

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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Pages 1249 through 1386

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING:

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

DATE: Thursday, August 23, 2012

TIME: Commenced at 9:34 a.m.
Concluded at 11:50 a.m.

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

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APPEARANCES: (As heretofore noted.)

FLORIDA PUBLIC SERVICE COMMISSION

DOCUMENT NUMBER-DATE

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P R O C E E D I N G S

1
2 (Transcript follows in sequence from
3 Volume 10.)

4 **CHAIRMAN BRISÉ:** Good morning. All right.
5 Today is Thursday. We are still on Docket Number
6 120015-EI. We are continuing with examination of
7 witnesses.

8 Before we move forward, I know it's been long
9 so far and, you know, when people are in a tight space
10 for a long time, we get a little, you know, we get cabin
11 fever and we get a little grumpy with each other and
12 tight and stuff like that. I just want everybody to
13 take a breather and think about that as we move
14 throughout the day.

15 And if I've been a little short, please don't
16 take that personally, but we are going to try to move
17 the process along a little bit quicker. So, as we do
18 objections and all that, all that kind of jazz, if we,
19 you know, you make your statement, I hear the other
20 statement, I make my ruling, and we keep on going.
21 Okay? And we hope to, to proceed that way.

22 We have Ms. Santos on the stand for her
23 rebuttal. Mr. Butler.

24 **MR. BUTLER:** Mr. Rubin will be handling this.
25 Thank you.

1 **MR. RUBIN:** Thank you, Mr. Chairman. May I
2 proceed?

3 **CHAIRMAN BRISÉ:** Yes, you may.
4 Whereupon,

5 **MARLENE SANTOS**

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

9 **DIRECT EXAMINATION**

10 **BY MR. RUBIN:**

11 **Q** Good morning, Ms. Santos.

12 **A** Good morning.

13 **Q** You were sworn yesterday; correct?

14 **A** Yes.

15 **Q** For the record, please state your name and
16 business address.

17 **A** My name is Marlene Santos, 9250 West Flagler
18 Street, Miami, Florida.

19 **Q** And remind us, if you will, about your
20 employment and what capacity you hold.

21 **A** I'm employed as Vice President of Customer
22 Service at Florida Power & Light.

23 **Q** Have you prepared and caused to be filed six
24 pages of prefiled rebuttal testimony in this proceeding
25 on July 31st, 2012?

1 **A** Yes.

2 **Q** Do you have any changes or revisions to your
3 rebuttal testimony?

4 **A** No.

5 **Q** If I asked you the same questions contained in
6 your prefiled rebuttal testimony, would your answers be
7 the same?

8 **A** Yes.

9 **MR. RUBIN:** Mr. Chairman, I would ask that the
10 prefiled rebuttal testimony of Ms. Santos be inserted
11 into the record as though read.

12 **CHAIRMAN BRISÉ:** Okay. We'll insert Ms.
13 Santos' prefiled rebuttal testimony into the record as
14 though read, seeing no objections. All right.

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ERRATA SHEET

WITNESS: MARLENE M. SANTOS - REBUTTAL

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
5	12	Remove first "n" from "identified" to correctly read "identified"

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **REBUTTAL TESTIMONY OF MARLENE M. SANTOS**

4 **DOCKET NO. 120015-EI**

5 **JULY 31, 2012**

6

7 **Q. Please state your name and business address.**

8 A. My name is Marlene M. Santos. My business address is Florida Power & Light
9 Company, 9250 W. Flagler Street, Miami, Florida 33174.

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

11 A. Yes.

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

13 A. No.

14 **Q. What is the purpose of your rebuttal testimony?**

15 A. The purpose of my rebuttal testimony is to refute assumptions made in the direct
16 testimonies of South Florida Hospital and Healthcare Association (“SFHHA”)
17 witness Kollen and Office of Public Counsel (“OPC”) witness Ramas related to
18 changes in the timing of smart meter costs and savings.

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SUMMARY

Q. Please summarize your rebuttal testimony.

A. FPL has successfully deployed smart meters to more than 75 percent of our nearly 4.5 million residential and small business customers, and the program remains on track and planned for completion by early summer 2013. The program is already providing benefits to FPL’s customers and to the FPL system while paving the way for additional future benefits. As the program has progressed, FPL has worked hard to continuously improve various aspects of the deployment to provide a good experience for FPL’s customers. Savings projected when the program was in its initial stages will still be realized, though adjustments to the scheduled rollout of certain processes will impact the timing of those savings. FPL’s projected Test Year costs for the smart meter program reflect the most current information on the scheduled rollout, and those projected costs are reasonable and necessary.

SMART METERS

Q. Please describe the overall progress of the smart meter program.

A. We continue to make excellent progress in the deployment of smart meters. More than 75 percent of the meter installations are complete, with over 80 percent of those meters activated, allowing customers to utilize the online energy portal and to be billed remotely. With nearly 3.5 million meters installed through June 2012

1 and a smart meter billing read rate of 99.9 percent, we continue to improve our
2 service by leveraging the smart meter technology. Furthermore, the
3 implementation of many of the associated projects and system integration efforts
4 are well underway, bringing benefits to our customers. For example, customers
5 are seeing reduced estimated bills, while the implementation of the online energy
6 portal allows customers to make informed choices and better manage their energy
7 usage.

8 **Q. Are the smart meter costs projected for 2013 reasonable and necessary for**
9 **the deployment of FPL's smart meters?**

10 A. Yes. The forecast last presented to the Commission was prepared in 2008 and
11 was based on the most current information available to FPL at the time. In 2008,
12 few utilities had deployed smart meter technology and few benchmarks were
13 available. FPL's current forecast is based upon the most current information
14 available and represents the reasonable and necessary costs associated with this
15 program. The propriety of using the most current information in setting rates, and
16 the ratemaking policies and principles supporting that position, are addressed by
17 FPL witnesses Deason and Barrett in their rebuttal testimony.

18 **Q. Why are the smart meter O&M costs projected for 2013 higher than they**
19 **were in the Company's 2009 rate case forecast?**

20 A. As the program progressed, we identified additional costs which are necessary to
21 ensure a smooth transition to the new processes for our customers.

22 **Q. You have indicated that additional costs have been necessary in 2013 to**
23 **ensure a smooth transition for your customers who have received or will**

1 **receive the new smart meters. Please describe some of these additional costs,**
2 **and how the modifications or additional programs benefit customers.**

3 A. Examples of the need for some of these additional costs include:

- 4 ● Additional staffing for deployment related activities to assist in the
5 handling of customer inquiries and for the development of training and
6 communications;
- 7 ● On-going operations and system support to monitor the network
8 communication grid to ensure reliable performance and provide optimum
9 read rates that ensure timely and accurate billing; and
- 10 ● An analytical tool which provides more effective leads for identifying
11 theft conditions which in turn helps to mitigate unauthorized use of
12 electricity.

13 **Q. Was the forecast of O&M costs for the 2010 Test Year that was provided in**
14 **the 2009 rate case reliable?**

15 A. Yes. We forecasted \$6.9 million in O&M costs for 2010, while actual O&M
16 costs were \$7.4 million. This represents a 7.8 percent variance between projected
17 and actual O&M costs for the 2010 Test Year.

18 **Q. Was the forecast of savings provided in the 2009 rate case a reliable forecast**
19 **for the 2010 Test Year?**

20 A. Yes. Our forecast for the 2010 Test Year proved to be very reliable. We
21 forecasted \$400 thousand in savings and achieved \$400 thousand in savings.

22

1 **Q. Why have the forecasted smart meter program savings for 2013 decreased**
2 **when compared to the 2009 rate case forecast?**

3 A. The primary reason for lower savings in 2013 has been the change in our
4 approach to implementing the remote connect service functionality. In addition,
5 the complexity of system integration and the impact to internal processes –
6 impacts that could not have been reasonably foreseen when the 2009 rate case
7 filing was made - resulted in the delayed implementation of the remote connect
8 service functionality. Implementation of the remote connect service functionality
9 was originally planned for January of 2012. However, it is now projected to
10 occur in September of 2012. The delay was necessary in order to account for the
11 following changes:

- 12 • Numerous systems were indentified that had dependencies on this
13 program, requiring more system changes and integration than initially
14 estimated;
- 15 • Additional security efforts were identified and implemented; and
- 16 • Benchmarking indicated that more customer communication processes
17 were required to ensure a smooth transition.

18 **Q. How will customers benefit from this change in the approach and change in**
19 **schedule associated with the implementation of the remote connect service**
20 **functionality?**

21 A. The additional customer communications that are being developed and
22 implemented will result in a positive introduction of the remote connect service
23 functionality. The delay in implementation also ensures that our systems are

1 thoroughly tested and secure, and that all process changes are working optimally.
2 This will ultimately help to ensure a good experience for our customers as we
3 implement the remote connect service functionality.

4 **Q. Have the long-term savings of the smart meter program decreased from**
5 **what you expected in the 2009 rate case forecast?**

6 A. No. Long term savings are still expected to be realized. For example, in 2015 we
7 are expecting \$42 million of savings, which is \$3 million more than what we
8 projected in the 2009 rate case forecast.

9 **Q. Did FPL inform the Commission of changes in the smart meter program**
10 **when it filed its annual smart meter reports?**

11 A. Yes. Pursuant to Order No. PSC-10-0153-FOF-EI, issued March 17, 2010 in
12 Docket Nos. 080677-EI and 090130-EI (“Order 0153”), FPL provided annual
13 progress reports on its implementation of smart meters. Two reports have been
14 filed – one on March 21, 2011 in Docket No. 110002-EI and another on March
15 21, 2012 in Docket No. 120002-EI. In these reports FPL noted that costs were
16 higher than expected and mentioned delays in the implementation of the remote
17 connect functionality impacting the timing of savings.

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

19 A. Yes.

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BY MR. RUBIN:

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

A Yes.

Q Would you please provide that to the Commission.

A Yes. Good morning, Commissioners.

My testimony rebuts the testimonies of Witness Ramas and Kollen, who recommend the Commission rely on projections filed in the 2009 rate case filing for smart meter O&M costs and savings, rather than the test year projections filed in this case.

I address the adjustments that FPL has made, resulting in the need for additional costs and the change in the timing in which savings will be realized, all of which benefits customers and helps with the smooth transition to smart meters.

The propriety of using the most current information in setting rates and the ratemaking policies and principles supporting that position are addressed by FPL Witnesses Deason and Barrett in their rebuttal testimony.

To date, FPL has made excellent progress in the deployment of smart meters. We have successfully deployed smart meters to more than 75% of our nearly 4.5

1 million residential and small business customers, and
2 the program remains on track and planned for completion
3 by early summer 2013. The program is already providing
4 benefits to FPL's customers and to the FPL system, while
5 paving the way for additional future benefits.

6 The forecast presented to the Commission in
7 the 2009 rate case was prepared in 2008, and proved to
8 be very reliable for purposes of forecasting test year
9 costs. This forecast was developed when few utilities
10 had deployed smart meter technology and few benchmarks
11 were available.

12 FPL's current forecast is based upon the most
13 current information available and represents the
14 reasonable and necessary costs associated with this
15 program. We have worked hard to continuously improve
16 various aspects of the deployment to provide a good
17 experience for our customers.

18 Following FPL's last rate case, we identified
19 additional costs which have been necessary to ensure a
20 smooth transition for our customers. These costs
21 include funding for additional staffing for deployment
22 related activities, ongoing operations and system
23 support, and an analytical tool to mitigate unauthorized
24 use of electricity.

25 Our 2013 savings forecast was lowered,

1 primarily due to a change in the implementation of the
2 remote connect service functionality. The complexity of
3 system integration and the impact to internal processes,
4 impacts that could not have been reasonably foreseen
5 when the 2009 rate case filing was made, resulted in the
6 delayed implementation of the remote connect service
7 functionality. It is important to note that the
8 long-term savings are still expected to be realized.

9 FPL's projected test year costs for the smart
10 meter program reflects the most current information on
11 the scheduled rollout, and those projected costs are
12 reasonable and necessary.

13 This concludes the summary of my rebuttal
14 testimony.

15 **MR. RUBIN:** Thank you, Ms. Santos.

16 Mr. Chairman, we tender Ms. Santos for
17 cross-examination.

18 **CHAIRMAN BRISÉ:** All right.

19 Ms. Kaufman.

20 **MS. KAUFMAN:** Thank you. Good morning, Mr.
21 Chairman.

22 **CROSS EXAMINATION**

23 **BY MS. KAUFMAN:**

24 **Q** Good morning, Ms. Santos.

25 **A** Good morning.

1 Q It seems like you were just here. I just have
2 a few questions for you that touch on some of the
3 remarks that you made in your summary --

4 A Sure.

5 Q -- having to do with the additional costs that
6 you're now requesting for the smart meters and the
7 timing.

8 In your testimony on page 2, your rebuttal
9 testimony, starting at line 10, you talk about projected
10 savings, or savings that were projected. In your last
11 rate case, when the smart meter program was proposed,
12 what savings did you tell the Commission would be
13 realized through this program?

14 A So we, we talked about savings, actually
15 projected savings related to meter reading, staffing --

16 Q Excuse me. I'm really just looking for a
17 number. Was there a number?

18 A Oh, the number. I thought you were wanting me
19 to explain what the savings were. Sure.

20 Q No. What --

21 A What year would you like that for?

22 Q In your test year in your last case.

23 A So in the test year of the last case?

24 Q Yes. What did you tell the Commission that
25 the projected savings were from this program?

1 **A** For the projected test year for the last case,
2 which was 2010, we projected \$400,000 of savings from
3 the program, and actual was exactly \$400,000.

4 **Q** I might be confused, but I had understood,
5 maybe we're not talking past each other --

6 **A** Sure.

7 **Q** -- that there were over \$30 million of savings
8 projected. Am I -- do I have the wrong period?

9 **A** I thought you were talking about the test year
10 of that case, which was 2010. That's why I asked for
11 clarification.

12 **Q** Okay.

13 **A** So what, what is it exactly that you want?
14 What, what year?

15 **Q** Okay. Well --

16 **A** Every year has different savings.

17 **Q** Understood.

18 **A** So I need to understand what question you're
19 asking.

20 **Q** Okay. In the years subsequent to your last
21 rate case was there not a year in which you projected
22 savings to be over \$30 million, somewhere like 36?

23 **A** In the forecast that we presented in the last
24 rate case we had in, let me see, in 2014 we were
25 projecting savings of about \$37 million.

1 Q Okay. And now, if I understand your, your
2 testimony, the savings that you had projected in 2014
3 have been delayed; is that, is that correct?

4 A The savings have been delayed a little bit,
5 correct. Our projection now for 2014 for savings is
6 about \$34 million.

7 Q Okay. And if I understood your testimony and
8 your summary, that's due to the fact that the costs that
9 you are incurring for this program are higher than the
10 costs that were discussed with the Commission in the
11 last rate case?

12 A What you asked me earlier was around savings,
13 so I have, there's two different pieces. There's the
14 costs of the program, the costs that we are incurring,
15 and then we have the savings that we're getting from it.

16 Q I'm asking you -- I'm sorry. I'm asking you
17 about the costs. I thought that you said in your --

18 A You said savings.

19 Q -- summary that there are additional costs.
20 And so my question is that you are asking this
21 Commission for the smart meter program for additional
22 costs or costs that you did not describe in the prior
23 rate case where the program was approved.

24 A Correct. I talked about two things in my
25 summary. I talked about increases in costs --

1 **MS. KAUFMAN:** I'm sorry, Mr. Chairman.

2 **CHAIRMAN BRISÉ:** Ms. Santos.

3 **THE WITNESS:** -- decreases in savings. I'm
4 trying to clarify.

5 **CHAIRMAN BRISÉ:** Ms. Santos, there's a very
6 specific question that was posed.

7 **THE WITNESS:** No problem. Okay.

8 **BY MS. KAUFMAN:**

9 **Q** And I -- just so the record is clear --

10 **A** Please.

11 **Q** -- the answer was yes; correct?

12 **A** Can you please repeat the question?

13 **Q** Yes. The question is fairly simple.

14 The costs that you were seeking to recover in
15 this rate case are higher than the costs that you
16 described in your prior rate case when you put this
17 program before the Commission.

18 **A** For -- yes, for 2013, that is correct.

19 **MS. KAUFMAN:** That's all I have. Thank you.

20 **CHAIRMAN BRISÉ:** Thank you very much.

21 Ms. Purdy, with the South Florida Hospital
22 Association.

23 **MS. PURDY:** Yes. Thank you, Mr. Chairman.

24 Good morning. Good morning, Commissioners.

25 **CROSS EXAMINATION**

1 BY MS. PURDY:

2 Q Good morning, Ms. Santos.

3 A Good morning.

4 Q How are you this morning?

5 A Good, thank you.

6 Q As you recall, I'm Lisa Purdy with the
7 Hospitals.

8 We talked on Wednesday that you are
9 responsible for the implementation of FPL's smart meter
10 project. That's still correct?

11 A Yes.

12 Q And just like on Wednesday, when I refer to
13 smart meters, that's synonymous with the advanced
14 metering infrastructure, or AMI.

15 A Yes.

16 Q Okay. We also established on Wednesday that
17 you were involved in FPL's prior rate case immediately
18 preceding the current one, and that you testified in
19 that proceeding about smart meters.

20 A Yes.

21 Q And in your rebuttal testimony summary this
22 morning you generally discussed the smart meter cost and
23 savings resulting from that program.

24 A Yes.

25 Q Okay. You also indicated yesterday that one

1 of the benefits of the smart meter deployment was that
2 smart meters are able to assist in the identification in
3 and reduction of the theft of electricity. Is that
4 correct?

5 A Yes.

6 Q However, isn't it true that FPL does not
7 project any O&M savings associated with this benefit
8 that you address in your testimony?

9 A That is correct. The benefits are related
10 to --

11 Q Okay. Thank you.

12 A -- revenue increases.

13 Q Thank you, Ms. Santos. Excuse me. In the
14 prior rate proceeding, didn't you testify that net O&M
15 savings would begin in 2012?

16 A Yes.

17 Q Thank you. And you'd agree that the rates set
18 in FPL's prior rate case did not reflect the 2012 or
19 2013 projected net savings that you projected in that
20 time frame, because such projected savings fell outside
21 of the test year in that proceeding; is that correct?

