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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

FILED OCT 08, 2014
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FPSC - COMMISSION CLERK

In the Matter of:

DOCKET NO. 130223-EI

PETITION FOR APPROVAL OF
OPTIONAL NON-STANDARD METER
RIDER, BY FLORIDA POWER &
LIGHT COMPANY.

_____ /

VOLUME 2

Pages 168 through 388

PROCEEDINGS: HEARING

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

TIME: Commenced at 1:40 p.m.
Concluded at 5:45 p.m.

DATE: Tuesday, September 30, 2014

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

REPORTED BY: MICHELLE SUBIA, RPR
Notary Public in and for
the State of Florida
at Large

APPEARANCES: (As heretofore noted.)

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

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

4 CHAIRMAN GRAHAM: All right. Mr. Skop, I
5 believe you have the mic.

6 MR. REHWINKEL: Mr. Chairman, before Mr. Skop
7 goes, might I take care of one administrative
8 detail?

9 CHAIRMAN GRAHAM: Yes.

10 MR. REHWINKEL: For the clarity of the record,
11 when I was crossing Mr. Onsgard about the order, I
12 don't think we identified the number of the order.
13 Would you mind if I asked him two questions from
14 this order?

15 CHAIRMAN GRAHAM: About which order?

16 MR. REHWINKEL: It was the order we passed out
17 that we did not give an exhibit number to. It's an
18 order denying the tariff. It's Order 14-0036.

19 CHAIRMAN GRAHAM: Okay. I got that.

20 MR. REHWINKEL: Okay. And I just wanted, just
21 for clarity of the record, Mr. Onsgard to
22 acknowledge that that's the number of the order
23 that he answered the questions from.

24 CHAIRMAN GRAHAM: Tell you what, let's take
25 care of that when we circle back around.

1 MR. REHWINKEL: Very good.

2 CHAIRMAN GRAHAM: Okay. Just remind we as
3 we're entering everything.

4 MR. REHWINKEL: Thank you.

5 CHAIRMAN GRAHAM: Mr. Skop.

6 MR. SKOP: Thank you, Mr. Chairman.

7 CROSS EXAMINATION

8 BY MR. SKOP:

9 Q Good afternoon, Mr. Onsgard.

10 A Good afternoon.

11 Q I just want to spend a few minutes talking
12 about the costs, the assumptions, and your testimony
13 related to the NSMR tariff. And I'm not feeling well
14 today, I definitely have a very sore throat, so in the
15 interest of time for the Commission, I'll try and make
16 this as brief as possible.

17 During your direct and rebuttal testimony
18 today, you indicated that FPL has approximately
19 4.5 million customers; is that correct?

20 A Approximately, yes.

21 Q Okay. And would you agree that traditionally
22 the cost to read meters has been included within base
23 rates?

24 A I would.

25 Q Okay. And would you happen to know the useful

1 life of the analogue meters that were replaced by smart
2 meters?

3 A I believe they were 40 years.

4 Q Okay. Thank you.

5 And you indicated that you did not participate
6 in the preparation of the 2009 rate case, correct?

7 A That is correct.

8 Q All right. Are you aware that in that rate
9 case, however, FPL Witness Santos identified that
10 beginning in 2013 the net O&M savings from the AMI
11 program would exceed \$30 million annually?

12 MR. RUBIN: Mr. Chairman, I object to this
13 question into what I presume to be a line of
14 questioning. In this case, in the prehearing
15 stages, the Prehearing Officer entered orders which
16 very clearly defined the scope of this hearing.
17 One of the items that we are not here to litigate,
18 because of the Doctrine of Administrative
19 Finality -- it's the law of this case and it's the
20 law that the Commission follows -- we are not here
21 to re-litigate the prudence of the smart meter
22 deployment which was decided by the Commission
23 quite a long time ago. And the kind of questions
24 that -- particularly the question that we just
25 heard and the line of questions that I anticipate,

1 all relate to essentially questioning the
2 Commission's determination back in 2009 and '10 of
3 the prudence of this project.

4 MR. SKOP: Mr. Chair, may I be heard?

5 CHAIRMAN GRAHAM: Yes.

6 MR. SKOP: With all due respect, I don't think
7 that's a correct characterization of the line of
8 questioning. I think the witness made a couple of
9 inconsistent statements, and I'm trying to flesh
10 that out. I have no desire to get into the
11 prudence. I was on the Commission at the time it
12 was approved so I'm aware of the prudence of that
13 decision.

14 But if I could have a little latitude, I
15 would respectfully request to ask a couple of
16 continuation questions and I'll move on.

17 CHAIRMAN GRAHAM: Sure.

18 MR. SKOP: I don't think it will be long.

19 CHAIRMAN GRAHAM: That's fine.

20 MR. SKOP: All right. Thank you.

21 BY MR. SKOP:

22 Q So going back again, Mr. Onsgard, are you
23 aware that in the 2009 rate case that FPL Witness Santos
24 testified that beginning in 2013 the net O&M savings
25 from the AMI program would exceed \$30 million annually?

1 A I am.

2 **Q And would you agree that FPL has not yet**
3 **achieved those savings?**

4 A I would agree.

5 **Q Okay.**

6 MR. SKOP: And, again, this goes to my point,
7 Mr. Chairman, about some statements made by the
8 witness, so I want to kind of flesh this out.

9 BY MR. SKOP:

10 **Q During your rebuttal testimony and in response**
11 **to a question asked by Mr. Jacobs, you indicated that**
12 **you were confident that the correct numbers were used to**
13 **develop the NSMR cost, correct?**

14 A I'm confident that our assumptions are well
15 examined and researched and are appropriate for setting
16 a setpoint for this process, yes.

17 **Q And in your opinion, do you know whether this**
18 **same level of confidence or whether this was the same**
19 **level of confidence that FPL Witness Santos had in**
20 **projecting the cost savings that never materialized?**

21 MR. RUBIN: Mr. Chairman, I object. We're
22 going right back to the rate case now and the
23 testimony offered by Witness Santos back in 2009
24 and this Commission's decision based upon her
25 testimony in the entire case that was tried at that

1 time.

2 MR. SKOP: Mr. Chair, it goes to the
3 credibility of the witness. FPL is arguing that in
4 one instance they would never communicate costs or
5 information to the customers and that they have a
6 high level of confidence, yet I'm merely pointing
7 out another instance where the exact opposite is
8 true and in furtherance allowing the Commission to
9 weigh the evidence before them.

10 CHAIRMAN GRAHAM: Mary Anne.

11 MS. HELTON: Impeachment questions are
12 permissible, but I'm struggling a little bit
13 because it seems like he's trying to impeach the
14 witness using testimony from a different witness
15 other than Mr. Onsgard.

16 CHAIRMAN GRAHAM: Onsgard.

17 MS. HELTON: I'm sorry, I'm not sure how to
18 pronounce your name. The witness's prior
19 testimony. So could I hear the question one more
20 time, Mr. Chairman?

21 MR. SKOP: Yes, Mr. Chairman. And for
22 Ms. Helton's clarification, what I'm trying to do
23 is flesh out the inconsistent logic that I heard
24 from the witness in terms of the statements made.
25 But the question is -- and I can proffer these and

1 proffer the response if the objection is
2 overruled -- but the first question would be during
3 your rebuttal testimony and in response to a
4 question asked by Mr. Jacobs, you indicated that
5 you were confident that the correct numbers were
6 used to develop the NSMR cost, correct? And the
7 follow-up to that was do you know whether this same
8 level of confidence -- that this was the same level
9 of confidence that FPL Witness Santos had in
10 projecting cost savings that never materialized?
11 It gets down to the quality and the accuracy of the
12 information that FPL provides the Commission and
13 the assertions made before it.

14 MS. HELTON: It seems to me he's asking for
15 this witness to get into the mind of a former FPL
16 witness's testimony, and I'm not sure that that's
17 appropriate, Mr. Chairman.

18 CHAIRMAN GRAHAM: I guess I'm trying to
19 understand if he's trying to get into Santos' mind
20 or trying to get into the mindset of Florida Power
21 & Light as a whole.

22 MR. SKOP: I'm trying to understand the level
23 of confidence. Again, we've heard that there's a
24 high level of confidence, but we've heard that
25 before. And so, again, I'm trying to understand

1 the level of confidence in terms of what was
2 previously communicated to the Commission versus
3 what the witness testified to.

4 And the second part, if I may -- and, again,
5 I can proffer this, if necessary -- the witness
6 stated that it was not appropriate to communicate
7 the cost to customers until they could be
8 quantified, but yet FPL had no qualms about
9 communicating projected savings.

10 CHAIRMAN GRAHAM: We'll continue down this
11 path. Keep your finger on the button.

12 Go ahead.

13 MR. SKOP: All right. Thank you,

14 Mr. Chairman.

15 BY MR. SKOP:

16 Q Again, just in your opinion, Mr. Onsgard --
17 and if you don't know, you can say that you don't
18 know -- but do you know whether this was the same level
19 of confidence that FPL Witness Santos had in projecting
20 the cost savings that never materialized?

21 A I know that the projection of cost savings is
22 a much more complicated issue with a four-year
23 deployment. I also know that there was some delays in
24 getting the smart meters deployed and activated.

25 I addressed earlier in my testimony how we

1 were very intentional about the activation of the smart
2 meters. And there have been some delays in the
3 recognition of the savings, but I'm not here to testify
4 to the level of those savings. I am here to testify in
5 the confidence that I have in these NSMR costs.

6 **Q Thank you.**

7 MR. SKOP: And I'll just proceed. I'll make
8 this brief. And if there's an objection, I'll just
9 move on.

10 BY MR. SKOP:

11 **Q But during your rebuttal testimony and in**
12 **response to a question asked by Mr. Jacobs, you also**
13 **indicated that it was not appropriate for FPL to**
14 **communicate cost to customers until they could be**
15 **quantified, correct?**

16 A I also said that it wasn't appropriate to
17 communicate costs to customers until they have been
18 approved by this Commission.

19 **Q Okay. Do you know or do you have an**
20 **explanation why FPL would communicate savings on the**
21 **flip side of that to this Commission?**

22 A I'm not here to testify about that.

23 **Q All right. Thank you.**

24 **If I could ask you to turn back briefly to**
25 **what's been marked for identification purposes as**

1 **Exhibit 19.**

2 A I might not have kept up on the numbers. If
3 you could help me with --

4 Q Yes. It's what's been identified as the FPL
5 postcard notice for smart meter installation that was, I
6 think, proffered by Mr. Jacobs.

7 A It's this?

8 Q Yes.

9 A Thank you.

10 Q With respect to the information on this
11 card -- and I trust that you've had an opportunity to
12 review it -- has FPL experienced delays and problems
13 with smart meter deployment?

14 A Please ask the question one more time.

15 Q Yes. Has FPL experienced delays and problems
16 with smart meter deployment?

17 A We experienced some delays in the activation.
18 We actually had an acceleration in our deployment above
19 our plan, so I think that would suffice my answer.

20 Q Thank you.

21 And Honeywell is mentioned as an approved
22 contractor on this document. Do you know if Honeywell
23 is still installing smart meters for Florida Power &
24 Light?

25 A I do not believe they are still installing

1 smart meters, no.

2 Q Okay. And do you know how long it takes on
3 average to install a smart meter?

4 A I do not.

5 Q Okay. Are you familiar with the Surge Guard
6 Program offered through Florida Power & Light?

7 MR. RUBIN: I object on grounds of relevance.

8 CHAIRMAN GRAHAM: I'll see where he's going.

9 BY MR. SKOP:

10 Q Are you aware of the Surge Guard Program
11 offered by Florida Power & Light?

12 A I am aware of a program for surge protection.

13 Q Okay. Are you aware of a similar mailer that
14 gets sent to FPL customers?

15 A I am not.

16 Q Okay. Let me see how I want to frame this.
17 Would you be surprised that in that program, that FPL
18 installs something in the meter box at no cost to its
19 customers that subscribe to that Surge Guard Program?

20 A As I said, I don't know the details of this
21 program.

22 Q Okay. Very well. I'll move on.

23 If I could ask you to turn, please, to your
24 direct testimony at page 16, line 4.

25 A Yes, sir.

1 **Q** And I'll give you a second and me a second to
2 call that up. I tried to go paperless here.

3 Okay. Beginning at line 4, you start
4 discussing the site visits that are in controversy in
5 this proceeding. Is it true that your testimony does
6 not specifically -- does not cite specific statutory
7 authority which would allow FPL advanced cost recovery
8 for these speculative site visits that may never occur?

9 A I object to a couple of statements there, both
10 the advanced and speculative. These are not advanced
11 charges that are being charged to the customer. The
12 enrollment fee of \$95 is a fraction of our up-front
13 costs and it does not represent the site visit, as some
14 might think it does, so I just want to be clear there.
15 And they are not speculative, as we have already
16 discussed at length.

17 **Q** All right.

18 MR. SKOP: Thank you, Mr. Chairman. I don't
19 believe that was my question of Mr. Onsgard.

20 BY MR. SKOP:

21 **Q** Can you point specifically to a statutory
22 provision of Florida law that would allow the recovery,
23 advanced recovery of these costs of these assumed site
24 visits?

25 A If they were as you described, I could not.

1 Q Okay. Can I get you to turn to what
2 Mr. Rehwinkel just mentioned, which was the Commission's
3 order. I don't believe it's been marked with an exhibit
4 number yet. And I'll let him mark it when we take up
5 exhibits, if he chooses to do so, but just as a point of
6 reference.

7 Do you have that before you?

8 A I do, sir.

9 Q Can you turn, please to page 8, which shows
10 Attachment A?

11 A And this is the prehearing order or --

12 Q No. This is the Commission's order denying a
13 non-standard meter rider tariff.

14 A Okay. I'm there. And page number again,
15 please?

16 Q Page number 8.

17 A I'm there.

18 Q And it's marked as Attachment A.

19 A Yes.

20 Q Do you see line number 2?

21 A I do.

22 Q And do you see the charge of \$77.06?

23 A Yes, sir.

24 Q Can you read the first sentence in that
25 description for that line, please?

1 A I can. "It is assumed that there will be at
2 least one site visit other than the regular manual meter
3 reading per opt-out customer."

4 **Q Okay. And would you agree that that is the**
5 **charge for that visit?**

6 A I would.

7 **Q Okay. But that seemingly conflicts with your**
8 **prior statement that you said that this charge is**
9 **recovered over five years in multiple ways. I guess I'm**
10 **confused there.**

11 A Right. So all of the up-front and one-time
12 fees are, if you will, calculated and included in our
13 tariff charge. We then took of those fees an enrollment
14 fee of \$95, of which that is a third of our up-front and
15 one-time fee, asked for that up front, and the rest is
16 spread over the 60 months. So this is just one of the
17 many components that are included within the charge that
18 are in fact collected over the five years of the
19 program.

20 **Q Okay. But you would agree, would you not,**
21 **that the majority of the costs associated with the**
22 **enrollment fee is a singular charge?**

23 A I would not.

24 **Q You would not?**

25 A I would not. As I just described -- and I

1 appreciate that it is not straightforward, but some of
2 the interrogatories had asked this question as well, so
3 I'll try to be very clear -- we look at the system
4 costs, the marketing communication costs, as well as our
5 other one-time costs that are related to serving these
6 customers. We looked at those costs and divided those
7 by the 12,000 customers to come up with what the
8 up-front and one-time fees are related to serving this
9 group of expenses. That totaled to be \$310.

10 Of that \$310, we requested that 105 be paid
11 as part of the enrollment fee and then we agreed to
12 adjust that to \$95. So the pool of dollars from which
13 this is collected includes the system changes, the
14 marketing and communication costs, as well as the other
15 one-time costs reflected on page 3 of Exhibit B. So it
16 is not a major portion, is not attributable to adjust
17 this one site visit.

18 **Q Okay. And forgive me, again, on behalf of my**
19 **client, though, I'm trying to understand, again, the**
20 **elements that comprise the \$95 that the Florida Public**
21 **Service Commission has approved for this enrollment fee.**
22 **And I think that you testified in response to my**
23 **question that the site visit represents the charge in**
24 **line item 2 of \$77.06?**

25 **A It does.**

1 Q Okay. And, again, I would ask, can you cite
2 specific statutory authority which would allow FPL to
3 recover -- or which would allow FPL advanced cost
4 recovery of this \$77.06 which may never happen?

5 MR. RUBIN: Mr. Chairman, I object, it's been
6 asked and answered, I think this is the third time.

7 CHAIRMAN GRAHAM: I agree.

8 MR. SKOP: Okay.

9 BY MR. SKOP:

10 Q We will move on. Going back to your direct
11 testimony, page 16, lines 4 through 13, you indicated
12 that that FPL has made 4,800 site visits to set
13 non-standard meters. Could some of these site visits
14 be, in fact, attributed to problems that were associated
15 with smart meter installations?

16 A These 4,800 visits were specific to our
17 postponed population and their request to have
18 non-standard meters, so that is specifically and exactly
19 what these are for.

20 And just to be clear, this is also the group
21 of costs that the company has not requested full
22 recovery for. A lot of these meter sets were done as
23 an accommodation to the postpone list. The only site
24 visits that we're asking recovery for are for customers
25 who actually have enrolled in the program and have had

1 a site visit. That number is closer to 2,000 rather
2 than this 4,800 that you see in my direct testimony.

3 Q And I just want to turn your attention to, I
4 think, a distinction that you made during your direct
5 and rebuttal testimony. You stated that the current
6 tariff that FPL seeks approval of is for non-standard
7 service, correct?

8 A That's correct.

9 Q Okay. And historically customers have had the
10 analogue meters before the AMI program was rolled out
11 and that was standard service, but now it's non-standard
12 just simply because FPL has started to roll out the --
13 or deploy AMI; is that correct?

14 A It's not entirely correct. You reference that
15 everyone had analogue meters. Standard service had
16 shifted to digital meters well before the smart meter
17 program had been advanced. And, similarly, we made that
18 our standard meter. With the smart meter deployment,
19 yes, that absolutely became the standard service. We
20 fully support the benefits that smart meters provide to
21 our customers.

22 Q Okay. Thank you.

23 If I could get you to turn now to your
24 rebuttal testimony, page 4 line 5, please. And I'll try
25 and scroll up myself so we can get --

1 A I'm there.

2 Q All right. Bear with me, I'm going paperless.

3 Okay. On page 4, line 5 of your rebuttal
4 testimony -- let me make sure I'm there -- you stated on
5 line 5 that FPL has completed activation of residential
6 and small business smart meters in all service areas but
7 FPL, going on, continuing on, FPL does have
8 approximately 175,000 commercial and industrial smart
9 meters currently being deployed which were not part of
10 FPL's initial deployment plan, correct?

11 A That was correct when I made this testimony,
12 yes.

13 Q All right. So is it -- I guess trying to read
14 between the lines -- and I apologize, my throat is
15 really scratchy today -- trying to read between the
16 lines on this, not all business customers currently have
17 smart meters installed, correct?

18 A So we are currently completing our CI
19 deployment. We've got now less than 100,000 CI
20 customers who still take standard service through the
21 prior digital meters, not the smart meters.

22 Q Okay. And these 100,000 customers that you
23 reference that are occurring today while other customers
24 are being charged, they have to have their meters read
25 manually each month, correct?

1 A They do.

2 Q Okay. But these business customers are not
3 currently being charged under the NSMR tariff, correct?

4 A That is correct.

5 Q So how is that not discriminatory to my
6 client, who is an FPL residential customer who chooses
7 to have a non-standard meter?

8 A As you've said, they choose to have a
9 non-standard meter. These commercial customers have no
10 choice at this point.

11 Q But in terms of the principle of collecting
12 costs and making sure those costs are equally
13 distributed and allocated to the cost drivers, if you
14 will, these businesses that don't have a smart meter are
15 still having their meters read manually and those
16 charges still, I guess, would be embedded in base rates
17 for that to be occurring or FPL would be losing money;
18 is that correct?

19 A It is, yes. These customers are still being
20 serviced under the old processes of reading meters.
21 We're just about done. We're very happy with the
22 progress we're making. And as I mentioned, we've got --
23 about 100,000 will be done by the middle of 2015 with
24 these remaining customers.

25 Q So you see no reason why implementation of

1 **this tariff should be delayed until all customers are**
2 **taking standard service?**

3 A Absolutely not. The company has incurred
4 quite a bit of expense, as I've described, to allow this
5 postponed process, after the Commission had held the
6 smart meter workshop, had the briefing, we filed the
7 tariff at the appropriate time. It is not
8 discriminatory at all.

9 Q Okay. If I could get you to now turn to
10 page 8 of your rebuttal testimony, lines 4 through 7,
11 please.

12 A I'm there.

13 Q All right. Give me a moment to catch up.

14 In your response to that question, you talk
15 about de minimis costs and, quote, "FPL does not view
16 more than 3 million in up-front costs and one-time costs
17 as well as over \$1 million in annual costs as
18 de minimis," correct?

19 A We reject Ms. Martin's assertion that we would
20 feel it's de minimis, yes.

21 Q So, again, in anticipating an objection, would
22 \$30 million in projected costs that never materialized
23 be considered de minimis when compared to this?

24 MR. RUBIN: He anticipated the objection
25 correctly. We're going back to that rate case

1 again and whatever Ms. Santos testified to in that
2 case under different circumstances in a different
3 context.

4 CHAIRMAN GRAHAM: I agree.

5 MR. SKOP: All right.

6 BY MR. SKOP:

7 Q If we can now move to page 12 of your rebuttal
8 testimony, lines 14 through 20, please.

9 A Yes.

10 Q And in that passage, I believe you discuss the
11 Commission rule, which is Rule 25-6.052, correct?

12 A That's correct.

13 Q Okay. And that requires -- I think that you
14 state that due to the large number of different
15 non-standard meter types left in the field for NSMR
16 customers, sample sizes will require removal for testing
17 replacement over the next five years of those meters; is
18 that correct?

19 A That is correct.

20 Q Okay. With respect to this as a cost driver
21 within the tariff and in noting the rule and noting that
22 there is a small pool of customers that apparently want
23 to keep their existing meters and also noting that you
24 stated that the useful life of these meters is
25 approximately 40 years, do you believe it's possible for

1 the Commission to waive this rule for customers wanting
2 to enroll in the NSMR tariff, thereby reducing the cost?

3 A The Commission has that power.

4 Q Okay. And if I could now turn your attention
5 to what's been marked for identification purposes as, I
6 believe, Exhibit 20, and that's OPC's first set of
7 Interrogatories 8, 9 and, I believe 10 -- 8, 9 and 11,
8 sorry.

9 A I have it.

10 Q All right. And specifically Interrogatory 8,
11 page 1 of 1.

12 A Yes.

13 Q In response to this interrogatory, FPL does
14 not avoid any costs associated with purchasing and
15 installing a smart meter when an existing customer
16 declines a smart meter. And I guess I'm trying to get
17 some better perspective on how that can be. And I think
18 that you elaborated on it, but I'm still unclear.

19 So if I have an existing analogue meter as a
20 longtime residential customer and FPL doesn't have to
21 replace that meter, are you testifying that there is no
22 cost savings to the general body of the FPL customers as
23 a result of that?

24 A There have been no actual cost savings. We
25 have bought meters for all of our customers in

1 anticipation that they would want to take standard
2 service, so there has been no actual cost savings to the
3 company. These meters are available and ready for
4 installation if the customer so chose.

5 Q Okay. So if I am to understand this
6 correctly, effectively, by virtue of the Commission's
7 order in 2009, FPL went out and bought a smart meter for
8 every FPL customer, correct?

9 A That essentially is correct. It certainly
10 didn't happen all at once, but we have bought the meters
11 equivalent to our customer base.

12 Q Okay. And do you happen to know what the
13 total purchase -- the total value of that purchase might
14 have been?

15 A I don't.

16 Q Would you agree that FPL earns a return on
17 equity on that investment?

18 A I would agree.

19 Q Okay. But FPL has not delivered the
20 \$30 million of annual savings to its customers as a
21 result of making that investment?

22 MR. RUBIN: Mr. Chairman, I object again.
23 Every time he uses that \$30 million, I'll need to
24 object.

25 CHAIRMAN GRAHAM: I think I'll let him answer

1 this question.

2 THE WITNESS: And could you please restate it?

3 BY MR. SKOP:

4 Q Yes. I believe where we left off was you
5 indicated that, yes, Florida Power & Light earns a
6 return on equity on the purchased inventory. And the
7 question I had or that I asked in response to that was
8 but it hasn't delivered the \$30 million in annual cost
9 savings that it promised to this Commission?

10 A It has not yet.

11 Q Okay. All right. Thank you.

12 With respect to the analogue meters, I think
13 you mentioned some of those were ultimately replaced
14 with noncommunicating digital meters. Is that the
15 standard meter that's used now for those customers that
16 want to opt out and not have a smart meter, it would be
17 a noncommunicating digital meter?

18 A No, it would not. As we've described, we made
19 every effort to leave the existing meter in the socket
20 and we will continue to do that. If the analogue meters
21 are no longer manufactured, we have withheld some and we
22 will continue to try to accommodate customers' request
23 for analogue meters.

24 That said, as it is stipulated in our tariff,
25 if a restoration crew or a truck does not have a

1 digital meter, noncommunicating -- sorry, an analogue
2 meter -- they might get a digital noncommunicating
3 meter.

4 Q All right. So going back to my prior
5 question, again, these millions of analogue meters that
6 were perfectly fine, that they got ripped out, I guess
7 FPL has a stash of those and they're different types and
8 it still uses that, correct?

9 A I just answered that question, yes, sir.

10 Q Okay.

11 MR. SKOP: No further questions, Mr. Chairman.

12 CHAIRMAN GRAHAM: Okay. Staff.

13 CROSS EXAMINATION

14 BY MS. BROWNLESS:

15 Q Good afternoon, Mr. Onsgard.

16 A Good afternoon.

17 Q I would like to turn to page 3 of your Exhibit
18 Number 4, and that would be included in what Mr. Jacobs
19 has identified as Exhibit Number 23.

20 A Is this Exhibit B we're referring to?

21 Q This is an exhibit in your direct testimony,
22 RAO-4, page 3 of 15.

23 A Thank you.

24 Q And I think that's in Mr. Jacobs' Exhibit
25 Number 23, included in that package.

1 And I'm interested in making sure I understand
2 your testimony. In this exhibit, you've said that
3 you've divided the costs into two categories, up-front
4 system and communication costs and what you've labeled
5 one-time cost per meter; is that correct?

6 A That is correct. This summary shows,
7 actually, all three components, the headers of up-front
8 system communication costs, one-time cost per meter and
9 monthly costs per meter.

10 Q Okay. With regard to the field meter visits,
11 they're included in the one-time cost per meter,
12 correct?

13 A Yes, ma'am.

14 Q Okay. And if I can turn to page 11 of your
15 rebuttal testimony. And I want to make sure I
16 understand what you're saying here.

17 What types of visits did you include as being
18 specific to non-smart meter customers in order to
19 develop your one on average visit?

20 A Right. So the things that we included in that
21 are, as we've talked about, the installation of the
22 non-standard meter. This is an occasion where a
23 customer requesting non-standard service has a smart
24 meter and we need to go out and set a non-standard
25 meter.

1 We are also including the site visits
2 required to keep compliance with our approved meter
3 test plan for accuracy of these meters. That plan
4 requires that we sample subsets of each meter type that
5 we are now faced -- because we've left these meters
6 that the customer had at their home. Instead of making
7 it a homogeneous population, we are now faced with a
8 very diverse group of meter types, and this test plan
9 is going to require that we go out and sample within
10 each of those meter types.

11 We've also included the known fact, although,
12 we have not tried to quantify -- those two alone will
13 account for the one site per visit, but there are other
14 things that are going to cause us to need to visit the
15 non-standard meter customer, primarily that's in regard
16 to storm restoration work. We have the ability to ping
17 a smart meter to tell whether or not it is activated.

18 When a restoration crew reenergizes a
19 neighborhood, these crews are now equipped with the
20 capability of pinging all of the apprentices within
21 that area. And before they roll the trucks out of an
22 area, they will ensure that everyone is back in
23 service.

24 Non-standard meters present a problem with
25 that. We're going to have issues where we're going to

1 need to make additional truck rolls, either to verify
2 specific locations or, unfortunately, customers who
3 call after we've left, necessitating us to come back.
4 So we know that there will be cause for us to visit
5 these customers. We know these two primary areas are
6 going to account for at least one site visit on average
7 per NSMR customer.

8 **Q Okay. And in your rebuttal testimony, I think**
9 **you also mentioned current diversion as a reason?**

10 A We did. And I'm not sure that we're going to
11 have any significant truck rolls required for that.
12 Smart meters do provide us with a lot more information
13 about tampering and other occurrences.

14 But, you know, I'm not advocating that that's
15 going to be a strong driver in this area, as I've
16 described. We really have enough with just the two
17 that I mentioned first.

18 **Q Okay. Thank you.**

19 MS. BROWNLESS: We would like to ask some
20 questions about the meter sampling and testing
21 charge. And the information we're handing out is a
22 subset of discovery responses already provided in
23 our exhibits that have already been introduced into
24 the record.

25 Commissioner, if you would like to identify

1 it as a separate exhibit, we can do that or we can
2 just --

3 CHAIRMAN GRAHAM: Not necessary.

4 MS. BROWNLESS: Thank you.

5 BY MS. BROWNLESS:

6 Q I want you to turn, please, to the first page.
7 And I just want to make sure I've got this straight.
8 The meter sampling visit requirements are based upon
9 Commission Rule 24-6.056; is that correct?

10 A Yes.

11 Q And then Florida Power & Light has, on
12 June 17th of 2008, adopted an FP&L metering device test
13 procedures and test plan protocol; is that right?

