

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI

In the Matter of:

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

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VOLUME 27

Pages 4082 through 4187

PROCEEDINGS: HEARING

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

DATE: Wednesday, August 29, 2012

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

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter
(850) 413-6732

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

NAME:

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DAVID DeRAMUS

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EXHIBITS

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NUMBER:
415-434

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 4184

P R O C E E D I N G S

1
2 (Transcript follows in sequence from
3 Volume 26.)

4 **COMMISSIONER EDGAR:** If we could all gather
5 again. We are back on the record. And I understand
6 from consulting with staff on the break that me may have
7 a change in the order of witnesses.

8 **MR. YOUNG:** Yes, Madam Chairman. The parties
9 have agreed to take out of turn Witness DeRamus then
10 move back to Mr. Silva.

11 **COMMISSIONER EDGAR:** Any concerns?
12 Hearing none, that sounds like an excellent
13 plan.

14 Ms. Clark, are you up?

15 **MS. CLARK:** Yes, Madam Chairman. This
16 witness, Dr. DeRamus, has not been sworn.

17 **CHAIRMAN BRISÉ:** Okay. Then we can go ahead
18 and do that. If you would, stand with me and raise your
19 right hand.

20 (Witness sworn.)

21 **MS. CLARK:** Thank you, Madam Chairman.

DAVID DeRAMUS

22
23 was called as a witness on behalf of Florida Power and
24 Light Company, and having been duly sworn, testified as
25 follows:

DIRECT EXAMINATION

1
2 **BY MS. CLARK:**

3 Q. Would you please state your name and business
4 address?

5 A. My business is 1300 Eye Street, Northwest,
6 Washington, D.C. 20005.

7 Q. And by whom are you employed and in what
8 capacity?

9 A. I am a partner with the economic consulting
10 firm of Bates White, LLC.

11 Q. And have you prepared and caused to be filed
12 22 pages of Rebuttal Testimony in this proceeding?

13 A. Yes, I have.

14 Q. And do you have any changes to that testimony?

15 A. I have one change, yes.

16 Q. Would you give us that?

17 A. On Page 8 of my testimony, Line 12, the number
18 979 should be 969.

19 Q. With that change, if I asked you the questions
20 contained in your Rebuttal Testimony, would your answers
21 be the same?

22 A. Yes, they would.

23 **MS. CLARK:** Madam Chairman, I would ask that
24 the testimony of Dr. David DeRamus be inserted in the
25 record as though read.

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COMMISSIONER EDGAR: The prefiled testimony of
this witness will be entered into the record as though
read with the correction noted by the witness.

I. INTRODUCTION

1

2

3 **Q. Please state your name, title, and business address.**

4 **A.** My name is David W. DeRamus. I am a Partner with Bates White, LLC. My
5 business address is 1300 Eye Street, N.W., Suite 600, Washington, D.C.
6 20005.

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

8 **A.** No.

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

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

- 11 ● DWD-1: Curriculum Vitae of David W. DeRamus, Ph.D.
- 12 ● DWD-2: FPL Serves 4% of the Whole Country
- 13 ● DWD-3: Percent of U.S. Households With Rates Less Than FPL
- 14 ● DWD-4: Consumer Price Index (CPI) of Various Goods and Services,
15 Miami – Ft. Lauderdale
- 16 ● DWD-5: Residential Customers, Statistical Distribution by kWh
17 Consumption
- 18 ● DWD-6: Residential Customers Bills, Statistical Distribution of Electricity
19 Cost
- 20 ● DWD-7: Residential Customers Bills, Statistical Distribution of Electricity
21 Cost: Focus on Bottom Quintile
- 22 ● DWD-8: Typical FPL Bill Compared to Miami – Ft. Lauderdale CPI

- 1 ● DWD-9: Residential Customers, Statistical Distribution of Rate Increase
- 2 Impact
- 3 ● DWD-10: Residential Customers, Statistical Distribution of Rate Increase
- 4 Impact: Focus on Bottom Quintile
- 5 ● DWD-11: Commercial Customers, Median Daily Bill
- 6 ● DWD-12: Commercial Customers, Median kWh Rate
- 7 ● DWD-13: Hospital Electricity Cost as a % of Total Cost
- 8 ● DWD-14: Commercial Customers, Rate Increase Impact by Customer
- 9 Type and Size
- 10 ● DWD-15: Commercial Customers, Rate Increase Impact
- 11 ● DWD-16: Commercial Customers, Rate Increase Impact, Pharmacies
- 12 ● DWD-17: Commercial Customers, Rate Increase Impact, Big Box Stores
- 13 ● DWD-18: Commercial Customers, Rate Increase Impact, Department
- 14 Stores
- 15 ● DWD-19: Commercial Customers, Rate Increase Impact, Hospitals
- 16 ● DWD-20: Commercial Customers, Rate Increase Impact, Supermarkets
- 17 **Q. Please summarize your educational and professional background.**
- 18 A. I have been a Partner with the economic consulting firm of Bates White since
- 19 1999. During this time, I have performed economic analyses related to a
- 20 range of regulatory, litigation, and consulting matters, most of which relate to
- 21 setting or analyzing prices in the context of rate-making, rule-making,
- 22 compliance, antitrust, tax, or other litigation proceedings. I have previously
- 23 submitted expert testimony in proceedings before the Federal Energy

1 Regulatory Commission, state regulatory agencies, arbitration panels, and
2 state and federal courts. I have worked on behalf of the U.S. Department of
3 Justice, the Maryland Public Service Commission, independent power
4 producers, industrial electricity customers, electricity marketers, public
5 utilities, natural gas producers, marketers, shippers, and a large number of
6 other companies outside the energy sector. I received a Ph.D. in Economics
7 from the University of Massachusetts at Amherst.

8

9 **II. REBUTTAL TESTIMONY OVERVIEW AND SUMMARY**

10

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

12 A. The purpose of my rebuttal testimony is to respond to the direct testimonies of
13 Florida Retail Federation (“FRF”) witness Steve W. Chriss and Federal
14 Executive Agencies (“FEA”) witness Robert R. Stephens, relating to the base
15 rate increase impacts on the residential and commercial customers of Florida
16 Power & Light Company (“FPL”) that may result from this proceeding.

17 **Q. How is your rebuttal testimony organized?**

18 A. After this overview and summary, my rebuttal testimony is presented as
19 follows:

20 III. Impact of FPL’s Proposed Base Rate Increase on Residential Customers

21 IV. Impact of FPL’s Proposed Base Rate Increase on Commercial Customers

22 V. Conclusions

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

2 A. FRF witness Chriss stated in his direct testimony; “Electricity represents a
3 significant portion of retailers’ operating costs. When rates increase, that
4 increase in cost to retailers puts pressure on consumer prices and on the other
5 expenses required by a business to operate, which impacts retailers’ customers
6 and employees. Rate increases also directly impact retailers’ customers, who
7 are also FPL’s residential and small business customers.” (Direct Testimony
8 and Exhibits of Steve W. Chriss, at page 4 lines 6 – 11.) FEA witness Robert
9 R. Stephens stated in his direct testimony; “For many large commercial and
10 industrial customers, energy is a primary component of their costs. For some,
11 it may be the most critical component. As such, rate stability and overall cost
12 of electricity prices are vital to the economic health of large commercial and
13 industrial customers in Florida, and to the economic health of Florida itself.”
14 (Direct Testimony and Exhibit of Robert R. Stephens, at page 4 lines 12 – 16.)
15 The purpose of my rebuttal testimony is to assess the magnitude of the impact
16 on residential and commercial customers of FPL’s proposed base rate
17 increase. My analysis shows that FPL residential and commercial customer
18 bills are currently moderate, and the impact of FPL’s proposed base rate
19 increase will also be moderate, particularly in comparison to changes in prices
20 for other goods and services over time.

21

22 FPL is requesting a base rate increase of \$690 million (including both the
23 January 2013 increase and the June 2013 Canaveral Step increases). If fully

1 approved, FPL residential customers' base rate component of their rates and
2 bills would increase by approximately 16%, and most commercial and
3 industrial customers' base rate component would increase by approximately 4
4 to 16%.

5
6 Since the base rate component and fuel component each are roughly half of
7 customers' rates and bills, and since the fuel component is projected to
8 decrease, partially offsetting the proposed increase in the base rate component,
9 full approval of FPL's request would increase residential customer bills by
10 approximately 3%, and commercial and industrial customer bills by
11 approximately -3% to +4%, based on information provided in the Direct
12 Testimony of FPL witness Renae Deaton.

13
14 Given the amount of FPL's proposed base rate increase in dollars, it is
15 important to place this request in an appropriate context. FPL is the third
16 largest electric distribution utility nationally, serving approximately 4% of
17 U.S. electricity customers. See Exhibit DWD-2. Thus the dollars at issue in
18 virtually any base rate request by FPL will be sizeable in the aggregate due to
19 the sheer number of customers that FPL serves.

20
21 FPL's typical residential 1,000 kWh bill is the lowest in Florida and among
22 the lowest in the U.S. Electricity costs for FPL customers have not increased

1 at the rate of inflation and in fact, for many customers, have declined over
2 time, particularly since 2009. See Exhibits DWD-3 and DWD-4.

3

4 Measuring the cost to customers of electricity on a daily basis, rather than on a
5 monthly basis, provides a way of assessing and understanding the cost and
6 value of FPL's service to customers relative to their other daily purchases of
7 goods and services. Analyzing the median FPL customer bill, rather than the
8 average customer bill, also provides a better way of assessing customers' cost
9 and value, since the average bill is "skewed" by a small number of large kWh
10 users.

11

12 The median FPL residential customer uses approximately ⁹⁶⁹~~979~~ kWh per
13 month. Thus, it is reasonable to use 1,000 kWh per month to represent a
14 "typical" FPL residential customer, because this usage level is very close to
15 and even slightly higher than the median. The median cost of electricity for
16 FPL residential customers, on a daily basis, is currently approximately \$3.45.
17 If fully approved, the median increase in FPL residential customer bills would
18 be approximately 10 cents daily, including changes in base rates and fuel, and
19 no change in kWh usage. These data support the conclusion that the impact of
20 the cost of electricity on FPL residential customer bills, both under present
21 rates and with full approval of the base rate increase request, is moderate.

22

1 With regard to FPL's commercial customers, the median FPL commercial
2 customer consumes approximately 179,000 kWh of electricity per month.
3 The median cost of electricity for FPL commercial customers, on a daily
4 basis, is approximately \$525, although kWh usage and costs vary widely
5 depending on the type and size of the commercial customer. Despite this wide
6 variance among commercial customers in their kWh usage and costs in
7 absolute terms, electricity generally accounts for between 1% and 4% of
8 operating expenses for hospitals, "big box" retailers, department stores,
9 supermarkets, and pharmacies, which account for much of FPL's commercial
10 customer demand.

11

12 Electricity costs for FPL's commercial customers have significantly decreased
13 recently, e.g., as compared to 2006 - 2009. Even considered over a longer
14 period, commercial customers' electricity costs have increased at less than the
15 overall rate of inflation, and well below the rate at which FPL's commercial
16 customers have increased the prices for the goods and services that they
17 charge final consumers. In fact, the data suggest that electricity represents a
18 declining portion of operating costs over time.

19

20 If FPL's base rate increase is fully approved, this would translate into
21 increased electricity costs in the range of \$3 to \$6 daily for pharmacies, \$21 to
22 \$33 daily for supermarkets, \$11 to \$36 daily for department stores, \$15 to \$60
23 daily for "big box" retailers, and \$32 to \$476 daily for hospitals. These ranges

1 represent the average daily cost impact on commercial customers in the lowest
2 and highest quartiles of electricity consumption in each business segment.
3 This assumes conservatively that all commercial customers would experience
4 a 4% increase in bills, even though their actual increase is likely to vary
5 between -3% and +4%. These potential cost increases represent a small
6 percentage of commercial customers' total operating costs, they are lower
7 than the rate at which their other operating costs have increased, and they are
8 lower than the rate at which they have increased the prices of their own goods
9 and services. Furthermore, even with the proposed increase, commercial
10 customers' bills would still be significantly less than their bills during 2006 -
11 2009. Thus, FPL's requested increase will not have a disproportionate impact
12 on either FPL's residential or commercial customers.

13

14 **III. IMPACT OF FPL'S PROPOSED BASE INCREASE ON RESIDENTIAL**
15 **CUSTOMERS**

16

17 **Q. Did you receive data from FPL with which to analyze FPL residential**
18 **customer costs?**

19 A. Yes. I received from FPL a database derived from residential customer
20 monthly billing records (without customer names and addresses). The
21 database consisted of 47.1 million monthly records with kWh usage and bills
22 for all of FPL's approximately 4 million residential customers for 2011.

1 **Q. What did you first examine in this database?**

2 A. After receiving the database, I calculated various statistics on the distribution
3 of kWh usage and bills, including the monthly and daily kWh usage and bills
4 in terms of the average, median, and mode. The median is the value around
5 which exactly half the data points (e.g., half the kWh usages) are below the
6 value and the other half are above. The mode is the most commonly-observed
7 data point (e.g., most commonly-observed kWh usage). The purpose of this
8 initial analysis was to better characterize kWh usage and costs for FPL
9 residential customers.

10 **Q. Please describe what you found about the kWh usage of FPL residential**
11 **customers.**

12 A. In these data, the average residential monthly usage was 1,156 kWh, the
13 median monthly usage was 969 kWh, and the mode was 700 kWh. See
14 Exhibit DWD-5.

15 **Q. Why do you analyze the average, median, and mode of the residential**
16 **bills, rather than simply relying on the average?**

17 A. The average, median, and mode are all different “measures of central
18 tendency,” in statistical terms. Which measure one should use for any given
19 analysis depends on the question of ultimate concern, as well as the specific
20 distribution of data points and the potential impact of “outliers” on the
21 analysis. In order to understand how residential customers are likely to be
22 impacted by FPL’s proposed base rate increase, it is important to analyze
23 median customer bills rather than the average, for two reasons. First, outlier

1 observations (unusually large kWh users) can have a significant impact on the
2 average, while outliers generally will not have any discernible impact on the
3 median. Second, the distribution of kWh usage is not a symmetrical “bell-
4 curve” or “normal” distribution. The distribution of consumption is “skewed
5 to the right” due to the presence of a number of residential consumers who are
6 heavy users. Thus, the average of this type of skewed distribution will be
7 somewhat higher than the median, and it will provide a misleading indicator
8 of the typical bill for customers assessed on an overall basis.

