

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

PETITION FOR RATE INCREASE BY  
FLORIDA POWER & LIGHT COMPANY.

DOCKET NO. 050045-EI

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2005 COMPREHENSIVE DEPRECIATION  
STUDY BY FLORIDA POWER & LIGHT  
COMPANY.

DOCKET NO. 050188-EI

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VOLUME 3

Pages 236 through 420

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN BRAULIO L. BAEZ  
COMMISSIONER J. TERRY DEASON  
COMMISSIONER RUDOLPH "RUDY" BRADLEY  
COMMISSIONER LISA POLAK EDGAR

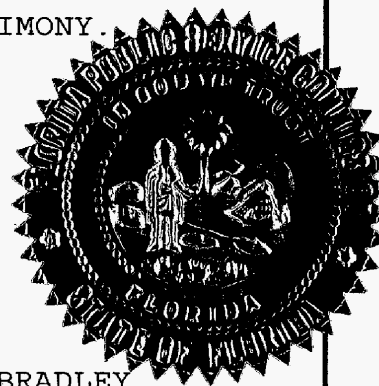
DATE: Monday, August 22, 2005

TIME: Commenced at 9:55 a.m.

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

REPORTED BY: LINDA BOLES, RPR, CRR  
Official FPSC Hearings Reporter  
(850) 413-6734

APPEARANCES: (As heretofore noted.)



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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**DIRECT TESTIMONY OF C. MARTIN MENNES**

**DOCKET NO. 050045-EI**

**MARCH 22, 2005**

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

**A.** My name is C. Martin Mennes. My business address is 9250 West Flagler Street, Miami, FL 33174.

**Q. By whom are you employed and what is your position?**

**A.** I am employed by Florida Power & Light Company (FPL) as Vice President of Transmission and Substation.

**Q. Please describe your duties and responsibilities in that position.**

**A.** I am responsible for FPL's bulk and regional transmission planning, operations, maintenance, engineering and construction. These responsibilities include ensuring the reliability and security of the FPL transmission and substation facilities. FPL plans, operates and maintains its transmission and substation system to meet the needs of its customers in a safe and effective manner consistent with reliability standards set by the North American Electric Reliability Council (NERC), Florida Reliability Coordinating Council (FRCC) and other applicable reliability standards.

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

2   A.   I graduated with honors from the University of Florida in 1968 with a Bachelor of  
3       Science degree in Electrical Engineering. I earned a Post-Graduate Certificate of  
4       Proficiency in Electrical Engineering from the University of Miami in 1974, and  
5       completed the Program for Management Development from the Harvard  
6       University Graduate School of Business in 1981. I am a registered Professional  
7       Engineer in the State of Florida.

8

9       I began working at FPL in 1968 in the area of protective relay and control  
10      systems. Since then I have held the positions of Manager of System Protection,  
11      Manager of System Operations, Manager of Bulk Power Markets, Director of  
12      Power Supply, Vice President, Transmission Operations and Planning, and Vice  
13      President, Transmission and Substation. On July 1, 2003, I assumed my present  
14      position.

15

16      My industry-related activities include serving as the chair of the following  
17      organizations: NERC Performance Subcommittee, NERC Security Coordinator  
18      Subcommittee, and Southeastern Electric Reliability Council (SERC) Operating  
19      Committee (OC). I have represented the transmission owners in my service as  
20      vice chair of the Industry Commercial Practices Working Group and of the NERC  
21      Market Interface Committee. Presently, I am the Investor Owned Utility  
22      representative to the NERC-OC and chair of the FRCC-OC. I also have worked  
23      on numerous NERC committees and task forces including the Technical Steering



1 Committee, Transmission Transfer Capability Taskforce and the Electronic  
2 Information Network Taskforce.

3 **Q. Are you sponsoring an exhibit in this case?**

4 A. Yes. I am sponsoring an exhibit consisting of 11 documents, CMM-1 through  
5 CMM-11, which are attached to my direct testimony.

6 **Q. Are you sponsoring or co-sponsoring any MFRs in this case?**

7 A. Yes. I am co-sponsoring the following MFRs:

- 8 • B-13, Construction Work In Progress;
- 9 • C-8, Detail Of Changes In Expenses;
- 10 • C-34, Statistical Information; and
- 11 • C-41, O&M Benchmark Variance by Function.

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

13 A. The purpose of my testimony is to describe how the Power Systems Transmission  
14 and Substation business unit is providing and will continue to provide FPL  
15 customers a high level of reliable service in a cost effective manner. I will also  
16 address the ongoing need for substantial capital investments to meet customer  
17 growth and maintain FPL's high level of reliability and the factors giving rise to  
18 Operations & Maintenance (O&M) expense levels over the next few years.

19 **Q. Please describe FPL's transmission and substation system.**

20 A. The FPL transmission and substation system is comprised of 6,410 circuit miles  
21 of transmission lines and 537 substations. The FPL transmission system is  
22 designed to integrate all of FPL's generation resources in a reliable and cost  
23 effective manner to serve FPL's customers. The transmission and substation

1 system is designed and operated to meet NERC, FRCC and other applicable  
2 reliability standards.

