BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 060038-EI

In the Matter of:

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

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VOLUME 8
Pages 842 through 1008

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 20, 2006

TIME: Commenced at 5:16 p.m.
Concluded at 7:45 p.m.

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

REPORTED BY: LORI DEZELL
Registered Professional Reporter

APPEARANCES: (As heretofore noted.)
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CHAIRMAN EDGAR: We will go back on the record.

MR. BUTLER: Thank you, Madam Chairman.

During the break I passed out to all of the parties and the commissioners some green envelopes that I'm not going to be referring to yet. But I just figured it would be better than taking up time to distribute documents later.

And also during the break, I understand that Public Counsel was able to get Mr. Byerley a copy of this RUS bulletin that he has added the reference to in his testimony and I want to ask him a couple of questions about that.

BY MR. BUTLER:

Q You now have a copy of the RUS bulletin 1724E-204 in front of you, Mr. Byerley?

A Yes, sir.

Q I think your mic may not be on.

A Okay. Thank you.

Q Thank you. First of all, let me just ask you something about the cover page to it. You'll see that it has a date of June 6, 1997 on it?

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A Yes, sir.

Q And if you look up in sort of the middle of this block of information about it, it says that it has an expiration date seven years from the effective date. Do you see that?

A Yes, sir.

Q Would you agree that that would make this apparently expired?

A No, sir.

Q Why is that? I'm obviously just adding seven years to June 6, 1997 and getting June 6, 2004.

A I called Don Hidden at RUS in Washington, D.C., who is their transmission specialist, and I asked him that very question. And he said that the thing is in revision but if it's not been rescinded, so it is still considered to be in effect.

Q You don't have copies of any of the revisions with you?

A No, sir, it's not out for revision. It's in committee for revision right now. It's in the process of being revised. I did ask him specifically if the item I referred to was up for revision, and he told me no.

Q Now, this is a bulletin of the Rural Utilities Service, correct?
That's correct.

Okay. Do bulletins of the Rural Utilities Service control with respect to an investor-owned utility such as FPL?

No, sir.

Does the Rural Utility Service serve as a lender to REAs -- I'm sorry, to rural electric coops?

That's correct.

Okay. So one of the things that the RUS, I'll use that instead of Rural Utility Services --

Fine.

-- because that's faster -- one of the things that the RUS is looking to do is to ensure that it's interest as a secured lender is protected in any of the property that is maintained by the rural electric coops that borrow from it, correct?

Yes.

Would you agree that, in general, a secured lender has an interest to specify very conservative standards because what it wants to do is to be sure that its secured property is properly secured against any loss?

I don't have any experience in that area.

Okay. Would you turn to page 7 of the bulletin in question?
A Yes, sir.

Q And there is a section 5.2.5 in here which I believe is at least in part what you are referencing this bulletin for; is that right?

A Yes, sir.

Q And what this says is that, in part, locknuts shall be provided for each structure bolt or American Nut Company Anco (phonetic) type self-locking nuts may be used.

Then it goes on to say, "locknuts shall be the galvanized MF or NCO type." Do you see that?

A Yes, sir.

Q Is it your understanding that the bolts used in the Conservation-Corbett 500 kV line are galvanized steel?

A My understanding was that they were core 10 weathering steel.

Q All right. In other words, they were not galvanized steel, correct?

A That's correct.

Q In your opinion would it be good practice to use galvanized nuts on a nongalvanized steel bolt?

A No, sir, you would use a galvanized bolt and nut together.

Q Let me turn back to your prefiled testimony,
Mr. Byerley. Would you turn to page -- excuse me, page -- well, actually, I guess there's not really a page reference you need for this question. Under FPL's Osmose program, would you agree that poles could be identified with minor deterioration that would not require the poles either to be replaced or braced?

A Yes.

Q And, in fact, is it true that the National Electrical Safety Code, NESC, recognizes that poles can remain in service despite observable deterioration so long as they continue to meet the applicable strength requirements?

A Yes, that's covered in the code.

Q Okay. I'd like you to turn to page 20 of your testimony. I want to ask you some questions that relate to your comment about the -- on lines 18 through 22, I guess, about the Osmose program detecting a higher percentage of poles with deterioration than the thermovision program. Are you aware that the thermovision program applies exclusively to feeders?

A Yes, I am.

Q And are you aware that in FPL's system, the feeders have a higher percentage of noncreosote poles than do the laterals?

A Yes, sir, I am.
Q: And examples of noncreosote poles would be things such as CCA treated wood poles or concrete poles?
A: Yes.
Q: Would you agree the CCA treated poles and the concrete poles are not significantly prone to deterioration?
A: Yes, I would.
Q: I'm sorry?
A: Yes, I would.
Q: Would you agree that in FPL's system, the feeders are inspected more frequently than laterals?

MR. McGLOTHLIN: Excuse me, I have a -- would you clarify what you mean by inspected? Earlier questions related to Osmose, and now you have a more general question. Would you clarify what you are including?

MR. BUTLER: I'm including all three of FPL's inspection initiatives. Just generally that FPL's inspection programs are focused overall more on -- excuse me -- feeder poles than on lateral poles.
A: To the extent that the thermovision is exclusively on the feeder poles -- and I do not know about the touch points which are a much larger number -- I can't answer your question. I don't know.
Q: Okay. You're aware that the Osmose inspection
program is focused on older poles; is that right?

A  Yes, I believe that was stated.

Q  Okay. In view of the differences that I've just been describing between the thermovision program and the Osmose program, wouldn't you expect to see more deterioration in poles inspected under the Osmose program than you would on those inspected under the thermovision program?

A  Would you restate that, John? I'm not sure I quite follow what your point is.

Q  Okay. I just talked about differences between what is inspected in the thermovision program versus what is inspected in the Osmose program.

What I'm asking you is, in view of those differences in what is inspected, wouldn't you expect to see more deterioration in the population of poles that are inspected under the Osmose program than those that are inspected under the thermovision program?

A  That might be possible but I don't think that's the explanation. I think the explanation is the degree of inspection that takes place.

Q  Okay. But you would agree that the population of poles inspected under the thermovision program is a population that is not as likely to have deterioration in them as the poles that are inspected by the Osmose
program, wouldn't you?
A That seems like a reasonable thing, yes.
Q If you turn to page 21, lines 20 to 21, you have a statement here in the case where -- this relates to the hazard assessments that linemen perform before they do work on poles. "In the case where the work is performed from a bucket truck, which is quite common today, the pole hazard assessment may be abbreviated."
Do you have any evidence that this is the case?
A No, sir.
Q Are you familiar with the hazard assessment forms that linemen fill out before working on poles under this hazard assessment program that you're talking about here?
A Yes, sir, I've seen it. I don't want to say I'm familiar with it.
Q Okay. Do you know what FPL does with those forms once they've been filled out by linemen?
A My understanding is that they are turned into a local area office and then apparently they're not recorded in any sort of database. I have no idea what happens to them after that.
Q Do you know what steps are taken to disposition them once they've been turned into the local offices?
A  No, sir.
Q  Okay. Turn to page 24 of your testimony, please.
   Your testimony talks about here on lines 23 through 25 that you surmised that poles may have been set at too shallow a depth because the birthmarks were located 8 to 10 feet above the ground level rather than at or slightly above the eye level height. First of all, would you explain briefly what you mean by birthmark?
A  A birthmark is identifying information that is burned into the pole at the manufacturer. It normally would contain the name of the owner, the date it was produced, it would contain the height and class and possibly a little bit more information if a particular owner wanted something else. But that's basically the information.
Q  Okay. And do you know for a fact that it's FPL's standard to have the pole birthmarks placed on the poles at a location where they would be at eye level once the poles are installed?
A  Either they don't have a standard or some of the poles are not set properly. I saw -- I saw birthmarks where I would expect them, which would be about six feet, and I saw birthmarks considerably
higher. And the ones I saw considerably higher were on leaning poles which led me to suspect that possibly they had been set too shallow.

Q But unless it were the case that FPL had a standard to place the birthmark on the pole at a height where, when properly set, it would be at eye level, you wouldn't be able to tell whether it had been set too shallow or not simply by looking at the height of the birthmark, would you?

A Not unless there was a standard, but that's the very reason for the standard.

Q So your understanding is that the reason for the standard is to give the crews a way of telling how deeply to set the pole?

A To tell inspectors later how deeply it actually was set and also to provide a convenient level that can easily be seen.

Q If it turned out that FPL's standard practice were instead to have the birthmarks placed so that they would be about 8 to 10 feet above the ground when the pole is installed, would that change your conjecture about the poles being set at too shallow a depth?

MR. McGLOTHLIN: I'm sorry, John, would you repeat that?

MR. BUTLER: Sure.
BY MR. BUTLER:

Q If it turned out to be the case that FPL's standard practice were to have the birthmarks placed on the poles so that the birthmarks would be about 8 to 10 feet above ground level once the poles were installed, would that change your conjecture about the poles being set at too shallow a depth?

A On that pole it would. But on the -- a lot of the other poles I saw were apparently set too deep. Nothing wrong with that. Don't get me wrong.

Q Okay. On page 25 of your testimony, you address the percentage of broken poles from Hurricane Wilma that FPL's forensic teams identified as being deteriorated. Do you know how the forensics teams defined deterioration for the purpose of their Wilma data recording?

In looking at the information, it appears that they were attributing the pole failure to deterioration. These are not -- I didn't make these determinations, FPL did. So I have to assume that if they said it broke because it was deteriorated, then that was the case.

Q And what is it that you are basing your conclusion that they said it broke because it was deteriorated?

A Because that's what their information says.
And what were you looking at? I'm just asking you what documents did you look at that led to you that conclusion?

The forensic team report for Hurricane Wilma.

Did you look at the data reporting forms that were produced to the Office of Public Counsel last week, spreadsheets that showed the pole-related data for broken poles on Hurricanes Wilma and Katrina?

No, sir, I don't think I've seen that.

Okay. Do you have any way of knowing whether broken poles that were identified by the forensics teams as having deterioration would have failed even if they did not have any deterioration present? In other words, that they would have been hit by something that would have broken them or wind speed would have broken them even if they hadn't been deteriorated?

I -- I have my Exhibit 18, a page from the forensic team report, in which they show the broken poles by contributing factors. And among the contributing factors were wind only, deterioration, trees, debris, overload. I do not know how the forensic team arrived at those conclusions. I can only accept the facts that are presented to me.

Okay. Do you know what percent of the broken creosote poles FPL's forensics teams identified after
Wilma as being deteriorated would have been detected and repaired or replaced if they had been inspected shortly before the 2005 hurricane season?

A No, I don't.

Q I want to ask you a series of three hypotheticals that we had discussed at your deposition. These all concern the issue of reliability indices. The first of them asked you to assume that a -- I'm going to use the expression SAIDI. You're familiar with that, aren't you?

Yes.

Q S-A-I-D-I. Okay. And the first hypothetical, assume that a utility had a SAIDI in year one of 70 and the national average was 130; then in year two that utility SAIDI deteriorated slightly to 75 and the national average remained at 130.

Under that circumstance, do you believe that the utility which had the SAIDI of 70 versus the national average of 30 then that deteriorates slightly to 75 versus a national average of 130 should be determined to be imprudent because it's not adequately maintained its reliability?

A I think it would be prudent for them to investigate why it was deteriorating.

Q But would you agree that if they are at a
level of 75 versus a national average of 130, the mere fact that they are now at 75 instead of 70 wouldn't make them imprudent?

A Not necessarily.

Q You wouldn't necessarily agree?

A Oh, I'll say that --

Q Or are you saying it wouldn't necessarily make them imprudent?

A I'm sorry, John, do you mind asking that again?

Q Sure.

A You know I don't like these hypotheticals because being an engineer, it's tough. So bear with me.

Q I recall that.

A I'm trying.

Q Thank you. What I was just asking you to state is whether you would consider that the utility in my hypothetical which has the SAIDI of 70 in year one, SAIDI of 75 in year two, versus in both years a national average of 130, that merely the fact that it went from the 70 to 75 would make that utility's reliability performance imprudent?

A No.

Q Okay. Now, the second hypothetical that I had discussed with you at your deposition concerned a

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utility that has ten customers in year one, it has five vegetation-related outages in year one, and as we discussed, this is a really fast growing utility so in year two it has 20 customers and it now has six vegetation-related outages. Given those numbers, would you consider the utility's vegetation-related outage performance to have deteriorated or improved in year two versus year one?

A Not quite enough facts to answer. But as a percentage, obviously it would not have gone down.

Q In fact, as a percentage it actually would have improved, correct?

A Yes.

Q And the final example I have for you is -- the final hypothetical, have a utility that in year one has five vegetation-related outages and 10 outages associated with other causes so there would be 15 total outages. In year two, it has seven vegetation-related outages, but only five outages for other reasons. In other words, there's 12 total outages.

From the perspective of the utility's overall reliability performance, would you say that it had done better or worse in the second year?

A Overall it's done better.

Q Uh-huh. Mr. Byerley, I want to ask you about
your calculation of costs for replacing deteriorated poles and associated conductor. I think that it would be useful for you to turn to pages 26 and 27. I guess that means turning to your revised pages 26 and 27, doesn't it?

A Yes, sir.

Q Okay. As revised, your testimony on this calculation starts with a figure of 6,925 FPL poles that failed during Hurricane Wilma, correct?

A Yes.

Q Okay.

MR. BUTLER: Madam Chairman, I'm going to ask that the first document out of that green envelope that I had left for everyone be marked for identification, and I have 152 as the next number. And what I would like to have marked as the first of these is the document that says "Preliminary Draft, Hurricane Wilma, Forensics Team" on its cover.

And I would note that although it says confidential on it, this is a version of something that we have agreed with the Office of Public Counsel to do some limited redactions and thereby eliminate the concerning confidential information so that both they and we can use it without having
confidential protection on it.

CHAIRMAN EDGAR: Okay. Thank you for that clarification. And yes, we will mark this as Exhibit 152. You may have already done this, but if you did, do it again, and if you didn't, please do it now, will you give it a title.

MR. BUTLER: I'm sorry. "Preliminary Draft Hurricane Wilma Forensic Teams."

CHAIRMAN EDGAR: Thank you.

MR. BUTLER: Thank you.

(Exhibit 152 was marked for identification.)

BY MR. BUTLER:

Q Mr. Byerley, would you turn to page 9 of what I -- I'm sorry, to page 10 of the document that we've just marked as Exhibit 152.

A Yes, sir.

Q The figure of 6,925 comes from the chart at the very bottom of the page, I'm showing FPL poles and the population and the number failed, correct?

A Yes, sir.

Q Now, I'm going to ask you, please, to mark as Exhibit 153 the document that starts with an e-mail from me to Mr. McGlothlin. And really the title for this I would give is "Updated Preliminary Draft, Hurricane Wilma, Forensics Team." You'll see on the
second page of it there was a date, December 21, 2005?

CHAIRMAN EDGAR: Thank you, Mr. Butler. And

yes, we will mark this as Exhibit 153.

MR. BUTLER: Thank you.

(Exhibit No. 153 was marked for identification.)

BY MR. BUTLER:

Q Mr. Byerley, have you seen what we have just
marked as Exhibit 153?

Okay. I just -- there's two documents here,
two separate documents.

Q There are, yes.

A Okay. I'm with you again. Yes, I see it.

Q Have you seen this before today?

A No, sir.

Q Your counsel had not shown this to you prior
to my handing it to you?

MR. McGLOTHLIN: Are you referring to the
cover e-mail or the document for clarification?

BY MR. BUTLER:

Q Well, we'll start with the document -- we'll
start with the document underneath, the revised or
updated preliminary draft that has the December 21, 2005
date on it. Were you shown this by your counsel?

A I didn't see the document. He told me over
the telephone that he received this document.
Okay. Would you turn to page 10 of it?

Yes, sir.

And where the document that I had just been talking about that is marked as Exhibit 152 has a figure of 6,925 poles failed. You'll see that the corresponding figure on this updated document is 6,368. Do you see that?

Yes, sir.

And are you aware from your discussions with your counsel of the reason for the change from the 6,925 to the 63 -- yeah, 6,368 figure?

Yes, sir.

And that is because the first one included streetlights and the second one did not, correct?

That's what it says.

Okay. I'd ask you to look at page 4 of both of the documents and sort of lay them side by side. You'll see that in both of them they have this little box about the source up in the upper right-hand corner and that says that it's supposed to exclude street light poles?

Yes, sir.

You see that? Okay. Do you have any reason to doubt that the correct number of nonstreet light poles, FPL poles that failed, is the 6,368 shown on
Exhibit 153 rather than the 6,925 that's shown on Exhibit 152?

A Well, I have two questions. First of all, I have not totalled up these numbers but I assume that you're going to tell me that if I were to add up all of these numbers, I would come up with the 6,300 figure.

Q That's right.

A And the second concern I had was, I wondered what they meant by street lighting poles. I noted -- I went back and looked at my pictures when I was driving around and I found a number of them where the street lighting poles were actually on distribution circuits. And I couldn't help but wonder, normally when you see street lighting you see one of two things. The old-fashion style is where you have a distribution pole with a luminaire hung on the side of it. You see quite a few of those.

The new modern style would be an aluminum standard with underground feed and with no distribution on it. I do not recall seeing wooden poles with streetlights and nothing else on them.

So I questioned what -- what does the wooden street light pole, where are they, what do they look like.

Q Where are you getting from the documents the
information that the street light poles would be wooden? Remember, they're supposed to be excluded. I understand your question. But just --

A Well, because either if the street light poles is what I'm accustomed to seeing, which is a distribution pole with a luminaire hanging on it. Other than that, it would be aluminum standards which is common. Once in a while you see concrete or steel but typically it's the aluminum standard that you see in parking lots and along the interstate. And I don't see anything in here that indicates that there's any of those poles involved. So I don't -- you know, I'm not sure what this means.

Q Okay. That's fine.

Do you know whether FPL has in its system standalone street light poles that aren't attaching the street light to a distribution pole used for other purposes, it's actually just for the purpose of supporting the street light?

A Yes, sir. As a matter of fact, when I went back and looked through my pictures, I found -- I printed off several of them, and I printed off a picture of the aluminum standard that we found in West Palm Beach. I wasn't looking for it, it just happened to be in the picture.
Q. I guess just one final try at this question. Do you have any reason to believe that the difference between the 6,925 and the 6,368 is not a result of excluding those standalone street light poles of whatever material they might be?

A. I guess my question would be, why are they not identified on page 10 as being something different than CCA creosote to concrete? I mean, you're talking 600 poles here.

Q. But you will recall that the note on page 4 -- I'm suggesting to you that the note on page 4 indicates that the poles aren't supposed to be there in the first place in either version of this form. Would that be consistent with the information you're seeing on both Exhibits 152 and 153?

A. I see the note. What I can't explain is where are those extra 600 poles. You're telling me there are street lighting poles, and yet in my experience I'm not sure I can even remember ever seeing a street lighting pole, a wooden street lighting pole that had no distribution with it.

Q. Let me ask you about the next step in your calculation. The next step is to multiply the total number of FPL poles that failed in Hurricane Wilma times 45 percent which you say represents the percentage of
FPL failed poles that are creosote poles; is that right?

A Yes, sir. I'm referring to the graph in the lower right-hand corner of page 10. Lower left-hand corner, excuse me.

Q The lower left-hand corner, right?

A Yes.

Q Now, the lower --

A Excuse me, you just caught me in a mistake. I believe that in that correction I put lower right-hand corner and it should be the lower left-hand corner.

Q Because you're referring to the graph or chart that is entitled "broken poles by type," right?

A Right.

Q Where the first bar is creosote and it has 45 percent by it, right?

A That's right.

Q Now, would you agree that that data is kind of disaggregated into broken poles by -- or broken FPL poles by type and then broken telephone poles by type in the two charts that are in the -- on the right-hand side of that page?

A That's correct.

Q Okay. And I'd ask you to look at -- focus on the broken FPL poles by type. Do you see that?

A Yes, sir.
Q Now, would you agree -- do the math if you would like or accept it subject to check -- that the 278 creosote poles as a percentage of the 979 poles total in that sample is more on the order of about 28 percent rather than 45 percent?

A Excuse me, John. I'm looking at the graph in the lower left corner.

Q Yes.

A It says a sample size of 1,741, 1,779 of them are creosote, and it also puts a 45 percent number right there.

Q Yes. No, I'm saying fine, take that. But look over, Mr. Byerley, see the big arrow headed right in the middle of the page?

A Yeah.

Q And if you'll look, the data that appears -- excuse me -- in the two charts on the right are broken FPL poles by type and broken telephone poles by type. Do you see that?

A Oh, yes, sir.

Q And what I'm asking you to do is focus on, instead of the total poles, on the FPL poles by type.

A Yes, sir.

Q And you'll see that there are 278 of them out of a population of 979. Do you see that?
I see a different number, but you're close.
It's 268 out of 980.

Q Okay. You're using the updated version.
That's fine. We can use that instead. The 268 out of 980 would you accept, subject to check, that it is about 27 percent?

A It appears to be 28. And I get that number by subtracting the 62 percent from the 90 percent.

Q That's fine.

A I agree.

Q Somewhere in that range, would you agree?

A Yes.

Q And then in contrast, for the broken telephone poles by type, which is the other chart on that side of the page, the telephone poles are 67 percent creosote, correct?

A That's correct.

Q Okay. So the chart on the lower left-hand corner that you were looking at in fact is a -- sort of a combination of the statistics for broken FPL poles by type and broken telephone poles by type and it averages 45 percent, but the FPL poles that are creosote would only be 28 percent and, in contrast, the telephone poles in that category would be 67 percent; would you agree?

A You're correct.
Okay. If you're looking at the FPL poles that are creosote, wouldn't you agree that the 28 percent would be more appropriate to use than the 45 percent that you used in your calculation?

That's correct.

Okay. The next step in your calculation is to multiply the FPL creosote poles by the percentage of creosote pole failures that were related to deterioration, right, and you used a percentage of 46 percent there for that?

That's correct.

