,
7 which ultimately in the context of the whole settlement
8 we got comfortable taking that risk that we might be
9 able to achieve that.

10 **CHAIRMAN BROWN:** Okay. And I guess
11 Ms. Brownless was walking you through some questions on
12 this with regard to keeping costs in check under this
13 provision, and you said that all projects are going to
14 be competitively bid; is that correct?

15 **THE WITNESS:** That's been our approach. I
16 mean, we don't make the panels, we don't make the
17 inverters. We go out into the marketplace and bid for
18 those and establish good pricing for that.

19 **CHAIRMAN BROWN:** So if costs go down, though,
20 I assume FPL will take -- will try to take advantage of
21 that and pass those benefits on to the customer under
22 the settlement agreement.

23 **THE WITNESS:** Absolutely. I mean, to the
24 extent we bring in the cost of these projects lower
25 than -- well, first of all, when we present them for

1 cost-effectiveness and approval for recovery, we'll be
2 presenting to you a cost profile. If we bring it even
3 lower than that, then there's mechanisms in the
4 settlement agreement to true that up and pass those
5 savings on to customers.

6 **CHAIRMAN BROWN:** Okay. And you said it was
7 clear in the settlement agreement about when, and I just
8 want to -- I don't know if it's really clear to me, but
9 it said either before the fuel clause proceeding or
10 during the fuel clause through a separate docket. How
11 do you anticipate the Commission approval?

12 **THE WITNESS:** Okay. Let me walk through it.
13 There are two paths. One, if it's -- if it's greater
14 than 75 megawatts and falls under the PPSA, the Power
15 Plant Siting Act, then we would, under that
16 circumstance, put out an RFP, unless we have requested a
17 waiver of that provision. We would go through a need
18 determination and there would be an established
19 procedure for that for approval.

20 Those that fell below 75 megawatts, what we've
21 done is we have crafted this to follow the fuel dockets.
22 So we would be filing a petition in the true-up filing.
23 So let's just, for argument's sake, say March of next
24 year we would be making a petition. And then what we
25 would expect is that it follows all the normal timing

1 and approval process of the fuel and the other clause
2 proceeding. So we would then come along in the
3 projection filing, let's call it August, and suggest
4 what we think that the SoBRA adjustment should be. We
5 would put that forward. All the while, the petition
6 would have shown the cost-effectiveness. You guys
7 would -- the Commission, excuse me, would rule on that
8 in the normal approval process for the clauses in the
9 fall. In no event would any plant get an increase prior
10 to your approval, nor prior to its going into service.

11 **CHAIRMAN BROWN:** Okay.

12 **THE WITNESS:** So the soonest something could
13 probably get a SoBRA increase would be late next year
14 after you have reviewed and presumably approved -- let's
15 call it November of '17 -- the '17 tranche of projects.

16 **CHAIRMAN BROWN:** Great. Thank you. And that
17 is a very interesting provision in the agreement.
18 Again, very aggressive rollout and exciting for the
19 company and for its customers.

20 Moving on to the battery storage project. I
21 know you've had a lot of questions about that. So my
22 understanding is that FPL will not seek cost recovery of
23 that until the next base rate case proceeding, so no
24 earlier than 2021.

25 **THE WITNESS:** Correct.

1 **CHAIRMAN BROWN:** And but the signatories to
2 the settlement agreement have already deemed that
3 prudent up to the amount provided in this settlement
4 agreement; correct?

5 **THE WITNESS:** Yes.

6 **CHAIRMAN BROWN:** But -- and since you're not
7 asking for cost recovery from the Commission in the
8 settlement agreement but you are asking for approval of
9 the pilot project, do you think that this provision
10 provides that the Commission is deeming it a prudent
11 project based on the costs provided in here?

12 **THE WITNESS:** I don't think that the agreement
13 itself binds the Commission to a determination of
14 prudence. I would hope that you would agree with the
15 parties to the settlement agreement that it is a prudent
16 investment in that it provides benefits to customers in
17 consideration of cost and the other aspects to the
18 project. But I don't think this can bind the
19 Commission's finding.

20 **CHAIRMAN BROWN:** Again, this is a great, great
21 pilot program. Does FPL or its affiliates or parent
22 have any experience with battery storage?

23 **THE WITNESS:** Our sister company, NextEra
24 Energy Resources, is beginning to do some battery
25 storage projects and deployment, and so we'd be able to

1 leverage the learnings that they've already gotten.
2 And, again, that would accrue to customers' benefit.

3 **CHAIRMAN BROWN:** Yes. Two more questions, one
4 on the workshop, the pilot DSM opt-out program. Since
5 this is a four-year agreement, when does -- when do the
6 signatories anticipate the workshop coming before the
7 Commission or requesting a workshop?

8 **THE WITNESS:** I think that what we've agreed
9 is that we would get with staff and try to figure out
10 what would be the best time given the calendar of the
11 Commission.

12 **CHAIRMAN BROWN:** Not the beginning of the
13 year.

14 **THE WITNESS:** Okay. It will not be at the
15 beginning of the year. But, you know, we'll obviously
16 work with your staff to determine what would be a good
17 time and what would be a good agenda for that workshop.

18 **CHAIRMAN BROWN:** Great. Looking forward to
19 that if this gets approved.

20 And finally there's a provision in the
21 agreement, kind of a catchall on page twenty -- my page,
22 page 24, Section 23, and it provides that nothing in
23 this agreement will preclude FPL from filing and the
24 Commission from approving any new or revised tariff
25 provisions or rates schedules requested by FPL, provided

1 that such tariff request not increase any existing base
2 rate component of a tariff or rate schedule during the
3 term unless the application of such new or revised
4 tariff service rate schedule is optional to FPL's
5 customers.

6 **THE WITNESS:** Yes.

7 **CHAIRMAN BROWN:** And I just kind of want a
8 clarification on the term "optional." Does that mean
9 that the general body of ratepayers would be insulated
10 from cost?

11 **THE WITNESS:** Yes. That we would not have the
12 ability to increase beyond what's already in the
13 agreement any particular rate class their particular
14 rates. We are not precluded, based on this, from
15 offering a new tariff that is optional for people to opt
16 in that may be at a higher rate but provide other
17 benefits. So this just --

18 **CHAIRMAN BROWN:** Could you give us an example
19 of what this -- something that's already been approved,
20 maybe the voluntary solar.

21 **THE WITNESS:** That's a great example of
22 something that is optional for customers, thank you,
23 that people don't have to opt into. It's an extra fee
24 on the bill or a voluntary contribution. And so we
25 would not be precluded from programs like that.

