



JOE NEGRON
President of the Senate

J.R. KELLY
Public Counsel

**STATE OF FLORIDA
OFFICE OF PUBLIC COUNSEL**

c/o THE FLORIDA LEGISLATURE
111 WEST MADISON ST.
ROOM 812
TALLAHASSEE, FLORIDA 32399-1400
1-800-342-0222

EMAIL: OPC_WEBSITE@LEG.STATE.FL.US
WWW.FLORIDAOPC.GOV



RICHARD CORCORAN
*Speaker of the House of
Representatives*

October 3, 2018

Ms. Carlotta Stauffer, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket Nos. 20170235-EI and 20170236-EU

Dear Ms. Stauffer:

Please find enclosed for filing in the above referenced dockets the Redacted Copy of the Supplemental Direct Testimony of **Lane Kollen**. As discussed, we will hand deliver the Confidential Copy tomorrow morning. This filing is being made via the Florida Public Service Commission's Web Based Electronic Filing Portal.

If you have any questions or concerns; please do not hesitate to contact me. Thank you for your assistance in this matter.

Sincerely,

/s/ Stephanie A. Morse
Stephanie A. Morse
Associate Public Counsel

4. At the direction of OPC, Mr. Kollen has prepared brief Supplemental Direct Testimony addressing and explaining his concerns and observations related to the material change in the CPVRR analysis that he relied on in his timely-filed prefiled Direct testimony.
5. Mr. Kollen has not introduced any new issues or changed his conclusion in the testimony, nor has he changed his testimony in support of the City of Vero Beach (“COVB”) customers receiving FPL service.
6. In the interest of fairness, and a more complete record, the Citizens request that the prefiled Supplemental Direct testimony of Mr. Kollen (Exhibit “A”) attached to this Motion be accepted.
7. Citizens contacted counsel for all parties to confer. Although counsel for the Town of Indian River Shores (the Town) was inadvertently omitted from Citizens’ Oct. 2, 2018 email to the parties, the undersigned counsel spoke to counsel for the Town the morning of Oct. 3, 2018. The CAIRC advised Citizens that it has “no problems in agreeing with [the] motion.” Citizens were advised by FPL via email on the evening of October 2, 2018 that FPL has “no objection so long as Mr. Kollen limits his supplemental testimony to previously stated assertions in his originally filed testimony concerning FPL’s CPVRR analysis as applied to the revised numbers in the Errata, and does not expand the scope of his testimony or raise new arguments directed to FPL’s CPVRR analysis in his supplemental testimony.” Indian River advised Citizens via email that it “is willing to support that compromise” articulated by FPL. Citizens conferred verbally with counsel for the Town before the Prehearing Conference on October 3, and said counsel conveyed that the Town does not object, subject to the conditions expressed by FPL. During the Prehearing Conference, FPL’s counsel stated that, while he does not object to OPC’s motion in principle, he prefers to see the supplemental testimony before consenting. Citizens did not receive opposition to the instant motion from any parties.

WHEREFORE, the Citizens ask that the Commission grant this motion.

Dated this 3rd day of October, 2018.

Respectfully submitted,

JR Kelly
Public Counsel

/s/Stephanie A. Morse
Stephanie A. Morse
Associate Public Counsel
Charles J. Rehwinkel
Deputy Public Counsel
Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400
(850) 488-9330

CERTIFICATE OF SERVICE

I **HEREBY CERTIFY** that a true and correct copy of the foregoing Office of Public Counsel's MOTION TO ACCEPT SUPPLEMENTAL DIRECT TESTIMONY has been furnished by electronic mail on this 3rd day of October, 2018, to the following:

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

Kathryn Cowdery/Charles Murphy/
Susan Brownless
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
cmurphy@psc.state.fl.us
sbrownle@psc.state.fl.us
kcowdery@psc.state.fl.us

Bryan S. Anderson/Kenneth Rubin
Florida Power & Light Company
700 Universe Boulevard
Juno Beach FL 33408
bryan.anderson@fpl.com
ken.rubin@fpl.com

Mr. James O'Connor/Wayne Coment
City of Vero Beach
P. O. Box 1389
Vero Beach FL 32961
citymgr@covb.org
wcoment@covb.org

Dylan Reingold, County Attorney
Indian River County Board of County
Commissioners
1801 27th Street - Building A
Vero Beach FL 32960
dreingold@ircgov.com

Jon C. Moyle, Jr./Karen A. Putnal
c/o Moyle Law Firm, PA
Florida Industrial Power Users Group
118 North Gadsden Street
Tallahassee FL 32301
jmoyle@moylelaw.com
kputnal@moylelaw.com

Brian T. Heady
406 19th Street
Vero Beach FL 32960
brianheady@msn.com

Michael Moran
P.O. Box 650222
Vero Beach, FL 32965
mmoran@veronet.net

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Florida Power & Light Company (FPL) for authority to charge FPL rates to former City of Vero Beach customers and for approval of FPL's accounting treatment for City of Vero Beach transaction.

