BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 060038-E1

In the Matter of:

PETITION FOR ISSUANCE OF A STORM
RECOVERY FINANCING ORDER, BY FLORIDA
POWER & LIGHT COMPANY.

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VOLUME 2

Pages 38 through 151

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN LISA POLAK EDGAR
COMMISSIONER J. TERRY DEASON
COMMISSIONER ISILIO ARRIAGA
COMMISSIONER MATTHEW M. CARTER, II
COMMISSIONER KATRINA J. TEW

DATE: Wednesday, April 19, 2006

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

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

APPEARANCES: (As heretofore noted.)
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### OPENING COMMENTS:

- By Mr. Wright
- By Mr. Twomey
- By Mr. Kise
- By Mr. Keating

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MR. WRIGHT: Madam Chairman, thank you for the opportunity. I will be very brief. The Florida Retail Federation agrees with and supports the specific dollar issue positions advocated by Public Counsel and the Attorney General, specifically that FPL should have disallowed from recovery of claimed costs approximately $165 million, of which 115, 114 plus is from 2005's costs and $50 million is from 2004 costs. Additionally, we agree that the reserve need not be any greater than $200 million.

According to the official National Hurricane Center post-storm evaluation, Hurricane Wilma was mostly a Category 1 storm, with Category 2 winds experienced in a few areas. Yet FPL, incredibly, says that its system performed as designed and expected against the fact that 65 percent of its customers were without service for more than a week.

The evidence will show that in its distribution planning, FPL does not consider the economic value of outages sustained by its customers. They consider the SAIDI and CAIDI. They don't consider what it really costs their customers to be without power.

Operating under the 2002 stipulation, FPL willfully limited its pole inspection program and willfully reduced the scope of its pole inspection program with the direct result of
enhancing its profitability at the expense of its customers' reliability. These were willful acts, they were imprudent, and the Commission should impose substantial penalties against FPL for them. Thank you.

CHAIRMAN EDGAR: Thank you, Mr. Wright.

Mr. Twomey, there are two minutes left.

MR. TWOMEY: Thank you very much, Madam Chair, Commissioners.

AARP adopts the opening statements of the Attorney General, Office of Public Counsel, the other consumer parties. By taking those positions, you should teach Florida Power & Light Company and the other companies observing this proceeding that there is a cost associated with them not properly inspecting and maintaining their systems so as to avoid damage from events otherwise that they should.

This company's customers have reeled financially the last two years, experiencing record high fuel adjustment increases, as well as substantial surcharges as a result of the 2004 storm damage case. Those surcharges were exacerbated, as you are well aware, by the granting of this company of some $34 million of additional monies under the name of lost revenues. As stated by Public Counsel, we would hope that we don't see lost revenues granted to this company again, whether directly so or indirectly.

You should, to the greatest extent possible, reduce
the amount of financial burden this company's customers have to bear going forward by eliminating the imprudent, the duplicative charges pointed out by the customer experts. As well, you should take the greatest opportunity to reduce the surcharges and the large 12-year carrying charge that will be associated with them by substantially reducing the storm reserve fund.

AARP and the others would submit to you that you can safely do this because under this Commission's recent precedence there is essentially a flow through, almost a fuel charge, if you will, or a storm charge adjustment charge that allows companies like FP&L to come in, rapidly petition the Commission for storm damage surcharges, interim surcharges, without even the benefit of a prior evidentiary hearing, and begin charging the customers almost immediately for the alleged cost of repairing from a storm.

Given this ability, AARP would urge that you dramatically reduce the amount of the storm reserve, reduce it to $200 million, which is still a lot of money. You will reduce the amount of surcharges the customers have to pay, you will reduce the charge, the financing charge over 12 years, and you can safely do so because if there is a storm this year, next year, years hence that causes a deficit, Florida Power & Light can come in here immediately and seek interim surcharges. We would ask that you reduce the

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surcharge, the reserve dramatically. Thank you.

CHAIRMAN EDGAR: Thank you, Mr. Twomey.

MR. KISE: Madam Chair.

CHAIRMAN EDGAR: Mr. Kise.

MR. KISE: I just have one other point the Attorney General reminded me to make to the Commission, if that -- less than 30 seconds. Thank you.

With respect to the sharing issue that Mr. Litchfield discussed and Mr. McWhirter referred to, one, one comment that the Attorney General wanted to make here is that the Attorney General is quite disappointed in what appears to be yesterday's public comment about that issue in a forum that is not this one and prior to this adjudication, and would hope that the Commission would keep a very open mind with respect to reviewing that issue.

Also, the Attorney General wants to point out for the record what Mr. McWhirter said, which is that the stipulation and settlement is our agreement. We certainly intend to honor that agreement. But the Commission is not bound by that agreement and has an independent obligation, which the Attorney General hopes the Commission will undertake, to determine what is in the best interest of the public with respect to that issue. Thank you.

CHAIRMAN EDGAR: And per the prehearing order, we have five minutes for an opening statement by Commission staff.
MR. KEATING: Before I begin, I wanted to find out if the Federal Executive Agencies intended to add anything, the intervenors.

CHAIRMAN EDGAR: My understanding is no, but we certainly want to make sure that I'm correct.

CAPTAIN WILLIAMS: No. You're correct, ma'am. We waived.

CHAIRMAN EDGAR: Okay. Thank you.

MR. KEATING: And thank you, Commissioners, for the opportunity to provide an opening statement this morning. I'll be brief.

My comments are limited to drawing for you what staff sees as the big picture surrounding the issues in this case, related to the financing costs that you may ultimately approve for recovery through storm recovery bonds, a process also referred to as securitization.

FPL's petition in this docket represents the first time that a utility in Florida has called upon the provisions of the law establishing storm recovery bonds as a tool to recover storm costs and to rebuild the Storm Damage Reserve. I won't try to explain in detail the nature of the mechanism. The expert witnesses in this case are much better qualified to do that, and do so in their testimony.

In a nutshell though, this mechanism allows a utility to quickly recover storm costs and rebuild its reserve by
accessing low cost funds in the bond markets through an affiliate. The affiliate, called the special purpose entity, sells the bonds and provides the proceeds to the utility in return for the right to monies collected by FPL from ratepayers through a nonbypassable Commission-approved charge. These monies are used by the special purpose entity to make payment of principal and interest to investors and to service the bonds. This type of transaction has never been conducted by a Florida utility. It has, however, been conducted in other states with respect to various types of costs other than storm costs.

Unlike typical utility bond issuances, FPL's customers will bear the full economic burden of these bonds. For that reason, the bonds have sometimes been referred to and you'll hear in testimony them referred to as ratepayer-backed bonds. Every six months a true-up mechanism required by the law assures that charges collected from ratepayers are sufficient to service the bonds.

Recognizing the new and unique nature of this type of transaction in Florida, the Legislature authorized the Commission to hire financial experts and outside counsel to assist it in implementing the new law. As a result of a competitive bidding process, the Commission hired Saber Partners, a firm experienced in representing state commissions in these types of transactions, as its financial
advisor. FPL has also hired a financial advisor to assist it in this proposed transaction.

Saber Partners, through the testimony of three witnesses sponsored by staff in this docket, has recommended a series of what it refers to as best practices based on its experience with ratepayer-backed bonds issued in other states.

In its rebuttal testimony, FPL has agreed, with some qualifications, to accept and apply many of these practices in this transaction. However, some disagreements remain.

In staff's view there are three major remaining differences: First, whether or not to accept, whether or not to adopt a lowest cost standard for the transaction; second, the extent of the Commission's role in the structuring, marketing and pricing of the bonds, including the final stages of pricing; and, third, the degree of ratepayer protection required in the transaction documents.

Now I am not going to suggest to you in this opening statement what the answers are to these disputes. I simply present these comments to you to try to provide somewhat of a road map for you to follow in listening to the testimony and forming your opinions on these issues. I hope these comments have proved helpful in that regard. Thank you.

CHAIRMAN EDGAR: Thank you, Mr. Keating. That concludes the opening statements.

We will go ahead and swear the witnesses that are
present in as a group, and then I think we'll take a very short break before we move into the first witness. So will all of those witnesses who are present please stand? Raise your right hand.

(Witnesses collectively sworn.)

CHAIRMAN EDGAR: Thank you.

We will come back at 10:50 by the clock on the wall, and I am going to stick to that. Thank you.

(Recess taken.)

CHAIRMAN EDGAR: We will go back on the record.

Mr. Litchfield.

MR. LITCHFIELD: Thank you, Chairman Edgar.

FPL's first witness is Mr. Dewhurst, and he was present this morning and has been sworn.

CHAIRMAN EDGAR: Thank you.

MR. LITCHFIELD: If I might present the witness.

CHAIRMAN EDGAR: Yes.

MORAY P. DEWHURST

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

DIRECT EXAMINATION

BY MR. LITCHFIELD:

Q Mr. Dewhurst, would you please state your name and business address.

A My name is Moray P. Dewhurst. My business address is

FLORIDA PUBLIC SERVICE COMMISSION
709 Universe Boulevard, Juno Beach, Florida.

Q And what is your employment capacity?

A I am the Chief Financial Officer.

Q Have you prepared and caused to be filed 30 pages of
direct testimony in this proceeding?

A I have.

Q Do you have any changes or revisions to that
testimony?

A No.

Q If I asked you the same questions reflected in that
prefiled direct testimony today, would your answers be the
same?

A They would.

MR. LITCHFIELD: Chairman Edgar, I would ask that
Mr. Dewhurst's prefiled direct testimony dated January 13th,
2006, be inserted into the record as though read.

CHAIRMAN EDGAR: Please have the prefiled testimony
inserted into the record as though read.

BY MR. LITCHFIELD:

Q Mr. Dewhurst, are you also sponsoring exhibits to
your direct testimony?

A Yes, I am.

Q And those exhibits consist of MPD-1, 2 and 3,
consisting of one page each.

A That's correct.
MR. LITCHFIELD: Chairman Edgar, I would note that MPD-1, 2 and 3 have been premarked by staff as hearing Exhibits 6, 7 and 8, and I believe they've already been moved into the record.

CHAIRMAN EDGAR: Thank you.
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF MORAY P. DEWHURST

DOCKET NO. XXXXXX-E1

JANUARY 13, 2006

Q. Please state your name and business address.

A. My name is Moray P. Dewhurst. My business address is Florida Power & Light Company, Finance Division, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

Q. What is your employment capacity and position at Florida Power & Light Company?

A. I am Senior Vice President of Finance and Chief Financial Officer of Florida Power & Light Company (FPL or the Company).

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

A. I am responsible for all the major financial areas of the Company, including the accounting and control functions, tax, treasury, budgeting and forecasting, and risk management. I oversee the establishment and maintenance of the financial plans, controls and policies for FPL. I am also responsible for establishing and maintaining effective working relations with the investment and banking communities, and for communicating the results of our operations to investors.

Q. Please describe your educational background and professional experience.
I have a bachelor's degree in Naval Architecture from MIT and a master's degree in Management, with a concentration in finance, from MIT's Sloan School of Management. I have approximately twenty years of experience consulting Fortune 500 and equivalent companies in many different industries on matters of corporate and business strategy. Much of my work has involved financial strategy and financial re-structuring. I was appointed to my present position in July of 2001.

Are you sponsoring an exhibit in this case?

Yes. I am sponsoring Document No. MPD-1, a summary of the Company’s primary recommendation, MPD-2, a summary of the Company’s alternative recommendation; and MPD-3, projected up-front issuance and ongoing costs for storm-recovery bonds.

What is the purpose of your testimony?

The purpose of my testimony is to: (i) present and evaluate alternative methods to fund the existing Reserve deficit and future storm restoration activities; (ii) support the Petition for Financing Order (the Petition) requesting approval of the proposed issuance of bonds, which is FPL’s primary recommendation requested in this proceeding, and if not approved, support of FPL’s alternative recommendation requested in this proceeding; (iii) provide an overview of the Company’s proposed securitization transaction; and (iv) provide an estimate of transaction costs, both up-front and ongoing.

Please identify the other FPL witnesses and summarize the purpose of their testimony filed on FPL’s behalf in this proceeding.
A. Following is a list of the other witnesses who have submitted testimony on behalf of FPL and a brief description of the general subject matter addressed by each witness:

- K. Michael Davis – Identification of total storm losses incurred for the 2004 and 2005 storms; presentation of estimated storm-recovery costs subject to storm-recovery financing as of July 31, 2006; calculation of revenue requirements for storm cost recovery under the Company’s primary and alternative recommendations; proposal for a detailed framework for the true-up mechanism; and the accounting entries for storm-recovery financing;

- Geisha J. Williams – Description of storm restoration activities and estimated storm-related costs for 2005;

- Mark Warner - Description of nuclear storm restoration activities and estimated nuclear storm-related costs for 2005;

- Richard E. Brown - KEMA Inc. - Present the results of KEMA's independent analyses of FPL’s infrastructure performance during Hurricane Wilma and of FPL’s pole inspection and maintenance practices;

- Leonardo E. Green, Ph. D. – Explanation of the sales and load forecast used to develop customer rates in the company’s primary and alternative recommendations;

- Steven P. Harris, ABS Consulting – Estimate of the expected annual storm loss and solvency of the Reserve under the Company’s primary and alternative recommendations;
Wayne Olson, Credit Suisse First Boston LLC – Overview of asset-backed securities and details of the key characteristics of the structure of the proposed securitization transaction; and

Rosemary Morley – Separation and allocation of storm costs and the recovery factors to be used for billing individual rate classes; discussion of how the Storm Charge mitigates rate impacts as compared to the more traditional surcharge recovery method; presentation of proposed tariff sheets.

BACKGROUND

Q. Please briefly describe the circumstances that led to the adoption of the current Storm Restoration Surcharge.

A. The 2004 storm season inflicted severe damage on FPL’s service territory and the electric infrastructure. As a result, costs incurred to restore electric service following Hurricanes Charley, Frances, and Jeanne, in the aggregate totaled $890 million (net of insurance proceeds), depleting in its entirety FPL’s storm and property insurance reserve (Reserve) and, leaving FPL’s Reserve with a substantial deficit. In Order No. PSC-05-093-FOF-EI, the Commission affirmed the surcharge it had approved on a provisional basis in Docket No. 041291-EI that was effective February 17, 2005, but extended the term an additional twelve months or through cycle 12 billing for February 2008, unless all costs are recovered sooner. The approved surcharge of $1.65 (per 1,000 kWh residential bill) is intended to eliminate the deficit in the Reserve caused by the 2004 storm season.
Q. What effect did the 2005 storm season have on the Reserve?
A. In 2005, another very active storm season, four Hurricanes inflicted damage on FPL's system. As discussed by Ms. Williams and Mr. Davis, restoration costs associated with Hurricanes Dennis, Katrina, Rita and Wilma have increased the Reserve deficiency by approximately $816 million, leaving a deficit balance in the Reserve in excess of $1.1 billion. The current Storm Restoration Surcharge is designed to recover approximately $300 million of that amount by February 2008, leaving approximately $800 million, to be recovered through another means, as well as the open question of how best to restore the Reserve to a reasonable level going forward.