22 A Yes, that's correct.

23 Q Okay. And also relating to that prior
24 proceeding, you testified that the majority of the
25 savings associated with AMI or smart meters would be

1 from the automation that comes from meter reading; is
2 that correct?

3 **A** I don't think I specifically said that alone,
4 because there are savings that come from various items.

5 **Q** But would you agree --

6 **A** Can you tell me which, where you got that from
7 and we can verify it?

8 **Q** Sure.

9 **MS. PURDY:** Mr. Chairman, may I have marked an
10 exhibit, please?

11 **CHAIRMAN BRISÉ:** Sure.

12 **MS. PURDY:** I wasn't here towards the tail end
13 of yesterday, so if someone can help me know which
14 number.

15 **CHAIRMAN BRISÉ:** We are on 521, if I'm not
16 mistaken.

17 **MS. HELTON:** That's what my notes say, Mr.
18 Chairman.

19 **CHAIRMAN BRISÉ:** Okay.

20 (Exhibit 521 marked for identification.)

21 **MS. PURDY:** Thank you.

22 So, Ms. Santos, I'm just handing out a hearing
23 exhibit that's been marked 521, some excerpts from your
24 testimony and the transcript from FPL's prior rate case
25 in Docket Number 080677.

1 **CHAIRMAN BRISÉ:** Okay. Any objections to this
2 document?

3 **MR. RUBIN:** No objections.

4 **CHAIRMAN BRISÉ:** Okay. All right. Seeing
5 none, you may proceed.

6 **BY MS. PURDY:**

7 **Q** Mr. Santos, in particular I was going to look
8 at the page that is marked 1644, and I believe it's
9 lines 9 through 11.

10 So my question was, you testified in this, in
11 this proceeding that the majority of the savings
12 associated with AMI or smart meters will be from the
13 automation that comes from meter reading. Once you've
14 had a chance to review, would you agree that that is
15 correct?

16 **A** I definitely mentioned that the automation,
17 you know, primary piece was from automation from meter
18 reading. I also mentioned --

19 **Q** Okay. I think that answers my question.

20 **A** On line 21 --

21 **MS. PURDY:** I think that answers my question,
22 Mr. Chairman.

23 **MR. RUBIN:** Mr. Chairman, she's not completed
24 with her answer at this point.

25 **MS. PURDY:** It was a very simple question.

1 **CHAIRMAN BRISÉ:** I think she might be allowed
2 to, to provide the explanation.

3 **MS. PURDY:** Okay.

4 **THE WITNESS:** I also mentioned on line 21 that
5 it also was coming from field collection staff. So
6 there's, it's meter reading, it's field collection
7 staff. So there's various pieces. Meter reading is
8 clearly a primary piece.

9 **BY MS. PURDY:**

10 **Q** Okay. Thank you. And that actually gets to
11 my next question. So you mentioned the reduction in
12 meter reading staff, field collection staff, et cetera.

13 So that said, at that time in that proceeding
14 you projected that overall, even with, for example, new
15 positions that might be necessary to work with smart
16 meter matters, like the network issues I think you've
17 previously touched on, but that overall FPL would be
18 reducing the total number of positions. Is that
19 correct?

20 **A** Yes.

21 **Q** Okay. However, isn't it true then that
22 currently the smart meter project has failed to result
23 in any net O&M savings between 2009 and now the
24 projected 2013 test year?

25 **A** We have not -- that is correct.

1 Q Thank you. So then wouldn't you agree that in
2 both the current rate case and in FPL's prior rate case
3 the savings resulting from the smart meter project that
4 were promised outweigh the O&M costs starting the year
5 following the test year?

6 A Yes.

7 Q Okay.

8 A And, I mean, I mentioned all that in my
9 rebuttal.

10 Q Okay.

11 A I am not saying that that didn't happen.

12 Q Okay.

13 A I provide --

14 Q I think my question has been answered.

15 A -- reasons for why that happened.

16 Q Thank you.

17 **CHAIRMAN BRISÉ:** You may proceed, Ms. Purdy.

18 **BY MS. PURDY:**

19 Q But in this case FPL projects a net O&M
20 savings that FPL would recognize for 2014 and 2015.

21 A Yes. That's, that's when we expect to start
22 seeing that.

23 Q Okay. But FPL does not propose to include any
24 of this net O&M savings, a combined, would you say
25 approximately 40.5 million, that would not be included

1 in the setting of rates in this proceeding.

2 **MR. RUBIN:** Mr. Chairman, I object at this
3 point. Ms. Santos is the operational witness who is
4 here to describe the puts and takes that, that resulted
5 in the increase in costs and the delay in savings. But
6 the ratemaking principles are specifically addressed by
7 Witnesses Deason and Barrett. Ms. Santos has that in
8 her testimony and she's indicated that in her rebuttal
9 summary this morning.

10 **CHAIRMAN BRISÉ:** If you could --

11 **MS. PURDY:** Sure. Well, Ms. Santos does
12 testify as to the actual amount of savings, and she
13 testified in the prior proceeding and has responded in
14 data responses as to the actual numbers here.

15 **CHAIRMAN BRISÉ:** Okay. I will allow -- and
16 obviously the witness can, can defer, if she needs to.

17 **THE WITNESS:** I defer to Witnesses Barrett and
18 Deason.

19 **MS. PURDY:** Okay. At this time, Mr. Chairman,
20 I'd like to mark one more exhibit.

21 **CHAIRMAN BRISÉ:** Sure. That would be 522.

22 (Exhibit 522 marked for identification.)

23 **MS. PURDY:** Ms. Santos, when you're ready.

24 **CHAIRMAN BRISÉ:** Are there any objections to
25 this document?

1 **MR. RUBIN:** No objections from FPL.

2 **CHAIRMAN BRISÉ:** Okay.

3 **BY MS. PURDY:**

4 **Q** Ms. Santos, do you recognize this document?

5 **A** Yes, I do.

6 **Q** Okay. And did you review it prior to FPL's
7 serving the response on participants?

8 **A** Yes.

9 **Q** To the best of your knowledge, was the
10 response accurate at the time it was made?

11 **A** Yes.

12 **Q** Would it be accurate to state that the
13 response reflects that FPL had not identified any
14 megawatt hour or dollar savings associated with the
15 estimated impacts of smart meters on customer demand?

16 **A** Yes. On customer demand from the perspective
17 of the energy usage.

18 **MS. PURDY:** Okay. Thank you very much. I
19 have no further questions.

20 **CHAIRMAN BRISÉ:** All right. Thank you,
21 Ms. Purdy.

22 Moving on to FEA.

23 **CAPTAIN MILLER:** I have no questions, Mr.
24 Chairman.

25 **CHAIRMAN BRISÉ:** Okay. Office of Public

1 Counsel? Mr. Rehwinkel.

2 **MR. REHWINKEL:** Thank you, Mr. Chairman.
3 After the cross-examination by the South Florida
4 Hospital, we have no questions. Thank you.

5 **CHAIRMAN BRISÉ:** Okay.

6 Mr. Lavia?

7 **MR. LAVIA:** No questions, Mr. Chairman.

8 **CHAIRMAN BRISÉ:** All right.

9 Mr. Saporito?

10 **MR. SAPORITO:** Yes, Mr. Chairman. One or two
11 questions.

12 **CROSS EXAMINATION**

13 **BY MR. SAPORITO:**

14 **Q** Good morning, Ms. Santos.

15 **A** Good morning.

16 **Q** I just need some clarification. There was a
17 bunch of questions posited to you by South Florida
18 Hospital's representative with respect to the costs
19 associated with these smart meters, and you said, to the
20 best of my recollection, there was various areas, and
21 you touched on several of them.

22 So is, for my clarification, when FPL deployed
23 the smart meter program, part of those cost savings, is
24 it, is it your understanding that part of those cost
25 savings was that eventually FPL would be able to use the

1 smart meters to communicate with FPL customers to either
2 turn on or off appliances so as to offset your load
3 demands?

4 **A** We did not put any savings associated with
5 that functionality.

6 **Q** But didn't you testify earlier that you had
7 some back, some software that you were going to employ
8 for that reason?

9 **A** We have a small pilot --

10 **MR. RUBIN:** Mr. Chairman, I object. I'm
11 sorry. This is way beyond the scope of the rebuttal.
12 This is the subject of yesterday's testimony on direct.

13 **MR. SAPORITO:** This, this goes to cost
14 savings, Your Honor, if they have that capability. And
15 I believe that was the testimony that's blending right
16 into this testimony with respect to the inquiries of
17 cost savings. If they have that capability, that would
18 give them cost savings. She testified there were
19 various areas.

20 **CHAIRMAN BRISÉ:** I will allow the question. I
21 think Ms. Santos answered it. So maybe you repeat it
22 and she can repeat her answer so it can be clear in the
23 record.

24 **BY MR. SAPORITO:**

25 **Q** Is that -- is it your understanding that one

1 of the benefits for the smart meter program is the
2 ability of FP&L to interact with the smart meters so as
3 to operate a customer's appliances to offset your load
4 demands?

5 **A** That's a future benefit. We have a pilot that
6 I mentioned yesterday with 250 customers that were
7 assessing that. That was not included as a potential
8 operational savings of any kind when we presented this
9 project to the Commission.

10 **Q** Okay. And then one final question is if the
11 feasibility of doing that would require an FPL customer
12 to have what's called smart appliances which your smart
13 meter could interact with; is that not true?

14 **A** Yes.

15 **MR. SAPORITO:** All right. Thank you very
16 much.

17 **CHAIRMAN BRISÉ:** All right.

18 Mr. Hendricks.

19 **MR. HENDRIX:** No questions. Thank you.

20 **CHAIRMAN BRISÉ:** Okay. Staff?

21 **MS. BROWN:** No questions.

22 **CHAIRMAN BRISÉ:** Commissioners?

23 Okay. Redirect.

24 **MR. RUBIN:** Very briefly.

25 **REDIRECT EXAMINATION**

1 BY MR. RUBIN:

2 Q Ms. Santos, you were asked a question on cross
3 about the benefit of higher or better theft detection,
4 and I think you indicated that it does not provide cost
5 savings. Can you elaborate on what the benefits of
6 better theft detection are?

7 A Sure. With better theft detection we'll be
8 able to increase our revenues because we'll be able to
9 find customers that are unfortunately stealing
10 electricity from us. In our test year forecast we
11 actually have included close to \$8 million of associated
12 increase in revenues related to theft detection.

13 Q Thank you. And one other question. If you
14 could take a look at Exhibit 522, which is OPC's 9th set
15 of interrogatories, number 178, the Hospital Association
16 asked you a question about that.

17 A Yes.

18 Q I think you were asked about this
19 interrogatory and whether there would be -- whether you
20 have estimated any savings or impacts on demand. And I
21 just want to make it clear, this question was limited to
22 2012 and 2013; correct?

23 A That's correct. In addition, it specifically
24 related to demand caused by the customer's use of smart
25 meters to manage their energy usage. So the question

1 was about customers' energy usage and whether they would
2 reduce their energy usage by -- because we're providing
3 the energy dashboard and things like that. For those
4 purposes we have not estimated any impact on demand, but
5 we have included an impact on the theft reduction.

6 Q And I, I said one question, but I have one
7 more.

8 A Okay.

9 Q It's the lawyer's thing. But one more thing.
10 Overall, can you explain what the overall savings are
11 that are projected for, for this program for 2014 and
12 2015?

13 A So the overall savings for this program --
14 hold on. Let me get it. The overall savings in the
15 program for 2014 and 2015, the net -- well, the savings
16 are thirty -- about 34 million in 2014 and about
17 42 million in 2015.

18 MR. RUBIN: Thank you, Ms. Santos. Nothing
19 further.

20 CHAIRMAN BRISÉ: All right. Thank you. Now
21 let's deal with the exhibits.

22 FPL, did you have any exhibits?

23 MR. RUBIN: We did not, Mr. Chairman.

24 CHAIRMAN BRISÉ: Okay. South Florida Hospital
25 Association?

1 **MS. PURDY:** Yes, Mr. Chairman. We'd like to
2 move in 521 and 522.

3 **CHAIRMAN BRISÉ:** Okay. Okay. We will --
4 without objection we'll move in 521 and 522.

5 (Exhibits 521 and 522 admitted into the
6 record.)

7 Okay. Thank you, Ms. Santos.

8 **THE WITNESS:** Thank you.

9 **CHAIRMAN BRISÉ:** You are excused.

10 **MR. RUBIN:** Thank you, Mr. Chairman.

11 **MR. BUTLER:** FPL's next witness is
12 Ms. Kennedy, who is taking the stand.

13 **MR. DONALDSON:** May I proceed? Thank you. I
14 believe the witness has already been sworn.

15 **CHAIRMAN BRISÉ:** Yes, she has.
16 Whereupon,

17 **ROXANE KENNEDY**

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

21 **DIRECT EXAMINATION**

22 **BY MR. DONALDSON:**

23 **Q** Ms. Kennedy, can you please just introduce
24 yourself again to the Commission and what position you
25 are in.

1 **A** My name is Roxane Kennedy. I am the Vice
2 President of Power Generations for the nonnuclear
3 generating fleet.

4 **Q** Okay. And are you the same Roxane R. Kennedy
5 that caused to be filed ten pages of direct -- I mean,
6 prefiled rebuttal testimony in this matter?

7 **A** Yes, sir, I am.

8 **Q** Do you have any changes to that direct
9 prefiled rebuttal other than the errata that was filed
10 on August 16th?

11 **A** That is the only exception. Yes, sir.

12 **Q** If I were to ask you the same questions that
13 were in that rebuttal prefiled testimony, would your
14 answers be the same?

15 **A** Yes, sir, they would be.

16 **MR. DONALDSON:** Okay. At this time, Mr.
17 Chairman, I ask that Ms. Kennedy's rebuttal prefiled
18 testimony be entered into the record as though read.

19 **CHAIRMAN BRISÉ:** Okay. If there are no
20 questions, we'll enter Ms. Kennedy's prefiled
21 rebuttal -- direct -- rebuttal testimony into the
22 record.

23 **MR. DONALDSON:** Well, strike the direct part
24 off that.

25 (Laughter.)

1 BY MR. DONALDSON:

2 Q You don't have any exhibits that you're
3 sponsoring with your rebuttal prefiled testimony; is
4 that correct?

5 A No, sir.

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ERRATA SHEET

WITNESS: ROXANE KENNEDY - REBUTTAL

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
7	13	Replace the statement that currently reads “a planned overhaul at a cost of \$11.8 million to FPL.” with “a planned overhaul at a preliminary estimate cost of \$11.8 million to FPL.”

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Roxane R. Kennedy, and my business address is 700 Universe Boulevard, Juno Beach, Florida, 33408.

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

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to refute the positions of the Office of Public Counsel's ("OPC") witness Donna Ramas regarding FPL's fossil fleet overhaul expenses and Algenol's witness Paul Woods regarding unviable revenue sources from FPL's fossil plant generation waste recovery.

II. FOSSIL PLANT OVERHAUL EXPENSES

Q. Has FPL's fossil fleet significantly changed over time?

A. Yes. As stated in my direct testimony and shown on Exhibit RRK-2, FPL's fossil fleet capacity will have nearly doubled from 10,700 MW in 1990 to 20,800 MW in 2013 with the completion of the Canaveral Modernization Project, and evolved from older conventional steam technology to primarily modern combined cycle technology. Based on the Federal Energy Regulatory Commission's ("FERC") classifications of fossil Steam Production (e.g., conventional boiler based units) and Other Production (e.g., combustion

1 turbine based units), FPL's fossil capacity will have been distinctively
2 transformed over the same period from approximately an 80:20 mix to a 20:80
3 mix of "Steam" vs. "Other", respectively.

4 **Q. Has there been a change in the quantity of equipment that needs to be**
5 **maintained?**

6 A. Yes it has. With the doubling of the fossil generating fleet, the quantity of
7 plant equipment that needs to be maintained has significantly increased. For
8 example, from 2000 to 2013, the number of Combustion Turbines ("CT")
9 more than quadruples from 12 to 52 with the completion of the Canaveral
10 Modernization project and the number of electric generators in the fleet
11 increases from 42 to 78. In addition, the deployed balance of plant equipment
12 (i.e., critical valves) has increased accordingly with the doubling of the fossil
13 fleet capacity.

14 **Q. Do you agree with OPC witness Ramas's proposed process for projecting**
15 **overhaul cost for FPL's fossil fleet?**

16 A. No I do not. OPC's proposal lacks appropriate justification, is not properly
17 predicated on anticipated operational and overhaul plans, and the results are
18 not indicative of O&M costs going forward.

19 **Q. Is it appropriate to base overhaul costs going forward on normalized**
20 **historical values?**

21 A. No it is not. As stated before, FPL's fossil fleet has not only significantly
22 grown in size, it has also evolved from mainly conventional steam technology
23 to CT-based technology. This means that historical levels of work, type of

1 work, and expenditures are not representative of current and projected
2 overhaul work since this transformation has significantly increased the
3 deployed equipment that needs to be maintained currently and going forward.
4 Furthermore, because the doubling of the fossil fleet did not occur all in the
5 same year, but rather it was staggered based on need, over a number of years,
6 the timing of the different maintenance cycles of fossil units is also staggered
7 over the years; hence, historical maintenance cycles timing have no bearing or
8 relationship to current or future maintenance cycles. Consequently,
9 normalization of historical maintenance costs is completely inappropriate as a
10 basis to forecast maintenance costs going forward.

11 **Q. What is the appropriate method for projecting maintenance costs?**

12 A. For FPL's fossil fleet, in general terms, the appropriate way to budget for
13 overhaul costs is to base the expenditures on the level and type of work that is
14 due for the specific projection period based on a combination of factors such
15 as the condition assessment of the units and manufacturer recommendations to
16 help maximize the life of the equipment, maintain the reliability of the units
17 and minimize operational impacts to FPL customers. As shown in Exhibit
18 RRK-7, this method has allowed FPL's total fossil non-fuel O&M costs to be
19 about two-thirds (i.e. \$20/kW) less than the industry average. This represents
20 a cost avoidance of more than \$400 million in non-fuel O&M just last year for
21 an FPL fossil fleet of more than 20,000 MW.

22

1 **Q. Does Ms. Ramas's analysis account for any of this?**

2 A. No. Her position takes none of this into consideration. She simply reaches
3 her conclusion based on a mathematical average of numbers that simply do
4 not represent reality and ignores the best in class operations that have
5 produced substantial customer savings.

