

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition for rate increase by Florida Power & Light Company	§ § §	Docket No. 160021-EI
In re: Petition for approval of 2016-2018 storm hardening plan by Florida Power & Light Company	§ § § §	Docket No. 160061-EI
In re: 2016 depreciation and dismantlement study by Florida Power & Light Company	§ § §	Docket No. 160062-EI
In re: Petition for limited proceeding to modify and continue incentive mechanism by Florida Power & Light Company	§ § § §	Docket No. 160088-EI  Filed: August 15, 2016

**SECOND AMENDED PREHEARING STATEMENT OF THE SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION**

The South Florida Hospital and Healthcare Association (“SFHHA”), by and through its undersigned counsel, hereby submits its Second Amended Prehearing Statement, pursuant to the Florida Public Service Commission’s (“Commission”) Order Establishing Procedure in the captioned consolidated proceedings, Order No. PSC-16-0125-PCO-EI, issued March 25, 2016.

**A. APPEARANCES:**

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**On Behalf of the South Florida Hospital and Healthcare Association**

**B. WITNESSES:**

<u>Witness</u>	<u>Subject Matter</u>
Richard A. Baudino	Return on equity, debt, and capital structure; Issue Nos. 3, 80, 81, 83-86, 107, 129

Stephen J. Baron

Class cost of service and rate design; Issue Nos. 6, 136, 140, 145-148, 150, 156-157

Lane Kollen

Rate base issues, operating income issues, quantification of rate of return issues, storm cost recovery, impact on revenue requirements, and asset optimization; Issue Nos. 1, 2, 5, 25-27, 35-38, 40-52, 58-60, 65-66, 69-74, 76-78, 102-103, 106A, 107, 111-118, 120-128, 130-134, 160-163, "OPC Contested Issue," First SFHHA Contested Issues; Mr. Kollen also submitted testimony recommending rejection of FPL's Incentive Mechanism proposal because it will result in excessive, unjust, and unreasonable rates and provide unnecessary and inappropriate incentives for activities already required of prudent utilities; Mr. Kollen instead recommends modification of the Incentive Mechanism so that the entire savings from economy purchases and sales are timely flowed through to customers, and so that only net "gains" from asset optimization activities are incented and reasonably shared

**C. EXHIBITS:**

<b><u>Exhibits</u></b>	<b><u>Witness</u></b>	<b><u>Description</u></b>
RAB-1	Richard A. Baudino	Resume of Richard A. Baudino
RAB-2	Richard A. Baudino	Historical Bond Yields
RAB-3	Richard A. Baudino	Federal Reserve Press Releases and Articles
RAB-4	Richard A. Baudino	FPL Investor Presentations and SEC Form 10-K
RAB-5	Richard A. Baudino	FPL's Response to SFHHA's Request for Production of Documents No. 70 and Selected FPL Discovery Responses
RAB-6	Richard A. Baudino	DCF Analysis: Dividend Yield

		Calculations
RAB-7	Richard A. Baudino	DCF Analysis: Comparison Group Growth Rate and ROE
RAB-8	Richard A. Baudino	CAPM Analysis: Comparison Group
RAB-9	Richard A. Baudino	CAPM Analysis: Historic Market Premium
RAB-10	Richard A. Baudino	Silagy Prior Testimony
RAB-11	Richard A. Baudino	Avera Prior Testimony
RAB-12	Richard A. Baudino	FERC GDP Growth Rate
RAB-13	Richard A. Baudino	DCF Analysis: Growth Rates
<b><u>Exhibits</u></b>	<b><u>Witness</u></b>	<b><u>Description</u></b>
SJB-1	Stephen J. Baron	List of Expert Testimony Appearances
SJB-2	Stephen J. Baron	FPL's Response to FIPUG's Interrogatory No. 10
SJB-3	Stephen J. Baron	FPL's Response to SFHHA's Interrogatory No. 145
SJB-4	Stephen J. Baron	EIA Levelized Cost of New Generation Resources
SJB-5	Stephen J. Baron	NARUC Electric Utility Cost Allocation Manual - Distribution Costs
SJB-6	Stephen J. Baron	TECO MDS Analysis
SJB-7	Stephen J. Baron	Gulf Power MDS Analysis
SJB-8	Stephen J. Baron	Analysis of FPL Account 364 - Minimum Size Poles

SJB-9	Stephen J. Baron	Rate Class CILC-1D - SFHHA Recommended Rate Design - 2017
SJB-10	Stephen J. Baron	Rate Class CILC-1D - SFHHA Recommended Rate Design - 2018
SJB-11	Stephen J. Baron	MDS - SFHHA 2017 Class Cost of Service Studies Using FPL's 12 CP and 25% Average Demand Method
SJB-12	Stephen J. Baron	MDS - SFHHA 2018 Class Cost of Service Studies Using FPL's 12 CP and 25% Average Demand Method
SJB-13	Stephen J. Baron	FPL MFR Schedule E-13c, Page 2 of 45
SJB-14	Stephen J. Baron	FPL's Response to Staff's Data Request No. 22
SJB-15	Stephen J. Baron	FPL CDR RIM Test Analysis, Docket No. 150085-EG
SJB-16	Stephen J. Baron	SFHHA Recommended 2017 Revenue Allocation Methodology
SJB-17	Stephen J. Baron	SFHHA Recommended 2018 Revenue Allocation Methodology
<b><u>Exhibits</u></b>	<b><u>Witness</u></b>	<b><u>Description</u></b>
LK-1	Lane Kollen	Resume of Lane Kollen
LK-2	Lane Kollen	FPL's Response to OPC Request for Admission No. 2
LK-3	Lane Kollen	FPL's Response to OPC Request for Admission No. 3
LK-4	Lane Kollen	FPL's Response to OPC Interrogatory No. 17
LK-5	Lane Kollen	FPL's Response to OPC Interrogatory No. 5
LK-6	Lane Kollen	SFHHA Reduction in Injuries and Damages Expense

LK-7	Lane Kollen	FPL's Response to Staff's Data Request No. 90, Attachment 2
LK-8	Lane Kollen	SFHHA Reduction in End of Life Materials & Supplies and Nuclear Fuel Last Core Expense
LK-9	Lane Kollen	Florida Administrative Code, Section 25-6.0436 - Depreciation (2016)
LK-10	Lane Kollen	Prior Version Florida Administrative Code, Section 25-6.0436 - Depreciation (2008)
LK-11	Lane Kollen	SFHHA Reduction to Depreciation Expense - Increase Remaining Life By 1 Year
LK-12	Lane Kollen	SFHHA Reduction to Depreciation Expense to Combine All Subaccounts to Account 343
LK-13	Lane Kollen	Exhibit NWA-1 (Docket No. 160021-EI)
LK-14	Lane Kollen	SFHHA Reduction to Depreciation Expense to Reallocate Reserve Based on Gross Plant for All Account 343
LK-15	Lane Kollen	FPL's Response to SFHHA Interrogatory No. 162
LK-16	Lane Kollen	SFHHA Reduction to Depreciation Expense to Restate Remaining Lives for Scherer 4 and SJRRP (2017)
LK-17	Lane Kollen	SFHHA Reduction in Dismantling Costs to Remove 20% Contingency (2017)
LK-18	Lane Kollen	Reproduction of Exh. KF-4 (Page 49)
LK-19	Lane Kollen	Reproduction of Exh. KF-4 (Page 13)
LK-20	Lane Kollen	SFHHA Adjustment to Dismantlement Reserve
LK-21	Lane Kollen	SFHHA Reduction in Dismantling Costs to Extend Lives for Scherer 4 and

		SJRRP
LK-22	Lane Kollen	FPL's Response to SFHHA Interrogatory No. 57
LK-23	Lane Kollen	SFHHA Reduction in Capital Recovery Amortization to Amortize Over 10 Years
LK-24	Lane Kollen	FPL's Response to SFHHA Interrogatory No. 175
LK-25	Lane Kollen	Florida Administrative Code Section 25-6.0141 (current)
LK-26	Lane Kollen	FPL's Response to SFHHA Interrogatory Nos. 133 and 134
LK-27	Lane Kollen	SFHHA Recommended Rate Base - 2017 and 2018
LK-28	Lane Kollen	SFHHA Adjustment to Cost of Capital - 2017
LK-29	Lane Kollen	SFHHA Adjustment to Cost of Capital - 2018
LK-30	Lane Kollen	SFHHA Adjustment to Cost of Capital - Okeechobee Limited Scope Adjustment
LK-31	Lane Kollen	26 C.F.R. § 1.167(l)-1
LK-32	Lane Kollen	FPL's Response to SFHHA Interrogatory No. 171
LK-33	Lane Kollen	SFHHA Correction of Revenue Expansion Factor to Include Section 199 Manufacturer's Deduction
LK-34	Lane Kollen	SFHHA Reduction to Depreciation Expense for Okeechobee LSA
LK-35	Lane Kollen	SFHHA Recommended Rate Base - Okeechobee LSA
LK-36	Lane Kollen	Appendix to FERC Order in Docket No. RP16-300-000

The South Florida Hospital and Healthcare Association reserves the right to identify additional exhibits for purposes of cross-examination.

**D. STATEMENT OF BASIC POSITION:**

FPL has no basis for requesting the base rate increase in 2017 and 2018 it proposes in this proceeding or under the limited scope adjustment it requests commensurate with the in-service date of the Okeechobee Clean Energy Center. The base rates that were provided for in the 2012 settlement agreement have enabled FPL to flourish. Following the Commission's order approving the settlement agreement in FPL's 2012 rate case, Fitch Ratings ("Fitch") noted that "[w]hile the order spans a four-year term (until December 2016), FPL could potentially delay filing a rate case for a longer period by proactively managing its costs."<sup>1</sup> In calendar year 2015, based upon those rates, which remain in effect today, FPL earned an 11.50% regulatory ROE at the top of the authorized range. FPL also reported just days ago that it had earned an approximately 11.50% regulatory ROE in the second quarter of 2016, which again is based on the current base rates derived under the settlement.<sup>2</sup> Thus, without any increase to base rates, and in spite of the refunds FPL is required to issue to its customers, FPL continues to earn a more than adequate return.

