BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION FOR INCREASE IN RATES BY FLORIDA POWER & LIGHT COMPANY. DOCKET NO. 080677-EI

2009 DEPRECIATION AND DISMANTLEMENT STUDY BY FLORIDA POWER & LIGHT COMPANY. DOCKET NO. 090130-EI

VOLUME 30
Pages 4029 through 4151

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PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN MATTHEW M. CARTER, II COMMISSIONER LISA POLAK EDGAR COMMISSIONER KATRINA J. McMURRIAN COMMISSIONER NANCY ARGENZIANO COMMISSIONER NATHAN A. SKOP
DATE:	Friday, September 4, 2009
TIME:	Commenced at 5:00 p.m. Concluded at 7:00 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	CLARA C. ROTRUCK Court Reporter (850) 222-5491
PARTICIPATING:	(As heretofore noted.)

ORIGINAL

I N D E X

WITNESS

NAME:	PAGE NO.
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Prefiled Direct Testimony inserted	4035
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Cross Examination by Mr. Wiseman	4108

EXHIBITS

NUMBER:		ID.	ADMTD.
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PROCEEDINGS

(Transcript follows in sequence from Volume 29.)

CHAIRMAN CARTER: Call your next witness.

MR. ROSS: We would call Mr. Ender.

(Brief recess.)

CHAIRMAN CARTER: We're back on the record, and when we left, I think, Ms. Clark, we recognized you to call your next witness.

MS. CLARK: Thank you, Mr. Chairman. FPL calls Witness Joseph A. Ender.

Mr. Ender, have you been sworn?

MR. ENDER: No, I have not.

CHAIRMAN CARTER: Would you stand and raise your right hand?

Whereupon,

JOSEPH A. ENDER

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

CHAIRMAN CARTER: Thank you, please be seated.

Ms. Clark?

MS. CLARK: Thank you, Mr. Chairman.

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DIRECT EXAMINATION

BY MS. CLARK:

Q Would you please state your name and business address for the record?

A My name is Joseph A. Ender. My business address is 700 Universe Boulevard, Juno Beach, Florida.

Q By whom are you employed, and in what capacity?

A I am employed by Florida Power & Light as manager of Cost of Service and Load Research.

Q Have you prepared and caused to be filed 28 pages of prefiled direct testimony in this proceeding?

A Yes, I have.

Q And did you also prepare and cause to be filed one errata sheet to your direct testimony?

A Yes, I have.

Q Do you have any other changes or revisions to your prefiled direct testimony?

A No, I do not.

Q With the errata, if I ask you the same questions contained in your prefiled direct testimony, would your answers be the same?

A Yes, they would.

MS. CLARK: Chairman Carter, I would ask that his prefiled direct testimony be inserted in the record

as though read.

CHAIRMAN CARTER: Prefiled testimony of the witness will be inserted into the record as though read.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF JOSEPH A. ENDER

DOCKET NO. 080677-EI

Q. Please state your name and business address.

A. My name is Joseph A. Ender. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. I am employed by Florida Power & Light Company ("FPL" or the "Company") as the Manager of Cost of Service and Load Research in the Rates & Tariffs Department.

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

A. I am responsible for managing FPL's load research and cost of service activities. My responsibilities include the preparation and filing before the Florida Public Service Commission ("FPSC" or the "Commission") of load research sampling plans and study results, the development of annual energy and demand line loss factors by rate class, and the preparation of jurisdictional separation and retail cost of service studies.

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Business Administration degree in Accounting from Florida Atlantic University. I received full accreditation for successfully completing the Certified Public Accountant's examination. Since joining FPL in 1979 I have held a variety of positions at FPL and FPL Group, Inc. in the areas of corporate tax, accounting, business development, regulatory affairs and rates. I have held the position of Manager of Cost of Service and Load Research since joining the Rates and Tariffs Department in 1998.

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring the following exhibits which are attached to my direct testimony:

- JAE-1 – Summary of Sponsored MFRs
- JAE-2 – Summary of Rate Classes Consolidated for Load Research Purposes
- JAE-3 – Rate Class Extrapolation Methodology
- JAE-4 – Cost of Service Methodology by Component
- JAE-5 – Rates of Return and Parity at Present Rates
- JAE-6 – Target Revenue Requirements at Proposed Rates

Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements (MFRs) in this case?

A. Yes. Exhibit JAE-1 shows my sponsorship and co-sponsorship of MFRs as well as 2009 Supplemental MFR schedules that FPL has agreed with the Commission Staff and the Office of Public Counsel to file.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address four primary areas. First, my testimony explains in general terms what load research is, how it is used in the jurisdictional separation and cost of service studies, and how the projected load forecast by rate class and energy loss factors were developed. Second, I describe the process used in the development of FPL's jurisdictional separation study and resulting jurisdictional separation factors. Third, I discuss FPL's process of preparing a retail cost of service study and explain the proposed methodologies to allocate production, transmission and distribution plant to retail rate classes. Lastly, I discuss the results of the retail cost of service study for the 2010 Test Year and 2011 Subsequent Year Adjustment.

Q. Please summarize your testimony.

A. FPL's cost of service study results for the projected 2010 Test Year and 2011 Subsequent Year Adjustment are accurately determined and fairly present each rate class's cost responsibility, rate of return (ROR) and parity position relative to FPL's projected retail jurisdictional ROR. These results reflect the forecast of base revenues for each rate class, and an equitable allocation of

other operating income, expenses and rate base. The methodologies used to allocate rate base and other operating revenues and expenses were appropriately applied and are consistent with those previously approved by this Commission.

FPL's projected retail ROR of 4.25% for the 2010 Test Year and 3.71% for the 2011 Subsequent Year are well below the projected weighted average cost of capital for 2010 and 2011 of 8.00% and 8.18%, respectively. This indicates that the incremental costs needed to meet the growth in infrastructure and the increased reliability demands is greater than the costs embedded in FPL's current rates. At the rate class level, this condition is also generally true. Except for two very small rate classes, the rates charged by FPL are well below the levels needed to allow for recovery of FPL's projected incremental costs.

The rate class cost of service study shows that at present rates certain rate classes, such as RS-1 and GS-1, are significantly above parity while some of the larger commercial/industrial rate classes, particularly GSLD(T)-1 and GSLD(T)-2, and their respective optional rate classes, HLFT-2 and HLFT-3, are well below parity. Exhibit JAE-5 lists the rate of return and related parity index for each rate class along with the revenue requirement differential to achieve full parity at present rates for the 2010 Test Year and the 2011

Subsequent Year Adjustment. MFR E-1 provides the details supporting these results.

Finally, the cost of service study provides the target revenue requirements by rate class and underlying unit costs for each billing determinant, that is, demand, energy and customer. This information is presented on MFR E-6b, and provides the basis for designing rates that would improve the parity among rate classes and better align FPL's charges with their true costs. Exhibit JAE-6 shows for each rate class the target revenue requirements at proposed rates on an equalized basis, that is, at the retail ROR or at parity.

The Commission should approve the jurisdictional separation and cost of service study methodologies and results presented in my testimony because they are fair and reasonable and they properly allocate costs to rate classes.

LOAD RESEARCH AND ENERGY LOSSES

Q. What information is provided by load research?

A. Load research provides, for each rate class, information on the contribution to the system peak or coincident peak (CP), as well as the class or group non-coincident peak (GNCP), and the customers' non-coincident peak (NCP). The contribution to the system peak represents the rate class demand at the time of the system peak. By contrast, the class or group non-coincident peak

represents a rate class's maximum demand as a class. The customer's non-coincident peak demand is the sum of the individual customer peak demands for all the customers within the rate class regardless of when they occur. In addition, load research provides load shapes, hourly data and load factors for each rate class. Load research data reflecting all of the above attributes is developed on a monthly basis for each wholesale and retail rate class. The monthly data is analyzed and reported on an annual basis as well.

Q. Has the Commission reviewed and approved the company's load research?

A. Yes. Florida Administrative Code (FAC) Rule 25-6.0437, Cost of Service Load Research, requires that investor-owned utilities serving more than 50,000 retail customers submit a load research sampling plan every three years to the Commission for review and approval. FPL's most recent sampling plan was submitted in August 2007 and approved in September 2007. In addition, the rule requires that utilities submit a complete load research study every three years. FPL's most recent load research study was filed with the Commission in April 2007.

Q. Please describe the information provided and summarize the results achieved in the study filed with the Commission in April 2007.

A. This study provided the estimated CP and NCP demands from January through December 2006 for all rate classes subject to reporting per FAC Rule 25-6.0437. Also included in the report for the sampled rate classes are the 90% confidence intervals around the monthly peak demands and their percent

relative accuracy. FPL met the target level of statistical accuracy for the estimate of averages of the 12 monthly coincident peaks of plus or minus 10% at the 90% confidence level for each rate class. In addition, FPL met the target level of statistical accuracy of plus or minus 10% error (15% for the GS(T)-1 class) at the 90% confidence level for the summer and winter peaks for the sampled rate classes with the exception of GSD(T)-1, General Service Demand, for the winter peak. The achieved relative accuracy for the GSD(T)-1 class winter peak was 11.13%, slightly over the 10% accuracy threshold.

Q. What caused FPL to not meet the statistical accuracy threshold for its GSD(T)-1 class's 2006 winter peak?

A. The GSD(T)-1 class did not meet the 10% relative accuracy threshold for the winter peak, which occurred in February, due to customer migration. In the first two months of 2006 the GSD(T)-1 load research sample lost a total of 15 sample points (10% of the total sample which consisted of 146 premises) due to customer migration from the GSD(T)-1 class to new optional rate classes. The new optional rate classes (HLFT-1 and SDTR-1), which became effective in January 2006 as a result of the FPSC's Order Approving FPL's Settlement and Stipulation Agreement, Order No. PSC-05-0902-S-EI, Docket No. 050045-EI, were made available to customers otherwise served under the GSD(T)-1 rate class.

Q. Is the load research forecast in this filing impacted by the GSD(T)-1 class not meeting the 10% statistical accuracy threshold for the 2006 winter peak?

A. No. While the achieved relative accuracy for the GSD(T)-1 class winter peak of 11.13% was slightly over the 10% threshold, the GSD(T)-1 class maximum peak demand (GNCP) for the year occurred in July 2006. The GSD(T)-1 class achieved relative accuracy for July 2006 was 4.76%, well under the 10% threshold. Furthermore, as mentioned previously, FPL met the relative accuracy for the average of the 12 monthly coincident peaks for 2006 for all rate classes, including the GSD(T)-1 class.

Q. Why is load research a necessary input into the jurisdictional separation and cost of service studies?

A. Load research provides information on usage characteristics needed to allocate costs between customer groups or classes. For jurisdictional separation purposes, load research provides a basis for allocating costs between retail and wholesale jurisdictions. For a retail cost of service study, load research provides information needed to allocate costs among retail rate classes.

Q. Please explain the concept of "rate classes" that are used for load research purposes.

A. In general terms, rate classes are groups of individual rate schedules with like billing attributes (customer type and load size) and rate design relationships, so they are treated for rate design purposes on a combined basis. As a result,

one or more rate schedules may be combined into a single rate class. For example, residential non-time-of-use, Rate Schedule RS-1, and residential time-of-use, Rate Schedule RST-1, are combined together into the RS(T)-1 rate class. The practice of combining time-of-use rate schedules with their non-time-of-use counterparts is consistent with the treatment in FPL's last three rate cases in which cost of service studies were filed (Docket Nos. 050045-EI, 001148-EI and 830465-EI).

Q. Have you prepared an exhibit that lists the rate classes used for load research?

A. Yes. Exhibit JAE-2 lists and describes the rate classes used for load research study purposes. As shown on Exhibit JAE-2, a total of 30 rate classes are used for load research purposes.

Q. Why does FPL use rate classes instead of rate schedules for load research study purposes?

A. Load research is developed by rate class to provide the load data necessary for cost of service studies at the level of detail needed to support rate design activities such as changes in existing rates and the addition of new rates. As previously mentioned, rate classes are groups of individual rate schedules, which are similar and have rate design relationships, so they are treated for rate design purposes on a combined basis. MFR E-8, sponsored by FPL witness Deaton, is prepared at a rate class level consistent with load research and cost of service.

Q. How is load research information developed by rate class?

A. Interval load data is collected and analyzed to develop load research information by rate class. For certain rate classes the interval load data is captured with recording metering devices that are used for billing purposes (100% metered). Unmetered rate classes such as street lights are modeled based on their equipment usage characteristics. Load research statistical samples are deployed in compliance with FAC Rule 25-6.0437 for all rate classes that are not 100% metered or modeled. Exhibit JAE-3 lists the rate classes that are 100% metered, modeled, or sampled.

Exhibit JAE-3 also reflects the extrapolation technique used to estimate the load research data for each rate class. The Ratio Extrapolation technique is the methodology utilized to expand the historical load research data for sampled rate classes and for 100% metered rate classes with a large number of customers. This methodology estimates the total rate class demand by applying the ratio of demand to billed energy for each interval multiplied by the billed energy for the rate class. On the other hand, the Mean Per Unit Extrapolation technique is more appropriate for rate classes with a small number of customers. The Mean Per Unit Extrapolation methodology estimates the total rate class demand by applying the average demand for each interval multiplied by the number of customers in the rate class. Extrapolation techniques (Ratio or Mean Per Unit) are also used with 100% metered rate

classes as necessary to account for missing interval data resulting from meter, data translation, or communication issues.

Lighting rate classes, SL-1, OL-1 and SL-2, are billed as unmetered rates. The usage characteristics for the lighting rate classes are modeled based on the estimated number of burn hours or estimated hours of operation. This modeling technique is used for the SL-1 and OL-1 rate classes, and it estimates that light fixtures are on approximately 48% of all hours in a year. The Traffic Signal Service SL-2 rate class is modeled based on a 100% load factor.

The load research sampling methodologies and extrapolation techniques described above are standard load research techniques that are widely used in the industry. Moreover, FPL has applied these techniques on a consistent basis in its load research filings with the FPSC.

Q. Please discuss the historical load research information used in this filing.

A. The monthly load research data for the most recently completed three year annual load research studies were used. Load research data for the historical years 2005, 2006 and 2007, is provided in MFR E-11, Attachments 2, 3 and 4, respectively. The load research data for these years has been used in previous FPSC cost recovery clause filings. In addition, as stated previously, FPL's load research study for the year 2006 was filed with the Commission in April 2007. The historical load research information provided the basis for the

projected 2010 and 2011 load research data shown in MFR E-11, Attachment 1.

Q. Please describe how the projected 2010 and 2011 load research data was developed.

A. The historical load research data was combined with the sales forecast by rate class to develop the coincident and non-coincident demand estimates for the projected 2010 Test Year and projected 2011 Subsequent Year. Historical load research data for the years 2005 through 2007 was used for all rate classes, with the exception of new rate classes that became effective January 2006 as a result of FPL's Settlement and Stipulation Order. Available historical load research data was used for these new rate classes. Monthly ratios of each rate class's CP, GNCP and customer NCP to actual kWh sales were developed for each of the three years of historical load research data available. In developing these ratios, adjustments were made to account for historical load control events and to address the effects of customer migration between rate classes.