I don't have any quarrel with that. I just wanted to keep flowing through the calculation. You then next multiply the number of FPL creosote poles that failed due to deterioration times $1,700 which you assume to be the normal maintenance cost in 2005 for replacing a pole, correct?

That's the number that FPL has in their -- in their production.

And you actually reference it's page 17 of your document JSB-11, correct?

Page -- I'm sorry, I'm not with you. Page 17?

I think you were referring to page 17 of your JSB-11.

Oh, I'm sorry.
Q  My copy at least, it didn't reproduce well but there is a box about midway from left to right and two-thirds of the way down that is a figure of $1,700 which is the cost of replacing a pole. Is that what you're talking about where you got that figure?

A  I'm catching up with you. Yes, sir, that's the $1,700.

Q  Okay. Would you agree that this $1,700 includes both material costs for items such as the pole and then labor costs that are associated with installing the materials?

A  That would be a reasonable number, yes.

Q  I mean, that's what you would expect this to include, right, both the material cost and then the labor to put it in?

A  At that price, that's what I would expect.

Q  Okay. Now, you take the $1,700 figure and multiply that normal pole replacement cost times a factor of four to reflect increase cost of doing work during hurricane restoration, correct?

A  Yes.

Q  I believe you agreed in your deposition that you had no way of determining what FPL's actual hurricane recovery multiplier would be, correct?

A  That's correct.
Q But you've applied the factor of four to the 
entire $1,700, correct?
A That's correct.
Q So that means you're effectively assuming that 
the cost of materials as well as the cost of labor goes 
up four fold in hurricane restoration conditions, 
correct?
A Yes, I have.
Q Do you have any evidence that FPL pays four 
times as much for a pole it installs after a hurricane 
as it does for a pole it installs in normal conditions?
A No, I don't.
Q Would it surprise you if FPL actually has put 
contracts in place that allow it to acquire poles for 
hurricane restoration at or near the normal cost for 
those poles?
A No, sir.
Q Okay. Let me move to the next step of your 
calculation.

MR. BUTLER: Excuse me just a second, 
Commissioners. This is fortunately the last step 
of this calculation.
Q Finally, after you've determined a cost of 
poles to be replaced in hurricane conditions, you end up 
adding to that the cost of what you consider to be
associated conductor, the cost of repairing or replacing conductor that would have been damaged as a result of the pole failure, correct?

A That's correct.

Q And for doing that, you develop a ratio that divides the total amount for storm -- 2004 storm repair of conductors that's in account 365 by the total 2004 storm repair costs for poles that's in account 364, correct?

A That's correct.

Q Do you know whether account 365, the conductor account, includes costs for repairing conductors that failed for reasons other than pole breakage?

A No, sir, I don't.

Q If it did, if account 365 included costs for conductor repairs for all sorts of different reasons that the conductors failed, would you agree that using the ratio as you did would tend to overstate the cost of conductor repairs associated with broken poles?

A I don't think that's necessarily true. I think when you have pole damage, you typically have conductor damage and vice-versa. They kind of go hand-in-hand.

Q Understood. But the way you have developed the figure is to just develop a ratio of total conductor FLORIDA PUBLIC SERVICE COMMISSION
repair costs divided by total repair, or total pole repair costs and then apply that ratio to what you calculated as the pole repair cost amount to add in an amount for associated conductor, correct?

A Yes.

Q And if the sort of numerator in developing that ratio had all conductor repair costs in it, not just those associated with pole breakage, wouldn't using the resulting ratio for that purpose overstate the amount of the -- excuse me -- associated conductor damage repair cost?

A Well, this is an approximation anyway. But yes, I think it would be better if we had good numbers.

Q Let me turn to your calculation of the cost to replace poles broken by preventable tree damage. And much of this calculation relies on the same logic and parallels the calculation for deteriorated poles that we've just been discussing. So I'm going to limit my questions to you to a particular part of this which is the percent of FPL's poles in Hurricane Wilma that failed due to preventable tree damage.

A Yes, sir.

Q And ask you to look at page 30 and 31. At the bottom of page 30 going over to the top of page 31, you discuss statistics from page 11 of the hardening report
that concern the percentage of conductor damage in Hurricane Katrina that was caused by trees; correct?

A Yes.

Q And you use this information on the percentage of conductor damage that was caused by trees and then ultimately by preventable tree-related damage to develop for Hurricane Wilma the percentage of poles that were damaged by preventable tree incidents, correct?

A That's correct.

Q What information do you have that the statistics on conductor damage from Hurricane Katrina are a suitable proxy for pole damage during Hurricane Wilma?

A I don't have any. I didn't have any data there, and so what I did was just try to make a reasonable assumption and thought that -- I think it was 69 percent in Katrina and I said probably half.

Q At the time that you prepared your testimony, had you read the KEMA report?

A Yes, I had.

Q Are you aware that on page 78 of the KEMA report there is a statistic specifically going to the subject of preventable tree-related pole breakages in Hurricane Wilma?

A Yes.
Q Why did you not use that figure which explicitly goes to this subject of preventable tree-related pole breakages rather than using conductor-related damage from Hurricane Katrina as a proxy?

A I didn't see anything else to support that number and I thought that number seemed pretty unreasonable.

Q Do you have any information that would -- other than just your intuition -- that would make you feel the number is unreasonable? Do you have any statistics?

A No, sir, I don't.

MR. BUTLER: Thank you. That's all the questions that I have. Thank you, Mr. Byerley.

CHAIRMAN EDGAR: Thank you, Mr. Butler.

Mr. McGlothlin, redirect?

REDIRECT EXAMINATION

BY MR. McGLOTHLIN:

Q Mr. Byerley, in response to questions from Mr. Butler, you indicated that you had taken some pictures of street light poles during your field visit to the FPL service area. Did you observe and did you take pictures of any wood poles with streetlights on them that indicated to you they should belong in the
population of total failed poles?

A  Yes.

Q  Would you --

A  I took a number of pictures. I didn't take
the picture of the pole with a luminaire. It turned out
when I reviewed the pictures that there they were. And
that's --

Q  Would you identify them and where they appear
in your exhibit of pictures so that the Commissioners
can see what you're talking about?

A  Okay. It is in Exhibit 2. And I printed off
a few of them I can show you. But specifically photos
8, 13, 16, 23, 26 -- I'm sorry, do you want me to slow
down?

Q  Yes, sir.

A  Yes. I'm sorry.

CHAIRMAN EDGAR: As a matter of fact, we do.

A  I'm sorry. Let's start with 8.

Q  Beginning with picture No. 8, in addition to
the street light does the pole appear to perform any
other service?

A  Obviously it has a transformer hanging on it.

Q  And can you tell what material it's made of?

A  The pole?

Q  Yes.
A: I didn't print that particular one and I don't think -- no, I got the government version here, it's black and white, and I can't really see anything.

Q: Proceed with --

A: But, now, figure 13 clearly shows a street pole -- a street light on a wooden pole. Incidentally -- well, never mind.

Figure 16, figure 23.

Before we go to 23, I'd like to back up to 20.

Figure 20 shows what I call the modern form of street lighting. If you'll notice on the right-hand side across the street, there's an aluminum standard with a luminaire on it. There's no distribution associated with that. And that's what I would refer to as more modern. And the other examples here are -- are old-fashioned, let's say.

23, 26, 55 and 56. I did not see any wooden poles with luminaires on them that did not have distribution.

Q: Well, given what you've observed and based upon your experience and knowledge of how wood poles are used, did the information that certain street light poles had been removed from the total that you used provide any basis in your opinion for removing them from the basis of your calculation?
A No, sir.

Q You were asked some questions about the ratio you used to develop the amount of damage conductor that would have been associated with the damaged poles. And the question included the assumption that the total amount of conductor damage would include conductor damage in addition to that associated with poles. Do you recall that question?

A Yes.

Q Would it be important to know how that total conductor damage was apportioned among different types of causes before agreeing or disagreeing with the appropriateness of segregating out any portion of it?

A Certainly.

Q And if, for instance, the amount attributed to pole damage in the overall account was understated, that would also tend to understate the amount of conductor damage that should be associated with your adjustment, would it not?

A Certainly.

Q You mentioned in your response that conductor damage goes hand-in-hand with pole damage. Would you elaborate on what you meant by that statement?

A They're all tied together. Generally what affects one affects the others.
You were asked about the factor of four that you applied --

Right.

-- to the replacement cost to arrive at a storm associated costs. Would you identify some of the factors that typically would increase under storm conditions that would -- and would have to be taken into account when estimating the replacement costs during storm conditions?

Well, I think there's several things that happen, and I have some experience in this area because working in the emergency operations center. My job there was to assemble the crews and get them out there to make contacts with other utilities and with our contractors, get them moving. You end up paying a lot of premium time. You end up having to house these people and feed them and make accommodations for them, you end up air freighting parts that you would normally send on a weekly basis. Frankly, I think my factor of four is low based on my experience. And I was trying to be conservative here. But that's -- that's my best estimate.

In making that statement, are you taking into accounted the assertion that FPL does not pay four times the material cost for poles in a storm situation?
A No, sir, I -- the pole cost is -- is -- ask me that again. I'm sorry. I kind of got lost in my answer.

Q Mr. Butler suggested in his question posed to you that FPL does not pay four times the materials cost of the pole replacement and asserted that FPL obtained poles at or near the ordinary cost.

A They may very well obtain it at that cost, but the delivery of it may be an entirely different manner. Whenever you start running crews 16 hours a day and you're running them on the weekends and you're paying them double and triple time, the total cost is still -- is going to go up.

Q For purposes of clarification, then, when you use a factor of four, you would not necessarily assume that the material cost per se or --

A Not necessarily.

Q -- would go up by that same factor?

MR. BUTLER: I can't resist. I object to Mr. McGlothlin leading the witness.

MR. McGLOTHLIN: I think that objection is probably well founded.

CHAIRMAN EDGAR: I appreciate that,

Mr. McGlothlin.

MR. McGLOTHLIN: As to earlier objections to
questions by other counsel.

MR. KISE: Madam Chair, am I to understand that the rules of cross-examination are different out here than anywhere else? I thought -- my understanding is you can lead witnesses on cross-examination, at least every other forum I've ever been, in including this one in past hearings. I didn't realize that was a problem.

MR. BUTLER: I don't think it is either. He's doing redirect examination.

MR. KISE: Never mind. I'm asleep once again.

BY MR. McGLOTHLIN:

Q Mr. Butler asked you if you had experience with respect to the maintenance of distribution systems, and you answered no. In your capacity with TVA did you have any different association with maintenance of utility systems?

A Yes. That was -- and specifically distribution, because my experience has been with transmission. And yes, at one point in my career I was the operations manager for the national district which included all the facilities within about a, I'll say, a 40-mile radius of Nashville, include 500 kV lines and stations down to 69 kV lines and stations.

And I was responsible for the electricians,
the linemen, the right-of-way clearing, everything that
goes on out there.

Q Would those responsibilities in that capacity
have included responsibilities for pole inspections?
A Yes.

Q What about vegetation management?
A Yes.

Q You were asked whether you had experience with
responsibility for responses from hurricanes and you
answered in the negative. In your capacity with the
TVA, did you have responsibilities that might be
analogous to such responsibilities over hurricanes?
A Yes. I will answer that two ways. I believe
the question John asked me was did I have experience in
planning for hurricane emergency, and the answer is no.
But I have had experience in planning for earthquakes.
You-all are probably aware that the western
end of our system sits on the New Madrid fault. And
that's the fault that went off in 1811 and created Real
Foot Lake. It shook bells in Charleston. And the
experts are telling us that that fault is going to go
again in the not too distant future. So we did
extensive planning on taking care of our system as a
result of earthquakes.

The other answer to the question is, yes, I've
Q Mr. Byerley, turn, if you will, to page 20 of your testimony prefilled. And if you would, read the sentence that begins at line 20 "with their detailed."

A With their detailed routine of sounding, excavating and boring, Osmose inspectors find deteriorated poles at a rate 20 percent greater than that of the thermovision crews.

Q Mr. Butler posed some questions to you about differences between the Osmose area of inspection and type of pole. Did anything -- did any of the considerations he enumerated explain to your satisfaction a rate 20 times greater than that of the thermovision crews?

A No, sir.

Q He posed to you some hypotheticals, and the first had to do with SAIDI calculations. Would it be important to know what was included and what was excluded in arriving at the SAIDI values and understanding that hypothetical?

A Yes.

Q In response to the hypothetical about changes in vegetation outages, you've indicated that other facts will be needed. Can you specify what additional
information you would like to have in terms of responding to such a hypothetical?

A To be honest, I don't quite remember the question. I'm not sure I'm prepared to answer that.

Q Okay. Well, I don't think it warrants additional time. I'm going to move on.

MR. McGLOTHLIN: Those are all of my questions.

CHAIRMAN EDGAR: Thank you, Mr. McGlothlin.

Exhibits?

MR. BUTLER: I would move Exhibits 152 and 153.

CHAIRMAN EDGAR: Any objections? Seeing none, please show Exhibits 152 and 153 moved into the record as evidence.

(Exhibits No. 152 and 153 admitted into the record.)

CHAIRMAN EDGAR: I'm sorry, were you talking to me?

MR. McGLOTHLIN: Yes. I might have missed something, but I have not attended all the administrative matters -- if 63 -- 66 through 83 have not already been moved into evidence, I move them now.

CHAIRMAN EDGAR: I'm sorry, I'm confused.
MR. MCGLOTHLIN: I may be the one that's confused.

CHAIRMAN EDGAR: Let's work through it together.

MR. MCGLOTHLIN: Mr. Byerley's exhibits are identified as 66 through 83. I'm not clear as to whether they've been admitted into evidence. If they have not been --

CHAIRMAN EDGAR: My understanding is that they are in evidence. Ms. Gervasi, can you --

MS. GERVASI: Yes, that's correct.

CHAIRMAN EDGAR: They are. But Mr. McGlothlin, thank you for asking if you had a question.

Okay we have just moved 152 and 153 into Evidence. And with that, the witness may be excused. Thank you very much.

MR. BYERLEY: Thank you.

CHAIRMAN EDGAR: We will take an approximate 12-minute break and come back, Mr. McGlothlin, for your next witness.

(Break taken.)

MR. BECK: Mr. Larkin, you were not previously sworn?

MR. LARKIN: That's correct.
CHAIRMAN EDGAR: Then we will do that now.

HUGH LARKIN, JR.

was called as a witness on behalf of OPC, and having been duly sworn, testifies as follows:

DIRECT EXAMINATION

BY MR. BECK:

Q Would you please state your name.
A My name is Hugh Larkin, Jr.

Q And by whom are you employed?
A I am employed by Larkin & Associates.

Q Mr. Larkin, did you pre-file testimony in this case?
A Yes, I did.

Q Do you have any changes or corrections to make to your testimony?
A No, not at this time.

Q If I were to ask you the same questions today, would your answer be the same?
A Yes.

MR. BECK: Madam Chairman, I'd move Mr. Larkin's testimony into the record as though read.

CHAIRMAN EDGAR: Show the prefiled testimony entered into the record as though read.

FLORIDA PUBLIC SERVICE COMMISSION
DIRECT TESTIMONY OF HUGH LARKIN, JR.

ON BEHALF OF THE CITIZENS OF FLORIDA

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DOCKET NO. 060038-E1

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the States of Michigan and Florida and the senior partner in the firm Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.) Larkin & Associates, PLLC has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous electric, water and wastewater, gas and telephone utility cases.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?
Yes. I have testified before the Florida Public Service Commission on numerous occasions during the past 30 years. I have also testified before Public Service/Utility Commissions in 35 state jurisdictions, United States District Courts, the Federal Energy Regulatory Commission and the Canadian Natural Energy Board.

Have you prepared an exhibit describing your qualifications and experience?

Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

On whose behalf are you appearing?

Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel (OPC) to review and comment on Florida Power & Light Company (FPL or Company) request for recovery of storm restoration costs, and to address the appropriate methodology for determining the amount to be recovered from customers. Accordingly, I am appearing on behalf of the Citizens of Florida (Citizens).

Are any additional witnesses appearing on behalf of the Florida Office of Public Counsel in this case?

Yes. Donna M. DeRonne, of my firm, is also presenting testimony, as well as James Byerley of R.W. Beck.
II PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF THE TESTIMONY YOU ARE FILING IN THIS CASE?

A. The purpose of my testimony is to set forth the principles which should underlie the cost recovery for storm damages that the Commission should authorize in this docket. These principles set forth a policy which the Florida Office of Public Counsel and I feel are appropriate for establishing the basis for cost recovery in this docket and all subsequent dockets related to the recovery of storm damage costs.

Q. THE BASIS ON WHICH FLORIDA UTILITIES RECOVER MAJOR STORM DAMAGE COSTS IS OFTEN DESCRIBED AS “SELF INSURANCE.” DO YOU AGREE WITH THAT DESCRIPTION?

A. No, I do not. The proper description for the recovery of storm costs under the present method used by the Florida Public Service Commission is “Customer Supplied Insurance.” In other words, utility customers have been assigned the risk of compensating utilities for major components of storm damage costs. It is the Office of the Public Counsel’s and my opinion that the risk shouldered by ratepayers in compensating companies for storm damage costs should be limited to the incremental costs incurred by utilities in restoring service to ratepayers. That incremental cost should reflect only those additional costs incurred by the company in restoring service which exceed costs already considered and reflected in rates.
The incremental cost approach is vastly different from the approach being set forth by FPL. The FPL approach essentially is asking the Florida Public Service Commission to hold the Company harmless from all business risk. In other words, if the Company can establish any tangential association with the storm then the Company claims that these costs are recoverable from ratepayers. On the other hand, the OPC and myself, on behalf of the customers who really are the insurance carrier, claim that in order for a cost to be recovered, it must be incremental. In other words, over and above what is reflected in base rates.

It should be kept in mind that the purpose of regulation is to substitute for competition. The Public Service Commission should look to the business risk which was borne by FPL's customers in regard to the storm damage they incurred as a proxy for the business risk which FPL should bear. Those customers were not able to make claims for items such as lost revenue, backfill, employee assistance, advertising, etc. Because of the tremendous strain that the storms have placed on southern Florida and the Florida economy in general, the Commission must spread the burden of storm restoration costs in a fair and equitable manner and not attempt to remove the business risk that is compensated for in the rate of return provided to electric utilities. FPL's petition states: "In addition to the damage to FPL's infrastructure, Hurricane Wilma caused significant damage to the communities that the Company serves." These communities must refurbish their own infrastructure and do not have the ability to turn to insurance carriers or governmental agencies to hold them harmless from the effects of severe storms.
III. COMPANY’S ACCOUNTING FOR STORM DAMAGE COSTS

Q. IN MR. DAVIS’ TESTIMONY, FPL CONTENDS THAT THE METHODOLOGY THAT IT IS PROPOSING FOR STORM DAMAGE COSTS RESULTS IN THE “MOST ACCURATE WAY TO ACCOUNT FOR ALL FPL’S STORM RESTORATION COSTS BECAUSE IT PROPERLY UTILIZES THE NORMAL COST ACCOUNTING PRACTICES, PROCESSES AND PROCEDURES THAT ARE RELIED UPON BY THE COMPANY IN THE ORDINARY COURSE OF ITS BUSINESS.” DO YOU AGREE WITH THAT STATEMENT?

A. No. Clearly, the Company’s accumulation of cost related to storm restoration is not a daily, recurring practice in the Company’s accounting procedures. If that were the case, the Company would not have to issue special accounting instructions and special work order numbers to accumulate storm damage costs in separate work orders and accounts. It is not a correct or accurate statement to say that the cost accumulated under the Company’s storm cost accounting method results in an accurate, reliable accounting methodology which will result in the proper recovery of cost from ratepayers.

Q. WHY IS THAT SO?

A. The Company’s cost accumulation under storm damage work orders results in the accumulation of all payroll and all materials, supplies and other costs charged to the work order being accumulated as storm damage costs. This is so even though some of the payroll costs and some material and other costs are reflected in rates
and collected from ratepayers during the normal course of business or are costs
that are part of the business risk which the Company should bear.

Q. CAN YOU GIVE EXAMPLES OF SUCH COSTS?
A. Yes. As an example, meter readers and budgeted amounts of overtime for those
meter readers are reflected in O&M costs and are recovered in rates. During
storms most, if not all, meter readers are assigned to storm recovery activities,
either as part of the restoration process (guiding contractor to damaged sites) or
for safety or damage assessment duties. This would be so even though the areas
where they might be reading meters have not been damaged as a result of the
storm. Their payroll and overtime associated with the storm recovery process are
charged to storm recovery work orders. The meters which they would have read
are either estimated or are read in the next month after they return to meter
reading duties. The billings associated with subsequent meter reads recover the
costs of these meter readers along with other employees who might be assigned to
storm restoration activities during the storm recovery period. The accounting
methodology utilized by the Company charges total payroll and overtime during
the period that the employee is engaged in storm recovery activity even though
part or all of his payroll would be recovered through rates in the current or
subsequent months. The methodology offered as accurate and infallible by the
Company cannot and does not differentiate between incremental payroll and
payroll which the Company would recover through the normal rate recovery
method. In other words, the Company is asking to recover the total cost of the
employee involved in the restoration even though part or all of his hourly rate and
overtime costs may already be recovered in base rates.
This methodology of total recovery of storm costs instead of incremental costs results in charging ratepayers twice for the same payroll dollars, once through base rates and a second time through storm related work orders. The same would be true of line crews and other personnel whose time would generally be charged to O&M expense and who now are working on storm restoration. The cost would be accumulated in the storm work orders and not charged to O&M accounts, even though certain levels of payroll and overtime costs are reflected in base rates associated with maintenance of lines, transformers and other distribution and transmission system equipment.

Q. WOULD THE SAME BE TRUE OF MATERIALS AND SUPPLIES?
A. Yes. A certain level of materials and supplies have been included in base rates and recovered from ratepayers in the normal course of billing customers for electric services.

