

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI

In the Matter of:

PETITION FOR INCREASE IN RATES
BY FLORIDA POWER & LIGHT COMPANY.

COMMISSION
CLERK

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VOLUME 2

Pages 169 through 294

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PARTICIPATING: CHAIRMAN RONALD A. BRISÉ
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Monday, August 20, 2012

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1 P R O C E E D I N G S

2 (Transcript follows in sequence from
3 Volume 1.)

4 CHAIRMAN BRISE: Thank you very much,
5 Mr. Wright.

6 At this time, we'll hear from Mr. Garner from
7 the Village of Pinecrest.

8 MR. GARNER: Thank you, Mr. Chairman. In a
9 somewhat shameless bid to win the goodwill of
10 Commissioner Graham, the Village will waive its
11 time.

12 CHAIRMAN BRISE: Thank you.

13 Mr. Saporito.

14 MR. SAPORITO: Thank you, Mr. Chairman. Good
15 morning, Commissioners. As directed by
16 Commissioner Graham, my comments will be brief and
17 to the point.

18 The record evidence and testimony on this
19 docket will show that FPL is a monopoly electric
20 utility and is making excessive profits, using its
21 monopoly territory to subsidize shareholder
22 earnings for the nonregulated part of its business
23 at NextEra Energy, Inc., its parent company.

24 That FPL does not require a \$690.4 million
25 rate increase to maintain their ability to provide

1 safe, reliable, and affordable power to consumers,
2 but rather that this Commission should reduce
3 FPL's base rates by \$253 million.

4 That FP&L has intentionally misled this
5 Commission and consumers by alleging that its
6 request to raise rates would result in an increase
7 of \$1.41 to consumers' monthly bills due to a
8 decrease in fuel costs.

9 That if FPL had not filed a request to raise
10 base rates, that consumers' electric bills would
11 actually decrease due to a decrease in fuel costs.
12 That FPL's return on equity should be downward
13 adjusted to a range of 6 percent to 9 percent
14 consistent with current economic conditions and
15 that a downward adjustment of FPL's return on
16 equity would not adversely affect FPL's ability to
17 make investments, nor discourage investment in
18 FP&L because FPL receives full cost recovery once
19 a plant is placed in service.

20 In closing, this Commission must be committed
21 to making sure that Florida's consumers receive
22 some of their most essential services, including
23 electric power, in a safe, reasonable, and
24 reliable manner through regulatory oversight over
25 companies like FP&L so that at the end of the day,

1 everything is measured in such a way that when
2 consumers are impacted, it makes sense financially
3 for them and it's all in the general interest.

4 Thank you very much.

5 CHAIRMAN BRISE: Thank you very much,
6 Mr. Saporito.

7 At this time, we'll hear from Mr. Hendricks.

8 MR. HENDRICKS: Good afternoon, Mr. Chairman,
9 Commissioners, Staff, FPL, and fellow parties
10 here.

11 As most of you have probably noticed, I'm not
12 a recurring participant in PSC cases, a lawyer, or
13 an expert witness who frequently appears in
14 utility hearings. I'll probably make some errors
15 of form, for which I pre-apologize.

16 I have been interested in energy policy
17 issues since my graduate school days but did not
18 come into this case with a particular policy
19 position in mind beyond a concern for economically
20 efficient outcomes which stems from my background
21 in engineering and economics.

22 I will put forward the proposition that the
23 capital financing requested in this case is
24 inefficient and there are alternatives that could
25 deliver a better outcome for FPL's ratepayers

1 while also being fair to the increase of FPL's
2 investors.

3 As an individual intervenor, I've tried to
4 focus most of my necessarily limited efforts on
5 understanding and illustrating the cost of capital
6 issues from a ratepayer's point of view and in the
7 context of our current conditions and market
8 opportunities.

9 I was very pleasantly surprised by the
10 impetus that the OPC statement put on cost of
11 capital issues. I knew they had a position on
12 this issue, but I didn't realize they would
13 feature it as such a central element in their
14 position, because I think it really is important
15 that we not let ROE and capital structure be
16 discussed independently, but it's really the
17 combination of those issues that is important,
18 that you can't really de-link them.

19 I will suggest a somewhat different way of
20 looking at interest of ratepayers and balancing
21 those interests with those of investors. The
22 intent is to complement the traditional financial
23 analysis in ways that bring to light some of the
24 drivers of cost and risk for the ratepayers.

25 Two key factors that weigh against the high

1 equity ratio that FPL is requesting are the cost
2 for ratepayers of covering income tax provisions
3 for equity returns on FPL parent, NextEra Energy,
4 for the revenue multiplier, and the ongoing risk
5 for ratepayers that is created by failing to lock
6 in more of a historically low cost, longterm debt
7 that is available currently and in the nearby
8 foreseeable future.

9 My objective is to nudge the discussion away
10 from the reiterating references to grand
11 objectives such as financial strength or low bills
12 and toward more quantitative cost benefit analysis
13 and balancing the interest and cost and benefits
14 to the various parties.

15 The outcome in this case will affect the
16 electricity rates and the cost of living and doing
17 business for millions of ratepayers of Florida's
18 largest utility and perhaps set precedence that
19 will have an even broader reach. It appears that
20 FPL is anticipating substantial additional
21 infrastructure investments over the next several
22 years that will also be governed by the outcome of
23 this case.

24 If an inefficient regulatory structure were
25 to be determined by this case, the cost and risk

1 for ratepayers would be increased for these future
2 investments and this would be a particularly
3 costly mistake in the case of renewable and
4 nuclear investments because of their relatively
5 high capital intensity.

6 Coincidentally, a few days ago, one of the
7 most influential academics on the subject of
8 economic efficiency in regulation, Cass Sunstein,
9 resigned his position as White House regulatory
10 czar. The press reports suggest he had some
11 limited success, but he was heavily criticized for
12 being too pro business and also to any business.
13 If Sunstein had little success in spite of his
14 skill set, personal relationship with the
15 President and White House, my expectations should
16 be modest in terms of having an impact. And they
17 are. But I believe that economic efficiency is
18 worth fighting for.

19 I commend all of the Commissioners for
20 serving in this demanding position and encourage
21 you to be open to change and not too tightly bound
22 by past practices and earlier decisions, many of
23 which were made without -- were made in quite
24 different circumstances. Please consider
25 seriously the potential for rebalancing equity

1 ratio with appropriate adjustments to ROE and debt
2 costs as a way to reduce the costs and risks for
3 ratepayers while also appropriately meeting
4 investor requirements. Thank you.

5 CHAIRMAN BRISE: Thank you very much,
6 Mr. Hendricks.

7 Commissioner Graham, I see your light.

8 COMMISSIONER GRAHAM: Thank you,
9 Mr. Chairman.

10 I just wanted to thank Florida Power & Light,
11 OPC, and all of the intervenors for those opening
12 statements.

13 Board Members, we actually talked about this
14 quite a bit, and I told them that we needed to be
15 very succinct and to the point and not run over.
16 And each and every one of you stayed within your
17 boundaries, and I do appreciate that. Thank you.

18 CHAIRMAN BRISE: Thank you very much. And I
19 too want to thank you for your efficiency in your
20 opening statements. And thank you, Commissioner
21 Graham, once again, for laying out a tight
22 prehearing order for us to move forward.

23 We have sworn in witnesses already.

24 MR. McGLOTHLIN: Chairman Brisé, would you
25 allow me a moment, please? During those opening

1 statements, I made motions to strike certain
2 remarks relating to the settlement agreement by
3 Mr. Moyle and Mr. Wiseman. I heard you say "duly
4 noted."

5 I respectfully ask that you rule on that
6 Motion to Strike.

7 CHAIRMAN BRISE: Sure.

8 MR. McGLOTHLIN: For purposes of the record,
9 sir.

10 CHAIRMAN BRISE: At this point, I will
11 overrule both of them.

12 MR. McGLOTHLIN: Thank you, sir.

13 CHAIRMAN BRISE: Thank you.

14 Are there any other things that we need to do
15 prior to moving into taking in testimony?

16 MR. YOUNG: No, sir. Staff would just note
17 that unless agreed upon by -- unless agreed upon
18 and approved by the Commission, witnesses must
19 appear -- must be taken up in the order that they
20 appear in the prehearing order.

21 CHAIRMAN BRISE: Okay. Recognizing that we
22 are coming upon the two-hour mark for our court
23 reporter, we are going to go ahead and take maybe
24 a ten-minute break and then we're going to
25 reconvene -- actually, make that a 15-minute

1 break. We'll reconvene at 3:10.

2 (Whereupon, a recess was taken.)

3 CHAIRMAN BRISE: Okay. At this time, we're
4 going to reconvene. I think we have Mr. Reed from
5 FPL.

6 MR. LITCHFIELD: Correct. FPL is prepared to
7 call its first witness; Mr. Reed. And Mr. Reed
8 was in the hearing room this morning when you
9 swore in witnesses, Mr. Chairman.

10 MR. YOUNG: Mr. Chairman, Mr. Reed will be
11 presenting both direct and rebuttal testimony.

12 MR. LITCHFIELD: That is correct.

13 CHAIRMAN BRISE: Okay. Thank you.

14 Before we move forward, let me make a quick
15 reminder, sort of an admonition to everyone.
16 Admittedly, we are moving forward with the hearing
17 today and this week. We definitely want the
18 issues and questions that arise, that they remain
19 consistent with our discussion this morning with
20 respect to the prefiled testimony that is present
21 and so forth.

22 So we ask that as you pose questions, that
23 you keep that in mind and that we move forward in
24 that direction. We provided a little bit of
25 latitude during opening statements, but we want

1 everyone to sort of remain down that path. Thank
2 you very much.

3 MR. LITCHFIELD: Thank you. May I proceed?

4 CHAIRMAN BRISE: Sure. You may go right
5 ahead.

6 MR. LITCHFIELD: Thank you.

7 Thereupon,

8 JOHN J. REED

9 was called as a witness, having been first duly sworn,
10 was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. LITCHFIELD:

13 **Q Good afternoon, Mr. Reed.**

14 **A Good afternoon.**

15 **Q Would you please state your name and business**
16 **address?**

17 **A My name is John J. Reed. My business address**
18 **is 293 Boston Post Road, Marlborough, Massachusetts.**

19 **Q Okay. And by whom are you employed and in**
20 **what capacity?**

21 **A I am the Chairman and Chief Executive Officer**
22 **of Concentric Energy Advisors.**

23 **Q Now, you have prepared and caused to be filed**
24 **34 pages of prefiled direct and 116 -- excuse me, 16**
25 **pages -- I'm grateful he only filed 16 pages of**

1 **rebuttal -- 16 pages of prefiled rebuttal in this**
2 **proceeding?**

3 A That's correct.

4 **Q And do you have any changes or revisions to**
5 **your prefiled direct or rebuttal testimony?**

6 A There is one labeling change that was
7 discussed this morning that appears in Exhibit JJR-3.
8 And the label in the upper right-hand corner of each of
9 those ten pages which says, "Productive Efficiency
10 Rankings" should say, "Situational Assessment
11 Rankings," which is the title on the exhibit.

12 **Q Thank you. And with that correction, if I**
13 **were to ask you the same questions contained in both of**
14 **your direct and your rebuttal testimony, would your**
15 **answers be the same?**

16 A Yes, they would.

17 MR. LITCHFIELD: Mr. Chairman I would ask,
18 that Mr. Reed's prefiled direct and his prefiled
19 rebuttal testimony be inserted into the record as
20 though read.

21 CHAIRMAN BRISE: Yes. Thank you.

22 (Whereupon, testimony inserted.)
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF JOHN J. REED

DOCKET NO. 120015-EI

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I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is John J. Reed. My business address is 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

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

A. I am the Chairman and Chief Executive Officer of Concentric Energy Advisors, Inc. (“Concentric”).

Q. On whose behalf are you testifying?

A. I am submitting this testimony on behalf of Florida Power & Light Company (“FPL” or the “Company”).

Q. Please describe your background and professional experience.

A. I have more than 35 years of experience in the energy industry, and have worked as an executive in, and consultant and economist to, the energy industry for the past 30 years. Over the past 23 years, I have directed the energy services of Concentric, Navigant Consulting and Reed Consulting Group. I have served as Vice Chairman and Co-CEO of the nation’s largest publicly-traded consulting firm and as Chief Economist for the nation’s largest gas utility. I have provided regulatory policy and regulatory economics support to more than 100 energy and utility clients and have provided expert testimony on regulatory, economic and financial matters on more than 150 occasions before the Federal Energy Regulatory Commission (“FERC”), Canadian regulatory agencies, state utility regulatory agencies,

1 various state and federal courts, and before arbitration panels in the United
2 States and Canada. A copy of my Curriculum Vitae is included as Exhibit
3 JJR-1. A list of prior proceedings in which I have provided testimony is
4 included as Exhibit JJR-2.

5 **Q. Please describe Concentric's activities in energy and utility engagements.**

6 A. Concentric provides regulatory, economic, market analysis, and financial
7 advisory services to a large number of energy and utility clients across North
8 America. Our regulatory and economic services include regulatory policy,
9 utility ratemaking (e.g., cost of service, cost of capital, rate design, alternative
10 forms of ratemaking) and the implications of regulatory and ratemaking
11 policies. Our market analysis services include energy market assessments,
12 market entry and exit analyses, and energy contract negotiations. Our
13 financial advisory activities include merger, acquisition and divestiture
14 assignments, due diligence and valuation assignments, project and corporate
15 finance services, and transaction support services.

16 **Q. Are you sponsoring any exhibits in this case?**

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

- 18 • JJR-1: Curriculum Vitae
- 19 • JJR-2: Testimony Listing
- 20 • JJR-3: Situational Assessment Rankings
- 21 • JJR-4: Productive Efficiency Rankings
- 22 • JJR-5: Operational Metrics
- 23 • JJR-6: Benchmarking Workpapers

- 1 • JJR-7: 2010 Assessment and Efficiency Tables
- 2 • JJR-8: 2010 Combined Rankings
- 3 • JJR-9: Emissions Comparison
- 4 • JJR-10: Consumer Price Index and Producer Price Index
- 5 • JJR-11: Weekly Earnings
- 6 • JJR-12: Utility Construction Costs

7 **Q. How is the remainder of your testimony organized?**

8 A. After this introduction, my testimony is presented in the following sections:

9 II. Testimony Overview and Summary

10 III. Assessment Approach

11 IV. Business Environment and Situational Assessment

12 V. Benchmarking Results

13 VI. Conclusion

14

15 II. TESTIMONY OVERVIEW AND SUMMARY

16

17 **Q. What is the purpose of your testimony in this proceeding?**

18 A. I have been asked by FPL to conduct an analysis of FPL's operational and
19 financial performance over the past ten years through the use of a
20 benchmarking study, and to comment on how the results of that benchmarking
21 study may be incorporated into this rate case. I have also been asked to
22 review the macroeconomic and service area economic drivers that have
23 contributed to FPL's requested rate increase.

1 **Q. Please summarize your testimony.**

2 A. FPL delivers highly reliable service at low prices in a challenging economic
3 environment. My benchmarking analysis shows that the Company has out-
4 performed similarly sized companies across an array of financial and
5 operational metrics. The Company has achieved this result in spite of the fact
6 that it is disadvantaged by various exogenous factors that impact a utility's
7 efficiency, as shown in the situational assessment metrics contained in Exhibit
8 JJR-3. FPL's customer base consists of a high percentage of residential
9 customers (which have lower usage compared to commercial and industrial
10 customers), its sales volume has been relatively flat in the past year and is
11 expected to continue this trend as Florida continues its slow economic
12 recovery, and its aging infrastructure requires an increasing level of
13 maintenance expenses and capital investment. In addition, state and federal
14 energy and environmental policies to continue to reduce air emissions and
15 improve the efficiency of its generation fleet will likely place cost pressures
16 on FPL in the future.