14 A That's correct.

15 Q And that's on the second page. You provided
16 that in response to Interrogatory Number 6?

17 A Yes, ma'am.

18 Q Okay. Now, when I look at this table, I want
19 to make sure I understand what that requires. If I look
20 here where it says, "lot size," I assume that's the
21 number of a particular type of meter that you have; is
22 that right?

23 A That is correct.

24 Q Okay. So if I have 66 of one type of meter to
25 110 of that type, then in order to comply with your

1 protocol, I would test 46 of those meters; is that
2 right?

3 A That's correct.

4 Q Okay. Now, if I look at the last page in that
5 exhibit, we ask for backup of the meter testing, and you
6 provided that to us in this Interrogatory Number 24; is
7 that right?

8 A Yes, we did.

9 Q Okay. And I'm going to look at the type code,
10 which I think is meter types, Number 30.

11 A Yes, ma'am.

12 Q Okay. And I think that's the first one on
13 your sheet that's white as opposed to red.

14 And am I correct that you have 79 of those
15 types of meters?

16 A That is correct.

17 Q Okay. And that you've projected you will need
18 to do 55 samples of those?

19 A Yes.

20 Q Okay. If I turn back to the previous page, it
21 seems to me that that ought to fall within the category
22 of the 66 to 110 and that that would only require 46
23 visits as opposed to 55; is that right?

24 A Based on what you've put in front of me, yes.

25 Q Okay. So in that particular instance, the

1 number of visits that are projected on this sheet is
2 overstated; is that right?

3 A Again, based on what you've given me, it is.
4 I would want to take the opportunity to look into that.

5 Q Okay. But based upon the responses to our
6 discovery, that appears to be the case?

7 A Yes.

8 Q And the greater the number of samples that
9 need to be taken, the greater the number of visits, and
10 the greater the number of visits, the higher the cost?

11 A It is to substantiate the on average one site
12 visit. I'm not sure whether or not this would have
13 any -- make that change any. Again, I would need to
14 look into what you've pointed out to me. Right now I
15 can't explain why.

16 Q Thank you.

17 MS. BROWNLESS: We have no further questions.
18 Thank you very much.

19 CHAIRMAN GRAHAM: Okay. Commissioners.
20 Commissioner Brown.

21 COMMISSIONER BROWN: Thank you, Mr. Chairman.
22 I have just one question for you, Mr. Onsgard. If
23 a customer takes service under the non-standard
24 service NSMR program and then opts to go to the
25 standard service, what charges, if any, would they

1 incur?

2 THE WITNESS: No charges.

3 COMMISSIONER BROWN: Okay. That's all.

4 CHAIRMAN GRAHAM: Commissioner Brise.

5 COMMISSIONER BRISE: Thank you, Mr. Chairman,
6 I have a few questions.

7 So if you have a customer that moves into a
8 residential unit in January and pays a \$95 fee and
9 then they move out six months later and you have
10 another customer that comes in to that same
11 residential unit and they, too, want a
12 non-standard meter, does that new customer have to
13 pay the \$95?

14 THE WITNESS: Yes, sir. In that time period,
15 we would have replaced the meter. If it were a
16 tighter time frame, I'm not as sure. But with a
17 six-month gap, we definitely would have.

18 And, again, in fairness to all customers, it
19 is a standard charge for the enrollment fee.

20 COMMISSIONER BRISE: Okay. Just out of
21 curiosity, are the smart meters maintenance free?

22 THE WITNESS: Are the smart meters --

23 COMMISSIONER BRISE: Maintenance free?

24 THE WITNESS: No, sir, they're not. They are
25 a mechanical device and there will be maintenance

1 related to any type mechanical device, so I
2 couldn't say that a smart meter is maintenance
3 free.

4 COMMISSIONER BRISE: Okay. And how are those
5 maintenance fees covered?

6 THE WITNESS: So one of the items that has
7 been discussed in interrogatories has been the
8 smart meter communication failure, that the smart
9 meter has a NIC that does communicate. We have
10 had, as again with any mechanical device we do,
11 have communication failures that we need to
12 research and fix.

13 The meters read at a 99.85 percent, so we are
14 very happy with the performance of these meters.
15 But, again, it would be -- it wouldn't be
16 reasonable to expect there not to be any failures,
17 so we do address those.

18 COMMISSIONER BRISE: Okay. So you still
19 didn't answer how those funds are collected.

20 THE WITNESS: So those would be covered
21 through our general charges, our general rates.

22 COMMISSIONER BRISE: Okay. How much is being
23 allocated to customer service reps for the
24 additional two years, since we went from a
25 three-year payback to a five-year pay back, to

1 cover some of the costs associated with this?

2 THE WITNESS: I think you're referring to the
3 care center costs?

4 COMMISSIONER BRISE: Absolutely.

5 THE WITNESS: So the care center costs are
6 based on volume of calls. We projected that we
7 would have a total number of calls of 10,000 calls
8 at \$6 a call. So in the staff's recommendation, we
9 got to the point where we were looking at FTEs
10 rather than a cost per.

11 We agreed to the modification. However, the
12 costs still are relative to the number of calls,
13 not really relative to the FTEs that it takes to
14 handle the calls.

15 We've already experienced 15,000 calls of the
16 10,000 that we had forecasted, and that's to date.
17 So we're already in an under-recovered position on
18 that line item, as we will be reporting to you
19 from our progress reports.

20 COMMISSIONER BRISE: Okay. One or two
21 questions. Actually, one question specifically.
22 On page 8, there is a 5.99, that seems to be a
23 reasonable price to pay for a meter reading, but
24 can you explain the multiplier?

25 THE WITNESS: I'm sorry, if you could

1 reference me to the correct page.

2 COMMISSIONER BRISE: Sure, page 8.

3 THE WITNESS: Page 8 of Exhibit B?

4 COMMISSIONER BRISE: Of Exhibit B, sorry.

5 THE WITNESS: Yes, sir.

6 COMMISSIONER BRISE: You have a multiplier
7 there of two. If you can explain that to me,
8 please.

9 THE WITNESS: Yes, sir. This is the routing
10 charge, so we anticipate that there would be two
11 times that a non-standard meter would need a
12 routing change. One for the initiation of a manual
13 meter reading and then the retraction of that
14 manual meter reading into an automated read once
15 it's back in the smart meter program.

16 COMMISSIONER BRISE: Okay. So going back one
17 page, going back to page 7, how many maintenance
18 visits did a previous generation of meters warrant
19 on an annual basis? So the last generation, how
20 many times did they require service per year?

21 THE WITNESS: We aren't asking -- to be
22 responsive, we're not asking for any maintenance on
23 these meters. So I don't have the annual
24 maintenance on smart meters, to be directly
25 responsive. But I would say that we're not asking

1 for any maintenance. These are site visits that
2 are required for the non-standard service only.

3 COMMISSIONER BRISE: Okay. So maybe I'll
4 rephrase my question. For the traditional analogue
5 ones and the new digital ones that are non-smart,
6 how many visits yearly were necessary for
7 maintenance on those?

8 THE WITNESS: I don't have that information.

9 COMMISSIONER BRISE: Okay. Because I think
10 that that helps establish for me a baseline.

11 And in your rebuttal, there's a discussion
12 about a project manager and so forth on page 16.
13 So did FPL hire a project manager specifically for
14 this project?

15 THE WITNESS: I have been the project manager
16 for this. The costs represented here are not just
17 for myself, there has been, especially in the early
18 stages for the enrollment and setting up this
19 program, there's been a lot of work to get it
20 established. So all of that is incorporated into
21 this project management cost, and we'll be
22 reporting again on that cumulation as we give our
23 progress reports.

24 COMMISSIONER BRISE: Okay. That's all I have
25 for now. Thank you.

1 CHAIRMAN GRAHAM: Commissioner Balbis.

2 COMMISSIONER BALBIS: Thank you, Mr. Chairman.
3 And thank you for your testimony. I just have one
4 or two questions.

5 You indicated several times in response to
6 cross examination questions on the smart meter
7 progress report, in fact, in your last page of
8 your direct testimony, you mention that the
9 company will provide the Commission with annual
10 information in that report identifying actual
11 participation rates, costs, et cetera.

12 What specifically will be provided in those
13 progress reports? Because I know the last one
14 that was just filed in March, you hadn't offered
15 the tariff yet so that information wasn't
16 available. So what specific information are you
17 going to provide in that report?

18 THE WITNESS: Yeah, we would continue to work
19 with the Commission on what you would like to have.
20 Our initial thoughts were that we would give
21 something very similar to what's in Exhibit B, the
22 summary, where we showed what the costs are for the
23 primary line items, as well as the other
24 components, which would be the recovery, how much
25 have we collected in enrollment fees and in monthly

1 fees, as well as the participation rates.

2 COMMISSIONER BALBIS: Okay. And there's been
3 a lot of discussion and a lot of testimony debating
4 the actual costs that will be incurred and
5 participation levels, et cetera. So it is your
6 intention and the company's intention to report on
7 that annually, correct?

8 THE WITNESS: Absolutely.

9 COMMISSIONER BALBIS: Okay. And then what
10 happens if the costs associated with the program
11 are less than what was anticipated in establishing
12 the up-front and the monthly fee?

13 THE WITNESS: We would need to look at the
14 costs as well as the participation rates and then,
15 you know, the total cost to the company as far as
16 how much we have been able to charge for the
17 services. But it would certainly be up to the
18 Commission. We would provide all of that
19 information.

20 COMMISSIONER BALBIS: Okay. And you have the
21 accounting mechanisms in place to accurately
22 account for all of the costs and revenues?

23 THE WITNESS: Yes, sir, we do.

24 COMMISSIONER BALBIS: Okay. Thank you.

25 That's all I have.

1 CHAIRMAN GRAHAM: Redirect.

2 MR. REHWINKEL: Mr. Chairman, can I just take
3 care of this order?

4 CHAIRMAN GRAHAM: Yes.

5 RE CROSS EXAMINATION

6 BY MR. REHWINKEL:

7 Q Mr. Onsgard, you recall I asked you a couple
8 of questions about an order?

9 A Yes, sir.

10 Q And would you agree that that order was order
11 number PSC-14-0036?

12 A I would, sir.

13 MR. REHWINKEL: Thank you, Mr. Chairman.

14 CHAIRMAN GRAHAM: Thanks for reminding me.

15 MR. RUBIN: Just very briefly, Mr. Chairman.

16 REDIRECT EXAMINATION

17 BY MR. RUBIN:

18 Q Mr. Onsgard, you were just asked a few
19 questions by staff about the meter test plan and the
20 meter testing. To the extent that the number of meter
21 tests would be potentially reduced as asserted in that
22 question, would that be -- should there be any change in
23 the tariff rates because of that?

24 A No, I don't believe there should be. Of
25 course, as I said, we're going to provide support to

1 either refute or acknowledge that there's an error on
2 that schedule. That is one line item out of 60
3 different meter types. So, again, we need to find out,
4 you know, what the accurate numbers need to be, provide
5 that. Whether it has an impact on the fee, I'm very
6 doubtful that it would.

7 **Q And is there any relationship between what**
8 **you've just described and the actual number of customers**
9 **who have enrolled in the program?**

10 A I'm sorry, say again, please.

11 **Q Sure. Is there any relationship between the**
12 **number of site visits for the meter reads and the number**
13 **of customers who have actually enrolled in the program?**

14 A Certainly. That is what we're out reading is
15 the number who have enrolled.

16 MR. RUBIN: I don't have anything else. Thank
17 you, sir.

18 CHAIRMAN GRAHAM: Okay. Exhibits.

19 MR. RUBIN: FPL would move Exhibits 2 through
20 6 into the record.

21 CHAIRMAN GRAHAM: Exhibits 2, 3, 4, 5, 6. Is
22 that it for you?

23 MR. RUBIN: Yes, it is. Thank you, sir.

24 (Exhibit Nos. 2, 3, 4, 5 and 6 received in
25 evidence.)

1 CHAIRMAN GRAHAM: OPC, you had nothing?

2 MR. REHWINKEL: No.

3 CHAIRMAN GRAHAM: Mr. Jacobs.

4 MR. JACOBS: Yes, Mr. Chairman. We would move
5 Exhibits 19, 20, 21, 22 and on through 26 into the
6 record, please.

7 CHAIRMAN GRAHAM: No objection?

8 MR. RUBIN: May I be heard on a few of those
9 documents?

10 CHAIRMAN GRAHAM: Sure.

11 MR. RUBIN: Number 19, which is the postcard,
12 no objection to the postcard itself, but there are
13 handwritten notes on that document that are not
14 part of the FPL mailing. I just wanted that caveat
15 on the record. No objection otherwise to that
16 exhibit.

17 CHAIRMAN GRAHAM: Okay.

18 MR. RUBIN: No objections to Number 20.
19 Number 21, which is the order from the California
20 Commission, I object to that on the grounds of
21 relevance and materiality to this docket.

22 CHAIRMAN GRAHAM: I have to agree with you on
23 that one.

24 MR. JACOBS: May I be heard, Mr. Chairman?

25 CHAIRMAN GRAHAM: Sure.

1 MR. JACOBS: First, we think it's clear that
2 it's an official document of an agency. We believe
3 that it states on its face what it represents. But
4 rather than belabor the matter, we would request
5 that the Commission take official recognition of
6 it.

7 CHAIRMAN GRAHAM: Mary Anne.

8 MS. HELTON: I'm real comfortable with you
9 taking official recognition of Florida orders.
10 Chapter 120 requires that if a party is going to
11 ask you as a tribunal to take official recognition
12 of a document, then they're supposed to do so
13 within a reasonable time, and I can't remember if
14 the time is set out in the statute or not. But I
15 don't think Mr. Jacobs has filed any request for
16 something to be taken -- for us to take official
17 recognition of a document prior to the start of the
18 hearing so I don't know that those grounds are
19 appropriate here.

20 CHAIRMAN GRAHAM: Sounds like it's denied.

21 MR. JACOBS: Very well.

22 CHAIRMAN GRAHAM: Okay.

23 MR. JACOBS: If I may be heard just one more
24 moment.

25 CHAIRMAN GRAHAM: Sure.

1 MR. JACOBS: What I would like to do is
2 reserve the opportunity to look at the statute and
3 file a written response in response to the statute,
4 if I may.

5 MS. HELTON: Ms. Crawford, who is younger than
6 me, has also reminded me that we also state in our
7 order on establishing procedure, the requirements
8 with respect to official recognition, and it says
9 that "All parties and staff are to request official
10 recognition of documents no later than two business
11 days prior to the first scheduled hearing date."
12 So that requirement is in our order. And the
13 statute regarding official recognition is
14 120.569(2)(i).

15 CHAIRMAN GRAHAM: Did you hear a second
16 question?

17 MS. HELTON: I'm sorry, Mr. Chairman.

18 MR. JACOBS: Nothing further. I understand,
19 Mr. Chairman. Thank you.

20 CHAIRMAN GRAHAM: Okay.

21 MR. RUBIN: The same position on Exhibit
22 Number 22, which is the Maryland Commission order
23 that Mr. Jacobs asked about.

24 CHAIRMAN GRAHAM: I agree.

25 MR. JACOBS: If I may.

1 CHAIRMAN GRAHAM: Sure.

2 MR. JACOBS: I'm trying to find the
3 evidentiary rule. It is in your discretion, but
4 the Rule of Evidence clearly says that you have the
5 ability to accept documents which could add to
6 inform the decision maker as to the focus of the
7 decision.

8 We believe that the discussion, particularly
9 limited to the nature of discussion that we have
10 on that docket, is absolutely relevant to this
11 docket and would support and inform the Commission
12 on the issues that are before it, so we believe
13 under the Rules of Evidence you have the
14 discretion to consider this document.

15 CHAIRMAN GRAHAM: We're not going to consider
16 it.

17 MR. JACOBS: Very well.

18 MR. RUBIN: No objections on 24. And then on
19 25 and 26, Mr. Chairman, these are the two
20 documents that --

21 CHAIRMAN GRAHAM: You skipped over 23.

22 MR. RUBIN: I'm sorry, I did skip over 23.

23 MR. JACOBS: Is there an objection? That's
24 already in the record, Mr. Chairman.

25 CHAIRMAN GRAHAM: He hasn't said anything yet.

1 MR. JACOBS: Okay.

2 MR. RUBIN: Number 23, no objection, but
3 that's part of an exhibit that's already in the
4 record, those are just pages.

5 CHAIRMAN GRAHAM: Okay. That's fine.

6 MR. RUBIN: But no objection.

7 CHAIRMAN GRAHAM: I just know you went over
8 it.

9 MR. RUBIN: I did. Thank you, sir.

10 And 25 and 26 are the two documents that
11 Mr. Jacobs asked the witness about, actually, only
12 one of them he asked the witness about, having to
13 do with MFRs from a prior case, a rate case. The
14 witness indicated he knew nothing about them and
15 wasn't involved in that, so they weren't really
16 used for anything, they're not relevant or
17 material to any issue in the case.

18 CHAIRMAN GRAHAM: That was 25 and 26?

19 MR. RUBIN: Yes, sir.

20 CHAIRMAN GRAHAM: Mr. Jacobs.

21 MR. JACOBS: Mr. Chairman, we intend to bring
22 these exhibits up in cross examination again. We
23 would defer to raise the issues again under the
24 next witness.

25 CHAIRMAN GRAHAM: Okay. So at this point,

1 we're not going to put in 25 and 26. I'm not
2 saying they won't come in eventually, but right now
3 they're not going in.

4 MR. JACOBS: Yes, sir.

5 CHAIRMAN GRAHAM: So 19 and 20 and 24 are all
6 are going in, 23 is basically already there.

7 MR. RUBIN: Right.

8 (Exhibit Nos. 19, 20, 23 and 24 were received
9 in evidence.)

10 CHAIRMAN GRAHAM: Okay. Staff had nothing,
11 correct?

12 MS. BROWNLESS: No, sir.

13 CHAIRMAN GRAHAM: All right. Would you like
14 to excuse your witness?

15 MR. RUBIN: We would like to excuse our
16 witness. Thank you, sir.

17 CHAIRMAN GRAHAM: All right. Thank you, sir,
18 for your time.

19 Florida Power & Light, your next witness.

20 MR. RUBIN: Ms. Moncada is going to present
21 Mr. Deason.

22 MS. MONCADA: Thank you, Commissioner. May we
23 proceed?

24 COMMISSIONER EDGAR: Yes.

25 MS. MONCADA: Thank you.

1 Thereupon,

2 TERRY DEASON

3 was called as a witness, having been previously duly
4 sworn, was examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MS. MONCADA:

7 Q Good afternoon, Mr. Deason. Have you been
8 sworn?

9 A Yes.

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

12 A Yes. My name is Terry Deason. My business
13 address is 301 South Bronough Street, Suite 200,
14 Tallahassee, Florida.

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

16 A I'm a special consultant with the Radey Law
17 Firm.

18 Q Did you prepare and cause to be filed in this
19 case 14 pages of prefiled direct testimony on May 21st,
20 2014?

21 A Yes.

22 Q If I asked you the same questions contained in
23 your prefiled direct testimony, would your answers be
24 the same?

25 A Yes.

1 Q Have you also prepared and caused to be filed
2 15 pages of prefiled rebuttal testimony in this
3 proceeding on July 28th of 2014?

4 A Yes.

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

8 A Yes.

9 MS. MONCADA: Commissioner, I ask that the
10 prefiled direct testimony and the prefiled rebuttal
11 testimony of Mr. Deason be entered into the record
12 as though read.

13 COMMISSIONER EDGAR: Thank you. The prefiled
14 direct and rebuttal testimony of this witness will
15 be entered into the record as though read.

16 MS. MONCADA: Thank you.

17 (Whereupon, prefiled testimony inserted.)

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

2 A. My name is Terry Deason. My business address is 301 S. Bronough Street, Suite
3 200, Tallahassee, FL 32301.

4 **Q. By whom are you employed and what position do you hold?**

5 A. I am a Special Consultant for the Radey Law Firm, specializing in the fields of
6 energy, telecommunications, water and wastewater, and public utilities generally.

7 **Q. Please describe your educational background and professional experience.**

8 A. I have thirty-seven years of experience in the field of public utility regulation
9 spanning a wide range of responsibilities and roles. I served a total of seven years
10 as a consumer advocate in the Florida Office of Public Counsel (OPC) on two
11 separate occasions. In that role, I testified as an expert witness in numerous rate
12 proceedings before the Florida Public Service Commission (Commission). My
13 tenure of service at OPC was interrupted by six years as Chief Advisor to Florida
14 Public Service Commissioner Gerald L. Gunter. I left OPC as its Chief Regulatory
15 Analyst when I was first appointed to the Commission in 1991. I served as
16 Commissioner on the Commission for sixteen years, serving as its Chairman on two
17 separate occasions. Since retiring from the Commission at the end of 2006, I have
18 been providing consulting services and expert testimony on behalf of various
19 clients. These clients have included public service commission advocacy staff and
20 regulated utility companies, before commissions in Arkansas, Florida, Montana,
21 New York and North Dakota. I have also testified before various legislative
22 committees on regulatory policy matters. I hold a Bachelor of Science Degree in
23 Accounting, summa cum laude, and a Master of Accounting, both from Florida

1 State University.

2 **Q. For whom are you appearing as a witness?**

3 A. I am appearing as a witness for Florida Power & Light Company (FPL or the
4 Company).

5 **Q. What is the purpose of your testimony?**

6 A. The purpose of my testimony is to discuss the history and rationale used by the
7 Commission in setting cost-based rates and to provide my perspective on certain
8 policy issues concerning FPL's optional non-standard meter rider. I also address
9 the propriety of applying the "cost-causer" principle to FPL's Non-Standard Meter
10 Rider (NSMR) tariff.

11 **Q. Are you sponsoring any exhibits?**

12 A. Yes. I am sponsoring Exhibit JTD-1, which is my curriculum vitae.

13 **Q. Please summarize your testimony.**

14 A. The Commission has a long and consistent history of setting rates based upon a
15 regulated utility's cost of providing service and setting rates to minimize subsidies
16 among customers. Inherent in the Commission's policy is the concept that the cost-
17 causer should pay the costs that they impose for the services they demand and the
18 options they choose. The Commission's policy is consistent with sound regulatory
19 principles and achieves purposes established by Chapter 366, Florida Statutes.
20 FPL's optional non-standard meter rider adheres to this policy and establishes an
21 appropriate and fair manner to recover the costs from customers choosing to avail
22 themselves of this optional service.

1 **Q. What is the statutory basis for the Commission’s policy concerning cost-based**
2 **rates?**

3 A. Actually there are several different statutory provisions which apply. First is
4 Section 366.041(1), Florida Statutes, which authorizes the Commission to consider
5 a number of factors to fix just, reasonable, and compensatory rates. Prominent
6 among these is “the cost of providing such service and the value of such service to
7 the public.” This section continues by establishing a fundamental and important
8 caveat in the fixing of rates: “provided that no public utility shall be denied a
9 reasonable rate of return upon its rate base in any order entered pursuant to such
10 proceeding.” Second is Section 366.06(1), Florida Statutes, which sets out with
11 more specificity the manner in which the Commission is to set rates. This section
12 establishes that rates are to be set on the actual cost of property (less depreciation)
13 which is used and useful in providing service to the public. This clearly establishes
14 Florida as a cost-based jurisdiction. This section also gives direction in setting rates
15 for customer classes:

16 In fixing fair, just, and reasonable rates for each customer class, the
17 commission shall, to the extent practicable, consider the cost of
18 providing service to the class, as well as the rate history, value of
19 service, and experience of the public utility; the consumption and
20 load characteristics of the various classes of customers; and public
21 acceptance of rate structures.

1 **Q. Are there other statutory provisions which give further direction in the setting**
2 **of cost-based rates?**

3 A. Yes, there are at least three. First is Section 366.03, Florida Statutes, which sets
4 forth the general duties of a public utility. Among these duties is this requirement:
5 “No public utility shall make or give any undue or unreasonable preference or
6 advantage to any person or locality, or subject the same to any undue or
7 unreasonable prejudice or disadvantage in any respect.” This is commonly referred
8 to as a non-discrimination requirement. The requirement to set non-discriminatory
9 rates is further discussed in Section 366.81, Florida Statutes. This section is part of
10 the Florida Energy Efficiency and Conservation Act (FEECA). While recognizing
11 that there are various means and technologies that can be used to increase energy
12 efficiency and conservation, the Legislature requires that the rates designed to
13 recover FEECA costs be non-discriminatory: “Accordingly, in exercising its
14 jurisdiction, the commission shall not approve any rate or rate structure which
15 discriminates against any class of customers on account of the use of such facilities,
16 systems, or devices.” While this is part of FEECA, the principle established here is
17 equally applicable to FPL’s optional non-standard meter rider and is very
18 instructive. Also instructive to the correct manner of setting non-discriminatory
19 cost-based rates is Section 366.051, Florida Statutes. This section pertains to
20 cogeneration and small power production. In fixing rates for power purchased by
21 public utilities from cogenerators or small power producers, the Legislature
22 endorses the concept of incremental costs as the appropriate cost standard. This
23 incremental cost approach is fundamental to the full avoided cost concept required

1 in the statute, which is defined as: “the incremental costs to the utility of the
2 electric energy or capacity, or both, which, but for the purchase from cogenerators
3 or small power producers, such utility would generate itself or purchase from
4 another source.” The principle established here is equally applicable to FPL’s
5 optional non-standard meter rider, such that the rider should cover the incremental
6 costs of providing this optional service to those customers wishing to avail
7 themselves of it.

8 **Q. Please summarize how all of the statutory provisions you have identified are**
9 **applicable and instructive to the Commission’s consideration of FPL’s optional**
10 **non-standard meter rider.**

11 A. Florida is a cost-based jurisdiction and uses costs to set rates for both standard and
12 non-standard services. Costs are further used to determine whether rates are
13 compensatory, which is another statutory requirement. The standard to determine
14 whether rates are compensatory is a measure of earnings as a percent of rate base
15 (costs). When rates are not compensatory in the aggregate, overall rates will have
16 to be adjusted on a going forward basis. In addition to being compensatory, rates
17 must be non-discriminatory, with no individual customers or group or class of
18 customers receiving preferential treatment. A measure of non-discrimination is
19 whether rates cover the costs of customers’ service. When rates are non-
20 compensatory or do not cover a customer’s cost, there is discrimination against
21 other customers who ultimately must subsidize the below-cost rates. This cross-
22 subsidization is the natural result of some rates being below cost and the
23 requirement that overall rates be compensatory in the aggregate. Stated differently,

1 if a cost causer is not paying the costs they cause they are being subsidized by other
2 customers who must make up the difference in their rates. And finally, the
3 appropriate means to determine whether a rate is covering costs is to use an
4 incremental cost approach. In the case of FPL's optional non-standard meter rider,
5 if the rate covers the incremental costs of providing the optional service, the rates
6 can be judged to be compensatory without an undue burden being shifted to other
7 customers. If the rates do not cover incremental costs, the rates would not be
8 compensatory and the general body of customers would pay increased rates to make
9 up for the shortfall. The resulting inherent cross subsidy would be unfair and could
10 be unduly discriminatory.

11 **Q. Has the Commission adopted rules consistent with these statutory**
12 **requirements?**

13 A. Yes, Rule 25-6.0437, F.A.C., dealing with cost of service load research; Rule 25-
14 6.064, F.A.C., dealing with contribution-in-aid-of-construction (CIAC) for new or
15 upgraded facilities; and Rule 25-6.078, F.A.C., dealing with the installation of
16 underground facilities, are three such rules.

17 **Q. Please explain how these rules are relevant.**

18 A. To better enable it to meet its statutory directives to fix rates that are cost-based and
19 non-discriminatory, the Commission requires utilities to use cost of service studies
20 so that the Commission can evaluate rates charged to the various customer classes
21 to ensure those rates are equitable and reflective of the costs of serving each group
22 or class of customer. Rule 25-6.0437, F.A.C., acknowledges this and sets forth the
23 requirements for the research which supports these cost of service studies: "The

1 primary purpose of this rule is to require that load research that supports cost of
2 service studies used in ratemaking proceedings is of sufficient precision to
3 reasonably assure that tariffs are equitable and reflect the true costs of serving each
4 class of customer.”

5
6 These same statutory directives are reflected in the Commission’s rule requiring
7 CIAC in situations where customers seek service beyond what is considered
8 standard. Utilities must calculate an amount of CIAC to charge those customers so
9 that the incremental costs of providing the requested services do not burden the
10 general body of customers. Rule 25-6.064, F.A.C., states: “The purpose of this rule
11 is to establish a uniform procedure by which investor-owned electric utilities
12 calculate amounts due as contributions-in-aid-of-construction (CIAC) from
13 customers who request new facilities or upgraded facilities in order to receive
14 electric service....” The rule further establishes that utilities cannot waive the
15 CIAC (without a reduction in its rate base) unless “the Commission determines that
16 there is a quantifiable benefit to the general body of ratepayers commensurate with
17 the waived CIAC.” This reinforces the requirement that costs imposed by some
18 customers should not be a burden to other customers when there are not offsetting
19 benefits.

20
21 Rule 25-6.078, F.A.C., is very similar to Rule 25-6.064, F.A.C., and specifically
22 addresses the cost differential between standard overhead service and optional
23 underground service. Once again, the purpose is to take an incremental cost

1 approach such that the incremental costs imposed by those customers seeking
2 underground service are not inappropriately shifted to the general body of
3 customers.