Notwithstanding these facts, FPL seeks to increase its authorized ROE to 11.0%, plus an additional 0.50% adder for "excellent performance." There is no economic justification for FPL's proposed ROE. In January 2014 Moody's *upgraded* FPL's credit rating, including its long-term issue rating to A1 from A2 with an outlook of stable.<sup>3</sup> FPL's parent company, NextEra Energy, Inc. ("NextEra") has announced its intention to increase its proportion of dividend payouts, from 55% in 2014 to 65% in 2018.<sup>4</sup> FPL's status as a low risk electric utility with strong ratings is incontrovertible. FPL continues to collect much of its cost of service under cost recovery clauses.<sup>5</sup> These economic conditions and financial results demonstrate FPL's authorized ROE should be reduced to 9%, not increased to 11.50% as FPL requests.

FPL proposes an investor-sourced capital structure consisting of approximately 60% common equity. The Company during the past 3 years failed to conduct any analysis necessary to benchmark its target capitalization against other utilities,<sup>6</sup> instead providing now only an

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<sup>1</sup> See Exhibit RAB-5 at p. 2.

<sup>2</sup> See FPL 2nd Quarter 2016 Form 10-Q Report at p. 42 (filed July 28, 2016) ("FPL's increase in net income for the three and six months ended June 30, 2016 was primarily driven by continued investments in plant in service and other property while earning an 11.50% regulatory ROE on its retail rate base."). Section 90.202(12), Florida Statutes, permits official recognition of "Facts that are not subject to dispute because they are capable of accurate and ready determination by resort to sources whose accuracy cannot be questioned." FPL's 2nd Quarter 2016 Form 10-Q Report is a publicly-available document within the official record of the United States Securities and Exchange Commission, and therefore is capable of accurate and ready determination by resort to sources whose accuracy cannot be questioned. Accordingly, SFHHA respectfully requests Official Recognition, pursuant to Section 90.202(12) of the Florida Statutes, of FPL's 2nd Quarter 2016 Form 10-Q Report.

<sup>3</sup> See Baudino Direct Testimony at 15:10-16.

<sup>4</sup> See Exhibit RAB-5 at p. 27.

<sup>5</sup> See Baudino Direct Testimony at pp. 14, 22.

<sup>6</sup> See Baudino Direct Testimony at p. 4.

advocacy piece of *post hoc* rationalization to support its capital structure. FPL's 60% common equity ratio is significantly greater than the prevailing ratios of any of the electric utilities used to estimate FPL's return on equity in SFHHA testimony.<sup>7</sup> Each dollar of FPL's capital financed by equity is 3 to 4 times as expensive as debt, or 1,400 basis points more expensive than the Company's cost of debt.<sup>8</sup> Moreover, FPL in 2017 will have far less exposure to the financial and operational risks associated with PPA obligations, which the Company cited as a basis for its thick equity ratio in its 2012 rate case, meaning a primary driver of the Company's perceived risk is much less of a concern.<sup>9</sup> Accordingly, Mr. Baudino recommends FPL's equity ratio be set at 55%, which is still higher than the average of the electric utility comparison groups presented in FPL's direct case and allows FPL to maintain an A/A credit rating.

FPL requests not one, but three, base rate increases: a proposed base rate increase of \$826.212 million for the 2017 test year ending December 31, 2017; a second base rate increase of \$269.634 million on January 1, 2018; and a third base rate increase of \$208.771 million for the Okeechobee Clean Energy Center on or about June 1, 2019, which FPL styled as a "limited scope adjustment." Collectively, this would increase FPL's base rates by \$1,304.617 million annually. FPL's proposal to utilize chronologically remote test years, using data projections that are potentially 24 months, and 36 months, respectively, removed from the most recent actual available data subjects its customers to the real risks associated with such distant forecasts. Moreover, FPL is strongly incentivized to underestimate its revenues and overestimate its costs in such multi-year projects and retain the benefits of its upside estimation error. If FPL were to in fact under-recover, it can petition the Commission based on more timely and realistic data not by establishing rate recovery mechanisms for distant time periods and assets that will not enter service for FPL's customers until June 2019 (or later).

FPL offers a flawed depreciation study that relies on a December 31, 2017 study date - essentially a full year following the proposed effective date of those depreciation rates (on January 1, 2017). Apparently recognizing subsequent to its filing that its depreciation study was both legally and factually deficient, on June 16, 2016, FPL filed, as a purported "Second Notice of Identified Adjustments," a second depreciation study that FPL suggests the Commission could utilize, if it should so choose, as a basis upon which to set depreciation rates in lieu of the depreciation study FPL filed with its March 15, 2016 petition that initiated this case. However, filing a new depreciation study three months into the proceeding cannot cure FPL's error in filing a legally deficient depreciation study at the outset.

Additionally, FPL proposes to replace its long-standing practice of allocating production costs among customer classes using the 12 CP and 1/13th demand methodology with a 12 CP and 25% energy methodology that, as demonstrated by SFHHA witness Baron, unreasonably shifts approximately millions of dollars of costs to high load factor, large commercial class ratepayers, such as hospitals, and that is wholly unsupported by a cost causation analysis. FPL has failed to present any substantive evidence that provides a cost analysis to attempt to justify this dramatic change that affects not only base rates, but also the many recovery clauses that incorporate a

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<sup>7</sup> See Baudino Direct Testimony at pp. 50-51.

<sup>8</sup> See Baudino Direct Testimony at pp. 51-52.

<sup>9</sup> See Baudino Direct Testimony at pp. 52-53.



demand allocator. In particular, FPL has presented no evidence that even attempts to show that high load factor, large commercial class ratepayers impose costs on the system that would serve as a basis to require them to bear the millions of dollars that would be improperly shifted to them based on FPL's proposed 12 CP and 25% energy allocation method.

FPL's proposal also raises significant rate design issues. SFHHA will show that FPL is proposing to increase the off-peak energy charge of the CILC-1D rate class in excess of 300%.<sup>10</sup> As a result, if a customer increases its off-peak energy usage, it is assigned increased cost responsibility for fixed, demand-related generation, notwithstanding that most of those costs are actually incurred to meet customer peaks in the summer months and perhaps in the winter months, but not in off-peak periods because FPL does not add generating capacity to meet increased off-peak energy usage, especially in non-summer and non-winter months. FPL has not provided any cognizable or economic evidence supporting its cost causation methodology. In addition, FPL has misapplied the Commission's policy that has limited the rate increase for any rate class to a maximum of 1.5 times the retail average. In fact, the evidence shows that some rate classes will receive base rate increases of more than 2 times the retail average increase of 15%.

FPL's proposal regarding the CDR and CILC rate schedules, including terminating applicable credits, and "resetting" these credits back to pre-2012 rate case settlement levels, would increase base rates for CILC customers utilizing the CDR program by 57% (if FPL's filing is approved as-filed), and therefore is unjustified and unreasonable in light of FPL's own economic analyses.<sup>11</sup>

SFHHA proposes a rate design regarding customer-driven costs that: is set forth in the NARUC Manual; is accepted in other jurisdictions; has been accepted by the Commission in partial settlements of both Tampa Electric Company and Gulf Power Company rate cases; is consistent with the way FPL plans its system; and is in the mainstream of rate design, notwithstanding FPL's claims. The Minimum Distribution System ("MDS") methodology recognizes an indisputable fact, *i.e.*, that certain facilities, such as poles, overhead conductors, underground conductors and transformers, are required to connect a customer, regardless of the level of the customer's usage. FPL's methodology classifies all distribution costs as demand. By doing so, FPL's methodology effectively assumes that these minimum facilities will disappear if a customer were to reduce its usage to 0 kW. Of course, that is not the case. By using its methodology, FPL substantially overstates cost responsibility of large commercial class customers for these minimum facilities. For instance, FPL's methodology assumes that 35 residential customers can be served by a single pole, whereas it takes 14 poles to serve a single GSLD(T)-2 customer. This is an unrealistic assumption. Accordingly, in this case the Commission should correct FPL's misclassification of costs that improperly assigns cost responsibility to customer classes.

SFHHA's testimony also shows that FPL has substantially over-stated its revenue requirement. Mr. Kollen's testimony shows that rather than being rewarded the increase it seeks, FPL's

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<sup>10</sup> See Baron Direct Testimony at 11:7-9.

<sup>11</sup> See Baron Direct Testimony at p. 56, Table 11; p. 57:10-12.

current rates should be reduced by at least \$212.714 million effective January 1, 2017. His testimony further shows that if the Commission permits FPL to adjust rates effective January 1, 2018, a rate reduction of at least \$1.472 million from present rates is appropriate. Finally, while SFHHA opposes FPL's requested limited scope adjustment for the Okeechobee Clean Energy Center, Mr. Kollen's testimony shows that an increase of no more than \$166.053 million from present rates can be justified.

For all these and other reasons, the Commission should reject the entirety of FPL's requested increase in base rates. If base rates are to be modified in 2017, they should be reduced, not increased. The Commission also should attribute class cost responsibility by recognizing that FPL's so-called parity results are erroneous and result in large commercial class customers bearing responsibility for significant levels of costs that arise because of service FPL provides to other rate classes.

**E. ISSUES AND POSITIONS:**

**LEGAL ISSUES**

**ISSUE 1:** Does the Commission possess the authority to grant FPL's proposal to continue utilizing the storm cost recovery mechanism that was part of the settlement agreements approved in Order Nos. PSC-11-0089-S-EI and PSC-13-0023-S-EI?

SFHHA: No. The storm cost recovery mechanism was an element of the settlement agreement approved in Docket Nos. 090130-EI and 120015-EI. Moreover, Paragraph 15 of the settlement agreement approved in Order No. PSC-13-0023-S-EI specifies that "No party will assert in any proceeding before the Commission that this Agreement or any of the terms in the Agreement shall have any precedential value." Further, terms applicable to the recovery mechanism include proposals that are unrelated to base rates and beyond the scope of this proceeding.

**ISSUE 2:** Does the Commission have the authority to approve FPL's requested limited scope adjustment for the new Okeechobee Energy Center in June of 2019?

SFHHA: No. The Commission does not have authority to approve FPL's requested adjustment because this is not a "limited proceeding" within the intended scope of Rule 25-6.0431, but rather a "full revenue requirements proceeding," albeit one that is one-dimensional in that it would consider only issues that could result in increased rates without consideration of any off-setting items that could have an opposite effect. FPL can file to increase base rates when the Okeechobee facility's in-service date is closer, which would be more "appropriate" for "consideration of the requested relief" at this time the Company's request for a rate increase for Okeechobee is premature because it requires the Commission and the parties to unnecessarily speculate today about the economic environment, revenues, and costs nearly three years into the future. The Commission does not have authorization to approve a rate adjustment based upon such speculative evidence.

**ISSUE 3:** Does the Commission possess the authority to adjust FPL’s authorized return on equity based on FPL’s performance?