1 **CHAIRMAN BROWN:** Okay.

2 **THE WITNESS:** So everybody -- existing
3 customers are protected, they're limited to the
4 settlement agreement's provisions for rate increases.
5 But, you know, we may find that customers have asked us
6 to provide something that they want to opt into.

7 **CHAIRMAN BROWN:** Okay. And then finally just
8 one last question, a general question on the whole issue
9 here of whether this agreement is in the public
10 interest. Could you kind of provide just some quick
11 snippets of why you think this agreement is in the
12 public interest over the general rate case or just in
13 general why this is in the public interest, the
14 highlights?

15 **THE WITNESS:** Certainly. Well, first and
16 foremost, this resolves all the issues in the rate case
17 and provides for a four-year period where customers are
18 going to know what the base rate increases that they are
19 faced with are going to be over the next four years and
20 that we're not going to be back during that time asking
21 for additional rate relief at levels that are
22 substantially lower than what we felt were necessary and
23 defended, I think, vigorously in the rate proceeding as
24 appropriate. So there is significant savings to
25 customers in the near term.

1 I think over the four-year period, if you kind
2 of accumulate the rate increases that we filed versus
3 what are contained here, it's about \$2 billion less,
4 about half, roughly half of what we had requested, which
5 we, again, we felt was appropriate and also well
6 defended.

7 There are other provisions in here that --
8 like the SoBRA that we've been talking about which
9 provides for additional clean renewable power that has
10 to be proven to be cost-effective. So that means not
11 only are we going to get a renewable resource, zero
12 emission and zero fuel cost resource, but it's going to
13 save customers money over the long term or it won't pass
14 the test of being cost-effective. So that's a great
15 feature of this -- of this agreement. The battery
16 storage pilot we've been talking about allows us to kind
17 of get on the front edge of -- and further understand
18 how the battery technology is going to help our
19 customers long term. And we're not asking customers to
20 pay for that in the near term. We're going to have to
21 find a way to cover the revenue requirements of that
22 program.

23 So -- and there's a lot of puts and takes
24 within this agreement. I think that one thing that --
25 one of the hallmarks of this was not everybody that

1 signed on got everything they wanted, and I think that
2 that's one of the hallmarks of a great agreement is that
3 there was compromise and through a negotiation.

4 So for all those reasons, I think that, you
5 know, looking at it over the next four years and the
6 possibility of it even going longer if we're able to
7 find ways to push out beyond the minimum term, I think
8 that -- I hope you would agree that it's in the public
9 interest.

10 **CHAIRMAN BROWN:** Thank you so much.

11 Commissioners, any other questions?

12 Redirect.

13 **COMMISSIONER EDGAR:** Chairman Brown?

14 **CHAIRMAN BROWN:** Yes, Commissioner Edgar.

15 **COMMISSIONER EDGAR:** Hi. I'm still here. I'm
16 still here talking to you from the ceiling. I do have a
17 couple of questions, if I may.

18 **CHAIRMAN BROWN:** Please take advantage of the
19 time.

20 **COMMISSIONER EDGAR:** Thank you very much. And
21 as is often the case, you, Madam Chair, asked many of
22 the questions that I had, so I only have a couple. But
23 I am kind of intrigued by the battery storage pilot
24 program. And I'm not sure if it was in the question
25 that the Chair asked a few moments ago or, Mr. Barrett,

1 if it was in your response, but one of you referred to
2 the voluntary solar program that FPL operates. Is this
3 battery storage pilot program intended to be a voluntary
4 sign-up program for customers?

5 **THE WITNESS:** No, it's not. We're -- we've
6 said that we're not going to ask for any contribution to
7 the revenue requirements of this program until the next
8 base rate case when it would be part of our rate base
9 that we would be asking for a return on. So there's no
10 extra voluntary contribution that we're asking customers
11 to make.

12 **COMMISSIONER EDGAR:** Okay. And that was one
13 piece of my question. But separate from a contribution,
14 how -- let me back up then.

15 In your testimony at the top of page 11 you
16 say that FPL will deploy 50 megawatts of battery storage
17 technology, and I'm quoting, designed to serve
18 commercial, industrial, and retail customers. So is
19 this one 50-megawatt project that will be designed to
20 serve all three of those categories in one project?

21 **THE WITNESS:** I don't believe that would be
22 the intent. I think in order to maximize the value of
23 this pilot program, we would break it up into meaningful
24 sized investments in batteries for the respective
25 installation. I could imagine, you know, several

1 megawatts maybe being associated with a big industrial
2 or a large retail or, excuse me, a large commercial
3 customer. There may be some at a distribution level
4 down to, you know, maybe less than a megawatt. But this
5 is not intended to be one 50 megawatt installation at
6 one location. We're going to try to maximize the
7 learning we get out of this by doing different sizes in
8 different places on the grid.

9 **COMMISSIONER EDGAR:** Okay. Thank you for that
10 clarification.

11 And I'm -- I find this provision of the
12 settlement agreement particularly intriguing. I mean,
13 there are many provisions that are intriguing. This is
14 one of them.

15 So also in your testimony you state that from
16 this pilot program FPL will be able to gain a better
17 understanding of how battery storage can improve the
18 reliability and efficiency of the system. How will that
19 better understanding be gained? In other words, what
20 type of research, data collection, analysis -- you know,
21 how can this project, in whatever pieces and parts it
22 is, add to greater knowledge of how battery storage can
23 improve reliability and efficiency?

24 **THE WITNESS:** Well, let's let the finance guy
25 put his engineering hat on for a moment. And from what

1 I understand, there may be opportunities to under -- to
2 gain some better understanding of how a battery bank,
3 battery installation or whatever might work on a long
4 radial line, for instance, or in areas where we have a
5 distribution substation or even -- I mean, I guess it
6 could be deployed with solar to see if that could be
7 firmed up since it's an intermittent resource.

8 So there are various different technologies.
9 There could be applications where we're looking to shave
10 the peak or to be able to shift the peak or other places
11 where we're looking to improve from reliability just
12 from a continuous power perspective in certain
13 applications. So there are a number of different kinds
14 of benefits or attributes that batteries might provide,
15 and I think we want to try to explore kind of the
16 portfolio of those benefits best we can.

17 **COMMISSIONER EDGAR:** Yes. But there again how
18 will that data collection, data analysis be obtained? I
19 mean, is it solely an FPL project? Will it be a
20 third-party contractor? Will you bring in outside
21 researchers? I'm just trying to kind of figure out the
22 next steps. And then how the -- how the experience of
23 this project can add to greater understanding ideally
24 for contributing to other projects in the future.