DOCKET NO. 20170235-EI

In re: Joint petition to terminate territorial agreement, by Florida Power & Light and the City of Vero Beach.

DOCKET NO. 20170236-EU

FILED: OCTOBER 3, 2018

**THE OFFICE OF PUBLIC COUNSEL'S MOTION TO ACCEPT SUPPLEMENTAL
DIRECT TESTIMONY**

The Citizens of the State of Florida, through the Office of Public Counsel (“Citizens” or “OPC”), request that the Commission accept the filing of supplemental direct testimony by Lane Kollen in light of a material modification submitted by Florida Power & Light Company (“FPL”) to its Cumulative Present Value of Revenue Requirements (“CPVRR”) economic analysis in support of recognition of the acquisition adjustment at issue in this case. In support, the Citizens state as follows:

1. On August 6, 2018, FPL witness Scott Bores prefiled Supplemental Direct testimony containing a revised economic analysis that showed a CPVRR value to the overall transaction of approximately \$99 million, including the recognition of the acquisition adjustment.
2. On September 7, 2018, OPC witness Lane Collen, relying on the economic analysis filed by Mr. Bores, prefiled responsive direct testimony challenging that economic study result.
3. On September 26, 2018, FPL, on behalf of Mr. Bores, filed an “errata” with a new analysis that showed a CPVRR result of approximately \$135 million, including the recognition of the acquisition adjustment.

D. Bruce May
Holland Law Firm
315 South Calhoun Street, Suite 600
Tallahassee FL 32301
bruce.may@hklaw.com

Civic Association of Indian River
County, Inc.
Lynne A. Larkin
5690 HWY A1A, #101
Vero Beach FL 32963
lynnelarkin@bellsouth.net

/s/Stephanie A. Morse
Stephanie A. Morse
Associate Public Counsel
Florida Bar # 68713

Exhibit "A"

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition by Florida Power & Light Company (FPL) for authority to charge FPL rates to former City of Vero Beach customers and for approval of FPL's accounting treatment for City of Vero Beach transaction.

DOCKET NO. 20170235-EI

In re: Joint petition to terminate territorial agreement, by Florida Power & Light and the City of Vero Beach.

DOCKET NO. 20170236-EU

FILED: OCTOBER 3, 2018

REDACTED

SUPPLEMENTAL DIRECT TESTIMONY

OF

LANE KOLLEN

ON BEHALF OF THE CITIZENS OF THE STATE OF

FLORIDA

DIRECT TESTIMONY

OF

Lane Kollen

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket Nos. 20170235-EI, 20170236-EU

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

2 A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc.
3 (“Kennedy and Associates”), 570 Colonial Park Drive, Suite 305, Roswell, Georgia
4 30075.

5

6 **Q. Have you previously submitted testimony in this proceeding?**

7 A. Yes. I previously submitted prefiled Direct Testimony on behalf of the Office of Public
8 Counsel (“OPC”) on September 7, 2018 and also provided comments before the
9 Commission on June 5, 2018 when it considered and voted on the Proposed Agency
10 Action.

11 In my Direct Testimony, I affirmed the OPC’s support for Florida Power &
12 Light Company’s (“FPL”) proposed acquisition of the Vero Beach municipal electric
13 system and the extension of FPL rates to the former Vero Beach customers.

14 I recommended that the Commission reject the Company’s request for approval
15 of an acquisition premium because it was unnecessary under generally accepted

1 accounting principles (“GAAP”) and under the Federal Energy Regulatory
2 Commission (“FERC”) Uniform System of Accounts (“USOA”).

3 In addition, I recommended that the Commission reject the Company’s request
4 for recovery of the acquisition premium for numerous reasons, or alternatively, defer a
5 decision on this request until the Company’s next base rate case proceeding.