3 **Q. Please provide a summary of the performance of FPL's transmission and**  
4 **substation system.**

5 A. Since FPL's last rate increase in 1985, FPL's summer peak MW load has  
6 increased approximately two fold. During this period of sustained growth, FPL's  
7 transmission and substation system has provided FPL's customers reliable service  
8 in a cost-effective manner. Looking at the more recent seven year period  
9 beginning in 1998 and continuing through 2004, reliability has improved over  
10 60% as illustrated in the graph provided in Document No. CMM-1 which shows  
11 the System Average Interruption Duration Index (SAIDI), a standard industry  
12 measurement, for FPL's Transmission and Substation operations.

13  
14 These reliability improvements and enhancements to customer service have been  
15 achieved while still effectively managing costs. As discussed later in my  
16 testimony, the 2006 transmission and substation capital costs will increase.  
17 However, O&M expenses, excluding Regional Transmission Organization (RTO)  
18 expenses, are forecasted to be relatively flat, despite an increase in the amount of  
19 generation resources to be integrated and the increased load that FPL must  
20 reliably serve.

1 This excellent overall performance is a direct result of the commitment of FPL's  
2 management and employees to providing superior reliability and service at a  
3 reasonable cost.

4 **Q. Please describe FPL's transmission and substation reliability programs and**  
5 **the results achieved.**

6 A. The reliability programs are comprised of multiple processes and initiatives  
7 designed in a cost effective manner to avoid generator trips, maintain grid  
8 stability and reduce the average time a customer is without electricity due to  
9 transmission and substation events. The two main processes are the Condition  
10 Assessment Process and Event Response Process. The Condition Assessment  
11 Process' theme is "Prevention through Prediction." This process has four main  
12 components: 1) Transmission Line Assessments, 2) Substation Assessments, 3)  
13 Contingency Planning and 4) End of Life Determination. The Event Response  
14 Process is designed to determine the root cause for every unplanned outage of  
15 transmission and substation equipment. Each event is recorded, classified and  
16 analyzed. Subsequently, the results of the analysis are used in the condition  
17 assessment process and incorporated in the design and engineering of future  
18 facilities. The goal of the Event Response Process is to prevent and mitigate  
19 future events (i. e., reduce outage time) as measured and reported by indices such  
20 as SAIDI. SAIDI provides a comprehensive and useful indication of the level of  
21 reliability FPL provides to its customers. I address the SAIDI Index for  
22 transmission and substation in Document No. CMM-1. Ms. Williams will address  
23 the Distribution SAIDI index.

1   **Q.   Please provide several examples of the major transmission reliability**  
2       **initiatives that focus on the efficient design, utilization and operation of**  
3       **transmission facilities.**

4   **A.   The following are some examples:**

5

6       **End of Life and Predictive Replacements** – This initiative involves replacing  
7       major equipment and facilities using predictive models and the outputs from the  
8       Condition Assessment Process to minimize customer impact and cost while  
9       maximizing asset utilization.

10

11       **Life Extension Maintenance** – This initiative consists of rejuvenation activities  
12       for equipment and facilities that extend the useful life of the equipment. This  
13       initiative, together with other programs such as the Equipment and System  
14       Surveillance and Design Improvements Programs which are discussed below,  
15       comprise the “Prevention of Reoccurrence” programs.

16

17       **Equipment and System Surveillance** – This program is part of the Condition  
18       Assessment activity which includes oil sampling and testing, equipment and  
19       protective system testing, thermovision, climbing inspections and station  
20       assessments which provide information used to preempt equipment or facility  
21       failures.

22

1       **Design Improvements** – Technological improvements are developed and  
2       deployed which reduce the likelihood of interruptions and mitigate the effects on  
3       customers when interruptions do occur.

4   **Q.   Please describe some of the major initiatives implemented by FPL for**  
5       **improving the reliability of service associated with transmission lines and the**  
6       **results that have been achieved.**

7   **A.   The following are some of the major initiatives:**

8  
9       **Vegetation Management** – The growth of vegetation into overhead power lines  
10      represents a major challenge to electric utilities. This is particularly true in much  
11      of Florida with the year-round growing season. Transmission and Substation's  
12      vegetation management program involves trimming and right-of-way clearance  
13      and has two main focuses: System Stability and Customer Impact Reliability.  
14      From the perspective of System Stability, this work focuses on preserving right-  
15      of-way requirements for higher voltage transmission lines (500 and 230kV) that  
16      can affect the entire system. Whereas, the Customer Impact Reliability work  
17      includes condition assessments of the remaining transmission lines, in order to  
18      determine appropriate maintenance trimming requirements. The results, as  
19      reflected in Document No. CMM-2, indicate that FPL has reduced the level of  
20      vegetation events over the last six years, and thereby improved reliability.

21  
22      **Lightning** – FPL's service territory is one of the highest lightning density  
23      (strikes/square-mile/year) areas in the United States. In order to minimize the

1 impact to FPL's customers as a result of lightning strikes on the transmission and  
2 substation systems, FPL has placed in service a variety of innovative  
3 countermeasures. Document No. CMM-3 depicts the effectiveness of the  
4 countermeasures deployed by FPL. These countermeasures include new design  
5 standards, grounding improvements and better lightning arrestors.