25 **THE WITNESS:** Well, I think principally the

1 analysis and the data analytics around these
2 installations would be in-house within FPL. We have,
3 you know, pretty experienced engineering professionals
4 and quantitative analysts that would be able to look at
5 how the design of these battery installations would play
6 with our system and interact with our system in a way
7 that provides incremental benefit. Again, whether it be
8 improved reliability, energy storage for peak shaving,
9 or, you know, voltage regulation, those kinds of things
10 that the systems operations people look at on a daily
11 basis and they understand how the system operates. And
12 so I would expect that as they begin to collect that
13 data and then can extrapolate the expected benefits from
14 a larger scale deployment, we would bring that forward.
15 But it's going to take a number of years, I would think,
16 to get enough data to really understand what are we
17 getting for the dollars that we're investing.

18 **COMMISSIONER EDGAR:** Yes. And that leads
19 me -- thank you so much -- right into my next question,
20 which I don't see a time period in your testimony. It
21 may be elsewhere within the information that's been
22 supplied. But when does FPL expect this project to be
23 implemented and for what period of years?

24 **THE WITNESS:** Well, it would be -- the best I
25 can say at this point is within the four years. So I

1 would hope that we would be thinking about appropriate
2 installations. We've committed in the agreement to
3 confer with the signatories as to ideas that they might
4 have as well ultimately, you know, us having to decide
5 where on the system it makes the most sense. But in
6 order for it to be a meaningful pilot, there's going to
7 have to be some period of time for us to collect data
8 and be able to report back maybe in the next rate case
9 what we found and was it effective.

10 So I don't have a particular plan in front of
11 me right today. We wanted to kind of get through this
12 process first and find out if this was something the
13 Commission was amenable to, and then we'll put together
14 a plan and work with the counter-parties.

15 **COMMISSIONER EDGAR:** Okay. Well, I certainly
16 look forward to additional information as the project
17 develops.

18 I have one other area that I'd like to ask you
19 a couple of questions about, and this also has been
20 covered in some of the answers you've already given.
21 But I want to be clear on the trigger mechanisms and the
22 process, and that has to do with the storm recovery
23 discussion that is in -- I think it's paragraph 6A and B
24 on page 7 of the settlement agreement.

25 **THE WITNESS:** Okay.

1 **COMMISSIONER EDGAR:** And you have spoken to
2 this already, but I'm trying to make sure that I'm clear
3 on -- I see three different pieces here, the first being
4 the \$4 per 1,000 kilowatt hour over a 12-month period.
5 And then is it correct that if there is a storm
6 expected, as are being analyzed, but the interim costs
7 appear to exceed the amount that would be recovered
8 through that \$4 per 1,000 kilowatt hour 12-month
9 mechanism, if they exceed that amount, then it would
10 roll into another period beyond 12 years (sic), or is
11 that something that would come back to the Commission
12 for review and decision?

13 **THE WITNESS:** Okay. Let me walk through a
14 couple of examples, if that might help us to --

15 **MR. LITCHFIELD:** I apologize for interrupting,
16 but just for the clarity of the record, I think
17 Commissioner Edgar said 12 years and I wonder if she
18 meant 12 months.

19 **CHAIRMAN BROWN:** Commissioner Edgar.

20 **COMMISSIONER EDGAR:** If I said -- yeah, if I
21 said 12 years, that was in error. I did mean \$4 per
22 1,000 kilowatt hours over a 12-month period. And then
23 if it goes beyond that 12-month period, that's my
24 question.

25 **CHAIRMAN BROWN:** Mr. Barrett.

1 **THE WITNESS:** Okay. So the \$4 per 1,000
2 kilowatt hour on a residential bill cap is something
3 that allows us to come within 60 days, once we've
4 depleted the storm reserve, which you heard earlier
5 testimony that it will be depleted as a result of
6 Matthew. And I understand that's part of the 2012
7 agreement, but this is the same mechanism.

8 So if we have an event that wipes out the
9 storm reserve and has storm damage that would not exceed
10 the equivalent of \$4 per 1,000 kilowatt hours, we would,
11 according to the agreement, put that into place in a
12 surcharge within 60 days of filing a petition.

13 Now let's say we had a storm that was, call it
14 \$600 million, which would be above the \$4 cap, we would
15 put the \$4 cap into place within 60 days of making a
16 petition. But the amount that is above what would be
17 collected through that surcharge, we would not be able
18 to come back until the 12 months had expired on the
19 original \$4 with one exception, and that being if we get
20 above \$800 million. If we get above \$800 million, the
21 \$4 initial surcharge can go into effect within 60 days.
22 We can make another petition to this Commission to
23 increase that \$4 to cover the costs that were above what
24 that surcharge was going to collect. So it's meant to
25 cover kind of a catastrophic, kind of an '04, '05 kind

1 of season where we have extraordinary losses and the
2 company's resources would be pretty taxed if it had to
3 wait beyond 12 months to begin recovering that extra
4 amount.

5 So there's this -- you know, below the \$4 is
6 kind of on an interim basis automatic after 60 days, and
7 then it gets reviewed and trued up. Between 4- and the
8 \$800 million, we have to wait for 12 months to expire
9 before we can increase that. Above 800, we can come
10 back and say this is extraordinary and petition you to
11 increase the \$4 charge.

12 **COMMISSIONER EDGAR:** And in that extraordinary
13 situation there would be the potential that then a storm
14 cost recovery amount could be above \$4 a month.

15 **THE WITNESS:** Yes.

16 **COMMISSIONER EDGAR:** Okay. And, again, that
17 would be under the extraordinary circumstances and with
18 additional Commission review.

19 **THE WITNESS:** Yes.

20 **COMMISSIONER EDGAR:** Okay. Thank you.

21 **CHAIRMAN BROWN:** Thank you, Commissioner
22 Edgar.

23 Redirect.

24 **MR. LITCHFIELD:** Yes. Thank you, Madam Chair.
25 Just a couple of questions.

EXAMINATION

1
2 **BY MR. LITCHFIELD:**

3 **Q** Mr. Barrett, you were asked a few questions
4 about paragraph 19 of the agreement on page 23. This is
5 the provision that obliges the signatories to file a
6 joint request with the Commission to hold a pilot DSM
7 management opt-out workshop.

8 **A** Yes.

9 **Q** And my question to you is whether there is
10 anything expressed or implied in the agreement or this
11 provision in particular that requires any party,
12 including FPL, including the Office of Public Counsel,
13 to take a particular position in connection with that
14 workshop.