Q. Please explain how the Company had proposed to replenish the Reserve to a reasonable level in its application for a base rate increase in Docket No. 050045-EI.
A. In its base rate case filing, the Company had proposed to increase the annual accrual in base rates to $120 million. The total accrual was comprised of an amount approximating the expected annual storm losses based on an analysis performed by Steve Harris of ABS Consulting, Inc., plus an amount to contribute toward restoring the Reserve balance to a level of $500 million.

Q. How did the Stipulation and Settlement Agreement signed by parties to FPL's base rate proceeding and approved by the Commission (Settlement Agreement) address the issues of storm cost recovery and the replenishment of the Reserve?
The Settlement Agreement: (1) suspends the then current base rate accrual of $20.3 million; (2) provides that FPL will be entitled to recover prudently incurred storm restoration costs and replenish the Reserve to a level approved by the Commission; and (3) allows recovery of prudently incurred storm restoration costs and replenishment of the Reserve through charges that are incremental to base rates, either through a charge established through Section 366.8260, Florida Statutes (Securitization) or another form of surcharge.

Q. What was the Commission's response to this aspect of the Settlement?

A. The Commission approved it as part of the overall settlement, but expressed some discomfort over the continuing deficit in the Company's Reserve and at the prospect of leaving that proceeding without a current plan in place to replenish the Reserve to a reasonable level. The Commission strongly encouraged the Company to return with such a proposal as soon as possible, to which we agreed. This filing seeks to address the Commission's concerns.

**PRIMARY RECOMMENDATION**

Q. Please detail the Company's primary recommendation and its request in connection with this filing.

A. FPL recommends that the Commission approve the issuance of up to $1,050 million storm-recovery bonds to finance the after-tax costs incurred as a result of the 2004 and 2005 storms. The proceeds from the bond issuance would be used to fund the balance of unrecovered 2004 and 2005 storm-recovery costs, replenish the Reserve and pay upfront bond issuance costs. The amortization of the bonds
would be structured to provide a level charge of approximately $1.58 for the
typical residential bill (1,000 kWh) over the expected bond life of twelve years
based on current market conditions. Upon issuance of the storm-recovery bonds,
this charge would replace the existing 2004 Storm Restoration Surcharge.

Q. Please detail the amounts FPL is seeking approval to finance through the
issuance of storm-recovery bonds?

A. FPL proposes to finance the costs incurred for storm restoration with the issuance
of storm-recovery bonds which would be used to finance the after-tax equivalent
of the following estimated amounts:

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<tr>
<td>2004 Jurisdictionalized Unrecovered Storm-Recovery Costs</td>
<td>213.3</td>
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<tr>
<td>2005 Jurisdictionalized Unrecovered Storm-Recovery Costs</td>
<td>826.9</td>
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<tr>
<td>Replenishment of Reserve</td>
<td>650.0</td>
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<tr>
<td>Total Storm-related Costs Subject to Storm Recovery Financing</td>
<td>1,690.2</td>
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<tr>
<td>Less: Income Taxes at 38.575%</td>
<td>(652.0)</td>
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<tr>
<td>After-tax Storm-related Costs Subject to Storm Recovery Financing</td>
<td>1,038.2</td>
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Mr. Davis' and Ms. Williams' testimonies provide further detail on the
calculation of estimated unrecovered 2004 and 2005 storm-recovery costs. My
testimony will address the estimated financing costs, and the replenishment of the
Reserve.

Q. What amount of storm-recovery bonds would be required to finance the
amounts described above?
The Company anticipates the issuance of $1,050 million in storm-recovery bonds which is comprised of the after-tax storm-recovery costs and costs to replenish the Reserve plus estimated upfront bond issuance costs of approximately $11.4 million. The resulting $1,049.6 million is rounded to $1,050 million. Bonds are issued for the after-tax value of costs subject to financing to recognize the tax benefit received when storm restoration costs are deducted for income tax purposes. Thus, the bond proceeds available after the payment of upfront bond issuance costs provides approximately $638 million to reimburse the Company for unrecovered storm costs and approximately $400 million to replenish the fund (the after-tax equivalent of a $650 Reserve). Upfront bond issuance costs are described in more detail later in my testimony and in the testimony of Mr. Olson.

What would be the impact to customers if the Commission approves FPL’s primary recommendation?

The current residential surcharge of $1.65 per 1,000 kWh would be replaced with the combination of a Storm Bond Repayment Charge and a Storm Bond Tax Charge referred to collectively as the Storm Charge, which under current market conditions would provide an estimated levelized charge of approximately $1.58 per month for a typical 1,000 kWh residential bill for approximately 12 years. The actual average retail charge per kWh will vary based on changes in customer growth and usage projections as well as changes in market interest rates that may occur between now and the issuance date of the bonds. If market rates rise to such an extent that the average retail kWh charge associated with the bond issuance would exceed the average retail kWh charge associated with the Storm
Restoration Surcharge now in effect, the aggregate amount of the storm-recovery bond issuance would be reduced to an amount whereby the initial average retail kWh Storm Charge would not exceed the average retail kWh Storm Restoration Surcharge currently in effect. While this would reduce the amount of Reserve replenishment, it strikes a reasonable balance between customer interests in the mitigation of rate impacts and the need to fund the Reserve to a reasonable level immediately to prepare FPL to respond to another potentially destructive 2006 storm season.

The calculation of the revenue requirements associated with the Storm Bond Repayment Charge and the Storm Bond Tax Charge as well as the periodic true-up mechanism for those charges is discussed in Mr. Davis’ testimony and the calculation of the customer rate impact of the Storm Charge is provided in Dr. Morley’s testimony. Document No. MPD-1 provides a summary of these calculations as well as the expected value in the Reserve over a ten-year period assuming the expected annual losses from windstorm damage provided by Mr. Harris.

Q. **When would the storm-recovery bonds be issued?**

A. FPL recommends the storm-recovery bonds be issued as soon as practicable following issuance of the financing order, and will work to do so prior to August 1, 2006 to ensure funding is in place during the next storm season. FPL’s balance sheet and liquidity position are strong, but it is critical that a mechanism for recovery of 2004 and 2005 storm restoration costs is in place before significant
new costs might be incurred in 2006. The exact issuance date cannot be
determined at this time and depends on factors such as acceptance by the
Securities and Exchange Commission (SEC) of certain filings and completion of
the bond ratings and marketing process.

Q. **What if the Commission issues a financing order, but there is a delay in
actually implementing the financing?**

A. In light of the size of the current deficit and the need to begin to reduce the deficit
and rebuild the Reserve to prepare for another potentially active storm season, the
Company recommends that the Commission approve a surcharge to be applied to
bills rendered on and after August 15, 2006 to recover the 2005 storm-restoration
costs over approximately three years (or until the applicable revenue requirements
have been recovered) in the event the issuance of storm-recovery bonds is delayed
for any reason. The monthly impact to residential customers of this surcharge is
currently estimated to be $2.98 per 1,000 kWh based on current estimates for
2005 storm restoration costs. The surcharge would be discontinued when the
storm-recovery bonds are issued. The amount of storm-recovery bonds issued
would be adjusted for the impact of collections of this surcharge.

Q. **How does the Company propose to account for differences between the
estimated balances for unrecovered 2004 and 2005 storm-recovery costs as of
July 31, 2006 included in the Company’s Petition and the actual unrecovered
2004 and 2005 storm-recovery costs on the date the storm-recovery bonds
are issued?**
The actual balance of unrecovered storm-recovery costs will be influenced by several factors including: actual versus forecast surcharge collections for the existing surcharge, actual versus projected commercial paper rates, differences resulting from the actual versus estimated bond issuance date, as well as changes in estimated 2005 storm-recovery costs. The Company proposes that any differences between the estimated and actual balances for unrecovered 2004 and 2005 storm-recovery costs be reflected in the amount of replenishment of the Reserve. Thus, if the actual balance of unrecovered 2004 and 2005 storm-recovery costs is below the estimated July 31, 2006 balance, the resulting balance in the Reserve will be higher and vice versa.

Q. Please detail how bond proceeds would be used.

A. Bond proceeds must first be used to pay upfront bond issuance costs associated with the bond financing. Proceeds would next be used to reimburse the Company for the after-tax equivalent of the remaining unrecovered 2004 Reserve deficit plus the actual unrecovered 2005 storm restoration costs. Remaining proceeds would be used to replenish the fund depleted as a result of costs previously incurred.

ALTERNATIVE RECOMMENDATION

Q. Does FPL have an alternative recommendation if the Commission does not approve a financing order for the issuance of storm-recovery bonds?

A. Yes. If the Commission determines that the storm restoration costs should not be securitized and instead should be recovered through another means, the Company
recommends that a surcharge be implemented to recover estimated 2005 storm restoration costs over approximately three years and a separate surcharge be implemented to collect $650 million toward replenishment of the Reserve over three years (or until such time as the applicable revenue requirements have been collected) for bills rendered on and after June 15, 2006. This alternative provides for recovery of storm restoration costs already incurred and provides funds to attempt to replenish the Reserve over a reasonable time frame. While the rate impact on customer bills is greater than under the Company’s primary recommendation, it is for a shorter duration. Like the Company’s primary recommendation, this option also is provided for under the Settlement Agreement.

Q. What would be the impact to customers if the Commission selects FPL’s alternative recommendation?

A. The alternative recommendation would result in an initial monthly charge of $6.84 for a typical 1,000 kWh residential customer bill. This charge would decline to $5.19 once the 2004 Storm Restoration Surcharge ends. The calculation of the revenue requirements associated with the alternative recommendation is provided in Mr. Davis’ testimony and the calculation of the customer rate impact related to the surcharges is provided in Dr. Morley’s testimony. Document No. MPD-2 provides a summary of these calculations as well as the expected value of the Reserve over time based on Mr. Harris’ analysis.
REPLENISHMENT OF THE STORM DAMAGE RESERVE

Q. Has FPL performed a study to determine the annual amount of expected losses from windstorms?

A. Yes. FPL commissioned studies to calculate the annual amount of expected windstorm losses, as well as the expected value of the Reserve given various funding levels. The studies were prepared by ABS Consulting and are being sponsored by Mr. Harris.

Q. What does the analysis conclude regarding the expected annual long-term cost for service restoration and repair of storm damage to FPL’s assets?

A. Mr. Harris’ analysis concludes that the expected average annual cost for windstorm losses is approximately $73.7 million. Windstorm losses include costs associated with service restoration and system repair of FPL’s Transmission and Distribution (T&D) system from hurricane, tropical and winter storm losses. Also included are storm staging costs and windstorm insurance deductibles attributable to non-T&D assets.

Q. Have these studies been updated to incorporate the frequency of storm activity experienced during the 2004 and 2005 storm seasons?

A. No. As discussed in Mr. Harris’ testimony, the studies are based on over 100 years of storm activity (1900-2002). Mr. Harris has concluded that while there might be a slight increase in the storm frequency estimate if data from the 2004 and 2005 storm seasons were included, the increase is not likely to be large given the size of the storm database.
Q. Are there any other circumstances that could increase FPL's expected annual losses?

A. Yes. Growth in the Company's transmission and distribution system over the past year, particularly in the coastal areas most vulnerable to damage increases the company's exposure to storm damage. In addition, changes in the insurance markets affecting the availability and affordability of insurance coverage would impact expected annual losses. Mr. Harris' analysis assumes no T&D insurance is available and that non-T&D insurance deductibles remain stable. After the very active storm seasons of 2004 and 2005, there is little likelihood that the insurance markets will offer T&D insurance in the foreseeable future. In addition, early indications from the market suggest that non-T&D windstorm insurance may be less available, or may require higher deductibles in the future. If this were to happen, any deductible increase or any diminution in non-T&D windstorm insurance would increase the storm damage costs to be charged to the Reserve.

Q. Does Mr. Harris' analysis recommend a particular Reserve level?

A. No. There is no single correct Reserve balance. The appropriate Reserve level depends largely on the regulatory framework for storm cost recovery. Obviously, the lower the Reserve balance, the more likely that storm losses will exceed the funds available in the Reserve and, therefore, the greater the reliance on special assessments. The higher the Reserve balance, the less likely windstorm losses will exceed the funds available in the Reserve. Mr. Harris' testimony evaluates the solvency of the Reserve under the Company's primary and alternative recommendations.
Q. What level of replenishment of the Reserve is included in the Company's recommendation?

A. Consistent with past Commission Orders, a reserve level should be large enough to withstand the storm damage from most but not all storm seasons. The Company's proposed issuance of storm-recovery bonds would provide an initial Reserve of approximately $650 million to support future storm restoration activities.

Although a Reserve of $650 million is not necessarily what the Company would project as an adequate Reserve level going forward, weighing a number of factors including (i) an expected average annual cost for windstorm losses of approximately $73.7 million as determined by FPL's outside expert Mr. Harris, (ii) the possibility that Florida is in the midst of a much more active hurricane period relative to average levels of activity over the much longer term, (iii) the potentially diminished availability of non-T&D property insurance, (iv) the impact of the recent severe and unprecedented storm seasons on customer bills in the near term, and (v) the opportunity to revisit this issue in future proceedings, establishing a Reserve level of approximately $650 million is reasonable at this time.

Q. Do either of the Company's recommendations eliminate the possibility of special assessments for future storm damage?

A. No. Without an annual surcharge or accrual to fund ongoing storm restoration costs, the Reserve naturally will decline over time as costs are charged against the
Reserve. If we are fortunate enough to experience a few years of below average storm losses, the Reserve may be sufficient to avoid an additional surcharge or securitization during that period of time. However, Mr. Harris' analysis concludes that the expected value of the Reserve under the Company's primary recommendation would be approximately $350 million after five years and that there would be a 17% chance that the Reserve would be insufficient at some point over the next five years to fund required storm restoration costs. He also concludes that the expected value of the Reserve under the Company's alternative recommendation would be approximately $300 million after five years and with an 18% chance that the Reserve would be insufficient to fund restoration costs at some point over the next five years. In addition, the primary recommendation would be expected to have a lower probability of Reserve insolvency than the alternative recommendation during the initial three years due to its higher expected Reserve balances. Of course, future storm activity will dictate the necessity for any type of special assessments or additional issuances of storm-recovery bonds.