SFHHA: The Commission has expressed in the past that it has the authority to grant a percentage incentive to a utility's ROE, but the facts in this case do not support the grant of such an incentive. *See* Response to Issue 84.

**ISSUE 4:** Does the Commission have the authority to include non-electric transactions in an incentive mechanism?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 5:** Does the Commission have the authority to approve proposed depreciation rates to be effective January 1, 2017, based upon a depreciation study that uses year-end 2017 plant balances?

SFHHA No. The depreciation study date must be consistent with the effective date of the change in depreciation rates. The depreciation study date is the valuation date for the gross plant and accumulated depreciation reserves balances, together with net salvage, used to calculate the depreciation rates. Rule 25-6.0436(4)(d) states that “The plant balances may include estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of such rates.” No timely depreciation study keyed to January 1, 2017 was filed with FPL’s direct case.

**ISSUE 6:** Are Commercial Industrial Load Control (CILC) and Commercial/Industrial Demand Reduction (CDR) credits subject to adjustment in this proceeding?

SFHHA: No. The current level of the CDR and CILC credits are fully justified by the economic analyses FPL filed in its DSM proceedings. Moreover, FPL’s proposal to terminate the credits is an important contributor to the 57% rate increase for Rate CILC-1D.

### **STORM HARDENING ISSUES**

**ISSUE 7:** Does the Company’s Storm Hardening Plan (Plan) comply with the National Electric Safety Code (ANSI C-2) (NESC) as required by Rule 25-6.0345, F.A.C.?

SFHHA: No position at this time.

**ISSUE 8:** Does the Company’s Plan address the extreme wind loading standards specified in Figure 250-2(d) of the 2012 edition of the NESC for new distribution facility construction as required by Rule 25-6.0342(3)(b)1, F.A.C.?

SFHHA: No position at this time.

**ISSUE 9:** Does the Company’s Plan address the extreme wind loading standards specified by Figure 250-2(d) of the 2012 edition of the NESC for major planned work on

the distribution system, including expansion, rebuild, or relocation of existing facilities, assigned on or after the effective date of this rule distribution facility construction as required by Rule 25-6.0342(3)(b)2, F.A.C.?

SFHHA: No position at this time.

**ISSUE 10:** Does the Company's Plan address the extreme wind loading standards specified by Figure 250-2(d) of the 2012 edition of the NESC for distribution facilities serving critical infrastructure facilities and along major thoroughfares taking into account political and geographical boundaries and other applicable operational considerations as required by Rule 25-6.0342(3)(b)3, F.A.C.?

SFHHA: No position at this time.

**ISSUE 11:** Is the Company's Plan designed to mitigate damages to underground and supporting overhead transmission and distribution facilities due to flooding and storm surges as required by Rule 25-6.0342(3)(c), F.A.C.?

SFHHA: No position at this time.

**ISSUE 12:** Does the Company's Plan address the extent to which the placement of new and replacement distribution facilities facilitate safe and efficient access for installation and maintenance as required by Rule 25-6.0342(3)(d), F.A.C.?

SFHHA: No position at this time.

**ISSUE 13:** Does the Company's Plan provide a detailed description of its deployment strategy including a description of the facilities affected; including technical design specifications, construction standards, and construction methodologies employed as required by Rules 25-6.0341 and 25-6.0342(4)(a), F.A.C.?

SFHHA: No position at this time.

**ISSUE 14:** Does the Company's Plan provide a detailed description of its deployment strategy as it relates to the communities and areas within the utility's service area where the electric infrastructure improvements, including facilities identified by the utility as critical infrastructure and along major thoroughfares are to be made as required by Rules 25-6.0342(3)(b)3 and 25-6.0342(4)(b), F.A.C.?

SFHHA: No position at this time.

**ISSUE 15:** Does the Company's Plan provide a detailed description of its deployment strategy to the extent that the electric infrastructure improvements involve joint use facilities on which third-party attachments exist as required by Rule 25-6.0342(4)(c), F.A.C.?

SFHHA: No position at this time.

**ISSUE 16:** Does the Company's Plan provide a reasonable estimate of the costs and benefits to the utility of making the electric infrastructure improvements, including the effect on reducing storm restoration costs and customer outages as required by Rule 25-6.0342(4)(d), F.A.C.?

SFHHA: No. FPL must meet its burden of proof on this issue.

**ISSUE 17:** Does the Company's plan provide an estimate of the costs and benefits to third-party attachers affected by the electric infrastructure improvements, including the effect on reducing storm restoration costs and customers outages realized by the third-party attachers as required by Rule 25-6.0342(4)(e), F.A.C.?

SFHHA: No position at this time.

**ISSUE 18:** Does the Company's Plan include a written Attachment Standards and Procedures addressing safety, reliability, pole loading capacity, and engineering standards and procedure for attachments by others to the utility's electric transmission and distribution poles that meet or exceed the edition of the National Electrical Safety Code (ANSI C-2) that is applicable as required by Rule 25-6.0342(5), F.A.C.?

SFHHA: No position at this time.

### **WOODEN POLE INSPECTION PROGRAM**

**ISSUE 19:** Does the Company's eight-year wooden pole inspection program comply with Order No. PSC-06-0144-PAA-EI, issued on February 27, 2006, in Docket No. 060078-EI, and Order No. PSC-06-0778-PAA-EU, issued on September 18, 2006, in Docket No. 060531-EU?

SFHHA: No position at this time.

### **10 POINT STORM PREPAREDNESS INITIATIVES**

**ISSUE 20:** Does the Company's 10-point initiatives plan comply with Order No. PSC-06-0351-PAA-EI, issued on April 25, 2006; Order No. PSC-06-0781-PAA-EI, issued on September 19, 2006; and Order No. PSC-07-0468-FOF-EI, issued on May 30, 2007, in Docket No. 060198-EI?

SFHHA: No position at this time.

## **APPROVAL OF STORM HARDENING PLAN**

**ISSUE 21:** Should the Company's Storm Hardening Plan for the period 2016 through 2018 be approved?

SFHHA: SFHHA supports the position of OPC.

## **COSTS FOR STORM HARDENING AND 10 POINT INITIATIVES**

**ISSUE 22:** What adjustments, if any, should be made to rate base associated with the storm hardening Rule 25-6.0342, F.A.C., and 10 point initiatives requirements?

SFHHA: No position at this time.

**ISSUE 23:** What adjustments, if any, should be made to operating expenses associated with the storm hardening Rule 25-6.0342, F.A.C., and 10 point initiatives requirements?

SFHHA: No position at this time.

## **TEST PERIOD AND FORECASTING**

**ISSUE 24:** Is FPL's projected test period of the 12 months ending December 31, 2017, appropriate?

SFHHA: No. A projected test period should be less chronologically remote.

**ISSUE 25:** Do the facts of this case support the use of a subsequent test year ending December 31, 2018 to adjust base rates?

SFHHA: No. The projections used for the 2018 test year are far more uncertain than those for 2016, given that the 2018 test year is 25 to 36 months removed from the most recent actual data. FPL has not provided any specific, known factual basis for saddling its customers with the forecasting risks associated with using a 2018 test year.

**ISSUE 26:** Has FPL proven any financial need for rate relief in any period subsequent to the projected test period ending December 31, 2017?

SFHHA: No. *See* SFHHA position regarding Issue 25 related to the 2018 subsequent year adjustment. As for the Okeechobee "limited scope adjustment," the Company's claimed revenue deficiency for the proposed test year ending May 31, 2020 is based on its projection of revenues and costs reflecting estimated data that is itself nearly four and a half years removed from the filing date. The Company's

projections and assumptions are far too speculative to support a finding of a revenue deficiency or an entitlement to any rate relief, let alone the significant rate relief it is requesting here.

**ISSUE 27:** Is FPL's projected subsequent test period of the 12 months ending December 31, 2018, appropriate?

SFHHA: No. The January 1 through December 31, 2018 test year involves too much speculation regarding many factors.

**ISSUE 28:** Are FPL's forecasts of Customers, KWH, and KW by Rate Schedule and Revenue Class, for the 2017 projected test year appropriate?

SFHHA: SFHHA supports the position of OPC. Additionally, FPL's forecasts are flawed and should not be accepted by the Commission for the purpose of setting rates.

**ISSUE 29:** Are FPL's forecasts of Customers, KWH, and KW by Rate Schedule and Revenue Class, for the 2018 projected test year appropriate, if applicable?

SFHHA: SFHHA supports the position of OPC. Additionally, FPL's forecasts are flawed and should not be accepted by the Commission for the purpose of setting rates.

**ISSUE 30:** Are FPL's forecasts of Customers, KWH, and KW by Rate Schedule and Revenue Class, for the period June 2019 to May 2020, appropriate, if applicable?

SFHHA: SFHHA supports the position of OPC. Additionally, FPL's forecasts are flawed and should not be accepted by the Commission for the purpose of setting rates.

**ISSUE 31:** Are FPL's projected revenues from sales of electricity by rate class at present rates for the 2016 prior year and projected 2017 test year appropriate?

SFHHA: SFHHA supports the position of OPC. Additionally, FPL's forecasts are flawed and should not be accepted by the Commission for the purpose of setting rates.

**ISSUE 32:** Are FPL's projected revenues from sales of electricity by rate class at present rates for the projected 2018 test year appropriate, if applicable?

SFHHA: SFHHA supports the position of OPC. Additionally, FPL's forecasts are flawed and should not be accepted by the Commission for the purpose of setting rates.

**ISSUE 33:** What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the 2017 test year budget?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 34:** What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the 2018 test year budget, if applicable?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 35:** Are FPL's estimated operating and tax expenses, for the projected 2017 test year, sufficiently accurate for purposes of establishing rates?

SFHHA: No. *See* SFHHA positions with respect Issues 40-161.

**ISSUE 36:** Are FPL's estimated operating and tax expenses, for the projected 2018 subsequent year, sufficiently accurate for purposes of establishing rates, if applicable?

SFHHA: No. *See* SFHHA positions with respect Issues 40-161.

**ISSUE 37:** Are FPL's estimated Net Plant in Service and other rate base elements, for the projected 2017 test year, sufficiently accurate for purposes of establishing rates?

SFHHA: No. *See* SFHHA positions with respect Issues 40-77.

**ISSUE 38:** Are FPL's estimated Net Plant in Service and other rate base elements, for the projected 2018 subsequent year, sufficiently accurate for purpose of establishing rates, if applicable?

SFHHA: No. The Company's projections and assumptions underlying its proposed rate base elements for the 2018 subsequent year are far too speculative, and thus cannot provide a basis for the Commission to sufficiently analyze whether those elements are fair, just and reasonable. *See also* SFHHA's positions with respect to Issues 40-77.

