BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 080677-EI
FLORIDA POWER & LIGHT COMPANY

IN RE: PETITION FOR RATE INCREASE BY
FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY & EXHIBITS OF:

ROBERT E. BARRETT, JR.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF ROBERT E. BARRETT, JR.

DOCKET NO. 080677-EI

AUGUST 6, 2009

Q. Please state your name and business address.

A. My name is Robert E. Barrett, Jr. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

Q. Are you sponsoring any rebuttal exhibits in this case?

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

- REB-21, FPL 2009 O&M Budget Performance
- REB-22, FPL 2009 Capital Budget Performance
- REB-23, FPL 2008-2010 Non-Fuel O&M Expense Analysis
- REB-24, MFR Audit Responses to Issues 4 and 6

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is: (1) to explain why the Commission should reject the arguments of the Office of Public Counsel's (OPC's) witness Brown and the South Florida Hospital and Healthcare Association's (SFHHA's) witness Kollen that the 2010 and 2011 revenue requirements forecasts are unreliable; (2) to explain why the Commission should reject the recommendation of the OPC and SFHHA witnesses that the Commission should not approve the Company's proposed 2011 subsequent year increase; and (3) to explain why the Commission should reject the arguments of the OPC and SFHHA witnesses against the continuation of Generation Base Rate Adjustment (GBRA) mechanism.

Q. Please summarize your rebuttal testimony.

A. FPL filed a full set of Minimum Filing Requirements (MFRs) for the 2010 and 2011 test years that were subject to a rigorous forecasting process. The Company's forecasts of revenue requirements included in these MFRs are reasonable and reliable for setting base rates in 2010 and 2011 in this proceeding. The forecasts were based on assumptions prepared by internal and external subject experts and reviewed and approved by management using a rigorous process. The forecasts reflect reasonable assumptions that have proven reliable thus far in 2009.

The Company has consistently been among the best in the industry in cost management and is committed to provide reliable electric service at a reasonable cost to its customers. The Company made significant reductions in its level of expenditures in 2008 in response to the worst economic downturn in Florida in more than a generation. Most of those cost reductions were in response to the unprecedented slowdown in growth in the state and the impact of that economic environment is reflected in the forecasted resource needs for 2009 through 2011.

Performance relative to 2009 budgets to date confirms that the Company's forecasts are reasonable and reliable.

The Company's forecast of revenue requirements for test year 2011 is reasonable despite being one year further out in time. The Company followed the same rigorous process for 2011 as it did for 2009 and 2010, and the underlying assumptions continue to be appropriate. Use of the Company's proposed 2011 test year to approve a subsequent year adjustment in this proceeding is efficient, and the Commission's monthly surveillance of the Company's earnings ensures that customers are adequately protected. OPC's and SFHHA's concerns are unwarranted.

Finally, the use of the GBRA mechanism, as proposed by the Company, is an appropriate and effective way to implement the recovery of base revenue requirements for previously approved generating units with the fuel benefits they provide passed automatically to customers through the fuel clause. The Company has successfully used the GBRA for Turkey Point 5 and will use it in 2009 for West County Units 1 and 2. The GBRA protects customers through its true-up mechanism, helps reduce the need for lengthy base rate proceedings for all parties, and protects the Company from potential regulatory lag. The Commission should reject as unfounded OPC's assertion that the GBRA undermines the Commission's regulatory scrutiny.

2010 TEST YEAR FORECAST

Q. SFHHA witness Kollen's testimony claims that the Company has reduced 2009 costs relative to its 2009 budgets, "rendering the 2009 budget unreliable as the basis for the 2010 test year forecast." (Kollen, Pages 7, 16) Do you agree with that assertion?

A. No. The Company's forecast of revenue requirements for the 2010 test year is reliable for setting new rates. FPL is seeking new rates to be effective beginning January 1, 2010. Because incremental revenues will be recovered prospectively, it is appropriate that those revenues reflect the costs projected for that period. Using any period other than 2010 would cause a mismatch between revenues and expected costs. The Company's performance relative to its 2009 O&M and capital budgets will have no material impact on its 2010 revenue requirements, and there is nothing in that performance that casts any doubt on the continued validity and appropriateness of the 2010 forecasts.

Q. What was the Company's year-to-date performance relative to its O&M budget in April 2009?

A. As shown on Exhibit REB-21, through April 2009 the Company was $38 million below its budget of O&M expenses.

Q. What are the sources of those year-to-date O&M variances, and what is the Company's expectation for the full year 2009?