6  
7 **Birds** – Transmission and substation equipment outages as a result of bird related  
8 events present a significant challenge. As a result, FPL instituted several  
9 environmentally friendly initiatives to improve this situation. These initiatives  
10 involved design modifications to structures to make them less prone to bird  
11 related events, customized bird discouragers specific to the types of birds in a  
12 particular area and countermeasures that encourage birds to roost on less  
13 vulnerable areas of a structure. As shown in Document No. CMM-4, the  
14 implementation of these initiatives in 2000 has reduced outages related to birds.

15 **Q. Are there other factors that have contributed to FPL's success in the area of**  
16 **reliability?**

17 **A** Yes. In addition to continuing to aggressively seek ways to further build upon the  
18 reliability initiatives discussed above, there are various other factors that  
19 contribute to the excellent reliability of service FPL's customers receive in a cost  
20 effective manner. The efficient operation of FPL's transmission and substation  
21 systems plays a key role. The performance of FPL's transmission and substation  
22 operation was recently assessed through an audit conducted by NERC. As a  
23 result of the August 2003 blackout in the Northeastern United States, NERC

1 initiated nationwide operational audits. A team that included representatives from  
2 NERC, the Federal Energy Regulatory Commission and the FRCC participated in  
3 FPL's audit. The team's findings were very positive. As reported by The Energy  
4 Daily on May 27, 2004, Mr. Michel Gent, NERC's President and Chief Executive  
5 Officer, stated that Florida Power & Light had "a nearly perfect" audit. "We were  
6 pleasantly surprised at how well they have taken into account all the issues we  
7 had called attention to." The findings of the NERC audit including a  
8 recommendation that several FPL practices be adopted as "best practices" for  
9 other NERC members. Among FPL's recommended "best practices" are:

- 10 • The high quality and availability of tools and information on the status of our  
11 system and its generating plants. As stated in the NERC audit report "The  
12 tools that FPL has provided to the system operators are the latest off-the-shelf  
13 SCADA EMS tools with further customization done in-house to add  
14 additional functionality";
- 15 • Information access and coordination among FPL and the other members of the  
16 FRCC to help mitigate contingencies and improve system management; and
- 17 • The effectiveness of our proactive equipment maintenance and testing and  
18 vegetation management programs.

19  
20 The NERC audit team also found the transmission and substation system group's  
21 organizational structure is "an advantage to ensure reliability," allowing "FPL to

1 put reliability functions, including transmission planning, system studies and  
2 operations, and even after-the-fact analysis under one management team.”  
3

4 From an operational standpoint, FPL has had no cascading outages, congestion  
5 overloads requiring implementation of transmission line loading relief procedures  
6 (except in one limited circumstance involving restoration of the transmission and  
7 substation systems following Hurricane Frances), or for that matter, any major  
8 operational event (excluding those due to storms) resulting in customer  
9 interruptions during the past five years.

10 **Q. Are there other factors that have contributed to FPL’s operational**  
11 **excellence?**

12 **A.** Yes. FPL’s operational excellence is also a result of the planning that takes place  
13 years ahead of the operation of the transmission and substation system. FPL plans  
14 the transmission and substation system to integrate FPL’s current and future  
15 planned generation resources with FPL’s forecasted load. The transmission  
16 system must be planned, consistent with NERC, FRCC and other applicable  
17 reliability standards. The system is planned to meet all of these objectives in a  
18 cost effective manner, while at the same time being conscientious about  
19 environmental impacts and the communities in which these facilities are located.  
20

21 Over the years, FPL has met these planning and operational challenges very  
22 successfully, and has in place an organization and management team with the  
23 experience and expertise to successfully meet these challenges in the future.



1   **Q.    Restoration of service after hurricanes is an important issue in Florida.**  
2       **Please briefly comment on your emergency preparedness.**

3   **A.    Extensive plans for rapid and safe restoration of FPL customers' service have**  
4       **been developed. These plans undergo continuous testing and refinement based on**  
5       **critiques following "Dry Runs" conducted each year, as well as analysis of**  
6       **performance after each event. This has resulted in the development of processes**  
7       **that facilitate rapid mobilization of resources during these events. The rapid**  
8       **mobilization capabilities enable FPL to maintain a high state of readiness.**

9  
10       FPL's effectiveness in restoring transmission and substation facilities following a  
11       hurricane is also due to the restoration preparedness and processes that go into  
12       action from the period beginning several days prior to landfall, to the time that  
13       landfall occurs. During the period prior to landfall, FPL monitors the track and  
14       intensity of the hurricane. Based on this information FPL forecasts potential  
15       damage assessments, mobilizes crews and prepares materials that may be needed  
16       for repairs. Prior to and during the landfall, FPL personnel are positioned at a  
17       hardened command center to monitor and operate the transmission and substation  
18       system in order to minimize the impact to customers and develop a damage  
19       assessment and restoration plan for transmission and substation equipment. This  
20       provides management the information to prioritize transmission and substation  
21       facility restoration, and allows for field crews to immediately mobilize and begin  
22       restoration efforts once working conditions are safe.