9
10 This is not to suggest that analyzing average bills is uninformative. For
11 example, when analyzing customer bills *within* a given subgroup of
12 customers, e.g., customers in the lowest 20% of the distribution, their average
13 bill can be helpful in assessing the relative magnitude of electricity costs (and
14 the impact of FPL’s proposed rate increase) for this subgroup of customers.
15 The mode also provides an alternative perspective on what a given rate or rate
16 increase means for many FPL customers, although it focuses only on the most
17 common FPL customers, who may not represent a large fraction of FPL’s
18 customers, especially if there are wide variations in residential consumption
19 patterns.

20 **Q. Please summarize your findings on the daily electricity costs of FPL’s**
21 **residential customers.**

22 A. A large majority of FPL’s customers have relatively low or moderate kWh
23 usage and costs, and a minority of customers are heavy users of electricity

1 with relatively high electricity costs. See Exhibit DWD-6. Thus, although the
2 average bill is \$4.23 daily, the median bill is 18% less than the average at
3 \$3.45 daily, while the mode is 47% less than the average at \$2.25 daily.

4 **Q. What do you conclude about the overall distribution of FPL customer**
5 **bills?**

6 A. I conclude that the actual bill impacts for most of FPL's residential customers
7 will be even less than projected by FPL in its typical 1,000 kWh bill analyses.
8 Over the year, a substantial majority of residential customers - fully 62% - pay
9 less than the average bill, and half of FPL's customers pay less than \$3.45
10 daily, which is far lower than the average.

11

12 On the other hand, a minority of FPL customers, who use much higher
13 amounts of electricity (generally due to their larger home sizes) pay far more
14 than this. The higher bills for heavy electricity users reflect both the fact that
15 these customers use substantially higher amounts of electricity than most FPL
16 customers, and they are charged a higher average rate for electricity, since
17 FPL's residential rate is 2 cents per kWh higher after the first 1,000 kWh of
18 usage in a month (intended to encourage energy conservation). This
19 combination of significantly higher consumption and higher average rates for
20 these heavy users drives up the average bill well above the median (or mode)
21 bill.

22

1 It is reasonable to expect a strong correlation between electricity consumption
2 and income, i.e., customers who consume relatively large amounts of
3 electricity will tend to be customers with relatively higher incomes, while
4 customers who consume relatively small amounts of electricity will tend to be
5 customers with relatively lower incomes. Thus, analyzing the bills of the left
6 tail of the distribution (households that consume less than the median amount
7 of electricity) can shed light on the electricity costs of lower income FPL
8 customers. Quintiles are often used in economic analyses of incomes.
9 Households in the bottom quintile (or bottom 20%) of kWh usage and
10 electricity costs are generally more likely to be in the lowest quintile of
11 household incomes, according to both the U.S. Bureau of Labor Statistics
12 “Consumer Expenditure Survey” and the U.S. Department of Energy
13 “Residential Energy Consumption Survey.” FPL residential customers in the
14 bottom quintile pay less than \$1.71 daily, which is around half the median for
15 FPL residential customers as a whole. The average daily bill for this lowest
16 fifth of customers is \$1.04 daily. See Exhibit DWD-7. In this way, FPL’s
17 actual customer data allows one to assess the impact of FPL’s proposed base
18 rate increase across the full range of FPL’s customers, rather than simply
19 focusing on the impact on the average or even the typical 1,000 kWh bill.

20 **Q. Have you analyzed the change in FPL’s bills over time?**

21 A. Yes. Exhibit DWD-8 shows FPL typical residential bills from 2006 to the
22 present. To allow a comparison with how the CPI has changed over time, I
23 have indexed both FPL residential bills and the CPI to the same 2006 starting

1 date. As one can see, during this time period, FPL residential bills have
2 declined by 11%, while the CPI has increased by 15%. Using the CPI for
3 Miami – Ft. Lauderdale over a longer time horizon, Exhibit DWD-4
4 (discussed previously) shows that electricity costs have increased much more
5 slowly than the CPI, while other consumer expenditures, such as health care
6 costs, have increased much more rapidly than the CPI. Although one could
7 use alternative starting dates for such an analysis, the overall conclusion over
8 both short-term and longer-term horizons is that FPL residential bills have
9 increased more slowly than inflation and thus have declined in real terms (i.e.,
10 adjusted for inflation).

11 **Q. Please describe your analysis of how FPL's proposed base rate increase**
12 **will affect residential customers.**

13 A. As noted earlier, the net impact on residential customers of full approval of
14 FPL's request would be a 3% increase in bills (including changes in base rates
15 and fuel, and assuming no kWh usage change). I therefore increased each of
16 the data points in the distribution of FPL's actual bills by 3% to approximate
17 the impact, as shown in Exhibit DWD-9. As with the analysis of customers'
18 current daily costs, the impact of FPL's proposed base rate increase will vary
19 considerably, given the variance and skewness in kWh usage. If FPL's
20 proposed base rate increase is fully approved, the average impact on
21 residential customers would be approximately 13 cents daily, including both
22 the January 2013 increase and the Canaveral step increase as well as fuel cost
23 changes. The median impact on residential customers, however, would be

1 about 23% less than the average impact, at approximately 10 cents daily. The
2 mode impact would be about 38% less than the average impact, at
3 approximately 8 cents daily. Further, as shown in Exhibit DWD-10, the
4 bottom quintile of residential customers (by kWh usage) would pay less than 5
5 cents more daily, while the average impact on these customers would be 3
6 cents daily. This supports the conclusion that FPL residential customer bills,
7 both presently and with the proposed base rate increase, are moderate.

8

9 **IV. IMPACT OF FPL'S PROPOSED BASE RATE INCREASE ON**
10 **COMMERCIAL CUSTOMERS**

11

12 **Q. Did you receive data from FPL with which to analyze FPL commercial**
13 **customer costs?**

14 A. Yes. I received from FPL a database containing certain data fields from
15 monthly billing records for 1,163 commercial customers, including 513
16 supermarkets, 337 pharmacies, 211 "big box" retailers, 69 department stores,
17 and 33 hospitals (without customer names and addresses). Not all of these
18 customers have large facilities that use large amounts of electricity. For
19 example, some of these customers have relatively small retail locations or
20 warehouses, and some are small providers of medical services. The database
21 included around 82,000 monthly bills and kWh usage for the 70-month period
22 of January 2006 through October 2011.

1 **Q. What did you first examine in this database?**

2 A. After receiving this database, I analyzed various statistics on the distribution
3 of kWh usage and bills. I classified the data for each commercial customer
4 type (supermarkets, pharmacies, “big box” retailers, department stores, and
5 hospitals) into four quartiles based on kWh usage. Next, I calculated the
6 average electricity costs by quartile, customer type, and year, in terms of
7 dollars daily. I use quartiles rather than quintiles in analyzing bills for
8 commercial customers, since quartiles allow for sufficient segmentation of
9 commercial customers with widely varying usage, while simplifying the
10 review of the results across all segments.

11 **Q. Please describe your analysis of how FPL’s proposed base rate increase**
12 **will affect commercial customers.**

13 A. Using commercial customers’ bills for 2011, I calculated the impact of FPL’s
14 proposed increase in base rates in terms of the additional costs that this
15 implies for commercial customers on a daily basis. As noted earlier, FPL
16 witness Deaton has projected that the net impact on commercial customers of
17 full approval of FPL’s request would generally be no more than a 4% increase
18 in bills, and in some cases a decrease (including changes in both base rates
19 and fuel, using both steps of the proposed increase, and assuming no change
20 in kWh usage). I therefore multiplied each of the data points in the
21 distribution of actual bills by 4% to approximate the impact.

1 **Q. Please summarize your findings about the electricity consumption by**
2 **FPL commercial customers.**

3 A. As with residential customers, the kWh usage and costs vary substantially
4 among commercial customers, depending on the type and size of the
5 commercial customer. The median consumption for FPL's commercial
6 customers is approximately 179,000 kWh per month.

7 **Q. Have you calculated the median daily cost of electricity to commercial**
8 **customers?**

9 A. Yes. As shown in Exhibit DWD-11, the median daily electricity cost for
10 commercial customers was approximately \$525 in 2011, and these costs have
11 declined significantly during 2010 - 2011 relative to the 2006 - 2009 time
12 period. This is evident not only in the daily median costs, but also in the
13 median cost per kWh, as shown in Exhibit DWD-12.

14 **Q. Did you examine the cost of electricity to commercial customers relative**
15 **to their other costs?**

16 A. Yes. Electricity costs comprise a relatively small percentage of the overall
17 costs for a broad range of major commercial customers, such as supermarkets,
18 pharmacies, "big box" retailers, department stores, and hospitals. For
19 supermarkets, which use electricity relatively intensively because of their high
20 refrigeration requirements (which accounts for 30% - 50% of their electricity
21 costs), electricity bills comprise approximately 3% - 4% of their operating
22 expenses (excluding their cost of goods sold). For hospitals, which also use
23 electricity relatively intensively, electricity bills comprise 1% - 2% of their

1 total expenses. See DWD-13. For pharmacies, big-box retail stores, and
2 department stores, their electricity usage is generally less intensive than for
3 supermarkets because they do not have similar requirements for refrigeration.
4 Based on publicly available data, the electricity bills for large retail and
5 department stores appear to be in the range of 2% – 3% of their operating
6 expenses (again, excluding their cost of goods sold).

7 **Q. Have you compared changes in commercial customers' electricity costs**
8 **over time to changes in their other costs?**

9 A. Yes. One way of assessing the relative impact on commercial customers of
10 electricity costs is to compare how electricity costs have changed over time
11 relative to their other costs, such as wages, medical and other benefits,
12 commercial office space, insurance, or other operating costs. While the
13 previously discussed Exhibits DWD-4 and DWD-8, showing electricity costs
14 relative to the Miami – Ft. Lauderdale CPI over time, are based on consumer
15 expenditures, they are also broadly applicable to commercial customers as
16 well, as they show that electricity costs have increased far more slowly than
17 other costs. Using the CPI is also relevant for this comparison, as the
18 components of the CPI reflect retail prices charged by FPL's commercial
19 customers for their goods and services. Thus, not only have consumer
20 electricity costs increased more slowly than other consumption items and
21 production inputs, but also the cost of electricity paid by commercial
22 customers has increased more slowly than the prices that commercial
23 customers themselves charge to their end consumers. For example, between

1 1992 and 2012, the cost of medical care in the Miami-Ft. Lauderdale area has
2 increased at a compound annual rate of 4.4%, while the cost of electricity has
3 increased at a compound annual rate of 1.4%, well below the rate of inflation
4 for this period.

5
6 While data are not generally available to allow for a detailed comparison of
7 electricity and other costs for individual commercial customers, I was able to
8 obtain information on Florida hospital costs over time from the U.S.
9 Department of Health and Human Services "Hospital Cost Report Data from
10 the Centers for Medicare & Medicaid Services." Exhibit DWD-13 shows that
11 electricity has declined as a percentage of costs for Florida hospitals from
12 approximately 1.22% in 1996 to 0.98% in 2010, a decline in electricity's
13 fraction of total costs by 20%. While these cost percentages are estimates, the
14 overall decline is consistent with the fact that health care prices have increased
15 substantially faster than the rate of inflation. This trend presumably also
16 reflects a similar increase in costs other than for electricity incurred by
17 healthcare providers, while electricity costs have declined, as shown
18 previously in Exhibit DWD-4.

19 **Q. Please summarize your findings on the impact of the proposed rate**
20 **increase on commercial customers.**

21 A. I calculated the impact of FPL's proposed increase in base rates for each
22 commercial customer type, by quartile. See Exhibit DWD-14. If FPL's base
23 rate increase is fully approved, this would translate into increased electricity

1 costs in the range of \$3 to \$6 daily for pharmacies, \$21 to \$33 daily for
2 supermarkets, \$11 to \$36 for department stores, \$15 to \$60 for “big box”
3 retailers, and \$32 to \$476 daily for hospitals. Even with this increase, FPL
4 commercial customers’ bills would still be below what they were during 2006
5 - 2009. See Exhibits DWD-15 through DWD-20. The exhibits show for each
6 type of customer and quartile the impact of FPL’s proposed base rate increase
7 for commercial customers, relative to their current and historical daily costs.

8

9 For hospitals, FPL’s proposed base rate increase would result in daily
10 electricity costs similar to what they were during the 2006 - 2007 time period.
11 Hospitals’ electricity costs would be less than during the 2008 - 2009 time
12 period. (The exception is bottom quartile hospitals, whose kWh usage
13 increased more rapidly than their per kWh rates declined.) See again Exhibit
14 DWD-19. For example, if FPL’s request is fully approved, the 9 top quartile
15 hospitals would have average electricity costs of \$12,380 daily. This level is
16 below both their 2008 costs of \$13,264 daily and 2009 costs of \$13,814 daily.

17

18 For supermarkets, if FPL’s request is fully approved, the 129 top quartile
19 supermarkets would have average electricity costs of \$852 daily. This level is
20 below both their 2008 costs of \$972 daily and 2009 costs of \$973 daily. See
21 again Exhibit DWD-20. It is unlikely that other significant components of
22 their operating costs have exhibited a similar decline in this time period.

1 Thus, the evidence supports the conclusion that FPL commercial customer
2 bills, both presently and with the impacts from this proceeding, are moderate.

3

4

V. CONCLUSIONS

5

6 **Q. What are your overall conclusions?**

7 A. My analysis of the data demonstrates that both FPL residential and
8 commercial customers pay moderate amounts for electricity presently,
9 whether considered in absolute dollar terms, relative to other Florida and U.S.
10 electricity customers, or relative to the cost of other consumption items or
11 business expenditures. FPL electricity rates for all customers have increased
12 at far less than the overall rate of inflation over time, and they have actually
13 decreased in the past several years. Even with the increase in base rates that
14 would come from full approval of FPL's request, FPL's residential and
15 commercial customers would continue to pay moderate amounts for
16 electricity.

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

18 A. Yes, it does.

1 **BY MS. CLARK:**

2 Q. And are you also sponsoring any exhibits in
3 this matter?

4 A. Yes, I am.

5 Q. And do those exhibits consist of 29 pages
6 shown as Exhibits DWD-1 through DWD-20?

7 A. That's correct.

8 **MS. CLARK:** Madam Chairman, I would note that
9 those exhibits have been premarked as 415 through 434.