Q. ARE ALL OF THE COSTS FOR PAYROLL AND MAINTENANCE AND SUPPLIES COSTS INCREMENTAL TO THE COMPANY’S NORMAL OPERATING AND MAINTENANCE EXPENSES?
A. First, let me define incremental. Kohler’s Dictionary for Accountants defines incremental as follows: “An increase over some base value expressed as a difference between the new value and the base value.” FPL storm accounting system does not account for only incremental costs. It accounts for total cost of any employee, material, contract cost, supplies, etc. charged to a storm work order. The accounting process utilized by FPL does not account or attempt to
account for the portion of the cost charged to storm work orders that are incremental to the Company’s normal operating expense. The accounting process, which FPL labels as accurate, merely charges every cost associated with employees work on the storm rather than trying to segregate only that cost which is incremental to normal payroll, maintenance and other expense.

IV. THE USE OF VARIANCES OR ESTIMATES OF COST INCLUDED IN BASE RATES

Q. MR. DAVIS' TESTIMONY CRITICIZES THE INCREMENTAL COST APPROACH BECAUSE IT ANALYZES DIFFERENCES BETWEEN BUDGETED AND ACTUAL NUMBERS AND CONCLUDES THAT THESE AMOUNTS RESULT FROM COST BEING CHARGED TO STORM COST. IS HIS CRITICISM A VALID CRITICISM?

A. Hardly. Mr. Davis, in describing the process that the Company uses, states:

“Also, it avoids the necessity of making estimates for year-end budget variances...” However, the Company’s process is replete with estimates.

The Company states that it will remove from the storm restoration work orders those costs which should be capitalized. However, the Company is not relying on the accumulation of cost in the storm work orders to determine what costs should be capitalized, but are making estimates of those costs by using what Mr. Davis calls “normal costs.” This is stated on page 15 of his testimony. However, normal costs are not defined in the testimony until page 26, where it is stated by Mr. Davis that “Each business unit is responsible for preparing an estimate of
capital work as a result of storm damage to its assets. FPL estimates storm
damage related to transmission and distribution assets at normal cost utilizing the
Company’s estimating system.”

In other words, the work orders that accumulate costs for the storm damage is not
accurate enough to determine what costs should be capitalized. In that instance
the Company feels it is okay to use the Company’s own “estimating system.”

Again, on the same page, Mr. Davis states: “Storm damages to all other assets are
estimated individually by each Business Unit.” If, as Mr. Davis states, the
method recommended by the Company results in accounting and recovery of
actual costs incurred to restore electric service, why would the Company find it
necessary to use any estimates? Also, on page 22, when asked to describe the
unrecovered pre-tax 2005 storm recovery costs, Mr. Davis lists the following:
“An estimate for storm restoration activities not yet completed; and an estimate
for completed activities where the final costs are not yet known.”

Mr. Davis states that these costs will be trued-up at a later date. A significant
portion of the 2005 storm costs contained in the filing are based on estimates.
Obviously the Company feels it is okay to use estimates only when it benefits the
Company.

Q. FPL HAS CLAIMED THAT IT IS NOT PROPER ACCOUNTING TO UTILIZE
THE INCREMENTAL APPROACH IN DETERMINING STORM
RESTORATION COST THAT SHOULD BE CHARGED TO THE STORM
RESERVE AND RECOVERED FROM RATEPAYERS THROUGH A
SURCHARGE OR THROUGH SECURITIZATION. HAS FPL ITSELF
UTILIZED AN INCREMENTAL APPROACH IN DETERMINING ANY
PORTION OF THE COSTS THAT ARE REFLECTED IN THE STORM
RECOVERY BALANCE THAT IT WISHES TO CHARGE RATEPAYERS IN
THIS MANNER?

A. Yes, they have. A bit of background is necessary to explain my answer. In
Docket No. 041291-EI (the docket involving FPL's request to recover costs of
restoring its system after the 2004 storm season), FPL asserted that all costs
associated with the storm, including those associated with the replacement of
poles and wires that ordinarily would be capitalized, were storm-related and
properly charged to the storm reserve. OPC argued that the amount that would be
spent on capital items under normal conditions should be capitalized and placed in
rate base, and only the increment above the normal amount should be treated as
extraordinary O&M and charged to the storm reserve. The Commission ruled in
OPC's favor.

OPC's proposed treatment of capital items in that case was a part of its overall
incremental approach to the accounting for storm-related costs. It is analogous to
OPC's position on the expense side, in that, In the incremental approach, the
proposition that normal amounts should be filtered out of the amounts charged to
the storm reserve is common to both the treatment of capital items and expense
items.

In this case, FPL has treated capital costs in accordance with the Commission's
decision in Docket No.041291-EI; that is to say, it quantified the "normal capital
costs” associated with replacing facilities that would be capitalized under ordinary
circumstances and segregated those from the increment above normal costs that
were occasioned by 2005 storm conditions. It proposes to place the “normal
costs” in rate base, and to charge only the extraordinary increment to the reserve
and recover that amount from customers. In doing so, FPL adopted an
incremental approach on the capital side of the storm cost equation, but
inconsistently advanced its non-incremental, “actual cost” approach to the
accounting of expense items. In other words, at the same time that FPL advocates
its “actual cost” approach (and resists the application of an incremental approach)
to expense items, it proposes to employ a form of an incremental approach to the
capital cost side of the same storm accounting exercise. FPL’s proposed
treatment of capital costs in this case belies its claim that an incremental approach
to the accounting for storm costs is inappropriate.

V. FINANCIAL STATEMENTS NOT AFFECTED BY USE OF
INCREMENTAL COST APPROACH

Q. ONE OF THE ARGUMENTS SET FORTH IN MR. DAVIS’ TESTIMONY IS
THAT “USING ESTIMATES IN PREPARING THOSE FINANCIAL
STATEMENTS IS NOT PERMITTED.” IS THAT A CORRECT
STATEMENT?

A. No, it is not. Financial statements are based on estimates of many components
which are not actually known at the time the financial statements are prepared.
For instance, pension accruals are based on estimates of future liabilities for
employee benefits. Unbilled revenue is based on a calculation of the estimate of
what revenues will be billed in a subsequent month. Accruals of payroll, expenses, and other liabilities are made at the end of each month in order to reflect on the financial statements estimates of liabilities incurred or revenues earned which are not known in their exact amount. The 2004 storm cost on the Company’s books includes the total estimated amount even though the Company knew some cost would not be approved by the Commission. In any case, the use of incremental costs which utilizes projections or estimates of what cost the Company would recover through base rates is clearly within the ratemaking process and is based on the Commission’s past practices of using future budgeted test years in setting base rates. It would be inconsistent for the Commission to conclude that it would be inaccurate to utilize budget variances in determining what incremental storm cost restoration is recoverable from ratepayers when the Commission has utilized budgeted test years which have been projected at least two years into the future in establishing base rates. Clearly, the Commission has been comfortable with the budgeting process and analysis of variances from the budget in establishing base rates. Consistency would require that the Commission follow a similar process in establishing incremental cost for storm restoration recoverable from ratepayers.

Q. MR. DAVIS, ON PAGE 16, STATES THAT SOMEHOW THE USE OF BUDGET VARIANCES IN DETERMINING RECOVERABLE STORM DAMAGE COSTS FROM RATEPAYERS IS “INCONSISTENT WITH THE STRINGENT FINANCIAL REPORTING REQUIREMENTS IMPOSED ON PUBLIC COMPANIES BY THE SARBANES OXLEY ACT OF 2000.” IS THAT CORRECT?
A. No, a Public Service Commission can use any reasonable methodology in
determining what costs are recoverable from ratepayers. The Sarbanes Oxley Act
cannot override a Commission’s regulatory authority, nor does it attempt to.

VI. COMPANY’S METHODOLOGY DOES NOT REPLICATE COST
RECOVERY UNDER THIRD PARTY REPLACEMENT COST
INSURANCE POLICY

Q. MR. DAVIS HAS STATED THAT HIS METHODOLOGY WOULD
REPLICATE INSURANCE RECOVERY UNDER THIRD PARTY
REPLACEMENT COSTS. DO YOU AGREE WITH THAT ANALYSIS?

A. No, I do not. First of all, most insurance policies have a deductible. In the
instance of public utilities, that deductible is generally fairly substantial and could
amount to millions of dollars. The Company’s methodology does not duplicate
an insurance policy’s deductible component. Additionally, insurance policies
generally would not cover the recovery of costs which the Company is attempting
to recover if the incremental approach is used, such as, backfill, catch up, or
incremental work not directly related to storm restoration. Insurance policies also
would not generally allow for the recovery of advertisements and communication
costs, employee assistance costs or employee bonuses which the Company is
seeking to recover.
VII. FPL HAS ALWAYS TOUTED ITS BUDGET PROCESS AS BEING EXTREMELY ACCURATE

Q. IN FPL'S LAST RATE CASE, HOW DID THE COMPANY CHARACTERIZE ITS BUDGETING PROCESS?
A. The Company characterized its budgeting process as being extremely reliable and that the Commission could utilize it in establishing base rates even though its budgets and projections were projected for periods up to 24 months. Clearly, if it is appropriate and reasonable to utilize budgets to establish base rates, then it is also reasonable and appropriate to utilize budget variances to determine what level of storm restoration cost should be recovered from ratepayers.

Budget Variance Analysis

Q. MR. DAVIS STATES, ON PAGE 19 OF HIS DIRECT TESTIMONY, THAT COMPARISON OF BUDGETS AND ACTUAL EXPENDITURES ARE NOT A VALID APPROACH AND “…IT IS NOT A TYPICAL, COMMON OR EVEN ACCEPTED ACCOUNTING METHOD FOR COST ACCOUNTING.” IS THAT CORRECT?
A. No, it is not. In fact, cost accounting is generally based on an analysis of variances from budgeted or standard costs. It is the analysis of the difference between what is utilized as standard or budgeted cost and actual costs, which is termed a “variance,” which most manufacturers use in analyzing and evaluating their manufacturing process. Any standard cost accounting textbook will have a chapter on the analysis and control of standard cost variances.
Q. IT HAS BEEN SUGGESTED IN MR. DAVIS’ TESTIMONY THAT UTILITY ACCOUNTING DOES NOT UTILIZE INCREMENTAL COSTS IN RECORDING TRANSACTIONS FOR RATEMAKING OR REGULATORY PURPOSES. IS THAT A CORRECT SUGGESTION?

A. No, it is not. The Uniform System of Accounts has specific instructions which indicate that only incremental costs should be recorded in plant accounts when a construction project results in “a betterment” of a minor item of property. Electric Plant Instructions which direct utilities on how costs are to be recorded in electric plant-in-service has the following instructions:

When a minor item of depreciable property is replaced independent of the retirement unit . . . if the replacement effects a substantial betterment (the primary aim of which is to make the property effected more useful, more efficient, of greater durability, or greater capacity), the excess cost of the replacement over the estimated cost at current prices of the replacement without betterment shall be charged to the appropriate electric plant account.¹

Plant Instructions for the recording of a betterment to utility plant allows only the recording of incremental costs over the current price of the replacement, the difference is charged to O&M expense. This is the same procedure which I am recommending the Commission follow in this case, that is, in calculating restoration costs the Commission should allow for the recovery of only that component of the cost which exceeds normal O&M costs.

¹ 18CFR, Ch 1, PT 101, Plant Instruction 10, p. 302.
THE COMPANY’S TESTIMONY IMPLIES THAT CALCULATING RECOVERABLE STORM COSTS USING AN INCREMENTAL APPROACH IS IMPROPER OR INACCURATE ACCOUNTING, IS THAT CORRECT?

No, it is not. As I have previously stated in the above paragraphs, cost accounting is a discipline within the overall accounting process which is designed to measure the cost of individual processes, products or events. The USOA also follows this process in accounting for certain plant additions. In this case, the Commission should be concerned with measuring only the incremental effect of storm restoration cost on FPL. In order to accomplish that task, it is necessary to segregate those costs during a storm period which would have been incurred by the Company absent the storm. FPL’s methodology of accumulating every payroll, material, contract or other cost in storm related work orders without segregating that component of those costs which would otherwise still be incurred by FPL absent the storm results in a double recovery from ratepayers. The appropriate procedure is to utilize budgets and other available data to segregate from the total storm work orders those components which FPL would have incurred absent the storm. By doing so, the incremental cost of the storm is segregated, and the resulting amount is, in general, the appropriate amount to recover from ratepayers.

Budgeting Process in Determining Variances

FPL WITNESS DAVIS CLAIMS THAT THE USE OF THE BUDGETING PROCESS IS NOT A RELIABLE METHOD FOR DETERMINING STORM COSTS. WOULD YOU PLEASE DISCUSS HIS CONTENTION?
It is interesting to note that the Company has claimed that its budgeting process is extremely accurate. In FPL's last petition for a rate increase, Docket No. 050078-EI, which was filed in March 2005, FPL projected every income and expense account through the year ended December 31, 2006. FPL projected every balance of every rate base account, including plant in service, accumulated depreciation, plant held for future use and working capital over a two year period. The Company contended in that case that the use of these budgets and projections were accurate enough that the Florida Public Service Commission should raise base rates to ratepayers by $384.6 million. Now in the storm restoration case, FPL contends that the budgets and budget variances are not useful in determining what costs are incremental storm costs. It appears to be disingenuous for the Company to claim that it can project budgets for each and every account for a two year period, but that such budgets are useless when compared to actual expenses over a relatively short period of time. The Commission has consistently over the last 20 years, or more, used projections, budgets and forecasts to determine the proper level of rates, fuel costs and other components of rates. The Commission should follow its prior practices and utilize budgets and budget variances in order to determine the proper level of incremental storm restoration costs to be recovered from ratepayers.

MR. DAVIS CLAIMS THAT: "...THE IMPACT OF A HURRICANE, WHICH, AMONG OTHER THINGS, RESULTS IN NORMALLY SCHEDULED WORK AND THE RELATED COST BEING DEFERRED OR DELAYED TO SUBSEQUENT PERIOD, ..." DO YOU AGREE WITH THAT STATEMENT?
A. No. Obviously, there are certain functions that were delayed and it may be necessary to complete at a later date. However, the effects of a storm on electric utility distribution and transmission system is to exploit the points of the electric system which are weak or would have been the subject of maintenance projects. Items such as repairs to poles, cross-arm braces, replacing guys, or braces, all of which would have been maintenance items, are now included within the storm restoration costs. The trimming of trees and brush which would have been maintenance have now been accomplished as part of the storm restoration costs.

In many instances after a major hurricane, utilities will do extra tree trimming and brush removal because customers are more receptive to cutting back trees and shrubbery because they are anxious for power to be restored. Additionally, the 2005 storms affected heavily populated areas of FPL's service territory.

Company Witness Geisha J. Williams stated:

In 2005, FPL and its customers were affected by 4 hurricanes – Dennis, Katrina, Rita and Wilma. All four of the hurricanes impacted the most densely populated areas in FPL's service territory, Palm Beach, Broward and Miami-Dade counties, where 60% of FPL's customers reside.²

The hardest hit areas were Miami-Dade, Broward, and Palm Beach counties. This tri-county area also contains the greatest number of electrical facilities, many of which are located in areas with difficult access such as alley ways and behind homes, and includes areas with very dense vegetation.³

² Geisha J. Williams' Testimony, p. 16, lines 17-20.
³ Geisha J. Williams' Testimony, p. 19, lines 6-9.
The Company would have the Commission and OPC believe that the storm restoration costs, which was major and impacted most of the Company’s service area, could not and did not affect any routine maintenance project. The Company implies that all of the routine maintenance, which is included in the Company’s base rates and budgets, would have been spent on other areas of the Company’s service territory or on other projects within the storm area, but not on any of the transmission or distribution which was restored during the restoration period.

VIII. LOST REVENUE

Q. IF THE COMMISSION USES YOUR RECOMMENDED INCREMENTAL APPROACH TO THE DETERMINING STORM RESTORATION COSTS RECOVERABLE FROM RATEPAYERS, DOES FPL STATE THAT ADDITIONAL ADJUSTMENTS ARE NECESSARY TO THE INCREMENTAL APPROACH?

A. Yes. FPL would add to recoverable storm costs if the incremental approach is used a number of costs. Part of those costs are backfill and catch-up work, vacation buy back, uncollectibles, and other costs that according to the Company are “Amounts not recovered in base rates due to storm related outages of $51,354,000 were used to offset adjustments for base operating expense included in storm reserve charges.” In addition to the items I have listed above, FPL would add a dollar amount of $7,068,200 which, in effect, is a plug amount in order to zero out any difference between the incremental approach and the cost approach recommended by FPL. Essentially, these items are lost revenues.
WHAT ARE LOST REVENUES?

Lost revenues are an estimate of what the Company, in theory, would have collected from ratepayers through revenues absent the outages caused by the storms. The calculation of this estimate is based on calculating an average consumption by customers for a prior period and then applying that average to the days of outages times the number of customer outages during the restoration period. This consumption is then multiplied by a revenue factor.

WOULD YOU AGREE WITH THE COMPANY’S CONTENTION THAT IT SHOULD RECEIVE RECOVERY OF LOST REVENUES IF THE COMMISSION WERE TO USE THE INCREMENTAL APPROACH TO CALCULATE STORM RESTORATION COSTS?

No, I do not. Lost revenues are not a cost of restoring service. There is no expenditure of funds or outflow of cash represented by a so called “lost revenue.” It is a calculated number based on estimates of possible sales during the storm outage period. While it is reasonable to assume that the Company could have billed customers during this period but for the storm outage, it is not reasonable to assume that these revenues are linked to, or result from, restoring service to customers.

When utility rates are set, the rate of return allowed the Company on equity provides for the assumption of risk. Part of that risk is the effects of weather on sales. A projected test year, which is used by this Commission in establishing base rates, does not utilize kilowatt hour sale assumptions which take into effect variances from “normal” weather. That is, the assumptions utilized in calculating
both the number of customers and the consumption per customer is based on
normal weather, i.e., weather is neither colder than normal or warmer than
normal, or that there are storm related outages. If, in fact, weather is warmer than
normal during the cooling season and colder than normal during the heating
season, the Company receives the benefit of those increased sales because they
were not taken into account in establishing base rates. On the reverse side, if the
weather is colder than normal during the cooling season and warmer than normal
during the heating season the Company would suffer the detriment of those
reduced sales. The same is true regarding other weather effects; that is, the
number of outages are not factored into the billing determinants used to establish
base rates. If storm activity is less than average, the Company benefits because
fewer outages will both increase consumption and reduce maintenance costs. If
there is more activity, including major storms, then the Company would bear the
consequences of the lower sales as a result of a more active storm period. The
effect of weather on sales consumption has always been a benefit/risk assigned to
stockholders through the determination of the fair and reasonable rate of return. It
should never be a factor in establishing incremental costs to be borne by
ratepayers as a result of hurricane activity.

Q. HAVE YOU MADE A COMPARISON OF FPL’S ACTUAL KILOWATT
HOUR SALES AS REPORTED IN THE FUEL DOCKET TO THE
ESTIMATED KILOWATT HOUR SALES REPORTED IN THE FUEL
DOCKET?

A. Yes, I have. Exhibit ___(HL-1), Schedule 1, shows a comparison of the actual
kilowatt hour sales reported in the fuel docket to estimate sales for the months of
January 2005 through December 2005 and the total actual for 2005 to the estimated sales for that same period. The schedule shows that in months when the hurricane occurred, July, August, September and October, the Company's actual sales reported in the fuel docket exceeded the estimated sales by almost 1.4 billion kilowatt hours.

Q. WHAT DID THE COMPANY CLAIM AS LOST SALES DURING THAT SAME PERIOD AMOUNT?

A. That amount is shown in column (f) of Exhibit (HL-1), Schedule 1. During this same period, Company Witness Green calculated the Company's lost storm related sales of approximately 1.4 million megawatt hours. In other words, the Company's actual sales, which included storm lost sales, were actually higher than estimated by 1.4 billion kWh.

Q. HOW DID THE COMPANY'S SALES FOR THE TOTAL YEAR 2005 COMPARE TO THE ESTIMATED AMOUNT?

A. That is shown on line 13 of Schedule 1, which shows that the Company, during 2005, experienced sales which were about 560 million kilowatt hours less than the estimated amount. The reductions in sales below the estimated amounts occurred in months where there were no hurricanes. The month of November 2005 shows a sales decline of over 676 million kilowatt hours below estimated. Possibly 30% of this sales decline may be attributable to outages which continued from storm damage in October 2005. Thus, even though the Company's sales were less than estimated for 2005, it appears that the sales declines were not caused by hurricane
related outages during 2005, but were related to other weather issues, i.e., colder or warmer than normal weather during non-hurricane months.

Q. WHAT WOULD BE THE RESULT IF THE COMMISSION ALLOWED FOR LOST REVENUE AS A HYPOTHETICAL COST FOR STORM RESTORATION?

A. The net effect would be to shift part of the risk that the stockholders are compensated for in the rate of return from the stockholders to the ratepayers. Obviously, a substantial portion of risk that is accounted for in the rate of return has to do with the effect of weather on sales. If the Commission were to allow for the recovery by FPL of lost revenue, then the Commission would, in effect, be allowing that risk to be shifted from stockholders to ratepayers without a reduction in the authorized rate of return on equity included in base rates. From a ratemaking standpoint, it would be improper for the Commission to allow for the recovery of weather related sales reductions in a docket designed to compensate the Company for storm related restoration costs. Especially since the weather related kWh sales gains exceeded the kWh storm related sales losses by about 1.2 billion kWh in months where storms occurred.

IN THE AGENDA CONFERENCE CONDUCTED ON JULY 19, 2005 CONCERNING THE 2004 STORM RESTORATION COSTS, COMMISSIONER DEASON EXPRESSED SOME CONCERN RELATED TO THE RECOVERY OF LOST REVENUE. HE INDICATED THAT IT MIGHT BE APPROPRIATE FOR THE COMPANY TO RECOVER LOST REVENUE IF IT AFFECTED THE COMPANY’S FINANCIAL INTEGRITY AND
JEOPARDIZED THEIR ABILITY TO RESPOND TO FUTURE STORMS.