### **QUALITY OF SERVICE**

**ISSUE 39:** Is the quality of the electric service provided by FPL adequate taking into consideration: a) the efficiency, sufficiency and adequacy of FPL's facilities provided and the services rendered; b) the cost of providing such services; c) the value of such service to the public; d) the ability of the utility to improve such service and facilities; e) energy conservation and the efficient use of alternative energy resources; and f) any other factors the Commission deems relevant.

SFHHA: SFHHA supports the position of OPC.



## **DEPRECIATION STUDY**

**ISSUE 40:** What, if any, are the appropriate capital recovery schedules?

SFHHA: All the plant that is relevant to consideration of capital recovery in this context is retired. Given that reality, the amortization and recovery period is not dependent on the remaining service lives of the assets. On that basis, the Commission has greater discretion to determine the appropriate amortization and recovery period. Accordingly, the Commission should extend FPL's proposed 4-year amortization periods for Turkey Point Unit 1, Putnam Units 1, 2, and common, Fort Lauderdale gas turbines, Fort Myers gas turbines, Port Everglades gas turbines, and Putnam transmission to a 10-year amortization period for capital recovery, because such time provides a reasonable balance between the interests of the Company and its customers and avoids excessive accelerated recovery.

**ISSUE 41:** What is the appropriate depreciation study date?

SFHHA: December 31, 2016, to match the Company's proposed effective date. Rule 25-6.0436(4)(d) states that "The plant balances may include estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of such rates." The mismatch between the study date used by FPL (December 31, 2017) and the rate's effective date of January 1, 2017 arbitrarily increases depreciation rates and expense and the corresponding revenue requirement, by eliminating one year from the remaining service lives of each plant account, increasing the gross plant that must be recovered, and understates accumulated depreciation at the proposed December 31, 2017 study date because the depreciation expense projection would be based on the old depreciation rates that presumably will not be in effect on January 1, 2017, resulting in greater service value to be recovered. Moreover, FPL's late-filed alternative depreciation study based on plant balances as of December 31, 2016 cannot be considered by the Commission in this case, as it was not filed with FPL's application. Further, even when it was filed, FPL did not advocate its use in lieu of the study filed with its petition.

**ISSUE 42:** If the appropriate depreciation study date is not December 31, 2017, what action should the Commission take?

SFHHA: The Commission should reject FPL's depreciation study based on a December 31, 2017 study date as the study is wholly unreliable and significantly overstates proposed depreciation rates. Based on such a rejection, the most appropriate action would be to retain present depreciation rates. Alternatively, a less erroneous approach than FPL's proposal would be to make several adjustments to FPL's depreciation rate proposal. First, the Commission should extend the service lives of each plant account by one year to mitigate the impacts of FPL's proposed study date, which arbitrarily shortens the remaining service lives of plant accounts. Second, the Commission should reject the Company's proposal to

separate certain accounts into multiple accounts, thereby increasing depreciation rates (*see* responses to Issue 43 and 44 below). Lastly, the Commission should use service lives for Scherer 4 and St. John's River Power Project that are consistent with the operators' projected service lives for those facilities, as discussed further below.

**ISSUE 43:** Should accounts 343 and 364 be separated into subaccounts and different depreciation rates be set for the subaccounts using separate parameters? If so, how should the accumulated depreciation reserves be allocated and what parameters should be applied to each subaccount?

SFHHA: Account 343 should not be separated into subaccounts with different depreciation rates. The shorter lives of certain components of the assets included in accounts 343 are already addressed in the average service lives and retirement survivor curves reflected in the present depreciation rates. Similarly, the interim net salvage is already addressed in the net salvage rates reflected in the present depreciation rates. Accordingly, the depreciation study fails to properly separate the historic data between the proposed subaccounts. Instead, it assumes that the historic interim retirements and net salvage that have applied generally will continue to apply to account 343 General, which is incorrect, and assumes that a different and more aggressive interim retirement curve and different net salvage apply for account 343.2 Capital Spare Parts, which also is incorrect due to the Company's accounting for Capital Spare Parts, which overstates both parameters.

SFHHA has no position at this time regarding Account 364.

**ISSUE 44:** What are the appropriate depreciation parameters (e.g., service lives, remaining lives, net salvage percentages, and reserve percentages) and resulting depreciation rates for the accounts and subaccounts related to each production unit?

SFHHA: Except as discussed herein concerning the Scherer 4 and SJRRP facilities, SFHHA supports OPC's position. With respect to Scherer 4, the Commission should use a probable retirement date of 2052, and align Scherer 4's service life with that used by Georgia Power Company for the Scherer 3 plant, which is on the same site and shares common facilities with Scherer 4. Moreover, Georgia Power Company and FPL have invested heavily in environmental compliance in recent years, extending Scherer 4's probable service life. FPL also does not have the unilateral right to shut down Scherer 4 in 2039. Without any credible information to the contrary from FPL or JEA, the Commission should use a retirement date of 2052 for SJRRP, reflecting an identical 65-year life span.

**ISSUE 45:** What are the appropriate depreciation parameters (e.g., service lives, remaining lives, and net salvage percentages) and resulting depreciation rates for each transmission, distribution, and general plant account, and subaccounts, if any?

SFHHA: SFHHA supports OPC's position.

**ISSUE 46:** Based on the application of the depreciation parameters and resulting depreciation rates that the Commission deems appropriate, and a comparison of the theoretical reserves to the book reserves, what are the resulting imbalances?

SFHHA: If the Commission does not reject FPL's depreciation study, any imbalances should be computed in accordance with SFHHA witness Kollen's recommendations, as set forth in Exhibit LK-14 and additionally incorporate OPC's recommendations.

**ISSUE 47:** If the Commission accepts FPL's depreciation study for purposes of establishing its proposed depreciation rates and related expense, what adjustments, if any, are necessary?

SFHHA: If the Commission accepts FPL's depreciation study date of December 31, 2017, the Commission should make several adjustments to FPL's depreciation rate proposal. First, the Commission should extend the service lives of each plant account by one year to mitigate the arbitrary impacts of shortening the remaining service lives of plant accounts as is done under FPL's study. Second, the Commission should reject the Company's proposal to separate certain accounts into multiple accounts, thereby increasing depreciation rates (*see* Issue 43). Lastly, the Commission should use service lives for Scherer 4 and St. John's River Power Project that are consistent with the operators' projected service lives for those facilities, as discussed in reference to Issue 44.

**ISSUE 48:** What, if any, corrective reserve measures should be taken with respect to the imbalances identified in Issue 46?

SFHHA: If the Commission accepts the Company's depreciation study, then it should properly allocate the accumulated depreciation using gross plant, not the Company's proposed theoretical depreciation reserves. Any imbalances should be computed in accordance with SFHHA witness Kollen's recommendations, as set forth in Exhibit LK-14 as well as in accordance with OPC's recommendations.

**ISSUE 49:** What should be the implementation date for revised depreciation rates, capital recovery schedules, and amortization schedules?

SFHHA: FPL's depreciation study should be rejected and present depreciation rates should remain in effect. Alternatively, revised depreciation rates, capital recovery schedules and amortization schedules should be put into effect January 1, 2017 subject to the modifications proposed by Mr. Kollen and OPC.

**ISSUE 50:** Should FPL's currently approved annual dismantlement accrual be revised?

SFHHA: Yes. *See* response to Issue 51.

**ISSUE 51:** What, if any, corrective dismantlement reserve measures should be approved?

SFHHA: First, contingencies should be eliminated. Alternatively, if the Commission does not eliminate them, they should be reduced to 10% of the dismantlement estimate. Further, FPL should also be required to calculate the annuitized or levelized dismantlement expense, including the offset due to the return on the annual expense accruals and to remove the increase in the reserve from working capital in rate base in 2017 and 2018. In this manner, the expense accruals and return on the accumulated reserve are synchronized over the 4 year period.

**ISSUE 52:** What is the appropriate annual accrual and reserve for dismantlement

A. For the 2017 projected test year?

SFHHA: FPL's proposed annual accrual should be reduced by \$5.546 million to reflect Mr. Kollen's recommendations at 32:16-37:11 of his testimony. SFHHA also supports OPC's recommended adjustments to the annual accrual and reserve for dismantlement.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: FPL's proposed annual accrual should be reduced by \$5.805 million to reflect Mr. Kollen's recommendation. SFHHA also supports OPC's recommended adjustments to the annual accrual and reserve for dismantlement.

### **RATE BASE**

**ISSUE 53:** Should the revenue requirement associated with West County Energy Center Unit 3 currently collected through the Capacity Cost Recovery Clause be included in base rates?

SFHHA: SFHHA supports the position of FIPUG.

**ISSUE 54:** Has FPL appropriately accounted for the impact of the Cedar Bay settlement agreement

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 55:** Has FPL made the appropriate adjustments to remove all non-utility activities from Plant in Service, Accumulated Depreciation and Working Capital

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 56:** What is the appropriate amount of Plant in Service for FPL's Large Scale Solar Projects?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 57:** Is FPL's replacement of its peaking units reasonable and prudent?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 58:** If adjustments are made to FPL's proposed depreciation and dismantling expenses, what is the impact on rate base

A. For the 2017 projected test year?

SFHHA: Reducing accumulated depreciation to reflect depreciation expense reductions would increase its rate base impact by \$97.249 million. Reflecting extended amortization of capital recovery costs would increase rate base by \$11.272 million. Reducing accumulated fossil dismantling to reflect dismantling expense reductions would increase rate base by \$2.666 million.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: Reducing accumulated depreciation to reflect depreciation expense reductions would increase its rate base impact by \$294.242 million. Reflecting extended amortization of capital recovery costs would increase rate base by \$33.824 million. Reducing accumulated fossil dismantling to reflect dismantling expense reductions would increase rate base by \$8.001 million.

**ISSUE 59:** What is the appropriate level of Plant in Service (Fallout Issue)

A. For the 2017 projected test year?

SFHHA: \$32,025.421 million.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: \$33,622.827 million.

**ISSUE 60:** What is the appropriate level of Accumulated Depreciation (Fallout Issue)

A. For the 2017 projected test year?

SFHHA: FPL's proposed Accumulated Depreciation for the 2017 test year should be reduced by \$97.249 million, consistent with SFHHA witness Kollen's recommendations, as set forth in his testimony and Exhibit LK-27. SFHHA also supports additional reductions to FPL's proposed Accumulated depreciation as recommended by OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: FPL's proposed Accumulated Depreciation for the 2018 test year should be reduced by \$294.247 million, consistent with SFHHA witness Kollen's recommendations, as set forth in his testimony and Exhibit LK-27. SFHHA also supports additional reductions to FPL's proposed Accumulated Depreciation as recommended by OPC.