POLICY ISSUES

Q. What are the key policy considerations underlying any storm cost recovery framework?

A. First, storm restoration is a cost of providing electric service in Florida and, therefore, properly recoverable through the rates and charges of the Company. This principle is clearly acknowledged in past Commission treatment of storm
restoration costs and is addressed directly in the Settlement Agreement. While we
cannot predict with certainty when storms will occur, we can predict with virtual
certainty that tropical storms and hurricanes will affect our service territory and
we will incur costs for restoring power. However, those costs are not reflected in
the Company’s base rates. Previously, a small portion, i.e., $20.3 million, of the
expected annual losses were reflected in base rates. To have attempted to reflect
in base rates the expected average annual cost of storm restoration plus an amount
sufficient to replenish the Reserve in a reasonable period of time would have
required a base rate increase of $100 million. Instead, the Settlement Agreement
held base rates constant and moved all such costs outside of the Company’s base
rates for recovery through a charge associated with Securitization or another form
of surcharge to recover the cost of restoring power in the wake of storms.

Second, each ‘generation’ of customers should contribute to the cost of storm
restoration, even if no storm strikes in a particular year. Since storms will occur
and only their timing is uncertain, the true cost of providing electric service
should include an allowance for some level of restoration activity.

Third, however, “pre-funding” restoration costs sufficient to cover an extreme
sub-period of storm activity (i.e., building up a Reserve sufficient to cover
virtually all storm restoration) is likely to be economically inefficient. Thus,
some mechanism for recovery of the prudently incurred costs that exceed the
Reserve is required.
Each of these principles has been reflected, expressly or implicitly, in prior Commission decisions relative to the establishment of the Reserve and the recovery of storm restoration costs.

Q. Please describe the principal components of the Commission’s approach to storm cost recovery.

A. Prior to Hurricane Andrew, FPL had a small Reserve and maintained commercial insurance coverage for its T&D network. The costs of carrying this insurance were recovered through base rates. The cost of storm restoration, therefore, was borne by customers over time largely through the cost of insurance included in the Company’s base rate charge.

Following Andrew, commercial insurers withdrew from the market. In the absence of commercial coverage, the Company established and the Commission consistently endorsed an overall framework that consists of three main parts: (1) an annual storm accrual, adjusted over time as circumstances change; (2) a Reserve adequate to accommodate most but not all storm years; and (3) a provision for utilities to seek recovery of costs that go beyond the Reserve. The regulatory framework is designed to provide the flexibility to prevent unbounded growth of the storm fund during extended periods of extremely low storm activity as well as provide for supplemental recovery of deficits in the Reserve during periods of high storm activity.
These three parts act together to allow FPL over time to recover the costs of storm restoration, while at the same time balancing competing customer interests, namely: holding the ongoing impact to reasonable levels; reducing the volatility in customer bills which occurs when the Reserve is insufficient; and promoting intergenerational equity. This balance requires periodic adjustment in the main components of the framework – the annual charge and the appropriate Reserve balance – in light of changing storm experience and the growth of FPL’s T&D network. The annual charge can be reduced if a period of favorable loss experience leads to an excessive build-up in the Reserve level, while, conversely, a period of unfavorable loss experience will lead to depletion of the Reserve and a need to increase the annual charge.

Q. Please summarize your understanding of the Commission’s policy on the appropriate Reserve balance.

A. The Commission’s policy, as articulated in Order Nos. PSC-95-1588-FOF-EI, PSC-95-0264-FOF-EI and PSC-98-0953-FOF-EI, is to determine a Reserve balance that is sufficient to protect against most years’ storm restoration costs, but not the most extreme years. Such a level should reduce dependence on a relief mechanism such as a special customer assessment. Obviously, the lower the Reserve balance, the more likely that storm losses will exceed the funds available in the Reserve and therefore the greater the reliance on special assessments. The higher the Reserve balance, the less likely windstorm losses will exceed the funds available in the Reserve.
Q. How do the Company’s primary and alternative recommendations comport with the Commission’s framework for storm cost recovery and the policy objectives you have described?

A. While the two requests present some differences, most notably in the time period over which recovery is accomplished, fundamentally each is consistent with the general framework established by the Commission. Both approaches allow the recovery of costs to provide electric service. Likewise, both requests will help to ensure adequate funding for future storm restoration while minimizing the need for additional special assessments. The one principal difference, as I noted, is that securitization allows the costs of a sub-period of extreme storm activity to be “smoothed” and borne by customers over a longer time frame, thus mitigating the rate impact on current customers. In addition, the Company’s primary recommendation provides immediate replenishment of the Reserve in time for the next storm season.

Q. Did the passage of Section 366.8260, Florida Statutes, which provides for the issuance of storm-recovery bonds alter the current framework for storm cost recovery?

A. No. Section 366.8260 simply provides the Commission with an additional option for recovery of storm restoration costs that have exceeded the Reserve and for replenishment of the Reserve. Under Section 366.8260, recovery of deficits and replenishment of the Reserve would be achieved through the issuance of storm-recovery bonds which are repaid by customers through a non-bypassable charge.
Q. What are the comparative benefits of securitization relative to the conventional surcharge?

A. A primary benefit of securitization is the ability to immediately replenish the Reserve and to "smooth out" the rate impact of an extreme sub-period of storm activity making it a useful tool for recovery of existing deficits and replenishment of the Reserve.

In contrast to storm-recovery bonds, a surcharge is well suited for funding annual expected losses and maintaining the Reserve because it can be adjusted over time if actual storm losses are significantly higher or lower than expected over an extended period. A short-term, temporary surcharge can be a cost-effective means to collect a deficit over a short time frame, although the impact to customer bills will be greater. Further, one cannot achieve the same bill smoothing impact, as with securitization, simply by extending the surcharge. To do so would not be cost effective because deficits over a longer time frame must be financed with a balanced mix of debt and equity to maintain credit quality.

Thus, practical circumstances then existing will determine whether securitization or a more conventional short-term surcharge is preferable. In light of the significant impact of the 2004 and 2005 storm seasons and the need to quickly replenish the Reserve in preparation for potentially more active storm seasons in the coming years, the Company's recommendation is that the issuance of storm-
recovery bonds is preferable at this time to conventional surcharge recovery for storm costs.

As provided in Document No. MPD-1, the monthly charge associated with the issuance of storm-recovery bonds in the Company's primary recommendation is estimated to be $1.58 for a typical (1,000 kWh) residential bill over the life of the bonds. The Company's alternative recommendation, which provides for recovery over a three-year period in a more traditional manner, would have an initial monthly customer impact of $6.84 for a typical (1,000 kWh) residential bill as shown in Document No. MPD-2. The impact will decline to $5.19 for a typical (1,000 kWh) residential bill once the surcharge for the 2004 storm season has been collected. Thus, while the more traditional approach to cost recovery reflected in FPL’s alternative recommendation certainly is workable, the issuance of storm-recovery bonds would avoid or significantly mitigate rate impacts to customers while at the same time more quickly positioning the Company to respond to another potentially active storm season.

EVALUATION OF ALTERNATIVES

Q. What other alternatives did the Company consider before making its recommendation?

A. The Company considered three other alternatives for storm cost recovery: 1) continuation of the current Storm Restoration Surcharge to recover the 2004 storm deficit, 2005 storm restoration costs and to replenish the Reserve; 2)
keeping the current Storm Restoration Surcharge for recovery of 2004 storm costs in place, establishing a new surcharge for 2005 storm restoration costs, and utilizing securitization to replenish the Reserve; and 3) keeping the current Storm Restoration Surcharge for recovery of the 2004 storm costs in place while utilizing securitization to recover all 2005 storm restoration costs and to replenish the Reserve.

Q. Please describe each of the alternatives that were evaluated by the Company and explain why the Company’s recommendation should be adopted in favor of these alternate approaches.

A. Alternative 1 – Continue Existing Surcharge

The existing storm surcharge would continue until changed by a future proceeding. The surcharge would be applied to jurisdictional storm costs as follows: first to unrecovered 2004 storm costs, next to unrecovered 2005 storm costs, and finally to replenish the Reserve.

This alternative maintains an ongoing levelized customer charge and funds losses and replenishes the Reserve through an annual surcharge. However, given the size of the current deficit from the 2004 storm season and the additional restoration costs from the 2005 storm season, this alternative is not a feasible solution as it would take over ten years to recover the storm restoration costs that have already been incurred without providing any funding for ongoing future storm restoration activities. The current deficit would need to be funded with a balance of debt and equity required to maintain the company’s current credit
quality and free up short-term liquidity to support ongoing operational
requirements such as the fuel hedging program, construction program and clause
underrecoveries, making this alternative more costly to customers compared to
issuing storm-recovery bonds. FPL does not believe this is a practical or desirable
alternative given the costs of the 2005 storm season and the need to prepare for
another potentially strong storm season.

**Alternative 2 – Surcharge for 2004 and 2005 Costs, Securitize Reserve Replenishment**

Under this alternative, the current Storm Restoration Surcharge would remain in
place to recover 2004 storm restoration costs. A new three-year surcharge would
provide for recovery of 2005 storm restoration costs. Replenishment of the
Reserve would be accomplished through the issuance of approximately $400
million (the after-tax equivalent of $650 million Reserve) of storm-recovery
bonds.

While this alternative would provide a viable method of funding restoration costs
and replenishment of the Reserve, it has a larger up-front rate impact to
customers. Under the circumstances, FPL considered it to be less attractive than
the Company’s primary recommendation.

**Alternative 3 – Continue existing surcharge for 2004 costs, Securitize 2005 Storm Costs and Reserve Replenishment**

Under this alternative, the current Storm Restoration Surcharge would remain in
place to recover 2004 storm restoration costs. The Company would issue storm-
recovery bonds of approximately $900 million to fund the after-tax equivalent of
2005 unrecovered restoration costs of $827 million as well as to replenish the
Reserve to $650 million.

Similar to alternative 2, the Company considers this alternative to be a viable
method to recover the current deficit and replenish the Reserve, but feels the
Company's recommendation provides for recovery of costs with less impact to
customer rates.

FPL'S PROPOSED STORM-RECOVERY BOND TRANSACTION

Q. Please provide an overview of FPL's proposed Storm Recovery Bond
issuance.

A. FPL will form a bankruptcy-remote special purpose entity (SPE) to acquire storm-
recovery property and issue and sell the storm-recovery bonds. This SPE will be
capitalized by FPL in an amount equal to at least 0.50% of the storm-recovery
bond issuance amount. FPL's capital contribution will be deposited into a Capital
Subaccount, which allows the utility to treat the bond issuance as a financing for
tax purposes and it also acts as a credit enhancement mechanism. As described in
Mr. Olson's and Mr. Davis' testimony, under a recently promulgated Internal
Revenue Services procedure (2005-62), a 0.50% equity contribution will be
sufficient to assure this desired tax treatment. This capital contribution will be
made available to cover any shortfalls in storm-recovery charges and to make
payments on the storm-recovery bonds, if necessary. This equity contribution will be returned to the Company at the time the bonds are paid in full.

FPL will receive the net proceeds after the payment of issuance costs from the bond issuance. The proceeds will be used to reimburse the Company for unrecovered storm-recovery costs with the remaining proceeds (estimated at approximately $400 million) being deposited in the fund. FPL, in its role as Servicer, will collect an irrevocable, non-bypassable Storm Bond Repayment Charge to recover the amounts necessary to pay principal and interest on the storm-recovery bonds as well as ongoing costs (excluding taxes) associated with the transaction from its customers. FPL will also collect a Storm Bond Tax Charge to recover any income taxes associated with the Storm Bond Repayment Charge. FPL will transfer the Storm Bond Repayment Charges deemed collected to a collection account at the SPE on a daily basis. (FPL's role as Servicer, will be discussed further in Mr. Olson's testimony). The SPE will then apply the collections to the general subaccount for distribution to bondholders and other parties in accordance with a priority of payments (or waterfall) for the payment of principal and interest on the bonds and other ongoing costs (described below), such as servicing fees, legal and accounting costs, trustee fees, rating agency fees, and administrative costs. Mr. Olson's testimony provides more detail on the payment waterfall.

Q. Please describe the terms of the storm-recovery bonds.
The storm-recovery bonds will likely be issued in multiple tranches with varying maturities to attract a greater number of investors. The targeted rating on the bonds will be triple-A. Exact pricing, interest rates, terms, tranches and other characteristics will be determined at the time of issuance and will depend on prevailing market conditions.

Q. When are the storm-recovery bonds expected to be issued?

A. The storm-recovery bonds are expected to be issued after all of the following events have occurred: 1) issuance of a financing order (and expiration of appeals period); 2) delivery of necessary SEC approvals under the Securities and Exchange Act of 1933; and 3) completion of the rating agency process.

Q. How will the storm-recovery bonds be sold?

A. The bonds can be sold either through a competitive bidding process or a negotiated sale. The Company is indifferent at this time as to which method is preferable. The decision as to which method may be preferable is dependent on factors such as issue size, complexity of issue, and current market conditions, some of which are not known with certainty at this time. The upfront bond issuance cost estimates below include an estimate for underwriting fees. If the bonds are subsequently sold through a competitive bidding process, the underwriting fee would not be an itemized cost, but would be included in the price of the bonds.

Q. Please provide a description of the upfront bond issuance costs which will be financed with the proceeds of the storm-recovery bonds?
A. Upfront bond issuance costs, which will be financed from the proceeds of the storm-recovery bonds, include the fees and expenses to obtain the financing order, as well as the fees and expenses associated with the structuring, marketing and issuance of each series of storm-recovery bonds, including counsel fees, structural advisory fee, underwriting fees (if the bonds are sold through a negotiated sale) and original issue discount, rating agency and trustee fees (including trustee’s counsel), accounting and auditing fees, printing and marketing expenses, stock exchange listing fees and compliance fees, filing fees, and the costs of any financial advisor retained by the Commission. Upfront bond issuance costs include reimbursement to the Company for amounts advanced for payment of such costs.

Q. Please provide an estimate of these upfront bond issuance costs.

A. The Company estimates the upfront bond issuance costs associated with its recommended $1,050 million in storm-recovery bonds to be approximately $11.4 million if the bonds are sold through a negotiated sale. If the bonds are sold through a competitive bid, the underwriting fees will be embedded in the interest rate offered on the bond. Document No. MPD–3 provides a breakdown of these estimated costs. The Company reviewed several stranded cost recovery securitization filings made by other utilities and developed an estimate of upfront bond issuance costs with the assistance of our financial advisor. These numbers are subject to change, as the costs are dependent on the timing of issuance, market conditions at the time of issuance, the outcome of competitive pricing solicitations
for certain fees and other events outside the control of the Company, such as possible litigation, possible review by the SEC and rating agency requirements.

