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		BEFORE THE	
		FLORIDA PUBLIC SERVICE COMMISSION	
2			
3	In the Matter of:		DOCKET NO. 160021-EI
4	PETITION FOR RATE INCREASE BY		
5	FLORIDA POWER & LIGHT COMPANY.		
	_____ /		
6			DOCKET NO. 160061-EI
7	PETITION FOR APPROVAL OF		
8	2016-2018 STORM HARDENING PLAN		
	BY FLORIDA POWER & LIGHT COMPANY		
9	_____ /		DOCKET NO. 160062-EI
10	2016 DEPRECIATION AND		
11	DISMANTLEMENT STUDY BY, FLORIDA		
	POWER & LIGHT COMPANY.		
12	_____ /		DOCKET NO. 160088-EI
13	PETITION FOR LIMITED PROCEEDING		
14	TO MODIFY AND CONTINUE INCENTIVE		
	MECHANISM, BY FLORIDA POWER &		
15	LIGHT COMPANY.		VOLUME 33
	_____ /		PAGES 4899 - 5126
16	PROCEEDINGS:	HEARING	
17	COMMISSIONERS		
18	PARTICIPATING:	CHAIRMAN JULIE I. BROWN	
		COMMISSIONER LISA POLAK EDGAR	
19		COMMISSIONER ART GRAHAM	
		COMMISSIONER RONALD A. BRISÉ	
20		COMMISSIONER JIMMY PATRONIS	
	DATE:	<i>Wednesday</i> August 23 ³¹ <i>02</i> , 2016	
21		Tuesday , August 23 , 2016	
22	TIME:	Commenced at 11:55 a.m.	
		Concluded at 3:03 p.m.	
23	PLACE:	Betty Easley Conference Center	
		Room 148	
24		4075 Esplanade Way	
		Tallahassee, Florida	
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REPORTED BY: DEBRA KRICK
Court Reporter
(850) 894-0828

APPEARANCES: (As heretofore noted.)

PREMIER REPORTING
114 W 5TH AVENUE
TALLAHASSEE, FLORIDA
(850) 894-0828

1 I N D E X

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

2 (Transcript follows in sequence from Volume
3 32.)

4 CHAIRMAN BROWN: We are good to go now.

5 FPL, my understanding is that there may have
6 been a miscommunication -- or a -- with --
7 during -- when we were going over the revised list
8 and my understanding is that Mr. Allis is, has a
9 scheduling conflict that he will not be available
10 next week, is that correct?

11 MR. LITCHFIELD: That is correct, Madam Chair.

12 CHAIRMAN BROWN: Okay. I know Hospitals is
13 not in the room, but they wanted some notice about
14 when we were going to take up Allis, so I do want
15 to I do want to let the parties know that with that
16 understanding -- and I don't know what we are going
17 to be doing with our schedule, given the storm,
18 whether we will be allowed to continue the hearing
19 the rest of this week, or whether we will have to
20 continue it next week. I would prefer to take Mr.
21 Allis today sometime, but I wanted to give the
22 parties notice where, exactly, he fits into the FPL
23 schedule.

24 I will -- I will defer to you all.

25 MR. LITCHFIELD: Really, we are flexible in

1 that regard, so mid-afternoon would be great.

2 CHAIRMAN BROWN: Okay. So after lunch, I will
3 reiterate the exact order, we will find a place for
4 him, but I just want to give the parties as much
5 notice as possible that he will be going today, all
6 right?

7 So, FPL.

8 MR. DONALDSON: Good morning.

9 CHAIRMAN BROWN: Still.

10 MR. DONALDSON: Morning, still, barely.

11 Madam Chair, Commissioners, Ms. Kennedy is
12 here to present her rebuttal testimony on two
13 pieces of testimony, the asset optimization and the
14 rate case.

15 CHAIRMAN BROWN: Okay. Thank you.

16 MR. DONALDSON: May I proceed?

17 CHAIRMAN BROWN: Yes. Please.

18 Whereupon,

19 ROXANE KENNEDY

20 was recalled as a witness, having been previously duly
21 sworn to speak the truth, the whole truth, and nothing
22 but the truth, was examined and testified as follows:

23 EXAMINATION

24 BY MR. DONALDSON:

25 Q Ms. Kennedy, you are still sworn, you

1 understand that?

2 A Yes.

3 Q Okay. Please state your name and -- well, I
4 think we can skip a couple of these.

5 Have you prepared and caused to be filed eight
6 pages of rebuttal testimony on July 8th, 2016, in the
7 asset optimization docket?

8 A Yes, sir.

9 Q Okay. And do you have any further revisions
10 or changes to that testimony?

11 A No, sir.

12 Q If I was to ask you the same questions that
13 are listed in that asset optimization rebuttal
14 testimony, would your answers be the same?

15 A Yes, sir.

16 Q Okay. And did you also cause and prepare to
17 be filed eight pages of rebuttal testimony in the base
18 rate proceeding on August 1st of this year?

19 A Yes, sir.

20 Q And do you have any changes or revisions to
21 that testimony?

22 A No, sir.

23 Q If I was to ask you the same questions that
24 are contained within that base rate proceeding
25 testimony, would your answers be the same?

1 A Yes, sir.

2 **Q Okay.**

3 MR. DONALDSON: Madam Chair, at this time, I
4 would like to introduce into evidence both
5 Ms. Kennedy's rebuttal testimony for the asset
6 optimization and the base rate testimony.

7 CHAIRMAN BROWN: We will insert Ms. Kennedy's
8 prefiled rebuttal testimonies into the record.

9 MR. DONALDSON: Thank you.

10 (Prefiled rebuttal testimonies inserted into
11 the record as though read.)

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Roxane Kennedy. My business address is Florida Power & Light Company (“FPL”), 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. Did you previously submit direct testimony in Docket No. 160021 which has been consolidated with Docket No. 160088?

A. Yes.

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

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

- RRK-1, Example (Mitsubishi) Combustion Turbine (CT) Maintenance Intervals by Outage Type
- RRK-2, Example (Mitsubishi) Combustion Turbine Parts Standards by Outage Inspection Type

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut the portion of the testimony of South Florida Hospital and Healthcare Association (“SFHHA”) witness Lane Kollen that argues for removing all “base O&M fossil overhaul” from the calculation of variable operating and maintenance (“O&M”) expenses because those expenses are fixed.

II. SUMMARY

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Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony demonstrates that witness Kollen's objections to the recovery of the base overhaul maintenance component of the Variable O&M in the proposed modified Incentive Program are unfounded. Using Original Equipment Manufacturer ("OEM") documentation, industry guidelines and FPL maintenance practices, I will demonstrate that fossil generating maintenance is variable and should be recovered as specified in the proposed modified Incentive Mechanism.

III. VARIABLE POWER PLANT O&M

Q. Witness Kollen states on pages 10 and 11 of his testimony that FPL's proposal to net economy sales and purchases for purposes of calculating variable power plant O&M provides enhanced recovery through the Fuel Clause even though such costs already are included in the base revenue requirement. Do you agree with this assertion?

A. No. As witness Forrest explained in his direct testimony, for the 2017 and 2018 test years included in FPL's rate case filing, FPL did not include economy sales or economy purchases in developing its base rate forecast for the costs associated with operating and maintaining its generating fleet. Therefore, any variable production and maintenance costs associated with

1 increases from FPL's generation system output due to net economy sales are
2 not reflected in the test period base rate revenue requirements.

3 **Q. Do you agree with witness Kollen's assertion on pages 11 and 12 of his**
4 **testimony that "base O&M fossil overhaul" costs are not reasonable and**
5 **appropriate for inclusion in the variable power plant O&M rate because**
6 **they are not variable and will be incurred regardless of the output from**
7 **FPL-owned generation?**

8 A. No. FPL's current base rate filing contains MWh sales, production and
9 maintenance forecasts that are based on only serving native customers. As
10 witness Forrest explained in his direct testimony, economy sales were not
11 contemplated in the base rate forecast and neither were the associated
12 production and maintenance costs for generation of incremental sales. This
13 base rate filing includes a level of sales, production and maintenance activity
14 for FPL's native customer requirements only. To demonstrate the impact of
15 wholesale sales and purchases, the total level of production activity for the
16 period 2013-15 – reflecting the net impact of the wholesale sales and
17 purchases that generated over \$100 million of customer benefits during that
18 period – was significantly above the level of activity forecasted both the prior
19 and the current base rate filings. FPL's system-wide economy sales, net of
20 purchases, totaled 5.1 million MWh for the period of 2013-15, which was
21 equivalent to over 70% of the annual generation at a large combined cycle
22 unit such as FPL's Cape Canaveral or Riviera Beach Energy Centers in 2015.
23 It is reasonable to expect the incremental level of fossil overhaul costs above

1 the level included in our base rate filing will be significant. Over the life of a
2 combined cycle unit, this level of additional generation increases maintenance
3 costs significantly.

4

5 Thus, it is clear that if the total level of production for FPL's fossil generating
6 fleet is above the forecast assumed in the base rate filing, as it was in 2013-
7 2015, it will directly impact maintenance costs as well as increase wear and
8 tear on Combustion Turbine ("CT") Parts. The variable production and
9 maintenance costs for these incremental MWh sales would not have been
10 incurred if opportunities were not seized for FPL's customers in the
11 marketplace.

12 **Q. Would you please explain the concept of variable maintenance costs and**
13 **its applicability to FPL's generating assets?**

14 A. Yes. Simply put, as generating fleet output increases, there is a corresponding
15 increase in labor and parts required to maintain reliable operating
16 performance. Examples of maintenance equivalent fired hour interval
17 documentation from Mitsubishi for their CTs and part requirements by outage
18 type, for example, are contained in Exhibits RRK-1 and RRK-2. Mitsubishi is
19 the manufacturer for the CTs at FPL's West County Energy Center and these
20 exhibits clearly demonstrate that maintenance activity is directly correlated to
21 hours of operation and number of starts, exactly the concept of variable.

22

1 Energy industry literature also contains numerous references to the variability
2 of O&M costs as a function of power plant output levels. For example, PJM
3 is a regional transmission organization (“RTO”) that coordinates the
4 movement of wholesale electricity in all or parts of 13 states and the District
5 of Columbia. PJM cites several specific examples of variable O&M costs in
6 its educational material:

- 7 • Air filter replacements
- 8 • Inspections and overhauls, including labor, parts, and rentals
- 9 • Water treatment expenses
- 10 • Catalyst replacements
- 11 • *Major overhaul expenses*

12 PJM also has issued specific guidance for addressing variable maintenance
13 expense for combustion turbine and combined cycle plants: “Furthermore,
14 Combustion Turbine and Combined Cycle Plant major inspection and
15 overhaul expenses may be included in variable maintenance expenses if these
16 costs are due to incremental degradation directly related to generation, starts
17 or a combination of both.”¹

18

19 The major components in FPL’s generating fleet include, but are not limited
20 to CTs, Generators and Steam Turbines. The manufacturers for these

¹ <http://www.pjm.com> Variable Operations and Maintenance (“VOM”) Costs:
Educational Document

1 components in FPL's fleet include General Electric, Siemens, Mitsubishi and
2 Toshiba. Steam and coal unit maintenance intervals for boilers and steam
3 turbines are also driven by operating hours and thermal cycles. For all of
4 these manufacturers and unit types, maintenance performed is directly tied to
5 ranges of operating hours and/or unit starts and is thus variable.

6
7 In summary, maintenance intervals driven by operating hour ranges are
8 consistently applied by utility industry OEMs, as well as FPL's Operating,
9 Central Maintenance and Engineering experts. The large volume of FPL's
10 wholesale sales, which generate gains for the benefit of its retail customers,
11 impact the operating hours and hence the maintenance costs for FPL's
12 generating fleet. Thus, contrary to witness Kollen's assertions, those costs are
13 being properly viewed as variable.

14 **Q. Do you agree with witness Kollen's recommendation to remove the "base**
15 **O&M fossil overhaul" costs from the incentive power plant O&M**
16 **calculation in the proposed modified Incentive Mechanism?**

17 A. No. For the reasons above, base O&M fossil overhauls are variable and are
18 entirely reasonable and appropriate for continued inclusion in the power plant
19 O&M calculation.

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

21 A. Yes.

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I. INTRODUCTION

Q. Please state your name and business address.

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

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

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to refute Office of Public Counsel (“OPC”) witness Smith’s contentions that FPL’s cost projections regarding its fossil fleet general overhaul expenses should be based on a normalized cost level.

II. FOSSIL PLANT OVERHAUL EXPENSES

Q. Do you agree with OPC witness Smith’s proposed four year average process for projecting overhaul cost for FPL’s fossil fleet?

A. No, I do not. OPC witness Smith’s proposal lacks appropriate justification, is not properly based on projected operational and overhaul plans, and does not show results which are indicative of FPL’s operating and maintenance (“O&M”) costs going forward.

1 **Q. Why is it inappropriate to base generation overhaul expenses going**
2 **forward on normalized historical values?**

3 A. It is inappropriate because the size and nature of FPL's generation fleet has
4 changed significantly even over the last four years. As indicated on Exhibit
5 RRK-2, reflecting the longer trend since 1990, FPL's fossil fleet has evolved
6 from mainly conventional steam technology to combustion turbine ("CT")
7 based technology. Within the past few years, FPL has recently added
8 combined cycle generation units such as Cape Canaveral Clean Energy
9 Center, Riviera Beach Energy Center, and Port Everglades Energy Center.
10 Additionally, by the end of this year, FPL will be adding three large scale
11 solar projects. This transformation to FPL's generation fleet means that
12 historical levels and types of overhauls, and their related expenditures are not
13 representative of current and projected overhaul work, because there is an
14 increased level of deployed equipment that must be maintained now, and in
15 the future.

16
17 Furthermore, because the doubling of the fossil fleet did not occur in the same
18 year, but rather was staggered based on generation need over a number of
19 years, the timing of the different overhaul cycles of fossil units is likewise
20 staggered over a number of years. Therefore, the timing of historical
21 maintenance cycles has no bearing on or relationship to current or future
22 maintenance cycles. Consequently, normalization of previous overhaul
23 maintenance costs is completely inappropriate as a basis to forecast

1 maintenance costs on a going forward basis. FPL would never use such an
2 approach to budget for its expenditures and to do so would not properly reflect
3 what or how FPL projects to spend to meet the fleet's needs.

4 **Q. Please explain the effect that a change in the quantity of equipment**
5 **needed to be maintained has on generation overhaul expenses?**

6 A. With the substantial growth of the fossil generating fleet, the quantity of plant
7 equipment that needs to be maintained has increased significantly. For
8 example, with the addition of 13,000 MW of combined cycle capability from
9 2001 to 2017, FPL added 46 CTs (up from 12 CTs in 2000¹), along with their
10 associated major components such as generators, heat recovery steam
11 generators ("HRSGs"), steam turbine generators, and other plant equipment
12 (motors, fans, valves, etc.). Consequently, this growth of plant equipment and
13 associated work scope increases the overhaul maintenance expense
14 requirements of the fossil generating fleet.

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

16 A. The appropriate way to budget for and project FPL's fossil generating fleet's
17 overhaul costs is to base the expenditures on the level and type of work that is
18 due for the specific projection period. Whether certain types of overhaul work
19 need to be performed during a specified period is based on a combination of
20 factors, potentially including FPL's condition assessment of the units;
21 manufacturer recommendations to help maximize the life of the equipment;
22 FPL's operational and maintenance experience; the need to maintain the

¹ Includes four smaller CTs since retired at Putnam plant.

1 reliability of the units: and, minimizing operational impacts to FPL customers.
2 A simple historic average, as witness Smith suggests, fails to take any of these
3 factors into account and certainly gives FPL no credit for its highly successful
4 approach to the maintenance of its fleet, which as shown in Exhibit RRK-7,
5 has allowed FPL's total fossil, non-fuel O&M costs to be about two-thirds
6 (i.e. \$22/kW) less than the industry average. This results in a cost avoidance
7 of more than \$500 million in non-fuel O&M in 2015, for an FPL fossil fleet of
8 more than 22,000 MW.

9 **Q. Does witness Smith's approach account for any of this?**

10 A. No, it does not. Witness Smith's position takes none of the aforementioned
11 factors or cost avoidance into consideration. He reaches his conclusion based
12 solely on a mathematical averaging of historic numbers that simply does not
13 represent the future. He also ignores FPL's best in class operations that have
14 produced substantial customer savings.

15 **Q. Are there specific equipment maintenance schedules that FPL follows?**

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

18 **Q. Please describe the typical maintenance schedule for each type of
19 equipment.**

20 A. For example, FPL steam units like Martin 1 & 2 have a full maintenance
21 outage cycle that is defined by the longest equipment maintenance
22 frequency/duration and is typically associated with steam turbine maintenance
23 that occurs every 8 to 12 years. An interim maintenance outage is driven by

1 major boiler maintenance and occurs mid-cycle or every 4 to 6 years. This
2 cycle is further divided to include traditional minor boiler maintenance that
3 occurs every 2 to 3 years. In addition, shorter annual inspection outages are
4 required to allow for equipment condition assessments and maintenance,
5 ensuring that reliability issues are identified and addressed.

6
7 FPL's combined cycle units have maintenance outage cycles typically driven
8 by service hours that vary among manufacturers and outage types: CT
9 Inspections, Hot Gas Path Inspections, and Major Inspections. The equipment
10 component, manufacturer, work scope type, operational hours and additional
11 units drive the overall combined cycle maintenance overhaul intervals ranging
12 from 3 to 12 years.

13
14 The range of maintenance activity on steam turbines and generators spans 3 to
15 12 years. The HRSG and balance of plant equipment maintenance is executed
16 on a 1 to 3 year interval. This work is performed in conjunction with the
17 outage types listed above. Each unit also undergoes an annual inspection
18 outage to perform equipment condition assessments and maintenance to
19 ensure reliability issues are identified and addressed.

20 **Q. So, does the type of work change from year-to-year?**

21 A. Yes, it does. For example, Scherer Unit 4 has overhauls in even years. The
22 2018 overhaul is planned at a cost to FPL of \$9.8 million. Consequently,

1 averaging 2014 through 2017 for this site alone would result in a greater than
2 \$5.0 million deficit in costs against 2018 maintenance requirements.

3

4 It is noteworthy, however, that even with these increases in steam and other
5 production overhauls that I have described, non-fuel O&M expenses for 2017
6 and 2018 are significantly below the Florida Public Service Commission
7 (“Commission”) O&M benchmarks for those years.

8 **Q. Is FPL’s non-fuel O&M overhaul expense projection appropriate for**
9 **2017 and 2018?**

10 A. Yes, it is. FPL’s 2017 and 2018 non-fuel O&M overhaul projection is based
11 on a combination of factors designed to preserve unit reliability and
12 availability for customers. FPL’s experience in overhauls and other non-fuel
13 O&M efforts have led FPL to achieve a non-fuel expense/kW that is roughly
14 two-thirds better than the industry average. This approach has allowed FPL to
15 provide industry leading reliability at a cost well below the Commission’s
16 O&M benchmarks, contained in MFR C-41, which are used by the
17 Commission to assess cost reasonableness. Witness Smith's selective
18 adjustment is not justified.

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

20 A. Yes.

1 BY MR. DONALDSON:

2 Q Now, Ms. Kennedy, with respect to the asset
3 optimization testimony, did you have exhibits RRK-1 and
4 RRK-2 that was prepared and attached to that testimony?

5 A Yes, sir.

6 Q All right. And were these prepared under your
7 direction and supervision?

8 A Yes, sir.

9 MR. DONALDSON: Madam Chair, I would note that
10 these have been pre-identified on staff's
11 comprehensive exhibit list as Exhibits 347 and 348.

12 CHAIRMAN BROWN: So noted.

13 Staff.

14 EXAMINATION

15 BY MS. BROWNLESS:

16 Q Good morning, afternoon, whatever it is.

17 Did you prepare and provide workpapers in
18 response to what's been identified as staff's Exhibit
19 No. 522?

20 A Yes.

21 Q And were those workpapers true and correct to
22 the best of your knowledge and belief?

23 A Yes, ma'am.

24 Q And if you were asked to provide workpapers
25 today, would those be the same workpapers you would

1 provide?

2 A Yes, ma'am.

3 Q Okay. And to your knowledge, are any of those
4 workpapers classified as confidential?

5 A No, ma'am.

6 MS. BROWNLESS: Thank you, ma'am.

7 CHAIRMAN BROWN: FPL.

8 MR. DONALDSON: Yes.

9 FURTHER EXAMINATION

10 BY MR. DONALDSON:

11 Q Ms. Kennedy, can you please prepare your
12 summary on the asset optimization rebuttal and the base
13 rate proceeding rebuttal? Thank you.

14 A Yes, sir.

15 Good afternoon, Commissioners, the purpose of
16 my testimony is to refute South Florida Hospital and
17 Healthcare Association Witness Kollen's argument for
18 removing all base O&M fossil overhaul from the
19 calculation of variable O&M expenses into the proposed
20 modified incentive program. FPL disagrees with
21 Mr. Kollen's assertion, and maintains that such
22 overhauled expenses should continue to be recovered as
23 variable O&M cost. These costs are a function of the
24 usage of the units. Furthermore, FPL did not include
25 economy sales in the developing of its base rate cost

1 forecast.

2 As the usage in generation capacity increase,
3 there is a corresponding increase in labor and parts
4 required to maintain unit performance. My testimony and
5 exhibits demonstrate that maintenance activities
6 directly relate to how much generating assets are
7 operated, exactly the concept of variable. For example,
8 combustion turbine maintenance intervals and work scopes
9 are driven by operating hours and/or starts; therefore,
10 the more the combustion turbines run, the more frequent
11 and extensive the overhaul requirements. In the utility
12 industry, such requirements are well-documented by
13 equipment manufacturers and industry guidelines, and are
14 utilized in FPL's maintenance practices.

15 Also, as Witness Forrest explained in his
16 direct testimony, economic sales were not included in
17 the base rate forecast, and neither were the associated
18 maintenance costs for the generation of the incremental
19 sales.

20 This base rate filing only includes a level of
21 sales for the FPL native customer requirements. Thus,
22 contrary to witness Kollen's assertions, base O&M fossil
23 costs are variable. These incremental costs are
24 entirely reasonable and appropriate for continued
25 inclusion in the O&M calculation related to FPL's

1 incremental off-system sales for generation gains for
2 the benefit of our retail customers.

3 This concludes my rebuttal testimony summary.

4 CHAIRMAN BROWN: Thank you.

5 BY MR. DONALDSON:

6 Q You can go ahead with your base rate summary.

7 Thank you.

8 A The purpose of this rebuttal testimony is to
9 refute Office of Public Counsel Witness Smith's
10 contention that FPL's fossil fleet expense projections
11 should be based on a normalized annual average.
12 Mr. Smith's oversimplified approach lacks appropriate
13 justification, and is not properly based on specific
14 operational and overhaul requirements. His analysis is
15 flawed because historical maintenance overhaul types and
16 expense are not representative of projections.

17 Significant changes in the size of the FPL
18 fossil fleet have increased the amount of equipment that
19 must be maintained, as well as the variable timing and
20 magnitude of the different overhaul cycles that are not
21 considered. Therefore, Mr. Smith's averaging approach
22 would not properly reflect FPL's specific yearly budget
23 requirements.

24 In contrast, FPL overhaul expense projections
25 are appropriate for 2017 and '18 based on the

1 combination of factors used:

2 Unit and equipment specific maintenance plans
3 that change year to year based on the required work due,
4 increase quantity of major components from the addition
5 of 13,000 megawatts over the period of 2001 to 2017,
6 including 46 combustion turbines and associated
7 equipment. And equipment condition assessment, FPL
8 maintenance expert recommendations, along with
9 manufacturer recommendations help equipment life -- help
10 optimize equipment life and minimize cost to our
11 customers.

12 Mr. Smith's averaging method fails to take any
13 of these factors into account. FPL's proven approach
14 has resulted in industry leading reliability, as well as
15 cost well below the industry average, and below the PSC
16 O&M benchmark level used in assessing cost
17 reasonableness.

18 This concludes my rebuttal.

19 **Q Thank you, Ms. Kennedy.**

20 MR. DONALDSON: I tender her for cross.

21 CHAIRMAN BROWN: Thank you, and good
22 afternoon.

23 THE WITNESS: Good afternoon.

24 CHAIRMAN BROWN: Public Counsel.

25 MS. CHRISTENSEN: No questions.

1 CHAIRMAN BROWN: Thank you.

2 FIPUG.

3 MR. MOYLE: We have a few.

4 EXAMINATION

5 BY MR. MOYLE:

6 Q Ma'am, you had just said that you compared
7 FPL's O&M cost to an industry average, and the costs
8 were below the average; is that right?

9 A Yes, sir.

10 Q Okay. So averages -- averages are useful
11 sometimes for determining things, you would agree with
12 that?

13 A Yes, sir.

14 Q Okay. And I know you had said on direct that
15 FPL has more overhauls in 2017 than any other year
16 between 2014 to 2018, correct?

17 A Yes, sir, that is correct --

18 Q Okay.

19 A -- and I can add further clarification if you
20 would like.

21 Q I don't think you need to. But you disagree
22 with the suggestion that a normalization approach with
23 respect to O&M expense be undertaken by this commission,
24 is that right?

25 A Yes, sir; '17 is reflective of the increasing

1 demands associated with the additional equipment that we
2 have added, and it will continue to create additional
3 expenses to us.

4 Q All right. And do you have an understanding
5 if this commission -- I mean, when they set the level at
6 '17, you know, if they don't use the average, the number
7 that they have set at '17 then becomes the number that
8 is established for rate-making purposes, and it
9 continues on? There is not any kind of adjustment that
10 the Commission has the ability to come in and adjust
11 that number that they said, is that right?

12 MR. DONALDSON: I am going to object. It
13 assumes facts not in evidence.

14 CHAIRMAN BROWN: Mr. Moyle, can you restate
15 the question?

16 MR. MOYLE: Yeah. I thought the facts were in
17 evidence, but I will restate.

18 BY MR. MOYLE:

19 Q Do you -- for planning purposes, do you have
20 an understanding as to the number that you have asked
21 this commission to provide for your O&M, whether that
22 number will fluctuate based on your actual needs as time
23 goes forward, assuming the Commission were to provide
24 your -- your ask number?

25 A Let me see if I understand your question. You

1 are asking what the trend is associated with the
2 overhaul expenses, if I understand your question.

3 **Q Let me try it with a hypothetical, because I**
4 **probably was not very clear.**

5 Let's just assume that -- that the average O&M
6 expenses is \$75, but that in 2017, because of, for
7 whatever reason, in 2017, the number is \$100, okay. If
8 the Commission adopts your testimony and approach, the
9 number that is set for rate-making purposes is \$100,
10 correct?

11 A Let me further --

12 **Q Yes?**

13 A I understand your question. And it's a yes
14 and no. And the yes and no is the aspect that you have
15 not now seen the expenses associated with our H machines
16 that we just added at Cape, Port and Riviera. So that
17 actually it is going -- the trend is going to be upward
18 from the 2017 number because of the additions and the
19 majors and turbine inspections that will be coming on
20 from those machines.

21 **Q Okay. Did you put any of that in your**
22 **testimony in this case to support a 2018 adjustment or**
23 **anything, or is this something you are telling me new?**

24 A I am saying that we will -- we will adjust
25 with our test year and take on those pressures.

1 **Q So it's new, is that right, the information**
2 **you told me?**

3 MR. DONALDSON: I actually believe it's in her
4 testimony, counsel.

5 MR. MOYLE: Okay.

6 MR. DONALDSON: You want me to give you the
7 page number?

8 BY MR. MOYLE:

9 **Q No, let me just go back to the hypothetical.**
10 **I don't -- I don't want to insert or inject other facts**
11 **about stuff. I am just trying to do a simple**
12 **hypothetical with you.**

13 If you take the average, it's \$75 for O&M. If
14 you take your proposal, which includes more overhauls in
15 '17 than in any other year between 2014 and '18, it's
16 \$100. And my question simply is, do you have an
17 understanding if the Commission adopts your approach,
18 whether that \$100 then becomes the number for subsequent
19 years, '18, '19 and '20, under your proposal? And if
20 you can just say yes or no, that would be great.

21 MR. DONALDSON: I'm going to object. I think
22 she answered that question already. It's the same
23 question Mr. Moyle just asked two questions ago.

24 MR. MOYLE: But I didn't get a yes or no.

25 CHAIRMAN BROWN: She said yes and no.

1 MR. DONALDSON: She said yes and no.

2 MR. MOYLE: Okay. Well, I think she then
3 inserted all these other facts. And if you just
4 assume the facts that I've given her, which I'm
5 asking her now to do, just assume the simple
6 hypothetical, if she could tell me whether --
7 whether the \$100 persists through all the future
8 years, it would be helpful for the record.

9 MR. DONALDSON: You know, that's not the real
10 world, and that's not what her testimony has
11 stated, so -- I mean, he is assuming a hypothetical
12 that is not what Ms. Kennedy stated in her
13 testimony, so it's --

14 CHAIRMAN BROWN: Mr. Moyle --

15 MR. MOYLE: I think she's an expert, I can ask
16 her a hypothetical, right?

17 CHAIRMAN BROWN: Yeah, but you did ask the
18 question already, and she did answer it, so could
19 you move along with your questions?

20 MR. MOYLE: Okay, do you have an
21 understanding -- I mean, just so --

22 CHAIRMAN BROWN: Don't be asking me questions,
23 Mr. Moyle.

24 MR. MOYLE: I am sorry. I -- can I have a
25 minute?

1 CHAIRMAN BROWN: Yeah, absolutely.

2 BY MR. MOYLE:

3 Q You agree that with respect -- I think you
4 actually mentioned it in your testimony -- that things
5 change when you are involved in O&M, there are a lot of
6 independent variables, correct?

7 A That's a very vague question. I would
8 prefer -- I would appreciate clarification in terms of
9 the question.

10 Q When you -- when you plan your -- your O&M
11 schedule, you consider a number of things as time goes
12 on. You go out and look at the condition of the plant
13 and make determinations and say, well, maybe we can, you
14 know, put this off; is that fair?

15 A If you are asking for overhaul planning
16 purposes, yes, we use information like condition
17 assessment to decide if we need to move things forward
18 or we can move them out, yes, sir.

19 Q Okay. And you also consider manufacturer
20 recommendations in your assessment of those
21 recommendations with respect to the timing of certain
22 maintenance items?

23 A Yes, sir.

24 Q And you also consider the need to maintain the
25 reliability of the -- of the units?

1 A Yes, sir.

2 Q And you also consider operational impacts to
3 customers, correct?

4 A Yes, sir.

5 Q Given all these independent variables -- well,
6 strike that.

7 You are aware that the Commission uses
8 normalization in other contexts, correct, like weather
9 normalization?

10 A No, sir, I am not familiar with it.

11 Q Okay. Do you know whether there is any kind
12 of clause related to O&M --

13 A This is --

14 Q -- like a clause recovery proceeding?

15 A There are clause recoveries that we have, like
16 capacity and environmental recovery.

17 Q Right. But what you are asking for in this
18 case with respect to your O&M, that's not set through
19 any kind of clause mechanism, is it?

20 A If I am understanding your question, this is
21 all about base rates. This has nothing to do with
22 clauses.

23 Q Okay. And I was trying to just get you to
24 confirm that there is not a clause mechanism -- it's not
25 like there is a provision where every year we come in

1 and say, well, how have -- what have been their expenses
2 related to O&M and flow that thorough a clause, correct?

3 MR. DONALDSON: I think she's answered the
4 question already.

5 CHAIRMAN BROWN: Asked and answered.

6 BY MR. MOYLE:

7 Q You are also providing some rebuttal with
8 respect to asset optimization, right, and how O&M
9 expense should be handled, whether it should be part of
10 the O&M or not part of the O&M, is that fair?

11 A Yes, sir.

12 Q Okay. Do you know, could that topic be
13 considered in a rule-making or workshop type proceeding
14 compared to this rate case that would allow other
15 utilities to participate?

16 MR. DONALDSON: I'm going to object. That's
17 outside the scope of Ms. Kennedy's rebuttal
18 testimony. She doesn't talk anything about
19 rule-making. She just goes strictly into what
20 variable O&M costs are.

21 MR. MOYLE: I'm just asking her if she knows,
22 if she has an understanding.

23 CHAIRMAN BROWN: I will allow the question.

24 THE WITNESS: That's not in my
25 responsibilities.

1 BY MR. MOYLE:

2 Q As to whether FPL could participate in a
3 workshop or a rule-making?

4 A I -- in terms for me, in my envelope, it's not
5 in my area of responsibility.

6 Q Okay.

7 MR. MOYLE: Thank you. That's all I have.

8 CHAIRMAN BROWN: Thank you.

9 All right. Hospitals.

10 MR. WISEMAN: No questions.

11 CHAIRMAN BROWN: Thank you, Mr. Wiseman.

12 Retail.

13 MR. LAVIA: No questions. Thank you.

14 CHAIRMAN BROWN: Thank you.

15 FEA.

16 MR. JERNIGAN: No questions.

17 CHAIRMAN BROWN: Thank you.

18 Sierra.

19 MS. CSANK: Just a few, Madam Chair.

20 EXAMINATION

21 BY MS. CSANK:

22 Q Good afternoon, Ms. Kennedy. I am Diana Csank
23 with the Sierra Club again.

24 So the theme of your two testimonies is about
25 the proper way to calculate maintenance costs for the

1 company, is that right?