6 **Q. Is there a specific equipment maintenance schedule that FPL must**
7 **follow?**

8 A. Yes. There are equipment-specific maintenance plans for conventional steam
9 and combined cycle units.

10 **Q. Please describe each type of equipment maintenance schedule.**

11 A. For FPL's steam units like Martin 1 & 2, a full maintenance outage cycle is
12 defined by the longest equipment maintenance frequency/duration and is
13 typically associated with steam turbine maintenance that occurs every 8 to 12
14 years. An interim maintenance outage is driven by major boiler maintenance
15 and occurs mid cycle or every 4 to 6 years. This cycle is further divided to
16 include traditional minor boiler maintenance that occurs every 2 to 3 years.
17 The cycle is further divided to include shorter inspection outages that occur
18 annually to perform equipment condition assessments and maintenance to
19 ensure reliability issues are identified and addressed.

20

21 FPL's combined cycle units like Ft. Lauderdale 4 & 5, Ft. Myers 2, Martin 3,
22 4 & 8 and Manatee 3 fit into outage cycles driven primarily by service hours
23 and fall into three outage types: Combustion Turbine Inspections (12,000

1 service hours), Hot Gas Path Inspections (24,000 service hours), and Major
2 Inspections (48,000 service hours). Maintenance of the steam turbine and
3 generator is executed on a 3 to 12 year interval. The Heat Recovery Steam
4 Generator (“HRSG”) and balance of plant equipment maintenance is executed
5 on a 1 to 3 year interval. This work is performed in conjunction with the
6 outage types listed above. Each unit will also undergo an outage annually to
7 perform equipment condition assessments and maintenance to ensure
8 reliability issues are identified and addressed.

9 **Q. Based on this, does the type of work change from year-to-year?**

10 A. Yes it does. For example, in 2013 Scherer Unit 4 does not require a planned
11 overhaul. Consequently, FPL’s 2013 O&M request does not include the cost
12 of a planned overhaul for this unit. However, for 2014 Scherer 4 will require
13 a planned overhaul at a cost of \$11.8 million to FPL. Hence, the Company
14 will incur this expense in 2014 which is not included in the 2013 request.

15 **Q. Is the 2013 non-fuel O&M overhaul request appropriate?**

16 A. Yes it is. The 2013 non-fuel O&M overhaul request, as stated before, is based
17 on a combination of factors such as the condition assessment of the unit and
18 manufacturer recommendations to help maximize equipment life, maintain the
19 reliability of the unit, and minimize operational impacts to FPL customers.
20 Furthermore, the level of overhaul expenditure requested in 2013 as a percent
21 of total base O&M is reasonably consistent with prior years and beyond and is
22 in line with the increase in deployed equipment that needs to be maintained.
23 As shown in Exhibits RRK-5 through 7, this approach has allowed FPL to

1 provide high levels of availability and reliability at a cost that is about two
2 thirds below the industry average.

3

4 **III. ADDITIONAL BENEFITS FROM FPL'S FOSSIL PLANT GENERATION**
5 **AND OTHER WASTE RESOURCES**

6

7 **Q. Please provide some examples of additional benefits from FPL's fossil**
8 **plant generation and other waste resources.**

9 A. One example of benefits from fossil plant generation waste are the revenues
10 produced from FPL's Coal Combustion Residual ("CCR") Management
11 program associated with FPL's ownership in both St. Johns and Scherer coal
12 plants. FPL's coal by-product revenues from gypsum and fly ash, as
13 documented by the Florida Public Service Commission Office of Auditing and
14 Performance Analysis "Review of Coal Combustion Residual Storage and
15 Disposal Processes of the Florida Electric Industry" report (November 2011),
16 totaled almost \$700,000 in 2010. Another example, based upon FPL's 2011
17 Sustainability Report, relates to the Company's centralized recycling
18 operations which collectively generated another \$5.8 million in revenues from
19 its various waste minimization programs.

20 **Q. Does Algenol Biofuel's proposal present a viable revenue generating**
21 **benefit for FPL's customers?**

22 A. No it does not. From the information provided by Algenol and available on
23 their website, FPL has been unable to recognize any short or long term

1 customer benefits. Consequently, FPL does not presently believe it is in the
2 best interest of customers to pursue business ventures with Algenol.
3 Algenol's process is neither commercially-proven, nor do we believe it is
4 possible to permit, at the scale necessary to achieve material benefits. For
5 example, based on Algenol's stated ethanol production rates of 160 gallons
6 per metric ton of CO₂ and 6,000 gallons per acre, approximately 267,000
7 acres of property would be required to process the CO₂ emissions which
8 Algenol stated are released from FPL's West County Energy Center
9 ("WCEC"). This land requirement for just one plant, virtually equivalent to
10 nine times the area of Disney World or almost 60 percent of the expanse of
11 Florida's Lake Okeechobee, is unreasonable and in glaring contrast to
12 Algenol's limited resources. Also, while Algenol's process distinguishes
13 itself as preserving freshwater by relying on saltwater, no saltwater exists
14 within reasonable proximity to FPL's WCEC plant. Further, Algenol's
15 testimony misstated the potential revenues projected from the WCEC plant
16 and failed to take into account revenue off-setting capital and O&M costs
17 associated with capturing, compressing, and transporting FPL's CO₂, along
18 with thermal efficiency/parasitic load impacts and potential environmental
19 risks associated with their process. Recently published technical analysis of
20 the application of commercially available Carbon Capture and Storage
21 ("CCS") technologies to natural gas-fired combined cycle ("NGCC") power
22 plants provided the typical make-up of the exhaust gas from such facilities and
23 essentially indicated that the weak concentration of CO₂ (3%) in NGCC plant

1 exhaust “makes CO₂ capture technically challenging and more difficult than
2 for coal-fired power plants.... Further, the additional equipment required to
3 implement the CO₂ capture is very expensive, raising the overall capital cost
4 of the plant. Due to significant amounts of energy required to implement CO₂
5 capture, there are also significant impacts on output, efficiency, and the cost
6 of electricity” (*Technical and Regulatory Analysis of Adding CCS to NGCC
7 Power Plants in California*, prepared by CH2M HILL for Southern California
8 Edison Company, November 2010). Moreover, the costs of CO₂ capture for
9 an existing NGCC plant for commercial use were estimated in the report at up
10 to \$100/ton, far eclipsing Algenol’s stated \$30/ton revenue proposition.

11 **Q. Do you believe this is a viable revenue generating opportunity for FPL to
12 pursue?**

13 A. No I do not.

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

15 A. Yes.

1 **BY MR. DONALDSON:**

2 Q Have you prepared a summary for the
3 Commission?

4 A Yes, sir, I have.

5 Q Can you please present that to the Commission?

6 A Yes, sir.

7 Good morning, Commissioners. Thank you for
8 the opportunity to testify before you. My name is
9 Roxane Kennedy. I am the Vice President of Power
10 Generations of the FPL nonnuclear generating fleet. The
11 purpose of my rebuttal is to refute the positions made
12 by Intervenors Ramas and Woods.

13 As shown on Exhibit RRK-2, FPL fossil fleet
14 capacity will have nearly doubled by the year 2013 and
15 evolved to cleaner efficient combined cycle technology.
16 With this doubling, the number of generators and
17 combustion turbines that need to be maintained has
18 significantly increased, along with the associated
19 balance of plant equipment. Consequently, the growing
20 fossil fleet, the timing of plant additions, and the
21 increase in work scope and type are key drivers in our
22 overhaul needs.

23 This means that past overhaul expenditures are
24 not representative of projected overhaul expenditures.
25 Therefore, normalization of historical maintenance costs

1 is completely inappropriate as a basis to forecast
2 maintenance costs going forward.

3 Based on realistic factors, such as condition
4 assessment of the units, manufacturer recommendations,
5 and the level and type of work that is due, FPL's 2013
6 nonfuel O&M fossil overhaul request is appropriate. As
7 shown in Exhibits RRK-5 through 7, such focused approach
8 has allowed FPL to provide high levels of availability
9 and reliability at a cost that is 66% below the industry
10 average.

11 Regarding additional revenue sources, FPL has
12 appropriately maximized the source of revenues that are
13 projected to be reasonably and -- reasonably available
14 and technically viable for the 2013 test year. Further,
15 FPL does not believe that the proposal by Algenol to
16 collaborate in the captured transport and processing of
17 CO2 from FPL power plants would meet these criterias,
18 and does not protect FPL's customers from any additional
19 costs and risk associated with this transaction.

20 This concludes my rebuttal testimony summary.

21 **MR. DONALDSON:** I'd tender the witness for
22 cross-examination.

23 **CHAIRMAN BRISÉ:** Okay.

24 Ms. Kaufman?

25 **MS. KAUFMAN:** Mr. Chairman, FIPUG has no

1 questions for this witness.

2 **CHAIRMAN BRISÉ:** Okay.

3 South Florida Hospital Association, Ms. Purdy?

4 **MS. PURDY:** The Hospitals have no questions
5 for this witness.

6 **CHAIRMAN BRISÉ:** Okay. FEA?

7 **CAPTAIN MILLER:** No questions from FEA.

8 **CHAIRMAN BRISÉ:** Okay. OPC, Mr. Rehwinkel?

9 **MR. REHWINKEL:** Yes, Mr. Chairman. Public
10 Counsel has a few questions.

11 **CHAIRMAN BRISÉ:** Sure. Go right ahead.

12 **MR. REHWINKEL:** And to start off with, I just
13 would like to pass out an exhibit just to get it out of
14 the way. This is, this is a composite exhibit and it is
15 comprised of interrogatories, OPC -- FPL response to OPC
16 interrogatories 264 through 267. And I would assume
17 that would get 523 as a number?

18 **CHAIRMAN BRISÉ:** Yes. 523.

19 **MR. REHWINKEL:** Thank you.

20 (Exhibit 523 marked for identification.)

21 **CHAIRMAN BRISÉ:** Are there any objections to
22 this exhibit?

23 **MR. DONALDSON:** Just give me one second, Mr.
24 Chairman.

25 **CHAIRMAN BRISÉ:** Sure.

1 **MS. KAUFMAN:** Mr. Chairman, I think I might
2 just have a question. On the very last page of the
3 exhibit, there are items that are shaded out. Are those
4 confidential or irrelevant or what?

5 **MR. DONALDSON:** I believe that the way it's
6 shaded out is because of the timing of when those units
7 were, came online.

8 **MS. KAUFMAN:** Okay.

9 **MR. DONALDSON:** My only objection on part of
10 this exhibit under Tab 1 deals with the portions that
11 talk about the capital. Ms. Kennedy's rebuttal
12 testimony only refers to the O&M expenses, and so that
13 would be outside the scope of her rebuttal. So if there
14 are any questions that are being, pertain to the capital
15 side, that should have been brought up on direct, and so
16 I would ask that the witness not be instructed to answer
17 anything that is outside the scope of her rebuttal
18 testimony dealing with capital.

19 **CHAIRMAN BRISÉ:** Okay. Duly noted.

20 All right. Other than that, there are no
21 objections to this document?

22 **MR. DONALDSON:** Correct.

23 **CHAIRMAN BRISÉ:** All right.

24 So, you may proceed, Mr. Rehwinkel.

25 **MR. REHWINKEL:** Thank you, Mr. Chairman.

CROSS-EXAMINATION

1
2 **BY MR. REHWINKEL:**

3 Q Hello again, Ms. Kennedy.

4 A Good morning.

5 Q Let me first ask you, if you would, to turn to
6 page 7 of your rebuttal testimony, and direct your
7 attention to lines 20 and 21. Do you state there that
8 the level of overhaul expenditures requested in 2013 as
9 a percent of total base O&M is reasonably consistent
10 with prior years and beyond?

11 A Yes, sir, that is correct.

12 Q Okay. In your use of the term "overhaul
13 expenditures" as used in this sentence, are you
14 referring to overhaul costs that are expensed only, or
15 are you referring to total overhaul costs, including the
16 portion that would be capitalized?

17 A No, sir. As you can see in the sentence, it's
18 only referring to O&M.

19 Q Okay. What percentage of overhaul expense to
20 total base O&M in the test year and in prior years and
21 beyond --

22 **MR. REHWINKEL:** Strike that question, Mr.
23 Chairman. Let me start over again.

24 **BY MR. REHWINKEL:**

25 Q What is the percentage of overhaul

1 expenditures to total base O&M in the test year and in
2 prior years and beyond to which you are referring?

3 **A** In the test year it is to total base, it is
4 operating at 28%. And what other years were you
5 interested in?

6 **Q** The reference here to prior years and beyond.

7 **A** Okay. In 2010 it was -- I don't have an
8 average of the numbers, but for the previous 2010 it was
9 26.6, and in 2011 it was 23.17, and in 2012 it was
10 26.45.

11 **Q** Okay. And what was the reference to "and
12 beyond"? Are you talking about in the future, or --

13 **A** No, sir. I'm only talking in terms of these
14 past years.

15 **Q** Okay. Now, was, was this information on these
16 percentages provided in discovery, or in some other form
17 of your, through your filing?

18 **A** I do not believe so, but that would have to be
19 checked.

20 **Q** Okay. And by this information, I meant the
21 percentages you just read.

22 **A** Yes, sir. I understood your question.

23 **Q** Okay. Is it your position that overhaul
24 expenditures incurred by FPL are somehow tied to the
25 amount of total base O&M expense incurred by FPL?

1 **A** No, sir. I -- not directly, in the aspect it
2 can give you a trend in terms of the percentage of
3 contribution to that. As you are aware, our fleet has
4 grown, so it is increasing. So that percentage will
5 increase as time evolves, but it's trying to show a
6 relationship, but there's not a significant step change.

7 **Q** Okay. But your, your answer was no to my
8 question?

9 **A** May I ask you to repeat it so I can be
10 correct?

11 **Q** Okay. Is it your position that overhaul
12 expenditures incurred by FPL are somehow tied to the
13 amount of total base operation and maintenance expense
14 incurred by FPL?

15 **A** Yes, it is a portion of it. Yes, sir.

16 **Q** Okay. Let me ask it a different way. Are you
17 saying that you target your overhaul expenditures to a
18 certain percent of total base O&M?

19 **A** No, sir. And my rebuttal stated that in terms
20 that our overhaul expenditures are set by our
21 condition-based maintenance programs and our OEM
22 recommendations, of which -- and the equipment that we
23 are maintaining.

24 **Q** Is it your testimony that there should be a
25 consistent ratio from year to year of overhaul

1 expenditures to FPL's total base O&M expense?

2 **A** No, sir.

3 **Q** Well, then can you tell me why your statement
4 that the level of overhaul expenditures requested in
5 2013 as a percent of total base O&M is reasonably,
6 reasonably consistent with prior years is relevant to
7 evaluating whether the costs included in the projected
8 test year in this filing are accurate or appropriate for
9 purposes of determining rates in this case?

10 **MR. DONALDSON:** Can you just point the witness
11 to which part of the statement, her statement is stating
12 that?

13 **MR. REHWINKEL:** Was that an objection?

14 **MR. DONALDSON:** It is an objection, because I
15 think you parsed her testimony in addition to a question
16 on top of that and asked her to respond. So I wasn't
17 sure which part of it was her testimony and which part
18 was question.

19 **MR. REHWINKEL:** Okay. Okay. Fair enough.
20 All right.

21 **BY MR. REHWINKEL:**

22 **Q** This is the statement that I'm asking you
23 about. The level of overhaul expenditure requested in
24 2013 as a percent of total base O&M is reasonably
25 consistent with prior years. Okay. That's the part of

1 the statement that I'm asking you, why is that relevant
2 to evaluating whether the costs included in a projected
3 test year in this filing are accurate or appropriate for
4 purposes of determining rates?

5 A The purpose for that sentence was to explain
6 or to quantify that there wasn't a statistically
7 significant increase.

8 Q On that same page, lines 10 through 14, you
9 discuss the overhaul costs associated with Scherer Unit
10 4; correct?

11 A Yes, sir.

12 Q And there you indicate there is no amount
13 included in test year O&M expense for overhauls of
14 Scherer Unit 4; right?

15 A Yes, sir. That outage occurs every other
16 year.

17 Q And you also state that the preliminary
18 estimate of the planned overhaul costs at Scherer Unit 4
19 for 2014 is \$11.8 million to FPL; correct?

20 A That is the preliminary number.

21 Q Okay. So the answer is yes?

22 A Yes, that is the preliminary number.

23 Q Am I also correct that overhauls at Scherer
24 Unit 4 are performed every two years?

25 A Yes, sir.

1 Q Can I get you to now look at Exhibit 523, and
2 I want to direct you to Tab 3, which is just an easy way
3 of getting to interrogatory 266 response. Do you see
4 that?

5 A Yes, sir.

6 Q Okay. And if I could direct you to the
7 attached Attachment 1. This shows that FPL incurred
8 overhaul expenses associated with Scherer Unit 4 in 2010
9 in the amount of \$10.3 million; correct?

10 A Yes, sir, that is correct.

11 Q Okay. Now can I get you to turn to Tab 4,
12 which is interrogatory 267, and ask you to look at
13 Attachment 1, page 1 of 1, and see if I can get you to
14 agree that for 2012 FPL projected incurring overhaul
15 expense for Scherer Unit 4 in the amount of \$12,294,122.

16 A Yes, sir. That is correct.

17 Q Okay. Is it your understanding that each of
18 those years, 2010 and 2012, were included by Ms. Ramas
19 in determining recommended normalized level of overhaul
20 expense?

21 A I would need to reference back to her matrix
22 in the, her rebuttal.

23 Q Okay. Can you do that?

24 A I do not see that she's taken exception to
25 that. I'm looking at, in her rebuttal, Exhibit Number

1 DR-2.

2 Q When you say take an exception to that, what
3 do you mean?

4 A I do not see where she has listed that as a
5 line item to be removed.

6 Q So that would mean she included it, Scherer?

7 A Yes, sir.

8 Q Okay. So if that's true, isn't it correct
9 also that the average or normalized cost levels
10 calculated by Ms. Ramas would include costs associated
11 with overhauls of Scherer Unit 4?

12 A Yes, sir.

13 Q Is it correct that in the years in which
14 Scherer Unit 4 is not overhauled, that FPL incurs a
15 higher performance fee due to higher unit availability
16 in those years?