**ISSUE 61:** Are FPL's proposed adjustments to move certain CWIP projects from base rates to the Environmental Cost Recovery Clause appropriate?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 62:** Are FPL's proposed adjustments to move certain CWIP projects from base rates to the Energy Conservation Cost Recovery Clause appropriate?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 63:** Is the company's proposed adjustment to remove Fukushima-related costs from the rate base and recover all Fukushima-related capital costs in the Capacity Cost Recovery Clause appropriate?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 64:** What is the appropriate level of Construction Work in Progress to be included in rate base

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 65:** Are FPL's proposed reserves for Nuclear End of Life Material and Supplies and Last Core Nuclear Fuel appropriate

A. For the 2017 projected test year?

SFHHA: No. The Commission should add the nuclear EOL M&S and nuclear fuel last core to the nuclear decommissioning liability, eliminate the expense accruals for these two retirement costs, and amortize the reserves already recovered from customers over a 4 year amortization period. This results in consistent treatment of the nuclear decommissioning and fossil dismantling liabilities and expense accruals and allows the Commission to combine the excess funding for nuclear decommissioning with these additional costs related to the retirement of the nuclear units.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: No. The Commission should make an adjustment for the 2018 subsequent test year similar to that proposed above for the 2017 test year.

**ISSUE 66:** What is the appropriate level of Nuclear Fuel (NFIP, Nuclear Fuel Assemblies in Reactor, Spent Nuclear Fuel less Accumulated Provision for Amortization of Nuclear Fuel Assemblies, End of Life Materials and Supplies, Nuclear Fuel Last Core)

A. For the 2017 projected test year?

SFHHA: The Commission should remove NFIP in the amount of \$406.621 million from rate base and direct the Company to accrue AFUDC during construction. This is the appropriate treatment because financing costs during construction are a cost of the asset, and recovery should not be made upfront through NFIP. Second, including NFIP in rate base forces today's FPL customers, many of whom will not continue taking service from FPL years into the future, to subsidize future generations of FPL customers, many of whom will be new customers of FPL in the future, creating a direct intergenerational equity problem. Costs associated with building an asset should be recovered from customers over the period the asset provides service to those customers.

Further, based on Mr. Kollen's recommendation that End of Life Materials and supplies and Nuclear Last Core Reserves be amortized over four years, rate base should be increased by \$20.797 million.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: For the reasons discussed for the 2017 test year, in 2018, the Commission should remove \$412.437 million in NFIP from rate base. Also, Mr. Kollen's recommendation regarding End of Life Materials and Supplies and Nuclear Last

Core Reserves be amortized over four years produces a \$62.394 million increase to its rate base in 2018.

**ISSUE 67:** What is the appropriate level of Property Held for Future Use

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 68:** What is the appropriate level of fossil fuel inventories

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 69:** Should the unamortized balance of Rate Case Expense be included in Working Capital and, if so, what is the appropriate amount to include

A. For the 2017 projected test year?

SFHHA: No. FPL should be denied rate case expense recovery in this instance as it was unnecessary for it to file this rate case. However if any rate case expense recovery is allowed, the unamortized balance should not be included in working capital. The Commission's long-standing practice of excluding unamortized rate case expense from working capital apportions the cost of a rate case between ratepayers and shareholders customers. Customers should not be required to pay a return on funds spent to increase their rates. Further, the amortization period proposed is short, which minimizes carrying costs. Such costs are typically financed with short-term debt, and excluding such costs eliminates the potential for over-recovery. This case never should have been filed. No rate increase is justified for the 2017 test year. The proposed additional 2018 test year for "subsequent year adjustments" and the proposed additional May 2020 test year for the Okeechobee "limited scope adjustment" are inappropriate.

B. If applicable, for the 2018 subsequent projected test year

SFHHA: No. For the same reasons outlined for purposes of the 2017 test year.



**ISSUE 70:** What is the appropriate amount of injuries and damages (I&D) reserve to include in rate base?

A. For the 2017 projected test year?

SFHHA: The Commission should amortize the excess reserve to \$0 over a four year amortization period. This will return the excess reserve to customers in a timely manner rather than allowing the Company to retain the excess recoveries indefinitely. This will produce an increase to rate base of \$2.455 million to be amortized over 4 years.

B. If applicable, for the 2018 subsequent projected test year

SFHHA: *See* Response for 2017 test year. This will produce an increase to rate base of \$7.080 million to be amortized over 4 years.

**ISSUE 71:** What is the appropriate amount of deferred pension debit in working capital for FPL to include in rate base

A. For the 2017 projected test year?

SFHHA: FPL included overstated amounts in rate base case as it acknowledged in response to SFHHA interrogatories. The corrected amount of deferred pension debit included in FPL's responses to SFHHA Interrogatory Nos. 132 and 133, is \$1,329.977 million (total Company) for 2017.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: The corrected amount of deferred pension debit included in FPL's responses to SFHHA Interrogatory Nos. 132 and 133, is \$1,390.849 million (total Company) for 2018.

**ISSUE 72:** Should the unbilled revenues be included in working capital

A. For the 2017 projected test year?

SFHHA: No. The unbilled revenues are an accounting placeholder for a future receivable, for which the Company incurs no carrying costs for several reasons. First, the Company did not incur incremental costs to earn these estimated revenues. That is because the unbilled revenues recognized by the Company are for base rates only. The unbilled revenues do not include revenues for recovery of the variable costs that are recovered through clauses, such as the fuel adjustment clause. If the Company does not accrue unbilled revenues for fuel clause recovery revenues, then it also does not accrue accounts payable for the related fuel expense and there is no incremental amount in the accounts payable account to offset the

nonfuel unbilled revenues. Second, the billed revenues actually provide contemporaneous recovery of the Company's fixed costs each month that do not vary based on sales from month to month. These costs include the return on the Company's rate base investment, depreciation expense, non-fuel O&M expense, and other operating expenses. This is particularly true when the revenue requirement is based on a projected test year that corresponds to a calendar year and not to a lagged test year that corresponds to the Company's unbilled service periods.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: No, for same reasons as for 2018.

**ISSUE 73:** What is the appropriate methodology for calculating FPL's Working Capital

A. For the 2017 projected test year?

SFHHA: No position at this time, beyond the adjustments previously discussed.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* response to subpart A.

**ISSUE 74:** If FPL's balance sheet approach methodology for calculating its Working Capital is adopted, what adjustments, if any, should be made to FPL's proposed Working Capital

A. For the 2017 projected test year?

SFHHA: No position at this time, beyond the adjustments previously discussed.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* response to subpart A.

**ISSUE 75:** Should FPL's requested change in methodology for recovering nuclear maintenance outage costs from accrue-in-advance to defer-and-amortize be approved? If so, are any adjustments necessary

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 76:** What is the appropriate level of Working Capital (Fallout Issue)

A. For the 2017 projected test year?

SFHHA: The Company's requested level of Working Capital should be reduced by \$236.347 million to remove the account 173 Accrued Utility Revenues (unbilled revenues), rate case expenses and deferred pension debits as discussed above.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: The Company's requested level of Working Capital should be reduced by \$241.473 million to remove the account 173 Accrued Utility Revenues (unbilled revenues), rate case expenses and pension debits as discussed above.

**ISSUE 77:** What is the appropriate level of rate base

A. For the 2017 projected test year?

SFHHA: \$32,025.421 million. *See* Exhibit LK-27.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: \$33,622.827 million. *See* Exhibit LK-27.

### **COST OF CAPITAL**

**ISSUE 78:** What is the appropriate amount of accumulated deferred taxes to include in the capital structure and should a proration adjustment to deferred taxes be included in capital structure

A. For the 2017 projected test year?

SFHHA: \$8,254.026 million. Yes, a proration adjustment consistent with Treasury Regulation 1.167(l)-1(h)(6), whereby the amounts in Column E are summed and added to the beginning balance of ADIT in the test year, should be used to include deferred taxes in capital structure.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: \$8,489.466 million. SFHHA's proposed proration for the 2017 test year should also apply to the 2018 test year, if the Commission approves FPL's proposal to include the 2018 subsequent year adjustment in this rate case.

**ISSUE 79:** What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 80:** What is the appropriate amount and cost rate for short-term debt to include in the capital structure

A. For the 2017 projected test year?

SFHHA: The Company's proposed amount of short-term debt should be reduced by \$4.569 million to remove fixed commitment fees that should be collected in O&M expenses, as addressed by SFHHA witness Baudino at pages 56-57. The appropriate cost rate for short-term debt is 0.56%, which provides for a reasonable increase over FPL's December 31, 2015 cost of short-term debt of 0.28%.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* Response to Issue 80(A).

**ISSUE 81:** What is the appropriate amount and cost rate for long-term debt to include in the capital structure.

A. For the 2017 projected test year?

SFHHA: Debt in total should not be less than 45% of investor-supplied capital. The appropriate cost rate for long-term debt is 4.1%, which represents a 5 basis point increase in the current A-rated bond yield.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* Response to Issue 81(A).

**ISSUE 82:** What is the appropriate amount and cost rate for customer deposits to include in the capital structure.

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 83:** What is the appropriate equity ratio to use in the capital structure for ratemaking purposes

A. For the 2017 projected test year?

SFHHA: If the Commission authorizes an ROE no greater than 9.0%, FPL's common equity ratio should be set at 55%. However, if the Commission authorizes an ROE greater than 9.0%, FPL's equity ratio should be lowered to 53%. *See* Baudino Direct Testimony pp. 50-52.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* Response to Issue 83(A).

**ISSUE 84:** Should FPL's request for a 50 basis point performance adder to the authorized return on equity be approved?

SFHHA: No. The Commission should base its allowed return on equity on market-based data and analysis that will fairly compensate investors for their equity investment. Arbitrarily increasing the investor required return to recognize factors such as alleged "excellent management" would overcompensate investors and result in excessive rates to ratepayers. Moreover, providing an inflated return on equity to recognize claimed "exemplary management" performance undercuts the benefits of such performance, which should be greater efficiency, lower costs, and lower rates to customers. FPL's ratepayers have paid FPL dollar for dollar for the O&M expenses and capital investments the Company has made over time that have resulted in the rates currently being paid by customers. And FPL's management and employees have accomplished this without any special ROE adder that would flow to shareholders. FPL and its affiliates already receive many incentives if they operate efficiently. Unfortunately, FPL's management could not be fairly labeled "exemplary" given, *inter alia*, the use of a 60% equity component in the capital structure. Also, with respect to the level of FPL's rates, there are other factors that have benefitted the Company beyond what could be considered "excellent management" including low gas prices, the contiguity of FPL's service territory, and the fact that FPL's current nuclear fleet has been significantly depreciated, none of which are due to exemplary management.