2 A Yes, ma'am.

3 Q And in those calculations, would you agree
4 that the company's removal projects can diminish the
5 number of hours and starts that certain fossil
6 generation incurs?

7 A Hypothetically, sometime in the future, yes,
8 ma'am.

9 Q So your -- is that not true for the current
10 renewable generation, the 110 megawatts, for example, of
11 solar projects that the company has and that are in your
12 portfolio?

13 A They are a very minor part of our portfolio
14 and do not have a impact on the overhaul type of
15 schedules that we were discussing earlier.

16 Q You would agree, though, that such renewable
17 generation -- and let's focus on solar PVs for the
18 moment -- can be added very quickly to FPL's system, for
19 example, you are adding 220 megawatts currently, right?

20 MR. DONALDSON: I'm going to object. This is
21 a resource planning question that Ms. Csank is
22 asking. And in my read of Ms. Kennedy's rebuttal
23 testimony, which is rebutting OPC's Witness Smith,
24 it only talks about normalization of overhaul
25 expenses. It doesn't talk anything about any

1 renewable offsets that may result as a result of
2 overhaul expenses.

3 CHAIRMAN BROWN: Ms. Csank.

4 MS. CSANK: May I be heard on that?

5 CHAIRMAN BROWN: Yes.

6 MS. CSANK: So the thrust of her testimony is
7 how to calculate maintenance costs, and her
8 testimony is that there are certain schedules
9 and -- that are determined by the amount of hours
10 this generation runs, and how often it starts, and
11 that's what informs the schedules that she provides
12 to other parts of resource planning and other parts
13 of the company. So those schedules, and the
14 normalization, and how those schedules should be
15 factored into the company's request is very much
16 what her testimony is about. So I would maintain
17 that this is a proper line of questioning, and I
18 only have a few questions.

19 MR. DONALDSON: Madam Chair, whether or not
20 she has one or a few, none of that is actually in
21 Ms. Kennedy's testimony, and so this is expanding
22 upon what she was asking on direct, which she's
23 already asked in direct, and it's just going back
24 and asking the same things again. It is not within
25 her testimony, and that's -- that's why I am

1 objecting to it.

2 CHAIRMAN BROWN: Staff, I tend to agree with
3 Florida Power & Light. What is --

4 MS. BROWNLESS: Absolutely. I think they have
5 stated it correctly.

6 CHAIRMAN BROWN: Okay. Objection sustained.
7 Okay. Moving on to Wal-Mart.

8 MR. WILLIAMSON: No questions, ma'am.

9 CHAIRMAN BROWN: Thank you.

10 AARP.

11 MR. COFFMAN: No questions.

12 CHAIRMAN BROWN: Thank you.

13 Larsons.

14 COMMISSIONER SKOP: Madam Chair, the Larsons
15 have no questions for this witness.

16 CHAIRMAN BROWN: Thank you.

17 Staff.

18 MS. BROWNLESS: No, ma'am. Thank you.

19 CHAIRMAN BROWN: Commissioners?

20 Seeing none. Redirect?

21 MR. DONALDSON: Just one question.

22 CHAIRMAN BROWN: Sure.

23 FURTHER EXAMINATION

24 BY MR. DONALDSON:

25 Q Ms. Kennedy, can you turn to page four of your

1 **August rebuttal, please? That's the base rate**
2 **proceeding.**

3 A Yes, sir.

4 Q **And I am going to focus your attention to**
5 **lines seven through 15, responsive to Mr. Moyle's**
6 **question about the planning and scheduling of**
7 **maintenance of FPL's fossil units, do you recall that?**

8 A Yes, sir.

9 Q **What can you tell this commission with regard**
10 **to FPL's approach to maintenance of its fossil fleet as**
11 **it results to the 2017 test year, based on what you see**
12 **here in page four?**

13 A That we are talking about the addition of
14 these -- these combined cycle units, that that is Cape
15 Canaveral, Riviera and Port Everglades, and the
16 large-scale solar sites that now have to be considered
17 for maintenance purposes in our outage scheduling, which
18 I had shared earlier with Mr. Moyle, the H machines that
19 we now -- that's additional equipment that we have added
20 that has to be maintained, and just went commercial, and
21 is not reflected into the majors in the turbine outages
22 not until after the year '17, so it increases our
23 maintenance schedule.

24 Q **All right. And was that the reason why Mr.**
25 **Moyle's hypothetical just doesn't work?**

1 A Yes, sir. That's correct.

2 MR. MOYLE: I'm going to object to that --

3 CHAIRMAN BROWN: She already answered it --

4 Mr. Moyle, she already answered the question.

5 MR. DONALDSON: That you. I have no further
6 questions.

7 CHAIRMAN BROWN: Thank you.

8 All right. We have got Exhibits 347 and 348.

9 MR. DONALDSON: I would like to enter those
10 into the record, ma'am.

11 CHAIRMAN BROWN: Are there any objections to
12 entering -- moving into the record 347 and 348?
13 Seeing none, we will go ahead and do that right
14 now.

15 (Whereupon Exhibit Nos. 347 & 348 were
16 received into evidence.)

17 CHAIRMAN BROWN: Would you like your witness
18 excused?

19 MR. DONALDSON: Yes. Thank you.

20 CHAIRMAN BROWN: Thank you.

21 Thank you, Ms. Kennedy. Safe travels.

22 (Witness excused.)

23 CHAIRMAN BROWN: All right. We are nearing
24 the lunch hour, and I know you all are probably
25 hungry. So it's 12:25, roughly, let's take a break

1 until about 1:05. Have a good lunch.

2 (Lunch recess.)

3 CHAIRMAN BROWN: Just so everyone knows, we
4 are waiting on staff. While we are doing that, are
5 there any housekeeping matters?

6 MR. LITCHFIELD: Yes, Madam Chair, Wade
7 Litchfield, for Florida Power & Light.

8 First, I would like to thank the Commission
9 staff and the parties for accommodating us with
10 respect to taking our operating witnesses a little
11 out of order so that they can return and assist in
12 storm preparation and response. We are hoping for
13 the best in our service territory, but as big as we
14 are, we will probably have some impact; and even if
15 we don't directly, again, as big as we are, we will
16 be in a position of supporting other folks in the
17 state, so we appreciate that.

18 Second point, as we talked about earlier, Mr.
19 Allis would need to go this afternoon. I also
20 understand that Wal-Mart's witness, Mr. Chriss is
21 in the house, so we would propose putting Ms.
22 Morley on the stand, who is seated in the witness
23 chair already. I would hate to have to have her go
24 back in the gallery, and then following Ms. Morley,
25 we would be prepared to have Mr. Chriss take the

1 stand. Following Mr. Chriss, we would probably put
2 Mr. Ferguson on, and have Mr. Allis follow Keith
3 Ferguson, if that would be acceptable.

4 MR. WILLIAMSON: And just to be clear, Madam
5 Chairman, Mr. Chriss is not in the house yet. He
6 is on the ground -- oh, he is in the house.

7 CHAIRMAN BROWN: He is in the house.

8 MR. WILLIAMSON: Raise the roof.

9 CHAIRMAN BROWN: Okay, guys. Thank you. You
10 are thinking my thoughts.

11 All right. That proposal sounds acceptable to
12 me. Does anybody have an objection to it?

13 MR. MOYLE: I was going back on my old notes,
14 and Allis and Deason and Dewhurst were
15 interchangeable, now Allis is going up?

16 CHAIRMAN BROWN: Please don't use my words
17 like that.

18 MR. MOYLE: All right. No, I am trying to
19 understand who's up.

20 CHAIRMAN BROWN: You were out of the room when
21 I announced, Mr. Moyle, I had earlier announced
22 that -- both you and Mr. Wiseman were out of the
23 room when I announced that, Mr. Allis is not
24 available next week. So if potentially we have to
25 go -- we don't -- again, we have a storm situation

1 that is very fluid, we don't know what -- what --
2 if State offices will be shut down later this week.
3 I know in Tampa, our schools were just closed down.
4 We don't know the situation. So to be on the safe
5 side, since Mr. Allis is not available next week,
6 my preference is to have him go today.

7 MR. MOYLE: Okay.

8 CHAIRMAN BROWN: So --

9 MR. MOYLE: Yeah, no, offense. I am just
10 trying to keep track of the lineup, so no problem
11 on that.

12 CHAIRMAN BROWN: All right. Any other
13 comments about the schedule? Are you clear, Mr.
14 Rehwinkel?

15 MR. REHWINKEL: Yes, ma'am. And the Public
16 Counsel has no problems with that.

17 I wanted to do two things. One was -- and I
18 told Mr. Butler this on the break. We looked at
19 what was remaining in Mr. Allis' testimony, and I
20 said I didn't think I had cross, but I wanted to
21 apprise the Commission staff and company that I
22 have limited cross for Mr. Allis. It won't be
23 lengthy.

24 The second thing I wanted to do was to
25 understand, because of what had happened when we

1 pulled Mr. Pous' testimony out of the hearing
2 process, is that we have a series of issues to
3 resolve with respect to exhibits and errata, and I
4 just wanted to understand, are those still going to
5 be taken up no sooner than tomorrow, or would they
6 be accelerated because we have Mr. Allis moving
7 around?

8 CHAIRMAN BROWN: Mr. Litchfield.

9 MR. LITCHFIELD: Thank you. And with regard
10 to Mr. Rehwinkle's question, we had actually
11 discussed that last evening. I had looked over my
12 shoulder to see if Mr. Butler was in the room.

13 What I would suggest is that we will, I will
14 put him in touch with Mr. Rehwinkle, but we had
15 anticipated that, and I think we can work through
16 that with Mr. Rehwinkle, such that Mr. Allis can
17 still take the stand, and we will know what he is
18 being crossed on and what he is not being crossed
19 on.

20 MR. REHWINKEL: Yeah, I am fine with that.

21 I --

22 CHAIRMAN BROWN: You are talking about the
23 erratas, and having -- Mr. Moyle had time to -- is
24 that what you were talking about?

25 MR. REHWINKEL: The domino impact stuff.

1 CHAIRMAN BROWN: Yeah, the domino impact.
2 That's what I thought you were talking about.
3 Staff.

4 MS. BROWNLESS: To the extent that we cannot
5 move the staff -- that any of this involves the
6 staff's comprehensive exhibit list, that cannot be
7 resolved until all of FPL's rebuttal witnesses have
8 taken the stand. So if we can get through all of
9 those, we will take it up.

10 CHAIRMAN BROWN: Okay. So what Mr. Rehwinkle
11 is talking about, though, were those erratas with
12 the changes as a result of the withdrawal of Pous
13 and the domino affect, I gave Mr. Moyle until
14 Thursday --

15 MS. BROWNLESS: Yes, ma'am.

16 CHAIRMAN BROWN: -- at -- yes, Thursday
17 morning. We may not be convening -- we don't know
18 for sure if we are going to be convening tomorrow.
19 I think -- am I right, Mr. Rehwinkle, that's the
20 question you are asking?

21 MR. REHWINKEL: Yes, ma'am. And it's fine
22 with me if it's no sooner than tomorrow morning,
23 and it's whenever, if we have to take a recess for
24 a storm, if it's taken up at a later time. I just
25 wanted to make sure if it was going to be moved up

1 that we knew about that.

2 CHAIRMAN BROWN: Yes. Okay.

3 MS. BROWNLESS: No, ma'am. That would not be
4 moved up.

5 CHAIRMAN BROWN: Okay. So still Thursday
6 morning?

7 MS. BROWNLESS: Yes, ma'am.

8 CHAIRMAN BROWN: Okay. Mr. Moyle.

9 UNIDENDIFIED SPEAKER: It's at 12:01 midnight.

10 CHAIRMAN BROWN: 12:01 midnight. I do want to
11 talk about -- Mr. Moyle, okay, you understand.

12 MR. MOYLE: I understand. I won't go there.

13 CHAIRMAN BROWN: Okay. Thank you.

14 Thank you. Does anybody have any concerns
15 right now with the proposed schedule trying to
16 accommodate all of the moving parts here?

17 Okay. My understanding is that folks are
18 willing to go very late tonight, is that correct?
19 Does anybody have any objection with going -- and
20 what is late? What is late? I mean, 10:00, 11:00.
21 Does anybody have an objection with going late? I
22 would like to hear that on the record.

23 MS. BROWNLESS: We certainly do not, Your
24 Honor.

25 CHAIRMAN BROWN: Okay. Yes.

1 MS. MONCADA: FPL does not.

2 CHAIRMAN BROWN: Okay. I just want to make
3 sure that the parties understand. We will take a
4 dinner break. But again, so many moving parts,
5 somebody called it a dynamic hearing, and so we are
6 trying to adjust accordingly.

7 MR. REHWINKEL: The Public Counsel has no
8 objection to that. I just hope we do get a little
9 opportunity to have something to eat some time
10 today. We think you have done a very good job of
11 managing the schedule with so many witnesses.

12 CHAIRMAN BROWN: Thank you.

13 MR. REHWINKEL: We think that what we have
14 done to move the critical witnesses in the right
15 slots, I think, has worked well. But we -- we
16 would hope that, in lieu of truncating necessary
17 cross-examination for the rest of the schedule,
18 that if we have to come back, we have to come back,
19 and we would prefer to pursue it on that approach.
20 And I think that's what I am hearing from the
21 panel.

22 CHAIRMAN BROWN: Yep.

23 MR. REHWINKEL: And we appreciate that. Thank
24 you.

25 CHAIRMAN BROWN: Yes. Definitely. Thanks.

1 Any other thoughts? Mr. Moyle.

2 MR. MOYLE: I will just say, you noted about
3 the use of please and thank you, and I may have
4 slipped up on that. My mom taught me well --

5 CHAIRMAN BROWN: I know.

6 MR. MOYLE: -- and also taught me not to
7 complain about hard work, and I know we are working
8 hard but we are prepared to, you know, push on
9 tonight.

10 CHAIRMAN BROWN: Thank you.

11 MR. WISEMAN: And just from the Hospitals'
12 perspective, we actually would have significant
13 difficulties even being here next week. I don't --
14 I don't think it's possible. So our preference
15 would be to go as late as need be.

16 CHAIRMAN BROWN: Excellent. Thank you.

17 MR. JERNIGAN: FEA has the same concerns about
18 next week, and I have orders to be other places.

19 CHAIRMAN BROWN: Yeah.

20 MS. CSANK: So does Sierra Club.

21 CHAIRMAN BROWN: Sierra, okay. We are a team
22 here. We are moving through tonight, right? Okay.

23 Thank you, now we have a Witness Morley on the
24 stand, FPL.

25 MS. MONCADA: If staff and the bench is ready

1 to proceed, we are as well.

2 CHAIRMAN BROWN: Staff, I am ready to proceed.

3 Are you?

4 MS. BROWNLESS: Yes, ma'am.

5 CHAIRMAN BROWN: Great. Thank you.

6 MS. MONCADA: Dr. Morley was sworn in last
7 week.

8 CHAIRMAN BROWN: Okay.

9 Whereupon,

10 ROSEMARY MORLEY

11 was recalled as a witness, having been previously duly
12 sworn to speak the truth, the whole truth, and nothing
13 but the truth, was examined and testified as follows:

14 EXAMINATION

15 BY MS. MONCADA:

16 Q Dr. Morley, could you please state your full
17 name and business address for the record?

18 A Rosemary Morley, 700 Universe Boulevard, Juno
19 Beach, Florida.

20 Q By whom are you employed, and in what
21 capacity?

22 A Florida Power & Light as the Director of
23 Resource Assessment and Planning.

24 Q Have you prepared and caused to be filed in
25 this proceeding 35 pages of rebuttal -- rebuttal

1 **testimony?**

2 A Yes.

3 **Q Do you have any revisions to that rebuttal**
4 **testimony?**

5 A I do not.

6 **Q Thank you.**

7 If I asked you today the same questions
8 contained in your rebuttal testimony, would your answers
9 be the same?

10 A Yes.

11 MS. MONCADA: Madam Chair, I would ask that
12 Dr. Morley's rebuttal prepared testimony be entered
13 into the record as though read.

14 CHAIRMAN BROWN: We will insert Mr. -- Dr.
15 Morley's prepared rebuttal testimony into the
16 record as though read.

17 MS. MONCADA: Thank you.

18 (Prefiled rebuttal testimony inserted into the
19 record as though read.)

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Rosemary Morley, and my business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

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

A. Yes. I am sponsoring the following exhibits:

- Exhibit RM-5 Weather-normalized Retail Delivered Sales per Customer
- Exhibit RM-6 Summary of FPL's Historical and Forecasted Sales
- Exhibit RM-7 Annual Percent Change in Weather-normalized Use-Per-Customer
- Exhibit RM-8 Weather-normalized Load Factors
- Exhibit RM-9 Comparison of FPL's Proposed Load Forecast and Those Utilized in the Okeechobee Need Determination Case
- Exhibit RM-10 Summary of Incorrect, Incomplete or Misleading Statements in OPC Witness Dismukes' Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to OPC witness Dismukes' proposed load forecast in this case. In the process, I also correct inaccurate as well as incomplete or misleading statements about FPL's load forecast made

1 by OPC witness Dismukes. I also address AARP witness Brosch's suggestion
2 that FPL has an incentive to understate future sales growth. Finally, I also
3 rebut OPC witness Dismukes' proposed inflation forecast.

4

5 II. LOAD FORECAST OVERVIEW

6

7 **Q. Please summarize OPC witness Dismukes' proposal regarding the load**
8 **forecast that should be used in this case.**

9 A. OPC witness Dismukes states that for the purpose of ratemaking the
10 Commission should revert back to the energy sales forecast filed by FPL in its
11 2015 Ten Year Site Plan in April 2015. Throughout the remainder of my
12 testimony I refer to FPL's 2015 Ten Year Site Plan sales forecast as "OPC's
13 proposed 2016 rate case sales forecast" because it is OPC's stated position
14 that this earlier forecast be used in this case.

15 **Q. Please summarize your concerns with OPC's proposed 2016 rate case**
16 **sales forecast.**

17 A. Rather than challenge the specific methodology, input data, assumptions or
18 out-of-model adjustments incorporated into FPL's proposed sales forecast,
19 OPC rejects the superior forecast in this case, FPL's proposed sales forecast,
20 for the thinly-veiled purpose of raising the forecasted level of sales. The data
21 demonstrates unambiguously that FPL's proposed sales forecast is clearly the
22 superior choice for setting rates in this case.

1 **Q. Is OPC's proposed 2016 rate case sales forecast providing a more**
2 **accurate projection of net energy for load?**

3 A. Not at all. Based on actuals through June 2016, OPC's proposed 2016 rate
4 case sales forecast is over-forecasting weather-normalized net energy for load
5 (NEL) by 2.5%. By contrast, FPL's proposed sales forecast, including the
6 adjustment to the sales forecast acknowledged in FPL's May 3, 2016 Notice
7 of Identified Adjustments, is over-forecasting weather-normalized NEL on a
8 year-to-date basis through June 2016 by only 0.5%. In other words, FPL's
9 proposed sales forecast is much closer to weather-normalized 2016 *actual*
10 sales; indeed, the forecast error in OPC's proposed 2016 rate case sales
11 forecast is five times larger.

12 **Q. Is OPC's proposed 2016 rate case sales forecast providing a more**
13 **accurate projection of retail delivered sales relative to FPL's proposed**
14 **sales forecast?**

15 A. Again the answer is no. Based on actuals through June 2016, OPC's proposed
16 2016 rate case sales forecast is over-forecasting weather-normalized retail
17 delivered sales by 2.1%. By contrast, FPL's proposed sales forecast,
18 including the adjustment noted in FPL's May 3, 2016 Notice of Identified
19 Adjustments, has a minimal over-forecasting weather-normalized forecasting
20 variance of 0.01%.

21

22

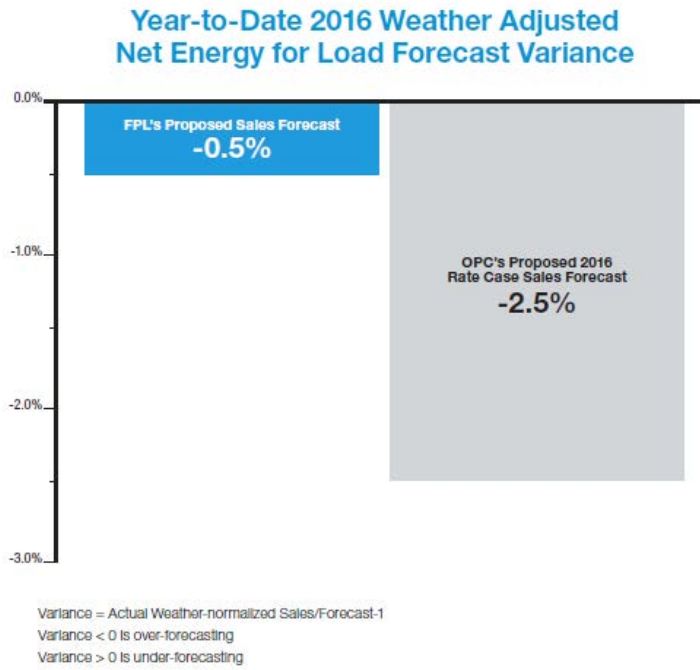
1 **Q. Please describe the adjustments to the sales forecast noted in FPL's May**
2 **3, 2016 Notice of Identified Adjustment.**

3 A. A correction to the price of electricity forecast used as input into the sales
4 forecast was listed as item number 4 in the May 3, 2016 Notice of Identified
5 Adjustments. This correction eliminates the overstatement of fuel expenses
6 assumed in the prior price of electricity forecast. The adjustment to FPL's
7 proposed sales forecast incorporating this correction results in an increase in
8 retail delivered sales in 2017 of less than 0.1% and an increase in 2018 of less
9 than 0.2%. Exhibits RM-5 and RM-6 to my rebuttal testimony are updated
10 versions of Exhibits RM-2 and RM-3 included in my direct testimony, which
11 were affected by this adjustment. The May 3, 2016 Notice of Identified
12 Adjustments also noted that FPL's proposed peak demand forecast should be
13 adjusted for the impact of incremental demand-side management. No other
14 adjustments to FPL's proposed sales or peak forecast have been identified.

15 **Q. Has FPL developed a chart comparing the weather-normalized variances**
16 **for OPC's proposed 2016 rate case sales forecast versus FPL's proposed**
17 **sales forecast?**

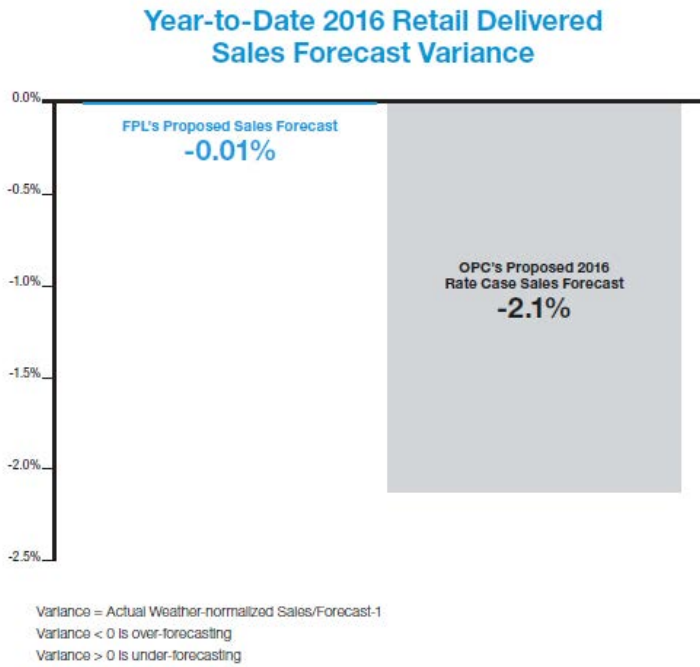
18 A. Yes. Figures 1 and 2 below show the stark differences between the
19 forecasting accuracy of FPL's proposed sales forecast versus OPC's proposed
20 2016 rate case sales forecast. Following FPL's standard reporting practice, an
21 over-forecasting variance is shown on these charts as a negative value while
22 an under-forecasting variance would be shown as a positive value.

1 **Figure 1**



2

3 **Figure 2**



4

5

1 **Q. What does the size of its weather-normalized variance to date suggest**
2 **about OPC's proposed 2016 rate case sales forecast?**

3 A. It suggests that OPC's proposed 2016 rate case sales forecast is both inferior
4 to FPL's proposed sales forecast and unrealistically high. OPC's proposed
5 2016 rate case sales forecast is already over-forecasting weather-normalized
6 2016 NEL by over 1,424 GWh and retail delivered sales by approximately
7 1,084 GWh based on year-to-date data through June. Given such large
8 variances, the level of 2016 sales in OPC's proposed sales forecast is
9 unachievable barring a record-setting increase in sales during the July through
10 December 2016 time frame.

11 **Q. Please explain.**

12 A. OPC's proposed 2016 rate case sales forecast shows that retail delivered sales
13 should reach 109,487 GWh in 2016. Given actual weather-normalized retail
14 delivered sales through June, this level of sales could be achieved only if
15 weather-normalized retail delivered sales from July through December 2016
16 grew at a year-over-year rate of 4.5%. To put this figure into perspective, a
17 4.5% annual growth rate would be the highest increase in weather-normalized
18 retail sales in more than twenty years. Given that FPL's weather-normalized
19 retail delivered sales grew by only 0.8% in 2015 and hasn't reached close to a
20 4% annual growth rate in decades, such an extreme jump in sales in the
21 second half of 2016 is exceedingly far-fetched. That is neither a sound
22 assumption nor a reasonable basis upon which to adopt a forecast in this case.

1 **Q. Why is OPC's proposed 2016 rate case sales forecast over-forecasting**
2 **sales by such a substantial margin?**

3 A. As explained in various discovery responses, including FPL's answer to
4 Staff's Interrogatory No. 70, the 2015 Ten Year Site Plan sales forecast which
5 is OPC's proposed 2016 rate case sales forecast, began over-forecasting sales
6 in 2015. The net energy for load per customer forecasting model used in the
7 2015 Ten Year Site Plan forecast included a term for the CPI for energy, and
8 it assumed that net energy for load per customer would increase as the CPI for
9 energy decreased. However, the linkage between the CPI for energy and
10 monthly electricity consumption weakened in 2015 and as a result, the
11 increases in usage assumed in the 2015 Ten Year Site Plan forecast did not
12 materialize. Instead, the 2015 Ten Year Site Plan over-forecasted weather-
13 normalized 2015 NEL by 1.4%, FPL's largest year-ahead forecasting variance
14 in seven years.

15 **Q. Did this cause FPL to reevaluate its sales forecasting model?**

16 Yes. FPL continuously reassesses its forecasting models for potential
17 improvements, and it was particularly appropriate to do so in view of the
18 comparatively large variances that resulted from the 2015 Ten Year Site Plan
19 forecast.

20 **Q. Did you implement any changes to FPL's forecasting model?**

21 Yes. The role of energy prices in the net energy for load per customer model
22 was reexamined. In place of the CPI for energy, two variables for the price of
23 electricity are now used in the net energy for load per customer model relied

1 on in FPL's proposed sales forecast in this proceeding. These changes
2 resulted in an improved sales forecasting model as evidenced by the lower
3 weather-normalized forecasting variances. Yet OPC proposes in this
4 proceeding to disregard these improvements and instead revert back to the
5 earlier 2015 Ten Year Site Plan forecast.

6 **Q. You noted over-forecasting variances in OPC's proposed 2016 rate case**
7 **sales forecast for both 2015 and on a year-to-date basis in 2016. Is this**
8 **pattern significant?**

9 A. Yes. As noted above, OPC's proposed 2016 rate case sales forecast over-
10 forecasted the actual level of 2015 weather-normalized NEL by 1.4%. As of
11 June 2016, this over-forecasting weather-normalized variance has grown to
12 2.5%. This indicates a compounding effect in which past variances build on
13 one another suggesting even larger variances in the future.

14 **Q. Does OPC witness Dismukes have a history of proposing inflated sales**
15 **forecasts during FPL's rate proceedings?**

16 A. Yes. In Docket Nos. 050045-EI and 050188-EI, OPC witness Dismukes
17 proposed a NEL forecast of 116,600 GWh for the 2006 test year, a 1%
18 increase from FPL's proposed forecast of 115,463 GWh for that test year.
19 OPC witness Dismukes' proposal over-forecasted weather-normalized 2006
20 NEL by 1.9% while FPL's proposed forecast had a much lower variance.
21 FPL's proposed forecast in that case over-forecasted 2006 weather-normalized
22 NEL by 0.9%. In other words, OPC witness Dismukes' forecasting variance
23 was more than twice that of FPL's.

1 **Q. Does FPL plan on continuing to track the accuracy of both FPL's**
2 **proposed sales forecast in this case and OPC's proposed 2016 rate case**
3 **sales forecast?**

4 A. Yes. FPL will continue to monitor the accuracy of both FPL's proposed sales
5 forecast and OPC's proposed 2016 rate case sales forecast. FPL plans on
6 reporting back to the Commission on the accuracy of both forecasts in its next
7 rate proceeding.

8 **Q. Do the weather-normalized variances cited above support AARP witness**
9 **Brosch's claim that FPL has an incentive to under-forecast sales?**

10 A. No. As shown in Figure 1 FPL's proposed forecast is over-forecasting the
11 actual level of 2016 weather-normalized NEL by 0.5%. Likewise, as shown
12 in Figure 2 FPL's proposed forecast of retail delivered sales has a minimal
13 over-forecasting variance. In addition, as discussed on page 11 of my direct
14 testimony, FPL sales forecast for the 2013 test year in the last rate case, was
15 highly accurate, over-forecasting weather-normalized sales for that year by
16 only 0.35%. A pattern of highly accurate forecasted sales factually belies
17 witness Brosch's contention that FPL has an incentive to under-forecast sales.

18 **Q. Can you put FPL's weather-normalized forecasting variance from its**
19 **2012 rate case into perspective?**

20 A. Yes. FPL's most recent 0.35% rate case variance would be equivalent to
21 forecasting a residential customer's average monthly usage of 1,110 kWh to
22 within less than 4 kWh. To put this variance into perspective, 4 kWh is

1 roughly equivalent to using a couple of efficient compact fluorescent bulbs a
2 few hours nightly or daily use of a toaster.

3

4 **III. SPECIFIC ARGUMENTS BY OPC WITNESS DISMUKES**

5

6 **Q. Given that OPC's proposed 2016 rate case sales forecast clearly is not**
7 **performing as well as FPL's proposed sales forecast in this proceeding,**
8 **does OPC witness Dismukes offer any reasons why the Commission**
9 **should approve OPC's proposed 2016 rate case sales forecast in this**
10 **proceeding?**

11 A. Witness Dismukes' purported arguments in support of OPC's proposed 2016
12 rate case sales forecast generally fall into three categories. First, OPC witness
13 Dismukes argues that FPL's proposed sales forecast projects a decline in sales
14 and, therefore, it must be wrong. Second, he argues that because FPL's
15 proposed sales forecast and proposed summer peak forecast are not
16 consistently moving in unison, the former (again) must be wrong. Third, OPC
17 witness Dismukes argues that because FPL's proposed sales forecast includes
18 an adjustment to reconcile the sum of the individual revenue class forecasts
19 with the sales derived from the NEL forecast, the forecast must be wrong.
20 None of these arguments have merit. In each argument, OPC witness
21 Dismukes dismisses FPL's proposed sales forecast because it differs from a
22 clearly inferior alternative, as I will demonstrate below.

23

1 **Q. At what points in his testimony does OPC witness Dismukes argue that**
2 **FPL's proposed sales forecast in this case must be wrong because it**
3 **projects a contraction in sales?**

4 A. On page 9, OPC witness Dismukes states the following in describing his
5 comparison of *historical weather-normalized sales* [emphasis added] with
6 FPL's proposed sales forecast:

7 The Company, for instance, projects that its retail delivered
8 sales for its 2017 test year will be 0.16 percent less than what
9 was reported in 2016, and 0.55 percent less than sales reported
10 for 2015. Furthermore, the Company projects that its 2018
11 retail delivered sales will only be 0.58 percent greater than its
12 2017 projection (which itself is anticipated to fall relative to
13 2016). The projected decline in energy sales is even more
14 prevalent when the forecast for wholesale sales are included
15 (page 2 of Exhibit DED-1), wherein the Company projects that
16 it will not reach its 2015 level of delivered sales until 2019,
17 well after the end of its projected test year, and subsequent
18 adjustment, in this proceeding. In other words, the Company is
19 anticipating a contraction (decrease) of overall sales relative to
20 reported 2015 numbers, and that its overall sales numbers will
21 not recover until 2019.

22

1 **Q. Does OPC witness Dismukes accurately compare FPL's proposed sales**
2 **forecast with historic weather-normalized sales?**

3 A. No. OPC witness Dismukes states that FPL's proposed retail delivered sales
4 forecast in 2017 is "0.55 percent less than reported in 2015." However, as
5 shown in Exhibit RM-6, the forecasted level of retail delivered sales in 2017 is
6 *higher* than the 2015 weather-normalized actual. In fact, the level of 2017
7 sales is 1.6% higher than the weather-normalized 2015 actuals. Contrary to
8 OPC witness Dismukes' testimony, the level of retail delivered sales in every
9 year from 2016 through 2020 is consistently *higher* than 2015 weather-
10 normalized actual retail delivered sales.