Projected 2010 and 2011 monthly GNCP and NCP ratios were then developed based on the average of the historical ratios. The monthly projected 2010 and 2011 CP ratios were developed using historical CP ratios that corresponded best to the time (hour) and day (weekday, weekend) of the projected monthly system peaks. The projected monthly system peaks are presented on MFR E-18 sponsored by FPL witness Morley.

The projected CP, GNCP and NCP ratios were then combined with the sales forecast by rate class to derive the projected coincident peak, non-coincident group peak and customer non-coincident peak demands for each class. The sales forecast by rate class was developed by FPL witness Deaton.

Q. Has the ratio method of developing projected load research information just described been utilized previously?

A. Yes. The forecasted load research data in FPL's MFR filings in FPSC Docket Nos. 050045-EI and 001148-EI utilized this methodology.

Q. In light of the current economic slowdown, did you evaluate 2008 load research data to determine the propriety of using historical 2005 through 2007 ratios for developing the load research forecast?

A. Yes. While the 2008 study was in process and only partially completed at the time the load forecast by rate class was developed, the 2008 economic conditions warranted the need for this review. The review was conducted to assess whether and to what extent changes in consumption patterns were occurring which warranted adjusting the previously developed historical load-related ratios.

Q. Based on the review of available 2008 data, were any adjustments made to the CP, GNCP and NCP ratios?

A. Yes. The review revealed that nine of the 30 rate classes experienced changes in consumption patterns which warranted adjusting the previously developed historical load-related ratios. Accordingly, the historical CP, GNCP and NCP ratios for these classes were recalculated including the available 2008

historical load research data. The nine rate classes adjusted are CS(T)-2, GSLD(T)-2, GSLD(T)-3, HLFT-3, OS-2, SDTR-1, SDTR-2, SDTR-3 and SST-1D.

Q. Is the projected load research data by rate class consistent with the system load forecast?

A. Yes. The projected load research data is consistent with the forecast of system monthly peak demands for 2010 and 2011 presented in MFR E-18 and with the forecast of system sales for 2010 and 2011 presented in MFR F-8, sponsored by FPL witness Morley.

Q. Which MFRs provide additional information on load research?

A. MFR E-9 and MFR E-17 provide additional information on load research.

Q. How is the load research data used in the development of the separation factors and cost of service study?

A. The load research data is used to develop the load-related allocation factors shown in MFR E-10. These load-related allocation factors, namely CP, GNCP and NCP, are based on the load research data, with adjustments for energy losses as needed.

Q. What are energy losses?

A. Simply stated, energy losses represent the amount of energy produced that is neither sold nor used by the Company. There are two types of energy losses: technical and non-technical. Technical losses are inherent to the transmission and distribution of electricity and occur on generation step-up transformers, transmission lines, distribution station step-down transformers, distribution

lines, distribution transformers and secondary services to customers. Non-technical losses include electricity theft and other unaccounted for use of energy.

Q. Why is it appropriate to adjust the load-related allocation factors for energy losses?

A. As discussed above, the load-related allocation factors are developed based upon the sales forecasts by rate class, which are then multiplied by the ratios established through load research to project CP, GNCP and NCP. But the forecasted sales for each rate class are at the meter, which is net of whatever energy losses occur in delivering electricity to customers in that class. The peak load that is imposed upon the system by each rate class is actually proportional to the total energy generated for that class, not the amount of energy delivered at the meter.

If all rate classes had the same level of energy losses, there would be no need to adjust for the losses, because the relative relationship among the rate classes would remain the same regardless of whether the losses were netted out. However, energy losses are different for rate classes served at transmission, primary distribution and secondary distribution voltage levels, so it would not be appropriate to assume that the energy losses are the same for the different rate classes. Electric lines operating at higher voltage levels experience less energy loss per amount of energy delivered than lower voltage lines, thus transmission customers incur lower losses as a percent of energy

delivered than customers served at lower voltage levels. Primary distribution voltage losses are higher than transmission voltage losses because they include transmission losses as well as distribution station step-down transformers and distribution line losses. Secondary distribution voltage customers incur the highest losses per unit delivered since their losses include losses due to transformers and secondary services in addition to losses from transmission and primary distribution voltages. Therefore, FPL develops and applies separate loss adjustments to each rate class so that these differences in energy losses among the rate classes are recognized.

Q. How are the adjustments for energy losses determined?

A. FPL witness Morley forecasts energy losses on a total FPL system basis. The forecasted system-wide energy losses are then converted into loss adjustment factors by voltage level and by rate class. MFRs E-19a, E-19b, and E-19c provide the details and results of this process. When these energy loss factors by rate class are applied to the corresponding rate class load-related data, the resulting values are termed 12 CP, GNCP and NCP "adjusted for losses." Load data by rate class reflecting adjustments for energy losses is summarized in MFR E-9.

JURISDICTIONAL SEPARATION STUDY

Q. What is a jurisdictional separation study?

A. A jurisdictional separation study allocates the Company's total rate base and net operating income between rate-regulated jurisdictions. FPL's utility business operates under two rate-regulated jurisdictions: retail, regulated by the FPSC, and wholesale, regulated by the Federal Energy Regulatory Commission (FERC). A rate-regulated utility such as FPL must maintain its accounting books and records in accordance with the Uniform System of Accounts prescribed by FERC and the FPSC. Compliance with the Uniform System of Accounts requires electric utilities to record costs incurred and investments made at original cost. Since most of the investments made and costs incurred by a regulated utility serve all of its utility customers, retail and wholesale, it is necessary to prepare a jurisdictional separation study. For example, a power plant is normally constructed to serve the aggregate load requirements of all customers on the Company's system, not just one customer or group of customers. The jurisdictional separation study develops allocations or jurisdictional separation factors for allocating this power plant investment as well as all other rate base and net operating income items recorded on the Company's accounting books and records to jurisdictions.

Q. How are costs separated between the retail and wholesale jurisdictions?

A. Costs are first functionalized, then classified, and finally allocated between the retail and wholesale jurisdictions. The term "functionalization" refers to the

assignment of costs into one or more of the major functions of an electric utility, e.g., production, transmission and distribution. The term "classification" refers to the categorization by cost driver, that is, the determination of whether a cost is driven by demand, energy, or number of customers. Finally, each component is "allocated" between jurisdictions using jurisdictional separation factors. The method of allocating a cost should be consistent with its functionalization and classification. Simply stated, a cost classified as demand-related should not be allocated on the basis of kWh of energy consumed, nor should a cost classified as energy-related be allocated based on peak demand.

Q. What are jurisdictional separation factors?

A. Jurisdictional separation factors allocate rate base and net operating income items between retail and wholesale jurisdictions. These factors are expressed as figures between zero and one with the former indicating no retail responsibility and the latter indicating complete retail responsibility. The jurisdictional separation factors are primarily based on demand or energy sales for the retail and wholesale jurisdictions. However, other factors that best represent each jurisdiction's cost responsibility are utilized. MFR E-10, Attachment 1, outlines the specific methodology used to develop the separation factors by each component of cost.

Q. What types of transactions are considered wholesale sales?

A. Wholesale sales consist of electricity sold to other electric utilities or to public authorities for resale purposes. They include requirement power sales to other

utilities, which are firm, long term sales, as well as opportunity sales. Transmission service between utilities also falls under wholesale jurisdiction.

Q. What is the significance of the different types of wholesale transactions in developing separation factors?

A. It is important to understand the significance of a wholesale sale that is subject to a jurisdictional separation factor (a "separated sale") and a wholesale sale that is not subject to a jurisdictional separation factor (a "non-separated sale"), as different regulatory treatments apply to the costs and revenues associated with each type of sale. The FPSC has historically made a distinction between separated versus non-separated wholesale power sales. As outlined in Docket No. 970001-EI, Order No. PSC-97-0262-FOF-EI, wholesale sales that are non-firm or less than one year in duration are treated as non-separated sales because a utility does not commit long-term capacity to such wholesale customers. Non-separated sales are not assigned cost responsibility through a separation process; therefore, the retail customer supports all of the investment that is used to make the sale. In exchange for supporting the investment, the retail customer receives all of the revenues, both fuel and non-fuel, that the sale generates through a credit in the fuel and capacity cost recovery clauses.

Q. How are separated wholesale sales treated in the jurisdictional separation study?

A. The FPSC has historically required utilities to separate and treat as 100% wholesale firm sales of more than one year that commit production capacity to

wholesale customers. In essence, the wholesale sale is separated to remove the production plant, operating expenses (including fuel expenses) and operating revenues associated with the sale from the retail jurisdiction's cost responsibility. FPL's separated wholesale sales for the 2010 Test Year and the 2011 Subsequent Year include the Florida Keys Electric Cooperative (FKEC) and City Electric System of Key West power sales contracts, the Metro-Dade Solid Waste Management (MDSW) contract, and the initial, partial-requirements Lee County Electric Cooperative (LCEC) power sales contract. As is the case with other separated wholesale sales, using the LCEC load in calculating the separation factors ensures that FPL's retail customers will receive the benefit of LCEC sharing responsibility for the fixed costs of FPL's electric system.

Q. Please explain how the results of the jurisdictional separation study are incorporated into the cost of service study.

A. The jurisdictional separation factors are applied to the Company's total utility rate base and net operating income (NOI) to compute jurisdictional or retail rate base and net operating income. The jurisdictional results and associated factors are shown on MFR B-6 and MFR C-4. The jurisdictional separation factors are among the inputs used to calculate the jurisdictional or retail-adjusted rate base and NOI reported in MFRs B-1 and C-1, respectively, sponsored by FPL witness Ousdahl. The jurisdictional or retail-adjusted rate base and NOI are allocated to retail rate classes in the cost of service study.

RETAIL COST OF SERVICE STUDY

Q. Please provide an overview of a retail cost of service study.

A. A retail cost of service study is the continuation of the jurisdictional separation study but at the retail rate class level. The cost of service study starts with the retail-adjusted rate base and net operating income. Similar to the jurisdictional separation study, the cost of service study functionalizes, classifies and allocates the various components of the retail-adjusted rate base and net operating income to the retail rate classes.

Q. Please explain the treatment of production plant in FPL's cost of service study.

A. As required by MFR E-1, FPL's cost of service study utilizes a 12 CP and $1/13^{th}$ methodology for production plant. The 12 CP and $1/13^{th}$ methodology recognizes that the decision to add generating capacity is driven primarily by peak demands on the system. This methodology classifies $12/13^{ths}$, or approximately 92%, of costs on the basis of coincident peak demand and $1/13^{th}$, or approximately 8%, of costs on the basis of energy. That portion classified on demand is allocated to the individual rate classes based on their 12 CP contributions, adjusted for losses, while the portion allocated on energy is allocated based on their kWh sales, adjusted for losses. Under the 12 CP and $1/13^{th}$ methodology all generating units are treated consistently, based on their function (i.e. production), their classification ($12/13^{ths}$ demand and $1/13^{th}$ energy) and their allocation (contribution to the system peak and kWh of

energy). The 12 CP and 1/13th methodology has a significant history of regulatory acceptance in Florida. The 12 CP and 1/13th methodology was approved in Docket No. 830465-EI for allocating all of FPL's production plant with the exception of one generating unit, discussed below. Furthermore, the FPSC has approved the 12 CP and 1/13th methodology for allocating production plant in rate cases involving other investor-owned utilities.

Q. Please explain the exception to the 12 CP and 1/13th methodology approved in Docket No. 830465-EI.

A. The methodology approved in this docket incorporated a special treatment for the St. Lucie Unit 2 nuclear generating unit. The FPSC, in Order No. 13537, Docket No. 830465-EI, ordered that instead of using the 12 CP and 1/13th methodology for St. Lucie Unit 2, a portion of the unit, equal to the residual cost of the unit above that of a peaking unit, be allocated on energy. As a result, approximately 25% of St. Lucie Unit 2 was classified on the basis of demand, and approximately 75% was classified on the basis of energy. At that time, St. Lucie Unit 2 had only recently gone into service, and it represented a substantial percentage of FPL's total production plant in rate base. Today, St. Lucie Unit 2 has been in service for approximately 25 years, and its remaining contribution to total production plant is much smaller. As a result, the special exception made for St. Lucie Unit 2 in Docket No. 830465-EI should no longer apply. Instead, FPL's cost of service study has used a 12 CP and 1/13th methodology for all production plant, including St. Lucie Unit 2.

Q. How does FPL's cost of service methodology treat transmission plant?

A. With the exception of transmission pull-offs, which are required to connect transmission voltage customers to the grid, transmission plant has also been classified on the basis of 12 CP and $1/13^{th}$. The portion of transmission plant classified on demand is allocated to the individual rate classes based on their 12 CP contributions, adjusted for losses, while the portion classified on energy is allocated based on the kWh sales, adjusted for losses. Costs associated with transmission pull-offs are classified as customer-related and allocated to transmission voltage customers. This mirrors the treatment of transmission plant approved in Docket No. 830465-EI.

Q. How does FPL's cost of service methodology treat distribution plant?

A. Unlike production and transmission plant, which serve all of FPL's retail rate classes, distribution plant is often specific to particular rate classes. Metering costs, for example, are not relevant to lighting classes, such as SL-1 and OL-1, which are unmetered. Likewise, the cost of secondary lines is not incurred in providing service to transmission level customers. Thus, the distribution function is actually a mix of a number of distinct sub-functions, each with its own allocation methodology. Substations and primary voltage lines are allocated on the basis of the GNCP of customers served from the distribution system. Secondary voltage lines are allocated on the basis of the GNCP of customers served at secondary voltage levels. Transformers are allocated on the basis of the NCP of customers served at secondary voltage levels.

Metering equipment is classified as a customer charge and is allocated to rate classes on the basis of meter costs weighted by the number of metered accounts. Service drops and primary voltage pull-offs are also classified as a customer charge. Primary voltage customers are allocated the cost of primary pull-offs, and secondary voltage customers are allocated the cost of service drops.

Lastly, costs specifically dedicated to lighting customers, including fixtures, poles and conductors, are directly assigned to those rate classes. FPL's methodology for treating distribution plant just described is consistent with that approved in Docket No. 830465-EI.

Q. Is additional detail available outlining the methodology used in the retail cost of service study?

A. Yes. Exhibit JAE-4 provides the methodology used in the cost of service study to allocate the detail components of rate base and NOI. This document is intended as a supplement to Attachment 1 of MFR E-10.

Q. Which MFRs outline the functionalization, classification and allocation of costs in the cost of service study?

A. MFRs E-4a and E-4b show the classification and functionalization by the Federal Energy Regulatory Commission (FERC) account of rate base and expenses respectively. MFRs E-3a and E-3b show the allocation of rate base and expenses by FERC account to the individual rate classes.

RETAIL COST OF SERVICE RESULTS

Q. What results are produced in the cost of service study?

A. The cost of service study produces specific data for each rate class including rate base, net operating income, ROR, target revenue requirements, and unit costs for demand, energy and customer charges. Target revenue requirements and unit costs serve as the initial basis in the rate design process.