17
18 In terms of productive efficiency, its ability to maximize output and minimize
19 costs, FPL is one of the top performers among comparable companies, as
20 shown in metrics contained in Exhibit JJR-4. FPL has ranked in the top three
21 of the 28 companies in the Straight Electric Group in nine of the past 10 years,
22 from 2001 to 2010; FPL has been the highest ranked in the Florida Utility
23 group and the Large Utility group since 2001. In terms of operation and

1 maintenance expenses specifically¹, FPL has ranked in the top five among
2 comparable companies and first among Florida utilities in nine of the past 10
3 years. On the few individual metrics where FPL has not been a top performer,
4 the characteristics of FPL's service area and other exogenous factors explain
5 much or all of FPL's performance. FPL has consistently ranked as the most
6 challenged in eight of the past 10 years relative to its industry peers, and as the
7 most challenged Florida utility in each year for the past 10 years.

8

9 It is important to note that FPL's high level of productive efficiency has not
10 been achieved at the expense of system reliability, as shown in Exhibit JJR-5.
11 FPL is a top performer in terms of controlling the duration of its distribution
12 system outages, and has consistently achieved above-average performance on
13 the frequency of interruptions. Additionally, FPL is a strong performer on
14 customer service quality and customer satisfaction measures.

15

16 FPL's commitment to reducing the environmental impact of its operations
17 begins with a clean and efficient generation fleet. With a generating fleet that
18 produces over 75 percent of its electric power from natural gas and nuclear
19 resources, FPL is a clean-energy company. In fact, FPL has one of the lowest
20 emissions profiles among major U.S. utilities in terms of carbon dioxide,
21 sulfur dioxide and nitrogen oxides. The Company's fossil generation fleet
22 performance has been in the top decile or best-in-class among comparable

¹ As measured by the category "Total Non-Fuel O&M" in Exhibit JJR-4.

1 companies in eight of the last 10 years in terms of availability and forced
2 outages. The performance of its nuclear generation fleet has continued to
3 improve and is a critical factor in FPL's ability to achieve its favorable air
4 emissions profile and its capacity to support its commitment to environmental
5 stewardship.

6
7 The benefits of FPL's strong performance in terms of financial and
8 operational metrics are substantial. For 2010 alone, if FPL had been merely
9 an average performer among the 28 straight electric companies, its non-fuel
10 operation and maintenance costs charged to customers would have been
11 approximately \$1.6 billion higher than its actual costs.

12

13 III. ASSESSMENT APPROACH

14

15 **Q. Please describe your approach to evaluating the Company's performance.**

16 A. Providing reliable and reasonably-priced electric service involves a complex
17 array of infrastructure, general corporate services, customer services,
18 operational and financial resources. Assessing whether a particular company
19 has successfully achieved both its service obligations and cost control
20 objectives involves an evaluation of its productive efficiency, operational
21 efficiency, and service quality. I have measured FPL's productive efficiency
22 against three different peer groups to evaluate its relative performance in the
23 ten year period of analysis, 2001 to 2010; and across time to capture the trend

1 in FPL's performance. I developed additional analyses to determine if any
2 cost improvements were done at the expense of reductions in operational
3 efficiency and system reliability. Lastly, I developed analyses to measure a
4 company's responsiveness to regulatory and environmental policy objectives
5 in the states in which it operates. I have considered all of these aspects of
6 FPL's performance and, where possible, I measured and quantified the
7 associated customer benefit.

8 **Q. In general, what steps did you take in constructing your benchmarking**
9 **analysis?**

10 A. The first two steps of the benchmarking analysis were to define the timeframe
11 over which the analysis was to be performed, and develop the composition of
12 the peer groups used to compare to FPL. The third step was to define the
13 operational, financial and reliability/service quality metrics that were to be
14 used in the benchmarking. Finally, in recognition of the significantly different
15 service area characteristics that each of the peer group companies face, and
16 the consequently different performance challenges created by these service
17 area characteristics, I developed a situational assessment ranking that reflects
18 the "degree of difficulty" that each peer group member faces in seeking to
19 maximize its productive efficiency.

20 **Q. What timeframe did you use for your benchmarking analysis?**

21 A. In general, I used the most recent 10 years of available data, 2001 through
22 2010, for both the situational assessment and the performance metrics. In
23 some cases, such as for some generating unit performance measures and

1 system reliability measures, data were only available for the most recent eight
2 years.

3 **Q. Please describe the process you used to develop these benchmarks.**

4 A. For my benchmarking analyses, I developed ordinal rankings for both the
5 operational and economic performance of the companies in each of three peer
6 groups. These rankings reflect the performance of each company in each peer
7 group as measured by the level of input cost per unit of “output,” such as
8 customer expense per customer, or operations and maintenance (“O&M”)
9 expense per megawatt-hour (“MWh”) sold. I ranked each company in each
10 peer group according to the 11 measures of productivity that I developed. To
11 develop an overall assessment based on the rankings of all of the performance
12 measurement categories, I took an average of the ordinal rankings for all
13 performance measures, and I ranked the companies in the peer groups based
14 on those averages. This approach allowed me to compare FPL’s “productive
15 efficiency” to the other companies in each peer group.

16
17 In order to put the benchmarking results in context, I also conducted a
18 “situational assessment” to rank the level of challenges to performance that
19 the companies in each peer group face. Similar to the productive efficiency
20 metrics, I took an average of all the ordinal values to determine FPL’s overall
21 level of exogenous, performance challenges.

1 **Q. How did you select the companies to include in your benchmarking peer**
2 **groups?**

3 A. My objective in determining the sets of peer group electric utility companies
4 was to achieve the largest group for which consistent data were available and
5 which was, broadly speaking, operationally similar to FPL. Since FPL is a
6 large electric-only utility with ownership in generating resources, I established
7 one peer group of companies with electric-only utility operations that have at
8 least 500,000 customers and own generating resources. I refer to this group of
9 28 comparable companies as the “Straight Electric Group.” I established a
10 second peer group consisting of investor-owned electric utilities subject to
11 regulation by the Florida Public Service Commission. This “Florida Group”
12 includes FPL, Progress Energy Florida, Gulf Power Company and Tampa
13 Electric Company. Lastly, I established a third peer group made up of large
14 electric utility companies with at least two million electric customers. This
15 “Large Utility Group” consists of seven companies.² The composition of each
16 of my comparable groups is shown in Exhibit JJR-6, page 2.

17 **Q. Why did you use the number of customers served as a criteria for**
18 **determining the companies in your Straight Electric Group?**

19 A. The purpose of this benchmarking analysis is to develop a meaningful
20 comparison of FPL’s costs and economic metrics that are indicative of utility
21 performance. Many of the challenges and opportunities for a company are a

² Although American Electric Power Company, Incorporated (“AEP”) met the Large Utility Group screening criteria, it was not included because AEP has substantial operations in the Texas ERCOT market. As a result of ERCOT’s competitive retail/customer choice market structure, reported data does not permit meaningful comparisons to companies outside of ERCOT.

1 function of its size. Since my focus is on controllable economic efficiencies,
2 size is an important attribute and a utility's size tends to vary most directly as
3 a function of the number of customers it serves.

4 **Q. How did you conduct your situational assessment, and what is the**
5 **purpose of this analysis?**

6 A. Using benchmark studies to compare the performance of utilities is inherently
7 difficult because no two utility companies face the same set of circumstances
8 in terms of service area economic and operational factors. The purpose of a
9 situational assessment is to recognize each utility's cost advantages or
10 disadvantages that are not within its control. For example, among the factors
11 that affect a utility's cost performance are: (a) growth in number of customers,
12 (b) growth in demand, (c) density of customers, (d) presence of locally-
13 produced energy supplies for generating plants, (e) system load factor, (f)
14 proportion of small residential customers, and (g) dependency on a
15 transmission system.

16

17 Often, a utility's above-average or below-average performance on a single
18 performance metric can be explained by the results of the situational
19 assessment. I use my situational assessment to evaluate FPL's performance in
20 the proper context.

1 **Q. What data sources did you rely on for the performance measures that you**
2 **developed?**

3 A. For the benchmarking analysis, I compiled data from several sources. I
4 obtained much of the data from FERC Form 1 reports (as reported by SNL
5 Financial). For supplemental metrics related to FPL's operational
6 performance, I obtained data from the North American Electric Reliability
7 Corporation ("NERC"), reports by investor owned electric utilities to the
8 Florida Public Service Commission, and the Institute of Nuclear Power
9 Operations ("INPO").

10

11 **IV. BUSINESS ENVIRONMENT AND SITUATIONAL ASSESSMENT**

12

13 **Business Environment**

14 **Q. What economic trends and factors did you consider in your analysis?**

15 A. I considered a number of local, regional, state-wide and national economic
16 factors that affect FPL's performance trends over time, and relative to the peer
17 group companies. These economic factors influence the Company's need for
18 rate relief and the level of rate relief that it is requesting in this proceeding.

19

20 The recession that began in December 2007 had a substantial effect on
21 economic indicators. Therefore, in my analyses, I considered the period from
22 2006 to the present so I could provide context to the economic indicators that
23 were affected by the recession. Nonetheless, the most relevant period for

1 considering the economic drivers is the period subsequent to FPL's last rate
2 case, which was filed March of 2009 and in which a final order was issued in
3 March of 2010.

4 **Q. Please describe the national economic trends that have most affected**
5 **FPL's costs.**

6 A. Two common measures of the national economy's general price level that are
7 indicators of inflationary pressures on FPL's costs are the Consumer Price
8 Index for urban consumers ("CPI-U") and the Producer Price Index for
9 finished goods ("PPI"). Exhibit JJR-10 shows the performance of the CPI-U
10 and PPI for finished goods since 2006. The CPI-U and PPI have increased
11 11.83 percent and 19.55 percent, respectively, between December 2006 and
12 December 2011. Since March 2010, when FPL's last rate case was decided,
13 these two indices have increased by approximately 3.69 percent and 7.30
14 percent, respectively.

15
16 The cost of utility labor also has a significant impact on FPL's costs. Exhibit
17 JJR-11 shows electric utility employee average weekly earnings as reported
18 by the Bureau of Labor Statistics. Since 2006, average weekly earnings have
19 increased from approximately \$1,215.14 to approximately \$1,385.48, or 14.02
20 percent in nominal growth. As noted previously, FPL's last rate case was
21 decided in March 2010, and since then, electric utility employee compensation
22 has grown 5.72 percent.

23

1 Lastly, overall utility construction costs, which directly affect the cost of
2 additions to rate base, have increased significantly in recent years. The
3 Handy-Whitman Index of Public Utility Construction Costs provides a good
4 indication of the rising cost of construction incurred by FPL. This index is
5 calculated on a regional basis and incorporates all construction costs including
6 materials and labor. Exhibit JJR-12 presents the Handy-Whitman Index for
7 the South Atlantic region between July 2006 and July 2011. Exhibit JJR-12
8 demonstrates that the separate data series for steam production plant,
9 hydraulic production plant, nuclear production plant, transmission plant and
10 distribution plant have all increased significantly over this period; the
11 transmission and distribution plant index has the greatest growth rate, 36.90
12 percent. Since FPL's last rate case was decided in 2010, these five
13 construction cost indices have increased between 4.26 percent and 7.50
14 percent.

15 **Q. Please describe the current state and local economic conditions in FPL's**
16 **service territory and the impact of these economic conditions on FPL's**
17 **revenues.**

18 A. The world wide recession that started in late 2007 had a dramatic effect on
19 Florida, as measured by a number of indices. The unemployment rate steadily
20 increased from 4.7 percent in December of 2007 to a high of 12.0 percent in
21 December 2010; unemployment did decline in 2011. During this period,
22 personal bankruptcies increased while real household income declined. Based
23 on real growth in State Gross Domestic Product ("GDP") from 2009 to 2010,

1 Florida ranked 40th in the nation, with a gain of 1.4 percent. All of these
2 factors plunged Florida into a severe economic downturn. As a result, FPL's
3 sales growth has been flat since the last rate case was decided.

4
5 Florida's recovery from the recession has been slow.³ FPL's retail energy
6 delivered declined from 2007 to 2010, although retail energy delivered has
7 rebounded slightly in 2011. Despite the sluggish retail energy deliveries, the
8 number of new service accounts has actually grown since 2007. This addition
9 of new service accounts, in part, requires FPL to continue to invest in its
10 infrastructure today in order to be ready to serve its customers in the future.
11 The combination of the costs associated with continued growth in new service
12 accounts and the lack of sales growth and declining revenue have put greater
13 pressure on FPL's financial performance.

14
15 From 1985 to 2005, FPL's customer base grew at an average annual rate of
16 about 85,500 customers, or 2.8 percent per year. During the same time,
17 energy use per customer grew at about 0.6 percent per year. As a result,
18 FPL's electric sales almost doubled in the 20-year period ending in 2005.
19 From 2006 through 2010, as discussed above, growth in customers, sales and
20 revenues slowed dramatically due to the economic downturn.

³ After a few down years, economic activity in Florida began to rebound in 2011. Florida experienced positive economic growth in 2011 after declining for each of the two previous years.

1 **Q. Please describe the impact of current state and local economic conditions**
2 **in FPL's service territory on FPL's costs.**

3 A. At the same time that revenues per customer have been declining, costs have
4 been increasing sharply. Although the rate of customer growth has been
5 stagnant recently, FPL has still been adding customers and expects to add
6 customers in 2013. FPL has made significant investments to its generation
7 fleet and transmission infrastructure in response to this growth in customers
8 and also to maintain and improve reliability. The increasing cost of material
9 and labor, as previously discussed, has resulted in sharply increased O&M and
10 capital expenditures. Transmission and substation capital expenditures to
11 maintain reliability of delivery service are forecasted to increase 60 percent
12 over 2010 levels while operation and maintenance expenses are forecasted to
13 increase approximately seven percent from 2010 to 2013. In order to maintain
14 its fossil-fired generation fleet, FPL forecasts an increase of approximately
15 79.8 percent in capital expenditures, from approximately \$206.6 million in
16 2010 to \$371.4 million in 2013.

17

18 **Situational Assessment**

19 **Q. Please describe your situational assessment.**

20 A. I started by identifying exogenous factors that would influence a utility's
21 performance, positively or negatively, as compared to other companies in a
22 different relative position. Using publicly reported data, I examined ten
23 exogenous factors.

1 The results of my situation assessment are presented in Exhibit JJR-3, pages 1
2 through 10. This exhibit shows the rank order of each of the companies, in
3 each of the comparison groups, for each situational measure, as well as an
4 overall score in the far right column based on the average rank. These metrics
5 generally provide insight regarding the operational challenges and
6 opportunities that the peer group companies face that could be expected to
7 affect cost. In my situational assessments, a ranking of one indicates the
8 company with the highest level of challenge for a particular measure.

9 **Q. What other exogenous factors, beyond economic conditions, did you**
10 **consider as part of your situational assessment?**

11 A. The factors I considered and my conclusions regarding each factor are
12 summarized below.

- 13 • Percent Sales Residential: Residential customers are more
14 expensive to serve than commercial and industrial customers, and
15 as a result utilities with a higher proportion of residential
16 customers tend to have higher costs and higher rates. FPL has a
17 greater proportion of residential sales than any of the companies in
18 any of the comparable groups; 52.44 percent of FPL's sales by
19 volume were sales to residential customers in 2010.
- 20 • Percent Sales Other: Sales Other ⁴ are non-retail sales, which
21 represent the lowest unit cost sales for a utility company. With
22 only 3.18 percent of other sales in 2010, FPL has the lowest

⁴ Sales Other represent all sales other than sales to residential, commercial, and industrial customers, typically Sales for Resale.

1 Percent Sales Other in the Florida Group and the Large Utility
2 Group each year, and the lowest in the Straight Electric Group in
3 seven of the last 10 years. All else being equal, this would indicate
4 that FPL's unit costs should be higher than the other companies in
5 these groups.

6 • Use per Customer⁵: Since many of the costs of serving an
7 individual customer do not vary with the level of consumption,
8 utilities with lower use per customer levels tend to be higher cost
9 operations. Like Percent Sales Other, FPL has the lowest use per
10 customer in the Florida Group in each year, and the lowest or the
11 second lowest use per customer in the Large Utility Group. In the
12 Straight Electric Group, FPL has the second or third lowest use per
13 customer each year.

