

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of) Docket No. 20170123-EI
arrangement to mitigate unfavorable)
impact of St. Johns River Power Park,)
by Florida Power & Light Company.) Filed: July 21, 2017
_____)

DIRECT TESTIMONY

OF

PATRICIA W. MERCHANT, CPA

On Behalf of the Citizens of the State of Florida

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DIRECT TESTIMONY

OF

PATRICIA W. MERCHANT, CPA

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 20170123-EI

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Patricia W. Merchant. My business address is 111 West Madison Street, Room 812, Tallahassee, Florida, 32399-1400.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed as a Chief Legislative Analyst with the Office of Public Counsel (OPC). I began my employment with OPC in March, 2005. I am also a Certified Public Accountant licensed in the State of Florida.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. In 1981, I received a Bachelor of Science degree with a major in accounting from Florida State University. In that same year, I was employed by the Florida Public Service Commission (PSC) as an auditor in the Division of Auditing and Financial Analysis. In 1983, I joined the PSC's Division of Water and Sewer as an analyst in the Bureau of Accounting. From May, 1989 to February, 2005 I was a regulatory

1 supervisor in the Division of Water and Wastewater which evolved into the
2 Division of Economic Regulation.

3

4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC**
5 **SERVICE COMMISSION?**

6 A. Yes, I have testified numerous times before the PSC as an expert witness. I have
7 also testified before the Division of Administrative Hearings as an expert witness.

8

9 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS CASE?**

10 A. Yes. I am sponsoring Exhibit PWM-1, a summary of my regulatory experience and
11 qualifications, which is attached to my testimony.

12

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?**

14 A. I am providing testimony regarding the appropriate time frame to begin the
15 amortization of the Early Retirement Regulatory Asset and the Asset Transfer
16 Regulatory Asset that results from the early abandonment of FPL's investment in
17 the St. Johns River Power Plant (SJRPP).

18

19 **Q. PLEASE DESCRIBE THE ITEMS THAT FPL HAS REQUESTED TO BE**
20 **RECOVERED IN ITS PETITION FOR APPROVAL OF ARRANGEMENT**
21 **TO MITIGATE UNFAVORABLE IMPACT OF SJRPP.**

22 A. First, FPL has requested that the following regulatory assets and liabilities be
23 recovered over 46 months beginning when the plant is retired from service as of
24 January 1, 2018:

25 1. Regulatory Asset -SJRPP Shutdown Payment - \$90.4 million

- 1 2. Other regulatory liability -SJRPP Suspension Liability (\$9.9 million
2 Refund to customers)
- 3 3. Other regulatory liability -SJRPP Deferred Interest (\$12.4 million
4 Refund to Customers)
- 5 4. Other regulatory liability -SJRPP Article 8 PPA Dismantlement
6 Accrual (\$39.9 Refund to Customers)

7 According to FPL witness Keith Ferguson, on page 4, lines 16-19, the 46-month
8 recovery period for the four items above was chosen based on the remaining four-
9 year term of the Article 8 in FPL's Purchased Power Agreement (PPA) with
10 Jacksonville Electric Authority (JEA).

11

12 **Q. DO YOU AGREE WITH THE REQUESTED 46-MONTH**
13 **AMORTIZATION PERIOD AND THE RECOVERY METHOD FOR THE**
14 **FIRST FOUR ITEMS LISTED ABOVE?**

15 A. Yes. I believe that a 46 month amortization period is appropriate as these items
16 relate to the JEA PPA and this remaining time is consistent with the expiration of
17 the PPA.

18

19 **Q. PLEASE DESCRIBE FPL'S REQUESTED RECOVERY OF THE**
20 **REMAINING FUEL INVENTORY.**

21 A. FPL has requested that the \$1.3 million in FPL's share of the estimated remaining
22 fuel inventory be charged as a one-time charge to the Fuel Clause beginning
23 January 1, 2018. See page 15, lines 1-7 of Mr. Ferguson's direct testimony. I agree
24 with this accounting treatment, assuming that it is appropriate to impose these costs

1 on customers. I have no opinion as to the propriety of asking customers to pay this
2 cost.

3

4 **Q. PLEASE DESCRIBE FPL'S REQUESTED RECOVERY OF THE EARLY**
5 **RETIREMENT AND THE ASSET TRANSFER REGULATORY ASSETS?**

6 A. FPL has requested that the Early Retirement Regulatory Asset (\$186.6 million) and
7 the Asset Transfer Regulatory Asset (\$3.0 million) be deferred in 2018 with a
8 proposed ten-year amortization period. This amortization period, according to Mr.
9 Ferguson, is consistent with the capital recovery schedules approved by the
10 Commission in the last rate case. Further, FPL has requested that amortization
11 begin when FPL's base rates are next adjusted in a general base rate case.
12 According to Mr. Ferguson¹, pursuant to the terms of FPL's current base rate case
13 settlement, FPL does not expect base rates to be increased earlier than January 1,
14 2021.