Q. How is the rate of return by rate class determined?

A. ROR is calculated by dividing net operating income (NOI) by rate base. The retail jurisdictional ROR represents the jurisdictional adjusted net operating income divided by the jurisdictional adjusted rate base. Having allocated the various components of jurisdictional adjusted rate base and jurisdictional adjusted net operating income across the retail rate classes, RORs can then be computed on a rate class level. RORs on a total retail and rate class level are reported in MFR E-1.

Q. How are comparisons in ROR by rate class made?

A. A measure of how a rate class's ROR compares to the total retail ROR can be computed by dividing the class ROR by the retail ROR. The resulting figure is referred to as the parity index. Thus, a rate class with a parity index of 100% would be earning the same ROR as the retail average, and deemed to be precisely at parity. A rate class with a parity index of less than 100%, or below parity, would be earning an ROR less than the retail average ROR, while the opposite would be true for a rate class with an index above 100%.

Q. What does FPL's cost of service study show regarding the retail average ROR and the parity indices by rate class?

A. At present rates, FPL's cost of service shows a projected retail jurisdictional ROR of 4.25% for the 2010 Test Year and 3.71% for the 2011 Subsequent Year, which is consistent with the earned rates of return reported on Line No. 12 of MFR A-1. The study shows that at present rates certain rate classes, such as RS(T)-1 and GS(T)-1, are above parity while some of the larger commercial/industrial rate classes, particularly GSLD(T)-1 and GSLD(T)-2, and their respective optional rate classes, HLFT-2 and HLFT-3, are below parity. Exhibit JAE-5 lists the rate of return and relative parity index for each rate class along with the revenue requirement differential to achieve full parity at present rates for the Test Year 2010 and the 2011 Subsequent Year Adjustment. MFR E-1 provides the details supporting these results.

Q. Are there specific factors contributing to the disparities in rates of return among rate classes?

A. Yes. FPL's current rates were initially set over 20 years ago in FPL's last fully litigated rate case, Docket No. 830465-EI. Since that time customer rates have been adjusted several times without regards to parity levels. The implementation of the FPSC-approved 1999 reduction in base rates, for example, resulted in higher percentage reductions in base revenues for the larger commercial/industrial (C/I) rate classes. The 1999 rate reduction was implemented by reducing all energy rates by the same rate factor; therefore, rate classes with lower than average energy rates, such as large C/I classes,

received higher effective percentage reductions in their rates, thereby exacerbating their disparity relative to other classes. In addition, FPL's current rate classes in some cases consist of a very limited number of customers. Customer migration and individual variations in load usage can be expected to have a larger impact on parity for those rate classes.

Q. Please explain the other results produced in the cost of service study.

A. As previously mentioned, a cost of service study also calculates revenue requirements or target revenues by rate class. Revenue requirements consist of a return on rate base plus income taxes and expenses. Thus, revenue requirements represent the level of revenues required to earn a particular ROR. In this filing, three sets of projected revenue requirements by rate class have been developed. One set of revenue requirements, shown in MFR E-6a, is based on each rate class's projected individual ROR. The second set of revenue requirements, also presented in MFR E-6a, is based on FPL's projected retail ROR applied uniformly to each class. The third set of revenue requirements, shown in MFR E-6b, is based on FPL's requested retail ROR applied uniformly to each rate class. MFR E-6b provides the target revenue requirements by rate class and underlying unit costs for each billing determinant (i.e., demand, energy, and customer) used by FPL witness Deaton in the rate development process. Exhibit JAE-6 shows target revenue requirements for each rate class at proposed rates on an equalized basis, that is, at the retail ROR or at parity. As can be seen on this Exhibit, the total operating revenues shown on column 4 is the amount shown on MFR A-1.

The target revenue requirements shown on column 3 are reported on MFR E-1.

The unit costs by billing determinant shown on MFRs E-6a and E-6b are derived by dividing the demand, energy, customer and lighting-related revenue requirements by the appropriate billing determinants. Thus, the cost of service study provides the basis to determine the demand, energy and customer unit costs for each rate class. As stated earlier, the rate classes' target revenue requirements and underlying unit costs at the requested retail ROR serve as the initial basis in the rate design process which FPL witness Deaton addresses.

Also provided by the cost of service study on MFR E-1, is the impact of the proposed revenue increase on the ROR and parity index for each rate class. The proposed revenue increase by rate class used in this MFR is provided on MFR E-5, sponsored by FPL witness Deaton.

Q. Does this conclude your direct testimony?

A. Yes.

ERRATA SHEET

(X) DIRECT TESTIMONY, OR ( ) REBUTTAL TESTIMONY (PLEASE MARK ONE WITH "X")
WITNESS: Joseph A. Ender

PAGE #	LINE #	CHANGE
6	20	"NCP" should be changed to "GNCP"
13	20	"nine" should be changed to "ten"
14	1	"nine" should be changed to "ten"
14	3	Add "and SST-1T" after SST-1D
Exhibit JAE-4	Page Nos. 1, 2, 4, 6-14, 16, 17	Correct Allocator Column information to reflect current case specifics. JAE-4 items that changed are shown shaded.

BY MS. CLARK:

Q Now, Mr. Ender, are you sponsoring any exhibits to your direct testimony?

A Yes, I am.

Q Are those exhibits true and correct to the best of your knowledge?

A Yes, they are.

Q And do those exhibits consist of JAE-1 to JAE-6?

A Yes.

MS. CLARK: Mr. Chairman, I would note that those exhibits have been premarked for identification as 154 through 160.

CHAIRMAN CARTER: Okay.

(Exhibit Nos. 154 through 160 marked for identification.)

BY MS. CLARK:

Q Now I'd like to move to your rebuttal testimony.

Have you prepared and caused to be filed 25 pages of rebuttal testimony in this proceeding?

A Yes, I have.

Q And did you also prepare and cause to be filed one errata sheet to your rebuttal testimony?

A No, I haven't.

Q I may have made a mistake.

If I asked you the same questions contained in your rebuttal testimony, would your answers be the same?

A Yes, they would.

MS. CLARK: Mr. Chairman, I would ask that the rebuttal testimony be inserted in the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF JOSEPH A. ENDER

DOCKET NO. 080677-EI

AUGUST 6, 2009

Q. Please state your name and business address.

A. My name is Joseph A. Ender. 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:

- JAE-7 – Allocation of 2010 and 2011 Production Plant Using Summer Coincident Peak Methodology
- JAE-8 – Impact of Summer Coincident Peak Methodology on Rate Class Revenue Requirements
- JAE-9 – Impact of Summer Coincident Peak and MDS Methodologies on Rate Class Revenue Requirements
- JAE-10 – Factors Contributing to Changes in Rate Class Parities from 2007 to 2010
- JAE-11 – Impact of Jurisdictional Transmission Adjustment on Projected 2010 and 2011 Retail Revenue Requirements

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address issues raised in the direct testimonies of South Florida Hospital and Healthcare Association (SFHHA) witness Baron, Florida Industrial Power Users Group (FIPUG) witness Pollock, and Office of Public Counsel (OPC) witness Brown. The issues discussed in my rebuttal testimony include: the use of alternative cost of service methodologies proposed by SFHHA witness Baron and the issues raised by Mr. Baron regarding the reasonableness of FPL's forecasted cost of service results; the use of the Average and Excess (A&E) demand methodology to allocate production and transmission plant offered as an alternative by FIPUG witness Pollock; and the jurisdictional transmission allocations addressed by OPC witness Brown.

SUMMARY

Q. Please summarize your rebuttal testimony.

A. Mr. Baron, testifying on behalf of SFHHA whose members consist of medium and large commercial customers, has filed testimony proposing to allocate significant costs away from customers he represents and onto the residential and smaller commercial customers. Mr. Baron's proposals would allocate $183 million additional costs to residential and smaller commercial customers.

FPL has consistently followed Commission precedent and sound ratemaking principles in developing its cost of service studies. As I discuss in my direct

testimony, the results of these studies clearly indicate that the rates for many classes, particularly those applicable to medium and large commercial customers, are below their cost to serve. Mr. Baron has proposed alternative cost of service methodologies intended simply to shift costs away from his clients in these medium and large commercial rate classes and onto other rate classes and these methodologies should be rejected. These alternative methodologies are inconsistent with FPL's generation and distribution system planning and how costs are incurred on FPL's system, would relieve some rate classes of cost responsibility for plant used in service to those customers, and have not been previously recognized by this Commission as appropriate methodologies for investor-owned utilities in Florida. Furthermore, Mr. Baron's concerns regarding FPL's cost of service forecast are without merit. He points to changes in parity results in 2010 and 2011 that occur without any adjustment in current rates as the basis for questioning the forecast. This reasoning completely ignores the fact that parity results are also affected by changes in costs (projected increases in rate base and expenses) that may impact rate classes differently.

Mr. Pollock's suggestion for the Commission to adopt the A&E demand method should it be faced with a choice between retaining 12CP-1/13th AD or using a method that gives more weight to average demand, should also be rejected. The A&E allocation method proposed by Mr. Pollock uses the class maximum non-coincident demand (GNCP) to allocate production and transmission plant, which

is inconsistent with FPL's generation plan and does not reflect appropriate cost causation.

Finally, OPC witness Brown raises an issue regarding FPL's treatment of long term firm transmission service contracts in its jurisdictional separation studies. FPL does not oppose OPC witness Brown's proposed removal of the costs and revenues associated with FPL's firm long-term transmission service contracts.

TESTIMONY OF SFHHA WITNESS BARON

Q. On page 18 of his testimony, SFHHA witness Baron states that he believes it is appropriate for the Commission to depart from the 12 CP and 1/13th methodology because that methodology is inconsistent with the factors that cause FPL to incur costs associated with new capacity additions. Do you agree with Mr. Baron?

A. No. The 12 CP and 1/13th methodology accurately reflects FPL's generation plan because: (1) it recognizes that the type of generation unit selected is influenced by both energy and peak demand, (2) it reflects the influence of the summer reserve margin, and (3) it recognizes that capacity must be available throughout the year to meet FPL's winter reserve margin and the annual loss-of-load probability (LOLP) criteria in FPL's resource planning process. FPL proposes to continue using the 12 CP and 1/13th method as it provides a fair allocation of production and transmission costs to rate classes.

Q. What does Mr. Baron propose in terms of production plant?

A. Mr. Baron proposes to use the Summer Coincident Peak method for allocating production plant to rate classes.

Q. What do you conclude as a result of your review of Mr. Baron's proposal to use the Summer Coincident Peak to allocate production plant?

A. Although FPL's summer reserve margin criterion of 20% currently drives FPL's need for new resources, the Commission should reject Mr. Baron's proposed use of the Summer Coincident Peak methodology for the following reasons:

- The Summer Coincident Peak method is inconsistent with FPL's generation planning process;
- The Summer Coincident Peak allocation does not send a better price signal than the 12 CP and 1/13th methodology; and
- The Summer Coincident Peak allocation methodology would allocate no production costs to certain rate classes even though all rate classes receive the benefit of FPL's generating capacity.

Q. On page 19, lines 2 – 4 of his direct testimony, SFHHA witness Baron states that the Summer Coincident Peak methodology "recognizes the factors that actually are driving capital expenditures on FPL's system." Do you agree?

A. No. While FPL's projected need for additional resources is currently driven by the summer reserve margin criterion, Mr. Baron's characterization fails to consider other key factors of FPL's generation plan that drive capital expenditures on FPL's system. One of the factors Mr. Baron completely ignores is the influence that annual fuel savings have on the type of generating units added.

While the decision to add additional generation capacity is driven by load requirements, the type of generation capacity added - and thus the total cost of the unit additions - is influenced by the number of hours the units are expected to run. As Dr. Steven R. Sim, FPL's Resource Assessment and Planning witness in Docket No. 060225-EI noted, "the type of resources that should be added is primarily based on a determination of the resources that result in the lowest average electric rates for FPL's customers" (Direct Testimony, Dr. Steven R. Sim, page 5, line 23 through page 6, line 2). If MW capacity were the only consideration in the generation plan, as suggested by Mr. Baron, the Company's resources would consist solely of gas turbine peaking units. This is clearly not the case, nor should it be.

Q. What other key factors of FPL's generation plan did SFHHA witness Baron fail to consider in recommending the Summer Coincident Peak methodology?

A. In addition to the summer reserve margin criterion, FPL's resource planning considers two other reliability criteria: (1) a winter reserve margin criterion of 20%, and (2) maintaining a LOLP of 0.1 days per year or less. The winter reserve margin criterion addresses the winter months and the LOLP criterion considers daily peak loads year round, which would not be consistent with using a method that considers only the summer peak hour. While FPL's projected need for additional resources is currently driven by the summer reserve margin criterion, these two other reliability criteria are as important as the summer reserve margin criterion, and could trigger the need for additional capacity.

Q. Would the Summer Coincident Peak allocation, as proposed by SFHHA witness Baron, send a better price signal than the 12CP and 1/13th methodology?

A. No. The 12 CP and 1/13th methodology more accurately reflects FPL's generation plan than does the Summer Coincident Peak allocation. Accordingly, the 12 CP and 1/13th methodology will send a more appropriate price signal than the Summer Coincident Peak allocation methodology. As discussed previously, the Summer Coincident Peak methodology ignores the influence that annual fuel savings have on the type of generating units added, which drives capital expenditures on FPL's system.

Q. Are there any other factors which should be considered in determining the appropriate method of allocating production plant?

A. Yes. The Commission has long recognized that one of the advantages of the 12 CP and 1/13th methodology is that it ensures that each rate class pays some portion of the production plant it uses (See Docket No. 820097-EU, FPSC Order No. 11437, page 42.) By contrast, methods such as the Summer Coincident Peak allocation, which is limited to one hour a year, can result in some rate classes contributing nothing towards production plant even though such rate classes clearly benefit from, and rely on, the system's production resources. This is evident in Exhibit JAE-7 which shows that two rate classes would be allocated no production plant costs using a Summer Coincident Peak allocation.

Q. Have you performed a calculation of the cost shifts that would result from SFHHA witness Baron's proposed use of the Summer Coincident Peak allocation?

A. Yes. As expected, Mr. Baron's proposed use of the Summer Coincident Peak allocation method would shift costs away from medium and large commercial rate classes, classes in which Mr. Baron's clients take service, onto residential and small commercial rate classes. Exhibit JAE-8 provides a comparison of the rate class revenue requirements as proposed by FPL and those that would result from the use of Mr. Baron's proposed Summer Coincident Peak allocation method. As can be seen on Exhibit JAE-8, the residential rate class, RS-1, would be allocated $23.6 million in additional costs (revenue requirements) using Mr. Baron's proposal than the amount in FPL's 2010 Test Year cost of service study. Likewise, the GS-1 rate class would be allocated additional costs, $11.1 million more than the amount in FPL's 2010 cost of service study.

In summary, Mr. Baron's proposed Summer Coincident Peak allocation method would shift nearly $35 million in costs away from rate classes he represents and onto residential, RS-1, and small commercial, GS-1, rate classes.