A. As shown on Exhibit REB-21, approximately $19.1 million of the $37.6 million favorable variance relates to timing of activities within the year including the

Department of Energy (DOE) spent fuel settlement that had been budgeted to occur later in the year. The remaining approximately $19 million represents reductions that are expected to be realized at year end and include $5 million in generation costs largely related to the later commercial in service date of West County Unit 1 and the placement of units in inactive reserve status; $10 million in Distribution savings related to field support and other productivity initiatives; and, about $4 million throughout various other areas.

Q. Do those expected year-end under runs versus the 2009 O&M budget affect the 2010 test year forecast of O&M?

A. No. These savings are specific to the 2009 budget and reflect changes in the operating environment within 2009. For example, the cost avoided by the later commercial operation date for West County Unit 1 has no impact on its level of required operating costs for 2010. Similarly, the Distribution cost savings include lower than budgeted fleet fuel savings experienced in early 2009. Those reductions have not changed the Company's view of fleet fuel prices for 2010. The 2010 test year forecast still reflects the level of resources the Company expects to be required in 2010.

Q. SFHHA witness Kollen asserts that, "For the first four months of 2009, the Company cut its capital expenditures by $170 million from budget levels," and that this should be deducted from rate base as well as a similar adjustment in 2010 (Kollen, Pages 63). Do you agree with this assertion?

A. No. Mr. Kollen's approach is completely inappropriate due to its simplifying assumptions and extrapolations of year-to-date activity. He assumes that all favorable year-to-date budget variances are permanent, indicative of future under runs, and represent items that impact base revenues requirements in 2010 without any support whatsoever. As shown on Exhibit REB-22, the Company's April year-end forecast of capital expenditures reflects $36 million in projected cost savings. Of this amount, $23 million represents items that do not affect the base revenue requirements in the Company's forecast. The remaining $14 million reflects about $22 million related to recovery of capital expenditures under the DOE spent nuclear fuel settlement which was not reflected in the Company's budget.

Q. Do those expected year-end under runs versus the 2009 capital budget affect the 2010 test year forecast of capital expenditures?

A. With the exception of the DOE settlement payments, no. As shown above, the expected under runs in capital expenditures in 2009 are almost entirely related to renewable projects recoverable through a clause and have no impact on the 2010 projected retail rate base as filed in this proceeding, or, in the case of the DOE settlement, have been addressed in Exhibit KO-16 included in FPL witness Ousdahl's rebuttal testimony.

Q. SFHHA witness Kollen asserts the increase in O&M from 2008 to 2010 "is excessive when compared with the Company's actual experience in recent years." (Kollen, page 15) Do you agree with this assertion?

A. No. The forecasted level of O&M expenses in 2010 is reasonable and reflects the expected operations of the Company in 2010. Mr. Kollen cites MFR Schedule C-1, Jurisdictional Adjusted Amount of O&M as his basis for comparison of 2010 versus 2008 which shows an increase in O&M expense of $387.4 million.

Q. Does Mr. Kollen use the correct O&M expenses to make his comparison of 2010 to 2008?

A. No. Mr. Kollen uses the Jurisdictional Adjusted Amount from MFR C-1 for his comparison. This amount includes all proposed Company Adjustments that are not relevant for comparison to 2008. A more relevant starting point is the Jurisdictional Adjusted per Commission amount from MFR C-1.

Q. Are other adjustments necessary to provide a meaningful analysis of O&M expenses in 2008 and 2009?

A. Yes. Exhibit REB-23 provides a more meaningful comparison of all years, 2008, 2009 and 2010. Several items affected O&M expenses in 2008 that render it not useful as a "status quo" year (Kollen, page 17) unless properly adjusted. As mentioned in my direct testimony, the Company took meaningful steps to reduce costs in 2008 as the seriousness of the economic downturn began to unfold. Those cost reduction actions included the deferral of approximately $11 million of work from 2008 to 2009 which is reflected in the 2009 O&M budget. This deferral does not affect the resource estimates for the 2010 test year as it was budgeted as incremental work in 2009. Results in 2008 were also improved by the $44 million reduction of expense due to the Associated Electric & Gas Insurance Services Limited (AEGIS) environmental insurance policy commutation. There were other one-time items reducing 2008 O&M expenses that totaled about $14 million and included reductions in incentive compensation, favorable injuries and damages reserve adjustments and a one-time credit on medical administrative fees. These three adjustments made 2008 actual results better than "normal" by $69 million.