WHAT EFFECT WOULD NOT RECOVERING THE 2004 LOST REVENUE, ALLOWED BY THE COMMISSION IN THAT DOCKET, HAVE ON THE COMPANY’S EARNINGS?

A. The Commission allowed $33,814,297 of what it termed “normal O&M cost offset” which was, in affect, lost revenue in that docket. If the Commission had not allowed that dollar amount as part of the recovery of storm cost, earnings would have been reduced by the net after tax effect of that dollar amount, or $20,770,432. ($33,814,297 x [1-.38575] = $20,770,432) In other words, net income would be reduced by the approximate $20.8 million. Based on amounts contained in the December 2004 surveillance report, FPL’s Florida Public Service Commission adjusted average jurisdictional return on common equity would be reduced from 12.68% to 12.30%. This is still a substantial return on equity and greater than the amount agreed to in the settlement in the Company’s last rate case, Docket No. 050045-EI, for other regulatory purposes, which was 11.75%.

Q. IN THE COMPANY’S LAST DOCKET REGARDING THE RECOVERY OF 2004 STORM RESTORATION COSTS, THE COMMISSION’S ADJUSTMENT WAS LABELED “NORMAL O&M COSTS OFFSET.” HOW DOES THAT RELATE TO LOST REVENUE?

A. This is a surrogate for lost revenue which presumably reflects the lost revenue associated with only operation and maintenance costs which the Commission had allowed as a deduction from the 2004 storm costs. This amount, however, is substantially all of the lost revenue since the Company calculated lost revenue for
that period to be $38.2 million and the "normal O&M cost offset" was $33.8 million.

Q. HAS FPL ASKED FOR LOST REVENUE IN THIS CASE?
A. Not directly. The adjustment they propose to the incremental approach is an attempt to obtain lost revenue through adding additional cost to storm recovery cost which are not expenditures on the storm recovery process. However, if the Commission were to allow "normal O&M cost offset" as they did in the last case, they would be allowing lost revenues.

IX. OTHER COSTS WHICH SHOULD BE EXCLUDED FROM STORM COST RECOVERY

Q. ARE THERE OTHER COSTS WHICH ARE APPROPRIATELY EXCLUDED FROM STORM COST RECOVERY ACCRUALS EVEN IF THEY ARE NOT LABELED ON LOST REVENUES?
A. Yes. Only those costs that are directly related to restoring facilities should be included in the storm restoration cost accruals and recovered from ratepayers. Other costs that the Company may claim to be related to storm recovery should be excluded. These costs include payroll and overtime in work areas not directly affected by the storm, such costs are sometimes labeled as "backfill" work. Costs associated with work postponed due to the employees working on storm restoration are not directly related to restoring facilities, these costs which are called "catch-up" costs should be excluded from recovery as storm costs. Costs associated with uncollectible receivable write-offs should also be excluded from
storm recovery costs. Costs associated with advertising, communications, and
employee assistance should be excluded. Finally, incremental contract costs,
outside professional service, and temporary labor costs due to work postponed as
a result of the urgency of storm restoration costs should not be included as items
recoverable under storm restoration costs.

Q. WOULD YOU LIST AND EXPLAIN WHAT CATEGORIES OF COSTS
SHOULD BE EXCLUDED FROM STORM COST RECOVERY?
A. Yes. The following costs at a minimum should be excluded:

Vacation Buy-Backs

Q. THE COMPANY IS REQUESTING THAT VACATION BUY-BACKS BE
CONSIDERED FOR RECOVERY IF THE COMMISSION WERE TO ADOPT
AN INCREMENTAL APPROACH TO STORM COST RECOVERY. DO YOU
AGREE WITH THE COMPANY'S CONTENTION?
A. No. Vacation Buy-Backs are generated by the Company’s vacation policy and
not as a direct result of storm restoration activities. FPL’s response to the OPC’s
7th Request for Production of Documents, Request No. 88, provides the
Company’s vacation policy for the year 2005. In that policy it is stated:

In addition, for calendar year 2005 only, employees will be paid
for any remaining unused vacation in excess of 120 hours. You
will receive payment for your unused vacation in excess of the
carryover limit (120 hours) in your January 26 paycheck.

FPL could have changed its carryover policy and allowed employees to carryover
any and all vacation which could not be taken in 2005. Instead, the Company
chose to limit the carryover hours to 120 and reimburse employees for any
vacation which could not be taken in 2005. This is a management decision.
These costs are not directly related to the restoration of service, but are directly
related to FPL’s vacation policy.

In addition, part of this cost may be the result of buy-backs from employees who
have purchased additional vacation hours and were unable to take those hours as
vacation in 2005 because of restoration activities. In the same POD response, it is
stated that the Company would buy back vacation hours which could not be taken
because of legitimate business reasons. The POD states:

To sell back your purchased 2005 vacation hours, complete this
form and return it to HRP/JB by December 9.

Regardless of whether the Vacation Buy-Back is a result of unused vacation or
vacation which the Company is purchasing back from employees who had
previously purchased those vacation hours, it is not a legitimate cost to be
recovered from ratepayers.

Utility Employee Assistance Cost

Q. SHOULD THE COMPANY RECEIVE AS PART OF STORM RECOVERY
COSTS UTILITY EMPLOYEE ASSISTANCE EXPENDITURES?
A. No. Utility employees who receive assistance from the Company in securing
their damaged property after a storm occurrence are no different then any other
customer or employee of a non-utility company. Each customer, whether they are
an employee or employee of a non-regulated company, is responsible for the
restoration or protection of his own property. He cannot pass that cost onto a third party. Emergency employees, such as, police officers, firemen and road maintenance employees of cities and counties cannot ask their employer to reimburse them or take over the responsibility of protecting their property before responding to their job requirement. Police officers and firemen must respond immediately to calls from the State, city or county authority to provide the services they have been trained to perform. They cannot ask that their employer first assist them or pay for the cost of protecting their property before reporting for duty.

Uncollectible Accounts

Q. SHOULD UNCOLLECTIBLE ACCOUNTS BE RECOVERED THROUGH STORM RECOVERY COSTS?

A. No. It would be difficult, if not impossible, to relate uncollectible accounts directly to the effects of a storm. Even if it could be done, these expenses are not directly related to the restoration of service. They are in the nature of risk, which the Company is compensated for through the rate of return on equity. These types of business risks should not be compensated for through the storm recovery costs.

Exempt Employee Overtime Incentives

Q. SHOULD FPL BE COMPENSATED FOR ADDITIONAL COMPENSATION GIVEN TO EMPLOYEE WHO ARE NOT ELIGIBLE FOR OVERTIME?
No. Salaried employees are just that. They receive their compensation for the level of work that is required of them. They are not compensated for based on fixed number of hours of work. When overtime is required of these employees, they are responsible for providing that additional work for the salary they agreed to accept. The Company does not compensate these employees for additional time they might put in when work requirements require that they spend additional hours, such as, month end accounting closings, or special projects with short due dates. The storm recovery cost is not a basis on which to provide extra compensation to employees who are salaried and have accepted that salary as full compensation for all time that they are required to put in.

X. STORM RESTORATION COSTS REQUEST BY GULF POWER

Q. ARE YOU FAMILIAR WITH THE RESENT REQUEST BY GULF POWER COMPANY FOR RECOVERY OF STORM RESTORATION COSTS?

A. Yes, I am.

Q. HAS GULF POWER FOLLOWED THE SAME APPROACH AS FPL TO STORM RESTORATION COST RECOVERY?

A. No, they have not. Gulf Power’s filing generally follows the approach that I am recommending, that is, the incremental cost approach. Gulf Power’s witness, R.J. McMillan, shows the Company’s total request for storm restoration costs. His testimony states, on page 8, that the total amount of recoverable cost charged to the reserve is net of “…estimated insurance reimbursements, normal capital cost including cost of removal, and operating and maintenance expense normally
recovered through base rates as shown on Schedule 2 of my exhibit.” Gulf Power is essentially saying that there are costs which the Company recovers through base rates which should not be also included as part of the storm restoration cost recovery. This is exactly opposite of what FPL is claiming. It is my opinion that the Gulf Power general approach is correct and is the one the Commission should adopt.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.
BY MR. BECK:

Q Mr. Larkin, you also have an exhibit that's already been entered into the record as Exhibit No. 84, it's HL-1 to your testimony?

A Yes.

Q And you don't have any changes to that, do you?

A No.

MR. BECK: And with that, we tender Mr. Larkin for cross-examination.

THE WITNESS: Do you want me to --

BY MR. BECK:

Q Oh, I'm sorry, read the summary you gave.

MR. LARKIN: I will summarize my testimony.

CHAIRMAN EDGAR: It is late in the day.

Again, we will get through this together.

A The purpose of my testimony is to support the principles of incremental cost, and incremental cost is the basis for determining a level of expense that should be recovered from ratepayers.

The company's accounting methodology, which it terms actual cost recovery, is not what it is presented to be.

What it is is it a situation where the company issues certain work orders and they pass out these work
order numbers. And then every single dollar that they

can charge into that account is charged into that

account, including estimates and future costs which they

think they might incur in restoring the system.

It is my position, the position of OPC, that

some of these costs are covered by base rates and that

when a lineman goes out and charges his time into that

work order, the company is also recovering through base

rates that lineman's cost, at least part of it.

And the same is true for people like meter

readers who -- whose costs are charged into the work

order but they are also being recovered through base

rates. The company counters that, oh, wait a minute, we

lost some revenue.

But lost revenue is a business risk associated

with weather. And that weather in this instance really

cuts in favor of the company. That when you look at the

total kilowatt hour sales during the storm period, that

the kilowatt hour sales is actually greater than what

the company anticipated. Even taking into consideration

the period that certain customers were off. But even if

that weren't the case, even if they didn't have more

revenue, this is not a cost related to the actual

restoration of the facilities.

So what we're saying and what we think is

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appropriate is the company's entitled to any increment over what they didn't recover in base rates and that if there's any weather risk or any weather lost revenue, that's associated with a rate of return on equity and that you have to make a decision of what level of cost you think the ratepayer ought to pay and that there is certainly risks that the company should bear and costs that they should bear associated with the storm.

Costs such as the buy back of vacation. They had employees that couldn't take their vacation so they set the policy is that you only can carry over 120 hours into next year. Anything else you are going to get paid for. They could have changed that policy. Could have allowed employees to carry over 200 hours or 300 hours. Or like the state employees, they can carry over a year.

So you shouldn't look to allow them to recover costs in this docket that is, number one, not incremental, and, number two, is associated with the risk they should bear related to weather costs.

That concludes my summary.

Thank you, Mr. Larkin. Mr. Larkin is tendered for cross-examination.

CHAIRMAN EDGAR: Mr. Shreve?

MR. SHREVE: Madam Chairman.

CROSS-EXAMINATION
BY MR. SHREVE:

Q Mr. Larkin, I'm Jack Shreve with the Attorney General's Office. If the -- the items that you've been -- that you covered in your testimony, if this is allowed, doesn't that amount to double recovery for the company?

A And I'm -- in my opinion it is.

Q And if they are allowed to recover any loss, although in this case in your testimony there was no loss to the company in revenue, wouldn't that totally take away the risk that the company says they had to use in establishing a higher rate of return?

Well, it would take aware some of the risks. There are probably other risks that are incorporated within the rate of return on equity.

Q But it would certainly lower the risk?

A It certainly would.

MR. SHREVE: No other questions.

CHAIRMAN EDGAR: Thank you. Is there cross from other intervenors? No, no? Mr. Twomey? No? Questions from staff?

MS. GERVASI: No questions.

MR. ANDERSON: Thank you, Chairman Edgar.

CROSS-EXAMINATION

BY MR. ANDERSON:
Q  Good evening, Mr. Larkin.
A  Good evening.
Q  Can you hear me down there?
A  Certainly.
Q  All right. You just said a minute ago that FPL has a methodology where every single dollar that can be charged to the storm accounts is charged into the accounts. That's what you just said, right?
A  That's correct.
Q  Are you saying that Florida Power & Light Company failed to have adequate accounting controls on its storm restoration process?
A  No. Their accounting control was to ensure that every dollar that possibly could be charged to the storm reserve was charged to the storm reserve.
Q  Let me stop you right there for a moment though because we talked at your deposition a little bit about your knowledge of utility accounting. And as I recall, you told me that you're acquainted with work orders; is that right?
A  That's correct.
Q  And FPL uses unique storm cost work orders for its storm cost restoration?
A  That's correct.
Q  It uses the same kind of work order system
that the company uses every day in its normal course of business?

A Yes.

Q FPL sends out to those sites around the state where the workers are staged out of site controllers where the responsibility for helping ensure costs are reported correctly; isn't that right?

A That costs? Well, let me start it this way. If you give to everybody that's working, every employee, and you say, charge your time to this work order, then every dollar is going in there.

If you're not saying to them, look, the only thing you ought to charge to this work order is the time that is incremental to what you would recover or what you would charge to your normal cost center, then what you're getting is total cost and you're not getting incremental costs.

So I would disagree with your characterization that this is just great accurate accounting because it is not.

Q Well, let's see. You didn't disagree with the part about the site controllers being out there on site making sure the paperwork is done. You didn't disagree with that, did you?

A No.
Q And you agree, don't you, that the company provides accounting guidance to its employees, to those site controllers on what can and can't be charged to the storm work order; isn't that right?

A Yes. And everything can be charge to the storm work order. If you give to every person the work order number and you say, okay, charge every dollar every hour you spend and charge it to the work order, then you're getting 100 percent of that person's time into the work order. You're not getting just the incremental time.

Q Here's the problem I'm having with what you're saying, though, Mr. Larkin, is did you review in detail the accounting guidance that was provided to the site controllers?

A I did review in detail the accounting instructions, yes.

Q And the accounting instructions tell people what can and cannot be charged to the work order; isn't that right?

A It tells them in general terms. It does not tell them anything about their usual work order or their usual cost center time. It does not tell them to segregate the incremental time from the direct time that they would normally charge to a different cost center.
Q  And when those thousands of workers are out there working out of the base camps under the control of site controllers, you're concerned that all those long days they're working they're not recording to the correct work order? Is that what you're saying?

A  No, I didn't say that, and I think you understood what I said.

Q  In fact, didn't you say at your deposition that you wouldn't recommend any other accounting methodology be employed in the field when the work is being done?

A  That's correct. Because you can't tell them what is incremental and what is not incremental. What I'm recommending is that the Commission adopt the adjustments we're recommending to get to -- to reflect incremental costs in the storm reserve.

Q  But that's because your fundamental theory is that FPL's accounting records cannot be trusted to properly record storm costs?

A  They cannot be trusted to properly record incremental storm costs, that's correct.

Q  You said incremental storm costs?

A  Yeah.

Q  And that's under your theory, right?

A  That's correct.
Let me ask you some questions about another part of your theory. At the very beginning of your testimony, you say that this Commission should look to the business risk which was borne by FPL's customers in regard to the storm damage they incurred as a proxy for the business risk which FPL should bear. Is that right?

That's correct.

Let me ask you some questions about that basic precept that you're offering to this Commission to guide them in deciding the case. The prices and revenues of FPL's business customers are not subject to the Commission's regulation, are they?

The prices of revenue? State the question again.

I'd be pleased to. This goes back to something we talked about at your deposition. You're saying that the Commission should look to our customers and the business risks they have as a model for recovery --

Yes.

-- of FPL's cost?

That's correct.

All right. We talked about the fact that FPL has millions of customers, correct?

Yes, that's correct.
Q: Including business customers?
A: That's correct.
Q: The business customers are not subject to the Commission's regulation, are they?
A: You're correct. They do not have a monopoly. They do not have a guaranteed source of income. You're absolutely right. They have a greater risk than FPL.
Q: Let's step back for a moment. The prices those customers set out there, they're not subject to Commission regulation, are they?
A: No, they're not.
Q: So if you sat outside of a Florida gas station during that storm period -- we all saw what happened to the prices going up -- no Commission had to pass on that, did they?
A: No, they didn't pass on it but then there were gas stations that couldn't open up because they had no power.
Q: Well, sir --
A: That individual couldn't turn to a third party and say, why don't you give me the revenue I missed because my gas station was closed down because it couldn't get power from FPL? You couldn't say -- he couldn't say to his mortgage holder, look, I can't pay my mortgage now, I want you to give me a pass on it.
So they're incomparable. You have much less risk than FPL customers do.

Q Let me pause you there because what you just told me, the first thing you said is the Commission should look to the customers apparently because they have the same or similar business risks. What you just told me now is that they're not comparable. Isn't that right?

A They are comparable in the sense that they have -- that the risk should be equal or that you should consider that risk when you set the amount of recovery that FPL should get.

Q You should consider what?

A You should consider the risk that ratepayers bear in the storm -- their ability to recover storm damage in assessing the amount that FPL should recover from its ratepayers.

Q Let's talk about some other business risks we talked about at your deposition. FPL's customers can stop producing goods and services, can't they?

A They can if they want to go out of business.

Q Sure. And after a storm, FPL's customers don't have to go out there, hit the streets and restore power for millions of people; isn't that right?

A They don't have to restore power. But they --
If one of our customers wants to change their business in order to pay their bills, it can just do that of its own volition, it's own business planning, is that right?

If you're in the phosphate mining industry, you can't just say, well, I'm not -- if you're in the phosphate mining industry, you can't just say, well, I'm not --

You've got that investment in the mining equipment that you have to recover.

The customers have the right to pull their capital as they choose, they're not subject to a duty to serve millions and millions of customers of electricity, isn't that right?

Q. They're not required to but they have to because competition requires them to.

Q. I don't think that's right. With respect, they can choose to go out of business, they can choose to change their products or services, they can change their --

Mr. Shreve: Madam Chairman, I'd like to object to counsel testifying. He's not asking a
question.

Q  Isn't that true?
A  They can.

Q  Thank you. Now, after the storms clear away and the lines are down and people want their power back on, do you think that customers want FPL employees out there as soon as possible working hard to restore power?
A  Certainly.

Q  But you propose, don't you, that the Commission refuse recovery of FPL's costs for tarps for employees' roofs, water, ice, child care, that enabled FPL's employees to report to work and support storm restoration services? You're saying don't recover those costs, right?
A  That's absolutely right. Because the ratepayer who has the same problems, the same situation, cannot turn to a third party and say, why don't you do this for me and pay for it? If a policeman is required to show up and perform his duties the same as FPL is, he can't go to the city and say, before I show up, you pay for somebody to come and put this on my house.

For instance, Mr. Davis had his roof blown off. I wonder his -- the cost of a tarp on his roof is included in the cost you're trying to recover. If it is, I don't see why -- what Mr. Davis could have done

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that would have justified that.

Q  Let's see if I understand you. You're saying that utility employees who go out and do storm restoration are no different than any other customer or employee; is that right?

A  As far as those kinds of costs, they should bear those themselves.

Q  You say that other people can't apply to a third party. Have you done a study, for example, of police departments in Florida and what they provide for their officers?

A  I have no.

Q  And you've done no study for what the firefighters may provide for their officers in circumstances like that?

A  I have not.

Q  Okay. So when you offered that opinion in your testimony that firefighters and police officers don't get any assistance, you said that without checking a thing; isn't that right?

A  That's correct. But it's my understanding that they don't. I hadn't read anything or hadn't heard anything that was -- that they didn't get that kind of assistance.

Q  And you didn't look either, did you?
No, because it -- my understanding is that they don't.

That was just your feeling about common sense?

That's right.

Okay. And it's on that basis that you're making this public policy recommendation to the Florida Public Service Commission?

That's correct.

It is OPC's position and sponsored by your firm that granting FPL's requested storm costs would result in customers paying twice for the same cost, as I understand it, once in base rates, once through storm restoration charge. That's a part of your case?

That's correct.

Isn't it true that neither you nor your company, Larkin & Associates, conduct a detailed accounting study to trace costs charged by FPL to the storm reserve back to base rates?

We did not do anything. We -- in an individual study we asked the company to provide that information.

You explain during your deposition that it would be possible to trace costs. For example, of the meter reader you told us about. Starting with the company's surveillance reports, trace that back to the
company's financial reports, back to the customer
service ledgers, ultimately to the account recording
meter reading expense. You said that's how an
accountant could do it.

A That's how you could trace his payroll, yes.

Q But Larkin & Associates in making all of these
recommendations has not prepared such a study and if you
had, you would have submitted it to the Commission,
wouldn't you?

A We did not prepare a study. We relied on the
discovery we asked of the company.

Q Isn't it true that the staff of the Commission
here has said in response to discovery requests that one
cannot tell what costs at all are included in base
rates?

A I would disagree with that. And I explained
that to you in my deposition.

Q Let's pause for a moment and I'll ask that an
exhibit be passed out.

MR. ANDERSON: To try to streamline a bit,
maybe we can pick a number and I can indicate a
title?

CHAIRMAN EDGAR: This will be 154.

MR. ANDERSON: Thank you. This is Staff's
response to Interrogatory No. 49.
BY MR. ANDERSON:

Q  Mr. Larkin, have you had an opportunity to read and review what has been marked as Exhibit 154?

A  Yes.

Q  Can you look at page 2 of the response?

A  Yes.

Q  Isn't it a fact that this states, "Because base rates were last reset based on a negotiated stipulation among the various parties, it is unclear what specific costs of any kind are included in base rates? That's what the words say, right?"

A  Yes.

Q  And that was Staff's response to FPL's Interrogatory No. 49; is that right?

A  That's correct.

Q  Thank you.

CHAIRMAN EDGAR: Commissioner Carter?

COMMISSIONER CARTER: Do you mind if I ask Staff a question on this? Is that appropriate at this time or should I wait?

CHAIRMAN EDGAR: I don't know, so let me ask counsel. Mr. Harris?

MR. HARRIS: I'm not going to tell a commissioner he can't ask a question any time they...
want to. If a Commissioner wants to ask a
question, go ahead and ask, sir.

COMMISSIONER CARTER: I'll wait.

CHAIRMAN EDGAR: I appreciate that,
Commissioner Carter, however, I just -- the
suspense is -- I can't stand it so I'm going to ask
Mr. Melson to jump right in.