14 • Change in Customers (percent): Volatility in the number of
15 customers (in percentage terms) creates challenges in terms of
16 managing capital expenditures and resource utilization over time.
17 FPL's customer growth rate has been volatile; in the Straight
18 Electric Group, FPL has been in the top quartile of low customer
19 growth in five of the last 10 years, the second quartile in two years,
20 and the third quartile in three years.

21 • Change in Sales Volume (Rolling Five Year Growth): Like
22 changes in customer numbers, volatility in sales volume pose

⁵ Use per customer measures the average volume of sales for each customer.

1 challenges to a utility. In spite of FPL's flat sales growth in recent
2 years, relative to the comparable groups, FPL has experienced
3 noticeable volatility in sales volume. For example, compared to
4 the Straight Electric Group, FPL has ranked in the first quartile in
5 six years, the second quartile in one year, and the third quartile in
6 three years.

7 • Percent Generation Nuclear: The non-fuel costs for nuclear
8 generation are higher than those for coal-fired, oil-fired, gas-fired
9 and hydroelectric generating resources. In every year of my
10 analysis, FPL's percentage nuclear generation is ranked first in the
11 Florida Group. This places significant pressure on FPL's cost
12 structure relative to its peers in the region. In comparison to the
13 Straight Electric Group, FPL is in the second quartile each year.

14 • Energy Losses: Energy losses are a product of the transmission
15 and distribution infrastructure through which the energy is
16 transmitted. Electric utilities that are relatively transmission-
17 dependent tend to experience higher losses than utilities which are
18 able to site generation closer to load centers. This metric
19 demonstrates a significant challenge faced by FPL. In both the
20 Florida Group and the Large Utility Group, FPL has had the
21 highest energy losses in nine of the last ten years. In the Straight
22 Electric Group, FPL has been in the top quartile each year.

1 • Accumulated Provision for Depreciation as a Percent of Gross
2 Plant: I use this metric as a reasonable proxy for the age of a
3 utility’s asset base. Utilities with a higher proportion of
4 accumulated depreciation to gross plant tend to have an older asset
5 base. The older its system, the more likely a utility will require
6 higher maintenance and capital expenditures to maintain safe and
7 reliable service. FPL’s rankings clearly indicate that its system is
8 older relative to the comparison group companies: (1) first in each
9 of the last 10 years in the Florida Utility Group; (2) top quartile in
10 eight of the last 10 years for the Straight Electric Group; and (3)
11 top quartile in each of the last 10 years for the Large Utility Group.

12 **Q. Please summarize your conclusions regarding your situational**
13 **assessment.**

14 A. While only a high-level snapshot, these analyses indicate that FPL is the most
15 “challenged” or disadvantaged company relative to the Florida Utility Group
16 and Large Utility Group in every year of my analysis due to exogenous
17 factors. In the Straight Electric Group, FPL is the most challenged in eight of
18 the last 10 years and the second most challenged in two of the last 10 years.
19 That said, it is important to keep the situational assessment in context when
20 viewing performance metrics. I offer these metrics as a means of “getting the
21 lay of the land” in understanding the productive efficiency metrics. This is
22 not a perfect means of capturing all of the challenges or advantages of FPL
23 and the companies in the comparables groups, but represents a reasonable

1 cross-section of key factors influencing a utility's operations based upon
2 publicly available information.

3

4

V. BENCHMARKING RESULTS

5

6 **Q. What metrics did you use to assess FPL's operational and financial**
7 **performance?**

8 A. I measured FPL's performance across a variety of expense, corporate and
9 operational categories. With regard to expense performance, I considered:

- 10
- Non-Fuel Production O&M expenses
 - 11 • Total Non-Fuel O&M Expenses
 - 12 • Transmission O&M expenses
 - 13 • Distribution O&M expenses
 - 14 • Administrative and General ("A&G") expenses
 - 15 • Customer expenses
 - 16 • Uncollectible expenses

17

18 In addition to O&M expense performance, I measured corporate performance
19 using the following metrics:

- 20
- Days sales outstanding
 - 21 • Labor Efficiency
 - 22 • Gross asset base
 - 23 • Additions to plant relative to customer growth

1 To ensure that FPL's performance on cost and corporate metrics did not occur
2 at the expense of reliability or safety, I compiled metrics to measure FPL's
3 operational performance, including:

- 4 • Nuclear capacity factor
- 5 • Nuclear forced loss rate
- 6 • Nuclear Equivalent Availability Factor
- 7 • Nuclear Equivalent Forced Outage Rate
- 8 • Nuclear industrial safety accident rate
- 9 • Fossil Plant Heat Rate
- 10 • Fossil Plant Emissions
- 11 • Fossil plant equivalent availability factor
- 12 • Fossil plant equivalent forced outage rate
- 13 • Distribution system average interruption frequency index
14 ("SAIFI")
- 15 • Customer average interruption duration index ("CAIDI")
- 16 • Distribution system average interruption duration index ("SAIDI")

17 The detailed definitions of each of the productive efficiency and operational
18 metrics I used are presented on pages 3 and 4 of Exhibit JJR-6.

19 **Q. Did you adjust the metrics to account for companies of different sizes?**

20 A. Yes. Most metrics are calculated on an expense per customer or an expense
21 per MWh sold basis. The productive efficiency metrics presented in my
22 analysis are an average of the per customer values and the per MWh values
23 for each cost element. For example, the A&G expenses productive efficiency

1 metric reflects each utility's A&G expenses per MWh sold and A&G
2 expenses per customer, and presents the average performance rank on these
3 two metrics as the measure of A&G productive efficiency.

4 **Q. Which metrics provide the best indication of FPL's overall performance**
5 **relative to the comparable groups?**

6 A. While each metric is significant and may help identify particular areas of
7 strength or weakness, the best indication of FPL's overall level of
8 performance in controlling costs is total non-fuel O&M expenses. This
9 category covers all four primary operating functions (generation, transmission,
10 distribution and customer service), and also includes all administrative and
11 general functions. Further, this metric has the advantage of removing the
12 effects of differences in fuel costs which can vary due to availability, location,
13 and state or local environmental policies.

14
15 FPL's performance controlling its non-fuel O&M expenses is particularly
16 strong in each year of my analysis. FPL is the top performer in Florida Group
17 and the Large Utility Group. In the Straight Electric Group, FPL is
18 consistently ranked in the top quartile and in 2010, was the second highest
19 ranked utility out of the 28 companies in controlling non-fuel O&M expenses
20 on combined per customer and per MWh basis.

21
22 FPL's performance has translated into real cost savings to its customers. In
23 2010 alone, this performance has saved customers approximately \$1.6 billion

1 as compared to costs that customers would have incurred if FPL's non-fuel
2 O&M expenses had been merely average (i.e., consistent with the average of
3 the 28 companies in the Straight Electric Group).

4 **Q. Please summarize the results of your assessment of the other productive**
5 **efficiency metrics.**

6 A. I assessed six productive efficiency metrics, in addition to total non-fuel O&M
7 expense, which are summarized below:

- 8 • Production, Transmission, and Distribution O&M Expense: These
9 three expense metrics provide more detailed measures of expense
10 control performance to supplement the total non-fuel O&M
11 expenses metric. FPL is consistently a high performer in the
12 category of Non-Fuel Production O&M Expenses. FPL has been
13 in the top quartile of the Straight Electric group and the top
14 performer in the Florida group for 9 of the past 10 years, and the
15 top performer in the Large Utility group every year. FPL has also
16 performed well in controlling Transmission O&M Expenses (in
17 addition to the "per customer" and "per MWh" measurement used
18 in other metrics, the overall merit-order ranking for Transmission
19 O&M also takes into account Transmission O&M expenses per
20 mile of transmission line). FPL has consistently been in the top
21 two quartiles across all comparable groups. Lastly, FPL has shown
22 notable improvement in controlling its distribution O&M expenses.
23 Since 2007, FPL has improved from the third quartile performance

- 1 in the Straight Utility and Large Utility comparison groups to
2 consistent first of second quartile performance. In the Florida
3 Utility group, FPL has been the top performer since 2005.
- 4 • A&G, Customer, and Uncollectible Expenses: FPL is consistently
5 a top performer in controlling A&G Expenses. Since 2002, FPL
6 has been the top performer in the Florida and Large Utility groups.
7 FPL has been in the top quartile in the Straight Electric Utility
8 Group each year, and among the top three performers since 2007.
9 In terms of controlling customer expenses, FPL is consistently the
10 top performer in the Florida Utility group and is consistently in the
11 top quartile or the upper end of the second quartile of the Straight
12 Electric Group and the Large Utility Group.
13 FPL's control of Uncollectible Expenses is consistent with this
14 performance. FPL typically performs in the top half of the Straight
15 Electric Group, and is typically one of the top two performers in
16 the Florida Utility Group and Large Utility Group.
 - 17 • Days Sales Outstanding: In analyzing Days Sales Outstanding,
18 which is a measure of the average level of accounts receivable in
19 relation to total electricity sales over a year, FPL exhibited mid-
20 level performance in the Straight Electric and Florida Utility
21 Groups and performs in the first or second quartile in the Large
22 Utility Group.

- 1 • Labor Efficiency: Labor Efficiency is a combined metric that
2 includes Salaries, Wages, Pension and Benefits on a per employee
3 and per customer basis, as well as Employees per customer. FPL
4 has demonstrated consistently strong performance in these areas.
5 FPL has been the top performer in the Florida Utility Group in
6 each of the last ten years and has been in the top quartile in nine
7 years in the Straight Electric Group.
- 8 • Gross Asset Base and Additions to Plant: FPL’s level of Gross
9 Asset Base per customer and per kilowatt-hour (“kWh”) sales has
10 exhibited superior performance, ranking in the first quartile in the
11 Straight Electric group and as the lowest cost performer in the
12 Florida and Large Utility groups over the past 10 years. FPL’s
13 Additions to Plant per new customer has generally been in the first
14 or second quartile of the Straight Electric group indicating that its
15 costs on this metric in terms of investment are at or above average.

16 **Q. How does FPL compare in the overall rankings for these productive**
17 **efficiency metrics?**

18 A. As shown in Exhibit JJR-7, in 2010 FPL was the top performer in the Florida
19 Utility Group and the Large Utility Group, and was the second-highest
20 performer in the Straight Electric Group. It should be noted that these results
21 are “raw,” based entirely on the ranking of the performance metrics without
22 any consideration of the Situational Assessment.

1 **Q. Have you considered both the results of your situational assessment and**
2 **your analysis of productive efficiency in your overall benchmarking of**
3 **FPL's performance?**

4 A. Yes. Exhibit JJR-8 does just that, combining the productive efficiency
5 rankings and the situational assessment rankings. When viewed together, a
6 bandwidth around the diagonal line running from the upper left corner to the
7 lower right corner (shown in the middle band on the chart) reflects the utilities
8 whose productivity is consistent with the challenges identified in the
9 situational assessment. The further away (either above or below) a utility's
10 performance is from this line, the more exceptional is its performance (either
11 exceptionally good or exceptionally poor). As shown in Exhibit JJR-8, FPL's
12 performance in 2010 was exceptionally good, and FPL outperformed all of its
13 straight electric peers on a basis which considers both absolute productivity
14 measures and the relative challenges it faced.

15 **Q. Did you consider other factors beyond cost in your benchmarking**
16 **analysis of FPL's performance?**

17 A. Yes. In looking at economic efficiencies, it is easy to assume that all of the
18 companies are created equal in terms of safety, reliability, and other important
19 operational standards, but that is not the case. If a utility's management
20 decides to launch major service quality initiatives, these initiatives may well
21 have attendant costs but the cost impact may also be off-set by service
22 improvement. To examine these issues, I have separately analyzed FPL's
23 trends and performance with regard to a set of operational metrics.

1 **Q. Was FPL's level of operational performance diminished in any way as a**
2 **result of FPL's cost control activities?**

3 A. No. I analyzed a number of operational performance metrics to examine
4 FPL's level of performance over time and relative to the industry. These
5 results are presented in Exhibit JJR-5. This exhibit presents FPL's
6 performance for each of the operational metrics for each year that data were
7 available. On the whole, I found FPL's operational performance to be above
8 average.

9 **Q. Please describe the operational metrics you examined, and the results of**
10 **this analysis.**

11 A. I examined fossil generating plant performance, nuclear generation plant
12 performance, and distribution system reliability. The results of this analysis
13 are summarized below:

- 14 • Fossil Plant Heat Rate: FPL has improved the heat rate of its fossil
15 generation fleet by 17 percent since 2001. The average heat rate of
16 FPL's fossil fleet in 2010 was 8,044 Btu/kWh compared to an
17 industry average of 10,045 Btu/kWh. At current gas prices, this
18 efficiency advantage translates to over \$650 million in 2010 alone
19 in fuel cost savings.⁶
- 20 • Fossil Plant Equivalent Availability Factor: FPL's fossil
21 generation fleet has consistently outperformed its peers in terms of

⁶ Calculated based on delivered fuel prices and megawatt hours generated in 2010.

- 1 plant availability. In fact, in each of the past six years, FPL has
2 been a top performer when compared to industry peers.
- 3 • Fossil Plant Equivalent Forced Outage Rate: FPL's fossil units
4 have performed exceptionally well compared to the industry on
5 this metric. From 2005 through 2010, FPL's average Equivalent
6 Forced Outage Rate was 2.12 percent compared to an industry peer
7 average of 7.46 percent.
 - 8 • Nuclear Plant Capacity Factor: FPL's nuclear generation fleet has
9 performed above the industry average in terms of annual capacity
10 factor in four out of the last eight years. From 2003 through 2010,
11 FPL's nuclear generation fleet operated at an average capacity
12 factor of 88.81 percent against an industry average of 88.90
13 percent.
 - 14 • Nuclear Plant Forced Loss Rate: FPL's nuclear forced loss rate, a
15 measure of how well important plant equipment is maintained and
16 operated, has shown improvement since 2008. FPL's commitment
17 to investing in their nuclear generation fleet has resulted in a
18 reduction in forced loss rate from 3.04 in 2007 to 2.70 in 2010.
 - 19 • Nuclear Equivalent Availability Factor: FPL's nuclear generation
20 fleet has operated at or close to industry average in four of the last
21 eight years. From 2003 through 2010, FPL's nuclear units have
22 averaged an equivalent availability factor of 87.23 percent against
23 an industry average of 88.24 percent. FPL has improved its

1 performance from 2009 to 2010, from 86.54 percent to 87.75
2 percent.

- 3 • Nuclear Industrial Safety Accident Rate: The nuclear industrial
4 safety accident rate tracks the number of accidents that result in
5 lost work time, restricted work, or fatalities per 200,000 work
6 hours. FPL has significantly outperformed its peers in this metric
7 in five out of the last six years. From 2005 through 2010, FPL had
8 an average industrial safety accident rate of 0.09 against an
9 industry average of 0.17.
- 10 • Distribution System SAIDI, CAIDI and SAIFI: Compared to other
11 Florida investor-owned utilities, FPL is a top performer. Measured
12 by SAIDI, which is the best overall reliability indicator because it
13 encompasses both SAIFI and CAIDI, FPL has been either the top
14 performer, or second-best performer amongst Florida utilities from
15 2006 through 2010. FPL has ranked similarly as one of the top
16 two performers, as measured by CAIDI. Observing SAIFI, FPL
17 has improved since 2006 to become the second-highest performer
18 in 2010 amongst Florida utilities.

19 **Q. What conclusions have you reached regarding FPL's operational**
20 **performance?**

21 A. FPL's superior performance on the productive efficiency benchmarks has not
22 occurred at the expense of fossil and nuclear plant performance or system

1 reliability. On all of these metrics, FPL has achieved above average results,
2 with no downward trend.

3 **Q. Did you consider any other operational area as you evaluated FPL's**
4 **relative performance?**

5 A. Yes. Given the concern over air emissions in Florida and nationwide, I
6 calculated FPL's approximate level of sulphur dioxide, nitrogen oxides and
7 carbon dioxide emissions relative to a peer group.