Q. Are similar adjustments required to provide a meaningful analysis of 2009 O&M expenses?

A. Yes. A limited number of adjustments are required to make 2009 comparable to 2008. First, the $11 million of 2008 activities deferred to 2009 should be removed. Secondly, the $19 million of cost reductions identified on REB-21 should be reflected. Next, the $9.7 million of DOE spent nuclear fuel settlement proceeds received in 2009 should be added back as a one-time item, similar to the treatment of the AEGIS environmental insurance expense reduction in 2008. The Company is proposing an errata adjustment to address the expected future recovery of settlement dollars under the DOE spent nuclear fuel settlement. Lastly, based on the Company's forecasted inflation rate of 2.00 percent, as disclosed on MFR Schedule C-1, the expected inflation impact of $27 million should be removed from the 2009 O&M to make it comparable with 2008 expenses. When all of these adjustments are made to "normalize" 2009 the resulting growth over 2008 is 1.4 percent as shown on Exhibit REB-23 line 15, column (c).

Q. Are any additional adjustments required to make 2009 O&M expenses comparable to 2008?

A. Yes. Mr. Kollen claims that it is appropriate to consider the impact on O&M expenses of "limited known and measurable changes" (Kollen, Page 17) As shown on Exhibit REB-23, lines 18-23, column (b), there are about $28 million of

O&M expenses in 2009 that are known and measurable differences from 2008. It should be noted that given the size and complexity of FPL's operations there are many differences when comparing operations across years; however, this limited number of items is discrete and measurable. After adjusting for these items, 2009 shows a 0.7 percent decrease in O&M expenses relative to the adjusted 2008.

Q. What are the results of performing a similar analysis on the Company's forecasted O&M expenses for 2010?

A. Similar adjustments have been made for 2010 and are shown on Exhibit REB-23, columns (d) through (f). When all appropriate adjustments are applied to the Company's forecast, as discussed above, the 2010 level of expenditures is 2.9 percent higher than the adjusted 2009 level of expenses. In fact, the average annual growth from 2008 to 2010 is only 1.1 percent (Exhibit REB-23, Line 25, Column (f)).

Q. Is there a more meaningful measure of the Company's cost performance than that proposed by SFHHA witness Kollen?

A. Yes. A more meaningful analysis of O&M expenses is a multi-year analysis as provided in MFR Schedules C-37 and C-41, the Commission's O&M benchmark calculation and variance explanations using 2006 as a base year compared to the Company's projections for 2010. It is more appropriate to take a longer view of the Company's performance rather than subjecting the analysis to aberrations that exist from year to year. It is also appropriate to consider a longer view of the Company's cost performance as more reflective of the level of sustainable cost performance because most of the base O&M expenses are fixed rather than variable.

Applying the Commission benchmark metrics of customer growth and inflation yields a 2010 Test Year Benchmark of $1,504 million. The Company's 2010 Adjusted O&M Expenses are projected to be $1,565 million, or $61 million above the benchmark. Of this $61 million, approximately $26 million is related to the additional costs of placing new generating units into service at Turkey Point and West County. The remaining $35 million above the Commission benchmark level of O&M is due to a number of cost drivers as discussed more fully on MFR C-41 and include the significant impact of the economic deterioration on the Company's customer service costs and increased regulatory compliance costs. Adjusting the 2010 benchmark to include the incremental costs of operating the new Turkey Point and West County units yields an average annual growth in O&M expenses over the 2006-2010 period of only 0.6 percent.

Q. SFHHA witness Kollen asserts that, "utilities manage their O&M expenses in response to the timing and level of ratemaking recoveries" (Kollen, page 20). Has FPL followed this approach to managing its O&M expenses?

A. Absolutely not. All expenses that were incurred and those that are being forecast are necessary to the provision of reliable, efficient electric services and are therefore appropriate to be recovered from customers as reasonable costs of service. In keeping with its obligation to serve, and more importantly, the Company's commitment to provide safe, reliable and cost effective electric service to its customers, the Company has only very limited ability to manage the timing of when it incurs fixed costs of the business. This is evidenced by the fact that, during this unprecedented economic downturn, the Company has continued to invest in infrastructure at a time when revenues have been falling. Consequently, returns to shareholders have fallen every year during the term of the 2005 Stipulation and Settlement Agreement (Settlement Agreement). In 2006, the first year of the settlement agreement, return on equity (ROE) was 12.0 percent, fell to 11.9 percent in 2007, and then fell further to 10.8 percent in 2008. In 2009, ROE is projected to be 9.3 percent. Absent the revenues requested in this proceeding in 2010, ROE is projected to be 4.7 percent. The Company has demonstrated a commitment to invest for the needs of its customers even during difficult times.