Q. How will the Company reconcile actual upfront bond issuance costs with the estimates provided by the Company since the actual costs will not be known until after the Commission issues the Financing Order and the storm-recovery bonds have been issued?

A. The proceeds of the storm-recovery bond issuance will be used to pay (or reimburse the Company for) the actual upfront bond issuance costs incurred. If the actual upfront bond issuance costs are below the $11.4 million estimated in the financing order, then the difference will be added to the Reserve and vice versa. Not later than 120 days following issuance, the Company will file with the Commission a reconciliation of actual upfront bond issuance costs with estimated amounts provided for in the storm-recovery bond issuance. The Commission shall review such information and may require the Company to make a contribution to the Reserve in accordance with Section 366.8260(2)(b)(5).

Q. Please describe the estimated ongoing costs (excluding debt service) which will be recovered from the Storm Bond Repayment Charge.

A. In addition to debt service on the storm-recovery bonds (and any swap or other hedging costs), there will be expenses that will be incurred throughout the life of the Bonds in order to support the ongoing operation of the SPE. These ongoing costs are estimated at $850,000 annually, as set forth in Document No. MPD-3, and include servicing fees, legal and accounting costs, trustee fees, rating agency fees, administrative costs, the costs of funding any reserves (such as
replenishment of the capital account) and miscellaneous other fees associated with
the servicing of the storm-recovery Bonds. The SPE will also have at least one
independent director or manager to oversee its operation, and they will receive a
fee for their services and will be entitled to indemnification. Ongoing costs
associated with the transaction do not include the federal and state tax liabilities
associated with the collection of the Storm Bond Repayment Charge, which will
be recovered by the Company through the collection of a separate charge (the
Storm Bond Tax Charge) described in the testimonies of Mr. Davis and Dr.
Morley.

Certain of these ongoing costs, such as the administration fees and the amount of
the servicing fee for FPL (as the initial servicer) may be determinable, either by
reference to an established dollar amount or a percentage, on or before the
issuance of any series of storm-recovery bonds. Other ongoing costs will vary
over the term of the storm-recovery bonds.

Q. **How will the Company reconcile its actual ongoing costs associated with the transaction with its estimated costs?**

A. Because ongoing costs are recovered through the Storm Bond Repayment Charge,
disparities will be resolved periodically through the true-up mechanism. The true-
up mechanism is described in more detail in Mr. Davis’ testimony.

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

A. Yes.
BY MR. LITCHFIELD:

Q Mr. Dewhurst, have you prepared a summary of your
direct testimony?

A Yes, I have.

Q Would you please provide that at this time to the
Commission?

A Good morning, Chairman Edgar, Commissioners.

As of the end of March, FPL's storm reserve shows a
negative balance of approximately $1.1 billion, and another
hurricane season is rapidly approaching. We are forced to ask
the Commission to make choices: What method to use to recover
the deficit and how much of a reserve to build.

The recoverability of prudently incurred restoration
costs is clearly established by the fundamentals of utility
ratemaking and by prior regulatory rulings, and it is
explicitly acknowledged in last year's stipulation and
settlement agreement. But the mechanism that should be used
for recovery and the target level of the reserve are both open
questions. We have proposed two alternatives: Securitization
and surcharge.

As you know, last year the Legislature passed
securitization legislation, giving the Commission an additional
tool to support the recovery of prudently incurred restoration
costs. Both alternatives are workable, both are consistent
with the policy framework applied by the Commission since
Hurricane Andrew closed off the commercial market for T&D insurance, and both proposals include targeting roughly a $650 million level in the storm reserve, disregarding for the moment future storm losses.

There is no clear analytical way of saying which alternative is better. The choice comes down to policy judgment. Securitization will produce a smaller monthly charge. The surcharge proposal has a shorter recovery period. Under the current circumstances, we believe the securitization approach makes sense, even though the charge will be in place for a longer period, but we can appreciate that some customers might prefer the alternative.

Similarly, there is no clear analytical way of saying what the target reserve level should be. The larger the number, the greater the impact on the immediate customer charge, but the greater the protection before the reserve is exhausted. Other things equal, a larger reserve means lower rate volatility. We believe $650 million represents a reasonable compromise between capacity to handle future losses and impact on customer rates.

If the Commission approves the securitization approach and provides an appropriate financing order, we would expect to issue roughly $1.1 billion in bonds, which would give us the capacity to handle roughly $1.7 billion of previously incurred and future restoration costs.

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My testimony describes our two proposed alternatives and discusses the policy considerations that I believe are relevant to the choices that need to be made. I also discuss alternatives that we considered and then rejected. My testimony also provides an overview of the securitization process and an estimate of the associated issuance costs.

Mr. Olson's testimony provides much more detail on the mechanics of securitization.

That completes my summary. But if I might, as the initial company witness, I thought it might be helpful if I introduced the other witnesses you'll be hearing from just briefly.

Ms. Geisha Williams will describe FPL's plans in response to the storms of 2005, and show that the same factors that led to excellent restoration performance in 2004 were present in 2005. She will support the reasonableness and prudence of the costs incurred in restoring power.

Dr. Richard Brown will present the results of KEMA's independent engineering analysis, which shows that FPL's transmission and distribution system performed well and consistent with expectations during Hurricane Wilma.

Mr. Mark Warner will cover the impact of the 2005 storms on FPL's nuclear facilities and the costs incurred in response.

Mr. Mike Davis discusses the accounting for storm

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costs and details the amounts charged to the reserve.

Mr. Steven Harris will present the results of ABS's independent analysis of the risk of uninsured losses to FPL's T&D system and its implications for the potential solvency of the storm reserve under a variety of future scenarios.

Mr. Wayne Olson of Credit Suisse describes the securitization process in general and FPL's proposed storm recovery bond offering in particular.

Dr. Leonardo Green describes the revenue forecast underpinning the estimates of the storm bond amortization schedules, and also calculates the impact of the 2005 hurricanes on FPL's revenues.

And, finally, Dr. Rosemary Morley discusses the rate and tariff implications of both the securitization approach and the surcharge alternative. Thank you.

CHAIRMAN EDGAR: Thank you.

MR. LITCHFIELD: Madam Chairman, we tender Mr. Dewhurst for cross-examination.

CHAIRMAN EDGAR: Thank you. Mr. Williams.

CAPTAIN WILLIAMS: No.

CHAIRMAN EDGAR: Mr. Kise.

MR. KISE: Nothing at this time. Thanks.

CHAIRMAN EDGAR: Mr. McWhirter.

CROSS EXAMINATION

BY MR. McWHIRTER:

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Q Good morning, Mr. Dewhurst.
A Good morning.
Q You are responsible for Issue 37, and that's the level of funding for the storm reserve; is that correct?
A I don't have Issue 37.
Q Let me read it to you. "What is the appropriate level of funding to replenish the Storm Damage Reserve to be recovered through the mechanism approved in this proceeding?"
A Yes. I'm responsible for that.
Q Actually that's not the question I wanted to ask you about.
What I wanted to reconcile, get you to reconcile for us verbally is that you claim your storm damages were $1.7 billion, and the bond issue that you're seeking is $1,050,000,000; is that correct?
A Approximately, yes.
Q I see. And the difference between the $1.7 billion and the $1.05 billion is you've given what I would call an original discount on taxes that are to be collected in the future; is that correct?
A Well, I would disagree with your term "original discount," which to me means something else.
Q That's customer lingo and not stock market lingo.
A Fundamentally the difference between the 1.7 and the 1.05 is taxes. In fact, there's a table in my direct

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testimony, if you'll bear with me just one second.

On Page 7 of my direct testimony you will see how we reached the $1.7 billion number, which is the sum of $213 million remaining from the 2004 storm season, approximately $827 million from the 2005 storm season, the target $650 million for replenishing of the reserve, that adds up to approximately $1.7 billion. Now those are all pretax costs to the company. So as they are incurred or as they have been incurred, they are written off for tax purposes. So in order to provide the capacity to cover $1.7 billion of costs, we only need to securitize $1.05 approximately billion of debt. So the difference in there is the tax effect. Either way, the customer ends, the burden on the customer ends up being the $1.7 billion, which is simply the costs that we have incurred. So it's neutral in that sense to both, both sides.

Q All right, sir. With respect to Page 7, you're not going to get a $1.7 billion check from the bond underwriter at the time the bonds are sold. You're going to only get 1.3 or, yeah, $1.038 billion. How are you going to allocate that check? Are you going to put the money on 2004 costs or are you going to put the money on 2005 costs or are you going to put part of it in the reserve? Have you got a program for us to tell us what pot it's going to go into?

A Well, it all goes into the reserve. As I mentioned in my summary, the reserve today is a negative $1.1 billion.
After we've been through all this, the reserve will effectively be at approximately $650 million.

Q Well, you're not going to leave it in that reserve. You're going to reimburse yourself, I would imagine, for costs, aren't you?

A If you're asking where does the cash go?

Q Yeah. Where does the cash --

A The cash goes into FPL's central cash pool just like all the other cash.

Q And so you can use that cash for any purpose?

A Yes. Any operational purpose for FPL.

Q The fund is supposed to have earnings on it. How, how do you calculate what component of the fund will be achieving earnings though while it's on, in the storm reserve?

A Thank you. You just reminded -- I mean, a piece of the cash will end up in the reserve. It will be roughly the after tax amount of $650 million. So the funded portion of the reserve is approximately 62 percent of $650 million. The other portion is a deferred tax credit. So that piece will go into the storm fund and it will be invested along the investment guidelines that we've traditionally had for the storm fund.

Q All right. Now on your Exhibit 6 there's a designation that's been given, but your subexhibit in your testimony is MPD-1, and that shows how the money is going to be collected and disbursed each year from the surcharge. Is that
correct?

A That's correct. These are estimates that we prepared based on available data back in December. So the exact numbers would obviously be different and depend upon current market conditions. But approximately these would be correct.

Q Now am I correct that this money that's collected will be subject to a gross receipts tax of 2.5 percent?

A I'm actually not the right person to consult on that. I think probably Dr. Morley or Mike Davis would be the better witnesses to consult on gross receipts tax.

Q Well, Dr. Morley's exhibit excludes a gross receipts tax in her analysis of the impact on the individual customer. So do you want to defer that to her to find out how customers are going to be charged for the gross receipts tax?

A Yeah. I can't answer that piece of your question.

Q Uh-huh. And you don't know whether -- how the utility tax, the 10 percent municipal utility tax that will be charged to customers --

A No. That's correct.

Q -- is that included here?

A That's not -- I don't -- this is the total impact on the customer bill, but I'm not familiar with those particular components of it.

Q I took the liberty of adding up the columns for the 12-year period, and I calculate, and I offer this to you
subject to check, and if you think I have erred badly in my calculations, please quickly advise.

But the money that you're collecting for principal payment, that's on Line 3, over the 12-year period will be $1.04 billion. And then on top of that you're going to collect from customers for income tax, that's the storm damage tax charge on 14, and that's $652 million. And then the amount that you're going to collect from customers for interest on the bonds, that's Line 9, that adds up to $373 million. And then you're going to have $10 million in bond servicing over the period of time. And then on that -- I added $652 million more, but I may have double added there. I calculate that the total you're going to collect from customers over the 12-year period is $2,085,000,000. Does that correspond to your understanding of what you're going to collect?

A Well, I'd have to check the arithmetic. But let me see if I can reconcile what you're talking about. If you go back to the table in the body of the testimony that we were looking at on Page 7.

Q Yes.

A The 1.04 that you calculate is the amount of the financing. So obviously the bondholders expect to get their principal back, and, therefore, the sum of the principal payment on Line 8 of the exhibit should add up to 1.04.

We also need to cover the taxes, the 652, and that is
the reason why Line 14 on the exhibit sums to 652. So if we were to do this as a one-day transaction and turn around and ask the customer to bear the burden in one single day, there would be $1.7 billion of total cost.

But obviously this is not the alternative with securitization. We're stretching those costs out over time. Because they are stretched out over time and the bondholders have advanced the money up-front, there's obviously an interest charge on that.

So subject to check, I would imagine that over, this is roughly a 12-year deal, it should be somewhere a little north of, I would estimate, $300 million of interest that would be incurred over that entire period. So, subject to check, your number $370 million number doesn't seem off.

Q So what's the total amount you're going to collect over that period of time?

A It would a little north of $2 billion.

Q $2 billion.

A Again, and this illustrates the basic difference between the securitization approach and a surcharge approach. Obviously, the shorter the recovery period, the higher the impact on the monthly customer bill. But the quicker the charge is over, the less the interest costs that are incurred. Clearly a dollar that I have to pay now hurts more than a dollar that I have to pay in the future. That's what the
interest effectively represents.

And as I said in my summary, I think that's one of the basic choices that the Commission has to make here is which of those two is the right way to go.

Q When you made your original estimate back in January, you used 5.06 percent as the weighted average interest cost. Have you had reason to change that amount of interest since that date?

A Well, obviously interest rates have changed. Unfortunately, the overall trend of interest rates has been up. I did ask to have done a quick estimate, and we estimate that the impact, if I use today's rates, would be about a two-cent increase on the monthly charge.

Q About 100 basis points on the interest charge you show, it would be closer to 6 percent than 5?

A No. No. I believe interest rates on average have probably gone up about 40 basis points, but that would translate to approximately two cents on the monthly charge. So instead of $1.58 it would $1.60.

Q What would it amount to -- excuse me.

A I'm sorry?

Q I interrupted you. I apologize.

A Yeah. So, in other words, the monthly charge, which back in December we estimated would be $1.58, would now under today's market circumstances be approximately $1.60. So a
two-cent differential because interest rates have risen in the meantime.

Q And you know what the impact on a thousand kilowatt hours would be. What would the dollar impact be? Would it be --

A That I don't know. I don't recall that.

Q Okay. And you, and you don't know whether these numbers include regulatory assessment fee, municipal utility tax, franchise or gross receipts tax?

A As I said earlier, I'm not familiar with the details of those elements. I believe they were covered in Ms. Morley's testimony, but I'm not sure.

Q All right. But you don't know?

A Correct.