15 **A** No. This just says that we'll request a
16 workshop.

17 **MR. LITCHFIELD:** Thank you. That's it.

18 **CHAIRMAN BROWN:** All right. Would you like
19 your witness to be excused?

20 **MR. LITCHFIELD:** I'd like him relieved of
21 present duty but reserved for potential rebuttal.

22 **CHAIRMAN BROWN:** Thank you.

23 **MS. BROWNLESS:** And, Madam Chair, I think at
24 this time it would be appropriate for us to move our
25 exhibit into the record because he's the last witness

1 sponsoring.

2 **CHAIRMAN BROWN:** Okay. Excellent. Seeing no
3 objections to 812, I will go ahead and move 812 into the
4 record.

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

6 (Exhibit 812 admitted into the record.)

7 **CHAIRMAN BROWN:** All right. Mr. Barrett, we
8 may see you later.

9 **THE WITNESS:** Thank you.

10 **CHAIRMAN BROWN:** So here's what we're going to
11 do. I'm going to go ahead -- we're almost at the
12 two-hour mark, but we're going to go ahead and take the
13 intervenor witness, AARP, Mr. Brosch, and have AARP
14 first ask direct questions. And then we'll take a break
15 and have a brief lunch break so that the parties can go
16 ahead and prepare potential questions since this is a
17 live proceeding and Mr. Brosch does not have any
18 prefiled testimony. A little unconventional for us, but
19 we are working with it. And since Mr. Brosch does not
20 have any prefiled testimony, I assume that you're -- he
21 does not have a summary and he'll go right into --
22 you'll go right into questions.

23 **MR. McRAY:** Directly into questions and
24 responses.

25 **CHAIRMAN BROWN:** Okay. Sounds good. And you

1 have the floor.

2 **MR. McRAY:** All right. Thank you. Thank you,
3 Madam Chairman.

4 At this time we would request that Michael
5 Brosch approach -- come to the witness stand. He's
6 there.

7 Whereupon,

8 **MICHAEL L. BROSCH**

9 was called as a witness on behalf of AARP and, having
10 first been duly sworn, testified as follows:

11 **EXAMINATION**

12 **BY MR. McRAY:**

13 **Q** All right. Mr. Brosch, were you sworn in as a
14 witness this morning along with other witnesses?

15 **A** Yes, sir.

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

18 **A** Michael L. Brosch, P.O. Box 481934, Kansas
19 City, Missouri.

20 **Q** Are you the same Michael L. Brosch who
21 previously submitted direct testimony and supporting
22 exhibits in this proceeding, the general rate case, that
23 were identified as AARP Exhibits 1.0 through MLB-1.6?

24 **A** Yes, and I appeared and testified in the
25 previous hearings on this matter.

1 **CHAIRMAN BROWN:** Thank you. Mr. McRay, can I
2 just ask you to speak up a little bit into the mic so
3 that everyone can hear? Many thanks.

4 **MR. McRAY:** Yes. All right. Thank you. I
5 will try.

6 **CHAIRMAN BROWN:** Okay.

7 **BY MR. McRAY:**

8 **Q** Mr. Brosch, have you reviewed the
9 non-unanimous stipulation and settlement and the related
10 exhibits that were filed in this docket on October the
11 6th of 2016?

12 **A** Yes. I will refer to that filing as simply
13 the stipulation throughout my testimony.

14 **Q** Have you also reviewed the supplemental
15 testimony of FPL witnesses Barrett, Cohen, Ferguson, and
16 Forrest that was filed in support of the stipulation in
17 this docket on October the 13th of 2016?

18 **A** Yes.

19 **Q** Based upon your review of the stipulation and
20 the supportive testimony of FPL's witnesses, what
21 overall conclusion or conclusions have you reached about
22 the stipulation?

23 **A** My testimony today will explain why the
24 stipulation is contrary to the filed evidence in this
25 docket, is harmful to ratepayers of FPL, is not

1 consistent with the public interest, will not produce
2 just and reasonable rates, and therefore should be
3 rejected by the Commission.

4 The stipulation provides for somewhat lower
5 base rate increases than FPL asked for in this rate
6 case, but then, in paragraph 12, offsets these rate
7 increase savings by permitting FPL to record negative
8 depreciation expense -- excuse me -- depreciation
9 reserve amortization amounts and reduced annual
10 depreciation expense that will increase rate base at the
11 end of the term of the stipulation by potentially much
12 more than \$1 billion.

13 It doesn't appear that FPL has compromised
14 anything financially in the stipulation relative to its
15 filed rate case positions. Under the stipulation, the
16 company is assured of stronger financial performance
17 than could ever be secured under traditional rate
18 regulation, all at customers' expense.

19 **Q** What action do you urge the Commission to take
20 at this time?

21 **A** Instead of approving the multiyear rate plan
22 set forth in the stipulation, the Commission should
23 approve a single 2017 base rate change based upon the
24 evidence submitted in this docket for that single test
25 year. I will focus my testimony at this time on only

1 the portions of the stipulation having the most
2 important impacts upon FPL's residential ratepayers.

3 **Q** Mr. Brosch, what base rate increases are
4 provided for in the stipulation?

5 **A** The stipulation provides for several large
6 base rate increases that are specified at paragraphs 4,
7 9, and 10 and that include 400 million of higher base
8 rates effective January 1, 2017, plus 211 million of
9 additional base rate increases effective January 1,
10 2018, plus an estimated further incremental base rate
11 increase of approximately 200 million effective upon
12 commercial service of the Okeechobee unit in 2019, plus
13 unspecified additional base rate increases during the
14 term of the stipulation through a new solar base rate
15 adjustment mechanism.

16 **Q** Is there evidence in the record of this docket
17 that FPL's base revenues should be reduced in 2017 and
18 then not increased in any subsequent years in stark
19 contrast to the stipulated base rate increases?

20 **A** Yes. My direct testimony recommended
21 reductions in FPL's rate of return and equity ratio that
22 would have significantly reduced the company's proposed
23 2017 rate increase. I understand that the Office of
24 Public Counsel and other parties have proposed similarly
25 large downward adjustments to the company's asserted

1 revenue requirement. For example, the Office of Public
2 Counsel, in its post-hearing brief, recommended a 2017
3 base rate reduction of \$327 million and then no rate
4 increases for FPL in 2018 or thereafter.