17 A Yes, sir, that is correct.

18 Q Is it also correct that the 2013 test year
19 expenses include a higher Scherer performance fee than
20 that that would be projected for 2012 or 2014?

21 A I'm sorry. Could you repeat the question?

22 Q Yes. Is it also correct that the 2013 test
23 year expenses include a higher Scherer performance fee
24 than what would be projected for 2012 or 2014?

25 A Again, overhauls -- the performance fee -- I

1 believe the answer is yes, but I'm not following you
2 completely. So I'm going to add a statement here to,
3 for clarification in case I'm incorrect in understanding
4 your question.

5 And that is, overhauls are every other -- are
6 on the even year and the performance fee paid during
7 those years are lower because of the outage because it
8 impacts availability, and the performance fee is higher
9 in the uneven years.

10 So I think your answer is correct.

11 Q Okay. Would you agree with me that in the
12 test year FPL is projecting an \$8.2 million increase in
13 O&M expense in 2013 for increase in the Scherer
14 performance fee due to higher unit availability in years
15 there is no overhaul?

16 A Yes and no. Yes, the performance fee is that
17 amount. But when you net it out, the net increase is
18 like around 4 million, or 4 million reduced.

19 Q Okay. But you agree with me that the increase
20 in the Scherer performance fee is \$8.2 million for 2013?

21 A Subject to check, yes, sir.

22 MR. REHWINKEL: Mr. Chairman, at this time I'd
23 like to pass out an exhibit.

24 CHAIRMAN BRISÉ: Sure.

25 MR. REHWINKEL: And this is response to South

1 Florida Hospital, number 135. And what -- would that be
2 524?

3 **CHAIRMAN BRISÉ:** 524.

4 (Exhibit 524 marked for identification.)

5 Are there any objections to this exhibit?

6 **MR. DONALDSON:** No objections.

7 **CHAIRMAN BRISÉ:** Okay. You may proceed.

8 **MR. REHWINKEL:** Okay. Thank you.

9 **BY MR. REHWINKEL:**

10 **Q** Ms. Kennedy, do you have Exhibit 524 in front
11 of you? That's the response to South Florida 135.

12 **A** This says it's interrogatory 135.

13 **Q** Yes.

14 **A** Okay.

15 **Q** I would just like to ask you if you could turn
16 to page 4 of 4 of that Attachment 1.

17 **MR. DONALDSON:** Mr. Chairman, my only concern
18 is that we don't have the actual interrogatory that's
19 asking for whatever the response is here. So, as a
20 matter of completeness, I'm not sure if the witness will
21 be able to articulate specifically what this
22 interrogatory is responding to, based on only
23 attachments are being, are being shown to her and not
24 the actual interrogatory question.

25 **MR. REHWINKEL:** Mr. Chairman, if, if I could

1 get, be just given a slight bit of latitude. The last
2 answer ended with subject to check, and I just was, you
3 know -- if, if, if we don't use this to check, then
4 maybe we can address the completeness issue. But
5 counsel has a fair point, but perhaps we can get there
6 without --

7 **CHAIRMAN BRISÉ:** Sure. I'll provide the
8 latitude.

9 **BY MR. REHWINKEL:**

10 **Q** Can I get you to turn to the last page --

11 **A** Yes, sir. I'm there.

12 **Q** -- and, and ask you if anything on the second
13 line of the section that reads power generation would
14 confirm the amount in the last question that I asked
15 you.

16 **A** Yes, sir, I concur.

17 **Q** Okay. So it's 8.2 million?

18 **A** Yes, sir.

19 **Q** Okay. Thank you. Thank you.

20 And is it your understanding that Ms. Ramas
21 did not remove or in any way adjust the Scherer
22 performance fee that is included in the test year?

23 **A** In accordance to her -- yes, I believe so. It
24 is averaged in terms of the, the overhaul perspective.

25 **Q** Okay. Thank you.

1 **MR. REHWINKEL:** Mr. Chairman, those are all
2 the questions I have.

3 Thank you, Ms. Kennedy.

4 **CHAIRMAN BRISÉ:** Okay. Thank you.

5 Mr. Lavia?

6 **MR. LAVIA:** Mr. Chairman, we have no
7 questions. Thank you.

8 **CHAIRMAN BRISÉ:** Okay.

9 Mr. Saporito?

10 **MR. SAPORITO:** No questions.

11 **CHAIRMAN BRISÉ:** Mr. Hendricks?

12 **MR. HENDRIX:** No questions.

13 **CHAIRMAN BRISÉ:** All right. Staff?

14 **MR. YOUNG:** No questions.

15 **CHAIRMAN BRISÉ:** Commissioners?

16 Commissioner Balbis.

17 **COMMISSIONER BALBIS:** Thank you. I just have
18 one quick question.

19 You mentioned that your maintenance is based
20 on either a condition-based maintenance program or the
21 OEM's recommendation. My question is, on a year-to-year
22 basis after those preventative maintenance items are
23 developed, how successful is your team in performing
24 each of those maintenance activities as far as
25 percentage? You know, they recommend, you know, so many

1 thousands of preventative maintenance activities. How
2 successful is your team in performing those?

3 **THE WITNESS:** Could I ask a clarifying
4 question --

5 **COMMISSIONER BALBIS:** Sure.

6 **THE WITNESS:** -- in terms of how you would
7 like me to answer in defining successful so I can be
8 concise? In terms of dollars, in terms of --

9 **COMMISSIONER BALBIS:** Well, either way. You
10 know, because obviously what you stated, I assume, is
11 that you establish your budget based on the activities
12 that are either in the maintenance program or OEM
13 manufacturer's recommendations. So from a dollar or a
14 task standpoint.

15 **THE WITNESS:** Okay. Thank you. I think that
16 Exhibit 7 probably represents it best in terms of the
17 O&M costs per installed megawatts, because that includes
18 our maintenance costs in that. And, as you can see,
19 that we are 66% below the industry in that, so we've
20 been very successful from that perspective.

21 And also in terms of Exhibit 6 in terms of our
22 reliability, in Exhibit 5 in terms of our availability,
23 all indicating that we have successfully invested our
24 money in the proper way to achieve safe, reliable,
25 cost-effective power to the customers.

1 **COMMISSIONER BALBIS:** Yeah. And --

2 **THE WITNESS:** And that's --

3 **COMMISSIONER BALBIS:** I appreciate that. I
4 guess what I'm getting at, and I'm not being clear
5 either, is in my past experience I always had -- well, I
6 had had cases where certain staff thought they were
7 going to overachieve, so we'd put in the budget that
8 we're going to do \$20 million worth of maintenance
9 activities, but then at the end of year we only
10 performed \$15 million or 10 million, or out of the
11 10,000 tasks only 8,000 tasks, so the budget for that
12 year was overstated.

13 So the question is, specifically on the
14 maintenance activities from either the OEM or the
15 condition-based program, how good are you at performing
16 those tasks?

17 **THE WITNESS:** I would like to -- we, we
18 effectively come in on our budgets every year, and we
19 have to manage the risk. And a lot of times we find
20 different conditions that we have to decide whether
21 we're going to spend the money on that or not spend the
22 money on that.

23 I think the clear answer to you is that we, we
24 have been very successful. More often than not what we
25 have to consider is the things that we have to elect to

1 manage that risk and whether we're going to do that
2 maintenance or not.

3 For example, just in our recent outages that
4 we had this spring, we found on one of our compressors
5 some stationary and rotating clashing. We elected,
6 rather than spend the millions of dollars now, to do
7 some interim inspections until we can make it to the
8 additional outage. So there are all those risks that we
9 continually manage in that aspect of it.

10 But our budgets are -- we use a very rigorous
11 program in which we make sure that we are doing,
12 maintaining our critical equipment, we're doing the
13 right maintenance at the right time. And so it, through
14 that challenging process is part of reason that we've
15 been able to achieve the performance that you're seeing
16 on Exhibit 7.

17 **COMMISSIONER BALBIS:** Okay. Thank you.
18 That's all I had.

19 **CHAIRMAN BRISÉ:** All right. Redirect?

20 **MR. DONALDSON:** No redirect.

21 **CHAIRMAN BRISÉ:** All right. So let's deal
22 with exhibits.

23 **MR. DONALDSON:** I just want to ensure that
24 Ms. Kennedy's errata for her rebuttal was included in
25 the record. That's all. I didn't actually hear it

1 being included. I just want to make sure that it is
2 included.

3 **CHAIRMAN BRISÉ:** Okay. We will make sure that
4 the errata is included as part of her prefiled exhibits.

5 **MR. YOUNG:** Prefiled rebuttal testimony. I
6 think it's part of her testimony.

7 **CHAIRMAN BRISÉ:** Part of the rebuttal
8 testimony.

9 **MR. YOUNG:** Yes.

10 **MR. DONALDSON:** Yeah. Direct rebuttal
11 testimony.

12 **CHAIRMAN BRISÉ:** All right. South Florida
13 Hospital Association; you didn't have anything?

14 Office of Public Counsel.

15 **MR. REHWINKEL:** Yes. Mr. Chairman, I would
16 move 523. I didn't ask questions about the first two
17 interrogatories. They were part of a series. I
18 included them in case we had to get in there. I did not
19 intend to get into the areas that counsel appropriately
20 addressed. I would move the entire exhibit. I don't
21 think there's any harm in it.

22 **MR. DONALDSON:** I think the record speaks for
23 itself. I don't have any objection to it.

24 **MR. REHWINKEL:** Okay. And then on 524, I
25 would move that if, if -- I did not realize that I had

1 omitted the question there. That was an oversight on my
2 part. I can admit it and provide that to all of the
3 parties.

4 **MR. DONALDSON:** That'll be fine.

5 **MR. REHWINKEL:** Okay. Then I would move 523
6 and 524.

7 **CHAIRMAN BRISÉ:** All right. Thank you. We
8 will move 524 and -- I mean, 523 and 524 into the
9 record.

10 (Exhibits 523 and 524 admitted into the
11 record.)

12 Thank you, Ms. Kennedy. You are excused.

13 **THE WITNESS:** Thank you.

14 **MR. YOUNG:** Next is Mr. Hardy.

15 **MR. DONALDSON:** May I proceed, Mr. Chairman?

16 **CHAIRMAN BRISÉ:** I think some, some of the
17 parties are trying to get themselves situated.

18 **MR. DONALDSON:** Okay.

19 **CHAIRMAN BRISÉ:** Okay. You may proceed.

20 **MR. DONALDSON:** Thank you. The witness has
21 already previously been sworn.

22 Whereupon,

23 **GEORGE K. HARDY**

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

1 follows:

2 **DIRECT EXAMINATION**

3 **BY MR. DONALDSON:**

4 Q Can you please reintroduce yourself to the
5 Commission, sir.

6 A Yes. My name is George Keith Hardy.

7 Q And what's your capacity?

8 A I'm the Vice President of Distribution for
9 Florida Power & Light.

10 Q Are you the same Mr. Hardy that caused to be
11 filed 14 pages of rebuttal testimony in this matter?

12 A Yes.

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

15 A No, I do not.

16 Q If I was to ask you the same questions that
17 were listed in that rebuttal testimony, would your
18 answers be the same?

19 A They would.

20 **MR. DONALDSON:** I now ask that Mr. Hardy's
21 rebuttal testimony be entered into the record as though
22 read.

23 **CHAIRMAN BRISÉ:** Okay. We will enter
24 Mr. Hardy's rebuttal testimony into the record as though
25 read, if there are no objections.

1 Okay. Seeing none.

2 **BY MR. DONALDSON:**

3 **Q** Mr. Hardy, did you also attach some exhibits
4 to your rebuttal testimony?

5 **A** I did.

6 **Q** All right. And those exhibits have been
7 identified as GKH-3 and 4, listed on staff's
8 Comprehensive Exhibit List 413 and 414 for
9 identification purposes; is that correct?

10 **A** Correct.

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I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is George K. Hardy. My business address is Florida Power & Light Company (“FPL”), 700 Universe Blvd., Juno Beach, Florida, 33408.

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

A. Yes.

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

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

- GKH-3 Hardening Plan O&M Expenses / Miles Hardened
- GKH-4 Pole Inspection Program Costs – Actual vs. Budget

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to refute claims made in the direct testimonies of South Florida Hospital and Healthcare Association (“SFHHA”) witness Lane Kollen and Office of the Public Counsel (“OPC”) witness Helmuth Schultz III which result in their recommendations to reduce FPL’s 2013 vegetation management, hardening plan and pole inspection O&M expenses.

Q. Please summarize your rebuttal testimony.

A. SFHHA witness Kollen is proposing to adjust FPL’s projected 2013 (test year) vegetation management O&M expenses (\$68.7 million, total company) to the 2012 budget O&M expense level (\$59.2 million, total company). To support this adjustment, Mr. Kollen asserts that there is no valid justification for a 16% increase in test year vegetation management O&M expenses and that these O&M

1 expenses should be declining, not increasing. Mr. Kollen also suggests that FPL
2 has not quantified or provided any savings associated with its system reliability
3 initiatives (e.g., pole inspections). My testimony shows that: Mr. Kollen's
4 proposed adjustment to vegetation management O&M expenses is not appropriate
5 and should be rejected. Additionally, based on his comments, I believe Mr. Kollen
6 may not understand or be completely familiar with the purpose and justification
7 for implementing FPL's Commission-approved storm hardening plan and storm
8 preparedness initiatives.

9
10 OPC witness Schultz is proposing to reduce FPL's projected 2013 test year
11 vegetation management and hardening plan O&M expenses by \$9.3 million (total
12 company) and pole inspection O&M expenses by \$2.7 million (total company).
13 Mr. Schulz utilizes historic actual vs. budgeted O&M expense performance to
14 calculate his proposed test year O&M expense reductions. My testimony shows
15 that: (1) Mr. Schultz's proposed test year O&M expenses reductions are not
16 appropriate and should be rejected; and (2) even if one accepts his adjustment
17 methodology, he has overstated his total proposed approximately \$12 million
18 O&M expense reduction for vegetation management, hardening plan and pole
19 inspections by over \$8 million or 67%.

20

21

22

1 **II. REBUTTAL TO TESTIMONY OF SFHHA WITNESS LANE KOLLEN**

2

3 **Q. Please comment on SFHHA witness Kollen's assertion that there is no valid**
4 **justification for a \$9.4 million or 16% test year increase (vs. 2012) in**
5 **vegetation management O&M expenses.**

6 A. Witness Kollen's proposed vegetation O&M expense reduction should be
7 rejected. Once the 2012 budget is increased by \$3.5 million to properly account
8 for a necessary under-forecast adjustment, the filed 2012 vegetation management
9 O&M expenses increase from \$59.2 million to \$62.7 million. This results in a 9%
10 increase in 2013 instead of the 16% increase used by Mr. Kollen to support his
11 proposed adjustment. The resulting 9% increase is supportable, reasonable and
12 consistent with recent historical increases.

13 **Q. Please provide more information concerning the 2012 \$3.5 million under-**
14 **forecast adjustment.**

15 A. Shortly after the 2012 budget was finalized and approved, FPL realized that its
16 2012 forecast for vegetation management O&M expenses was under-forecast.
17 Based on the recent historical trend for vegetation management costs, (i.e., \$53
18 million, \$58 million, and \$60 million for 2009-2011, respectively) and the fact
19 that FPL has been increasing the annual number of lateral miles trimmed in order
20 to achieve the Commission-approved 6-year average trim cycle by 2013, it
21 became apparent that an adjustment was necessary. Because FPL's rate request is
22 based on forecasted 2013 costs, FPL did not believe an adjustment to correct for
23 this in its filing was necessary. However, to respond to Mr. Kollen's assertion and

1 recommendation to reduce these expenses because of the apparent 16% increase
2 in 2013, this adjustment is necessary and appropriate to include at this time. As a
3 result of this under-forecast and FPL's commitment to meet its Commission-
4 approved tree trimming cycle requirements, FPL expects to exceed its approved
5 2012 vegetation management budget. In fact, actual results for the six months
6 ended June 30, 2012 indicate that vegetation management expenses are exceeding
7 the 2012 budget by \$4 million (actual \$32 million vs. budget \$28 million).

8 **Q. Please explain the basis for the \$6 million or 9% increase in 2013 (vs. 2012)**
9 **vegetation management expenses.**

10 A. The primary factors contributing to the 2013 \$6 million increase in expenses are
11 associated with trimming an additional 500 miles of feeders in 2013 (necessary to
12 achieve the Commission-approved 3-year average trim cycle in 2013), increases
13 in vegetation management contractor rates throughout FPL's service territory (per
14 agreements with FPL's vegetation management vendors) and increases in lateral
15 trimming costs due to the geographic location of the lateral miles scheduled to be
16 trimmed in 2013 (e.g., tree trimming costs per mile for a given management area
17 can vary significantly based on factors such as differences in the vegetation
18 density of each mile trimmed, elapsed time since the circuit was last trimmed,
19 accessibility and permitting requirements). Increases associated with other
20 vegetation management activities, (e.g., tree removals and customer trim
21 requests), also contribute to the overall increase. The 9% test year increase is in
22 line with recent historical year-to-year percentage increases.

1 **Q. Do you agree with witness Kollen's assertion that "if anything, expenses**
2 **should decline in the test year"?**

3 A. No. As previously discussed, FPL needs to trim an additional 500 miles of feeder
4 lines in 2013 in order to achieve the Commission-approved 3-year average trim
5 cycle. The number of lateral and mid-cycle miles to be trimmed in 2013 remains
6 the same as the number of miles planned for 2012. The additional miles to be
7 trimmed along with the other contributing factors previously discussed provide
8 the clear rationale for the necessary 9% increase in 2013. Conversely, Mr. Kollen
9 provides no basis for his assertion that expenses should be declining.

10 **Q. Please comment on witness Kollen's assertion that FPL "has incurred tens of**
11 **millions of dollars to implement a series of initiatives to improve system**
12 **reliability" (e.g., FPL's 8-year pole inspection program), yet it is unable to**
13 **quantify or show any associated cost savings (e.g., restoration cost savings) in**
14 **the test year.**

15 A. I disagree with Mr. Kollen's assertion that FPL has not quantified or provided any
16 showing of savings in restoration costs associated with the initiatives in question.
17 While FPL's reliability initiatives are generally evaluated and implemented based
18 on the cost to implement and the expected reduction in the number of
19 interruptions, minutes of interruptions and/or momentaries, FPL does consider
20 and include, among other things, expected reliability improvements when
21 projecting restoration expenses. In fact, taking these reliability improvements and
22 other factors into account resulted in restoration expenses for 2013 (\$80.7 million)

1 being approximately \$7 million or 9% lower than those actually incurred in 2010
2 (\$87.7 million) and 2011 (\$88.1 million).