10 **COMMISSIONER EDGAR:** Thank you.

11 **BY MS. CLARK:**

12 Q. Dr. DeRamus, have you prepared a summary?

13 A. Yes.

14 Q. Would you give that summary at this time?

15 A. Certainly.

16 Good afternoon, Commissioners. In my
17 testimony I respond to witnesses for the Florida Retail
18 Federation and the Federal Executive Agencies who raise
19 concerns about the impact of FPL's proposed base rate
20 increase on commercial customers, residential customers,
21 and the Florida economy as a whole.

22 These witnesses also assert that an increase
23 in electricity rates will put pressure on the prices
24 that commercial customers in turn charge to end
25 consumers. To address these concerns, I have analyzed

1 extensive commercial and residential customer data from
2 FPL as well as data from public sources. Using these
3 data, I quantify how much FPL customers actually pay for
4 electricity, how much their bills will be impacted by
5 FPL's proposed base rate increase, how the impact will
6 vary among customers with different amounts of
7 consumption, and how the changes in their electricity
8 costs compare to changes in other prices. Based on my
9 analysis, I conclude that FPL customer bills are
10 currently moderate and the impact of FPL's proposed base
11 rate increase will also be moderate, particularly in
12 comparison to changes in the prices of other goods and
13 services over time.

14 FPL's typical residential 1,000 kilowatt hour
15 bill is the lowest in Florida and among the lowest in
16 the United States. As shown in Exhibit DWD-4, to my
17 immediate right, electricity costs for FPL customers
18 have not increased at the rate of inflation and, in
19 fact, for many customers have declined over time,
20 particularly since 2006 to 2009.

21 Changes in electricity costs also compare
22 favorably to changes in various individual components of
23 the CPI, such as the cost of food, gasoline, and
24 particularly medical care, the top blue line on the
25 graph to my right.

1 In order to assess the affordability of
2 electricity for FPL customers, it is important to focus
3 on the median rather than on the average bill. As shown
4 on Exhibit DWD-5, in the center, electricity consumption
5 is not characterized by a normal symmetrical bell-shaped
6 distribution, but rather in fiscal terms it is skewed by
7 a number of high volume customers in the far right table
8 of the distribution.

9 This skewness distorts the average relative to
10 the median as a measure of the typical residential
11 customer. The median FPL residential customer bill is
12 approximately 969-kilowatt hours per month, meaning that
13 half of FPL's residential customers use 969 kilowatts or
14 less per month.

15 Measuring customers electricity cost on a
16 daily basis allows for a reasonable assessment of the
17 cost and affordability of FPL's proposed base rate
18 increase. The median daily cost of electricity for FPL
19 residential customers in 2011 was \$3.45. If FPL's
20 proposal is fully approved, the median increase in
21 residential bills would be approximately ten cents daily
22 assuming changes -- including changes in base rates and
23 fuel and assuming no change in consumption.

24 As shown in Exhibit DWD-10, to my far right,
25 the bills for FPL customers are the lowest quintile of

1 electricity consumption, which includes customers with
2 the lowest incomes, will increase by no more than five
3 cents daily and by three cents daily on average. This
4 supports the conclusion that FPL's base rate increase
5 will have a moderate impact on FPL residential customer
6 bills.

7 With regard to FPL's commercial customers,
8 their total amount in cost of electricity varies widely
9 depending on the size and type of customer. For the
10 vast majority of commercial customers, electricity
11 accounts for a small percentage of their total cost of
12 doing business. Generally, electricity accounts for
13 between one and four percent of operating expenses for
14 the hospitals, retailers, department stores,
15 supermarkets, and pharmacies that account for much of
16 FPL's commercial customer demand.

17 If FPL's base rate increase is approved, this
18 would translate into increased electricity costs in the
19 range of three to six dollars daily for pharmacies, 21
20 to \$33 daily for super markets, 11 to \$36 daily for
21 department stores, 15 to \$60 daily for large, big-box
22 retailers, and 32 to \$476 daily for the largest
23 hospitals.

24 This assumes highly conservatively that all of
25 these commercial customers would experience a 4 percent

1 increase in bills, even though actual bill changes will
2 likely vary between a 3 percent decrease and a 4 percent
3 increase. These potential cost increases represent a
4 small percentage of commercial customers' total
5 operating costs. They are lower than the rate of which
6 their other operating costs increase, and, in fact, they
7 are lower than the rate at which FPL's commercial
8 customers have increased the price of their own goods
9 and services to final consumers. Furthermore, even with
10 the proposed increase, commercial customer bills would
11 still be significantly less than their bills during 2006
12 to 2009.

13 Thank you.

14 **MS. CLARK:** Madam Chair, we tender this
15 witness for cross-examination.

16 **COMMISSIONER EDGAR:** Thank you, Mr. Moyle.

17 **MR. MOYLE:** Thank you, Madam Chairman.

18 **CROSS EXAMINATION**

19 **BY MR. MOYLE:**

20 **Q.** Good afternoon.

21 **A.** Good afternoon.

22 **Q.** We haven't met. I'm Jon Moyle, and I
23 represent the Florida Industrial Power Users Group,
24 large industrial users.

25 I want to just make sure I understand the

1 areas of expertise that you are claiming proficiency in.
2 Could you tell what areas you claim to be an expert in?

3 A. Certainly. I'm an economist, and I frequently
4 testify on matters related to prices, matters in the
5 electricity industry, as well as in other industries.
6 And particularly in this case, on the affordability of
7 the base rate increase, potential impact on prices, and
8 on residential and commercial customers, as well as on
9 the Florida economy as a whole.

10 Q. Maybe we'll start with the Florida economy as
11 a whole. There has been a lot of testimony, I will just
12 represent to you that the current economic situation as
13 previously described by witnesses has not been
14 particularly rosy. You don't disagree with that, do
15 you, in terms of the current economic conditions in
16 Florida?

17 A. Well, I would say it's not rosy. We are not
18 currently in a recession, but we are in a period of
19 relatively anemic growth.

20 Q. Do you know what the Bureau of Labor
21 Statistics' most recent information indicated relative
22 to Florida and its unemployment levels?

23 A. Yes. I believe Florida's unemployment level
24 is currently 8.8 percent.

25 Q. Is what?

1 **A.** Approximately 8.8 percent, if I recall
2 correctly.

3 **Q.** And do you know from the previous period in
4 time whether that 8.8 percent is more people unemployed
5 or less people unemployed?

6 **A.** Well, relative to the same time last year,
7 this is a substantial decrease in the --

8 **Q.** I understand that, but --

9 **A.** -- rate of unemployment.

10 **MR. MOYLE:** Madam Chair, I'm asking you
11 relative --

12 **COMMISSIONER EDGAR:** Mr. Moyle.

13 **MR. MOYLE:** If I could have the witness answer
14 my question, please.

15 **MS. CLARK:** Madam Chairman --

16 **COMMISSIONER EDGAR:** Mr. Moyle.

17 Welcome.

18 **THE WITNESS:** Thank you.

19 **COMMISSIONER EDGAR:** Generally, if you can we
20 would ask that you answer the question with a yes or a
21 no, and then if you need to clarify or elaborate you may
22 do so.

23 **THE WITNESS:** Certainly.

24 **COMMISSIONER EDGAR:** Mr. Moyle, will you
25 repose your question?

1 **MR. MOYLE:** Sure.

2 **BY MR. MOYLE:**

3 **Q.** Relative to June 2012 compared to July 2012,
4 do you know whether Florida's unemployment numbers --
5 more people were unemployed in that period of time or
6 fewer people were unemployed in that time, or you don't
7 know?

8 **A.** Yes, I do know, and there was an uptick in the
9 Florida unemployment rate from I believe 8.6 percent up
10 to 8.8 percent.

11 **Q.** And do you know how many jobs that uptick
12 represented?

13 **A.** I could do the math if you like. It's
14 .2 percent on an unemployed population of about
15 7 million, maybe upwards of -- it may be closer to 7-1/2
16 million individuals. So you can do the math on that.

17 **Q.** I'm not very good at math, so --

18 On Page 6 of your testimony, Line 18, it's
19 actually starting on Line 17, you state, "My analysis
20 shows that FPL residential and commercial customer bills
21 are currently moderate, and the impact of FPL's proposed
22 base rate increase will also be moderate, particularly
23 in comparison to changes in prices for other goods and
24 services over time." That's your testimony, correct?

25 **A.** That's correct.

1 Q. Okay. So what is the next gradient above
2 moderate?

3 A. Well, I was -- am I permitted to answer? It's
4 not a yes or no question, so if I can answer it --

5 Q. I may regret that, but go ahead.

6 A. I wouldn't say I don't have an entire
7 schematic of degrees of impact ranging from moderate or,
8 you know, none, to moderate, to exceptionally large as I
9 worked a schematic like that out to be applied in this
10 case. But certainly, in coming up with my overall
11 conclusion about the fact that rates are moderate, I had
12 in mind both the increase relative to price increases
13 over time, relative to the CPI, relative to the
14 significantly higher rates and bills that other Florida
15 consumers pay and the vast majority other U.S.
16 consumers.

17 And also I had in mind thinking about the
18 impact of the proposed base rate increase on the Florida
19 economy, and that is also sufficiently low that I do not
20 think it's going to have a negative impact. And, in
21 fact, it may have more of a positive impact.

22 Q. Okay. So I would like to focus your questions
23 on your testimony that the impact of the proposed base
24 rate increase will be moderate as it relates to the
25 status quo on electric rates. Can we agree to that?

1 **A.** Certainly.

2 **Q.** Okay. And you gave some numbers in your
3 opening with respect to residential, you know, ten cents
4 a day, five cents day, three cents a day, is that right?

5 **A.** Yes, that's correct.

6 **Q.** And does that include the projected savings
7 relative to fuel, or are those just the base number, the
8 base rate increase?

9 **A.** Yes, those include both the base rate increase
10 and the projected fuel savings as estimated by FPL's
11 Witness Ms. Deaton in her originally filed testimony,
12 and which I think is the appropriate way of assessing
13 the impact of this base rate request.

14 **Q.** So if you didn't include the fuel savings,
15 what would those numbers be?

16 **A.** Well, I would say it would not be an
17 appropriate way of measuring the impact on consumers.
18 Consumers ultimately pay the single bill, which is
19 inclusive of those fuel savings, but certainly those
20 numbers are in Ms. Deaton's testimony.

21 **Q.** Okay. So is it my understanding that you did
22 not do an analysis that looked at the base rate increase
23 by itself, is that correct?

24 **A.** Well, I did analyze the base rates.

25 **Q.** Yes?

1 **A.** Yes, I did analyze the base rates. Yes, I did
2 analyze them by themselves. But in coming up to my
3 overall conclusion about whether the rates are going to
4 be moderate both for commercial and for residential
5 customers, I included both the base rate increase and
6 the fuel cost savings, because I do see those as
7 inextricably linked. But you need those, the base rate
8 investment, or the investments associated with the base
9 rate increase in order to get those fuel cost savings.

10 **Q.** Okay. And, I guess, do you have any
11 workpapers; did you bring any workpapers with you today?

12 **A.** I brought my testimony with you me today, not
13 my individual workpapers.

14 **Q.** So in part of your preparing your testimony, I
15 think you testified you did look at the base rate
16 increase, but you don't have any information today that
17 you can provide with respect to the base rate increase
18 on residential not factoring in the fuel savings, is
19 that correct?

20 **MS. CLARK:** Madam Chairman, I think this is an
21 area of Ms. Deaton's testimony, and those questions are
22 more appropriately directed to her. Furthermore, I
23 don't want to let the inference go that we did not
24 provide the workpapers in discovery, because we did.

25 **COMMISSIONER EDGAR:** Mr. Moyle.

1 **MR. MOYLE:** I'm just trying to understand this
2 witness' testimony. He's putting out numbers and says
3 this is what, you know, the cost will be. But he admits
4 he's factoring in the fuels savings, and we have an
5 issue in this case about, you know, some people think
6 the fuel savings should not be used to mitigate the rate
7 impact and others think it should. I'm just wondering
8 whether his analysis looked at it both ways to say here
9 is what the impact is if you factor in the fuel, here is
10 what the impact is if you take fuel out. And I think he
11 said he did the calculation, but he doesn't have the
12 numbers, as I understand it.

13 **MS. CLARK:** Madam Chairman, I believe that
14 question has been asked and answered. He has indicated
15 that he believes the appropriate way to look at this is
16 the two together, because they are inextricably linked
17 together in terms of what customers evaluate.

18 **COMMISSIONER EDGAR:** Sustained.

19 **MR. MOYLE:** I'm sorry? Oh, sustained. Okay.

20 **BY MR. MOYLE:**

21 **Q.** And you're aware you're testifying in a case
22 today that is a base rate increase, is that right?

23 **A.** Yes, I understand that it's a base rate
24 increase request.

25 **Q.** So to go back to your numbers that you gave,

1 to provide a little more context, can you put
2 percentages with those numbers relative to the increase?
3 You used, you know, a ten-cent increase. What percent
4 increase would that be for the residential customers
5 bill?

6 A. Certainly. For residential customer it's
7 3 cents. I'm sorry, 3 percent. For commercial
8 customers -- for my calculations, all the numbers that I
9 cited in terms of the dollar impact on the medium to
10 larger commercial customers, I used a 4 percent
11 increase, even though for the vast majority of
12 commercial customers, net of fuel costs there will be
13 either a rate decrease or no change in overall, their
14 overall customer bills, net of the fuel savings. So I
15 used the high end of the range provided by Ms. Deaton.

16 Q. Okay. Thank you. So the numbers that you
17 gave us, the cents translate into essentially 3 percent
18 for residential, 4 percent for commercial increase from
19 the current status quo?

20 A. That is correct.

21 Q. Okay. And what would be, in your professional
22 opinion, the gradient on a percentage basis that would
23 take you from moderate to -- I think you used the term
24 exceptionally large?

25 A. Well, like I said, I don't have a full

1 schematic of every percentage and how I would map those.
2 I can certainly tell you that I have been involved in
3 other rate proceedings or been involved in other issues
4 that different commissions were dealing with where they
5 were looking at 30, 40, 70 percent rate increases,
6 particularly after rates were frozen or declined after
7 restructuring. And then as those agreements rolled off,
8 rates increased significantly. And I happen to be a
9 resident of one of those states in which such large rate
10 increases occurred.