23

1 These capabilities were particularly important in 2004 during the six week period  
2 in which Hurricanes Charley, Frances and Jeanne struck FPL's service territory.  
3 The effectiveness of our organization and capabilities is evidenced by the fact that  
4 within approximately two days after each of the three hurricanes struck FPL's  
5 service area, all affected substations were energized from the transmission system  
6 and ready for service.

7 **Q. What has been FPL's approach for managing the cost of operating,**  
8 **maintaining and expanding the FPL transmission and substation system, and**  
9 **what successes have been achieved in these areas?**

10 A. As I have discussed previously, Transmission and Substation has been very  
11 successful in continuing to provide reliable service while at the same time  
12 effectively managing O&M costs. FPL's transmission system expansion process  
13 is designed to continue to meet the needs of load growth in a cost effective  
14 manner consistent with NERC, FRCC and other applicable reliability standards.  
15 This process has in-turn helped FPL reduce the rates charged to its customers.

16  
17 With respect to Transmission and Substation O&M (excluding costs associated  
18 with the establishment of a RTO), FPL expects a continuation of its history of  
19 effective cost containment as shown in Document No. CMM-5.

20  
21 With respect to capital costs, FPL's achievement in keeping costs down while at  
22 the same time serving more customers, integrating greater amounts of generation  
23 and improving reliability is attributable to a number of factors such as:

- 1       • Transmission and generation expansion through cost effective integrated
- 2       planning;
- 3       • The ability to maximize the use of existing facilities through cost efficient
- 4       upgrades;
- 5       • Excellent operational and maintenance implementation.

6   **Q.   What is required to continue to provide reliable service to FPL's customers**  
7   **in the future?**

8   A.   The levels of reliability that FPL has been able to achieve are a result of  
9       significant transmission projects and improvements constructed over the past  
10      three decades, upgrades of existing facilities, reliability initiatives and effective  
11      operations. However, transmission capability is becoming exhausted because of  
12      the increasing load, as well as the commitment to integrate an additional five  
13      percent (5%) of generation reserve margin. Therefore, substantial capital  
14      expenditures have become necessary to expand the transmission and substation  
15      system to continue to meet these increased demands and service obligations. As  
16      demonstrated in Document No. CMM-5, FPL invested a total of approximately  
17      \$414 million in the transmission and substation system in 2003 and 2004 and  
18      anticipates additional transmission capital expenditures totaling approximately  
19      \$534 million in 2005 and 2006. At the same time, to continue to preserve and  
20      upgrade aging facilities, continued O&M expenditures will be required. FPL's  
21      requested rate increase addresses the costs associated with transmission and  
22      substation facilities necessary to continue to provide reliable service to its

1 customers consistent with NERC, FRCC and other applicable reliability  
2 standards.

3 **Q. Please provide some examples of FPL projects requiring significant capital**  
4 **expenditures to expand or refurbish its transmission and substation system**  
5 **and the need for such projects.**

6 **A.** The following are examples of projects requiring significant capital expenditures:

7 **Dade - Overtown 230kV Line:** Load in the downtown Miami area continues to  
8 increase. The increased load exceeds the capacity of the transmission network  
9 serving the downtown Miami area. As a result, under certain single contingencies  
10 of a cable failure, a large portion of the Miami downtown area could experience  
11 rotating outages for a period of up to several months until repairs or replacement  
12 of the damaged cable can be completed. The total cost of this project is estimated  
13 at \$16.2 million and it is scheduled to be completed by the summer of 2005.

14  
15 **Conservation – Oakland Park 230kV Line:** Load in the Oakland Park area of  
16 Broward County continues to increase. This area is in large part served from two  
17 138kV lines from the Sistrunk substation, which in-turn is sourced from a 230kV  
18 cable from the Port Everglades switchyard. In the case of a single contingency  
19 failure, overload conditions on the remaining transmission lines in the adjacent  
20 area and low voltage conditions could occur, resulting in the need to interrupt  
21 electrical service to customers. The total cost of this project is estimated at \$17.7  
22 million and is scheduled to be completed by the winter of 2005/2006.

1       **Cortez - Johnson 230kV Line:** Load continues to increase in the Manatee  
2       County area of southwest Florida. This increase in load causes the capacity of the  
3       transmission network serving this area to be exceeded. Under single contingency  
4       conditions, overloads on the remaining transmission lines in the adjacent area and  
5       low voltage conditions could occur, resulting in the need to interrupt electrical  
6       service to customers. The total cost of this project is \$7.1 million and it was  
7       completed in the summer of 2003.

8  
9       **Collier – Orange River #3 230kV Line:** Load continues to grow in the Collier  
10      County area. If this project is not constructed or is deferred, several contingencies  
11      could cause overloads and low voltages in the Collier – Alico – Orange River  
12      area. The total cost of this project is estimated at \$23.4 million and it is scheduled  
13      to be completed by winter of 2005/2006.