Q. Do you have any other comments regarding Mr. Baron's proposed use of the Summer Coincident Peak allocation?

A. Yes. The use of the 12 CP and $1/13^{th}$ methodology has an extensive history of regulatory approval in Florida and over the years the Commission has clearly articulated why it finds the methodology is appropriate. Mr. Baron himself found

the 12 CP and 1/13th method "reasonable" for FPL's use as recently as 2002 (Docket 001148-EI, Direct Testimony of Stephen Baron, page 6, line 20). Accordingly, it would be reasonable to expect that consideration of an alternative method would be made only to the extent that a clear and compelling case is made or that circumstances have changed significantly to favor an alternative method. Mr. Baron has not provided a compelling case and the method he proposes is at odds with the way FPL designs its system and incurs costs. The Commission should therefore approve the 12 CP and 1/13th methodology as proposed by the Company.

Q. On pages 21 through 29 of his direct testimony, SFHHA witness Baron advocates the use of the minimum distribution system (MDS) for allocating distribution plant. Do you agree with his proposal?

A. No. The Commission should reject the use of the MDS method as proposed by Mr. Baron for the following reasons:

(1) The Commission has consistently rejected the use of the MDS method for investor-owned utilities and a compelling case for ignoring that precedent has not been made;

(2) The MDS method presumes a type of electric system and a method of planning that is not reflective of FPL's distribution system;

(3) The MDS method inherently ignores the impact of diversity and double-counting; and

(4) Mr. Baron inappropriately relies on the use of the MDS method for five utilities from other jurisdictions as support for applying the MDS method to FPL.

Q. Please explain.

A. First, the proposed use of the MDS method to allocate distribution plant has been considered by the Commission numerous times, most recently in 2002 (Docket No. 010949-EI, Order No. PSC-02-0787-FOF-EI), and has never been approved for an investor-owned electric utility (IOU). In 2002, (Docket No. 020537-EC, Order No. 02-1169-TRF-EC) in a case involving the Choctawhatchee Electric Cooperative (CHELCO), the Commission for the first and only time accepted the MDS method. In that Order, the FPSC made it clear that CHELCO possessed "unique characteristics" that justified a departure from previous precedent. These "unique characteristics," which consisted of CHELCO's low customer density, rural service territory, and customers taking service under multiple accounts, do not exist for FPL. Furthermore, the use of the minimum distribution system is addressed in the Minimum Filing Requirements (MFRs) for Investor-Owned Electric Utilities (IOUs) prescribed by FPSC Rule No. 25-6.043. The Commission requirements for MFR E-1, Cost of Service Studies, explicitly prohibit the use of the minimum distribution system concept.

Second, the MDS method assumes that a certain investment in transformers, conductors and poles is required solely as a result of connecting customers to the electric system. Thus, the MDS method is based on a set of distribution facilities

designed to serve the zero or minimum load requirements of customers, which this Commission has stated is purely fictitious and has no grounding in the way the utility designs its systems or incurs costs because no utility builds to serve zero load (See Docket No. 010949-EI, FPSC Order No. PSC-02-0787-FOF-EI, page 76). Moreover, the Commission's analysis is consistent with FPL's distribution planning as the central criterion used in planning the FPL distribution system is kW load requirements, not customers served.

Next, the MDS method shifts all benefits obtained from economies of scale to the larger customers even though there are economies of scale in serving residential customers. In dense urban areas not only are multiple residential customers frequently served off the same transformer but the size of such a transformer is frequently comparable to that used for commercial customers. The diversity of residential customers' loads also creates economies of scale. Because each residential customer's maximum demand will not coincide exactly with other customers on the same transformer, engineering procedures dictate that transformers serving multiple residential customers need not be sized to serve the sum of every customer's maximum demand. FPL's distribution planners can and do routinely add new customers to existing transformers because of the diversity of residential loads. By contrast, no such diversity is applicable to a large commercial customer served from a single transformer.

The MDS method also double counts the kW loads of residential and the smallest commercial customers for the investment in transformers associated with their so-called minimal load requirements. This double counting occurs because the RS-1 rate class and the smallest commercial rate class (GS-1) would first be allocated their cost of the so-called minimum load transformers based on the number of customers. The remaining cost of transformers would then be allocated to RS-1 and GS-1 on the basis of their maximum customer peaks, with no adjustment for that portion of the maximum customer peaks which is provided under the minimum load transformer.

Mr. Baron points to use of the MDS method by five electric utilities in other jurisdictions as justification for using the MDS method (See Exhibit SJB-5). The use of a cost of service methodology in a different jurisdiction should not be a decisive factor supporting its application in Florida. In fact, the use of the MDS method in Georgia was not found to be a compelling factor for this Commission in Order No. PSC-02-0787-FOF-EI, page 77.

Finally, Mr. Baron has quantified the impact from the MDS method by applying the customer and demand classification based on data he gathered from these five electric utilities' class cost of service studies. Mr. Baron states, "[w]hile these results are not designed to be a comprehensive, random survey of electric utilities, the classification ratios (customer, demand) represent a cross-section of utilities that incorporate a minimum system distribution methodology in class cost of

service studies" (Direct Testimony page 26, lines 10-14). Further, Mr. Baron acknowledges not having performed any independent analysis of FPL's distribution plant accounts to develop the customer and kW demand portion of each account (Direct Testimony page 35, line 17 – page 36, line 3). Yet, Mr. Baron, conveniently and without hesitation, relies on extraneous data from utilities outside of Florida and applies it to FPL without regard to their comparability to FPL. Even under the best of circumstances it would be problematic to assume these five electric utilities have identical cost structures and distribution planning processes as that of FPL.

Q. Does Mr. Baron offer any other arguments for applying the MDS method in this case?

A. Yes. Mr. Baron claims that the National Association of Regulatory Commissioners (NARUC) Electric Manual endorses, if not requires, the use of the MDS method. However, as the Commission has already observed, the NARUC manual states that the choice of methodology will depend on the unique circumstances of the case (Docket No. 010949-EI, Order PSC-02-0787-FOR-EI, page 75). Moreover, the NARUC Manual also recognizes that MDS may not be an accurate way to segregate customer- and demand-related costs. Specifically, the Manual states:

> "Cost analysts disagree on how much of the demand costs should be allocated to customers when the minimum-size distribution method is used to classify distribution plant. When using this distribution method, the analyst must be aware that the minimum-

size distribution equipment has a certain load-carrying capability, which can be viewed as a demand-related cost" (p. 95).

In other words, the NARUC Manual itself does not endorse any particular cost allocation method. It also recognizes that MDS has an inherent flaw - the so-called customer-related costs have a significant demand component to them.

Q. How does the MDS method compare with the Company's proposed method of allocating distribution plant?

A. The MDS method classifies a portion of poles, conductors and transformers as customer-related and allocates these costs among the rate classes based on the number of customers. The MDS method determines the customer-related portion of these facilities on the basis of a hypothetical distribution system constructed to serve the minimum load requirements of customers. Under the MDS method, minimally-sized transformers, poles and conductors are used as the basis for constructing this minimum load requirements system. A variant of the MDS method, the zero intercept method, uses statistical extrapolation to determine a hypothetical customer-related portion of poles, conductors and transformers. FPL's methodology classifies meters, service drops and primary pull-offs as customer-related and classifies the remaining balance of distribution plant as demand-related. Thus, under FPL's methodology substations, poles, conductors (excluding primary pull-offs) and transformers are classified as demand-related and are allocated among the rate classes using various measures of peak demand.

Q. What impact would the MDS method have on the allocation of costs by rate class?

A. By reclassifying demand-related costs as customer-related, the MDS method would drastically increase the amount of distribution plant allocated to residential and very small commercial customers. Larger customers, such as those in the GSLD-1 rate class, would benefit through a reduced allocation of costs.

Q. You indicated previously that the central criterion used in planning the FPL distribution system is kW load requirements, not customers served. Does this mean that the need to serve individual customers never influences distribution plant additions?

A. No. There are certainly cases where line extensions are required to serve specific customers. This is where a strong and consistently enforced contribution-in-aid-of-construction (CIAC) policy comes into play. As outlined in the Florida Administrative Code (FAC 25-6.064), customers are required to pay for the cost of any line extension to the extent that the expected revenues do not offset the cost of the line extension. In this manner, customers with "minimum load requirements" must pay for the cost of any line extensions required to service them. This is a far more equitable outcome than the cost allocation resulting from the MDS method since the specific customers necessitating the line extension bear the cost.

Q. Is the requirement to pay a line extension CIAC limited to large commercial/industrial customers?

A. Not at all. A CIAC would be required in any case where the expected load and revenue does not offset the required investment. In fact, the CIAC line extension formula is routinely applied to new residential subdivisions.

Q. On table 5, page 37 of his direct testimony, SFHHA witness Baron shows the parity figures resulting from the Summer Coincident Peak treatment of production plant combined with the MDS method for distribution plant. Please comment.

A. I have deep concerns regarding the use of either the Summer Coincident Peak or MDS methods. In addition, I think it is important to point out, that even with the dramatic methodology changes Mr. Baron is advocating, a number of the larger commercial rate classes (GSLD-1, HLFT-2, HLFT-3 and SDTR-3) remain below parity.

Q. Have you performed a calculation of the cost shifts that would result from Mr. Baron's proposed use of the Summer Coincident Peak and MDS methods?

A. Yes. As anticipated, Mr. Baron's proposed use of the Summer Coincident Peak and MDS allocation methods would shift significant costs away from medium and large commercial rate classes onto residential and small commercial rate classes. Exhibit JAE-9 provides a comparison of the rate class revenue requirements as proposed by FPL and those that would result from the use of Mr. Baron's proposed Summer Coincident Peak and MDS allocation methods. The calculation

utilizes the assumptions used by Mr. Baron and provided on Exhibit SJB-5 of his testimony.

As can be seen on Exhibit JAE-9, the residential rate class, RS-1, would be allocated $157.9 million of additional costs (revenue requirements) in the 2010 Test Year due to the use of the Summer Coincident Peak and MDS methodologies proposed by Mr. Baron. This means that the total revenue requirements for the RS-1 rate class under Mr. Baron's proposals is 5.6% higher than the amount in FPL's 2010 cost of service study. The GS-1 rate class would be allocated additional costs for the 2010 Test Year of $24.7 million, 8.0% higher than the amount in FPL's 2010 cost of service study.

In summary, Mr. Baron's proposed Summer Coincident Peak and MDS allocation methods would shift nearly $183 million in costs away from rate classes he represents and onto the residential, RS-1, and small commercial, GS-1, rate classes.

Q. **On pages 30-31 of his direct testimony, SFHHA witness Baron indicates that parity ratios for the HLFT-2 and HLFT-3 rate classes from the 2007 actual cost of service results were 0.61 and 0.60 while the 2010 Test Year projected parity ratios are 0.34 and 0.36 respectively. Mr. Baron then questions the accuracy of FPL's projections based on the reductions in parity for these two rate classes. Do you agree?**

A. No. Mr. Baron's unsubstantiated inference that FPL's projections are not accurate just because the parities of two rate classes are projected to be lower than they were in 2007 is at best presumptuous and irresponsible. By way of background, parity is a measure of how the class Rate of Return (ROR) compares to the overall retail ROR and is calculated by dividing the class ROR by the overall retail ROR. Since parity for the rate class is relative to the overall retail ROR, many factors can impact parity. These factors include additions to the various components of rate base and operating expenses, base rate increases or reductions and how they are implemented (changes to customer, energy and/or demand charges), customer additions, customer migration, changes in energy/demand consumption patterns, the impact of weather on the day and the time of the system peaks (CP) and how the various rate classes contribute to the system peaks.

Q. On page 32, lines 4 – 7 of his direct testimony, SFHHA witness Baron states, "[w]hile not as striking as the substantial reductions in parities in the projected period for rate schedules HLFT-2 and HLFT-3, FPL is projecting similar large reductions in parities for rate schedules CILC-1D, GSLD(T)-1, GSLD(T)-2, and GSLD(T)-3, absent a change in current rates." Please comment.

A. Mr. Baron conveniently fails to identify those rate classes for which the projected parities for 2010 or 2011 are higher than or equal to the 2007 actual parities. These rate classes, which are all commercial customer classes, include CS(T)-1,

CS(T)-2, GS(T)-1, GSD(T)-1, SDTR-1 and SDTR-2. Table 1 below shows these rate classes' comparative parities for 2007 actual, and projected 2010 and 2011.

Table 1
Rate of Return Parity Analysis
2007 Actual, 2010 to 2011 Projected

	Actual 2007	Projected 2010	Projected 2011
CS(T)-1	0.93	0.91	0.94
CS(T)-2	0.74	0.90	0.94
GS(T)-1	1.26	1.50	1.49
GSD(T)-1	0.96	0.96	0.96
SDTR-1	0.64	0.90	0.92
SDTR-2	0.33	0.53	0.53

Q. Did SFHHA witness Baron identify any specific reasons supporting his conclusion?

A. No. As stated on page 33, line 5 through page 34, line 1 of his testimony, Mr. Baron did not identify any specific reasons supporting his claim that FPL's cost of service is not appropriate. Mr. Baron is simply assuming, without further analysis, that because the projected parities of a few rate classes are lower than their respective parities for the historical years 2006 and 2007, FPL's cost of service study must be inaccurate or unreasonable.

Q. Did you perform an analysis to determine what factors contributed to the changes in rate class parities from 2007 to 2010?

A. Yes. An analysis was performed to determine the factors contributing to the variance in rate class parities from 2007 to 2010. The variance analysis used 2007 actual cost of service study results as the base case for the analysis, and it assessed the impact on ROR and rate class parity of each contributing factor. The analysis was geared to specifically address Mr. Baron's concerns regarding the

forecast of costs, billing determinants and cost allocation factors. The variance analysis focused on the impacts of the following 2010 FPL projections:

1. Load-related demand allocation factors - CP, GNCP & NCP;
2. Billing determinants - number of customers, KWH sales and revenues, using 2007 rates and charges;
3. GBRA rate increases projected in 2009 (West County Units 1 and 2); and
4. Changes in rate base and operating expenses from 2007 to 2010.

Q. Please summarize the results of the variance analysis.

A. Exhibit JAE-10 provides the results of the variance analysis by rate class. The analysis shows that the change in parities from 2007 to 2010 was largely driven by projected changes in retail rate base and expenses. The remaining three factors, namely load-related demand allocation factors, billing determinants and GBRA rate increases had small impacts on parity among rate classes.

Exhibit JAE-10 and Table 2 below demonstrate that the projected billing determinants and cost allocation factors used in the 2010 cost of service study did not drive down rate class parities as Mr. Baron alleges in his testimony. The analysis also confirms the accuracy and reasonableness of FPL's cost of service study results, which Mr. Baron presumptuously and without proof questions.