11 Q. Okay. And you may have answered the question,
12 but just to be clear, so I take it from your testimony,
13 particularly your personal experience, that to the
14 extent there was a rate increase of 30, 40, 60 percent
15 that that would fall into your opinion as an
16 exceptionally large increase, correct?

17 A. I would consider an overall increase in
18 customer bills by that order of magnitude to be, to have
19 a large impact, yes.

20 Q. Okay. And so to the extent that one group of
21 customers in this case was being confronted with --
22 actually, I'll strike that.

23 Let me refer you to Page 16, Line 15. Are you
24 there?

25 A. Yes, I am.

1 Q. Okay. So this is the data that you used to
2 come up with your opinion, is that right?

3 A. That's correct.

4 Q. And there aren't any industrial customers in
5 here or any military bases in here, am I correct?

6 A. They were not included in the data sets that I
7 received from FPL, that's correct.

8 Q. And if the military bases and certain
9 industrial customers were confronted with a rate
10 increase of more than 30 percent, given our previous
11 discussion, you would consider that to be extremely
12 large, to use your term, correct?

13 A. Well, if --

14 Q. Yes, no, and then explain, please.

15 MS. CLARK: Madam Chairman, I think he has
16 mischaracterized Dr. DeRamus' testimony with regard to
17 that.

18 COMMISSIONER EDGAR: Mr. Moyle.

19 MR. MOYLE: I was just trying to get a yes/no,
20 and then an explanation to it.

21 COMMISSIONER EDGAR: Why don't you ask the
22 question again.

23 MR. MOYLE: Okay.

24 BY MR. MOYLE:

25 Q. If the military bases, Patrick Air Force

1 Base -- are you familiar with Patrick Air Force Base?

2 A. Yes, I am.

3 Q. Okay. Homestead Air Force Base, are you
4 familiar with Homestead?

5 A. Yes.

6 Q. Okay. And if military bases and industrial
7 customers on a certain rate schedule, if they were
8 looking at an increase in base rates of more than
9 30 percent, given our previous discussion about your
10 matrix of moderate to extremely large, wouldn't you
11 agree that those customers were being confronted with an
12 extremely large rate increase?

13 MS. CLARK: Madam Chairman, I would object,
14 again. I think he has mischaracterized what Dr. DeRamus
15 said. Dr. DeRamus spoke in terms of the overall bill,
16 not in base rates.

17 COMMISSIONER EDGAR: Which is why I'm going to
18 allow the witness to answer the question.

19 BY MR. MOYLE:

20 Q. So if you would just please give me a yes/no,
21 and then if there is any explanation warranted.

22 A. No, I don't agree with that statement. I
23 think the appropriate way to analyze it, and the way you
24 have to analyze it is on all-in basis, i.e., looking at
25 the fuel costs and the fuel savings that are enabled by

1 that very base, the investments, the capital investments
2 and the other kind of operating expenditures that enable
3 those quite significant fuel cost savings. You can't
4 separate those two.

5 So a percentage increase or percentage change
6 on any individual component in it of itself is rather
7 meaningless. What you really need to look at is the
8 overall increase in rates. And given the overall, even
9 though I did not have data on the consumption, the
10 actual consumption of those, of the industrial customers
11 and the military bases, the percentage change for those
12 customers, as I understand it, is not likely to be
13 outside the range of the other percentages that we have
14 discussed so far.

15 Q. And how is it that you understand that?

16 A. Based on my analysis of Ms. Deaton's testimony
17 and my understanding of the rate schedules under which
18 the industrial customers and the Federal Executive
19 Agencies or the Air Force facilities take their service.

20 Q. Are you aware that in Florida that the
21 recovery for fuel is done in a separate proceeding from
22 the recovery of base rates?

23 A. That's my general understanding, yes.

24 **MR. MOYLE:** Okay. That's all I have.

25 **COMMISSIONER EDGAR:** Thank you. Hospital

1 Association.

2 **MR. RAPPOLT:** Good afternoon, Madam Chairman.
3 My name is Paul Rappolt. I am representing SFHHA.

4 **CROSS EXAMINATION**

5 **BY MR. RAPPOLT:**

6 **Q.** Dr. DeRamus, good afternoon.

7 **A.** Good afternoon.

8 **Q.** You noted in your discussion with Mr. Moyle
9 that your cost-impact estimates include both fuel and
10 base rates, correct?

11 **A.** That is correct.

12 **Q.** And you are aware that natural gas is FPL's
13 primary fuel?

14 **A.** Yes, I am.

15 **Q.** Suppose I offered you a wager where I am
16 offering you even odds, and we're betting \$100. My side
17 of the bet is that natural gas prices will be higher in
18 2015 than they are in 2012, and your side of the bet is
19 that natural gas prices will be lower in 2015 than they
20 are in 2012. Are you going to take my bet?

21 **A.** I'm not particularly a betting man, but are
22 you asking me my -- this goes a little beyond, or
23 actually far beyond the scope of my testimony. If
24 you're asking me whether I think it is more likely that
25 gas prices will rise rather than fall, then I would say

1 all-in relative to where they are today, it is probably
2 more likely that they will rise rather than fall, but I
3 don't have a precise number on that. That is based on
4 current forecasts.

5 Q. So when -- you stated that that wasn't quite
6 in the scope of your testimony, so when you prepared
7 your testimony quantifying the impacts on customers, you
8 didn't consider the likelihood of increases in natural
9 gas prices?

10 A. I did not factor in explicitly changes in gas
11 prices. I would say that to the extent that there are
12 significant efficiency improvements in FPL's operations,
13 that cost savings to customers would increase over time
14 as gas price, natural gas prices were to rise.

15 Q. But the converse of that, you didn't look at
16 whether there would be increased bills due to increases
17 in gas prices?

18 A. As I said, I did not do the computation.
19 There are two different ways of thinking about the ways
20 in which customers will benefit from the investments
21 that FP&L is making in --

22 **MR. RAPPOLT:** Madam Chairperson, can I get a
23 yes or no on the question?

24 **COMMISSIONER EDGAR:** Reask the question.

25 **MR. RAPPOLT:** Sure.

1 **COMMISSIONER EDGAR:** And if you can, answer it
2 with a yes or no; and if you can't, say that as well.

3 **THE WITNESS:** Thank you.

4 **BY MR. RAPPOLT:**

5 **Q.** In preparing your testimony where you are
6 quantifying the impacts on customers, you did not
7 consider the likelihood of increases in natural gas
8 prices, correct?

9 **A.** No, that's not quite correct. I did consider
10 it, even though I did not quantify it. And I considered
11 it in the following way, there are two ways in which
12 customers benefit from the significant efficiency
13 investments that FPL has made.

14 One is related to the substitution of
15 higher-cost fuel generation with lower-cost fuel
16 generation. And in that regard, as prices for natural
17 gas decline, the benefits to customers increase, because
18 there is a broad -- a bigger spread between, for
19 example, oil and natural gas.

20 As that spread widens, there is a greater
21 benefit to customers from that substitution effect from
22 those higher cost existing resources to the newer lower
23 heat rate plants, such as the Canaveral Facility, a
24 6,500 Btu per kilowatt hour plant. A very efficient
25 plant with which you can substitute your lower efficient

1 output for more efficient output. That is one
2 dimension.

3 If it goes higher, on the other hand, then --

4 **MR. RAPPOLT:** Madam Chairperson, brief
5 explanations I think have been the order.

6 **COMMISSIONER EDGAR:** I think he's being
7 responsive. I'm going to ask him to complete your
8 answer, and then we will move to the next question.

9 **MR. RAPPOLT:** Okay. Certainly.

10 **THE WITNESS:** Thank you.

11 On the other hand, if natural gas prices were
12 to move higher, the cost savings per kilowatt hour
13 produced for a given generation facility will actually
14 increase. So, for example, if you have a 7,000 Btu per
15 kilowatt hour heat rate plant, and FPL has managed to
16 increase its efficiency with investments, for example,
17 in its CT hot gas investment programs currently ongoing
18 and is part of this case, that increases the efficiency
19 of those units.

20 As natural gas prices increase, the dollar
21 impact to customers, which they will see in their bills
22 that they open up at the end of each month, will rise.
23 So either way those efficiency investments are
24 undeniably of benefit to FPL's residential and
25 commercial customers.

1 **MR. RAPPOLT:** No further questions.

2 **COMMISSIONER EDGAR:** Thank you.

3 Captain.

4 **CAPTAIN MILLER:** Yes; thank you. I just have
5 a few questions.

6 **CROSS EXAMINATION**

7 **BY CAPTAIN MILLER:**

8 **Q.** Good evening. My name is Captain Sam Miller
9 and I represent the Federal Executive Agencies, and
10 included in those is Patrick Air Force Base, which Mr.
11 Moyle talked to you about.

12 **A.** Yes.

13 **Q.** In your summary and in your testimony you
14 talked about the daily bill increase for some different
15 entities, including retail customer, hospitals. One
16 entity you didn't include was, in fact, military
17 installations such as Patrick Air Force Base. Can you
18 give an estimate of what the daily bill increase for
19 Patrick Air Force Base would be?

20 **A.** Again, I don't have the data from Patrick Air
21 Force Base with regard to the actual consumption, so I
22 did not do the analysis in dollar increase, but it is
23 still my understanding it is within the range of the
24 figures that Ms. Deaton -- in terms of a percentage
25 increase, that that would be consistent with the range

1 of numbers provided in Ms. Deaton's testimony.

2 Q. Would you agree, subject to check, that the
3 daily bill for Patrick Air Force Base is maybe twice as
4 much as an average hospital?

5 MS. CLARK: Madam Chairman, I think that's an
6 awfully vague question. I don't know if he knows
7 what -- I mean, if the Captain can say what the
8 consumption is for an average hospital.

9 COMMISSIONER EDGAR: Captain, can you be more
10 specific?

11 CAPTAIN MILLER: I cannot be more specific as
12 far as my knowledge of what an average hospital is. I
13 think based on his expert testimony he could probably
14 give an opinion as to, you know, given the size of an
15 installation such as Patrick Air Force Base and what the
16 hospital sizes are in Southern Florida, how the bills
17 would relate to each other.

18 COMMISSIONER EDGAR: Then I'm going to ask you
19 to repose the question and direct the witness, if you
20 are able to answer, please do, and if you are not,
21 please let us know that, as well.

22 THE WITNESS: Okay.

23 BY CAPTAIN MILLER:

24 Q. Dr. DeRamus, in your expert opinion, given the
25 size of an installation such as Patrick Air Force Base,

1 and taking all hospitals in Southern Florida as a whole
2 and their average, how would you -- what is your opinion
3 on how those bills would relate in size?

4 **A.** I can't give a definitive answer to that,
5 primarily because you have to -- on the one hand, there
6 are some very large hospitals in Southern Florida. And
7 on the other hand, the intensity of consumption for
8 hospitals is likely to be very different than the
9 intensity of electricity consumption for a military
10 base.

11 So you have got two different parameters going
12 probably in opposite directions. I assume the size of
13 the military facility is much larger than even these
14 very large hospitals. But, by the same token, the
15 intensity -- I don't have a sense of the intensity of
16 electricity usage for a military base.

17 **Q.** Would you agree an installation such as
18 Patrick Air Force base is running 24-hour operations for
19 national defense purposes?

20 **A.** I would expect so. And something similar to
21 that I would expect for hospitals, as well. So it's a
22 really a question of the intensity of the electrical
23 activity that is going there versus a hospital, and
24 that's an issue that I just don't have the data for.

25 **Q.** Okay. Well, let's just say that -- you know,

1 you said they are similar. So let's say the size of
2 Patrick Air Force Base's bill or the price is the same
3 as the hospitals. So if you take -- in your testimony
4 you say it is \$476 a day of an average increase, is that
5 correct?

6 **A.** Well, again, that's not an average increase.
7 That's the high end of the increase using that 4 percent
8 escalation. In fact, many hospitals take service under
9 rate schedules that would have a much lower increase.
10 So based on the rate schedules --

11 **Q.** We can take the high end and work from there.
12 That's fine.

13 **A.** Certainly. I just want to make sure it's
14 clear that I'm using that as a high end.

15 **COMMISSIONER EDGAR:** Whoa, whoa. I'm sorry, I
16 apologize for interrupting. It's late; everybody is
17 tired; we all want to move through, however, this
18 witness is entitled to answer the questions. So if you
19 have an interruption, a question or objection, please go
20 through the Chair.

21 **CAPTAIN MILLER:** Sorry, Ma'am. I don't recall
22 objecting.

23 **COMMISSIONER EDGAR:** No, you did not. You
24 interrupted the witness. Am I remembering wrong? Did
25 you interrupt the witness?

1 (Laughter.)

2 **MS. CLARK:** I did turn on my mike. I don't
3 think I said anything, but I do have an objection. This
4 witness has said he can't make a comparison, because he
5 doesn't know the intensity of electric use for the
6 hospitals as compared to Patrick Air Force Base. And
7 yet the Captain is continuing to go down that path. I
8 think it has been asked and answered.

9 **COMMISSIONER EDGAR:** Captain.

10 **CAPTAIN MILLER:** Madam Commissioner, he points
11 out in his testimony that the high end for hospitals is
12 \$476 per day. I said that for my next question I was
13 willing to accept that high end as a general concept
14 with the understanding that it may be lower, but I
15 wanted to ask my next questions based on the high end.

16 **COMMISSIONER EDGAR:** Had you completed your
17 answer?

18 **THE WITNESS:** I had kind of forgotten where I
19 was in my train of thought, but --

20 **COMMISSIONER EDGAR:** Okay. In that case,
21 then, pose that question.

22 **BY CAPTAIN MILLER:**

23 **Q.** So taking the high end, at \$476 per day, that
24 would amount to approximately \$174,000 per year?

25 **A.** Give me one minute. That's correct.

1 Q. Okay. And are you aware of the funds that
2 military installations use to pay their utility bills?

3 A. I don't. I'm not aware of the specific funds.
4 Military budgets are funded out of the federal budget,
5 so I'm aware that ultimately that is where the money
6 comes from.

7 Q. So you would agree that it does come from
8 taxpayer dollars?

9 A. Yes. A combination of either immediate
10 taxpayer dollars or future taxpayer dollars, depending
11 on if this is being funded with current revenues or
12 debt, which is where a lot of our current spending is
13 being funded from.