14  
15      **Capacitor Banks:** The installation of capacitor banks provide for voltage  
16      reliability at various locations throughout the system. The total cost of projects  
17      associated with capacitor banks between 2003 and 2005 is estimated at \$20.9  
18      million.

19  
20      **Southern Palm Beach 230kV Injection:** Tremendous load growth continues in  
21      the south Palm Beach County area. This load growth is driven by the planned  
22      commercial and residential growth. Additional transmission capability will be  
23      required to reliably serve the increasing load. This project will increase the

1 transmission capability in the southern Palm Beach County area by building a  
2 new 230 kV transmission line from the Corbett to Germantown to Yamato  
3 Substations. FPL plans to complete this project by the summer of 2006. If this  
4 project is not built or is deferred, there are several instances in which a single  
5 contingency may cause significant overloads and low voltages in the Germantown  
6 area that could affect service to customers in this area. The total cost of this  
7 project is estimated at \$27.3 million.

8  
9 **Bunnell – Pringle 230kV line:** As a result of new commercial buildings and  
10 residential communities the load growth in the Flagler and St. Johns Counties will  
11 require the addition of new substations. The construction of a new Bunnell –  
12 Pringle 230kV transmission line by the winter of 2006 is required to provide  
13 transmission service for these new future substations. The total cost of this  
14 project is estimated at \$6.3 million.

15  
16 **Transmission Infrastructure Refurbishment:** Inspection of transmission  
17 facilities identified through reliability programs or following an outage event has  
18 identified follow-up refurbishment work required to keep these facilities  
19 serviceable. These refurbishments involve all types of components associated  
20 with the transmission system such as cross arms, insulators, overhead ground  
21 wires, poles and splices. For the 2003 through 2006 time frame, FPL plans to  
22 spend a total of approximately \$34.4 million on this refurbishment and  
23 replacement work.

1  
2 **500 kV Line Re-insulation:** Major sections of the 500 kV line insulation  
3 systems associated with the first 500 kV facilities constructed in the late 1970s to  
4 early 1980s are approaching the end of their useful life.

5  
6 Failure of any of these insulators could be critical to the reliability of the system;  
7 therefore, preemptive replacements are required. As shown in Document No.  
8 CMM-6, the total cost of replacing insulators associated with the 500 kV lines is  
9 estimated at \$52.1 million. From 2003 through 2006, FPL expects to have  
10 incurred a total of \$15.6 million in replacing these insulators.

11  
12 **Capital Equipment and Facility Replacement:** As the aging fleet of  
13 transmission and substation equipment such as transformers, breakers, capacitor  
14 banks and transmission lines approach the end of their useful life FPL optimizes  
15 the replacement process with respect to interruption avoidance, resource  
16 allocation, and asset utilization. The graphical representations in Document Nos.  
17 CMM-7 and CMM-8 provide data regarding the age of FPL's fleet of  
18 transformers and transmission lines.

19  
20 Typically, failures associated with transformers occur either initially (i.e., first  
21 two years of life) or after about thirty years of use. Based on the information  
22 contained in Document No. CMM-7, FPL currently has 536 transformers that are

1 thirty years or older in age, and thus are near the end of their useful lives and will  
2 need to be replaced.

3  
4 With respect to transmission lines, many were installed over three decades ago as  
5 reflected in Document CMM-8. Many of the older poles associated with these  
6 lines, although still having various degrees of useful life, have begun to  
7 deteriorate because of weathering and will require replacement in the coming  
8 years.

9  
10 Replacement and refurbishment of aging transmission and substation equipment  
11 minimizes service interruptions to customers. The total cost of replacement of  
12 aging transmission and substation equipment for the period from 2003 through  
13 2006 is projected to be \$173.3 million.

14 **Q. Previously, you mentioned that in planning for the expansion of the**  
15 **transmission and substation systems, FPL needed to be conscientious about**  
16 **environmental impacts and the communities in which these facilities are**  
17 **located. Are these requirements resulting in increased costs?**

18 **A.** Yes. Issues associated with environmental impacts and acceptance by  
19 communities in which new facilities will be located are becoming more  
20 contentious and time consuming, and are resulting in some cases in increased  
21 costs of transmission and substation facilities. For example, the total typical cost  
22 of a distribution substation has increased substantially from 1997 to 2006. While  
23 the structural and electrical cost increases associated with distribution substations



1 have been minimal over this period, the site preparation costs have been  
2 increasing rapidly. The average cost associated with preparation of new  
3 distribution substation sites has more than doubled from 1997 to 2006, because of  
4 added difficulty in obtaining permits, pressure to upgrade existing sites that are  
5 being expanded, and the increased resistance to siting substations,. Document  
6 No. CMM-9 shows the increasing trend in the cost of preparation of distribution  
7 substations sites during the 1997 to 2006 period.