6

7 **Q. What is the purpose of your Supplemental Direct Testimony?**

8 A. The purpose of my testimony is to address the Company’s “errata” to the Supplemental
9 Direct Testimony and the Rebuttal Testimony of Mr. Scott Bores. The “errata” are the
10 result of a new and third economic study developed by FPL, which updates and revises
11 the second economic study addressed in the pre-“errata” version of the Supplemental
12 Direct Testimony of Mr. Bores. The second economic study purported to update and
13 revise the initial economic study (“first study”) addressed in the Direct Testimony of
14 Mr. Bores and cited in the Company’s Application. Whereas the second study reflected
15 a significant reduction in the cumulative present value of revenue requirements
16 (“CPVRR”) “savings” compared to the first study, the third study reflects a significant
17 increase in the CPVRR “savings” compared to the second and first studies.

18

19 **Q. Please summarize your testimony.**

20 A. I continue to affirm FPL’s acquisition of the Vero Beach municipal electric utility
21 system and to affirm FPL’s request to apply the FPL rates to the former Vero Beach
22 customers. I also continue to recommend that the Commission reject the Company’s
23 proposal to amortize and recover the acquisition premium from the general body of

1 FPL ratepayers.

2 The wildly different results of the Company's three studies demonstrate that
3 any savings are uncertain at best and are highly dependent on the Company's unreliable
4 projections, including the assumptions and methods used for this purpose. All three
5 studies suffer from the same infirmities that I identified in my Direct Testimony with
6 one exception.¹

7 The Company's counsel claims that "FPL determined that it had included the
8 electric system load of the City of Vero Beach twice in its analysis and had incorrectly
9 revised depreciation amounts in the CPVRR analysis after deferral of the assumed
10 transaction closing date to January 1, 2019." However, that does not appear to be an
11 accurate or complete description of the reasons for the very significant revisions in the
12 third study compared to the second study. More specifically, it appears that in the
13 second study the Company included the Vero Beach load in the base case and then
14 included it twice in the Vero Beach case, effectively including it only once in the
15 calculations of the incremental effects on FPL customers, not twice.

16 Unfortunately, FPL failed to provide supplemental responses to all relevant
17 discovery directed toward the first and second studies, which limited my ability to
18 review the underlying support for the third study and the claimed errors in the second
19 study, although yesterday it did provide some responses to OPC discovery directed
20 specifically toward the second and third studies. FPL's counsel is not a witness in this
21 proceeding and Mr. Bores himself does not acknowledge or describe the third study or

¹ Except that I have concluded that ADIT was not included in the Company's calculation of the cost of capital used for the economic studies.

1 the errors in the second study in his errata. Thus, the Commission cannot fully assess
2 the alleged errors in the second study or the accuracy of the third study given the limited
3 time before the hearing.

4 Further, the errata provided to the Supplemental Direct Testimony of Mr. Bores
5 appear to be inconsistent in part with the assumptions, methods, and results of the third
6 study, which renders the corrected Supplemental Direct Testimony of limited value, if
7 any.²

8 Finally, the Company knew of the alleged errors in the second study on or
9 before September 24, 2018, the date when it developed the third study. However, it
10 failed to inform the parties until the date when the pre-hearing positions statements
11 were due on September 26, 2018 when it was too late to respond.

12

13 **Q. Can you provide an example of where the errata provided to the Supplemental**
14 **Direct Testimony of Mr. Bores is inconsistent with the assumptions, methods, and**
15 **results of the third study?**

16 A. Yes. In his corrected and revised Supplemental Direct Testimony, Mr. Bores now
17 claims that lower fuel consumption and costs as well as more efficient generation
18 reduces the contribution from former COVB customers to offset the overall system fuel
19 cost, but somehow *increases* the CPVRR savings instead of *reducing* the savings. This
20 conclusion in the corrected and revised Supplement Direct Testimony of Mr. Bores is

² I have attached a copy of the Supplemental Direct Testimony of Mr. Bores with the errata handwritten onto the testimony as filed for ease of reference as my Exhibit__(LK-9).

1 incomprehensible and directly contradicts his original Supplemental Direct Testimony
2 wherein he claimed the same fact pattern, but that it *reduced* the CPVRR savings.

3 To highlight these contradictory conclusions, I have replicated the pre-errata
4 testimony in the first excerpt below and then his corrected and revised testimony in the
5 second excerpt below.