14 Q. Okay. Would you agree that it is possible
15 that these funds come out of the bases' O&M funds, that
16 the payments for utility bills come out of the bases'
17 O&M funds?

18 A. I don't know where the specific funds that it
19 is coming from. The one thing I would also remind you
20 in my answer is that I am assuming quantity is constant,
21 and there is significant economic literature --

22 **CAPTAIN MILLER:** Excuse me. This answer has
23 nothing to do with the question I asked.

24 **COMMISSIONER EDGAR:** Actually, in this case I
25 do think that you are going a little further than the

1 question required.

2 **THE WITNESS:** Certainly.

3 **COMMISSIONER EDGAR:** So you may ask your next
4 question.

5 **BY CAPTAIN MILLER:**

6 **Q.** Would you agree that Patrick Air Force Base
7 has a positive affect on the local economy in your
8 service area?

9 **A.** Yes. I would think that any economic
10 activity, any employer has a positive economic impact in
11 the immediate area in which it is employing individuals
12 and spending dollars on various goods and services.

13 **Q.** And, therefore, the presence of Patrick Air
14 Force in your service area could have, you know,
15 somewhat have a relationship on whether or not your
16 ratepayers have the ability to pay their utility bills?

17 **A.** Certainly, in some broader sense. Like I
18 said, you need employment in order to generate incomes,
19 generally, and those incomes, in turn, are used to pay
20 for a variety of goods and services, including
21 electricity. So if you pull out an employer from a
22 given area, then by definition you will reduce the
23 amount of income -- in that area, and then that will
24 have a negative impact on the employment in that area.

25 **CAPTAIN MILLER:** Okay. That's all I have.

1 Thank you.

2 COMMISSIONER EDGAR: OPC.

3 MS. CHRISTENSEN: No questions.

4 COMMISSIONER EDGAR: Mr. Wright.

5 MR. WRIGHT: Thank you, madam Chairman.

6 CROSS EXAMINATION

7 BY MR. WRIGHT:

8 Q. I'm going to go with good afternoon, Dr.
9 DeRamus.

10 A. Good afternoon.

11 Q. My name is Schef Wright, and I have the
12 privilege of representing the Florida Retail Federation
13 in this proceeding. I have a few questions for you.

14 The first one is just a very preliminary
15 question. Were you either present for or did you
16 otherwise listen in on Mr. Chriss' testimony on Tuesday
17 morning of this week?

18 A. Yes, I listened in on it.

19 Q. I have just a couple of questions coming out
20 of your summary before I turn back to my more somewhat
21 prepared questions. In your summary you mentioned that
22 FPL's median consumption per residential customer is
23 969-kilowatt hours?

24 A. That's correct. Per month, yes.

25 Q. Per month, right. And you made the statement

1 that that means half use less, correct?

2 A. Correct.

3 Q. And that also means that half use more, also
4 correct?

5 A. That's correct.

6 Q. And the average, I think you indicated, is
7 1,156 on your table there?

8 A. Yes, that's correct.

9 Q. Do you know what percentage of the
10 distribution lies above the average there, 40 percent
11 or so, maybe a little more than that?

12 A. The graph is a histogram; it's not based on
13 percentages on the side, or it's not a cumulative
14 distribution, so it's a little hard -- you can't really
15 read off of it. I don't have the numbers in front of
16 me. I have seen them one time, so I'm sorry, I just
17 don't recall the percentage.

18 Q. I mean, I was just trying to eyeball the area
19 under the curve to the right of the average versus the
20 area to the curve under the curve to the left. It looks
21 like about 40 percent to me. What do you think?

22 A. I think that is a reasonable going in
23 assumption, but this is a factual question that the data
24 would show.

25 Q. Fine.

1 **A.** But just to be clear, I think your assumption
2 is that 60 percent of the observations are below the
3 1,156-kilowatt hour average. Actually, as I recall, I
4 think the numbers showed a little bit higher than
5 60 percent.

6 **Q.** Okay.

7 **A.** But it has been awhile since I saw those
8 numbers.

9 **Q.** That's all right. Thank you. So probably 60
10 to 65 percent are below the average?

11 **A.** That sounds like a reasonable range.

12 **Q.** Okay. Thank you. Now, in your testimony at
13 Section 3, beginning on Page 10, you talk about the
14 impact of FPL's proposed base rate increase on
15 residential customers, correct?

16 **A.** Yes.

17 **Q.** And you conclude further along on Page 16 that
18 the impact would be moderate, correct?

19 **A.** Correct.

20 **Q.** What do you mean by moderate?

21 **MS. CLARK:** Madam Chairman, I think that has
22 been asked and answered at least once.

23 **COMMISSIONER EDGAR:** I agree.

24 **MR. WRIGHT:** Well, let me ask you in terms FPL
25 has used.

1 **BY MR. WRIGHT:**

2 Q. Is moderate the approximate cost of a slice of
3 pizza or a latté?

4 A. I would say moderate is a fraction of the cost
5 of a slice of pizza or a latté in terms of the impact on
6 the median customer of ten cents a day. The last I
7 checked, you can't get a slice of pizza for ten cents.
8 But I do think that that is a relevant comparison to
9 look at daily expenditures and the impact on a daily
10 basis relative to the other daily costs of living.

11 You know, although for my primary conclusion
12 I'm really relying on the changes relative to the CPI,
13 changes relative to the total bill that FPL customers
14 pay relative to other Florida customers, and relative to
15 U.S. customers as a whole, as well as back to the
16 earlier questions about the economy that it is moderate
17 in terms of not having any negative impact on the
18 Florida economy. And, in fact, more likely a positive
19 impact.

20 **MR. WRIGHT:** I'm going to object and move to
21 strike the last comment. I don't recall him saying
22 anything about the impact on the Florida economy being
23 positive. If he did, then I apologize. He has been
24 taken out of order.

25

1 **BY MR. WRIGHT:**

2 Q. Is that stated in your testimony, Dr. DeRamus,
3 that the impact on the Florida economy is positive?

4 A. I think I stated it in response to an earlier
5 question from someone here.

6 **COMMISSIONER EDGAR:** We are going to move
7 along.

8 **MR. WRIGHT:** Thank you.

9 **COMMISSIONER EDGAR:** You're welcome.

10 **BY MR. WRIGHT:**

11 Q. Are you suggesting that the Public Service
12 Commission should approve the rate increase just because
13 it's moderate?

14 A. No. I'm suggesting that it is an important
15 factor for the Commission to take into consideration
16 given the testimony submitted by witnesses for the
17 Florida Retail Federation and the Federal Executive
18 Agencies suggesting otherwise, although not providing
19 any data in support of that suggestion.

20 Ultimately, I think the Commission should rule
21 on the rate increase based on its fundamental economic
22 merits, i.e., whether the costs are prudent and
23 reasonable. But, nevertheless, I think the size of the
24 impact on residential and FPL residential customers is
25 helpful for the Commission to keep in mind, particularly

1 in noting that it is a very moderate impact, and
2 particularly given the benefits that customers like to
3 receive.

4 Q. Ten cents a day using your numbers, is that
5 applicable to the 969-kilowatt-hour-a-month user?

6 A. Yes.

7 Q. Okay. So that's three dollars a month,
8 correct?

9 A. That's correct.

10 Q. Surely you'd agree that any customer --
11 residential, commercial, industrial, street lighting, or
12 any other -- doesn't want to pay any more for a good or
13 service than is necessary; will you agree with that?

14 A. Certainly, everybody likes to obtain goods and
15 services for a lesser cost rather than a greater cost.
16 But as I said before, I do think that that is, again,
17 well below the rate of inflation, and well below the
18 rate at which retailers, for example, have increased
19 their prices of goods and services over time.

20 Q. Well, are you suggesting that customers should
21 just cheerfully accept this rate increase because it's
22 less than the rate of CPI inflation for the last few
23 years?

24 A. I'm an economist, I'm not here as a
25 psychologist, but I would say that the benefits that FPL

1 customers should take significant comfort in the fact
2 that their bills are substantially lower than other
3 Florida consumers and the vast majority of U.S.
4 consumers. And that the rate increase will enable
5 substantial investments in efficiency improvements as
6 well as reliability improvements which are of
7 significant dollar value to all customers, residential
8 as well as commercial.

9 Q. Surely you will agree that total rate
10 increases as requested by the company here of
11 \$690.4 million a year is not a moderate number, will
12 you?

13 A. Actually, I would disagree. I think it is
14 a -- any number associated with an FPL proceeding is
15 going to be a large number because it serves 4-1/2
16 million customers. If you compare it to the cost
17 savings that FPL customers get from taking service from
18 FPL relative to the Florida average, that savings alone
19 is 1.4 billion.

20 The question really is whether customers are
21 likely to receive a net benefit from these costs,
22 whether the costs are prudently incurred, and whether
23 they are reasonable. And based on what I have seen in
24 the record, it looks like these are investments that are
25 providing substantial benefits to ensure the long-term

1 lower rates that FPL customers pay.

2 Q. Well, I'm sure you will agree that a number of
3 witnesses on our side of the case don't agree with the
4 statement you just made.

5 A. I have heard some of their testimony, and I
6 still don't quite understand the full extent of their
7 disagreement.

8 Q. Okay. Well, that's not really the subject of
9 your testimony, so I will scoot along from there.

10 MS. CLARK: That's a good point.

11 COMMISSIONER EDGAR: I'm waiting for the
12 scooting.

13 MR. WRIGHT: Scoot, scoot, scoot.

14 BY MR. WRIGHT:

15 Q. Just because the impact is moderate doesn't
16 mean that the increase will not put pressure on a number
17 of residential customers personal budgets, does it?

18 A. Certainly for low-income customers, a rate
19 increase or an increase in their bills is always more
20 significant than for customers who are earning higher
21 incomes. And at the end of the day, there is often a
22 budget of disposable income that they are allocating
23 between alternative uses.

24 At the end of the day, I do think that is why
25 it is important to look at the rates that they pay and

1 the benefits that all customers, including low-income
2 customers, receive from having the lowest bill in the
3 state, and from having rates that have increased far
4 less than the CPI. Inflation is a fact of life, and the
5 electricity rates that FPL customers pay reflect a very
6 low rate of growth, far below the rate of inflation.

7 **Q.** Relative to your continuing comparisons to
8 CPI, will you agree that FPL should get enough revenues
9 from its customers to provide safe, adequate, and
10 reliable service at the lowest reasonable cost?

11 **A.** It's my understanding that the standard in
12 Florida is safe, adequate, and reliable service, and I
13 do agree that the Commission should ensure that costs
14 are prudent and reasonable.

15 **Q.** Doesn't that mean that if those costs reflect
16 values that are less than the rate of CPI inflation or a
17 forward adjusted value based on CPI, that that is what
18 the rates should be?

19 **MS. CLARK:** Madam Chairman, I think this goes
20 way outside the scope of his testimony. I think I've
21 been tolerant of all the questions that are outside the
22 scope of the testimony, and I would suggest Mr. Wright
23 move on.

24 **COMMISSIONER EDGAR:** Mr. Wright, can you speak
25 to whether this is or is not within the scope, and if it

1 is, where?

2 **MR. WRIGHT:** Madam Chairman, in his testimony
3 probably in three answers, if not more than that that he
4 has already given me, as well as in his direct testimony
5 focuses very directly on comparisons to the CPI, and
6 that is the question I asked him.

7 **COMMISSIONER EDGAR:** Ms. Clark.

8 **MS. CLARK:** I don't believe that was the
9 question he just asked him. He asked him with regard to
10 safe, adequate, and reliable service. I didn't hear --
11 I believe that was the basis of his question.

12 **COMMISSIONER EDGAR:** I think you both have a
13 point.

14 Mr. Wright, pose a question and please keep it
15 within the scope.

16 **MR. WRIGHT:** Certainly. Here is my proffer,
17 Madam Chairman. The question I'm getting at is what the
18 relevant metric is for the conditions evaluation. He
19 keeps talking about relevant to CPI, relative to CPI. I
20 asked him and he answered, without objection, did he
21 agree that it's appropriate for rates to be set at a
22 level sufficient to provide safe, adequate, and reliable
23 service at the lowest reasonable cost. I believe he
24 agreed with that. I then asked him wouldn't he agree
25 that that is the relevant metric, not what the value is

1 relative to CPI.

2 **COMMISSIONER EDGAR:** Mr. Wright, please pose a
3 question to the witness and keep it within the scope.

4 **MR. WRIGHT:** Thank you.

5 **BY MR. WRIGHT:**

6 **Q.** You do talk about rates and rate increases
7 relative to CPI rather extensively in your testimony, do
8 you not?

9 **A.** Yes, I do.

10 **Q.** Okay. Will you agree that the relevant
11 metric -- and I will use your terms here -- will you
12 agree that the relevant metric is that the rate
13 increase, whatever it is that is granted by the PSC,
14 should be judged on its own economic merits?

15 **A.** Yes. If I can explain, as a general matter I
16 agree, as I said earlier, that the proper standard in a
17 rate case is to evaluate whether the costs are prudently
18 incurred and are reasonable. I still think that
19 evaluating the rate increase relative to changes in the
20 CPI and relative to other bills is appropriate in this
21 case, given the testimony that witnesses for the Florida
22 Retail Federation and the Federal Executive Agencies
23 have raised, you know, implying that they are not
24 moderate.

25 **Q.** On Pages 20 and 21 of your testimony you talk

1 about the impacts of the proposed rate increase on FPL's
2 commercial customers, correct?

3 A. That's right.

4 Q. Actually, let's look back at Page 18 just for
5 a second before we get there. I think on Page 18 you
6 testify that the median daily -- median daily cost for
7 commercial customers is \$525 a day?

8 A. That's correct.

9 Q. Why did you use a daily number as opposed to a
10 monthly or annual number?

11 A. Well, I certainly think you can use media, you
12 can use monthly, daily, or annual numbers. I do think
13 that a comparison on the residential level at a daily
14 level allows for a better comparison of the cost of
15 electricity relative to the other -- the cost of other
16 goods and services.

17 And by the same token, it facilitates a
18 comparison when you jump to commercial customers to keep
19 that same metric. I also think that it is reasonable
20 for commercial alone, simply because the commercial
21 customers are, in fact, selling those very goods and
22 services that customers are buying on a daily basis, as
23 well as the fact that there are other costs that
24 commercial customers incur on a daily basis, not hourly
25 basis, such as hourly employee costs.