MR. HARRIS: He may choose to tell you.

MR. MELSON: Commissioner Carter, I guess I'd
like to hear the question. To the extent it goes
to the reason staff answered a particular
interrogatory in a given way, that probably is not
appropriate. But --

COMMISSIONER CARTER: Okay.

MR. MELSON: -- I don't know what your
question is.

COMMISSIONER CARTER: You just answered it.

Thank you.

CHAIRMAN EDGAR: Thank you, Mr. Harris and
Mr. Melson. Mr. Anderson?

BY MR. ANDERSON:

Q  Thank you. Now, stepping back, I understand
one of your colleagues, Donna DeRonne, is testifying
next; is that right?

A  That's correct.
Q And she's testifying about the details?
A Yes.
Q You're testifying more to theory level?
A More high level overview of how the Commission should approach this case.
Q All right. All right. Then I'll stay away from the details with you. OPC's storm accounting method sponsored by you and your firm is based on the use of budget variances incremental method; isn't that right?
A It's based on an analysis provided by the company of the variances between what was budgeted and what was actually incurred.
Q OPC and Larkin & Associates look at the differences between budget amounts and actual amounts and conclude that differences result from costs being charged to storm costs; isn't that right?
A You'd have to ask Donna that directly, Donna DeRonne. She's the one that looked at all of the variances.
Q Do you have a copy of your deposition with you, Mr. Larkin?
A Yes.
Q Could you look at page 45, please?
A Yes.
Q If you look at line 6 through 11.

A Page 45?

Q Yes, sir, lines 6 through 11. Were you asked this question and did you give this answer:

"QUESTION: Is it correct that the incremental cost approach advocated by Larkin & Associates and OPC involves analyzing the differences between budgeted and actual numbers and concluding that the differences result from costs being charged to storm costs?"

And the answer you gave was yes. Is that right?

A Yes. And --

Q That would be --

A -- what I'm saying is that the analysis was provided by the company and Donna DeRonne analyzed those; she reviewed them.

Q For clarity of the record, the answer to my question is yes; is that right?

A Yes, we looked at the differences between budgeted and actual provided by the company and Donna analyzed those differences.

Q And the analysis -- and the analysis you talked about involves concluding that the differences result from costs being charged to storm costs?
A I don't know. You'd have to ask her.
Q Sir, I asked you that question, you gave that answer at your deposition. For clarity of the record, please tell me which is the case.
A I'm telling you that the answer in the deposition is correct.
Q Thank you. That's sufficient then.
A And then --
Q That's sufficient. I can move on.
A And that answer contemplated Donna's review of those differences.
Q After Larkin & Associates identifies these differences, those amounts are subtracted from the amount of storm cost recovery, right?
A You'll have to -- if you're talking about the detail which was --
Q I'm talking at a theoretical level.
A Theoretically, once she reviews the difference and she concludes that it's associated -- the difference between the budget and the actual is related to the storm, then that's deducted from storm reserve.
Q Isn't it true that there are many things that can cause the amount of money a company spends for a category of expense to be different from the amount it budgeted?
There can be other differences. Timing can cause differences? For example, when an expense is charged in one period as opposed to another.

It can cause a difference. Changes in scope of work, for example, adding or subtracting from work to be done can cause variances between budgeted and actual spending, right?

Yes, they can. Development of new practices that save money can cause actual costs to be less than those that are budgeted, right?

It can. Unforeseen developments in the business other than hurricanes can cause variances between budgeted and actual spending?

That's correct. Despite all of these things that can cause changes between budgeted and actual costs, it is your theory that if FPL underspent a budget in 2005, you automatically conclude that the variance was caused by storm savings?

I don't think that's accurate but you'll have to ask Ms. DeRonne.

Could you turn to your deposition, please, at
A  Fifteen through 18?
Q  Yes. Did you -- were you asked this question and did you give this answer.

"QUESTION: If FPL underspends a budget in 2005, does it automatically mean that the variance is caused by storm savings?"

"ANSWER: I would conclude that, yes."

That's the answer you gave to that question, right?

A  Yes.

Q  Thank you. In fact, it's your view that if FPL had a productivity gain in the course of a year that resulted in spending a million dollars less than it had budgeted in an area, you would still claim that one million cost savings were due to storm costs and should be subtracted, right?

A  Well, I'd have to see what caused it. But I would agree with that, and I think that that's appropriate. I don't think it's appropriate for the company to keep all of the pluses and then stick the ratepayer with all of the negative cost.

Q  Let's explore that a little bit. You're saying that if FPL had a productivity gain with a million dollar savings, nothing to do with the storm,
unfair to stick customers, charge that against -- take it away from the recovery. That's what you're saying, right?

A That's correct. And it's -- and that's appropriate. Let me give you an example.

Q I'm sorry --

A The company had a savings associated with telephone rates that had nothing to do with any productivity gains, rates were just decreased. Under your theory the company gets to keep that but any communications they had with the ratepayer about the storm, the ratepayer ought to pay that but the company keeps the productivity gain that they did nothing for. So I don't think that I would agree with your synopsis.

Q Well, here's the big picture as I see it. It seems to me, isn't it right, that Larkin & Associates is objecting to FPL's use of its routine accounting methodology applied in storm circumstances to capture costs and instead you're saying your methodology which simply assumes that negative variances were caused by storm, that somehow that's a better measure. That's what you're saying?

A It certainly is. What you're saying is that we have a cost accounting system that charges everything we can find, think of and dump into this account, and
then we're coming before this Commission, we're going to ask them to give us every dollar of it back. And when somebody says, well, let's look at some of these possible cost savings and deduct those, you don't want to do that. You don't want to take what's in base rates and back that out of that.

Q Well, let's --

A That's our position.

CHAIRMAN EDGAR: Excuse me, gentlemen. If I may. I know the hour is late. However, let's just pause for a second.

Mr. Anderson, questions, please. And Mr. Larkin, please confine your answer to the scope of the question.

MR. LARKIN: All right.

CHAIRMAN EDGAR: Let's try again.

BY MR. ANDERSON:

Q You did no studies to see what accounts FPL overspent?

A You'll have to ask Ms. DeRonne.

Q I'll do that then.

Let's turn to another part of your testimony very briefly. Please look at page 18 of your direct testimony.

You offer some testimony here in your capacity
as an accountant that's on the effect of a storm on
electric utility distribution and transmission system;
is that right?
   A  Yes.
   Q  And you say that the effect of a storm is to
   exploit the points of an electric system which are weak
   and would have been the subject of a maintenance
   project, right?
   A  Yes.
   Q  You are not an expert on effects of storms
   upon transmission and distribution systems, correct?
   A  No, but that's a common sense conclusion.
   Q  Let's pause from a moment. You're not an
   engineer?
   A  That's correct.
   Q  You've not installed, operated or maintained
   any transmission or distribution equipment during your
   career?
   A  No.
   Q  You were never employed by a utility or anyone
   else to assess the performance of a transmission or
   distribution system after a storm?
   A  No.
   Q  You performed no study as to FPL's system
   after the 2005 storm?
A That's correct.

Q You were not present for the repairs of any of the poles, cross arm braces, guy wire replacements, or any other storm restoration work on the FPL system after the 2005 storms?

A That's correct.

Q You also say in your direct testimony that trimming of trees and brush which would have been maintenance has now been accomplished as part of the storm restoration costs, right?

A I don't think that that's a correct characterization. What I said is the trimming of trees and brush which would have been maintenance have now been accomplished as part of the storm restoration costs. In many instances after a major hurricane, utilities would do extra tree trimming and brush removal because customers are more receptive to cutting back trees and shrubbery because they are anxious for power to be restored.

Q Just to refocus us. And I'm sorry, but I was justing at line 7 and 8 making sure I read them right. "The trimming of trees and brush which would have been maintenance have now been accomplished as part of the storm restoration cost." That's what it says, rights?

A That's correct.
Q Okay. Now, you're not an arborist or a tree trimmer, are you?

A No.

Q You have no experience in designing or operating utility vegetation management programs, right?

A That's correct.

Q You do not know what vegetation clearing instructions were provided to FPL's crews and contractors after the 2005 storms, correct?

A That's correct.

Q You were not present for any vegetation clearing work performed after the 2005 storms?

A That is correct.

Q In order to determine whether any portion of the 2005 storm restoration, vegetation clearing work eliminated any particular part of FPL's routine cycle of vegetation management. You could assess what lines were actually planned to be cleared. You could do a study like that, right?

A You could have, yes.

Q Larkin & Associates has not done such a study in this case, right?

A No.

Q All Larkin & Associates did was for retrimming look at the budgeted and actual cost?
A We looked at the budgeted and actual cost and explanation that the companies provided.

MR. ANDERSON: We have no further questions for the witness. Thank you.

We would like to offer the exhibit, I believe it was 154, into evidence.

CHAIRMAN EDGAR: Let's take the -- if I may, take the -- and feel free to remind me so we don't forget, we'll take up when we are at the end of the witness's testimony to follow the procedure that we have been thus far.

Commissioners, any questions at this time?

No? Mr. Beck, redirect?

MR. BECK: Thank you, Madam Chairman.

REDIRECT EXAMINATION

BY MR. BECK:

Q Mr. Larkin, do you believe that the base rates of Florida Power & Light include a level for normal salary amounts?

A Yes.

Q Why do you believe that?

A Well, when you get a, say, surveillance report, the surveillance report is predicated on the company's actual operations, their actual expenses, and that report shows that the company earned a rate of
return. That means that they recovered -- in order to earn a rate of return, they have to recover every operating expense they incurred, every maintenance expense, every tree trimming expense, every salary, every bonus, every depreciation expense, every amortization expense, every pension expense, every health care expense in order to earn a rate of return.

So anything that's reflected in any operating expense account has been recovered and is in base rates because base rates was able to pay all of those expenses and render a rate of return to the company. The only way that the company can ever claim that we did not recover this particular salary or that particular expense is if they had a loss, and they didn't have a loss in either 2004 or 2005.

So every expense that was on the books that was not charged to the reserve was recovered by the company, even if they had lost revenue. So that's why they recovered those expenses, or why those expenses are in base rates.

Q Okay. Thank you.

Mr. Larkin, this morning I read Mr. Davis an expert from the Commission's 2004 order. Were you present when I did that?

A I may have been.
Let me read it from the bottom of page 9. The order said, "By moving all O&M expenses associated with the storm repair to the storm reserve without taking into account the normal level of expenditures funded by base rates the customers pay requires customers to pay twice for the same cost."

Are you familiar with that portion of the Commission's order --

A Yes.

Q -- from 2004? Is the approach taken by yourself and Ms. DeRonne in this case consistent with that?

A Yes, it is.

MR. BECK: That's all I have. Thank you.

CHAIRMAN EDGAR: Mr. Anderson?

MR. ANDERSON: Nothing further. We just offer one --

CHAIRMAN EDGAR: Well, I think we'll do the exhibit now.

MR. ANDERSON: I'm sorry.

CHAIRMAN EDGAR: That's okay.

MR. ANDERSON: We would offer Exhibit 154 which was staff's response to FPL's Interrogatory No. 49 into evidence.

CHAIRMAN EDGAR: Any objections? Seeing none,
show 154 entered into the record as evidence.

(Exhibit 154 admitted into the record.)

CHAIRMAN EDGAR: And the witness is excused.

Thank you very much.

We will forge ahead for a little while longer.

Mr. Beck, your witness?

MR. BECK: We'd call Donna DeRonne.

CHAIRMAN EDGAR: Mr. Beck?

MR. BECK: Ms. DeRonne, you were not previously sworn, were you?

MS. DeRONNE: No, I was not.

CHAIRMAN EDGAR: Okay. Then let's take care of that at this time. Ms. DeRonne, if you'll stand.

DONNA DERONNE was called as a witness on behalf of OPC, and having been duly sworn, testifies as follows:

CHAIRMAN EDGAR: Thank you.

DIRECT EXAMINATION

BY MR. BECK:

Q Would you please state your name.

A Donna DeRonne.

Q By whom are you employed?

A I'm employed by Larkin & Associates.

Q And did you cause direct testimony to be filed
in this case?

A Yes, I did.

Q Okay. You had direct testimony filed on March 31st, 2006; is that right?

A Correct.

Q And then there was a revised testimony filed on April 7th, 2006; is that right?

A Yes, that's correct.

Q And is it the April 7th, 2006 testimony that you'll be adopting here today?

A Yes, it is.

Q Okay. Do you have any changes or corrections to make to your testimony?

A Yes, I do. First I'll go through just a quick minor change. It's -- on page 25 of my testimony when I discussed the conservation corporate line addressed in Mr. Byerley's testimony, on line 6 and line 8 I referred to it as a 500 megawatt line. It should be a kV line. And that's again on line 6 and line 8.

Additionally, Mr. Byerley presented some revisions to his numbers earlier today that he is making to his testimony, and that does, since I'm presenting the overall dollar impacts of the OPC witnesses' adjustments, it does affect some of the dollar amounts within my testimony.
If you begin on page 5, line 6, where I reference OPC's adjustments reduce the company's requested '05 storm amount, on line 6 I identify that amount as $114,445,620. That would change to $110,690,395.

On the next line, line 7, the amount of 701,570,380 would change to 705,325,605. And later on that same line the number of 701,016,139 would change to 704,768,398.

And while this isn't a change in my testimony, the overall impact on the amounts from the revisions by Mr. Byerley essentially increases the amount that OPC recommends to be recovered in this case by $3,752,259.

If you go to page 26 of my testimony, that's where I discuss each of the dollar adjustments presented by Mr. Byerley. Rather than go through each one individually, I believe all the corrected amounts by Mr. Byerley are already in the record from earlier today. So rather than go line by line through each and every one of them, I believe they should be in the record already.

And again if you go to my exhibit attached to my testimony, the first exhibit which was marked as Exhibit DD-1, the dollar amounts for Mr. Byerley's recommended adjustments on lines 36 through 43 would
also change based on Mr. Byerley's revisions presented earlier today.

And that completes my revisions.

MR. BECK: Madam Chairman, the DD-1 has been put into evidence as Exhibit 85.

CHAIRMAN EDGAR: Thank you, Mr. Beck.

BY MR. BECK:

Q Ms. DeRonne, with those changes as you described them just now, would your testimony be the same if I asked you the same questions today?

A Yes, it would be.

MR. BECK: I'd ask that Ms. DeRonne's testimony be inserted into the record as though read.

CHAIRMAN EDGAR: The witness's prefiled testimony will be read into the record as though read, with the clarifications and corrections noted.
DIRECT TESTIMONY OF DONNA DERONNE
ON BEHALF OF THE CITIZENS OF FLORIDA
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
DOCKET NO. 060038-E1

INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?
A. My name is Donna DeRonne. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory consultant at the firm Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.
A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous electric, water and wastewater, gas and telephone utility cases.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?
A. Yes, I have testified before the Florida Public Service Commission on several prior occasions. I have also testified before several other state regulatory commissions.
HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

ON WHOSE BEHALF ARE YOU APPEARING?

Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel (OPC) to review and comment on Florida Power & Light Company’s (FPL or Company) request for recovery of storm restoration costs, and to address the appropriate methodology for determining the amount to be recovered from customers. Accordingly, I am appearing on behalf of the Citizens of Florida (Citizens).

ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?

Yes. Hugh Larkin, Jr., also of Larkin & Associates, is presenting testimony. James Byerley of R.W. Beck is also presenting testimony on behalf of the OPC.

WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

The purpose of my testimony is to present the impact of the principles set forth in OPC witness Hugh Larkin, Jr.’s testimony on the 2005 storm recovery costs requested by FPL for recovery in this case. Within this testimony, and on the exhibits attached hereto, I quantify the impact of the various recommendations of Mr. Larkin and make several adjustments to reflect the appropriate incremental cost methodology for storm recovery, as applied to FPL’s proposed 2005 storm recovery costs. I recommend certain offsets to
the 2005 storm restoration costs. I am proposing several revisions to the remaining 2004
storm costs for which FPL is seeking recovery and recommend several adjustments
thereto. Additionally, I address the appropriate cut-off date for charging the 2005 storm
restoration costs to the storm reserve.

HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?

Yes. I have prepared Exhibit__(DD-1) and Exhibit__(DD-2), attached hereto.

Exhibit__(DD-1) consists of 3 pages. This exhibit addresses the 2005 Storm Recovery
Costs proposed by FPL, with the OPC’s recommended adjustments thereto.

Exhibit__(DD-2) presents my recommended revisions to the 2004 Storm Restoration
costs.

OVERALL 2005 STORM RESTORATION COST SUMMARY

HAVE YOU PREPARED AN EXHIBIT SUMMARIZING THE IMPACT OF THE
OPC’S VARIOUS RECOMMENDED REVISIONS TO FPL’S PROPOSED 2005
STORM RECOVERY COSTS?

Yes. Page 1 of Exhibit__(DD-1) begins with FPL’s proposed 2005 Storm Recovery
Costs, prior to the application of interest. As shown on lines 1 through 5 of Page 1, this
consists of $906,404,000 of actual and projected 2005 storm-recovery costs, less
$63,855,000 of estimated capital expenditures and $26,533,000 of estimated insurance
proceeds, resulting in net 2005 storm-recovery costs for which FPL is seeking recovery
of $816,016,000 prior to the application of interest. According to FPL witness K.
Michael Davis’ testimony, this amount is based on the “Actual Restoration Cost
Method,” with the removal of normal capital costs.
On Exhibit__(DD-1), I then reflect four separate groups of adjustments to the proposed 2005 storm restoration costs. Beginning on line 6 of page 1, I first adjust the payroll and labor related storm recovery costs presented by FPL to reflect the incremental approach recommended by the OPC and OPC Witness Larkin. This includes adjustments to remove regular employee salaries recovered in base rates, offsets for payroll normally charged to clauses and capital, and removal of employee benefits already recovered in base rates. The determination of each of these adjustments will be discussed in this testimony.

The second group of adjustments presented on page 1 addresses other non-labor areas under the incremental approach. These include adjustments to tree-trimming, vehicle costs, telecommunications costs, and materials and supplies.

The third group of adjustments presented on Exhibit__(DD-1) removes some additional items that are not appropriate for recovery as storm restoration costs or for inclusion in the cost estimates. Each of these adjustments will be addressed in either Hugh Larkin's direct testimony, or in this testimony. Also included is an offset for proceeds received by FPL during 2005 for the loan of personnel and equipment to other power companies, which will also be addressed in this testimony.

The fourth group of adjustments presented on the exhibit reflects the impact of the findings and recommendations of OPC witness James Byerley of R.W. Beck.
Q. WHAT IMPACT DO THE ADJUSTMENTS AND REVISIONS TO FPL’S PROPOSED 2005 STORM RECOVERY COSTS HAVE ON THE AMOUNT TO BE RECOVERED FROM RATEPAYERS?

A. As shown on Exhibit__(DD-1), page 1, on a total company basis, the $816,016,000 proposed by FPL for recovery from customers through the storm reserve associated with the 2005 storms should be reduced by $114,445,620, resulting in a revised amount for recovery through the reserve of $701,570,380. This equates to $701,016,139 on a jurisdictional basis.

Q. HAS THE COMPANY BEEN ASKED TO PROVIDE A CALCULATION OF ITS 2005 STORM RECOVERY COSTS BASED ON THE INCREMENTAL APPROACH UTILIZED BY THE COMMISSION IN THE 2004 STORM COST RECOVERY ORDER?

A. Yes. OPC Interrogatory No. 30 asked the Company to provide adjustments to its requested 2005 storm recovery costs for certain items based on the methodology utilized by the Commission in the 2004 Storm Cost Recovery Order, Order PSC-05-0937-FOF-EI. In the response and a supplemental response, FPL provided attachments containing what it purports would be the 2005 recoverable storm costs under the incremental cost approach used in the 2004 Storm Recovery Order. Under FPL’s proposed calculations, the end result, i.e., the amount of 2005 storm costs to be recovered from ratepayers, are identical to its proposed “Actual Restoration Cost” method. This is due to several adjustments included by FPL, coupled with a “plug” number being used to represent lost revenue amounts needed to make the incremental approach equal its “Actual Restoration Cost” approach.
Q. WOULD YOU PLEASE SUMMARIZE WHICH OF THE ITEMS IN FPL'S DETERMINATION OF THE PURPORTED INCREMENTAL COST METHODOLOGY YOU HAVE INCLUDED IN THE DETERMINATION OF THE OPC'S ADJUSTED RECOVERABLE 2005 STORM COSTS ON EXH__(DD-1)?

A. Yes. On Exhibit__(DD-1), page 1, the following adjustments are the same as those recommended by FPL in its Incremental Cost Methodology calculations provided in its supplemental response to OPC Interrogatory No. 30: 1) removal of regular employee salaries charged to storm; 2) offset for payroll normally charged to clauses; 3) offset for payroll normally charged to capital; 4) reduction to tree trimming costs for the amount under budget; and 5) reduction to fleet vehicles to remove amounts in base rates. I did not take issue with FPL making no adjustments for employee training for storm restoration as none of these costs were included. I also did not take issue with FPL making no adjustments for the Call Center as FPL has indicated that only the incremental costs for the Call Center were included and a comparison of the budget to actual costs for the call center did not show that the Company was under budget in the non-storm related operation and maintenance expenses in this area during 2005.

Q. WHICH OF THE ADJUSTMENTS PROPOSED BY FPL IN ITS INCREMENTAL APPROACH DID YOU EXCLUDE IN THE DETERMINATION OF OPC'S ADJUSTED 2005 STORM RECOVERY COSTS?

A. On Exhibit__(DD-1), I specifically excluded the following incremental cost adjustments proposed by FPL: 1) offsets for 2005 and 2006 backfill and catchup work; 2) offset for nuclear payroll expected to be recovered through insurance; 3) offset for vacation buy-back; 4) offset for vehicle costs charged to capital; and 5) the "plug" number associated with purported lost revenues. The specific reasons each of these items are excluded are
addressed in the direct testimony of OPC witness Hugh Larkin, Jr., with the exception of
the insurance issue and vehicle cost issue addressed herein.