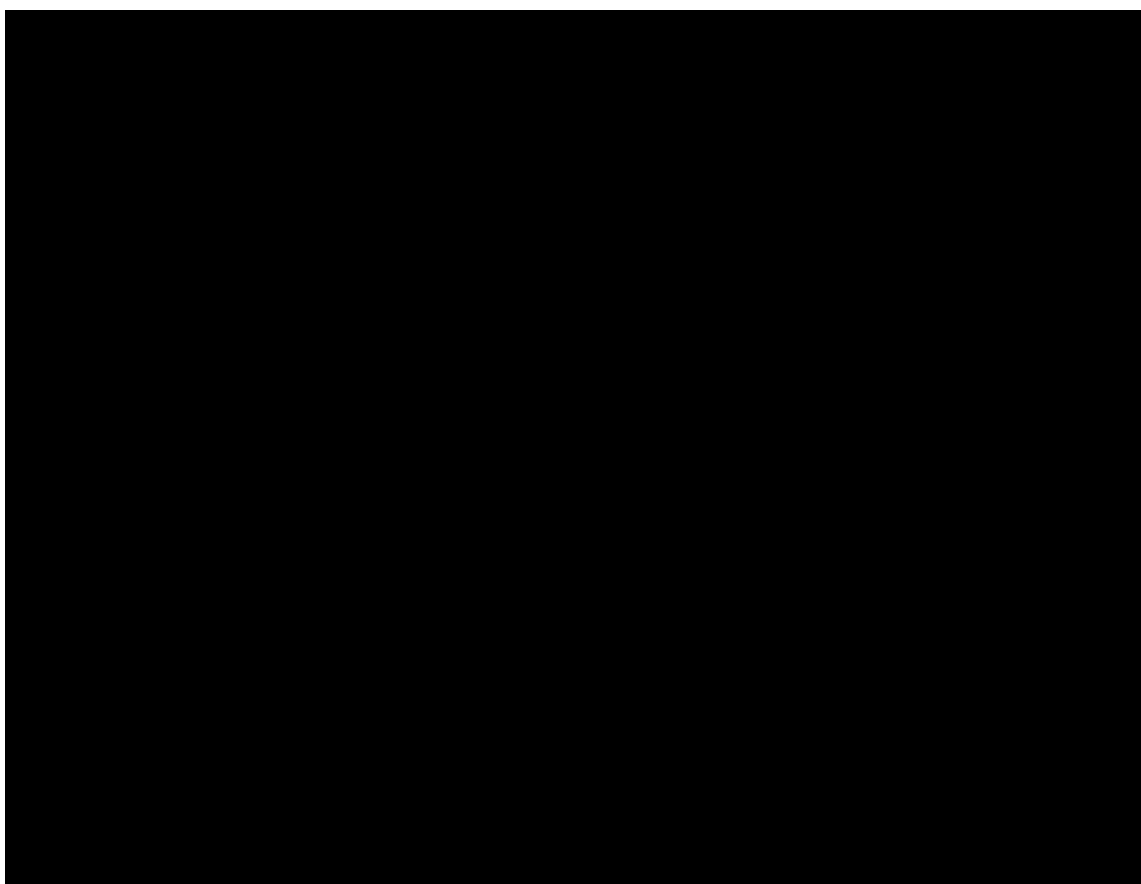
6 Incorporating FPL’s new net energy for load forecast and long-term generation
7 plan, including revised fuel and emissions pricing, *reduce* the CPVRR benefit
8 by \$31 million. This is primarily the result of lower forecast fuel consumption
9 and prices, combined with more efficient generation in the FPL system, which
10 reduce the amount of projected revenues to be contributed by COVB customers
11 to offset the overall system fuel cost. (*emphasis added*).

12 Incorporating FPL’s new net energy for load forecast and long-term generation
13 plan, including revised fuel and emissions pricing, *increases* the CPVRR
14 benefit by \$7.8 million. This includes the result of lower forecast fuel
15 consumption and prices, combined with more efficient generation in the FPL
16 system, which reduce the amount of projected revenues to be contributed by
17 COVB customers to offset the overall system fuel cost. (*emphasis added*).