1 Q. You can check my arithmetic, but when I did it
2 I calculated the annual impact or the annual cost at
3 \$525 a day is about \$191,000 a year. Is that accurate?

4 A. That's correct, and if I might clarify one --

5 **COMMISSIONER EDGAR:** Briefly.

6 **THE WITNESS:** Yes. Certainly. My database
7 that I'm referring to here, this is for a sample of
8 relatively medium to large commercial customers. It
9 does not include the 500,000, or 400,000 small
10 commercial customers who have consumption much less than
11 this amount. Many of them are taking service in the
12 range of 1,200-kilowatt hours per month. So there are a
13 large number of other customers that aren't included in
14 these numbers.

15 **BY MR. WRIGHT:**

16 Q. Back to Page 21 of your testimony. You talked
17 about the top quartile supermarkets would have average
18 electricity costs of \$852 daily. Can you tell us what
19 the -- and that's if FPL's request were approved.
20 Correct so far?

21 A. I'm sorry, could you point me where in my
22 testimony?

23 Q. Sure. At Lines 18 and 19 on Page 21 of your
24 testimony, Dr. DeRamus.

25 A. Yes, I see that. And, I'm sorry, let me read

1 it one moment. Yes. Thank you.

2 Q. Okay. The question I want to ask you is can
3 you tell us what the cost would be if no rate increase
4 were given; that is, can you tell us what the comparable
5 number to the \$852 is?

6 A. Yes. One moment. That would be \$818.
7 Although keep in mind going from 818 to 852, that
8 assumes the full four percent increase, and many
9 supermarkets are likely taking service under rates that
10 would have a much lower impact, less than the 4 percent.
11 This is the high end of that range.

12 Q. So that is \$34 a day, and that's about \$11,000
13 a year?

14 A. Well, I'll be happy to do the math.

15 Q. Do it. Go ahead. I got 12,410. How about
16 you?

17 A. Yes, that's correct.

18 Q. Okay. So for a bunch of supermarkets the
19 increase is probably going to be in the vicinity of
20 9,000 to north of \$12,000 a year, fair enough?

21 A. Again, assuming the full four percent, that
22 they incur the high end of the range, that there is no
23 change in their consumption, which frankly is against
24 what I have seen on the data. I do see ratcheting down
25 of consumption over time, even when prices are not

1 increasing. So that assumes a lot. So that's why I
2 think it's more a high-end number.

3 Q. Well, I was just going with the example you
4 posed in your testimony. Now, if the average cost of
5 doing business for every supermarket in FPL's service
6 area increased by some amount, 9, 10, 11, \$12,000 a
7 year, maybe more than that for a higher use customer,
8 surely you'll agree that that will put upward pressure
9 on retail prices?

10 A. Well, it may or it may not. A lot of it
11 depends -- there is extensive economic literature on
12 whether cost increases are passed through to end
13 consumers, and I haven't seen anything in this case that
14 suggests they necessarily would be. And, for example,
15 you have seen price reductions faced by supermarkets.

16 The average cost of retail space has declined
17 by about 13 percent recently, and yet you don't see a
18 13 percent drop in customer prices. The other ways that
19 supermarkets could address this would be by, again,
20 reducing consumption, increased efficiency, lowering
21 their own return to their shareholders. There are any
22 number of ways that you can think about that.

23 Q. Following a line of cross asked by another
24 attorney, I think your testimony says that the high-end
25 impact on hospitals is \$476 a day.

1 **A.** That's correct. And, again, with the same
2 caveats about using the high end of the range of
3 Ms. Deaton's increases.

4 **Q.** Sure. Just to pick a number somewhat less
5 than that, \$400 a day, if we multiplied that by 365, I
6 get something like \$146,000 a year. Is that about
7 right?

8 **A.** You ran through the numbers pretty quickly
9 there, but I would say --

10 **Q.** What is 400 times 365?

11 **A.** That is \$146,000 a day, but I would say even
12 that is probably a high end of the cost increase that
13 the hospitals are likely to incur, based on the rate
14 schedules that I have seen. It's likely to be probably
15 below two percent. But, again, it will vary depending
16 on the hospital.

17 **Q.** Well, let's pick a lower number. Let's say
18 \$300. I think that's going to give us about \$110,000 a
19 year.

20 **A.** Okay.

21 **Q.** Surely you will agree that if hospitals
22 incurred cost increases in the vicinity of \$100,000 a
23 year, all the hospital in FPL's service territory on
24 average, that's going to put upward pressure on the
25 price of health care, will it not?

1 **A.** Again, you're talking about a very small
2 percentage of their total costs, less than one percent,
3 and those percentages have declined over time, and they
4 are far lower today than they were many years ago. I
5 have a chart in my testimony about. So I don't think
6 it's necessarily a reasonable conclusion to think that
7 somehow there are prices tomorrow that are going to be
8 paid by -- ultimately health insurers are going to be
9 increased by a corresponding amount. These are
10 relatively small percentage increases. They could go
11 up, or they may not go up.

12 **Q.** Other things equal, in a more or less
13 competitive market, if the cost of doing business
14 increases will that not put upward pressure on prices?

15 **A.** If you make some very simplistic assumptions,
16 yes. But there is a lot that needs to remain constant
17 if that happens. And that's one of the advantages of
18 electricity, is that there are discretionary decisions
19 that customers can make about their volume of
20 consumption. And you have very important factors in
21 competition that may or may not cause those cost
22 increases to be passed through to end customers.

23 **Q.** Well, one discretionary decision that
24 customers don't have is from whom they get their
25 electricity, isn't that right?

1 **A.** That's not entirely correct, but there are
2 certainly some behind-the-meter generation that
3 customers can have, but that does depend on the
4 customer. But I will grant that FPL is the provider for
5 the residential and commercial customers in their
6 service territory.

7 **Q.** You mentioned that you listened in on Mr.
8 Chriss' testimony. Did you hear him testify that the
9 impact of FPL's rate increase on Wal-Mart's Florida
10 operations would be north of \$3 million a year?

11 **A.** I did hear him say that, yes.

12 **Q.** Do you have any reason to doubt the accuracy
13 of that statement?

14 **A.** Not the accuracy of the dollar amount of his
15 math. I do think it assumes that there is going to be
16 no change in Wal-Mart's consumption. But I haven't gone
17 through the numbers, and he didn't present the
18 underlying numbers of his calculation.

19 **Q.** Okay. Would you characterize that impact on
20 Wal-Mart's operations in FPL's service area as being
21 insignificant?

22 **A.** Again, every time we're talking about large
23 entities, and Wal-Mart in an exceptionally large entity,
24 any small percentage change in their costs will come up
25 with a dollar amount that at face value it appears to be

1 a large amount. But relative to their operating costs,
2 that is a small fraction of their operating costs, and,
3 again, I think these are cost increases that are very
4 modest. And they have, again, declined over time in the
5 FPL service territory, both in nominal and in real
6 terms, and nominal significantly since 2006.

7 **COMMISSIONER EDGAR:** And now I will -- excuse
8 me. I will ask you, again, answer with a yes or no.

9 **THE WITNESS:** Certainly.

10 **COMMISSIONER EDGAR:** If you need to expand do;
11 if you don't, don't.

12 **THE WITNESS:** Thank you.

13 **COMMISSIONER EDGAR:** Mr. Wright.

14 **MR. WRIGHT:** And my question was do you
15 consider that impact, more than \$3 million a year on
16 Wal-Mart's operations in FPL's service area in Florida,
17 to be insignificant?

18 **MS. CLARK:** Madam Chairman, that is asked and
19 answered.

20 **MR. WRIGHT:** Madam, Chairman, I did not hear
21 the yes or no the first time I asked.

22 **COMMISSIONER EDGAR:** And I agree, nor did I.
23 So ask the question. Answer with a yes or no, please.

24 **BY MR. WRIGHT:**

25 **Q.** Do you remember the question?

1 **A.** I do. No, I do not consider it insignificant;
2 but, yes, I do consider it moderate as I described in my
3 testimony. And I certainly consider it manageable
4 within the scope of the other operating expenses that
5 Wal-Mart incurs on a daily basis.

6 **Q.** Still on Page 21 of your testimony at Lines 3
7 through 5, you make the statement even with the
8 increases that you talked about right before that, even
9 with this increase, FPL commercial customers' bills
10 would still be below what they were during 2006 through
11 2009. Correct?

12 **A.** Correct. And, I'm sorry, if you could point
13 me to what page number?

14 **Q.** That's at Page 21, Lines 3 through 5.

15 **A.** Yes. Thank you.

16 **Q.** Do you know how much of that decline is due to
17 the decline in the price of natural gas from the
18 general 2006 to 2009 level to the current level?

19 **A.** No, I don't know the precise amount. I do
20 know that their fuel costs have declined, a significant
21 portion of that decline being attributable to
22 significant efficiency investments that they have made,
23 but also a portion attributable to the decline in
24 natural gas prices.

25 **Q.** Do you know how much is attributable to the

1 increased efficiency of FPL's generating fleet as
2 compared to the decrease in the price of natural gas?

3 **A.** For that overall percentage, no. Although,
4 there are some numbers in Ms. Deaton's testimony that
5 will allow you to isolate it for the efficiency benefits
6 of Canaveral. When the Canaveral facility comes
7 on-line, there are fuel savings and those fuel savings
8 reflect dollar-for-dollar the efficiency gains from that
9 unit and not change in the natural gas prices. So I'm
10 happy to do the math. It's in Ms. Deaton's testimony,
11 but they are significant.

12 **Q.** Do you know what the current price of natural
13 gas is?

14 **A.** Not to the penny. I know it is in the range
15 of \$3 an MMBtu.

16 **Q.** That's the number I'm familiar with. Do you
17 know what it was in June of 2008?

18 **A.** Not off the top of my head. I know it was
19 higher than \$3.

20 **Q.** I'll submit to you it was in the ballpark at
21 Henry Hub of 11 to \$12 a million.

22 **MS. CLARK:** Madam Chairman, I would just
23 object to Mr. Wright providing testimony. I mean, he
24 said what the price was, and the witness said that he
25 didn't know. It doesn't then give Mr. Wright the

1 latitude to testify.

2 **COMMISSIONER EDGAR:** Mr. Wright.

3 **MR. WRIGHT:** I asked him would he agree that
4 in 2008 the price was 11 or \$12 a million --

5 **COMMISSIONER EDGAR:** And he said no, or he
6 said he didn't know. Excuse me, he said he didn't know.

7 **BY MR. WRIGHT:**

8 **Q.** Okay. You said you don't know?

9 **A.** I don't know.

10 **Q.** Okay. Great. I'd like to ask you to look at
11 your Exhibit DWD-8.

12 **MS. CLARK:** I'm sorry, Mr. Wright, I didn't
13 hear that.

14 **MR. WRIGHT:** DWD-8.

15 **THE WITNESS:** Yes.

16 **BY MR. WRIGHT:**

17 **Q.** Do you see the big dip in January of 2010?

18 **A.** Yes, I do.

19 **Q.** Do you know why that occurred?

20 **A.** No, I don't know for certain. I assume it was
21 the outcome of a particular rate case or an adjustment,
22 but I do not know.

23 **Q.** Back to the discussion we were having a minute
24 ago about the decline in price from the 2006 to 2009
25 time period to current. Do you know whether FPL's base

1 rates declined during that time?

2 **A.** They did not based on -- I think there are
3 some figures in Ms. Deaton's testimony that has those
4 figure in there, although I'm not quite sure how much of
5 it includes the GBRA effect versus the base rate and how
6 those are separated out.

7 **Q.** Other than FPL's fuel cost-recovery clause
8 charge, do you know whether any of FPL's other
9 pass-through clause charges declined during that period?

10 **A.** No, I don't.

11 **MR. WRIGHT:** Thank you for your time, Dr.
12 DeRamus.

13 Thank you, Madam Chairman. That's all I have.

14 **COMMISSIONER EDGAR:** Thank you. Mr. Saporito.

15 **MR. SAPORITO:** Thank you, Madam, Chairman.

16 **CROSS EXAMINATION**

17 **BY MR. SAPORITO:**

18 **Q.** Hello. My name is Thomas Saporito. I'm here
19 pro se representing; I'm myself in this proceeding.

20 How are you?

21 **A.** Good. Thank you.

22 **Q.** With respect to your rebuttal testimony that
23 you gave here today, on Page 8, Lines 12 and 13, am I
24 correct in reading this that the median FPL residential
25 customer uses approximately 979 kilowatt hours per

1 month, is that correct?

2 A. That would be 969 kilowatt hours per month.

3 Q. But am I correct in reading Lines 12 and 13
4 that you state in your rebuttal that the median FPL
5 residential customers uses approximately 979 kilowatt
6 hour per month?

7 A. I believe that is what I corrected at the
8 opening of my testimony today.

9 Q. Oh. All right.

10 A. That was a typographical error. It's 969
11 throughout the text and in the charts and in the
12 exhibits.

13 Q. Okay. Thank you for that correction.

14 And would you agree with me that some of FPL's
15 residential customers actually consume more than 1,000
16 kilowatt hours per month?

17 A. Yes, some FPL residential consumers consume
18 more than 1,000 kilowatt hours per month on average.

19 Q. And would you agree with me that those FPL
20 residential customers would be impacted even more than
21 those who consume less than 1,000 kilowatt hours per
22 month, should FPL's rate case be approved by this
23 Commission?

24 A. In percentage terms, no. In dollar terms,
25 obviously yes. The higher your bill, the more you

1 consume, the greater you pay for your electricity. But,
2 yes, they are more affected in terms on a dollar term.
3 No, they are not more affected on a percentage term.

4 Q. All right. Thank you for that answer. And
5 referring to Page 8, Lines 15 and 16, of your rebuttal
6 testimony, am I correct in stating that it says there
7 that the median cost of electricity for FPL residential
8 customers on a daily basis is approximately \$3.45. Is
9 that correct?

10 A. That's right.

11 Q. Absent FPL's request to raise base rates in
12 this docket, what would be the median cost of
13 electricity for FPL residential customers on a daily
14 basis?

15 A. Well, as I said before, you can't -- I should
16 say I don't know is the answer, because the question
17 really is what are the fuel costs that they would be
18 exposed to. I did say before that ultimately the base
19 rate increase is inextricably linked with the fuel cost
20 savings that the customers are going to enjoy, so you
21 can do the math in terms of a reduction by
22 three percent, or multiply that number by -- or the
23 number in Ms. Deaton's testimony by .97, and that will
24 give you their rate, or the bill. But I don't think
25 that really reflects the actual bill they would be

1 exposed to, absent the investments that give rise to
2 those fuel cost savings.