4 **Q. Can you provide examples of cases in which the Commission adhered to its**
5 **rules and policies to set rates so that the cost causers are charged for the costs**
6 **that they cause?**

7 A. Yes. There are two good examples, one involving a general rate proceeding and
8 one involving CIAC outside of a general rate proceeding. The general rate
9 proceeding case is Docket No. 080317-EI, Petition for a rate increase by Tampa
10 Electric Company (TECO). In this case, TECO was seeking rates to cover the
11 additional costs of a same-day or Saturday reconnect as opposed to the standard
12 next-day reconnect. The Commission found that the costs of providing the optional
13 same-day reconnect and the optional Saturday reconnect were higher and that a
14 higher rate was appropriate to place the costs on the cost causer. Order No. PSC-
15 09-0283-FOF-EI states:

16 Based on the record evidence, we find that TECO incurs additional
17 costs to provide same day or Saturday reconnection; these costs
18 exceed the normal connection fee which provides for next day
19 service. The charges for special services provided for the benefit
20 of a single customer should reflect those additional costs.

21 * * *

22 To the extent possible, rates should be designed to collect the costs
23 from the cost causer. Thus, based on the record evidence, we find

1 that the two new service reconnection options, Same Day
2 Reconnect and Saturday Reconnect, and their associated
3 connection charges, \$65 and \$300, respectively, are appropriate.

4

5 The CIAC case is Docket No. 040789-EI, a complaint by Wood Partners against
6 FPL concerning CIAC charges for underground distribution facilities. The
7 Commission determined that the additional CIAC charges sought by FPL were
8 calculated consistent with its rules and consistent with its policy to place costs on
9 the cost causers. Order No. PSC-05-1033-PAA-EI states:

10 Sections 10.3.2.b) and 10.3.3.c) of FPL's tariff specify how
11 differential costs shall be calculated. The rule and tariff provisions
12 discussed above reflect this Commission's long-standing policy
13 that, where practical, persons who "cause" costs to be incurred
14 should bear the burden of those costs.

15

* * *

16 In conclusion, we find that FPL acted in compliance with its
17 approved tariff when it charged Wood Partners \$53,419.30 as the
18 cost differential associated with construction of underground
19 electric facilities at Alta Pines. Accordingly, no refund is due to
20 Wood Partners.

1 **Q. Has the Commission recently reaffirmed the principle that in these**
2 **situations it is appropriate for the cost causer to bear the costs of an**
3 **optional service?**

4 A. Yes. In a decision issued on April 23, 2014 in Order No. PSC-14-0191-
5 FOF-EI, Docket No. 130290-EI, the Commission relied upon Order No.
6 PSC-05-1033-PAA-EI in a case involving CIAC and reaffirmed that
7 “...Rule 25-6.064, F.A.C., reflects our ‘long-standing policy that, where
8 practical, the person who ‘causes’ costs to be incurred should bear the
9 burden of those costs.’ ”

10 **Q. What are the policy considerations relevant to cost-based rates in general and**
11 **FPL’s optional non-standard meter rider?**

12 A. Cost-based rates serve many functions and should adhere to many regulatory
13 principles. As I earlier discussed, rates should be non-discriminatory among
14 individual customers or customer groups or classes. A good measure of this is
15 whether the rates cover the costs which either individual customers or customer
16 groups or classes cause. And particularly in regard to optional services, an
17 appropriate way to make this analysis is to approach it on an incremental cost basis.
18 Under this approach, if the rate for an optional service covers its incremental cost, it
19 can be judged to be compensatory and non-discriminatory. This is true for FPL’s
20 optional non-standard meter rider as well.

21
22 Appropriately set cost-based rates also serve the function of generating sufficient
23 revenues to cover all operating costs and provide a reasonable return on a regulated

1 utility's rate base. As I earlier discussed, this goes directly to the requirement that
2 rates be compensatory.

3

4 In addition to being compensatory and non-discriminatory, there is another
5 important policy consideration. I refer to it as the requirement to send appropriate
6 price signals to customers. What we in the regulatory community commonly refer
7 to as rates or tariffs are correctly perceived by consumers as prices. And just as
8 prices in the non-regulated world send signals to consumers to either decrease or
9 increase their consumptive demand, this purpose is also important for regulated
10 utilities and their customers. When rates are appropriately set based on costs,
11 customers receive the correct price signals to adjust their demand for services
12 accordingly. When rates (prices) are set below costs, the signal sent to customers
13 prompts an inappropriate increase in their consumption and results in an
14 inappropriate increase in the overall costs of providing service. Likewise, when
15 rates (prices) are set above costs, there is an inappropriate signal sent to customers
16 to curtail services demanded. This can cause a decrease in revenues and
17 contributions to fixed costs, such that overall rates may have to be increased. In the
18 long run, neither scenario benefits customers.

19 **Q. So it is important that customers receive the correct price signal when**
20 **considering whether to choose the option of a non-standard meter?**

21 A. Yes, definitely. If no price signal or one below incremental cost is sent, customers
22 will have incorrect pricing information upon which to make their decision. This
23 could result in an inefficient subscription level of non-standard meters with the true

1 costs being shifted to the general body of customers. The structure of the pricing
2 signal is also important.

3 **Q. Please explain what you mean by the structure of the pricing signal.**

4 A. FPL's optional non-standard meter rider has two basic components: an up-front fee
5 referred to as the Enrollment Fee; and a recurring fee referred to as the Monthly
6 Surcharge. As these names indicate, these two components are designed to recover
7 two different types of costs. The Enrollment Fee is designed to recover a
8 significant portion of the up-front costs which are more fixed in nature. The
9 Monthly Surcharge is designed to recover those costs which tend to recur on a
10 monthly basis and any remaining unrecovered upfront costs. It is important that the
11 Enrollment Fee be designed to recover a significant portion of the fixed costs with a
12 reasonable degree of certainty and that an appropriate price signal be sent. If too
13 much of the up-front costs were to be inappropriately included in the recurring
14 monthly fee, a distorted price signal would be sent with insufficient information for
15 customers to make an informed purchasing decision. This could also place the
16 ultimate recovery of all of the up-front costs in jeopardy. The end result would be
17 an enrollment level that inappropriately shifts cost responsibility from the cost
18 causer to the general body of customers. Likewise, if the up-front costs included in
19 the Enrollment Fee are too large, there could be an unintended impediment for
20 customers choosing the non-standard meter option.

21 **Q. What did the Commission decide in its Order No. PSC-14-0036-TRF-EI?**

22 A. FPL initially requested a \$105 Enrollment Fee and a \$16 Monthly Surcharge. The
23 Commission modified some of the staffing levels and also extended the period of

1 recovery from three years to five years for all up-front system and communication
2 costs to better align the recovery period to the rate base depreciation period. This
3 resulted in a reduction of the Enrollment Fee from \$105 to \$95 and the Monthly
4 Surcharge from \$16 to \$13. But more importantly, the Commission reaffirmed its
5 policy that the cost-causer should be required to pay for the incremental costs they
6 cause by availing themselves of the option to have a non-standard meter. This is
7 consistent with the Commission's long-held policy to base rates on costs while
8 minimizing cross subsidies among customers.

9 **Q. Do these revised rates continue to send the appropriate price signals to**
10 **customers?**

11 A. Yes. The revised rates are based upon incremental costs (as adjusted by the
12 Commission) and accordingly should send the appropriate price signals.

13 **Q. What is your recommendation to the Commission?**

14 A. I recommend that the Commission reconfirm the decision it reached in its Order
15 No. PSC-14-0036-TRF-EI. In this order, the Commission stated: "We find that the
16 option to opt-out from the standard smart meter will require FPL to incur
17 incremental costs, which would appropriately be borne by the cost causer and not
18 the general body of ratepayers." This finding is consistent with the applicable
19 statutes and rules which I earlier discussed. It is also consistent with previous
20 decisions of the Commission and is consistent with sound regulatory policy, which
21 I also previously discussed.

22 **Q. Does this conclude your testimony?**

23 A. Yes, it does.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF J. TERRY DEASON

DOCKET NO. 130223-EI

July 28, 2014

Q. Please state your name and business address.

A. My name is Terry Deason. My business address is 301 S. Bronough Street, Suite 200, Tallahassee, FL 32301.

Q. Have you previously submitted direct testimony in this proceeding?

A. Yes.

Q. Are you sponsoring any rebuttal exhibits?

A. No.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to many of the positions and recommendations contained in the testimony of Marilynne Martin. Witness Martin does not agree with the basis of FPL’s determination of incremental costs and mistakenly asserts that the Non-Standard Meter Rider (NSMR) is “not consistent with historical tariff requirements by the Commission.” She ultimately recommends that the Florida Public Service Commission (Commission) either: 1) open FPL’s entire Advanced Metering Infrastructure (AMI) project for review and adjust rates based on that review; or 2) wait until FPL’s next rate case to implement the NSMR tariff. Witness Martin’s recommendations should be

1 rejected as neither option is consistent with Commission practice or good
2 regulatory policy. Contrary to witness Martin's assertion, FPL's approach to
3 quantifying and implementing its NSMR tariff is consistent with the manner in
4 which the Commission has approved tariffs for non-standard services and is
5 necessary to place costs on the cost causer and prevent cross-subsidies among
6 customer groups.

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

8 A. My rebuttal testimony is organized into three sections. Section I addresses the
9 proper role of rate cases and why witness Martin's recommendation to wait until
10 FPL's next rate case to implement its NSMR tariff is ill-advised and contrary to
11 established ratemaking principles. Section II addresses witness Martin's
12 references to other non-standard services to incorrectly assert that they support
13 her conclusion that the NSMR tariff should not be approved. Section III is my
14 conclusion.

15
16 **I. RATE CASE AND POLICY CONSIDERATIONS**

17
18 **Q. What is the basis for witness Martin's recommendation that the NSMR tariff**
19 **be delayed until FPL's next rate case?**

20 A. Witness Martin asserts that it is not possible to establish fair and reasonable rates
21 for non-standard meters outside the confines of a general rate case. She further
22 states: "It is difficult to arrive at fair and reasonable rates by looking at them in
23 isolation."

1 **Q. Is witness Martin correct in her assertion?**

2 A. No, it is not a question of ease or difficulty. Rates for optional services, to be fair
3 and reasonable, must cover the incremental cost of providing the optional service.
4 This cost analysis can be done within a general rate case or as prescribed by
5 Commission rule, as is the case with underground facilities. It can also be done
6 on a case-specific basis, as is being done here for the NSMR tariff. Regardless of
7 the regulatory approach used, FPL's resulting NSMR tariff rates will be fair and
8 reasonable, as long as they cover the incremental costs of providing this optional
9 service.

10 **Q. Did the Commission consider FPL's deployment of smart meters in previous**
11 **rate cases?**

12 A. Yes. In its 2009 rate case, FPL's smart meter deployment was reviewed and
13 approved by the Commission. The Commission found FPL's AMI project
14 prudent and specifically directed that the project not be delayed. In essence, the
15 Commission found that smart meters would become the standard meters by which
16 service would be provided to customers. And in FPL's 2012 rate case, the costs
17 and savings associated with smart meters were identified as an issue.

18 **Q. What did the Commission decide on the costs and savings of smart meters in**
19 **the 2012 rate case?**

20 A. The Commission did not vote on that specific issue. Rather, the Commission
21 approved a settlement for a lesser overall increase than the amount requested
22 based on a 2013 test year.

1 **Q. Witness Martin asserts that the current base rates in effect include smart**
2 **meter project costs of \$3.7 million, rather than net savings. Is she correct?**

3 A. I do not believe it is correct to make such an emphatic statement. While FPL's
4 request was based on \$3.7 million of smart meter costs in the 2013 test year,
5 FPL's overall requested increase was not approved by the Commission.
6 Nevertheless, the level of costs or savings associated with smart meters that may
7 or may not be reflected in current rates is irrelevant to the issue of the NSMR
8 tariff.

9 **Q. Please explain.**

10 A. The justification of the NSMR tariff should be based only on the incremental
11 costs of providing the optional service. Under an incremental cost approach, it is
12 only the incremental costs of the optional service that are relevant and not the
13 costs reflected in existing base rates. To assert that the level of costs in current
14 base rates should be determinative or somehow germane to the level of an
15 optional service's rate is inconsistent with the manner in which base rates are set.

16 **Q. How are base rates set?**

17 A. Base rates are set using a test year in which the level of investment (rate base),
18 expenses, and revenues are scrutinized. The goal is to set base rates at a level that
19 will enable a regulated utility to recover all of its prudently incurred expenses and
20 provide the utility a reasonable opportunity to earn its authorized rate of return on
21 its rate base. This is done with the recognition that the test year is a "snapshot,"
22 but when appropriately adjusted, will be a sound basis to set rates that are
23 prospective in nature. A fundamental goal of this process is to set rates in a

1 manner that combats regulatory lag and enables rates to be sufficient for the test
2 year and hopefully a number of years following the test year. Consistent with this
3 goal is the further recognition that individual components of rate base, expenses,
4 and revenues will fluctuate from those established in the test year. Thus, once
5 rates are set, the amount of individual expenses (or savings) associated with one
6 component of the regulated utility's overall operations, such as smart meters, is
7 not as important as the overall result of operations. Only when the results of
8 overall operations cause a regulated utility's achieved rate of return to be in
9 excess of or below its authorized range should there be the need to once again
10 have a rate case and scrutinize the individual cost components. However, witness
11 Martin would violate this basic approach to setting base rates and instead have the
12 Commission consider anticipated smart meter savings as an excuse to delay the
13 recovery of the incremental costs of the optional NSMR service.

14 **Q. What would be wrong with delaying consideration of the NSMR tariff until**
15 **the next FPL rate case?**

16 A. There are at least six reasons why such a delay would be wrong. First, the timing
17 of FPL's next rate case is uncertain. FPL is currently operating pursuant to a
18 settlement which precludes a rate case (absent extraordinary circumstances as
19 more fully described in the settlement) through the year 2016. Under normal
20 circumstances, new rates could not be implemented until 2017. This could cause
21 an unduly long and unnecessary delay in implementing the NSMR tariff.

22

23 Second, the delay in implementation would result in cross-subsidies between

1 customers choosing non-standard meters and those with standard meters.
2 Regulation in Florida goes to great lengths to set rates that are fair, just, and
3 reasonable, and which do not foster cross-subsidies among customers. This is
4 apparent in both the nature of and the extent to which costs are recognized in
5 rates, as well as in the structure of the rates themselves. The Commission has
6 rules dealing with cost of service studies and many years of precedent to ensure
7 that rates are set equitably and on a non-discriminatory basis. The Commission
8 also has a policy of having cost causers pay their fair share of the costs they place
9 on the system, especially when they engage in actions or choose options that, if
10 not specifically recognized, would tend to cause rates for the general body of
11 customers to increase. All of this is done to minimize cross-subsidies to the
12 greatest extent possible. Any unnecessary delay in implementing the NSMR tariff
13 would achieve the opposite.

14
15 Third, a delay in implementing the NSMR tariff would contribute to regulatory
16 lag in contravention of Commission policy to minimize its impacts whenever
17 possible. By delaying the recognition of the incremental costs in rates, customers
18 choosing the new non-standard service would not be paying their fair share to
19 cover the incremental costs. This would put upward pressure on rates and
20 potentially impact the long-term stability of rates as established in the 2012 rate
21 stipulation, all of which would contribute to regulatory lag. Along with the
22 Commission, both the Florida Legislature and the Florida Supreme Court have
23 recognized regulatory lag as being counter to the goals of good regulatory policy.

1 The Florida Legislature has given tools to the Commission to minimize regulatory
2 lag, and these tools have been sustained by the Florida Supreme Court. The
3 Commission has used these tools to minimize the harmful effects of regulatory
4 lag. It would be counterintuitive and counterproductive to Florida's established
5 policy to minimize regulatory lag to unnecessarily delay implementation of the
6 NSMR tariff.

7
8 Fourth, there would be a delay in sending the correct pricing signals to customers.
9 Customers who are contemplating the option to choose a non-standard meter
10 should be fully informed and know the cost impacts of their decision. Any
11 unnecessary delay would not be conducive to making fully informed choices and
12 could result in prolonged inefficiencies on the system as a whole.

13
14 Fifth, witness Martin's proposal to delay implementation until the next rate case is
15 based on a fundamental misconception that the cost of the non-standard meter
16 service is somehow contingent upon or otherwise inextricably linked to the setting
17 of rates in a rate case. In reality, the costs of the non-standard service are
18 independent of rates for standard services in a rate case. These costs can be
19 determined on an incremental basis, either as part of a rate case or as part of an
20 independent review. If done correctly, the cost of the non-standard service will be
21 the same regardless of whether it is determined as part of a rate case or
22 independent of a rate case. This is because the optional non-standard meter
23 service is an independent service with its own set of costs. This is also true of

1 other optional services whose costs are routinely determined and tariffs are filed
2 outside of a rate case.

3

4 Sixth, witness Martin's proposal to delay implementation of the NSMR tariff until
5 the next rate case is inconsistent with the settlement approved in the 2012 rate
6 case. This settlement provides for the long-term stability of FPL's rates and
7 appropriately recognizes that a degree of flexibility is needed to address the need
8 for new or revised tariffs. Section 14 of the settlement specifically contemplates
9 the filing of tariffs for optional services outside the scope of a rate case:

10 Nothing in this agreement will preclude FPL from filing and the
11 Commission from approving any new or revised tariff provisions
12 or rate schedules requested by FPL, provided that such tariff
13 request does not increase any existing base rate component of a
14 tariff or rate schedule during the Term unless the application of
15 such new or revised tariff or rate schedule is optional to FPL's
16 customers.

17 **Q. Why is it appropriate for new tariffs or tariff changes to be considered**
18 **outside of a rate case?**

19 A. As I previously stated, the timing of rate cases can be uncertain. If efforts to
20 control regulatory lag are successful and increases in uncontrollable costs are
21 minimal, the amount of time between rate cases can be several years. During this
22 time, there will be the need to introduce new services or make changes to existing
23 services. Requiring rate cases to address these tariff changes would be both

1 inefficient and disruptive to meeting customer needs in a timely manner. It would
2 also be difficult to meet changing regulatory requirements, changing technologies,
3 and changing economic conditions. Examples of tariffs filed outside of a rate
4 case to address such changes include: tariffs to implement net metering; tariffs to
5 update the costs of providing optional undergrounding services; and tariffs to
6 promote economic development, such as FPL's Commercial/Industrial Service
7 Rider in Docket No. 130286-EI. In fact, FPL's NSMR tariff filing is the result of
8 an extensive regulatory review which indicated that a tariff should be filed and
9 considered outside the confines of a rate case.

10 **Q. Witness Martin repeatedly states that non-standard meter costs should be**
11 **“absorbed.” Is this appropriate?**

12 A. No, it is not. Her use of the term “absorb” is a misnomer. In the context in which
13 she uses this term, she really means that the incremental costs should simply be
14 ignored for purposes of setting the rate for the non-standard meter service. For
15 example, witness Martin incorrectly asserts that “basic rates include cost recovery
16 for sampling and testing” of meters. However, as more fully explained in the
17 testimony of Robert Onsgard, the sampling and testing of non-standard meters are
18 incremental and would not be incurred if it were not for customers choosing the
19 non-standard meter option. She also asserts that “FPL has sufficient
20 compensation in base rates” to absorb many of the incremental costs, such as
21 OSHA-related costs. But in making these claims, she once again ignores the
22 purpose and manner in which base rates are set. Her argument to “absorb” costs
23 is subject to the same six misconceptions and inconsistencies that I identified

1 earlier for her suggestion to wait until the next rate case to set rates for the non-
2 standard meter service. As such, her suggestion to “absorb” costs is without merit
3 and should be rejected.

4 **Q. Witness Martin states that where a non-standard service imposes “de**
5 **minimis” costs, those costs could be waived and shared by all ratepayers. Do**
6 **you agree?**

7 A. No, for three reasons. First, as more fully described in the testimony of Robert
8 Onsgard, the incremental costs associated with the provisioning of non-standard
9 meters are, in fact, significant. Second, witness Martin inappropriately contends
10 that cost savings from standard meters should be used to somehow offset the non-
11 standard incremental costs. This is inconsistent with the way that rates are set in
12 rate cases, would contribute to regulatory lag, and would be inconsistent with the
13 Commission’s practice of setting rates for non-standard services on the specific
14 incremental costs of the non-standard service in question. And third, even witness
15 Martin readily acknowledges that by waiving the costs, they would “be shared by
16 all ratepayers.” This would result in cross-subsidies, which are inconsistent with
17 Commission policy to minimize cross-subsidization among customer groups.

18
19 **II. OTHER NON-STANDARD SERVICES**

20
21 **Q. What other non-standard services does witness Martin reference?**

22 A. Witness Martin references three optional services which she incorrectly believes
23 support her contention that there should not be a charge for the non-standard

1 meter option. They are: Spanish customer services; “TDDY,” by which she
2 apparently is referring to telephone devices for the deaf; and budget billing
3 services. She states that there is no additional charge for these optional services,
4 indicating that the Commission’s “cost principle appears to be discretionary, not
5 mandatory.”

6 **Q. Do you agree with her assertion?**

7 A. No, her comparisons of Spanish customer service and budget billing to the NSMR
8 tariff are misplaced and her conclusion is wrong. Additionally, even Witness
9 Martin acknowledges that providing telephone service for the hard of hearing and
10 speech impaired without charge is appropriate. Doing so is a matter of public
11 policy in Florida pursuant to the Telecommunications Access System Act of
12 1991, as contained in Chapter 427, Florida Statutes.

13 **Q. Please explain how Spanish customer service is an inappropriate**
14 **comparison.**

15 A. Contrary to witness Martin’s assertion, providing customer service in Spanish is
16 not a separate service and neither is it capable of being separately billed. In short,
17 it is a means to effectively and efficiently provide service to a large portion of
18 FPL’s customers. In essence, it is a case of good business practice to do so. As in
19 the case of smart meters being the best means of providing service to customers
20 and becoming the standard, providing customer service in both Spanish and
21 English is the best means of providing service to all of FPL’s customers. Dual-
22 language service is now the standard. As such, dual-language service is beneficial
23 to the general body of customers by improving the efficiency of operations and

1 keeping rates lower than they otherwise would be for all customers. It is totally
2 inappropriate to suggest that providing dual-language customer service justifies
3 not charging for non-standard meters.

4 **Q. Please explain how budget billing is an inappropriate comparison.**

5 A. Budget billing is an optional service that enables customers to pay a leveled
6 payment for service and allows them to better budget their expenses. It was
7 thoroughly reviewed and then approved by the Commission in 1981, as part of a
8 larger review of lifeline rates pursuant to the Regulatory Policies Act of 1978.
9 The Commission noted that the service was not a discount to those customers
10 choosing the budget billing option and that it provided benefits to all customers.

11 In its Order No. 10047, the Commission stated:

12 Such plans do not amount to or offer a discount, but merely
13 provide a different method of paying the same dollar amount for
14 a year's service. Under budget billing, customers would be
15 better able to plan payment of bills during peak use months.
16 Further, an appropriate plan should facilitate payment by low- or
17 fixed-income customers. An additional benefit is realized
18 through a reduction in high bill complaints as has been
19 experienced by both Gulf and Florida Power Corporation.

20

21 In essence, the Commission found that budget billing provides benefits in excess
22 of any administrative costs of administering the program. This is unlike the case
23 of the non-standard meter option, which does not benefit the general body of

1 customers and imposes significant costs that need to be paid by those customers
2 choosing that option.

3 **Q. Does witness Martin address any other non-standard service in her**
4 **testimony?**

5 A. Yes, she addresses the provisioning of underground service pursuant to Rule 25-
6 6.115, F.A.C. She attempts to characterize it as not being comparable to the
7 provisioning of the non-standard meter option.

8 **Q. Is witness Martin correct in her characterization?**

9 A. No. The provisioning of underground service is a perfect example of an optional
10 service imposing costs greater than the standard service and that charges to cover
11 the incremental costs should be collected specifically from those customers
12 choosing the non-standard service. Witness Martin does not directly dispute that
13 the undergrounding tariff accomplishes this result. What she does is raise a
14 number of spurious differences that elevates form over substance in a futile
15 attempt to show that the policies applied to undergrounding are not applicable to
16 non-standard meters.

17 **Q. Please explain.**

18 A. First, witness Martin makes the distinction that the burial of lines is for a new
19 service while non-standard meters are an existing service. This is totally
20 irrelevant, but is nevertheless incorrect. Undergrounding can be either for new
21 service or the undergrounding of existing service. Likewise, it would also be
22 permissible for a new customer to request a non-standard meter. Second, witness
23 Martin states that “efforts to initiate improvements to the transmission lines are

1 measured and quantifiable.” She apparently is asserting that the cost of the non-
2 standard meters is not measured and quantifiable. She continues by stating that
3 “the Commission engaged in a deliberation of the process and standards to apply
4 when converting overhead facilities to underground facilities”, again apparently
5 asserting that the Commission has not done so for non-standard meters. She
6 continues by stating that the undergrounding rule “goes so far as to offer the
7 customer/applicant for this service the opportunity to challenge an electric
8 utility’s cost estimates to complete the service.”

9
10 These distinctions/assertions are fiction. FPL, through the testimony of Robert
11 Onsgard, has provided the Commission with extensive cost information that is
12 both measured and quantifiable. In addition, this very proceeding is a deliberation
13 of the process and indeed offers customers the opportunity to challenge the
14 electric utility’s cost estimates. The only distinction is that the undergrounding
15 tariffs are filed subject to rule while the non-standard meter tariff was filed within
16 this specific docket. This is a distinction without a meaningful difference when it
17 comes to evaluating the applicability of the Commission’s policy on pricing
18 optional services. The overarching policy is applicable regardless of the
19 regulatory means of implementing the policy.

III. CONCLUSION

1

2

3 **Q. What is your conclusion?**

4 A. Witness Martin's recommendation to either open an AMI project review to adjust
5 base rates or wait until FPL's next rate case to implement the NSMR tariff should
6 be rejected. Both of these alternatives are inconsistent with the manner in which
7 base rates are set, are inconsistent with the need to approve optional tariffs outside
8 of a rate case, and fail to fully recognize differences between standard and non-
9 standard services. In addition, delaying action would have other adverse
10 consequences. Among these consequences are regulatory lag impacts, prolonged
11 cross-subsidies among customer groups, and inappropriate price signals to
12 customers. In regard to other optional services, the non-standard services
13 referenced by witness Martin do not support her contention that the Commission
14 does not have a uniform policy on collecting rates based on the incremental cost
15 of optional services. And they further do not support her contention that the
16 incremental costs of non-standard meters should be waived and/or absorbed. And
17 finally, witness Martin is incorrect in her assertion that the overarching policy of
18 recovering incremental costs for underground service can be distinguished from
19 the need to recover incremental costs for non-standard meters.

20 **Q. Does this conclude your testimony?**

21 A. Yes, it does.

1 BY MS. MONCADA:

2 Q Mr. Deason, are you sponsoring any exhibits to
3 your direct testimony?

4 A Yes.

5 Q And is that Exhibit JTD-1, also shown as
6 Exhibit 7 on staff's exhibit list?

7 A Yes.

8 Q Are you sponsoring any exhibits to your
9 rebuttal testimony?

10 A No.

11 MS. MONCADA: Commissioner, I would note that
12 Mr. Deason's exhibit has been premarked for
13 identification on staff's comprehensive exhibit
14 list as Exhibit Number 7.

15 COMMISSIONER EDGAR: Thank you.

16 BY MS. MONCADA:

17 Q Mr. Deason, have you prepared a summary of
18 your direct testimony?

19 A Yes.

20 Q Would you please provide that summary to the
21 Commission at this time?

22 A Yes. Good afternoon, Commissioners. The
23 Commission has a long and consistent history of setting
24 rates based upon a regulated utility's cost of providing
25 service and setting rates to minimize subsidies among

1 customers. Inherent in the Commission's policy is the
2 concept that the cost causer should pay the cost that
3 they impose for the services they demand and the options
4 they choose.

5 The Commission's policy is consistent with
6 sound regulatory principles and achieves purposes in
7 Chapter 366, Florida Statutes. The Commission's policy
8 is also an integral part of numerous Commission rules
9 dealing with the recovery of costs on an incremental
10 basis to avoid cross-subsidization among cost causers
11 and the general body of customers.

12 The Commission's policy has also been
13 consistently applied when setting rates, both within
14 rate cases and within non-rate case proceedings. FPL's
15 optional non-standard meter rider adheres to this
16 policy and establishes an appropriate and fair manner
17 to recover the costs from customers choosing to avail
18 themselves of this optional service.

19 FPL's optional non-standard meter rider also
20 sends the correct pricing signals to customers,
21 customers that are considering a non-standard meter.
22 Without correct pricing signals, these customers would
23 not have the necessary information on which to make an
24 informed choice reflective of the costs they would be
25 imposing on FPL's system as a whole.

1 Earlier in this docket, the Commission
2 adhered to its policy when it issued its tariff order.
3 In this order, the Commission stated we find that the
4 option to opt out from the standard smart meter will
5 require FPL to incur incremental costs which would
6 appropriately be borne by the cost causer and not the
7 general body of ratepayers. This finding is consistent
8 with the applicable statutes and rules which I discuss
9 in my prefiled testimony. It is also consistent with
10 previous decisions of the Commission and it's
11 consistent with sound regulatory policy which I also
12 discuss in my prefiled testimony.

13 Thus, I recommend that the Commission
14 reconfirm the decision it reached in its tariff order
15 previously issued in this docket. This concludes the
16 summary of my direct testimony.