3
4 Additionally, it appears that Mr. Kollen may not understand or be completely
5 familiar with the Commission's proceedings concerning storm hardening and
6 storm preparedness. The primary basis/justification for implementing an 8-year
7 pole inspection cycle, storm preparedness initiatives (e.g., trim cycles for feeders
8 and laterals) and storm hardening plans (e.g., constructing distribution facilities to
9 the National Electrical Safety Code extreme wind loading construction criteria)
10 was avoiding and minimizing storm damage and outages, reducing outage
11 duration and reducing storm restoration costs associated with major storms. In
12 particular, the pole inspection and hardening plan initiatives help to ensure that
13 the distribution pole population is properly maintained and strengthened. While
14 these two initiatives should reduce pole damage, outages, outage duration and
15 storm restoration costs associated with major storms, they will have little impact
16 on day-to-day reliability since historically, non-major storm outages due to pole
17 conditions are negligible (approximately 0.1% per year).

18
19 **III. REBUTTAL TO TESTIMONY OF OPC WITNESS HELMUTH SCHULTZ III**

20
21 **Q. Do you agree with OPC witness Schultz's proposed adjustment of \$9.240**
22 **million (total company) for 2013 vegetation and hardening plan O&M**

1 **expenses, which was determined by multiplying FPL's 2013 costs by a**
2 **historical (2008-2010) budget to actual variance percentage (87.06%)?**

3 A. No. FPL's 2013 vegetation management and hardening plan O&M expenses are
4 appropriate as filed and Mr. Schultz's proposed adjustment should be rejected.
5 His methodology and calculations fail to account for certain significant items. As
6 a result, his calculations are distorted and his proposed O&M expense reductions
7 are overstated, inappropriate and should be rejected.

8 **Q. Why is witness Schultz's proposed adjustment to reduce 2013 vegetation**
9 **management O&M expenses by approximately \$8.9 million inappropriate?**

10 A. Mr. Schultz's methodology and calculations fail to account for a significant event
11 that must be incorporated and appropriately accounted for before evaluating
12 vegetation management budget vs. actual expenses for 2008-2010. Failure to
13 include this event and its associated impacts distort the actual-to-budget
14 performance of vegetation management O&M expenses during this period.

15 **Q. Please explain.**

16 A. In the latter part of 2008, FPL successfully negotiated and obtained vegetation
17 management contractor rate concessions which resulted in significant savings. At
18 that time, FPL estimated the savings associated with these reduced rates for 2008
19 and 2009 to be approximately \$3.9 million and \$11.6 million, respectively.
20 Because the 2008 and 2009 budgets were already approved at that time, the
21 savings were not incorporated into the budget calculations. Incorporating these
22 adjustments for the purpose of this analysis is appropriate and significantly
23 reduces the original actual-to-budget variances for 2008 and 2009.

1 **Q. How did the estimated 2008 and 2009 vegetation management savings**
2 **compare to the actual realized savings?**

3 A. The actual savings realized exceeded the above-mentioned estimated savings for
4 2008 and 2009 and this continued to carry over into 2010 as well. As a result,
5 FPL's adjusted actual-to-budget performance during this 3-year period averaged
6 approximately 95%, which is much better than the 87.06% factor utilized by Mr.
7 Schultz.

8 **Q. How does the adjusted actual-to-budget performance of 95% during 2008-**
9 **2010 compare to previous years' actual-to-budget performance?**

10 A. From 1998-2007, the average actual-to-budget ratio performance for vegetation
11 management O&M expenses was excellent, averaging 99.1%, or less than 1%
12 below budget.

13 **Q. What was FPL's 2011 actual-to-budget performance for vegetation**
14 **management O&M expenses?**

15 A. In 2011, FPL returned to an excellent actual-to-budget performance level,
16 achieving an actual-to-budget performance level of 100.4%.

17 **Q. Do you agree with witness Schultz's assumption that it is reasonable to**
18 **believe that FPL's 2013 vegetation management O&M expenses should be**
19 **less than what was actually expended in 2011?**

20 A. No. His assumption is based on the 2012 budget (\$59.2 million) for vegetation
21 O&M expenses being less than 2011 actual (\$60.4 million). As previously
22 mentioned, the 2012 budget for vegetation management O&M expenses was
23 under-forecast by \$3.5 million. Adjusting for this under-forecast increases the

1 original 2012 budget amount from \$59.2 million to \$62.7 million. This resulting
2 increase in the 2012 budget vs. the actual 2011 vegetation management O&M
3 expenses eliminates the basis for Mr. Schultz's assumption.

4 **Q. After considering the information you have provided and the necessary**
5 **adjustments that must be incorporated into the analysis, please summarize**
6 **your comments regarding Mr. Schultz's proposed reduction to the 2013**
7 **vegetation management O&M expenses.**

8 A. After considering FPL's excellent actual-to-budget performance from 1998-2007,
9 incorporating the previously discussed significant impacts associated with the
10 2008 contractor rate reductions (which significantly improve the actual-to-budget
11 performance results for 2008 and 2009) and FPL's return to excellent actual-to-
12 budget performance results in 2011, an adjustment based on Mr. Schultz's actual
13 vs. budget performance methodology is not warranted or appropriate. FPL's 2013
14 vegetation management expenses of \$68.7 million are appropriate as filed and
15 should not be reduced.

16 **Q. Using this same budget-to-actual methodology for hardening plan expenses,**
17 **witness Schultz is also proposing a reduction to FPL's hardening plan O&M**
18 **expenses of \$0.4 million. Do you agree that his adjustment is appropriate?**

19 A. No. Mr. Schultz's proposed reduction for hardening plan O&M expenses is not
20 appropriate and should be rejected.

21 **Q. Please explain.**

22 A. Hardening costs are primarily a function of: (1) the type of hardening construction
23 being employed, i.e., extreme wind loading standard hardening (used to harden

1 critical infrastructure facilities serving hospitals and 911 centers) or incremental
2 hardening (used on facilities serving other community needs like gas stations and
3 grocery stores); and (2) the number of miles being hardened. Exhibit GKH-3,
4 provides hardening plan O&M expenses and total miles hardened by year. As
5 illustrated, the hardening O&M expenses per mile for 2013 compare extremely
6 favorably to historical results, with the 2013 O&M expense per mile amount
7 being over 40% lower than the 5-year average and over 22% lower than any one
8 year. This demonstrates that FPL's hardening plan expenses for 2013 are
9 reasonable and that the adjustment proposed by Mr. Schultz is not appropriate and
10 should be rejected.

11 **Q. Witness Schultz proposes to reduce 2013 pole inspection O&M expenses by**
12 **approximately \$2.7 million, utilizing the same historical budget-to-actual**
13 **methodology that has been previously discussed. Do you agree that FPL's**
14 **2013 pole inspection expenses should be reduced?**

15 A. No. FPL's 2013 pole inspection O&M expenses are appropriate. Reducing these
16 O&M expenses would prevent FPL from being able to complete all the necessary
17 work associated with its pole inspection program.

18 **Q. Please explain.**

19 A. It is important to recognize that pole inspection costs include capital expenditures
20 as well as O&M expenses. Since implementing the pole inspection program in
21 mid-2006, capital expenditures have accounted for 70% and O&M expenses 30%
22 of total pole inspection costs. Exhibit GKH-4 provides 2007-2011 actual vs.
23 budgeted capital expenditures and O&M expenses for FPL's pole inspection

1 program. As illustrated, capital expenditures and O&M expenses have separately
2 maintained larger actual to budget variances (with capital expenditures usually
3 exceeding budget and O&M expenses more often being under budget). However,
4 combined capital and O&M expenses have an average actual-to-budget
5 performance ratio of 103%. Stated another way, total program costs for FPL's
6 pole inspection program have exceeded its total budget, on average, by three
7 percent. It is also important to note that the 2013 pole inspection expenses are
8 nearly 20% lower than those actually incurred in 2011. Incorporating a "one-
9 sided" adjustment for expenses without a comparable adjustment for capital
10 expenditures is not appropriate. Mr. Schultz's proposed reduction in FPL's 2013
11 pole inspection expenses are unsupported and should be rejected. FPL's 2013 pole
12 inspection expenses of \$14.1 million should not be reduced and are appropriate as
13 filed.

14 **Q. If the Commission was to accept witness Schultz's proposed actual-to-budget**
15 **methodology to reduce vegetation management, hardening plan and pole**
16 **inspection O&M expenses, would you propose any adjustments to his**
17 **calculations and proposed reduction amounts?**

18 A. As stated earlier, Mr. Schultz's proposed actual-to-budget performance
19 adjustment methodology is not appropriate. However, if the Commission accepted
20 this methodology, the previously discussed budget adjustments for the contractor
21 rate concessions obtained in late 2008 and utilizing a more current 5-year average
22 (2007-2011 vs. the 3-year 2008-2010 utilized by Mr. Schultz) actual-to-budget
23 performance rate would be necessary and appropriate. These corrections would

1 lower his total proposed adjustment by over \$8 million (total company) or 67%.
2 Specifically, Mr. Schultz's total company vegetation management O&M expense
3 adjustment would be reduced from \$8.885 million to \$2.053 million; his
4 hardening plan O&M expense adjustment would increase from \$0.355 million to
5 \$0.602 million; and his pole inspection O&M expense adjustment would decrease
6 from \$2.734 million to \$1.277 million.

7 **Q. Does this mean that you are proposing that FPL reduce 2013 O&M expenses**
8 **by these corrected adjustment amounts?**

9 A. No. As discussed earlier, I believe FPL's vegetation management, hardening plan
10 and pole inspection O&M expenses are appropriate as filed.

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

12 A. Yes.

1 **BY MR. DONALDSON:**

2 Q Have you prepared a summary of your rebuttal
3 testimony, sir?

4 A I have.

5 Q All right. Can you please present that to the
6 Commission.

7 A Good morning, Commissioners. The purpose of
8 my rebuttal testimony is to refute the claims made by
9 Intervenor Witness Kollen's and Schultz' recommendations
10 to reduce FPL's 2013 vegetation management, hardening
11 plan, and pole inspection O&M expenses. Their proposed
12 adjustments are not appropriate and should be rejected
13 for the following reasons.

14 First, FPL's 2013 vegetation O&M expenses are
15 reasonable and increased primarily due to three factors:
16 Increased contractor costs, additional miles to be
17 trimmed, trimming -- and trimming in more expensive
18 locations.

19 FPL has a long history of accurately
20 forecasting its vegetation O&M expenses.

21 Second, FPL's test year pole inspection O&M
22 expenses are reasonable, as they are 20% lower than
23 those actually incurred in 2011 and forecasted for 2012.

24 Finally, FPL's test year, test year hardening
25 O&M expenses are reasonable, based on a cost-per-mile

1 analysis, and is over 40% lower than the most recent
2 historical five-year average and more than 20% lower
3 than those actually incurred in 2011.

4 Commissioners, FPL's proposed test year O&M
5 expenses are appropriate and should be approved.

6 This concludes my rebuttal summary.

7 **MR. DONALDSON:** And I'll tender the witness
8 for cross-examination.

9 **CHAIRMAN BRISÉ:** All right.

10 Ms. Kaufman?

11 **MS. KAUFMAN:** We have no questions, Mr.
12 Chairman. Thank you.

13 **CHAIRMAN BRISÉ:** All right.

14 South Florida Hospital Association.

15 **MR. URBAN:** Good morning, Mr. Chairman,
16 Commissioners.

17 **CROSS-EXAMINATION**

18 **BY MR. URBAN:**

19 **Q** Good morning, Mr. Hardy.

20 **A** Good morning.

21 **Q** As you may recall from yesterday, my name is
22 Blake Urban, and I'm one of the attorneys representing
23 South Florida Hospital and Healthcare Association in
24 this proceeding.

25 On page 5, I'd like to turn to, of your

1 rebuttal testimony, lines 15 to 21, you discuss how FPL
2 underforecasts its vegetation management O&M expense for
3 2012 by 3.5 million. Do you see that?

4 **A** I do.

5 **Q** FPL's 2012 budget for vegetation management
6 expenses was approved in December of 2011; correct?

7 **A** That's correct.

8 **Q** And FPL's budget, budgeted vegetation
9 management expense for 2012 was 59.23 million; is that
10 correct?

11 **A** That's correct.

12 **Q** Okay. I'd like to take a look at a response
13 to one of the interrogatories that the Hospitals
14 directed to you regarding FPL's 2012 budget for
15 vegetation management.

16 **MR. URBAN:** Can we mark an exhibit, Mr.
17 Chairman?

18 **CHAIRMAN BRISÉ:** Sure. That would be 525.

19 Are there any objections? Okay. Seeing none,
20 you may proceed.

21 (Exhibit 525 marked for identification.)

22 **BY MR. URBAN:**

23 **Q** Thank you. Are you aware of this
24 interrogatory response?

25 **A** I am.

1 **Q** And was this response prepared under your
2 supervision or direction?

3 **A** Yes.

4 **Q** Do you agree with the response that
5 distribution knew at the moment that FPL approved a 2012
6 budget that distribution's vegetation maintenance budget
7 was underforecast?

8 **A** Where are you speaking specifically?

9 **Q** In the answer under item number 2.

10 **A** Yes. We realized it was underbudgeted when it
11 was approved. That's correct.

12 **Q** Thank you.

13 **MR. URBAN:** I would like to submit another
14 exhibit to the witness.

15 **CHAIRMAN BRISÉ:** Sure. That would be 5 --
16 marked 526.

17 **MR. URBAN:** Actually, correction, Mr.
18 Chairman. This is actually already in evidence. This
19 is one of the MFRs of, of FPL.

20 **CHAIRMAN BRISÉ:** Okay.

21 **MR. URBAN:** It's going to be the, FPL's 2012
22 planning and budgeting process guidelines, submitted as
23 part of the MFR number F-5, Attachment 8. We're handing
24 around the copy for everyone to view.

25 **CHAIRMAN BRISÉ:** Sure. Thank you.

1 **BY MR. URBAN:**

2 **Q** Mr. Hardy, are you familiar with this
3 document?

4 **A** Yes, generally.

5 **Q** This document sets forth the basic processes
6 by which business units such as distribution must submit
7 their budgetary information for approval by FPL's budget
8 review committee; correct?

9 **A** Yes.

10 **Q** And can you please turn to page 25 of the
11 document as it's marked in the header, in the upper
12 right-hand side, and look at the third bulleted item,
13 about a third of the way down, with the four sub
14 bullets. Do you see what I'm talking about?

15 **A** So you're on page 25 of 67; is that correct?

16 **Q** 25, yes.

17 **A** Okay. And where on that page?

18 **Q** The third bulleted item, about a third of the
19 way down. It has four sub bullets.

20 **A** Yes.

21 **Q** Doesn't this section require the business unit
22 to confirm the data is accurate, and, if not, modify any
23 incorrect data that would affect the accuracy of the
24 forecasted expense?

25 **A** Yes, it does.

1 Q And did distribution submit its corrected data
2 as required?

3 A Yes, it did.

4 Q So FPL's budget review committee knew how much
5 vegetation management would cost for 2012 before they
6 approved the budget, and still budgeted less than was
7 required for distribution to meet it's three- and
8 six-year trim cycles; is that correct?

9 A No, that's not correct. We submitted the
10 budget as we had intended it to be approved. And once
11 it was approved, that's when we discovered that there
12 was an adjustment made to it.

13 As to the reasons to those adjustments, I'm
14 not, I'm not a, I don't know exactly the reason. My job
15 is to try to make sure, regardless of what a budget,
16 what I, what I submitted, it's my job to make sure that
17 I try to meet whatever was approved.

18 It's not unusual for us to get stretch
19 targets, for us to be able to, to try to reduce our O&M
20 cost, and to be as prudent as we possibly can with the
21 dollars that we're given. In this particular situation
22 we were given a stretch target. It's quite obvious
23 though to us that, given that stretch target, we're not
24 able to meet it. And today, as we sit here, I'm about
25 \$4 million over my veg budget.

1 Q So you said, though, at the moment that -- you
2 agreed that at the moment the budget was approved, you
3 knew that this was under the amount that distribution
4 would need in order to conduct its vegetation management
5 for 2012; is that correct?

6 A I knew -- yeah, I knew that it was, it was
7 less than what we had requested. That doesn't mean that
8 I have the leeway to just go and ask for money. I'm
9 expected to go and find that money someplace else within
10 my budget.

11 Q Right.

12 A I'm expected to make it work.

13 Q I understand. But the point is that that
14 information was submitted to the budget review committee
15 on what distribution expected it would cost for 2012,
16 and the budget was nonetheless approved for under the
17 amount that it would cost?

18 **MR. DONALDSON:** I believe the witness has
19 already answered the question.

20 **CHAIRMAN BRISÉ:** I would agree.

21 **BY MR. URBAN:**

22 Q Okay. Mr. Hardy, I'd like to turn to FPL's
23 2013 projected vegetation management -- sorry. Yes.

24 FPL's vegetation management plan for 2013
25 remains on the three-year average trim cycle for feeders

1 and the six-year average trim cycle for laterals;
2 correct, that schedule?

3 **A** We, we are on schedule for the 2012 feeder.
4 And, as I said yesterday, we, as per the Commission's
5 order, we are ramping up to get to the cycle required to
6 be on a six-year cycle. We will be at that level of
7 trimming on laterals this year.

8 **Q** And FPL's projected vegetation management
9 expense for 2013 is 68.655 million; is that correct?

10 **A** Yes.

11 **Q** And would you agree that this is an increase
12 from the 2012 budgeted vegetation management expense of
13 59.23 million expense, an adjusted 62.7 figure that you
14 alluded to on page 5, line 9 of your rebuttal testimony
15 for underforecasted amounts?

16 **A** Yes, it is an increase.

17 **Q** On page 6 of your rebuttal testimony, lines
18 11 to 19, you attribute the increase in 2013 to three
19 primary factors; correct?