11 **Q. If it is not a comparison of FPL's proposed sales forecast with historic**
12 **weather-normalized sales, what is OPC witness Dismukes comparing in**
13 **this section of his testimony?**

14 A. OPC witness Dismukes compares non-weather-normalized actuals with FPL's
15 proposed forecast, and he fails to incorporate Item No. 4 in FPL's May 3
16 Notice of Identified Adjustments. As I noted on page 11 of my direct
17 testimony, actual weather-normalized sales are a better reflection of usage
18 trends than are the unadjusted level of actual sales, which may be influenced
19 by erratic and unpredicted weather fluctuations. The potentially erratic nature
20 of non-weather normalized actuals is evident in OPC witness Dismukes' own
21 exhibits. As shown in Exhibit DED-1, non-weather normalized retail
22 delivered sales declined in two of five of the historical years where a
23 directional change is shown, i.e., non-weather normalized retail delivered

1 sales declined in 2011 and 2012 and increased in 2013, 2014 and 2015.
2 Exhibit DED-2 likewise shows declines in non-weather-normalized NEL in
3 two out of five of the historical years shown.

4 **Q. Are declines in the actual non-weather-normalized values for NEL and**
5 **retail delivered sales an unusual event?**

6 A. Not at all. A decline in the non-weather-normalized values of NEL and retail
7 delivered sales has occurred on multiple occasions over the last several years.
8 FPL's non-weather-normalized NEL declined in 2004, 2008 and 2011. FPL's
9 non-weather-normalized retail delivered sales likewise declined in 2004,
10 2008, 2011, and again in 2012. Such declines in non-weather-normalized
11 sales have typically occurred following years with an unusually large positive
12 weather impact as occurred in 2003 and 2010.

13 **Q. Were the weather impacts experienced in 2015 also unusually large?**

14 A. Yes. Even OPC witness Dismukes acknowledges this on page 13 lines 8-10
15 of his testimony. Given that sales in 2015 were also subject to an unusually
16 large weather impact, a decline from the non-weather-normalized level of
17 2015 sales is to be expected and is entirely consistent with historical trends.
18 In fact, it can take years before the level of sales surpasses a single year with
19 an unusually large weather impact. For example, five years elapsed before the
20 level of non-weather-normalized retail delivered sales surpassed the level
21 reached in 2010 and eight years elapsed before the level of non-weather-
22 normalized retail delivered sales surpassed the level reached in 2007.

1 **Q. In summary, are past levels of non-weather-normalized sales appropriate**
2 **for assessing the reasonableness of a sales forecast?**

3 A. No. The past levels of unadjusted non-weather-normalized sales simply are
4 not good yardsticks for future sales.

5 **Q. Has another intervenor in this case previously argued that FPL's sales**
6 **forecast must be wrong because it projected a decline in sales relative to**
7 **non-weather normalized historical sales?**

8 A. Yes. In FPL's previous rate case, Docket No. 120015-EI, the attorney for the
9 Florida Retail Federation asserted in customer service hearings that FPL's
10 proposed sales forecast was "unrealistic" because FPL was "actually
11 projecting that they're going to sell less electricity in 2013 than they did in
12 2011." (Sarasota Service Hearing transcript page 26, lines 10-11.) Just as
13 OPC witness Dismukes has done in this case, the Florida Retail Federation in
14 the prior case made the erroneous assumption that the past levels of non-
15 weather normalized sales establish the lower limit on the level of future sales.
16 More specifically, the Florida Retail Federation in the prior case took issue
17 with FPL's "unrealistic" assumption that retail sales in 2013 could fall below
18 the non-weather normalized level reached in 2011. Such claims to the
19 contrary, the actual level of retail delivered sales in 2013 was 0.5% lower than
20 the actual level in 2011 when non-weather normalized values are used for
21 both years. In fact, the data OPC witness Dismukes provides in his Exhibit
22 DED-1 shows the lower level of non-weather normalized retail delivered sales
23 in 2013 versus 2011.

1 **Q. OPC witness Dismukes also takes issue with the minimal decline in**
2 **forecasted retail delivered sales between 2016 and 2017. Do you agree**
3 **that this minimal decline indicates an inherent problem in FPL's**
4 **proposed forecast?**

5 A. No. A minimal decline of less than 0.09% in FPL's retail delivered sales is
6 projected between 2016 and 2017 based on FPL's proposed sales forecast as
7 shown in Exhibit RM-6. The absence in 2017 of the additional day of
8 electricity consumption present in 2016 as a result of leap year, in itself results
9 in a 0.2% decline in forecasted retail sales. In other words, if 2016 and 2017
10 had an equal number of calendar days, there would be no decline in retail
11 delivered sales forecasted for 2017. As explained in discovery responses
12 including FPL's responses to Staff Interrogatory No. 162 and AARP
13 Interrogatory No. 61, the minimal decline in sales is further explained by a
14 number of factors including moderating economic growth, electric prices that
15 reflect the conclusion of the 2016 fuel true-up, and the continued impact from
16 energy efficiency codes and standards and incremental demand-side
17 management.

18 **Q. At what points in his testimony does OPC witness Dismukes argue that**
19 **FPL's proposed sales forecast in this case must be wrong because FPL's**
20 **proposed sales forecast and proposed summer peak forecast are not**
21 **consistently moving in unison?**

22 A. On page 10, line 21 OPC witness Dismukes states that "there appears to be a
23 serious disconnect between the Company's peak demand, customer, and sales

1 forecasts.” OPC witness Dismukes then devotes a number of pages to a
2 discussion on load factor. Load factor represents the relationship between
3 sales and peak demands. OPC witness Dismukes’ testimony argues that a
4 decreasing load factor suggests something inherently wrong in the forecast
5 and that the forecasted load factor should be stable if not increasing.
6 Ultimately, OPC witness Dismukes concludes that either FPL’s sales forecast
7 or its summer peak demand forecast must be wrong and that the “weight of
8 the evidence” suggests that FPL’s sales forecast is in error.

9 **Q. Is there any reason to believe that load factors should remain fixed over**
10 **time as OPC witness Dismukes suggests?**

11 A. No. Load factor is driven by two different variables: summer peak demands
12 and NEL. Summer peak demands represent the highest demand in any hour
13 of the summer season and typically the highest demand in any hour of the
14 year. Not surprisingly, the summer peak demand usually occurs on or near
15 the hottest day of the year. By contrast, NEL represents aggregate usage
16 across all hours and all seasons of the year. If NEL increases faster than
17 summer peak demand, then load factor tends to increase. Conversely, if
18 summer peak demands increase faster than NEL then load factor tends to
19 decline. Because summer peak demands and NEL differ fundamentally in the
20 type of usage they are measuring there is no reason that load factors should
21 remain constant.

1 **Q. Are OPC witness Dismukes' projections of NEL based on the assumption**
2 **of a constant load factor over time reasonable?**

3 A. No. OPC witness Dismukes' projections based on the assumption of a
4 constant load factor over time would imply a truly unbelievable increase in
5 sales. In Exhibit DED-7 OPC witness Dismukes projects that NEL in 2016
6 should reach 124,993 GWh based on a constant five year average load factor.
7 Given the actual level of weather-normalized NEL through June 2016, OPC
8 witness Dismukes' projection for 2016 is only achievable if weather-
9 normalized NEL increases at a year-over-year rate of 9.6% in the second half
10 of the year, almost five times the rate experienced in the first half of the year
11 and twice as fast as the highest annual growth since the early 1990s.

12 **Q. Does the evidence in this case support an "either or" conclusion as argued**
13 **by OPC witness Dismukes, namely that either FPL's proposed sales**
14 **forecast or its proposed summer peak demand forecast must be wrong?**

15 A. No. As previously demonstrated, the weather-normalized variances clearly
16 show that FPL's proposed sales forecast is superior to OPC's proposed 2016
17 rate case sales forecast. In addition, the evidence presented in this case also
18 supports FPL's proposed summer peak demand forecast.

19 **Q. Please explain how the evidence in this case supports FPL's proposed**
20 **summer peak demand forecast.**

21 A. As FPL described in its response to Staff's interrogatory No. 73, FPL has had
22 an excellent record forecasting weather-normalized summer peak demands in
23 recent years. More specifically, the 2015 Ten Year Site Plan forecast

1 projected the actual level of the 2015 weather-normalized summer peak within
2 0.5%. This suggests that the basic methodology used to forecast summer peak
3 demands in the 2015 Ten Year Site Plan remains solid. This basic
4 methodology includes using variables for real household disposable income,
5 energy efficiency codes & standards and a proxy for energy prices as the
6 primary drivers of summer peak demands, along with appropriate out-of-
7 model adjustments. These same drivers and adjustments are incorporated into
8 the summer peak demand forecast in the case herein.

9 **Q. Historically have FPL's summer peak demands and NEL consistently**
10 **moved in unison as OPC witness Dismukes suggests?**

11 A. No. To examine this issue, Exhibit RM-7 compares the trends in the summer
12 peak versus NEL on a weather-normalized per customer basis. As shown in
13 Exhibit RM-7, the magnitude and even direction of changes in FPL's weather-
14 normalized net energy for load per customer has differed from that of
15 weather-normalized summer peak per customer on multiple occasions. FPL's
16 weather-normalized summer peak per customer has at times increased while
17 FPL's weather-normalized net energy for load per customer has decreased as
18 was the case in 2009 and 2005. At other times, FPL's weather-normalized
19 summer peak per customer has increased by more than double the increase in
20 weather-normalized NEL as was true in 2014. Thus, based on history there
21 should be no expectation that FPL's weather-normalized NEL and summer
22 peak per customer always move in the same direction or with a similar
23 magnitude.

1 **Q. Has FPL's summer peak historically grown at a faster rate than its NEL?**

2 A. Yes. On a weather-normalized per customer basis, the summer peak has
3 increased at an annual rate of 0.3% based on the 2008 to 2015 time period
4 cited by OPC witness Dismukes. Over the same period, weather-normalized
5 net energy for load per customer declined by 0.1%.

6 **Q. What has been the long-term trend in FPL's load factor?**

7 A. Exhibit RM-8 shows FPL's weather-normalized load factors over time. The
8 data show that while there have been year-to-year fluctuations, the general
9 trend has been one of a decline in load factors.

10 **Q. Is the forecasted growth in summer peak demands expected to continue
11 to exceed that of NEL in FPL's proposed forecast?**

12 A. Yes. In the short-term, the forecasted growth in summer peak demands is
13 expected to surpass that of NEL before they converge to a similar percentage
14 growth in 2020.

15 **Q. Why is the forecasted growth in summer peak demands expected to
16 continue to exceed that of NEL in FPL's proposed forecast?**

17 A. Certain customer-initiated conservation measures, such as those associated
18 with lighting end-uses, will likely have a larger impact on NEL than they do
19 on summer peak demands. This is a particularly important factor for the next
20 few years when the growth of highly efficient LEDs is expected to accelerate.
21 In addition, FPL's forecasting models show that economic growth and low
22 energy prices over the next few years are likely to drive larger increases in
23 summer peak demands relative to NEL. For example, FPL's econometric

1 modeling indicates that summer peak demands are more income-sensitive
2 than is NEL. Consequently, rising income levels are projected to result in
3 proportionately larger increases in summer peak demands relative to NEL.

4 **Q. Does OPC witness Dismukes' testimony offer any credible support for his**
5 **claim that FPL's projected decline in load factor inherently indicates**
6 **some problem in FPL's proposed sales forecast?**

7 A. No. OPC witness Dismukes provides multiple tables on load factors, none of
8 which appropriately incorporate weather-normalized historical values for both
9 NEL and summer peak demands. OPC witness Dismukes also offers a table
10 which purports to show that FPL's projected decline in its load factor is
11 inconsistent with the projected load factors of other Florida Investor Owned
12 Utilities ("IOUs"). His Exhibit DED-4 shows the historical and projected load
13 factors reported by FPL, Duke Energy Florida (DEF), Tampa Electric
14 Company (TECO) and Gulf Power in their respective 2016 Ten Year Site Plan
15 filings. Of course, to offer a valid source for drawing any conclusions, the
16 load factors reported in Exhibit DED-4 would need to provide an "apples to
17 apples" comparison between utilities.

18 **Q. Do the load factors for Florida IOUs presented in OPC witness**
19 **Dismukes' Exhibit DED-4 provide an "apples to apples" comparison**
20 **between utilities?**

21 A. No. Weather conditions vary across the Florida IOUs making it difficult to
22 draw conclusions from the non-weather-normalized historical load factors
23 shown in Exhibit DED-4. In addition, on a forecasted basis, FPL and Gulf are

1 the only utilities forecasted to be consistently summer-peaking. Other issues
2 that influence load factor, including the impact of customer mix on sales and
3 peak demands, also vary by utility. Ultimately, each Florida IOU has their
4 own unique set of external circumstances beyond their control making it all
5 but impossible to draw conclusions based on the information provided in
6 Exhibit DED-4.

7 **Q. Is there another reason to doubt the significance of OPC witness**
8 **Dismukes' Exhibit DED-4?**

9 A. Yes. OPC witness Dismukes fails to take into account that each utility is
10 reporting load factor on a different basis.

11 • DEF calculates its load factor in historical years based on the actual
12 non-weather-normalized annual peak and NEL experienced.
13 However, DEF calculates its load factor in future years based on
14 forecasted NEL reduced for incremental company-sponsored
15 conservation and on net firm winter peak demand. DEF defines net
16 firm winter peak demand as total peak demand minus any interruptible
17 load, load management, company-sponsored conservative and other
18 demand reductions.

19 • FPL calculates its historical load factors based on actual non-weather-
20 normalized summer peak experienced and actual NEL experienced.
21 FPL then calculates its forecasted load factors based on forecasted
22 NEL before any reductions for incremental company-sponsored
23 conservation and on forecasted summer peak demands without

1 reductions for incremental company-sponsored conservation or
2 cumulative load management.

- 3 • TECO and Gulf calculate their respective historical load factors based
4 on actual non-weather normalized annual peaks and actual NEL
5 experienced. Both utilities then calculate their respective forecasted
6 load factors based on forecasted NEL reduced for any incremental
7 company-sponsored conservation and on the forecasted annual peak
8 reduced for any company-sponsored conservation.

9 In summary, not only does each Florida IOU face its own unique set of
10 circumstances that determine its individual load factors, but even the method
11 of calculating load factor varies by Florida IOU.

12 **Q. You noted previously that OPC witness Dismukes argues that FPL's**
13 **proposed sales forecast in this case must be wrong because the forecast**
14 **includes an adjustment whereby the sales summed across individual**
15 **revenue classes are reconciled with the sales derived from the NEL**
16 **forecast. Can you provide more detail regarding the adjustment at issue?**

17 A. Yes. As discussed in my direct testimony, pages 38-40, preliminary forecasts
18 of billed sales for each revenue class are initially developed using econometric
19 models and customer-specific information. The preliminary residential and
20 commercial sales forecasts are then proportionately adjusted for the difference
21 between the sum of the revenue classes and the overall billed sales derived
22 from the total NEL forecast. The individual revenue classes are reconciled to
23 the total sales forecast derived from the NEL forecast because the net energy

1 for load per customer econometric model is superior in a number of respects.
2 The net energy for load per customer model encompasses a richer array of
3 variables relative to the individual revenue class models. The net energy for
4 load per customer model includes a variable for the impact of energy
5 efficiency codes and standards, not included in the individual revenue class
6 models. In addition, the NEL forecast includes adjustments for the impact of
7 plug-in electric vehicles and distributed solar generation. The net energy for
8 load per customer model also has the advantage of reflecting monthly weather
9 conditions without the potential distortions created by the billing cycle.
10 Accordingly, the net energy for load per customer model has better statistical
11 diagnostics relative to the revenue class models.

12 **Q. At what point in OPC witness Dismukes' testimony does he argue that**
13 **FPL's proposed sales forecast in this case must be wrong because the**
14 **forecast includes an adjustment whereby the sales summed across**
15 **individual revenue classes are reconciled with the sales derived from the**
16 **NEL forecast?**

17 A. On page 21 OPC witness Dismukes states that he compared FPL's proposed
18 sales forecast to one based on the sum of the individual revenue classes
19 without the adjustment needed to reconcile sales with the NEL forecast. He
20 then concludes on page 21, line 20, "The comparison shows that the NEL
21 model is significantly underestimating total retail sales by as much a two
22 percent in 2016, three percent in 2017 and more than four percent in 2018."

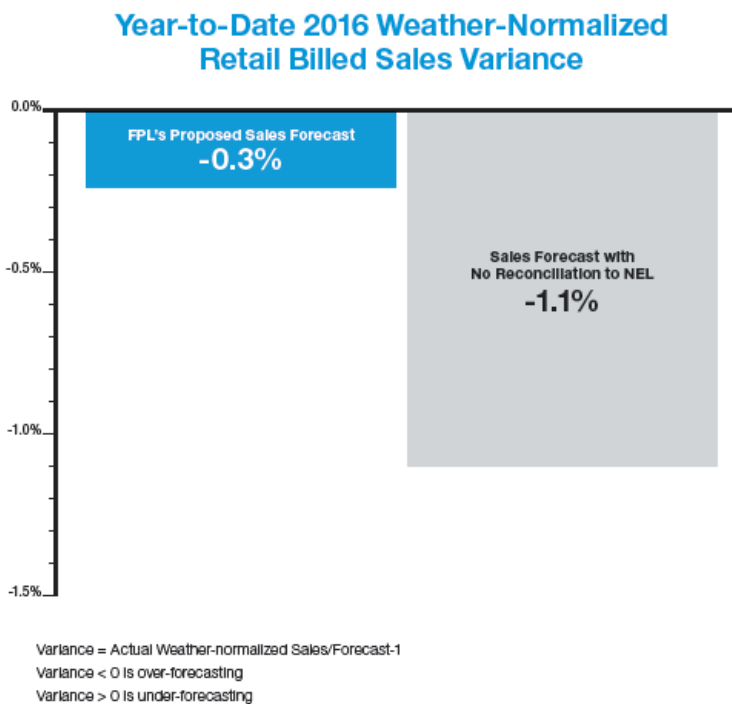
23

1 **Q. Do you agree with OPC witness Dismukes' conclusion?**

2 A. Not at all. OPC witness Dismukes is once again rejecting FPL's proposed
 3 sales forecast in favor of a clearly inferior alternative. As shown in Figure 3
 4 below, FPL's proposed billed sales forecast has a year-to-date weather-
 5 normalized over-forecasting variance of only 0.3%. By contrast, the billed
 6 sales forecast without the adjustment to reconcile the sum of the individual
 7 revenue classes with the NEL forecast has a year-to-date weather-normalized
 8 over forecasting variance of 1.1%, nearly four times the variance of FPL's
 9 proposed sales forecast.

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Figure 3



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**III. LOAD FORECAST IN THE
OKEECHOBEE NEED DETERMINATION**

Q. Are there any additional corrections to OPC witness Dismukes' testimony that need to be made beyond what you've already covered?

A. Yes. In the interest of brevity Exhibit RM-10 enumerates the inaccuracies as well as misleading or incomplete statements in OPC witness Dismukes' testimony. There is one particular inaccuracy in his testimony, however, that merits closer attention.

Q. Please explain.

A. On page 16, lines 5 through 13, OPC witness Dismukes' testimony contains the following question and answer:

Q. Did the Company Claim the load forecast filed in this rate case was the same as what was filed in the Okeechobee Need Determination?

A. Yes. The Company states that, with the exception of one minor change, its current model is identical to that filed by the Company in its 2015 Okeechobee need determination, and makes allusions to it being essentially the same as the 2015 TYSP.

Q. Did witness OPC Dismukes accurately cite your direct testimony?

A. No. My direct testimony clearly stated that "[i]n filing for the Okeechobee Need Determination the Company relied on the 2015 Ten Year Site Plan load

1 forecast, which was the Company's official load forecast at the time the filing
2 was made." My direct testimony goes on to say that an updated forecast, the
3 October 2015 load forecast, was used to update an analysis in the Okeechobee
4 Need Determination case, and that "[w]ith the exception of a new price of
5 electricity projection . . . the models and assumptions incorporated into the
6 October 2015 load forecast are identical to those utilized in the load forecast
7 supported in the current proceeding."

8 **Q. Why was the price of electricity projection used in this proceeding revised**
9 **from what was used in the October 2015 load forecast?**

10 A. Due to the 2016 mid-course fuel clause correction, the decision was made to
11 revisit the price of electricity projections used in the proposed sales forecast in
12 this case.

13 **Q. Please explain in more detail how the October 2015 load forecast, which**
14 **is identical to FPL's proposed sales forecast in this case with the**
15 **exception of assumptions on the price of electricity, was used to update**
16 **the analysis in the Okeechobee Need Determination case.**

17 A. On October 22, 2015, FPL received Staff Interrogatory No. 62 in the
18 Okeechobee Need Determination case requesting that FPL perform a certain
19 analysis regarding the cost-effectiveness of the Okeechobee unit relative to
20 other options using an updated fuel cost forecast. Because FPL also had
21 developed the October 2015 load forecast at that time, the Company included
22 it in the analysis for Staff, as well as other updated cost and resource plan
23 assumptions. FPL's response to Staff Interrogatory No. 62 clearly indicated

1 that a new load forecast, the October 2015 load forecast, was used in the
2 analysis. Subsequently, FPL provided an updated version of an exhibit to FPL
3 witness Sim's direct testimony reflecting the October 2015 load forecast and
4 other updated assumptions upon a request from Commission Staff.

5 **Q. Did the new October 2015 load forecast include updated forecasts for**
6 **customers, peak demands and NEL?**

7 A. Yes.

8 **Q. Did the new October 2015 load forecast, particularly, the new NEL**
9 **forecast, have any impact on the refreshed cost-effectiveness analysis**
10 **provided in the Okeechobee Need Determination case?**

11 A. Yes. The NEL forecast, along with other factors, is important in determining
12 the fuel savings likely to result from a new generation resource, such as the
13 Okeechobee unit.

14 **Q. How did the NEL forecast in the October 2015 load forecast compare**
15 **with that in the 2015 Ten Year Site Plan forecast and with FPL's**
16 **proposed forecast in this case?**

17 A. As shown in Exhibit RM-9, the NEL forecast in the October 2015 load
18 forecast was consistently lower than the 2015 Ten Year Site Plan forecast.
19 The differences between the October 2015 and the proposed sales forecast in
20 this case are, comparatively speaking, quite small.

21

1 **Q. Was this updated cost-effectiveness analysis using the October 2015 load**
2 **forecast and other updated assumptions discussed in the final order**
3 **approving the Okeechobee Need Determination?**

4 A. Yes. Page 23 of the order states: “In response to a discovery request, provided
5 on November 10, 2015, FPL provided updated analyses of OCEC Unit 1 and
6 other self-build options. FPL’s updated analyses incorporated updated load
7 and fuel cost forecasts and its most current planning assumptions, such as a
8 delayed in-service date for Turkey Point Units 6 and 7.” The order goes on to
9 say that this updated analysis confirmed that the Okeechobee unit remained
10 the most cost-effective resource option.

11 **Q. Please summarize the evolution of FPL’s load forecasting methodology**
12 **from the 2015 Ten Year Site Plan to its proposed sales forecast in this**
13 **proceeding.**

14 A. Fundamentally, FPL has always relied on the same method to forecast sales,
15 namely using econometric models incorporating the drivers of electricity
16 demand. However, from time to time, the drivers incorporated into these
17 models need to be revisited. Such was the case with the 2015 Ten Year Site
18 Plan sales forecast. In response to over-forecasting variances in the 2015 Ten
19 Year Site Plan forecast, FPL reassessed the drivers incorporated into the net
20 energy for load per customer model. As a result, in late 2015, FPL developed
21 a new model which incorporated two variables for the price of electricity. The
22 October 2015 sales forecast incorporated this new model. The proposed sales
23 forecast in this case is also based on this new model. The evidence shown in

1 Figures 1 and 2 of my rebuttal testimony clearly demonstrates that the new
2 model used in this case is an improvement over the 2015 Ten Year Site Plan
3 forecast.

4

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V. INFLATION FORECAST

6

7 **Q. According to OPC witness Dismukes how is FPL's forecast of inflation**
8 **utilized in this case?**

9 A. OPC witness Dismukes recognizes that FPL's inflation forecast is utilized
10 along with customer growth in the development of the operations and
11 maintenance benchmark which is reported in a number of MFRs. He further
12 states on page 25 of his testimony the following:

13 "Second, the Company utilizes its inflation estimate to adjust the costs
14 associated with several other goods and services identified in its
15 internal budget process."

16 OPC witness Dismukes then cites my direct testimony as the source for this
17 statement.

18 **Q. Is that an accurate representation of your testimony?**

19 A. No. Page 48 of my direct testimony simply states that "FPL utilizes a forecast
20 of the CPI for all goods and services (or overall CPI) as part of the budgeting
21 process."

1 **Q. Is the forecast of the CPI for all goods and services (or overall CPI)**
2 **discussed in your direct testimony the same forecast that OPC witness**
3 **Dismukes refers to as the CPI-U forecast?**

4 A. Yes.

5 **Q. How does FPL utilize its forecast of CPI-U in the budgeting process?**

6 A. My understanding from FPL witness Barrett is that there is not a one-to-one
7 relationship between the CPI-U forecast and the total projected amount of
8 O&M spending. Rather, the CPI-U forecast is used as a benchmark to assist
9 individual business units in developing their proposed budgets.

10 **Q. Would it be appropriate to base the inflation forecast used as a**
11 **benchmark in the budgeting process on a measure other than the CPI-U,**
12 **such as the producer price index or some other measure?**

13 A. No. Using the CPI-U as the measure of inflation ensures a consistent view of
14 inflation. Multiple schedules included in the Commission's minimum filing
15 requirements dictate that the utility must use the CPI-U in developing its
16 O&M benchmark. For example, MFR C-40, O&M Compound Multiplier
17 states "For each year since the benchmark year, provide the amounts and
18 percent increases associated with customers and average CPI." Moreover, the
19 requirement to base the O&M benchmark on the CPI-U is specified in
20 Commission Form PSC/AFD/011-E (2/04). Thus, the Commission rules
21 specifically require that the O&M benchmark be based on the CPI-U. It is
22 precisely for this reason that FPL uses a forecast of the CPI-U as a guideline
23 for its budgeting process.

1 **Q. Did FPL also use the CPI-U as a benchmark in the budgeting process in**
2 **its last rate proceeding?**

3 A. Yes.

4 **Q. What does OPC witness Dismukes propose in terms of an inflation**
5 **forecast in this case?**

6 A. OPC witness Dismukes states that while *maintaining the Company's practice*
7 *of utilizing the CPI-U* [emphasis added], he would propose using a composite
8 forecast which places a 60% weight on the Federal Reserve's inflation rate
9 forecast and a 40% weight based on the Wall Street Journal June 2016 survey
10 of inflation expectations. More specifically, OPC witness Dismukes is
11 proposing an inflation rate of 1.44% in 2016, followed by 2.06% in 2017 and
12 again in 2018. By comparison, FPL is forecasting an inflation rate of 2.0% in
13 2016, followed 2.5% in 2017 and 2.6% in 2018.

14 **Q. Is FPL's proposed forecast for CPI-U for the 2017 test year still**
15 **reasonable in light of the Wall Street Journal June 2016 survey of**
16 **professional forecasters?**

17 A. Yes. The Wall Street Journal's June 2016 survey shows an escalation in
18 inflation in 2017 with an average forecast among participants of 2.2% for that
19 year. Likewise, FPL's proposed inflation forecast shows inflation increasing
20 to a 2.5% rate of increase in 2017. In addition, more than a quarter of
21 professional forecasters responding to the Wall Street Journal June 2016
22 survey predict an increase in CPI-U equal to or higher than FPL's proposed
23 CPI-U forecast for 2017.

1 **Q. Was the Wall Street Journal June 2016 survey of professional forecasters**
2 **available at the time FPL approved its CPI-U forecast for use as a**
3 **benchmark in the budgeting process?**

4 A. No.

5 **Q. Is FPL's proposed forecast of CPI-U reasonable in light of the Wall Street**
6 **Journal survey of professional forecasters that was available at the time**
7 **the forecast was approved?**

8 A. Yes. The Wall Street Journal June 2015 survey of professional forecasters
9 projected a 2.3% increase in the CPI-U by the end of 2016 and a 2.4%
10 increase in the CPI-U by the end of 2017. By comparison, FPL's proposed
11 forecast indicates a 2.0% increase in the CPI-U in 2016 and a 2.5% increase in
12 the CPI-U in 2017.

13 **Q. Is FPL's proposed forecast for CPI-U for the 2017 Test Year and 2018**
14 **Subsequent Year reasonable in light of the Federal Reserve's 2.0%**
15 **annual inflation target?**

16 A. Yes. As OPC witness Dismukes' own testimony recognizes, the Federal
17 Reserve's inflation targets and forecasts are based not on the CPI-U, but on
18 the Personal Consumption Expenditures (PCE) index. Moreover, the PCE
19 index typically increases by less than the CPI-U. Historically, annual
20 increases in the PCE index have been about 0.4% below those of the CPI-U
21 although in certain years the gap between the two series has been wider.
22 Thus, the 2.5% increase and 2.6% increase in the CPI-U that FPL is projecting
23 for 2017 and 2018 respectively are not inconsistent with the Federal Reserve's

1 2.0% annual inflation target. Nor are FPL's proposed forecasts for the CPI-U
2 for 2017 and 2018 inconsistent with the Federal Reserve's PCE forecast as of
3 their June 2016 Federal Open Market Committee meeting.

4 **Q. In addition to the reasons outlined in your direct testimony is there**
5 **another factor supporting the reasonableness of FPL's proposed inflation**
6 **forecast?**

7 A. Yes. Based on data through June 2016, the core CPI is increasing at an annual
8 rate of 2.2%, up from an increase of 1.8% during 2015. Thus, the core CPI,
9 which excludes the volatile energy and food sectors, suggests a moderately
10 positive rate of inflation going forward.

11 **Q. Please summarize your conclusions regarding the inflation forecast that**
12 **should be used in this case.**

13 A. FPL's proposed forecasts for CPI-U are reasonable and appropriate
14 projections for use in this case. FPL's CPI-U projections are consistent with
15 the underlying rate of inflation indicated by recent actuals in the core CPI.
16 FPL's proposed forecast for CPI-U was consistent with projections available
17 from other third-party experts at the time the forecast was approved and
18 remains reasonable in light of more recent projections

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

20 A. Yes.

1 BY MS. MONCADA:

2 Q Dr. Morley, do you have exhibits that were
3 identified as RM-5 through RM-10 attached to your
4 rebuttal testimony?

5 A Yes.

6 Q Were these exhibits prepared under your
7 direction or supervision?

8 A Yes.

9 MS. MONCADA: Madam Chair, I would note that
10 these exhibits have been pre-identified in staff's
11 comprehensive exhibit list as Nos. 333 through 338.

12 CHAIRMAN BROWN: So noted.

13 Staff.

14 EXAMINATION

15 BY MS. BROWNLESS:

16 Q Afternoon, Dr. Morley.

17 A Good afternoon.

18 Q Did you have an opportunity to review what's
19 been marked on the comprehensive exhibit list as Exhibit
20 522, which is a response to South Florida Hospital's
21 18th set of document requests numbered 238, requesting
22 workpapers and computations associated with your
23 rebuttal testimony?

24 A Yes.

25 Q Okay. And if I were to ask for those same

1 documents today, would you produce the same documents?

2 A I would.

3 Q And are they true and correct to the best of
4 your knowledge and belief?

5 A Yes.

6 Q And are any portion of those documents that
7 are your workpapers confidential?

8 A No.

9 MS. BROWNLESS: Thank you, ma'am.

10 CHAIRMAN BROWN: Thank you.

11 FPL.

12 MS. MONCADA: Thank you.

13 FURTHER EXAMINATION

14 BY MS. MONCADA:

15 Q Dr. Morley, have you prepared an oral summary
16 of your rebuttal testimony?

17 A I have.

18 Q Could you please deliver that now?

19 A Yes.

20 Good afternoon, Madam Chairman, Commissioners.

21 The purpose of my rebuttal testimony is to refute OPC
22 Witness Dismukes proposal regarding the sales forecast
23 that should be used in this case. OPC Witness Dismukes
24 rejects the most current, most accurate sales forecast
25 in this case, namely FPL's proposed sales forecast, and,

1 instead, advocates reverting back to FPL's 2015 10-year
2 site plan sales forecast.

3 OPC's position is not based on challenging the
4 specific methodology, input data assumptions or
5 out-of-model adjustments incorporated into FPL's
6 proposed sales forecast. Rather than addressing these
7 specific issues, OPC's position is based on the thinly
8 veiled purpose of raising the forecasted level of sales.
9 Contrary to this position, the data demonstrates
10 unambiguously that FPL's proposed sales forecast is
11 clearly the superior choice for setting rates in this
12 proceeding. The figures behind me help illustrate this
13 point.

14 These figures compare FPL's proposed sales
15 forecast in this case with OPC's using the standard
16 industry matrix of forecasting accuracy, namely the
17 difference between each forecast and the actual level of
18 weather normalized sales so far this year.

19 As shown in Figure 1, which is the one
20 furthest to my right, OPC's proposed sales forecast is
21 over-forecasting the actual level of weather normalized
22 net energy for load so far this year by 2.5 percent.
23 And as a reminder, when I refer to variances, negative
24 means over-forecasting, positive would be
25 under-forecasting. By contrast, FPL proposed sales

1 forecast has a weather normalized over-forecasting
2 variance of only 0.5 percent. In other words, OPC's
3 weather normalized forecasting variance is five times as
4 high as FPL's.