8 **Q. How did you compare FPL to other utilities in terms of these air**
9 **emissions?**

10 A. I created a dataset of comparable companies whose energy generation was
11 within 60 percent (above or below) of FPL's 2010 generation level. Exhibit
12 JJR-9 shows that FPL produced 99,768,215 MWh of net generation in 2010.
13 There were nine utility companies within ± 60 percent of FPL's figure. For
14 this comparison, I also considered Progress Energy Florida, Gulf Power
15 Company, and Tampa Electric Company (the Florida Utility group).

16

17 As shown in Exhibit JJR-9, FPL is the top utility among both the similarly
18 sized utility and Florida utility comparables groups, with an average of 0.41
19 tons of carbon dioxide emitted per MWh, 0.45 pounds of nitrogen oxides
20 emitted per MWh, and 0.72 pounds of sulfur dioxide emitted per MWh.
21 FPL's exceptional performance in the area of greenhouse gas emissions is a
22 direct result of FPL's commitment to addressing global climate change
23 consistent with the state's evolving energy policies.

1 **Q. Are there benefits associated with FPL's commitment to a clean energy**
2 **portfolio that are not reflected in base rates?**

3 A. Yes. While FPL's investment in making its fossil-fueled generating portfolio
4 significantly more efficient are reflected in FPL's base rates, the savings
5 associated with this improved efficiency are ultimately reflected in lower fuel
6 and environmental compliance costs, which are recovered through separate
7 adjustment clauses.

8 **Q. What are your conclusions regarding FPL's performance relative to the**
9 **comparable groups?**

10 A. FPL has performed very well in comparison to its peers. In particular:

- 11 • FPL has ranked in the top quartile of the 28 companies in the Straight
12 Electric Group in every year for the past 10 years and in the top decile for
13 the past eight years.
- 14 • FPL has ranked as the top (out of four) Florida utility in each of the past
15 10 years.
- 16 • FPL has ranked as the top large utility (out of seven) in each of the past 10
17 years.
- 18 • On the individual metrics where FPL has not been a top performer, the
19 characteristics of FPL's service area, as discussed in my situational
20 assessment, and recent economic drivers, which I discuss later in my
21 testimony, explain much or all of FPL's relative "underperformance".

22

1 **VI. CONCLUSION**

2

3 **Q. What are your conclusions?**

4 A. FPL has demonstrably superior performance in many areas of financial and
5 operational efficiency, which provides customers significant savings as
6 compared with average performance. These benefits are the result of focused
7 efforts by the Company and are enhanced by FPL's strong operational record.

8

9 Macro-economic trends in the CPI and PPI, as well as labor and material
10 costs, have put enormous cost pressures on FPL. In addition, the global
11 economic crises, as well as Florida's economic downturn, have negatively
12 affected FPL's revenue growth. FPL has done an exceptional job of
13 controlling costs and achieving high levels of service to its customers, even in
14 the face of these economic drivers over which it has little or no control.

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

16 A. Yes.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
REBUTTAL TESTIMONY OF JOHN J. REED
DOCKET NO. 120015-EI
JULY 31, 2012

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is John J. Reed. My business address is 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

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 exhibit:

- JJR-13, Operational Metrics through 2011

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to comment on the testimony of the following witnesses:

- Florida Executive Agencies (“FEA”) witness Gorman;
- Florida Retail Federation (“FRF”) witness Chriss; and
- Florida Office of Public Counsel (“OPC”) witness Lawton.

Specifically, I will address issues raised by these witnesses related to the recognition of superior performance in authorizing and implementing a Return on Equity (“ROE”) adder.

II. SUMMARY

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Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony provides the Commission with additional information on the topic listed above, including examples demonstrating how other regulators have addressed these issues. As discussed in my rebuttal testimony, the ROE adder that Florida Power and Light Company (“FPL” or the “Company”) proposes is appropriate to recognize FPL’s superior performance across a broad array of metrics and should be approved by the Commission. Specifically:

- FEA witness Gorman’s claim that FPL’s risk reduction mechanisms such as “an excessive common equity ratio” and various regulatory tracker mechanisms provide sufficient reward to the Company and nullify the reasonableness of an ROE adder are inaccurate and unsupported. In fact, the proposed ROE adder is completely unrelated to FPL’s risk profile. FPL is seeking an ROE adder solely on the basis of its superior performance as measured against various peer groups, as detailed in my direct testimony.
- FRF witness Chriss fundamentally misunderstands the basis for and the implementation of the proposed ROE adder. His concerns, which are generally limited to implementation issues, have been addressed in the direct testimony of witness Dewhurst and witness Deaton and are further discussed below.

1 • OPC witness Lawton mistakenly believes that a utility’s obligation to
2 serve requires it to provide superior service in exchange for a
3 monopoly franchise. The regulatory compact entered into by utilities
4 and regulators provides for cost effective and efficient service. FPL
5 believes that the Commission should incent all Florida utilities to go
6 beyond this target to achieve superior performance through an
7 incentive mechanism; in this case, the Commission should provide this
8 incentive by approving a modest adder of 25 basis points to the ROE
9 that it determines is proper for the Company. The rewarding of
10 superior performance has precedent nationally, and well as in Florida,
11 and is appropriate considering FPL’s impressive achievements in
12 terms of cost of service and quality of service.

13

14 **III. REBUTTAL OF FEA WITNESS GORMAN**

15

16 **Q. FEA’s witness Gorman recommends that the Florida Public Service**
17 **Commission reject the recognition of superior performance in**
18 **authorizing an ROE adder. Do you agree with this recommendation?**

19 A. No, I do not. FEA witness Gorman bases his recommendation that the Florida
20 Public Service Commission (“Commission”) reject the proposed ROE adder
21 on the erroneous assumption that the adder is being proposed in recognition of
22 the Company’s financial and operating risk profile. Based on this erroneous
23 assumption, witness Gorman concludes that i) the Company’s financial risk is

1 mitigated through an “excessive common equity ratio” and ii) the Company’s
2 operating risk is reduced through the implementation of several regulatory
3 tracker mechanisms (*See* Direct Testimony and Exhibits of Michael P.
4 Gorman, at page 68 lines 3 – 9).

5 **Q. Is the Company proposing an ROE adder based on the Company’s risk**
6 **profile?**

7 A. No, it is not. In fact, the Company’s basis for seeking an ROE adder is
8 completely unrelated to risk profile. Witness Dewhurst explicitly states in his
9 direct testimony that FPL is requesting the ROE adder of 25 bps to create an
10 incentive for all utilities regulated by the FPSC to achieve superior customer
11 value and to recognize that FPL provides superior customer value. (*See* Direct
12 Testimony and Exhibits of Moray Dewhurst, at page 47, lines 11 through 13)
13 Witness Dewhurst goes on to define the factors that the Commission should
14 consider in defining superior customer value - reliability of service, cost or
15 affordability, and customer service quality. These performance measures
16 provide the basis for FPL’s proposal and not the Company’s risk profile, as
17 witness Gorman suggests.

18 **Q. Witness Gorman further states that a performance adder will incent the**
19 **Company to shift costs to non-residential customers in order to keep**
20 **residential rates low and ensure the adder is realized. Is this concern**
21 **justified?**

22 A. No, it is not. The base rates charged by the Company to each of its customer
23 classes are subject to the jurisdiction of the Commission. Any change in the

1 base rates charged to any customer class, including costs allocated to a
2 particular customer class, must be presented to, justified to, and approved by
3 the Commission. The Company has no way of modifying its cost allocations
4 to favor residential customers at the expense of non-residential customers
5 without explicit regulatory approval. The base rates approved as part of this
6 proceeding will have been fully investigated by the Commission and will
7 remain in place until the next rate proceeding.

8

9

IV. REBUTTAL OF FRF WITNESS CHRISS

10

11 **Q. Does witness Chriss recommend that the Commission reject the proposed**
12 **ROE adder?**

13 A. No. Witness Chriss does not express any opposition to the concept of
14 awarding the Company an ROE adder for the superior performance it
15 currently exhibits and has sustained over the past ten years. Furthermore, he
16 acknowledges the authority of the Commission to consider non-cost factors in
17 setting rates. Witness Chriss' concerns with the ROE adder are limited to
18 implementation and policy issues.

19 **Q. Has the Commission approved ROE adders in the past and, if so, were**
20 **these adders cost based?**

21 A. The Commission has approved ROE adders in the past that were not cost-
22 based. For example, the Florida Commission exercised its discretion to
23 reward a utility's superior management and efficiency by approving an

1 upward adjustment to Gulf Power Company's authorized rate of return in its
2 2002 rate case. In Gulf Power Company's petition for a rate increase in
3 2002, the Commission explained the factors leading to approval of a reward
4 adjustment as follows:

5
6 The testimony of Gulf witnesses Labrato and Fisher
7 demonstrates that Gulf's service is excellent. In addition,
8 testimony of customers at the customer service hearings was
9 very favorable. We find that Gulf's past performance has been
10 superior and we expect that level of performance to continue
11 into the future. In recognition of this, we find that Gulf
12 deserves to have 25 basis points added to the mid-point ROE of
13 11.75%. Thus, a 12% ROE shall be used for all regulatory
14 purposes, including, for example, implementing the cost
15 recovery clauses and allowances for funds used during
16 construction (Docket No. 010949-EI; Order No. PSC-02-0787,
17 FPSC June 10, 2002).

18 **Q. What are witness Chriss' specific concerns with the ROE adder?**

19 A. Witness Chriss details concerns with i) the lack of any basis for the amount of
20 the ROE adder, ii) the interaction between cost of service rates and incentive
21 rates, iii) implementation issues, and iv) policy issues.

1 **Q. Please explain witness Chriss' concerns regarding the lack of a cost basis**
2 **for the amount of the proposed ROE adder and the interaction between**
3 **cost of service rates and incentive rates.**

4 A. Witness Chriss does not provide any further detail about these concerns.

5 **Q. What are witness Chriss' concerns regarding implementation of the**
6 **proposed ROE adder?**

7 A. Witness Chriss expresses concern about the use of the lowest typical customer
8 bill as an appropriate metric on which to base the approval of the ROE adder:

9 "the lowest typical customer bill in the state"

10 benchmark is not necessarily a transparent, cost-based

11 metric appropriate for use in this context – any

12 comparisons should provide a level playing field among

13 Florida's regulated utilities. (See Direct Testimony and

14 Exhibits of Steve W. Chriss, at page 9, lines 15 through

15 18)

16

17 In addition, witness Chriss claims that the Company fails to address how the

18 ROE adder would be removed from rates if the Company were no longer

19 eligible for the adder at some point in the future. Furthermore, witness Chriss

20 expresses concerns about the rate classes included in a typical bill calculation,

21 the rate of return for each rate class in relation to the utility's overall rate of

22 return, and the rate design for each included rate class. Witness Chriss asserts

23 that differences in these factors would play a significant role in typical bill

1 comparisons between utilities. Finally, witness Chriss believes the proposed
2 metric would incent a utility to shift costs away from the included rate class or
3 classes to lower the rates for these rates classes and achieve the ROE adder.

4 **Q. Does witness Chriss have any basis for these concerns?**

5 A. No, he does not. Witness Chris fundamentally misunderstands the mechanism
6 that the Company is proposing and how the mechanism would be
7 implemented. FPL is not proposing that the Commission base its decision to
8 grant an ROE adder on the lowest typical residential bill. Witness Dewhurst
9 clearly explains in his testimony that the Commission should consider a broad
10 array of metrics and the Company's overall performance in assessing whether
11 or not it is appropriate to grant the Company an ROE adder. In maintaining
12 the adder, FPL is proposing that the continuation of the adder be made
13 contingent on FPL maintaining the lowest typical bill in the state. (*See Direct*
14 *Testimony and Exhibits of Moray Dewhurst, at page 49, lines 3 through 16)*

15
16 Furthermore, regarding the concern raised by witness Chriss that the
17 Company will be incented to shift costs away from residential customers
18 under the Company's proposed mechanism, this fear is totally unfounded. As
19 previously stated, the base rates charged by the Company to each of its
20 customer classes are subject to the jurisdiction of the Commission. The base
21 rates approved as part of this proceeding will have been fully investigated by
22 the Commission and will remain in place until the next rate proceeding.

1 Therefore, no cost shifting can take place without another rate proceeding and
2 approval by the Commission.

3

4 In addition, witness Chriss questions how the ROE adder would be removed
5 should the Company not achieve the lowest typical bill metric at some point in
6 the future. FPL witness Deaton clearly explains how this mechanism is
7 proposed to work in her direct testimony. Specifically, witness Deaton
8 explains that each September, in conjunction with FPL's annual fuel filing,
9 FPL will prepare and submit to the Commission a comparison of its typical
10 residential bill to the other Florida utilities for the prior 12 months. If the
11 comparison shows that FPL's typical residential bill is not the lowest on
12 average over the past 12 months, FPL would reduce rates by 0.040¢ per kWh
13 effective January 1 of the following year.

14 With regard to witness Chriss' confusion about the rate classes included in the
15 typical bill calculation on which the proposed ROE adder is based, FPL
16 witness Deaton clearly indicates that the proposal is based on lowest typical
17 residential bill, and includes several exhibits demonstrating the typical bill
18 comparison based on typical monthly residential customer usage of 1,000
19 kWh.

1 **Q. Witness Chriss equates the proposed ROE adder mechanism to**
2 **performance-based ratemaking and suggests that a separate proceeding**
3 **would be appropriate to consider the Company's proposed ROE adder.**
4 **Do you agree with this suggestion?**

5 A. No, I do not. As stated above, the Commission awarded Gulf Power
6 Company an upward adjustment to their rate of return in their general rate
7 case. FPL is merely seeking the same consideration here and suggesting that
8 this type of incentive be considered for all Florida investor-owned utilities.
9 The application of this type of incentive mechanism to other Florida utilities
10 should be considered on a case-by-case basis, as suggested by the Company in
11 the direct testimony of witness Dewhurst.

12

13 **V. REBUTTAL OF OPC WITNESS LAWTON**

14

15 **Q. Witness Lawton states that monopolies such as FPL have a duty to**
16 **provide superior service and that this obligation does not require an**
17 **incentive or bonus to fulfill. Do you agree with this statement?**

18 A. No, I do not. Electric utility companies have imposed on them a legal and
19 societal "obligation to serve." This obligation requires a utility to serve on
20 reasonable terms all those who desire the service it renders. If a customer has
21 applied for and made the necessary arrangements to receive service, and has
22 paid for or offered to pay the applicable rate and abide by the rules of the
23 company, it is the duty of a utility to render adequate and reasonably efficient

1 service at reasonable rates. In exchange for fulfilling this obligation, the
2 utility is entitled to recover its costs of providing service, plus an opportunity
3 to earn a reasonable return or profit.

4
5 Nothing in this regulatory compact obligates the utility to provide “superior
6 service”. Superior performance goes beyond the commitment made by the
7 utility to reliably and efficiently serve its customers in exchange for a
8 monopoly franchise. In this case, FPL is requesting recognition of its long-
9 standing track record of providing excellent service to its customers while
10 exercising exemplary cost control, consistent with the long-standing latitude
11 regulators possess to recognize superior performance in setting an appropriate
12 return. In this case, the Company has outperformed similarly sized companies
13 across an array of financial and operational metrics, even while faced with
14 externalities that challenge its efficiency and cost structure. FPL has sustained
15 this above average performance over the past decade, and this trend has
16 continued into 2011, as shown in Exhibit JJR-13. FPL’s distribution system
17 continues to be the most reliable delivery system in the state as compared to
18 all other Florida investor-owned electric utilities.

19
20 As stated in my direct testimony, FPL customers have benefited directly from
21 this level of performance. If the Company had been an average performer, its
22 non-fuel operation and maintenance costs charged to customers would have
23 been approximately \$1.6 billion higher than its actual costs in 2010 alone.