Q That's all right. Now once again I'm going to request you to bear with me because I don't have an exhibit for you to look at. But your -- the 10K you filed last month with the Securities and Exchange Commission listed Florida Power & Light Group's O&M expenses for the year 2005 to be $1,307,000,000 million without considering fuel costs, and that's $79 million greater than your O&M costs were in 2004. The surveillance report that you filed with the Commission shows that the retail component of O&M was something like 1.1 -- $1,190,000,000, and that's an increase of only $54 million over 2004.
And the thing that I didn't understand, because I'm not an accountant and perhaps you can explain to us, is if your expenses in 2005 went up by $826 million, why did your O&M expenses only go up $54 million?

MR. LITCHFIELD: Chairman Edgar, I would simply object to the first part of Mr. McWhirter's question. It's not really a question at all but more in the form of testimony. Subject to that objection, I'm happy to have the witness answer.

THE WITNESS: I can't respond to your question without seeing the document you're referring to.

MR. McWHIRTER: I understand.

THE WITNESS: I mean, you're giving me numbers that I -- that are not here.

BY MR. McWHIRTER:

Q Well, what you're saying is you're unfamiliar with your O&M costs being in the neighborhood of 1.19 -- $190 million?

A No, that's not what I said. I can't respond to your question without --

CHAIRMAN EDGAR: Mr. McWhirter, let's keep it as a question to the witness.

MR. McWHIRTER: All right.

CHAIRMAN EDGAR: Thank you.

BY MR. McWHIRTER:
Q Is the money you collect from customers to pay labor costs, is that taxable revenue or do you get a tax deduction for the labor costs going out?

A I think there's a compound question in there. But if I understand your question correctly, the answer to both parts is yes. As we receive revenue from customers, we incur tax liability. And as we incur costs, we get those accredited for tax purposes.

Q And is that same thing true for money that you pay to outside contractors that perform services for your company?

A In general, costs associated with outside contractors would be part of your taxable expense base. So they would be netted out from mere taxable revenue to compute taxable income.

Q Is storm damage an expense which is also tax deductible to the company?

A Well, you need to be a little more specific about storm damage. But in general, yes.

Q And the problem that gives me concern, and I apologize for being stupid in the way I express it, but if it's tax deductible, when do, when does the utility take the deduction and when do the customers get the benefit of that deduction, if it's payable over a 12-year period?

A Well, I can't answer your question, it's so general, without looking at the specifics. But clearly there will be timing differences in the normal course of business, whether it
has to do with storm or anything else. That's what produces deferred tax items, whether those be credits or debits, over the life of whatever particular thing that you are looking at. Those net out. The difference between what we incur for tax purposes and what we report for accounting purposes will be the same.

Q Are you satisfied in your own mind that you have matched it in the best possible way to ensure that the revenue collected from customers is matched to the expenses the customer -- that the company incurs in order that the customers will get the full credit of the expense deduction?

A Yes. I think that's very clear on Page 7.

Q If you'll go back to your table on Page 7 of your exhibit. Am I correct in assuming that should the Commission elect to reduce any of the amount of money you claim in Lines 11, 12 and 13, to the extent of that reduction there would be a comparable reduction in interest costs and tax costs and servicing fees?

A There might be. It would depend exactly on what the Commission chose to do.

For example, if the Commission chose to take some amount arbitrarily out of the 826.9 but say it should be put in the storm reserve, then that wouldn't necessarily be true.

Q Uh-huh.

A To the extent --
Q Can you elaborate on that a little further?

A Well, to the extent that the Commission approves something less than $1.1 billion of securitization issuance, then everything else would come down somewhat proportionately. That's not quite right. Not every item. There are some costs that are essentially fixed or don't vary with the size of the deal. But obviously the biggest component of cost in there is the interest on the debt over the 12 years, and that obviously does vary with the size of the amount that you borrow.

MR. McWHIRTER: Thank you. I'd tender the witness.

CHAIRMAN EDGAR: Mr. Twomey.

MR. TWOMEY: I have no questions, Madam Chair.

CHAIRMAN EDGAR: Ms. Christensen.

MS. CHRISTENSEN: No questions.

CHAIRMAN EDGAR: Mr. Wright.

MR. WRIGHT: Thank you, Madam Chairman.

CROSS EXAMINATION

BY MR. WRIGHT:

Q Good morning, Mr. Dewhurst. I just have a very few questions for you.

On this piece of paper -- my first question for you is this. Given the operation of the rate stipulation that was in effect from 2002 through 2005, isn't it true that every dollar that FPL did not spend on vegetation management or pole inspection or pole repair or pole replacement was an additional
dollar that accrued to the bottom line benefit of FPL's
shareholders?

A Yes and no. I would agree that during the period of
that rate agreement there was a benefit to the bottom line for
any, any benefit, plus or minus for any change in O&M. I would
say that the -- whatever productivity improvements we were able
to make during the course of that agreement very clearly flowed
through as benefits to customers in the most recent rate
renegotiation, meaning that, other things equal, the rate
increase that we would have been looking for would have been
higher had we not had productivity improvements, et cetera.

Q Okay. The answer to my specific question was yes;
correct?

A I think my answer needs to be complete, and it's not
just an absolute. There's a benefit to shareholders for a
period and then there's a benefit to customers.

Q During the period 2002 through 2005 the benefits of
not spending money flowed to FPL's shareholders; true or false?

A The immediate cash flow benefits flowed to
shareholders, yes.

Q Thank you.

A But I don't think that's the complete benefit.

Q And your attorney is entitled to ask you on redirect
if you want to expand your answer. I'm entitled to an answer
to my question as asked.
CHAIRMAN EDGAR: Mr. Wright, let's not start off the day by lecturing the witness.

MR. WRIGHT: Okay.

CHAIRMAN EDGAR: Okay. When you can, a yes or no answer. But he may -- you may expand, if need be.

MR. WRIGHT: Thank you, Madam Chairman.

MR. LITCHFIELD: Could the witness finish his answer, Madam Chairman? I'm not sure he was.

THE WITNESS: No. I've completed my answer.

CHAIRMAN EDGAR: Mr. Wright.

MR. WRIGHT: Thank you.

BY MR. WRIGHT:

Q Will you agree that before 2005 conventional amortization accounting treatment was standard practice for storm deficits?

A No. I would not agree with that.

Q What was standard practice then?

A I'm not sure what, how you would define standard practice. I think probably Mr. Davis is the right witness to speak specifically to the accounting. But I don't think it was amortization accounting.

Q Okay. One more question, I believe. You do testify regarding alternatives considered by the company. Did you consider, did FPL consider conventional amortization accounting treatment for its 2005 storm costs?
A I can't speak to alternative accounting treatments that we chose. My testimony speaks to the fundamental economic alternatives that we considered, most of which had to do with variations on the rate at which recovery would occur; i.e., whether it would be more protracted at a lower monthly charge or more accelerated at a higher monthly charge.

Q Okay. Did you consider in rate design, in the rate alternatives that you considered, amortizing the storm deficit or any part thereof?

A I'm not sure I know how to answer that because I think you have some specific meaning in the term "amortization."

Clearly, both of these methods amortized the remaining unrecovered balance of storm costs over time. So I think my answer is yes.

Q All right. Thank you.

CHAIRMAN EDGAR: Mr. Kise.

MR. KISE: Madam Chair, I just have a couple of questions for point of clarification. And I might also add, I know we were going in the order this way down the table, but to avoid duplication, I deferred to Public Counsel and to FIPUG and the others before I just ask my couple of points of clarification since they're probably going to cover most everything.

CHAIRMAN EDGAR: For -- with three long days and
numerous witnesses, it does help me keep an order to follow the line, but we can, we can do it differently. But let's try to keep some consistency, if we could.

MR. KISE: I'll sit down there tomorrow.

CROSS EXAMINATION

BY MR. KISE:

Q Mr. Dewhurst, I just had a couple of questions. Referring you to Page 7 and 8 of your direct testimony, the table that you had referred to earlier, I believe. Do you see where I'm referring?

A Yes.

Q There's a number in there, and it may be me. As Mr. McWhirter indicated, I'm like him; I'm not a tax person or accountant. I just want to ask you some clarification about this income tax deduction here. It looks like you've deducted a portion for income taxes at 38.575 percent on the table. Do you see where I'm referring to?

A You mean Line 15, the $652 million?

Q Yes. Line 15.

A Yes.

Q And then on Page 8 you describe that, starting on Line 4 and going down to Line 10, with a discussion about the after tax value of costs, and you make a reference to a $400 million fund on line 9, the after-tax equivalent of a $650 million reserve. Do you see where I'm referring to?
A Yes, I do.

Q Can you explain to me why you're making that deduction? I mean, I can read your testimony, but I guess I'm asking you to expand on that a little bit because I'm not following why it is that we do that. Wouldn't -- once you spend money out of the fund, wouldn't you get a corresponding deduction as it comes out?

A Yes. And that relates to the 2004 and 2005 costs. So as those are incurred, they're expensed for tax purposes.

This relates to the $650 million storm reserve. So traditionally and in this case with a funded storm reserve, the total capacity is greater than the amount that is in the storm fund, the actual funded component, and the difference is the deferred tax credit on that. So we will have the capacity for $650 million of future losses, and of that $650 million, approximately 400 will be invested in the fund, and the other 250 will be recorded on the books effectively as a deferred tax credit.

Q Okay. So then the amount that you are -- the amount, if I'm understanding you correctly, and please bear with me, if I'm understanding you correctly, the amount that you're saying needs to be in the reserve for actual, to cover the actual cost is $400 million because the other 250 represents deferred taxes.

A Not quite. The reserve in total will still be
$650 million. It's the other side of the ledger, if you like, of how that gets added up. 400 of that will be effectively in marketable instruments in the fund itself, and the other 250 approximately will be in the form of a deferred tax credit.

Q And so -- but -- and, again, maybe you're being clear and I'm not, but that, the $400 million that's invested -- assume this all happens in the same year, that you have the recovery of the 650 from the customers, you charge them $650 million, recover that money in, and then in the same year you pay out that same amount of money. There is no tax consequence in any one given year; correct?

A No. Let me see if I can explain what would happen in the hypothetical where we do this, so we now have $650 million in the storm reserve, of which $400 million is in the fund itself. And now on, let's say on the next day we get hit with a storm that happens to cost exactly $650 million in restoration costs. We would then have the capacity to handle those $650 million in restoration costs with the $400 million of funds plus the $250 million of deferred tax credit. So, again, we would be able to absorb the $650 million of costs without having to come back to the Commission or the customer.

MR. KISE: Okay. Thank you.

CHAIRMAN EDGAR: Have we -- is there cross from any of the other intervenors? Did I miss anyone? No? Okay.

Questions from staff.
MR. KEATING: Yes. Thank you.

CROSS EXAMINATION

BY MR. KEATING:

Q Mr. Dewhurst, good morning.

A Good morning.

Q Staff is going to hand you what was identified earlier as Exhibit 3. It's a composite exhibit. I apologize for the size. I will refer you to specific bate stamped page numbers as I go through my questions.

Mr. Dewhurst, do you consider yourself an expert in the structuring, marketing and pricing of utility securitization bonds like the bonds being proposed in this proceeding?

A Yes and no. As I think we discussed at my deposition, I don't consider myself an expert in all the details of securitization transactions. I do think I'm qualified because of my general experience in financing to talk about the major elements of them. So with that distinction, it's a yes and no answer.

Q Okay. But you have never personally been involved in the issuance of utility securitization bonds; is that correct?

A No, I have not.

Q Okay. In your testimony you state that you are responsible for communicating the results of FPL's operations to investors; is that correct?
A Yes. That's correct. I am typically the primary speaker on our quarterly earnings calls, and I play the lead role in most of our investor communications efforts. There are many other people involved in that, but I'm typically the principal.

Q In fulfilling this role, have you been asked to explain the recovery of fuel costs to investors?

A Yes, I have.

Q When communicating with investors regarding FPL's request for fuel cost recovery before this Commission, have you indicated to investors that you thought it was reasonable to expect the company would get recovery of such costs consistent with the Commission's past precedent?

A Yes, in general I've expressed that. I've also indicated that in regulatory matters investors need to be aware, as they are, that there are no guarantees. But the basic principles of regulation argue for recovery of fuel costs. It's certainly been the Commission's policy and practice in the past, and, therefore, I think there is a reasonable expectation on the part of investors that as long as those costs have been prudently incurred, that they would be recoverable.

Q And when communicating to investors, have you indicated that FPL believes its storm damage restoration costs from the 2005 storm season were prudent and, therefore, the
company expects it will receive approval for recovery of those costs?

A I'm just trying to think when we have -- in general terms, yes. I think what I've actually communicated is around the time of the January filing in these proceedings, I indicated what we had incurred, what we had filed, what we were requesting, the fact that we had proposed two alternatives and were recommending as the preferred alternative the securitization approach, that we felt that the costs were reasonable, prudently incurred, and that the recovery was very consistent with the terms of the stipulation. Again, I'm usually careful to say there can be no guarantees.

Q And you would agree the Commission approved recovery of the reasonable and prudently incurred storm costs associated with the 2004 storm season; is that correct?

A Yes.

Q Okay. I'd like you to look at, in the exhibit that we provided, bate stamp pages 329 and 330. If you could take a second to locate those.

A 329 and 330. I have those. Give me a moment to read them.

(Pause.)

Okay. I have read them.

Q Okay. Have you seen those reports before?

A Yes, I have.
Q Okay. Let me first ask you about the, the report on bate stamp Page 330. It's got a publication date near the top of July 20th, 2005. That report relates to recovery of 2004 storm costs; is that correct?

A That's correct.

Q Okay. And there's an indication that the Commission will decide how it will deal with the remaining $21 million requested in a separate agenda conference. Do you see that?

A Yes, I do.

Q Okay. Would you agree that FPL subsequently received approval from the Commission for recovery of the $21 million referenced in this report?

A Yes. As I recall, the outcome was to charge the $21 million to the storm reserve, essentially leaving the reserve at that point in $21 million deficit, other things being equal.

Q And if you could turn to the report on bate stamp page 329 with the publication date October 25th, 2005. Would you agree based on this report that although FPL sustained substantial damage to its infrastructure from Hurricane Wilma, that S&P did not expect the effects to result in a lower credit rating for the company?

A Yes, I would agree with that. And the reason being really expressed in the last sentence, which says, "Methods to recover the restoration costs include securitization and rate
surcharges, both of which need Florida Public Service Commission approval." Implicit in this report is S&P's expectation, as they indicated to us at the time, that we would get recovery. Obviously, if we were not to get recovery, they would have a very different view of what the credit impact would be.

Q Thank you. And if you could now refer to bate stamp page 435 from the exhibit that was provided to you.

(Pause.)

A Okay. I have read that.

Q Okay. And would you agree that this document is a, is an analyst report from Merrill Lynch dated November 7th, 2005?