5 A similar finding is evident in reviewing
6 Figure 2, which shows the weather normalized variances
7 in retailed delivered sale. Again, FPL's proposed sales
8 forecast is much more accurate.

9 FPL's proposed sales forecast in this
10 proceeding is superior to OPC's because our proposed
11 sales forecast is based on an approved model.
12 Fundamentally, FPL has always relied on the same method
13 to forecast sales, namely using econometric models
14 incorporating the drivers electricity demand. However,
15 from time to time, these drivers need to be reevaluated.
16 Such was the case with our 2015 10-year site plan sales
17 forecast.

18 In response to over-forecasting variances in
19 the 2015 10-year site plan forecast, FPL reassessed the
20 drivers incorporated into our sales model. As a result,
21 in late 2015, FPL developed a new model. This is the
22 same model FPL relies on in this case.

23 OPC Witness Dismukes chooses to ignore the
24 fact that FPL's proposed sales forecast is more accurate
25 than OPC's. Instead, OPC Witness Dismukes argues that

1 FPL's proposed sales forecast should be rejected based
2 on meaningless comparisons to the level of non-weather
3 normalized historical sales.

4 Commissioners, non-weather normalized
5 historical sales are never a good yardstick for
6 evaluating the forecasted level of sales, which are,
7 after all, based on commission directive, based on the
8 assumption of normal weather.

9 The Commission should reject OPC's attempt to
10 revert back to an older, less accurate forecast, and
11 should approve FPL's proposed sales forecast for use in
12 this case.

13 This concludes my summary.

14 **Q Thank you, Dr. Morley.**

15 MS. MONCADA: Madam Chair, Dr. Morley is
16 available for cross-examination.

17 CHAIRMAN BROWN: Thank you.

18 Good afternoon, Dr. Morley.

19 THE WITNESS: Good afternoon.

20 CHAIRMAN BROWN: Office of Public Counsel.

21 MS. CHRISTENSEN: Yes. I just have one
22 question, and I just want to make sure that we are
23 clear for the record.

24 EXAMINATION

25 BY MS. CHRISTENSEN:

1 **Q** **What you have called OPC's proposed 2016 rate**
2 **case sales forecast is, in fact, FPL's 2015 10-year site**
3 **plan forecast; is that correct?**

4 **A** **Yes. As I said in my summary, that's my**
5 **understanding of OPC's position.**

6 **MS. CHRISTENSEN:** **Okay. No further questions.**

7 **CHAIRMAN BROWN:** **Thank you, Ms. Christensen.**
8 **Mr. Moyle.**

9 **MR. MOYLE:** **Thank you.**

10 **EXAMINATION**

11 **BY MR. MOYLE:**

12 **Q** **Good afternoon.**

13 **A** **Good afternoon.**

14 **Q** **The papers that you identified when asked**
15 **questions by staff, can you tell me whether that was**
16 **between one and 10 pages, 10 and 100, or 100 to 1,000?**

17 **A** **For rebuttal, it was definitely less than**
18 **1,000. I think 100 might even be stretching it. I**
19 **think the workpapers for rebuttal were 50, as a guess.**

20 **Q** **Okay. Thank you.**

21 **And I know that you are filing rebuttal with**
22 **respect to testimony of Mr. Dismukes, right?**

23 **A** **Correct.**

24 **Q** **Okay. You don't -- you don't question**
25 **Mr. Dismukes' qualifications as an expert, do you?**

1 A No.

2 Q Okay.

3 MR. MOYLE: That's all I had.

4 CHAIRMAN BROWN: Thank you, Mr. Moyle.

5 Mr. Wiseman.

6 MR. WISEMAN: Good afternoon, Dr. Morley.

7 THE WITNESS: Good afternoon.

8 MR. WISEMAN: No questions.

9 THE WITNESS: You do surprise me. You do
10 surprise me.

11 MR. WISEMAN: I told you I would surprise you.

12 THE WITNESS: You do surprise me, Mr. Wiseman.

13 CHAIRMAN BROWN: Thank you, Mr. Wiseman.

14 Retail Federation.

15 MR. LAVIA: No questions. Thank you.

16 CHAIRMAN BROWN: Thank you.

17 FEA.

18 MR. JERNIGAN: No questions.

19 CHAIRMAN BROWN: Thank you.

20 Sierra.

21 MS. CSANK: No questions.

22 CHAIRMAN BROWN: Thank you.

23 Sorry, Wal-Mart.

24 MR. WILLIAMSON: No, ma'am.

25 CHAIRMAN BROWN: I do want to make a note that

1 AARP has been -- has asked to be excused from the
2 remaining part of the hearing, and so AARP is no
3 longer with us today. They have been granted
4 excusal.

5 Larsons are not here.

6 Staff.

7 MS. HARPER: Yes, we have a few questions.
8 And at this time, I would like to distribute the
9 one staff exhibit that we have so we can refer to
10 that in our questions, please.

11 CHAIRMAN BROWN: That will be marked as 764.

12 MS. HARPER: Thank you.

13 CHAIRMAN BROWN: Thank you.

14 Okay. The title of that?

15 MS. HARPER: Yes, Your Honor, it's MFR
16 Schedule F-6, net energy for load, in Docket No.
17 160021-EI and Docket No. 120015-EI.

18 CHAIRMAN BROWN: Okay. We will go ahead and
19 mark that for identification purposes as Exhibit
20 764, the title, MFR Schedule F-6, Net Energy for
21 Load in Dockets 160021 and 120015.

22 (Whereupon, Exhibit No. 764 was marked for
23 identification.)

24 CHAIRMAN BROWN: Thank you.

25 Dr. Morley, do you have a copy of that in

1 front of you?

2 THE WITNESS: I do.

3 CHAIRMAN BROWN: Thank you.

4 Please proceed.

5 MS. HARPER: Thank you.

6 EXAMINATION

7 BY MS. HARPER:

8 Q Dr. Morley, the first -- there's two pages in
9 this exhibit, and the first part is the MFR Schedule
10 F-6, which we have -- FPL filed in this case. I believe
11 it's No. 28 in our comprehensive exhibit list, and this
12 refers to the 2017 test year. And I am going to ask you
13 to turn to that section first, please, the first page in
14 this exhibit. This section concerns FPL's adjustments
15 to its revenue class forecast to reconcile to the net
16 energy for load forecast, is that correct?

17 A I think I am a little confused. I have F-6.

18 Q Oh, okay. Okay. Well, I am going to refer
19 you to your rebuttal testimony.

20 A Okay.

21 Q Excuse me, in Exhibit RM-10, the 24th, which I
22 believe is entry, which is page 405, and then we will go
23 to that MFR and exhibit. And this is the section I was
24 trying to reference you to on FPL's adjustments to its
25 revenue class forecast, which I believe was to reconcile

1 the net energy for loads forecast; is that correct?

2 A Yes.

3 Q Okay. So we are in the same spot now. Thank
4 you.

5 You state here that the impact of the energy
6 efficiency codes and standards have increased in this
7 rate case relative to the last rate case, is that
8 correct?

9 A Yes, that's correct.

10 I apologize, should I be looking at somewhere
11 in my testimony, or in the piece of paper that was
12 handed out?

13 Q Well, I am going to ask you to -- I am
14 referring to your rebuttal testimony --

15 A Okay.

16 Q -- for these first questions, but I will go --
17 I will use the exhibit in just a moment here now that
18 we -- I am clear on the rebuttal testimony on that
19 issue.

20 Now I am going to ask you to look at staff's
21 exhibit, which is the first page, as I mentioned before,
22 is FPL's MFR Schedule F-6. And this is page one of the
23 eight. This is the part that we are going to discuss
24 just briefly, which contains the net energy for load
25 model elasticities for all variables in the model for

1 the projected test year 2017. Do you see that?

2 A Yes.

3 Q Okay. Great. The second page is the same
4 schedule that FPL submitted in Docket 120015-EI for the
5 test year 2013. Do you recognize that page as I have
6 described it?

7 A Yes.

8 Q Okay. So do these schedules provide the
9 information that shows that the impact of energy
10 efficiency codes and standards on net energy for load
11 has increased in this rate case as compared to the last
12 rate case?

13 A I think this might be missing a piece, because
14 this is the elasticity of codes and standards, that
15 elasticity would be applied to the actual value of codes
16 and standards, and that's not in what -- in this
17 particular docket -- document.

18 Q Okay. Let me ask you maybe to turn to the
19 first page there of our exhibit there, on line 30. Is
20 it correct that, according to the 2017 net energy for
21 load model, the schedule shows that a 10-percent
22 increase in energy efficiency codes and standards yields
23 a .29 percent reduction in net energy for load?

24 A Yes.

25 Q Okay. So on the second page, which I am not

1 sure, based on what you last said, if there is going to
2 be some confusion here. But on the second page, on line
3 13, it says that, according to the 2013 net energy for
4 load model, the schedule shows a 10-percent increase in
5 energy efficiency codes and standards, and yields a .11
6 percent reduction in net energy load; is that correct?

7 A Yes. So there has been an increase in the
8 elasticity.

9 Q Okay. That's sort of where I am going.

10 Can you please explain the reasons why the
11 impact of the energy efficiency codes and standards has
12 increased in this rate case relative to the last rate
13 case?

14 A Sure. In the last rate case, we had a test
15 career of 2013. Now we have a test year of 2017. Codes
16 and standards, as we have used it, has always
17 incorporated things like new standards for air
18 conditioning, refrigeration and lighting. What we see
19 now is that lighting is becoming more and more
20 prominent. And what we are kind of assuming is that,
21 you know, consumers have kind of a different response to
22 lighting standards than they would air conditioning, and
23 I believe that's one of the reasons for the change in
24 our elasticity.

25 Q Okay. Are you aware of any new government

1 **mandated energy efficiency requirements or codes and**
2 **standards that contributed to this as well?**

3 A Yes. And I have to draw on my memory as to
4 what was included in 2013, but I don't think we included
5 the impact of like LEDs. We did have some lighting
6 standards, but I don't think we including LEDs. And I
7 also think there was a change in refrigeration standards
8 that's included now that was not in the 2013.

9 Q Okay. And did FPL include the energy
10 efficiency codes and standards variable in its
11 residential revenue class sales forecast or commercial
12 revenue class sales forecast in this proceeding?

13 A No, we did not. And if you want, I can
14 explain why that's the case.

15 Q Okay --

16 A Yes.

17 Q -- that would be great. Thank you.

18 A We get an estimate of codes and standards from
19 Itron, which is one of the leading firms in the country
20 that look at that, and it includes, as I said, things
21 like refrigeration, air conditioning, refrigeration and
22 so forth. That's a very good study. We get it every
23 two years. Unfortunately, at this point, it doesn't
24 have enough detail for us to really break it down into
25 the customer segment. So we include it into our net

1 merge for load model, and have for, I think a number of
2 years now, and I think it's really helped us improve our
3 accuracy. But at this point, it's not in our individual
4 customer models. And that's one of the advantages we
5 have of using the net energy for load model versus
6 simply relying on the sum of the individual customer
7 models.

8 **Q Okay. Thank you.**

9 MS. HARPER: We have no further questions.

10 CHAIRMAN BROWN: Thank you.

11 Commissioners.

12 Seeing none, redirect?

13 MS. MONCADA: Briefly.

14 FURTHER EXAMINATION

15 BY MS. MONCADA:

16 **Q Ms. Harper just -- you just had a discussion**
17 **with Ms. Harper regarding the fact that you did not use**
18 **the codes and standards in your individual revenue class**
19 **models, but you do then recalibrate it up to the now**
20 **forecast. Is there anything in your testimony that can**
21 **show the impact of that reduced calibration, or that**
22 **reconciliation?**

23 **A Yes, if you give me a moment.**

24 On page 26 of my rebuttal testimony is Figure
25 3, which goes with Figures 1 and 2. Figure 3 compares

1 how we have improved -- or how we improved the accuracy
2 of our sales forecast by using the net energy for load
3 model, as opposed to just the sum of the individual
4 revenue classes. And as you see here, the way we are
5 doing it, we have an over-forecasting variance of only
6 0.3 percent, versus what would be an over-forecasting
7 variance of 1.1 percent if we relied strictly just on
8 the sum of the individual revenue classes.

9 MS. MONCADA: No further questions.

10 CHAIRMAN BROWN: Thank you.

11 We have got exhibits for this witness
12 beginning at 333 through 338.

13 MS. MONCADA: FPL would like to move those
14 into the record.

15 CHAIRMAN BROWN: Any objections to that?

16 We will go ahead and move into 333 through
17 338.

18 (Whereupon, Exhibit Nos. 333 - 338 were
19 received into evidence.)

20 CHAIRMAN BROWN: Staff.

21 MS. HARPER: Yes, we would like to move 764
22 into the record, please.

23 MS. MONCADA: No objection.

24 CHAIRMAN BROWN: Okay. We will go ahead and
25 move 764 into the record at this time.

1 MS. MONCADA: Thank you.

2 (Whereupon, Exhibit No. 764 was received into
3 evidence.)

4 CHAIRMAN BROWN: And, Dr. Morley, you are
5 excused.

6 THE WITNESS: Okay. Thank you.

7 CHAIRMAN BROWN: Safe travels.

8 THE WITNESS: Thank you.

9 (Witness excused.)

10 CHAIRMAN BROWN: All right. We are on to
11 Wal-Mart's witness at this time.

12 MR. WILLIAMSON: Yes, ma'am, Madam Chairman,
13 he has not been sworn.

14 CHAIRMAN BROWN: No, he hasn't. And if we
15 could, we just have to switch up some books.

16 MR. WILLIAMSON: Yes, ma'am.

17 CHAIRMAN BROWN: Hello, Mr. Chriss.

18 THE WITNESS: Good afternoon.

19 CHAIRMAN BROWN: Good afternoon, please stand
20 and raise your hand.

21 Whereupon,

22 STEVE W. CHRISS

23 was called as a witness, having been first duly sworn to
24 speak the truth, the whole truth, and nothing but the
25 truth, was examined and testified as follows:

1 THE WITNESS: I do.

2 CHAIRMAN BROWN: And welcome to Tallahassee.

3 THE WITNESS: Thank you. It's very nice to be
4 here.

5 CHAIRMAN BROWN: The parties were very willing
6 to accommodate your travel schedule.

7 THE WITNESS: I appreciate that very much.
8 Thank you.

9 MR. WILLIAMSON: And we very much appreciate
10 the Commission's indulgence for that reason, and
11 FPL's graciousness in also accommodating his
12 schedule.

13 CHAIRMAN BROWN: Thank you for that.

14 EXAMINATION

15 BY MR. WILLIAMSON:

16 Q Mr. Chriss, could you state your name and
17 business address for the record, please?

18 A My name is Steve W. Chris, C-H-R-I-S-S. My
19 business address is 2001 SE 10th Street, Bentonville,
20 Arkansas, 72716-5530.

21 Q And by whom are you employed, and in what
22 capacity?

23 A Wal-Mart Stores, Incorporated. I am Senior
24 Manager, Energy Regulatory Analysis.

25 Q And did you cause to be filed with the

1 Commission the direct testimony of Steve W. Chriss --
2 Chriss comprised of 33 pages of questions and answers?

3 A I did.

4 Q And if I were to ask you the questions and you
5 were to provide the responses that are contained in that
6 prefiled testimony, would your answers be substantively
7 the same today?

8 A Yes. With the only exception be the last part
9 of the ZIP Code on my business address, which I believe
10 is my old last part of the ZIP Code.

11 Q We all appreciate that correction.

12 A Thank you.

13 Q Did you also prepare Exhibits SWC-1 through
14 SWC-8?

15 A I did.

16 MR. WILLIAMSON: And, Madam Chair, just for
17 purposes of the record, those appear in the
18 comprehensive exhibit list as Exhibits 318 through
19 325.

20 CHAIRMAN BROWN: So noted.

21 And would you like me to insert his prefiled
22 testimony?

23 MR. WILLIAMSON: You may. Yes, please.

24 CHAIRMAN BROWN: We will insert Mr. Chriss'
25 prefiled direct testimony into the record as though

1 read.

2 (Prefiled direct testimony inserted into the
3 record as though read.)

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1 **Introduction**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

3 A. My name is Steve W. Chriss. My business address is 2001 SE 10th St.,
4 Bentonville, AR 72716-0550. I am employed by Wal-Mart Stores, Inc. as Senior
5 Manager, Energy Regulatory Analysis.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?**

7 A. I am testifying on behalf of Wal-Mart Stores East, LP and Sam's East, Inc.
8 (collectively, "Walmart").

9 **Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**

10 A. In 2001, I completed a Master of Science in Agricultural Economics at Louisiana State
11 University. From 2001 to 2003, I was an Analyst and later a Senior Analyst at the
12 Houston office of Econ One Research, Inc., a Los Angeles-based consulting firm. My
13 duties included research and analysis on domestic and international energy and
14 regulatory issues. From 2003 to 2007, I was an Economist and later a Senior Utility
15 Analyst at the Public Utility Commission of Oregon ("PUC") in Salem, Oregon. My
16 duties included appearing as a witness for PUC Staff in electric, natural gas, and
17 telecommunications dockets. I joined the energy department at Walmart in July
18 2007 as Manager, State Rate Proceedings, and was promoted to my current position
19 in June 2011. My Witness Qualifications Statement is attached as Exhibit SWC-1.

1 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE FLORIDA PUBLIC**
2 **SERVICE COMMISSION ("COMMISSION")?**

3 A. Yes. I submitted testimony in Docket Nos. 140002-EG, 130140-EI, 130040-EI,
4 120015-EI, and 110138-EI.

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER STATE**
6 **REGULATORY COMMISSIONS?**

7 A. Yes. I have submitted testimony in over 140 proceedings before 36 other utility
8 regulatory commissions. I have also submitted testimony before the Missouri House
9 Committee on Utilities, the Missouri House Energy and Environment Committee, the
10 Missouri Senate Veterans' Affairs, Emerging Issues, Pensions, and Urban Affairs
11 Committee, and the Kansas House Standing Committee on Utilities and
12 Telecommunications. My testimony has addressed topics including, but not limited
13 to, cost of service and rate design, return on equity ("ROE"), revenue requirement,
14 ratemaking policy, large customer renewable programs, qualifying facility rates,
15 telecommunications deregulation, resource certification, energy efficiency/demand
16 side management, fuel cost adjustment mechanisms, decoupling, and the collection
17 of cash earnings on construction work in progress.

18 **Q. ARE YOU SPONSORING EXHIBITS IN YOUR TESTIMONY?**

19 A. Yes. I am sponsoring the exhibits listed in the Table of Contents.

1 **Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS IN FLORIDA.**

2 A. Walmart operates 361 retail units and eight distribution centers and employs
3 106,471 associates in Florida. In fiscal year ending 2015, Walmart purchased \$5.7
4 billion worth of goods and services from Florida-based suppliers, supporting 89,773
5 supplier jobs.¹

6 **Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS WITHIN THE COMPANY'S**
7 **SERVICE TERRITORY.**

8 A. Walmart has 142 stores, three distribution centers, and related facilities that take
9 electric service from Florida Power & Light Company ("FPL" or "Company") on
10 several service schedules but primarily on the Company's General Service Demand &
11 Time of Use ("GSDT-1") and General Service Large Demand & Time of Use ("GSLDT-
12 1") schedules.

13

14 **Purpose of Testimony and Summary of Recommendations**

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A. The purpose of my testimony is to address aspects of FPL's rate case filing and to
17 provide recommendations to assist the Commission in thoroughly and carefully
18 considering the customer impact of the Company's proposed rate increase.

19 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.**

20 A. My recommendations to the Commission are as follows:

¹ <http://corporate.walmart.com/our-story/locations/united-states#/united-states/florida>

- 1 1) The Commission should thoroughly and carefully consider the impact on
2 customers in examining the requested revenue requirement and ROE, in
3 addition to all other facets of this case, to ensure that any increase in the
4 Company's rates is only the minimum amount necessary to provide adequate
5 and reliable service, while also providing an opportunity to earn a reasonable
6 return.
- 7 2) The Commission should closely examine the Company's proposed revenue
8 requirement increase and the associated ROE, especially when viewed in
9 light of:
- 10 a) The customer impact of the resulting revenue requirement increases;
- 11 b) The use of a future test year, which reduces regulatory lag by
12 allowing the utility to include the most current information in its rates
13 at the time they will be in effect;
- 14 c) The percentage of the Company's total jurisdictional revenues
15 recovered through base rates that are at risk due to regulatory lag
16 versus the amount of revenues collected through cost recovery clause
17 charges; and
- 18 d) Recent rate case ROEs approved by this Commission and other
19 commissions nationwide.
- 20 3) The Commission should reject the Company's proposal to allocate production
21 capacity cost using a 12 coincident peak and 25 percent energy methodology

1 ("12 CP and 25%"). If the Commission determines it is appropriate to move
2 away from the Company's currently approved 12 CP and 1/13th methodology
3 and to discontinue the practice of allocating a portion of production capacity
4 on an energy basis, it should approve either a demand allocator based on the
5 Company's four coincident peaks ("4 CP") or six coincident peaks ("6 CP"). If
6 the Commission determines it is appropriate to move away from the
7 Company's currently approved 12 CP and 1/13th methodology and to
8 continue the practice of allocating a portion of production capacity cost on
9 an energy basis, it should approve an average and excess allocator based on
10 the Company's Group Non-Coincident Peaks ("GNCP").

11 4) For the purposes of this docket, the Commission should approve the
12 following rate design for GSLD-1 and GSLDT-1 for 2017 rates:

- 13 a) Approve the customer charge methodology as proposed by the
14 Company;
- 15 b) Set the demand charge for both schedules at 90 percent of the
16 demand unit cost per the approved revenue requirement and cost of
17 service study in this docket;
- 18 c) For GSLD-1, apply the remaining revenue requirement to the energy
19 charge; and

1 d) For GSLDT-1, apply the remaining revenue requirement to the on-
2 peak and off-peak energy charges per the Company's proposed
3 relationship between those charges.

4 5) If the Commission approves the Company's proposal to institute an
5 incremental rate change in 2018, the Commission should apply the
6 methodology above to the approved revenue requirement and cost of
7 service study for 2018.

8 6) If the Commission approves the 2019 Okeechobee Limited Scope Adjustment
9 ("LSA"), for rate schedules that contain demand charges, the increase to
10 those schedules should only be applied to the demand charge.

11 **Q. DOES THE FACT THAT YOU MAY NOT ADDRESS AN ISSUE OR POSITION**
12 **ADVOCATED BY THE COMPANY INDICATE WALMART'S SUPPORT?**

13 A. No. The fact that an issue is not addressed herein or in related filings should not be
14 construed as an endorsement of any filed position.

15
16 **Return on Equity**

17 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED ELECTRIC**
18 **REVENUE REQUIREMENT INCREASES?**

19 A. My understanding is that the Company proposes a revenue requirement increase of
20 approximately \$866 million for 2017. See Exhibit KO-2, page 1. Additionally, the
21 Company proposes a revenue requirement increase of approximately \$263 million

1 for 2018. See Exhibit KO-4, page 1. Finally, the Company proposes an LSA for the
2 Okeechobee Clean Energy Center for 2019 of approximately \$209 million. See MFR
3 A-1, Okeechobee Limited Scope 2019, page 1.

4 **Q. IN SETTING THE REVENUE REQUIREMENT CHANGES AND ROE FOR THE COMPANY,**
5 **SHOULD THE COMMISSION CONSIDER THE IMPACT OF THE PROPOSED RATE**
6 **INCREASE ON CUSTOMERS?**

7 A. Yes. Electricity is a significant operating cost for retailers, like Walmart. When
8 electric rates increase, that increased cost to retailers can put pressure on consumer
9 prices and on the other expenses required by a business to operate. The
10 Commission should thoroughly and carefully consider the impact on customers in
11 examining the requested revenue requirement and ROE, in addition to all other
12 facets of this case, to ensure that any increase in the Company's rates is only the
13 minimum amount necessary to provide adequate and reliable service, while also
14 providing an opportunity to earn a reasonable return.

15 **Q. WHAT IS THE COMPANY'S PROPOSED ROE IN THIS DOCKET?**

16 A. The Company is proposing an ROE of 11.0 percent, based on a range of 10.5 percent
17 to 11.5 percent. See Direct Testimony and Exhibits of Robert B. Hevert, page 4, line
18 17 to page 5, line 3. The Company also proposes a 50 basis point performance
19 adder, for a total proposed ROE of 11.5 percent. See Direct Testimony and Exhibits
20 of Moray P. Dewhurst, page 5, line 13 to line 16.

1 For 2017, this results in a proposed overall weighted average cost of
2 capital of 6.61 percent. See MFR D-1A for 2017 test year. For 2018, this results in a
3 proposed overall weighted average cost of capital of 6.71 percent. See MFR D-1A
4 for 2018 subsequent year. Finally, for 2019, the Company proposes to use this ROE
5 to apply a weighted average cost of capital of 8.87 percent to the Okeechobee LSA.
6 See MFR D-1A, Okeechobee Limited Scope 2019.

7 **Q. IS THE COMPANY'S PROPOSED ROE HIGHER THAN ITS LAST APPROVED ROE?**

8 A. Yes. The proposed ROE represents an increase of 100 basis points from the
9 Company's last approved ROE of 10.5 percent. See Order No. PSC-13-0023-S-EI,
10 page 5. As such, the Company's 11.5 percent ROE proposal presents a significant
11 impact to customers.

12 **Q. ARE YOU CONCERNED THAT THE PROPOSED ROE IS EXCESSIVE?**

13 A. Yes. I am concerned that the Company's proposed ROE is excessive, especially when
14 viewed in light of:

- 15 1) The customer impact of the resulting revenue requirement increases as I
16 discuss above;
- 17 2) The use of a future test year, which reduces regulatory lag by allowing the
18 utility to include the most current information in its rates at the time they
19 will be in effect;

- 1 3) The percentage of the Company's total jurisdictional revenues recovered
2 through base rates that are at risk due to regulatory lag versus the amount of
3 revenues collected through cost recovery clause charges; and
4 4) Recent rate case ROEs approved by this Commission and other commissions
5 nationwide.

6
7 ***Customer Impact***

8 **Q. WHAT IS THE REVENUE REQUIREMENT IMPACT IN THE 2017 TEST YEAR OF THE**
9 **COMPANY'S PROPOSED 100 BASIS POINT INCREASE IN ROE, INCLUSIVE OF THE**
10 **PROPOSED PERFORMANCE ADDER, FROM ITS LAST APPROVED ROE?**

11 A. The proposed increase related to the Company's requested ROE alone has an annual
12 revenue requirement impact on the Company's rates of approximately \$239 million
13 for 2017. This constitutes about 27.6 percent of the Company's overall increase
14 request for the 2017 test year. See Exhibit SWC-2.

15

16 ***Future Test Year and Regulatory Lag***

17 **Q. FOR THE COMPANY'S PROPOSED 2017 TEST YEAR, WHAT PERCENT OF**
18 **JURISDICTIONAL REVENUES ARE PROPOSED TO BE COLLECTED THROUGH BASE**
19 **RATES?**

20 A. Approximately 55 percent of jurisdictional revenues for the proposed 2017 test year
21 would be collected through base rates and would be essentially at risk due to

1 regulatory lag. See Exhibit SWC-3. This is significant because the greater the
2 percentage of a utility's revenues that are collected through pass-through charges,
3 the lower the utility's risk due to regulatory lag.

4 **Q. HAS THE COMMISSION RECOGNIZED THAT THE USE OF A FUTURE TEST YEAR**
5 **IMPACTS FPL'S EXPOSURE TO REGULATORY LAG?**

6 A. Yes. The use of a projected test year reduces the risk due to regulatory lag because,
7 as the Commission has previously stated, "the main advantage of a projected test
8 year is that it includes all information related to rate base, NOI, and capital structure
9 for the time new rates will be in effect." See Order No. PSC-02-0787-FOF-EI, page 9.
10 As such, the Commission should carefully consider the level of ROE justified by the
11 Company's exposure to regulatory lag.

12

13 ***National Utility Industry ROE Trends***

14 **Q. HOW DOES THE COMPANY'S PROPOSED ROE COMPARE WITH ROES APPROVED BY**
15 **OTHER UTILITY REGULATORY COMMISSIONS?**

16 A. The ROE proposed by the Company, inclusive of the proposed 50 basis point
17 performance adder, is higher than the average ROE approved by other utility
18 regulatory commissions in 2013, 2014, 2015, and so far in 2016. Additionally, only
19 one ROE approved in that period was in the Company's proposed range of 10.5
20 percent to 11.5 percent – the remaining ROEs were below the low end of the
21 Company's proposed range. See Exhibit SWC-4. Finally, even without the proposed

1 performance adder, the Company's proposed ROE of 11.0, if approved, would be the
2 highest approved base rate ROE since 2011.²

3 **Q. WHAT IS YOUR UNDERSTANDING OF THE ROES APPROVED FOR ELECTRIC UTILITIES**
4 **BY COMMISSIONS NATIONWIDE DURING THIS TIME PERIOD?**

5 A. According to data from SNL Financial,³ a financial news and reporting company,
6 there have been 102 reported electric utility rate case ROEs authorized by state
7 regulatory commissions for investor-owned electric utilities in 2013, 2014, 2015, and
8 so far in 2016. The average of these reported ROEs is 9.73 percent. The range of
9 reported authorized ROEs for the period is 8.72 percent to 10.95 percent, and the
10 median authorized ROE is 9.75 percent. Id.

11 **Q. ARE ANY PREVIOUS COMMISSION DECISIONS INCLUDED IN THAT DATASET?**

12 A. Yes. In 2013, the Commission approved ROEs of 10.25 percent for Tampa Electric
13 Company in Docket No. 130040-EI and for Gulf Power Company in Docket No.
14 130140-EI. In 2014, the Commission approved a ROE of 10.25 percent for Florida
15 Public Utilities Company in Docket No. 140025-EI. Id. The Company's proposed ROE
16 is 125 basis points higher than these decisions.

² Excludes ROEs awarded for single issue riders. The Regulatory Commission of Alaska awarded Alaska Electric Light Power an ROE of 12.88 percent at Docket No. U-10-029.

³ Regulatory Research Associates is part of SNL Financial.

1 **Q. SEVERAL OF THE REPORTED AUTHORIZED ROES ARE FOR DISTRIBUTION-ONLY**
2 **UTILITIES, OR ARE ONLY FOR A UTILITY'S DISTRIBUTION SERVICE RATES. WHAT IS**
3 **THE AVERAGE AUTHORIZED ROE IN THE REPORTED GROUP FOR PARTIALLY OR**
4 **FULLY VERTICALLY INTEGRATED UTILITIES LIKE THE COMPANY?**

5 A. In the group reported by SNL Financial, the average authorized ROE for vertically
6 integrated utilities from 2013 to present is 9.88 percent. Id. When the average ROE
7 is broken down by year, there is a declining trend for vertically integrated utilities
8 from 2013 to present.

9 **Q. PLEASE EXPLAIN.**

10 A. The average authorized ROE for vertically integrated utilities in 2013 was 9.97
11 percent, in 2014 it was 9.92 percent, in 2015 it was 9.75 percent, and so far in 2016
12 it is 9.65 percent. It should be noted that in 2015 and so far in 2016, eight vertically
13 integrated utilities have been authorized ROEs of 9.53 or less. Id. As such, the
14 Company's proposed 11.0 percent ROE, and 11.5 percent inclusive of the proposed
15 performance adder, is counter to broader electric industry trends. Figure 1 provides
16 a summary of FPL's current and proposed ROEs versus the reported authorized ROEs
17 for vertically integrated utilities from 2013 through present.

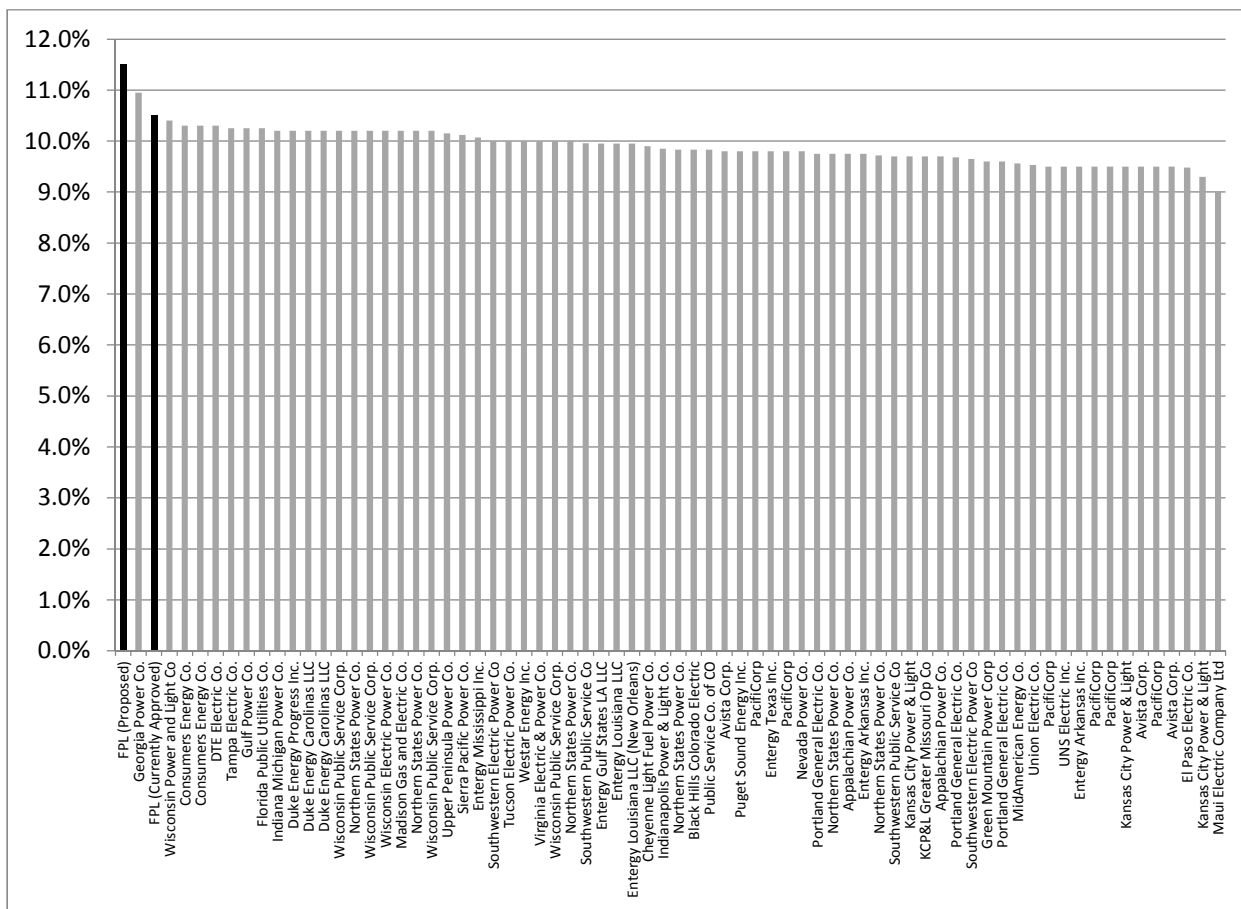


Figure 1. FPL Current ROE and Proposed ROE Versus Reported Authorized ROEs for Vertically Integrated Utilities, 2013 to Present.