8 **Q. What are some of the major components associated with transmission and**  
9 **substation O&M costs, and what is the principle driver of the increase in**  
10 **O&M costs in 2006?**

11 **A.** There are a handful of major components associated with O&M in year 2006 that  
12 account for approximately three quarters of the total O&M costs, absent RTO  
13 costs. First, in order to maximize the life of major transmission and substation  
14 equipment, proper and timely maintenance is required. As the average age of our  
15 facilities and equipment increases, the O&M challenges increase. FPL addresses  
16 these challenges through the Condition Assessment Process, which was  
17 previously discussed, and follow-up component repair or replacement and life  
18 extension maintenance. Also contributing to O&M cost is the Event Response  
19 and Restoration Process. Additionally, extensive inspection, maintenance and  
20 filing requirements imposed on FPL by agencies result in O&M costs. Other  
21 significant drivers for O&M are relay maintenance, 500KV line projects and  
22 vegetation management.

1       The Transmission and Substation O&M budget also includes approximately \$59  
2       million in 2006 for costs associated with incremental GridFlorida RTO charges to  
3       FPL. The GridFlorida charges are the principle driver of the increase in  
4       forecasted O&M cost in 2006. As can be seen in Document No. CMM-5, absent  
5       RTO costs; O&M levels are forecasted to be relatively flat.

6       **Q. What is GridFlorida and how will FPL incur charges from GridFlorida?**

7       A. GridFlorida is the proposed RTO for Peninsular Florida. As stated in the Florida  
8       Public Service Commission's (FPSC) Order Finding Proactive Formation of  
9       GridFlorida Prudent and Requiring the Filing of a Modified GridFlorida Proposal,  
10      Order No. PSC-01-2489-FOF-EI issued December 20, 2001, GridFlorida will be  
11      an independent entity that will operate the transmission system and serve as the  
12      Security Coordinator for the FRCC in peninsular Florida. GridFlorida will also  
13      operate the wholesale energy markets in peninsular Florida and manage  
14      transmission congestion. FPL will be required to buy transmission service from  
15      GridFlorida to serve our customers and GridFlorida will charge FPL for this  
16      transmission service. These charges will be only partially offset by GridFlorida's  
17      payment to FPL for the use of FPL's transmission system. The remaining charges  
18      will be incremental transmission costs to FPL.

19      **Q. What are the costs components that make up these incremental GridFlorida**  
20      **charges to FPL?**

21      A. As shown in Document No. CMM-10, there are three primary cost components  
22      that comprise the incremental GridFlorida charges to FPL: start-up costs, annual  
23      operating costs, and cost shifts. The amounts included in the start-up and

1 operating cost components represent an estimate of FPL's share of GridFlorida's  
2 annual revenue requirements for these activities.

3  
4 The start-up costs represent the estimated costs associated with starting such a  
5 large organization. These costs include infrastructure development and  
6 purchasing equipment and software. The second set of costs is the estimate for  
7 the operation of the GridFlorida RTO. These costs involve salaries and benefits  
8 of employees, and other annual variable costs.

9  
10 The third cost component is cost shifting. The major cost component affecting  
11 the estimated cost shifts to FPL is the five year phase-in of revenue requirements  
12 associated with the Florida Municipal Power Authority and Seminole Electric  
13 Cooperative's existing transmission facilities located in FPL's zone into the rates  
14 charged to FPL. Also, the inclusion in GridFlorida rates of 100% of the revenue  
15 requirements of all new transmission capital additions results in cost shifts. As a  
16 result, FPL's customers will be responsible for a portion of the revenue  
17 requirements associated with the transmission facilities of all the other  
18 transmission owners participating in the RTO.

19 **Q. What is the basis for the estimate of these costs?**

20 **A.** The GridFlorida start-up and operating costs for the first year are developed from  
21 estimates provided by the Accenture Group that were filed with the Commission  
22 in Docket No. 020233-EI on March 20, 2002. The subsequent years' estimates  
23 are based on an escalation of the first year cost using cost information from other

1 RTOs. The cost shift estimates were prepared by the GridFlorida pricing  
2 workgroup from data provided by the stakeholders during 2004.

3 **Q. Does FPL expect the incremental RTO costs to increase over time?**

4 A. Yes. They are forecasted to increase from \$59 million in 2006 to \$148 million in  
5 2010 for an average annual cost of \$104 million over that five year period.  
6 Therefore, FPL is requesting \$45 million as a company adjustment to account for  
7 the difference between the \$59 million and the \$104 million average. Mr. Davis  
8 has included the \$45 million as a company adjustment in his testimony.

9 **Q. How do these start-up and operating cost estimates compare to other RTOs?**

10 A. It is somewhat difficult to make such a comparison because of issues such as on-  
11 going capital expenditures that are in addition to start-up costs, debt acquired by  
12 the RTOs from time-to-time to pay for both capital and operating costs, and the  
13 RTOs annual revenue requirement recovery mechanisms. However, based on a  
14 review of available information, GridFlorida's 2010 annual operating costs,  
15 totaling \$160 million, are estimated to be in line with the 2004 operating costs of  
16 RTOs such as the ERCOT ISO, ISO New England, New York ISO and Midwest  
17 ISO, as shown in Document No. CMM-11. As can be seen, all four of the RTOs'  
18 costs increased materially from 2003 to 2004. It is also important to note that the  
19 costs of the RTOs discussed above were initially estimated to be much less. Also,  
20 the GridFlorida market approach to congestion management could result in  
21 additional costs to FPL's customers. As such, there is the potential that  
22 GridFlorida costs may increase over time significantly above those estimated  
23 above.