1 **Q. Can you provide recent examples of regulators recognizing superior**
2 **performance through the use of ROE adders?**

3 A. Yes. In addition to the Gulf Power Company example cited above, there are a
4 number of cases from the late 1970's to the mid-1990's where commissions
5 reviewed utility efficiency and either explicitly or implicitly reflected their
6 findings in setting an allowed rate of return. For example, the Rhode Island
7 Public Utilities Commission ("RIPUC"), as part of a general rate case for
8 Narragansett Electric Company, took note of corporate performance in setting
9 ROE. The RIPUC noted:

10 In establishing a reasonable return from within a range, the
11 commission has in the past given consideration to the service
12 record of the company and the general attitude of management
13 in meeting its public service obligations. In recognition of the
14 company's performance the Commission finds the fair rate of
15 return to be 13.75 which is the upper end of the range
16 proposed (Rhode Island Public Utilities Commission,
17 November 8, 1980. Re Narragansett Electric Company,
18 Docket No. 1499)

19
20 In addition, the Utah Commission, in two cases, noted that various elements
21 of utility performance warranted recognition in setting the ROE for a
22 company. Specifically, a 1990 order in a Utah Power and Light general rate
23 case, the Utah Commission noted:

1 We recognize that management performance is an appropriate
2 factor for the Commission to consider in setting the return on
3 equity within a reasonable range (Public Service Commission
4 of Utah, February 9, 1990. Re Utah Power and Light
5 Company, Docket No. 89-035-10).

6 Later, in a 1995 case for Mountain Fuel Supply Company, the Commission
7 echoed that perspective:

8 The Commission agrees that the Company's gas procurement
9 performance merits recognition and is a factor contributing to
10 the stipulated return-on-rate base (Public Service Commission
11 of Utah, October 17, 1995 Re Mountain Fuel Supply Company,
12 Docket No. 95-057-02).

13 **Q. Witness Lawton suggests that the additional revenue that FPL would**
14 **realize through the requested 25 basis point adder is unnecessary for the**
15 **Company to earn a reasonable return or provide efficient service to its**
16 **customers. Is the Company requesting this ROE adder on the basis that**
17 **it is needed to provide adequate service to its customers?**

18 A. No, it is not. The Company is not suggesting that the proposed adder is
19 necessary to provide adequate and efficient service to its customers. Rather,
20 the company is proposing that the Commission consider a broad array of
21 performance metrics in its decision to award an ROE adder for superior
22 service. While all utilities strive to provide efficient service through adequate
23 management performance, consistently superior service can only be achieved

1 through a commitment to excellence by management. As discussed in my
2 direct testimony, FPL has continuously and consistently demonstrated a
3 commitment to excellence in service. FPL's performance controlling its non-
4 fuel O&M expenses has been strong in every year over the past ten years,
5 ranking as the top performer or in the top quartile of comparable companies.
6 This demonstrated excellence in controlling costs, combined with
7 achievements in system reliability, customer service quality, and clean
8 generation supports an incentive for continued operational excellence.

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

10 **A. Yes.**

1 BY MR. LITCHFIELD:

2 Q Now, you're sponsoring exhibits in both your
3 direct and rebuttal testimony, correct?

4 A Yes, I am.

5 Q And do those exhibits in the case of the
6 direct testimony consist of JJR-1 through JJJ-12?

7 A That's correct.

8 Q And in the case of your rebuttal,
9 Exhibit JJR-13?

10 A Yes.

11 MR. LITCHFIELD: And, Mr. Chairman, I would
12 note that Mr. Reed's exhibits have been premarked
13 for identification in staff's exhibit list as
14 Exhibits 123 through 134 in the case of his
15 prefiled exhibits for his direct testimony, and
16 No. 435 with regard to his Exhibit JJR-13 attached
17 to his rebuttal testimony.

18 BY MR. LITCHFIELD:

19 Q Mr. Reed, have you prepared summaries of your
20 direct and your rebuttal testimony?

21 A Yes, I have.

22 Q Would you provide first your direct, and make
23 sure the Commissioner understands you have finished
24 your summary on your direct and then move into your
25 rebuttal summary.

1 A I will. Thank you.

2 Good afternoon. It's my pleasure to begin
3 the testimony in this proceeding with the summary of my
4 direct testimony, which presents an analysis of FPL's
5 operational performance for 2001 through 2010 through
6 their use of a benchmarking study and compares FPL's
7 performance across a broad array of metrics relative to
8 its peers. My study involves measuring FPL's
9 efficiency against three different peer groups to
10 ascertain -- excuse me -- to evaluate its performance
11 over ten years.

12 In addition, I have reviewed a number of
13 reliability metrics to ascertain whether any cost
14 improvements that may have been achieved were done at
15 the expense of service quality. I have, where
16 possible, measured and quantified the associated
17 customer benefits from FPL's performance.

18 My review of FPL's performance has
19 demonstrated that the company has consistently and
20 significantly out-performed similarly-sized companies
21 across a broad array of financial and operational
22 metrics. For example, FPL is a top performer in
23 managing nonfuel production O&M expenses, labor costs,
24 and the cost of adding necessary infrastructure to
25 serve new customers.

1 In addition, FLP's generation fleet is highly
2 efficient and produces far less CO2 per megawatt hour
3 than its peers. The company has achieved these
4 outstanding results in spite of the fact that it is
5 somewhat disadvantaged by certain factors that are
6 known to have an adverse impact on a utility's costs.

7 For example, FPL's customer base consists of
8 a high percentage of residential customers with low
9 usage, which are more expensive to serve than
10 commercial and industrial customers. Its sales volumes
11 have been volatile and it is more transmission
12 dependent than its peers.

13 In terms of overall performance efficiency,
14 FPL has ranked in the top four of the 28 companies in
15 the Straight Electric Comparison Group in every one of
16 the past ten years.

17 It is also important to recognize that FPL
18 has continued to out-perform its peers in terms of
19 managing costs while undertaking significant
20 expenditures to ensure that its generation fleet is
21 producing clean energy at low cost.

22 Behind me is the graph of FPL's performance
23 for 2010, which shows on a total cost basis that FPL
24 out-performed every one of the 28 companies in the
25 Straight Electric Peer Group in the past year; 2010.

1 The benefits of the company's strong
2 performance in terms of financial and operational
3 metrics are substantial. For 2010 alone, if FPL had
4 been an average performer among the 28 companies in the
5 Straight Electric Group, its nonfuel operation and
6 maintenance cost would have been approximately
7 \$1.6 billion higher than its actually costs were.
8 Importantly, these savings have not been achieved at
9 the expense of system reliability.

10 FPL has been a top performer in controlling
11 the duration of its distribution system outages as
12 compared to its Florida peers, and it has continued to
13 out-perform these peers in controlling the frequency of
14 its interruptions. This Commission can be confident
15 that FPL is effectively managing its costs and
16 maintaining its high quality of service. Under
17 Florida's and many other states' regulatory frameworks,
18 it is appropriate to consider the company's efficiency
19 and service quality in establishing the utility's
20 allowed return on equity.

21 In situations such as these where a utility
22 is delivering extraordinarily favorable results for
23 customers, the Commission can and should consider FPL's
24 efforts on behalf of its customers in setting the
25 appropriate return on equity. That concludes my direct

1 summary.

2 Turning to rebuttal. My rebuttal testimony
3 responds to the testimony of FEA Witness Gorman, FRF
4 Witness Chriss, and OPC Witness Lawton. My testimony
5 addresses the reasonableness of an ROE adder, the basis
6 for an implementation of the proposed ROE adder, and
7 the alleged obligation of a utility to provide superior
8 service as part of the regulatory compact. On each
9 issue I explained why FPL's performance over the past
10 decade, in my opinion, should be rewarded through an
11 ROE adder.

12 In response to the claims in Witness Gorman's
13 testimony that there are sufficient mechanisms in place
14 to reward FPL for its performance and that therefore
15 there is no need for an ROE adder, the mechanisms he
16 cites serve to reduce FPL's risk profile. They are
17 completely unrelated to the requested ROE adder. The
18 basis for the company's request for an ROE adder is the
19 delivery of a superior customer value. That is
20 reliability of service, affordability of service, and
21 customer service quality. These measures of value
22 provide the basis for FPL's proposal, not any need to
23 alter the company's risk profile.

24 Regarding witness Chriss' concern that the
25 proposed 25 basis points ROE adder is not cost based,

1 the Florida Commission has approved upward adjustments
2 to authorize rates of return for other Florida
3 utilities in the past and those adjustments were not
4 cost based.

5 Furthermore, while Witness Chriss expresses
6 concern about the use of the lowest typical customer
7 bill in approving the ROE adder, the company has made
8 it clear that the Commission should consider a variety
9 of metrics in evaluating the ROE adder and use the
10 lowest bill metric only to assess the continuation of
11 that adder.

12 Finally, Witness Lawton claims that FPL has a
13 duty to provide superior service and that this duty
14 does not warrant an incentive to encourage compliance.
15 I disagree. Electric utility companies have an
16 obligation to serve and to render adequate and
17 reasonably efficient service at reasonable rates.
18 Superior service goes beyond the commitment to serve.

19 FPL has a longstanding track record of
20 providing excellent service to its customers while
21 exercising exemplary cost control over the past decade.
22 FPL's customers have benefited directly and
23 substantially from this level of performance in terms
24 that go to both cost savings and quality of service.

25 The proposed ROE adder may not be necessary

1 for FPL to continue to provide adequate and efficient
2 service to its customers. However, FPL's consistently
3 superior performance warrants recognition by this
4 Commission.

5 FPL's performance in controlling its nonfuel
6 operation and maintenance expenses have been very
7 strong in every year over the past ten years and in
8 total is unparalleled in the industry. This
9 performance can only be achieved through a commitment
10 to excellence by management and the ROE adder will
11 serve to encourage continued excellence in the future.

12 That concludes my summary of my rebuttal.

13 MR. LITCHFIELD: Thank you, Mr. Reed.

14 Mr. Chairman, Mr. Reed is available for
15 cross-examination.

16 CHAIRMAN BRISE: Thank you very much.

17 Mr. Young, if you can go over that order that
18 we have laid out once again.

19 MR. YOUNG: All cross-examination of FPL
20 witnesses, the order is as such: FIPUG, then
21 South Florida Hospital, then FEA, then Algenol,
22 OPC, FEA, Village of Pinecrest, Mr. Saporito, and
23 then Mr. Hendricks.

24 CHAIRMAN BRISE: Okay. So at this time,
25 Mr. Moyle.

1 MR. MOYLE: Thank you, Mr. Chairman.

2 CROSS-EXAMINATION

3 BY MR. MOYLE:

4 Q Good afternoon, Mr. Reed.

5 A Good afternoon, Mr. Moyle.

6 Q I think for the purposes of our conversation,
7 our cross-examination, I'll probably go through some
8 points you make in your direct and then follow up with
9 rebuttal, from an organizational standpoint.

10 The first thing I want to ask you about is
11 your Exhibit JJR-11. And tell me when you're there.

12 A I'm there.

13 Q You list as a source for this information the
14 Bureau of Labor Statistics; is that right?

15 A That's correct.

16 Q And you find them to be a reliable source of
17 information with respect to economic issues?

18 A Yes.

19 Q And you have familiarity with the reports
20 that the Bureau of Labor Statistics issues; is that
21 right?

22 A Yes.

23 Q Page 15 of your testimony, line 15.

24 A I have that.

25 Q You're asked to describe the current state

1 and local economic conditions in FP&L's service
2 territory and the impact of these economic conditions
3 on FP&L revenues, correct?

4 A Yes.

5 Q Okay. Are you aware that the Bureau of Labor
6 Statistics issued a report last week with respect to
7 Florida's economy?

8 A It issues reports, I think, every week, but I
9 did see one on employment, if that's what you're
10 talking about.

11 Q All right.

12 MR. MOYLE: I would like to approach. I have
13 an exhibit, Mr. Chairman, that is the July 2012
14 excerpted Bureau of Labor Statistics Report. I
15 would like to ask the witness some questions about
16 that. And whatever your preference is with
17 respect to how to distribute exhibits.

18 CHAIRMAN BRISE: Sure. You can make it
19 available to our staff so it can be distributed,
20 please.

21 MR. MOYLE: Mr. Chairman, I provided an
22 exhibit to the parties and the witness, I think
23 it's 472.

24 CHAIRMAN BRISE: That's correct.

25 (Exhibit No. 472 was marked for

1 identification.)

2 BY MR. MOYLE:

3 Q Mr. Reed, have you had a chance to glance at
4 this exhibit?

5 A Yes.

6 Q Okay. And does this look like a true and
7 accurate excerpt copy of a Bureau of Labor Statistics
8 report?

9 A I can't really vouch for that. It does look
10 similar to what typical BLS news releases look like.

11 Q All right. And the release date, they
12 release reports on Fridays; is that right?

13 A For employment, yes.

14 Q And this was released on August 17th, 2012,
15 correct?

16 A So it appears, yes.

17 Q And I want to address you three pages down,
18 there is a Table B that says, "States with
19 statistically significant high employment rate change
20 from June of 2012 to July of 2012 seasonally adjusted."
21 Do you see that?

22 A I do.

23 Q And is this something that the Bureau of
24 Labor Statistics typically tracks?

25 A Yes.

1 **Q And what does it say with respect to Florida?**

2 A It indicates that the unemployment rate
3 increased from June to July from 8.6 percent to
4 8.8 percent.

5 **Q So that means that jobs were lost; is that**
6 **right?**

7 A Not necessarily. It's a measure of
8 employment and unemployment relative to the workforce.
9 It primarily means that in fact the workforce expanded,
10 the number of people seeking work expanded in that
11 time.

12 **Q So there were more people looking for jobs**
13 **than the previous months?**

14 A Yes, among other things.

15 **Q Let me flip you to the last couple of pages,**
16 **Table 6. Tell me when you're there.**

17 A Yes, I have that.

18 **Q This table says that this represents the**
19 **employees on payroll by state and selected industry**
20 **sector; is that right?**

21 A Yes, for nonfarm payrolls.

22 **Q Okay. So with respect to manufacturing, how**
23 **many people were on payroll in June of 2012?**

24 A 315,600 in Florida.

25 **Q And how many were on payroll approximately a**

1 month later?

2 A 312,100.

3 Q Okay. And do you see the notes down at the
4 bottom of the exhibit?

5 A I do.

6 Q That's not part of the Bureau of Labor
7 Statistics; those are notes that I did.

8 A Oh, the notes, not the thing that's labeled
9 "Note," but the handwritten blue notes?

10 Q That's right.

11 A I see that.

12 Q And I was going to ask you if you would check
13 my math on that based on your testimony if there were
14 315,000.6 manufacturing jobs in June of 2012 and then
15 there's 3,112.1 manufacturing jobs in July, that's a
16 3.5 times 1,000 difference, correct?

17 A Yes. For data that are not seasonally
18 adjusted, that's correct.

19 Q And then the same questions with respect to
20 the next page, education and health services, do you
21 see that?

22 A I do.

23 MS. CHRISTENSEN: Commission, OPC would like
24 to object to this line of questioning. It goes
25 beyond the scope of Mr. Reed's either director or

1 rebuttal testimony, and as well as his friendly
2 cross.

3 CHAIRMAN BRISE: Okay.

4 MR. MOYLE: I wouldn't say it's not friendly.
5 I mean, I'm making a point with respect to what I
6 said in my opening, that there's a loss of jobs
7 from month to month. And this witness has given
8 direct testimony describing the current economic
9 conditions. You know, this is current economic
10 conditions as put together by the, you know,
11 Department of Labor, you know, last week, so I
12 think it's fair game.

13 CHAIRMAN BRISE: Okay.

14 MR. LITCHFIELD: On FPL's behalf, now, we've
15 never really experienced friendly cross from
16 Mr. Moyle so I may not recognize it when I see it,
17 but I really don't perceive this as friendly cross
18 at all.

19 CHAIRMAN BRISE: Thank you.

20 Ms. Helton.

21 MS. HELTON: To the extent that the witness
22 talked about the economic climate and to the
23 extent that you're looking for information that is
24 up-to-date, it seems to me that Mr. Moyle's
25 cross-examination goes to that.