Conclusion

Q. GENERALLY, WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THE COMPANY'S PROPOSED INCREASE IN ROE?

A. The Commission should closely examine the Company's proposed revenue requirement increase and the associated ROE, especially when viewed in light of:

- 1) The customer impact of the resulting revenue requirement increases as I discuss above;

- 1 2) The use of a future test year, which reduces regulatory lag by allowing
2 the utility to include the most current information in its rates at the time
3 they will be in effect;
- 4 3) The percentage of the Company's total jurisdictional revenues recovered
5 through base rates that are at risk due to regulatory lag versus the
6 amount of revenues collected through cost recovery clause charges; and
- 7 4) Recent rate case ROEs approved by this Commission and other
8 commissions nationwide.
- 9

10 **Production Cost Allocation**

11 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED PRODUCTION**
12 **CAPACITY COST ALLOCATION METHODOLOGY?**

13 A. My understanding is that the Company proposes to allocate production capacity
14 cost using a 12 coincident peak and 25 percent energy methodology ("12 CP and
15 25%"). The 12 CP and 25% methodology allocates 75 percent of production capacity
16 cost using the Company's 12 monthly coincident peak demands for the test year and
17 the remaining 25 percent using the Company's energy allocator. See Direct
18 Testimony and Exhibits of Renae B. Deaton, page 21, line 3 to line 9.

1 **Q. DOES THE COMPANY'S PROPOSED ALLOCATOR REPRESENT A DEPARTURE FROM**
2 **THE COMPANY'S CURRENT ALLOCATOR?**

3 A. Yes. The Company current allocates production capacity cost using a 12 CP and
4 1/13th methodology, in which 12/13 of the production capacity cost is allocated
5 using the Company's 12 CP and the remaining 1/13 is allocated using the Company's
6 energy allocator. Id.

7 **Q. DO YOU HAVE CONCERNS WITH THE COMPANY'S PROPOSAL?**

8 A. Yes. While Walmart does not expressly support the use of the 12 CP and 1/13th
9 methodology due to the arbitrary designation of a portion of production capacity
10 cost as energy-related,⁴ the Company's proposed 12 CP and 25% methodology
11 continues this practice of arbitrary designation to a greater degree and should be
12 rejected by the Commission. If the Commission determines that it is appropriate to
13 move away from the 12 CP and 1/13th methodology but continue the practice of
14 allocating a portion of production capacity cost on an energy basis, it would be more
15 appropriate to use an average and excess ("A&E") methodology as I describe below.

16 **Q. WHAT IS YOUR UNDERSTANDING OF THE PURPOSE OF PRODUCTION CAPACITY**
17 **COST ALLOCATION?**

18 A. Production capacity cost allocation is the process of allocating to each customer
19 class the fixed costs of a utility's generation assets. Fixed costs are defined as costs

⁴ The National Association of Regulatory Utility Commissioners "Electric Utility Cost Allocation Manual" ("NARUC Manual") categorizes the 12 CP and 1/13th methodology in its "Judgmental Energy Weightings" section. See NARUC Manual, page 57 to page 59.

1 that do not vary with the level of output and must be paid even if there is no
2 output.⁵

3 **Q. DO A UTILITY'S FIXED PRODUCTION CAPACITY COSTS CHANGE WITH CHANGES IN**
4 **THE AMOUNT OF ELECTRICITY GENERATED?**

5 A. No. The utility's fixed production capacity costs do not change with changes in the
6 amount of electricity generated. For example, if a baseload unit is not dispatched
7 and produces no energy, the fixed costs are not avoided by the utility or customers.
8 Generation units can be built and operated for different reasons, such as lower fuel
9 costs, peaking needs, or reliability, but the way in which a generation unit is
10 operated does not change the fact that the fixed costs are, in fact, fixed and should
11 be treated as such in the production capacity cost allocation.

12 **Q. IS IT YOUR UNDERSTANDING THAT PRODUCTION CAPACITY IS SIZED TO MEET THE**
13 **MAXIMUM DEMAND IMPOSED ON THE SYSTEM BY THE COMPANY'S CUSTOMERS?**

14 A. Yes. It is my understanding that the timing and size of a utility's production plant
15 capacity additions are made to meet the maximum demand placed on the utility's
16 system by all customer classes, also known as its coincident peak ("CP"). All of a
17 utility's generation units are needed to meet that demand, and removing any of the
18 units from that stack will limit the utility's ability to do so.

⁵ Pindyck, Robert S. and Daniel L. Rubinfeld, Microeconomics, 5th ed., 2001, page 206.

1 **Q. WHY IS IT IMPORTANT FOR THE ALLOCATION OF PRODUCTION CAPACITY COST TO**
2 **RECOGNIZE THAT PRODUCTION CAPACITY IS DESIGNED TO MEET SYSTEM PEAK?**

3 A. Basing the allocation of production capacity cost on the utility's system peak ensures
4 that the resulting rates reflect cost causation and minimizes cost responsibility shifts
5 between rate classes. Allocation of fixed production capacity costs on a variable or
6 energy basis can introduce shifts in cost responsibility from lower load factor classes
7 to higher load factor classes. Under an energy allocator, two customer classes can
8 have the same level of demand during the coincident peak in the test year and cause
9 the Company to incur the same amount of fixed costs to meet that demand, but
10 because one class uses more kWh than the other, that class will pay more of the
11 demand cost than the class that uses fewer kWh. Additionally, use of an energy
12 allocator implies that the generation plant to which that allocator is applied has no
13 fixed cost, which is plainly not the case.

14 **Q. IN YOUR EXPERIENCE, IS IT COMMON FOR PRODUCTION CAPACITY COSTS TO BE**
15 **ALLOCATED ON A CP BASIS?**

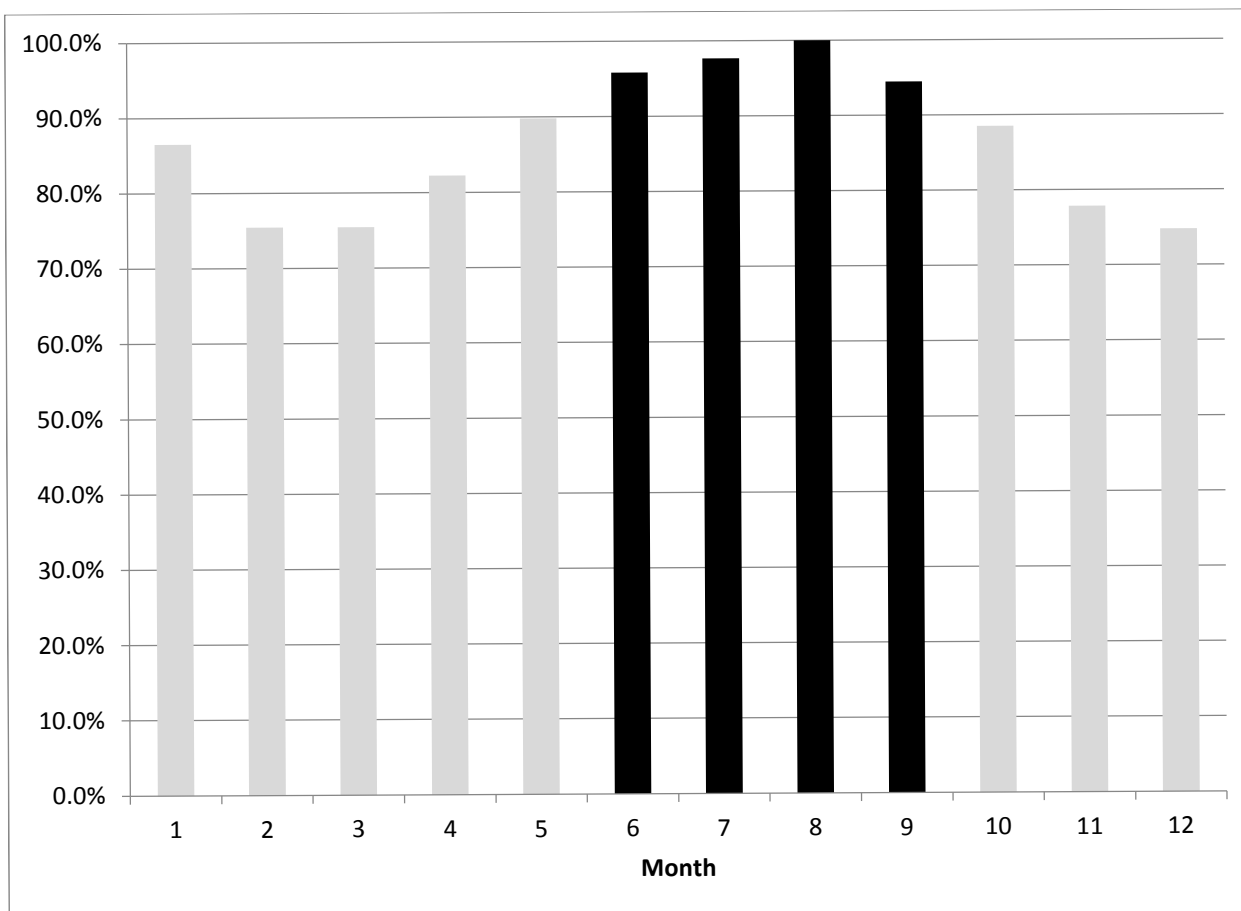
16 A. Yes. Allocating costs on a CP basis reflects the fact that generation is built to meet
17 system peak. This can range from consideration of a one month peak (1 CP) to the
18 peaks of all twelve months (12 CP), depending on the specific characteristics of a
19 given utility. For instance, a distinctly summer peaking utility may reflect
20 consideration of the four summer months while a summer/winter peaking utility
21 may consider more monthly peaks. In my experience, a rule of thumb is to identify

1 the month with the highest CP in the year and count that month plus any additional
2 month that has a CP demand within 10 percent of the overall CP demand.⁶

3 **Q. BASED ON YOUR ANALYSIS, HOW MANY CPS SHOULD BE INCLUDED IN A CP-BASED**
4 **PRODUCTION COST ALLOCATOR FOR FPL?**

5 A. Based on my analysis of FPL's monthly peaks for the proposed test year, as provided
6 by the Company in MFR No. E-11, adjusted for losses, a CP-based production cost
7 allocator should use 4 CP, as the CPs for June, July, August, and September exceed
8 the 90 percent threshold. See Figure 1 and Exhibit SWC-5. For the test year data
9 set, FPL's need for generation units is primarily driven by its customers' demand in
10 those four months. It should be noted that the January, May, and October peaks are
11 not a great deal lower than 90 percent. In particular, the CP for May is 89.8 percent
12 of the maximum CP and the CP for October is 88.5 percent of the maximum CP.

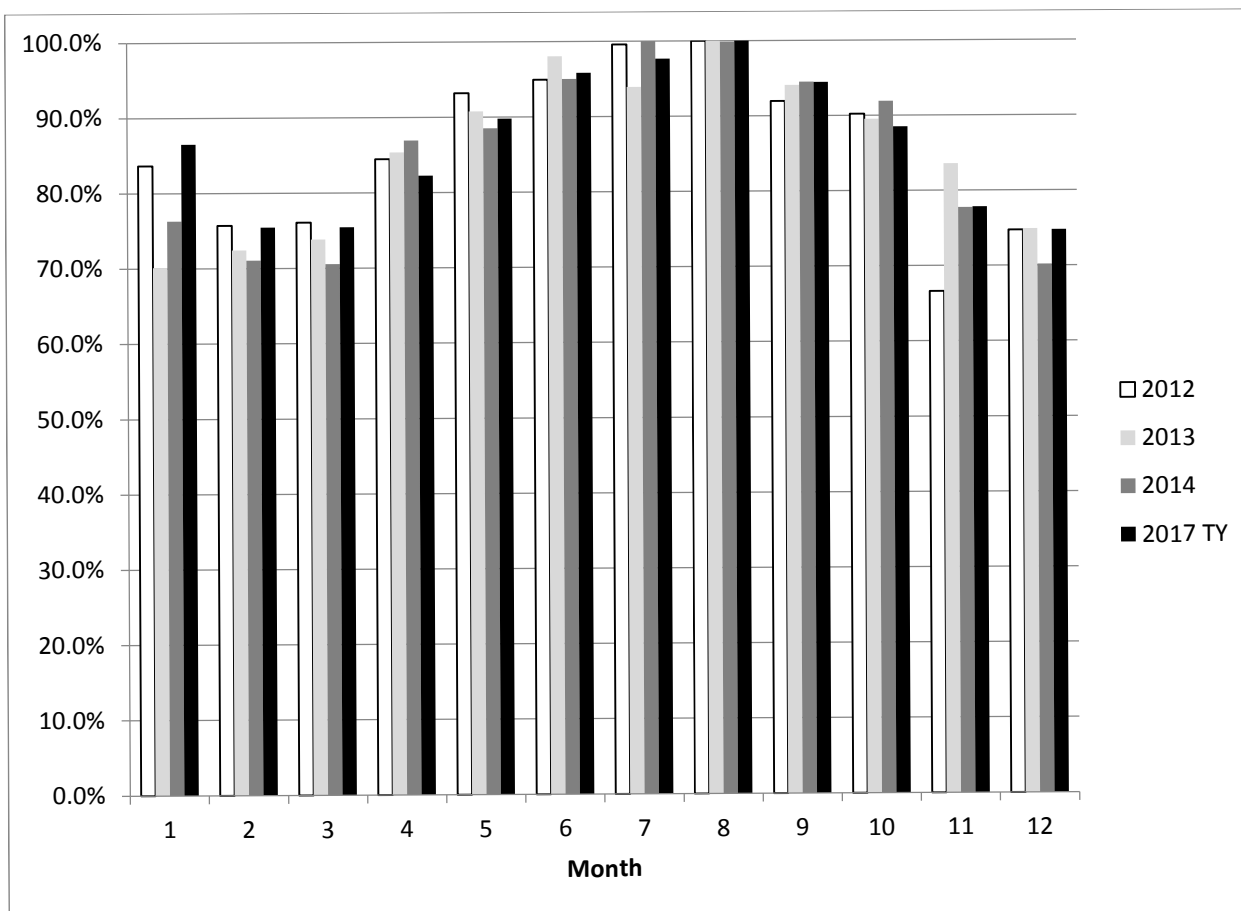
⁶ Additionally, pages 46 to 47 of the NARUC Manual states in its description of the multiple coincident peak methodology: "Criteria for determining which hours to use include: (1) all hours of the year with demands within 5 percent or 10 percent of the system's peak demand, and (2) all hours of the year in which a specified reliability index (loss of load probability, loss of load hours, expected unserved energy, or reserve margin) passes an established threshold value."



1
2 **Figure 2. FPL Test Year Monthly CP, Adjusted for Losses, as a Percentage of System Maximum CP.**
3 **Sources: MFR Schedule E-11, Attachment 1 and MFR E-19C**

4 **Q. DOES AN EXAMINATION OF FPL'S LOAD RESEARCH STUDIES SHOW THAT THE**
5 **INCLUSION OF ADDITIONAL CP MAY BE WARRANTED IN A CP DEMAND**
6 **ALLOCATOR?**

7 **A.** Yes. As shown in Figure 2, in the three years of load research study data provided by
8 FPL, the CPs for both May and October each exceed 90 percent in two of the three
9 years, so it is not unreasonable to include them in the test year CP demand
10 allocator.



1
2 **Figure 3. FPL Monthly CP as a Percentage of System Maximum CP, 2012 through 2014 and 2017**
3 **Test Year. Sources: MFR No. E-11, Attachment 1, Attachment 2, page 1, Attachment 3, page 1,**
4 **Attachment 4, page 1, and MFR No. E-19C**

5 **Q. HAVE YOU CALCULATED REPRESENTATIVE CP-BASED PRODUCTION CAPACITY COST**
6 **ALLOCATORS BASED ON FPL'S PROPOSED TEST YEAR DATA?**

7 **A. Yes. Exhibit SWC- 5 shows the results of those calculations.**

1 **Q. DOES THE USE OF A CP-BASED PRODUCTION COST ALLOCATOR CORRECTLY**
2 **REFLECT BOTH THE FIXED NATURE OF THE COMPANY'S PRODUCTION COSTS AND**
3 **THE USE OF ALL OF ITS GENERATION PLANT TO MEET SYSTEM PEAK DEMAND?**

4 A. Yes, and optimally a production cost allocator based on 4 CP or 6 CP would result
5 from a Commission decision in this docket. However, I recognize that the
6 Commission has historically approved production capacity cost allocators that
7 contain an energy component, including the Company's current 12 CP and 1/13th
8 methodology. As such, if the Commission determines it would be appropriate to
9 move away from the 12 CP and 1/13th methodology but continue the practice of
10 allocating a portion of production capacity cost on an energy basis, it would be more
11 appropriate to use an allocator based on the A&E methodology.

12 **Q. WHAT IS AN A&E ALLOCATOR?**

13 A. An A&E allocator is an allocator that recognizes the contribution of each class to
14 average demand, as well as the relative peak demand of each class. The class non-
15 coincident peak value, which for the purposes of this docket is referred to as Group
16 Non-Coincident Peak ("GNCP"),⁷ is subdivided into average demand and excess
17 demand.

18 The average demand, which represents the energy portion for each class
19 and is calculated by dividing the kWh for each class by 8760, is weighted by the
20 system load factor. The excess demand portion, which is the difference between

⁷ In this docket, the acronym "NCP" is used to represent customer-level non-coincident peaks.

1 the average demand and GNCP demand for each class, is weighted by 1 minus the
2 system load factor.

3 As system load factor increases, the weighting of the average demand
4 portion of the allocator increases. That is, as the system load factor increases, more
5 weight is given to the energy portion of the allocator. Additionally, as a class load
6 factor increases, the allocator for that class reflects an increase in the weight given
7 to the energy portion of the allocator. At a theoretical maximum of 100 percent
8 load factor, the A&E allocator is essentially an energy allocator. As such, this
9 methodology recognizes production plants as being used to meet peak demand as
10 well as provide energy.

11 **Q. DO YOU BELIEVE THE USE OF THE GNCP A&E ALLOCATOR TO BE REASONABLE?**

12 A. Yes. While the GNCP A&E allocator allocates a significant portion of capacity cost on
13 an energy basis, the allocator avoids the mathematical issues inherent in other
14 hybrid demand-energy allocators. Additionally, the determination of amount of
15 production capacity cost allocated on an energy basis for each class is based on
16 system load factor and class load factor, not an arbitrary value.

17 **Q. OF THE ALLOCATORS DISCUSSED ABOVE, WHICH DO YOU BELIEVE WOULD BE**
18 **REASONABLE ALLOCATORS OF FPL'S PRODUCTION CAPACITY COST?**

19 A. I believe the 4 CP, 6 CP, and GNCP A&E allocators are reasonable.

1 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THIS ISSUE?**

2 A. The Commission should reject the Company's proposal to allocate production
3 capacity cost using the 12 CP and 25% methodology. If the Commission determines
4 it is appropriate to move away from the Company's currently approved 12 CP and
5 1/13th methodology and to discontinue the practice of allocating a portion of
6 production capacity on an energy basis, it should approve a demand allocator based
7 either on the Company's 4 CP or 6 CP. If the Commission determines it is
8 appropriate to move away from the Company's currently approved 12 CP and 1/13th
9 methodology and to continue the practice of allocating a portion of production
10 capacity cost on an energy basis, it should approve an A&E allocator based on the
11 Company's GNCP.

12

13 **Rate Design**

14 **Q. DO YOU HAVE CONCERNS REGARDING THE DESIGN OF THE RATE SCHEDULES**
15 **UNDER WHICH WALMART TAKES SERVICE FROM FPL?**

16 A. Yes. My primary concern is the relationship of the schedules to their respective
17 underlying costs of service and the recovery of fixed demand-related costs through
18 the variable energy charges. This is done by underpricing the demand charge for a
19 rate schedule and applying revenues that should be recovered through the demand
20 charge to that schedule's energy charges.

1 **Q. WHY IS THIS A CONCERN?**

2 A. Underpricing the demand charge results in a shift of cost recovery of fixed demand-
3 related costs to variable kWh energy charges. The shift of demand costs from \$/kW
4 demand charges to \$/kWh energy charges results in a shift in demand cost
5 responsibility from lower load factor customers to higher load factor customers who
6 are more efficiently utilizing Company facilities. In essence, two customers can have
7 the same level of coincident demand and cause the utility to incur the same amount
8 of fixed cost, but because one customer uses more kWh than the other, that
9 customer will pay more of the demand cost than the customer that uses fewer kWh.
10 This results in misallocation of cost responsibility as higher load factor customers
11 overpay for the demand-related costs incurred by the Company to serve them and
12 are essentially penalized for more efficiently using the Company's system.

13 I recognize that for GSDT-1 and GSLDT-1 some of the disconnect between
14 rates and the underlying cost of service appears to be an artifact of the price
15 response function of the rate, as the rates are designed to send price signals to
16 customers to manage their load and drive usage off-peak. However, even within the
17 bounds of the development of a price responsive rate, it is important that the rates
18 reflect the underlying cost of service.

1 **Q. DO YOU PROPOSE TO MOVE THE RATES FOR EACH SCHEDULE TO THEIR FULL COST**
2 **IN THIS DOCKET?**

3 A. No. While it would be optimal and a goal of the Commission to set the rates for
4 every class as their cost of service level, I recognize the breadth and diversity of
5 customers on each rate schedule can require a gradual approach to this goal. I apply
6 this approach to my recommendation for GSD-1 and GSDT-1 rates below as well.

7

8 ***GSLDT-1 Rate Design, 2017 Rates***

9 **Q. WHAT IS YOUR UNDERSTANDING OF THE CURRENT GSLDT-1 RATE DESIGN?**

10 A. My understanding is that the current GSLDT-1 rate design contains the following
11 charges:

- 12 • A \$/customer-month customer charge;
- 13 • A \$/kW-month on-peak demand charge, subject to a billing demand floor of
14 500 kW;
- 15 • A \$/kWh on-peak base energy charge; and
- 16 • A \$/kWh off-peak base energy charge. See MFR No. E-14, Attachment 1,
17 page 14.

18 **Q. DOES THE COMPANY PROPOSE ANY CHANGES TO THE STRUCTURE OF GSLDT-1 IN**
19 **THIS DOCKET?**

20 A. My understanding is that the Company does not propose to change the structure of
21 GSLDT-1 in this docket.

1 Q. IS IT YOUR UNDERSTANDING THAT THE RATES FOR GSLDT-1 ARE COORDINATED
2 WITH THOSE FOR GSLD-1?

3 A. Yes. My understanding is that the current and proposed GSLD-1 and GSLDT-1
4 customer and demand charges are the same, and the Company maintains the
5 GSLDT-1 energy charges in a manner such that they are revenue neutral to the
6 Company. See Schedule E-13C, page 13 and page 14, and Exhibit TCC-6, page 9.

7 Q. DO THE COMPANY'S PROPOSED GSLDT-1 RATES REFLECT THE SCHEDULE'S
8 UNDERLYING COST OF SERVICE?

9 A. No. As summarized in Table 1, an examination of the Company's unit cost study
10 shows that the proposed demand charge of \$12.60/kW (inclusive of West County
11 Energy Center 3 ("WCEC3") clause recovery) only recovers approximately 57 percent
12 of the schedule's revenue requirement, where a cost-based demand charge would
13 collect approximately 76 percent of the schedule's revenue requirement. As such,
14 the proposed GSLDT-1 demand charge is set at approximately 75 percent of full cost.

Table 1. Comparison of Cost Recovery, FPL 12 CP and 25% Cost of Service Study, GSLDT-1, and GSLD-1.

	COSS Results	GSLDT-1 Current	GSLDT-1 Proposed	GSLD-1 Current	GSLD-1 Proposed
Customer	0.3%	0.6%	0.5%	0.7%	0.6%
Energy	23.2%	42.4%	42.5%	35.2%	35.5%
Demand	76.4%	57.1%	57.0%	64.2%	63.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Exhibit SWC-6.

15

16

1 **Q. DO THE DEMAND CHARGES FOR GSLD-1 FULLY RECOVER THAT SCHEDULE'S**
2 **DEMAND COSTS?**

3 A. No, however, as shown in Table 1, both the current and proposed charges are set to
4 collect approximately 64 percent of the GSLD-1 revenue requirement. This level of
5 collection is closer to the cost of service level but still only approximately 84 percent
6 of full cost.

7 **Q. DOES THE COMPANY PROVIDE THE UNIT COST FOR DEMAND FOR THE SCHEDULES**
8 **IN THE GSLD(T)-1 GROUP?**

9 A. Yes. The cost of service-based unit demand cost for the GSLD(T)-1 group is
10 \$16.12/kW. See MFR E-6b, Attachment 1, page 1. As such, the Company's proposed
11 demand charge of \$12.60/kW for both GSLD-1 and GSLDT-1 is set at approximately
12 78 percent of unit cost. See Exhibit TCC-6, page 12.

13 **Q. DOES IT APPEAR THAT THE COMPANY PROPOSES TO MAINTAIN THIS STRUCTURE**
14 **FOR THE PROPOSED 2018 RATE YEAR AS WELL AS THE PROPOSED 2019**
15 **OKEECHOBEE UNIT INCREASE?**

16 A. Yes. See Direct Testimony and Exhibits of Tiffany C. Cohen, page 24, line 17 to line
17 20.

18 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THIS ISSUE?**

19 A. For the purposes of this docket, the Commission should approve the following rate
20 design for GSLD-1 and GSLDT-1 for 2017 rates:

21 1) Approve the customer charge methodology as proposed by the Company;

- 1 2) Set the demand charge for both schedules at 90 percent of the demand unit
 2 cost per the approved revenue requirement and cost of service study in this
 3 docket;⁸
- 4 3) For GSLD-1, apply the remaining revenue requirement to the energy charge;
 5 and
- 6 4) For GSLDT-1, apply the remaining revenue requirement to the on-peak and
 7 off-peak energy charges per the Company's proposed relationship between
 8 those charges.

9 **Q. HAVE YOU ESTIMATED THE 2017 RATES THAT WOULD RESULT FROM THE**
 10 **APPLICATION OF THIS METHODOLOGY?**

11 A. Yes. Table 2 shows the rates for each rate schedule.

Table 2. Present, FPL Proposed, and Walmart Proposed GSLD-1 and GSLDT-1 Rates, FPL Proposed Revenue Requirement.

	GSLD-1			GSLDT-1		
	Present	FPL Proposed	Walmart Proposed	Present	FPL Proposed	Walmart Proposed
Customer	\$61.83	\$75.00	\$75.00	\$61.83	\$75.00	\$75.00
Non-Fuel Energy	1.43¢/kWh	1.834¢/kWh	1.33¢/kWh			
On-Peak				2.38¢/kW	3.025¢/kWh	2.41¢/kWh
Off-Peak				1.04¢/kWh	1.314¢/kwh	1.05¢/kWh
Demand	\$9.96/kW	\$12.60/kW	\$14.51/kW	\$9.96/kW	\$12.60/kW	\$14.51/kW

Source: Exhibit SWC-7.

⁸ This represents just over 50 percent movement towards unit cost. Applying this methodology to the Company's proposed revenue requirement and cost of service study results in a demand charge for GSLDT-1 that is approximately 86 percent of full cost and for GSLD-1 that is approximately 96 percent of full cost.

1 **GSDT-1 Rate Design, 2017 Rates**2 **Q. WHAT IS YOUR UNDERSTANDING OF THE CURRENT GSDT-1 RATE DESIGN?**3 A. My understanding is that the current GSDT-1 rate design contains the following
4 charges:

- 5
- A \$/customer-month customer charge;
6
 - A \$/kW-month on-peak demand charge, subject to a billing demand floor of
7 21 kW;8
 - A \$/kWh on-peak base energy charge; and
9
 - A \$/kWh off-peak base energy charge. See MFR No. E-14, Attachment 1,
10 page 9.

11 **Q. DOES THE COMPANY PROPOSE ANY CHANGES TO THE STRUCTURE OF GSDT-1 IN**
12 **THIS DOCKET?**13 A. My understanding is that the Company does not propose to change the structure of
14 GSDT-1 in this docket.15 **Q. IS IT YOUR UNDERSTANDING THAT THE RATES FOR GSDT-1 ARE COORDINATED**
16 **WITH THOSE FOR GSLD-1?**17 A. Yes. As was the case with GSLD-1 and GSLDT-1, my understanding is that the current
18 and proposed GSD-1 and GSDT-1 customer and demand charges are the same, and
19 the Company maintains the GSDT-1 energy charges in a manner such that they are
20 revenue neutral to the Company. See Schedule E-13C, page 8 and page 9, and
21 Exhibit TCC-6, page 9.

1 **Q. DO THE COMPANY'S PROPOSED GSDT-1 RATES REFLECT THE SCHEDULE'S**
2 **UNDERLYING COST OF SERVICE?**

3 A. No. As summarized in Table 3, an examination of the Company's unit cost study
4 shows that the proposed demand charge of \$10.40/kW only recovers approximately
5 52 percent of the schedule's revenue requirement, where a cost-based demand
6 charge would collect approximately 75.6 percent of the schedule's revenue
7 requirement. As such, the proposed GSDT-1 demand charge is set at approximately
8 69 percent of full cost.

Table 3. Comparison of Cost Recovery, FPL 12 CP and 25% Cost of Service Study, GSDT-1, and GSD-1.

	COSS Results	GSDT-1 Current	GSDT-1 Proposed	GSD-1 Current	GSD-1 Proposed
Customer	1.6%	1.5%	1.2%	2.5%	2.6%
Energy	22.8%	47.4%	46.9%	42.9%	42.8%
Demand	75.6%	51.1%	51.8%	54.7%	54.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Exhibit SWC-6.

9

10 **Q. DO THE DEMAND CHARGES FOR GSD-1 FULLY RECOVER THAT SCHEDULE'S**
11 **DEMAND COSTS?**

12 A. No, however, as shown in Table 3, both the current and proposed charges are set to
13 collect approximately 54 percent of the GSD-1 revenue requirement. This level of
14 collection is closer to the cost of service level but still only approximately 72 percent
15 of full cost. See Exhibit SWC-6.

1 **Q. DOES THE COMPANY PROVIDE THE UNIT COST FOR DEMAND FOR THE SCHEDULES**
2 **IN THE GSD(T)-1 GROUP?**

3 A. Yes. The cost of service-based unit demand cost for the GSD(T)-1 group is
4 \$14.39/kW. See MFR E-6b, Attachment 1, page 1. As such, the Company's proposed
5 demand charge of \$10.40/kW for both GSD-1 and GSDT-1 is set at approximately 72
6 percent of unit cost. See Exhibit TCC-6, page 12.

7 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THIS ISSUE?**

8 A. For the purposes of this docket, the Commission should approve the following rate
9 design for GSD-1 and GSDT-1 for 2017 rates:

- 10 1) Approve the customer charge methodology as proposed by the Company;
- 11 2) Set the demand charge for both schedules at 85 percent of the demand unit
12 cost per the approved revenue requirement and cost of service study in this
13 docket;⁹
- 14 3) For GSD-1, apply the remaining revenue requirement to the energy charge;
15 and
- 16 4) For GSDT-1, apply the remaining revenue requirement to the on-peak and
17 off-peak energy charges per the Company's proposed relationship between
18 those charges.

⁹ This represents just under 50 percent movement towards unit cost. Applying this methodology to the Company's proposed revenue requirement and cost of service study results in a demand charge for GSDT-1 that is approximately 80 percent of full cost and for GSD-1 that is approximately 85 percent of full cost.

1 Q. HAVE YOU ESTIMATED THE 2017 RATES THAT WOULD RESULT FROM THE
2 APPLICATION OF THIS METHODOLOGY?

3 A. Yes. Table 4 shows the rates for each rate schedule.

Table 4. Present, FPL Proposed, and Walmart Proposed GSD-1 and GSDT-1 Rates, FPL Proposed Revenue Requirement.