3 Q. So am I to understand that you never performed
4 an analysis of this median cost for the FPL residential
5 customers, absent the Commission's approval of FPL's
6 rate case?

7 A. That's not quite right. I would say \$3.45 is
8 the figure in 2011 prior to any changes in fuel or base
9 rates, so that's is the actual daily cost last year.
10 But I did not do a separate analysis of the -- or
11 separate quantification of the base rate alone. If that
12 is what you are -- instead of the base rate and the fuel
13 cost combined.

14 Q. And on Page 9, Lines 1 through 4, am I correct
15 in reading that with regard to FPL's commercial
16 customers, the median FPL commercial customer consumes
17 approximately 179,000 kilowatt hours of electricity per
18 month. The median cost of electricity for FPL
19 commercial customers on a daily basis is approximately
20 525 -- it doesn't give a -- I guess that's kilowatt
21 hours, am I correct?

22 A. No, the median cost is \$525 daily. But,
23 again, with the caveat that these are the commercial
24 customers that are in my sample of customers --

25 **MR. SAPORITO:** Madam Chairman, I'm just asking

1 if I read that correctly. That's all I asked.

2 **COMMISSIONER EDGAR:** Did he read it correctly?

3 **THE WITNESS:** Not quite. He read the words
4 correctly, but not the meaning correctly.

5 **COMMISSIONER EDGAR:** Mr. Saporito.

6 **BY MR. SAPORITO:**

7 **Q.** Okay. Let me reread it just for clarity of
8 the record, and just tell me if this is correct, in your
9 rebuttal testimony, if what I am reflecting here is
10 correct. With regard to FPL's commercial customers, the
11 median FPL commercial customer consumes approximately
12 179,000 kilowatt hours of electricity per month. The
13 median cost of electricity for FPL commercial customers
14 on a daily basis is approximately \$525. Is that correct
15 as I read it?

16 **A.** That is correct as you read that portion of
17 the testimony, yes.

18 **Q.** Thank you. Absent FPL's request to raise base
19 rates in this docket, what will be the median cost of
20 electricity for FPL commercial customers on a daily
21 basis?

22 **A.** I don't have that figure in front of me. I
23 don't know.

24 **Q.** And so am I to understand your testimony that
25 you never performed this analysis for this docket?

1 **A.** As I stated before, I did analyze the data
2 that I presented in Ms. Deaton's testimony, and there
3 she provides -- she breaks out the impact of the base
4 rate increase alone and the fuel cost savings. And
5 there are data in there with regard to the commercial
6 customer bills for various rate classes as of
7 January 2012. My data are in there for January 2011,
8 but I didn't have a separate number that says this is
9 the amount of FPL commercial customer bills that would
10 be paid, absent the base rate increase.

11 **Q.** So your answer is no, you didn't perform that
12 analysis?

13 **A.** No, my answer is I analyzed many of these
14 individual pieces of data, but I did not compute a
15 number, if that's what you're asking.

16 **Q.** Okay. I would point you to Page 9, Lines
17 20 to 23 of your testimony. Am I correct in reading
18 that if FPL's base rate increase is fully approved this
19 would translate into increased electricity costs in the
20 range of \$3 to \$6 daily for pharmacies, \$21 to \$33 daily
21 for supermarkets, \$11 to \$36 daily for department
22 stores, \$15 to \$60 daily for, quote, unquote, big-box
23 retailers, and \$32 to \$476 daily for hospitals, did I
24 read that correct?

25 **A.** Yes, you read that portion of my testimony

1 correctly.

2 Q. Would you agree with me that if those costs
3 would be passed on to FPL residential customers to some
4 degree, it would be a negative impact on those
5 customers?

6 MR. RAPPOLT: Madam Chairperson?

7 COMMISSIONER EDGAR: Sir?

8 MR. RAPPOLT: I need to object to this
9 question. I think this goes beyond the scope of this
10 proceeding as we have discussed it.

11 COMMISSIONER EDGAR: Ms. Clark.

12 MS. CLARK: My comment is he is simply asking
13 questions to reiterate what is already in the record in
14 the testimony, and given the late hour, I don't -- I
15 think it's unnecessary cross-examination.

16 MR. SAPORITO: Madam Chairman, he is
17 representing himself as an expert --

18 COMMISSIONER EDGAR: Mr. Saporito.

19 MR. SAPORITO: Yes, ma'am.

20 COMMISSIONER EDGAR: Mr. Saporito, I agree
21 with Ms. Clark in this instance. I don't think it is
22 necessary for you to read the statements that are before
23 us and then ask him to confirm that you have read the
24 statements before us. So, please, if you need to point
25 him to something in his testimony, you can say at Page

1 9, Line 6, and ask your question, and I think that might
2 help us move along.

3 **MR. SAPORITO:** Absolutely.

4 **BY MR. SAPORITO:**

5 Q. With respect to Page 9, Lines 20 to 23 of your
6 prefiled testimony, would you agree with me that if any
7 portion of those costs that you describe there are
8 passed on to the FPL residential customer, would you
9 agree with me that would be a negative impact on those
10 customers?

11 **MR. RAPPOLT:** Madam Chairperson, this is
12 beyond the scope of his testimony.

13 **MR. SAPORITO:** He's here to testify about the
14 impact on residential customers.

15 **COMMISSIONER EDGAR:** Whoa, whoa, whoa. A
16 little latitude.

17 Mr. Saporito, about how many more questions do
18 you have for this witness?

19 **MR. SAPORITO:** Nine.

20 **COMMISSIONER EDGAR:** Okay. I'm going to
21 overrule the objection, as much as I may wish to do
22 otherwise, because I do believe that the witness has
23 testified as to, from his expert opinion, potential
24 impacts on customers. And I think that that is kind of
25 where Mr. Saporito is, if I understand correctly.

1 So, Mr. Saporito, you had asked the question,
2 I believe. Have you answered the question?

3 **THE WITNESS:** I'm sorry, have I answered the
4 question?

5 **COMMISSIONER EDGAR:** Uh-huh, with a yes or a
6 no, if you can.

7 **THE WITNESS:** I'm sorry, I believe I had
8 answered it in response to an earlier question, but --

9 **COMMISSIONER EDGAR:** Okay. Mr. Saporito.

10 **MR. SAPORITO:** I didn't hear an answer.

11 **BY MR. SAPORITO:**

12 **Q.** Can you answer it yes or no, it will have a
13 negative impact on FPL residential customers?

14 **A.** Unfortunately, that's not a yes or no answer.
15 There is a -- as I mentioned earlier, customers
16 certainly prefer to pay less than pay more for any good
17 or service. There are other benefits that customers
18 receive as a result of FPL's investments in the base
19 rates that they pay, namely the lowest bill in the
20 state, the fuel efficiency benefits that we described
21 before, in addition to employment benefits and other
22 things.

23 **MR. SAPORITO:** Ma'am, I know we are getting --

24 **COMMISSIONER EDGAR:** Okay. Thank you. Next
25 question.

1 **BY MR. SAPORITO:**

2 Q. Would you agree with me that absent FPL's rate
3 case in this docket, commercial businesses would have
4 more resources to hire?

5 **COMMISSIONER EDGAR:** Yes, no, or I don't know.

6 **THE WITNESS:** I would say that is not a yes or
7 no question.

8 **BY MR. SAPORITO:**

9 Q. So you can't answer it as an expert?

10 A. I can answer it, it's just not a yes or no
11 answer.

12 Q. Well, can you give me a short version of your
13 answer?

14 **COMMISSIONER EDGAR:** All right. You asked for
15 it. Please try to be concise.

16 **THE WITNESS:** Certainly. I would say that it
17 would be a mistake to consider the amount of
18 expenditures that a commercial customer makes as being a
19 fixed budget, particularly with regard to electricity
20 expenditures. There are ways in which they could have
21 efficiency savings. It's not kind of a one-for-one,
22 either/or kind of proposition with regard to electricity
23 rates versus hiring, for example. And, in addition,
24 there are the significant benefits that commercial
25 customers receive from the dollars that FPL spends, the

1 \$9 billion of capital improvements that FPL spends,
2 which in turn generates income for customers, who in
3 turn go in and buy goods and services at these stores,
4 which in turn --

5 **COMMISSIONER EDGAR:** Okay. I think you have
6 gone beyond. So, Mr. Saporito.

7 **MR. SAPORITO:** Thank you, Madam Chairman.

8 **BY MR. SAPORITO:**

9 **Q.** Would you agree with me that absent FPL's rate
10 case in this docket, FPL residential customers would
11 have more disposable income to spend, yes or no?

12 **MS. CLARK:** Madam Chairman, I believe this has
13 been asked and answered.

14 **COMMISSIONER EDGAR:** I agree.

15 Mr. Saporito, next question.

16 **BY MR. SAPORITO:**

17 **Q.** Would you agree with me that greater spending
18 by FPL residential customers would benefit Florida's
19 economy?

20 **A.** All else equal, yes, I agree.

21 **Q.** And you testified briefly in some areas about
22 FPL's natural gas plants and their efficiency, do you
23 recall?

24 **A.** Yes.

25 **Q.** Would you agree with me that for an example,

1 FPL's Cape Canaveral natural gas plant, which is
2 suspected to come into service shortly, once that comes
3 into service it's operated at the best efficiency
4 possible by FPL, is that not so?

5 **A.** Again, unfortunately that's not a yes or no
6 answer. Not by virtue of its existence does it mean it
7 is necessarily operated at its highest efficiency.
8 There are ongoing investments that are required and
9 activities required to maintain it at that high level of
10 efficiency. I would expect FPL to continue to make
11 those efforts to achieve as high a level of efficiency
12 as they could obtain.

13 **Q.** Okay. Would you agree with me that as natural
14 gas prices increase, FPL customer bills will increase in
15 kind?

16 **MS. CLARK:** Madam Chairman, I think --

17 **COMMISSIONER EDGAR:** Ms. Clark.

18 **MS. CLARK:** -- this question has been asked
19 and answered in a variety of ways.

20 **COMMISSIONER EDGAR:** I agree.

21 Mr. Saporito.

22 **MR. SAPORITO:** My last question, Madam
23 Chairman.

24 **COMMISSIONER EDGAR:** Thank you.

25

1 **BY MR. SAPORITO:**

2 Q. Would you agree with me that the military
3 bases that are established here in Florida, should this
4 Commission approve FPL's rate case in this docket, it
5 would result in an increase in those military bases'
6 budgets?

7 **MS. CLARK:** Again, Madam Chairman, I believe
8 that was covered by Captain Miller.

9 **COMMISSIONER EDGAR:** Sort of. So can you
10 answer the question?

11 **THE WITNESS:** I can answer the question
12 with -- I believe it was a -- sorry. I think it was a
13 no question, an answer to which I can respond no. I
14 don't know that the proposed rate increase would
15 necessarily increase their budget, because it depends on
16 how they respond to those rate increases in terms of
17 their consumption.

18 **MR. SAPORITO:** Thank you for your testimony.
19 And thank you, Madam Chairman.

20 **COMMISSIONER EDGAR:** Thank you.
21 Mr. Hendricks.

22 **MR. HENDRICKS:** Regretfully, I'll have to ask
23 you a couple of questions in spite of the late hour.

24 **CROSS EXAMINATION**

25

1 **BY MR. HENDRICKS:**

2 Q. Good afternoon.

3 A. Good afternoon.

4 Q. I guess first I'd like to direct your
5 attention to your chart, which is right behind you, the
6 CPI chart. I guess when I first saw that I thought, you
7 know, maybe I had stepped into an Al Gore climate change
8 presentation. But, seriously, I was wondering did you
9 consider making that chart on a somewhat shorter time
10 frame? It's a little misleading, I thought, because
11 we're talking about a rate hearing, a rate increase, and
12 generally those are considered on a five or ten year or
13 three-year time frame, not a 30-year time frame.

14 **MS. CLARK:** Madam Chairman.

15 **COMMISSIONER EDGAR:** Mr. Hendricks, you are
16 awfully close to testifying, so if would you pose a
17 question.

18 **MR. HENDRICKS:** I apologize.

19 **COMMISSIONER EDGAR:** Thank you.

20 **BY COMMISSIONER EDGAR:**

21 Q. Did you consider preparing this chart with a
22 shorter time frame to show things more clearly?

23 A. No. I thought the long-term was the
24 appropriate time frame to consider, but I also did do
25 various computations of shorter time periods, and I have

1 those in my testimony.

2 Q. Did you also consider looking at things other
3 than just the CPI information?

4 A. Well, I do have the individual components of
5 the CPI, medical, food, and gasoline, for example. I
6 did feel that that was representative.

7 Q. Do you think that this chart might be more
8 productive if you had some things like the unemployment
9 rate, or the income growth, or lack of income growth in
10 the lower tiers of earners? We're talking about sizing,
11 sizing the impact if that will help you a little bit.

12 A. I guess I don't quite get the direction you're
13 going. I thought this was a relevant comparison of
14 prices of electricity relative to changes in prices of
15 other goods and services. I wouldn't -- if that is the
16 narrow focus of the analysis, then you don't want to
17 throw in other factors like unemployment. It kind of
18 muddies the water.

19 Q. Okay. Since you characterize the impact of
20 this increase as being moderate, I believe, would not
21 moderate be dependent on the actual disposable income
22 that particularly the lower tier of people have at their
23 disposal to pay this increase?

24 A. Well, that certainly could be another
25 analysis. I would say that would be a separate

1 analysis, and that's one of the reason why I look at the
2 entire distribution of incomes. I know what the
3 statistics are for the income of different quintiles of
4 the population, and I have looked at the percentages of
5 income that goes towards electricity across different
6 quintiles of income, but that is distinct from the
7 question of how do electricity prices compare to the
8 prices of other goods and services over time. They are
9 distinct questions.

10 Q. Right. But it's not distinct, is it, from the
11 impact of the increase on particular categories of
12 people?

13 MS. CLARK: Madam Chairman, I think this
14 question, likewise, has been asked and answered.

15 COMMISSIONER EDGAR: I agree.

16 MR. HENDRICKS: Very well.

17 BY MR. HENDRICKS:

18 Q. You mentioned that you had seen the testimony
19 of some of the earlier witnesses?

20 A. Yes, I have.

21 Q. Did you happen to see Mr. Barrett's testimony?

22 A. I did see portions of it, yes.

23 Q. Okay. I don't know exactly what the right
24 protocol is to bring this up, but Mr. Barrett had a
25 chart that was REB-6 that he presented.