A Yes.

Q Okay. And are you familiar with this document?

A I have seen it before. I read most of the analyst reports when they come out. I don't recall this one at this point, but I'm certain I've seen it before.

Q Moving to page, bate stamp page 439 that's part of the same document -- do you have that?

A Yes, I do.

Q Do you see the heading about a third of the way down the page titled "Constructive Regulatory Framework Set in Place"?

A Yes.

FLORIDA PUBLIC SERVICE COMMISSION
Q Could you please read aloud the first two sentences under this heading?

A "Over the past few months, FP&L has reached regulatory agreements that ensure long-term rate stability and a defined mechanism to recover storm-related costs. These two determinations should minimize risk over the next several years." The report obviously goes on to detail those.

I think it's important to know what Steve Fleishman is talking about here. He's referring to the resolution of the rate case and the resolution of last year's storm cost recovery. And both those frameworks, I think, were viewed by investors as constructive from a regulatory point of view.

Q Would you agree that there were contested issues between FPL and intervening parties in the rate case in which a stipulation was reached last year?

A Yes.

Q Okay. Would you agree that there were contested issues between FPL and the parties with respect to FPL's most recent fuel recovery request?

A I'm really not familiar with that request. I can't remember what the issues, if any, were.

Q Would you agree that there were contested issues between FPL and the parties concerning FPL's request for approval of 2004 storm cost recovery?

A Yes, I would agree with that.
Q Okay. In general, would you agree that most any time FPL comes before the Commission to request an increase in rates, that there will be some contested issues between FPL and the consumer representatives?

A As a general proposition, I would agree with that. Obviously what those issues are, how significant they are could vary dramatically from proceeding to proceeding. But as a general statement, I think that's fair.

Q I'd like you to look at the document that starts on bate stamp page 332 in the exhibit that was provided, and I believe that continues through 333.

A Okay.

Q Okay.

A Give me a moment to read it.

Q I'm sorry?

A Please give me a moment to read it.

Q Okay.

(Pause.)

A Okay.

Q And would you agree that this document is an analyst report from Moody's Investor Services dated December 19th, 2005?

A Yes, I would. I would note though that this is, this is the FPL Group note. I believe at about the same time Moody's put out an equivalent report on Florida Power & Light.
itself, and one needs to be a little careful to make sure one understands the difference between those two. So without that other document, I think we have to recognize that this could, some of this could be out of context.

Q Okay. Well, let me ask you to, to read the last paragraph on bate stamp page 332.

A "The affirmation of the ratings of Florida Power & Light Company reflects its strong cash flow coverage ratios, relatively low leverage, robust demand growth, favorable demographics and low percentage of industrial customers. The utility encountered some challenging regulatory issues in 2005 with regard to its rate case, fuel filing and storm cost recovery, and has had to defer some costs. However, the approach followed by the Florida Public Service Commission has been relatively constructive for Florida Power & Light, and the Commission has allowed the utility to recover prudently incurred fuel and storm restoration costs on a timely basis."

Q Would you agree that one of the primary purposes of this docket is to determine the appropriate mechanism for timely recovery of reasonable and prudently incurred 2005 storm costs?

A Yes, I would.

Q Okay. I'm going to ask you to look at one additional document in the composite exhibit. It starts at bate stamped page 335, and it continues on Page 336.

FLORIDA PUBLIC SERVICE COMMISSION
A Yes. I've read that.

Q Would you agree that this document is an analyst report from Standard & Poor's dated December 20th, 2005?

A Yes, I would. Again, I would note this is a report for FPL Group as a whole. And the comments I made with respect to the Moody's article equally, if not more important, with respect to Standard & Poor's, I suspect there was an equivalent report for Florida Power & Light itself issued at the same time, but that's not what we're looking at here. So this is the credit update, if you'd like, or commentary on FPL Group, the holding company.

Q Okay. Would you agree that Standard & Poor's per this report has placed FPL's credit rating on credit watch with negative implications as a result of FPL Group's announcement of it's planned merger with Constellation Energy?

A Yes. I agree that was the action they took.

Q Okay. Thank you.

I'd like to refer to your testimony. In your testimony you discuss alternatives that FPL considered before making its primary recommendation to issue storm recovery bonds. Do you recall that?

A Yes, I do.

Q Okay. Under the primary recommendation and all the alternatives that are addressed in your testimony, the amounts
that would be recovered by FPL are the same; is that correct?

A Yes.

Q FPL did not conduct any present value analyses to compare the primary recommendation and the alternatives; is that correct?

A Yeah, that's correct. I think as we discussed at my deposition, there was no need to do that. And potentially a net present value analysis could be quite misleading in this situation.

Q Okay. And how could it be misleading in this situation? If you could explain.

A Well, net present value analysis is a standard financial analytical technique that seeks to put future cash flows on a consistent basis by bringing them forward to the future and essentially saying how much would somebody be willing to pay today for the equivalent amount in the future. As such, the correct application of the analysis depends greatly on the discount rate, the rate by which one discounts a future dollar to today. So where a net present value analysis is typically used would be in comparing two investment alternatives where we need to understand what differences in future cash flow profiles might mean, which is worth more today.

The situation we're dealing with here is really the reverse of that. We know the amount that we're looking to,
that we're dealing with today. It's the $1.7 billion. The
problem is now do we spread those costs out over time and which
of two alternatives is preferable? That's a slightly different
question and ultimately depends much more on customers' preferences for different cash flow profiles over time.

As I indicated in my summary, I think different customer groups could prefer rationally either the securitization alternative or the surcharge. So if I were to use a net present value analysis in this, I would need to be very careful to know what the right discount rate should be. And the right discount rate would ultimately depend upon different customers' time preferences, and that's an extraordinary difficult thing to know in advance.

But in this case I don't need to do net present value analysis because, as I indicated, I know what the amount is that we're looking to spread out over future periods. It's $1.7 billion.

It's sort of a basic principle of finance that if I finance something in a competitive marketplace, that is a zero net present value deal except for the transaction costs. So since the securitization is being done in a competitive marketplace, it's a fair deal for, for the amount that's being issued. So the present value is in effect what I'm trying to finance minus any transaction costs.

So as I say, it wasn't necessary to do that analysis,
and it could be misleading because I don't know how to calculate the discount rate that I would need to know to find an answer which I already intuitively know.

Q Would you agree that present value analysis could be used to bring future cash flows to the present?

A I would agree it could be used. And as I said, it could be very misleading. If you don't get the right discount rate, you will get the wrong answer. It will be a garbage in, garbage out problem.

And as I also said, to know what the correct discount rate is in this particular instance, you really would need to know customer time preferences or customer utility preferences, which are really unknowable.

Q Is it correct that the basis for FPL's primary recommendation, that is the issuance of storm recovery bonds in this case, is based on, is based on an assertion that there would be rate mitigation associated with issuance of these bonds as compared to another alternative?

A Yes, that's fundamentally right. If you strictly took a "what's the fewest dollars approach," that would say we should use the alternative. But, as I indicated, that produces a much higher monthly charge, albeit for a shorter period of time.

I believe that in the current circumstances there's a good logical argument for saying that customers would be well
served to have a smaller monthly charge, even though that's spread out over a longer period of time. It tends to mitigate the impact on rates, it gives a smaller impact immediately, and it's likely to produce less volatility in that number going forward.

Q How much of a rate reduction do you believe is required to qualify as rate mitigation?
A I don't know that I can answer with a specific number. It would depend upon the facts and circumstances at the time.

As I say, in this situation my belief is that the difference between the two alternatives in terms of their impact on the monthly bill makes it well worth considering the securitization alternative.

Q Okay. Do you believe that there's a range associated with that?
A I'm sorry. That there's a range associated with --
Q With the amount of rate reduction that would be required.
A I don't know that I'd say there's a range so much as I would acknowledge that different people, reasonable people could differ on which of the alternatives in any hypothetical situation might be preferable, depending upon how wide that difference is.

Q Okay. If you could turn to bate stamp page 254 from FLORIDA PUBLIC SERVICE COMMISSION
the exhibit that staff has provided. Do you have that?
A Yes, I do.
Q Okay. That's a response to an interrogatory, a staff
interrogatory in this docket that asked FPL what the
administrative fee is that it would receive for its role in
collecting franchise fees from its ratepayers and remitting
said fees to municipalities. I'll give you a minute to look at
that response.

CHAIRMAN EDGAR: Commissioner Carter.

COMMISSIONER CARTER: Could we get a page number?

CHAIRMAN EDGAR: Mr. Keating, could you tell us the
page number that you're on again?

MR. KEATING: Yes. It's page 254.

CHAIRMAN EDGAR: Thank you.

THE WITNESS: Okay. I've read that.

BY MR. KEATING:
Q Would you agree that according to this response, the
cost associated with the collection of franchise fees is
recovered through FPL's base rates?
A Well, yes and no. I think what the response says is
that in general most of FPL's franchise agreements don't
provide for a separate fee, although it then goes on to
indicate at least one where there is. But for those where
there's not, it indicates that the costs are, were included in
FPL's most recent cost of service study.
Q Okay. In looking at the next page, bate stamp page 255, in that interrogatory staff had asked FPL what administrative fee it would receive or it receives for its role in collecting local, municipal and state taxes from its ratepayers and remitting those fees to the appropriate governmental entities. And I'll give you a minute to review that.

(Pause.)

A Okay. I've read that.

Q Okay. Would you agree from your reading of this response that the costs associated with the collection of these various taxes are recovered through FPL's base rates?

A Yes, subject to -- I think that's not quite what the response says. It says the costs were included in both FPL's most recent cost of service study and the cost of service study filed in FPL's previous rate case.

I should point out that I'm not really the right witness to address these particular -- these were not interrogatories that I responded to, so really all I'm doing is reading them.

Q Does FPL have -- does FPL have an estimate of the costs, the incremental costs it will incur to perform activities outlined in the servicing agreement that would be one of the transaction documents or one of the documents that allows this securitization to proceed?
A No. We have not developed a separate bottoms-up incremental cost estimate for the servicing agreement.

Just to explain, the servicing agreement is an agreement between FPL and the special purpose entity that would issue the bonds. And it relates to the need to have someone deal with many of the basic servicing functions, primarily making sure that the payments are collected on a timely manner and remitted to bank accounts for the benefit of bondholders.

In order to receive an appropriate bankruptcy opinion, it's necessary that there be compensation for that servicing, the services provided by FPL that's based on an arms-length transaction. So in estimating these for these purposes, we looked at other transactions and took the low end of the range, which in my Exhibit MPD-3 is the, in the lower part of Exhibit 3 the estimate of ongoing costs translates to the servicing fee of $525,000. So that's a fixed amount. We have not prepared a bottoms-up estimate of the actual incremental costs needed to perform those activities.

Q Does FPL to your knowledge forecast kilowatt hour sales in the normal course of its operations?

A Yes, we do.

Q To your knowledge, is the cost of updating these kilowatt hour sales forecasts recovered through current base rates?

A The cost of updating regular forecasts that are
needed in the regular course of business certainly would be recovered through, they're part of the base cost. So those incremental activities would be recovered through base rates.

Q If you could turn to bate stamp page 258 in the exhibit that staff provided, and if you could take just a minute to review that question and answer.

(Pause.)

A Okay.

Q Based on your review of that response, would you agree that the methodology for forecasting kilowatt hour sales for purposes of determining the storm bond repayment charge as proposed in this proceeding will not differ from the way that FPL forecasts kilowatt hour sales for other purposes?

A I would agree that the methodology -- we would propose to use the same methodology that we use for other purposes. That doesn't mean, of course, that the activity would be identical. There would -- in principle there could well be incremental activity. I can't speak to whether there would or not.

Q And if you could turn to bate stamped page 266, and if you could take just a minute to review that question and answer.

(Pause.)

A Okay.

Q Based on your review of that question and answer,
would you agree that with the exception of hedging expenses, all other costs of administering FPL's fuel cost recovery are performed in conjunction with other base rate activities?

A Yes, I would agree with that.

Q Okay. Thank you.

In your direct testimony, and I'm specifically referring to the bottom of Page 9, you discuss a desire to issue the bonds prior to August 1st of this year; is that correct?

A Yes, that's correct. At the time that I drafted my testimony, I was optimistic that we might be in a position to do that. I think today I would probably be less optimistic, but we'll certainly try and do them as swiftly as we can, subject to getting a good deal.

Q Is there anything special about the August 1st date?

A No. I don't think there's anything magical about a specific date. I do think that there is a clear interest in not having an unduly protracted issuance process, but there is nothing absolutely magic about August 1st. I think clearly the further out we go, the greater the pressure on liquidity. But there's nothing particularly magical about August 1st.

Q Would you agree that FPL's storm reserve had a negative balance throughout the entire 2005 storm season?

A Yes, I would. It was roughly on the order of $400 million for most of the year. And then it spiked up
dramatically towards the end of the year when we started
incurring major costs associated in particular with Hurricane
Wilma, and it ended the year with a negative balance of about
$1.1 billion.

Q And if you could refer to Page 27 of your direct
testimony. I believe there you discuss events that must occur
before the storm recovery bonds can be issued. And I'm looking
specifically at Lines 7 through 10.

A Yes.

Q Okay. The first item on Line 8 there, issuance of a
financing order and expiration of appeals period. Would you
agree that this step could take a few weeks to a few months,
depending on the actions of parties other than the company or
the Commission?

A I'm not that familiar with what the time frame for
the appeals process would be, so I'm not sure about the
characterization there. But I would certainly agree that it is
not entirely within the control of either the Commission or the
company.

Q Okay. The next item, delivery of necessary SEC
approvals under the Securities and Exchange Act of 1933. Would
you agree that this step could take a few weeks to a few
months, depending on the speed with which the SEC acts?

A Yes and no. A few weeks, it would certainly be
reasonable. I would think that a few months for a transaction
like this would be unusual, but in principle it could happen.

Q What would you consider a typical range in terms of
the time that the SEC would take to issue the, its necessary
approvals?

A Yeah. Again, I haven't studied, you know, past deals
to see how long it has taken. But just thinking about the
structure of this transaction and what's involved, I would
think it should not take more than four to six weeks to get
through the SEC.

Q And the final item on your list, completion of the
rating agency process, would you agree that this step could
take a few weeks to a few months depending on the rating
agencies?

A Yes. Again with a caveat, I think a few months would
be -- I would be disappointed, let me put it that way, if we
couldn't get through the rating agencies in more than a few
weeks. A lot of the analysis can be done in advance. We know
generically what they will be looking for. And the rating
agencies are usually pretty cooperative in trying to, you know,
focus on getting a rating out there. So it's a little easier
to work with the rating agencies in that regard, I would say,
than the SEC.