The OPC is also recommending several adjustments not included by FPL in its
incremental cost calculations, each of which are addressed either in Mr. Larkin’s
testimony, or in this testimony.

PAYROLL & LABOR RELATED ADJUSTMENTS – INCREMENTAL APPROACH

Q. WOULD YOU PLEASE DISCUSS EACH OF THE PAYROLL AND LABOR
RELATED ADJUSTMENTS ON PAGE 1 OF EXHIBIT-(DD-1)?

A. Yes. The purpose of each of the adjustments in this area is to ensure that the amount of
payroll and labor related costs already recovered by FPL through base rates are not also
recovered a second time through the recovery of the 2005 storm costs. The first item in
this area removes the amount included by FPL for the estimated regular employee
salaries of $26,092,000. Additionally, the offsetting adjustments reflected on
Exhibit-(DD-1) to reduce the labor adjustment by the amount of payroll normally
charged to clauses and capital are based on the amounts presented by FPL in its
incremental cost calculations in response to OPC Interrogatory No. 30, which is
$2,730,000 and $8 million, respectively. I did not reflect the remaining salary offset
adjustments proposed by FPL in its incremental cost calculations, the reasons for which
are addressed by OPC witness Larkin, with the exception of the insurance proceeds
offset, which I address. FPL’s calculations under the Incremental Cost Approach
includes a $2,490,800 offset to the regular employee salary adjustment to reflect the fact
that a portion of these payroll costs have already been removed from the 2005 estimated
storm recovery costs in the adjustment to remove the estimated insurance proceeds. I do not agree that this offset to the regular employee salaries is appropriate.

Q. WHY NOT?
A. If this adjustment is reflected, FPL would recover the associated amount, i.e., $2,490,800, twice, once from insurers and again from ratepayers. The regular employee salary amount included in FPL’s storm recovery costs that is being removed under the Incremental Cost approach, totaling $26,092,000, is already being recovered in base rates. If the Company both recovers the $2,490,800 of nuclear employee base salaries from insurers and also offsets the adjustment to remove base salaries from the storm costs by the same $2,490,800, it will recover these costs both from insurers and from customers in base rates. Thus, the removal of the $26,092,000 of regular employee salaries charged to the storm recovery costs under the incremental method should not be offset by the $2,490,800. The $2,490,800 should be removed from the 2005 restoration costs as part of the estimated insurance proceeds through which the Company will recover the costs and as part of the regular employee salary adjustment so that ratepayers do not end up being required to fund the amount that will be recovered through insurance.

Q. WHAT ADDITIONAL ADJUSTMENTS NEED TO BE MADE TO PAYROLL AND LABOR RELATED COSTS TO ENSURE THAT ONLY THE INCREMENTAL COSTS NOT ALREADY INCLUDED IN BASE RATES ARE RECOVERED AS PART OF THE STORM RESTORATION COSTS?
A. One additional adjustment must be made to remove amounts included in the 2005 Storm Recovery Costs by FPL for employee benefits. FPL has included $9,213,514 for employee benefits.
Q. COULD YOU PLEASE ELABORATE WHY THIS AMOUNT NEEDS TO BE REMOVED?

A. Yes. According to FPL’s response to OPC Interrogatory No. 184, $9,213,514 is included in the 2005 storm recovery costs for “Applied Pensions and Welfare.” The response indicates that these amounts “…represent company payments for life, medical and dental insurance, thrift plan, long term”. Costs associated with the provision of these types of benefits to employees are already reflected in base rates and Company budgets. The cost of providing employee benefits would not increase as a result of a storm event. These are not incremental costs to the Company resulting from the storms and should not be included. Thus, I have removed the $9,213,514 to ensure that only the incremental costs associated with the 2005 storms are included.

OTHER ADJUSTMENTS – INCREMENTAL APPROACH

Q. WHAT ADJUSTMENTS NEED TO BE MADE IN NON-LABOR AREAS TO ENSURE THAT ONLY THE INCREMENTAL COSTS ARE INCLUDED FOR RECOVERY THROUGH THE STORM RESERVE?

A. At least three adjustments need to be made. The first two adjustments are identical to those indicated by FPL in its Incremental Approach calculations in its supplemental response to OPC Interrogatory No. 30. These consist of a $1,100,000 reduction to the tree trimming costs to reflect the fact that FPL’s actual expenditures for non-storm related tree trimming were $1.1 million less than it included in its budget for 2005 and a $5,738,000 reduction to remove the amount of vehicle costs that FPL indicates would have been incurred in the normal course of business, even absent the storms. Based on the response to Staff Interrogatory No. 96, the $5.7 million amount removed for vehicles
is only a portion of the total vehicle costs included in the storm recovery amounts and are based on the monthly vehicle rates charged to the storm accounts. These vehicle rates include items such as depreciation, maintenance, fuel and overhead costs. Additional, incremental vehicle costs for both company owned and non-company owned vehicles remain in the proposed storm recovery costs.

Q. DID FPL PROPOSE ANY OFFSETS TO EITHER OF THESE AMOUNTS?
A. Yes. In its proposed Incremental Approach calculations, FPL offset the Vehicle costs it contends would have been incurred in the normal course of business by 48%, or $2,767,000, for a portion it contends would have otherwise been charged to capital costs and not base rates. I have not reflected this offset as the Company has not supported the offset, nor has it shown that vehicle costs were not otherwise included in the storm related or other capital costs. In the 2004 Storm Recovery Case, the Company proposed a similar offset to vehicle costs under a similar contention that a portion of the budgeted amount was related to capital projects. The order in that case, Order No. PSC-05-0937-FOF-EI, indicates that the OPC objected to the Company’s rationale, “...stating that FPL does not differentiate between capital costs and operating expense in its breakdown of charges to the storm reserve.” (p. 13) The Commission did not reflect FPL’s proposed capital offset in that case, removing the entire amount identified by FPL as costs it would have incurred for the Company owned vehicles whether or not the storm occurred. (Order No. PSC-05-0937-FOF-EI, p. 13)

Q. WHAT IS THE THIRD ADJUSTMENT THAT NEEDS TO BE MADE?
A. Included in FPL’s proposed 2005 storm recovery costs are telecommunications expenses. According to the response to OPC Interrogatory No. 181, the actual operation and
maintenance expenses for telecommunications costs in 2005 were $520,264 less than
budgeted. This is shown on my Exhibit__(DD-1), page 3. The proposed 2005 storm
recovery costs should be reduced by this $520,264 so that only the incremental
telecommunications costs beyond those factored into base rates are included.

ADDITIONAL OPC RECOMMENDED ADJUSTMENTS – 2005 STORMS

Q. WOULD YOU PLEASE ADDRESS THE REMAINING ADJUSTMENTS
PRESENTED ON EXHIBIT__(DD-1)?

A. Yes. The reasons for removing the following items from the 2005 storm recovery costs
are presented in the direct testimony of OPC witness Hugh Larkin, Jr.: uncollectible
accounts, employee assistance costs, and exempt employee overtime incentives. I
determined the associated amounts from various interrogatory responses, which are
identified and referenced on Exhibit__(DD-1). In addition to those sponsored by Mr.
Larkin, I am also recommending several adjustments for the removal of items included in
FPL’s proposed 2005 storm recovery costs. Each of these will be addressed below.

Remove Items Covered Under Warranty

Q. DID FPL INCLUDE ANY ITEMS IN ITS 2005 STORM RECOVERY COST
ESTIMATES TO BE RECOVERED FROM RATEPAYERS THAT IT MAY BE
RECOVERING FROM THIRD PARTIES?

A. Yes. FPL has included at least one item for which it is pursuing warranty recovery, and it
is including amounts associated with joint use poles that it will likely recover from
another party. The joint use pole issue will be addressed later in this testimony.
WHAT ITEM HAS FPL INCLUDED IN ITS COST ESTIMATES FOR WHICH IT IS SEEKING WARRANTY RECOVERY?

FPL has included an estimated $316,250 for a cooling tower fan repair at Martin Unit 8. In response to OPC Interrogatory No. 192, FPL indicated that the cost is being included even though a warranty claim is being pursued “...because the claim is being contested by the cooling tower manufacturer.” The response indicated that the Company is pursing recovery and that “It was considered appropriate to include the repair cost, since these costs could be removed if FPL eventually won its warranty claim.”

IN YOUR OPINION, SHOULD THE COST BE INCLUDED BECAUSE IT COULD EVENTUALLY BE REMOVED, AS FPL CONTENDS?

While it is true that the amounts actually charged to the reserve will be trued-up to actual amounts as the amounts become known, it still is not appropriate to include such costs in the estimates. In this case, the starting point in FPL’s calculations is a $906,404,000 estimate for 2005 storm-recovery costs. This amount is reduced by FPL for several items such as projected insurance proceeds and costs to be charged to capital; however, it is the $906,404,000 projected cost that is the basis of FPL’s request. A large portion of the $906,404,000 of estimated 2005 storm recovery costs FPL is requesting is based on estimated amounts. According to the response to Staff Interrogatory No. 132, as of March 14, 2006, $244,973,000 of the $906,404,000 (or 27%) is still based on estimates.

According to the direct testimony of FPL witness J. Michael Davis, at pages 23-24, any difference between the estimated storm costs and the actual costs incurred, or adjustments due to the outcome of the staff audit or any Commission proceeding, would be charged or credited to the storm reserve balance. The testimony states: “Thus, if the actual costs are
lower than anticipated, the resulting balance in the Reserve will be higher and vice versa.”

FPL’s attitude is that if its estimates are off, they are going to be trued-up to actual amounts anyway, with any reductions to the estimated amount resulting in an increase to the storm reserve that could then be used for future storms. This is in addition to the $650 million requested to be added to fund the storm reserve. It is not appropriate to potentially inflate the costs being requested under the attitude or premise that it will be trued-up later and excess estimates will be used to increase the reserve. One must remember that these are funds that FPL is requesting the ratepayers to pay for. While the costs are being proposed to be spread out over a longer period through the use of storm recovery bonds, it is still the ratepayers who will have to pay for these costs through the payment of the bonds over an extended period. It is not appropriate to make these costs to be recovered higher than they need be or higher than FPL has projected that it needs to recover the costs and fund the storm reserve. While the storm recovery bonds may be spreading the cost to ratepayers over more years, it is the ratepayers who will ultimately be paying those costs. Consequently, on Page 1, I removed the $316,250 included by FPL for the repair of the cooling tower fans for which it is pursuing warranty recovery.

Remove Remaining Contingencies

Q. ARE THERE ANY OTHER ITEMS INCLUDED IN FPL’S ESTIMATED 2005 STORM RECOVERY COSTS THAT INFLATE THE AMOUNT FOR WHICH RATEPAYERS ARE BEING REQUESTED TO FUND AT THIS TIME?

A. According to the response to OPC Interrogatory No. 183, as of February 28, 2006, the remaining estimated 2005 storm recovery costs included $26,253,351 for contingencies.
Approximately $10 million of the contingencies fall under the heading of External Line & Contractor costs and $16 million fall under the “Other” cost category. I recommend that the $26.25 million of remaining contingencies as of the end of February 2006 be removed from the storm cost estimates. As indicated above, it must be remembered throughout this process that it is the ratepayers that are being asked to ultimately fund these amounts. If the amounts are over-estimated, it is ratepayers who will be locked in to paying higher amounts over the next twelve years under FPL’s proposal. The general premise that if the costs are overestimated they will be trued-up and serve to increase the available reserve funds for future storms is not a reasonable premise and is not the attitude the Commission should adopt in evaluating the proposed 2005 storm recovery costs in this case. As previously indicated, as of March 14, 2006, $244,973,000 of the $906,404,000 (or 27%) of proposed storm recovery costs are still based on estimates. The $244,973,000 of remaining estimated costs would include the contingencies. Removal of the contingencies still allows for the inclusion of a significant amount of estimated costs in the proposed storm recovery financing.

Offset for Proceeds from Joint Use Poles

Q. HAS FPL INCLUDED AN OFFSET TO ITS ESTIMATED 2005 STORM RECOVERY COSTS FOR AMOUNTS IT WILL COLLECT FROM THIRD PARTIES ASSOCIATED WITH JOINT USE POLES?

A. No, it has not. As part of the storm recovery effort, FPL repaired and replaced other companies’ poles that it jointly uses. The Company has not yet billed the outside parties for the repairs or replacements, nor did it include an estimate to offset the storm recovery costs it has requested in this case. FPL’s requested 2005 storm recovery cost estimate includes many estimates which increase the projected cost, but does not include estimated
offsets to such costs, other than for insurance recoveries. The repair costs are included in FPL's estimated total 2005 storm recovery costs of $906,404,000. Additionally, the 2004 storm recovery costs also have not yet been reduced for the amounts to be recovered from outside parties for FPL's repair and replacement of the poles owned by other parties.

Q. WHAT IS THE STATUS OF THE PREPARATION OF THE BILLS TO OUTSIDE PARTIES?

A. In response to Staff Interrogatory No. 144, the Company indicated that it expects the billing for the 2004 replacement costs for other companies' poles to be completed in March 2006. The response to Staff Interrogatory No. 145 indicates that FPL is currently conducting the 2005 storm pole survey, which it expects to complete in May 2006. Once complete, the estimated costs to be recovered from the pole owners will be calculated. Unfortunately, May 2006 is after the date hearings are scheduled to occur in this case.

Q. WHAT WOULD BE THE IMPACT OF THE AMOUNTS TO BE COLLECTED FROM THE POLE OWNERS ON THE 2005 STORM RECOVERY COSTS?

A. The proceeds to be received would reduce the 2005 storm recovery costs incurred by FPL as funds will be provided by the owners of the poles. A portion of the costs to be recovered would pertain to costs that have been capitalized by FPL and would not impact the net amount to be recovered through the storm reserve as part of this case. However, any incremental amounts billed beyond the amounts capitalized by FPL should serve to reduce the estimated 2005 storm recovery costs to be recovered from ratepayers. Additionally, at the time of FPL's next rate case, a review should be made to ensure that the capital amounts that were reimbursed by outside parties are do not increase rate base.
Q. WAS FPL ASKED TO PROVIDE AN ESTIMATE OF THE AMOUNT OF
REIMBURSEMENTS IT MAY RECEIVE?

A. Yes. OPC Interrogatory No. 182 asked the Company to provide its current best estimate of reimbursements it may receive from other companies for Joint Use Poles or other storm recovery work. FPL responded as follows:

The survey to determine the amount of non-FPL poles replaced by FPL during the 2004 storms has been completed and showed FPL replaced 2,483 BellSouth poles. An initial estimate, using "normal" costs, was originally developed, however, it was determined that this estimate was not representative of actual 2004 restoration costs. The revised billing for the 2004 poles replaced is currently being developed and is expected to be completed in March 2006. Since the billing is currently under development, FPL does not have an estimate at this time. The survey to determine the number of non-FPL owned poles replaced by FPL during the 2005 storms is expected to be completed during the second quarter 2006. Once the 2004 billing is finalized, FPL will develop an estimate for the 2005 storms.

Consequently, while FPL was requested to provide its "current best estimate", it did not do so.

Q. HAS FPL PROVIDED ADDITIONAL INFORMATION SINCE RESPONDING TO THE ABOVE QUOTED INTERROGATORY?

A. Yes. In Late Filed Exhibit No. 2 to the deposition of FPL witness Geisha Williams, the Company provided a quantification of its cost to replace poles owned by other parties. According to the late filed exhibit, the quantification of reimbursement for FPL’s cost to replace other parties owned poles is $7,419,810 for 2004 and $10,564,384 for 2005. The late filed exhibit also indicates that the 2005 amount is an estimate as the survey to determine the actual number of poles replaced is not expected to be completed until May 2006, with billing to be done shortly thereafter.
Q. WHAT IS YOUR RECOMMENDATION WITH REGARDS TO THE FACT THAT FPL WILL RECEIVE REIMBURSEMENT IN THE FUTURE FROM AN OUTSIDE PARTY FOR SOME OF THE AMOUNTS INCLUDED IN ITS 2005 STORM RECOVERY COSTS?
A. As previously indicated, it is inappropriate to base the amount of 2005 storm recovery costs to be recovered from customers in this case on inflated amounts or amounts that may exceed the net incremental costs to actually be incurred specific to the recovery efforts.

Q. HAVE YOU REFLECTED AN ADJUSTMENT FOR POTENTIAL RECOVERIES ON EXHIBIT__ (DD-1) AT THIS TIME?
A. Yes. As indicated above, FPL provided an estimate of the reimbursements to replace other parties' poles as a result of the 2005 storms in Late Filed Exhibit 2 of $10,564,384. Consequently, I have incorporated a $7,923,288 reduction to the 2005 storm recovery costs. I recommend that as a placeholder 75% of the $10,564,384 million be reflected as an offset to the estimated 2005 storm recovery costs to be recovered. A 75% factor is being utilized as the majority of the projected storm recovery costs are expenses as opposed to capital amounts. On Exhibit__ (DD-1), I remove $7,923,288 from the amount to be recovered. I will address the amount to be recovered via reimbursements from BellSouth pertaining to the 2004 storm recovery costs later in this testimony.

Q. DO YOU HAVE ANY FURTHER RECOMMENDATIONS OR CONCERNS WITH REGARDS TO THIS ISSUE?
A. Yes. Based on FPL's response to OPC POD 34, which is being provided as an exhibit to OPC witness James Byerley's testimony, at Bates No. FPL004466, the estimated 2005
replacement cost per pole is $1,700. In response to OPC POD 92, FPL provided copies of some E-mails regarding its 2005 estimated billing to BellSouth for poles replaced as a result of the 2005 storms. The estimated cost per pole contained in those E-mails were significantly less than the $1,700 estimated cost to replace poles contained in the response to OPC POD 34. It is my understanding, based on Mr. Byerley's recommendations, that the replacement cost per pole under emergency storm recovery situations is significantly greater than under normal replacement situations. This makes sense as external crews and overtime are utilized during emergency storm recovery situations, causing the costs incurred to be higher than a “normal” replacement cost level. Consequently, a review should be conducted once the actual amounts are trued-up to ensure that the billings to outside parties for FPL’s repair and replacement of poles owned by others is based on the actual costs incurred by FPL.

Remove Martin Plant Condensor Tube Repair and Hydrolasing Estimates

Q. WHY HAVE YOU REMOVED THE COSTS INCLUDED BY FPL IN ITS ESTIMATE RELATED TO THE MARTIN PLANT UNITS 1 AND 2 CONDENSOR TUBE REPAIRS?

A. The projected 2005 storm recovery costs include $2,386,000 for condenser tube repairs at Martin Units 1 and 2. According to the supporting documentation provided for this project in response to OPC POD 73 (Bates Nos. FPL 009633-009635) and the response to OPC Interrogatory No. 194, FPL had already planned a partial condenser retube for Martin Units 1 & 2 in its overhaul planning system in July of 2005, with overhaul dates of 2007 and 2008. The Company claims the $2.386 million is for damage caused by Hurricane Wilma, yet it had already planned for retubing of these units prior to the storm occurring. Consequently, these costs should not be recovered from the storm reserve as
was proposed by FPL. On Exhibit__(DD-1), I remove the $2,386,000 included in the 2005 storm cost estimates.

Staff's Audit report, in Audit Finding No. 8, also indicates that the retubing was planned prior to the storm occurring and that if the event was planned prior to the storm, then the cost should not be included in the storm costs.

Q. HAS FPL PROVIDED ANY ADDITIONAL INFORMATION ON THIS ISSUE?
A. Yes. In response to Staff Interrogatory No. 147, FPL indicates that it now plans a complete re-tube of the Unit 1 condenser instead of the partial re-tube included in its storm cost estimate. A full re-tube is a capital project as opposed to expense item. The response also indicates that FPL could not determine if the Unit 2 damage was caused by the storm because pre-storm studies were not available. The response indicates that the Unit 2 condenser tubes are no longer included in the storm estimate. The response also indicates that in March 2006, the Company adjusted the storm estimate by $2,785,364 to reflect the Unit 1 work as capital. While it is not clear from the response, presumably the amount will be excluded from the amount FPL proposes to charge to the reserve as it is a capital cost. No amounts should be charged to the storm reserve for the Martin Plant Units 1 and 2 condenser tube repairs or retubing.

Q. ARE THERE ANY ADDITIONAL RELATED COSTS THAT SHOULD ALSO BE REMOVED?
A. Yes. FPL's 2005 storm cost estimate also includes $144,000 for hydrolasing the Martin Unit 1 and 2 condenser tubes and $77,000 for hydrolasing the Martin Units 3 and 4 condenser tubes. The hydrolasing was conducted to clean the tubes to prepare for testing.
Hydrolasing the condenser tubes is a normal, recurring maintenance item. According to the response to OPC Interrogatory No. 194, the Company had already projected to perform condenser tube hydrolasing at Martin Units 1 and 2 in the spring of 2006, at Unit 3 in Fall of 2007 and Unit 4 in Spring 2008. As these costs are typical maintenance type costs, I recommend they be removed from the 2005 storm recovery costs, resulting in a reduction of $221,000 ($144,000 + $77,000).

Advertising and Communications Costs

Q. SHOULD UTILITY ADVERTISING, MEDIA RELATIONS OR PUBLIC RELATIONS COSTS BE INCLUDED IN STORM RESTORATION COSTS?
A. No. These costs are generally image building type expenditures and are not related to the restoration of service to customers. Costs associated with advertising related to public information regarding safety and other customer services are incorporated into the determination of base rates. Additional expenditures made informing the public of the Company's efforts to restore service are either covered in base rates or do not provide a direct benefit to ratepayers and are not directly related to the storm restoration efforts.