	GSD-1			GSDT-1		
	Present	FPL Proposed	Walmart Proposed	Present	FPL Proposed	Walmart Proposed
Customer	\$20.24	\$25.00	\$25.00	\$20.24	\$25.00	\$25.00
Non-Fuel Energy	1.93¢/kWh	2.311¢/kWh	1.79¢/kWh			
On-Peak				4.11¢/kW	4.712¢/kWh	3.87¢/kWh
Off-Peak				1.05¢/kWh	1.248¢/kwh	0.98¢/kWh
Demand	\$8.70/kW	\$10.40/kW	\$12.23/kW	\$8.70/kW	\$10.40/kW	\$12.23/kW

Source: Exhibit SWC-8.

4

5 **2018 Rates**

6 Q. WHAT IS YOUR RECOMMENDATION FOR THE COMPANY'S PROPOSED 2018 RATE
7 YEAR?

8 A. If the Commission approves the Company's proposal to institute an incremental rate
9 change in 2018, the Commission should apply the methodology above to the
10 approved revenue requirement and cost of service study for 2018.

1 **2019 Okeechobee LSA**

2 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED RATE DESIGN**
3 **FOR THE 2019 OKEECHOBEE LSA?**

4 A. The Company proposes to apply an equal percent increase to all base charges and
5 non-clause recoverable credits. See Direct Testimony and Exhibits of Tiffany C.
6 Cohen, page 24, line 17 to line 20.

7 **Q. DO YOU BELIEVE THIS IS THE APPROPRIATE METHODOLOGY TO IMPLEMENT THE**
8 **LSA?**

9 A. No. My understanding is that the majority of the base rate revenue increase due to
10 the LSA is related to the installed capacity cost of the Okeechobee unit, which is the
11 fixed cost of the unit. See Direct Testimony and Exhibits of Robert E. Barrett Jr.,
12 page 43, line 13 to line 17. As such, for rate schedules that contain demand charges,
13 it is not appropriate to apply the increase to the non-demand charges such as the
14 customer or energy charges.

15 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THIS ISSUE?**

16 A. If the Commission approves the 2019 Okeechobee LSA, for rate schedules that
17 contain demand charges, the increase to those schedules should only be applied to
18 the demand charge.

19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

CP

IN RE: PETITION FOR RATE INCREASE
BY FLORIDA POWER & LIGHT COMPANY

)
)
)

DOCKET NO. 160021-EI

EXHIBIT SWC-1 OF STEVE W. CHRISS
ON BEHALF OF
WAL-MART STORES EAST, LP AND SAM'S EAST, INC.

(Please disregard; entered in error.)

1

2 CHAIRMAN BROWN: Staff.

3 MS. BROWNLESS: Yes, ma'am.

4

EXAMINATION

5 BY MS. BROWNLESS:

6 Q Good afternoon.

7 A Good afternoon.

8 Q Did you have an opportunity to review what's
9 been identified as -- on the comprehensive exhibit list
10 as Exhibit No. 550 and Exhibit No. 551? And these would
11 be -- if you give me a minute -- these would be
12 Wal-Mart's responses to Florida Power & Light's second
13 set of interrogatories number 22 to 26, and Wal-Mart's
14 responses to FPL's fourth set of interrogatories number
15 45.

16 A I have.

17 Q Okay. And did you prepare those responses,
18 sir, or were they prepared under your direct supervision
19 and control?

20 A Yes.

21 Q Okay. And if I were to ask you the same
22 questions today, would your answers be the same?

23 A Yes.

24 Q Are those answers true and correct to the best
25 of your knowledge and belief?

1 A Yes.

2 Q Okay. And are any portions of the responses
3 that you provided confidential?

4 A No.

5 MS. BROWNLESS: Okay. Thank you so much.

6 CHAIRMAN BROWN: Mr. Williamson.

7 MR. WILLIAMSON: Mr. Chriss is available for
8 cross-examination.

9 CHAIRMAN BROWN: Does he have a brief summary?

10 MR. WILLIAMSON: Oh, yeah. I forgot about
11 that part.

12 CHAIRMAN BROWN: I doubt that.

13 MR. WILLIAMSON: Yes, he does have a brief
14 summary.

15 THE WITNESS: Thank you.

16 CHAIRMAN BROWN: Good afternoon.

17 THE WITNESS: Good afternoon, Chairman Brown
18 and Commissioners. My name is Steve Chris. I am
19 Senior Manager Energy Regulatory Analysis for
20 Wal-Mart Stores, Incorporated, and my
21 recommendations to the Commission in this docket
22 are as follows:

23 First, the Commission should thoroughly and
24 carefully consider the impact on customers in
25 examining the requested revenue requirement and

1 return on equity, in addition to all other facets
2 of the case, to ensure that any increase in the
3 company's rates is only the minimum amount
4 necessary to provide adequate and reliable service
5 while also providing an opportunity to earn a
6 reasonable return.

7 My second recommendation: The Commission
8 should closely examine the company's proposed
9 revenue requirement increase in the associated ROE,
10 especially when viewed in light of the customer
11 impact of the resulting revenue requirement
12 increases, the use of a future test year, which
13 reduces regulatory lag by allowing the utility to
14 include the most current information in its rates
15 at the time they will be in effect, the percentage
16 of companies' total jurisdictional revenues
17 recovered through base rates that are at risk due
18 to regulatory lag versus the amount of revenues
19 collected through cost recovery clause charges, and
20 recent rate case ROEs approved by this commission
21 and other commissions nationwide.

22 My third recommendation to the Commission is
23 that the Commission should reject the company's
24 proposal to allocate production capacity cost using
25 a 12 coincident peak and 25 percent energy

1 methodology. I call that the 12CP and 25%.

2 If the Commission determines it is appropriate
3 to move away from the company's currently approved
4 12CP and 1/13th methodology, and to discontinue the
5 practice of allocating a portion of production
6 capacity on an energy basis, it should approve
7 either a demand allocator based on the company's
8 four coincidence peaks or six coincidence peaks.

9 If the Commission determines it's appropriate
10 to move away from the currently approved 12CP and
11 1/13th, and to continue the practice of allocating
12 a portion of production capacity costs on an
13 energy, it should approve an average in excess
14 allocator based on the company's group not
15 coincidence peaks.

16 And to clarify this recommendation, I say in
17 my testimony that we don't specifically support the
18 12CP and 1/13th, but we don't oppose no change from
19 that. That's an allocator that's been in place for
20 several years for, I believe, most, if not all, of
21 the utilities in Florida at some point. And we
22 recognize the Commission's historical use of that,
23 so we don't oppose the Commission continuing the
24 use of that allocator. So that's to clarify that
25 particular recommendation. And so the alternatives

1 are really about if the Commission decides it's
2 time to move on, which way should it move.

3 May 4th recommendation in the docket for the
4 purposes of this docket, the Commission should
5 approve the rate designs that I describe in
6 testimony for GSLD-1 and -- GSLDT-1, as well as --
7 I am sorry, that's -- as well as GSD and GSDT for
8 2017. For 2018, to use the same methodology for
9 the rates there.

10 And finally, if the Commission approves the
11 2019 Okeechobee LSA for rate schedules that contain
12 demand charges, the increase to those schedules
13 should only be applied to the demand charge.

14 And that concludes my summary.

15 CHAIRMAN BROWN: Thank you.

16 MR. WILLIAMSON: Okay. Now, I will tender Mr.
17 Chriss for cross-examination.

18 CHAIRMAN BROWN: Thank you, Mr. Williamson.

19 And just a reminder to all the parties, that
20 there is no friendly cross allowed on this.

21 Mr. Rehwinkle.

22 MR. REHWINKEL: No questions from the Public
23 Counsel.

24 CHAIRMAN BROWN: Thank you.

25 FIPUG.

1 MR. MOYLE: No questions.

2 CHAIRMAN BROWN: Thank you, Mr. Moyle.

3 Hospitals.

4 MR. WISEMAN: No questions.

5 CHAIRMAN BROWN: No questions -- I hear no
6 questions.

7 Retail Federation.

8 MR. LAVIA: I have no questions. Thank you.

9 CHAIRMAN BROWN: FEA.

10 MR. JERNIGAN: No questions.

11 CHAIRMAN BROWN: Okay.

12 Sierra.

13 MS. CSANK: No questions.

14 CHAIRMAN BROWN: Okay.

15 AARP has been excused.

16 Larsons.

17 COMMISSIONER SKOP: No questions for this
18 witness, Madam Chair.

19 CHAIRMAN BROWN: Thank you.

20 Florida Power & Light.

21 MR. DONALDSON: Very few questions.

22 CHAIRMAN BROWN: Okay.

23 MR. DONALDSON: And I do have an exhibit.

24 CHAIRMAN BROWN: Okay. Staff.

25 We will be starting at 765.

1 MR. DONALDSON: Thank you.

2 CHAIRMAN BROWN: Thank you. Okay. And the
3 title of that?

4 MR. DONALDSON: Wal-Mart's response to FPL's
5 first request for admissions, and I didn't put the
6 number on there, but it is actually numbers 15 and
7 16.

8 CHAIRMAN BROWN: Okay. So we will label that
9 as 765 with the title Wal-Mart's response to FPL's
10 first request for admissions number 15 and No. 16.

11 (Whereupon, Exhibit No. 765 was marked for
12 identification.)

13 CHAIRMAN BROWN: Mr. Chriss, do you have a
14 copy of that in front of you?

15 THE WITNESS: I do.

16 CHAIRMAN BROWN: Thank you.

17 MR. DONALDSON: And I am just going to be
18 entering these into the record as a party opponent,
19 as we did the last -- with the previous OPC
20 admissions. They are -- they are admissions that
21 essentially just deal with Wal-Mart's position on
22 the ROE performance adder where they admit the PSC
23 has previously approved an ROE adder for an
24 investor owned utility, and that the Commission has
25 the authority to approve an ROE adder. So it's a

1 party admission, which automatically comes not
2 record as evidence.

3 MR. WILLIAMSON: And I would just note for the
4 record that Mr. Chriss' testimony does not
5 specifically oppose or approve of the addition of a
6 performance adder, so it is not very specifically
7 within the scope of his testimony in terms of
8 whether to approve or deny a performance adder for
9 ROE.

10 He did sponsor this discovery request for
11 admission, so I don't have a problem with entering
12 it into the record, but I want the record to be
13 clear that it's really outside the specific scope
14 of his testimony with respect to the performance
15 adder.

16 CHAIRMAN BROWN: Okay. Thank you. Noted.

17 MR. DONALDSON: And then I -- sorry.

18 MR. MOYLE: With respect to the admission on
19 question 16, we would object to the extent it calls
20 for a legal conclusion.

21 CHAIRMAN BROWN: Okay.

22 MR. DONALDSON: It's an admission by a party.
23 Mr. Moyle is not the party of record on this
24 particular exhibit, and he certainly has his
25 opportunity to brief any legal opinions, which is

1 an issue in the case, and I believe he has taken a
2 position in the case, but this is with respect to
3 Wal-Mart.

4 CHAIRMAN BROWN: Okay. I have understand
5 that. Thank you, Mr. Donaldson.

6 And I assume you are going to be asking the
7 witness a question of these. You just read --

8 MR. DONALDSON: Well, Mr. Williamson already
9 asked my questions and made that point clear, that
10 he is not going to be recommending any approval or
11 disapproval of an ROE performance adder. So I just
12 want -- he has already taken care of my that
13 portion of my questions, so I won't ask him about
14 it, but I did want to at least have this entered
15 into the record on Wal-Mart's position on the
16 issue.

17 CHAIRMAN BROWN: We are for the entering
18 anything into the record just yet so --

19 MR. DONALDSON: When it comes that time,
20 ma'am.

21 CHAIRMAN BROWN: All right.

22 MR. DONALDSON: May I proceed?

23 CHAIRMAN BROWN: Yes, please.

24 EXAMINATION

25 BY MR. DONALDSON:

1 Q Good afternoon.

2 A Good afternoon.

3 Q Very few questions for you, Mr. Chriss.

4 Am I correct that you are an employee of
5 Wal-Mart?

6 A That's correct.

7 Q And your title is regulatory what?

8 A Senior Manager, Energy Regulatory Analysis.

9 Q Okay. And so does that mean -- and so does
10 that mean that one of your duties is that you go around
11 and participate in regulatory proceedings where there
12 may be electric base rate increases, or anything that
13 affects electric increases for Wal-Mart's positions?

14 A That's correct. That's one of my duties.

15 Q All right. And as we already stated, it's
16 true that you don't present any testimony challenging
17 FPL's request for an ROE performance adder; is that
18 correct?

19 A That's correct. I include it in one of my
20 calculations. So FPL's requested ROE as shown is 11.5,
21 because it includes the adder, but I don't specifically
22 take a position up or down.

23 Q Okay. Now, would you also agree that
24 customers -- customers are not really concerned with the
25 ROE. They are more concerned with their bills?

1 MR. MOYLE: Objection --

2 MR. WILLIAMSON: Object --

3 MR. REHWINKEL: I want to object to the form
4 of the question. He didn't specify what customers.
5 Mr. Chriss represents a specific subset of
6 customers.

7 CHAIRMAN BROWN: Okay. And --

8 MR. WILLIAMSON: I would certainly appreciate
9 a specific reference to the testimony that these
10 questions refer to. I will have a standing
11 objection if questions are outside the scope of his
12 direct testimony.

13 CHAIRMAN BROWN: Okay. And we don't entertain
14 standing objections.

15 MR. WILLIAMSON: And I remember you said that
16 yesterday. Sorry.

17 CHAIRMAN BROWN: But got your objection, and,
18 Mr. Moyle.

19 MR. MOYLE: My objection was on the grounds of
20 speculation. I think the question was customers --
21 what do customers think. You know, if he wants to
22 ask what does Wal-Mart think, that's different, but
23 the objection on speculation as to what customers
24 as a whole think, calls for speculation.

25 CHAIRMAN BROWN: Okay. Two things, Mr.

1 Donaldson, if you could, number one, point us in
2 the direction -- as it relates to his direct
3 testimony. And the second, if you could rephrase
4 the question.

5 MR. DONALDSON: Sure. I can certainly
6 rephrase the question. And with respect to his
7 direct testimony, it's page seven, lines seven
8 through 9:00, where he specifically talks about,
9 should the Commission consider the impact of the
10 proposed rates increase on customers.

11 CHAIRMAN BROWN: You said page seven, lines
12 seven through nine?

13 MR. DONALDSON: Yes, ma'am.

14 CHAIRMAN BROWN: Okay. Okay. Rephrase the
15 question.

16 MR. DONALDSON: Sure.

17 BY MR. DONALDSON:

18 **Q Mr. Chriss, have you previously stated that**
19 **customers are concerned with bills and not with the ROE?**

20 MR. WILLIAMSON: I object. That's not what
21 this statement says in his testimony. It refers to
22 increases to consumer prices as a result of any
23 cost increases, which may include electric price
24 increases to Wal-Mart.

25 CHAIRMAN BROWN: Can you rephrase the

1 question, Mr. Donaldson?

2 MR. DONALDSON: Do you want me to -- okay.

3 It's a simple question.

4 BY MR. DONALDSON:

5 Q With respect to all the factors that go into a
6 customer's bill, which one of those fac -- well, let me
7 put it this way: Would you agree that one of the
8 factors that goes into a customer's bill is ROE?

9 A Yes, ROE is one of the factors that goes into
10 the calculation of a utility's revenue requirement
11 which, after several more steps, becomes the rates that
12 are charged the customer on its bill.

13 Q Okay. And is it your belief, from your
14 perspective, your personal view, that customers are more
15 concerned with their bill and not with the actual ROE?

16 MR. WILLIAMSON: I object. He doesn't testify
17 to that in his direct testimony.

18 MR. DONALDSON: I am asking his opinion as --
19 it's cross-examination, and I am asking his
20 opinion --

21 CHAIRMAN BROWN: Objection overruled. I will
22 allow him to answer. If he has an opinion, he can
23 state it; if he doesn't, then he can state that as
24 well.

25 You can answer it, Mr. Chriss.

1 THE WITNESS: Thank you.

2 It's sort of a two-part answer. So all
3 customers are concerned with bills, as every other
4 commercial customer that I interact with, lots of
5 industrial customers that I interact with, and I am
6 sure residential customers as well. So, you know,
7 in the broad set, yes, all customers are concerned
8 with their bills.

9 There is a subset, and I think a fairly large
10 subset, because -- I mean, I have been involved
11 in -- I mean, just going to testimony numbers, I
12 have testified in cases in 38 states and some, you
13 know, 150 plus dockets. We are never the only
14 customer in there, whether it's the residential
15 advocate, other commercial advocates, the
16 industrial advocates, and all of these advocates do
17 testify and provide evidence around ROE. So there
18 are a significant number of customers who care
19 about ROE, or through their representatives, care
20 about ROE.

21 It's not easy for every customer to get here
22 like we have. I mean, we are lucky that we have
23 the capacity and the ability to come and intervene
24 in rate cases, but not everybody has that, and so
25 that's why we have Public Counsel. That's why FRF

1 is here. That's why FIPUG is here. So when you
2 look at the body of customers represented by those
3 advocates, I would say there are a lot of customers
4 who care about ROE.

5 MR. DONALDSON: Okay. I am going to have to
6 pass out an exhibit, then, based on his response.

7 CHAIRMAN BROWN: Staff.

8 We are at 466. Thank you.

9 COMMISSIONER GRAHAM: 766.

10 CHAIRMAN BROWN: 766. Let's see what it is
11 here. Okay. Let's give this a title.

12 MR. DONALDSON: 2012 120015-EI Technical
13 Hearing Transcript of Chriss, C-H-R-I-S-S for the
14 court reporter.

15 CHAIRMAN BROWN: Okay. We will title it 2012
16 120015-EI Technical Hearing Transcript of Chriss.

17 (Whereupon, Exhibit No. 766 was marked for
18 identification.)

19 COMMISSIONER SKOP: Madam Chairman.

20 CHAIRMAN BROWN: Yes.

21 COMMISSIONER SKOP: With respect to the short
22 title, are they referring -- I am sorry, never
23 mind. Thank you.

24 CHAIRMAN BROWN: Okay. You answered your own
25 question?

1 COMMISSIONER SKOP: Excuse me, I thought it
2 was a deposition page and the title was wrong. My
3 bad.

4 CHAIRMAN BROWN: Okay. Mr. Chriss, you have a
5 copy of it?

6 THE WITNESS: I do.

7 CHAIRMAN BROWN: Okay. Go ahead.

8 BY MR. DONALDSON:

9 **Q Mr. Chriss, if you can turn to the last page,**
10 **this is a transcript of the technical hearing on your**
11 **portion of your testimony in FPL's 2012 rate case. Are**
12 **you at that last page, sir?**

13 A I am.

14 **Q And just for the record, it's page 2953 of the**
15 **2012 hearing transcript; do you see that?**

16 A I see that.

17 **Q All right. And if you go down to line 15, can**
18 **you read the question, please, into the record?**

19 A The question is: "The customer is concerned
20 what his bill is, not what the ROE is at the end of the
21 day, correct?"

22 **Q And what was the answer that you provided?**

23 A "I would say most -- yeah, most end use
24 customers are -- are concerned about the bill level."

25 **Q Okay. Now, with respect to your testimony,**

1 you are not providing any evidence that FPL's cost, the
2 cost of its electric bills are not among the lowest in
3 the state, correct?

4 A I am not.

5 Q All right. And you are not providing any
6 testimony that demonstrates that FPL's quality of
7 service is below industry average, are you?

8 A I am not.

9 Q All right. And you are not providing any
10 testimony that FPL's reliability is not the best in
11 Florida, correct?

12 A I am not.

13 MR. DONALDSON: Okay. That's all. Thank you.

14 CHAIRMAN BROWN: Okay. Thank you, Mr.

15 Donaldson.

16 Staff.

17 EXAMINATION

18 BY MS. BROWNLESS:

19 Q Yes, sir. Were you provided responses to
20 staff's interrogatories and POD requests associated with
21 your subject areas as they became available?

22 A I am sorry, could you repeat your question?

23 Q Sure. In the course of your engagement here
24 with Wal-Mart, were you provided the responses to PSC
25 staff's interrogatories and production of documents

1 requests associated with your subject area as they
2 became available?

3 A Yes. I had access to the discovery website.

4 Q Okay. And were you also provided responses
5 associated with FIPUG's, FEA's, South Florida's, AARP's
6 discovery requests as they became available?

7 A To the extent that all of those were available
8 on that website, I did.

9 Q Okay. And during the course of your
10 engagement, did you prepare discovery questions for your
11 client --

12 A No.

13 Q -- Wal-Mart?

14 A I did not.

15 Q Okay. Thank you.

16 MS. BROWNLESS: That's all we have. Thank you
17 very much.

18 CHAIRMAN BROWN: Thank you.

19 Commissioners, any questions for Mr. Chriss?

20 All right. Redirect?

21 MR. WILLIAMSON: I see no need for any
22 redirect, Madam Chairman.

23 I would ask that his exhibits on the
24 comprehensive exhibit list 318 through 325 be moved
25 into the record, and that he be excused. Not that

1 he can go anywhere, but that he be excused.

2 CHAIRMAN BROWN: That's true. He can't go
3 anywhere.

4 Okay. We have got 318 through 325. Are there
5 any objections to those exhibits?

6 MR. DONALDSON: No objection, Madam Chairman.

7 CHAIRMAN BROWN: We will go ahead and move
8 those in.

9 (Whereupon, Exhibit Nos. 318-325 were received
10 into evidence.)

11 CHAIRMAN BROWN: FPL, you have two exhibits,
12 765 and 766.

13 MR. DONALDSON: Yes, Madam Chair. FPL will
14 seek to move those into the record.

15 CHAIRMAN BROWN: I believe there is an
16 objection to 765, is that correct?

17 MR. WILLIAMSON: I don't have an objection to
18 765. I think other parties had objections to 765.

19 CHAIRMAN BROWN: Okay. 765 was Wal-Mart's
20 response to FPL's first request for admission. Is
21 there an objection to moving that in the record? I
22 don't see a problem with that either, so we will go
23 ahead, unless I hear an objection, move both 765
24 and 766 into the record.

25 (Whereupon, Exhibit Nos. 765-766 were received

1 into evidence.)

2 CHAIRMAN BROWN: And, Mr. Chriss, you are
3 excused.

4 THE WITNESS: Thank you.

5 CHAIRMAN BROWN: You can hang out here.

6 THE WITNESS: I could. It would be fun to
7 watch.

8 (Witness excused.)

9 CHAIRMAN BROWN: All right. Now we are moving
10 back to FPL's rebuttal which is Mr. Ferguson.

11 MR. LITCHFIELD: That's correct. FPL calls
12 Keith Ferguson.

13 CHAIRMAN BROWN: Okay. Okay.

14 MR. BUTLER: Ready to go?

15 CHAIRMAN BROWN: Ready to go.

16 MR. BUTLER: Great, okay.

17 Whereupon,

18 KEITH FERGUSON

19 was recalled as a witness, having been previously duly
20 sworn to speak the truth, the whole truth, and nothing
21 but the truth, was examined and testified as follows:

22 EXAMINATION

23 BY MR. BUTLER:

24 Q Mr. Ferguson, you have been sworn previously,
25 correct?

1 A Yes. That's correct.

2 Q Would you please state your name and business
3 address for the record?

4 A Keith Ferguson, 700 Universe Boulevard, Juno
5 Beach, Florida.

6 Q By whom are you employed, and in what
7 capacity?

8 A Florida Power & Light, Assistant Controller.

9 Q Have you prepared and caused to be filed 16
10 pages of rebuttal testimony in this proceeding?

11 A Yes.

12 Q Do you have any changes or revisions to your
13 rebuttal testimony?

14 A No, I do not.

15 Q Okay. Subject to the adjustments addressed in
16 exhibits KO-19 and KO-20, if I asked you the questions
17 contained in your rebuttal testimony today, would your
18 answers be the same?

19 A Yes, they would.

20 MR. BUTLER: Madam Chair, I would ask that
21 Mr. Ferguson's prepared rebuttal testimony be
22 inserted into the record as though read.

23 CHAIRMAN BROWN: We will insert Mr. Ferguson's
24 prepared rebuttal testimony into the record as
25 though read.

1 (Prefiled rebuttal testimony inserted into the
2 record as though read.)

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Keith Ferguson, and my business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. Did you previously submit testimony in the proceeding?

A. Yes.

Q. Are you sponsoring or co-sponsoring any exhibits as part of your rebuttal testimony?

A. Yes. I am sponsoring the following exhibits:

- KF-2 (Updated) – Proposed Depreciation Company Adjustments by Year for Base vs. Clause for 2017 and 2018
- KF-7 – Dismantlement Reserve - Company Adj Impact – Rate Base Only
- KF-8 – Order Approving Capital Recovery of Port Everglades ESPs

I am co-sponsoring the following exhibit:

- KF-4 (Corrected) – FPL 2016 Dismantlement Study filed on May 3, 2016 with FPL’s First Notice of Identified Adjustments

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to demonstrate that certain recommendations in the testimony of the South Florida Hospitals and Health Care Association (“SFHHA”) witness Kollen are incorrect and should be rejected. Specifically I will address the following topics:

- 1 – Dismantlement accrual
- 2 – Depreciation study accrual
- 3 – Amortization period recommended for the capital recovery schedule
- 4 – End of life materials and supplies and last core nuclear fuel accruals

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

6 A. My rebuttal testimony will demonstrate that the Company’s request on the
7 topics identified above is reasonable and that the intervenor recommendations
8 are flawed and should be rejected by the Commission. Specifically, I will
9 demonstrate that:

- 10 • Witness Kollen’s recommendation to apply either zero or at best, 10%
11 contingency is unsupported and unreasonable.
- 12 • Witness Kollen mischaracterized the dismantlement accrual
13 calculation.
- 14 • Witness Kollen’s proposed life spans suggested for Scherer Unit 4 and
15 St. Johns River Power Park (“SJRPP”) are not reasonable.
- 16 • Contrary to statements of witness Kollen, the Second Notice of
17 Identified Adjustments filed by the Company applied the proposed
18 depreciation rates to plant and reserve balances as of December 31,
19 2016.
- 20 • Commission precedent supports FPL’s recommended four-year
21 amortization period for its capital recovery schedule and there is no
22 basis for the 10-year recovery period recommended by witness Kollen.

- 1 • Witness Kollen’s proposal to eliminate the end of life (“EOL”)
2 materials and supplies (“M&S”) and last core nuclear fuel accruals and
3 flow back of these reserves to customers over a four-year period is not
4 consistent with Commission precedent.

5

6

II. DISMANTLEMENT ACCRUAL

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8

Application of a Contingency Factor

9 **Q. Do you agree with page 32, line 16 of witness Kollen’s testimony that the**
10 **contingency reflected in the Company’s estimated dismantlement costs**
11 **are excessive?**

12 A. No, I do not agree. FPL has always included contingency as a part of the
13 estimation for future dismantlement and the Commission has previously
14 approved the use of FPL’s proposed contingency percentage. Historical
15 dismantlement activities by FPL have resulted in costs that exceed the
16 estimate even including the contingency. The estimates that Burns &
17 McDonnell (“BMcD”) developed reflect the Company’s best estimates to
18 dismantle each of FPL’s fossil and solar generating facilities and were
19 prepared in accordance with Rule 25-6.04364, Electric Utilities
20 Dismantlement Studies, Florida Administrative Code (“F.A.C.”). BMcD’s
21 experience led to the recommendation to increase the FPL contingency factor
22 from 16% to 20%. FPL witness Kopp of BMcD explains the basis for the
23 20% contingency factor in greater detail.

1

2 **Q. Does FPL's recent experience relative to dismantling generating facilities**
3 **demonstrate the need for a contingency adjustment factor?**

4 A. Yes. Since the 2009 Dismantlement Study was prepared, FPL has dismantled
5 generating facilities at multiple sites. At several of these sites, FPL
6 encountered conditions that were unknown at the time the estimates were
7 prepared which resulted in additional costs being incurred that contributed to
8 the total dismantlement costs being above the costs estimates in the 2009
9 Dismantlement Study, including the 16% contingency factor. For example,
10 during dismantlement of the Cutler plant, FPL identified additional soil
11 contamination, which will result in remediation costs in excess of the amount
12 estimated in the 2009 Dismantlement Study.

13 **Q. Are you aware of this Commission ordering any investor-owned utility to**
14 **apply a zero percent contingency factor to its dismantlement cost**
15 **estimates as recommended by witness Kollen?**

16 A. No. That would be completely unreasonable and inconsistent with the
17 Commission's dismantlement study rule.

18 **Q. Are you aware of this Commission approving a 20% contingency factor**
19 **consistent with FPL's 2016 Dismantlement Study?**

20 A. Yes. In Order No. PSC-10-0131-FOF-EI, Docket No. 090079-EI, the
21 Commission approved a 20% contingency factor for Duke Energy Florida's
22 most recently filed dismantlement study, which was also prepared by BMcD.
23 In that Order the Commission stated, "[f]irst, dismantlement studies typically

1 include a contingency factor. A contingency factor is designed to account for
2 unknown expenses at the time the estimate is prepared, but expected to be
3 expended on the project.”

4

5

Calculation of Dismantlement Accrual

6 **Q. Witness Kollen contends on page 36, lines 1 through 6, that FPL’s**
7 **methodology for calculating the dismantlement accrual is inappropriate.**
8 **Do you agree?**

9 A. No. FPL’s calculation methodology for the dismantlement accrual is fully
10 compliant with Subsection (4) of Rule 25-6.04364 which states that “[t]he
11 dismantlement annual accrual shall be calculated using the current cost
12 estimates escalated to the expected dates of actual dismantlement. The future
13 costs less amounts recovered to date shall then be discounted in a manner that
14 accrues the costs over the remaining life span of the unit.” In addition,
15 Subsection (7) of the same rule states that “[t]he annual dismantlement accrual
16 shall be a fixed dollar amount and shall be based on a 4-year average of the
17 accruals related to the years between the dismantlement study reviews.”
18 FPL’s approach in its 2016 Dismantlement Study is consistent with these two
19 subsections of Rule 25-6.04364 as well as the approach applied in FPL’s last
20 dismantlement study approved by this Commission in in Order No. PSC-10-
21 0153-FOF-EI, Docket Nos. 080677-EI and 090130-EI.

22

23

1 **Q. Do you agree with witness Kollen on page 36, lines 1 through 2, that FPL**
2 **failed to reflect the increase in the accumulated dismantlement reserve**
3 **over the four-year period?**

4 A. No. FPL appropriately captured the effect of the change related to the
5 dismantlement reserve in FPL's Company adjustment as reflected on MFR B-
6 2. This can be seen on page 3 of 8, line 12 for both the 2017 Test Year and
7 2018 Subsequent Year, which reflects the 13-month average change in rate
8 base associated with this adjustment. Additionally, when FPL filed its First
9 Notice of Identified Adjustments on May 3, 2016, it provided a corrected
10 2016 Dismantlement Study and its associated Company adjustments,
11 including the impact on the dismantlement reserve; refer to my Exhibit KF-7.

12 **Q. Is there anything else about witness Kollen's testimony on FPL's 2016**
13 **Dismantlement Study which you would like to address?**

14 A. Yes. The exhibits provided by witness Kollen make it clear that he performed
15 his dismantlement analysis on the Company's originally filed dismantlement
16 study and not the corrected 2016 Dismantlement Study submitted in
17 conjunction with the Company's First Notice of Identified Adjustments filed
18 on May 3, 2016. Additionally, please refer to Exhibit KF-4 (Corrected),
19 which reflects the corrected 2016 Dismantlement Study.

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Life Spans for Scherer Unit 4 and SJRPP

Q. Witness Kollen argues FPL should use a 63 year estimated life span for Scherer Unit 4 (page 31, lines 17 through 18) and a 65 year estimated life span for SJRPP (page 32, lines 6 through 8). Do you agree with such a significant change in plant life for these two plants as it relates to both the 2016 Depreciation and Dismantlement studies?

A. No. Not only do I disagree with his conclusion, I am concerned with the flawed logic and misrepresentation of facts related to Scherer, the lack of evidence presented by SFHHA related to SJRPP and the disregard for FPL witness Allis’s life span recommendations for those two plants.

Q. Could you please elaborate?

A. First, in his argument for longer lives, witness Kollen disregards the fact that the current authorized life span for these units is 50 years, as approved by the Commission in Order No. PSC-10-0153-FOF-EI, and he offers absolutely no critiques to the merits of FPL witness Allis’s findings that a 50-year life continues to be accurate for Scherer and SJRPP. Witness Kollen also misconstrues FPL’s response to SFHHA’s Seventh Set of Interrogatories No. 162. He implies that the 65-year life referenced in that response relates to the probable retirement date assumed by Georgia Power Company (“GPC”) for *Scherer 4* (page 31, Lines 2 through 4) when in fact SFHHA’s Seventh Set of Interrogatories No. 162 is clearly addressing “Scherer and SJRPP *common facilities.*” [Emphasis added]

1 Next, witness Kollen tries to justify longer lives by asserting that “[i]t is
2 highly unlikely that Scherer 4... will be dismantled before the other three
3 units at the site” (page 31, lines 21 through 22 and page 32 line 1). This
4 statement lacks any validating evidence and is in direct contradiction to FPL’s
5 recent dismantlement experience with Sanford Unit 3 and Turkey Point Units
6 1 and 2, all of which had dismantlement activities commence prior to the
7 retirement of all of the units at each site. Retired units pose a safety hazard if
8 they are left in place and not maintained; therefore, they are typically
9 dismantled upon retirement.