Q Is completion of the rating agency process something
that's not entirely within the control of FPL or the
Commission?
A Yeah. I would agree it's not entirely within our
close. As I indicated, I think our experience in other deals
has been that the rating agencies are usually pretty willing to
work with you and get a prompt turnaround time.

Q Thank you. If you could now refer to page stamp page
446 of the exhibit that staff has provided. And when you get
there, if you could take a minute to review that question and
answer. That is staff's request for admission number 2 in this
document.

(Pause.)

A Okay. I have read that.

Q Based on your review of this discovery response, do
you believe that the transaction documents, registration
statement and term sheet for this transaction would be in a
final form two days prior to the proposed series launch date?

A I believe -- yes. I believe they would be in
substantially final form. I think the key word here is
material.

We submitted initial drafts of the documents with our
testimony back in January, so there should be plenty of time to
go through those and review them. If there are any material
items that need to be discussed or modified, it should
certainly be possible to have those all resolved well before we
launch the deal. There will always be, at least the potential
to be final last-minute changes, but they would be ones that I
would not characterize as material.

Q Who would determine whether the changes were material?

A I think the -- it would be inherent in the oversight and approval process because the Commission would sign off on these documents in what I would consider materially final form, and at that point we would be specifying the things that would still need to be filled in. They would typically be the exact details of the transaction.

So I think at that point the Commission could determine whether or not it was satisfied that those items, if they were to change in any way, would give them concern about moving forward with the deal. That's why the approval process is built in there.

Q If the Commission approved the documents in what you've described as substantially final form and there were changes made to the documents after that approval, what recourse would the Commission have if the Commission determined any of those changes were material? In other words, would it have an opportunity to review those documents again?

A Well, it would certainly have the opportunity to review those documents again. But I think the purpose here is to make sure that we don't have those disagreements when we launch the deal. Once you go into the market, while it is possible to pull a deal, it's not a good thing. And so we want
to make sure that we have agreement before we actually launch the deal. So if at that point the Commission were uncomfortable with anything that was not yet specified or the, in other words, the range of alternatives for those things that remain to be exactly specified, I think they would have the opportunity to say and say we're not comfortable going further.

Q Once the documents have been approved by the Commission, could those documents, other than to reflect what you've characterized maybe as some minor changes, could those documents be amended in the future?

A I'm honestly not familiar enough with the specific terms of the agreement, but the short answer is, no, not materially. You can't go forward and then change them significantly after the fact. Most of those documents are in there to make sure that bondholders are adequately protected because ultimately they're advancing money in the expectation that it's going to be recovered. So it's typical in these documents that you can't just certainly unilaterally change them after the fact.

Q Could you say that those documents would never be amended in the future?

A No. I couldn't say they would never be amended in the future. It's hard for me to conceive of a situation in which they would be materially amended in which the Commission wouldn't have an opportunity to review them, if they so wished.
Q Okay. Would you agree that in certain state jurisdictions to your knowledge that various commissions have been involved in the structuring, marketing and pricing of utility securitization bonds?

A Yes, I would agree. My understanding is that there have been a range of different processes used in other situations in other states, and the degree of involvement and exactly the nature of the involvement of the Commissions has varied. In some cases they've taken a very active role. In other cases they've taken a not so active role, merely an oversight role.

Q Could you explain how the staff preissuance review process as proposed by FPL in this docket would work? If you wish, you might want to refer to FPL's response to staff's first set of interrogatories number 1, which is hale stamp page 1 in this exhibit.

(Pause.)

A Okay. I have read that.

Q And again I'll restate the question or the request. If you could explain how that staff preissuance review process as proposed by FPL would work in this proceeding.

A Yes. I think actually the better place, if I might, is to -- if I'm allowed to go to my rebuttal testimony, there's a chart in there that speaks directly to that.

Q Well, let me ask before we do, is what's in your
rebuttal testimony different from what's in response to
interrogatory number 1?

A It's much more detailed, so it explains better, I
think. To get to the answer to your question, it gives much
more detail on how this process would work, which is what I
thought you were driving at.

Q Mr. Dewhurst, I propose then that we address that on
rebuttal, if we need to, in the interest of, interest of moving
this along.

A Okay.

Q Has FPL made any specific plans for marketing the
storm recovery bonds that it proposes in this proceeding?

A No, not yet. I think it's a little premature until
we learn from the Commission which of the two approaches they
prefer. I think a lot of time spent thinking about the
specifics of how you market the debt would be potentially
wasted.

Q So these marketing plans would be developed after the
financing order has been issued?

A Yes and no. I think primarily they would be
developed after the financing order. Though I think once the
Commission has made an overall ruling, assuming that the
Commission wanted to go the securitization route, then that
would be a logical signal for us to start at least thinking
about them.
Q If I could get you to turn to bate stamp page 27 from the exhibit that staff provided. If you could take just a minute to review the question and answer. It's staff interrogatory Number 31 to FPL and FPL's response.

(Pause.)

A Okay. I have read that.

Q Would you agree that this response indicates that FPL will provide the Commission an opportunity to review financing documents and related legal opinions prior to the launch of the bond sale?

A Yes, that's correct.

Q And would you also agree that this group of documents will be voluminous, perhaps hundred or thousands of pages?

A I would agree they'll be voluminous. I don't know about hundreds of thousands of pages. As I said, I think we submitted all the major documents with, in draft form with our initial testimony. So I think, if you like, the guts of those documents have been available to the Commission and its staff now for quite some time.

Q Just to clarify my question, I asked hundreds or thousands of pages. I didn't mean to suggest hundreds of thousands.

A Then I apologize for my hearing.

MR. LITCHFIELD: If it's hundreds of thousands, we might go back to the conventional storm surcharge.
BY MR. KEATING:

Q In that same response, I believe FPL indicates that it does not believe it is necessary for the Commission to participate in the sale on a realtime basis, given FPL's track record in marketing and pricing first mortgage bonds. Is that correct?

A Yes, that's correct. I don't feel it is necessary for the Commission to participate in realtime pricing. Again, we may be veering into rebuttal testimony here, but as I indicate there, if the Commission wishes to participate and take an active role even through pricing, we'd be delighted to have you along. But I don't think it's necessary, and the reason is that by the time you launch a deal like this, you should have a pretty good indication of where it's going to price. You don't launch it until you have a pretty good indication of what the market is going to, how the market is going to react to that. So in launching a deal like this, I would expect to be able to have a pretty high degree of confidence that the deal would price within a plus -- plus or minus a couple of basis point. And a basis point for this deal is equivalent to roughly half a million dollars.

And the factors that would cause the pricing to vary within that kind of range are really what happens on the day, what the market conditions are on the day or the period of
pricing. So at that point there's not a great deal that you can do. There's a few things that you can do on the day of pricing or in the pricing period to try and squeeze a little bit more out of the deal, but they're fairly kind of standard techniques. So as I say, I don't think it's necessary. But if the Commission wants to be there, we would welcome you.

Q Would you agree that the structure, marketing and pricing of utility securitization bonds is different from the structure, marketing and pricing of first mortgage bonds that the response indicates that FPL has a track, a good track record with?

A Yes and no. I would agree that some of the details are slightly different, but the broad approach is very much the same. At one level it's not that complicated. You're going to indicate to the marketplace that a deal is coming. Frankly, some people in the marketplace already believe a deal is coming, which I think is a little premature. You are going to explain to investors what the specific nature of the deal is. And, in particular, in the case of a securitization there is more structuring involved than in a first mortgage bond. By structuring, I mean things like the special purpose entity and its support from the originating legislation and the financing order.

But in both cases you have essentially an education process and a communication process to the investor: This is
the deal, these are its strong points, these are its risks. And then you have a decision to launch, whether the market conditions are suitable when you actually launch. There's a bookbuilding process to try and generate orders and create some price pressure, and then at some point you price the deal. So yes and no. The details are different, but the broad steps in the process are very similar.

Q Are you -- do you have any familiarity with the securitization, utility securitization transactions that have been conducted in Texas and New Jersey?

A I have briefly reviewed sort of some of the history of many of the other deals that are done, but I wouldn't say I'm familiar with them. No, I haven't looked at the details of each transaction. No.

Q Are you aware of whether the language contained in the laws in Texas and New Jersey establish a lowest cost standard for, for purposes of determining, for lack of a better word, the prudence of the cost of funds?

A You've thrown in several things in there that I'm not sure I know or don't know, so let me answer what I do know.

I am aware that some statutes have a so-called lowest cost standard in them. What that specifically means, I think, varies from situation to situation and how it's been applied varies from situation to situation. I don't know the specifics of the Texas legislation. Clearly that's not the case with the

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Florida legislation. That's not in the Florida statute.

Q Do you believe that the Florida Statute prohibits the Commission from requiring FPL to work collaboratively with the Commission either by itself, by its staff or a representative to conduct a transaction in a transparent manner?

MR. LITCHFIELD: I'll object to the form of the question because I think it incorrectly presumes that the utility has somehow indicated it's not willing to work collaboratively on this process. And I think clearly the company has repeatedly indicated that it is, so I would object to the form of the question.

CHAIRMAN EDGAR: Mr. Keating, rephrase.

MR. KEATING: My question essentially was, I think, intended to elicit that same response from the witness.

(Laughter.)

BY MR. KEATING:

Q I will, I will attempt to rephrase. Is it your belief that the Florida law prohibits the Commission in any way from requiring FPL to work collaboratively with the Commission and to conduct the transaction in a transparent manner?

A No. It's not my belief that the legislation restricts that. I do believe the legislation has some sections in it that I've read that sort of contemplate the Commission defining for the utility the ground rules within which it
should operate; i.e., the degree of flexibility it should have, ultimately the degree of decision-making authority over what elements it should have. And that I would certainly encourage the Commission to do. I think it's very important that we have a clear process for determining ultimately who makes the decisions. And I do think the statute speaks at least indirectly to that, but it certainly doesn't preclude a collaborative process.

Q And you are somewhat familiar with the Florida Statute; correct?

A Somewhat familiar with it is a good characterization, yes.

Q Are you familiar with the provision that would provide for Commission review of actual issuance costs 120 days after the bonds have been issued?

A Yes, I'm aware of that provision.

Q Do you believe that interest rates on the bonds are not issuance costs pursuant to the Florida law?

A My clear -- my reading of the law is clearly they're not part of issuance costs. I think the early definition section of the statute makes that clear.

Q If you could turn to page 38 of the exhibit that staff prepared.

MR. LITCHFIELD: Sorry, Cochran. May I ask for a reference?
MR. KEATING: I'm sorry. That was bate stamp page 38. It should be FPL's response to staff interrogatory 49.

MR. LITCHFIELD: Number 38?

MR. KEATING: Bate stamp page 38. Yes.

MR. LITCHFIELD: Thank you.

THE WITNESS: Okay. I have that.

BY MR. KEATING:

Q If you could read from the second sentence on.

A "This process," referring to the staff preissuance review, "includes the opportunity for Commission staff to direct the company not to proceed with the launch of the bond sale if proceeding based upon the prelaunch bond structuring information provided to the Commission staff would not comply with the terms of the financing order. However, the preissuance review process does not contemplate Commission staff actually participating in the bond pricing on a realtime basis for reasons set forth in our response to staff's first set of interrogatories number 31."

Q Without someone involved in the transaction on a realtime basis when the deal is negotiated, how can the Commission be assured that the transaction, in fact, took place at the best interest rate consistent with market conditions?

A Well, first of all, I don't think there's any possible way of knowing if a transaction actually got the best price. All you can know is the actions that were taken in
advance that might lead to an efficient low cost deal.

But I think, as I've tried to make clear in response
to an earlier question, if you have review and oversight all
through the marketing process and up to the launch date, by
then you pretty much know within a reasonable band where the
deal is likely to price.

As I also said, if the Commission wants to be
directly involved in the last little piece in the pricing
itself, we welcome you.

Q Now if you turn to bate stamp page 54 in the
exhibit -- I'm sorry -- 41, and that is the response from FPL
to staff interrogatory 54.

A Okay.

Q Do you see the portion of the response that says that
the most important aspect to the agencies, referring to credit
rating agencies, is recoverability of any storm costs within a
reasonable time frame?

A Yes, I see that.

Q Would you agree that the Commission has granted FPL
recovery of reasonable and prudently incurred storm costs in
the past within a reasonable time frame?

A Yes, I would certainly agree with that with respect
to the 2004 proceedings.

Q Okay. Did FPL --

A Excuse me. The 2004 costs. The proceedings were in
Q Did FPL in your opinion experience any significant disallowances with respect to the recovery of 2004 storm damage costs?

A I think the answer depends on what you mean by "significant," so let me just explain what I think happened. We had proposed an accounting methodology that was really just taking all the direct costs. One change that the Commission made to that was to make an adjustment for capitalization to the extent that the amount that goes into rate base in a fixed rate settlement period, i.e., through the end of '09, is not reflected in a change in base rates. Then effectively there's been -- I don't know there's a disallowance -- it's absence of recovery for that component. But with that one caveat, then I would say no disallowances.

Q But at the -- okay. At the time that FPL's rate case was, was stipulated last year, was FPL aware and the other parties aware that certain amounts had been, had been capitalized as a result of the 2004 storm recovery proceedings?

A At the time the stipulation occurred, yes. But there was no opportunity to revise our rate case filings to reflect the outcome of the 2004 storm cost recovery proceedings.

Q Okay. But would you agree there was an opportunity, given the dynamic nature of the settlement discussion, to address those costs or to address those amounts?
A I'm hesitant to answer because I don't quite remember
the exact time for all these things.
I guess -- I think the answer is yes. I think by the
time we had the negotiations, we at least -- well, we knew
where the, what the outcome of that proceeding was. So I guess
we had the opportunity somehow to reflect it in the
negotiations.

Q Okay. We discussed a little bit earlier, or you
described the servicing agreement that would be one of the, one
of the transaction documents involved in the issuance of storm
recovery bonds. FPL would serve as the servicer initially; is
that correct?

A That's correct.

Q Okay. And FPL cannot resign as servicer for the
transaction; is that correct?

A That's correct.

Q Do you believe that FPL would ever intentionally
default under the terms of the servicing agreement?

A No.

Q Okay. Can you provide any examples of why FPL would
no longer be able to legally perform its servicer functions?