1 To the extent that you want to keep it
2 completely narrowed to the scope of the prefiled
3 testimony, it may go a little bit beyond that.

4 CHAIRMAN BRISE: Thank you.

5 MR. MOYLE: If it helps, that was the last
6 question I had on this line.

7 CHAIRMAN BRISE: Okay. That's helpful. So
8 therefore we'll overrule the objection.

9 BY MR. MOYLE:

10 **Q I had asked you a series of questions about**
11 **the information that is on the second to the last page**
12 **of the exhibit with respect to the data and what it**
13 **reflects.**

14 **On the last page of the exhibit, there is a**
15 **section "Education and Health Services." And with**
16 **respect to those questions that I previously asked,**
17 **would your answers be the same if I asked you them**
18 **about the components under "Education and Health**
19 **Services"?**

20 A Yes. I think your figure there of 6,700 jobs
21 lost under that sector on a nonseasonal adjusted basis,
22 that's correct.

23 **Q Thank you.**

24 **On page 15 at the top, lines 1 and 2, you say**
25 **that "Utility construction costs, which directly affect**

1 the cost of additions to rate base, have increased
2 significantly in years."

3 Is the basis for that followed in your
4 testimony with respect to how you make that statement?

5 A Yes, it is. It's presented in Exhibit
6 JJR-12.

7 Q Page 14, this is, again, back on some of the
8 information with respect to the Bureau of Labor
9 Statistics. You say that utility employee compensation
10 has increased 5.72 percent; is that right? It's down
11 on line 22.

12 A Yes, that's correct.

13 Q Isn't it true that part of the reason
14 employee compensation has increased is because Florida
15 Power & Light has agreed to give salary increases?

16 A You're talking about specifically for FPL's
17 cost of service or what's in the BLS data?

18 Q Well, I guess do you have -- if I understand
19 the point that you're making is to say, well, some
20 labor costs have gone up. And then you're also aware
21 that FPL's labor costs have gone up; is that right?

22 A Both are true, yes.

23 Q All right. And for FPL's labor costs to go
24 up, they have to agree with respect to if they give
25 someone a raise or if they have some collective

1 **bargaining agreements, they have to go to the table and**
2 **ultimately they make a decision and say, okay, more**
3 **money for salaries; would you agree with that?**

4 A They have to either agree or face, obviously,
5 a labor unrest or potentially mediation.

6 **Q Right. But in terms of collective**
7 **bargaining, I mean, do you have familiarity that that's**
8 **done through agreement, they can't be forced on you,**
9 **because it's give and take at a negotiating table? You**
10 **would agree with that, right?**

11 A It's give and take at the negotiating table.

12 **Q All right. So with respect to the cost of**
13 **labor -- back to my original question -- those are all**
14 **costs that FPL has agreed to provide, correct?**

15 A They are. That, of course, is consistent
16 with the market, that's my point.

17 **Q Okay. So what's the average wage of an FPL**
18 **employee?**

19 A I don't have that statistic.

20 **Q Okay. Do you know what the average wage of a**
21 **utility employee is?**

22 A The weekly earnings are presented there on
23 page 14 and are shown as having increased from 1,215
24 per week to 1,385 per week from 2006 to 2011.

25 **Q All right. Do you have a calculator with**

1 **you?**

2 A I can probably do something.

3 **Q Phones have a lot of those apps these days**
4 **that I find useful.**

5 A Go ahead.

6 MR. LITCHFIELD: Mr. Chairman, I apologize.
7 Not to interpose an objection, but just in terms
8 of focusing Mr. Moyle potentially on a more
9 appropriate witness, it would be Ms. Kathleen
10 Slattery, who is appearing, who is able to speak
11 to both FPL's labor costs, as well as labor costs
12 for the electric utilities within our peer group.

13 CHAIRMAN BRISE: Thank you.

14 MR. MOYLE: I have some questions for her
15 too.

16 CHAIRMAN BRISE: Sure. You may proceed.

17 BY MR. MOYLE:

18 **Q So, Mr. Reed, in terms of doing the math, I**
19 **did it, I took the 1,385.48 and I did it times 52. Is**
20 **that a fair calculation to determine the annual wage?**

21 A Yes.

22 **Q Okay. And my numbers came out to just**
23 **slightly north of the 72,000. Is that how your numbers**
24 **come out?**

25 A Yes.

1 **Q** But you don't know with respect to
2 **benchmarking how that 72,000 necessarily compares with**
3 **the average wage of an FPL employee; is that right?**

4 A No, I didn't make that specific comparison.
5 I looked at employment cost in aggregate for FPL versus
6 other utilities, but not at the individual worker
7 level.

8 **Q** Okay. And I had one question about the
9 **handout. Have you see this handout that FPL used in**
10 **their opening? I guess you were in the room when they**
11 **did that, right?**

12 A I have not seen a handout though, no.

13 **Q** On page 5, there's a **Distribution and**
14 **Reliability Chart?**

15 CHAIRMAN BRISE: Mr. Moyle, I don't believe
16 Mr. Reed has that.

17 MR. LITCHFIELD: Well, Mr. Moyle might also
18 refer to the exhibit number, which is Mr. Reed's
19 exhibit.

20 BY MR. MOYLE:

21 **Q** Okay. It's JJR-5, page 8 of 10.

22 A I have that page, yes.

23 **Q** Okay. So down on the bottom of the graph, I
24 **get it, it's a year. On the side of the graph, what**
25 **are those units that are set forth on the left-hand**

1 **side?**

2 A Those are the measures for the SAIDI Index,
3 which is in minutes.

4 **Q In what?**

5 A Minutes.

6 **Q So the top number of 140,000, I guess it's**
7 **140, I'm sorry -- is that right -- 140, that's 140**
8 **minutes?**

9 A Yes. Although, that may be thousands of
10 minutes. It's probably -- yes, it's a system average.
11 It is a time based measure in minutes.

12 **Q So 140 -- 140,000 -- I'm just trying to -- I**
13 **didn't understand what this was trying to reflect and I**
14 **didn't see a unit of measurement on the left-hand side**
15 **so I -- you know, it's your exhibit, I figured I'd ask**
16 **you what that is representing on the left-hand side.**

17 A It is the SAIDI Index, and it's the average
18 duration of interruptions per consumer. So it's the
19 number of minutes per consumer. So in that case, it
20 would be 100 and -- if you're looking at the 2006 data
21 point, 120 minutes per consumer for the industry
22 average.

23 **Q This doesn't represent the amount of time**
24 **that someone goes without an interruption?**

25 A No. It's the opposite, it's the amount of

1 time it takes to restore service. So it's the duration
2 of the interruption for customers that have experienced
3 an interruption.

4 **Q Some questions on your rebuttal. There may**
5 **be a little overlap on this. But if I understand your**
6 **direct, you spent a lot of time measuring a lot of**
7 **things; is that a fair characterization?**

8 A I suppose so. Maybe that should have been my
9 summary.

10 **Q And part of your testimony is suggested --**
11 **it's filed in support of FPL's ROE adder, correct?**

12 A It does support that, yes.

13 **Q Okay. And your testimony also supports FPL's**
14 **ROE, correct?**

15 A No. Specifically the adder, not the overall
16 ROE.

17 **Q So your testimony -- I saw in your previous**
18 **testimony that you had back in your direct that you had**
19 **indicated you previously appeared in front of this**
20 **Commission and you had benchmark testimony for the**
21 **purposes of supporting FPL's ROE adder; isn't that**
22 **right?**

23 A Yes.

24 **Q Okay. So that is not the purpose of the**
25 **testimony in this case?**

1 A No. My point was it is the ROE adder, not
2 the absolute level of the ROE.

3 **Q Okay. When you had previously provided that**
4 **testimony, what I guess is reflected on JJR-2, is that**
5 **right, your testimony in front of the Florida**
6 **Commission?**

7 A Are you talking about my testimony in 2009?

8 **Q Go to your JJR-2.**

9 A I have that. Which page?

10 **Q Page 5 of 24.**

11 A Okay.

12 **Q See the third one down under "Florida Public**
13 **Service Commission"?**

14 A Yes.

15 **Q "Florida Power & Light 3/09, Florida Power &**
16 **Light Docket No. 080677"?**

17 A Yes.

18 **Q And your description is "benchmarking in**
19 **support of ROE"; is that right?**

20 A Yes. That was the case in 2009.

21 **Q Okay. And was that testimony only in support**
22 **of an ROE adder or was that in support of the overall**
23 **ROE?**

24 A No, that testimony was different. It was in
25 support of FPL being at the upper end of the range of

1 the recommended ROE range by the ROE witness.

2 Q Okay. So I just want to be clear. So your
3 testimony in this case is not in support of the ROE,
4 it's in support of the ROE writer; is that right?

5 A The adder, that's correct.

6 Q Okay. I'm sorry, I said "writer." Adder.
7 All right. So let's talk a little bit about
8 that. On page 5 of your rebuttal, line 5.

9 A Yes.

10 Q Actually, line 4 you say that -- and I quote
11 -- "FPL believes that the Commission should incent all
12 Florida utilities to go beyond this target to achieve
13 superior performance through an incentive mechanism.
14 In this case, the Commission should provide this
15 incentive by approving 25 basis points to ROE"; is that
16 right?

17 A Yes, that's correct.

18 Q And do you believe that if the Commission
19 were to do that that -- do that in this case, that that
20 would incent the other Florida utilities?

21 A Obviously it has to begin somewhere. I think
22 it should begin in this case with the adoption of a
23 formal incentive mechanism in the form of an ROE adder.
24 I certainly would not have any opposition to that being
25 extended to other utilities in other cases. I think

1 it's appropriate to begin here.

2 Q Okay. And you would agree that this decision
3 that the Commission is being asked to make is a policy
4 decision, correct?

5 A I would agree with that, yes.

6 Q And would it be your view also that this
7 decision should have, you know, uniform applicability
8 so that to the extent that, say, Progress Energy
9 Florida/Duke Energy, if they could come in and show
10 that they were superior and had the lowest residential
11 bill, typical residential bill, that they should
12 likewise get an adder?

13 A I think that should be considered by the
14 Commission. I think establishing incentives are a good
15 policy. I think broadly establishing them is a good
16 policy. It has to begin somewhere; I think it's
17 appropriate to begin here.

18 Q Okay. And I know you're not, you know, a
19 lawyer in Florida, but are you aware that with respect
20 to matters of policy of general applicability, that the
21 proper vehicle by which those are typically done in
22 Florida under administrative law is through rule
23 making?

24 MR. LITCHFIELD: Objection. Testifying.

25 CHAIRMAN BRISE: I'll allow it.

1 THE WITNESS: I am generally aware of the
2 rule-making process in Florida, but I would not
3 characterize this proposal as one of necessarily
4 general applicability. That should be for the
5 Commission to consider in the future. The
6 proposal before the Commission is quite specific
7 in this case.

8 BY MR. MOYLE:

9 **Q All right. But it wouldn't be fair just to**
10 **tell Power & Light they're the only ones that could**
11 **qualify for this add or, slash, bonus, however you want**
12 **to characterize it? I mean, that's not fair if another**
13 **utility can, you know, meet the bar, you know,**
14 **shouldn't they also get it?**

15 A As I said, I would not object to this
16 Commission extending that policy more broadly. What's
17 before it is the case that's been made with regard to
18 FPL, which I think is a compelling case.

19 **Q Okay. But you would agree that this**
20 **Commission is bound to follow the law with respect to**
21 **deciding issues of policy, correct?**

22 A Yes. To the extent there is applicable law,
23 yes.

24 **Q Okay. And you're not holding yourself out as**
25 **knowledgeable of Chapter 120, Florida Statutes here**

1 **today, correct?**

2 A No.

3 **Q Okay. And are you aware that the Public**
4 **Service Commission is a body that's within the**
5 **Legislature, is housed within the Legislature?**

6 A No, I don't think I am.

7 MR. SAPORITO: Mr. Chairman, I would like to
8 lodge an objection. I mean, this cross is like
9 going outside of his direct and cross as far as my
10 reading of the transcripts.

11 CHAIRMAN BRISE: Mr. Moyle.

12 MR. MOYLE: Well, I would respectfully
13 disagree. I mean, it's talked about as a matter
14 of policy. You know, on page 8 of his rebuttal
15 testimony, he talks about policy issues on line 21
16 so we're going to fairly have a conversation.

17 And my questions now -- if you want me to
18 sort of explain the relevancy -- is with respect
19 to the Commission's rule vis-a-vis the Legislature
20 in developing policy. So that's where I'm going.

21 MR. SAPORITO: Mr. Chairman, my review of
22 page 8 referenced by the attorney, I don't see
23 anything -- any discussion about policy-making
24 testimony by this witness.

25 CHAIRMAN BRISE: Thank you, Mr. Saporito.

1 Mr. Moyle, you can continue with your line of
2 questioning for the time being.

3 BY MR. MOYLE:

4 **Q All right. So do you have an understanding**
5 **with respect to whether it's the role of this**
6 **Commission to consider matters of policy vis-a-vis the**
7 **Legislature's role to consider matters of policy?**

8 A Well, I'm not an expert in the division of
9 responsibility between the Commission and the
10 Legislature in that regard. I would simply note, which
11 I did on page 8, what's being requested here is the
12 same that the Commission did in 2002 in the Gulf case.

13 So to the extent it was permitted to do it in
14 2002, I think that same recognition and treatment would
15 be applicable here.

16 **Q And you've heard the saying "two wrongs don't**
17 **make a right," right?**

18 A I have heard that.

19 **Q Okay. I'm a little unclear about how it's**
20 **envisioned that this judgment with respect to who is**
21 **providing the best superior performance will be**
22 **determined. And my reading of your testimony is that**
23 **you have a whole bunch of measurements that are out**
24 **there and you spent lots of pages in your direct going**
25 **through that.**

1 **But at the end of the day, if I understand**
2 **it, those measurements would not be used in trying to**
3 **make a judgment as to who -- or whether FPL would**
4 **qualify for this adder in that the criteria that would**
5 **control the decision would be the typical residential**
6 **bill. Am I right?**

7 A No, that's not correct. And this is made
8 clear in not only my rebuttal but also the testimony of
9 Mr. Dewhurst. The company's position is that the
10 decision to adopt the ROE adder should be consider by
11 this Commission based upon a wide variety of metrics,
12 and that includes the more than 20 metrics that I have
13 in my direct testimony, as well as the customer service
14 information that Ms. Santos puts forth in her evidence.

15 The decision as to whether the ROE adder
16 should be considered after it's implemented is based on
17 a trigger, as the company has proposed, as to whether
18 it is providing the lowest typical residential bill in
19 the future. But the consideration of the applicability
20 of the ROE adder is based upon the entirety of the data
21 that I've provided, as well as the customer service
22 data that Ms. Santos has provided.

23 **Q Okay. So on page 10 of your rebuttal, I**
24 **guess on line 11, you say, "In maintaining the adder,**
25 **FPL is proposing that the continuation of the adder be**

1 made contingent on FPL maintaining the lowest typical
2 bill in the state," correct?

3 A Yes, that's correct, as I said.

4 Q Okay. So wouldn't you agree with me that
5 with respect to if this Commission were to adopt this
6 proposal, that with respect to a determination in 2014,
7 that the criterion with respect to the lowest
8 residential bill becomes the criterion by which the
9 adder is measured or not?

10 A I was with you up until the very end. It is
11 the criterion by which the ROE adder is continued or
12 not, not measured.

13 Q Okay. So just help me with this. 2014,
14 let's say the Commission adopts this, now it becomes
15 time to say, okay, do you get another 25 basis points.
16 Do we have a separate hearing where all, you know, the
17 parties put on evidence about, well, this matrix over
18 here, they didn't do this, and we have a contested
19 evidentiary hearing with respect to all of the criteria
20 that you lay out? Does the Commission just look at who
21 has the lowest residential bill in the state? I mean,
22 how is it envisioned that the decision would be made, I
23 guess is the question?