5 **Q** Does the stipulation adopt any of the rate
6 base or operating income adjustments that were proposed
7 by the Office of Public Counsel or the other parties to
8 this proceeding during the general rate hearing?

9 **A** No. Paragraph 2 of the stipulation has the
10 parties agreeing to FPL's position on all of the, quote,
11 adjustments to rate base, net operating income, and cost
12 of capital set forth in FPL's minimum filing
13 requirements, MFR Schedules B2, C1, C3, and D1A, as
14 revised by the filed notices of identified adjustments,
15 end quote, where only the company's calculations and
16 none of the other parties' adjustments are, quote,
17 deemed approved for accounting and regulatory reporting
18 purposes, end quote.

19 This provision effectively eliminates the
20 ratemaking adjustments that were proposed by the parties
21 other than FPL in all future monthly earnings
22 surveillance reporting, resulting in potentially
23 significant understatement of FPL's actual adjusted
24 earnings used to administer the stipulation.

25 **Q** Does the stipulation adopt any of the much

1 lower return on equity, equity ratio, or overall cost of
2 capital recommendations that were advocated by you and
3 other parties besides FPL in the general rate record of
4 this proceeding?

5 **A** No. The Schedule D1A I just referenced would
6 lock in FPL's excessive common equity ratio of nearly
7 60 percent of financial capital that I explained in my
8 direct testimony is excessive and unreasonably costly to
9 ratepayers. To make matters worse, FPL's thick equity
10 ratio adopted in the stipulation would then be applied
11 to an authorized return on equity of up to 11.6 percent
12 in paragraphs 3 and 12C, which exceeds the upper end of
13 the company's own witness, Mr. Hevert's recommended
14 range of returns, and vastly exceeds the recommendations
15 of other witnesses addressing this issue in testimony.

16 For example, Dr. Woolridge for OPC recommended
17 utilizing an 8.75 percent ROE; South Florida Hospital's
18 witness Baudino recommended a 9.0 percent ROE; and
19 Witness Gorman, appearing on behalf of the Federal
20 Executive Agencies, recommended an ROE of 9.25 percent.

21 **Q** Mr. Brosch, have FPL's witnesses or any of the
22 other signatories to the stipulation submitted any
23 credible financial forecast evidence to demonstrate that
24 FPL actually needs the large base rate increases that
25 are proposed within the stipulation throughout the next

1 four years?

2 **A** No. The company-filed MFR schedules reflect
3 its financial forecast results for the 2017 test year
4 and for a 2018 subsequent year, but no financial
5 forecast data was filed by FPL or made available to the
6 Commission, its staff, or other parties in support of
7 any amounts of rate relief after calendar 2018. There
8 is simply no evidence to prove that FPL has any real
9 financial need for the agreed upon rate increases and
10 other stipulated relief to provide FPL a reasonable
11 opportunity to earn a fair return on its capital in each
12 year covered by the stipulation.

13 **Q** Would approval of the stipulation expose
14 ratepayers to considerable risk of excessive increases
15 in base rate levels?

16 **A** Yes. As I explained in my earlier filed
17 direct testimony, the uncertainties inherent in
18 attempting to accurately forecast electric sales
19 volumes, capital market conditions, utility expense
20 levels, and rate base investments more than 24 months
21 into the future when coupled with the unavoidable
22 management bias in developing such ratemaking forecasts
23 dictates that speculative multiyear financial forecasts
24 not be relied upon as support for large utility rate
25 increases stretching into 2020. The risks to ratepayers

1 that the stacked multiyear base rate increases within
2 the stipulation will prove excessive argue against its
3 approval by the Commission. Instead of a multiyear
4 approach, if and when changes in FPL's future cost and
5 revenue levels actually demonstrate the need for any
6 base rate increases after 2017, the company can submit a
7 future base rate case application to justify such
8 increases.

9 **Q** Has this Commission previously rejected
10 subsequent year base rate increases and generation base
11 rate adjustments that were proposed by FPL in Docket
12 No. 080677-EI for the same reasons that you recommend
13 rejection of the stipulated multiyear rate increases
14 today?

15 **A** Yes. This was explained in my direct
16 testimony with quotations from the Commission's Order
17 No. PSC-10-0153-FOF-EI in that docket you referenced.

18 **Q** Has FPL provided any evidence providing a
19 financial need for the additional base rate increases
20 within the stipulation that provide targeted cost
21 recovery for the Okeechobee unit or for new solar
22 generating facilities?

23 **A** No. This is an alarming omission because of
24 the distinct possibility that continuing growth in FPL's
25 future energy sales may yield significant new revenues

1 that could partially or fully pay for the cost of such
2 new generation. Additionally, if any of the company's
3 future expenses decline as a result of FPL's widely
4 touted efficiency measures or NextEra's pending
5 acquisition of Oncor in Texas, such cost savings would
6 also be available to offset the incremental cost of new
7 generating resources. There is simply no way to
8 accurately determine the company's actual financial
9 needs for four years into the future. However, the
10 stipulation simply assumes that an overall financial
11 need for such higher rates will exist and then obligates
12 ratepayers to pay higher base rates for new Okeechobee
13 and solar generation without regard to FPL's other
14 changing revenues and costs at that time.

15 **Q** Mr. Brosch, does the stipulation include any
16 provisions that could reduce the burden upon ratepayers
17 arising from FPL's many existing tariff surcharges to
18 track and recover changes in fuel cost, capacity
19 charges, environmental costs, conservation charges, or
20 storm costs?

21 **A** No. FPL's existing fuel adjustment mechanism
22 and other surcharge mechanisms are not restricted by the
23 terms of the stipulation. In fact, paragraph 7 opens
24 the door to additional new surcharges to customers for
25 any new government imposed, quote, requirements on FPL,

1 end quote, that are only vaguely defined in the
2 stipulation and that would further burden ratepayers if
3 implemented.

4 **Q** Returning to the return on equity issue for
5 just a moment, what return on equity can be achieved by
6 FPL under the terms of the stipulation?

7 **A** The stipulation virtually assures that FPL
8 will earn at or near 11.6 percent return on equity
9 capital in every year of the stipulation's term. This
10 is a quite excessive result and is inconsistent with the
11 level and direction of ROE levels authorized by other
12 regulators across the country.

13 Under the stipulation, the company is allowed,
14 in its sole discretion, to charge future ratepayers more
15 depreciation and return on rate base after 2020 to
16 ensure 11.6 percent ROE levels are consistently achieved
17 during the term of the stipulation.

18 **Q** How does the stipulation provide assurance
19 that FPL will earn up to 11.6 percent ROE levels?