17 **Q Thank you, Mr. Deason. Have you also prepared**
18 **a summary of your rebuttal testimony?**

19 A Yes.

20 **Q Would you please provide that summary to the**
21 **Commission at this time?**

22 A Yes. In my rebuttal testimony, I respond to
23 many of the positions and recommendations contained in
24 the testimony of Intervenor Witness Martin. Witness
25 Martin mistakenly asserts that FPL's non-standard meter

1 rider is inconsistent with historical tariff
2 requirements. She recommends that the incremental costs
3 of the non-standard meter simply be ignored, absorbed or
4 delayed. This recommendation is contrary to Commission
5 policy and would be unfair to the general body of
6 customers.

7 Witness Martin also inappropriately compares
8 the non-standard meters to service offerings which do
9 not have a separate charge in a misguided attempt to
10 excuse non-standard meter customers from paying their
11 fair share of the costs they impose on the system.

12 Contrary to Witness Martin's assertion, FPL's
13 approach to quantifying and implementing its NSMR
14 tariff is entirely consistent with the manner in which
15 the Commission has approved tariffs for non-standard
16 services. This approach is necessary to place costs on
17 the cost causer and prevent cross-subsidies.

18 Witness Martin's alternative recommendation
19 to either, one, open up an AMI project review to adjust
20 base rates or, two, wait until FPL's next rate case to
21 implement the NSMR tariff should also be rejected.
22 Both of these alternatives ignore the manner in which
23 base rates are set, are inconsistent with the need to
24 approve tariffs outside of a rate case and fail to
25 fully recognize differences between standard and

1 non-standard services.

2 In addition, delaying action would have other
3 adverse consequences. Among these consequences are
4 regulatory lag impacts, prolonged cross-subsidies among
5 customer groups and inappropriate price signals to
6 customers.

7 In regard to other optional services, the
8 non-standard services referenced by Witness Martin do
9 not support her contentions. In a futile attempt to
10 justify her recommendations, Witness Martin
11 inappropriately compares non-standard meters with dual
12 language service and budget billing. In sharp contrast
13 to non-standard meters, both dual language service and
14 budget billing are efficient standard business
15 practices which cost effectively provide a high level
16 of service to the general body of customers.

17 And, finally, Witness Martin is incorrect in
18 her assertion that the Commission's policy of
19 collecting incremental costs of underground service can
20 be distinguished in any meaningful way from the need to
21 collect the incremental cost of non-standard meters.
22 In reality, the Commission's policy is equally
23 applicable in both situations.

24 In conclusion, Witness Martin's
25 recommendation should be rejected and the Commission

1 should reaffirm its decision as contained in its tariff
2 order previously issued in this docket. This concludes
3 the summary of my rebuttal testimony.

4 **Q Thank you, Mr. Deason.**

5 MS. MONCADA: Commissioners, Mr. Deason is now
6 available for cross examination.

7 COMMISSIONER EDGAR: Thank you.

8 Mr. Rehwinkel, do you have questions?

9 MR. REHWINKEL: Yes, Madam Chairman. Thank
10 you.

11 CROSS EXAMINATION

12 BY MR. REHWINKEL:

13 **Q Good morning -- I'm sorry -- good afternoon,**
14 **Mr. Deason.**

15 A Good afternoon.

16 **Q We need to stop meeting like this.**

17 A This is the only time I get to visit with you.

18 **Q On your direct testimony, page 4, if you could**
19 **turn to that, and specifically lines 7 through 10.**

20 A Yes.

21 **Q Do you see that?**

22 A Yes.

23 **Q It's not your testimony in this docket that**
24 **FPL would be denied a reasonable rate of return upon its**
25 **rate base if the company does not collect from NSMR**

1 customers the \$2 million in capital costs, are you -- is
2 it?

3 A No, that's a factual determination. I'm
4 speaking to the policy and present this as a basis for
5 what I understand the Commission's policy to be.

6 Q Okay. And then on line 16, there you cite a
7 statutory provision and you quote a phrase that is
8 "Customer Class." Do you see that?

9 A I do.

10 Q Did you provide a definition for what a
11 customer class is?

12 A I don't believe that I did.

13 Q Okay.

14 A This is a statutory provision here that I'm
15 referring to. The statute may define it, I'm not sure.

16 Q Okay. Isn't it your understanding, from your
17 experience practicing before the Commission and serving
18 on the Commission, that the intent there is that these
19 are customer classes like residential, general service,
20 commercial, industrial, those broad categories of
21 customer classes?

22 A I would agree that's the way it's generally
23 been applied. But I think the Commission has discretion
24 to determine what it considers to be a homogeneous class
25 so that rates are fair and there's not cross-subsidies.

1 **Q** Okay. But isn't it true that the classes that
2 are referenced here and the intent that the statute
3 applies, is that it's looking really at those relatively
4 immutable classes? Like you can't move from residential
5 to business or business back to residential? These are
6 not discretionary categorizations by and large, wouldn't
7 you agree with that?

8 A I'm sorry, could you repeat your question?

9 **Q** Yeah. A residential customer couldn't decide
10 to be an industrial customer at his residence and take
11 service as an industrial customer for the most part,
12 right?

13 A That's true. It's not the customer's option
14 as to which service category they take service.

15 **Q** Right.

16 A They either qualify or they do not qualify.

17 **Q** Right. And that's generally the statutory
18 intent by the use of the word "class" though, wouldn't
19 you agree?

20 A I would agree that's how it's traditionally
21 been implemented. But I'm presenting this statutory
22 provision to stand for the policy that rates should
23 cover costs and that costs are a consideration in
24 determining rates and determining whether it's a
25 cross-subsidy among customers.

1 **Q** Now, would you also agree that you have not
2 pointed the Commission to a case where the Commission
3 has determined that similarly-situated subscribers to a
4 particular discretionary miscellaneous service tariff
5 constitutes a class for the purposes of the provision of
6 this statute, have you?

7 **A** No, I don't believe I have referred to an
8 order of that nature.

9 **Q** Can you?

10 **A** Well, I haven't attempted to find that. I
11 didn't think that it was relevant.

12 **Q** Okay.

13 **A** There are situations of rules that speak to
14 the fact that there are different types of customers and
15 they can be treated differently.

16 **Q** Okay. But do they refer to them as a class?

17 **A** Well, it depends on the definition, once
18 again, of what the class is, which I didn't define, and
19 perhaps the statute does or does not.

20 **Q** Okay. And on page 5 of your testimony, lines
21 13 through 18, you cite -- well, actually, 13 through
22 16 -- you cite a provision of the FEECA Act; is that
23 right?

24 **A** Yes.

25 **Q** Okay. Now, it's not your testimony that this

1 provision actually applies as a matter of law to the
2 rest of Chapter 366, is it?

3 A I'm not speaking to it as a matter of law.
4 I'm speaking to it as a matter of policy and principle.
5 And to the extent that in setting rates and improving
6 goals, that there should not be cross-subsidization.
7 And it is naturally a part of 366, I think, as a matter
8 of principle. It also applies to matters of general
9 rate setting.

10 Q Okay. Just so I understand, when you use the
11 word "apply," are you saying that it governs this case?

12 A No, I think the Commission should use its
13 discretion to look at that in making its policy
14 determination in this case.

15 Q Okay. Let's turn to page 6 and lines 13
16 through 16. And you say they are "The standard to
17 determine whether rates are compensatory is a measure of
18 earnings as a percent of rate base, parenthesis, cost,
19 closed parenthesis. When rates are not compensatory in
20 aggregate, overall rates will have to be adjusted on a
21 going forward basis."

22 Did I read that right?

23 A Yes.

24 Q Okay. So is it your testimony that the
25 measure for whether cost recovery is compensatory is

1 **measured on overall company -- regulated company basis?**

2 A No, that's not my contention. It can be done
3 on an overall basis. But in evaluating specific tariff
4 requirements, it can also be looked at in determinants
5 as to whether the rates being requested cover costs.

6 Q Okay. Are you saying that -- is it your
7 testimony that if costs -- if there's any kind of cost
8 that the company presents, let's say in this case
9 incremental costs, that there are not a specific
10 identified tariff that recovers those identifiable costs
11 and then FPL is not being compensated for the services
12 it provides?

13 A It is not being adequately compensated for
14 that optional service to that limited extent, yes.

15 Q Okay. But the reference here is whether rates
16 are compensatory, and I just don't -- I'm trying to
17 understand what you mean by the aggregate overall rates
18 in the context of this proceeding.

19 A I'll be happy to define that for you. It's
20 all rates, both optional, non-optional base rates, any
21 kind of rates that are charged to recoverer costs.
22 Ideally each individual specific rate should cover its
23 specific costs and then an overall measure of that can
24 be done on an aggregate basis in terms of an earnings
25 review.

1 Q Okay. So would you agree with me -- well, you
2 would agree with me -- and I think you testified, in
3 fact, in Docket Number 120015 -- that there is, as a
4 result of that case and the final order, that is now
5 final by the Supreme Court, that FPL is under a base
6 rate freeze from the inception of that order of 2013
7 through the end of 2016?

8 A Yes.

9 Q Okay. Now, would you also agree that -- well,
10 let me strike that and ask you to refer to line 19
11 through 21 of this same page 6. You state "When rates
12 are non-compensatory or do not cover a customer's cost,
13 there is discrimination against other customers who
14 ultimately must subsidize the below-cost rates."

15 Do you see that?

16 A I do.

17 Q Can that statement be true during a period
18 when base rates are frozen?

19 A As matter of policy and principle, yes.

20 Q As a matter of actuality?

21 A I have not done that determination to
22 determine what the impact it would be on earnings. I
23 don't think it's relevant to this case.

24 Q Well, I'm specifically asking about the last
25 clause there where it says, "Other customers who

1 ultimately must subsidize the below-cost rates."

2 If customers who are not NSMR subscribers,
3 i.e., standard meter customers, rates do not change
4 during the base rate period whether the company recovers
5 costs from NSMR subscribers or not, how can the standard
6 meter customers be subsidizing them?

7 A They're being subsidized because the customers
8 choosing the optional service are not paying their fair
9 share of the costs, and so by definition it would be a
10 subsidization.

11 Q Okay. Now, the customers who are not choosing
12 the standard meter, they're also paying for standard
13 meters, right?

14 A The customers -- I'm sorry, I'm confused on
15 opt-in, opt-out. If you can repeat the question,
16 please.

17 Q Yes. The 6,700 -- you heard Mr. Onsgard --
18 the 6,700 non-standard subscribers, they are also paying
19 the same cost that everyone else is paying for the
20 availability of standard meters; you would agree with
21 that, right?

22 A Yes.

23 Q Okay. So during the period of base rate
24 freeze, if you can assume that the standard meter
25 customers' rates do not change at all, would you agree

1 with me that they are not paying the costs during that
2 period of the provision of service for the non-standard
3 meter subscribers?

4 A I would agree that their rates are probably
5 not going to increase. And that may be a function of
6 the settlement. But it's also my position,
7 Commissioners, as a matter of policy, what is the
8 correct policy in pricing a non-standard optional
9 service, that that policy is applicable regardless of
10 the factual situation as to whether a utility finds
11 itself in a stipulated settlement or not within a
12 stipulated settlement. Their principles are the same.

13 Q Okay. Well, just so we're clear, in actuality
14 during that base rate freeze period, you would agree
15 with me that the standard meter subscribers are not
16 subsidizing the non-standard meter subscribers if there
17 is no cost recovery from the 6,700, correct?

18 A I don't necessarily agree with that. I think
19 as a matter of policy, as a principle, it's unfair to
20 ask one group of customers to pay a cost and another
21 group of customers be excused from paying the cost that
22 they caused on the system.

23 Q I didn't ask about a matter of policy. I'm
24 talking about as a matter of actual fact. Are they
25 subsidizing those customers if their rates do not

1 **change?**

2 A The way I've defined subsidy, yes.

3 **Q Okay. So it's theoretical subsidization?**

4 A No, it's based upon policy and what the
5 Commission has done in the past and the principles of
6 good ratemaking.

7 **Q Okay. So would you argue that the customers,
8 the general body of customers, if the -- and you would
9 agree the costs are in the 3 to \$4 million range?**

10 A I believe that I heard Mr. Onsgard state that
11 the costs generally are in that order of magnitude.

12 **Q 3 million of one-time in capital and 1 million
13 or so of on-going O&M?**

14 A I would accept that.

15 **Q Okay. 1 million of annual on-going O&M?**

16 A Yes.

17 **Q Okay. So would you also agree with me that
18 the recovery or non-recovery of those costs could have
19 no effect on FPL's ability to earn within its authorized
20 rate of return range?**

21 A I would agree. And I would argue that's not
22 the standard to determine whether there's a subsidy or
23 whether there's fairness between customer groups.

24 **Q But you would also agree with me that the
25 general body of customers, to the extent the**

1 non-standard costs are not being recovered, they would
2 not be deprived of the opportunity to have lower rates
3 during the base rate freeze period simply because of the
4 non-recovery of the NSMR costs?

5 A I think that's -- yes, I think that's probably
6 a function of the settlement agreement and the
7 parameters that are contained in that. But I'll also
8 point out that there's a specific provision within the
9 settlement that allows FPL to make a tariff filing for
10 an optional service, so it is contemplated within the
11 scope of the settlement.

12 Q Well, that provision, you would agree, doesn't
13 mandate that FPL recover costs in this manner, it just
14 allows them to; you would agree with that?

15 A It is permissible. It's not mandatory. Just
16 like the NSMR tariff is permissible to customers in an
17 optional provision.

18 Q Now, you would agree with me -- I can show it
19 to you -- but you would agree with me that FPL's last
20 surveillance report shows them earning 11.29 percent
21 return on equity, wouldn't you?

22 A I have not seen that surveillance report, but
23 I don't have any basis to question that that is the
24 result.

25 Q Okay. And you would also agree with me that

1 the rate of return range that the settlement prescribed
2 was between 9.5 on the bottom end and 11.5 on the top
3 end?

4 A Based upon my recollection, I believe that is
5 correct.

6 Q Okay. Would you also agree with me, without
7 me having to pass an exhibit with Mr. Dewhurst's
8 testimony that 100 basis points on equity roughly
9 yielded was equivalent to \$160 million in revenue
10 requirements?

11 A I seem to also recall that metric as well.

12 Q Okay. So by simple extrapolation, you would
13 agree with me that 179 basis points, i.e., the
14 difference between 9.5 and 11.29, would be about
15 \$286 million in revenue requirements?

16 A I'm not disputing that math. But as a matter
17 of policy, Commissioners, if the logic is that the
18 company is not under earning and that you always excuse
19 customers who choose an optional service from paying
20 their fair share, it is unfair to the other customers.
21 And if you continue that practice time after time after
22 time after time, you're going to be driving the
23 company's earnings down. And it's not the purpose of
24 regulation to set rates which are going to ultimately
25 deny the company the opportunity to earn a fair return

1 unless they file another rate case.

2 Q Now, you do have some experience and
3 recollection and memories of what used to be called
4 extended area of service in the telecom industry, don't
5 you?

6 A Mr. Rehwinkel, you're going way back, but I do
7 recall that.

8 Q Okay. An extended area of service
9 essentially, by certain processes, migrated toll calling
10 to some form of local calling, maybe a pay by call or a
11 call allowance, for routes in an area that were close to
12 a larger setting; would you agree with that?

13 A That happened on many occasions, yes.

14 Q Okay. And initially what happened is these
15 services were -- the costs of these services were
16 attributed to the cost causer, i.e., the outlying area
17 of customers who wanted to have toll calling into the
18 larger area, right?

19 A I don't recall that, Mr. Rehwinkel. If you
20 can point me to an order, I'll be glad to take a look at
21 that. I'm not sure when you talk about cost, what
22 you -- I'm at a loss. I can't follow your question.

23 Q You recall the concept of basic local rates
24 where a customer would pay a flat rate and get unlimited
25 local calling?

1 A Yes, indeed.

2 Q Right. And if they wanted to call, say, from
3 Tallahassee to Panama City, they would pay a toll
4 charge?

5 A Yes.

6 Q A usage base charge. And if they lived in,
7 say, Hosford, that was a toll charge. And it was
8 eventually converted to an EAS charge of maybe 25 cents
9 a call with a three call free allowance?

10 A Yes.

11 Q Okay. And ultimately over time, those costs
12 were actually melded into the base rate as calling areas
13 expanded; you would agree with that?

14 A Yes.

15 Q Okay. So these incremental costs that were
16 driven by toll users, they ultimately became, at some
17 point, folded into the basic rate in the phone area,
18 right?

19 A Mr. Rehwinkel, this is where I've got to
20 depart with you because you're using the term "cost."

21 Commissioners, back in telephone regulation
22 days when they were base rate regulated, it was known
23 that basic service, basic residential service was
24 priced underneath its costs as a matter of public
25 policy. And toll calls were actually priced way above

1 costs. And that's part of the problem that happens in
2 regulation when you have subsidies between different
3 groups and why it's not a good policy in the long run,
4 particularly when competition is introduced.

5 So when you use the term "cost," that the
6 customers who were previously paying high toll calls,
7 which were actually priced above cost, somehow were not
8 paying their fair share of cost when all they were
9 wanting to get was basic local service, that was
10 already below cost. We're being very loose with the
11 terms "cost" and whether there's a subsidy one way or
12 the other.

13 The argument could be made that the subsidy
14 was actually between those customers who did not have
15 the local service and were paying the high toll
16 charges.

17 **Q I appreciate the tutorial. But my point was,**
18 **is that ultimately costs that were for discretionary**
19 **services became, over time, melded into the fixed costs**
20 **that all general body of ratepayers paid; would you**
21 **agree with that?**

22 A I would agree that that was the result, yes.

23 **Q Okay. You are aware, are you not, that FPL**
24 **originally proposed to recover the up-front and one-time**
25 **capital costs over a three-year period?**

1 A Yes.

2 Q Okay. And if they did that, that period would
3 also coincide with the base rate freeze period, right,
4 if you started it this year, 2014, 2015 and 2016?

5 A Yes.

6 Q Okay. I just have one final question, and
7 this is just clarification so I understand what you mean
8 here. And I don't think you mean it this way.

9 But if I can get you to turn to page 14 of
10 your rebuttal. On line 10 you're referring to testimony
11 of Ms. Martin that you cite in the section above that.
12 Do you see that?

13 A Yes.

14 Q And you say, "These distinctions/assertions
15 are fiction." You're stating right there you disagree
16 with her factual presentation but you're not saying that
17 she's being dishonest or making it up? That's not what
18 you mean by "fiction," right?

19 A You're correct, that's not what I meant by
20 that term.

21 Q Okay.

22 A Perhaps it was a poor choice of terms.

23 Q Thank you very much.

24 MR. REHWINKEL: Those are all the questions I
25 have, Mr. Chairman.

1 CHAIRMAN GRAHAM: Thank you, Mr. Rehwinkel.
2 Mr. Jacobs.

3 MR. JACOBS: Mr. Chairman, I will have a bit
4 of testimony, if you want -- what's your pleasure
5 about doing a break? We can get started or we can
6 come back later.

7 CHAIRMAN GRAHAM: Go ahead.

8 MR. JACOBS: Very well.

9 CROSS EXAMINATION

10 BY MR. JACOBS:

11 Q Good afternoon.

12 A Good afternoon.

13 Q There ought to be a Barbara Streisand song
14 playing about now, shouldn't there? It's been a long
15 time since we saw one another.

16 A It has been a while.

17 Q Well, I would like to start by belaboring some
18 of your background and experience, though, I'm well
19 familiar with it. You have appeared in rate case
20 proceedings, have you not?

21 A Yes.

22 Q And, in fact, you've appeared as a witness in
23 the most recent rate proceeding for Florida Power &
24 Light, have you not?

25 A Yes.

1 Q So based on that, you have familiarity with
2 the materials and support that go into those
3 proceedings, correct?

4 A General familiarity, yes.

5 Q You have to review the policies and the
6 methodology of Florida Power & Light in calculating
7 rates and charges for the smart meter program; is that
8 correct?

9 A No. I'm aware that that was an issue that was
10 contained in the prehearing order during that rate case,
11 yes.

12 Q Okay. And then as a general matter, you have
13 regulatory ratemaking expertise and you're very familiar
14 with the whole concept of developing rates for regulated
15 utilities; is that correct?

16 A Yes.

17 Q And you've testified that there are specific
18 guides and standards in developing those rates that are
19 a statutorily basis, correct?

20 A There are statutory direction to ratemaking,
21 yes.

22 Q And that statute requires that they be fair
23 and reasonable; is that correct?

24 A Yes.

25 Q And in this particular proceeding, in addition

1 to your testimony, have you reviewed the testimony of
2 Mr. Onsgard?

3 A Yes.

4 Q And, of course, you testified regarding your
5 review of Ms. Martin's testimony, correct?

6 A Yes.

7 Q Now, in your direct testimony on page 7, you
8 reference some proceedings, some analogous proceedings
9 where non-standard services have been adopted by the
10 Commission; is that correct? I believe it's line 13.

11 A I do in my testimony reference other
12 non-standard services.

13 Q And you specifically reference these
14 proceedings and you cite administrative rules that go
15 along with them. That denotes that those services in
16 the tariff that go along with them will adopt it in a
17 rule making; is that correct?

18 A Yes.

19 Q Okay. So in these instances, a relatively
20 formal -- very formal process was engaged in order to
21 review and assess what would be the inherent costs that
22 go into developing these non-standard services; you
23 would agree?

24 A Yes, it was a formal process, just like this
25 is a formal process that we're engaged in presently.

1 **Q Right. And normally that entails cost studies**
2 **and a whole elaborate level of support, does it not?**

3 A Well, I'm not sure that there were specific
4 cost studies provided in these rules. There were
5 parameters set out as to how cost studies and
6 incremental costs would be determined on a case-by-case
7 basis.

8 **Q Okay.**

9 A In this case, we do have a specific cost study
10 for the tariff that is being proposed in this docket.

11 **Q Now, in this docket, there was no such process**
12 **followed, was there? There has not been a formal rule**
13 **making nor has there been any formal analogies done**
14 **subject to rule --**

15 A There has been no formal rule making, nor
16 should there be. And this case is not at a point to
17 where there should be any formal rule making.

18 **Q So is there some standard governing when you**
19 **would do a rule making as opposed to when you were doing**
20 **a non-standard service?**

21 A It's generally accepted that when the
22 Commission, through specific cases, has developed a
23 policy that at some point it is expedient to take that
24 to a rule making. But this is the first such tariff
25 that's been filed in Florida, so I think on its face,

1 it's probably not appropriate for it to have been done
2 in a rule-making proceeding.

3 **Q So in your assessment and view, the dividing**
4 **line would have been after these services had undergone**
5 **some period of experience in some prior tariffs and**
6 **revision of tariffs and then you would go to rule making**
7 **on them?**

8 A Let me be clear. It's not the purpose of my
9 testimony by referring to rules as to whether this
10 Commission should engage in any type of rule making for
11 this. But I would agree that at this point, there's no
12 need for any type of rule making. This fact-specific
13 docket to look at this is sufficient.

14 **Q Okay. And when you say "fact specific," could**
15 **you explain a bit more what that means?**

16 A The facts based upon FPL's costs that are
17 being proposed as part of its tariff.

18 **Q So because, in your view, those costs are**
19 **fairly well defined and very clear, then a less rigorous**
20 **assessment of that is what's appropriate?**

21 A No, I didn't use the term "less rigorous,"
22 that's your term. I don't think there's anything about
23 this proceeding that has been less rigorous.

24 **Q My point being there's a set of scenarios, I**
25 **think, a set of criteria that you just described where**

1 it would be appropriate to go to rule making and then
2 there's a set of criteria where you've testified rule
3 making is not necessarily called for.

4 And my question is in this docket, your view
5 is that this is a scenario where rule making is not
6 called for?

7 A Well, you've just summarized what I said
8 previously.

9 Q Okay. Well, good.

10 Let's talk a little bit about one of those
11 dockets that you looked at, and specifically the
12 Rule 25-6.078 dealing with the installation of
13 underground facilities. In that particular proceeding,
14 there was a very extensive regimen of details laid out.

15 And specifically let me ask you this. That
16 rule provides that a customer can tailor the rate that's
17 applied to them by coming in and actually contributing
18 some work to do that, can't they? So if they were to
19 come in and contribute a part of a lateral, that rule
20 would allow their rate to be affected by that, would it
21 not?

22 A If you could refer me to the rule, I'll take a
23 look at that. I can't confirm or deny that based upon
24 -- I'm familiar with the basis of the rule and the
25 general policies behind it, but that's detail that I

1 can't confirm or reject.

2 Q Okay. Very well. So your answer would be the
3 same if I were to ask you about any credits that were
4 offered to customers under that rule as well?

5 A I'm generally familiar with the concept of
6 credits within that rule.

7 Q Are you familiar with how those credits work
8 under that underground rule?

9 A I am aware that there are credits that are
10 part of the calculation. I can't provide any detail as
11 to how that calculation is performed.

12 Q Please, let's go to page 9 of your testimony,
13 beginning at line 7. Here you talk about the idea of
14 how cost causers are allocated -- or the charge for the
15 costs that they cause, and you specifically cite a rate
16 proceeding with TECO, right?

17 A Yes.

18 Q So in that proceeding, TECO requested
19 additional rates to cover a same day kind of a delivery
20 service; is that correct?

21 A Yes.

22 Q And the decision was to offer an alternative
23 service than the same day, correct?

24 A Yes.

25 Q In that case, there was a general rate review

1 that would have -- where they allowed those current
2 costs to be approved, was there not?

3 A Yes, it was done in the context of a rate
4 proceeding, yes.

5 Q So all of those costs were scrutinized in the
6 context of that proceeding, the costs of the next day
7 and alternative service; is that correct?

8 A Yes, it was part of a rate proceeding. But
9 what needs to be emphasized is that these particular
10 costs for this optional service were done on an
11 incremental cost basis, the same basis that's being done
12 in this tariff proceeding.

13 Q I'll come back to that in just a second.

14 So sticking with the TECO, at the end of that
15 proceeding, because of the review in that rate process,
16 both the same day and the alternative services had
17 undergone a cost-based analysis of those service
18 options; you would agree?

19 A They were subjected to an incremental cost
20 analysis. It just so happened it was within the context
21 of a rate case, just like this tariff filing is being
22 analyzed in terms of an incremental cost study and the
23 results of that.

24 Q Now, let's talk about that. So this tariff
25 filing, according to your testimony, is being evaluated

1 **in the context of a rate proceeding; that is correct?**

2 A The TECO case was a rate case.

3 Q **No, no, no, we moved on that. We're talking**
4 **about this particular tariff filing.**

5 A Oh.

6 MR. JACOBS: I'll mark an exhibit, Madam
7 Chair.

8 THE WITNESS: Is there a question pending,
9 because if there is, I'm lost?

10 BY MR. JACOBS:

11 Q **I'm sorry, I may not have been clear. My**
12 **question was in this particular tariff filing, there**
13 **is -- there had been some evaluation of the issues in**
14 **this tariff filing in the context of a rate proceeding;**
15 **is that not true?**

16 A Oh, that's absolutely untrue.

17 Q **Okay.**

18 **COMMISSIONER EDGAR: Ms. Helter, are we on 27?**

19 MS. HELTON: By my count, yes, ma'am.

20 **COMMISSIONER EDGAR: Okay. Then we will mark**
21 **this as Number 27, Interrogatory Number 42,**
22 **Response to Martin.**

23 (Exhibit No. 27 was marked for
24 identification.)

25 MR. JACOBS: Madam, this is already in the

1 record, I believe, as a part of Exhibit 16.

2 COMMISSIONER EDGAR: Okay.

3 BY MR. JACOBS:

4 Q Have you had a moment to review it,
5 Mr. Deason?

6 A Yes.

7 Q Can you describe for us what this document is
8 or what the information in the document is, rather?

9 A It's in response to an interrogatory that was
10 propounded by Witness or Intervenor Martin,
11 Interrogatory Number 42, and it dealt with a filing
12 within Docket 120015, which was a rate proceeding.

13 Q Now, I want to direct you first to the chart
14 that's indicated here. And the company's response is
15 that these were proposed in its last rate proceeding.
16 There is a service charge for a reconnect of nonpayment,
17 correct, and that's a current charge of 17.66, and the
18 cost-based charge for that is 46.13, do you see that?

19 A I do see that, yes.

20 Q And then there's an initial
21 connection/disconnect, and the cost for that is 14.88
22 and the cost-based charge is 18.21; is that correct?

23 A That's what's shown here, yes.

24 Q And field collection, we'll look at that one.
25 Field collections current charge is 5.11 and the

1 cost-based charge for that is 25.80; is that correct?

2 A Yes.

3 Q Now, in the narrative supporting this below
4 that chart, have you had a chance to review that?

5 A Yes.

6 Q Isn't this a statement or position by the
7 company recognizing this cost -- the disparity between
8 the charges that were being proposed and the actual
9 costs of these services?

10 A There is a disparity, and there's an
11 explanation as to why the company felt that the current
12 charges apparently were appropriate considering that
13 there were anticipated automation associated with these
14 services, except for field collections.

15 Q Correct. In fact, I'll just read it. The
16 statement is that "FPL believes that maintaining the
17 current charges in light of higher automation beyond
18 2013 was an appropriate thing to do as it recognized
19 that the actual costs would decrease with automation
20 while the new rates were in effect and also minimize
21 rate volatility." Do you see that?

22 A I do, yes.

23 Q Okay. Earlier you said, I believe in your
24 summary, that the Commission ought to exercise clear and
25 appropriate discretion to ensure that, number one,

1 cross-subsidies don't exist, and number two, that
2 there's fairness across rate classes; is that correct?

3 A Yes.

4 Q So let's look at one of these charges, the
5 reconnect for nonpayment. There's a different -- that
6 difference between the 17.66 and the 46.13 -- I've done
7 the calculations, so it's about 28 bucks, thereabouts --
8 that difference doesn't go away into thin air, does it?

