



**SERVICE LIST  
(PSC DOCKET NO. 970410-EI)**

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ORIGINAL

**FLORIDA POWER AND LIGHT**

**DOCKET NO. 970416-EI**

**REBUTTAL TESTIMONY OF THOMAS DE WARD  
ON BEHALF OF AMERISTEEL CORPORATION**

**FILED NOVEMBER 3, 1997**

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FPSC-RECORDS/REPORTING

1                                   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2   AMERISTEEL CORPORATION

3                                   REBUTTAL TESTIMONY OF THOMAS DE WARD

4   DOCKET NO. 970410-EI

5   NOVEMBER 3, 1997

6  
7    Q.    Please state your name and address.

8    A.    My name is Thomas DeWard and my business address is 25806 Glover Court,  
9           Farmington Hills, Michigan 48335.

10   Q.    Please briefly describe your educational background and your prior experience in  
11           regulatory matters.

12   A.    I have an M.B.A. from the University of Michigan. I am a C.P.A., licensed in the  
13           State of Michigan. Prior to becoming the Vice President-Finance of Midwest  
14           Door and Window Co. in April of this year, I spent nearly sixteen years in the  
15           regulatory field. I have testified in numerous cases in the states of California,  
16           Connecticut, Florida, Hawaii, Kentucky, Michigan, Nevada, Texas and Virginia.  
17           I have participated in one form or another in over 100 utility cases.

18   Q.    What is the purpose of your rebuttal testimony?

19   A.    The purpose of my rebuttal testimony is to rebut certain presumptions and  
20           statements proffered in the direct testimony of FPL witness Mr. H. A. Gower with  
21           respect to the appropriate ratemaking for nuclear decommissioning accruals and  
22           with regard to premiums paid and costs incurred to reacquire and refinance debt.

1 Q. In his testimony, FPL witness Gower discusses the traditional utility argument  
2 that the current recognition of the so-called nuclear decommissioning reserve  
3 deficiency will benefit ratepayers in the long-run. Do you agree with that  
4 argument?

5 A. No. The telecommunications industry is a good example of why this theorem is  
6 not always correct. Today the telecommunications companies in Florida are  
7 largely deregulated. To the extent that depreciation reserve deficiencies were  
8 written off as immediate charges to depreciation expense and thus reduced  
9 overearnings or increased revenue requirements, the benefit has been reaped by  
10 the shareholder's of the now deregulated telecommunication companies. In other  
11 words, the reduced future expense will never benefit ratepayers if competition in  
12 the future results in deregulated services rather than rates determined in a  
13 traditional cost of service manner. Ratepayers would be far better off if rates had  
14 been reduced or rate increases, if applicable, had been reduced. While there is no  
15 guarantee that the electric utilities will be deregulated, that seems to be the trend  
16 throughout the country. Moreover, there is no indication that FFL would have  
17 reason to seek a base rate increase in the foreseeable future. Therefore, if any  
18 alleged decommissioning reserve deficiency is allowed to be charged against what  
19 appears to be overearnings, ratepayers may never benefit in that rates will remain  
20 at the current levels.

21 Q. If the Company writes off the alleged decommissioning reserve deficiency as a  
22 one time charge, is the Commission obligated to follow the same accounting  
23 treatment for ratemaking purposes?

1 A. Definitely not. Financial reporting and regulatory accounting are often at odds.  
2 As a financial officer, a CPA, and a regulatory accountant, I am aware that there  
3 often are contradictions between accounting practices acceptable to industry and  
4 those which are appropriate in a regulatory environment.

5 Q. Do you have an example where financial reporting differs from regulatory  
6 accounting?

7 A. Yes, SFAS 106 ("OPEB") required a different accounting for health care costs  
8 after retirement than had previously been in place. Some companies, and in  
9 particular utilities, provide for continued health care after retirement. In other  
10 words, when an employee retires, their medical coverage is continued. Prior to  
11 1993, companies accounted for this cost on the pay as you go method. In other  
12 words, as claims were submitted, the cost was recognized. The accounting  
13 profession deemed this methodology was no longer appropriate and required  
14 companies to recognize the cost of providing this coverage over the working lives  
15 of the employees. When SFAS 106 first became effective, as you can imagine,  
16 there was a substantial liability for employees who had already retired and  
17 associated with the years current employees had already worked but no accrual  
18 was being recognized. Thus a substantial obligation was recognized when SFAS  
19 106 first became effective. This obligation was known as the Transition Benefit  
20 Obligation ("TBO"). Companies were given the option of recognizing this "past"  
21 cost as a one time charge or amortizing the cost over a period of years. Some  
22 companies, such as General Motors, took a tremendous one time charge against  
23 earnings.