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

2   A.    FPL's performance in providing superior levels of reliability for its transmission  
3       and substation systems in a cost effective manner has been commendable. The  
4       multiple initiatives undertaken as part of FPL's transmission and substation  
5       reliability plan coupled with FPL's operational implementation have resulted in  
6       achieving high levels of performance. This level of performance has been  
7       achieved without significant cost increases. However, FPL has in many  
8       circumstances exhausted the potential to increase transmission and substation  
9       capability from the existing system, and load growth requires FPL to continue to  
10      expand the transmission and substation system. Also, aging facilities require  
11      refurbishment and replacement. Finally, due to the RTO costs, Transmission and  
12      Substation O&M costs will increase in 2006. The requested rate increase is  
13      needed to maintain FPL's current high level of reliability in accordance with  
14      national and regional reliability standards.

15   **Q.    Does this conclude your direct testimony?**

16   A.    Yes.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**REBUTTAL TESTIMONY OF C. MARTIN MENNES**

**DOCKET NO. 050045-EI, 050188-EI**

**JULY 28, 2005**

1  
2  
3  
4  
5  
6  
7 **Q. Please state your name and business address.**

8 A. My name is C. Martin Mennes. My business address is 9250 West Flagler Street,  
9 Miami, FL 33174.

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

11 A. Yes.

12 **Q. Are you sponsoring an exhibit to your rebuttal testimony?**

13 A. Yes. I am sponsoring an exhibit consisting of one document, CMM-12, which is  
14 attached to my rebuttal testimony.

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

16 A. The purpose of my rebuttal testimony is to respond to two basic contentions made  
17 by a number of intervenors. First, various intervenors claim that the status of  
18 GridFlorida is uncertain and, therefore, it is premature to seek recovery of  
19 GridFlorida costs. Second, intervenors assert that projected GridFlorida costs for  
20 2006 are not known and measurable and should be denied. Both assertions are  
21 inaccurate.

1    **Q.    Ms. Merchant (OPC), Mr. Stewart (AARP), Ms. Brown (FRF) and Mr.**  
2       **Kollen (SFHHA) argue that the status of GridFlorida is uncertain and that it**  
3       **would be premature or speculative to allow FPL to recover these costs. Do**  
4       **you agree?**

5    **A.    No. While I would not attempt to speak to whether an expense is appropriate for**  
6       **a specific test year from a regulatory accounting or regulatory policy perspective,**  
7       **GridFlorida remains on track for implementation. GridFlorida will impose**  
8       **substantial incremental costs on FPL as early as 2006, and FPL must be assured**  
9       **that these costs will be recovered.**

10

11       Beginning with FERC's call for Regional Transmission Organizations (RTOs)  
12       back in the late 1990s, and continuing through this Commission's hearings and  
13       workshops on various GridFlorida topics, the issues surrounding GridFlorida  
14       implementation have been advocated and discussed by the GridFlorida  
15       Companies and numerous stakeholders, including the Office of Public Counsel,  
16       and these issues remain active and pending before this Commission. In the initial  
17       GridFlorida proceeding, the Commission determined in Order No. PSC-01-2489-  
18       FOF-EI issued December 20, 2001, that the formation of GridFlorida pursuant to  
19       FERC Order No. 2000 was prudent and ordered FPL and the other GridFlorida  
20       Companies to file with the FPSC a modified GridFlorida structure that uses an  
21       independent system operator (ISO). The GridFlorida Companies complied with  
22       the Commission's order requiring the filing of an ISO structure for GridFlorida as

1 well as a subsequent FPSC order issued on September 3, 2002 in Docket No.  
2 020233-EI that required the Companies to file a proposed market design. The  
3 GridFlorida Companies, including FPL, have stated since the initial RTO filings  
4 with FERC in 2000, and consistent with FERC requirements, that GridFlorida  
5 could be in place and operating within a year of regulatory approval.  
6 Consequently, FPL must still plan for implementation of GridFlorida as early as  
7 2006.

8 **Q. What comments do you have regarding the allegation that the cost estimates**  
9 **associated with GridFlorida are not known and measurable?**

10 **A.** This argument is raised by Ms. Merchant (page 27) and restated in various forms  
11 by the other intervenor witnesses. Undertaking an initiative such as GridFlorida  
12 necessarily will require some assumptions as to the projected costs and a decision  
13 to proceed based on a reasonable estimate of those costs. I believe that FPL's  
14 projections are reasonable. FPL's estimates of the start-up and operating costs for  
15 the first year (2006) of GridFlorida are based on the start-up and operating costs  
16 developed by the Accenture Group and filed with the Commission in Docket Nos.  
17 001148-EI and 020233-EI, escalated using a conservative inflation factor. The  
18 Accenture study is a substantive and detailed study that comprised almost an  
19 entire three inch binder. As I stated in my direct testimony, subsequent year costs  
20 were developed based on an escalation of the first year costs using cost  
21 information and trends from other RTOs. More specifically, an average cost per  
22 unit of load was calculated for several existing ISOs/RTOs and those averages



1        were applied to the load of the FRCC to estimate the GridFlorida on-going  
2        operating costs. Document CMM-12 shows that the operating costs estimated for  
3        GridFlorida on a per unit of load basis for the 2009 and 2010 time frame are in  
4        line with the 2003 and 2004 operating costs on a per unit of load basis of RTOs  
5        such as ERCOT, ISO New England and New York ISO. With respect to the cost  
6        shift estimates, as recognized by Ms. Brown, these estimates were prepared by the  
7        GridFlorida pricing workgroup from data provided by the stakeholders during  
8        2004.