Q. WHAT AMOUNT IS INCLUDED IN THE 2005 STORM RECOVERY COSTS FOR ADVERTISING AND PUBLIC RELATIONS?
A. In response to Staff Interrogatory No. 100, FPL identified $2,528,196 of advertising and public relations costs included in the 2005 storm recovery costs. The response shows that $506,507 was included for print ads and $2,021,689 of these costs were for radio communications, and no public relations costs were included. Staff Audit Report, Audit Control No. 05-292-4-1, under Audit Finding No. 7, provides additional information
regarding advertising charges included in the storm recovery expenses. The print ads
consisted of newspaper ads addressing expected electric turn on dates and "Thank You"
ads in media such as the Wall Street Journal. The Audit Report indicates that the radio
ads appeared to be for safety tips or image enhancing. On Exhibit__(DD-1), I remove
the $2,528,196 of advertising costs from the 2005 storm restoration costs.

Additionally, while not identified in response to Staff Interrogatory No. 100, Staff's
Audit Report, under Finding No. 7, indicates that an additional $144,068 was included
for "Public Relations Invoice." On Exhibit__(DD-1), I also remove the $144,068
identified by Staff as Public Relations costs charged to the storm recovery costs.

**Remove Property Damage and Personal Injury Costs**

Q. ARE THERE ANY ADDITIONAL COSTS INCLUDED BY FPL THAT ARE NOT
DIRECTLY RELATED TO STORM RECOVERY EFFORTS THAT SHOULD BE
EXCLUDED?

A. Yes. According to the response to OPC Interrogatory No. 184, under the "Other"
category of 2005 storm recovery costs FPL has included $2,849,571 for estimated
property damage and personal injury costs under the General Counsel Business Unit.
These are not costs directly related to the storm recovery efforts or for the restoration of
electric service to customers and should not be included in the costs to be recovered.
Additionally, these types of costs are already considered in the determination of base
rates and should not be recovered via the recovery of storm restoration costs.
Increase in Portion of Costs Pertaining to Capital Items

Q. HAS FPL PROVIDED ANY FURTHER UPDATES OF ITS PROJECTED 2005 STORM RECOVERY COSTS?

A. Yes. In response to Staff Interrogatory 57 - Supplemental, the Company has provided some updates to its estimated 2005 storm-recovery costs. The total cost estimate provided by FPL as of February 28, 2006, prior to offsets, is very close to the estimates it provided previously, decreasing slightly from $906,403,000 to $906,254,000. However, the portion of the cost estimates that FPL projected to be related to capital expenditures, which offset the costs for which FPL is requesting to recovery through the storm reserve, has increased from the original estimated amount of $63,855,000 to $66,819,000, an increase of $2,964,000. On Exhibit__ (DD-1), I have reflected this additional $2,964,000 offset to the 2005 storm recovery costs to reflect the fact that a higher portion is now anticipated to be capital related, which would not be recovered from the storm reserve.

Offset for Proceeds Received for Loan of Personnel & Equipment

Q. DID FPL RECEIVE ANY AMOUNTS DURING 2005 FOR ASSISTING OTHER UTILITIES IN THEIR STORM RECOVERY EFFORTS?

A. Yes. During 2005, FPL billed $9,095,845 for the loan of company personnel and equipment to other power companies for storm restoration activities. According to the response to OPC Interrogatory No. 156, the amount charged consisted of: “...Base Payroll $2,080,517; Overtime Payroll $3,300,152; Bonuses $0; Travel and Other $2,227,252; Materials $75,819; Vehicle $659,404 and Administrative & General Expenses $752,701.”
Q. HOW DOES THE AMOUNT BILLED BY FPL FOR ASSISTING OTHER UTILITIES IN 2005 COMPARE TO PRIOR YEARS?

A. It is considerably higher. According to the response to OPC Interrogatory No. 157, FPL received $3.0 million in 2002, $5.0 million in 2003, and $0 in 2004 from other power companies for the loan of employees and equipment for storm restoration efforts. FPL included $0 in revenues its recent rate case filing, Dkt. No. 050045-E1 for reimbursements from other utilities for assistance with storm restoration efforts, thus, none of the reimbursements are reflected in base rates.

Q. ARE ANY OF THE COSTS INCURRED BY FPL FOR WHICH IT IS RECOVERING FROM OTHER POWER COMPANIES INCORPORATED INTO BASE RATES CHARGED TO FLORIDA RETAIL CUSTOMERS?

A. Yes. The majority of the costs incurred by FPL in assisting other utilities would be included in costs recovered from FPL’s Florida retail customers in base rates. Employee labor costs, vehicle costs and administrative and general expenses incurred by FPL are factored into the rate setting process and are thus part of base utility rates.

Q. SHOULD THE 2005 STORM RECOVERY COSTS INCURRED BY FPL BE OFFSET BY THE PROCEEDS IT RECEIVES FROM OTHER UTILITIES FOR ASSISTING IN RESTORATION EFFORTS?

A. Yes, the majority of the proceeds received by FPL for assisting other utilities in storm recovery efforts should be reflected as an offset to FPL’s storm restoration costs; otherwise, FPL would recover such costs twice. It would recover the costs through base rates charged to the Florida retail customers and again through the reimbursement of the costs from the other utilities. The 2005 storm recovery costs requested by FPL to be
charged against the storm reserve in this case include substantial amounts for payments to
other utilities that assisted FPL in its restoration efforts. These are reasonable and
prudent costs that assist to expedite the storm recovery process. While I agree that it is
both a good business decision and good citizenship for FPL to provide assistance to other
utilities when it can in the other utilities' storm recovery efforts, such assistance should
not result in a profitable venture, particularly when FPL's customers are paying the
salaries and costs of the FPL employees who assist the other utilities. As the substantial
amounts incurred for the reimbursement to other utilities by FPL in the 2005 storm
recovery efforts are included in the amount requested to be charged against the reserve,
the reimbursements received by FPL from other utilities for providing similar assistance
should be reflected as an offset to the storm reserve costs.

Q. WHAT AMOUNT ARE YOU RECOMMENDING AS AN OFFSET TO THE STORM
RECOVERY COSTS FOR THE REIMBURSEMENTS CHARGED BY FPL IN 2005?
A. As shown on Exhibit__ (DD-1), I recommend that the 2005 storm recovery costs be offset
by $6,868,593. This is the amount billed by FPL to other utilities for the recovery
assistance of $9,095,845, less the amounts pertaining to travel and other of $2,227,252.
The costs incurred by FPL's employee to travel to the locations to assist in the recovery
efforts would not have been considered in determining base rates; however, the other
types of costs incurred would have been factored into the base rate determination.

RECOMMENDATIONS OF OPC WITNESS BYERLEY

Q. ARE THERE ANY ADDITIONAL ADJUSTMENTS TO THE PROPOSED 2005
STORM RECOVERY COSTS THAT NEED TO BE REFLECTED?
Yes. In the final section of adjustments on Exhibit__(DD-1), page 1, I provided the impact on the 2005 storm restoration costs of the recommendations of OPC witness James Byerley.

Q. PLEASE DISCUSS THE ADJUSTMENT FOR THE CONSERVATION-CORBETT 500 MW LINE.

A. OPC witness Byerley raises several prudence issues with regards to the Conservation-Corbett 500 MW line in his prefilled testimony. FPL’s projected total 2005 storm restoration costs include $10,411,000 for this project, which it then removes from the 2005 storm restoration costs for which it is seeking recovery in this case as part of its capital cost offset. As a result of his recommendation, I removed the project costs from both the total projected storm restoration costs and from the capital cost offset. The net impact of these adjustments on the 2005 Storm Recovery Costs to be included in the proposed storm financing is $0. However, if this adjustment to reduce the capital costs by $10,411,000 is not specifically reflected and identified, then the costs will be included in the plant in service on FPL’s books and recovered from ratepayers in the future. Consequently, the order resulting from this case should specifically indicate that these costs are being disallowed and should not be included in plant in service; otherwise, ratepayers will pay for these costs, which the OPC believes to be imprudent, beginning with the next FPL rate case.

Q. WHAT ADDITIONAL ADJUSTMENTS HAVE YOU REFLECTED ON EXHIBIT__(DD-1), PAGE 1, FOR THE RECOMMENDATIONS SPONSORED BY JAMES BYERLEY?
Mr. Byerley has recommended several adjustments associated with FPL's failure to
conduct an adequate pole inspection program, resulting in a higher level of pole and
conductor replacements from the storm than would otherwise be the case. Mr. Byerley is
recommending a pole replacement disallowance of $12,000,000 and a conductor
replacement disallowance of $10,600,000 as a result of the inadequate pole inspection
program. On Exhibit__(DD-1), I reduce the 2005 storm replacement costs by
$12,000,000 and $10,600,000, for the pole and conductor replacements, respectively.
Additionally, as Mr. Byerley has estimated that the capital related costs would be
approximately 25% of the total amount, I reduce the capital offset to the 2005 storm
related costs by $3,000,000 for the pole replacement costs ($12M x 25%) and $2,650,000
for the conductor replacements ($10.6M x 25%). Additionally, plant in service should be
reduced by these same amounts to ensure that ratepayers are not charged for these costs
at the time of the next rate case.

Mr. Byerley is also recommending several adjustments associated with FPL's failure to
conduct an adequate tree trimming program, resulting in excessive pole failures and
conductor replacements as a result of the 2005 storms. Mr. Byerley is recommending a
pole replacement disallowance of $6,040,000 and a conductor replacement disallowance
of $5,310,000 as a result of the inadequate tree trimming program. On Exhibit__(DD-1),
I reduce the 2005 storm replacement costs by $6,040,000 and $5,310,000, for the pole
and conductor replacements, respectively. Additionally, as Mr. Byerley has estimated
that the capital related costs would be approximately 25% of the total amount, I reduce
the capital offset to the 2005 storm related costs by $1,510,000 for the pole replacement
costs ($6.04M x 25%) and $1,327,500 for the conductor replacements ($5.31M x 25%).
Additionally, plant in service should be reduced by these same amounts to ensure that ratepayers are not charged for these costs at the time of the next rate case.

2004 STORM RECOVERY COSTS

Q. THE COMPANY’S FILING SHOWS $213,307,000 FOR UNRECOVERED 2004 STORM-RECOVERY COSTS AS OF JULY 31, 2006. COULD YOU PLEASE DISCUSS THIS AMOUNT?

A. Yes. Exhibit KMD-3, attached to the direct testimony of FPL witness K. Michael Davis, shows the beginning 2004 storm recovery cost deficiency balance of $441,991,000. This amount is based on Order No. PSC-05-0937-FOF-EI - the final decision in the 2004 Storm Restoration Cost case. The amount is based on the Commission adjusted amount to be charged against the storm reserve and considered in the surcharge determination of $798,100,000 on a total system basis and $794,309,025 on a jurisdictional basis less the then existing balance in the storm reserve balance, resulting in the net deficiency balance of $441,991,000. Mr. Davis’ exhibit then shows the estimated recoveries of the deficiency balance through July 31, 2006, resulting in a 2004 storm-recovery cost deficiency as of July 31, 2006 of $212,024,000. This amount is then adjusted on Mr. Davis’ exhibit to reflect the following adjustments: 1) addition of a $21,597,000 ($21.7 million system) Commission approved adjustment to the 2004 storm recovery cost amount not recovered through the surcharge; 2) the 2005 storm accrual recovered in base rates; and 3) a slight deduction to the reserve for fund earnings through September 2005. The end result is projected unrecovered 2004 storm recovery costs as of July 31, 2006 of $213,307,000. FPL proposes to include this amount in the total storm-related costs to be recovered through the storm-recovery financing.
Q. WOULD YOU PLEASE DISCUSS THE $21,597,000 ADDITION TO THE AMOUNTS APPROVED FOR RECOVERY THROUGH THE SURCHARGE IN ORDER NO. PSC-05-0937-FOF-E1 MADE ON MR. DAVIS' EXHIBIT?

A. Yes. Order No. PSC-05-0937-FOF-E1 included a $21,700,000 ($21,597,000 jurisdictional) reduction to FPL's requested 2004 storm damage recovery costs identified as "Contributions in Aid of Construction." The order indicates that these costs are not actually "Contributions in Aid of Construction." Page 20 of the order indicates the $21.7 million is included as storm restoration costs, but not restoration costs included in the surcharge approved in that docket. In other words, the Order ultimately resulted in the addition of the $21.7 million to the allowed charges to the storm reserve for future recovery, but was not factored into the determination of the surcharge allowed for in that case. FPL witness Davis' testimony in this case, at page 12, indicates that the Commission approved the $21.7 million adjustment to increase the storm costs contained in the order. Once this $21.7 million allowed to be reflected as a charge to the storm reserve for recovery is factored in, the net amount that effectively was approved for recovery in the 2004 Storm Cost Recovery Order is $819,800,000 ($798,100,000 + $21,700,000).

Q. WERE ALL OF THE 2004 STORM RECOVERY COSTS INCLUDED IN THE 2004 STORM COST RECOVERY ORDER BASED ON ACTUAL AMOUNTS?

A. No, a large portion of the costs were based on estimates. Page 22 of the 2004 Storm Cost Recovery Order shows the beginning point in the calculation as total FPL estimated 2004 storm damage costs of $999,000,000 less anticipated insurance reimbursements of $109,000,000, resulting in net estimated 2004 storm damage costs of $890,000,000. This
is prior to Commission adjustments to reflect the incremental approach, less lost
revenues, and the removal of capital costs.

Q. DID THE ORDER INDICATE IF THERE WOULD BE A TRUE-UP OF THE COSTS
TO ACTUAL COSTS?

A. Yes. Page 37 of the Order states as follows:

Within 70 days after the conclusion of this recovery period, FPL shall file the
final actual 2004 storm damage costs and the total amount collected through the
surcharge during the recovery period. FPL’s filing should also include a proposed
method for addressing any final over- or under-recovery. While we believe that
FPL witness Morley’s proposal to refund any over-recovery as a one-time refund
appears reasonable, we will make a determination of the appropriate final
disposition of any over- or under-recovery when the total amount is known.

In the current case, FPL is proposing that the recovery period approved in that order not
be completed. Rather, FPL’s proposal is that the projected remaining unrecovered
balance as of July 31, 2006 be rolled-into the proposed storm recovery financing in this
case, which would then be recovered from customers over a twelve year period. The
amount presented by FPL to be rolled-in is based on the original 2004 storm recovery
cost estimates presented in the 2004 Storm Cost Recovery case, not an amount that has
been trued-up to reflect actual costs.

Q. IN YOUR OPINION, DOES THIS PRESENT A PROBLEM?

A. Yes. Based on responses to OPC interrogatories and Requests for Production of
Documents, FPL has incurred less in 2004 storm recovery costs than it projected at the
time of the 2004 Storm Cost Recovery case. If the remaining 2004 Storm Recovery
Costs are not reduced to reflect the fact that actual costs have been lower than projected,
the result will be an inflated amount being recovered via the storm recovery bonds and
being charged to ratepayers.
In his direct testimony, FPL witness J. Michael Davis indicates that the Company proposes to true-up the estimate of unrecovered 2004 storm recovery costs as the amounts in the existing surcharge is based on "...an estimate for identified projects that were not yet completed." (page 13) He indicates that the actual costs for the projects may be more or less than what was estimated. At page 14 of his testimony, he states that "Therefore, FPL proposes that once these projects are completed, if the actual amount is lower than the estimated amount, the difference would be credited to the Reserve." He also states that if the actual amount is higher, the difference would be charged to the reserve. The problem with this proposal is that it will result in higher amounts being included in the proposed storm recovery financing, which will be charged to ratepayers over the next twelve years. As addressed previously in this testimony, it is not appropriate to inflate the amounts to be recovered under the premise that the difference will just result in a higher available reserve balance as the result is a higher cost to ratepayers over the next twelve years if FPL's financing proposal is adopted.

Q. HOW DO THE ACTUAL AND CURRENT PROJECTIONS OF 2004 STORM RECOVERY COSTS COMPARE TO THE AMOUNTS USED IN ESTIMATING THE COSTS IN THE PRIOR CASE?

A. In response to OPC Interrogatory No. 108, FPL indicates that the actual 2004 storm recovery costs incurred through January 31, 2006, net of insurance proceeds and capital costs, are $775,345,096. The response did not provide the amounts that have actually been capitalized for comparison to the estimated $58 million identified in the order. It also did not provide the amount of insurance proceeds received to compare then to the $109,000,000 estimated in the 2004 Storm Recovery case. Consequently, based on the
information provided, it is not possible to compare the actual amounts incurred to the
estimated total costs assumed in the 2004 Storm Recovery Cost Order of $999 million.

The response then lists an additional $22,754,904 of accruals for estimated remaining
costs, resulting in actual and estimated remaining costs of $798,100,000. Again, these
amounts are net of insurance proceeds and capital costs. The amounts equal the
$798,100,000 recorded in Account 186.180, which is the regulatory asset account set up
for the 2004 storm recovery costs. The $798,100,000 also happens to equal the
Commission adjusted net recovery costs approved by the Commission in the 2004 Storm
Recovery Order. As previously discussed, the $798,100,000 was based on total projected
costs of $999 million, reduced by $109 million of projected insurance proceeds and the
Commission’s capital related adjustments.

Q. SINCE THE ACTUAL COSTS INCURRED THROUGH JANUARY 31, 2006 PLUS
THE PROJECTED REMAINING ACCRUALS PRESENTED BY FPL EQUAL THE
$798,100,000 FROM THE 2004 STORM RECOVERY COST ORDER, WHY DID
YOU INDICATE THAT FPL HAS INCURRED LESS THAN IT PROJECTED IN
THAT CASE?

A. One must remember that subsequent to the Final Agenda and prior to the issuance of the
2004 Storm Recovery Cost Order, the Commission allowed FPL to increase the charges
to the storm reserve to allow future recovery of an additional $21.7 million. As
previously indicated, once this $21.7 million adjustment is reflected, the net amount that
effectively was approved for recovery in the 2004 Storm Cost Recovery Order would be
$819,800,000 ($798,100,000 + $21,700,000), not $798,100,000. Thus, based on the net
of insurance and capital costs actually incurred by FPL through January 31, 2006 and
projected to still be incurred of $798,100,000, the amount of 2004 storm recovery costs to be recovered by FPL as part of its proposed storm recovery financing should be reduced by at least $21,700,000. FPL does not project to incur the net of insurance and capital costs of $819,800,000 effectively allowed for by the Commission.

Q. ARE YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS TO THE AMOUNT OF UNRECOVERED 2004 STORM RESTORATION COSTS BEING ADDED BY FPL TO ITS PROPOSED STORM RECOVERY FINANCING?

A. Yes, I am recommending two additional adjustments. The first adjustment removes what FPL has identified as "Claims Outstanding & Pending Lawsuits." According to the response to OPC Interrogatory No. 108, as of July 31, 2005, the estimated 2004 storm recovery costs included $2,664,038 for estimated claims outstanding & pending lawsuits associated with Hurricanes Frances and Jeanne. As of January 31, 2006, the estimated pending lawsuits included were $1.15 million. Presumably, the prior estimated amounts were incurred and recorded in the actual 2005 storm recovery costs by FPL. I recommend that the 2004 storm recovery costs be reduced by $2,664,038 at this time. If a subsequent audit of the costs shows a higher level of lawsuits and legal claims included in the 2004 storm recovery costs, then the additional amounts should also be removed at that time. These are not costs directly related to the storm recovery efforts and should not be included in the costs to be recovered. They also were not presented as outstanding storm related costs at the time of the prior case. Additionally, these types of costs are already considered in the determination of base rates.

Q. WHAT IS THE SECOND ADJUSTMENT YOU ARE RECOMMENDING?
The second adjustment removes estimated amounts FPL has included in the projected remaining 2004 storm recovery costs for "Various Nuclear Storm Damages," totaling $21,467,915 of estimated additional costs as of January 31, 2006. The response to OPC Interrogatory No. 108 indicates that the costs "Represents a conservative estimate for work yet to be completed, which may change based on the final resolution of insurance recoveries." These estimated future costs should not be included as part of the 2004 storm recovery costs and should be removed from the amounts reflected in FPL's proposed storm financing in this case. Again, these are estimated amounts, which may be offset by insurance recoveries.

Q. HAS FPL PROVIDED ADDITIONAL INFORMATION REGARDING WHAT IS INCLUDED IN THE ADDITIONAL ESTIMATED NUCLEAR DAMAGE COSTS OF $21.5 MILLION?

A. FPL has provided some additional information; however, the information provided does not equate to the additional $21.5 million of accruals identified in the response to OPC Interrogatory No 108. FPL's response to OPC POD 78 provided additional information regarding the remaining estimated 2004 storm recovery costs. As previously mentioned, FPL's response to OPC Interrogatory No. 108 identified $22,755,000 of accrued 2004 storm recovery costs and $775,345,096 of actual (net of insurance and capital costs) as of January 31, 2006. Based on the response to OPC POD 78 (Bates No. 103922), the estimated remaining costs to be incurred include $21 million of costs associated with St Lucie nuclear plant intake canal restoration that were not previously estimated. These appear to be costs beyond those that were presented in the prior case, and estimated after July 31, 2005.
Q. WHAT IS THE RELEVANCE OF THE JULY 31, 2005 DATE?

A. In the order in the 2004 Storm Restoration Cost case, Order No. PSC-05-0937-FOF-EI, the Commission established the cut-off date for charging costs to the storm reserve for 2004 storm related restoration work of no later than July 31, 2005. One of the Ordering paragraphs stated: “ORDERED that FPL shall cease charging costs to its storm reserve no later than July 31, 2005, for restoration work related to the 2004 storm season.”

Based on the response to OPC POD 78 (Bates No. 103922) it appears that costs now being added for the intake canal restoration were estimated after the July 31, 2005 cut-off date. Additionally, in response to OPC Interrogatory No. 107, FPL provided an exhibit from Company witness Geisha William’s rebuttal testimony in the 2004 storm recovery cost case (Dkt. No. 041291-EI) which listed estimated remaining projects included in the 2004 storm recovery cost estimates that were not completed as of December 31, 2004 and were greater than $100,000. The additional estimated “various nuclear storm damages,” and the Intake Canal project for St. Lucie nuclear plant were not listed in that document as an outstanding estimated project in that case.