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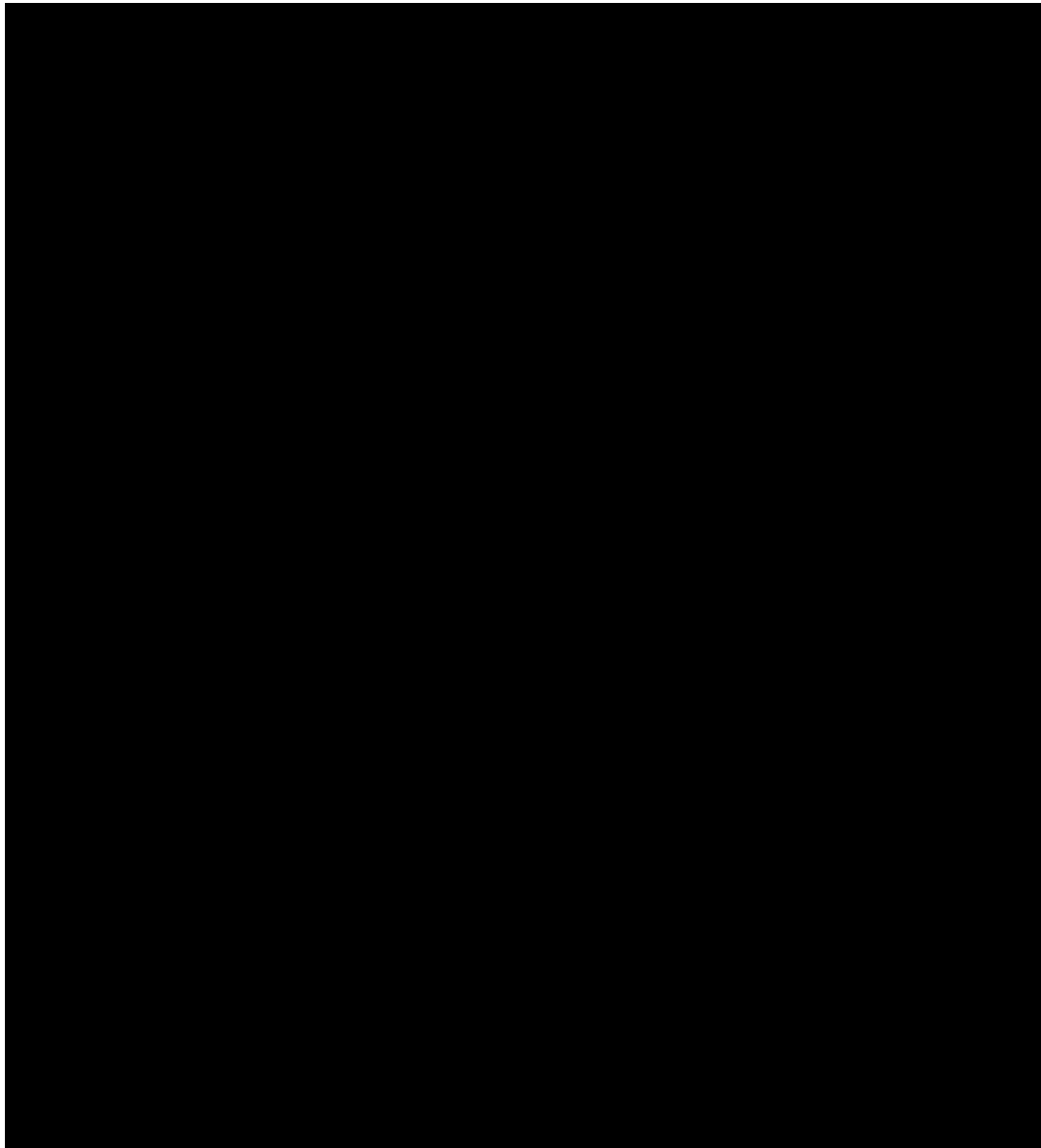
19 **Q. Have you analyzed the progression of results from the first study to the third**
20 **study?**

21 **A. Yes.** The following tables compare the components comprising the CPVRR results
22 from FPL’s first study to its third and most recent study. There are changes in every
23 component, not only to the “system impact” and “depreciation and amortization”
24 components cited in the Company’s errata cover letter sent by its counsel, although
25 those are the components with the most significant changes.