10 **Q. Witness Kollen states FPL is a “minority owner” in Scherer to support**
11 **his assertion that GPC’s asset life should be used in the Depreciation and**
12 **Dismantlement studies. Is this an accurate characterization?**

13 A. No. Although FPL is a minority owner from the perspective of the entire
14 Scherer plant, it overlooks the fact that FPL is the majority owner (76.36%
15 ownership) of Unit 4, as to which GPC is simply the plant *operator* and has no
16 ownership interest. Witness Kollen further clouds the facts by not disclosing
17 the various other ownership interest in Plant Scherer, and using the all-
18 encompassing general term “the facility” (page 32, lines 4 through 5).

19

20

21

22

1 **Q. Witness Kollen implies (page 31, lines 6 through 9 and page 32, lines 2**
2 **through 5) that because FPL and GPC have “spent significant sums to**
3 **achieve compliance with continually evolving environmental**
4 **requirements,” both companies would be inclined to run the plant longer.**
5 **Is that necessarily the case?**

6 A. No. On the contrary, costs that have already been incurred to comply with
7 environmental regulations are sunk costs that should not influence future
8 decisions on the when it is economically justified to retire a unit. Moreover,
9 environmental compliance costs often do not increase plant life or efficiency.
10 In fact, as compliance requirements “continually evolve,” the economics of
11 the plant begin to favor earlier retirement because advanced generation
12 technology tends to become a more attractive compliance alternative. In
13 addition, the U.S. Environmental Protection Agency (“EPA”) has issued or
14 implemented numerous regulations targeting coal-fired generating facilities
15 and the general trend over time has been for even more stringent
16 environmental regulations. Those regulations have resulted in a significant
17 number of plant retirements across the industry in the last several years.

18
19 Exhibit KF-8 contains an excerpt from Order No. PSC-12-0613-FOF-EI,
20 Docket No. 120007-EI, in which the Commission granted FPL the ability to
21 collect the remaining unamortized costs associated with its Electrostatic
22 Precipitators (“ESPs”) installed during the period of April 2005 through May
23 2007 at Port Everglades within a four-year capital recovery period after FPL

1 retired the plant in the fourth quarter of 2012 to modernize the plant into a
2 high-efficiency combined cycle natural gas energy center. These investments
3 enabled Port Everglades to continue to operate through its useful life rather
4 than being forced into early retirement.

5

6

III. DEPRECIATION STUDY ACCRUAL

7

8 **Q. Witness Kollen objects to FPL's use of 2017 year-end plant balances in the**
9 **2016 Depreciation Study. Is the Company opposed to using year-end 2016**
10 **plant and reserve balances instead for the purpose of setting depreciation**
11 **rates and determining FPL's base rates in this proceeding?**

12 A. No. While FPL continues to believe that the use of year-end 2017 plant and
13 reserve balances provides a good match with FPL's 2017 Test Year and 2018
14 Subsequent Year, FPL has no objection in using the results for year-end 2016
15 plant and reserve balances to set depreciation rates and determining FPL's base
16 rates in this proceeding.

17 **Q. Do you agree with witness Kollen's recommendation on page 22, lines 20**
18 **through 21, of his testimony that FPL's 2016 Depreciation Study should be**
19 **rejected because it reflects year-end 2017 rather than year-end 2016**
20 **balances?**

21 A. No. The Company's Second Notice of Identified Adjustments filed with the
22 Commission on June 16, 2016, provided supplemental versions of Tables 1
23 through 8 that appear in Part VI of the 2016 Depreciation Study, which reflect
24 all of the changes in parameters and depreciation rates resulting from the use of

1 the year-end 2016 plant and reserve balances. In addition, the Company
2 contemporaneously provided all workpapers and supporting schedules for the
3 supplemental tables as part of the supplemental response to OPC's Tenth
4 Request for Production of Document No. 124. The parties have had more than
5 ample time to evaluate the results of the 2016 Depreciation Study using the
6 2016 year-end balances; refer to Exhibit KF-2 (Updated) for the computation of
7 the related Company adjustment.

8
9 **IV. CAPITAL RECOVERY SCHEDULE AMORTIZATION PERIOD**

10
11 **Q. Do you agree with witness Kollen's recommendation on pages 39 through**
12 **40 of his testimony to use a ten-year amortization period for capital**
13 **recovery of assets retired or nearing retirement?**

14 A. No. FPL has requested a four-year amortization period related to the capital
15 recovery schedule, which is based on and consistent with past Company
16 practice and Commission precedent. For the last ten years, FPL has
17 consistently requested, received and applied four-year amortization periods
18 that coincide with either the setting of FPL's new base rates and/or the
19 effective date of depreciation studies. While it may technically be the case the
20 Commission "has greater discretion to determine the appropriate amortization
21 and recovery period" (Kollen page 39, lines 10 through 11), the Company's
22 request for a four-year amortization period in this instant case is reasonable,
23 appropriate, and consistent with prior practice for FPL.

1 **Q. What is the Commission’s practice with respect to the recovery period on**
2 **capital recovery schedules for assets that have been retired?**

3 A. In Docket Nos. 080677-EI and 090130-EI, the Commission stated that its
4 practice with respect to capital recovery schedules for assets that have been
5 retired has been to provide for recovery as “fast as practicable to remedy the
6 existing intergenerational inequity.” (See page 23, Order No. PSC-10-0153-
7 FOF-EI). That being said, the Commission has balanced the need to provide
8 recovery as fast as practicable with the potential impact on rates over the short
9 term. For instance, in Order No. PSC-93-1808-FOF-EI, Gulf Power had
10 assets that were being retired in the next year and the Commission stated,
11 “[w]hile, theoretically, these assets should be recovered over their associated
12 remaining period in service, we find that a four year recovery period is
13 appropriate in this instance as an effort to smooth the related expense impact.”
14 This approach is consistent with FPL’s proposal in this docket.

15 **Q. Has this Commission ever approved a ten-year amortization period for**
16 **capital recovery schedules?**

17 A. FPL is not aware of this Commission ever approving a ten-year amortization
18 period for capital recovery schedules. Doing so would be inconsistent with
19 the principle of intergenerational equity, especially as it relates to retired
20 assets. In Order No. PSC-10-0153-FOF-EI, on page 23, the Commission
21 stated “deferring recovery is simply mortgaging the future.”
22
23

1 **V. EOL M&S AND LAST CORE NUCLEAR FUEL**

2

3 **Q. What is witness Kollen proposing for the currently Commission approved**
4 **EOL M&S and last core nuclear fuel accruals?**

5 A. On pages 15 through 19 of his testimony, witness Kollen is asking the
6 Commission to subsume the two accruals into FPL's nuclear
7 decommissioning liability and, concurrently, return the entire balance of the
8 unfunded reserves for those costs to customers over a period of four years.

9 **Q. Do you agree with this proposal?**

10 A. No. It is inconsistent with Commission precedent. In Order No. PSC-02-
11 0055-PAA-EI, the Commission stated that, "[b]ecause nuclear M&S
12 inventories represent unrecovered costs remaining at the end of the nuclear
13 site's life, we agree with FPL that these costs should be amortized over the
14 remaining life span of each site to ratably allocate the costs to those receiving
15 the benefit of the generated power. However, *these costs do not relate to the*
16 *removal or disposal of the nuclear plant.* For this reason, the Commission
17 finds that the amortization expense associated with the EOL M&S inventories
18 be accounted for as a debit to nuclear maintenance expense with a credit to an
19 unfunded Account 228 reserve." [Emphasis added]

20

21 Similarly, concerning the last core nuclear fuel the Commission stated that
22 "[w]e believe that the Last Core is similar to nuclear decommissioning in that
23 both represent estimates of a future obligation that will not be incurred until

1 the nuclear unit ceases operation. *However, the cost of the Last Core does not*
2 *meet the intent of nuclear decommissioning because it does not involve the*
3 *removal of the plant facility. As with EOL M&S inventories addressed in VI,*
4 *we believe that EOL nuclear fuel is unique to the nuclear unit and represents*
5 *costs remaining at the time of shut down.” [Emphasis added]*

6 **Q. Has the Commission previously considered the funded status of the**
7 **nuclear decommissioning reserve in determining proper recovery for**
8 **EOL M&S and last core nuclear fuel?**

9 A. No. As explained by this Commission in Order No. PSC-02-0055-PAA-EI,
10 these two items are not considered part of the cost of nuclear
11 decommissioning. These are distinct future obligations.

12 **Q. Has the Commission approved the accruals proposed in this proceeding**
13 **for EOL M&S and last core nuclear fuel?**

14 A. Yes. The Commission approved FPL’s proposed accruals for EOL M&S and
15 last core nuclear fuel in Order No. PSC-16-0293-CO-EI, Docket No. 150265-
16 EI.

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

18 A. Yes.

1 MR. BUTLER: Thank you.

2 BY MR. BUTLER:

3 Q Mr. Ferguson do you have exhibits that were
4 identified KF-2 updated, KF-4 corrected, KF-7 and KF-8
5 attached to your rebuttal testimony?

6 A Yes, I do.

7 Q And you are co-sponsoring KF-4 corrected with
8 FPL witness Jeffery Kopp, is that right?

9 A Yes, that's correct.

10 Q Okay. Were these exhibits prepared under your
11 direction and supervision?

12 A Yes, they were.

13 MR. BUTLER: Madam Chair, I would note that
14 these have been pre-identified as Exhibit 342
15 through 345.

16 CHAIRMAN BROWN: So noted.

17 Staff.

18 EXAMINATION

19 BY MS. BROWNLESS:

20 Q Good afternoon, sir. Did you have an
21 opportunity to review what's been marked on the staff's
22 comprehensive exhibit list as Exhibit 522, which are --
23 which is South Florida Hospitals' 18th set of production
24 of documents request number 238, a request for
25 workpapers and computations underlying your rebuttal

1 **testimony?**

2 A Yes.

3 Q **And did you prepare those workpapers, or were**
4 **they prepared under your direction and control?**

5 A Yes, they were.

6 Q **Okay. And then if I were to ask that**
7 **workpapers be produced today, would those be the same**
8 **workpapers that you would produce?**

9 A Yes, they would.

10 Q **Okay. Let's see, are any portions of your**
11 **workpapers confidential?**

12 A No.

13 MS. BROWNLESS: Thank you, sir.

14 CHAIRMAN BROWN: Thank you, FPL.

15 MR. BUTLER: Thank you. I would tender the
16 witness -- I am sorry, not yet.

17 BY MR. BUTLER:

18 Q **Would you please summarize your rebuttal**
19 **testimony, Mr. Ferguson?**

20 A Yes.

21 CHAIRMAN BROWN: Hello.

22 THE WITNESS: Good afternoon, Commissioners.

23 The purpose of my rebuttal testimony is to
24 explain why certain recommendations made by South
25 Florida Hospitals and Healthcare Association

1 Witness Lane Kollen are incorrect and, therefore,
2 should be rejected by this commission. Let me
3 briefly discuss a few of the items I address in my
4 rebuttal testimony.

5 First, the recommendation made by Witness
6 Kollen to apply a zero percent contingency for
7 dismantlement estimates is unreasonable and
8 unprecedented. FPL has always included a
9 contingency as part of its estimation for future
10 dismantlement, and the Commission has previously
11 approved FPL's proposed contingency percentage of
12 20 percent in the most recent dismantlement study
13 filed by Duke Energy Florida.

14 Contrary to what Witness Kollen recommends,
15 the Commission has never ordered any investor owned
16 utility to include a zero level of contingency.
17 Contingency, by its very nature, is designed to
18 account for unknown expenses that can be
19 encountered when dismantling a plant. Based on
20 Burns and McDonnell's dismantlement experience --
21 based on Burns and McDonnell's experience and FPL's
22 actual dismantlement experience, the 20 percent
23 requested by FPL is reasonable.

24 Second, the proposed lifespan suggested by
25 Witness Kollen for Scherer Unit 4 and St. Johns

1 River Power Park are not reasonable. He ignores
2 the fact that the current approved lifespan for
3 these plants is 50 years, which is what FPL is
4 proposing in its current study, and offers no
5 convincing proof as to why a longer life should be
6 warranted.

7 In addition, Witness Kollen downplays the
8 general trend over time of more stringent
9 environmental regulations targeting coal-fired
10 generation that have resulted in numerous power
11 plant retirements in the last several years.

12 Third, with regards to FPL's 2016 depreciation
13 study, I will demonstrate how, contrary to
14 statements by Witness Kollen, the company has
15 developed proposed depreciation rates based on
16 plant reserve balances as of December 31st, 2016,
17 as filed in FPL's second notice of identified
18 adjustments on June 16th, 2016. FPL has no
19 objection in using the results for year end 2016
20 plant reserve balances to set depreciation rates.

21 And finally, commission precedent supports
22 FPL's recommended four-year amortization period for
23 its capital recovery schedule, and there is no
24 basis for the 10-year recovery period recommended
25 by Witness Kollen. FPL is not aware of the

1 Commission ever approving a 10-year amortization
2 period for capital recovery schedules.

3 In conclusion, Witness Kollen's
4 recommendations are speculative, at best, and he
5 does not provide any solid reasoning as to why this
6 commission should approve any of his proposed
7 recommendations.

8 This concludes my summary.

9 CHAIRMAN BROWN: Thank you.

10 MR. BUTLER: Thank you, Mr. Ferguson.

11 Tender the witness for cross-examination.

12 CHAIRMAN BROWN: Thank you.

13 And just want to point out before we get into
14 the cross-examination of Mr. Ferguson is that we
15 were just told that Leon County Schools have
16 been -- they have just announced that Leon County
17 Schools will be closed tomorrow and Friday. So
18 it's good that we are staying late tonight.

19 All right. Public Counsel, you are up.

20 MR. REHWINKEL: Madam Chairman, we have no
21 questions for Mr. Ferguson.

22 CHAIRMAN BROWN: Thank you.

23 FIPUG.

24 MR. MOYLE: Very limited.

25 EXAMINATION

1 BY MR. MOYLE:

2 Q Sir, are you eligible to participate in the
3 incentive compensation program?

4 MR. BUTLER: I am going to object to the
5 question as pretty patently not related to
6 Mr. Ferguson's direct testimony.

7 CHAIRMAN BROWN: Mr. Moyle, can you direct me
8 to the page where that's appropriate?

9 MR. MOYLE: I don't think he has anything in
10 there about it, but I wanted to ask a couple of
11 questions with respect to potential bias, because
12 the incentive compensation program that I asked Ms.
13 Slattery about, it has, as a criterion, you know,
14 how the rate case comes out, and I think it's
15 something that should be known and clear if these
16 witnesses are being compensated through the
17 incentive compensation mechanism based on a rate
18 case result, that should be something we should be
19 able to ask about.

20 CHAIRMAN BROWN: Ms. Slattery is coming up in
21 a few. She would be probably more appropriate to
22 ask than this witness, since it's not addressed in
23 his rebuttal.

24 MR. MOYLE: Assuming she's eligible, right?
25 You know, she might not be eligible, and they will

1 say, you should have asked this witness, but --

2 CHAIRMAN BROWN: Can you move along?

3 MR. MOYLE: That's all I had.

4 CHAIRMAN BROWN: Okay. All right.

5 MR. MOYLE: Really what I wanted to ask him is
6 if he knows whether, assuming he is part of that,
7 whether -- how the rate case -- whether it's a fair
8 result is part of the criterion upon which he is
9 evaluated for the purposes of receiving the
10 incentive compensation funds.

11 MR. BUTLER: I would object to the question
12 and would agree that that's something much more
13 within Ms. Slattery's area.

14 CHAIRMAN BROWN: And I sustained the
15 objection, so she will be up very shortly.

16 MR. MOYLE: Okay. Mr. Wiseman.

17 MR. WISEMAN: Thank you.

18 EXAMINATION

19 BY MR. WISEMAN:

20 Q I just had a few questions. Good afternoon,
21 Mr. Ferguson.

22 A Good afternoon.

23 Q Mr. Ferguson, FPL is part of owner of the
24 Scherer Unit 4, correct?

25 A Yes, that's correct.

1 Q And it's also part owner of St. Johns River
2 Power Park as well?

3 A Yes, that's correct.

4 Q Can we refer to St. Johns as SJRPP for short?

5 A Yes.

6 Q Okay. Now, Scherer is operated by Georgia
7 Power, right?

8 A Yes, that's correct.

9 Q Okay. And SJRPP is operated by Jacksonville
10 Electric Authority, correct?

11 A Yes, that's correct.

12 Q Okay. Now, you would agree that, under FPL's
13 agreements with the other owners of S -- Scherer 4 and
14 SJRPP, FPL can't perform dismantlement on its own,
15 correct?

16 A Yes, that's correct, that FPL cannot perform
17 dismantlement on its own, but as a part owner on those
18 facilities we absolutely have a say on how we go about
19 performing those dismantlement activities in retiring
20 the plant.

21 Q Yes, but you have to get the approval --
22 approvals of the other owners, correct?

23 A Yes. In the case of Scherer Unit 4 and SJRPP,
24 the only other co-owner is JEA. So that is correct,
25 that we would need their approval as well.

1 Q Okay. Now, on -- let's talk about Scherer
2 Unit 4. First of all, in order to dismantle that unit,
3 first you would have to negotiate with Jacksonville
4 Electric Authority, correct?

5 A I don't know if negotiate is the right term,
6 but -- but, yes, we would have to ensure that we are
7 both on the same page as to what we expect to -- when we
8 expect to retire the plant ultimately.

9 Q Okay. And then after that, Georgia Power
10 operates Scherer Unit 3, correct?

11 A I am sorry, can you repeat the question?

12 Q Yeah, I am sorry. Georgia Power owns and
13 operates Scherer Unit 3, correct?

14 A I am not positive whether they own Unit 3 or
15 not. I know they do have part ownership in some of the
16 units there.

17 Q Okay. And there are some common facilities --
18 common facilities on that site, correct?

19 A Yes, that's correct.

20 Q Okay. And isn't it correct that you would
21 have to reach agreement with the other owners concerning
22 the retirement or dismantlement of those common
23 facilities?

24 A Yes, to the extent we ultimately retired it,
25 we may have to negotiate with those -- those other

1 owners.

2 Q Okay. Thank you, Mr. Ferguson.

3 MR. WISEMAN: That's all I have.

4 CHAIRMAN BROWN: Thanks, Mr. Wiseman.

5 All right. Retail Federation, Mr. LaVia.

6 MR. LAVIA: No questions. Thank you.

7 CHAIRMAN BROWN: FEA.

8 MR. JERNIGAN: No questions. Thank you.

9 CHAIRMAN BROWN: Sierra.

10 MS. CSANK: No questions.

11 CHAIRMAN BROWN: Thank you.

12 Wal-Mart.

13 MR. WILLIAMSON: No, ma'am.

14 CHAIRMAN BROWN: Thank you.

15 Larsons.

16 COMMISSIONER SKOP: No questions, Madam Chair.

17 CHAIRMAN BROWN: I hear no questions. Thank

18 you.

19 Staff, thank you.

20 MS. BROWNLESS: No, ma'am. Thank you.

21 CHAIRMAN BROWN: Thank you.

22 Commissioners?

23 Seeing none.

24 FPL, redirect?

25 FURTHER EXAMINATION

1 BY MR. BUTLER:

2 Q Mr. Ferguson, you were asked about your joint
3 ownership with JEA of the SJRPP unit?

4 A Yes.

5 Q And potential plans for dismantling that. Do
6 you know what JEA's estimated lifespan is for the SJRPP
7 unit?

8 A Yes, it's 40 years. So less than our -- our
9 50 years.

10 Q Thank you.

11 MR. BUTLER: That's all the redirect that I
12 have.

13 CHAIRMAN BROWN: Okay. Thank you.

14 Exhibits, this witness has 342 through 345.

15 MR. BUTLER: I would move those into the
16 record.

17 CHAIRMAN BROWN: Any objections?

18 MR. MOYLE: We would object to KF-4, it's the
19 dismantlement study. We objected on hearsay
20 grounds, I think, when it was part of the direct,
21 and it's the same document, so we would maintain
22 that objection.

23 CHAIRMAN BROWN: Okay. Any response, reply?

24 MR. BUTLER: Reply is that, you know, as

25 Mr. Ferguson testified to, this is something he was

1 intimately involved in overseeing. He worked with
2 Mr. Kopp in preparing it. He has undisputed
3 expertise in the area of dismantlement that this
4 study relates to, and I think it's appropriate for
5 somebody with his expertise to, you know, consult
6 with, rely on expertise in preparing that sort of
7 study, and then relying upon it. So I think it's
8 appropriately a document that he could be the
9 sponsor of as an expert witness in dismantlement.

10 CHAIRMAN BROWN: We will go ahead and -- your
11 objection is noted, but we will go ahead and move
12 in 342 through 345 into the record.

13 (Whereupon, Exhibit Nos. 342-345 were received
14 into evidence.)

15 MR. BUTLER: Thank you.

16 CHAIRMAN BROWN: Would you like
17 Mr. Ferguson --

18 MR. BUTLER: Excused? We would, please.

19 CHAIRMAN BROWN: Yes. Safe travels.

20 THE WITNESS: Thank you.

21 MR. BUTLER: Thank you.

22 (Witness excused.)

23 CHAIRMAN BROWN: We are now moving to Mr. Ned
24 Allis.

25 MR. BUTLER: Okay.

1 CHAIRMAN BROWN: According to the FPL --
2 according to the schedule.

3 MR. BUTLER: I'm going to need just a minute
4 to pass out some materials related to that, please.

5 CHAIRMAN BROWN: Okay.

6 MR. BUTLER: Madam Chair, let me explain what
7 I propose to do to be sure it's consistent with
8 what you would find appropriate before we pass out
9 all the papers.

10 CHAIRMAN BROWN: Okay.

11 MR. BUTLER: I have copies of Mr. Allis'
12 revised testimony, the new skinny version of it
13 that doesn't refer to Mr. Pous' testimony. There
14 is a very short errata that relates to it, which,
15 just frankly, occurred because we missed a
16 correction in the course of getting the testimony
17 filed.

18 What I would propose to do is just to pass out
19 for everyone -- we filed both of these with the
20 Clerk's Office yesterday and the day before, but
21 for convenience, the short version of the testimony
22 and the errata sheet, which we can mark as an
23 exhibit, as we have done with other witness'
24 errata, if that is -- if that is your desire.

25 CHAIRMAN BROWN: Staff?

1 MS. BROWNLESS: Sounds good to me, Your Honor.

2 CHAIRMAN BROWN: Okay.

3 MR. MOYLE: Madam Chair, would it be okay if
4 Mr. Butler explained whether these documents to be
5 passed out contain changes as a result of Mr. Pous'
6 testimony being withdrawn?

7 CHAIRMAN BROWN: Yes.

8 MR. BUTLER: Absolutely, they do. That's --
9 that's kind of the point. This is the 58-page
10 rebuttal testimony that replaces the 166-page one
11 because of our removal of the portions related to
12 Mr. Pous' testimony.

13 MR. MOYLE: Okay. So for the reasons
14 previously stated by FIPUG with respect to this
15 being new information, inconsistent with the
16 prehearing order, and being provided very recently,
17 we would -- we would maintain the objection that we
18 previously stated, and I summarized briefly today.

19 To the extent that there are deletions, just
20 words coming out, that's okay. To the extent words
21 are changing, or being added, that's where the
22 concern lies.

23 CHAIRMAN BROWN: Thank you.

24 And, staff, when we get to the portion of
25 entering the prefiled testimony into the record as

1 though read, is it your suggestion to wait until
2 Thursday to do that after we get the revised
3 testimony? I need guidance on that.

4 MS. HELTON: It struck me when you made your
5 earlier announcement, that schools are closed on
6 Thursday and Friday, and it struck me when we have
7 been moving now quickly through witnesses, what
8 happens if we finish tonight?

9 COMMISSIONER GRAHAM: Then we go home.

10 MS. HELTON: I certainly hope --

11 CHAIRMAN BROWN: Commissioner Graham.

12 MS. HELTON: I certainly hope so, Commissioner
13 Graham. But, I mean, do we leave that question
14 open, or do we go ahead and resolve those exhibit
15 issues this evening?

16 My preference would be to do it this evening,
17 but we had told Mr. Moyle that he could have until
18 Thursday morning.

19 MS. BROWNLESS: Staff would be prepared to
20 make our whole argument with regard to the
21 comprehensive exhibit list this evening.

22 CHAIRMAN BROWN: This evening, okay. After
23 all of the witnesses?

24 MS. BROWNLESS: Yes, ma'am.

25 CHAIRMAN BROWN: Okay. So that being said,

1 obviously, we would not insert the revised
2 testimony into the record at this time, or would
3 we? I would just as soon wait until --

4 MS. HELTON: It will make for a little bit of
5 a confusing record, but in this instance, I think
6 it makes sense to wait until we have issues
7 resolved with respect to FPL's actions in response
8 to Mr. Pous' testimony not being submitted to you.

9 CHAIRMAN BROWN: Yes.

10 MR. MOYLE: And I appreciate that, consistent
11 with your ruling yesterday, about sort of my
12 obligation to object.

13 CHAIRMAN BROWN: Yes.

14 MR. MOYLE: I will do that softly, as I tried
15 to do yesterday.

16 CHAIRMAN BROWN: Okay. And again, I am -- we
17 are -- as you know, this is a very fluid hearing,
18 and so we are moving rather swiftly, so trying
19 to -- trying to give you some latitude in reviewing
20 these erratas, so -- but at the same time, if we do
21 get finished tonight, we will be taking up the
22 comprehensive exhibit list, along with the erratas,
23 so just wanted to kind of give you a heads up as we
24 move along.

25 So, FPL, we have two documents in front of us,

1 is that correct?

2 MR. BUTLER: You do. You have a copy of Mr.
3 Allis' testimony that was filed on August 29, 2016,
4 the fatter document. This is the same testimony
5 substantively as was submitted on August 1, 2016,
6 except for the removal of the portions related to
7 Mr. Pous, and the -- some minor additions to
8 transition to the fact that it no longer was
9 referring to Mr. Pous.

10 CHAIRMAN BROWN: Do you think it makes sense
11 to label it -- give it an exhibit number, or not?

12 MR. BUTLER: That could -- since you are not
13 going to be inserting it into the record as though
14 read at this point, probably that makes sense.

15 CHAIRMAN BROWN: Yeah. Okay. So we are going
16 to go ahead and do that, it's 767 and 768 --

17 MR. BUTLER: I am sorry, 768 is then the
18 errata sheet that was the skinnier document passed
19 out.

20 CHAIRMAN BROWN: Okay. So 767 -- yes, 767
21 would -- what would the title be for that?

22 MR. BUTLER: I would title it the Revised --
23 Revised Allis Testimony --

24 CHAIRMAN BROWN: Okay.

25 MR. BUTLER: -- Rebuttal Testimony, I suppose.

1 CHAIRMAN BROWN: Revised Allis Rebuttal
2 Testimony 767.

3 (Whereupon, Exhibit No. 767 was marked for
4 identification.)

5 MR. MOYLE: Madam Chair.

6 CHAIRMAN BROWN: Yes.

7 MR. MOYLE: Could I get just a representation
8 as to whether this document that's been marked as
9 767 is identical to the document that was provided
10 the other day that had the red lines in it that was
11 also marked?

12 CHAIRMAN BROWN: Mr. Butler.

13 MR. BUTLER: It is. Yes. This is the
14 document that was one of the two run through the
15 comparison right program that resulted in the red
16 line that was provided to you, Mr. Moyle.

17 MR. MOYLE: Thank you.

18 CHAIRMAN BROWN: Got it. Okay.

19 And then 768 is going to be Allis' rebuttal
20 errata, or errata rebuttal. Whatever.

21 MR. BUTLER: Probably rebuttal errata.

22 CHAIRMAN BROWN: Rebuttal errata.

23 MR. BUTLER: That sounds good.

24 CHAIRMAN BROWN: Okay.

25 (Whereupon, Exhibit No. 768 was marked for

1 identification.)

2 CHAIRMAN BROWN: All right. You may proceed
3 when you are ready.

4 MR. BUTLER: Mr. Allis has been previously
5 sworn.

6 Whereupon,

7 NED W. ALLIS

8 was recalled as a witness, having been previously duly
9 sworn to speak the truth, the whole truth, and nothing
10 but the truth, was examined and testified as follows:

11 EXAMINATION

12 BY MR. BUTLER:

13 Q Would you please state your name and business
14 address for the record?

15 A My name is Ned Allis. My business address is
16 207 Senate Avenue, Camp Hill, Pennsylvania.

17 Q By whom are you employed?

18 A Gannett Fleming. I am the supervisor of
19 depreciation studies.

20 Q Did you prepare and cause to be filed on
21 August 29, 2016, 58 pages of revised rebuttal testimony
22 in this proceeding?

23 A Yes -- I believe it's 57 pages, but yes.

24 Q Is it? My apologies.

25 Does this revised rebuttal testimony replace

1 the rebuttal testimony that was filed for you on
2 August 1, 2016?

3 A Yes, it does.

4 Q Okay. Do all of the revisions in your
5 August 28 revised rebuttal testimony relate to removal
6 of text in exhibits that rebutted the testimony of
7 Public Counsel witness Jacob Pous, which was withdrawn
8 on August 26th, 2016?

9 MR. MOYLE: Objection, per our prior
10 conversation.

11 CHAIRMAN BROWN: Noted. Overruled.

12 BY MR. BUTLER:

13 Q You can answer.

14 A Yes, they do.

15 Q Okay. Was an errata sheet filed for your
16 August 29 revised rebuttal testimony on August 30, 2016?

17 A Yes.

18 MR. BUTLER: And would note that's the
19 document that we have marked as Exhibit 768.

20 CHAIRMAN BROWN: Thank you.

21 Staff.

22 MR. BUTLER: I am sorry --

23 CHAIRMAN BROWN: Keep going.

24 MR. BUTLER: -- this is a little bit more
25 complicated than the usual. I am sorry.

1 BY MR. BUTLER:

2 Q Beyond those filed errata, do you have any
3 further changes to your August 29 revised rebuttal
4 testimony?

5 A No.

6 Q With those changes, and subject to the
7 adjustments addressed in Exhibits KO-19 and KO-20, if I
8 asked you the questions contained in your August 29
9 revised rebuttal testimony, would your answers be the
10 same?

11 A Yes, they would.

12 Q Okay.

13 MR. BUTLER: I will not ask at the moment that
14 it be inserted into the record as though read.

15 CHAIRMAN BROWN: Good.

16 BY MR. BUTLER:

17 Q Mr. Allis, do you have an exhibit that was
18 identified as NWA-3 attached to your August 29 revised
19 rebuttal testimony?

20 A Yes.

21 MR. BUTLER: Madam Chair, I would note that
22 this was identified in the prehearing -- I am sorry
23 the comprehensive exhibit list as Exhibit 339.

24 CHAIRMAN BROWN: Noted -- yes.

25 BY MR. BUTLER:

1 **Q** **Was this exhibit prepared under your direction**
2 **and supervision?**

3 A Yes.

4 **Q** **Did you also cosponsor Exhibit KO-19, which**
5 **has been identified on the comprehensive exhibit list as**
6 **Exhibit 331?**

7 A Yes.

8 **Q** **Mr. Allis --**

9 MR. BUTLER: And I will pause for everyone's
10 consideration.

11 The next question is something that Office of
12 Public Counsel asked me to confirm with Mr. Allis
13 because of the fact that his Exhibit NWA-3 is sort
14 of a narrative of some of his responses to the
15 responses to the intervenor witnesses he is
16 rebutting, and OPC wanted to be sure that it had
17 sort of the same confirmation of Mr. Allis
18 attesting to it as the actual narrative testimony
19 itself, so with that understanding.

20 BY MR. BUTLER:

21 **Q** **Mr. Allis --**

22 MR. MOYLE: Can I just, out of an abundance of
23 caution, just register an objection to the extent
24 that the answer is going to reference changes made
25 as result of the withdrawal of Mr. Pous' testimony

1 per my previous objection?

2 CHAIRMAN BROWN: Yes, that is noted.

3 MR. BUTLER: It won't, but good objection.

4 BY MR. BUTLER:

5 Q Mr. Allis, your Exhibit NWA-3 contains
6 narrative discussions of service lives for specific mass
7 property accounts. Is it your intention that those
8 narrative discussions be treated as sworn rebuttal
9 testimony in this proceeding?

10 A Yes.

11 MR. BUTLER: Okay. Almost there.

12 Now, to staff.

13 EXAMINATION

14 BY MS. BROWNLESS:

15 Q Mr. Allis, did you have an opportunity to
16 review what's been listed on the comprehensive exhibit
17 list as Exhibit No. 522, which are responses to South
18 Florida Hospitals' 18th set of production of documents
19 request requesting workpapers and computations
20 associated with your rebuttal testimony?

21 A Yes.

22 Q Okay. And if I were to ask for the production
23 of the same type of documents today, would you produce
24 the same documents?