A I've tried to think of situations in which that would
become impossible and I have a hard time doing so. I suppose
it is conceivable that if FPL were bankrupt, there might be
some practical constraints. But even then I think in most
practical situations we'd still be able to continue the basic functions. The basic functions in the servicing arrangement, again, are to be able to collect the charge from customers, account for it accurately, and make sure it's remitted to the benefit of the bondholders. So that the reason that the servicer is FPL, the utility in these situations, is because obviously we are the one who is in the best position to do that. We're billing the customer already, we handle customer calls and all those things, so it's very tightly bound up with our day-to-day operations. As a consequence, as long as we're an effectively functioning entity, it's hard for me to see how we would not be in a position to be the servicer.

Q From your understanding of the servicing agreement, in the event that FPL is replaced as servicer by another entity, would you agree that the, the fee, the servicing fee under the agreement would, would increase?

A Probably. Again, the fee that's set up in order to get the bankruptcy opinion has to be representative of an arms-length transaction. But as a practical matter, I think most likely that if somebody did have to take over the servicing function, they would incur greater costs than FPL would. So I think as a practical matter it would probably go up.

Q Through the mechanism for, through the mechanism that's established in the securitization statute in Florida,
would customers be responsible for the difference in that event?

A Yes.

MR. KEATING: Okay. Thank you. That's all the questions I have.

CHAIRMAN EDGAR: Thank you, Mr. Keating.

Commissioners, any questions for the witness at this time?

Commissioner Carter.

COMMISSIONER CARTER: Thank you, Madam Chairman.

I heard, Mr. Dewhurst, I heard you say that there was no way to say what the reserve should actually -- the amount should be for the reserve. Do you remember saying that early on?

THE WITNESS: No analytical way. Yes, sir.

COMMISSIONER CARTER: No analytical way. And I heard the Attorney General say that it should be $200 million. I heard counsel for the AARP and the Retail Federation say it should be $250 million. And I heard you say for FP&L it should be $650 million; right?

THE WITNESS: Yes, sir.

COMMISSIONER CARTER: But you still say there's no analytical way to say what the reserve should be; correct?

THE WITNESS: I think that's correct.

COMMISSIONER CARTER: You -- Madam Chairman.

CHAIRMAN EDGAR: Commissioner Carter.
COMMISSIONER CARTER: You -- the discussion you had about the net present value, do you remember that discussion that you had?

THE WITNESS: Yes, sir.

COMMISSIONER CARTER: Wouldn't you really -- in order to eliminate possibilities or funding options, wouldn't you want to evaluate all of them, all of the funding models, or certainly more than one?

THE WITNESS: In principle I would agree with you. But the practical options, I think, are fairly limited. If it's going to be a short-term recovery, it can be done at commercial paper rates, which is what's implicit in the surcharge -- explicit in the surcharge alternative. If it gets stretched further out, then it's going to be, have to be financed with a longer term arrangement. Fundamentally for us, the baseline alternative would be first mortgage bonds. And I think relative to first mortgage bonds, a securitization approach is more efficient economically.

COMMISSIONER CARTER: Thank you. Follow-up, please.

CHAIRMAN EDGAR: Commissioner Carter.

COMMISSIONER CARTER: And you also said you'd have to know what the right discount rate is.

THE WITNESS: That's correct.

COMMISSIONER CARTER: Wouldn't you also -- I mean, you'd have to know that anyway, wouldn't you? Whatever
methodology, you would still -- we're talking about bonds, so you would still need to know the right discount rate, wouldn't you?

THE WITNESS: Yeah, I agree with that. The difference is that, at least in my mind, in the typical investment analysis we apply net present value. The discount rate is pretty easy to know roughly what it should be. It's typically the company's opportunity cost of capital. It would not be appropriate in my judgment to apply the company's opportunity cost of capital in a net present value analysis of these customer payment streams.

COMMISSIONER CARTER: So roughly just from a layman's standpoint, from, roughly from a layman's standpoint, what you'd want to have is, obviously you'd want to have, to know what the discount rate is, would have some kind of amortization schedule with a sinking fund to where roughly the equivalent of one-twelfth per year of the cost of the bond is put in this fund so at maturity they'll be able to pay the full principal amount, and then you'd want to know that you're collecting enough to make the interest payment every six months. So the bottom line is that it's all based upon what the monthly, the amount ratepayers are paying on a monthly basis; is that correct?

THE WITNESS: Well, I agree with that. I would just say that in the net present value analysis you'd be trying to
take -- we know what those are for these two alternatives roughly. So in the net present value analysis, you would be trying to bring those amounts back and put them on a common basis, a single figure today.

And the point I was trying to make earlier is we already know what that amount is, it's the $1.7 billion that we're seeking to recover. So the present -- the only differences that I can see in present value are in the case of securitization there's an extra cost of the transaction costs because there are up-front issuance costs to the tune of approximately $12 million, and ongoing servicing fees which are the equivalent of $3 million or $4 million.

On the other side for the surcharge alternative, we are essentially doing three-year recovery but we're using commercial paper rates. If we were to be strictly competitive market, arms-length, we would be charging a slightly higher interest rate in that. So one way you can look at it is essentially in the surcharge alternative, the customer is leaning a little more on FPL's balance sheet. So there's sort of a benefit there. So that's how I get to the economic conclusion that on a strict economic basis the securitization alternative is very slightly more costly in a present value sense to customers. But I think it's, it's a small amount and in my judgment doesn't override the policy issues, the rate mitigation issues that I think need to be considered here.
COMMISSIONER CARTER: Thank you, Madam Chairman.

CHAIRMAN EDGAR: Commissioners, any other questions at this time?

Mr. Litchfield, for planning purposes, about how long on redirect do you roughly think that you may wish to --

MR. LITCHFIELD: Maybe, maybe five minute, if that.

CHAIRMAN EDGAR: Okay. In that case, we will forge ahead.

REDIRECT EXAMINATION

BY MR. LITCHFIELD:

Q Mr. Dewhurst, Mr. Keating referred to you -- referred you to a few documents in the course of his examination. Do you still have those in front of you?

A Yes.

Q Would you turn specifically to the one that is bates numbered 011947. And that was, I believe, a single page from Merrill Lynch.

A 011947? I'm not finding that one.

MR. KEATING: I believe there are two sets of bate stamps on some of the documents. Some are FPL's bate stamps as they were provided in the course of discovery. The others are staff's, the ones in the center bottom portion of the page. Those were provided in putting together the exhibit.

MR. LITCHFIELD: Okay. Can I ask you to help me then identify that bates numbered document that you referred
Mr. Dewhurst to?

MR. KEATING: Which was the -- which report was that?

MR. LITCHFIELD: Merrill Lynch.

MR. KEATING: 435.

THE WITNESS: Okay. I have that one.

BY MR. LITCHFIELD:

Q Okay. To be sure that you and I are looking at the same page, does that begin at the top of the page with the phrase "Positions in the Other Regions"?

A I'm sorry. Could you repeat that?

Q At the very top of the page there's a phrase that begins "Positions in the Other Regions," and then there's a subheading beginning about a third of the page, "Constructive Regulatory Framework Set in Place." Mr. Keating referred us to 435.

MR. KEATING: I believe that's 439, which is part of the same document.

THE WITNESS: Oh, I'm sorry. 439. Yes, I have 439.

BY MR. LITCHFIELD:

Q Okay. Would you tell me what this page represents, what it came from?

A Well, it's one out of six pages on a, a note put out by Steve Fleishman, an analyst for Merrill Lynch, going back to November of last year, and it indicates his view of where the company is at that point in time. So that point in time is,
and the reason he put it out is it's just after we had released third-quarter earnings, and so he's stating his view on the results of our operations as well as his outlook.

Q And how many such investor reports are issued in any given month or year, if you can provide me with some parameter?

A Well, let's see. After an earnings release, there would be probably a dozen to 15, and that happens four times a year, and then there would typically be other reports that would be put out during the course of the year whenever there were any significant events. Or, for example, for Florida Power & Light, at the conclusion of a significant regulatory proceeding, many of the analysts, not all, would put out a report on that.

And then in addition, most of them at least once a year will put out what I call an in-depth report, which is their sort of full review and their modeling of potential future financial results. So I don't know what that gets us to, but probably several hundred, a couple of hundred in the course of a year.

Q Do you have any understanding as to whether those were produced to staff in response to the discovery response in question?

A My understanding is they were. I believe the discovery request was for every analyst or rating agency report going back for about a year. So there would have probably been...
a hundred or more of those.

Q Focusing on the specific statement to which Mr. Keating referred you to on 439, bates numbered document 439, it's the sentence beginning "Over the past few months." Do you see that?

A Yes.

Q Can you -- putting that in context of the time that it was issued, can you tell me what the risk levels perceived by investors were for FPL prior to the time that statement was made in this document?

MR. KISE: Madam Chair?

CHAIRMAN EDGAR: Mr. Kise.

MR. KISE: I just want to object to that question. I'm not sure if he's asking whether -- as reflected in this document or is he asking in the abstract what the opinions of investors were. I'm not quite sure.

CHAIRMAN EDGAR: Mr. Litchfield, could you clarify your question?

MR. LITCHFIELD: I'm asking with reference to this statement what is Mr. Dewhurst's appreciation of the risk levels perceived by investors prior to the time this statement was made.

MR. KISE: Again, the same objection. In general is he asking this. I don't think this witness has qualified himself as an expert in general, the general marketplace.
CHAIRMAN EDGAR: And, Mr. Litchfield, I'm not sure what the phrase "appreciation" means in this particular context, so if you'll just try and --

MR. LITCHFIELD: I can rephrase the question.

CHAIRMAN EDGAR: Thank you.

MR. LITCHFIELD: But would remind counsel that Mr. Dewhurst has already indicated that he is responsible for the discussions with and the relationships with investors and communicates with them regularly, and he was taken through an extensive examination by Mr. Keating with respect to those statements and that understanding. So I'm simply asking Mr. Dewhurst based on his understanding in that capacity as CFO of Florida Power & Light Company, does he have an understanding as to what investors perceive the risk level is relative to FPL prior to this statement being, having been made.

CHAIRMAN EDGAR: Mr. Dewhurst.

THE WITNESS: Yeah. I think obviously every investor, every analyst is going to have a somewhat different view of the risk profile of any particular company situation.

What I can tell you based on an awful lot of conversations over the course of last year is that prior to the resolution of the storm proceedings and prior to the settlement agreement in the rate case, there were very significantly heightened perceptions of regulatory risk among most, if not all, investors. The resolutions of those two proceedings were
generally viewed as positive inasmuch as they reduced to
earlier levels the, the perception of risk. And I think it
it's very clear in reading the full context or the full report
here from Steve Fleishman that investors are taking those as
indicative of the risk environment going forward; i.e., that
the Commission provided a constructive resolution of the storm
cost recovery proceedings relating to 2004 storm costs. And,
therefore, assuming the company is prudent in future
situations, we could reasonably expect that they would do the
same in subsequent proceedings. And, similarly, that the
framework embodied in the rate settlement is one that investors
would reasonably expect to carry forward.

So at this time these were, I would say -- the
general perception of risk was that we had satisfactorily
resolved a couple of major regulatory issues, and the
frameworks laid out there would guide the development of
similar proceedings going forward.

MR. KISE: Madam Chair, I just -- because I didn't
perceive Mr. Litchfield's question as calling for the response
that was given, I would just ask that the witness's response
either be stricken or disregarded because he has just given you
essentially hearsay, just his view based on a lot of
conversations with investors.

I think Mr. Keating's examination, if I'm, if I'm not
mistaken, was directed specifically at what is reflected in

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this document, and he walked him very carefully through
document by document and asked him specific questions about
documents and what is reflected here. He didn't ask him
general open-ended questions about all of his conversations.
And so I think the answer -- while the question may not have
called for it, the answer certainly amounts to nothing more
than hearsay. With all respect to Mr. Dewhurst's experience,
that's all it is.

CHAIRMAN EDGAR: Mr. Kise, I'm going to allow the
witness's response to remain in the record as it was couched as
his opinion and his knowledge.

Mr. Litchfield.

BY MR. LITCHFIELD:

Q Mr. Dewhurst, at least with respect to this
particular analyst as reflected in the statement that we've
been focusing on in bates numbered document 439, he was
satisfied with the agreements that were entered into in terms
of their prospects to provide future long-term rate stability
and a defined mechanism to recover storm-related costs. Do you
agree with that?

A Yeah. And maybe I was not precise enough in my
earlier answer. But in that sentence that I read earlier, FPL
has reached regulatory agreements that ensure long-term rate
stability and a defined mechanism to recover storm-related
costs. I think it's pretty clearly implicit in those
statements that, assuming those, that those frameworks continue into the future, that's positive and they act to, quote, minimize risk for the next several years.

Obviously, if the conditions underpinning those agreements were to change, this analyst would change his view.

Q Would you turn to your direct testimony at Page 27.
A I'm sorry. Which page?
Q 27.
A Yes.
Q And do you recall Mr. Keating asked you some questions relative to the Q and A beginning at Line 6 of that page? Do you recall that?
A Yes, I do.
Q And he was asking you, as I recall, relative to prospective time lines as they might be affected by these action items. Do you recall that discussion?
A Yes, I do.
Q Can these activities be conducted in parallel or do they need to be done in sequence?
A To some degree they can be done in parallel. To some degree they need to be done in sequence. The -- ultimately you need to have a final financing order before you can go ahead. So there are certain things that simply cannot be done until you have the final financing order. But in advance of that, in the, for example, in the appeal period, it's certainly possible
to go ahead with, with many of the activities.

MR. LITCHFIELD: Thank you. That's all the redirect
I have, Madam Chairman.

CHAIRMAN EDGAR: Thank you, Mr. Litchfield.

Mr. Dewhurst, you are excused.

(Witness excused.)

MR. KEATING: Chairman, I'm sorry.

CHAIRMAN EDGAR: Mr. Keating.

MR. KEATING: I wanted to move the portions of what's
been identified as Exhibit 4 -- I think I've got a list of the
specific bate stamp page numbers that were addressed by the
witness. That would be bate stamp pages 1, 31, 38, 41, 254 to
255, 260, 266, 329 to 330, 332 to 333, 335 to 336, 435 to 440
and 446.

MR. LITCHFIELD: Madam Chairman, I will have an
objection to perhaps three or four of those, and I'd like
perhaps during the break to review my notes and perhaps get
with Mr. Keating.

CHAIRMAN EDGAR: We will take that up after the lunch
break. And we will be on break until 1:45. Thank you.

(Lunch recess.)

(Transcript continues in sequence in Volume 3.)
STATE OF FLORIDA )
COUNTY OF LEON )

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 20TH DAY OF APRIL, 2006.

[Signature]
LINDA BOLES, RPR, CRR
FPSC Official Commission Reporter
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