9 A Well, it depends upon your definition of going
10 away in thin air. According to this response, due to
11 automation, that cost differential was expected to
12 decline. I don't know if it was going to completely
13 disappear. I don't know if that level of detail is in
14 this response.

15 Q How would that -- how would ultimately the
16 actual cost -- strike that. I won't say where it was.

17 But for purposes of this filing, the
18 difference between these two numbers is actually dealt
19 with, isn't it, in the proceeding where this was filed;
20 isn't that correct?

21 A This was the 120015. This is the case that
22 was settled.

23 Q Correct.

24 A I assume that the charges that resulted -- the
25 tariffs that resulted from that settlement, I assume

1 addressed these particular charges, but I can't say for
2 sure if it did or did not.

3 Q Okay. Allow me to digress. And I apologize
4 in advance, because I know it's well within your
5 expertise. So before all of this happened, there was --
6 before the filing of the rate case, there was a test
7 year determined, was there not?

8 A Yes, a project test year, as I recall.

9 Q And in that test year, tariffs were developed
10 and to be proposed for the revenue filing; is that
11 correct?

12 A Yes.

13 Q And with regard to smart meters, now at this
14 point when this was filed, Florida Power & Light was in
15 the process of deploying smart meters, as we heard
16 earlier from Mr. Onsgard. So they still needed to
17 install a significant number of smart meters when this
18 was filed, correct?

19 A If that's what Mr. Onsgard said. I have no
20 basis to disagree with his testimony.

21 Q And I think you responded earlier -- I'm
22 sorry, not you -- there was also in testimony earlier
23 that there were some business customers that were still
24 needing to be installed. So at the time of this filing,
25 there are customers who are sitting and taking service

1 of the smart meters and there are a whole number of
2 customers who are in transition, they're going to be,
3 but they're not yet, and then there are customers out
4 there who have chosen not to take this service; do you
5 agree?

6 A I agree that the deployment of smart meters
7 was transitioning and then it was not complete.

8 Q Okay. Now, does this current charge -- was
9 that modified or tailored to any of those classes, this
10 same charge, was it charged to each one of those
11 classes?

12 A Which classes? To which are you referring?

13 Q The customers who were on smart meters, the
14 customers who were in the process of transitioning or
15 had not gotten the smart meter but were going to and the
16 customers who had clearly identified that they did not
17 want the smart meters?

18 MS. MONCADA: Mr. Chairman, or is it Madam
19 Chair at this point -- has the gavel been passed --
20 he's straying -- Mr. Jacobs, respectfully, he's
21 straying beyond the scope of Mr. Deason's testimony
22 and asking him specific questions about what FPL
23 filed in its last rate case, which is beyond what
24 he's here to testify about.

25 CHAIRMAN GRAHAM: Mr. Jacobs.

1 MR. JACOBS: This line of questioning goes
2 specifically to the testimony by Mr. Deason as to
3 allocation of costs to customers, to the extent
4 that we're talking about these filings, it's only
5 representative. This is all going to the idea of
6 how costs are allocated to customer classes and
7 whether or not there are subsidies, whether or not.

8 CHAIRMAN GRAHAM: Mary Anne.

9 MS. HELTON: Can you point me to where in
10 Mr. Deason's testimony you're referring to that
11 it's directly related to?

12 MR. JACOBS: Absolutely. One place was just
13 the subject of cross examination with
14 Mr. Rehwinkel. I believe that was Page 14,
15 thereabouts, line 10, or was it 12? I'm sorry,
16 that was rebuttal.

17 MS. HELTON: I'm sorry, you're talking about
18 the rebuttal, because I was looking at the direct?

19 MR. JACOBS: I'm confirming that, if you'll
20 give me just a moment. It is rebuttal and it's on
21 page 7.

22 MS. HELTON: I'm sorry, can you say that one
23 more time, I didn't catch it.

24 MR. JACOBS: This is rebuttal testimony, we're
25 on page 7, and we're beginning at line 8, there was

1 discussion. And then there's also discussion about
2 recovery amongst classes that I'm looking for now.

3 That is one element that's beginning on
4 line 17 of that same page, "The costs of the
5 non-standard service are independent of rates for
6 standard services in a rate case. These costs can
7 be determined on an incremental basis." That
8 whole line of discussion there.

9 The other is in -- if you'll give me a
10 minute, I'll find it, it is in his direct.

11 MS. HELTON: Mr. Deason is talking about costs
12 with respect to a rate case on these pages that
13 Mr. Jacobs pointed to. Maybe if there's -- he can
14 help us hone in and get to the point, that might
15 help a little bit, Mr. Chairman.

16 MS. MONCADA: And I would agree to that. If
17 the questions were more closely tied to what
18 Mr. Deason had testified about, I will waive my
19 objection.

20 MR. JACOBS: Thank you.

21 CHAIRMAN GRAHAM: Proceed.

22 BY MR. JACOBS:

23 Q Mr. Deason, let me go back to what has been
24 identified as Exhibit 27. Now, what I want to go now to
25 is the first sentence of the response. This says, "Part

1 of the requirements in Document 120015, services charges
2 reflected in 2013 projected cost and transaction for a
3 blended of manual and automated collections and
4 connect/disconnect activities."

5 The charges that are reflected in this chart
6 are anticipated to cover activities covering both smart
7 meters and noncommunicating or what we now know as
8 non-standard meters; is that correct?

9 A I'm not sure I can say that is correct or
10 incorrect. It is my understanding that there was no
11 distinctions made in this rate case between non-standard
12 meter customers and standard meter customers because it
13 was not an issue, it was not a matter that was included
14 within the test year. So I'm really at a loss to answer
15 your question one way or the other.

16 Q Okay. Let's now shift down to the next to the
17 last sentence of this narrative. It says, "Field
18 collection service charge costs are not -- field
19 collection service charge costs are not affected by
20 automation. However, since FPL was not proposing to
21 increase the other service charges, to minimize rate
22 volatility, the company decided to keep this charge at
23 its current rate."

24 Now, let's look at the field collections
25 charge. The actual charge is 5.11 and the cost is

1 **25.80. Is that a cost subsidy?**

2 A Yes, I would say that it is.

3 Q **And according to this narrative, the company,**
4 **in its discretion, chose to retain a cost equity -- I**
5 **mean, cost subsidy; is that correct?**

6 A Yes, for other considerations. And they
7 presented that to the Commission to utilize its
8 discretion to make a determination as to whether that
9 inherent cross-subsidy was still reasonable.

10 Q **Now, your earlier discussion with**
11 **Mr. Rehwinkel regarding the telephone example, you**
12 **indicated that while you do not believe, as a matter of**
13 **principle, this situation should exist, whether there's**
14 **public policy to support it in your instance, the public**
15 **policy behind telecommunications, then it might be**
16 **feasible.**

17 **Is there such a public policy that you're**
18 **aware of that supports this particular decision?**

19 A Here again, are you referring to field
20 collections specifically?

21 Q **Yes. Field collections, yes.**

22 A All I can tell you is by what was stated in
23 the interrogatories. And there was a concern about
24 implementing one service charge when others were not
25 being proposed to be changed and concerns about price

1 volatility. All of these are general pricing concepts
2 that fall within the discretion of the Commission. And
3 apparently, FPL was presenting it to the Commission in
4 those terms.

5 **Q Now, this all is in the mantra of proposing**
6 **cost-based services; would you agree?**

7 A Yes, this was done within a rate case and it
8 is the purpose of a rate case to set cost-based rates.

9 **Q Now, but you would agree with me that this**
10 **charge -- in fact, none of these charges here are cost**
11 **based; would you agree?**

12 A I would agree that based upon the comparison
13 of the current charge and the cost study, that there's a
14 disparity which would indicate that the current charges
15 were no longer cost based.

16 **Q And the rationale for retaining the scenario**
17 **of a less than cost-based costing structure is not**
18 **something that's borne in public policy; would you**
19 **agree? It's the company's decision?**

20 A No, I think it's based on policy. I mean, the
21 company presented a reason. We have to also recall that
22 this is a test year with a projected test year and there
23 was a concern about, while this disparity existed at the
24 present time, that that disparity was going to be
25 diminished. So as a matter of what was presented to be

1 the best policy was presented to the Commission to keep
2 the current rates unchanged, even though they apparently
3 did not cover the costs based upon a 2013 cost study.

4 **Q Now, in your analysis for the case, did you**
5 **identify a time or a circumstance when the company would**
6 **resolve that disparity?**

7 A Did I do that?

8 **Q Right.**

9 A No, I did not do that.

10 **Q So on a going forward basis, there is no clear**
11 **demarcation point when the company, after having made**
12 **this decision, would come back now and report or**
13 **actually act to modify or revise this circumstance, is**
14 **there?**

15 A Here again, that would be a matter that if
16 that's information the Commission wanted, I think they
17 would have included that in their order approving the
18 stipulation. I don't know if that's part of that
19 resolution or not.

20 **Q Okay. Now, in this proceeding, our mission is**
21 **to identify the incremental costs related to charging.**
22 **And you correctly testified the incremental costs that**
23 **are associated with offering this non-standard meter**
24 **service.**

25 **Is it your testimony, given that we now have**

1 this, what I'll call a lingering cost resolution -- and
2 we'll just look at these charges here -- is it your
3 testimony that for these four charges, it would be
4 possible to develop incremental costs competently in
5 order to set charges for the non-standard meter?

6 A Can you repeat your question? I didn't follow
7 it.

8 Q For the services that are listed here, is it
9 your testimony that it would be possible to establish
10 and legitimize incremental costs for these services in
11 order to support the non-standard meter service?

12 A No, I don't see any relation between these and
13 non-standard meter.

14 Q Okay. Let's walk through that. So for a
15 non-standard meter, there is, in fact, a reconnection
16 charge in the non-standard meter; is that correct?

17 A There is a reconnect charge for all customers.

18 Q There's a field collection charge, isn't
19 there?

20 A Yes, there's a field collection charge.

21 Q And now we see that not just -- well, let me
22 point you to what has been identified as Exhibit, I
23 believe, 26. Let me make sure.

24 Do you have that?

25 MS. MONCADA: Mr. Chairman, he does not. That

1 exhibit was presented while Mr. Onsgard was on the
2 stand. If I may have an opportunity to present it
3 to Mr. Deason.

4 CHAIRMAN GRAHAM: You may. I would give
5 Number 25 as well.

6 MR. JACOBS: Yes, please.

7 BY MR. JACOBS:

8 Q Have you had a chance to review those,
9 Mr. Deason?

10 A I have reviewed the title pages.

11 Q I would ask you to look at the first page, I
12 believe Schedule E13B from test year 12/31/13.

13 A Okay. I have the schedule in front of me.

14 Q Okay. And if you would, then, look at line 9
15 and under column 3. You see that field collections has
16 a present charge of 5.11, and that's consistent with
17 what we've seen here in this Exhibit 27. And if you
18 look at line 11, you see reconnect for nonpayment, and
19 if you look on column 3, you see the 17.66 that's also
20 reflected here, I believe.

21 A I see that.

22 Q Now, the second page of Exhibit 26 is test
23 year ending 12/31/11, Schedule E13B. Do you see that?

24 A Yes, I do.

25 Q And if you look at line 9, again, in the field

1 collection, same chart, you see 5.11 there again, right?

2 A Yes.

3 Q And then if you look at line 11, reconnection
4 for nonpayment under column 3, we see the 17.66,
5 correct?

6 A I do.

7 Q So not just for the 2013 proposal but also for
8 the earlier proposal, the company has chosen to allow
9 these charges to proceed other than cost based; you
10 would agree?

11 A I see that the proposed charge is higher than
12 the present charge. And I would assume that that's
13 based upon cost considerations.

14 Q I'm sorry, could you restate that, please?

15 A Well, which test year are you looking at
16 again?

17 Q Actually, I'm summarizing them both.

18 A Okay.

19 Q My question was in both of these test years,
20 these charges were identical. And so in both of these
21 test years, the company chose to proceed with charges
22 that were not cost based; is that correct? Certainly if
23 you look at the response in Exhibit 27?

24 A Well, I suppose I'm at a loss. I'm looking at
25 schedules for two different test years. For the test

1 year ending 12/31/11, there is a proposed charge that is
2 different from the then existing present charge. And
3 then for the test year 12/31/13, I see where the present
4 charge and the proposed charge is the same amount.

5 Q So that we're on the same pages, on the first
6 page -- and I apologize that it's not numbered -- this
7 is a test year for 12/31/13 in the top right, and we
8 looked at line 9 for field collections, and the present
9 charge is 5.11, and on line 11, the present charge is
10 17.66.

11 And the preamble of my question was that if
12 you look at the second page, which is the test year of
13 statement for year 12/31/11 and you look at line 9, it's
14 the same charges as we saw on the prior -- on the first
15 test year. And if you look at line 11, again, you see
16 the same charge as was included in the test year for
17 12/31/13.

18 A I agree that the numbers are the same within
19 the same column 3 present charge on both of these
20 schedules.

21 Q Now, these charges are recovered from
22 customers in a miscellaneous service charge and rates;
23 is that correct?

24 A I think that's the general category, yes.

25 Q Now, if we go back to the narrative in

1 Exhibit 27, there is an expectation that the ultimate
2 cost will be affected by automation?

3 A That's what's stated there, yes.

4 Q Right. So as we come now to determine what
5 the incremental costs are, wouldn't it be necessary to
6 develop some kind of a baseline to know where we are
7 with regard to the overall cost of service?

8 A Please repeat your question.

9 Q As we now come to this exercise in this docket
10 where we're looking to develop the non-standard meter,
11 wouldn't we need to have some kind of a baseline to
12 determine how to calculate incremental cost?

13 A Yes. And that baseline is these costs are
14 calculated, as Mr. Onsgard stated, is these are the
15 incremental costs, being those costs that would not
16 exist but for customers choosing the option. So that is
17 the baseline, that's the standard.

18 Q Okay. So in this instance, you would figure
19 out what the difference between the cost for the
20 non-standard meter is and you would look at the cost
21 that's stated here, the 46.13; is that correct? And you
22 would make some distinction between that cost that's
23 described for the -- we haven't gotten there yet, but we
24 will -- but the cost that's developed for the
25 non-standard meter, and you would determine the

1 difference between what's stated here in Exhibit 27 as
2 the cost-based charge under the rate case; is that
3 correct?

4 A No.

5 Q Why not?

6 A Because in these situations, you had an
7 existing optional service that already had a current
8 charge and so this was an analysis of the differential.
9 I mean, it was a comparison, not an analysis, but it's a
10 comparison of what the costs were and what the current
11 charges were.

12 In the situation here, we have a brand new
13 service, there's no existing current charge for the
14 service. And the analysis done by Mr. Mr. Onsgard is
15 incremental. So everything in his cost study is
16 incremental and there's no cost embedded in base rates
17 that need to be compared against what his incremental
18 costs show.

19 Q Did you hear the testimony -- were you here
20 for Mr. Onsgard's testimony?

21 A Yes. I was in and out some, but I was here
22 for most of it.

23 Q Okay. And we'll document it in a moment, but
24 you did see and you did hear that we talked specifically
25 about a reconnection and field collections and the

1 derivation of what the company is proposing as a margin
2 of cost has components in it that are analogous to a
3 reconnect and analogous to a field collection.

4 So what I'm hearing your testimony to be is
5 that this statement of cost in this general rate
6 provision has no relation to the cost that Mr. Onsgard
7 identified in his proposal. Is that your testimony?

8 A Well, the only relation I see is that they
9 both are independent cost studies based upon an
10 incremental analysis. To that extent, they're similar.
11 But beyond that, I don't really see a connection.

12 Q Now, let's conclude with this and then we'll
13 move on. The difference between the 17.66 -- we're
14 looking at Exhibit 27 now. The difference between the
15 17.66 and the 46.13, okay, as I indicated earlier, that
16 doesn't just disappear, there is a provision made for
17 that difference, is there not, in the rate proceeding?

18 A I want to earnestly answer your question. I
19 think we may be talking past each other. I don't
20 understand your question. My understanding of what's
21 presented in response to Interrogatory 42, which I think
22 you identified as Exhibit 27 --

23 Q Correct.

24 A -- this is a comparison between what an
25 existing charge is, comparing it to what a 2013 cost

1 study indicates the cost to be.

2 Q Okay.

3 A And that's the purpose of these numbers in
4 these two columns.

5 Q So my question now is very clear, the 2013
6 cost-based charges for these services, isn't that a part
7 of the revenue requirement that was presented by the
8 company for approval?

9 A Well, it depends on what they requested in
10 their billing determinants, applied to their billing
11 determinants. If they were seeking no change in the
12 rate, they would have used the current charges and would
13 have multiplied that by the number of projected
14 incidences in which these charges would have been
15 levied, and then that would give an amount of revenue
16 which then would be added to the company's overall
17 revenue streams to compare that to what the -- well, to
18 achieve the revenue requirement in their MFRs.

19 Q Okay. Now, if you would, let's go back to
20 Exhibit 26, if you would.

21 A Okay. I have Exhibit 26.

22 Q Now, what you just described, isn't that
23 exactly what's spelled out here in line 9, column 5
24 and --

25 MS. MONCADA: What page of the exhibit?

1 MR. JACOBS: I'm sorry, I'm on Exhibit 26.

2 MS. MONCADA: What page of that exhibit?

3 MR. JACOBS: It's the first page, which is the
4 test year for 12/13 -- 12/31/13, I'm sorry.

5 THE WITNESS: My Exhibit 26 page 1 is a cover
6 sheet for minimum filing requirements.

7 BY MR. JACOBS:

8 Q You should have two pages. I've got them
9 backwards. This should be 25. I'm sorry to confuse
10 you. Exhibit 25 I had as that one, but what I now
11 realized is --

12 A I have Exhibit 25 which we were discussing
13 earlier.

14 Q Okay. So strike that. My reference now is to
15 Exhibit 25.

16 So if you'll look at the first page of that
17 and, again, look at line 9 and you go over to column 5,
18 isn't that the calculation that you just described a
19 moment ago?

20 A Yes, it's the revenues at present charges,
21 which would be column 3 multiplied by the number of
22 transactions.

23 Q So in the test year, the company made a
24 projection for 490 -- I'm sorry, in terms of field
25 collection, 213, close to 214 in transactions. And in

1 the case of non-collections, 490, about 490
2 transactions. Do you see that under column 2 there for
3 both lines?

4 A I do see that, yes.

5 Q And then look to acquire those charges and
6 rates; is that correct, for this miscellaneous charge?

7 A Yes, these are the proposed charges and, yes,
8 they multiplied it by the number of transactions to get
9 an amount of proposed revenue.

10 Q All right. Now, go back to my question. So
11 as to the difference between the 17.66 and the 46.16 and
12 the difference between the 5.11 and the 25.80, that
13 difference, that shortfall, isn't there a provision for
14 the company to recover that in its rates?

15 A Within the context of the rate case or in the
16 context of this document?

17 Q In the context of the rate case.

18 A Yes. The fact that -- yes, I would agree with
19 that.

20 Q All right. So that difference just doesn't go
21 away. So we just looked at a page where they recovered
22 revenues based on that miscellaneous charge but then
23 they also recovered the difference between this in base
24 rates?

25 A Yes, to the extent -- to make the company

1 whole from a revenue requirements basis, if there's a
2 shortfall in one area, it has to be made up in another
3 area.

4 Q So perfect, that goes to my next question.

5 Now, if we understand the narrative, there is
6 a bit of volatility that's going on in the midst of this
7 process. The company is moving to automation. It fully
8 expects the cost for these services to be affected by
9 that and, therefore, the recoveries under the rate
10 tariffs and provisions should reflect that, do you
11 agree, in order to be cost based?

12 In other words, shouldn't it be the case that
13 if the company knows and expects that the costs are
14 going to be favorably affected because it's moving to
15 automation but its present rate filings reflect costs
16 that are influx, somehow, someday, there should be
17 something to reflect that positive effect, shouldn't
18 there?

19 A And your question assumes something that I
20 can't verify or reject. It would depend upon the facts
21 of the projections that the company made at the time
22 that they filed their case and what costs they were
23 projecting and whether those projections did or did not
24 include any impacts from automation. That's simply a
25 fact I don't know at this point.

1 Q But would you agree, then, that this narrative
2 certainly anticipates that there would be such a
3 positive affect, the narrative in Exhibit 27?

4 A Yes.

5 Q Okay. Is your position then that now in the
6 non-standard proceeding, that we want to develop
7 cost-based charges for the non-standard tariff, that we
8 can do that effectively and not ever even consider this
9 history? Is that your position?

10 A Yes.

11 Q Okay. And how is that?

12 A It's based on appropriate ratemaking standards
13 and statutory provisions and precedents and policies of
14 this Commission, which I explained in my testimony.

15 Q Now, isn't a very important element of those
16 ratemaking standards the cost history of a service?

17 A Yes, cost histories is useful information.
18 But when comes to basing rates, it's the current cost or
19 at least the projected cost, if it's within the context
20 of a projected test year.

21 Q And, in fact, we heard testimony from
22 Mr. Onsgard that there was a very significant level of
23 averaging and cost analysis done when the proposal was
24 done for the NSMR; is that correct?

25 A Yes, I understand that there is averaging in

1 that process.

2 Q Okay. So your testimony is that we can
3 accomplish fair and reasonable estimates of incremental
4 costs and do it in isolation of this non-standard
5 proceeding and never ever consider the issues from the
6 rate case?

7 MS. MONCADA: That was just asked,
8 Mr. Chairman.

9 MR. JACOBS: Okay. I'll move on, if it was.
10 BY MR. JACOBS:

11 Q In your view, if rates are developed, whether
12 it be more the non-standard tariff or in a general rate
13 proceeding, and those rates encompass cost subsidies, as
14 we've identified here, doesn't that do harm to the
15 principles of regulatory fairness?

16 A Yes, unless there are other overriding policy
17 considerations, which are at the discretion of the
18 Commission to consider and weigh.

19 Q But we saw here that this Commission has not
20 exercised any discretion, this pretty much happened at
21 the company's discretion, you would agree, by what the
22 narrative says here in this proposal, correct?

23 A I'm sorry, you're going to have to repeat your
24 question.

25 Q Accepting your response that in the instance

1 where there's adequate public policy and adequate other
2 considerations that rates that embrace cost subsidies
3 might be accepted, my question was we don't see that
4 kind of a public policy that's been expressed here, what
5 we see is discretion exercised by the company; is that
6 correct?

7 A The company made a proposal. How that was
8 considered by the Commission in the context of the
9 settlement is unclear.

10 Q Okay. Other than the public policy, is there
11 any other rationale that would support or legitimize
12 rates that would embrace a cost subsidy like this?

13 A As a general rule, cross-subsidies should be
14 avoided and rates should be based strictly on cost. But
15 having said that -- and it's contained in my
16 testimony -- the Commission does have discretion to
17 consider other things. And that's on page 4 of my
18 direct testimony.

19 Q Okay. Now, let's kind of boil this down just
20 a little bit. Let's talk specifically about the
21 reconnect charge.

22 CHAIRMAN GRAHAM: Mr. Jacobs.

23 MR. JACOBS: Yes, sir.

24 CHAIRMAN GRAHAM: How much longer do you have?

25 MR. JACOBS: A fair amount.

1 CHAIRMAN GRAHAM: Let's take a five-minute
2 break.

3 MR. JACOBS: Thank you, sir.

4 CHAIRMAN GRAHAM: So my court reporter can
5 rest her little fingers. Actually, make that a
6 ten-minute break.

7 (Whereupon, a recess was taken.)

8 BY MR. JACOBS:

9 Q Mr. Deason, I'm going to see if I can move us
10 along a little bit.

11 MR. JACOBS: I would like to mark an exhibit,
12 Mr. Chairman.

13 CHAIRMAN GRAHAM: We'll call this Number 28
14 for simplicity.

15 (Exhibit No. 28 was marked for
16 identification.)

17 BY MR. JACOBS:

18 Q I'll give you a moment to review this,
19 Mr. Deason.

20 A Excuse me, I'm trying to get my numbers
21 correct.

22 Q Go right ahead.

23 A So 28 is Response to Data Request Number 26,
24 correct?

25 Q That's correct.

1 A All right.

2 Q And I'm sorry that I helped with that
3 confusion, because it was my miscommunication on
4 Number 25. I'll get that right.

5 Ready?

6 A Yes.

7 Q Do you have any familiarity with this
8 document?

9 A No.

10 Q Okay. If you would, the second page of it is
11 an actual question and response that was given about the
12 company. This is to this data request. That doesn't
13 given as much information as I thought.

14 Let's go through this. The title of the
15 document I'll let speak for itself, but I'll read it
16 into the record. It says, "Development of Service
17 Charge Disconnect for Nonpayment and Reconnect
18 Manually."

19 So based on the description, this, then, is
20 the support and calculation for disconnect for
21 nonpayment charge under the proposal for the NSMR; would
22 you agree?

23 MS. MONCADA: Mr. Chairman, Mr. Deason just
24 testified he has no familiarity with this document.

25

1 BY MR. JACOBS:

2 Q Can we proceed under that assumption, then?

3 A I'm sorry, can you repeat what the assumption
4 is?

5 Q That this is a representation of the
6 calculation for the disconnect for nonpayment charge
7 that's been proposed under the non-standard meter
8 service rider?

9 A I can't accept that assumption. It doesn't
10 appear to me on its face that that's what this is.

11 Q Okay. Let's go to -- there it is. Let's go
12 to exhibit -- what has been marked as Exhibit 4, which
13 is the Exhibit RAO-3 attached to the testimony of
14 Mr. Onsgard. And I recognize you may not have that so
15 I'll give counsel a moment to grab that for you.

16 MS. MONCADA: Can you repeat what number it
17 is?

18 MR. JACOBS: It's Exhibit 4 in the record and
19 it's RAO-3.

20 BY MR. JACOBS:

21 Q I'll give you a moment to review that,
22 Mr. Deason.

23 Have you had a chance to review it?

24 A I know what this is. Obviously it's a
25 multi-page document, and I've not tried to review every

1 page.

2 Q Okay. We're going to go specifically to
3 page 12 of 15.

4 A I don't have that many pages, 12 of 15.

5 CHAIRMAN GRAHAM: There's only seven of seven.

6 MR. JACOBS: I'm sorry. My apologies. I
7 didn't go to the same page. This is RAO-4. My
8 apologies, counsel. And you can just hand him 12
9 of 15, that's all we need.

10 THE WITNESS: Okay. I have this. I'm not
11 going to try to familiarize myself with every bit
12 of it.

13 BY MR. JACOBS:

14 Q No, we're only going to look at one section of
15 it.

16 A Okay.

17 Q We're looking at page 12 of 15 on Exhibit B.
18 And even more precisely than that, we're going to look
19 at line 15. I'm sorry, strike that. Make that line 14.
20 Do you see that?

21 A I do.

22 Q And could you read into the record the
23 description on line 14?

24 A Line 14, "Full cost for manual reconnect for
25 nonpayment charge."

1 Q Okay. And just for context, the document
2 we're looking at is the cost analysis that was filed by
3 Mr. Onsgard to support the NSMR; is that correct?

4 A Yes, that's my understanding.

5 Q Okay. So in his cost analysis, he has
6 included a charge for full cost for manual reconnect and
7 nonpayment charge and the amount of that charge is
8 59.27. Do you see that?

9 A I do.

10 Q Okay. Now, I would like to go back to what we
11 identified as Exhibit 28. And the title for this
12 document is Development of the Service Charge for
13 Disconnect for Nonpayment and Reconnect; is that
14 correct?

15 A It is, yes.

16 Q Okay. And the total cost is 59.27, the same
17 cost that we see on line 14, is it not?

18 A The numbers are the same.

19 Q Okay. So this is the detailed calculation for
20 the total of 59.27 that was included in the proposal for
21 the NSMR. And I want to state further specific on this.
22 My point here is, it goes back to our discussion about
23 incremental costs and our discussion about equity
24 amongst classes of customers.

25 So if we look at this charge for the

1 disconnect and we look at line 2 -- strike that -- look
2 at line 3, okay, that description of that activity is to
3 execute field disconnect for nonpayment. Do you see
4 that?

5 A Yes.

6 Q And you were here for the testimony of
7 Mr. Onsgard earlier where he said that as the deployment
8 of smart meters took hold, that it was no longer
9 necessary to go out and do physical visits in order to
10 do disconnects for smart meters; is that correct?

11 A I seem to recall that, yes.

12 Q Okay. And then if we look at line 5, that
13 activity is described as field meters manually
14 reconnect. And I believe also in that same testimony by
15 Mr. Onsgard is that this activity for smart meters
16 customers would not be necessary; is that correct?

17 A That's my understanding.

18 Q Okay. So we would expect, then, that on a
19 going forward basis, that as customers transition -- and
20 we talked about there was a body of customers who were
21 transitioning -- as they transition, that where they
22 might have been -- they might have been charged these
23 services, these costs are going to evolve, and that
24 actually was anticipated in the narrative that we read
25 earlier that for smart meter customers, line 3 and

1 line 5, were probably going to go away; would you agree?

2 A That's a question better asked to Mr. Onsgard.
3 But, you know, based upon my limited understanding,
4 that's one of the advantages of smart meters and one of
5 the efficiencies of them and one of the reasons why
6 customers choosing to opt out from the standard meter
7 are imposing additional costs.

8 Q Okay. Now, if you look -- let me see which
9 one of these it's on. Let me find it real quickly. I
10 know where it is.