**ISSUE 85:** What is the appropriate authorized return on equity (ROE) to use in establishing FPL's revenue requirement

A. For the 2017 projected test year?

SFHHA: 9.00%. FPL's recommended 11.5% ROE was based on a flawed analysis. The FPL DCF utility proxy group was based on a set of companies involved in significant ongoing merger activity and are not comparable to FPL. In addition, FPL's recommendation was based upon various inappropriate adders, such as a flotation cost adjustment and a performance adder. FPL did not provide evidence supporting its presumption that its current stock price is wrong and that it must be adjusted downward to increase the dividend yield and the resulting cost of equity to reflect flotation costs.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* Response to Issue 85(A).

**ISSUE 86:** What is the appropriate weighted average cost of capital to use in establishing FPL's revenue requirement?

A. For the 2017 projected test year?

SFHHA: So long as FPL's ROE is set at 9.00%, FPL's weighted average cost of capital should be 5.18%. *See* Exh. LK-28 at page 5.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: So long as FPL's ROE is set at 9.00%, FPL's weighted average cost of capital should be 5.16%. *See* Exh. LK-29 at page 5.

### **NET OPERATING INCOME**

**ISSUE 87:** What are the appropriate projected amounts of other operating revenues

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 88:** What is the appropriate level of Total Operating Revenues

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 89:** Has FPL made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 90:** Has FPL made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 91:** Has FPL made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 92:** Has FPL made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Energy Conservation Cost Recovery Clause

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 93:** Has FPL made the appropriate adjustments to remove all non-utility activities from operating revenues and operating expenses

A. For the 2017 projected test year?

SFHHA: Supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: Supports the position of OPC.

**ISSUE 94:** What is the appropriate percentage value (or other assignment value or methodology basis) to allocate FPL shared corporate services costs and/or expenses to its affiliates

A. For the 2017 projected test year?

SFHHA: Supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: Supports the position of OPC.

**ISSUE 95:** What is the appropriate amount of FPL shared corporate services costs and/or expenses (including executive compensation and benefits) to be allocated to affiliates

A. For the 2017 projected test year?

SFHHA: Supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: Supports the position of OPC.

**ISSUE 96:** Should any adjustments be made to FPL's operating revenues or operating expenses for the effects of transactions with affiliated companies

A. For the 2017 projected test year?

SFHHA: Supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?



SFHHA: SFHHA supports the position of OPC.

**ISSUE 97:** What is the appropriate amount of FPL's vegetation management expense

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 98:** What is the appropriate level of generation overhaul expense

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 99:** What is the appropriate amount of FPL's production plant O&M expense

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 100:** What is the appropriate amount of FPL's transmission O&M expense

A. For the 2017 projected test year?

SFHHA: SFHHA agrees with OPC's recommended reductions to this expense.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA agrees with OPC's recommended reductions to this expense.

**ISSUE 101:** What is the appropriate amount of FPL's distribution O&M expense

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 102:** Should the Commission approve FPL's proposal to continue the interim storm cost recovery mechanism that was part of the settlement agreements approved in Order Nos. PSC-11-0089-S-EI and PSC-13-0023-S-EI?

SFHHA: No. The storm cost recovery mechanism was an element of the settlement agreement approved in Docket Nos. 090130-EI and 120015-EI. *See* Response to Issue 1.

**ISSUE 103:** What is the appropriate annual storm damage accrual and storm damage reserve

A. For the 2017 projected test year?

SFHHA: No accrual is necessary. FPL has a substantial storm damage reserve and has mechanisms available to it to obtain funds in the event of excessive storm damages. The cost to ratepayers of those alternative mechanisms (such as securitization) would be less than the cost of an annual accrual.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: No accrual is necessary. FPL has a substantial storm damage reserve and has mechanisms available to it to obtain funds in the event of excessive storm damages. The cost to ratepayers of those alternative mechanisms (such as securitization) would be less than the cost of an annual accrual.

**ISSUE 104:** What is the appropriate amount of Other Post-Employment Benefits expense

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 105:** What is the appropriate amount of FPL's requested level of Salaries and Employee Benefits

A. For the 2017 projected test year?

SFHHA: No position at this time.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: No position at this time.

**ISSUE 106:** What is the appropriate amount of Pension Expense

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 106A:** Should an adjustment be made to the amount of the Directors and Officers Liability Insurance expense that FPL included in the 2017 and, if applicable, 2018 projected test year(s)?

SFHHA: SFHHA supports the position of OPC

**ISSUE 107:** What is the appropriate amount and amortization period for Rate Case Expense

A. For the 2017 projected test year?

SFHHA: FPL should not have filed this rate case as is explained above. As such, it should not obtain recovery of any rate case expenses. If any rate case expenses are allowed, they should be amortized over 4 years without carrying costs.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* response to subpart A.

**ISSUE 108:** What is the appropriate amount of uncollectible expense and bad debt rate

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 109:** Has FPL included the appropriate amount of costs and savings associated with the AMI smart meters

A. For the 2017 projected test year?

SFHHA: SFHHA supports the position of OPC.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 110:** If the proposed change in accounting to defer and amortize the nuclear maintenance reserve is approved, is the company's proposed adjustment to nuclear maintenance expense appropriate?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 111:** What are the appropriate expense accruals for: (1) end of life materials and supplies and 2) last core nuclear fuel

A. For the 2017 projected test year?

SFHHA: *See* Response to Issue 65.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* Response to Issue 111(A).

**ISSUE 112:** What are the appropriate projected amounts of injuries and damages (I&D) expense accruals

A. For the 2017 projected test year?

SFHHA: \$10.404 million, as proposed by FPL.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: \$10.404 million, same as for 2017, which is a \$1.296 million reduction in I&D expense and \$1.298 million in the revenue requirement for 2018.

**ISSUE 113:** What is the appropriate level of O&M Expense (Fallout Issue)

A. For the 2017 projected test year?

SFHHA: The level that results from implementing those changes proposed by SFHHA and those changes proposed by OPC that SFHHA supports.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: The level that results from implementing those changes proposed by SFHHA and those changes proposed by OPC that SFHHA supports.

**ISSUE 114:** What is the appropriate amount of depreciation, amortization, and fossil dismantlement expense (Fallout Issue)

A. For the 2017 projected test year?

SFHHA: An amount not to exceed \$1,401.313 million.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: An amount not to exceed \$1,470.650 million.

**ISSUE 115:** What is the appropriate level of Taxes Other Than Income (Fallout Issue)

A. For the 2017 projected test year?

SFHHA: An amount not to exceed \$578.191 million.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: An amount not to exceed \$615.473 million.

**ISSUE 116:** What is the appropriate level of Income Taxes

A. For the 2017 projected test year?

SFHHA: Income Taxes expense should be modified consistent with SFHHA's recommendations on *inter alia*, ROE and capital structure. *See also* response to Issue 121. An amount not to exceed \$424.607 million.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* Response to Issue 116(A). An amount not to exceed \$339.446 million.

**ISSUE 117:** What is the appropriate level of (Gain)/Loss on Disposal of utility property

A. For the 2017 projected test year?

SFHHA: Any level of (Gain)/Loss on Disposal of utility property should reflect, at a minimum, the adjustments recommended by SFHHA, resulting in an amount not to exceed (\$5.759 million).

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* Response to Issue 117(A). An amount not to exceed (\$10.759 million).

**ISSUE 118:** What is the appropriate level of Total Operating Expenses? (Fallout Issue)

A. For the 2017 projected test year?

SFHHA: Any level of Total Operating Expenses should reflect, at a minimum, SFHHA's recommendations, resulting in an amount not to exceed \$3,750.769 million.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* Response to Issue 118(A). An amount not to exceed \$3,815.486 million.

**ISSUE 119:** Is the company's proposed net operating income adjustment to remove Fukushima-related O&M expenses from base rates and recover all Fukushima-related expenses in the capacity cost recovery clause appropriate?

SFHHA: SFHHA supports the position of OPC.

**ISSUE 120:** What is the appropriate level of Net Operating Income (Fallout Issue)

A. For the 2017 projected test year?

SFHHA: *See* Response to Issue 118(A). An amount not to exceed \$2,171.436 million.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* Response to Issue 118(A). An amount not to exceed \$2,152.043 million.

### **REVENUE REQUIREMENTS**

**ISSUE 121:** Is the Section 199 Manufacturer's deduction properly reflected in the revenue expansion factor?

A. For the 2017 projected test year?

SFHHA: No. the Company did not reflect the Section 199 deduction in the calculation of the revenue expansion factor shown on Schedule C-44. This error had the effect of increasing the revenue expansion factor and improperly increasing the revenue deficiency. If the Commission finds that the Company has a revenue deficiency in any of the test years, the revenue expansion factor should be corrected to include the Section 199 deduction.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: No. *See* Response for 2017 test year.

**ISSUE 122:** What are the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FPL

A. For the 2017 projected test year?

SFHHA: The deduction of 9% of taxable income allocable to production. The calculations to support this deduction are set forth in Exhibit No. \_\_\_\_ (LK-33).

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* answer to subpart A.

**ISSUE 123:** What is the appropriate annual operating revenue increase or decrease (Fallout Issue)

A. For the 2017 projected test year?

SFHHA: At a minimum, annual operating revenue should reflect, *inter alia*, the adjustments recommended by SFHHA.

B. If applicable, for the 2018 subsequent projected test year?

SFHHA: *See* Response to Issue 123(A).

### **OKEECHOBEE LIMITED SCOPE ADJUSTMENT**

**ISSUE 124:** Should the Commission approve or deny a limited scope adjustment for the new Okeechobee Energy Center? And if approved, what conditions/adjustments, if any should be included?

SFHHA: The Commission should deny the adjustment. The Company's proposed base rate increase for Okeechobee is a selective single issue rate increase that is not balanced against potential reductions in the revenue requirement from other sources and does not reflect future reductions in costs as Okeechobee is depreciated for book and income tax purposes. Further, the adjustment is never trued-up to reflect the actual cost of the plant, despite FPL's claim that it has a history of completing projects below budget, as asserted by Mr. Silagy. If approved, the Commission should use a 2.5% depreciation rate. ADIT should be at least \$152.822 million, compared to the \$85.747 million proposed. The 50 basis point adder should also be eliminated.