20 **A** At paragraph 12 of the stipulation, FPL is
21 provided earnings assurance via the 1.07 billion of,
22 quote, theoretical depreciation reserve surplus, end
23 quote. That is specified to be amortized in amounts,
24 quote, to be amortized in each year of the term left to
25 FPL's discretion, end quote, subject generally to

1 maintaining FPL's earned ROE at least 9.6 percent and
2 not exceeding 11.6 percent in each year. The company
3 can be expected to use this discretion over this
4 theoretical reserve amortization process to manage its
5 reported earnings at the top of the permitted earnings
6 range in order to maximize profits for its shareholders.
7 Unfortunately, this large benefit to shareholders during
8 the stipulation term translates into similarly large
9 incremental cost to ratepayers after 2020.

10 **Q** What is a theoretical -- what is, quote, a
11 theoretical depression -- excuse me -- theoretical
12 depreciation reserve surplus, quote?

13 **A** The depreciation reserve on the utility's
14 books represents the cumulative amount of utility plant
15 investment that has been paid back by ratepayers through
16 the recovery of depreciation expense within electric
17 rates. Any theoretical surplus in the depreciation
18 reserve balance means that the cumulative recoveries of
19 depreciation from customers to date has been excessive
20 relative to that balance that is needed in the
21 depreciation reserve account at a particular point in
22 time. This result could occur because FPL's existing
23 plant in service is lasting longer than was previously
24 anticipated or because past depreciation expense
25 collections from customers through their electric rates

1 were excessive. Regardless of the causes, the important
2 point to be understood is that the depreciation reserve
3 is a credit balance that reduces FPL's rate base in
4 order to recognize the accumulated depreciation reserve
5 that has been paid for by FPL's customers.

6 **Q** What does the stipulation direct FPL to do
7 with these ratepayer-provided funds?

8 **A** The stipulation transfers the theoretical
9 depreciation reserve amount to the sole benefit of FPL's
10 shareholders as a pool of dollars that can be amortized
11 to increase earnings during the term of the stipulation.
12 A designated amount of these ratepayer-provided funds
13 exceeding 1 billion is specified in paragraph 12 that,
14 if fully employed to increase FPL's achieved earnings to
15 11.6 percent each year at the company's discretion,
16 would eventually increase rate base by more than
17 1 billion starting in 2021. Then in all subsequent rate
18 cases, ratepayers would be required to pay a return on
19 rate base increased by over 1 billion and would be
20 forced to again pay depreciation expense to recover this
21 investment a second time.

22 **Q** Could you provide an example of this
23 depreciation reserve amortization procedure to make it
24 easier to understand?

25 **A** I'll try. It's reasonable to think of

1 electric utilities as being continuously involved in the
2 construction business, constantly adding new utility
3 plant to replace, expand, and upgrade facilities.
4 Utility base rates are designed to recover the principal
5 amount of the utility's plant investments through
6 depreciation expense, along with interest on the unpaid
7 or undepreciated balance in the form of a return on rate
8 base.

9 An analog to illustrate this could be a
10 typical home mortgage where you pay principal and
11 interest to the return -- to return -- you pay principal
12 and interest to return the amount originally invested in
13 your house along with interest on the unpaid balance to
14 a lender. The stipulation at paragraph 12 would allow
15 FPL to reverse and amortize the cumulative balance of
16 depreciation that has been previously recovered from
17 ratepayers on a discretionary basis. This would be like
18 letting your mortgage lender adjust the amount you owe
19 on your mortgage in his discretion to ensure the bank's
20 earnings never fall below 11.6 percent return on equity.

21 Four years from now under the stipulation at
22 paragraph 12, FPL will tell ratepayers how much more
23 they owe in higher depreciation and return on rate base
24 charges because some of the depreciation reserve surplus
25 previously collected from ratepayers will have been

1 spent to prop up utility earnings to an 11.6 percent
2 achieved ROE.

3 **Q** If the depreciation reserve surplus
4 amortization authority of more than \$1 billion were to
5 be used by FPL to avoid higher near-term cash rate
6 increases, would ratepayers be better off?

7 **A** No. Ratepayers would actually be better off
8 with an accurate determination of FPL's truly needed
9 2017 base rate increase and with periodic future
10 redetermination of the utility's actual financial needs
11 based upon evidence presented in rate cases when they
12 are needed.

13 In contrast, the stipulation provides FPL an
14 easy path toward consistently earning 11.6 percent
15 equity returns with minimal regulatory oversight and
16 with no need to operate efficiently in order to earn
17 such extraordinary high returns.

18 **Q** Would the discretion granted to FPL to
19 amortize the depreciation reserve surplus provide any
20 incentive for management efficiency?

21 **A** No. Any incentive for management efficiency
22 is largely destroyed by the permitted depreciation
23 reserve amortization provision in the stipulation.
24 Unplanned increases in FPL's cost to provide service
25 will have no detrimental impact upon FPL's shareholders

1 under the stipulation because higher costs can be offset
2 by ever larger amounts of depreciation reserve
3 amortizations to ensure that earnings stay near
4 11.6 percent ROE levels each year.

5 **Q** Does the stipulation also reduce annual
6 depreciation expense accruals in a fixed amount that
7 will improve FPL's earnings during the term of the
8 stipulation while further adding to revenue requirements
9 after 2020?

10 **A** Yes. In addition to the depreciation reserve
11 surplus amortizations of more than 1 billion that can be
12 used at FPL's discretion to maintain its earnings at
13 11.6 ROE, paragraph 12B reduces depreciation accrual
14 rates and annual depreciation expense by another
15 125.8 million per year. This provision will increase
16 jurisdictional rate base by more than 500 million over
17 the four-year term, obligating ratepayers to even higher
18 depreciation expense and return on rate base for that
19 amount over many subsequent years.

20 **Q** Mr. Barrett's testimony claims that the
21 stipulation provides a high -- provides a, quote, high
22 degree of base rate certainty to all parties and FPL
23 customers for a fixed term of four years, end quote.
24 Does the stipulation provide any enforceable rate case
25 moratorium to protect ratepayers?

1 **A** No. If the series of multiple base rate
2 increases in paragraphs 4, 9, and 10, coupled with the
3 discretionary depreciation amortization credits
4 exceeding \$1 billion available from paragraph 12C and
5 with the annual depreciation expense reductions
6 exceeding 125 million in paragraph 12B, ultimately prove
7 insufficient to prevent FPL's earnings from falling
8 below 9.6 percent return on equity in any year, the
9 company is allowed, under paragraph 11, to petition for
10 a base rate increase or other needed relief. Thus, FPL
11 assumes no significant risk to its future earnings and
12 has the opportunity to abandon the stipulation within
13 its four-year term if costs grow faster than revenues
14 and reduce the company's achieved return levels.