25 A Yes.

1 Q And are those materials true and correct to
2 the best of your knowledge and belief?

3 A Yes, they are.

4 Q Okay. Are any portions of your workpapers
5 produced or documents produced confidential?

6 A No.

7 Q Thank you, sir.

8 CHAIRMAN BROWN: Thank you.

9 Mr. Butler.

10 MR. BUTLER: Thank you.

11 FURTHER EXAMINATION

12 BY MR. BUTLER:

13 Q Mr. Allis, would you please summarize your
14 rebuttal testimony?

15 A Sure.

16 MR. MOYLE: And I would just like to note the
17 objection for you.

18 CHAIRMAN BROWN: Okay. Thank you. Noted.

19 Good evening -- afternoon.

20 THE WITNESS: Good afternoon, Madam Chair,
21 Commissioners.

22 My rebuttal testimony responds to the
23 depreciation related recommendations of South
24 Florida Hospitals' and Healthcare Association
25 witness Lane Kollen, and Federal Executive Agency's

1 witnesses Brian Andrew's.

2 I would first like to make clear that the life
3 and net salvage estimates I have recommended in the
4 depreciation study do not result in an increase in
5 depreciation expense. As I show in Figure 1, on
6 page nine of my rebuttal testimony, if the life and
7 net salvage estimates currently approved by the
8 Commission were used to simply recalculate
9 depreciation expense based on 2016 balances, the
10 result would be an increase in expense of \$758
11 million, much more than what I have proposed;
12 though I have the net salvage recommended in my
13 study actually result in a significant decrease of
14 depreciation expense of \$563 million. My estimates
15 are reasonable, and instead, it is the intervenor
16 proposals that are inappropriate.

17 First, Witness Kollen's proposal to increase
18 the lifespans of FPL's coal-fired power plants is
19 misguided due to the fact that the outlook for
20 coal-fired generation is worse today than it was
21 when the Commission approved the current lifespans
22 in 2009. In the depreciation study, I have simply
23 proposed and continue to use the approved 50-year
24 lifespans.

25 Next, Witness Kollen's various proposals

1 related to capital spare parts would result in
2 depreciation expense well below the cost of
3 operating these plants. Now, capital spare parts
4 are components of combined cycle combustion
5 turbines, such as transitional nozzles or turbine
6 blades that must be replaced at regular specified
7 intervals in order to operate the plants
8 sufficiently and reliable.

9 As a result, these components typically have
10 lives much shorter than the life of the overall
11 facility. To lump those parts in with the
12 remainder of the plant components that do not have
13 to regularly be replaced would ignore the large
14 differences in expected lives.

15 Witness Kollen's proposal for capital spare
16 parts is to use the life from an entirely different
17 group of assets. He, therefore, effectively
18 ignores the entirety of the historical data for
19 capital spare parts, which includes more than \$2
20 billion of historical retirements of these types of
21 assets.

22 FEA Witness Andrews' proposed changes to the
23 average service life and survivor curve estimates
24 for three distribution plant accounts. These are
25 the only recommendations that anybody has filed

1 regarding transmission distribution or demo plan
2 accounts.

3 Witness Andrews relies on only 20 years of
4 data for his proposals, as opposed to the full
5 period of data that is available for the study. As
6 a result, rather than incorporating trends that are
7 already considered in my analysis, he, instead,
8 overemphasizes recent unusual events.

9 Finally, SFHHA has proposed the 2016
10 depreciation study be discarded due to the
11 calculation date used in the filed study. He
12 effectively makes the recommendation to ignore the
13 entire results of the depreciation study and revert
14 to stale depreciation rates established seven years
15 ago. This would, quite clearly, be inappropriate.

16 Further, any criticisms he has made have
17 already been addressed in FPL's second notice of
18 identified adjustments, which provide depreciation
19 rates based on 2016 balances.

20 I was here yesterday when Witness Kollen was
21 on, and what he said in his testimony regarding the
22 updated calculations in this notice of identified
23 adjustment are incorrect --

24 MR. WISEMAN: Objection. This is supposed to
25 be a summary of the witness' rebuttal testimony.

1 Now he is opining about something that Mr. Kollen
2 said while he was here testifying as a witness.
3 That's not a summary of Mr. Allis' rebuttal
4 testimony.

5 MR. BUTLER: Mr. Allis can point you to the
6 page and line number in his rebuttal testimony that
7 he is referring to. The only thing added is
8 commenting that Mr. Kollen talked about it
9 yesterday.

10 MR. WISEMAN: If he refers to his rebuttal
11 testimony, that's fine. I don't have a problem
12 with that. But, clearly, it should be to risk
13 rebuttal testimony, not to something Mr. Kollen
14 said orally yesterday.

15 CHAIRMAN BROWN: Staff is gone, leaving me up
16 here alone.

17 MS. HELTON: Madam Chairman, it's our practice
18 that any summary be directed to the prefiled
19 testimony. So I do not know enough about the facts
20 in this case to know whether he is actually
21 summarizing his testimony, or what was said in the
22 hearing room.

23 CHAIRMAN BROWN: Okay. Mr. Allis, could you
24 direct me to line and page?

25 THE WITNESS: Sure. If you go to page 54, I

1 have a section in my testimony that's called FPL's
2 second notice of identified adjustments, and
3 everything I am about to say is in there.

4 CHAIRMAN BROWN: Okay. Objection overruled.
5 Please proceed.

6 THE WITNESS: I discuss this in the section of
7 my testimony called FPL's second notice of
8 identified adjustments. In this section, I make
9 clear that the 2016 depreciation rates filed in
10 this adjustment reflect no changes to any of the
11 life and net salvage estimates from the filed
12 depreciation studies; that is, the life and net
13 salvage estimates for both the 2016 and 2017
14 depreciation calculations are the same. Any
15 differences are, therefore, simply the result of a
16 change to the mathematical calculations of
17 depreciation rates.

18 That concludes my summary.

19 MR. BUTLER: Thank you, Mr. Allis.

20 I tender him for cross-examination.

21 CHAIRMAN BROWN: Thank you.

22 And good afternoon again, Mr. Allis.

23 THE WITNESS: Good afternoon.

24 CHAIRMAN BROWN: All right. Public Counsel.

25 MR. REHWINKEL: Thank you, Madam Chair. And

1 Ms. Farley noted that I did not collate my three
2 exhibits. I apologize for that. We sort of had to
3 move on the fly and change our order around, and I
4 will do that with the rest of my witnesses.

5 CHAIRMAN BROWN: Mr. Rehwinkle, you are always
6 prepared.

7 We will be starting as Exhibit 769, so when
8 you are ready to label.

9 MR. REHWINKEL: Okay. We can -- it doesn't
10 really matter, and the witness can review these
11 ahead.

12 The 2016 depreciation study excerpts, that
13 will be 769.

14 CHAIRMAN BROWN: Okay. We will mark them as
15 such.

16 (Whereupon, Exhibit No. 769 was marked for
17 identification.)

18 MR. REHWINKEL: The 2009 depreciation study
19 excerpts will be 770.

20 CHAIRMAN BROWN: Hold on one second, please.
21 Okay. So 769 will be 2016 depreciation study
22 excerpts.

23 770 will be 2009 depreciation study excerpts.

24 (Whereupon, Exhibit No. 770 was marked for
25 identification.)

1 CHAIRMAN BROWN: And then 771 will be
2 comparison of retirement patterns, correct?

3 MR. REHWINKEL: Okay, yes.

4 (Whereupon, Exhibit No. 771 was marked for
5 identification.)

6 CHAIRMAN BROWN: I think that's clear for the
7 court reporter.

8 You may proceed whenever you are ready.

9 MR. REHWINKEL: Thank you, Madam Chairman.

10 And I have given counsel for FPL a copy of
11 both of the depreciation studies in their entirety.
12 I don't think I really need to do it for the 2016
13 study, because that one's actually in the record,
14 but -- and in accordance with the requirements.

15 EXAMINATION

16 BY MR. REHWINKEL:

17 Q Hello again, Mr. Allis.

18 A Hello.

19 Q It's good to he see you again. I hope you are
20 doing well, and I hope you get out without trouble.

21 A Thank you.

22 Q Just a couple of preliminary questions. I
23 want to make sure I understand the status of your
24 testimony vis-a-vis the depreciation study that you
25 sponsor and your direct testimony.

1 Is it fair to say that with -- even after all
2 the changes that are made to your testimony that we have
3 gone over so far today, there are no changes to the
4 depreciation study or to your direct testimony with
5 respect to withdrawing Mr. Pous', or him not being in
6 this docket; is that fair?

7 A Just to make sure, you are asking with Pous'
8 withdrawing, are any of my recommendations different?

9 **Q Yes.**

10 A My recommendations are the same.

11 **Q Okay. Thank you.**

12 Can I get you to turn to pages 16 and 17 of
13 your -- of what is Exhibit 768, your revised testimony?

14 MR. MOYLE: I have it as 767.

15 CHAIRMAN BROWN: It is -- it's 767.

16 MR. REHWINKEL: I apologize. Thank you,
17 Mr. Moyle. Thank you, Madam Chairman.

18 BY MR. REHWINKEL:

19 **Q So 767, do you know what I am talking about --**

20 A Yes.

21 **Q -- your revised testimony, okay.**

22 So I would like you to look --

23 MR. REHWINKEL: When I hear Mr. --

24 CHAIRMAN BROWN: When you hear the mic, you
25 know who it is.

1 MR. REHWINKEL: -- Mr. Moyle crank his
2 microphone.

3 CHAIRMAN BROWN: You know whose it is.

4 BY MR. REHWINKEL:

5 Q Okay. And I am just trying to understand. My
6 understanding is that when you modified your testimony
7 to eliminate the effect of Mr. Pous' previously
8 submitted testimony, that you removed everything, and
9 you tried to put transitions in to make it read right,
10 but you did not add any new information, or supplement
11 any new rebuttal testimony for the remaining witnesses;
12 is that fair?

13 A Yes, that's correct.

14 MR. MOYLE: Objection.

15 CHAIRMAN BROWN: Noted.

16 MR. MOYLE: Okay.

17 BY MR. REHWINKEL:

18 Q So if I look on line 17, you use the phrase,
19 "general method for interim retirements," do you see
20 that?

21 A Yes.

22 Q And if I look on the next page, line 17, page
23 17 line 14, we see that phrase, "the general method
24 using interim survivor curves to estimate interim
25 retirements," do you see that?

1 A Yes.

2 Q Are those two referring to the same thing? Is
3 that the same general method that you are referring to?

4 A Yes. I am referring to using interim survivor
5 curves as opposed to a different methodology for
6 estimating interim retirements.

7 Q Can I ask you to look on lines 11 and 12?

8 A Of which page?

9 Q Of page 17, and I see the phrase "widely
10 accepted method to estimate interim retirements for
11 lifespan property." Is that referring to a different
12 method?

13 A The use of interim survivor curves is the
14 method I have used --

15 Q Okay.

16 A -- so the same one that I think would be
17 referred to in each of those places.

18 Q Okay. Would it be fair to say that in the
19 transitional language, that the phrase "general method"
20 was substituted for "widely accepted method" in several
21 places?

22 A I don't recall if it did. I -- there -- there
23 was kind of an unusual transition, in that originally,
24 the interim retirement estimates for every account had
25 been challenged, and now it's just one account, so I was

1 trying to just make that transition clear.

2 Q Okay. So is there any difference in your mind
3 between the phrase "widely accepted method" and "general
4 method?"

5 A I suppose the two phrases are different. My
6 method would be both the general method of estimating
7 interim retirements, and it would be widely accepted.

8 Q Okay. All right. So just -- that was the
9 only thing I could discern that was -- had any different
10 verbiage, and I just wanted to understand, was there any
11 intent on your part to express a different concept
12 between using the words widely accepted and general
13 method?

14 A No.

15 Q Okay. How many of the 50 or so U.S.
16 regulatory agencies accept the depreciation method that
17 is based on estimating retirements and additions into
18 the future, and then applying remaining life
19 calculations on the forecasted vintage balances
20 individually?

21 A I want to make sure I understand exactly what
22 you are asking. Are you asking what -- what we have
23 done in this case, where you do the calculations at a
24 point in time beyond the end of historical data?

25 Q Yes, what you have done for your capital spare

1 **parts interim retirements methodology.**

2 A I think that would be a lot different from
3 what you asked. So perhaps you can rephrase.

4 Q Okay. So I am asking you how many commissions
5 that you are aware of accept a depreciation method that
6 is based on estimating retirements and additions into
7 the future, and then applying a remaining life
8 calculation on the forecasted vintage balances
9 individually?

10 A Again, I don't see the connection of that in
11 capital spare parts. That would be -- it sounds to me
12 like you are asking about a general approach for doing
13 depreciation calculations, which would apply to any type
14 of asset. And then you said something about interim
15 retirements and capital spare parts, I am confused.

16 Q Okay. Well, how many of the 50 or so U.S.
17 regulatory agencies have accepted a subaccount for
18 account 343, other production prime movers, that
19 segregate spare parts like you propose in this case?

20 A So I am not familiar with any that have a
21 specific subaccount, and there is a very good reason for
22 that. FPL has a very large fleet of combined cycle
23 plants. I think we have kind of all heard that quite a
24 bit this week. So they own all of these parts, all
25 these, you know, turbine blades, transition nozzles,

1 things like that. Not every company does. Most
2 companies -- I mean, I ask these questions whenever I go
3 around with any company, because knowing how these
4 plants operate, that's, obviously, something that has an
5 impact.

6 A lot of times what happens is companies will
7 have long-term service agreements with the manufacturer
8 of the equipment, where they will be making payments to
9 the manufacturer, who will actually own the parts, and
10 they will take the parts out, refurbish them, and those
11 parts may go to some other company somewhere else in the
12 country. But, you know, it's the same components, it's
13 just there is differences because of the operations of
14 the different companies.

15 **Q Mr. Allis, is it a common practice for**
16 **depreciation of witnesses to present a comparison**
17 **between the existing depreciation rate and the proposed**
18 **depreciation rate?**

19 A I would say it's not uncommon. We don't
20 necessarily do that all the time.

21 **Q Okay. Is it a common practice for a**
22 **depreciation witness to present a comparison between a**
23 **newly developed rate based on the life and net salvage**
24 **parameters adopted in a prior case, and not the approved**
25 **existing depreciation rate and the proposed depreciation**

1 **rate?**

2 A So you are asking whether it's common to do a
3 recalculation with the currently approved estimates?

4 **Q Well, I am asking you this: Is it -- is it a**
5 **common practice for a depreciation witness to compare a**
6 **newly developed rate based on the life and net salvage**
7 **parameters adopted in a prior case, and not the approved**
8 **existing depreciation rate and the proposal depreciation**
9 **rate?**

10 A Yes, it is. And they kind of show different
11 things. If you look at -- typically, you know, with the
12 Commission, when they have approved depreciation studies
13 and depreciation rates in the past, they are approving
14 both lives, net salvage and rates, and those rates will
15 change depending on when the calculation is done.

16 So if you want to isolate what, just say the
17 lives and net salvage do it, you would do a
18 recalculation with the existing lives and net salvage,
19 and then make that comparison. That's what I have done
20 in Figure 1 of my testimony.

21 **Q So you worked on a recent El Paso and Oklahoma**
22 **gas and electric studies?**

23 A I -- I worked on parts of that.

24 **Q Okay. Did Gannett Fleming do what I just**
25 **asked you about up there?**

1 A If we did a recalculation of the rates?

2 **Q Yeah.**

3 A I don't know the answer to that off the top of
4 my head.

5 **Q Okay. Is the calculation method for**
6 **developing the proposed rate for an account in this case**
7 **the same as was done in the prior FPL case?**

8 A The calculation --

9 **Q And I am talking about the capital spare**
10 **parts.**

11 A Perhaps you could be a little more specific.

12 MR. BUTLER: Could you rephrase it, please?

13 BY MR. REHWINKEL:

14 **Q Well, are you doing, in this case for capital**
15 **spare parts, what you did in the last case?**

16 A It's kind of a yes and no. So in the last
17 case, we -- we studied capital spare parts separately.
18 We made separate life and net salvage estimates to this,
19 and -- but then when we calculated the depreciation
20 rates, we kind of rolled it all into one combined rate.
21 So the estimates were different and fairly similar to
22 this time, except for having increased the lives for
23 capital spare parts a bit.

24 But what I have seen is that, over time, as
25 the company adds more capital spare parts, the

1 differences between -- you know, there is kind of the
2 ratio of capital spare parts to other assets has
3 changed, and as a result, the depreciation rates for --
4 that were just an average didn't really track the
5 different balances very well, and so that's led to some
6 things.

7 One thing that's happened is there is a
8 reserve deficit for capital spare parts that are
9 deficiency, which is the result of not having the
10 separate subaccounts. So I think with having separate
11 subaccounts, number one, you know, you will kind of run
12 that off faster, but you will also kind of prevent that
13 sort of thing happening again in the future.

14 **Q So which part of that was explaining the no**
15 **part of your answer? You said yes and no.**

16 A Well, so, no, in that we average the rates
17 together; but, yes, in that we develop the lives and net
18 salvage in the same way, other than that we have gone
19 into more detail in this study. And so, you know, yes,
20 in the way we develop the lives and net savage; no, in
21 the way we develop the rates. And I think what we have
22 done in this study is an improvement on that process for
23 the reasons I explained.

24 **Q So is doing it one way wrong and one way**
25 **right?**

1 A I think the way we have done it this time is
2 better.

3 **Q Okay. Does it yield just different results?**

4 A Again, at a single point in time, you would
5 probably end up with pretty similar results, but over
6 time, depreciation rates are going to be in effect for
7 maybe four years or so.

8 Over time, they will kind of diverge. And so
9 I think having the separate subaccounts, splitting them
10 into two different buckets of assets, is going to allow
11 the depreciation rates to track the assets better. And,
12 again, I think that, you know, one -- one fallout of
13 that is there is probably less of a chance of there
14 being a reserve deficit in the future for these assets.

15 **Q It isn't a common industry practice, is it, to**
16 **have a negative future book accruals for plant in**
17 **service, is it?**

18 A Negative future book accruals?

19 **Q Yep.**

20 A I am not sure what you mean by practice. That
21 would be something that might develop from time to time.

22 **Q Well, didn't -- didn't Gannett Fleming develop**
23 **the calculated negative future book accrual for a plant**
24 **in the 2009 study?**

25 A I don't know. I would have to see what you

1 are referring to.

2 Q Okay. Could you look at the Exhibit 770, the
3 2009 study excerpt? And I think the last page, page
4 355, relates to Putnam Unit 1.

5 CHAIRMAN BROWN: Mr. Rehwinkle, can I ask you
6 to pull the mic a little bit closer?

7 MR. REHWINKEL: I apologize.

8 CHAIRMAN BROWN: When you talk depreciation,
9 your voice starts getting softer and softer.

10 MR. REHWINKEL: It's such a enjoyable topic.

11 CHAIRMAN BROWN: Isn't it?

12 BY MR. REHWINKEL:

13 Q Can you take a look at this, Mr. Allis?

14 A Can you tell me the page again? I am sorry.

15 Q I am sorry. It's page 355 of 720, which is
16 just the third -- third page of the exhibit.

17 A And this is Exhibit 770, the '09 study?

18 Q The '09 study. Yes, sir.

19 A And the page 355.

20 Q It's Roman numeral IV dash 275?

21 A Okay.

22 Q Okay. Can you take a look at that and tell
23 me, do you see where Gannett Fleming calculated a
24 negative future book accrual?

25 A Yeah, I do see that. That was because -- I

1 think prior to that study, there hadn't been a positive
2 net salvage for this account. That was something we
3 recommended in that study, and recommend in the current
4 study as well.

5 Q Okay. Is it a common industry practice for
6 the remaining life to decrease for older vintages
7 compared to newer vintages for the same account?

8 A Usually, but not always. Some curves
9 mathematically that doesn't happen for.

10 Q Okay. So -- well, I won't ask that.

11 In fact, is it exactly what you present in
12 your 2016 study? Can I get you to look at Exhibit 769,
13 page 527 -- I am looking at pages up at the top, 527 of
14 762.

15 A And this is of my current study?

16 Q Yes, sir, NWA-1 527, with the capital spare
17 parts for the Martin Unit 8.

18 A Page 527?

19 Q Yes, sir.

20 A Yeah. I am sorry, what was the question?

21 Q Did the same thing occur here with respect to
22 Unit 8 -- Martin Unit 8, that has occurred with the
23 Putnam Unit 1 that we saw in the 2009 study?

24 A What --

25 Q Okay, well, the question was -- let's look at

1 column six. Do you show declining remaining life for
2 each older age vintage?

3 A So if you start at 2017 and go up the page, to
4 do remaining lives tend to decrease?

5 Q Yes, sir.

6 A Yes.

7 Q Okay. Is it logically correct that any
8 calculations method should yield a result where older
9 vintages would have shorter remaining life, all else
10 being equal?

11 A Again, there are certain curve types where
12 that doesn't happen. Some of the higher Mode 0 curves
13 actually don't. And what happens with those is some of
14 the -- some -- there is a higher portion of assets that
15 don't last very long, and once those get retired, the
16 overall average remaining life is longer.

17 Q So is that's what's happening here with the
18 Martin Unit 8?

19 A No. For Martin Unit 8, the remaining lives
20 are shorter for the older vintages. I didn't -- it's a
21 9L0 curve.

22 Q Okay. So let's look at page 354 of the '09
23 study, back to Exhibit 770. Does the method you used
24 have an initial decreasing, then increasing, and then
25 again decreasing remaining life for this account?

1 MR. BUTLER: I am sorry, the method you used,
2 are you referring to the 2009 study?

3 MR. REHWINKEL: Yes, sir, for Gannett Fleming.

4 MR. BUTLER: Okay.

5 THE WITNESS: I don't think method is the
6 right term. It does show that -- what you
7 described to the for remaining life. And as you
8 can see, there is an '03 curve. That was kind of
9 what I just said about certain types of curves will
10 experience that phenomena. And, of course, I have
11 proposed a different curve for this study.

12 BY MR. REHWINKEL:

13 **Q Okay. Would you accept, subject to check,**
14 **that in a Texas case, Gannett Fleming referred to that**
15 **phenomenon as an anomaly?**

16 A I have no idea.

17 **Q Okay.**

18 A I can tell you that, with my mathematics
19 background, I understand these curves quite well, and
20 that, you know, I have kind of gone through the Calculus
21 of it with this, and I understand why that happens.

22 **Q Okay. Is it a common industry practice for**
23 **the average life and annual accrual rate for each**
24 **vintage to remain constant, or to change for all**
25 **vintages when using a lifespan method with a truncated**

1 **Iowa curve for interim retirement curve?**

2 A There was a lot there. Could we go through
3 that in pieces?

4 Q Well, is it a common industry practice -- let
5 me just try to -- I will read it slow for you.

6 Is it a common industry practice for the
7 average life and annual accrual rate for each vintage to
8 remain constant, or to change for all vintages when
9 using a lifespan method with a truncated Iowa curve for
10 the interim retirement curve?

11 MR. BUTLER: I am going to object to the form
12 of the question. I think it's like a two-by-two
13 matrix of questions there, certainly compound.

14 CHAIRMAN BROWN: Mr. Rehwinkel, could you
15 simplify it, or break it up?

16 MR. REHWINKEL: Mr. Allis is a depreciation
17 professional, and I am just a poor unfrozen caveman
18 lawyer.

19 CHAIRMAN BROWN: I -- yes.

20 MR. REHWINKEL: I would ask if the witness
21 understands my question --

22 CHAIRMAN BROWN: Fair enough.

23 MR. REHWINKEL: -- would that be fair?

24 THE WITNESS: I think I kind of did, and
25 perhaps maybe the thing to do is explain -- it

1 sounds like you were asking what happens to both
2 the average life and the depreciation rate over
3 time for lifespan properties.

4 BY MR. REHWINKEL:

5 Q Well, let's do this, look at -- maybe this
6 will help. Let's go to 523 -- and I am not trying to
7 trap you or trick you. Let's look at 523 for the --

8 MR. BUTLER: That wasn't what came to mind.

9 MR. REHWINKEL: I could think of a much more
10 enjoyable subject matter to try to trap someone.

11 BY MR. REHWINKEL:

12 Q So look at 523 of the -- of your NWA-1 for
13 Lauderdale Unit 5.

14 A Yes.

15 Q Okay. Would you agree that, here, it changes
16 for every vintage year, versus going to 524, which I
17 didn't provide for you -- do you have page 524?

18 A Of the study?

19 Q Yes.

20 A Yes, I have both of those now.

21 MS. MONCADA: Mr. Rehwinkle, I am sorry, I
22 don't want to interrupt your flow, but counsel also
23 needs a minute to get to that page.

24 MR. REHWINKEL: Okay. I have given -- it's
25 time 524 of NWA-1.

1 MR. BUTLER: We are there.

2 MR. REHWINKEL: Okay. I am sorry. All right.
3 Now, I think the witness and -- FPL counsel and Mr.
4 Allis are all on the same places.

5 BY MR. REHWINKEL:

6 Q All right. So let's look at Lauderdale Unit
7 5. Would you agree with me, that it changes for every
8 vantage year, versus the next page for the fort -- well,
9 for 524 for Ft. Myers Unit 2, where the average live
10 stays constant for all vintage years?

11 A There is actually a slight difference for
12 2017, and then the other ones stay constant. That's for
13 the one on page 524. And then the average lives do
14 increase for Lauderdale Unit 5, and that's exactly what
15 I expect mathematically, based on this curve and
16 calculation.

17 What you can see is the probable retirement
18 year is different for those, meaning one of the plants
19 is going to retire earlier than the other -- others. So
20 newer property at the plant that's going to retire
21 earlier, some of it is going to make it to the end of
22 the plant, and then you kind of cut the curve off, so
23 the average overall is going to be a little bit shorter.

24 For plants that are expected to run out a
25 little bit longer, most of the cap -- well, pretty much

1 all the capital spare parts will be replaced before you
2 get to the end of the life of the plant. I mean, that's
3 basically what's happening there.

4 Q So I understand, if I look at 523, there is a
5 probable retirement date of 2023 for Lauderdale Unit 5,
6 is that right?

7 A Yes.

8 Q And you are saying that nearer term retirement
9 date is what causes the fluctuation, if you will, in the
10 average service lives?

11 A Yes, it is.

12 Q Versus the next page, where there is a 2043
13 average -- I mean, a probable retirement date, and it
14 gives you a smoother, if you will, or a more constant
15 average service life?

16 A It's not smoother. It's more constant, and
17 it's -- it's basically a function of the percentage of
18 what's there for each vintage that's going to make it to
19 the end of the life of the entire plant. The closer
20 that date is, the higher percentage it's going to make
21 it to the end of the life of the plant.

22 Q So is it a common industry practice for the
23 original cost for any given vintage for a given account
24 to decline or remain the same between depreciation
25 studies?

1 A Typically, yes, but there can be perfectly
2 good reasons why that may not be the case.

3 Q Okay. Well, let's look at 526 of Exhibit of
4 your NWA-1, which is 769. And then also please turn in
5 770 to the first page, which is 340, okay.

6 So these pages represent your remaining life
7 calculation for -- or accrual calculation for Martin
8 Unit 4 for the '09 and the '16 study; is that fair?

9 A Yes.

10 Q Okay. Can you explain to me how, after seven
11 years, certain vintage balances have increased?

12 A Sure. I actually had explained this in the
13 previous version of my rebuttal testimony that's no
14 longer there.

15 So a couple of things -- a couple things have
16 happened. First of all, in both cases, we are using
17 a -- we are doing calculations with a forecast that's a
18 little bit into the future of the historical data, so
19 there is just going to be some natural variability
20 there.

21 The other thing is, we went into this study
22 knowing, you know, learning a lot more about the capital
23 spare parts. I really took a much deeper dive into the
24 assets to determine what should be in the capital spare
25 parts bucket, what should be in the other bucket, went

1 through in great detail and, as a result, it's not
2 surprising to me that you would end up with some
3 differences. The current study is, in my view, much
4 more accurate.

5 **Q Okay. So you don't agree that depreciation**
6 **theory that says those balances should stay the same or**
7 **decrease?**

8 A Well, again, it's not that the assets have
9 moved anywhere, it's -- I would think the same things
10 are just -- were maybe in one bucket last time and they
11 are in another bucket this time. And, again, there is
12 also the forecasting part of it, so there is that as
13 well.

14 **Q Okay. Thank you.**

15 Let's look at your testimony on page four,
16 lines 11 through 15. Well, would you just read out loud
17 what your statement is here? I think you referenced it
18 in your summary, but could you just read your testimony
19 on that point?

20 A 11 through 15?

21 **Q Yes, sir.**

22 A "Contrary to the implication of intervenor
23 witnesses, the service life and net salvage
24 recommendations in the 2016 Depreciation Study actually
25 result in a significant decrease in depreciation expense

1 of \$563 million, when compared to the depreciation rates
2 resulting from the service life and net salvage
3 estimates that were approved in 2009."

4 COMMISSIONER EDGAR: Mr. Rehwinkle, I am so
5 sorry, what page is that?

6 MR. REHWINKEL: I apologize, Madam Chair,
7 it's --

8 COMMISSIONER EDGAR: You are moving faster
9 than I am thinking.

10 MR. REHWINKEL: Okay. It's page four of
11 Exhibit 767, his revised testimony.

12 COMMISSIONER EDGAR: Thank you. I apologize
13 for interrupting.

14 MR. REHWINKEL: That's okay. I am trying to
15 be speedy given the circumstances we are under, but
16 I apologize for going too fast.

17 BY MR. REHWINKEL:

18 **Q Even if one -- or the Commission, I guess**
19 **importantly, were to accept that claim, are you trying**
20 **to imply that such a reduction -- that if such a**
21 **reduction is valid, that no further reduction can be**
22 **appropriate in depreciation expense?**

23 A I am not sure I completely understand the
24 question.

25 **Q Okay. Well, let me ask it this way: If it's**

1 true what you say, that there is a decrease in
2 depreciation expense of 5560 -- 563 million, are you
3 saying to the Commission that if that -- even if that's
4 true, that you should stop there, there is no reason to
5 go any further?

6 A No, I don't think I am exactly saying that. I
7 am pointing out that, you know, I think my study is
8 fair. It's the right result. I mean, obviously the
9 Commission has the authority to review other parties'
10 recommendations, and adopt what they think is
11 appropriate, but I think, both in this part, and
12 throughout the rest much my testimony, I have defended
13 my study --

14 Q Okay.

15 A -- well.

16 Q So look on page nine of your revised
17 testimony. Would you agree with me that almost half of
18 what you claim as a \$563 million decrease in
19 depreciation expense is related to your treatment for
20 capital spare parts and the lifespan for other
21 production units?

22 A Yes and no. Certainly, the capital spare
23 parts are a big reason for the decrease, and increasing
24 some of the lifespans are as well. There is a part here
25 that says, other production changes, and there is

1 actually -- there is a little bit more to that too, in
2 that, for some of the combined cycle plants, there had
3 not been interim retirement estimates approved in the
4 existing rates, so that 24.8 million actually
5 incorporates kind of moving in interim retirements for
6 those plants as well, which I think anybody would have
7 done anyway, so there is kind of a little bit more to
8 that, too.

9 **Q But you would agree with me that the 291.4**
10 **million in the green -- the largest green box in your**
11 **waterfall chart here, is 52 percent of the \$563 million**
12 **that you talk about?**

13 A Subject to check, yes.

14 **Q Okay. Would you agree with me that a 9L0 life**
15 **curve proposal will have 99 percent of a vintage edition**
16 **retired by 24 years of age?**

17 A I would like to check.

18 **Q Okay. I didn't ask you to do that one subject**
19 **to check.**

20 A And just for everyone's reference, you can see
21 what a 9L0 survival curve looks like on page 186 of the
22 depreciation study. I am sure everyone was waiting in
23 anticipation.

24 And so your question was?

25 **Q Yes, sir. Is it correct that a 9L0 life curve**

1 proposal will have 99 percent of a vintage edition
2 retired by 24 years of age?

3 A That looks to approximately be correct. And
4 that's what I would expect for capital spare parts that
5 are replaced regularly.

6 Q Okay. Will you agree with me that a 9L0 life
7 curve proposal will also have 90 percent of a vintage
8 edition retired by 17 years of age?

9 A Yes.

10 Q Okay. Is it also correct that this average
11 service life related portion of the claim decrease is
12 due to a change from a 0.1565 interim retirement rate
13 approved by the Commission to a nine-year average
14 service life with a L0 Iowa curve?

15 A From a zero point --

16 Q 1565?

17 A To a 9L0? Yes, that's a big part of the
18 change. Yes.

19 Q Okay.

20 MR. BUTLER: I would ask Mr. Rehwinkle to
21 point me to where in Mr. Allis' revised rebuttal
22 testimony he is directing this line of cross.

23 MR. REHWINKEL: Okay. Yes, sir.

24 Madam Chairman --

25 CHAIRMAN BROWN: Sure.

1 MR. REHWINKEL: -- to respond to Mr. Butler's
2 question, there are three places I would reference
3 you. One would be page 10 --

4 CHAIRMAN BROWN: Okay.

5 MR. REHWINKEL: -- lines 14 through 16, where
6 Mr. Allis, immediately after discussing the
7 decrease in depreciation expense of 563 million
8 states, "it is incorrect and completely misleading
9 to characterize the significant decrease in
10 depreciation expense as an aggressive depreciation
11 proposal." That is one place.

12 And then I think it's pages 28 and 29, he also
13 discusses -- actually, it's page 27, lines 17, he
14 references Mr. Kollen's more aggressive interim
15 retirement curves. And on page 28, lines 12 and
16 13, again the word he denies that -- that his
17 proposals are aggressive.

18 CHAIRMAN BROWN: Okay. Continue.

19 MR. REHWINKEL: Thank you.

20 (Transcript continues in sequence in Volume
21 34.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby
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DATED this 1st day of September, 2016.



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