15

16 **Q. DO YOU AGREE WITH THE REQUESTED 10-YEAR AMORTIZATION**
17 **PERIOD?**

18 A. Yes, the 10-year amortization period appears reasonable.

19

20 **Q. DO YOU AGREE WITH FPL'S REQUEST TO DEFER AMORTIZATION**
21 **UNTIL FPL'S BASE RATE ARE NEXT ADJUSTED?**

22 A. No, I do not. First, there is no requirement that FPL file for a base rate increase at
23 the end of the settlement period. If FPL chooses to delay filing a rate case in 2020,
24 there is no certain time when the amortization will begin. Further, it is appropriate,

¹ Ferguson Direct Testimony, page 8, lines 11-16.

1 under sound regulatory policies, to start the amortization at the time the asset is
2 retired. This is similar to the accounting/ratemaking policy of beginning
3 depreciation expense the month a plant is placed into service. Consistent with the
4 amortization of the costs associated with retiring the JEA PPA, the amortization of
5 FPL's unrecovered investment in the early retirement should begin January 1, 2018.

6
7 **Q. ARE FPL'S BASE RATE EARNINGS PROJECTED TO BE SUFFICIENT**
8 **TO RECOVER THE RETURN AND AMORTIZATION EXPENSE IF**
9 **AMORTIZATION IS BEGUN IN 2018 WHEN THE PLANT IS RETIRED?**

10 A. Yes. According to FPL's response to OPC's Interrogatory No. 6, considering the
11 \$143 million of unrecovered base SJRPP assets only, amortization would be
12 approximately \$14.3 million annually from 2018-2020, or \$43 million over the
13 remaining term of FPL's 2016 Settlement Agreement. FPL's response states that
14 this amortization would reduce FPL's return on equity (ROE) by 6 basis points and
15 will likely not cause FPL to fall outside of its authorized range.

16
17 **Q. IS THERE ANOTHER REASON WHY IT IS INAPPROPRIATE TO**
18 **DEFER THE COMMENCEMENT OF AMORTIZATION ON THE EARLY**
19 **RETIREMENT AND ASSET TRANSFER REGULATORY ASSETS?**

20 A. Yes, there is. If the Commission allows FPL to defer the amortization of the
21 regulatory assets to commence when base rates are next established, this will
22 increase the earnings to FPL by more than \$35 million above those amounts that
23 would be collected if amortization begins in 2018. This assumption assumes that
24 the 6.17% overall weighted cost of capital remains constant at the mid-point of
25 FPL's required rate of return on average capital structure (FPSC Adjusted Basis) as

1 reported in its May 2017 surveillance report on Schedule 1, page 1.

2

3 **Q. WHAT IS YOUR CONCLUSION ABOUT FPL'S REQUEST TO DEFER**
4 **AMORTIZATION UNTIL BASE RATES ARE NEXT ESTABLISHED?**

5 A. It is appropriate to allow FPL to amortize the regulatory assets related to the early
6 retirement and asset transfer of FPL's investment in the SJRPP over 120 months
7 beginning in 2018 when the plant is retired. This will match the time frame that the
8 amortization of the other regulatory assets and liabilities will begin related to the
9 JEA PPA. Further, FPL projects that it will easily be able to fully absorb the cost
10 of the amortization in base rates with only a 6 basis point reduction in its ROE, and
11 the timely amortization commencement will reduce costs to customers over the
12 long run. The Commission should disallow FPL's request to defer the
13 commencement of the amortization to some indefinite and unknown time period,
14 which will ultimately be more costly to ratepayers.

15

16 **Q. HOW IS THE RECOVERY OF AN UNRECOVERED INVESTMENT IN A**
17 **UTILITY GENERATING ASSET RECOVERED IN CUSTOMER RATES?**

18 A. Unrecovered investments of utility generating plant that were prudently retired
19 early and previously included in base rates, are traditionally, historically and
20 ordinarily recovered through base rates.

21

22 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

23 A. Yes, it does.

CERTIFICATE OF SERVICE
DOCKET NO. 20170123-EI

I **HEREBY CERTIFY** that a true and correct copy of the foregoing Direct Testimony of Patricia W. Merchant, CPA has been furnished by electronic mail to the following parties on this 21st day of July, 2017.

Danijela Janjic
Kyesha Mapp
Margo DuVal
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Kenneth A. Hoffman
Florida Power & Light Company
215 S. Monroe Street, Suite 810
Tallahassee FL32301-1858

John T. Butler
Kenneth M. Rubin
Florida Power & Light Company
700 Universe Boulevard (LAW/JB)
Juno Beach FL33408 -0420



Stephanie A. Morse
Associate Public Counsel
Florida Bar #0068713

Resumé
of
PATRICIA W. MERCHANT, CPA

Office of Public Counsel
Room 812, 111 West Madison Street
Tallahassee, Florida 32399-1400

Phone: 850-487-8245
Fax: 850-488-4491
E-mail: merchant.tricia@leg.state.fl.us

Professional Experience:

March, 2005 to Present

Office of Public Counsel – Chief Legislative Analyst

In my current position, I perform financial and accounting analysis and reviews, and provide testimony, as required, involving utility filings before the Florida Public Service Commission on behalf of the Citizens of the State of Florida.