1 **Q. Have you further analyzed the components of the system impact costs among the**
2 **three studies?**

3 A. Yes. The following table provides a comparison of the CPVRR for each of the major
4 components of the system impact costs among the three studies. It is striking that there
5 is a significant reduction in the second study compared to the first study in the non-
6 solar generation capital costs in both the base case and the Vero Beach acquisition case.
7 Again, this is contrary to the expected increase in the second case if, in fact, the Vero
8 Beach load had been counted twice in the second study. The non-solar generation
9 capital costs decline even further in the third study so that the third study is well below
10 even the first study. These anomalies are offset by unexpected increases in capital
11 replacement costs in the second and third studies compared to the first study. In short,
12 it appears that the third study still retains certain errors apparently introduced in the
13 second study or that the first study was itself flawed.



1 **Q. Do you have any additional comments in response to FPL counsel’s claim in his**
2 **cover letter to the Commission that the errors in the second study were the result**
3 **of counting the Vero Beach load twice.**

4 **A.** Yes. The primary differences in the second study compared to the first study and the
5 third study are in the system impact and amortization and depreciation components.
6 However, the system impact cost in the second study is greater than in the first and

1 third studies while the amortization and depreciation expense components are less.
2 This is clearly an anomalous result if the Vero Beach load was counted twice in all cost
3 components. If that had been the case, then both the system impact and the
4 amortization and depreciation components would have been greater in the second study
5 than in the first and third studies, not less, consistent with the increase in the system
6 impact.

7 In addition, the differences in the system impact component in the second study
8 compared to the first study and the third study are primarily in only two years. It
9 appears that the Vero Beach load accelerated the timing of FPL's next resource, the
10 entire cost of which was allocated to the Vero Beach acquisition, as it should have been.
11 However, there were no similar costs included in the first and third studies. In other
12 words, it appears that the Company's "error" in the system impact component in the
13 second study was to include the entirety of the cost of accelerating the next FPL
14 resource as a cost of the Vero Beach acquisition, not counting the Vero Beach load
15 twice. If indeed the "error" was to include the entirety of the cost of accelerating the
16 next FPL resource, then, in fact, that was not an error, but an accurate reflection of the
17 cost of the Vero Beach acquisition in those years until the next resource would have
18 been required for all FPL customers in the absence of the Vero Beach load.

19 **Q. What is your conclusion after review of the third economic study in addition to**
20 **the second and first studies?**

1 A. The FPL economic studies are all unreliable and do not provide a reasonable basis for
2 the Commission to approve amortization and recovery of the acquisition premium.
3 More specifically, the third study introduced by the Company through the errata to the
4 Supplement Direct Testimony of Mr. Bores appears to retain errors from the second
5 study or otherwise reflect errors in comparison to the first study.

6

7 **Q. Does this complete your Supplemental Direct Testimony?**

8 A. Yes.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **FLORIDA POWER & LIGHT COMPANY**
3 **SUPPLEMENTAL DIRECT TESTIMONY OF SCOTT R. BORES**
4 **DOCKET NO. 20170235-EI**
5 **AUGUST 6, 2018**
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1 **Q. Please state your name and business address.**

2 A. My name is Scott R. Bores. My business address is Florida Power & Light
3 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

5 A. I am employed by Florida Power & Light Company (“FPL” or the
6 “Company”) as the Senior Director of Financial Planning and Analysis.

7 **Q. Did you previously file testimony in this case?**

8 A. Yes, I filed direct testimony on November 3, 2017, as part of FPL’s original
9 petition. In that testimony I presented the results of the economic analysis
10 which demonstrated that FPL’s purchase of the City of Vero Beach
11 (“COVB”) electric system is beneficial to existing FPL customers. My
12 testimony also described the key assumptions utilized in developing the
13 economic analysis.

14 **Q. Are you sponsoring any exhibits in support of your supplemental direct
15 testimony?**

16 A. Yes. I am sponsoring two exhibits which are attached to my supplemental
17 direct testimony:

- 18 • Exhibit SRB-2 – Updated Summary of CPVRR Impact for the City of
19 Vero Beach Transaction;
- 20 • Exhibit SRB-3 – Comparison of CPVRR Benefits

21 **Q. What is the purpose of your supplemental direct testimony?**

22 A. The purpose of my supplemental direct testimony is to update the Cumulative
23 Present Value Revenue Requirements (“CPVRR”) analysis for the latest

1 assumptions, demonstrate and reconfirm that there are substantial benefits for
2 existing FPL customers as a result of the transaction, and compare the change
3 in CPVRR benefit to that presented in my direct testimony.