20 **A** Yes.

21 **Q** And this first factor you list on lines 11 to
22 12 is an additional 500 miles of feeders that FPL is
23 scheduled to trim in 2013; correct?

24 **A** That is correct.

25 **MR. URBAN:** All right. I'd like to mark

1 another exhibit for the witness, please.

2 **CHAIRMAN BRISÉ:** Sure. That would be 526.

3 (Exhibit 526 marked for identification.)

4 **MR. DONALDSON:** No objection, Mr. Chairman.

5 **CHAIRMAN BRISÉ:** Okay. All right. Seeing no
6 objection, you may proceed.

7 **BY MR. URBAN:**

8 **Q** Was this exhibit also prepared under your
9 supervision and direction -- or direction?

10 **A** Yes.

11 **Q** And can you please tell us the number of
12 feeder miles that FPL trimmed or expects to trim during
13 the 2011 to 2013 period? You can go by year, if you
14 prefer.

15 **A** Yeah. 2011 is 4,337. I'm assuming 2012 is
16 4,300, and then 4,800 in 2013.

17 **Q** Thank you. Now by my calculation that means
18 that FPL will trim 13,437 miles of feeder for the 2011
19 to 2013 period. Would you agree?

20 **A** Yes.

21 **Q** Does -- FPL does not project that it would
22 need to trim 4,800 miles each year going forward to meet
23 its three-year average trim cycle for feeders; correct?

24 **A** No. These numbers are not based on averages.
25 They're based on when the feeder miles are due.

1 Q Understood. But they do not expect that they
2 would need to trim 4,800 miles each year going forward.

3 A No. If you were going to do it on an average
4 basis, as you're, as you're suggesting, we would not
5 need to do 4,800 miles each year.

6 Q No, that's not my question, Mr. Hardy. I was
7 just asking a straightforward question, whether you
8 expect to be doing a trimming 4,800 miles, like you
9 project for 2013, each and every year going forward.

10 A No, we do not.

11 Q Thank you. Because obviously that would imply
12 an approximate extra thousand miles of feeders, it would
13 appear; correct?

14 A Approximately.

15 Q So to meet FPL's goal of completing trimming
16 for its feeders in the three-year cycle, the current
17 cycle we're talking about, FPL needed to trim an extra
18 500 miles to cover the gap that accrued during the first
19 two years of the trim cycle; is that correct?

20 A No, that's not correct. These miles that
21 we're talking about in 2013 include those feeders that
22 are at their end of their three-year cycle. In other
23 words, there are 4,800 miles of feeder that have come
24 due in 2013 that need to be trimmed. As I said, you
25 can't look at this on an average basis. We do it on

1 when they're due.

2 Q Understood. While we're looking at the last
3 exhibit, the current exhibit, can you please tell us the
4 number of feeder miles that FPL trimmed during the 2008
5 to 2010 period?

6 A In 2008 it did 42,060 -- 4,262, 4,262 miles.
7 In 2009 it did 4,151 miles.

8 Q And 2010?

9 A In 2010 it did 5,222.

10 Q All right. By my calculation, that means FPL
11 maintained 13,635 miles of feeders for the 2008 to 2010
12 period. Would you agree?

13 A Could you repeat that again?

14 Q Yes. By my calculation, that means that FPL
15 maintained 13,635 miles of feeders for the 2008 to 2010
16 period, just adding your three numbers together.

17 A Yes.

18 Q So based on the mileage of feeders in FPL's
19 service territories during the 2008 to 2010 period as
20 compared to the current period, and even doing it by
21 what you're saying, would you agree that the number of
22 miles between these two periods has decreased by
23 198 miles?

24 A I'm assuming that's what the math says, yes.

25 Q Okay. Turning to the second factor you cite

1 in lines 12 to 14, you state the vegetation management
2 contractor rates throughout FPL's service territory
3 rose. Is that correct?

4 **A** Yes. It will rise in 2013.

5 **Q** Okay. I'd like to hand you another response
6 from FPL to South Florida Hospital and Healthcare
7 Association directed to you regarding this point.

8 **MR. URBAN:** Can we mark it as -- what is this,
9 Exhibit 527; is that correct?

10 **CHAIRMAN BRISÉ:** That's correct.

11 (Exhibit 527 marked for identification.)

12 **MR. DONALDSON:** No objection, Mr. Chairman.

13 **CHAIRMAN BRISÉ:** Okay. Seeing no objections,
14 you may proceed.

15 **BY MR. URBAN:**

16 **Q** Was this exhibit also prepared under your
17 supervision or direction, Mr. Hardy?

18 **A** Yes.

19 **Q** This exhibit identifies two different types of
20 contractors utilized by FPL for its vegetation
21 management, arborists and vendors. Would you agree that
22 FPL's vendors generally provide line clearing services
23 on behalf of FPL, and arborists conduct various
24 vegetation services that would include assessing
25 vegetation on FPL's lines to be cleared and treatment of

1 vegetation with herbicides?

2 **A** Yes.

3 **Q** Can you please identify what percentage of
4 FPL's vegetation management expense paid to contractors
5 goes to arborists versus vendors?

6 **A** I don't believe I have that breakdown.

7 (Views document.)

8 I don't.

9 **Q** FPL is not using in 2012 and does not project
10 in 2013 using any of its own employees for vegetation
11 management field work; correct?

12 **A** That's correct.

13 **Q** Thanks. Now as Exhibit 527 indicates, FPL's
14 vegetation management contracted service for both
15 arborists and vendors were competitively bid in August
16 of 2008. FPL was able to obtain concessions or lower
17 vegetation management contractors' rates in 2008
18 negotiations; correct?

19 **A** That's correct.

20 **Q** Is it correct that those savings from
21 contractor rate concessions in 2008 were 3.9 million and
22 11.6 million in 2009?

23 **A** Not exactly, no. In 2008, the approximate
24 \$4 million reduction in the budget was attributable to
25 things that we were doing working with our existing

1 contractors to make them more efficient and effective.
2 And so a portion -- so the 2008 savings was not a result
3 of a contract change at that time. The contract was
4 negotiated in 2008. It was signed in December of 2008
5 and went into effect in 2009.

6 Q And the savings -- but the savings are
7 accurate that you testified in your rebuttal at 11.6?

8 A Yes.

9 Q Would you agree that this interrogatory
10 response discloses that in 2011 FPL renegotiated with
11 its vendors rather than competitively bidding the
12 contracts again?

13 A Say that again.

14 Q Would you agree that this interrogatory
15 response discloses that in 2011 FPL renegotiated with
16 its vendors rather than competitively bidding the
17 contracts again, like it did in 2008?

18 A That's correct.

19 Q Would you also agree that the agreements you
20 renegotiated are at a higher rate than you reached in
21 the agreements in 2008?

22 A It depends on which time period you're
23 speaking of.

24 Q The time period between these two periods that
25 this response reveals. You have the time period where

1 they entered in in 2008, and then you have 2011 where it
2 was renegotiated. Those are the two periods I'm
3 referring to.

4 **A** Well, what I'm referring to is if you looked
5 at the rate that we're supposed to be paying in 2013, it
6 may be higher than the rate that we have in 2008. I'm
7 not sure. I'd have to go back and check. In other
8 words, there's escalators in these, in these contracts
9 on an annual basis.

10 **Q** But you clearly --

11 **MR. URBAN:** Okay. I'd like to mark another
12 exhibit in response to the request from South Florida
13 Hospital and Healthcare Association directed to you.
14 Can we mark that as Exhibit Number 528 for
15 identification purposes?

16 **CHAIRMAN BRISÉ:** That's correct.

17 (Exhibit 528 marked for identification.)

18 **MR. DONALDSON:** No objection.

19 **CHAIRMAN BRISÉ:** Okay. Okay. Seeing no
20 objections, you may proceed.

21 **BY MR. URBAN:**

22 **Q** Was this exhibit also prepared under your
23 supervision or direction, Mr. Hardy?

24 **A** Yes.

25 **Q** Okay. I'd like to turn to your final primary

1 factor you state that contributes to the increase in the
2 vegetation management expense on page 6, lines 14 to 19.
3 You explain that FPL projects trimming cost increases
4 for 2013, increases for 2013 due to the geographic
5 location of the laterals scheduled to be trimmed;
6 correct?

7 **A** Excuse me. I'm just -- just give me a moment.
8 I'm just reading this interrogatory.

9 **Q** Certainly.

10 **A** Okay.

11 **Q** And knowing the geographic location to be
12 trimmed is important, because, as you state, tree
13 trimming costs per mile can vary significantly based on
14 factors such as differences in the vegetation density
15 for each mile trimmed, elapsed time since the circuit
16 was last trimmed, accessibility, and permitting
17 requirements; correct?

18 **A** Correct.

19 **MR. URBAN:** I'd like to present another
20 document for the witness. Can we mark that as
21 Exhibit 529 for identification purposes?

22 **CHAIRMAN BRISÉ:** Sure. That's correct.

23 **MR. DONALDSON:** And just for clarification
24 purposes, are we using 5 -- Exhibit 528 or are we just
25 marking it?

1 **MR. URBAN:** Yeah. I'll take care of that now.

2 **MR. DONALDSON:** Okay.

3 **BY MR. URBAN:**

4 **Q** Going back to, real quickly here, Mr. Hardy,
5 while they're distributing the other exhibit, looking at
6 Exhibit 528, is this statement and the response, is that
7 accurate?

8 **A** I don't have any exhibit numbers on these.

9 **Q** Sorry. It's marked, it's SFHHA's eighth set
10 of interrogatories, interrogatory number 291.

11 **A** Okay. And your question?

12 **Q** Is that accurate, the projected savings were
13 not reflected in FPL's test year costs and approved
14 rates?

15 **A** That is correct.

16 **MR. URBAN:** Okay.

17 **CHAIRMAN BRISÉ:** Any objections to 529?

18 **MR. DONALDSON:** No objection.

19 (Exhibit 529 marked for identification.)

20 **CHAIRMAN BRISÉ:** Okay. All right. Seeing
21 none, you may proceed.

22 **MR. URBAN:** Thank you.

23 **BY MR. URBAN:**

24 **Q** Mr. Hardy, are you familiar with this
25 document?

1 A I believe so.

2 Q And at the time FPL submitted this document to
3 SFHHA, was it accurate?

4 A Yes.

5 Q I want to focus your attention to the last two
6 pages of this document. The first at the top says 2012
7 miles and budget, and the second or last page says 2013
8 at the top. Do you see that?

9 A Yes.

10 Q And can you please tell us what the last three
11 columns are short for, beginning with the lat cost per?

12 A You're looking at the lateral cost per the
13 lateral cost, and then the, I guess that's total cost?

14 Q Yes. Yes, those, those three columns, the
15 headers there. If you could just tell us what they
16 stand for.

17 A I can't tell what that last one is. I'm
18 assuming it's, it looks like SS costs, but I can't tell
19 if it's SS costs or the, it's dollars signs. I can't
20 tell what it is.

21 Q. If it's SS costs, what would that be short
22 for?

23 A. I don't know offhand.

24 Q. And the LAT cost per?

25 A. The lateral cost per?

1 Q. Yes.

2 A. That's the per mile cost in that particular
3 geographic area.

4 Q. And LAT costs?

5 A. It looks like that's probably the number of
6 miles that we're trimming in that particular area.

7 Q. So that would be the total cost for the
8 lateral in that particular management area, am I
9 understanding that correctly?

10 A. Yes. Like I say, I'm not totally familiar
11 with how these numbers were arrived at right here.

12 Q. Okay. And would you agree that the cost in
13 each management area for vegetation management fell from
14 2012 to 2013 with the exception of Management Area
15 Manasota marked as MS?

16 A. Yes.

17 Q. And would you agree that the costs identified
18 in each column in Manasota for 2013 are roughly nine
19 times higher than in 2012?

20 A. Nine times higher? Where are you referring
21 to?

22 Q. Looking at the Management Area MS, right
23 straight across the board to each of those columns.

24 A. Uh-huh.

25 Q. Comparing 2012 to 2013, just doing a

1 comparison. It appears -- would you agree that the
2 costs in 2013 are nine times higher than the costs in
3 2012?

4 A. Which two numbers are you referring to there,
5 nine times higher?

6 Q. On the management area, if you go straight
7 down the column you get to MS, Management Area MS, go
8 across. And this is in 2012, I'm looking at. The
9 lateral cost per mile is \$993.30, would you agree?

10 A. Agree.

11 Q. Okay. Just to keep this consistent here --

12 A. Okay. I see what you're referring to now,
13 yes.

14 Q. You would agree?

15 A. Yes. For that particular one, yes, I do see
16 what you are referring to there.

17 Q. All right. Thank you. Wouldn't you agree
18 that because all other management zones vegetation
19 management costs are decreasing from 2012 to 2013,
20 Manasota is the driver or the cause of overall
21 vegetation management expense increases in 2013?

22 A. No, I wouldn't agree with that.

23 Q. Well, can you tell me in which other
24 management areas the vegetation management expenses
25 increased in 2013 versus 2012? Because I do not see one

1 number indicating that in 2013 it is higher than 2012,
2 but Management Area Manasota.

3 **A.** Right. It depends on who is doing this work.
4 This particular document, you know, there's three
5 different contractors that do work in a particular -- in
6 any given area. And depending on which contractor is
7 doing which work will dictate whether or not the cost
8 per mile for a lateral in a particular area, how it
9 compares year-to-year. So comparing year-to-year may or
10 may not be appropriate, because the same contractor may
11 or may not be doing that work.

12 **Q.** But that's what we are doing here, aren't we,
13 Mr. Hardy? You're comparing 2012 to 2013 and saying
14 that the costs in 2013 are higher. So how can we not
15 look at the comparison between 2012 and 2013 now?

16 **A.** Well, what I'm saying is that the costs that
17 we are incurring here is attributable to three things.
18 Number one is the increase in the number of feeder miles
19 that we are doing and the fact that we are working in
20 more expensive areas than what we have in the previous
21 years, which is driving this cost up. These numbers in
22 2012 and 2013 may or may not be applicable to that. It
23 depends on who's doing the work and in which areas.

24 **Q.** So is there a difference between actual and
25 budgeted expenses on vegetation management, is that what

1 you're testifying about?

2 A. Between actual and budgeted?

3 Q. Yes.

4 A. There are situations where the actual budget
5 will be different, absolutely.

6 Q. And that's what you are referring to in this
7 instance, correct, so we're all clear?

8 A. What I'm saying is that we are budgeting these
9 numbers and we are budgeting which work is going to be
10 done. What we're saying in 2013, that the lateral miles
11 that are being done in 2013 are more expensive miles
12 than what was done, let's say, in previous years.
13 That's why it's difficult to be able to look at a cost
14 per mile or look at year-over-year costs, because it's
15 depending on who is doing the work and where the work is
16 being done.

17 Q. So the actual expense that you may incur in
18 2013 may actually be different than what is reflected on
19 the last page of this document?

20 A. There is always opportunities for things that
21 are going to change -- these are projections. These are
22 forecasts, but absolutely. I mean, when you're trimming
23 the number of miles that we are trimming there is all
24 sorts of things that can occur that will influence the
25 overall cost of the trimming.

1 **MR. URBAN:** Thank you. I would like to mark
2 another exhibit for identification purposes, and
3 according to my records that would be 530.

4 **CHAIRMAN BRISÉ:** That's correct.

5 **MR. DONALDSON:** No objection.

6 **CHAIRMAN BRISÉ:** Okay. This is 530. Seeing
7 no objections, you may proceed.

8 (Exhibit Number 530 marked for
9 identification.)

10 **BY MR. URBAN:**

11 **Q.** Was this exhibit also prepared under your
12 supervision and/or direction, Mr. Hardy?

13 **A.** Yes.

14 **Q.** And in this you have a request, SFHHA asked
15 FPL for details regarding FPL's vegetation management
16 plan during the six-year lateral trim cycle beginning in
17 2013?

18 **A.** Yes.

19 **Q.** And the last sentence response indicates that
20 FPL has no approved management plans and costs beyond
21 2013. Is that correct?

22 **A.** Please repeat that.

23 **Q.** Yes. In the last sentence of this response,
24 FPL -- it indicates that FPL has no approved vegetation
25 management plans and costs beyond 2013, and I'm asking

1 is that correct?

2 A. It depends on which costs --

3 MR. DONALDSON: I have to object. It says not
4 available, not that there is none. So I would just ask
5 that the attorney read specifically what he's referring
6 to on this interrogatory response.

7 MR. URBAN: Sure. I will quote it.

8 CHAIRMAN BRISÉ: Sure.

9 BY MR. URBAN:

10 Q. Approved FPL vegetation management plans and
11 costs beyond 2013 are not available. Is that correct?

12 A. That's correct.

13 MR. URBAN: Thank you. I have no further
14 questions.

15 CHAIRMAN BRISÉ: All right. Thank you.

16 FEA.

17 CAPTAIN MILLER: No questions.

18 CHAIRMAN BRISÉ: All right. OPC.

19 MR. REHWINKEL: Thank you, Mr. Chairman. I do
20 have some questions.

21 CHAIRMAN BRISÉ: Sure.

22 CROSS EXAMINATION

23 BY MR. REHWINKEL:

24 Q. Good morning, Mr. Hardy.

25 A. Good morning.

1 Q. Let me get you to turn to your rebuttal
2 testimony at Page 9. Do you explain there that the
3 budget-to-actual comparison made by Mr. Schultz is not
4 appropriate because FPL negotiated price reductions in
5 2008 and 2009 that were not budgeted for?

6 A. Where are you referring to?

7 Q. Well, the Q&A starting on Line 8 and
8 continuing on for the rest of the page.

9 A. Okay. Yes, I agree that they are not
10 appropriate.

11 Q. Is it your testimony that if FPL implements
12 any cost savings during a year after the budgets are set
13 that performance by the company should not be considered
14 when the company evaluates its operational results?

15 A. No, I'm not indicating that it's not
16 considered.

17 Q. So your answer is no?

18 A. No.

19 Q. Correct that it is no? Let me ask the
20 question again.

21 A. Let's start again.

22 Q. Is it your testimony that if FPL implements
23 any cost savings effort during a year after the budgets
24 are set, that performance by the company should not be
25 considered when the company evaluates its operational

1 results?

2 **A.** If there are cost savings, then those are
3 considered.