1981 to February, 2005 - Florida Public Service Commission

2000 to February, 2005

Public Utilities Supervisor – File and Suspend Rate Case Section, Bureau of Rate Filings, Division of Economic Regulation

In this capacity I supervised 5 to 8 regulatory professionals. This section performed financial, accounting, engineering and rate review and evaluation of rate proceedings for large water and wastewater utilities, as well as electric and gas utilities regulated by the Commission. The types of cases included file and suspend rate cases, limited proceedings, overearning investigations, annual report reviews, service availability and tariff filings, rulemaking, and customer complaints. The section reviewed utility filings, requested and reviewed Commission staff audits, and generated and analyzed discovery requests. I coordinated and prepared staff recommendations to the Commission for agenda conferences. I reviewed the analyses and written documentation of all analysts in this section for proper regulatory theory, grammar and accuracy. I also made presentations to customer groups at Commission staff customer meetings for the rate proceedings to which I was assigned. We presented recommendations at agenda conferences, providing responses to comments and questions by other parties and Commissioners. I also prepared and presented testimony, and assisted in the preparation of cross-examination questions for depositions and formal hearings. Additionally, I provided training in regulatory theory for new staff and provided training on regulatory and accounting issues for other analysts at the Commission.

1989 – 2000

Regulatory Analyst Supervisor, Accounting Section, Bureau of Economic Regulation, Division of Water and Wastewater

I supervised 5-7 regulatory accounting analysts. This section performed the same job activities as above specifically for the larger Commission regulated Class A and B water and wastewater companies.

1983 – 1989

Regulatory Analyst – Accounting Bureau, Division of Water and Wastewater

As an accounting analyst, I performed the same job activities as described above for water and wastewater companies in a non-supervisory role.

1981 – 1983

Public Utilities Auditor, Division of Auditing and Financial Analysis

As an auditor in the Tallahassee district of the Commission, I performed financial and accounting audits of electric, gas, telephone, water and wastewater utilities under the Commission's jurisdiction.

Education and Professional Licenses

1981 Bachelor of Science with a major in accounting from Florida State University

1983 Received a Certified Public Accountant license in Florida

List of Cases in which Testimony was Submitted

Dockets Before the Florida Public Service Commission:

Docket No. 150071-SU -- Application for increase in wastewater rates in Monroe County by KW Resort. (filed testimony and testified at hearing)

Docket 090368 -- Review of the continuing need and costs associated with Tampa Electric Company's 5 Combustion Turbines and Big Bend Rail Facility. (filed testimony; case settled prior to hearing)

080366-GU Petition for rate increase by Florida Public Utilities Company. (filed testimony; case settled prior to hearing)

070304-EI - Petition for rate increase by Florida Public Utilities Company; and
070300-EI - Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant

to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company. (testified at hearing)

070052-EI - Petition by Progress Energy Florida, Inc. to recover costs of Crystal River Unit 3 Uprate through fuel clause. (testified at hearing)

060162-EI – Petition by Progress Energy Florida, Inc. to recover modular cooling tower costs through the Environmental Cost recovery clause. (filed testimony, stipulated into record)

050958-EI – Petition for approval of new environmental program for cost recovery through Environmental Cost Recovery Clause by Tampa Electric Company. (testified at hearing)

060658-EI - Petition on Behalf of Citizens of the State of Florida to require Progress Energy Florida, Inc. to Refund Customers \$143 million. (filed testimony stipulated into record)

060362-EI - Petition to Recover Natural Gas Storage Project Costs through Fuel Cost Recovery Clause, by Florida Power & Light Company. (testified at hearing)

050045-EI - Petition for Rate Increase by Florida Power & Light Company. (filed testimony, deposed, case settled prior to hearing)

991643-SU - Application for Increase in Wastewater Rates in Seven Springs System in Pasco County by Aloha Utilities, Inc. (testified at hearing)

971663-WS - Application of Florida Cities Water Company, Inc. for a limited proceeding to recover environmental litigation costs. (all testimony and exhibits stipulated into record without hearing)

940847-WS - Application of Ortega Utility Company for increased water and wastewater rates. (testified at hearing)

911082-WS - Water and Wastewater Rule Revisions to Chapter 25-30, Florida Administrative Code. (testified at hearing)

881030-WU - Investigation of Sunshine Utilities of Central Florida rates for possible over earnings. (testified at hearing)

850151-WS - Application of Marco Island Utilities, Inc. for increased water and wastewater rates. (testified at hearing)

850031-WS - Application of Orange/Osceola Utilities, Inc. for increased water and wastewater rates in Osceola County (testified at hearing)

840047-WS - Application of Poinciana Utilities, Inc. for increased water and wastewater rates (testified at hearing)

Cases before the Division of Administrative Hearings:

97-2485RU - Aloha Utilities, Inc., and Florida Waterworks Association, Inc., Petitioners, vs. Public Service Commission, Respondents, and Citizens of the State of Florida, Office of Public Counsel, Intervenors (deposed and testified at hearing)