The transcripts in that prior case, at page 484, addresses Staff’s audit report associated with the 2004 storm cost estimates and the projected St. Lucie nuclear plant damages in particular. This consists of a page of testimony from Staff witness Iliana H. Piedra and specifically states, at page 484, “The insurance company is expected to reimburse FPL for all the St. Lucie nuclear plant damage except for its deductible of $2,000,000 and storm preparation expenses of $9,280,311.” The testimony also states that the deductible and storm preparation costs for St. Lucie nuclear plant were included in the storm restoration costs FPL was seeking, and the remaining costs were removed from the storm costs estimates. The additional $21,467,915 identified by FPL as part of the currently
remaining estimated 2004 Storm Recovery Costs for "Various Nuclear Storm Damages"
in response to OPC Interrogatory No. 108 does not appear to have been identified in theprior docket as costs that would not be recovered through insurance.

Q. ARE THERE ANY ADDITIONAL REASONS THAT THESE REMAININGESTIMATED COSTS SHOULD NOT BE FACTORED IN TO THE STORMFINANCING REQUESTED BY FPL IN THIS CASE?

A. Yes. As previously mentioned, these costs appear to have been identified and estimatedafter the July 31, 2005 cut-off date identified in Order No. 05-0937-FOF-EI. They also
do not appear to have been identified as a projected 2004 storm related cost in thatdocket. In addition, the response to OPC POD 78 (Bates No. 103922) in discussing theintake canal project states that "No pre-hurricane assessments are available. As such,isolating hurricane damage from possible dredging damage and normal operationaldegradation is virtually impossible." The storm recovery costs should include only thoseextraordinary costs that result from the hurricanes. Based on the description of the intakecanal project, this may also be considered a capital cost as opposed to expense. There isalso the question of whether or not these costs will be covered by insurance. The response to Interrogatory No. 108 indicates that the estimated nuclear storm damage costmay change based on the final resolution of insurance recoveries. At this point, theadditional estimated amounts FPL is including in the 2004 storm restoration costs for"various nuclear storm damages", which have not been incurred and were not identifiedin the prior case, should not be included in the determination of the proposed stormfinancing amount.
Q. UNDER THE 2005 STORM RESTORATION COST ADJUSTMENTS, YOU
   ADDRESSED OFFSETS FOR PROCEEDS FROM JOINT USE POLES. IS THIS
   ALSO AN ISSUE WITH REGARDS TO THE 2004 STORM RECOVERY COSTS?
A. Yes. As previously indicated, the 2004 storm recovery costs also have not been reduced
   for the amount to be recovered from outside parties for FPL's repair and replacement of
   the poles owned by other parties. In Late Filed Exhibit No. 2 to the deposition of FPL
   witness Geisha Williams, FPL provided the estimate of its cost to replace poles owned by
   other parties as a result of the 2004 storms of $7,419,810. Consequently, I recommend
   that the 2004 storm recovery costs be offset by $5,564,858 at this time for purposes of
   determining the amount of storm recovery financing. This is based on the estimated
   reimbursement amounts provided by FPL in Late Filed Exhibit No. 2, identified above,
   times 75%, assuming that approximately 25% of the costs are related to capital costs.
   Similar to my previous recommendation with regards to the 2005 storm recovery cost
   offset for Joint Use poles, I recommend that a review be conducted to ensure that FPL is
   billing outside parties for the full cost it incurred to repair and replace the poles owned by
   the outside parties.

Q. HAVE YOU PREPARED A SUMMARY EXHIBIT SHOWING YOUR
   RECOMMENDATIONS WITH REGARDS TO THE REMAINING 2004 STORM
   RECOVERY COSTS FPL IS SEEKING TO RECOVER AS PART OF ITS STORM
   FINANCING IN THIS CASE?
A. Yes. Exhibit__(DD-2) provides a listing of each of the adjustments I am recommending
   to the 2004 storm restoration costs, each of which are discussed above. As shown on
   Exhibit__(DD-2), the remaining 2004 storm restoration costs for which FPL is seeking
   recovery as part of the storm refinancing should be reduced by $51,396,811.
2005 STORM RECOVERY COST CUT-OFF DATE

Q. DID THE 2004 STORM RECOVERY COST ORDER ESTABLISH A CUT-OFF DATE FOR CHARGES TO THE STORM RESERVE?

A. Yes. At page 22 of Order No. PSC-05-0937-FOF-E1, the Commission stated: “...we find that FPL shall stop charging costs to the storm reserve no later than July 31, 2005, for restoration work related to the 2004 storm season.”

Q. WERE ALL OF THE COSTS CHARGED TO FPL TO THE RESERVE FOR 2004 STORM RECOVERY EFFORTS AS OF THE JULY 31, 2005 CUT-OFF DATE ACTUAL, KNOWN AMOUNTS?

A. No. FPL accrued additional amounts on its books as of July 31, 2005 resulting in the actual and estimated amounts equaling the amount approved by the Commission in Order No. PSC-05-0937-FOF-E1. In response to OPC Interrogatory No. 108, FPL stated as follows:

As ordered in the 2004 Storm cost Recovery Order (PSC-05-0937-FOF-E1), the cut-off point to stop charging costs to the storm reserve was July 31, 2005. Therefore, FPL assumes that the “True-up estimate of unrecovered 2004 storm-recovery costs” is referencing the remaining work to be completed for 2004 storm damages as of July 31, 2005. Estimates for this remaining work as of July 31, 2005 can be found on page 1 of Attachment 1. These costs were accrued on FPL’s books as of July 31, 2005 and recorded in Account 186.180, Miscellaneous Deferred Debits, which is specific to the accumulation of 2005 storm costs...”

As previously indicated under the discussion of 2004 storm restoration costs, the Company has included estimated costs in its accruals for projects that were not even identified in the 2004 Storm Restoration case. Apparently, FPL considers its accrual of estimated possible future 2004 storm recovery costs as appropriate for meeting the cut-off
date cited in the prior order, even though the projects had not begun and were not
identified in the prior proceedings.

Q. SHOULD A CUT-OFF DATE ASSOCIATED WITH THE 2005 STORM RECOVERY
EFFORTS ALSO BE ADOPTED IN THIS CASE?
A. Yes. In response to OPC Interrogatory No. 34, FPL indicates that most restoration work
is expected to be completed by year end 2006, with a few exceptions. I recommend a
cut-off date for charging 2005 storm restoration costs to the reserve of December 31,
2006. It is not appropriate to allow an indefinite period for charging costs associated with
the 2005 storms to the reserve. I also recommend that some additional firm parameters
be set.

Q. WHAT ADDITIONAL PARAMETERS SHOULD BE SET WITH REGARDS TO THE
RECOMMENDED CUT-OFF DATE?
A. For any amounts that are not based on actual expenditures as of the December 31, 2006
recommended cut-off date, the items contained in any accruals should be specifically
limited to those projects that were specifically identified as part of this case and the
projects should actually be started by December 31, 2006. In response to OPC
Interrogatory No. 113, the Company provided a listing of remaining 2005 storm
restoration projects outstanding as of January 31, 2006, along with estimated project start
and completion dates. Costs for projects beyond what is incorporated in this listing
should not be included in any accruals to the 2005 storm reserve as of December 31,
2006. As a large portion of the 2005 storm recovery costs that FPL is seeking for
inclusion in the storm financing are still based on estimated amounts, this limitation
should help to mitigate any potential pressures to seek out additional projects to somehow

tie to the 2005 storms in order to result in a certain final cost level.

Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?

A. Yes, it does.
BY MR. BECK:

Q  Ms. DeRonne, have you prepared a summary of your testimony?

A  I would like to give a brief summary.

Q  If you would, please.

A  The purpose of my testimony, there are several areas within my testimony, and within the first area I address the 2005 storm restoration costs that OPC recommends for recovery in this case based on the incremental approach.

Mr. Larkin sponsors the testimony with regards to the incremental approach and why that approach should be used. And within my testimony, I present the dollar amounts that are necessary to do that, to reflect the incremental approach.

Under that -- under the incremental approach, there's really two categories of adjustments which are presented on my Exhibit DD-1 which is the exhibit, I believe Beck said, 85.

The first group of categories of adjustments are payroll related. These are removing the base salaries that are already reflected in base rates. Not the overtime. We did not remove the overtime salaries, just the base salaries. That was also offset by amounts that would have normally been recovered through the fuel
clause and other clauses in addition to capital costs, you know, the amounts that would have normally been charged to capital costs. Those were used to offset that payroll reduction. And those amounts were provided by the company in response to OPC 30.

In OPC data request 30, we had asked the company to provide the calculation of the '05 storm recovery costs under the incremental approach as approved by the Commission in the prior rate case -- or I'm sorry, the prior storm case. And that was the starting point for our adjustments, was were the amounts presented by that company within that response.

We also removed some -- or I removed some other payroll related adjustments for employee benefit type cost, medical insurance type costs that would already be recovered through base rates also.

The second group of adjustments under the incremental approach are also presented in that exhibit. And in there we remove the tree trimming related costs by which FPL was under its budgeted amount for that period. That's a $1.1 million dollar reduction. We also remove fleet vehicle costs, the amounts that FPL provided to us that are amounts that are factored into base rates and that would already be recovered through base rates.
And I also do a reduction for telecommunications expense for the fact that the company was under budget in that area. But yet there was still significant amounts charged to the storm reserve in that area so we reduce it by the amounts they were underbudget during the year.

The third group of adjustments under the '05 -- for the '05 storm recovery costs relate to other specific recommended adjustments by OPC which goes -- is not related to the incremental approach but should be made regardless of which approach is followed.

This includes items such as removing some items that would be recovered under warranty for the company, some items that should be recorded as capital costs instead. I also remove costs such as advertising costs, and property damages and personal injury cost is not -- costs that shouldn't be recovered through this mechanism and aren't directly related to -- to restoring the system.

Another item in this category that we adjusted is we included an offset for amounts that will be received from third parties for joint use poles. As part of the restoration activities, the company did do some repairs and replacements of poles owned by third parties. And we made an adjustment to reduce the amount

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to be collected in this case to acknowledge the fact
that they will receive amounts from third parties for
part of those poles.

Additionally, I recommend that there be an
offset for proceeds received by Florida Power & Light
during 2005 for its employees assisting other utilities
for restorations of their systems. There's a
significant amount in this case related to payments to
other utilities for assisting FPL, and we agree that
those were prudently incurred costs and it was
definitely the right decision to utilize those foreign
crews.

Likewise, during the same period FPL sent some
of its crews to other utilities to assist them with
their recovery efforts. And the base salary and a lot
of the costs for those employees to go are already
factored into base rates. Its customers are paying
those base salaries for those employees and their
benefit cost and the vehicle related expenditures.

So there should be an offset to these costs
for those amounts received. They're already recovered
in base rates. Otherwise they're being recovered twice,
one from the outside company and again through base
rates. So I feel it's appropriate to offset the amounts
being requested to recover in this case for those
amounts.

The next group of adjustments we're recommending for 2005 storm costs pertain to the recommendations of witness Byerley, and I reflect the impact of his various recommendations within my exhibit.

And then within my exhibit I also address some recommended adjustment to the remaining 2004 storm costs that the company has not yet fully recovered. Really there's four areas of judgments I'm recommending there. The first one is I recommend that amounts 21.7 million that pertains to the accounting adjustment that was discussed earlier by Mr. Davis, we didn't contest the way it was accounted for by the company under the order. I do believe they followed what was directed in that order. The company has not showed they've actually expended those amounts and you should not fail to recover the amounts if they haven't actually expended them for the storm recovery efforts.

In addition, there's other areas where the companies under the projected expenditures for those '04 storms compared to what was allowed for in that case. There's various amounts, for example, the nuclear storm damages. They haven't -- these are amounts that shouldn't be included for that '04 recovery and they haven't been extended -- expended yet. And I cite
variation reasons that those shouldn't be included
within my testimony.

And additionally for 2004, similarly is what I
recommended for 2005. The amounts to be reimbursed from
third parties for those joint-owned poles and for poles
owned by outside parties should also be removed
resulting in a recommended reduction to the 2004 storm
restoration costs that haven't been recovered to this
point of $51.4 million. And that summarizes my
testimony.

MR. BECK: Thank you, Ms. DeRonne.

Ms. DeRonne is available for cross-examination.

CHAIRMAN EDGAR: Thank you. Is there cross
from any of the intervenors? No? No? No?

Mr. Twomey, cross?

MR. TWOMEY: No, ma'am.

CHAIRMAN EDGAR: Thank you. Questions from
staff?

MS. GERVASI: Staff has no questions.

MR. ANDERSON: Thank you, Chairman Edgar.

CROSS-EXAMINATION

BY MR. ANDERSON:

Q Good evening, Ms. DeRonne.

A Good evening.

Q We've spoken before; is that right?
A Yes, at the deposition.
Q Right. I'd like to start right off. You said
a minute ago that you're recommending disallowance of
the $21.7 million dollar which is the topic of
Mr. Davis' testimony earlier when we talked about the
adjustments at the direction of the Commission, right?
A What I'm recommending is that that amount
hasn't actually been expended and, therefore, it should
not be recovered.
Q That you honed in on exactly what I wanted to
talk to you about. Were you here this afternoon when
Mr. Davis testified?
A Yes, I was.
Q Mr. Davis is the chief accounting officer of
Florida Power & Light Company.
A Yes, that's my understanding.
Q The chief accounting officer, Mr. Davis,
testified that the amounts were expended, right?
A I don't recall if he specifically said that
21.7 was expended.
Q Well, the transcript will show what it will
show. But let me ask you this. Assume, subject to
checking that transcript, that the chief accounting
officer testified that the amounts were expended. How
can you further dispute the correctness of that
recovery?

A Because that would be inconsistent with information that I've seen in this case. Specifically if you refer to the response to OPC Interrogatory No. 108, and within that response the company provided, beginning on attachment 1, page 2, a December -- if you look at the December 31st, 2005 balance there, it shows actual --

Q Just a moment, Ms. DeRonne, I don't have that in front of me, and it's very important to follow this along.

A Okay.

Q If you're offering this. We don't have a copy of the document that's being referred to.

CHAIRMAN EDGAR: We can take a moment if that would be helpful.

MR. ANDERSON: Thank you.

My suggestion, because of the lateness of the hour, I would ask my colleagues to find that for me. And if it's all right, we could come back. I'd like Ms. DeRonne to have an opportunity to say what she has to say. But I had 15 made and they're sitting here someplace.

CHAIRMAN EDGAR: So are you saying you would like to move on to other questions --
MR. ANDERSON: Right, and come back.

CHAIRMAN EDGAR: -- and come back to this one?

MR. ANDERSON: Right.

CHAIRMAN EDGAR: That's fine.

MR. BECK: Madam Chair?

CHAIRMAN EDGAR: Mr. Beck?

MR. BECK: I have copies of interrogatory --

MR. ANDERSON: Do you? Thank you. That would be of great assistance.

MR. BECK: We've even marked them as a cross-examination exhibit for you.

MR. ANDERSON: Such a deal. Thank you.

CHAIRMAN EDGAR: I am showing 155. Gentleman, the title? Mr. Anderson, a title?

MR. ANDERSON: The title of this would be "FPL Response to OPC Interrogatory No. 108."

(Exhibit 155 marked for identification.)

CHAIRMAN EDGAR: I'm ready when you are.

MS. DeRONNE: Should I continue with my response now that you have that?

BY MR. ANDERSON:

Q That will be fine?

A Okay. If you look on attachment 1, page 2 of 2, it shows a December 31st, 2005 actual amount expended of $775,199,451. And if you look at the asterisk at the
bottom that explains that amount, it specifically said,
"amount shown are net of insurance proceeds and capital
costs."

Therefore, the actual expenditures as of --
well, you can take either of those dates -- but
December 31st, '05 since that's at the top, that
775 million is already net of insurance proceeds and net
of capital costs. And to that amount the company lists
various accruals. These are amounts that have not yet
been expended yet.

But accruals to total -- a total amount of
expenditures which would exclude insurance procedures
and capital costs of $798,100,000. If you then go to
the decision in the prior case, which is order No. PSC
050937-FOF-EI issued September 21st, 2005, that 798,
100,000 ties into the adjusted amount approved by the
Commission for recovery through the surcharge in the
last case of the $798,100,000.

And then there's another adjustment within
that case. The Commission had approved that that
$21.7 million not be recovered through the surcharge
because I believe of the lateness of some of the record
in that case. The company was allowed to credit that to
the storm reserve but they were not allowed to recover
it through the surcharge approved in that case.

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So effectively what was approved for the noncapital, noninsurance-related expenditures in that case would be the 798,100,000 plus the 21.7 million that the company was essentially allowed future recovery of but not through the surcharge.

When you combine those two amounts, the net amount is $819,800,000. And in the data responses in this case, the company has only shown that it has actually expended and projects additional accruals totalling $798,100,000. So that's why I'm recommending that $21.7 million be taken out in this case because it's not projected that will be incurred.

Q Okay. I appreciate the explanation. And that was your reasoning through a whole bunch of different documents, right, about $21.7 million that FPL's chief accounting officer said has been expended. That's your interpretation of some data, right?

A That's based on the exact wording of the data responses provided by the company within this case, specifically the response to question No. 108 which indicates those amounts are the amounts net of insurance proceeds and capital costs.

Q If the Commission applies the incremental cost methodology recommended by OPC, do you believe that the Commission should apply that methodology on a consistent
When you say "consistent basis," do you mean consistent with the methodology approved in PSC 050937-FoF-EI?

No, I mean in an internally consistent and logical way.

Yeah, there should be some specific reasons for why each adjustment is made under the incremental method. I know in the prior case there was offset for lost revenues that we do not recommend in this case which is addressed in Mr. Larkin's testimony. So that would be a variance from the method approved by the Commission in the prior case that the OPC feels very strongly about.

You are familiar with the concepts of backfill and catch-up work in this case, aren't you?

Yes, those are addressed by Mr. Larkin.

Backfill work is the extra hours of work FPL employees and contractors have to perform because FPL workers are out supporting storm restoration?

That's what the company has presented as the backfill and catch-up work cost, yes.

Catch-up work is extra hours of work FPL employees and contractors have to perform because of the time taken away from regular duties to perform storm
restoration?

A They may be. And again, this issue was addressed by Mr. Larkin within his testimony.

Q In this case, FPL has presented computations of those amounts and the backfill and catch-up work totals $8.67 million; is that right?

A I'm not sure I would agree that they presented computations of those amounts. They provided in response to a production of document request by the OPC some dollar amounts where they had requested that each of their business units provide estimates. But I haven't seen any backup showing how the specific amounts by those business units were drafted.

Q The testimony of FPL's witnesses and its exhibits show $8.67 million in backfill and catch-up work. You'll agree with me on that, right?

A Yeah. I agree that that's the amount that FPL presented in this case.

MR. BECK: Madam Chairman, this has gone on repeatedly that counsel will state what their company has filed and then ask the witness if that's true, that that's what the company filed, and that's simply not a proper question. I'd object to it.

CHAIRMAN EDGAR: Mr. Anderson, it's late and
we're all tired.

MR. ANDERSON: Right.

BY MR. ANDERSON:

Q In the 2004 storm cost order, isn't it true the Commission stated, "We believe these costs" -- referring to backfill and catch-up -- could be considered incremental?

A Let me check the exact wording. Could you give me a page reference because I know in total there was no adjustment to reduce or to offset for those backfill amounts. If you can give me a page reference.

Q Page 18, first full paragraph.

A Yes, I believe that -- I agree that that's what it says, that we believe that these costs could be considered incremental. And then it goes on to say if. And then it gives some qualifiers in that. But again in that case they did not include that as an adjustment.

Q And your testimony in this case, you specifically exclude incremental cost adjustments proposed by FPL if we use your method for consideration, if the Commission applies incremental with it?

A I'm sorry, could you repeat that?

CHAIRMAN EDGAR: It's late.

Q Let's pause.

MR. ANDERSON: And just pausing. Big picture.
There's considerable cross-examine for this witness. It's not hours and hours, but I just want to make sure it's the direction of the Commission to proceed on. It's probably 45 minutes.

CHAIRMAN EDGAR: Okay. Mr. Anderson, my kind of mental process was that we would see if there was a break in about ten minutes. But if this is a good breaking point, then we will break now.

Mr. Beck, any objection?

MR. BECK: No.

CHAIRMAN EDGAR: Okay. Then we will in just a few moments go on break. I was ever hopeful that I would be able to turn to the second page of witnesses to begin tomorrow. But it does seem that this is a good time to stop.

So I appreciate the cooperation of my colleagues and all of our participants to help us make good progress today. We will come back at and begin at nine o'clock tomorrow morning, Mr. Anderson. We will begin and pick up where we are stopping with you and with the witness.

I wish everyone a good night's sleep. Eat your Wheaties, we're going to forge ahead as far as we possibly can tomorrow.

I do not yet have a stopping time in mind. We
will see how far we go and we can make some discussions at lunch. If we are not able to finish tomorrow, we will come back at one o'clock on Saturday. Are there any questions before we break?

MR. ANDERSON: One quick thought.

CHAIRMAN EDGAR: Mr. Anderson.

MR. ANDERSON: One brief thought and suggestion. We tried to keep our witness summaries quite short. Might it be an idea tomorrow to try to restrain summaries, rebuttals also, to no more than three-minute summaries?

CHAIRMAN EDGAR: I appreciate the -- we will begin in the morning before we begin the questioning with a reminder to both the witnesses and attorneys to be concise and focused.

Thank you all. I wish you a good night. We'll see you at nine o'clock in the morning, and we are in recess.

(Hearing adjourned at 7:45 p.m. to reconvene on Friday, April 21st, at 9:00 a.m.)

* * *

FLORIDA PUBLIC SERVICE COMMISSION
CERTIFICATE OF REPORTER

STATE OF FLORIDA       )
COUNTY OF LEON       )

I, LORI DEZELL, RPR, CCR, certify that I was authorized to and did stenographically report the proceedings herein, and that the transcript is a true and complete record of my stenographic notes.

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' attorney or counsel connected with the action, nor am I financially interested in the action.

WITNESS my hand and official seal this 21st day of April, 2006.

[Signature]

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