1 Q. Did the establishment of the reserve require any estimates?

2 A. Yes, there were numerous estimates involved. Perhaps the estimate which had the  
3 greatest impact was the estimate of the escalation of the cost of health care. As  
4 you will recall, the cost of health care was escalating dramatically in the early part  
5 of 1990s. Thus estimates were required of the rate at which health care costs  
6 would escalate well into the future. It was not uncommon to see estimates for the  
7 immediate future in the range of 15% to 17% annually and then declining  
8 thereafter. It is easy to envision the tremendous estimates of the cost of  
9 providing health care for a 25 year old employee with planned retirement at age  
10 65. For instance if the estimate included a 15% to 17% annual compounded  
11 increase declining to say 6% in future years, with the future amount discounted at  
12 7%, the liability was enormous. Other estimates included discount rates and  
13 earnings on investments should there be any funding of costs. Of course, many  
14 companies opted not to fund the liability but merely to provide a reserve. Another  
15 estimate involved what share of future costs would be covered by Medicare  
16 Recently, there has been some dramatic changes in the annual increases in the cost  
17 of health care. Annual increases are under 10%. Had this been known at the time  
18 the original estimate of the Transition Benefit Obligation was determined, the  
19 results could be dramatically different. General Motors one time charge would  
20 have been less. The cost of service for utility companies would have been lower.  
21 Those utilities who sought rate relief would have required a smaller increase or  
22 the reduction would have been greater in overearnings cases because of more  
23 realistic estimates.

1 Q. Is the estimate of costs associated with health care costs similar to the estimates  
2 of future decommissioning of nuclear plants?

3 A. To some extent; however, there are important distinctions particularly as it is  
4 applied to this case. The estimates of SFAS 106 costs generally are made by  
5 actuaries. They are experts at determining trends but they do make errors in the  
6 estimates of future costs. In making these estimates, I assume an actuary relies on  
7 prior trends to determine future costs. This makes sense. This is a major  
8 difference in estimating the cost of decommissioning nuclear facilities. There  
9 have been few decommissionings to date. Thus, there is little actual experience  
10 that could be used for estimating future decommissioning costs. The estimates of  
11 future decommissioning costs is highly uncertain for other reasons as well.  
12 Changes in technology, escalation rates, and revisions to the useful lives can all  
13 affect the estimates of future costs.

14 Q. Didn't the Financial Standards Board establish some guidelines relating to the  
15 determination of SFAS 106 costs?

16 A. Yes, these standards were detailed in SFAS 106.

17 Q. Were utilities bound by SFAS 106 for financial reporting purposes?

18 A. Yes. However, some commissions deviated from SFAS 106 for ratemaking  
19 purposes. Some commissions required utilities to continue to recognize costs on  
20 the pay as you go method for ratemaking purposes. Some commissions required  
21 that the expense be funded or the additional expense over the pay as you go would  
22 not be allowed. Some commissions extended the amortization period. As I stated  
23 earlier, some companies, particularly telecommunication companies, wrote off the

1 TBO as a one time charge, arguing that future recovery was not guaranteed  
2 because of the current environment, namely deregulation. However, in the few  
3 instances these same utilities were before commissions, they argued for full  
4 recovery of all the costs recorded so they could be made whole.

5 Q. Do you agree with Mr. Gower that a theoretical deficiency in the funding of  
6 nuclear decommissioning expenses should be charged to expense in the years  
7 1998 and 1999?

8 A. No. FPL's nuclear units each have an operating life of 40 years under their  
9 licenses issued by the Nuclear Regulatory Commission. There has long been  
10 considerable controversy in rate cases over the appropriate accrual for  
11 decommissioning expense because, as I noted above, to date the industry has had  
12 relatively little experience in actual decommissioning, and forecasts of future  
13 expenses must be made for many years into the future. Consequently, the  
14 accepted ratemaking for nuclear decommissioning is to spread the cost of funding  
15 those activities evenly over the license life of the assets. To account for changes  
16 in the various estimates and inputs used in calculating the reserve needed for  
17 decommissioning costs, regulatory commissions, including the Florida Public  
18 Service Commission, typically require periodically updated studies of nuclear  
19 decommissioning costs. In Florida, for example, such studies must be filed every  
20 five years. Where reserve deficiencies are identified, the appropriate response is  
21 to adjust the annual accrual for decommissioning to ensure that the deficiency is  
22 remedied over time.

1 Q. Is the current PSC practice consistent with that approach?

2 A. Yes. In Order No. PSC-95-1531-FOF-EI issued in December 1995, after  
3 reviewing comprehensive site-specific studies by FPL, the Commission approved  
4 an increase in FPL's annual accrual from \$38 million to more than \$84 million.

5 In that order, the Commission concluded:

6 Based on the current dollar cost to decommission each  
7 nuclear plant, the plant-specific contingency allowances,  
8 the plant-specific escalation rates, the cost of extended  
9 storage for spent fuel, and a fund earnings rate of 4.90%,  
10 we have determined the appropriate jurisdictional annual  
11 accrual amounts necessary to recover future  
12 decommissioning costs over the remaining life of each  
13 nuclear power plant.