Q. SFHHA witness Kollen further asserts that, "the Commission should reduce the Company's proposed test year payroll expense to reflect productivity improvements" (Kollen, page 25). Is this an appropriate adjustment?

A. No. Mr. Kollen uses five and ten-year average non-farm output per hour to infer 2 percent annual productivity improvement potential and then applies that to 2008 payroll. While it is useful to note Mr. Kollen's application of longer term trends as appropriate when evaluating cost performance, there are several problems with the specifics of his approach. A better measure of the Company's productivity is payroll dollars per customer rather than payroll per hour. The Company's goal is to serve customers reliably at a reasonable cost, not to achieve a particular payroll cost per hour. Per SFHHA Interrogatory 297 and the Company's actual/projected customers found on MFR Schedule C-33, the Company's base pay per customer was $187.51 in 2006, $199.48 in 2007 and $206.58 in 2008. In 2007, base pay per customer was 6.4 percent higher than 2006 and 2008 was 3.6 percent higher than 2007. Projections for 2009 and 2010 are 3.5 percent and 4.9 percent respectively. Thus, the projected increases in base pay per customer in 2010 and 2011 are lower than the average increase in that metric from 2006 to 2008.

Q. SFHHA witness Kollen's overall assessment is that the Company's O&M expense forecast is "wildly excessive and cannot reasonably be justified given the present economic circumstances" (Kollen, page 17). Is this an appropriate assessment?

A. Absolutely not. FPL's effort to keep costs low has been our guiding philosophy for many years. In fact, even with the approval of this rate request FPL's retail rates are expected to be the lowest of all investor owned utilities in Florida and well below the national average. As discussed by FPL witness Reed, FPL has consistently outperformed its peers in productive efficiency. (Reed, pages 20-22). Exhibit JJR-6, page 31 of 47 demonstrates that during the period 1998 to 2007 FPL was best-in-class among the "Straight Electric Group" of 27 utilities. In 2007, the last year for which comparative industry data is available, FPL's non-fuel O&M per customer, at $334, was almost 47 percent lower than its peers. These comparisons were made using the FERC Form 1 data. Adjusting for differences in non-fuel O&M between the FERC Form 1 data and MFR C-37, FPL's non-fuel O&M per customer in 2009 is about $345 and for 2010 it is about $369, 41 percent lower than the industry's performance in 2007. FPL has established its cost performance track record over many years as among the best, if not the best, in the industry. FPL's projections for 2010 and 2011 reflect the continuation of that strong performance.

Q. Please summarize your assessment of Mr. Kollen's "top-down" and "bottom-up" approaches and recommendation for O&M expenses.

A. Neither approach is applied in a manner that fairly or reasonably measures FPL cost control performance. Mr. Kollen's "top-down" approach relies upon use of an unadjusted 2008 base year for determining the appropriate level of 2010 O&M expenses. As discussed above, this fails to consider real and measurable differences between 2008 and the projected 2010 test year. Mr. Kollen makes no explicit application of his "bottom-up" approach other than to suggest its use to the Commission. Mr. Kollen's overall recommended reductions to the Company's requested O&M expenses in 2010 are inappropriate and not supportable. The Company's forecast of O&M expenses in 2010 reflects the benefits of FPL's continuing cost management efforts and is reasonable.

Q. Do you agree with OPC witness Brown's statement on page 42 of her testimony that FPL's payroll should be reduced to reflect a level of unfilled positions?

A. No. The budgeting process assumes that each department plans for the optimal staffing level required to meet the corresponding workload. These resources include part-time staff, full-time staff, some level of overtime, and the use of third-party resources where appropriate. FPL's budget is focused on the cost, not the headcount, that aligns with the activities performed by the company during the period in question. During that period, operating conditions as well as attrition rates and hiring rates may necessitate a reevaluation of the mix of resources discussed above, without necessarily impacting budgets. This resource flexibility renders headcount comparisons not meaningful when evaluating funding levels. Ms. Brown's proposal to reduce FPL's budgeted payroll does not fully capture the dynamics of this equation as further described in FPL witness Slattery's testimony.

2011 SUBSEQUENT TEST YEAR

Q. Office of Public Counsel (OPC) witness Brown charges that, owing to the current economic instability, "the 2011 Test Year projections incorporate an unacceptable additional level of uncertainty and should be rejected" (Brown, Page 7). Do you agree with that conclusion?