11 So if we could refer back now to what's been
12 marked as Exhibit 25. Are we clear on that?

13 A I have Exhibit 25. And just to be clear, this
14 is the schedules from test years.

15 Q Correct. And we're looking specifically at
16 the test year for 12/31/13.

17 A Okay. I have that.

18 Q And if you look at line 11 and specifically
19 over to column 2. And if you recall, we're talking
20 about an activity where there's this transitioning going
21 on. Are you aware or can you testify as to whether or
22 not this 490,000 transactions for the reconnect that
23 were on base rates includes any number, any part or
24 number of the customers who would pay this charge under
25 the NSMR?

1 A I cannot. But it is my understanding that
2 within the 490,083, there was no anticipation of there
3 even being a distinction between standard meter
4 customers and non-standard meter customers because it
5 was not contemplated at the time of this rate case
6 filing.

7 **Q Just one second.**

8 **So, Mr. Deason, let me make sure I understand**
9 **your response. The 490,083 made no distinction as to**
10 **whether or not those customers were smart meter or**
11 **non-standard?**

12 A That's my understanding. And it's not because
13 I have a knowledge of how this particular schedule was
14 put together. My answer is based upon my general
15 understanding.

16 And I think this was confirmed by Mr. Onsgard
17 that at the time of the last rate case, the smart meter
18 deployment was still in a transitional phase and there
19 had not even been a decision as to whether there would
20 be an offering of a non-standard optional service. In
21 fact, at the time, Mr. Onsgard stated that there were
22 really not that great of a number of customers who had
23 even expressed an interest in a non-standard meter.

24 **Q I think you correctly summarized.**

25 **So customers who will be transitioning, let me**

1 be real clear, so those customers who would now then
2 sign up for the NSMR would probably have been paying
3 this miscellaneous service charge that is calculated
4 here in Exhibit 25; is that correct?

5 A If one of those customers had incurred a
6 service involving a reconnect or a field collection,
7 well, then, they would have been charged a tariff rate,
8 that's correct.

9 Q Okay. And then we also talked about the idea
10 that the difference between this charge and the 46.13
11 that was identified in the rate case was also a part of
12 the rate collections from customers in general, correct?
13 Do you recall that?

14 A No. I believe that I said I cannot confirm
15 that one way or the other.

16 Q Okay. So the very prospect exists is that a
17 customer would was transitioning to the NSMR would have
18 paid this miscellaneous service charge if they would
19 have actually had to have a reconnect or a disconnect
20 on, but they would have also paid -- even regardless of
21 that, they would have paid in their general rates that
22 difference between the 17.66 and the 46.13? And then
23 now if they actually sign up for the NSMR, they're not
24 going to be paying some additional charges related to
25 the NSMR, are they?

1 A No, I cannot agree to that.

2 Q Okay. Let's go now, then, to what we just
3 looked at, which is RAO-4, page 12 of 15. That's the
4 cost for field visits and collections under
5 Mr. Onsgard's testimony, Exhibit RAO-4.

6 A Yes.

7 Q So if we look at -- if we look at this
8 analysis, this is the cost for field visits for
9 collections and disconnects that are being proposed, and
10 we see that 59.27 charged there, correct, and below that
11 we see the current approved service charge of 17.66?
12 We've seen that before, correct?

13 A Yes.

14 Q Okay. And, now, in line 16, it says
15 incremental cost. Does that meet your definition of
16 what incremental cost is, the difference between the two
17 of those numbers?

18 A I would assume so, that it meets the
19 definition of incremental which Mr. Onsgard gave
20 earlier, which I agree with, and that is costs that are
21 incurred -- that would be not incurred but for the fact
22 that a customer has chosen a non-standard meter.

23 Q So we're looking at this 17.66 standard charge
24 versus this 59.27, and the difference of that is what
25 got calculated as the incremental cost here?

1 A That's what appears to be the case, yes.

2 Q But then didn't we just say that those
3 customers would probably have paid something in their
4 rates, that difference between the 17.66 and the 41 in
5 their normal rates?

6 A No, I indicated I could not confirm that --

7 Q Okay.

8 A -- one way or the other.

9 Q Let's assume that that is the case, that that
10 customer would have paid in their regular rates towards
11 that difference between -- in their base rates -- the
12 difference between the 17.66 and the 46.13 that was
13 calculated in base rates, and now they're paying an
14 incremental cost between that charge and what the new
15 cost would be under the NSMR?

16 Wouldn't it be a more logical choice to go
17 look at that 46.13 and subtract that from the 59.27 and
18 let that be your incremental charge?

19 A I really do not follow your question.

20 MS. MONCADA: Additional, Mr. Chairman, he's
21 going into the development of the rates and the
22 charges, and that was all the subject of
23 Mr. Onsgard's testimony. Mr. Jacobs had the
24 opportunity for a couple of hours this morning to
25 ask him these questions.

1 CHAIRMAN GRAHAM: You took the words right out
2 of my mouth. These are questions you should have
3 asked the former witness.

4 MR. JACOBS: If I may, Mr. Chairman.

5 CHAIRMAN GRAHAM: Sure.

6 MR. JACOBS: The question that I'm absolutely
7 asking Mr. Deason is to what extent is there a
8 cross-subsidy and that cross-subsidy flows for
9 customers who are subscribing to the NSMR and based
10 on their payment -- I'm not debating the amount of
11 the rate, even though we're discussing that. We're
12 talking concept of where that subsidy is and how it
13 got paid.

14 CHAIRMAN GRAHAM: What I heard him say was
15 that he didn't know, he was familiar with it and
16 you should have asked the other guy.

17 MR. JACOBS: Very well.

18 CHAIRMAN GRAHAM: So we need to move on.

19 MR. JACOBS: Yes, sir.

20 BY MR. JACOBS:

21 Q So, Mr. Deason, in the event that a customer
22 who subscribed to the NSMR and he is a good paying
23 customer so he doesn't incur any of these charges --
24 let's don't talk about what those charges are -- and he
25 pays his regular bill and he then pays the fees under

1 the tariff, is it your -- isn't the case that we've seen
2 is that he is basically paying multiple times towards
3 this particular service?

4 A No, I can't agree with that.

5 Q If he pays to cover the difference between the
6 charge, the miscellaneous charge, and the full cost in
7 his base rates and then he pays an additional charge
8 when he signs up for NSMR, you don't agree that he's
9 paying multiple times for that same service? And,
10 actually, if he pays his bill, he's not even causing
11 that cost?

12 A The premise of your question is that somehow
13 that there is some subsidy already built into the base
14 rates. And I've already answered your question earlier
15 that I cannot confirm that, I can't accept that as an
16 assumption.

17 Q Okay.

18 MR. JACOBS: One moment, Mr. Chair.

19 Can I mark an exhibit, please?

20 CHAIRMAN GRAHAM: Sure. We will label this
21 Exhibit Number 29.

22 (Exhibit No. 29 was marked for
23 identification.)

24 BY MR. JACOBS:

25 Q Take a moment to review it.

1 **Have you had a chance to review that Mr.**
2 **Deason?**

3 A I have. I have not reviewed the entire
4 multi-page document, but I have an understanding
5 generally of what it is.

6 Q I want to direct you to page 5 of the document
7 you have. Now, we had a discussion about how feasible
8 and legitimate it would be to determine incremental
9 costs for purposes of the NSMR. And we talked about the
10 idea of issues of subsidies that might exist. In your
11 earlier testimony with Mr. Rehwinkel, you had a
12 discussion about the impact of the investment in smart
13 meters.

14 And what I would like to point you to on
15 page 5 is a discussion about how the company would
16 assess on a going forward basis, right? Because what I
17 understand you to be saying is that there was no
18 connection between the development of this non-standard
19 offering and the company's earnings and that it is
20 absolutely appropriate to determine incremental costs
21 based on what was determined to be the cost of service;
22 is that correct?

23 A Well, you had a lot of information before you
24 asked the question "is that correct?" I'm not sure I
25 can agree with everything that you said previous to

1 that. So if you could break it up into pieces, I might
2 be able to answer it.

3 Q Well, the essence of my question is that it is
4 your position that in order to establish the NSMR, it is
5 a legitimate process to determine incremental cost based
6 on the cost of service that was produced out of the last
7 rate proceeding; is that correct?

8 A No, that's incorrect.

9 Q Okay. Help me understand what your position
10 is.

11 A My position is that the rate for the NSMR
12 tariff should be based upon the incremental cost of
13 providing that optional service. It has no bearing to
14 what may or may not have been included in the last rate
15 case.

16 Q Okay. And your position is that it is
17 possible to come up with a baseline with no reference
18 or -- or by totally ignoring what happened in that rate
19 case; is that correct?

20 A Well, I'm unclear what you mean by the term
21 "baseline." I would apply -- if you want to use that
22 term, I would accept that there's a baseline of zero in
23 the sense that non-standard meter rates and costs were
24 not part of the last rate case, so there's no basis
25 there to create a baseline other than zero.

1 And that was the basis, as I understand
2 Mr. Onsgard's testimony, is that he did an incremental
3 cost study based upon costs that would not be incurred
4 but for customers choosing the option. So it's all
5 costs incremental to a baseline of zero. It was not
6 part of the rate case.

7 **Q That contradicts your very definition of**
8 **incremental cost, doesn't it?**

9 A I guess the difficulty I'm having is you're
10 using the term "baseline," I'm just not -- that term is
11 not normally used in the context of an incremental cost
12 study.

13 **Q Okay. I'm at page 6 of your testimony.**

14 MS. MONCADA: Is that direct or rebuttal?

15 MR. JACOBS: This is direct. Actually, it
16 begins at the bottom of page 5.

17 BY MR. JACOBS:

18 **Q And this is in the context of a discussion**
19 **about statutory provisions directing the setting of**
20 **cost-based rates.**

21 A Yes.

22 **Q And at the bottom of page 5, the last**
23 **sentence, you begin a discussion, "This incremental cost**
24 **approach is fundamental to the full avoided cost**
25 **concept. The incremental costs to the utility of the**

1 electric energy or capacity, or both, which, but for the
2 purchase from cogenerators or small power producers,
3 such utility would generate itself or purchase from
4 another source."

5 Is that your definition of what zero is?

6 A I don't see the term "zero" here, and I'm not
7 trying to define what zero or what a baseline is.

8 Q Okay.

9 A This statutory reference was given as a basis
10 for an interpretation of what incremental costs are, and
11 they were defined in statute as to be consistent with
12 the but-for test, and that is the test that Mr. Onsgard
13 has utilized.

14 Q But in your zero analysis, the but for is that
15 there will be nothing done and then you're doing
16 something new and therefore whatever is new is an
17 incremental cost; is that the essence of a zero, your
18 zero test?

19 A Here again, this would have been a question
20 better asked for Mr. Onsgard, who actually did the
21 incremental cost study. But as I understand his
22 testimony, there were no costs or rate considerations in
23 the last rate case in that the incremental costs he
24 determined for purposes of this tariff abided by the
25 but-for test, and the results of the last rate case are

1 irrelevant in determining his calculation of incremental
2 cost.

3 Q So if we move on down just a little bit
4 further beginning on page 11 or line 11 of page 6, you
5 indicate that "Florida is a cost-based jurisdiction and
6 uses costs to set rates for both standard and
7 non-standard services. Costs are further used to
8 determine whether rates are compensatory."

9 So your testimony now is that that
10 determination of compensatory rates is absolutely
11 separate and apart from what is an incremental cost, is
12 that --

13 A It is my testimony that whatever the rates
14 were determined in the last case and whatever the
15 company may be earning now is irrelevant to determining
16 what the incremental costs are for this optional
17 service.

18 But I do, in my testimony, state that rates
19 should also be compensatory, that is another statutory
20 standard when it comes to setting rates. And I further
21 indicate that to determine whether a rate is
22 compensatory, you need to look at its cost and
23 determine if the rate is covering the cost. And if it
24 is, it can be assumed to be compensatory.

25 Q Okay. So one final line of questioning. We

1 **looked at what has been identified, I believe, as**
2 **Exhibit 28.**

3 A Response to Interrogatory -- I'm sorry -- to
4 Data Request Number 26?

5 Q **That's correct.**

6 A Okay.

7 Q **So on a going forward basis for customers who**
8 **no longer require field visits for connects or**
9 **disconnects or reconnects, would this be a cost-based**
10 **service for them?**

11 A Well, it's an optional service. And if they
12 don't need this, they wouldn't be charged because there
13 would be no incidents where there is a field disconnect
14 for nonpayment.

15 Q **This is not an optional service, is it? The**
16 **59.27 here is not an optional service, is it?**

17 A Well, here again --

18 MS. MONCADA: Mr. Chairman -- I'm sorry,
19 Mr. Deason, I don't mean to interrupt you -- but,
20 again, going back to this exhibit, Mr. Deason has
21 testified that he is not familiar with it, he
22 hadn't seen it previously and really couldn't tell
23 what it was. And now he's being asked again about
24 the same exhibit.

25 MR. JACOBS: Mr. Chairman.

1 CHAIRMAN GRAHAM: Yes, sir.

2 MR. JACOBS: I think we cured that. We
3 pointed Mr. Deason to Mr. Onsgard's exhibit and his
4 testimony, and he indicated he was familiar with
5 that. And I thought we had cured this idea that he
6 has no familiarity with this topic.

7 Now, as to the individual charges, we've
8 agreed we're not asking him about individual
9 charges. It's all concept now, about whether or
10 not if -- and I think he also testified he had
11 heard Mr. Onsgard's testimony that with the onset
12 of automation, that there are no -- and he
13 testified he had heard that -- there's no need for
14 disconnects or reconnects. So my question simply
15 is now for those customers, is this a cost-based
16 rate?

17 CHAIRMAN GRAHAM: Mr. Deason.

18 THE WITNESS: Okay. Define who those
19 customers are in your question.

20 BY MR. JACOBS:

21 Q I'm sorry, those customers who transitioned
22 and now who were in the -- when the original rates were
23 established, they were part of that community, that
24 490,000 that we looked at, that had not transitioned
25 yet.

1 **So, now, during the course, they're going to**
2 **transition to become smart meter customers. So at that**
3 **point in time, is this a compensatory rate for them? Is**
4 **this a cost-based rate for them?**

5 A Well, there's no relevancy to your question.
6 That rate would not be applied to them because they
7 would not have a field disconnect or other type
8 activities which are part of the cost of this service.

9 Q **And I agree, that's exactly my point. So if**
10 **they were to be responsible for --**

11 A I'm glad we finally agree on something.

12 Q **Yes. So any of those 490,000 customers, if**
13 **any of them paid this rate, you agree that it would not**
14 **be a cost-based rate for them?**

15 A Okay. Let's clarify your question. If they
16 paid the 17.66?

17 Q **Right. No. No. No. I'm sorry, you're**
18 **right, if they paid the 17.66 as a miscellaneous charge,**
19 **let's look at what the cost would be if you look at this**
20 **chart.**

21 It would be for those customers who
22 **transitioned and became smart meter customers, line 1 is**
23 **3.25, line 2 is 2.20 and line 4 is 1.67. Do we agree**
24 **that those are the charges that they are actually**
25 **imposing? Do you agree? Because we agree that line 3**

1 and line 5 are no longer applicable to them.

2 CHAIRMAN GRAHAM: Mr. Jacobs, I have to go
3 back to the objection. As he said before, this is
4 still a chart in a document he's not familiar with.
5 Unless you can explain to me why these questions
6 weren't asked of the other witness, I mean, it
7 seems like you're jumping all over the place. And
8 he's told you many times. I've given you a lot of
9 latitude here, but you need to get to a specific
10 question and then move on.

11 MR. JACOBS: Okay.

12 CHAIRMAN GRAHAM: Because you're beating a
13 dead horse.

14 MR. JACOBS: Very well.

15 BY MR. JACOBS:

16 Q So, Mr. Deason, if a customer is only imposing
17 a cost of, in this case, about seven bucks, but they're
18 paying 17 bucks, is there a cost subsidy in that
19 transaction?

20 A I have no basis to answer your question with
21 the assumptions that are in it.

22 Q Based on the hypothetical question that I
23 asked you.

24 A You're going to have to restate your
25 hypothetical then.

1 **Q The hypothetical is if a customer is only**
2 **imposing a cost of about 7 bucks but they're paying 17**
3 **bucks in charges, is that charge cost based?**

4 **A Based upon your simple assumption that if a**
5 **customer is paying more than the cost of an optional**
6 **service, they are contributing more than their fair**
7 **share to the companies because it more than covers**
8 **costs. But that would be true for any customer at any**
9 **time in any direction.**

10 **Q Okay. And then we learned earlier that, in**
11 **fact, what could happen is, is that the company, while**
12 **raising the banner of the 59.27 as a cost could**
13 **actually -- if it manages the automation transition**
14 **effectively -- could actually be reducing its actual**
15 **cost incurred, we learned earlier that that could be**
16 **happening? Could it?**

17 **A Yes, I think that was the basis for the answer**
18 **to that interrogatory and why the company chose not to**
19 **propose a higher rate than what a 2013 cost study**
20 **indicated could be justified.**

21 **Q In my hypothetical, if that were to occur,**
22 **that would exacerbate, then, that idea of that customer**
23 **paying more than actually their costs required; is that**
24 **correct? Because their costs were actually being**
25 **reduced because of automation?**

1 A It depends on what happened in the rate case
2 and what was decided and what those rates were.

3 **Q Again, we finally agree, it does depend?**

4 A No, to answer your question, it depends. It
5 does not depend what happened in the rate case to
6 determine whether, on an incremental cost basis, what
7 would be the appropriate rate to charge customers
8 availing themselves of that optional service.

9 MR. JACOBS: Just one moment, Mr. Chairman, I
10 think I can wrap up.

11 CHAIRMAN GRAHAM: Okay.

12 BY MR. JACOBS:

13 **Q Now, the Commission policy on -- and I think**
14 **you testified to this earlier -- on allowing**
15 **discretionary services. That's discretionary, correct?**

16 A It's discretionary for the Commission to allow
17 a discretionary service, is that your question?

18 **Q I guess it is. I'm going back to my point**
19 **earlier. You said that there was some point where the**
20 **Commission could invoke rule making or it could approve**
21 **a service without rule making. And so my question is**
22 **there is a wide latitude of discretion for the**
23 **Commission to entertain and approve non-standard**
24 **services; is that correct?**

25 A The Commission has discretion and they have

1 various tools to utilize to determine rates, both within
2 a rate case and outside of a rate case.

3 Q And I think we concluded that based on the
4 chart that I showed you, there had been some history of
5 cost subsidies that had occurred in services that may
6 have been affiliated with a non-standard meter offering;
7 is that correct?

8 A No, I can't accept that.

9 Q I think when we looked at the chart for the
10 disconnects and the field visits, I think you agreed
11 that there had been cost subsidies in those charges,
12 correct?

13 A No. I indicated that if there is a disparity
14 between the rate for a service and the cost for that
15 service, that on its face there appears to be a
16 cross-subsidy.

17 Q Okay.

18 A But the Commission also has other discretion
19 when it comes to approving those. But based on my
20 definition of a cross-subsidy, there still would be a
21 cross-subsidy.

22 Q Okay.

23 A But for other reasons, it may be -- the
24 Commission may determine that's a reasonable way to
25 charge customers for a service.

1 **Q** **And we saw that the decision and the**
2 **circumstances in which that was allowed was not really**
3 **based on a Commission decision or discretion, it was**
4 **based on the filing of the company; is that correct?**

5 MS. MONCADA: Mr. Chairman, this question has
6 been asked and answered.

7 MR. JACOBS: Okay. We'll move on.

8 BY MR. JACOBS:

9 **Q** **So is it appropriate now to finally approve**
10 **this tariff offering in full view of a history that**
11 **shows services that are deeply effected by**
12 **cross-subsidies?**

13 A No, I can't accept the premise of your
14 question. I don't see where there's a recurring problem
15 or there is inherent cross-subsidies and independence on
16 cross-subsidies in setting rates in Florida. In fact,
17 it's just the opposite.

18 The Commission has a policy of trying to
19 minimize and avoid cross-subsidies wherever possible,
20 and that's the reason they have a policy on placing
21 costs on cost causers, which is the essence of the
22 proposal currently before them.

23 **Q** **So under your scenario, wouldn't it have been**
24 **appropriate to leave out those 490,000 folks on the rate**
25 **case?**

1 A I don't know what you mean by leave them out.
2 I don't see that they have any relevancy to determining
3 incremental costs for purposes of this tariff.

4 Q Because at that point in time, there was --
5 they clearly were becoming -- they were not becoming,
6 they were non-standard customers because they were still
7 on meters, were they not? They were on non-standard
8 meters, were they not?

9 A Here again, let me repeat, there was no
10 distinction between any of the customers in the last
11 rate case as being standard or --

12 Q Exactly my --

13 A -- non-standard.

14 Q I'm sorry I cut you off.

15 Exactly my point. So if at the time of the
16 last rate case you want to maintain the mantra of cost
17 causers and cost-based rates and you have this class of
18 customers and their costs are fluctuating well,
19 according to the company, their costs are volatile, and
20 you know -- well, arguably, they say they didn't know --
21 but we now know that there was going to be a
22 non-standard classification of service for them,
23 wouldn't it have been reasonable to at least view them
24 in some kind of different light than just as regular,
25 general customers and allocate costs to them under the

1 **general cost structure?**

2 MS. MONCADA: Mr. Chairman, if I understand
3 Mr. Jacobs' question, it centers around a decision
4 made in Docket 120015 and the base rates that FPL
5 proposed and the Commission approved in that
6 docket. That's not what we're here about today.

7 MR. JACOBS: If I may, Mr. Chairman.

8 CHAIRMAN GRAHAM: Sure.

9 MR. JACOBS: In Mr. Deason's testimony, it
10 says, "If a cost causer is not paying the costs
11 they caused, they are being subsidized by other
12 customers who must make up the difference in their
13 rates."

14 So on that note --

15 THE WITNESS: You need to be looking at the
16 Chairman. You're responding to an objection.

17 MR. JACOBS: I'm sorry.

18 THE WITNESS: I'm sorry, I don't mean to
19 direct you. I apologize.

20 MR. JACOBS: Thank you. Thank you for the
21 assistance.

22 My apologies, Mr. Chairman. This question
23 goes directly to his statement, and that is that
24 where there were costs for 490,000 customers who
25 were not paying the costs of their service,

1 they're being subsidized by somebody. And I'm
2 just asking does he agree with his statement in
3 his testimony.

4 CHAIRMAN GRAHAM: Mr. Deason.

5 THE WITNESS: I believe I've answered that
6 question before. And I can't give you a definitive
7 answer because that proposal that was made by FPL
8 at the time and why they thought it was the fair
9 thing to do, it was part of a rate case that was
10 settled. And I'm not sure that the settlement
11 spoke with that much specificity as to what the
12 rationale was and whether there was or not assumed
13 to be some cross-subsidy in that activity. So I
14 can't answer your question.

15 BY MR. JACOBS:

16 Q If we were to follow your -- and I think very
17 **appropriate perspective that you want to avoid those**
18 **cost subsidies -- wasn't that a wonderful moment in time**
19 **to carve out that volatility, that uncertainty, and file**
20 **this tariff filing then instead of having a discussion**
21 **in a rate proceeding and incur the wrath of the**
22 **regulatory process by continuing a possible subsidy?**
23 **Wouldn't that have been a wonderful moment in time?**

24 A Here again, relying upon the testimony of
25 Mr. Onsgard, that was not possible, it was not available

1 given the time period of the deployment of the smart
2 meters.

3 Q They were more than a million meters along,
4 weren't they?

5 CHAIRMAN GRAHAM: Mr. Jacobs, you need to move
6 on.

7 MR. JACOBS: Thank you, sir.

8 BY MR. JACOBS:

9 Q Finally, we earlier talked about the instance
10 of non-standard services that had been done through rule
11 making. There are a number of services that --
12 non-standard services where charges have been authorized
13 that have not gone through rule making, are there not?

14 A I think that would be true, yes.

15 Q And I think you mentioned a couple of them:
16 Budget building, Spanish services. What would be the
17 distinction between -- in your mind, that would make it
18 a legitimate practice to approve the old services versus
19 the ones that were done through rule making?

20 A Well, let's be clear. I'm not the one that
21 defined those services as non-standard services. It was
22 Witness Martin who had defined that, so I addressed that
23 in my rebuttal testimony. But those services are not a
24 classic example of a non-standard service that merits a
25 separate tariff and a separate charge.

1 **Q And what is it about those services that**
2 **distinguish them?**

3 A Well, let's look at the first one then.
4 Witness Martin classified providing services to
5 customers in Spanish is a non-standard service. I
6 looked at that, and it's my belief, based upon my
7 experience in looking at previous decisions and my
8 understanding of the evolution of services in the state
9 of Florida, that that is not a separate service. It
10 actually has developed into a standard service which I
11 referred to as dual language service.

12 And it is the most efficient and best way to
13 provide a high level of service to all customers in
14 that it would -- it is not consistent with previous
15 practices to take a service like that to try to put a
16 tariff on that, and it certainly wouldn't be practical
17 to do so in any event.

18 **Q So going back to your definition of**
19 **incremental cost, how does that apply to that analysis?**

20 A It does not apply because the decision has
21 been made that it is an accepted standard business
22 practice that actually is the most efficient way to
23 provide service. So in that definition, and in my
24 belief, the incremental cost to providing dual language
25 service is actually negative because it is the best way

1 to provide service to all customers, the most efficient
2 way to provide service.

3 Q So there's no consideration of how the
4 company -- what costs were incurred by the company in
5 that instance?

6 A I'm sorry, I didn't follow that question.

7 Q What I understood your statement to be just
8 now is that in the instance of Spanish services, there's
9 no relevance or bearing as to what costs were incurred
10 by the company to deliver those services in determining
11 whether or not it should be a non-standard tariff?

12 A First of all, it's not a service to be
13 individually billed. But even if it were, it would not
14 be a situation where it would merit a separate charge,
15 because it is now the standard service. It is the most
16 efficient way. And the highest quality of service that
17 can be provided to customers is to give an option to
18 customers when they are engaged with representatives of
19 the company to either transact in Spanish or in English.

20 Q What about budget billing?

21 A From a policy standpoint, I see no difference
22 between budget billing and dual language service.

23 Q And so, again, you would not show a
24 distinction in the costs that were incurred by the
25 company over and above its traditional billing services

1 **to develop budget billing?**

2 A Yes, that's correct. Budget billing was
3 determined to be the correct way to offer billing, a
4 billing option to customers who choose to avail
5 themselves of it, that there were natural efficiencies
6 of doing that and that there were benefits. And so that
7 was a determination and a policy determination by the
8 Commission. And all of the companies in Florida offer
9 that as an option. It is not a service which lends
10 itself to an incremental cost analysis and a separate
11 billing for that optional service.

12 Q **Now, let's talk a little bit about this**
13 **filing. For meters that were presently, already**
14 **installed as standard meters, and basically many of them**
15 **never were changed out, how do you distinguish that from**
16 **budget billing and/or, for that matter, Spanish**
17 **services?**

18 A I don't know that I do distinguish them. What
19 existed at the time is not part of the incremental cost
20 study. The incremental cost study is but for. And
21 these are costs that will be incurred to provide this
22 optional service, and that was the basis of
23 Mr. Onsgard's testimony.

24 MR. JACOBS: Just one moment, Mr. Chairman.

25 Thank you.

1 CHAIRMAN GRAHAM: Sure.

2 BY MR. JACOBS:

3 Q One final question. You talked about the idea
4 of a regulatory lag and you indicated that it's a good
5 thing to address regulatory lag, you know, to benefit
6 consumers.

7 That cuts both ways, doesn't it? In other
8 words, while you may want to engage in proceedings in
9 order to cut short the time period when a company incurs
10 costs that are not recovered, isn't it also the same
11 thing that you would want to minimize the time that
12 customers are exposed to costs that they don't cause?

13 A Regulatory lag, I use it in the term of
14 looking at aggregate earnings and whether there is going
15 to be an unnecessary delay such that a company's
16 earnings would fall below a certain threshold level.
17 I'm not sure that I used that term in regard to whether
18 there are rate disparities between customer groups.

19 But I do -- I would acknowledge that if there
20 is a rate disparity, that if it is of such a magnitude
21 that it needs to be addressed, it could be done outside
22 of a rate proceeding, it wouldn't necessarily -- if
23 it's a question of one rate class not paying its fair
24 share, one is overpaying, one is underpaying, I'm not
25 sure if that was remedied, whether it would have any

1 impact on the company's earnings. It could be revenue
2 neutral and just a reallocation of charges from one
3 customer group to another. So I'm not sure that your
4 analogy fits in the classic definition of regulatory
5 lag.

6 **Q The whole concept is one of equity; you would**
7 **agree? And the equity for the company, rightfully so,**
8 **should be equal to the equity shown to its customers;**
9 **you would agree?**

10 A Well, I agree that there's equity between the
11 customers and the company and its investors. That's one
12 of the fundamental principles of regulation is that
13 balance is struck. And if rates can be set to the
14 extent that earnings are maintained within a given
15 threshold limit and bottom, that that serves the
16 interest of both customers and investors.

17 **Q So I don't want to retrack my ground. Let me**
18 **just ask this one final question. As a matter of**
19 **regulatory fairness and as a matter of equity, if a**
20 **company is aware that its customers are paying costs for**
21 **charges they don't cause, isn't it incumbent upon that**
22 **company to seek a remedy on that as quickly as possible?**

23 A I would think it would depend upon the facts
24 of each individual circumstance. But if there is a
25 situation that is -- that it's necessary to address, I

1 think it's within the discretion of the company to make
2 such a filing. If it's going to be done outside of the
3 context of a rate case, it may have to be done on a
4 revenue neutral basis. It's also within the discretion
5 of the Commission, if it's determined that there was a
6 disparity between rate classes, to show cause why there
7 should not be a change.