4 **Q.** Okay. Let me try it one more time. I'm
5 looking for a yes or no answer.

6 **A.** Okay.

7 **Q.** Okay. So would the answer to my question be
8 no?

9 **A.** Ask it again.

10 **Q.** Okay. Is it your testimony that if FPL
11 implements any cost savings effort during a year after
12 the budgets are set, that performance by the company
13 should not be considered when the company evaluates its
14 operational results?

15 **A.** No, I think it should be considered.

16 **Q.** Okay. You do receive incentive compensation,
17 do you not?

18 **MR. DONALDSON:** I'm going to object; that's
19 outside the scope of the rebuttal, and it's not an issue
20 in this case.

21 **MR. REHWINKEL:** As the cross will go into,
22 what we're talking about here is the budgets and the
23 performance against the budget, and I think that is a
24 central issue to the rebuttal here. So this witness'
25 role, not only within the company, but his role as

1 advocate for this issue by the company directly brings
2 his performance and the bases for his performance into
3 question. So I think I'm entitled to cross on that. I
4 just have one question about this, and we're not going
5 to go into his compensation or anything like that.

6 **CHAIRMAN BRISÉ:** I'll allow it.

7 **BY MR. REHWINKEL:**

8 **Q.** Let me ask the question again. Isn't it true
9 that you receive incentive compensation, or that you are
10 eligible to receive incentive compensation in your job?

11 **A.** Yes.

12 **Q.** Isn't your performance in vegetation
13 management a measurement goal in evaluating your overall
14 performance for purposes of incentive compensation?

15 **A.** Not necessarily, no.

16 **Q.** So you're saying not at all?

17 **A.** Not necessarily. It's a component or could be
18 considered a component.

19 **Q.** Okay. So you would agree that it factors into
20 evaluating your performance, your vegetation management
21 performance?

22 **MR. DONALDSON:** I think he has already
23 answered the question. He said not necessarily.

24 **MR. REHWINKEL:** He said it was a component. I
25 need to find out a little more about that.

1 **THE WITNESS:** It is not spelled out
2 specifically in any of my compensation.

3 **BY MR. REHWINKEL:**

4 **Q.** So is it your testimony that it is not a
5 factor?

6 **A.** I'm not privy to the conversations when those
7 discussions take place, so I'm not sure that I could
8 answer that.

9 **Q.** Tell me again what your title is?

10 **A.** The Vice-President of Distribution.

11 **Q.** And vegetation management is a significant
12 component of your job performance?

13 **A.** It is.

14 **Q.** Okay. And is it your testimony here that you
15 are not -- that vegetation management aspect of your job
16 performance has no bearing on your compensation?

17 **A.** I did not say that.

18 **Q.** Okay. So you would agree with me that your
19 performance and the organization under you performance
20 impacts or has the ability to impact your compensation?

21 **A.** Absolutely.

22 **Q.** Okay. Did you use the original 2008 and 2009
23 budgets to measure performance, or did you use an
24 adjusted performance taking into consideration the
25 change in the contracts for those years?

1 **A.** Did I use an adjusted budget for the purposes
2 of what?

3 **Q.** Let me ask the question again. For purposes
4 of evaluating your performance for 2008 and 2009, was
5 the original 2008 and 2009 budgets used to measure your
6 performance, or was there an adjusted performance taken
7 into consideration, the change in the contracts that you
8 testified to?

9 **A.** Neither. I was not in my position when that
10 occurred.

11 **Q.** Okay. Is it customary for FPL to try and
12 minimize costs every year?

13 **A.** Yes.

14 **Q.** Does the rate request assume a certain level
15 of spending for vegetation management for 2013?

16 **A.** It does.

17 **Q.** That was yes?

18 **A.** Yes.

19 **Q.** Is it 100 percent possible for FPL to
20 negotiate a change in its vegetation agreements for
21 vegetation maintenance in 2013?

22 **A.** Yes.

23 **Q.** Can I get you to turn to what South Florida
24 Hospital has identified as Exhibit 527, which is
25 Interrogatory Number 288 Response.

1 A. This is SFHHA?

2 Q. Yes, sir.

3 A. And what was the number?

4 Q. 288. And the Chairman gave it a number of --

5 **CHAIRMAN BRISÉ:** 527.

6 **MR. REHWINKEL:** -- 527.

7 **THE WITNESS:** Yes.

8 **BY MR. REHWINKEL:**

9 Q. Isn't it true that the contracts for
10 vegetation management are currently being competitively
11 bid?

12 A. They will probably go out to bid this year,
13 yes.

14 Q. Okay. Do you see the response in 288?
15 There's three Roman numerals. Could I get you to read
16 into the record Roman Numeral I response, please?

17 A. FPL entered into its current vendor agreements
18 for vegetation management on December 16th, 2008, with
19 rates effective January 1st, 2009. The contracts were
20 renegotiated in March of 2011 with new rates effective
21 March 11, 2011. FPL entered into its current vendor
22 agreements for arbor services on May 8th with the rates
23 effective the same date.

24 Q. Can you tell me how the contract that was
25 entered into on December 16, 2008, would have had any

1 significant impact on the budget to actual variance for
2 the year 2008?

3 A. The one that was entered into in 2008, did it
4 have an impact in 2008?

5 Q. I'm asking you to explain how it could have
6 had any significant impact on the budget-to-actual
7 variance for the year 2008?

8 A. None.

9 Q. You can't explain?

10 A. There was no budget impact. The contract for
11 2008 was signed in 2008 for 2009, so it had no impact
12 for 2008.

13 Q. Okay. On Page 10 of your testimony, your
14 rebuttal testimony, you state on Line 4 that the savings
15 continue to carry over into 2010, correct?

16 A. That's correct. Which line was that? I don't
17 see a 2010.

18 Q. Line 4. Do you see the sentence beginning on
19 Line 3?

20 A. I see for 2008 and 2009. You mentioned 2010.

21 Q. Okay. Looking on Page 10 of your rebuttal,
22 and there is a phrase on Line 4 that says and this
23 continued to carry over into 2010, as well. Are we
24 looking at two different documents? Yours doesn't say
25 that?

1 **A.** It does not.

2 **Q.** Okay. Can you tell me what the first -- read
3 the first line on Page 10, please, of your rebuttal?

4 **A.** Because the 2008 and 2009 budgets were already
5 approved at the time, the savings were not incorporated
6 into the budget calculations.

7 **MR. REHWINKEL:** Okay. Mr. Chairman, can I
8 just get a timeout here? I'm not saying there is
9 anything nefarious here, I just think for purposes of
10 cross we need to have everything synchronized. Can we
11 go off the record and get this resolved?

12 **CHAIRMAN BRISÉ:** Yes, I think that's a good
13 idea. Let's take a five-minute recess.

14 (Recess.)

15 **CHAIRMAN BRISÉ:** All right. We are going to
16 reconvene. Are we on the same page, literally?

17 **MR. DONALDSON:** Yes, Mr. Chairman. We found
18 the problem. It just seems like pagination when it was
19 printed on his, the lines just didn't correlate with
20 what OPC's lines were. So it's there.

21 **CHAIRMAN BRISÉ:** All right. Perfect. You may
22 proceed.

23 **MR. REHWINKEL:** Thank you, Mr. Chairman.

24 **BY MR. REHWINKEL:**

25 **Q.** Okay. Mr. Hardy, I think now we are on the

1 same page, as the Chairman indicated. So I now want to
2 refer you to Page 10. And my question was on Page 10,
3 do you state that the savings continue to carry over
4 into 2010?

5 A. That's correct.

6 Q. Can you tell me how is it that the contract
7 negotiated in the latter part of 2008 could have
8 impacted the 2010 budget?

9 A. What we negotiated was the rates -- a couple
10 of things. First of all, there's two savings that are
11 going on here. The first savings is a savings that we
12 had already initiated with our contractor, the single
13 contractor that we had in place in 2008 where we were
14 doing things that were making them more efficient. So
15 there was a portion of that savings that occurred in
16 2008 that was not a result of contract negotiations.

17 In 2009 and 2010, we introduced two additional
18 contractors, when we competitively bid the work, and as
19 a result of that we got new contract rates for not just
20 one contractor, but for three contractors. And that was
21 for 2009 and 2010.

22 Q. Did you say and 2010?

23 A. Excuse me, 2009, and I believe it went over --
24 there was some carryover into 2010, as well.

25 Q. Don't you also say that the 2009 budget wasn't

1 revised for the contractual changes that occurred in the
2 latter part of 2008, and that's why Mr. Schultz's
3 comparisons are a problem?

4 A. That is correct.

5 Q. If their wasn't time to revise the 2009
6 budget, should I assume that the rate filing that was
7 made on March 18th of 2009 would have reflected the 2009
8 budget in the interim year of that filing?

9 A. No. The reason that the budget was not
10 adjusted is because, number one, we were not sure
11 whether or not the new contractors that we were bringing
12 on board could execute and the savings that we were
13 estimating could actually be realized. So there was a
14 conscious decision at that time not to adjust the budget
15 because we were not confident that these new vendors
16 that had not worked on our system before could execute
17 and the savings could be realized.

18 Q. You said there was a conscious decision?

19 A. Yes.

20 Q. How is it that the budget changes couldn't be
21 made for 2009, but changes were made to the filing that
22 was made in March of 2009?

23 A. Where are you referring to?

24 Q. Well, I'm just asking you if you couldn't make
25 changes to the budget, how could you make changes to the

1 filing to reflect?

2 A. Which changes to which filing are you
3 referring to?

4 Q. The March 2009 rate case filing. What did you
5 reflect in the March 2009 rate case filing?

6 A. I believe we filed the original budget, but
7 I'm not sure. That is subject to check, and I would
8 have to look to see exactly. I was not in this position
9 when that was filed.

10 Q. What would you look at to check that?

11 A. I would assume that we would look at the
12 filing.

13 Q. You don't have that information?

14 A. I don't have it in front of me, no.

15 Q. Let's look on Page 5 of your testimony, Lines
16 3 through 12.

17 A. Yes.

18 Q. Is it true there that you state your 2012
19 budget was understated?

20 A. That's correct.

21 Q. Is that understatement due to the bids
22 currently being submitted?

23 A. No.

24 Q. Isn't it possible that 2012 costs could be
25 lower due to the competitive bids that are now being

1 supplied?

2 **A.** No. The bids are not being supplied. If we
3 go out to bid, it will be for 2013 and later. Later
4 than 2013, excuse me.

5 **Q.** Let's go back to Page 10 of your rebuttal
6 testimony, and let me get you to look on Lines 8 through
7 12. You state there, do you not, that the company's,
8 1998 to 2007 budget-to-actual variance was excellent,
9 correct?

10 **A.** That's correct.

11 **Q.** Isn't it true that the budget-to-actual
12 variance for 1998 through 2007 would not reflect the
13 changes that have occurred as a part of the hardening
14 requirements implemented in 2007?

15 **A.** That's correct?

16 **Q.** Okay. Let me get you to look at Lines 17
17 through 21 of that same page. You indicate, do you not,
18 that Mr. Schultz assumed a budgeted amount of
19 \$59.2 million for 2012, right?

20 **A.** Correct.

21 **Q.** Do you have Mr. Schultz's testimony with you?

22 **A.** I do not.

23 **MR. REHWINKEL:** I just want to -- with the
24 indulgence of counsel, I just want to show Mr. Hardy
25 Exhibit HWS-10, Page 5 of 6, and I just want to ask him

1 a question about two numbers on this page.

2 **MR. DONALDSON:** Sure. If I see it, that's
3 fine.

4 **BY MR. REHWINKEL:**

5 **Q.** Would you agree with me that Mr. Schultz
6 identifies the 2012 budget amount as about
7 \$61.269 million on that exhibit?

8 **MR. DONALDSON:** You mean where it says the
9 budget requested amount, Counsel?

10 **MR. REHWINKEL:** I'm looking on Lines 6 and 14.

11 **MR. DONALDSON:** Okay.

12 **THE WITNESS:** Yes, I see the number there. I
13 have no idea where it came from, though.

14 **BY MR. REHWINKEL:**

15 **Q.** Okay. Isn't it true that the \$59.2 million
16 number that you identify on Page 3 of your testimony as
17 being the amount that Mr. Kollen was using? I'm looking
18 on Line 21.

19 **A.** Yes.

20 **Q.** Going back to Page 10 and the Q&A that starts
21 on Line 17, you start off your answer on Line 20 with a
22 no. Do you see that?

23 **A.** Yes.

24 **Q.** Aren't you stating there by that no that it is
25 not reasonable to assume that 2013 could be less than

1 2011 actual?

2 A. Restate your question.

3 Q. Aren't you stating by that no that it is not
4 reasonable to assume that 2013, the amount for 2013 O&M
5 expense, could be less than 2011 actual?

6 A. Yes, I'm stating that it is not reasonable.

7 Q. Okay. How is it then that the 2012 budget
8 figure that Mr. Schultz showed on his Exhibit HWS-10,
9 Page 5 of 6, of \$61.269 million is less than the
10 62.465 million that the company actually spent in 2011,
11 and the 67.834 that the company actually spent in 2007?

12 A. You're going to have to break that down a
13 little bit for me.

14 Q. Okay. Would you agree with me that the actual
15 for 2011 was 62.465 million?

16 A. State that again.

17 Q. 62.465 million as an actual for 2011?

18 A. No.

19 Q. What's the actual?

20 A. I have 60,400,000.

21 Q. And what are you referring to for that?

22 A. I just have -- it's my actuals for 2011.

23 Q. Okay. And what about for 2007, what was the
24 actual for that year?

25 A. 2007?

1 Q. Uh-huh.

2 A. 65,200,000.

3 Q. That number is greater than 61.269 million?

4 A. It is.

5 MR. REHWINKEL: I have no further questions.

6 Thank you, Mr. Hardy.

7 CHAIRMAN BRISÉ: All right. Thank you, Mr.

8 Rehwinkel.

9 Mr. LaVia.

10 MR. LaVIA: The Florida Retail Federation has
11 no questions. Thank you.

12 CHAIRMAN BRISÉ: Okay. Mr. Saporito.

13 MR. SAPORITO: No questions, Mr. Chairman.

14 CHAIRMAN BRISÉ: Okay. Mr. Hendricks.

15 MR. HENDRICKS: No questions.

16 CHAIRMAN BRISÉ: Staff.

17 MS. BROWN: No questions.

18 MR. YOUNG: No questions.

19 CHAIRMAN BRISÉ: Okay. You've got a duet
20 going on over there.

21 Commissioners.

22 All right. Redirect.

23 MR. DONALDSON: Just briefly.

24 REDIRECT EXAMINATION

25

1 **BY MR. DONALDSON:**

2 Q. Mr. Hardy, with regard to laterals, are you
3 aware of any lateral costs in any of the management
4 areas that are below \$2,000 per mile?

5 A. No, I am not.

6 Q. So that would mean that every lateral cost is
7 above \$2,000 per mile, is that correct?

8 A. That's correct.

9 Q. And you also indicated in your testimony on
10 Page 6, Lines 15 through 20, that the increase in
11 lateral trimming costs are due to the geographic
12 location of the lateral miles schedule to be trimmed in
13 2013, is that correct?

14 A. That is correct.

15 **MR. DONALDSON:** No further questions.

16 **CHAIRMAN BRISÉ:** All right. Thank you. Let's
17 deal with the exhibits. FPL?

18 **MR. DONALDSON:** FPL would like to move into
19 the record Mr. Hardy's rebuttal exhibits on Staff's
20 Comprehensive Exhibit List 413 and 414.

21 **CHAIRMAN BRISÉ:** Okay. Seeing no objections,
22 Exhibit Numbers 413 and 414 will be moved into the
23 record.

24 (Exhibit Numbers 413 and 414 admitted into the
25 record.)

1 **CHAIRMAN BRISÉ:** South Florida Hospital
2 Association.

3 **MR. URBAN:** Yes. We'd like to move in Exhibit
4 Numbers 525 to 530 into the record.

5 **CHAIRMAN BRISÉ:** Okay.

6 **MR. DONALDSON:** No objection.

7 **CHAIRMAN BRISÉ:** Seeing no objections, we will
8 move in 525 through 530.

9 (Exhibit Numbers 525 through 530 admitted into
10 the record.)

11 **CHAIRMAN BRISÉ:** Okay. And I think that those
12 were all the exhibits for Mr. Hardy. Okay?

13 **MR. REHWINKEL:** Mr. Chairman, Tarik jumped the
14 gun on me. I was just passing out a corrected 524. I
15 was going to do that when the witness was off the stand.
16 I apologize. Thank you.

17 **CHAIRMAN BRISÉ:** No problem. All right. With
18 that, I think Mr. Hardy is excused. Thank you very
19 much.

20 **THE WITNESS:** Thank you.

21 **CHAIRMAN BRISÉ:** Mr. Miranda.

22 **MR. DONALDSON:** I believe that Mr. Miranda has
23 already been sworn.

24 **CHAIRMAN BRISÉ:** He has.

25 **MR. DONALDSON:** May I proceed?

1 **CHAIRMAN BRISÉ:** Sure.

2 **MANUEL B. MIRANDA**

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

6 **DIRECT EXAMINATION**

7 **BY MR. DONALDSON:**

8 **Q.** Can you please introduced yourself again to
9 the Commission, and in what capacity.

10 **A.** My name is Manuel B. Miranda, the
11 Vice-President of Transmission and Substation for
12 Florida Power and Light.

13 **Q.** Mr. Miranda, have you caused and prepared to
14 be filed 10 pages of Prefiled Rebuttal Testimony in this
15 matter?

16 **A.** Yes, I have.

17 **Q.** Do you have any changes or revisions to that
18 Prefiled Rebuttal Testimony?

19 **A.** I do not.

20 **Q.** If I were to ask you the same questions that
21 are listed on your Prefiled Rebuttal Testimony, would
22 your answers be the same?

23 **A.** Yes, they would be.

24 **MR. DONALDSON:** Mr. Chairman, I ask that
25 Mr. Miranda's Prefiled Rebuttal Testimony be entered

1 into the record as though read.

2 **CHAIRMAN BRISÉ:** Okay. Mr. Miranda's Prefiled
3 Rebuttal Testimony is to be entered into the record.