Table 2
CHANGES IN ROR & PARITY FROM 2007 TO 2010

	RATE OF RETURN		PARITY			PARITY VARIANCE		
				2010 Projected				
	2007 Actual	2010 Test Year As Filed	2007 Actual	Demand Allocators and Billing Determinants	Changes in Rate Base and Expenses	Demand Allocators and Billing Determinants	Changes in Rate Base and Expenses	Total
Above Parity -								
GS(T)-1	9.79%	6.36%	1.26	1.34	**1.50**	0.08	**0.15**	0.23
RS(T)-1	8.16%	4.55%	1.05	1.04	**1.07**	(0.01)	**0.03**	0.02
Below Parity -								
CILC-1D	6.46%	2.87%	0.83	0.81	**0.67**	(0.03)	**(0.13)**	(0.16)
GSD(T)-1	7.47%	4.09%	0.96	0.99	**0.96**	0.02	**(0.03)**	(0.00)
GSLD(T)-1	5.86%	2.48%	0.76	0.72	**0.58**	(0.03)	**(0.14)**	(0.17)
GSLD(T)-2	6.54%	2.83%	0.84	0.84	**0.66**	(0.00)	**(0.18)**	(0.18)
GSLD(T)-3	7.84%	3.60%	1.01	1.09	**0.85**	0.08	**(0.25)**	(0.16)
HLFT-1	6.88%	3.34%	0.89	0.91	**0.79**	0.02	**(0.12)**	(0.10)
HLFT-2	4.71%	1.46%	0.61	0.58	**0.34**	(0.02)	**(0.24)**	(0.26)
HLFT-3	4.65%	1.51%	0.60	0.57	**0.35**	(0.03)	**(0.22)**	(0.25)

Q. Are there any other observations about the variance analysis or SFHHA witness Baron's contention that you would like to comment on?

A. Yes. It is important to note that the rate classes represented by Mr. Baron were already well below parity in 2007. In fact, these rate classes were below parity prior to 2007 as well. This trend can easily be seen in Mr. Baron's own testimony, Table 3, page 32.

Q. What can you conclude about SFHHA witness Baron's inference that FPL's cost of service results are not accurate?

A. Mr. Baron's questions about the accuracy of FPL's 2010 Test Year cost of service results are unsupported and unfounded. FPL's cost of service study results for the projected 2010 Test Year and 2011 Subsequent Year Adjustment are accurately

determined and fairly present each rate class cost responsibility, ROR and parity position relative to FPL's projected overall retail ROR.

TESTIMONY OF FIPUG WITNESS POLLOCK

Q. Are there any cost of service issues raised by FIPUG witness Pollock to which you would like to respond?

A. Yes. Mr. Pollock has recommended the use of the A&E allocation methodology for allocating production and transmission plant costs to rate classes. Though Mr. Pollock's primary recommendation is that the Commission should retain the 12 CP and 1/13th methodology, he also proposes the use of the A&E method as an alternative for the Commission to adopt if "faced with a choice between retaining 12CP-1/13th AD or using a method that gives more weight to AD" (Direct Testimony page 51, lines 13-14).

Q. Please describe the A&E method recommended by FIPUG witness Pollock as an alternative for the Commission to adopt if faced with a choice between retaining 12CP and 1/13th methodology or using a method that gives more weight to average demand?

A. As described by Mr. Pollock on page 47 of his direct testimony, under the A&E method a portion of the production and transmission plant costs equal to FPL's annual system load factor would be allocated on average demand. The remaining costs would be allocated on the difference between a class maximum demand (GNCP) and its average, which is the "excess" demand component of the formula. FPL's average load factor projected for the 2010 Test Year is 59%. Therefore,

under the A&E method, 59% of the 2010 projected production and transmission plant would be allocated on average demand. The "excess" demand component, 41% for 2010, would be allocated to rate classes based on the difference between their GNCP and their average demand.

Q. Do you have any specific concerns regarding the A&E allocation method?

A. Yes. The A&E allocation method proposed by Mr. Pollock uses the GNCP to determine the "excess" demand component of the formula. As described above, that means that 41% of the total production and transmission costs for 2010 would be allocated utilizing the rate class GNCP as the basis. The class GNCP demand is rarely coincident with the peak demand on the system. Use of this non-coincident demand to allocate production and transmission plant is inconsistent with FPL's generation plan described previously. Moreover, Mr. Pollock's use of the class non-coincident peak demand to allocate production and transmission plant does not reflect cost-causation and directly contradicts his direct testimony.

Q. How does the use of the class non-coincident demand in the A&E method proposed by FIPUG witness Pollock contradict his direct testimony?

A. As stated in his direct testimony, page 46, lines 3-4, Mr. Pollock correctly recognizes that "the summer peak demands determine FPL's capacity requirements." Using the class non-coincident peak demands to allocate production and transmission plant directly contradicts that statement.

TESTIMONY OF OPC WITNESS BROWN

Q. What issue raised by OPC witness Brown's testimony would you like to address?

A. Ms. Brown, in the Jurisdictional Transmission Allocations section of her direct testimony, takes exception to the revenue credit methodology used by FPL for addressing long-term firm transmission service contracts.

Q. OPC witness Brown asserts that while FPL's use of the revenue credit method may be appropriate for its non-firm or short-term transmission service revenues, it is not appropriate for FPL's long-term firm transmission service customers. Please comment on this statement.

A. In FPL's filed cost of service for 2010 and 2011, all transmission service revenues were allocated as credits or cost-offsets to the retail jurisdiction and to wholesale customers on a bundled wholesale rate. FPL's use of this so-called revenue credit methodology for transmission service revenues is consistent with this Commission's order in FPL's last fully litigated case, Docket No. 830465-EI. However, after reviewing Ms. Brown's testimony, FPL does not oppose the removal of the costs and revenues associated with FPL's firm long-term transmission service contracts from the retail jurisdiction.

Q. OPC witness Brown indicates on page 15 of her testimony that eliminating the effects of this revenue credit method would reduce FPL's requested revenue increase by $18.5 million in 2010 and $19 million in 2011. Have you reviewed Ms. Brown's calculations?

A. Yes. I have reviewed the calculations performed by Ms. Brown and determined that the methodology used by her is appropriate and properly treats the various components impacted by the change in the cost allocation methodologies. The adjustment amount, however, should be $23.0 million and $26.6 million for 2010 and 2011, respectively. The calculations supporting the revenue requirements impacts for the 2010 Test Year and the 2011 Subsequent Year Adjustment are shown on Exhibit JAE-11.

Q. Does FPL propose to incorporate the impacts of these adjustments in the revenue requirement calculations for the 2010 Test Year and the 2011 Subsequent Year Adjustment?

A. Yes. The impact of these adjustments on FPL's revenue requirements for 2010 and 2011 are summarized in FPL witness Ousdahl's rebuttal testimony Exhibit KO-16.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BY MS. CLARK:

Q And, Mr. Ender, do you have exhibits to your rebuttal testimony?

A Yes, I do.

Q Are those exhibits true and correct to the best of your knowledge?

A Yes, they are.

Q Do those exhibits consist of JAE-7 through JAE-11?

A JAE-7 through JAE-11, yes.

Q Thank you, Mr. Ender.

MS. CLARK: Mr. Chairman, those exhibits have been premarked as 374 through 378.

CHAIRMAN CARTER: 374 through 378 on staff's comprehensive exhibit list.

(Exhibit Nos. 374 through 378 marked for identification.)

BY MS. CLARK:

Q Mr. Ender, have you prepared a summary of both your direct and rebuttal testimony?

A Yes, I have.

CHAIRMAN CARTER: Mr. Ender, before you begin, were you here when I gave my diatribe about the --

THE WITNESS: Yes, I was, but I'd like to hear it again.

CHAIRMAN CARTER: That's one of the perks of the job here, you get to talk about the lights.

Since you're going to do your direct and your rebuttal, you will be given six minutes. And green is always good. When the amber light comes on, you'll have two minutes left. When the red light comes on, you'll have 30 seconds. Okay?

THE WITNESS: Got it. Thank you.

CHAIRMAN CARTER: Thank you.

Ms. Clark?

BY MS. CLARK:

Q Mr. Ender, would you --

MS. CLARK: Did I insert the rebuttal testimony in the record? Thank you.

CHAIRMAN CARTER: The pretrial -- the direct testimony and the rebuttal testimony will be inserted into the record as though read.

MS. CLARK: Thank you, Mr. Chairman.

BY MS. CLARK:

Q Mr. Ender, would you please give your summary?

A Good afternoon, Chairman Carter and Commissioners. Thank you for the opportunity to address you today. I'm here to discuss both my direct and rebuttal testimonies.

My direct testimony explains how FPL

determines the cost to serve each rate class, and my rebuttal testimony refutes the alternative cost-of-service methodologies proposed by South Florida Hospital and Healthcare Association Witness Baron, and issues he has raised regarding the reasonableness of FPL's forecasted cost of service results.

The purpose of the cost-of-service study is to determine the cost responsibility for each rate class and whether the revenues from each class cover the cost to serve it. While there are many elements to a cost-of-service study, the process involves three basic steps: costs are first functionalized by type, that is, production, transmission or distribution; second, they're classified by cost driver, that is, energy, demand or customer; and finally, costs are allocated among rate classes using methodologies that reflect cost causation.

In this case, FPL is proposing the continued use of the 12 CP and 1/13th methodology for production plant. This methodology has an extensive history of approval by this Commission, and with good reason. The 12 CP and 1/13th methodology, which allocates 12/13ths, or approximately 92 percent, of production plant based on demand and 1/13th, or eight percent, based on energy, accurately reflects FPL's generation planning criteria

that drive capital expenditures.

FPL's cost-of-service study results for the projected 2010 test year and 2011 subsequent year adjustment are accurately determined and fairly present the cost responsibility, rate of return and parity for each rate class.

The methodologies used to allocate rate base and other operating revenues and expenses were appropriately applied and have been used and approved by this Commission for a long time. The cost-of-service studies show a considerable degree of disparity in the rates of return among rate classes. For example, the studies show that the rates of return for residential and small commercial rate classes are above FPL's rate of return, retail rate of return, or above parity, while most of the larger commercial and industrial rate classes are well below parity. In other words, the rates for larger commercial and industrial rate classes do not fully recover their share of costs.

The testimony of Mr. Baron, whose clients are in medium and large commercial rate classes, proposes alternative allocation methodologies that have the effect of shifting costs away from his clients and onto other rate classes. In fact, Mr. Baron's proposals would shift away nearly 183 million in costs to the

residential and small commercial rate classes.

Mr. Baron's proposed summer coincident peak method for allocating production plant should be rejected because it does not accurately reflect the factors that drive capital expenditures on FPL's system and would fail to allocate costs to certain rate classes.

Furthermore, this Commission should also reject Mr. Baron's proposed use of the minimum distribution system, or MDS, to allocate distribution costs, because the methodology is hypothetical, unsound and has been rejected by this Commission numerous times. In fact, this Commission has previously recognized that MDS is purely fictitious and has no grounding in the way the utility designs its system or incurs costs, because no utility bills to serve a zero load.

Similarly, Mr. Baron's concerns regarding the reasonableness of FPL's cost-of-service forecast results are without merit, as his basis for questioning the forecast completely ignores the fact that rate class parity is also impacted by changes in cost.

In summary, FPL's cost-of-service studies are sound and reasonable, result in the fair and proper allocation of costs to rate classes, and, subject to the adjustments listed on FPL Witness Ousdahl's Exhibit

KO-16, should be used to design new rates that would improve parity and better align FPL's charges with their true cost. Thank you.

MS. CLARK: Mr. Chairman, we tender Mr. Ender for cross.

CHAIRMAN CARTER: Mr. Wiseman? Mr. McGlothlin, are you first this time?

MR. McGLOTHLIN: OPC has no questions for this witness.

MS. WILLIAMS: Mr. Chairman?

CHAIRMAN CARTER: Who's on first? Mr. Wiseman, are you ready?

MR. WISEMAN: Yes.

MS. WILLIAMS: Mr. Chairman, could we interrupt for just a few minutes?

CHAIRMAN CARTER: Okay, interrupt.

MS. WILLIAMS: Staff has an exhibit that it would like to use to mark and admit into the record at the end of -- we would like to mark it now as --

CHAIRMAN CARTER: Have you guys talked to the parties? Do all the parties have it?

MS. WILLIAMS: Well, I was hoping that we could pass it out to them so that they could use it on cross if they wanted to.

CHAIRMAN CARTER: Okay, let's take a minute.

MS. WILLIAMS: And look at the complete document, because I don't think they've had an opportunity to yet.

MS. BRADLEY: Is this the one-pager that we received earlier?

MS. WILLIAMS: No, it includes -- that's the first page, but there are two additional pages, the attachment that it references.

CHAIRMAN CARTER: This will be No. 482, No. 482, FPL's Response to Staff's Second Set of Interrogatories, No. 8, with attachment.

(Exhibit No. 482 marked for identification.)

MS. WILLIAMS: And that is also item number 1 from staff's Composite 35.

CHAIRMAN CARTER: But you still want to enter it separately?

MS. WILLIAMS: Yes, I think I would like to.

CHAIRMAN CARTER: Okay.

MR. McGLOTHLIN: Chairman Carter, we had an opportunity to see a portion of this document earlier. OPC objects to any use of this document, and it may facilitate the proceeding to take our objections up before there are any questions and answers on it.

CHAIRMAN CARTER: When we get to staff, do you want to do it at that time or -- actually, you probably

need to do it now, don't you think?

MR. McGLOTHLIN: Yes, sir.

CHAIRMAN CARTER: Let's do it now.

You're recognized, Mr. McGlothlin, for an objection.

MR. McGLOTHLIN: Thank you, Chairman Carter.

First of all, I want to acknowledge that the Commission and staff have listened to Intervenors' concerns with respect to the use of depositions, with respect to preserving objections related to late-filed exhibits and also with respect to our concerns about the wholesale admission by stipulation of large volumes of documents. You have taken our concerns to heart, and I commend you for it.

Now we have an example, a clear example of why those steps are necessary to enhance the fairness of the proceeding. Bear in mind that the company filed its case in March of this year, and in that case, they asked for the use of the 2010 test period, they asked for a 2011 subsequent year adjustment and they asked for a generation base rate adjustment.

Their case was in in March. We filed our responses -- our responsive testimony and they filed rebuttal to that.

Now on the fifth day of the hearing, the

evidentiary portion of the hearing, there is a suggestion that an answer to an interrogatory be admitted into the record which alters the nature -- which would, if permitted, alter the nature of the company's case.

Let's take a moment and read the first page, page 1 of 1, and I believe you will see the basis for our objection. The question is, "If the Commission declines to continue the GBRA, what would be the impact on each rate class's revenue requirement of including those dollars in the allocated cost-of-service study?"

Now, read the first sentence of the answer: "In the event that GBRA is not approved going forward, the Commission should authorize a stepped base rate increase on the in-service date of the West County Unit 3."

Several observations:

First of all, that first sentence is not even responsive to the question posed.

Secondly, it proposes a regulatory measure that was not part of the company's direct case, was not considered by us in our responsive case directed to the original petition and testimony in support of that, so it would be very prejudicial for this to come in at this point of the proceeding when our entire case has been

predicated on the specific relief requested in the utility's March 2009 filing.