24 MR. LITCHFIELD: Can I object to the form of
25 the question in the sense that consistent with

1 your instruction earlier, Mr. Chairman, that this
2 does seem like it's going more towards discovery.
3 The mechanism is actually quite clearly laid out
4 in prefiled testimony and will be addressed by
5 Witness Deaton when she takes the stand.

6 CHAIRMAN BRISE: Thank you.

7 MR. MOYLE: I just would respectfully
8 disagree that -- they're proposing this, they're
9 saying this is how it's going to work. You know,
10 candidly this is rule-making-type stuff and, you
11 know, it's kind of being made up in the case, so I
12 want to understand how they expect it will work.

13 If you're going to be asked to say we're
14 going to adopt this, I think it should be fair
15 game to clearly articulate do you look at the
16 lowest residential bill, do you look at, you know,
17 all of the other criteria. I mean, what's the
18 concept?

19 MR. LITCHFIELD: To be clear, it's really
20 less of an objection and more, again, of a pointer
21 that this is clearly laid out and discussed by
22 another witness in the case.

23 CHAIRMAN BRISE: Thank you.

24 Mr. Moyle, I'm trying to figure out if this
25 is the appropriate witness for that question. So

1 if you could sort of clarify that for me.

2 BY MR. MOYLE:

3 **Q I mean, are you comfortable talking about**
4 **that, Mr. Reed, with respect to how you -- do you have**
5 **information or do you know how this is going to be**
6 **implemented?**

7 A My information is presented on page 11 of my
8 rebuttal. And as it indicates in the reference there
9 to Witness Deaton, who explains exactly how that's
10 going to take place.

11 MR. SAPORITO: Mr. Chairman, I just at this
12 time want to renew my objection. This testimony
13 is now going to be policy making for the
14 Commission's consideration rather than speaking
15 about this witness's prefiled testimony. That's
16 my objection.

17 CHAIRMAN BRISE: Thank you.

18 So, Mr. Moyle, if I heard what Mr. Reed said
19 properly in your last question, he is pointing you
20 towards another witness.

21 MR. MOYLE: Okay. And I guess I'll save the
22 rest of this for Witness Deaton. But, you know,
23 in his testimony, he says, here's the deal and
24 references Deaton. So I think, you know, by
25 capturing what other witnesses say, if they're

1 adopting that, I think it's fair game to ask
2 questions like I'm asking. And I think, you know,
3 how it's implemented is a fair question. But I'll
4 hold the rest of it for Witness Deaton.

5 CHAIRMAN BRISE: Yes, if you could move on to
6 the next subject.

7 MR. MOYLE: Okay.

8 BY MR. MOYLE:

9 **Q One other question. On page 14 you cite some**
10 **authority and you ask this -- if I understand it --**
11 **this Commission to consider on this issue, the Rhode**
12 **Island case; is that right?**

13 A That's correct.

14 **Q Okay. And on line 12, there's a statement**
15 **that the general attitude of management is something**
16 **that can be considered in determining whether an ROE**
17 **writer or adder would be considered; is that correct?**

18 A Yes.

19 **Q And is it your testimony that the general**
20 **attitude of management, in your matrix and all of the**
21 **things to be considered, that the attitude would also**
22 **be considered?**

23 A I think that can be part of management
24 performance, yes.

25 **Q Okay. And then how would you propose that**

1 **attitude be considered and judged?**

2 A I can tell you how it has been considered by
3 other State Commissions, and that's looking to the
4 company's willingness and effectiveness in adopting
5 state energy policy goals and objectives, such as
6 conservations, such as air emission reductions, items
7 like that, which really are state policy matters that
8 the company is asked to embrace. And the attitude of
9 management in embracing those is what other state
10 commissions have looked at.

11 **Q So you would agree that in Florida, the state**
12 **energy policy and goals, that it's not -- it's largely**
13 **driven by legislative requirements and requirements of**
14 **this PSC?**

15 A Yes, it includes those.

16 **Q Okay. So if it's determined by legislative**
17 **action and PSC action, then I guess it becomes sort of**
18 **a judgment about how, well, you know, how well they**
19 **did, how willing they were in going along? I mean,**
20 **don't you agree that attitude is a very subjective**
21 **criteria?**

22 A Certainly attitude is subjective. Again, I
23 tried to provide very clear objective information with
24 quantitative assessments and a quantitative measure of
25 the savings produced.

1 MR. MOYLE: Okay. That's all I have. Thank
2 you.

3 CHAIRMAN BRISE: Thank you very much,
4 Mr. Moyle.

5 At this time, South Florida Hospital
6 Association.

7 MR. SUNDBACK: Good afternoon, Mr. Chairman,
8 Commissioners. Mark Sunback on behalf of SFHHA.

9 CROSS-EXAMINATION

10 BY MR. SUNDBACK:

11 **Q Good afternoon, Mr. Reed. Good to see you**
12 **again.**

13 A Good afternoon, Mr. Sundback.

14 **Q Let's start with your direct, lines 18**
15 **through 21, please. That sets forth, as I understand**
16 **it, a description in a very general fashion of your**
17 **assignment in this case; is that right?**

18 A Yes.

19 **Q Aside from what you've relayed right on that**
20 **page, FPL didn't place any other limits on the topics**
21 **or costs you should include in your benchmarking study;**
22 **is that correct?**

23 A That's correct.

24 **Q Let's look at your rebuttal testimony,**
25 **page 16, please, line 1.**

1 A Yes, I have that.

2 Q You use the term "excellence by management."

3 Do you see that?

4 A Yes.

5 Q Could you give us a definition in words of
6 what you mean by that term?

7 A Superior results that are produced through
8 management action as opposed to circumstance.

9 Q Thank you. And you believe that the
10 Commission should consider a broad array of metrics in
11 making that determination, right?

12 A I do.

13 Q Okay. So management's performance should be
14 assessed as a whole under that standard, correct?

15 A I believe so.

16 Q You wouldn't want to base your assessment on
17 an incomplete or partial snapshot of the company's
18 performance, would you?

19 A No. I've tried to consider the performance
20 in its entirety.

21 Q Uh-huh. And when you state that it's
22 important to take into account the full range of FPL's
23 performance, that means the good and the bad, right?

24 A Yes.

25 Q Otherwise, you couldn't thoroughly and fairly

1 **portray FPL's performance, right?**

2 A I agree with that.

3 **Q Okay. Did you conduct any analysis directly**
4 **of FPL's cost control or budgeting performance on, for**
5 **instance, generation projects now in process?**

6 A I have done that, not as part of this case,
7 but certainly in the nuclear cost recovery case, for
8 example, I've done just that work. My analysis here
9 takes the cost at a higher level than individual
10 construction projects.

11 **Q Right. But you are aware that at least in**
12 **the Turkey Point project, FPL's apparently now**
13 **\$900 million over budget?**

14 A I would need a reference for that figure. I
15 am aware that compared to the original estimate and the
16 need study, it is more expensive than in the need
17 study.

18 **Q Okay. But you, as part of your study, didn't**
19 **attempt to ascertain facts about that cost overrun?**

20 A Not facts about that specific overrun. I
21 attempted to look at the cost of adding new plant
22 broadly, transmission distribution and generation, and
23 compare FPL's performance in all of those categories at
24 a high level, meaning an aggregate level by category.

25 **Q Good. We'll come back to that in a few**

1 minutes.

2 You will recall today there was a discussion
3 in FPL's initial opening statement that one
4 contributor, significant contributor to O&M, is labor
5 costs, right?

6 A Yes.

7 Q What proportion, roughly, of FPL's nonfuel
8 O&M is made up of labor?

9 A I don't have that specific figure.

10 Q Okay. Did you in your benchmarking study
11 assess how much of FPL's nonfuel O&M expense is paid
12 for work done by outside contractors?

13 A It's included in the nonfuel O&M figures that
14 I used. I'm not sure if you're asking if I determined
15 a specific percentage of that work that was done by
16 subcontractors. The answer to that is no. But I did
17 include those expenditures in the nonfuel O&M metrics
18 that I compared FPL to other companies.

19 Q Okay. Let's turn now to your exhibit labeled
20 "JJR-4," if we could, please.

21 A And which page?

22 Q Oh, we can start just about anywhere. Let's
23 start on page 1. The caption on this one is
24 "Productive Efficiency Rankings," right?

25 A Yes.

1 Q And that's a correct label for this exhibit?

2 A It is.

3 Q Productive efficiency has been defined as
4 providing products and service at the least possible
5 cost, is it not?

6 A Can you tell me where that definition is
7 from.

8 Q The Federal Energy Regulatory Commission has
9 defined it in that fashion in its cost allocation and
10 rate design policy statement, didn't it?

11 A I don't recall that definition, but I can
12 accept that, subject to check.

13 Q Okay. And do you think that's a fair
14 definition of productive efficiency?

15 A I think within the context of cost allocation
16 and rate design it is, as I recall that statement.

17 Q Okay. Let's look at actually exhibit JJR-6,
18 page 2 for just a minute. And that's kind of a busy
19 little chart. But in some senses, this is a roadmap to
20 how you put together your various criteria and
21 rankings, is it not?

22 A Yes.

23 Q Okay. And on that page, you identify various
24 metric groups in the left-hand column, right?

25 A Yes.

1 Q And those are the metric groups that are laid
2 across your Productive Efficiency Chart, right?

3 A Yes.

4 Q And behind the metric groups, you're listing
5 the various components and calculations that are used
6 to derive those metric group measurements, right?

7 A Yes.

8 Q You assigned a rank for each utility for each
9 metric, right?

10 A For each year, yes.

11 Q Yeah. And then you averaged the ranking from
12 all of the metric categories to reach your end result,
13 right?

14 A That's correct.

15 Q Okay. Let's go back -- I'm sorry to jump
16 around like this, but let's look again at JJR-4, and
17 this time let's look at page 10, if we could.

18 A I have that.

19 Q Okay. So for each of these metric groups
20 laid across the top of the page, there's a ranking
21 between one and 27 for the individual utilities that
22 are identified there, right?

23 A Actually 28, but yes.

24 Q Okay. And a utility with a ranking of 14 in
25 that environment is an average performer, right?

1 A Yes.

2 **Q Okay. And then under the Florida group,**
3 **you've got four utilities, so one would be the highest**
4 **rank and four would be the lowest, right?**

5 A Yes.

6 **Q And similarly for the large utility group,**
7 **it's one through seven, same priority; one is the best,**
8 **seven is the worst, right?**

9 A Yes.

10 **Q Could we look at your work papers behind**
11 **these exhibits for a moment, please.**

12 MR. SUNDBACK: Mr. Chairman, I forget where
13 we are on exhibit numbers. Are we at 473?

14 CHAIRMAN BRISE: 473.

15 (Exhibit No. 473 was marked for
16 identification.)

17 MR. SUNDBACK: Thank you, Mr. Chairman.

18 BY MR. SUNDBACK:

19 **Q Mr. Reed, let me know when you have had a**
20 **chance to briefly review these.**

21 A Can you give me a specific reference as to
22 where you would like me to go?

23 **Q Well, overall, first of all, do you recognize**
24 **that these are some of the work papers that you**
25 **utilized in preparing your testimony?**

1 A Yes, they appear to be.

2 Q Okay. And they derive, it appears, in part
3 from a database maintained by SNL Interactive; is that
4 correct?

5 A Yes.

6 Q Okay. Let's look at page 5, if we could.

7 A Okay.

8 Q All right. Now, first of all, not all of the
9 utilities that are included in the Straight Electric
10 Group actually own nuclear generation, do they?

11 A That's correct, not all of them own nuclear
12 generation.

13 Q Right. But this table is intended to measure
14 nonfuel nuclear production costs, right?

15 A Yes.

16 Q Okay. So we see a number of blanks in the
17 data array on page 5 as a result; is that right?

18 A That's correct.

19 Q We can see, for instance, in the year 2010 in
20 the Florida group, which is about two-thirds of the way
21 down, that in fact there is only one entity that's
22 available for ranking, and that happens to be FPL;
23 isn't that right?

24 A That's correct, that Florida --

25 Q It easier -- oh, I'm sorry.

1 A Florida Power did not report data for that
2 year.

3 **Q It's easier to win a competition when no one**
4 **else is competing, isn't it?**

5 A In that year it was.

6 **Q Okay. In other years we will see that there**
7 **was only one other competitor in the group, and that**
8 **would be Florida Power, right, Florida Power**
9 **Corporation?**

10 A I'm sorry, could you give me a specific
11 reference?

12 **Q Well, why don't we look at page 6, that is a**
13 **clearer graphical presentation under the Florida Group.**

14 **Aside from 2010 where FPL was all alone,**
15 **there were only two contenders for valuation in that**
16 **category, which would be FPL and Florida Power**
17 **Corporation?**

18 A That's correct, for nonfuel nuclear
19 production costs.

20 **Q All right. And similarly, there are a fair**
21 **number of blanks above that table in the Straight**
22 **Electric Group for missing data, right?**

23 A That's correct.

24 **Q All right. Because there were only, it**
25 **appears, 15 or 16 ranked utilities in this criterion;**

1 is that right?

2 A I think there are 16 in most years, yes.

3 Q Okay. But to the extent that you were to
4 rank, for instance, 12 under 2004, in a universe of 27
5 utilities, you would be above average, right?

6 A Can I have that question again? To the
7 extent you ranked 12?

8 Q Let's look at 2004 and presume we had 27
9 entities considered for inclusion in that category that
10 year. If you ranked 12, you would be above average in
11 that group of 27, right?

12 A If there are 27, yes.

13 Q Right. But if you don't have as many
14 contenders, if you only have 16 contenders, a rank of
15 12 is below average, right?

16 A That's correct. And that's how it's
17 presented here.

18 Q Yes. But in your productive efficiency
19 rankings, for instance, you didn't disclose that there
20 were all of these missing values for this particular
21 assessment, did you?

22 A I disagree with that. We disclosed through
23 the work papers all of the data. Obviously that's how
24 we got these that we used. And in every case we used
25 the number of companies that have data reported for

1 that item. Not every company reports data for every
2 item in every year.

3 Q But looking, for instance, at JJR-4, I
4 couldn't necessary tell from the face of that chart
5 that there was a lot of -- there were a number of
6 entities that simply didn't even have a ranking with
7 regard to a criterion.

8 A That's what a blank space indicates. I guess
9 I'm missing your point.

10 Q There are no blank spaces -- Mr. Reed, this
11 is one of the work papers that we're looking at, all
12 right?

13 A Yes.

14 Q Exhibit 473. And that was not provided to
15 this Commission as part of your filed testimony or
16 evidence, right?

17 A That's correct.

18 Q Okay. Let's look at pages 13 and 14 of
19 Exhibit 473 if we could, please. And let's just turn
20 to 14, because it's cleaner, again. And this criterion
21 is the transmission O&M per mile of transmission line,
22 correct?

23 A That's correct.

24 Q All right. And if we go down do the large
25 utility group on page 14, FPL happens to be the winner

1 again in three years when it's the only contender,
2 right?

3 A No. I think we must be looking at something
4 different.

5 Page 14?

6 Q Page 14 under the large utility group.

7 A Yes.

8 Q Years 2001, 2002 and 2003. All I see are
9 rankings for FPL. I don't see any rankings for any of
10 the other entities under that table. Am I missing
11 something?

12 A Give me just a minute.

13 No, I don't think you're missing something.

14 Q Okay.

15 A Maybe I missed your question. For the large
16 utility group, data were not reported at that level for
17 any company other than FPL, which is why we relied on
18 the data for the 28 Straight Electric Companies.

19 Q Right. But instead of, for instance, ranking
20 it as average, you simply assigned it the highest
21 possible rank when you lacked the other data, right?

22 A For those years, which is the same treatment,
23 of course, we provided to any company in that
24 circumstance.

25 Q Uh-huh. Now, let's go back and look at the

1 **Percentage Generation Nuclear Column.**

2 MR. LITCHFIELD: Counsel, which page?

3 MR. SUNDBACK: I'm trying to find the page.

4 I apologize.

5 BY MR. SUNDBACK:

6 **Q I'm sorry, that's in the situational**
7 **assessment, so that would be Exhibit JJR-3. And the**
8 **sixth column with data in the pages labeled "JJR-3" is**
9 **labeled "Percentage Generation Nuclear," right?**

10 A Yes.

11 **Q All right. Now, that doesn't account for the**
12 **entire cost of nuclear generation, does it?**

13 A It's not a cost measure at all; it's the
14 percentage of megawatt hours that are generated from
15 nuclear power, and it's the rank.