A. No, I do not. There is broad consensus among economists that the current recession began in late 2007; however, that official declaration by the National Bureau of Economic Research was not made until the fourth quarter of 2008. This created a mismatch between perceptions of the economic environment and the interpretations of the lagging economic data throughout much of 2008. Consequently, as described in my direct testimony, the Company revisited its assumptions for the 2009 planning process several times in 2008 (Barrett Direct, Pages 18-19). Additionally, the Office of Economic and Demographic Research of the state legislature uncharacteristically revised its population forecast three times in 2008, contrary to the standard pattern of biannual releases. There is no doubt that there was uncertainty that extended through the summer 2008.

Q. Has the Company's forecast of 2009 through 2011 been rendered unreliable by this increased uncertainty in 2008?

A. No. Since late 2008 and early 2009 when the forecasts used in this proceeding were finalized, the level of uncertainty has not been as great as that experienced in early 2008. The official declaration of the recession seems to have removed some of the prior uncertainty in the economic forecasts. Contrary to 2008, when the state's official population forecast was revised three times over the course of the year, only one forecast has been released this year. According to the Office of Economic and Demographic Research of the state legislature's office no additional population revisions are planned through August of this year. As discussed in FPL witness Morley's testimony, the March 2009 latest population revisions confirm FPL's expectation of a lingering recession in population growth for the next few years. In fact, as explained by Dr. Morley, the Company's sales forecast for 2009 used in the preparation of the Company's MFR's has proven to be very accurate through June, with a weather-normalized variance of less than 0.1 percent.

Q. Do the Company's forecast assumptions for 2010 and 2011 remain reasonable and reliable as a basis for setting rates in this proceeding?

A. Yes. As discussed earlier, the Company's updated base O&M forecast for 2009, as of April 2009, is within 1 percent of the Company's 2009 budget. The Company's updated capital forecast, as projected in April 2009 is within 1.3

percent of the Company's capital budget. The Company's performance against its sales forecast, O&M budget and capital budget confirm that its forecast process and assumptions are reliable. That same rigorous process, including assumption review and approval, was applied to the forecasts of 2010 and 2011.

Q. OPC witness Brown asserts, "if economic recovery is either faster or greater than expected under FPL's assumptions, then there is the potential for excess earnings at ratepayer expense" (Brown, Page 5). Do you agree with that assertion?

A. No. First, Ms. Brown addresses only one potential variation from the Company's assumptions regarding the economic outlook and its impact on operating results. In fact, the Company has prepared a reasonable forecast of revenue requirements for 2010 and 2011 with the expectation that variations around the forecast are equally likely to be positive or negative. Using this forecast for setting rates ensures that the risks borne by the Company and customers are symmetrical. The Company has consistently followed this approach to preparing forecasts.

Secondly, it is not correct to assume that a faster economic recovery will necessarily significantly increase earnings for the Company. Just as the Company was able to reduce costs during 2008 largely due to the severe downturn in customer and load growth, a faster than expected recovery might in fact lead to additional costs not contemplated by this forecast of revenue requirements, particularly in the front end. Those costs would offset, in whole or part, the impact of increased revenues on earnings. Without knowing more about the specifics of a recovery, it is not possible to quantify the impact that a faster recovery would have on earnings in a reasonable way.

Lastly, Ms. Brown asserts that "FPL would have no obligation to then reduce rates without customer or Commission intervention" (Brown, Page 5). Again, this risk is symmetrical. For instance, if FPL's earnings prove to be insufficient due to the forecast being too optimistic, FPL's only recourse would be to initiate another rate proceeding and be subject to further earnings attrition during the pendency of that proceeding. Correspondingly, if the Commission determined through its monthly surveillance process that the Company was over-earning, the Commission or a party could initiate a rate decrease proceeding.

Q. In consideration of the possibility of further economic pressure on the Company, OPC witness Brown asserts "if revenues are down, FPL can take actions to cut expenses to attempt to achieve net income targets" (Brown, Page 6). Do you agree?

A. It is true that the Company demonstrated an ability to effect some cost reductions in response to the economic downturn in 2008; however, given the largely fixed nature of the Company's costs, the ongoing commitment to provide reliable electric service to its customers and the continuing impact of reductions that were already made in 2008, the opportunities for further cost reductions are limited. The reductions achieved in 2008 were largely related to eliminating spending for growth activities. The sales, O&M and capital budgets for 2008 assumed historic levels of customer growth in 2008; however, by December 2008 the actual number of customers was 123,000 below plan. This large variance created corresponding substantial opportunities for cost reductions. By contrast, the forecast assumes the Company will add only about 10,000 customers in 2009 and 29,000 customers in 2010 (based on annual averages). While 2008 afforded the Company the opportunity to reduce growth related expenditures compared to the earlier high-growth years, there are very limited funds in the 2009 and 2010 plans related to growth activities and hence little opportunity for further reductions.