**ISSUE 125:** Has FPL proven any financial need for single-issue rate relief in 2019, based upon only the additional costs associated with the Okeechobee generating unit, and with no offset for anticipated load and revenue growth forecasted to occur in 2019?

SFHHA: No. *See* Responses to Issue 26 and 124.

**ISSUE 126:** What are the appropriate depreciation rates for the Okeechobee Energy Center?

SFHHA: 2.5%, which is based on the Company's assumption of a 40 year service life for a new combined-cycle plant.

**ISSUE 127:** What is the appropriate treatment for deferred income taxes associated with the Okeechobee Energy Center?

SFHHA: ADIT should be at least \$152.822 million, compared to the \$85.747 million proposed. The Company failed to reflect the fact that bonus depreciation will be available in its entirety when the asset is placed in service for tax purposes.

**ISSUE 128:** Is FPL's requested rate base of \$1,063,315,000 for the new Okeechobee Energy Center appropriate?

SFHHA: No. First, the proposed LSA is inappropriate in its entirety. If an adjustment is nonetheless permitted, all SFHHA adjustments to rate base and capital structure are approved, the Okeechobee rate base impact should be \$988.194 million.

**ISSUE 129:** What is the appropriate weighted average cost of capital, including the proper components, amounts and cost rates associated with the capital structure, to calculate the limited scope adjustment for the new Okeechobee Energy Center?

SFHHA: 6.79%, assuming the Commission adopts all of the SFHHA adjustments to rate base and capital structure, and no double counting.

**ISSUE 130:** Is FPL's requested net operating loss of \$33.868 million for the new Okeechobee Energy Center appropriate?

SFHHA: No. Numerous adjustments need to be made to FPL's calculations. The revenue requirement needs to be reduced by \$1.333 million to reflect its overstatement of the costs of long-term debt. FPL's proposed ROE adder should be eliminated, resulting in a \$4.865 million reduction to its proposed revenue requirement. Mr. Baudino's recommended reduction to FPL's requested ROE produces an additional \$19.458 million reduction to FPL's requested revenue requirement. Finally, correction of FPL's proposed capital structure results in an additional \$7.366 million reduction.



**ISSUE 131:** What is the appropriate Net Operating Income Multiplier for the new Okeechobee Energy Center? (Fallout)

SFHHA: The Net Operating Income Multiplier for the Okeechobee Energy Center should be determined, at a minimum, in accordance with SFHHA's foregoing positions.

**ISSUE 132:** Is FPL's requested limited scope adjustment of \$209 million for the new Okeechobee Energy Center appropriate?

SFHHA: No. *See* Issue 26 above.

**ISSUE 133:** What is the appropriate effective date for implementing FPL's limited scope adjustment for the new Okeechobee Energy Center?

SFHHA: Given present uncertainty, June 30, 2019 is not an appropriate effective date.

### **ASSET OPTIMIZATION INCENTIVE MECHANISM**

**ISSUE 134:** Should the asset optimization incentive mechanism as proposed by FPL be approved?

SFHHA: No. The Commission should instead modify the Incentive Mechanism so that the entire savings from economy purchases and sales are timely flowed through to customers and so that it provides an incentive and reasonable sharing only of the net gains from asset optimization activities. This could be achieved: (1) by including only the actual cost of economy purchases in the FAC, and excluding "gains" based on avoided marginal dispatch costs; (2) by including the actual revenues and marginal dispatch costs for economy sales in the FAC and excluding from the Incentive Mechanism all calculated "gains" and any sharing of the "gains" with the Company; (3) if the Commission allows the Company to share in the net "gains" from economy purchases and sales, then it should correct the calculation of the net "gains" in the Incentive Mechanism by removing all "base O&M fossil overhaul" expense and "CT capital spare parts depreciation" expense from the calculation of the so-called variable O&M expense; (4) if the Commission incentivizes only the asset optimization activities outlined above, then allow the Company to retain 10% of all net "gains," as well as retain 10% of the costs of the asset optimization activities. *See* SFHHA witness Kollen's June 17, 2016 Direct Testimony in Docket No. 160088-EI.

### **COST OF SERVICE AND RATE DESIGN ISSUES**

**ISSUE 135:** Is FPL's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate?

SFHHA: No position at this time.

**ISSUE 136:** What is the appropriate methodology to allocate production costs to the rate classes?

SFHHA: Summer month reserve margin requirements are the binding constraint for planning FPL's system. Customer class demands during off-peak fall and spring months do not cause FPL to add new generation capacity to the system. Accordingly, a summer coincident peak methodology is the appropriate methodology for allocating production costs. It assigns cost responsibility to rate classes based upon each rate class' contribution to the need for additional generation capacity to meet the summer reserve margin. That said, SFHHA recommends the use of the 12CP and 1/13 energy allocation methodology as it has been in effect for many years and it more appropriately allocates production costs than FPL's proposed change to a 12CP and 25% methodology that is unjustified and over-allocates production costs to large commercial class ratepayers.

**ISSUE 137:** What is the appropriate methodology to allocate transmission costs to the rate classes?

SFHHA: Transmission plant-related costs should be allocated to rate classes based upon a 100 percent demand basis. The appropriate demand allocator is the summer coincident peak methodology; however, at a minimum, transmission plant-related costs should be allocated using the FPL 12 CP and 1/13th method.

**ISSUE 138:** What is the appropriate methodology to allocate distribution costs to the rate classes?

SFHHA: Minimum distribution cost (MDS) method. There is no plausible rationale that would somehow distinguish cost causation related to the installation of poles, overhead conductors, underground conductors and transformers on FPL's distribution system from that of TECO and GPC in the state, or the many other utilities that rely on the MDS method that is supported in the NARUC Manual. MDS identifies the distribution facilities that would be required to simply interconnect a customer to the system, irrespective of the kW load of the customer. From a cost causation standpoint, MDS recognizes the minimum facilities investment needed to interconnect a customer to the FPL system.

**ISSUE 139:** Is FPL's proposal to recover a portion of fixed distribution costs through the customer charge instead of energy charge appropriate for residential and general service non-demand rate classes?

SFHHA: No position at this time.

**ISSUE 140:** How should the change in revenue requirement be allocated to the customer classes?

SFHHA: FPL's revenue requirement, as determined in this case, should be allocated among customer classes consistent with SFHHA's recommendations as set forth in Exhibit No. SJB-16. That exhibit incorporates: (1) the use of FPL's traditional 12 CP and 1/13th class cost of service study to mitigate the substantial problems with implementing FPL's proposed 12 CP and 25% energy methodology; (2) the MDS methodology for classifying certain distribution costs; (3) SFHHA witness Baron's recommendation to maintain the CILC and CDR incentives in effect prior to January 1, 2017; and (4) the application of the 1.5 times average increase mitigation only to present base revenues and excluding clause revenues. Exhibit No. SJB-17 sets forth an alternative that would allocate FPL's revenue requirement if the Commission were to adopt 12 CP and 25% average demand.

**ISSUE 141:** What are the appropriate service charges (initial connection, reconnect for nonpayment, connection of existing account, field collection)

A. Effective January 1, 2017?

SFHHA: No position at this time.

B. Effective January 1, 2018?

SFHHA: No position at this time.

**ISSUE 142:** Is FPL's proposed new meter tampering penalty charge, effective on January 1, 2017, appropriate?

SFHHA: No position at this time.

**ISSUE 143:** What are the appropriate temporary construction service charges

A. Effective January 1, 2017?

SFHHA: No position at this time.

B. Effective January 1, 2018?

SFHHA: No position at this time.

**ISSUE 144:** What is the appropriate monthly kilowatt credit for customers who own their own transformers pursuant to the Transformation Rider

A. Effective January 1, 2017?

SFHHA: No position at this time.

B. Effective January 1, 2018?

SFHHA: No position at this time.

**ISSUE 145:** What is the appropriate monthly credit for Commercial/Industrial Demand Reduction (CDR) Rider customers effective January 1, 2017?

SFHHA: Given the cost effectiveness of the current level of credits, there is no basis for FPL's proposal to eliminate \$23 million in credits. The Company's proposal is particularly unreasonable given the disproportionate rate increase it produces for CILC customers and general service rates that use CDR credits in FPL's DSM program. Accordingly, the current level of the CILC and CDR credits, which are cost effective under the Rate Impact Measure test, as discussed in SFHHA witness Baron's testimony at 51:3-16, should be maintained.

**ISSUE 146:** What are the appropriate customer charges

A. Effective January 1, 2017?

SFHHA: The appropriate customer charges should be based on the methodology set forth in Mr. Baron's Exhibit SJB-16. The Commission should further adopt SFHHA's recommendation to implement MDS for the allocation of distribution costs to all rate classes. *See* Response to Issue 138.

B. Effective January 1, 2018?

SFHHA: The 2018 rates should be computed in accordance with the methodology reflected in Exhibit SJB-16 for 2017. *See* Response to Issue 146 A.

**ISSUE 147:** What are the appropriate demand charges

A. Effective January 1, 2017?

SFHHA: The appropriate demand charges should be based on the methodology set forth in Mr. Baron's Exhibit SJB-16. The Commission should further adopt SFHHA's recommendation to implement MDS for the allocation of distribution costs to all rate classes. *See* Response to Issue 138.

B. Effective January 1, 2018?

SFHHA: The 2018 rates should be computed in accordance with the methodology reflected in Exhibit SJB-16 for 2017. *See* Response to Issue 146 A.

**ISSUE 148:** What are the appropriate energy charges

A. Effective January 1, 2017?

SFHHA: The appropriate energy charges should be based on the methodology set forth in Mr. Baron's Exhibit SJB-16. The Commission should further adopt SFHHA's recommendation to implement MDS for the allocation of distribution costs to all rate classes. *See* Response to Issue 138.

B. Effective January 1, 2018?

SFHHA: The 2018 rates should be computed in accordance with the methodology reflected in Exhibit SJB-16 for 2017. *See* Response to Issue 146 A.

**ISSUE 149:** What are the appropriate charges for the Standby and Supplemental Services (SST-1, ISST-1) rate schedules

A. Effective January 1, 2017?

SFHHA: No Position at this time.

B. Effective January 1, 2018?

SFHHA: No Position at this time.