16 **Q Okay. Let's look at the column headed**
17 **"Accumulated Depreciation/Gross Plant," which is, I**
18 **guess, the sixth column also on JJR-3. Do you see**
19 **that?**

20 A Yes.

21 **Q You haven't done a study of what the rank**
22 **would be of FPL once it's done with the modernization**
23 **cycle at Cape Canaveral, have you?**

24 A All of these are historical data. I haven't
25 tried to project them forward.

1 **Q** Okay. Let's take a look at your direct
2 testimony for a moment, page 18, please, lines 13
3 through 16. Have you found that passage?

4 A I have that.

5 **Q** You don't appear to supply any data to
6 support that contention; you're just articulating a
7 supposition of yours; is that correct?

8 A The specific statement that "Residential
9 customers are more expensive to serve than commercial
10 and industrial customers"?

11 **Q** Yes.

12 A I didn't offer data. That's my experience
13 based on 36 years in the industry.

14 MR. SUNDBACK: Mr. Chairman, can we have
15 marked with the next available exhibit number,
16 perhaps 474, a one-page interrogatory response of
17 FPL to SFHHA, first set of interrogatories
18 No. 155.

19 (Exhibit No. 474 was marked for
20 identification.)

21 BY MR. SUNDBACK:

22 **Q** Mr. Reed, do you have a copy of this
23 interrogatory? Oh, I'm sorry, no, you don't.

24 A Yes, I have that now.

25 **Q** Do you recognize that as one you prepared or

1 one that was prepared under your supervision and
2 direction?

3 A Yes.

4 Q When you prepared it, did you discuss your
5 conclusion with FPL before responding?

6 A Give me just a second to review it.

7 Yes, we sent them a draft of the response
8 before we submitted.

9 Q You use a phrase in that response
10 "Infrastructure required to meet a higher number of
11 customers." Do you see that?

12 A And where are you? Which paragraph?

13 Q 155, look at the last sentence in the last
14 paragraph, please.

15 A Yes, I see that.

16 Q What infrastructure did you have in mind when
17 you made that assertion?

18 A Metering and distribution systems, primarily.

19 Q And that's also based on your experience in
20 the utility industry?

21 A Yes.

22 Q Okay. Let's look at your direct page 19,
23 lines 6 through 9, please. Let me know when you're
24 there.

25 A I see that.

1 **Q** Did other FPL personnel or did FPL personnel
2 **review this testimony before you filed it?**

3 A Yes.

4 **Q** Okay. What cost did you have in mind there
5 **as those which don't vary with the level of**
6 **consumption?**

7 A Certainly the cost of a meter on service line
8 are good examples. In addition, billing costs,
9 collection costs, accounting costs.

10 **Q** Okay. Let's take a look at another
11 **interrogatory response, if we could.**

12 MR. SUNDBACK: Mr. Chairman, if it would be
13 to your liking, we would ask to have Exhibit
14 No. 475 applied to this document.

15 CHAIRMAN BRISE: Sure.

16 (Exhibit No. 475 was marked for
17 identification.)

18 BY MR. SUNDBACK:

19 **Q** Do you recognize that interrogatory response
20 **as one that was prepared pursuant to your supervision**
21 **and direction?**

22 A Yes.

23 **Q** Okay. And I'll ask you the same question I
24 **asked you before. Did you consult with FPL personnel**
25 **before providing that response?**

1 A Yes.

2 **Q Okay. Could we look at some more work papers**
3 **behind your testimony and exhibits?**

4 CHAIRMAN BRISE: This would be 476.

5 MR. SUNDBACK: Thank you, Mr. Chairman.

6 (Exhibit No. 476 was marked for
7 identification.)

8 BY MR. SUNDBACK:

9 **Q Mr. Reed, do you recognize these as work**
10 **papers you utilized in preparing your testimony?**

11 A Yes.

12 **Q Are the calculations and descriptions of the**
13 **calculations in the work papers true and correct to the**
14 **best of your information, knowledge, and belief?**

15 A Yes.

16 **Q Okay. And you used these in the course of**
17 **preparing your evidence, right?**

18 A Yes.

19 **Q Okay. And we would like to give you another**
20 **set of work papers. You had quite a lot of data that**
21 **you were reviewing and generating.**

22 MR. SUNDBACK: And we would ask to have that
23 marked as well. Mr. Chairman, does that -- will
24 that constitute Exhibit No. 477?

25 CHAIRMAN BRISE: That would be correct.

1 MR. SUNDBACK: Thank you, sir.

2 (Exhibit No. 477 was marked for
3 identification.)

4 BY MR. SUNDBACK:

5 Q What's been marked as 477, those were also
6 utilized in the preparation of your testimony and your
7 exhibits, correct?

8 A Yes.

9 Q And those are data that are derived also from
10 SNL?

11 A That's correct.

12 Q Is this the entirety of the database that you
13 can acquire from SNL?

14 A No.

15 Q So this is a selection of a set of data but
16 not the entire universe you could have utilized that
17 they assemble?

18 A Right. I chose data that I considered
19 relevant. They have information on stock prices and
20 many other things that were not relevant to the
21 investigation I was doing.

22 Q Okay. Very good.

23 All right. Now, we have mercifully a very
24 short excerpt of materials that you utilized.

25 MR. SUNDBACK: And, Mr. Chairman, we would

1 ask that this be granted the next appropriate
2 exhibit number.

3 CHAIRMAN BRISE: That would be 478.

4 (Exhibit No. 478 was marked for
5 identification.)

6 MR. SUNDBACK: Thank you, sir. And for
7 purposes of identification, this constitutes the
8 response to SFHAA's first set of interrogatories,
9 Interrogatory No. 150.

10 BY MR. SUNDBACK:

11 **Q Mr. Reed, do you recognize what's been marked**
12 **as Hearing Exhibit 478 as some of your work papers?**

13 A I do.

14 **Q Okay. If we look at the attachment, the**
15 **two-page attachment containing the data -- let's focus**
16 **on the first page first -- you would agree that FPL is**
17 **the second largest utility under the Straight Electric**
18 **Group among the candidates, right?**

19 A Yes, it appears to be, at least in most
20 years, if not all.

21 **Q All right. So if we were to have ranked in**
22 **terms of number of customers, it would have ranked two,**
23 **right?**

24 A Yes.

25 **Q Okay. And for the large utility group, it**

1 would actually also have the largest number of
2 customers, right?

3 A In some years, it was second. It was either
4 first or second.

5 Q Okay. 2010, for instance, it was first,
6 right?

7 A Yes.

8 Q Okay. And similarly for the Florida utility
9 group, FPL had a three-to-one advantage over its
10 nearest competitor in terms of numbers of customers,
11 right?

12 A It had a three-to-one or close to
13 three-to-one ratio. That's not necessarily an
14 advantage.

15 Q Okay. Let's look at the second page of
16 these. FPL, in the Straight Electric Group, is
17 actually the only entity that has three-digit total
18 electric sales by megawatt hours; is that right, for
19 2010?

20 A That's correct.

21 Q Okay. And obviously it's much higher than
22 anyone else in the Florida group, right?

23 A Yes.

24 Q Okay. In fact, with the exception of 2001,
25 it would get a rank of one every year in the Straight

1 **Electric Group in terms of this set of data, right?**

2 A In terms of aggregate size of megawatt hours
3 sold, yes.

4 Q Okay. And, in fact, the divergence within
5 the Straight Electric Group is something on the order
6 of nine to one, if we look down to the -- it looks like
7 Public Service of New Mexico line, that's a ninth of
8 the volumes that FPL is selling, right?

9 A That looks to be approximately right for
10 2010.

11 Q Right. What's the total amount of generation
12 that FPL owns?

13 A I couldn't tell you in terms of number of
14 megawatts.

15 Q Okay. You didn't in your testimony or
16 evidence, direct evidence, provide a statement of the
17 generating capacity of any of the utilities included in
18 your Straight Electric Group, right?

19 A No, we didn't try and measure aggregate size
20 in terms of generating capability.

21 Q Would you agree that some of the entities
22 that are in the Straight Electric Group have installed
23 generating capacities that might be a sixth of FPL's?

24 A That could be.

25 Q And would you agree that Progress Energy

1 **Florida has, at best, half of the installed generation**
2 **capacity of FPL?**

3 A Again, that could be. I don't have that
4 information.

5 **Q And that would be the largest of the Florida**
6 **Utility Group Members aside from FPL?**

7 A I believe that to be correct.

8 **Q Would you agree that there are three types of**
9 **synergies that larger generating companies can obtain;**
10 **namely, portfolio synergies, operational synergies, and**
11 **strategic synergies?**

12 A I'm sorry, I need to have that question
13 again.

14 **Q Certainly. Would you agree that there are**
15 **generally three types of synergies that larger**
16 **generating companies can obtain: Portfolio synergies,**
17 **operational synergies, and stratonic synergies?**

18 A Yes, I think there are potentially synergies
19 in those three areas.

20 **Q Okay. Portfolio synergies arise because of**
21 **additional opportunities in value that can be garnered**
22 **from having a larger operationally and geographically**
23 **diverse generating portfolio, correct?**

24 A I think I would disagree with that in some
25 respects. For most utilities, geographic diversity is

1 not an issue. But portfolio synergy includes --
2 basically is the synergies you derive from having
3 diversity within a larger portfolio.

4 MR. SUNDBACK: Mr. Chairman, could we have
5 assigned with the next available hearing exhibit
6 number a document that consists of excerpts from
7 some prior Reed testimony. And presumably this
8 would be 479, if our record keeping is correct.

9 CHAIRMAN BRISE: Sure. That would be
10 correct.

11 (Exhibit No. 479 was marked for
12 identification.)

13 BY MR. SUNDBACK:

14 **Q If you would turn to the page numbered in the**
15 **original as 28, line 12 through line 23 in what's been**
16 **marked as Exhibit 479, Mr. Reed.**

17 A I think we have a different pagination.

18 **Q I'm sorry. I apologize. I apologize,**
19 **Mr. Reed, I goofed up. It's page 10 in the original,**
20 **starting at line 28 and you continue discussing the**
21 **synergies on page 11. And you identify in that passage**
22 **portfolio synergies that arise because of additional**
23 **opportunities in value that can be garnered from having**
24 **a large operationally and geographically diverse**
25 **generating portfolio.**

1 **Now, when you computed your production**
2 **efficiency rankings, you didn't make a standalone**
3 **computation of the value of different types of plants**
4 **and different fuels associated with the utilities in**
5 **your, for instance, Straight Electric Group, did you?**

6 A I'm sorry, that's a troubling question. I'm
7 not really sure what you mean. I didn't make a
8 standalone calculation of the benefit, did you say?

9 **Q The value.**

10 A The value?

11 **Q Uh-huh.**

12 A Again, I don't understand your question.

13 **Q You didn't compare, for instance, any benefit**
14 **that might accrue to ratepayers from having a large**
15 **generating capacity that had diverse fuels as opposed**
16 **to a utility that had less generating capacity and**
17 **fewer fuel choices to fire its plants, did you?**

18 A We did do a calculation of the benefits
19 derived by ratepayers associated with each of the
20 generating portfolios of each of the 28 companies in
21 the proxy group or in the peer group.

22 We didn't try and isolate it in terms of
23 effects, meaning how much is achieved by fuel diversity
24 or how much is achieved by what we call fleet
25 advantages, but we did certainly do a calculation of

1 generational efficiency and how much of that would be
2 produced in terms of O&M costs. We didn't look at fuel
3 because, again, I didn't consider fuel to be within the
4 discretion of management, but we did look at
5 operational costs.

6 **Q But you didn't, on a standalone basis,**
7 **attempt to assess the advantage that a large generation**
8 **capacity utility has compared to a utility that has**
9 **less generation capacity in terms of the portfolio**
10 **synergy, did you?**

11 A We didn't try and assess the impact of size
12 on the efficiencies that were achieved. We looked at
13 the efficiencies for each of these companies. And, of
14 course, in one peer group, we only looked at large
15 companies.

16 So we did inherently try and isolate it in
17 one case and one peer group to just large peer
18 companies, but we never tried to develop a regression
19 or something else that would explain the effect of size
20 on those savings. We simply said here are the savings,
21 they are real, they are substantial.

22 **Q Let's look at page 12, I believe, 12 of this**
23 **testimony, lines 5 through 9. And there you make a**
24 **reference to larger generating companies greater pool**
25 **of resources.**

1 **"Labor resources," do you see that?**

2 A I'm sorry, page 12, what line?

3 **Q Lines 5 through 9.**

4 A Yes, I see that.

5 **Q All right. You didn't explicitly compare the**
6 **size of the pool of labor resources available to, for**
7 **instance, Public Service Company of New Mexico to that**
8 **available to FPL, did you?**

9 A No. We simply tried to identify what are the
10 savings that FPL has been able to achieve and not
11 determine why it's been able to achieve them, meaning
12 attributed to factors such as labor or fuel diversity
13 or anything else.

14 **Q Although in your SNL data, you had access to**
15 **an actual headcount for employee levels for the**
16 **utilities involved, didn't you?**

17 A Yes. And we used the employee headcounts in
18 our data.

19 **Q Let's look at page 12 of your Pepco testimony**
20 **again. In lines 12 through 23, you discuss use of**
21 **knowledge bases to provide asset management or**
22 **operating services. Do you see that?**

23 A Yes.

24 **Q All right. Does FPL benefit from those kinds**
25 **of synergies?**

1 A Yes, it does.

2 **Q And does that benefit arise both for the**
3 **unregulated side of the house as well as the regulated**
4 **side of the house?**

5 A Yes. I would say that both sides benefit
6 from the existence of each other. There are benefits
7 derived, especially within the nuclear fleet, between
8 the aggregate size of the nuclear fleet, which achieves
9 a lower cost than would be able to be achieved by
10 either the utility or the NextEra plants on their own
11 without the other.

12 **Q Did you in your productive efficiency**
13 **rankings attempt to compare the relative costs on a**
14 **unit basis in the various kind of -- let's try that a**
15 **different way.**

16 **In JJR-3 and JJR-4, you haven't provided the**
17 **reader with any direct information about the size of**
18 **the generation units that are utilized by each of the**
19 **utilities, have you?**

20 A The size of individual units?

21 **Q Right.**

22 A No, we didn't try and look at costs or any
23 data by individual unit. We looked at the aggregate
24 generating portfolio.

25 **Q You've testified in the past that the size or**

1 **capacity of a generation facility is important since**
2 **larger generation plants in general have the potential**
3 **to realize certain operational economies, correct?**

4 A Generally that's true. There are benefits of
5 being part of the fleet. And as we've seen, FPL passes
6 those benefits on to its customers.

7 **Q Right. And you have therefore concluded that**
8 **the size of the facility is an important consideration**
9 **when establishing a group of comparable generation**
10 **assets, correct?**

11 A Yes. You can't look at a 1,000 megawatt unit
12 and a 50 megawatt unit and expect them to look alike.

13 **Q Would you agree that starting in 2001, no**
14 **later than 2001, almost all of the new generation**
15 **projects consisted of natural gas, combined cycle**
16 **units, or combustion turbines?**

17 A That was certainly true for a period of time.
18 Since then, we've had -- that's true for fossil units.
19 Let's be clear on that. There are, in addition,
20 expansions at nuclear plants and lots of renewal
21 plants, but certainly within fossil plants, the vast
22 majority have been natural gas fired.

23 **Q And that's been true since 2001; is that**
24 **fair?**

25 A Yes.

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, MICHELLE SUBIA, Registered Professional Reporter, certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages, numbered 172 through 293, are a true and correct record of the aforesaid proceedings.

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

DATED this 23rd day of August, 2012.

Michelle Subia

MICHELLE SUBIA
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