8 Q Right. And you indicated that it might not
9 involve -- but isn't it true almost by definition that
10 when you would engage in that process, you would do a
11 cost -- some kind of cost analysis or cost review, cost
12 of service review?

13 A Yes, that would be necessary to determine if
14 there is a disparity in the rates.

15 Q All right. Thank you, Mr. Deason.

16 A Thank you.

17 CHAIRMAN GRAHAM: Mr. Skop.

18 MR. SKOP: Thank you, Mr. Chairman. I'll try
19 to make this quick given the late hour.

20 CROSS EXAMINATION

21 BY MR. SKOP:

22 Q Good afternoon, Mr. Deason.

23 A Good afternoon.

24 Q If I could get you -- I just want to ask a few
25 questions about your direct and rebuttal testimony. If

1 I could get you to turn to page 4, line 16 through 21 of
2 your direct testimony, please.

3 A Yes.

4 Q Okay. In that passage, you talk about fixing
5 fair, just and reasonable rates for the customer
6 classes. And I won't go into great detail, but
7 Mr. Onsgard previously testified that in relation to the
8 deployment of smart meters and AMI technology, that
9 there's approximately 100,000 business customers that
10 still don't have smart meters, that still require having
11 their meters read monthly and that are not paying the
12 NSMR charges that my client is forced to pay.

13 So to the extent that we're talking about
14 fair, just and reasonable rates, how does FPL or how do
15 you distinguish between allowing those free riders and
16 whether, in fact, this tariff should be postponed until
17 everyone is on board so that we don't have these
18 inequities that you refer to?

19 A Well, I agree with the answer that Mr. Onsgard
20 gave to that question in that that is not an optional
21 service for those customers at this point. There is
22 still a transition going on with the deployment of that
23 technology for those customers.

24 Q So FPL makes the rules of who is non-standard
25 and standard?

1 A No, I wouldn't characterize it as FPL makes
2 the rules. FPL does have a responsibility to deploy new
3 technology in the most reasonable and efficient manner.
4 And apparently it was their judgment that the way they
5 did that with their deployment was the best way.

6 And, as has been indicated before, that's
7 really not a matter that's before the Commission at
8 this time as to whether the decision to deploy the
9 smart meters or even the fashion in which that
10 deployment took place is an issue in front of the
11 Commission at this time.

12 Q I understand. I'm not questioning the
13 prudence of the decision that the Commission made. I
14 was on the Commission when that decision was made. What
15 I am questioning, though, is your testimony
16 substantially speaks to the equities, the need to have
17 fair, just, compensatory rates.

18 But I think you would agree, would you not,
19 that this large group of customers, which is roughly
20 three or four times or even higher the number of
21 residential customers that don't want a smart meter, has
22 significant cost drivers associated with reading those
23 meters every month; is that not correct?

24 MS. MONCADA: Again, Mr. Chairman, Mr. Deason
25 here is not a cost of service witness. He's here

1 to talk about policy. And I believe Mr. Skop's
2 question goes to the cost of serving certain
3 customers.

4 CHAIRMAN GRAHAM: I'm sorry, one more time.

5 MS. MONCADA: Sure. I believe Mr. Skop's
6 question was directed at the cost of serving
7 certain customers, and Mr. Deason is not here to
8 testify on that subject.

9 MR. SKOP: Mr. Chairman, with all due respect,
10 is does not go to the cost of serving the
11 customers. It goes to the regulatory --
12 well-established regulatory ratemaking principle of
13 not having free riders, not having
14 cross-subsidization and making sure that fair rates
15 are compensatory and fair, just and reasonable.
16 And here you have an entire class of customers
17 that's getting the free ride, yet Mr. Deason's
18 testimony exclusively focused on why we shouldn't
19 have discriminatory and cross-subsidies. But
20 that's exactly what's going on for this large group
21 of customers.

22 CHAIRMAN GRAHAM: Can I hear the question?

23 MR. SKOP: Yes. Oh, the question?

24 CHAIRMAN GRAHAM: Yes.

25 MR. SKOP: The question was is it fair for

1 this large group of customers, business customers,
2 to have a free ride here in light of the testimony
3 given by the witness that the rates need to be
4 compensatory and, frankly, there should be no
5 cross-subsidies.

6 MS. MONCADA: Rephrased in that manner, I'm
7 okay.

8 CHAIRMAN GRAHAM: I was just going to say I
9 think it's okay for him to answer the question in
10 his opinion.

11 THE WITNESS: First of all, I can't accept the
12 terminology of "free riders." That gives the
13 impression that customers have exercised some
14 choice and that they are taking benefit or
15 unjustified benefit.

16 What we have here is a deployment and a
17 schedule for deployment. And the customers that
18 still have a meter that is required to be read, it
19 wasn't their choice to choose that. It was still
20 the standard service that's being provided to
21 them.

22 If it were possible to have an instantaneous
23 deployment of smart meters for all customers,
24 perhaps there would be a situation where that
25 argument could be made, but that's not factually

1 the case. And it wouldn't be fair to those
2 customers to have them pay a higher charge when
3 they're not exercising an option which places
4 higher costs on the company.

5 MR. SKOP: And, Mr. Chair, I won't belabor the
6 point, but I think that goes to the point I made in
7 my opening statement about redundancy of cost
8 collection in base rates and now wanting to charge
9 customers in this tariff. Certainly these meters
10 are being read, and FPL is not doing it for free,
11 so there would be some inherent overlap in base
12 rates, but I'll move on.

13 BY MR. SKOP:

14 Q With respect to that same passage of
15 testimony, I'll direct you to page 4, line 16 through
16 21. You talk about being unfair to customers; namely,
17 the cross-subsidizations. And I would ask in that
18 light, again, since your testimony talked about what
19 policy this Commission should follow and why, is it
20 equally inherently unfair for FPL to be allowed to
21 profit when they failed to deliver the savings that
22 would inure to the benefit of my client, who is now
23 being asked to pay more to keep her existing meter?

24 MS. MONCADA: Mr. Chairman, I object. This
25 is, again, a referendum on prior rate case

1 decisions made by this Commission. The Prehearing
2 Officer entered orders directly speaking to the
3 fact that that was not an issue in this case.

4 CHAIRMAN GRAHAM: Mr. Skop.

5 MR. SKOP: Mr. Chair, again, I'm not going to
6 the past rate case. I'm not looking to re-litigate
7 that. I'm not looking at administrative finality.
8 I'm looking at FPL made a commitment to this
9 Commission, to my client, that would inure to them,
10 to the general body of ratepayers and, frankly,
11 that hasn't been delivered. So we're talking about
12 the cost of putting a tariff on customers that want
13 to keep what they had in the context of things.
14 All things being equal, there would be no
15 additional cost.

16 But I'll just move on because it's late in
17 the hour. I mean, we're going to have the same
18 objection on this. But it's evident to me that
19 FPL doesn't want to talk about past commitments.

20 MS. MONCADA: Mr. Chairman, I'm sorry, I have
21 to interrupt here. This is, you know, going on the
22 second or third time that he wishes to editorialize
23 instead of asking a question and taking evidence
24 from the witness.

25 MR. SKOP: I will ask a question,

1 Mr. Chairman.

2 BY MR. SKOP:

3 Q Mr. Deason, if I could now get you to turn to
4 your rebuttal testimony, page 3, lines 13 through 14.

5 A Yes.

6 Q Beginning on line 13, continuing on line 14,
7 you state, "The Commission found FPL's AMI project
8 prudent and specifically directed that the project not
9 be delayed." Can you elaborate on what was it that
10 inspired the Florida Public Service Commission to let
11 FPL go spend billions of dollars on AMI rollout?

12 A Well, I'm not aware of the specifics of this
13 particular issue. I can speak in terms of policy. And
14 that is the Commission does not require companies to
15 deploy capital for benefit of customers unless it is
16 determined that that deployment will in fact benefit
17 customers. And I would think that that would have been
18 the general policy statement with the Commission is that
19 the investment in the smart meters provided customer
20 benefits and it was the prudent thing to do.

21 MS. MONCADA: And I know this is belated, but
22 Mr. Skop's question included the word "billions" in
23 there, and I don't think that there's been any
24 evidence that the company spent billions on the
25 deployment.

1 MR. SKOP: I'll rephrase, hundreds of
2 millions.

3 CHAIRMAN GRAHAM: The answer is the same.

4 BY MR. SKOP:

5 **Q Thank you.**

6 **Do you have any reason to doubt, in light of**
7 **the statement you made there, that direction the**
8 **Commission was predicated upon the savings projected by**
9 **FPL associated with that investment?**

10 MS. MONCADA: Again, Mr. Chairman, this is all
11 going back to a referendum on the decisions already
12 made by this Commission. And I can point you to
13 direct language in an order issued by the
14 Prehearing Officer that describes the scope of this
15 proceeding, which is what the costs are and who
16 should bear the costs, whether it should be the
17 cost causers.

18 CHAIRMAN GRAHAM: Mary Anne.

19 MS. HELTON: My recollection is that
20 Commissioner Edgar, I think as Prehearing Officer,
21 did say that this would not be a revisit of the
22 Commission's decision to approve the rollout of the
23 -- I call them smart meters, I'm sorry, I can't use
24 the acronym because I can't remember what the
25 acronym is -- of the smart meters. This is about

1 the tariff that has been filed by Florida Power &
2 Light to have customers pay for the option of not
3 having a smart reader register electricity usage at
4 their residence.

5 CHAIRMAN GRAHAM: Mr. Skop.

6 MR. SKOP: Thank you, Mr. Chair. Again, I was
7 just merely making inquiry of the witness's own
8 rebuttal testimony that specifically cited the
9 Commission's direction and directed that the
10 project not be delayed. And I was just merely
11 asking the witness why the Commission would do
12 that. I think that's fair game. I mean, I know
13 the reason, but, again, I would like to hear it
14 from the witness.

15 Again, I think we'll move on in the interest
16 of time since we don't want to talk about
17 commitments that have been made in the past. But
18 with that, Mr. Chairman --

19 MS. MONCADA: I had the mic off, I apologize.
20 I would like to move to strike Mr. Skop's
21 last statement.

22 CHAIRMAN GRAHAM: I can strike that.

23 MR. SKOP: Thank you, Mr. Deason.

24 Mr. Chair, with that, no further questions.

25 CHAIRMAN GRAHAM: Okay. Staff.

1 MS. BROWNLESS: No questions.

2 CHAIRMAN GRAHAM: No questions of Mr. Deason.

3 Commissioners.

4 (Negative response.)

5 CHAIRMAN GRAHAM: No questions of Mr. Deason.

6 Redirect.

7 MS. MONCADA: No redirect, Commissioner.

8 CHAIRMAN GRAHAM: Okay. Exhibits.

9 MS. MONCADA: FPL would like to move one
10 exhibit, and I believe it is Number 7, yes, Exhibit
11 Number 7 on staff's comprehensive exhibit list.

12 (Exhibit No. 7 was received in evidence.)

13 CHAIRMAN GRAHAM: Okay. OPC doesn't have any
14 exhibits, correct?

15 MR. REHWINKEL: No.

16 CHAIRMAN GRAHAM: Mr. Jacobs.

17 MR. JACOBS: Mr. Chairman, we would move
18 Exhibits 27 and 29.

19 Any objections to 27 or 29?

20 MS. MONCADA: Not to Number 27, but I do
21 object to Exhibit Number 29. It was presented to
22 Mr. Deason and there was not a single question
23 asked about it.

24 CHAIRMAN GRAHAM: That is correct.

25 MR. JACOBS: That's correct. Withdraw.

1 CHAIRMAN GRAHAM: So just 27?

2 MR. JACOBS: Yes.

3 CHAIRMAN GRAHAM: We will enter Exhibit 27
4 into the record.

5 (Exhibit No. 27 was received in evidence.)

6 CHAIRMAN GRAHAM: Would you like to excuse
7 your witness?

8 MS. MONCADA: Yes, Mr. Chairman. Thank you.

9 CHAIRMAN GRAHAM: Now I guess the question I
10 have is we have one witness left.

11 MS. BROWNLESS: Excuse me, Commissioner,
12 before we leave the exhibits, what about Exhibit
13 Number 28?

14 CHAIRMAN GRAHAM: It's just 27.

15 MR. JACOBS: Exhibit 28 I thought was already
16 in the record.

17 MS. BROWNLESS: It is already in the record,
18 but I didn't know --

19 CHAIRMAN GRAHAM: We just labeled it for --

20 MS. BROWNLESS: Cross examination purposes
21 only?

22 CHAIRMAN GRAHAM: Yes.

23 MR. JACOBS: Right. I should have said that.

24 CHAIRMAN GRAHAM: The question is we have one
25 witness left. Do we want to stay and do the one

1 witness or come back and do the one witness?

2 MS. BROWNLESS: I would like to stay, please.

3 MR. SKOP: It's at the discretion of the
4 Chairman.

5 CHAIRMAN GRAHAM: Okay.

6 MR. JACOBS: I would like to abide by your
7 wishes, Mr. Chairman.

8 CHAIRMAN GRAHAM: All right. Let's take a
9 quick break, three-minute break, and we will finish
10 up after that.

11 (Whereupon, a recess was taken.)

12 CHAIRMAN GRAHAM: Mr. Jacobs, your witness.
13 Go ahead.

14 MR. JACOBS: Thank you, Mr. Chairman. We'll
15 call Ms. Marilynne Martin.

16 Thereupon,

17 MARILYNNE MARTIN

18 was called as a witness, having been previously duly
19 sworn, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. JACOBS:

22 Q Good afternoon, Ms. Martin.

23 A Help me out here. It is on?

24 Q Yes.

25 CHAIRMAN GRAHAM: It's on.

1 BY MR. JACOBS:

2 Q Would you state your name for the record,
3 please, and address?

4 A Marilynne Martin, 420 Cerromar Court, Venice,
5 Florida.

6 Q Ms. Martin, you appear here today as a witness
7 in this proceeding; is that correct?

8 A Correct.

9 Q And have you had the chance to file prefiled
10 testimony in this case?

11 A Yes, I did.

12 Q And in addition to that prefiled testimony, do
13 you have exhibits that have been filed in this
14 proceeding?

15 A Yes.

16 Q Okay.

17 MR. JACOBS: Mr. Chairman, I believe those
18 exhibits have been marked as Exhibits 8, 9 and 10.

19 CHAIRMAN GRAHAM: That's correct.

20 MR. JACOBS: Mr. Chairman, we would request
21 that the prefiled testimony of Ms. Marilynne be
22 included in the record as though read.

23 CHAIRMAN GRAHAM: We will enter Ms. Martin's
24 prefiled direct testimony into the record as though
25 read.

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MR. JACOBS: Thank you.

(Whereupon, prefiled testimony inserted.)

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BEFORE THE PUBLIC SERVICE COMMISSION
MARTIN, ET AL PETITIONERS
DIRECT TESTIMONY OF MARILYNNE MARTIN
DOCKET NO. 130223-EI
JUNE 24, 2014

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I. INTRODUCTION

Q. Please state your name and address below.

A. My name is Marilynne Martin. My address is 420 Cerromar Ct., Unit 162, Venice, FL 34293.

Q. Please describe your professional background.

1 A. I am an accountant and I have over twenty-five years experience in the field of
2 accounting and financial management for large corporations in the consumer products
3 manufacturing, telecommunications, directory publishing and banking industries. Most of
4 my experience has been in financial planning and analysis, financial systems design and
5 implementation, SEC accounting and cost allocations. I started my career in banking and
6 then became an auditor for Cooper's & Lybrand. I became a Certified Public Accountant
7 in New York State in 1983. While at Coopers & Lybrand I was assigned to the New York
8 Telephone Company and the AT&T divestiture audit. I then spent a total of 11 years at
9 NYNEX Corporation working in various corporate accounting and divisional controller
10 roles. While in one role at Telesector Resources Group, a share service entity, I had
11 responsibilities for cost allocations ensuring costs were properly allocated so that cross-
12 subsidies among the regulated and unregulated groups did not occur. I then went on to
13 Cablevision for a year as a financial planning specialist working on their new voice
14 product Optimum Voice that at the time was in development and field-testing. After that I
15 spent over eight years with Estee Lauder Companies Inc. first leading their financial
16 planning and corporate allocation functions. I was then appointed to Vice President
17 Corporate Controller and after that I led a special projects team, the most notable project
18 being the initial implementation of the Sarbanes Oxley internal control review. I have
19 been semi-retired since 2006. I hold a Bachelor of Science Degree in Accounting from
20 Hofstra University. (see Exhibit MM-1)

21

22 **Q. Please describe your status in the proceeding.**

1 A. I am an intervenor in this docket and I have been on the Florida Power & Light
2 “postpone” list for smart meter installations since 7/31/12.

3

4 **Q. What is the purpose of your testimony?**

5 A. The purpose of my testimony is to discuss the cost principles, methodology, and cost
6 allocations being used by the Commission and FP&L to determine the cost basis of the
7 Non-Standard Meter Rider (“NSMR”) tariff filed by FP&L.

8

9 **Q. Are you sponsoring any exhibits?**

10 A. Yes. I am sponsoring exhibits MM-1 through MM-3

11

12 **Q. Please summarize your testimony.**

13 A. My testimony challenges the methodology and underlying inputs for the calculation of
14 purported incremental costs for the NSMR. This calculation, as proposed in this docket,
15 it is not a detailed, thoughtful analysis, and is not consistent with historical tariff
16 requirements by the Commission. The NSMR terms proposed by FP&L in this matter
17 represent a punitive policy towards consumers, and serves only to artificially repress the
18 demand for an alternative to measuring electric service by smart meters.

19

20 **Q: Did you personally experience FP&L’s customer engagement and field
21 operations related to the deployment of the AMI program?**

22 A. Yes. FP&L sent out postcards in my service area in July 2012 stating they would be
23 coming to replace the meter. I called the number provided on the postcard on July 31,

1 2012 to alert them I did not want a smart meter installed. The representative told me I
2 would receive a call back from another department in 2 days. I received a call from
3 FP&L representative Toni Tookes a few days later. After a discussion with Ms. Tookes,
4 where I explained I lived in a condo and had an electric panel with 10 meters right behind
5 my bedroom wall and it was unacceptable to establish their communication relay network
6 in that location, she finally told me she would put me on a delay list. I then placed a
7 notice not to install smart meters on the electrical panel.

8

9 In August I happened to be home when the contractor came to install smart meters. He
10 was installing smart meters on the adjacent building in my condo association when I
11 approached him and told him not to install the meters on my building. After that
12 encounter I spoke with a Ms. Cynthia Guido at FP&L executive offices. She told me I
13 could not stop the installation of the other meters and that customers had to put
14 themselves on the delay list. In my 10 unit building only two of us live here full-time, the
15 rest are either investors or snow birds. I had to go through the process of contacting the
16 other residents who were up north at the time and have them call to get on the delay list.
17 The other residents were unaware of the smart meter installation, as “current resident”
18 mail does not usually get forwarded.

19

20 An important point is that the postpone list option was not made known to the public and
21 was very difficult to get on. You needed to be firm with the customer service
22 representatives that you did not want the meter. Also many months prior to the issuance

1 of the Smart Meter Briefing Report on February 11, 2013, customers were being told
2 there would be a charge to retain their meter.

3

4 **Q. What review did you undertake for your testimony?**

5 A. I attended the Smart Meter Workshop on September 20, 2012 and reviewed the
6 material submitted in that workshop. I also reviewed the materials submitted in this
7 Docket as well as the testimony on smart meters by Ms. Santos in the 2008 and 2012 rate
8 case filings. In addition, I reviewed related dockets such as Docket 130160, which FP&L
9 filed in 2013 pertaining to smart meter communication issues. In addition, I reviewed the
10 opt-out fee filings of other states.

11

12

II. BACKGROUND

13 **Q. Are there any general observations you have regarding the deployment method
14 used for the smart meter project?**

15 A. Yes. First, it is important to understand the method of deployment used by FP&L for
16 the AMI Project. Large multi-year projects can be implemented in one of two ways;
17 either a phased implementation or all at once, what is called “big bang”. FP&L chose a
18 phased implementation, which means instead of installing all the smart meters and
19 activating the new standard service all at once (commonly referred to as a big bang
20 approach), they did the installation and activation on a service area by service area
21 schedule. Each service area became activated with the new operations on different dates.

22

1 The type of implementation becomes relevant when evaluating the reasonableness of the
2 costs submitted by FP&L, as well as in determining who is the true “cost causer” that
3 should bear the responsibility of the costs being incurred.

4

5 Second, it is important to understand that costs will vary significantly as to the timing of
6 when this optional service is elected. FP&L is still in implementation “project” mode.

7 Although substantially completed, they still have approximately 200,000 customers
8 outside of the Miami-Dade area where smart meters have not yet been deployed. This is
9 expected to occur in 2015. After they complete this implementation they will close their
10 project and enter a “ready state” mode where all their service areas will be activated with
11 the new smart meters. At that point a customer residence will either be equipped for
12 service with the old meters or the new smart meters.

13

14 There are significant costs differences between taking this service in the project mode
15 versus taking this service in the ready state mode, specifically project capital avoidance
16 savings that I will discuss later. The tariff approved did not address these differences.

17

18 **Q. Are there any general observations you have regarding the method of**
19 **determining incremental costs used in this tariff?**

20 A. Yes. First. The determination of incremental costs is highly skewed to advantage
21 FP&L at the expense of the NSMR customers. It appears they have only identified the
22 additional costs that will be incurred, while leaving out the analysis of the costs that will
23 be avoided or reduced by the NSMR customers in the future, and failed to calculate costs

1 which are likely to be readily absorbed through existing rate recovery. In order to arrive
2 at the true incremental costs you need to look at both sides of the equation to arrive at the
3 net incremental costs.

4

5 In addition, the timing of requesting this charge, in isolation of the review outside a
6 general rate case where this would typically be performed, does not produce fair and
7 reasonable rates for the NSMR customers. The incremental costs that FP&L seeks to
8 recover in this tariff are for services generally included in basic rates. Basic rates do not
9 currently reflect the economics of the new standard smart meter service.

10

11 **Q. Please describe how these timing issues create concern?**

12 A. As mentioned above, the incremental costs under review are for services covered
13 under base rates, which are typically reviewed in detail in general rate cases. It is difficult
14 to arrive at fair and reasonable rates by looking at them in isolation. For example, FP&L
15 has claimed they need additional customer service personnel for this service. Before extra
16 personnel should be approved, I maintain that a more objective analysis of these costs is
17 required. This analysis is a decision tree of sorts, in which you need to evaluate a range
18 of elements.

19

20 First, one must evaluate whether the existing work flows and functional units can absorb
21 workload associated with the NSMR under existing budget allocations, and second, will
22 the transition to the AMI program remove or diminish other activities that will not be
23 performed in that unit and thus offset the volume of work added in relation to the NSMR

1 activities. In the case of the purported incremental costs FP&L cites for the Call Center,
2 the company should address and demonstrate the relative impacts on work flows and
3 functional units as customers without smart meters reduce the volume of calls relating to
4 the energy dashboard, or reduce demand or enrollments in other services offered for the
5 smart meter customers. The true impacts when analyzed fully as I believe an objective
6 incremental cost calculation would do, may demonstrate that net incremental cost do not
7 really exist. Another example is the repair and maintenance costs of smart meters.

8 Setting aside for the moment the issue of comparative costs of maintenance and repair of
9 smart meters versus analog meters, it is accepted that analog meters used by opt out
10 customers do not contain communication modules. Any repairs or service issues for
11 communication problems, such as those reported by FP&L in Docket 130160 will not be
12 incurred for these customers and thus, there will be reduced workloads in the repair and
13 maintenance areas.

14

15 Second, if there are not offsetting reductions in work for the NSMR customers but the
16 work can still be absorbed with the existing staffing levels, there would be a need for a
17 cost allocation. You would determine the appropriate cost to charge these customers and
18 make a corresponding adjustment to reduce the costs in basic rates. Since the NSMR
19 customers participate in both pools, they would share in the reductions of base rates as
20 well as be charged for the NSMR service. By handling it outside of the rate case this
21 analysis and cost allocation process gets bypassed creating inequities for the NSMR
22 customers.

23

1

2 **Q. Are there other concerns regarding timing of this charge that create inequities?**

3 A. Yes. The biggest concern is in regards to project savings. These savings have not been
4 reflected in base rates and were not accounted for in the recent rate case settlement.

5 Without an objective analysis of the savings generated by the transition to the AMI
6 program, then efforts to project incremental costs in the manner suggested by FP&L, i.e.
7 by stating that the project is completed and it is time to recover these costs through
8 compensatory tariff rates, is null and void unless FP&L is willing to adjust base rates to
9 reflect the project savings. In the tariff as filed, FP&L wants their cake and then to eat it
10 too, so to speak. This project was originally approved in the 2008 rate case based on
11 annual O&M savings of \$36 million dollars. However, current rates are based on a 2013
12 test year, which does not fully reflect the new cost of service for the AMI program, now a
13 new standard service, as the project was not anticipated being completed until September
14 2013. Current rates reflect a project mode, not “ready state” and include net project *costs*
15 of \$3.7 million, rather than net savings. The costs included in 2013 basic rates are a
16 hybrid of both the smart meter and the analog meters; reflecting costs to read 453,000
17 analog meters through 2013.¹

18

19 It seems more practical to avoid developing any compensatory rates related to the NSMR
20 until the FP&L cost of service accurately reflects its true costs under the AMI program.

21 The more proper approach would be to capitalize the AMI program operations until such
22 an analysis is complete. As Witness Onsgard confirms, all costs included in the NSMR

¹ See FP&L Response to Office of Public Counsel Ninth set of interrogatories no. 173, Docket #120015

1 revenue requirement are incremental to the costs recovered through base rates.² Now
2 that the operational savings anticipated from the meters – estimated at \$40 million – are
3 not projected to appear before 2015,³ that seems to be the most appropriate time to begin
4 consideration of any rate issues related to a NSMR.

5

6 It is improper and nonsensical to look at this analysis, and the impact of the NSMR on
7 operations in a vacuum, as suggested in this docket. One must ask to what extent are
8 FP&L's base rates calculated on expenses that FP&L is not now incurring. That is, if the
9 anticipated savings from the smart meters are understated in the test year for base rates,
10 and now FP&L is in fact realizing significantly higher savings than projected in the test
11 year, how should this situation be addressed? Even, more significantly, should the
12 company engage in a "true up" of actual economic impacts before imposing a surcharge
13 based on opt out customers, in the face of the negligible impact of opt out customers on
14 FP&L's overall costs.

15

16 **Q. Why should the Commission be concerned over long-term policy implications if**
17 **it approves this tariff?**

18 A. The policy implications are very important because of the nature of these NSMR fees,
19 in relation to the totality of circumstances surrounding the AMI program which bear huge
20 impacts and represent a message the Commission sends as to regulatory management
21 practices. Specifically, FP&L has indicated that they developed the postpone list as early
22 as August 2010, and decided to maintain a postpone list until the end of the entire project

² Direct Testimony of Robert A. Onsgard, page 19.

³ Docket No. 120015-EI, Rebuttal Testimony of Marlene E. Santos, page 6.

1 before making a decision on how to handle the customers refusing a smart meter. This
2 management of the postpone list might make sense in a big bang implementation but not
3 in a phased implementation as was done in the FP&L deployment of the AMI program.

4

5 The body of customers not interested in utilizing a smart meter was evident early on in
6 the implementation process. FP&L had enough information at the time of its 2012 filing
7 in January 2012 and should have requested this tariff at this time. At the end of December
8 2011, there were more than 1,300 customers on the postpone list and at the time of the
9 settlement of this rate case in November 2012, they had over 20,000 customers.

10 Additionally, statements by FP&L at the Commission staff workshop on September 20,
11 2012, clearly demonstrated this knowledge and awareness. Based on the responses to the
12 OPC's production of documents requests, FP&L started evaluating the costs to offer an
13 opt-out provision in 2011. In addition, dating back to 2011, a general response in the
14 electric industry to the issue of customers opting out of smart meters was to offer an opt-
15 out option. I have included a report entitled "National Action Plan – Communication
16 Plan Umbrella – Action Guide – Part 1", dated July, 2011, included as Exhibit MM-3,
17 which was published by an industry group in which FP&L has membership, to document
18 this industry-wide position.

19

20 Thus, FP&L should have managed and optimized their operations in relation to these opt
21 out customers throughout the implementation process. This is especially so given the
22 substantial operational changes which FP&L asserts were required simultaneously to
23 implement the smart meters. To approve the methodology proposed by FP&L is to

1 tacitly approve a management practice that waits until the end of the project to recognize
2 that the transition caused operational inefficiencies and up-front costs that fuel the
3 specter of subsidization. Proper project management calls for a quick resolution. It is
4 inappropriate to wait until the end of the project in a phased implementation to consider
5 overall functional impacts. To approve this management practice is to approve a policy
6 which serves to distort and repress the actual public interest favoring an alternative to
7 participating in the AMI program.

8

9

10 **Q. Does the Smart Meter Briefing Report provide adequate support for applying**
11 **these cost principles used in the NSMR tariff?**

12 A. No. Both the Commission and FP&L are pointing to the Smart Meter Briefing Report
13 as their source and justification. However, the Commission has an obligation to review
14 the circumstances that require the use of these cost principles at a level consistent with
15 the analysis related to burial of overhead power lines in Rule 25-6.115, Florida
16 Administrative Code.

17

18 **Q. Should this filing be viewed as a revised tariff or optional services?**

19 A. It is debatable. By nature of the plan of implementation selected by FP&L, a phased
20 approach, and their use of a postpone list for approximately four years, it is a stretch to
21 call this a “new” optional service. Customers have been receiving this service for a long
22 time and arguably the services are paid for through basic rates. Since this service was in

1 place at the time of the settlement without an existing tariff, one can reasonably question
2 how it is considered a “revised” tariff or “new optional service.”