4 Are there any objections? Okay. Seeing none,
5 it is moved into the record.

6 **BY MR. DONALDSON:**

7 **Q.** Mr. Miranda, did you also sponsor some
8 exhibits to that Prefiled Rebuttal Testimony?

9 **A.** Yes, I did.

10 **Q.** And those exhibits are identified as MM-3 and
11 4 which are listed on Staff's Comprehensive Exhibit List
12 as 411 and 412, is that correct?

13 **A.** That's correct.

14 **Q.** Just to know they have been identified on
15 staff's exhibit list.

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Manuel B. Miranda. My business address is Florida Power & Light Company (“FPL” or “Company”), 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

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

A. Yes.
Exhibit MM-3: Aerial Photo of Manatee Ringling
Exhibit MM-4: Aerial Photo of Arch Creek

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony refutes the recommendation of Office of the Public Counsel (“OPC”) witness, Donna Ramas, to remove nine properties under the Transmission’s Future Use category from FPL’s 2013 Test Year Property Held for Future Use (“PHFU”) balance.

II. SUMMARY

Q. Please summarize your rebuttal testimony.

A. OPC witness Ramas is proposing to decrease the 2013 Test Year PHFU balance by \$8,555,000 by removing nine properties listed under the Transmission Future

1 Use category. My testimony shows Ms. Ramas' reduction in Transmission's
2 Future Use category is inappropriate. These properties are essential components
3 for transmission projects to 1) meet customer load growth with transmission
4 service to distribution substations, 2) improve customer reliability, 3) comply with
5 North American Electric Reliability Corporation ("NERC") standards regulating
6 the reliability of the transmission grid, and 4) integrate future generation into the
7 transmission grid. Exclusion of these properties would compromise FPL's ability
8 to implement its dynamic planning process for locating and acquiring alternative
9 property to build the necessary transmission facilities.

10
11 **III. REBUTTAL TO TESTIMONY OF OPC WITNESS DONNA RAMAS**

12
13 **Q. What was OPC witness Ramas' rationale for excluding the nine properties**
14 **listed in Transmission's Future Use Category?**

15 A. Two rationales were offered. First, she argued that some of the nine properties
16 had in-service dates of 2022-2023, more than ten years in the future and the FPL
17 discovery response she was relying upon stated that FPL conducted annual
18 planning studies for facilities needed "over the next ten years." The sites with the
19 2022-2023 in-service dates went "beyond the 'next ten years.'" Second, the
20 remaining plants she urged to be removed did not have a designated in-service
21 date on the interrogatory response, only an entry of "TBA" which she inferred
22 meant "to be announced." She stated those sites should be removed because their
23 in-service date "is vague and speculative."

1 **Q. What is your general response to the rationale offered by OPC witness**
2 **Ramas for exclusion of nine properties from PHFU?**

3 A. Her rationale fails to take into account the realities of electric system planning and
4 the importance of obtaining and holding property for future transmission needs to
5 meet growth and ensure or enhance reliability. All nine of these properties have
6 been identified in FPL's planning studies as being necessary to meet customer
7 load growth with transmission service to distribution substations, improve
8 customer reliability, comply with NERC standards regulating the reliability of the
9 transmission grid, or integrate future generation into the transmission grid.

10

11 The ten year horizon of the annual planning study is not an appropriate cut-off for
12 purposes of determining what property to acquire or when to acquire. The ten
13 year horizon simply provides FPL with a view on what may be required in terms
14 of design, new builds, or other considerations during that time frame. If we were
15 to wait to acquire property for future transmission needs when we had a definitive
16 in-service date for new transmission or for a specific need to manifest itself in the
17 ten year planning cycle, often we would be left with limited or perhaps no suitable
18 choices, and/or face potentially higher costs, for less preferred and more contested
19 corridors.

20

21 In FPL's experience, presumably for some of these same reasons, the
22 Commission has not applied an arbitrary ten year standard for purposes of PHFU.
23 Such a cut-off simply does not work in the real world of electric system planning

1 in order to ensure we are able to meet the transmission needs of the system in
2 moving an adequate and reliable supply of power across FPL's system to meet an
3 ever evolving set of distribution conditions and needs.

4 **Q. Describe some of the considerations that FPL must take into account in**
5 **acquiring and holding transmission PHFU.**

6 A. First, new substations or transmission lines can take years to purchase, design and
7 construct. Also, the process to gain the ability to construct can be lengthy,
8 typically involving rezoning from local entities and permitting from local, state
9 and federal agencies. Additionally, the annual planning process is very dynamic
10 and, by virtue of its close linkage to the load growth forecast, can and often does
11 result in modifications each year to the transmission expansion plans affecting
12 associated property in-service dates. Of course, a project with a 2022-2023 in-
13 service date would fall within ten years of the 2013 test year in this case, but the
14 appropriate test is not whether the facility is needed within ten years. The test
15 should be whether the facility is needed or likely to be needed given the planning
16 studies the Company has performed, or simply based on common sense given
17 certain key factors such as location, population density and anticipated growth,
18 relative availability of alternate corridors, and proximity or contiguity to existing
19 transmission lines or substations, to identify a few. For these reasons, the fact that
20 a project is not yet identified in a current ten year plan does not mean that the
21 project is not active or is "vague or speculative" as suggested by OPC witness
22 Ramas.

23

1 As my subsequent testimony demonstrates, each of these nine Transmission
2 future use properties has been shown by FPL's planning studies as being
3 necessary to meet NERC reliability standards, meet customer load growth with
4 transmission service to distribution substations, improve customer reliability, or
5 integrate future generation into the transmission grid. Therefore, they should be
6 included in Transmission's PHFU.

7 **Q. Please explain why each of the nine properties OPC witness Ramas described**
8 **should remain in the 2013 Test Year PHFU balance.**

9 A. The following summarizes why each of the nine properties should remain in the
10 2013 Test Year PHFU:

11
12 Turkey Point-Levee (Levee-South Dade): This right-of-way is required for new
13 transmission lines to integrate additional generation at the Turkey Point site into
14 our 500kV transmission backbone along the southeast coast of peninsular Florida.
15 This is an active project, and FPL currently plans to build two 500kV lines and
16 one 230kV line in the right-of-way, integrating Turkey Point Units 6 and 7 in the
17 2022-2023 timeframe, nine to ten years after the test year in this case. State
18 licensing for this project is already being pursued under the Power Plant Siting
19 Act.

20
21 Manatee-Ringling 138kV Trm Line: This project is the second phase of the
22 Manatee-Ringling 230kV #2 line project, which is needed to resolve projected
23 contingency overload scenarios in the area as required under transmission

1 planning criteria which would be equivalent to today's NERC Reliability
2 Standard TPL-002. Currently, a portion of the project has been completed to
3 serve the Woods distribution substation and its associated customer load. The
4 balance of the project is expected to be completed when load growth materializes
5 in the area. If FPL did not hold this property, alternative land rights might not be
6 obtainable. Please see attached Exhibit MM-3 which shows the development in
7 the area of the Woods distribution substation.

8
9 Desoto-Orange River EHV R/W: This right-of-way was originally acquired as
10 part of FPL's strategy to expand the 500kV transmission system in the Ft. Myers
11 area and North, and it was sized to accommodate two 500kV lines. The majority
12 of the parcels associated with this property have been developed and 230kV lines
13 installed. Planned use for the remaining portion of the parcels includes an
14 additional 230kV line.

15
16 Arch Creek: This property allows for the expansion of the existing Arch Creek
17 substation to accommodate the installation of 230kV line terminal equipment and
18 a 230/138kV autotransformer. To provide a more cost effective solution, the
19 Arch Creek-Miami Shores 138kV line was placed in service in 2008, deferring
20 the need for a 230kV section and development of the expanded property. This
21 property is in a congested geographical location in Miami-Dade County (please
22 see attached Exhibit MM-4) and a 230kV transmission injection will be warranted

1 when load growth materializes in the area. This site provides a practical solution
2 to serve customers in the area for the lowest total cost.

3
4 Harbor-Punta Gorda #2 – Easements: These transmission line property easements
5 are for construction of an additional transmission line in Charlotte County to
6 allow for dual, continuous feeds to several existing distribution substations. FPL
7 acquired the property rights to accommodate the remaining three mile section of
8 138kV overhead transmission between Harbor and Punta Gorda substations, of
9 which approximately one mile has been constructed. In addition to the completed
10 one mile section between Harbor and Punta Gorda, a significant portion of the
11 overall Charlotte-Harbor 138kV #2 project south of Punta Gorda has already been
12 completed. The project will be completed to improve reliability by providing
13 continuous looped service to three existing distribution substations serving
14 customer load.

15
16 Rima Sub and Rima-Volusia 230kV R/W Line: The Rima Substation property
17 and associated transmission right-of-way was acquired for construction of a
18 500/230kV transmission substation west of Daytona Beach. The property is
19 strategically located adjacent to and underneath a current 500kV transmission
20 corridor. The Rima-Volusia right-of-way is planned to accommodate up to six
21 230kV lines to tie the new substation into our 230kV grid in eastern Volusia
22 County. This project's strategic location positions FPL well for load growth
23 response, and it will be completed when load growth materializes in the area.

1 Line to Port Said Sub: Land rights for this right-of-way are required to provide
 2 service to the proposed Port Said distribution substation in northwest Miami-Dade
 3 County. Installation of the transmission line and substation will relieve two
 4 existing substations serving the area which are projected to have summer loads
 5 exceeding their capacity. As reflected in FPL’s supplemental response to OPC’s
 6 6th Set of Interrogatories, Supplemental Interrogatory No. 124 and Staff’s 7th Set
 7 of Interrogatories, Supplemental Interrogatory No. 249, the in-service date is
 8 currently projected to be 2018 based on projected loads in the area.

9
 10 Galloway-South Miami Loop to S West Sub: Land rights for this right-of-way are
 11 required to provide service to the proposed Southwest distribution substation and
 12 relieve two existing substations serving the area, which are projected to have
 13 summer loads exceeding their capacity. As reflected in FPL’s supplemental
 14 response to OPC’s 6th Set of Interrogatories, Supplemental Interrogatory No. 124
 15 and Staff’s 7th Set of Interrogatories, Supplemental Interrogatory No. 249, the in-
 16 service date is currently projected to be 2018 based on projected loads in the area.

17
 18 Levee Sub: This property is held for the purpose of expanding the Levee
 19 Substation site in Miami-Dade County. This expansion is needed for the southern
 20 terminus of the Conservation-Levee 500kV line, which is the final phase of the
 21 Levee-Midway project, certified under the provisions of Florida’s Transmission
 22 Line Siting Act. This project is intended to meet NERC Reliability Standard
 23 TPL-003 to avoid cascading transmission events in the southeast Florida area that

1 could result from the loss of critical 500kV circuit corridors or loss of multiple
2 generators in the south Florida area. As reflected in FPL's supplemental response
3 to OPC's 6th Set of Interrogatories, Supplemental Interrogatory No. 124 and
4 Staff's 7th Set of Interrogatories, Supplement Interrogatory No. 249, FPL
5 currently plans to build this line in the 2021 timeframe, eight years after the test
6 year.

7
8 The purchase of the above listed rights-of-way, easements, and land plots were
9 prudent acquisitions due to their strategic locations for development and with the
10 best interest of the customer in mind. FPL's Transmission department evaluates
11 the usefulness of the Company's Transmission PHFU in upcoming projects. FPL
12 adjusts its expected in-service dates of Transmission PHFU, as needed, according
13 to the outcome of this evaluation.

14
15 The combined effect of population growth, greater residential and commercial
16 development and more restrictive environmental regulations will make it more
17 difficult for FPL to find and acquire alternative property to build the necessary
18 transmission lines and substations. If sold, this land could be very difficult to
19 replace and would likely result in increased total project cost borne by FPL
20 customers in the future.

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

22 A. Yes.

23

1 BY MR. DONALDSON:

2 Q Have you prepared a summary of your rebuttal
3 testimony?

4 A. Yes, I have.

5 Q. Can you please present that to the Commission.

6 A. Thank you. Good morning, Chairman and
7 Commissioners. My rebuttal testimony refutes the
8 recommendation of Office of Public Counsel Witness Donna
9 Ramas to remove properties from transmissions 2013 test
10 year property held for future use. My testimony shows
11 Ms. Ramas' reduction in transmissions future use
12 category is inappropriate. Ms. Ramas fails to take into
13 account the realities of electric system planning and
14 the importance of obtaining and holding property for
15 future transmission needs.

16 These properties are essential components for
17 transmission projects to, one, meet customer load growth
18 with transmission service to distribution stations; two,
19 improve customer reliability; three, comply with NERC
20 standards regulating the reliability of the transmission
21 grid; and, four, integrate future generation into the
22 transmission grid.

23 Exclusion of those properties will compromise
24 FPL's ability to implement its dynamic planning process
25 for locating and acquiring property to build the

1 necessary transmission facilities. New substations or
2 transmission lines can take years to zone, permit,
3 design, procure equipment, and construct, and by virtue
4 of its linkage to the load growth forecast, can result
5 in modifications to the transmission expansion plans
6 affecting associated property in-service dates.

7 Each transmission future use property has been
8 shown by FPL's planning studies to be necessary. The
9 purchase of these rights-of-ways, easements, and land
10 plots were prudent acquisitions due to their strategic
11 locations for development and with the best interests of
12 the customer in mind.

13 We evaluate the usefulness and reasonableness
14 of all the properties and adjust expected in-service
15 dates as needed, according to the outcome of the
16 evaluation. Therefore, they should be included in
17 transmissions plant held for future use.

18 The combined effect of population growth,
19 greater residential and commercial development, and more
20 restrictive environmental regulations will make it more
21 difficult for FPL to find and acquire alternative
22 property to build the necessary transmission lines and
23 substations. If sold, this land could be very difficult
24 to replace and will likely result in increased total
25 project costs borne by FPL customers in the future.

1 That concludes my summary.

2 **MR. DONALDSON:** Thank you. I tender the
3 witness for cross-examination.

4 **CHAIRMAN BRISÉ:** Okay.

5 **MS. KAUFMAN:** We have no questions, Mr.
6 Chairman.

7 **CHAIRMAN BRISÉ:** South Florida Hospital
8 Federation.

9 **MR. URBAN:** We also have no questions, Mr.
10 Chairman.

11 **CHAIRMAN BRISÉ:** FEA.

12 **CAPTAIN MILLER:** No questions, Mr. Chairman.

13 **CHAIRMAN BRISÉ:** OPC.

14 **MR. REHWINKEL:** No questions.

15 **CHAIRMAN BRISÉ:** Mr. LaVia.

16 **MR. LaVIA:** No questions.

17 **CHAIRMAN BRISÉ:** Mr. Saporito.

18 **MR. SAPORITO:** No questions, Mr. Chairman.

19 **CHAIRMAN BRISÉ:** Mr. Hendricks.

20 **MR. HENDRICKS:** No questions.

21 **CHAIRMAN BRISÉ:** Staff.

22 **MR. YOUNG:** No questions.

23 **CHAIRMAN BRISÉ:** Commissioners?

24 Commissioner Brown.

25 **COMMISSIONER BROWN:** I just have one question.

1 In response to OPC's Witness Ramas who contends that
2 some of these sites are speculative and vague based on
3 FPL's response of an in-service date TBA, do you have
4 any actual in-service dates since you filed this
5 response here?

6 **THE WITNESS:** Yes. We actually provided a
7 supplement to add a couple of in-service dates to some
8 distribution stations. It was just timing of the
9 distribution planning process and the transmission
10 planning process, so we did add some dates. On the
11 remaining other properties, some are like 500 kV
12 strategic build-out of our 500 kV line. As you know, we
13 have a -- we're in a peninsula. We have significant
14 exposure. So some of the remaining portions of our 500
15 kV line, for example, Turkey Point Levee, some of those
16 are part of these.

17 We do have plans to build those out. They are
18 very reasonable and clearly, you know, very valuable
19 land right now. And they are sited, they are permitted,
20 some of them went through the Transmission Line Siting
21 Act that came before you, so the need was determined
22 many years ago. And so we really believe strategically
23 they are critical for us to meet the future load of this
24 state.

25 **COMMISSIONER BROWN:** Thank you.

1 **CHAIRMAN BRISÉ:** Redirect.

2 **MR. DONALDSON:** No questions.

3 **CHAIRMAN BRISÉ:** All right. Let's deal with
4 the exhibits.

5 **MR. DONALDSON:** Yes. FPL asks that Mr.
6 Miranda's exhibits on Staff's Rebuttal 411 and 412 be
7 entered into the record, or Mr. Miranda's rebuttal.

8 **CHAIRMAN BRISÉ:** Okay. 411 and 412. Without
9 objection, those will be moved into the record.

10 (Exhibit Numbers 411 and 412 admitted into the
11 record.)

12 **CHAIRMAN BRISÉ:** Thank you very much. And,
13 Mr. Miranda, you are excused.

14 **THE WITNESS:** Off to the hurricane.

15 **CHAIRMAN BRISÉ:** Off to the hurricane. Thank
16 you.

17 And mentioning the hurricane, before we go
18 into our lunch break, recognizing that according to the
19 path that is laid out there is a good possibility that
20 if it remains on the path that it is on now that
21 sometime next week this area may be impacted. So those
22 are things that we have to think about, so we are
23 looking at that from our position. And that's something
24 that I think the parties might want to start talking to
25 each other about before we get into a position of laying

1 out what we're going to do moving forward.

2 So we hope to have a better idea of what we
3 may look like if we had to lay out an alternate
4 schedule. We will probably have something available on
5 Friday for everyone to look at. Okay. So at this time
6 we will recess for lunch. We will be back here at 1:00
7 o'clock.

8 (Recess taken.)

9 (Transcript continues in sequence with Volume
10 12.)

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STATE OF FLORIDA)
 : CERTIFICATE OF REPORTERS
COUNTY OF LEON)

WE, JANE FAUROT, RPR, and LINDA BOLES, RPR,
CRR, Official Commission Reporters, do hereby certify
that the foregoing proceeding was heard at the time and
place herein stated.

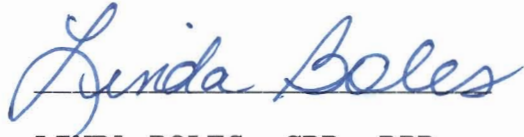
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DATED THIS 28th day of August, 2012.



JANE FAUROT, RPR



LINDA BOLES, CRR, RPR

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