14 Order PSC-95-1531-FOF-EI at p. 15).

15 This action was consistent with the Commission's long-standing order that  
16 decommissioning costs should be accrued evenly over the life of the plants. And,  
17 as quoted above, the revised annual accruals were designed to provide for full  
18 funding of decommissioning costs over that time frame, including correction of  
19 any reserve deficiencies that were identified at the time. FPL will file its next  
20 comprehensive studies in late 1998. Upon completing its review of those studies,  
21 the Commission should determine if any further adjustment in the annual accrual  
22 is warranted. There is no need for additional "corrections" unless the next set of

1 decommissioning studies demonstrate that the accrual levels established in 1995  
2 are insufficient.

3 Q. Mr. Gower states that the future comprehensive studies "... will only remeasure  
4 the amount of the deficiencies." (Gower Direct, p. 10). Do you agree with that  
5 statement?

6 A. No. Assuming there will always be a need to decommission nuclear plants in  
7 some manner, a provision for decommissioning expense is appropriate. Given the  
8 unknowns, potential technology changes, and the potential for changes in  
9 decommissioning requirements, there is no guarantee that the perceived  
10 deficiency at any particular point could not turn into an excess in the future.  
11 Charging the full amount of a perceived deficiency at any one time, particularly  
12 one as large as \$484 million to customers in one or two years assigns those  
13 customers a hugely disproportionate share of the future cost of decommissioning.  
14 This is an unreasonable approach to the accounting and ratemaking of these future  
15 costs. Further, these customers would now bear the full risk that future studies  
16 might lessen or eliminate that perceived deficiency altogether.

17 Q. Mr. Gower claims that "... In the current dynamic environment it is not  
18 reasonable to suspend the plan for correction of these substantial underrecoveries  
19 begun in Docket No. 950359-EI until new studies are filed." (Gower Direct p. 10).  
20 Do you agree?

21 A. No. By adjusting the annual accrual in 1995, the Commission has provided for  
22 correction of any previously identified under-recovery. Absent a complete review  
23 of any findings from the new studies, no further Commission action is needed to

1 correct any prior under-recoveries. Second, to the extent that "the current  
2 dynamic environment" refers to growing competition in the electric industry. I am  
3 aware of no Commission policy or rule addressing competition concerns as the  
4 basis for changing established accounting or rate treatments. I am aware of  
5 restructuring activities in some other states, but do not believe that any state has  
6 failed to provide for rate treatment to assure continued funding of future  
7 decommissioning costs. Mr. Gower's vaguely described concerns are  
8 unwarranted and premature, particularly given the lack of any current legislature  
9 or regulatory action in Florida to factor competition in retail electric markets.

10 Q. Given the uncertainty of future costs, as evidenced by the inaccurate estimates  
11 involved in determining the TBO under SFAS 106 and the current uncertainty in  
12 the estimates of the cost of decommissioning nuclear facilities, does the  
13 continuation of the plan proposed in this docket adequately balance the interests  
14 of FPL and the ratepayer?

15 A. Absolutely not. The benefits of the Plan all flow to FPL. There are no safeguards  
16 for the utility ratepayer. In particular, the accelerated recovery of the nuclear  
17 decommissioning reserve deficiency and the accelerated recovery of the premium  
18 paid to reacquire debt over a two year period benefits FPL to the detriment of  
19 current ratepayers. There is no balance. Not only does the extension of the Plan  
20 to allow the rapid amortization of these costs deviate from the last Commission  
21 order where new decommissioning rates were designed to recover the projected  
22 cost of decommissioning equally over the remaining lives of the units, it

1 represents single issue ratemaking which focuses only on the negatives presented  
2 by FPL.

3 The Plan fails to address any of the reasons FPL may currently be in an excess  
4 earnings condition. The Commission should look at all of the factors  
5 contributing to this circumstance in order to protect ratepayer interests.

6 If the Company is currently overearning, ratepayers should not be deprived of the  
7 opportunity for a full rate review instead of allowing the FPL to reduce earnings  
8 by the rapid amortization of selected items as envisioned in the Plan.

9 Q. The Plan permits FPL to write off the premium paid to reacquire debt over a two  
10 year period if earnings are sufficient. Do you agree that this is appropriate for  
11 ratemaking purposes?

12 A. No. Generally accepted accounting principles allow for losses on reacquired debt  
13 to be written off in the year of acquisition, but here we again have an area where  
14 accepted ratemaking treatment diverges from GAAP. For ratemaking purposes,  
15 as described in the Uniform System of Accounts, such costs are generally  
16 amortized over the remaining life of the debt that has been paid off or over the life  
17 of the debt issued to pay off the old debt. This makes sense because the benefits  
18 of reducing debt costs are realized by ratepayers over time as well. Of course, this  
19 must be tempered to ensure that the capital structure is appropriate for ratemaking  
20 purposes and that the debt/equity ratio is appropriate. In FPL's case, I see no  
21 reason to accelerate recovery of the premiums paid and costs incurred to reacquire  
22 and refinance debt, and neither the PAA nor Mr. Gower's testimony address the  
23 appropriateness of FPL's capital structure or debt/ equity ratio.

1 Q. Does this conclude your rebuttal testimony?

2 A. Yes, it does.