Q. SFHHA witness Kollen asserts "the Company is not harmed if the Commission rejects the proposed 2011 subsequent year increase because it can file another case in 2010 using more current assumptions and data" (Kollen, Page 8). Do you agree with that assertion?

A. No. Although the Company can indeed file another case in 2010 if the subsequent year increase is not granted, it is not accurate to say the Company would not be harmed. Mr. Kollen's claim of no harm ignores the significant impact on the time and resources of the Company. Furthermore, he completely ignores the cost in time and resources to the Commission, its staff, and all other interested parties.

The Company's forecast of 2011 is reliable and there are symmetrical protections for the Company and the customer in the event that variances from the forecasts significantly affect earnings, up or down. More frequent proceedings are administratively burdensome and costly for all parties.

Additionally, periodic base rate proceedings, such as those in 2002, 2005 and now 2009, have been prepared, filed and executed by the Company in addition to its daily business operations. The Company has been able to meet its regulatory commitment to file timely and accurate financial information without building a large permanent staff devoted to processing rate cases, in part because the filings have been infrequent. Moreover, a stable regulatory environment has allowed FPL and its customers to benefit from a business model that is highly customer-focused and operationally driven. If base rate proceedings were to become a regular occurrence that business model might need to change with the potential of adding costs to be borne by customers.

CONTINUATION OF THE GBRA MECHANISM

Q. **With respect to the GBRA, OPC witness Brown asserts that, while it "may be an efficient and effective way for FPL to increase rates without regulatory consideration of all aspects of its operation, it does not outweigh the risks to ratepayers and...would transfer risks from FPL to its ratepayers" (Brown, Page 8). Do you agree with that assertion?**

A. No. The GBRA strikes an appropriate balance of the risks and rewards and apportions them appropriately between customers and the Company. Under the Company's proposal, only plants that have undergone an extensive review and received a Certificate of Need from the Commission are eligible for GBRA recovery. The need determination proceeding includes a comprehensive economic analysis of the proposed plant addition and a determination that the proposed plant is the low cost alternative for customers. The GBRA adjustment to base rates is approved for implementation based upon the costs projected and approved in the Need Order. After the plant is placed into service, the final capital costs are trued-up, with any cost under-runs returned to customers while any cost over-runs are borne by the Company unless and until approved by the Commission after a prudence review. This mechanism thus affords substantial protection to the customer.

Q. OPC witness Brown further states, "Once rates are established, the impacts of economic recovery may result in higher returns to FPL's shareholders" that could absorb the revenue requirements associated with a new power plant (Brown, Page 8). Do you agree with that assertion?

A. No. The impact of a different economic environment than that assumed in the forecast will certainly have an impact on the Company's operating results; however, it is wrong to assert that the risk is not borne equally by customers and the Company. The GBRA is designed to appropriately match the revenue collected with the underlying revenue requirements associated exclusively with the new power plant. With power plant additions such as West County Unit 3, the Company has demonstrated a benefit to customers derived through greater fuel efficiency that will be passed to customers through the Fuel Cost Recovery Clause immediately upon the commercial operation of the unit. By virtue of the GBRA, the revenue requirements of the unit are appropriately netted against those fuel savings. Absent the GBRA mechanism, the non-fuel revenue requirements would need to be the subject of a separate base rate proceeding, while the fuel savings would be passed on more quickly, therefore creating improper price signals to customers.

Q. **SFHHA Witness Kollen asserts that the "proposed GBRA mechanism constitutes a single issue and one-way base rate increase mechanism that fails to consider cost reductions that the Company may achieve in other areas" (Kollen, Page 10). Do you agree with that assertion?**

A. No. While it is true that the GBRA is a single issue mechanism, it matches the increased revenue requirements associated with a power plant with the offsetting fuel savings for that plant. Thus, for the single issue the GBRA addresses, it appropriately "considers the cost reductions that the Company" achieves with respect to that issue. Furthermore, the effects of revenue and expense increases and decreases for all Company operations will be monitored by the Commission and its staff through the monthly surveillance process to provide regulatory scrutiny and customer protection.