**ISSUE 150:** What are the appropriate charges for the Commercial Industrial Load Control (CILC) rate schedule

A. Effective January 1, 2017?

SFHHA: The appropriate charges for rate CILC-1D should be calculated, at a minimum, consistent with the methodologies set forth at pp. 49-53 of SFHHA witness Baron's Direct Testimony and exhibits.

B. Effective January 1, 2018?

SFHHA: The appropriate charges for rate CILC-1D should be calculated, at a minimum, consistent with the methodologies set forth at pp. 49-53 of SFHHA witness Baron's Direct Testimony and exhibits.

**ISSUE 151:** What are the appropriate lighting rate charges

A. Effective January 1, 2017?

SFHHA: No Position at this time.

B. Effective January 1, 2018?

SFHHA: No Position at this time.

**ISSUE 152:** Is FPL's proposal to close the customer-owned street lighting service option of the Street Lighting (SL-1) rate schedule to new customers appropriate?

SFHHA: No Position at this time.

**ISSUE 153:** Is FPL's proposal to close the current Traffic Signal (SL-2) rate schedule to new customers appropriate?

SFHHA: No Position at this time.

**ISSUE 154:** Is FPL's proposed new metered Street Lighting (SL-1M) rate schedule appropriate and what are the appropriate charges

A. Effective January 1, 2017?

SFHHA: No Position at this time.

B. Effective January 1, 2018?

SFHHA: No Position at this time.

**ISSUE 155:** Is FPL's proposed new metered Traffic Signal (SL-2M) rate schedule appropriate and what are the appropriate charges

A. Effective January 1, 2017?

SFHHA: No Position at this time.

B. Effective January 1, 2018?

SFHHA: No Position at this time.

**ISSUE 156:** Is FPL's proposed allocation and rate design for the new Okeechobee Energy Center limited scope adjustment, currently scheduled for June 1, 2019, reasonable?

SFHHA: No, the Okeechobee Energy Center limited scope adjustment should be subject to the same allocation and rate design method as that recommended by SFHHA witness Baron. Specifically, any adjustment should reflect the use of: (1) FPL's traditional 12 CP and 1/13th class cost of service study in lieu of FPL's flawed proposed 12 CP and 25% energy methodology; (2) the MDS methodology for classifying certain distribution costs; (3) SFHHA witness Baron's recommendation to reject FPL's proposal to reset the CILC and CDR incentives;

and (4) the application of the 1.5 times average increase mitigation only to present base revenues and excluding clause revenues.

**ISSUE 157:** Should FPL’s proposal to file updated base rates in the 2018 Capacity Clause proceeding to recover the Okeechobee Energy Center limited scope adjustment be approved?

SFHHA: No.

**ISSUE 158:** Should the Commission approve the following modifications to tariff terms and conditions that have been proposed by FPL:

a. Close relamping option for customer-owned lights for Street Lighting (SL-1) and Outdoor Lighting (OL-1) customers;

SFHHA: No Position at this time.

b. Add a willful damage clause, require an active house account and clarify where outdoor lights can be installed for the Outdoor Lighting (OL-1) tariff;

SFHHA: No Position at this time.

c. Clarify the tariff application to pre-1992 parking lot customers and eliminate the word “patrol” from the services provided on the Street Lighting (SL-1) tariff;

SFHHA: No Position at this time.

d. Remove the minimum 2,000 Kw demand from transmission-level tariffs;

SFHHA: No Position at this time.

e. Standardize the language in the Service section of the distribution level tariffs to include three phase service and clarify that standard service is distribution level; and

SFHHA: No Position at this time.

f. Add language to provide that surety bonds must remain in effect to ensure payments for electric service in the event of bankruptcy or other insolvency.

SFHHA: No Position at this time.

**ISSUE 159:** Should the Commission require FPL to develop a tariff for a distribution substation level of service for qualifying customers?

SFHHA: No Position at this time.

**ISSUE 160:** Should the Commission give staff administrative authority to approve tariffs reflecting Commission approved rates and charges effective January 1, 2017, January 1, 2018, and tariffs reflecting the commercial operation of the new Okeechobee Energy Center (June 1, 2019)?

SFHHA: The Commission should not give staff administrative authority to approve tariffs proposed by the company for 2017, 2018 or thereafter. The Commission should give staff administrative authority to approve tariffs reflecting Commission approved rates that adopt the recommendations herein effective January 1, 2017. The Commission should not provide staff authority for adjustments other than for January 1, 2018.

**ISSUE 161:** What are the effective dates of FPL's proposed rates and charges?

SFHHA: FPL's rates should be adjusted effective January 1, 2017.

### **OTHER ISSUES**

**ISSUE 162:** Should the Commission approve FPL's proposal to transfer the Martin-Riviera pipeline lateral to Florida Southeast Connection (FSC)?

SFHHA: The Commission should only approve the transfer of the Martin-Riviera pipeline lateral to FSC on the condition that FPL commence a Section 5 action regarding rates for affiliated pipeline services where FPL is a shipper, when earnings reported in FERC Form 2 by the affiliated pipeline exceeds the last FERC-determined median ROE applicable to interstate pipelines. As part of that condition, FPL would be obligated to cooperate fully with the FPSC Staff and/or outside counsel and other advisors to the Staff to attain a reduction in the pipeline's rates.

**ISSUE 163:** What requirements, if any, should the Commission impose on FPL if it approves FPL's proposed transfer of the Martin-Riviera pipeline lateral to Florida Southeast Connection?

SFHHA: The Commission should only approve the transfer of the Martin-Riviera pipeline lateral to FSC on the condition that FPL to commence a Section 5 action regarding rates for affiliated pipeline services where FPL is a shipper, when the pipeline's earnings reported in FERC Form 2 exceed the last FERC-determined median ROE applicable to interstate pipelines. As part of that condition, FPL would be obligated to cooperate fully with the FPSC Staff and/or outside counsel and other advisors to the Staff to attain a reduction in the pipeline's rates.

**ISSUE 164:** Did FPL's Third Notice of Identified Adjustments remove the appropriate amount associated with the Woodford project and other gas reserve costs?



SFHHA: SFHHA supports the position of OPC.

**ISSUE 165:** Should FPL be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

SFHHA: Yes.

**ISSUE 166:** Should this docket be closed?

SFHHA: No position at this time.

### **CONTESTED ISSUES**

**OPC ISSUE:** Does the Commission have the authority to approve rate base adjustments based upon a test year subsequent to the period ending December 31, 2017?

SFHHA: No position at this time.

**FIPUG ISSUE:** Has FPL appropriately managed the cooling canal system at its Turkey Point Power Plant?

SFHHA: SFHHA supports the position of FIPUG.

**SFHHA ISSUE:** Should a mechanism be established to capture for the benefit of ratepayers savings, if any, that result from any mergers, acquisitions or reorganizations by NextEra Energy?

SFHHA: Yes. the Commission should adopt a merger savings surcredit rider, and direct the Company to make an initial filing and annual filings thereafter that quantify the expected savings and to provide those annual savings to customers through the rider within 90 days after the consummation of any such acquisition or merger. Alternatively, the Commission should use those savings to reduce the 2018, Okeechobee, or other rate increases if and when they are implemented.

**SFHHA ISSUE:** What requirements, if any, should the Commission impose on FPL as a result of its affiliation with Sabal Trail Transmission, LLC (Sabal Trail)?

SFHHA: The Commission should place the same condition on FPL's affiliation with Sabal Trail as SFHHA advocated for the transaction with FSC in Issue 163 above. In fact, given the costs of Sabal Trail, it is at least as

important that FPL initiate a Section 5 action against Sabal Trail as it is with regard to FSC. The Commission in Order No. PSC-13-0505-PAA-EI has indicated that a prudence review of FPL's contracting practices with its affiliated pipelines can take place in FPL's fuel clause proceedings. Thus, the comparison should be filed annually in that docket.

**SFHHA ISSUE:**

Does the Commission have the authority to waive the right of any party to request the sequestration of a witness, absent a showing of good cause, if such party fails to include a request for sequestration of a witness in its prehearing statement in the captioned dockets? Did the Commission's Third Order Revising Order Establishing Procedure in the captioned dockets, Order No. PSC-16-0300-PCO-EI, to the extent it waived the right of any party to request the sequestration of witnesses if that party fails to make such a request in its prehearing statement, prohibit the rights of the parties to the captioned proceedings to invoke their right to request the exclusion of witnesses from a proceeding, as provided for in Florida Statute 90.616(1)?

**SFHHA:**

No, the Commission does not have the authority to prohibit a party from invoking its right to request the sequestration of a witness so that the witness cannot hear the testimony of other witnesses. Moreover, the Commission does not have the authority to hold a party to a higher burden of proof, i.e., a good cause standard, in order for the party to invoke its right to request the sequestration of witnesses from a proceeding, than the standard provided for in Florida Statute 90.616(1). Furthermore, Order No. PSC-16-0300-PCO-EI fails to provide any rationale or justification for requiring that a party invoke its right to request the sequestration of a witness at the time that party submits its prehearing statement to the Commission, as opposed to allowing a party to invoke its sequestration right at a reasonable time before the relevant proceeding commences, or at which time such witness's presence at the proceeding becomes problematic within the contemplation of Florida Statute 90.616.

**NEW CONTESTED ISSUES FROM SIERRA CLUB**

**NEW ISSUE:**

Has FPL shown that the \$1.25 billion natural gas-burning, peaking generation projects are necessary to serve customers?

**SFHHA:**

No position at this time.

**NEW ISSUE:**

Has FPL shown that it is investing in optimal amounts of clean, low cost, low risk resources including solar power, wind power, energy efficiency, batteries, and storage?

**SFHHA:**

No position at this time.

**NEW ISSUE:** Has FPL shown that it is expenditures help mitigate the Commission's strategic concerns regarding over-reliance on out-of-state natural gas imports.

**SFHHA:** No position at this time.

**F. SEQUESTRATION OF WITNESSES**

In order to preserve its right to seek the sequestration of witnesses at hearing, SFHHA states that it intends to invoke at the commencement of the hearing its common law and statutory right pursuant to Section 90.616, Florida Statutes, to exclude or sequester testifying witnesses in this matter.

Respectfully submitted this 15th day of August, 2016,

*/s/ Kenneth L. Wiseman*  
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Attorneys for the South Florida Hospital and Healthcare Association

August 15, 2016

**CERTIFICATE OF SERVICE**  
**DOCKET NO. 160021-EI, et al.**

I HEREBY CERTIFY that a copy of the foregoing has been furnished by electronic mail, U.S. Mail or Federal Express, this 15th day of August, 2016 to the following:

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*/s/ Kevin C. Siqveland*  
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