4 **Q. What assumptions were updated in the latest CPVRR analysis performed**
5 **by FPL?**

6 A. There are several assumptions that were updated in support of the latest
7 CPVRR analysis, including:

- 8 1) Incorporating the effects of the Tax Cuts and Jobs Act of 2017 (“Tax
9 Reform”), including the deferral of new projected base rates until
10 January 1, 2022;
- 11 2) Updating the transaction close date to January 1, 2019 from the
12 previous anticipated close date of October 1, 2018. The postponement
13 of the closing date to January 1, 2019 triggers several adjustments to
14 the CPVRR analysis. First, the amount of the transaction payment will
15 decrease by \$3.3 million as the amount due to the Florida Municipal
16 Power Agency (“FMPPA”) is reduced as a result of the passage of time.
17 As a result of the reduction in the FMPPA transaction payment, the
18 overall amount of the acquisition adjustment will also decrease by the
19 same amount. Second, FPL is not obligated to begin making payments
20 under the purchase power agreement (“PPA”) with the Orlando
21 Utilities Commission (“OUC”) until such time as the transaction
22 closes, thereby avoiding \$2.5 million of energy payments associated
23 with the PPA for three months. Third, the net book value of COVB

- 1 assets will further depreciate, which will lead to a slight increase in the
2 acquisition adjustment. Finally, FPL will delay a portion of O&M and
3 capital spend that it had previously projected to spend in 2018 until
4 after the assumed transaction close date of January 1, 2019;
- 5 3) Incorporating FPL's official 2018 net energy for load forecast,
6 consistent with the net energy for load forecast utilized in FPL's 2018
7 Ten-Year Site Plan ("TYSP");
- 8 4) Updating FPL's long-term incremental generation and purchased
9 power plan consistent with that presented in the 2018 TYSP. This
10 includes utilizing the long-term fuel and emissions forecast consistent
11 with the 2018 TYSP; and
- 12 5) Including the most recent 30-year long-term price of electricity
13 forecast for FPL.

14 **Q. Does the CPVRR analysis include the revenue requirements associated**
15 **with the updated acquisition adjustment?**

16 A. Yes, as in the prior CPVRR analysis, the updated CPVRR analysis includes
17 the revised estimated acquisition adjustment of approximately \$114 million.

18 **Q. What are the results of the updated CPVRR analysis?**

19 A. As shown on Exhibit SRB-2, the updated assumptions result in a ¹³⁵~~99~~ million
20 CPVRR benefit for existing FPL customers over the 30-year period. This
21 demonstrates that the transaction provides substantial value to existing FPL
22 customers due to the economies of scale that exist in serving COVB
23 customers.

1 Q. Please explain the differences between the ¹³⁵~~\$99~~ million CPVRR
2 benefit in the updated analysis as compared to the \$105 million
3 CPVRR benefit in your direct testimony.

4 A. As demonstrated on Exhibit SRB-3, the change of ³⁰~~\$6~~ million in CPVRR
5 benefit is comprised of several items. As described in response to prior
6 discovery, the inclusion of the benefit of tax reform and the assumed one-year
7 delay in establishing new base rates increased the total CPVRR benefit from
8 \$105 million to \$127 million. Incorporating FPL's new net energy for load
9 forecast and long-term generation plan, including revised fuel and emissions
10 pricing, ^{increases} ~~reduces~~ the CPVRR benefit by ^{7.8}~~\$3~~ million. This ^{includes} ~~is primarily~~ the
11 result of lower forecast fuel consumption and prices, combined with more
12 efficient generation in the FPL system, which reduce the amount of projected
13 revenues to be contributed by COVB customers to offset the overall system
14 fuel cost. The revised long-term price of electricity ~~further~~ reduces the
15 CPVRR benefit by ^{7.9}~~\$8.1~~ million, mainly the result of a change in assumptions
16 for future rate increases as a result of tax reform. The deferral of the
17 transaction to an assumed closing date of January 1, 2019 helps partially
18 offset the reduction~~y~~ and increases the CPVRR benefit by ^{4.5}~~\$7.5~~ million. This
19 benefit is being driven by lower payments to FMPPA, a reduction in PPA
20 payments to OUC and a delay in spend by FPL as it relates to integrating
21 COVB customers into the FPL system. Finally, the revised cost of debt,
22 which takes into account FPL's actual debt issuances in 2017 as well as the

1 latest Blue Chip forecast of future interest rates, increases the CPVRR benefit
2 by \$~~3.2~~^{3.8} million.

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

4 **A. Yes.**