15 **Q** Does the stipulation shift more of the
16 proposed rate increases in paragraph 4 to the
17 residential customer class than was initially proposed
18 by FPL in its general rate filings?

19 **A** Yes. Schedule E5 in the company's filed MFRs
20 initially showed about 53 percent of the base rate
21 increases in 2017 and 2018 assigned to the residential
22 customer class. In contrast, the stipulation Exhibit A
23 now shows more than 65 percent of the proposed 2017 and
24 2018 base rate increase being assigned to the
25 residential class.

1 Paragraph 4F of the stipulation refers to a,
2 quote, negotiated methodology for allocating
3 distribution plant, end quote, and the Commission's
4 traditional gradualism test, but provides no details
5 about how the larger share of rate increases now
6 attributed to the residential customers was derived or
7 why this change is reasonable.

8 Q Mr. Brosch, does this conclude your testimony
9 at this time?

10 A Yes.

11 CHAIRMAN BROWN: Thank you very much,
12 Mr. McRay. We are at close to 11:45, and I think it
13 would be great to take about a 30-minute break, maybe
14 grab something to eat before we get to cross. Does that
15 sound reasonable to everyone?

16 MR. LITCHFIELD: We -- that's reasonable to
17 us. The alternative is that we take a longer break and
18 commit to do whatever cross we need to do and whatever
19 rebuttal we need to do back to back without a subsequent
20 break. But we can work with either scenario.

21 CHAIRMAN BROWN: Staff, I think that sounds
22 good. So what would you propose for a lunch break?

23 MR. LITCHFIELD: 1:00.

24 CHAIRMAN BROWN: Yeah. Okay. So we will
25 reconvene at 1:00. I hope you all have a good lunch.

1 Enjoy.

2 (Recess taken.)

3 **CHAIRMAN BROWN:** Thank you very much. I hope
4 everyone had a nice lunch break.

5 All right. And we are on Mr. Brosch --
6 Broe-sch? Brah-sch?

7 **THE WITNESS:** Brah-sch, now.

8 **CHAIRMAN BROWN:** Thank you. It's now Brosch.
9 And Florida Power & Light, you have the floor
10 with cross.

11 **MR. LITCHFIELD:** Thank you, Madam Chair. We
12 have no cross for Mr. Brosch.

13 **CHAIRMAN BROWN:** Well, that was a very healthy
14 one-hour break.

15 (Laughter.)

16 **MR. LITCHFIELD:** We had pages and pages. And
17 ultimately, we -- we decided not to ask them. Thank
18 you. It was helpful, though, to -- to think through.

19 **CHAIRMAN BROWN:** Okay. Great.

20 Office of Public Counsel.

21 **MR. REHWINKEL:** Madam Chairman, thank you for
22 the additional time. The Public Counsel's office has
23 considered cross, but given the testimony we've heard in
24 this docket, both before and today, we think it's fairly
25 reflective of the give-and-take and compromise that goes

1 into this settlement. So, we have decided not to ask
2 any questions. Thank you.

3 **CHAIRMAN BROWN:** Thank you, Mr. Rehwinkel.
4 Hospitals.

5 **MR. SUNDBACK:** No questions, Madam Chair.

6 **CHAIRMAN BROWN:** Thank you.
7 Retail Federation.

8 **MR. WRIGHT:** No questions, Madam Chair. Thank
9 you.

10 **CHAIRMAN BROWN:** Thank you.

11 There will be no friendly cross. So, I don't
12 even need to go to the other non-signatories.

13 Staff?

14 **MS. BROWNLESS:** No, ma'am. Thank you.

15 **CHAIRMAN BROWN:** Commissioners.

16 (No response.)

17 **CHAIRMAN BROWN:** All right. And so, there is
18 no redirect.

19 I assume you would like your witness excused?

20 **MR. McRAY:** Thank you very much. That's
21 correct.

22 **CHAIRMAN BROWN:** Okay. And there's no
23 exhibits for this witness.

24 Thank you, Mr. Brosch, for coming.

25 **THE WITNESS:** My pleasure. Thank you.

1 **CHAIRMAN BROWN:** All right. Now, we are on to
2 rebuttal.

3 **MR. LITCHFIELD:** And FPL would ask to call
4 Mr. Barrett as a lone rebuttal witness.

5 **CHAIRMAN BROWN:** Okay. Mr. Barrett.

6 And just so you're aware, since there's no
7 prefiled testimony -- I'm sure you're aware -- you will
8 be allowed an opportunity to ask direct questions of
9 Mr. Barrett prior to allowing the others to cross.

10 **MR. LITCHFIELD:** Yes, thank you.

11 Whereupon,

Robert *LB*
MICHAEL E. BARRETT, JR.

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

16 **EXAMINATION**

17 **BY MR. LITCHFIELD:**

18 **Q** Mr. Barrett, you're still under oath from this
19 morning.

20 **A** Yes.

21 **Q** And you were present during the time that
22 Mr. Brosch offered his direct testimony in live form
23 here today?

24 **A** I was.

25 **Q** And Mr. Brosch was somewhat disparaging of the

1 company's incentive to continue to look for efficiency
2 improvements during the term of the proposed settlement
3 agreement. Do you recall hearing that testimony?

4 **A** I do.

5 **Q** Would you please respond to that.

6 **A** Yes, I would. Frankly, I found it a little
7 bit offensive that he would make those comments
8 regarding our incentive to continue to improve the
9 business. And I guess, upon reflection, it just shows
10 that he doesn't really know much about our company and
11 culture.

12 We have a proven track record of looking for
13 cost-improvement opportunities. In fact, if we look
14 back just over the last four years, where we've been
15 under a settlement agreement that's very similar to this
16 one in terms of a range of ROE and reserve amortization
17 mechanism, we have substantially improved our cost
18 position to the benefit of customers. In fact, the 2017
19 O&M that is in our test year is lower than our 2010 O&M.

20 So, despite the comments that we heard earlier
21 regarding kind of gutting the incentive for us to
22 continue to improve the business -- that's just patently
23 not true. And it's -- our track record would prove
24 otherwise.

25 The settlement agreement, itself -- this four-

1 year term provides a period of time where we can really
2 focus on running the business, allowing this reserve
3 mechanism to offset some of the fluctuations in the
4 business. And we've demonstrated that we can do that.