This is not responsive to the question posed in discovery. It's not even within the context of Mr. Ender's testimony. He is a load research witness, he is a cost-of-service allocation witness. This is coming in from left field, and to allow it at this point in the case would be very prejudicial, and we object to it.

CHAIRMAN CARTER: Thank you.

Commissioner Skop, and then I'll come to you, Ms. Bradley.

COMMISSIONER SKOP: Thank you, Mr. Chairman.

Just to Mr. McGlothlin, irrespective -- again, I don't want to get into apples and oranges on past decisions the Commission has made, but temporally, because West County 3 won't come into service effectively from about two years from now, I mean, does that have a bearing, also, too, on your objection because it's so far out in the future?

MR. McGLOTHLIN: Perhaps that's related, because our position is this: OPC has not objected to the use of the fully projected test period, but our position is also that 2011 is too far away and too speculative to base any form of relief, including what might happen with respect to base rates if and when West

County 3 comes in. Maybe they'll need to come in, maybe not; it's too early to tell.

But in any event, we have had no opportunity to address head-on this new request for a step increase that's unrelated to the 2010 test period, unrelated to the subsequent year adjustment and also unrelated to the GBRA. This says, what if the GBRA is declined, and they've come up with a new, additional measure that alters and expands the nature of their request for relief.

COMMISSIONER SKOP: So, in a nutshell, notwithstanding your other concerns, the temporal nature, the speculative nature so far in the future changes the analysis, from your point of view?

MR. McGLOTHLIN: That perhaps is part of the equation, but the basic objection is that this is changing the case on the fifth day of the hearing.

COMMISSIONER SKOP: Thank you.

COMMISSIONER CARTER: Come on, Mr. McGlothlin, we've been here more than five days.

CHAIRMAN EDGAR: I think that would be ten.

CHAIRMAN CARTER: At least ten, maybe -- no, nine.

Ms. Bradley?

MS. BRADLEY: You kind of beat me to it, I was

getting a little concerned there.

MR. McGLOTHLIN: I was going per week.

MS. BRADLEY: Anyway, we are a long ways into this, hopefully getting close to the end, and we would join OPC in their comments and their objection, and I would just add, the company had more than a year of preparation before they filed, according to the testimony we've heard. We spent what I think -- certainly I participated in -- the longest issue ID, and it went over a day and would never end, and people put a lot of effort into that and there was a lot of back-and-forth before and after, and this never came up. It's not an issue, and according to your order, that order controls, and to add another issue at this late date without any opportunity to really prepare or respond, it's really just irrelevant to any of the issues that are presented in this case. Therefore, we would object to it being admitted and there being any testimony regarding it.

CHAIRMAN CARTER: Commissioner Skop?

COMMISSIONER SKOP: Thank you. Just one observation, in passing, too, I know it's been a long, rigorous process, this is the fifth day of the hearing, but I think this only happens once in the last 20 years, so as long as it takes to do a thorough vetting of the

issues, I'm here as long as it takes.

I don't think that we should be rushed, we have docketed days, but I think the important thing is to have a full vetting of the case such that decisions could be made on the merits. So again, I'm in no rush, I don't want anyone to feel rushed, I want to complete the proceeding in a timely matter as we're capable to do so, but I don't want to cut corners to do that. So I appreciate the concerns, and the length of the process doesn't concern me, though.

CHAIRMAN CARTER: Ms. Kaufman, to the objection? Do you want to speak to the objection?

MS. KAUFMAN: Yes, I would, Mr. Chairman, thank you very much, and we would join in Public Counsel's and the Attorney General's objections that have been made today.

Essentially, as the other parties have stated, this is a fundamental denial of due process. You heard Mr. Pollock testify he had concerns about the subsequent test year and other matters that you heard him talk about. If we had known that the step increase question was going to come up, I can assure you that we would have addressed it in our testimony, and to perhaps back-door it at this late state in the proceeding when we don't have any ability to put on any evidence in

regard to it we think is wholly inappropriate and would be a denial of our due process, so we would join in the objection.

CHAIRMAN CARTER: Thank you. Mr. Wright?

MR. WRIGHT: Thank you, Mr. Chairman, very briefly.

I -- we, I and the Florida Retail Federation agree with everything that has been said by Mr. McGlothlin, Ms. Bradley and Ms. Kaufman. There was no proposal for a step increase in FPL's petition, it was not identified as an issue in the prehearing order. The answer here is not responsive to the question asked, and this guy, Mr. Ender, is not even a ratemaking witness. This is inappropriate. I agree that it would be a denial of our due process to attempt to freight a step increase issue into this case. We join the objection.

CHAIRMAN CARTER: Thank you. Ms. Helton?

MR. WISEMAN: Mr. Chair?

CHAIRMAN CARTER: Oh, I'm sorry, Mr. Wiseman, to the objection, you're recognized.

MR. WISEMAN: Thank you.

The South Florida Hospital and Healthcare Association joins in the objection and we agree with everything that has been said by the other counsel.

The one point I would add is that we've heard

on a number of instances with respect to other documents that staff wanted to put into the record that the reason that they wanted to do that was to fill in the record. This is not an attempt to fill in the record, this is an attempt to develop a different record, something that is not -- on an issue that is not in this case, and we would simply add that as an additional ground to object to this document. Thank you.

CHAIRMAN CARTER: Mr. Butler, before I go to Ms. Helton, do you want to be heard on this?

MR. BUTLER: Yes, please.

CHAIRMAN CARTER: You're recognized.

MR. BUTLER: Thank you.

First of all, issue 14 in the prehearing order is, "If the Commission chooses not to approve the continuation of the GBRA mechanism but approves the use of the subsequent year adjustment, what is the appropriate adjustment to FPL's rate request to incorporate the revenue requirements reflected in the West County Unit 3 MFR schedules?" So it's hard for me to understand how the parties are claiming surprise about this issue being raised at this point.

The other thing I would note is that this is -- the document that staff is offering is FPL's Response to Staff's Second Set of Interrogatories, No. 8. This

was filed on May 29 and served on all the parties. Clearly the subject matter of it is no surprise to anyone. So I think that they protesteth too much.

CHAIRMAN CARTER: Thank you all for your comments on the objection.

MR. McGLOTHLIN: Quick reply?

CHAIRMAN CARTER: Yes, sir.

MR. McGLOTHLIN: I would just ask whether FPL indicated in its position statement in response to that issue that he read that the FPL proposes a step increase as the response to that posed issue. And the fact that it has been -- discovery has been available since May is no answer to the due process objections.

MS. KAUFMAN: Mr. Chairman, I would just join in regard to the discovery. I think as we've heard discussed earlier in the day, a lot of questions may be asked and answered in discovery. That's wholly different than inserting something into the record, which is what's attempted to be done here.

CHAIRMAN CARTER: Ms. Helton, you're recognized.

MS. HELTON: Mr. Chairman, we have heard from all the parties but we have not heard from staff, who are the ones who are trying to get this in the record, so I think, if you don't mind, it would be appropriate

for Ms. Williams to speak to this.

CHAIRMAN CARTER: Let's hear from staff, and then, Ms. Helton, you're on.

Staff, you're recognized.

MS. WILLIAMS: I think that what staff wanted in this interrogatory was the question at the bottom that says, "If the Commission declines, what would be the impact on each rate class's revenue requirement," and the two-page chart that is attached to this response is really the portion that we are concerned with, and we would be amenable to striking the first sentence if that's what concerns the parties. That's not our interest in this broad response.

CHAIRMAN CARTER: Mr. McGlothlin, before I go to Ms. Helton.

MR. McGLOTHLIN: That may be a solution at first blush. I think we would need an opportunity to take a closer look at the attachment, relate that to the narrative that's on the first page just to confirm that's the case.

CHAIRMAN CARTER: Let's do this before I rule on it. Let me give you guys an opportunity to look it over. Can we do that? What do you need, five minutes?

Ten minutes, Mr. McGlothlin, ten minutes.

(Brief recess.)

CHAIRMAN CARTER: We're back on the record, and my ruling is the objection is sustained and this document will not come in.

MR. McGLOTHLIN: Thank you.

CHAIRMAN CARTER: Let's proceed. Who's on first?

MR. WISEMAN: I.

CHAIRMAN CARTER: Mr. Wiseman, you're recognized.

CROSS EXAMINATION

BY MR. WISEMAN:

Q Mr. Ender, I bet you expected to be here a long time ago, didn't you?

A It's been quite some time.

Q Mr. Ender, I believe -- am I correct you're the manager of Cost of Service and Load Research for FPL?

A Yes, I am.

Q In that capacity, among other things, you're responsible for the preparation of FPL's retail cost-of-service study, is that correct?

A That is correct.

Q If I understand your background, I believe you're an accountant by training, is that correct?

A That is correct.

Q And you're not an engineer, correct?

A I am not an engineer.

Q As part of your responsibilities, you don't make decisions on how much capacity should be added to FPL's generating fleet, do you?

A No, I do not.

Q And part of your responsibilities also does not include deciding for FPL what type of generation it has, correct?

A No, I do not.

Q Would you agree that, based upon your training, you're not qualified to advise FPL on what type of generation to add, correct? From an operational standpoint, with that clarification?

A That is correct.

Q Thank you.

Now, would you agree that your cost-of-service study in this case allocates FPL's proposed cost of service to FPL's retail rate classes?

A Yes, it does.

Q And I understand both from your testimony and your oral statement just now that FPL uses the 12 CP and 1/13th methodology for allocating the cost of production plant, is that correct?

A Yes.

Q Now, just so we're clear on the terminology, when you refer to "production plant," you're referring to FPL's generating plants, is that correct?

A That is correct.

Q I believe you also said this in your oral statement that under the 12 CP and a 13th methodology, approximately 92 percent of the costs of production plant are allocated to individual rate schedules based upon their contribution to the average 12 monthly coincident peaks on FPL's system, is that correct?

A I didn't say it quite that detailed, but it is based on demand, and yes, it's based on the average of the 12 months coincident peak.

Q Right, and then the eight percent -- the remaining eight percent is allocated based upon the basis of energy or, in other words, kilowatt hours used, is that correct?

A That is correct.

Q All right. If I understand your testimony, I believe it's your position that the -- using the 12 CP and a 13th methodology is consistent with the way that FPL plans for its generation system, is that correct?

A That is correct.

Q And I am also right that it's your testimony that you believe that the 12 CP and a 13th methodology

sends accurate pricing, is that right?

A That is correct.

Q Now, Mr. Baron for the Hospital Association has proposed a summer coincident peak methodology for allocating production plant, is that right?

A That's what I understand it to be, yes.

Q Now, would you agree that under the summer coincident peak methodology proposed by Mr. Baron, cost of production plant will be allocated among FPL's rate classes based upon their contribution to the summer coincident peak?

A Yes, it would.

Q Now, can you refer to page 5 of your direct testimony, specifically to line 20? If you could take a moment and look at that. Do you have that?

A Yes, I have it.

Q You use the term "coincident peak" there, correct?

A Yes.

Q Am I correct that you equate the term "coincident peak" with "system peak," right?

A That is correct.

Q All right. And again, just so it's clear what we're talking about, "coincident peak" would mean the peak demand that FPL experiences in an hour, is that

right?

A That is correct.

Q And FPL calculates a coincident peak for each month of the year, is that correct?

A Yes.

Q You would agree with me that FPL is a summer peaking utility, is that true?

A I would agree that FPL has recently been a summer peaking utility, but FPL has not always been a summer peaking utility. Back in 2003, it peaked in winter.

Q Well, let's just go to -- give me one second, please.

Do you recall I asked you a question during your deposition, which was, "Historically FPL has been a summer peak season -- "summer peaking season" -- "summer peaking system," do you recall that question?

MS. CLARK: Mr. Chairman, I would like to have the witness have his deposition transcript in front of him.

BY MR. WISEMAN:

Q Do you have a copy?

A What page?

Q If you would refer to page 40 of your deposition, please, and then down -- it's the next-to-

the-last -- it's actually the last full question on that page. I say to you, question, "Historically, has FPL been a summer peak -- summer peaking system?" And could you read your answer, please?

A "To my knowledge, yes."

Q Thank you.

Now, am I correct that FPL defines its summer season as April through October?

A That is correct.

Q And so obviously then the winter period on FPL's system would be November through March, right?

A That is correct.

Q So would you agree that means that FPL typically expects the coincident peaks during the summer period, August through October, are going to be higher than the coincident peaks during the winter?

A Not always.

Q All right. I would like to refer to MFR-11. Actually, I've prepared -- so we don't need to have you drag out copies, I have prepared a copy of some MFRs, if we could have this distributed. And I don't need -- I going to use this for cross-examination.

MS. CLARK: Mr. Wiseman, I don't think there is an MFR-11.

MR. WISEMAN: I'm sorry, I misspoke, MFR E-11.

And by clarification, this document has excerpts from a couple of MFRs, all in the E series.

CHAIRMAN CARTER: Hang on one second before you begin. Let's make sure all the parties get a copy.

You may proceed.

MR. WISEMAN: Thank you, Mr. Chair.

BY MR. WISEMAN:

Q Mr. Ender, do you recognize the first page of this document that you have been handed as page 1 of attachment 2 to MFR No. E-11 for the 2000 test year?

A Page 1 --

Q If you look at the upper right-hand portion of the page --

A Right.

Q -- am I correct that this indicates that this is page 1 of attachment 2 to MFR E-11 for the 2010 test year?

A It says page 1 of 25, attachment 2 of 5.

Q I think that was consistent with what I asked you.

A MFR E-11.

Q Okay. So this is page 1 of 25 of attachment 2 of 5 to MFR No. E-11 for the 2010 test year, is that correct?

A Well, this is actually reflecting data for

2005.

Q Could you get out your actual MFR?

A It's in support of the 2010 MFR.

Q I'm sorry, I didn't hear your clarification.

A I said it's in support of the 2010 MFR. It's an attachment to it.

Q Can you get out your copy of the MFR, please? You are referring to MFR for the -- MFR E-11 for the 2010 test year. Do you have that?

A That is correct.

Q All right. Now, would you turn to attachment 2 of 5 to MFR No. E-11 for the 2010 test year?

A I'm there.

Q Is that page identical to the page that you have been handed?

A Yes, it is.

Q All right. Now, take a look at the data on this page, and would you agree that the coincident peaks in the months of June, July, August and September are higher than the coincident peaks in any other months in 2005?

A Yes.

Q All right. Now, can you turn to page 2 of the document, then? I apologize that somehow it got stapled at the bottom, but page 2 of the document --

A Excuse me one second.
Q Sure.
A Let me get this out of the way.
Q Do you have that?
A I'm there.
Q All right. Can you confirm that this page that you have been handed is page 1 of 30 of attachment 3 of 5 to MFR No. E-11 for the 2010 test year?
A Yes.
Q Okay. And can you confirm that the coincident peaks in 2006 in the months of June, July, August and September again were higher than the coincident peaks in any other month of the year?
A Yes.
Q Now, can you turn to the next page of the document, and can you confirm that this page is page 1 of 30 of attachment 4 of 5 to MFR No. E-11? Do you have that?
A Yes, I do.
Q And can you confirm that in 2007, the coincident peaks in June, July, August and September also were higher than any other coincident peaks in the year 2007, is that correct?
A Yes.
Q All right. Now, can you turn to the next

page, which is an excerpt from MFR No. E-18? Do you have that?