1 **COMMISSIONER EDGAR:** Would you like to ask
2 this witness a question about that chart?

3 **MR. HENDRICKS:** Yes, I would.

4 **COMMISSIONER EDGAR:** Okay. We will allow and
5 see where that takes us. Can you give a copy to the
6 witness?

7 And, Ms. Clark, I assume that you would have
8 that available to you?

9 **MS. CLARK:** If you will give me a minute.

10 **MR. HENDRICKS:** And this was not a prepared
11 question.

12 **COMMISSIONER EDGAR:** A touch of latitude
13 considering. Mr. Hendricks, give Ms. Clark just a
14 moment.

15 **MR. HENDRICKS:** That chart -- it's okay, I
16 think I know.

17 **COMMISSIONER EDGAR:** Okay. Go ahead.

18 **BY MR. HENDRICKS:**

19 **Q.** That is a chart from Mr. Barrett's
20 presentation where he explained the components of the
21 increase from 2012 to 2013. A famous chart, because I
22 asked him a question about it in his testimony, and he
23 explained it at length.

24 The reason I asked you if you had seen that is
25 that you made a comment a little earlier about the costs

1 of the fuel can't be separated from the other elements
2 of cost, because the investments that enable the fuel
3 costs to be lower were being paid for with the increase,
4 is that correct?

5 **A.** I think I clarified that they were being paid
6 for by the sum total of investments that underlie the
7 base rate request. You are effectively seeing the tip
8 of the iceberg. There is a total revenue requirement
9 and there is a lot of investment activity underlying
10 that requirement.

11 **Q.** All right. You will notice if you take a
12 look, though, at Mr. Barrett's chart, over 50 percent of
13 the increase is for surplus depreciation. And the
14 amount for an actual capital investment in this new
15 gas-fired power plant is a much smaller percentage. Is
16 that true?

17 **A.** If you're asking me to compare the
18 \$174 million for Cape Canaveral relative to the \$367 for
19 surplus depreciation, I will agree it is approximately
20 half of that number, but --

21 **Q.** Does that suggest to you that the statement
22 that the two can't be separated might be questionable?

23 **A.** Not at all. For one, I started with Cape
24 Canaveral, because I did think that is the easily
25 identifiable case in which you see simultaneously a base

1 rate increase request and fuel cost reduction everything
2 else equal. The only thing that's different is plugging
3 in Cape Canaveral. So you see bottom line fuel benefits
4 to customers that are only there as a result of that
5 investment.

6 Q. Excuse me. But we weren't -- I didn't mean to
7 interrupt you. Go ahead.

8 A. So that's why I said this is a two-step
9 process. That is the only portion where I can clearly
10 identify specific investment and specific fuel cost
11 savings. In the other area, these are prepared at a
12 fairly aggregate level, and there are other portions of
13 his testimony where he does describe additional capital
14 investment. It is also in Ms. Kennedy's testimony where
15 she has something like \$100 million of additional
16 capital expenditures in 2013 as a result of this CT hot
17 gas project. That, again, is a positive --

18 Q. Right, there were other projects. There were
19 other projects?

20 A. I'm sorry?

21 Q. There were other projects. Mr. Bartlett's
22 (sic) referred us to the breakdown that you're looking
23 at right now?

24 MS. CLARK: Madam Chairman.

25 MR. HENDRICKS: I would beat this one to

1 death.

2 **COMMISSIONER EDGAR:** We were getting close to
3 that.

4 Mr. Hendricks, do you have any prepared
5 questions that you had?

6 **MR. HENDRICKS:** Yes, I have one more.

7 **COMMISSIONER EDGAR:** Okay.

8 **BY MR. HENDRICKS:**

9 Q. You indicated that you did not have any
10 information available about the cost increases without
11 the fuel charges included, is that correct?

12 A. No. I think I referred back to Ms. Deaton's
13 testimony where she had a breakout of the base rate
14 increase --

15 Q. I'm sorry, that wasn't what I tried to ask
16 you.

17 A. Okay.

18 **MS. CLARK:** Madam Chairman, I would ask that
19 he not interrupt the --

20 **MR. HENDRICKS:** I'm sorry.

21 **COMMISSIONER EDGAR:** That's okay. We will
22 work through it very quickly.

23 Mr. Hendricks, I'm not sure the witness
24 understood your question, and I'm not sure I did either,
25 so think about it for a moment and then --

1 **MR. HENDRICKS:** That was what I was trying to
2 clarify.

3 **COMMISSIONER EDGAR:** Okay. Then go ahead and
4 ask.

5 **MR. HENDRICKS:** It was not to interrupt him.
6 I was trying to clarify the question.

7 **COMMISSIONER EDGAR:** I understand.

8 **MR. HENDRICKS:** Because I thought he didn't
9 understand it.

10 **BY MR. HENDRICKS:**

11 **Q.** All of the charts that you prepared in your
12 analysis that you discussed with us here today included
13 the fuel savings, is that correct?

14 **A.** Yes. The ones that describe the impact of the
15 base rate increase or net of the fuel savings, yes.

16 **Q.** And in this case, do you agree that the fuel
17 savings are based on an estimate, a forecast rather than
18 a commitment?

19 **A.** Yes, they are largely based on a forecast.
20 And as I mentioned before, the forecast that I am
21 relying on is the initial computations that Ms. Deaton
22 did in her initial testimony submitted back in March.

23 **Q.** Right. So in one case we have the base rate
24 increase, which is a fixed amount that is agreed to,
25 that FPL is requesting here; and in the case of the fuel

1 savings, it's a projection that is based on forecasts,
2 is that correct?

3 **A.** Yes, I would say the numbers that are
4 underlying this are based on a forecast, although I did
5 describe earlier how efficiency savings are there
6 regardless of where fuel goes. But there is either a
7 displacement effect or there is a pure efficiency
8 effect. I know which way that there are savings from
9 efficiency.

10 **COMMISSIONER EDGAR:** Okay. I do think we are
11 covering ground that has been covered a great deal --

12 **MR. HENDRICKS:** Well, if you will --

13 **COMMISSIONER EDGAR:** So my to you is ask the
14 question that you are trying to get to, please.

15 **BY MR. HENDRICKS:**

16 **Q.** Given that you have only prepared and
17 presented to us an analysis based on the combination of
18 these two factors, does that tell us anything at all
19 about whether the increase in the base rate should be
20 tied to the fuel forecast so that the rates would
21 actually not exceed the combined rate with the fuel
22 forecast? Because in one case we have a risk, and in
23 the other case we don't?

24 **A.** If you are asking me whether it is appropriate
25 to consider base rates and fuel cost savings in the same

1 package, even if the fuel cost savings are based on an
2 estimate and the capital costs or the base rate costs
3 are known with some greater certainty, then I would say
4 yes, you still need to consider it on a combined basis.
5 That is what -- customers experience a single bill, a
6 combined bill that has both fuel and capital cost
7 savings, and those fuel savings are very real. They are
8 significant efficiency improvement that customers
9 benefit from every day.

10 Q. But let me pose to you that those are not
11 guaranteed. The base rate increase is guaranteed, is
12 that correct? One is a risk and the other is not.

13 A. I agree that there are variances associated
14 with that estimate of fuel savings. But as I also said
15 before, I know which direction to this. I know that
16 regardless of which direction in fuel costs, in natural
17 gas prices, that there are going to be significant
18 bottom line dollar savings to customers.

19 **COMMISSIONER EDGAR:** Okay. Thank you.

20 **MR. HENDRICKS:** I'm done.

21 **COMMISSIONER EDGAR:** Staff.

22 **MR. HARRIS:** We have no questions.

23 **COMMISSIONER EDGAR:** Commissioners?

24 Redirect.

25 **MS. CLARK:** Very briefly, Madam Chairman.

REDIRECT EXAMINATION

1
2 **BY MS. CLARK:**

3 Q. You had a question from Mr. Wright concerning
4 Wal-Mart. Do you know what the annual revenues of
5 Wal-Mart are? It doesn't come to you quickly?

6 A. No, the number doesn't come to mind. I know
7 it's in the multiple billions, but I don't recall
8 exactly how many billions it is.

9 Q. All right. Moving on. With regard to the
10 questions you were asked by Captain Miller, how do FPL's
11 bills compare in Florida to other regions where the Air
12 Force has bases?

13 A. They are considerably lower than other --

14 **MR. MOYLE:** I'm going to object. He doesn't
15 have anything in his testimony looking, I don't believe,
16 at military base bills in other regions.

17 **CAPTAIN MILLER:** And I'm going to renew the
18 objection based on the fact that he didn't seem to how
19 Patrick's bills compared to hospitals in Southern
20 Florida, so I would say that any testimony he gives on
21 Air Force base bills throughout the country is merely
22 speculative.

23 **MR. SAPORITO:** I would join the objection,
24 because it's not relevant to the Air Force bases in
25 Florida. Who cares what Air Force bases are in

1 Mississippi?

2 **MS. CLARK:** Madam Chairman, I think it does
3 tie to the cross-examination by Captain Miller in the
4 sense that he was asking about the impact on bases in
5 Florida.

6 **COMMISSIONER EDGAR:** Ms. Clark, ask your
7 question. I will allow. Ask your question to the
8 witness. If you can answer it, do; and if you can't,
9 just say you can't.

10 **THE WITNESS:** Certainly.

11 **MS. CLARK:** Okay.

12 **BY MS. CLARK:**

13 **Q.** How do FPL's bills compare to other regions
14 where the Air Force maintains bases, if you know?

15 **A.** On an equivalent basis they would be lower. I
16 have examined the rates for all utilities in Florida,
17 and given where FPL's rates are relative to those other
18 utilities, not only for residential customers, but also
19 commercial and industrial customers, I would expect
20 those bills, the bills for customers for the facilities
21 in the FPL service territory to be less on a comparable
22 basis than other bases in Florida.

23 **COMMISSIONER EDGAR:** Ms. Clark.

24 **MS. CLARK:** I have one more question.
25

1 **BY MS. CLARK:**

2 Q. You remember that in your testimony and in
3 answer to Mr. Moyle's questions about the impacts being
4 ten cents a day. My question to you was what vintage
5 did that figure come from? Are there more recent fuel
6 forecasts that change that figure, that ten cents a day
7 either up or down?

8 A. Yes. That was based on applying the
9 percentage increase that Ms. Deaton derived in her
10 initial testimony, the three percent increase to 2011
11 customer bills. So I looked at actual customer bills.
12 That's is where the \$3.45 per day residential bill came
13 from.

14 Those bills have declined significantly since
15 that time period, and so have some of the inputs in Ms.
16 Deaton's testimony as evident in some of other
17 subsequent submissions. So that impact on residential
18 bills is actually less using that more recent
19 information.

20 **MS. CLARK:** Madam Chairman, that's all I have.

21 **COMMISSIONER EDGAR:** Thank you.

22 Exhibits? I have 415 through 434.

23 **MS. CLARK:** That's correct. Thank you.

24 **COMMISSIONER EDGAR:** Okay. Seeing no
25 objection, 415 through 434 are admitted into the record.

1 (Exhibit Number 415 through 434 admitted into
2 the record.)

3 **COMMISSIONER EDGAR:** I don't believe we had
4 any other exhibits for this witness.

5 **MS. CLARK:** May this witness be excused?

6 **COMMISSIONER EDGAR:** The witness is excused.
7 Thank you very much.

8 **THE WITNESS:** Thank you.

9 **COMMISSIONER EDGAR:** Good evening.

10 Chairman Brisé.

11 **CHAIRMAN BRISÉ:** Thank you, Chairwoman Edgar.
12 It has been a long day. Thank you for
13 motoring on with us today. Tomorrow we begin at 9:00
14 a.m. If we go till 9:00 p.m., that gives us ten hours
15 of testimony. If we go to 10:00 p.m., it gives us
16 twelve hours. If we go till 11:00 p.m., it gives us
17 thirteen hours. If we go till midnight, it gives us
18 fourteen hours. I'm just saying that so that we govern
19 ourselves accordingly. We know that everyone has
20 questions and all of that, but we need to be mindful as
21 to managing our time appropriately. We will be pretty
22 strict tomorrow on duplicative questions and things of
23 that nature, because we are trying to make sure that we
24 wrap this process up.

25 Mr. Saporito.

1 **MR. SAPORITO:** Mr. Chairman, I would really
2 appreciate it if the Chair, with respect to tomorrow's
3 schedule as you just outlined, I would really appreciate
4 if the Chair would allocate dinner time in that schedule
5 because --

6 **CHAIRMAN BRISÉ:** That's why we have -- rather
7 than 9:00 till midnight being like fifteen hours,
8 there's two hours deducted from there. So you have an
9 hour for lunch -- like we did last week, we had an hour
10 for lunch, and then we took an hour for dinner. Okay.
11 So we will allocate that tomorrow accordingly, as well.
12 So thank you very much.

13 **MR. YOUNG:** Mr. Chairman. Mr. Chairman.

14 **CHAIRMAN BRISÉ:** Yes, sir.

15 **MR. YOUNG:** I'm sorry for holding it up.

16 **CHAIRMAN BRISÉ:** FEA, right?

17 **MR. YOUNG:** FEA.

18 **CHAIRMAN BRISÉ:** Thank you.

19 **CAPTAIN MILLER:** For the parties tomorrow who
20 don't have any questions remaining who need to travel,
21 we'd ask permission that we be excused at a reasonable
22 time, say around dinner time, if we don't have any
23 questions remaining.

24 **COMMISSIONER EDGAR:** That works fine with me,
25 if there are no objections from any of the other

1 parties.

2 **MR. LITCHFIELD:** None from FPL.

3 **CHAIRMAN BRISÉ:** Okay. I'm seeing head nods
4 that that is okay across the board.

5 **CAPTAIN MILLER:** Thank you.

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

7 Have a good night's rest, because I'm sure we
8 will have a long day tomorrow.

9 (The hearing adjourned at 7:01 p.m.)

10 (Transcript continues in sequence with
11 Volume 28.)

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STATE OF FLORIDA)

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COUNTY OF LEON)

CERTIFICATE OF REPORTER

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

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

DATED THIS 4th day of September, 2012.



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