Q. **OPC Witness Brown asserts, "In past years, FPL has in fact absorbed new power plants without increasing base rates at the time" (Brown, Page 11). Why is that no longer the case?**

A. The current economic environment is very different. As I stated in my direct testimony, for the period 1999 to 2006 retail sales growth averaged 2.9 percent annually. Power plant additions were added primarily to meet the need of a growing customer base. That growth provided additional base revenues to help offset the cost of new plant base revenue requirements. Additionally, FPL was able to implement significant productivity savings to achieve its current industry leading cost performance and the benefits of those productivity savings are already reflected in FPL's test year forecast. Today things are very different. For the period 2006 to 2010, FPL's retail sales are expected to actually decline 0.6 percent annually on average. This decline in sales will be accompanied by a decline in revenues. It is simply no longer possible for FPL to "absorb" the significant increases to its base costs.

Q. Florida Industrial Power Users Group (FIPUG) witness Pollock recommends that, if the GBRA is approved, the Commission should limit its application to West County Unit 3 (Pollock testimony, Page 39). Do you agree?

A. No. For the reasons described above and in my direct testimony, the GBRA is a fair and efficient mechanism to adjust base rates for the addition of new power plants. It is appropriate for West County Unit 3, and it will be just as appropriate for power plants that are added after West County Unit 3.

FPSC STAFF AUDIT REPORT

Q. On page 6 of her testimony, FPSC witness Welch stated that FPL recorded non-recurring expenses in 2008 as detailed in the Staff Audit Report Findings 4 and 6. Is there any concern that these expenses may be included in the 2010 and 2011 budget?

A. No. As further detailed in my Exhibit REB-24, issues 4 and 6 discussed in the Staff Audit Report have no impact on the 2010 and 2011 test years.

Q. Does this conclude your testimony?

A. Yes.

2009 O&M Variances to Budget

			Better / (Worse) than Budget ($millions)		
Line	O&M Activities	Notes	YTD April Variance	May-Dec Projected Variance	Year-End Projected Variance
1	Nuclear Spent Fuel DOE Settlement	(1)	10	(9)	1
2	Transmission & Distribution	(2)	13	(1)	12
3	Fossil and Nuclear Generation	(3)	4	2	5
4	Customer Service	(4)	3	(2)	2
5	Injuries & Damages Reserve	(4)	2	(1)	1
6	NERC Dues	(4)	1	(1)	0
7	Corporate Services	(4)	1	(1)	0
8	Other	(4)	5	(7)	(2)
9	Total variances - Better / (Worse)		38	(19)	19
10					
11	Notes				
12	(1) Budget assumed $9.0 million refund in December; received $9.7 million refund in March				
13	(2) Projected savings on field operations and support activities and other productivity improvements				
14	(3) Primarily revised commercial operations date for West County 3; $2.5 by year end				
15	(4) Primarily timing, scheduling and minor revisions to expected resource requirements				
16					
17	Note: Column and row totals may not add due to rounding				

2009 Capital Variances to Budget

Line	Capital Project	Notes	Better / (Worse) than Budget ($millions) YTD April Variance	May-Dec Projected Variance	Year-End Projected Variance
1	West County Project	(1)	39	(60)	(21)
2	Solar	(2)	(1)	42	41
3	Nuclear Uprates	(3)	52	(44)	7
4	All Other Clauses	(3)	23	(28)	(5)
5	Subtotal GBRA and Clause		113	(91)	23
6					
7	Other Generation	(4)	10	9	18
8	Transmission & Distribution	(5)	19	(19)	0
9	Automated Metering Initiative	(5)	2	(2)	0
10	Information Management Projects	(5)	6	(6)	0
11	Other	(5)	19	(23)	(5)
12	Subtotal Retail Rate Base		55	(42)	14
13					
14	Total variances - Better / (Worse)		169	(132)	36
14					
15	Notes				
16	(1) YTD variances are primarily the timing of equipment payments for Unit 2 within the year; YE variances				
17	attributable to schedule changes between years for Unit 3.				
18	(2) Projected savings on solar projects during the balance of year. ECRC recoverable; no impact on 2010 retail rate base				
19	(3) Primarily timing within 2009				
20	(4) Primarily related to expected $22 million recovery pursuant to the DOE settlement not budgeted				
21	(5) Timing within 2009				
22					
23	Note: Column and row totals may not add due to rounding				

Docket No. 080677-EI
FPL 2008-2010 Non-Fuel O&M Expense Analysis
Exhibit REB-23, Page 1 of 1