5 **Q** Does FPL expect to continue -- during the term
6 of this proposed settlement agreement, if approved --
7 continue looking for ways to improve the way it delivers
8 services and find efficiencies?

9 **A** Absolutely. I would fully expect that, over
10 the next four years, we're going to continue to look for
11 opportunities to increase our efficiency and improve
12 productivity in the business.

13 **MR. LITCHFIELD:** Madam Chair, those are the
14 only questions I have for Mr. Barrett.

15 **CHAIRMAN BROWN:** Okay. Thank you.

16 And I just want to confirm that we've got
17 Commissioner Edgar with us. Yes? Okay. Thank you.

18 All right. Moving on to cross -- AARP, any
19 cross?

20 **MR. McRAY:** No questions.

21 **CHAIRMAN BROWN:** Okay.

22 FIPUG?

23 **MS. MOYLE:** No questions.

24 **CHAIRMAN BROWN:** Walmart?

25 **MS. EATON:** No questions.

1 **CHAIRMAN BROWN:** Sierra Club.

2 **MS. CSANK:** No questions.

3 **CHAIRMAN BROWN:** FEA.

4 **MAJOR UNSICKER:** No questions.

5 **CHAIRMAN BROWN:** Staff.

6 **MS. BROWNLESS:** No, ma'am. No, thank you.

7 **CHAIRMAN BROWN:** Commissioners.

8 (No response.)

9 **CHAIRMAN BROWN:** Okay.

10 **COMMISSIONER EDGAR:** No questions.

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

13 All right. Florida Power & Light -- I'm --
14 yes, Florida Power & Light.

15 **MR. LITCHFIELD:** Then, we would ask that --
16 right. Mr. Butler reminds me we have no redirect.

17 (Laughter.)

18 **MR. LITCHFIELD:** We would ask that
19 Mr. Barrett, then, be excused.

20 **CHAIRMAN BROWN:** Okay. Mr. Barrett, you are
21 excused.

22 **MR. LITCHFIELD:** And --

23 **THE WITNESS:** Thank you.

24 **MR. LITCHFIELD:** Yes, thank you.

25 And our other three witnesses, who were --

1 were in waiting, but were not necessary to be called
2 upon.

3 **CHAIRMAN BROWN:** All of the other witnesses
4 may be excused.

5 (Phone ringing.)

6 **CHAIRMAN BROWN:** Could you mute that? I think
7 it's coming from the wall -- the ceiling. All right.
8 Thank you.

9 Okay. That concludes the -- all of the
10 witnesses in this proceeding right now. So, we're going
11 to move on to concluding matters.

12 And would any of the parties like to file
13 briefs in this?

14 AARP.

15 **MR. McRAY:** AARP would reserve the right to
16 file.

17 **CHAIRMAN BROWN:** Okay. Any other parties?
18 Sierra?

19 **MS. CSANK:** Sierra Club would also reserve the
20 right.

21 **CHAIRMAN BROWN:** Thank you.

22 **MR. LITCHFIELD:** May I ask a clarifying
23 question, though? Reserving the right sounds like they
24 might file a brief. I think it would be helpful to know
25 whether they, in fact, do intend to or do not intend to.

1 That, obviously, would affect what we will do.

2 **CHAIRMAN BROWN:** Okay. So, I will also first
3 note that, if the parties do desire to file briefs,
4 briefs will be due on November 10th and, of course,
5 shall not exceed 40 pages, pursuant to the second
6 pre-hearing officer [sic]. So, just letting that
7 know -- first, can I get confirmation if AARP intends to
8 file a brief?

9 **MR. McRAY:** We intend to file a brief.

10 **CHAIRMAN BROWN:** Okay. Again, your mic is
11 off --

12 **MR. McRAY:** Okay. Sorry.

13 Yes, AARP intends to file a brief.

14 **CHAIRMAN BROWN:** Okay. Thank you.

15 And Sierra.

16 **MS. CSANK:** Sierra Club does not have a
17 definitive plan whether or not to file a brief and,
18 thus, reserves the right to do so.

19 **CHAIRMAN BROWN:** Okay. All right. So, at
20 least one party here is filing a brief.

21 So, again, should parties, then, wish to file
22 briefs, they are due on November 10th and shall not
23 exceed 40 pages. All of it is laid out in the second
24 pre-hearing order.

25 The post-hearing special agenda is scheduled

1 for Tuesday, November 29th. And we will take up this
2 item at this -- at that time.

3 Parties, are there any other additional
4 matters to be addressed? Any other additional matters?

5 Mr. Rehwinkel.

6 **MR. REHWINKEL:** We just want to make sure, at
7 this point, now, the evidentiary record is closed; is
8 that correct?

9 **CHAIRMAN BROWN:** Staff.

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

11 **CHAIRMAN BROWN:** That is confirmed.

12 Staff, are there any other additional matters
13 to be addressed?

14 **MS. BROWNLESS:** No, ma'am, not at this time.

15 **CHAIRMAN BROWN:** Okay. So, it looks like the
16 sequel is concluded for this -- at this time.

17 So, Commissioners, any other comments?
18 Closing remarks?

19 Commissioner Graham.

20 **COMMISSIONER GRAHAM:** I just have to tell
21 Mr. Rehwinkel, he scared me when he asked that question.
22 I remember the last time he asked that question.

23 **MR. REHWINKEL:** I was just trying to cut
24 myself off.

25 (Laughter.)

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CHAIRMAN BROWN: All right. Seeing no additional matters, this hearing is adjourned.

Thank you. Safe travels.

(Hearing concluded at 1:12 p.m.)

1 STATE OF FLORIDA)
2 COUNTY OF LEON)

CERTIFICATE OF REPORTER

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WE, LINDA BOLES, CRR, RPR, Official Commission Reporter, and ANDREA KOMARIDIS, Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that we stenographically reported the said proceedings; that the same has been transcribed under our direct supervision; and that this transcript constitutes a true transcription of our notes of said proceedings.

WE FURTHER CERTIFY that we are not a relative, employee, attorney, or counsel of any of the parties, nor are we a relative or employee of any of the parties' attorney or counsel connected with the action, nor are we financially interested in the action.

DATED THIS 2nd day of November, 2016.

Linda Boles
LINDA BOLES, CRR, RPR
FPSC Official Hearings
Reporter
(850)413-6734

Andrea Komaridis
ANDREA KOMARIDIS
NOTARY PUBLIC
COMMISSION #EE866180
EXPIRES FEBRUARY 09, 2017
(850)894-0828