A Yes, I do.

Q And would it be correct that the coincident peaks that are listed here are the same coincident peaks that we have just been looking at in MFR E-11? And if you need a minute to confirm that, that's fine.

A Yeah, I'd like to confirm it, they should be. (Examining document.) They look the same.

Q All right, great.

Now, can you look at the year -- the coincident peaks listed for 2008, and would you agree again that the coincident peaks in the months of June, July, August and September in 2008 were higher than the coincident peaks in any other months of the year?

A That appears to be correct.

Q All right. Now, so far you would agree that all the coincident peaks we have been talking about are actual coincident peaks experienced on FPL's system, is that right?

A That is correct.

Q Can you turn to the next page, which is page 2 of 2 of Schedule E-18? And I would point out that this actually is from the two -- these are the data from the MFR for the 2011 subsequent year.

A Okay.

Q Okay. Can you look at the data -- first of all, these are all forecasted coincident peaks on this page, is that correct?

A That is correct.

Q Now, would you look at the data for 2009 and confirm that the forecasted coincident peaks on FPL's system for 2009 are higher in June, July, August and September than in any other month of the year of 2009?

A That appears correct.

Q All right. And would you agree -- take a look at the data for 2010. Would you agree that, again, FPL is forecasting that the coincident peaks in 2010 in June, July, August and September will be higher than the coincident peaks in any other months of that year?

A Yeah, I just want to make a point that they are higher, but slightly so in some cases.

Q That's fine. They're the highest in the -- every month, is that correct?

A Yes.

Q All right. And finally, would you look at the data for 2011 and forecast that in 2011 FPL is forecasting that the coincident peaks in the months of June, July, August and September will be higher than any other months in that year?

A Yes.

Q All right. Now, can you refer to page 21 of your direct testimony, please? Refer specifically to lines 12 to 13. You state there effectively that MFR E-1 requires FPL to utilize 12 CP and a 13th methodology for production plant. Is that a fair characterization of that testimony?

A Yes.

Q All right. Can you turn to the next page in the document that you have been handed, which is a copy of Schedule E-1, page 1 of 1. Do you have that?

A I'm sorry, where are you?

Q In the same document that you were handed that has the coincident peaks that were listed from the MFRs.

A Yes.

Q Turn to the next page in that document, it says on it Schedule E-1. Do you have that?

A E-1?

Q Yes, up in the left corner it says Schedule E-1.

A Oh, yeah. Yes.

Q Can you read out loud the first two sentences in the explanation?

A "Provide under separate cover the cost-of-service study that allocates production and transmission

plant use in the average of the 12 monthly peaks and 1/13th weighted average demand method."

Q And the next sentence, please.

A "In addition, if the company is proposing a different cost allocation method, or if a different method was adopted in its last rate case, provide the cost-of-service studies using these methods as well."

Q So you would agree, then, that while MFR E-1 requires a utility to file a cost-of-service study based upon 12 CP and a 13th, it doesn't preclude the company from filing some other methodology, is that right?

A I would agree with that, and the company has made a judgment call and believes that the right methodology for this case is the 12 CP and 1/13th methodology, because it does -- it's consistent with the manner in which FPL plans its generation system.

Q All right. Now, just to put the next couple of questions in context, you agree and we established that the 12 CP and a 13th methodology allocates about 92 percent of the cost of production plant to each rate schedule based upon its contribution to the average of the 12 coincident peaks, is that right?

A That is correct.

Q So if we were to go back to the data that we were just examining in MFRs E-11 and E-18, to allocate

the cost of production plant, we would base it on the average of the monthly coincident peaks, is that right?

A Each class's contribution to that average -- I mean, to the peak, the average of the 12 coincident peaks for each class.

Q Now, can you go back and take a look at the page -- the excerpts from MFR E-11 and E-18, and can you confirm that the highest coincident peak that was either recorded on FPL's system or that is forecast was in August, 2005, of 22,361 megawatts?

A That is correct.

Q And you would agree that 22,361 megawatts, that was for one hour on August 17, 2005, right?

A That is correct. That was for the hour ending 5:00 p.m.

Q Okay. Now, will you accept, subject to check, that the average coincident peak over the 12 months in calendar year 2005 was 18,509 megawatts?

A Subject to check.

Q And that is about -- not quite 4,000 megawatts less than the coincident peak, right, of August, 2005?

A The maximum coincident peak, that is correct.

Q Okay. Now, will you accept, subject to check, the average coincident peak over the 12 months in calendar year 2006 was 18,936 megawatts?

A Subject to check, I guess I could do that.

Q And will you accept, subject to check, that the coincident peaks over the 12 months in calendar year 2007 was 18,664 megawatts?

A Subject to check.

Q So that is a yes?

A Yes.

Q Will you accept, subject to check, that the average coincident peak over the 12 months in calendar year 2008 was 18,372 megawatts?

A I'm not checking these things out. I may have to, subject to check.

Q That's an agreement subject to check, right?

A Yes.

Q Okay. Now, would you agree that FPL had sufficient capacity available to it to serve the coincident peak of 22,361 megawatts that was recorded for hour 17 on August 17, 2005?

A I don't know the answer to that. I'm assuming that -- I don't know the answer.

Q Well, that was the system peak, right?

A That is correct.

Q So it got served, didn't it?

A Yes, it did.

Q And there are two ways you have capacity,

right? You either own generation or you have generation available -- capacity available through contracts, power purchase agreements, right? Is that correct?

A That is correct.

Q Okay. And so out of the combination of those two, FPL on August 17, 2005, in hour 17, served 22,361 megawatts, isn't that what the data show?

A That's what the data is showing, yes.

Q Refer to page -- go to your rebuttal testimony, please, and if you would refer to page 6? I'm going to ask you some questions about lines 12 through 23, if you could take a quick look at that. Tell me when you're ready.

A I'm ready.

Q All right. Now, first, at lines 12 to 17, you state that Mr. Baron's recommendation of a summer coincident peak methodology ignores two reliability criteria. Is that right so far?

A That is correct.

Q And one of the criteria that you say that Mr. Baron ignored is the winter reserve margin criterion of 20 percent, correct?

A That is correct.

Q And the other criterion that you say that Mr. Baron ignored is the loss of load probability of 0.1

days per year or less, right?

A That is correct.

Q Then at lines 17 to 20, you state that the winter reserve margin addresses the winter months, and the loss of load probability criterion considers daily peaks year-round, is that right?

A That is correct, our ability to meet those winter peaks and monthly peaks.

Q All right. Now, let's go to line 20 to 23, and there you say, starting on line 20, quote, "While FPL's projected need for additional resources is currently driven by the summer reserve margin criterion, these two other reliability criteria are as important as the summer reserve margin criterion and could trigger the need for additional capacity." Did I quote that accurately?

A You quoted it accurately.

Q I would like to take this in pieces. Let's go back up to line 20. Would you agree that you have acknowledged in that passage that, quote, "FPL's projected need for additional resources is currently driven by the summer reserve margin criterion," unquote, is that correct?

A That is correct.

Q And the summer reserve margin criterion that

we're talking about, that is 20 percent, right?

A That is correct.

Q And would you agree that the purpose of the reserve margin is to ensure that you have sufficient capacity to meet peak demand?

A Yes.

Q And the purpose of the 20 percent winter reserve margin then would be the same, to ensure that you have sufficient capacity to meet the winter peak demand, right?

A That is correct.

Q Now, will you accept, subject to check, that the highest winter coincident peak that Dr. Morley forecast in MFR E-18 for any month during the 2009-2010 winter is 18,790 megawatts? And please feel free to go and check that.

A Which document is this?

Q That was MFR E-18 in the number of excerpts that you got.

A Which page of --

Q It should be E-18, page 2 of 2. And again, to repeat, the figure is 18,790 megawatts. Would you agree that that is the highest winter coincident peak forecast by Dr. Morley for any month during the 2009-2010 winter period?

A Say that number again.

Q 18,790.

A There's a 19,120 in December 11 -- in January 11.

Q I had said for the 2009-2010 winter period.

A That is correct.

Q Okay. And I think -- let's go to the other number that you just referred to. I think I heard you correctly, would you agree that the highest winter coincident peak that Dr. Morley forecast for the 2010-2011 winter is 19,120 megawatts?

A That is correct.

MR. WISEMAN: All right, I have another -- an exhibit, if I could have this marked.

CHAIRMAN CARTER: Do you need a number?

MR. WISEMAN: Yes, I do.

CHAIRMAN CARTER: 483. 483, Commissioners.

(Exhibit No. 483 marked for identification.)

MR. WISEMAN: Thank you. And the short title of this -- this is a short one, FPL Reserve Margins.

CHAIRMAN CARTER: Great, FPL Reserve Margins.

MS. BROWN: Mr. Chairman, could I ask what number this was given?

CHAIRMAN CARTER: 483.

MS. BROWN: We are saving 482 for the exhibit

that was not entered? Okay.

CHAIRMAN CARTER: We marked it, but it was denied. So I just wanted -- since we used that number already, I didn't want to put anything else on it, so 482 was denied.

You may proceed.

MR. WISEMAN: Thank you.

BY MR. WISEMAN:

Q Mr. Ender, can you confirm that the document that has been marked for identification as Exhibit 483 appears to be excerpts from FPL's ten-year site plan for the period 2009-2018?

A That's what this document says.

Q Now, can you refer to page -- it's page 17, which that was the original number in the document. There's also a Bates page number on it at the bottom, FPL 068867. Do you have that?

A I there.

Q Okay. Do you agree that this document shows that as of December 31, 2008, FPL owned 22,087 megawatts of capacity, generating capacity, is that correct?

A Give me some time here.

Q If you go down to --

A Yes.

Q I'm sorry, yes?

A Yes.

Q Okay. And if you look up at the top of that same column, do you see that it says, "summer megawatt capacity" or "summer megawatts," do you see that?

A Yes.

Q And would you agree that the reason that summer megawatts is listed here is because the lower the ambient temperature, the higher -- I'm sorry, I've got it backward. Capacity is lower as ambient temperature rises. So this is actually a conservative way of setting forth what the capacity on FPL's system is, is that your understanding?

MS. CLARK: Mr. Chairman, I would like for him to clarify what he means by conservative.

BY MR. WISEMAN:

Q That this would be -- that if we were to use winter capacity, the number that would be here would be a higher number than the number that appears on this page.

A That is my understanding. I'm not a planner, but that is my understanding.

Q Okay. Now, can you turn to page -- the original page 19 of this document, which is Bates page 068869? Do you have that?

A Yes, I do.

Q And do you agree that this page shows that as of December 31, 2008, in addition to the capacity that FPL had available to it from its self-owned generating plants, it also had by way of power purchase agreements 2,993 megawatts of summer generating capacity, is that right?

A As of December 31, 2008.

Q Now, am I correct that over the next several years some of these power purchase agreements are going to expire?

A I don't know that.

Q Okay. Well, let's go back to page -- well, before we get there, you would agree that the West County Unit 1, 2 and 3 are going to be coming on line in the next year or two, is that correct? Is that your understanding?

A I believe West County 1 is in service now and West County 2 is scheduled to be in service sometime later this year.

Q And would you agree that West County Unit 3 is supposed to commence commercial operation sometime in mid-2011, if you know?

A Yes.

Q And FPL is also performing certain nuclear upgrades, is that your understanding?

A That's my understanding, yes.

Q And it's also doing things at other generating stations that would add capacity to some of its other existing plants, is that your understanding?

A I'm not certain about that, no.

Q Okay. Would you refer to page, the original page 12 of the document, which is Bates page 068862? Do you have that?

A Yes.

Q Now, let's look at the -- do you see on the right side there are -- there's a column that says Reserve Margin Percent, do you see that?

A Yes.

Q Winter reserve margin in 2009 is listed here by FPL as 53.1 percent, right?

A That is correct.

Q And in 2010, the winter reserve margin is 58.2 percent, is that correct?

A That's what it says.

Q And would you agree that the other -- through the year 2018, in the winter period, the lowest reserve margin that is listed here would be 38.2 percent in 2018?

A That is correct.

Q Okay. Now, would you agree that the data on

this page show that FPL does not need to add new capacity to serve the winter reserve margin through 2018?

A That's what this shows, 20 percent margin is exceeded by what we have from 2009 to 2018.

Q Okay, so FPL is not making capital investments to add production plant to serve the winter reserve margin, is it?

A I don't know that. We make capital investments, they serve the winter and the summer, but --

Q Let me rephrase the question. You would agree that FPL is not making capital investments to add production exclusively to serve the winter reserve margin, would you agree with that, if you know?

A I don't know that.

Q Okay. Now, can you take a look at the data in the column that says Summer on that page? Do you see that?

A Yes.

Q And if we look at that column -- well, first, for 2009, the summer reserve margin is listed at 28.1 percent, do you see that?

A Yes.

Q And then 2010, it dips down a little bit --

well, it dips down, so it's just slightly above 20 percent, correct?

A That is correct.

Q And then it comes back up in the ensuing years and roughly fluctuates between -- it looks like it's actually exactly 20 percent in 2016 to as high as 29.1 percent in 2013, is that correct?

A That's what the report says.

Q Would you agree that the data on this page and the column we have just been looking at for the summer would indicate that FPL is adding capacity through nuclear upgrades and through the addition of the West County Units 1, 2 and 3 and any other capacity additions it's making in order to be able to serve -- in order to be able to maintain a 20 percent summer reserve margin?

A I would agree with that.

Q So FPL is making capital investments to meet its summer reserve margin, right?

A Yes, it is.

Q Okay. Now, I think you've agreed that Mr. Baron's methodology would allocate the cost of production plant to rate bases based upon their contribution to the summer coincident peak, right?

A That is what Mr. Baron is proposing.

Q And the method that FPL is proposing doesn't

do that, is that correct? It doesn't allocate the costs of production plant based upon rate classes' contribution to the summer coincident peak, right?

A Summer is one of the 12 months that is considered by our planners when they are making the decision or assessing the situation as to whether there's needed capacity. The summer reserve margin is one of the criteria, the winter reserve margin is the second criteria and that loss of load probability is a third criteria, all of which take all months of the year into consideration to ensure that we meet the peak demands for every month of the year.

Q My question was, would you agree that the 12 CP and a 13th methodology does not allocate the cost of production plant based upon rate schedules contributions to the summer coincident peak?

A It recognizes the summer coincident peak in its allocation.

Q Would you agree that the 12 CP and a 13th methodology allocates the cost of production plant based upon the average of the 12 coincident peaks?

A Can you repeat that question again?

Q Would you agree that the 12 CP and a 13th methodology allocates the cost of production plant to rate classes based upon their contribution to the

average of the 12 coincident peaks?

A Yes.

Q Can you refer to page 7 of your rebuttal testimony, to lines 11 through 21?