2008 - 2010 O&M Expense Analysis

Line	Total Company Non-Fuel O&M Expense	Notes	(a) 2008 ($millions)	(b) 2009 ($millions)	(c) Growth vs 2008	(d) 2010 ($millions)	(e) Growth vs 2009	(f) Avg Annual Growth 2008-2010
1	MFR C-1 Jurisdictional Adjusted Amount	(1)	1,307	1,453	11.2%	1,694	16.6%	13.9%
2								
3	MFR C-1 Jurisdictional Adjusted Amount per Commission	(2)	1,307	1,454	11.3%	1,566	7.7%	9.5%
4	Remove Revenue Enhancement	(3)	(16)	(28)		(30)		
5	O&M Expense excluding Rev Enh		1,291	1,426	10.5%	1,536	7.7%	9.1%
6								
7	Adjustments to "normalize" comparisons							
8	Projects deferred from 2008 to 2009 budget	(6)	11	(11)				
9	Aegis environmental insurance policy commutation	(4)	44					
10	Other one-time items in 2008	(5)	14					
11	2009 expected cost reductions	(7)		(19)				
12	DOE settlement	(8)		10				
13	Remove inflation to put in 2008 dollars	(9)		(27)		(55)		
14	Subtotal of normalization adjustments		69	(47)		(55)		
15	"Normalized" O&M Expense		1,360	1,379	1.4%	1,481	7.4%	4.4%
16								
17	Other Items Relative to 2008							
18	Growth in Pension FAS 87			10		30		
19	Incremental Storm Secure			6		12		
20	Incremental Operations of West County			7		19		
21	Incremental Medical /Dental Expenses			5		17		
22	Nuclear Spent Fuel Disposal			-		6		
23	Nuclear NRC/INPO Fees			-		7		
24	Total Other Items			28		91		
25	"Normalized" O&M Expense with Other Items Removed		1,360	1,351	-0.6%	1,390	2.9%	1.1%
26	Amount Over / (Under) "Normalized" 2008 O&M			(9)		30		

27
28
29
30 Notes
31 (1) SFHHA Witness Kollen, Page 15, lines 11-13
32 (2) Reflects the projected O&M Expenses before proposed Company adjustments discussed by FPL witness Ousdahl
33 (3) Revenue Enhancements are substantially offset in Other Revenues rendering year to year comparisons not meaningful
34 (4) One time expense reduction
35 (5) One-time expense reductions including incentive compensation, medical plan credits; favorable injuries and damage reserve adjustments; and miscellaneous other items
36 (6) Projects not budgeted in 2009 but shifted from late 2008. No impact on 2010 test year
37 (7) Cost reductions identified for 2009 at April YTD (see REB-21)
38 (8) DOE settlement proceeds of $9.7 million are a one-time item
39 (9) Company inflation assumption per MFR C-36 is 2.00% in 2009 and 1.98% in 2010

Please see attached interrogatory responses addressing the Staff's concern with the MFR audit.
issues 4 and 6

Q.

According to Staff Audit Report Finding 4, in 2008, FPL included in account 908.000 – Customer Assistance Expense, a total of $625,812 related to the Green Power Conservation Program.

A. Do you agree with the above-referenced audit finding? If you disagree with the audit finding, please explayin why you disagree.

B. How were the Green Power Conservation Program expenses treated in the 2010 and 2011 forecasts? If FPL believes that the 2008 audit findings have no significant effect on the 2010 and 2011 test years, please explain why.

A.

A. FPL's position is that this is not an audit finding but rather a statement of fact. FPL agrees that it included in account 908.000 – Customer Assistance Expense, a total of $625,812 related to the Green Power Conservation Program.

B. Expenses related to the Green Power Conservation Program are not included in the 2010 and 2011 forecasts. The expenses recorded in 2008 were a result of the FPSC Order in 2008 to terminate the program and are non-recurring. Because the program was terminated and the related expenses are non-recurring, there is no effect on in the 2010 and 2011 test years.

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Q.

According to Staff Audit Report Finding 6, a write off of $350,000 for Holtec Metamic Material was booked in account 524 – Miscellaneous Nuclear Power Expenses.

A. Do you agree with the above-referenced audit finding? If you disagree with the audit finding, please explayin why you disagree.

B. Were these or similar expenses in account 524 included in the 2010 and 2011 forecasts? If FPL believes that the 2008 audit findings have no significant effect on the 2010 and 2011 test years, please explain why

A.

A. FPL's position is that this is not an audit finding but rather a statement of fact. FPL agrees that a write off of $350,000 for metamic material was booked in account 524 - Miscellaneous Nuclear Power Expenses, in 2008.

B. There are no expenses for this project included in account 524 in the 2010 and 2011 forecasts. FPL believes that the 2008 audit finding had no significant effect on the 2010 and 2011 test years since this item was a non-recurring item and these expenses are not included in the test year forecasts.