3

4

5 **III. COST PRINCIPLES BEING APPLIED**

6

7 **Q. Can you describe the cost principles being applied for this tariff?**

8

9 A. Yes. FP&L’s tariff filing, and the Commission’s Orders related thereto determine the
10 rates for the NSMR tariff based on two cost premises. First, that a non-standard service
11 should be cost-based so that the general ratepayer is not subsidizing any costs for those
12 ratepayers choosing the service (“cost causer”). And second, that incremental costs
13 associated with the non-standard service should be used to determine the tariff amount.
14 These two principles were referred to as “long-standing” practices used by the
15 Commission to fix just, reasonable, and compensatory rates.

16

17 **Q. What general observations did you make regarding the cost principles applied in**
18 **this filing to support the non-standard tariff service amounts?**

19

20 A. The NSMR tariff imposes a monthly surcharge on customers who opt out of the FP&L
21 Smart Meter program. It relates to *existing* customers retaining *existing* services, with
22 *existing* service delivery equipment. Contrary to the testimony of FP&L Witness
23 Onsgard, I am of the view that customers who opt out of the FP&L AMI program impose

1 little if any incremental operational costs to FP&L's cost of service. The FPSC must
2 therefore undertake a careful, and reasoned analysis of any costs allocated to these
3 customers by FP&L, and the associated charges, to ensure that there is no discrimination
4 as to the rates the opt out customers pay versus the general body of ratepayers. The cost
5 justification offered by FP&L in this tariff case discriminates against the "opt out"
6 customers by attributing highly speculative "incremental" costs to those customers who
7 choose to opt out of FP&L's smart meter program, and by determining that these
8 uncertain costs justify additional, recurring surcharges to these customers that no other
9 customers pay, again to retain services that have not changed in any respect.

10

11 **Q. On what basis do you reach this conclusion?**

12 A. FP&L witnesses cite a number of areas where additional operations are necessary to
13 accommodate customers taking service using analog meters. As discussed more fully
14 below, the evidence used to support these additional efforts is not rational or reasonable.

15

16 Notwithstanding that these are historical procedures adhered to by the Commission, their
17 application in this proceeding is highly questionable. As to the cost subsidization
18 concept, the evidence produced by FP&L to support the existence of a cost impact by opt
19 out customers lacks credibility. FP&L fails to demonstrate that the company deserves to
20 charge opt out customers for keeping their existing meters, particularly given the nature
21 of existing operations related to analog meters, and the totality of circumstances
22 surrounding the implementation of smart meters.

23

1 As to the second principle, i.e. the allocation of this “incremental cost” to opt out
2 customers, FP&L fails to appropriately perform a complete cost and benefits analysis for
3 the NSMR, and the underlying impacts on FP&L operations. Any attempt to charge opt
4 out customers must be scrutinized to ensure that it is rational. As described more fully
5 below, FP&L has not met that burden in this docket.

6

7 However, should the Commission find that FP&L can identify true incremental costs
8 based on the withdrawal of opt out customers from the smart meter program, I maintain
9 that, in contrast to the overall scope of the smart meter program, and the uncertainty in
10 the overall economic benefits, any incremental costs attributed to opt out customers are
11 negligible to the overall program. It is absolutely reasonable that where a non-standard
12 service imposes de minimis costs, a special surcharge might be waived and those costs
13 can be shared by all ratepayers.

14

15 **Q. Is there any history of FP&L foregoing charges for non-standard offerings?**

16 A. Yes there is. A review of FP&L’s current service offerings finds that FP&L offers
17 many non-standard services without charge. For example, there are no fees for: 1)
18 accessing the Spanish Customer Services or receiving FP&L information in Spanish; 2)
19 TDDY; or 3) budget billing services. Each of these represents a non-standard service that
20 benefits only a segment of its customers but the costs are borne by the entire ratepayer
21 population. Certainly there were incremental costs associated with establishing such
22 services when originally initiated and there are on-going maintenance costs associated
23 with offering these services, but it appears those costs are borne by all ratepayers. In the

1 case of TDDY services you can justify the lack of fees, as it is required to accommodate
2 the disabled under the American With Disabilities Act. The Commission has not justified
3 why the other services such as Spanish customer service or budget billing can be offered
4 without charge and the costs of service absorbed by all ratepayers, but NSMR customers
5 must be charged. So the cost principle appears to be discretionary, not mandatory.

6

7 It is important to mention some of the reasons for customer refusal of a smart meter, as
8 they are not frivolous. An examination of the consumer correspondence file in this docket
9 will reveal that many customers have a sensitivity to the communication equipment used
10 in the smart meter and some have medical implants and their doctors have advised them
11 to avoid equipment with radio transmitters. Similar to a customer who may not have a
12 strong command of the English language and has special needs, these customers have
13 valid special needs that warrant an alternative service offering.

14

15 The Commission has a responsibility to make sure rates are not discriminatory and that
16 they are fair, just and reasonable. In reviewing the use of this long-standing principle,
17 this case contains fundamental inconsistencies in applying this principle.

18

19 **Q. The use of the cost principle has been compared to that used for burial of**
20 **underground wires, is that appropriate?**

21 A. No. FP&L suggests that the NSMR tariff can be compared to the current practice of
22 charging for the burial of overhead wires at a customer request. This is not an appropriate
23 comparison; it is like comparing apples to oranges.

1

2 In the case of a customer request for burial of overhead wires, it is clearly a new service,
3 and the company's efforts to initiate improvements to the transmission lines are measured
4 and quantifiable. This request clearly falls outside of normal, customer support and
5 service delivery guidelines for on-going operations.

6

7 In the case of the NSMR tariff, the retention of analog meters is not a new service for
8 FP&L; indeed, the procedures necessary to support analog meters have been in place in
9 the company for most of its existence. The major change is the deployment of 4 million
10 meters that impose drastically different operational support requirements on the
11 company. In this context, FP&L's initial practice over four (4) years seems more rational
12 to allow customers living in the same exact residence as when the meters were deployed,
13 to opt out for no charge.

14

15 Following the logic of FP&L in comparing the smart meter opt out paradigm to the
16 paradigm of the burial of power lines, leads to some troubling questions regarding the
17 proposed adoption of the NSMR. In the case of the burial of power lines, the
18 Commission engaged in a deliberation of the process and standards to apply when
19 converting overhead facilities to underground facilities, and adopted an extensive rule as
20 a result; Rule 25-6.115, Florida Administrative Code. This rule establishes the
21 requirements for a tariff to impose charges, and goes so far as to offer the
22 customer/applicant for this service the opportunity to challenge an electric utility's cost
23 estimates to complete the service.

1

2 The smart meter deliberations have taken place at a high level, and have not covered the
3 level of detail on actual implementation specifications as covered in Rule 25-6.115 for
4 burial of power lines. Most notably, Rule 25-6.115 addresses details and establishes
5 standards for the calculation of the incremental costs to the utility.

6

7 By contrast, in the name of developing a cost-based tariff, and without a granular
8 analysis, FP&L seems to make general assumptions for opt out customers, which in the
9 glare of common sense, seem highly speculative.

10

11

12

IV. COST ANALYSIS – UPFRONT COSTS

13

14 **Q. What are the upfront costs FP&L has included in the tariff?**

15 A. FP&L is asserting that they have upfront capital costs of \$2.1 million primarily for
16 system changes and \$368,000 in O&M expenses relating to customer brochures, research
17 and mailings. FP&L is claiming they have handled these customers for the past four years
18 outside their systems and need to make system changes to properly identify customers as
19 NSMR and adjust associated workflows for meter readings and repairs. These changes
20 account for approximately \$865,000 of the system costs. The remaining \$1,223,000
21 relates to system changes necessary to bill these customers for the NSMR service.

22

1 **Q. Was the methodology utilized by FP&L to calculate the estimated number of**
2 **NSMR customers appropriate?**

3 A. No. The decision by FP&L to allocate the incremental costs across 12,000 customers
4 when there is evidence that at least 24,000, if not 36,000 customers have substantial
5 reservations about the program by signing up for the initial postpone list is not justified.
6 The evidence presented by FP&L to support its choice of the 12,000 relies heavily on
7 purported experience of other utilities around the country. However, the analysis of
8 FP&L unnecessarily skewed this data to reach a lower estimated number of enrollees.
9 For example, FP&L should have also excluded Sumter & Lakeland FL from their
10 schedule, as these are small operators and not representative of FP&L. As stated, the
11 inclusion of these estimates significantly skewed the estimates of take rates downward.
12 Without a more discreet review of the inputs and assumptions in the estimates of NSMR
13 customers, the analysis is insufficient to support the conclusions of FP&L. The 24,000 –
14 36,000 customers who sought relief from the smart meters prior to any suggestion of an
15 opt out charge, are the best evidence of the potential audience for the number of
16 customers who would opt out of the program if the Commission were to adopt a
17 reasonable and rational opt out policy.

18

19 FP&L witness Onsgard indicated in his testimony that one of the benefits to the use of the
20 postpone list was to quantify the number of customers who expressed concerns about
21 smart meters. It defies logic, not to use that number to calculate the NSMR population.
22 By using a lower population estimate you artificial increase the costs per customer and
23 essentially out price the fixed and lower income populations from affording such option.

1 The methodology creates a self-fulfilling prophecy, resulting in a lower population able
2 to pay the service fee and is discriminatory against the lower income customers.

3

4 **Q. Should the costs identified by FP&L for upfront customer enrollment in the**
5 **NSMR be allowed?**

6 A. No. The Customer Care one-time Enrollment fee relates to the customer care
7 activities to enroll the estimated 12,000 customers in the initial program and should be
8 disallowed because they are excessive and FP&L should be considered the “Cost Causer”
9 and bear the costs.

10

11 Most of the prospective enrollees were self-motivated, as indicated by the early enrollees
12 on the postponement list. Based on my experience and that of other intervenors, which
13 is corroborated by the consumer correspondence in this docket, FP&L did not properly
14 inform customers in the initial deployment. Thus, most of the customer relations’ effort
15 was necessary to resolve confusion resulting from the initial lack of customer
16 engagement. Had FP&L conducted a true phased process, with customer input, there
17 would have been no real project justification to create and maintain a postpone list for 4
18 years. These costs would not have been incurred if FP&L made a decision quicker in the
19 process and handled this properly when entering a service area to deploy.

20

21 Since these customers were self-motivated and educated on smart meters in order to get
22 on the non-disclosed postpone list, the necessity of developing expensive communication

1 materials that underwent expensive research, which did not benefit these NSMR
2 customers cannot be justified as necessary expenses.

3

4 **Q. Should the costs identified as upfront systems costs in the NSMR tariff be**
5 **allowed?**

6 A. No. As I mentioned earlier, in this situation you have different costs as to when this
7 service is being taken. As an example, during the project phase customers are rejecting
8 the new meter, in the ready state phase they will be requesting a meter change out.

9

10 If you evaluate the initial project phase you find that there is significant project capital
11 avoidance, as the need to install smart meters for this pool of customers did not occur.
12 Fundamental fairness dictates that if opt out customers must pay incremental program
13 costs, they should also receive the incremental benefits, specifically the benefits of the
14 avoided capital cost of not installing the smart meter for these customers as well as the
15 avoided cost of disposal for the “obsolete” meters. If you refer to Exhibit MM-2, you will
16 find there was adequate avoided capital within the project costs allocated to opt-out
17 customers to cover the unforeseen incremental costs FP&L is seeking for additional cost
18 recovery. Each FP&L customer contributed \$145 for a new smart meter. The number of
19 customers refusing the smart meter is between 24,000 and 36,000. Considering both
20 system & communication costs, the per customer share of the upfront costs would equate
21 to between \$93 - \$140. There were ample project funds that could be reallocated to these
22 additional unforeseen project costs. Since FP&L has stated that the customers will retain
23 their existing meters, there are also the avoided write-off costs of approximately \$22 per

1 customer to cover any incremental costs. The request for the upfront capital costs for opt
2 out customers should not have been allowed and creates a windfall for FP&L at the
3 expense of these customers.

4

5 FP&L stated in response to staff data requests and OPC interrogatory #8 that the smart
6 meters not installed for opt out customers did not represent avoided capital because the
7 meters would have been purchased anyway. This assertion is not reasonable and should
8 not be accepted. This is a multi-year project and there was adequate time to adjust the
9 purchase orders. Also, most large companies negotiate the option to make returns to
10 vendors. Finally, there may be some evidence that the additional smart meters benefited
11 the general ratepayer. In Docket No. 130160 FP&L applied for the ability to conduct
12 predictive testing. In this docket they outlined that they were having operational issues
13 with some smart meters not communicating properly or overheating. FP&L noted 9,286
14 smart meters already needed to be replaced and at any given time approximately 6,000
15 are not communicating properly. The additional smart meters on hand certainly benefited
16 general ratepayers.

17

18

19 **V. COST ANALYSIS – O&M ONGOING COSTS**

20

21 **Q. What are the O&M on-going costs that FP&L has identified and included in the**
22 **NSMR tariff?**

1 A. FP&L has included a one-time fee for 1) customer enrollment, 2) establishment of
2 meter reading routes, 3) an initial service visit and 4) meter sampling and testing. They
3 have also included a monthly fee for 1) meter reading & OSHA costs, 2) billing & project
4 support, 3) field visits for collections and disconnect/reconnects, 3) physical investigation
5 of outages due to unnecessary truck rolls to verify power when no power issue caused by
6 FP&L exists and 5) a full-time project manager to oversee the program.

7

8 **Q. Assuming, for purposes of illustration, that it was necessary to address**
9 **incremental costs from the opt out customers, did FP&L appropriately apply the**
10 **incremental cost principle to the monthly operational charges?**

11

12 A. No. When determining incremental costs, you need to evaluate both sides of the ledger
13 to get to a net incremental cost. That was not done. The analysis performed overlooks
14 ongoing variable costs and whether there were offsetting reductions in workload for the
15 departments under inspection.

16

17 In order to arrive at fair and just incremental costs you need to consider the variable costs
18 that exists in the new standard service and make adjustments in the calculation of the
19 incremental costs. The analysis for this was not performed.

20

21 The objective is to determine what the incremental cost is that you need to charge these
22 customers. This requires a comparison of the cost of the new standard service verses the
23 cost of the non-standard service. Each will have separate and distinct workflows. Each

1 operation will have fixed costs, which are costs that do not change based on volume, and
2 variable costs, which are costs that may be volume sensitive.

3

4 **Q. Are there any potential variable or reduced costs that should be taken into**
5 **account?**

6 A. I believe so. I have not performed a formal detailed analysis but I will mention some
7 items that are typically volume sensitive and should have been considered. Smart meters
8 involve communication and information technology costs that do not exist in the NSMR
9 meter service. The new standard service is collecting a lot of interval usage data, which is
10 why the industry refers to it as “Big Data”. This data will not be collected for NSMR
11 customers, therefore there will be significantly less data that needs to be stored, managed
12 and processed. A NSMR customer will have 12 meter readings per year. The smart meter
13 customer will have readings every 15 minutes, which equates to 96 data points collected
14 per day or 35,040 data points per year. Other examples of volume sensitive costs in
15 information technology are software license and maintenance fees.

16

17 In the customer service area there will also be less calls for assistance for questions with
18 the Energy Dashboards, as well as less trouble tickets for communication problems for
19 smart meters, such as we see described in Docket No 130160. There may also be
20 depreciation impacts and savings from longer useful lives of the non-communicating
21 meters that need to be factored in to arrive at net incremental costs.

22

23 **Q. Is the one-time customer enrollment fee appropriate?**

1 A. No. This cost relates to the customer care activities to enroll the estimated 12,000
2 customers in the initial program and should be disallowed because FP&L should be
3 considered the “Cost Causer” and bear the costs out of the project cost pool. As
4 mentioned previously, there was no real project justification to have a postpone list for 4
5 years. These costs would not have been incurred if FP&L made a decision quicker in the
6 process and handled this properly when entering a service area to deploy. For the
7 customers who enroll after this initial enrollment, these calls will most likely come into
8 play in the request for initiation of service call a customer makes and can be easily
9 absorbed and offset. The customer service representative may need to enter the customer
10 request for a non-standard meter but may also get to skip the activation process for a
11 smart meter or other smart meter services that do not apply to non-standard meter
12 customers. There is no evidence to suggest additional staffing is required.

13

14 The staff adjustment to this portion of the fee warrants a special observation. Staff
15 indicated in its recommendation that their opinion of the workload requirements was that
16 after initial enrollment there was a reduction in volume to warrant a decrease in staffing
17 from 4 representatives to two, and this should happen in year two. While the rationale for a
18 reduction in costs is sound, this specific adjustment lacks objective reasoning because
19 there are no projected volume estimates to support it. The Staff cost calculation is based
20 on getting the 12,000 initial customers enrolled for a period of two years. A more
21 rational estimate is that the enrollment period is 3-4 months, not two years.

22

23 **Q. Is the one-time fee for establishment of meter routes appropriate?**

1 A. No. For the initial enrollees this activity took place upon activation some years ago
2 and should be absorbed through project costs. As for customers enrolled after the initial
3 enrollment period, it has not yet been determined whether there are offsetting reductions
4 to justify the incremental costs. A customer requesting initial service and requesting a
5 NSMR does require a change in routing but will also not require an activation of their
6 meter and testing to ensure it was activated and communicating properly. No analysis
7 was performed on workflows that determine if there is a true incremental cost to FP&L to
8 handle this task. The observation made above relating to Staff's adjustment to a two-
9 year period for a one time fee applies in this analysis as well to further reduce that
10 adjustment to 3-4 months.

11

12 **Q. Is the one-time fee for the initial service visit appropriate?**

13 A. The explanation provided for this charge is that a field visit will be required for one of
14 four reasons – 1) removal & replacement for meter testing, sampling, repair, 2)
15 installation for relocations, 3) reconnections for collections, and 4) restoration/theft
16 monitoring. This assertion is speculative and not cost based and should be disallowed.

17

18 For the initial enrollment customer an initial field visit is not required and it will not be
19 incurred. The customers have elected to keep their existing meters thus negating the need
20 for a meter swap out. For customers enrolling after the initial enrollment, when on-going
21 operations is in a ready state mode, there may be justification for a charge due to a meter
22 swap out that would be incurred on initiation of service. A separate fee schedule should

1 be established, if deemed warranted, for each field visit that occurs and charged to the
2 “cost causer” when that activity takes place.

3

4 In addition, the Commission is allowing a speculative fee that may or not be incurred, to
5 be collected up-front, which may occur in the future, without making adjustments for the
6 time value of money. This is clearly biased towards FP&L. It appears that this amount
7 was categorized as an upfront fee even though it does not occur upfront of the
8 implementation of an opt out process. It again serves essentially to discourage customers
9 from enrollment. This observation is supported by the hearing transcripts in which all
10 parties indicated the intent was to make sure a customer only paid once regardless of
11 whether they had multiple service visits or no visits. This has an especially chilling effect
12 for low-income and fixed income customers who are not interested in the smart meter
13 because it provides no choice of meter yet it makes their choice to avoid the smart meter
14 cost prohibitive.

15

16 **Q. Is the one-time fee for meter sampling and testing appropriate?**

17 A. FP&L is claiming a need to sample and replace each existing meter in the NSMR
18 program once over the next three years. They are applying sample sizes that are illogical.
19 FP&L has provided no evidence that all of these meters require testing within the next
20 three years. In addition, basic rates include cost recovery for sampling and testing and
21 FP&L has not provided a comparison cost analysis to justify the incremental costs.

22

23 **Q. Are the monthly cost for meter reading and OSHA appropriate?**

1 A. Not at this time. Since base rates currently include a hybrid of both smart meters and
2 non-communicating meters, it appears FP&L has sufficient compensation in base rates
3 recovery for these costs. In addition, there are offsets to consider, as the non-standard
4 meters will not have communication repair issues that the smart meters are currently
5 experiencing. This issue should be deferred and handled during the next general rate
6 increase or at a minimum the share of savings for these customers not included in current
7 rates should be credited to compensate. Alternatively, the Commission should explore the
8 self-read or estimated billing options to significantly lower the costs for these customers.
9 An examination of the consumer correspondence in this docket indicates a strong
10 preference for a self-read program in lieu of FP&L having to do monthly readings. This
11 option would create more reasonable rates and allow lower income customers to have a
12 choice of meters.

13

14 **Q. Are the billing and project support costs appropriate?**

15 A. FP&L is requesting 1.2 FTE for the first year and .6 FTE thereafter to support initial
16 enrollment and initiate meter change & re-routing orders, bill charges, support service
17 order processes and miscellaneous ongoing support. The initial set up should be charged
18 to the project costs for the initial enrollees as FP&L is the cost causer as noted earlier. For
19 customers electing service after the initial enrollment period it is questionable that there
20 won't be any offsets. Again, if a customer is initiating service, there will be work orders
21 to activate the smart meter that will not occur as well as other services available to smart
22 meter customers that NSMR customers will not be enrolling in that may offset any
23 incremental costs.

1

2 Q. Are the field visits for collection costs appropriate to include?

3 A. These charges represent the additional costs in collections for field visits and
4 disconnects. FP&L has applied the system-wide rate to this small sub-section of
5 customers without analysis, which may not be appropriate. Collections are a highly
6 subsidized function in general and it would be unfair to further penalize the good paying
7 customers in this pool with additional costs. It is not cost-based to charge each customer
8 for these costs. The Commission should consider requiring deposits based on credit
9 worthiness or alternatively the loss of eligibility to have a non-standard meter in order to
10 avoid any potential costs.

11

12 Q. Are the charges for physical investigations of outages appropriate to include?

13 A. No. This fee appears to be covering instances where an outage needs to be
14 investigated and when investigated it turns out not to be FP&L's trouble but the
15 customers, for example tripped circuit breakers. This portion of the charge should be
16 disallowed as speculative and not cost based. FP&L should initiate a charge similar to
17 what the telephone industry does. Customers should be told that if the trouble is not with
18 FP&L's facilities that they will be charged for the service visit. This will result in the cost
19 causer paying and not socialize the cost to all the customers in this pool.

20

21 Q. Are the costs for a full-time high-level project manager appropriate?

22 A. No. FP&L is claiming that they need a full-time project manager to tend to this
23 program including oversight of processes across multiple business units, system

1 integration, cost accounting, reporting, and regulatory requirements. They have not
2 substantiated this requirement. This program does not have ongoing needs to require a
3 full time manager and most likely can be absorbed through an existing position. This cost
4 request is excessive and should be denied.

5

6 **Q. Are there other special considerations?**

7 A. Yes. The charges proposed unjustly penalize those with multiple meters in the same
8 location and are not cost-based. The costs for initial field visits and meter reading are
9 inflated as they assume separate truck rolls that will not occur. A different tariff structure
10 should be considered which reflects the actual costs of multiple meters more properly.

11

12

VI. CONCLUSIONS

13

14 **Q. What should the Commission do to arrive at fair, just and reasonable rates for**
15 **NSMR customers?**

16 A. In order for fair, just and reasonable rates to be calculated the Commission should
17 either 1) open up the entire AMI project for review now that it has been completed and
18 adjust basic rates to reflect the new standard service as well as determine the incremental
19 costs for non-standard service or 2) wait until next rate case when costs of the new
20 standard meter service are better known and the incremental costs can be better
21 determined.

22

1 **Q. Will not charging NSM customers at this time result in discrimination against**
2 **other customers?**

3 A. No. The other customers are not going to see a change in their rates at this time. It will
4 only be a problem if the issue is not addressed and properly evaluated at the next general
5 rate tariff.

6

7 **Q. Should the Commission consider an alternative to FP&L manual monthly meter**
8 **readings?**

9 A. Yes. There is also a basic business and ratemaking principle to be cost efficient and
10 mitigate costs. The question of whether it was possible to use estimated readings or self
11 reads for the NSMR customers was never addressed in this proceeding or previously.
12 The docket consumer correspondence file includes many customers who expressed a
13 preference for this solution. The current rules allow for estimated billing, not to exceed
14 six months. The Commission needs to further explore why this option cannot be utilized
15 at least on a temporary basis. This would significantly lower the costs of providing this
16 service and provide an affordable rate structure for the NSMR customers.

17

18 Q. Does this conclude your testimony?

19 A. Yes.

1 BY MR. JACOBS:

2 Q Ms. Martin, have you prepared a summary of
3 your testimony?

4 A Yes, I have.

5 Q Would you proceed.

6 A Good afternoon, Commissioners. FP&L's new
7 tariff is asking for additional revenues to compensate
8 for incremental costs incurred for a new optional
9 non-standard meter program which technically has been
10 offered since August of 2010. FP&L's request should be
11 denied and at least deferred to a separate proceeding,
12 where their tariffs for all ratepayers that are impacted
13 by this change and cost of service due to smart meters
14 are revised to reflect it. Otherwise, the Commission's
15 duties to set fair and reasonable rates for all
16 ratepayers will not be accomplished.

17 First, a proper rate review has not been
18 performed. Incremental cost analysis requires cost of
19 service studies for both standard and non-standard
20 processes and, if performed, would have identified
21 items such as avoided project costs, offset in ongoing
22 variable costs, evaluation of existing operations to
23 absorb activities and, in addition, provisions for
24 multiple media issues, as well as cost mitigation
25 alternatives such as customer self-reads would have

1 been explored.

2 Second, determine improper incremental costs
3 is problematic and complex in this case. The NSMR
4 services are recurring basic services, not independent
5 of base -- not services independent of base rates.
6 Adjusting rates for these services in a vacuum for only
7 a segment of the rate paying population when all are
8 affected is improper. Such rates were recently set and
9 agreed to hold stable for four years. These rates were
10 based on a 2013 test year which do not fully reflect
11 this new cost of service and is associated in
12 40 million in savings but, in fact, reflect heavy
13 project implementation costs as well as cross-subsidies
14 for some of these services under review. FPL's
15 retention of such savings for three years provides
16 ample compensation for any incremental costs associated
17 with NSMR customers.

18 Third, a review of the FP&L services finds
19 inconsistencies with cost policies being asserted as
20 FP&L routinely offers other optional non-standard
21 services for no charge for which they incurred
22 incremental costs. There is no charge to enroll in
23 budget billing, and providing options when your
24 equipment makes customers sick is no different than
25 options for customers having difficulty in managing

1 their monthly bills. FP&L cites examples of where
2 non-standard service fees do exist, but they came
3 through extensive cost study reviews and formal rule
4 making processes, unlike this tariff.

5 Fourth, FP&L did a phased implementation,
6 which means the standard meter service existed in
7 September of 2010. If FP&L's tariff file and
8 assertions are indeed correct, then FP&L had a duty to
9 make a decision at that time because all of the
10 operational costs and cross-subsidies started at that
11 point. Delaying until the end of deployment did not
12 benefit general ratepayers or their operations. FP&L
13 consciously did not include these tariffs in their rate
14 case filing, nor did they disclose these issues, and
15 now they want to say they are significant. FP&L must
16 bear some responsibility for these costs because a
17 delayed decision making impacted them.

18 And, finally, the design of this tariff with
19 significant unaffordable up-front fee left no choice of
20 meter for the low and fixed income customers. They
21 were simply priced out of choice.

22 **Q Thank you, Ms. Martin.**

23 MR. JACOBS: Mr. Chairman, I tender the
24 witness for cross.

25 CHAIRMAN GRAHAM: Okay. Mr. Rehwinkel, I

1 assume you are a friendly cross?

2 MR. REHWINKEL: Yes. Mr. Chairman, I don't
3 have any questions. But if I might say, in my 29
4 years of practicing or working with this
5 Commission, I have never seen a lay witness more
6 professional and expert as Marilynne Martin. I
7 just wanted to commend her. Thank you.

8 CHAIRMAN GRAHAM: Thank you.

9 Mr. Skop.

10 MR. SKOP: No questions, Mr. Chair.

11 CHAIRMAN GRAHAM: Florida Power & Light.

12 MR. RUBIN: FPL has no questions for
13 Ms. Martin.

14 CHAIRMAN GRAHAM: Staff.

15 MS. BROWNLESS: No questions.

16 CHAIRMAN GRAHAM: Commissioners.

17 (Negative response.)

18 CHAIRMAN GRAHAM: I guess there's no redirect.

19 MR. JACOBS: No.

20 CHAIRMAN GRAHAM: Exhibits.

21 MR. JACOBS: Mr. Chairman, we would move
22 exhibits -- I believe was it seven, eight and nine.

23 CHAIRMAN GRAHAM: Eight, nine and ten.

24 MR. JACOBS: Eight, nine and ten, I'm sorry.

25 CHAIRMAN GRAHAM: Okay. We'll enter

1 Exhibits 8, 9 and 10 into the record.

2 (Exhibit Nos. 8, 9 and 10 were received in
3 evidence

4 CHAIRMAN GRAHAM: Would you like to excuse
5 your witness?

6 MR. JACOBS: Yes.

7 Ms. Martin, you're excused.

8 CHAIRMAN GRAHAM: Okay. Post-hearing matters.
9 Transcripts will be available October 8th.

10 Is that correct, staff?

11 MS. BROWNLESS: Yes, sir.

12 CHAIRMAN GRAHAM: And briefs are due
13 October 27th. And if there's nothing else to come
14 before us -- seeing none -- we are now adjourned.
15 Thank you very much for your time and patience
16 today and travel safe.

17 (Whereupon, proceedings were concluded at
18 5:45 p.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, MICHELLE SUBIA, Registered Professional Reporter, certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages, numbered 171 through 387, are a true and correct record of the aforesaid proceedings.

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

DATED this 8th day of October, 2014.



MICHELLE SUBIA, RPR
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