A Can you repeat that?

Q Sure, page 7, lines 11 through 21. Do you have that?

A I am there.

Q Is it a fair characterization of that testimony that you criticized Mr. Baron's recommendation there of his summer coincident peak methodology because it wouldn't allocate any cost of production plant to two rate classes, is that correct?

A What I am saying here is the summer coincident peak would not allocate cost of production to certain classes, because this is only taking the one hour in the summer as the basis for allocating costs and therefore there are classes that are receiving the benefits of the production generated by FPL that are paying no cost or would pay no cost under that methodology.

Q Can you refer to your Exhibit JAE-7, page 1 of 2?

A I am there.

Q Would you agree, looking at the -- first of all, just so it's clear what the data are on that page,

the column on the left where it says Summer Peak, that is Mr. Baron's allocation, correct?

A That is correct.

Q And the column on the right is the 12 CP and a 13th methodology favored by FPL, right?

A That is correct.

Q Now, if you go down the column under Summer Peak, there is a rate class -- there is one rate class that -- under Mr. Baron's rate schedule, OL-1, that shows no, it makes no contribution to the summer peak under his allocation methodology, correct?

A That is correct. There's also SO-1.

Q Let's do these one at a time.

What kind of customers are served under the OL-1 rate schedule?

A It's the outdoor lighting schedules.

Q And then the other rate schedule that isn't allocated anything under Mr. Baron's methodology would be the SL-1 rate schedule, right?

A That is correct.

Q What kind of customers are served under the SL-1 rate schedule?

A Streetlights.

Q Okay. Now, take a look at your column. For OL-1, you would allocate, am I correct, .039 percent of

the cost of production plant under the 12 CP and a 13th methodology, is that right?

A That is correct.

Q And under the 12 CP and a 13th methodology, you would allocate .203 percent of the cost of production plant to the SL-1 rate schedule --

A That is correct.

Q -- right? Okay. So the difference between your allocation methodology and Mr. Baron's allocation methodology with respect to the OL-1 class and the SL-1 class is two-tenths of one percent, is that correct?

A Yes. Those are small rate classes, but it constitutes approximately $27 million.

Q Well, actually, if you go back to page eight of your testimony, lines -- well, it's the discussion at lines 1 through 14. If you take those two rate schedules together, you're talking about a combined total of $35 million, right?

A Which rate schedules?

Q OL-1 and SL-1.

A I'm not seeing that --

Q Let me take -- go back. I'm sorry, it's back on your Exhibit JAE-7, page 1 of 2. The total in dollars that you would allocate to the two rate schedules that we have been talking about is

$31 million, would that be correct? Five million to the OL-1 class and 26 million to the SL-1 class, is that right, or rate schedule, rather?

A Let me get my calculator.

It's 31,273,000.

Q All right. Now, if you will, what are the major rate schedules that hospitals are served under, if you know?

A Just a second. The hospitals are in the GSLD-1 primarily.

Q And also, are there hospitals, if you know, in CILC 1-D, would you know that, if you know?

A It could be.

Q And would it also be correct that hospitals are in some of the HLFT rate schedules?

A That is correct.

Q So Mr. Baron is not representing the ratepayers in the OL-1 and the SL-1 rate classes, is that right?

A No, but he is representing customers that are in the, as he's mentioned, GSLD-2, HLFT-3, et cetera, and they will receive a pretty hefty reduction in cost allocations as a result of his methodology.

Q All right. Let's turn -- well, the total that you have been talking about is $31 million. I'm just

wondering, is it your position that $31 million would impose a large burden on rate classes, on another rate class?

A The $31 million is not -- it's just one of the issues that I have with the summer peak methodology. It's not allocating -- the summer peak would not allocate any cost responsibility to rate classes that would receive benefits from those production assets, and those are the SL-1 and the OL-1 rate classes.

The other issue with the summer peak methodology is that it would shift, as I indicate on page 8 of my testimony, that it would shift about $35 million in costs away from rate classes that Mr. Baron represents onto the residential and small commercial customers.

MR. WISEMAN: Mr. Chair, I don't believe the witness answered my question. The question asked for a yes or a no, and I think he gave an explanation, but he never answered the question, which was whether imposing $31 million on another rate schedule seemed like a large imposition to him.

BY MR. WISEMAN:

Q Yes or no?

A Can you repeat that again? I'm a little confused.

Q Do you believe that imposing $31 million on another rate schedule, that that is a -- would be a large amount to shift on a particular rate schedule?

A That's not the only allocation that is occurring from that methodology.

MR. WISEMAN: Mr. Chair, again, the witness is not answering the question. The question asked for a yes or no. He's given, now, two explanations, but he still hasn't said yes or no. If you would direct the witness to answer the question?

CHAIRMAN CARTER: Can you answer it yes or no?

THE WITNESS: Let's try it again.

BY MR. WISEMAN:

Q The question was, is it your opinion that imposing $31 million on another rate class would be a significant imposition to that rate schedule?

MS. CLARK: Where are you getting the 31 million? I see --

BY MR. WISEMAN:

Q I'm sorry, 35 million.

A Now, I need further clarification. We were talking about the OL-1 and SL-1.

Q I don't care which number we use. Let's use OL-1 and SL-1, and we'll use $31 million. Do you think that imposing $31 million on another rate schedule would

be a major imposition to those rate schedules?

A It depends on the size of the rate schedule. So the answer is yes.

Q Okay. Let's shift gears and talk about Mr. Baron's recommendation about the minimum distribution system, if we can.

A Sure.

Q Now, you're in disagreement with Mr. Baron about the use of the minimum distribution system for classifying plants, is that right?

A Yes, I am.

Q Can we refer to it as MDS, as a shortcut?

A That will work.

Q Right. Can you refer to page 9 of your rebuttal testimony, lines 18 through 19? You state there that, "The MDS method presumes a type of electric system and a method of planning that is not reflective of FPL's distribution system." Do you see that?

A Yes.

Q Now, you would agree that the MDS methodology classifies certain costs as customer costs rather than as demand-related costs, correct?

A Certain distribution costs? Yes.

Q And under the MDS methodology, certain costs would be allocated based upon the number of customers

served within a particular rate schedule, is that your understanding?

A My understanding is that the MDS would in essence create a hypothetical infrastructure that would be designed to serve a minimum load, and we don't, and I don't believe any utility, bills to serve a minimum load. It bills to serve the KW demands of our customers.

Q All right, well, let me ask you the question again. I'm not talking about what FPL does or doesn't do. I asked you about the MDS methodology. And would you agree that under that methodology, certain costs are allocated based upon the number of customers in a rate class -- in a rate schedule?

A The methodology would classify certain costs as customer-related and then the other costs as demand-related.

Q And when you refer to customer -- I'm trying to make sure that the record is clear what you mean when you say customer-related. Doesn't that mean that the costs will be allocated among -- or be allocated based upon the number of customers under a particular rate schedule?

A Yes.

Q Okay. Refer, if you will, to page 24 of your

direct testimony.

A Of my direct?

Q Yes.

A Sorry.

Q That's all right. Lines 1 through 6, is it a fair characterization in that testimony that you state that metering equipment, service drop-offs and primary voltage pull-offs are classified as customer charges?

A Yes, that is correct, consistent with the methodology that was approved by this Commission.

Q So the cost of those facilities are allocated based on -- they're customer charges, correct?

A Yes, as they should be.

Q Okay. So this is a case where FPL currently is allocating costs based upon the number of customers served within a particular rate schedule, right?

A Yes. That's because that is the cost driver.

Q Is that fictitious? Is that a fictitious system?

A No. No, we have to install a meter, and that's part of the cost to serve that customer and it should be allocated based on customers.

Q Okay. Well, the reason I'm asking whether it's fictitious is when you referred to the MDS methodology in your oral statement, you said it

allocates costs based upon a fictitious system, right? Do you remember that?

A Yes.

Q Okay.

A Actually, I was quoting the Commission order in the 2002 Gulf case.

Q Well, that's fine. Let me ask you this: You are aware that there are Commissions in other states that allocate costs based upon the MDS methodology, are you aware of that?

A Yes. You actually gave me five of them, five utilities.

Q Do you have any reason to believe that those utility commissions don't know what they're doing?

A I'm not suggesting that at all.

Q Okay. Now, am I correct that FPL does not allocate the cost of poles or transformers as customer charges?

A That is correct, except to the extent that they're related to pull-offs.

Q Other than that exception, you classify poles and transformers as demand-related, correct?

A Correct.

Q So if you have two customers that are on the same rate schedule, one takes 1,000 kilowatt hours in a

month and another takes 2,000 kilowatt hours in a month, would you agree that under FPL's methodology, the customer that takes 2,000 kilowatt hours in that month is making a greater contribution to the cost of the poles than the customer that takes a thousand kilowatt hours?

A Assuming that that would be the group coincident peak for that customer, yes.

Q Okay. Let's talk about a hypothetical. Let's assume that you have eight houses on a block and you've got -- one set of houses are -- four houses are on one side of the street, the other four houses are on the other side of the street, okay? You have one pole on each side of the street. All the houses were built at the same time. The two poles that were installed are identical, and they cost -- because they're identical and were installed at the same time, FPL incurred exactly the same cost to acquire and install those poles. Do you have that so far?

A Yes.

Q Now, let's assume that the four houses on the right side of the street are vacant, no one's living there. The four houses on the left side of the street, people live there and they use an awful lot of electricity year-round. Do you have that?

A Yes.

Q Okay. Now, you would agree that the houses on the left side of the street that use a lot of electricity would make a -- under FPL's allocation methodology, would make a larger contribution to the cost of those poles than the houses on the right side of the street, right?

A As long as those houses were vacant, that would be the case.

Q Okay. And isn't it true that the cost of the pole on the side of the street where the houses are vacant, that cost would be picked up by other ratepayers in other -- including ratepayers under other rate schedules than residential, is that correct?

A Consistent with the average cost-of-service -- embedded cost-of-service methodology principles that this Commission follows, that would be the case.

Q Okay. Now, could you turn to page -- I'm sorry, Exhibit JAE-6, page 1 of 2? I think this is an exhibit to your direct testimony. Do you have that?

A I do.

Q All right. Looking at the column on the right that says Percent Difference, so if we go down to GSLDT-1, is it correct that FPL is proposing a 49.3 percent increase to base rates for that rate schedule?

A No, that is not correct.

Q And why is that not correct?

A These are the target revenue requirements. This is how much they would be deficient in order to achieve parity, to be at parity.

Q So to achieve parity, you would have to increase, in your view, the rates paid by that rate schedule by 49.3 percent, is that correct?

A What I'm saying here is that the cost to satisfy this customer -- the revenues that are being generated by that customer are not sufficient to cover the costs to serve that customer.

Q And to bring that rate schedule into parity, you would increase the revenue requirement of that rate schedule by 49.3 percent, is that right?

A That's what it would take to ensure that that customer pays his fair share of the costs.

Q And to bring the HLFT-2 rate schedule into parity, you would increase the revenue requirement of that rate class by 63 and a half percent, right?

A I would like to say that that customer has not been paying his fair share by 73.3 million.

Q And to answer my question, to bring it into the parity, you would raise the revenue requirement for that rate schedule by 63 and a half percent, correct?

A Mr. Wiseman, I don't deal with rates, I deal with cost studies, and the cost of service is merely a determination of what it costs to serve a customer and whether that customer's -- the rates that are being charged to that customer are sufficient or not sufficient to recover those costs. And in both of those cases, those customers are way below the cost to serve those customers.

Q And my question to you, again, I didn't ask you about rates, or at least I apologize if I did, although -- but let's make clear. In order to achieve target revenues, your study shows that you would increase the revenue requirements to the HLFT-2 rate class, or rate schedule, by 63 and a half percent, is that what this page is showing?

A I apologize for being redundant. What this page is showing is that the cost to serve the HLFT-2 class is $188.7 million. The current rates would render only $150 million of those $188 million. Therefore, the rates -- in order to achieve the target revenue requirements, you would have to increase the revenues by $73 million.

Q Or by 63 and a half percent in that instance, correct?

A That is the amount that they are short of

their cost to serve them.

MS. CLARK: Madam Chairman, I think for further clarification on this we can certainly go to Ms. Deaton, who is after Mr. Ender and can indicate the recommendations as far as increase in rates for the various customers.

MR. WISEMAN: Madam Chair, I certainly am going to ask Ms. Deaton some questions along these lines, but this is his exhibit. I'm asking him questions about his exhibit. It seems to me that's fair game.

CHAIRMAN EDGAR: Ms. Clark?

MS. CLARK: I would say the question has been asked and answered.

MR. WISEMAN: I don't think I have received an answer yet. I have received explanations, but I have not received a yes or a no.

CHAIRMAN EDGAR: Can the witness answer the question with a yes or a no?

THE WITNESS: Sure, I'll try again.

BY MR. WISEMAN:

Q In order to achieve target revenues for the HLFT-2 rate class, it's your exhibit and it would be your testimony that you would need to increase revenues by 63 and a half percent, is that correct?

A I'm not in the rate area. I do not establish the rates. All I can say is that the cost to serve the customer is not being -- revenues are not sufficient by $73.3 million, and yes, that represents 63.5 percent shortfall.

Q All right. Now, is the target revenue requirements that are listed on your Exhibit JAE-6, is that the revenue requirement that FPL is seeking in this case?

A The total?

Q Yes.

A Yes.

Q Okay. So to achieve the total -- that's fine. I have no further questions. Thank you, Mr. Ender.

A You're welcome.

ACTING CHAIRMAN EDGAR: For the Intervenors, who is next up to have questions for this witness?

Okay, Ms. Kaufman, any idea about how --

MS. KAUFMAN: I'm so bad at giving estimates. I'd say 30 minutes, maybe. Not five minutes, which is probably what you were hoping for.

ACTING CHAIRMAN EDGAR: Mr. Chairman, you have joined us at the perfect time. We're just switching --

CHAIRMAN CARTER: No, we're not.

Here's where we are. We are working desperately and deliberately to try to find another day. I know I've told you guys that we have the 16th, and I won't know definitely until tomorrow. I trying to give you as much lead time as possible, but I will have something to report to you tomorrow, I should know. I'm trying to work to get another day. I think -- if we can get another day other than the 16th, I think we can wrap it up. What do you guys think? I'm an eternal optimist, but I'm trying to find you another day.

Ms. Kaufman, how much cross do you have?

MS. KAUFMAN: Commissioner Edgar just asked me that, and I estimated about 30 minutes, maybe.

CHAIRMAN CARTER: Let's start tomorrow, nine o'clock tomorrow.

(Hearing adjourned at 7:00 p.m.)

(The transcript continues in sequence with Volume 31.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)

COUNTY OF LEON)

I, CLARA C. ROTRUCK, do hereby certify that I was authorized to and did stenographically report the foregoing proceedings at the time and place herein stated.

IT IS FURTHER CERTIFIED that the foregoing transcript is a true 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.

DATED this 9th day of September, 2009, at Tallahassee, Leon County, Florida.

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CLARA C. ROTRUCK