9  
10       I don't believe FPL could reasonably be expected to proceed with the  
11       implementation of GridFlorida, which will impose substantial costs on FPL, with  
12       no opportunity for cost recovery until the actual costs are precisely known and  
13       measured, as Ms. Brown and others suggest.

14    **Q.    Has there been any update of the estimated costs for GridFlorida since you**  
15       **filed your Direct Testimony?**

16    **A.**    Yes. On April 27, 2005, preliminary GridFlorida cost-benefit findings were  
17       released by ICF. Subsequently, on May 23, 2005, the Commission held a  
18       workshop in which ICF presented the final cost and benefit findings with the  
19       understanding that two additional sensitivities remained to be completed and the  
20       final report would be subsequently provided. Though FPL believes that ICF's  
21       cost estimates associated with GridFlorida are understated, the total ICF cost  
22       estimates are in line with those submitted in my Direct Testimony.

1 Q. Does this conclude your rebuttal testimony?

2 A. Yes.

1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                   **FLORIDA POWER & LIGHT COMPANY**

3                   **DIRECT TESTIMONY OF GEISHA J. WILLIAMS**

4                   **DOCKET NO. 050045-EI**

5                   **MARCH 22, 2005**

6

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

8    A.    My name is Geisha J. Williams. My business address is Florida Power & Light  
9           Company, 9250 W. Flagler Street, Miami, Florida, 33174.

10 **Q.    By whom are you employed and what is your position?**

11 A.    I am employed by Florida Power & Light Company (FPL or the Company) as  
12       Vice President, Distribution.

13 **Q.    Please describe your duties and responsibilities in that position.**

14 A.    I am responsible for the planning, engineering, construction, operations,  
15       maintenance, and restoration of FPL's distribution infrastructure.

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

17 A.    I have a Bachelor of Science degree in industrial engineering from the University  
18       of Miami and a Masters of Business Administration from Nova Southeastern  
19       University. I joined FPL in 1983 and have served in a variety of positions in  
20       distribution operations, customer service, and marketing. I have been Manager of  
21       Commercial/Industrial Marketing, Regional Manager of Customer Service, and  
22       Manager of External Affairs. I also am a member of the Dean's Advisory  
23       Council for the College of Engineering at Florida International University, a

1 member of the Association of Edison Illuminating Companies' Power Delivery  
2 Committee, a member of Leadership Florida Class XXIII, a former Commissioner  
3 of the 11th Circuit Judicial Nominating Commission, and a former director of the  
4 Florida Chamber of Commerce Management Corporation.

5 **Q. Are you sponsoring an exhibit in this case?**

6 A. Yes. I am sponsoring an exhibit consisting of three documents, GJW-1 through  
7 GJW-3, which are attached to my direct testimony.

8 **Q. Are you sponsoring or co-sponsoring any MFRs in this case?**

9 A. Yes. I am co-sponsoring the following MFRs:

- 10 • B-13 – Construction Work in Progress
- 11 • B-24 – Leasing Arrangements
- 12 • C-8 – Detail of Changes in Expenses
- 13 • C-15 – Industry Association Dues
- 14 • C-34 – Statistical Information
- 15 • E-7 – Development of Service Charges

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

17 A. The purpose of my testimony is to describe the superior reliability and customer  
18 service, and the effective cost management provided by the Distribution business  
19 unit (Distribution) to FPL customers. I will also discuss the upward cost  
20 pressures on Distribution and their impact on the 2006 forecast.

**RELIABILITY**

1  
2 **Q. Can you describe Distribution's reliability program and its results?**

3 A. The program is comprised of multiple initiatives designed to reduce the average  
4 time a customer is without electricity and to sustain these improved results.  
5 Improvements are sought to both prevent outages from occurring and to minimize  
6 outage time if an outage does occur.

7  
8 Distribution employs a centralized organization to provide a coordinated system-  
9 wide approach to reliability. This organization identifies, analyzes and prioritizes  
10 causes of past interruptions, targeting causes that would yield the largest customer  
11 benefits. An integrated set of initiatives has been designed to address the greatest  
12 areas of opportunity to further improve reliability. A summary list of the  
13 initiatives is provided in Document No. GJW-1 of my testimony. The  
14 effectiveness of each initiative within the program is evaluated on an ongoing  
15 basis and resources redeployed as necessary to maximize overall performance  
16 results.

17  
18 As can be seen in Document No. GJW-2 of my testimony and the following  
19 summary, results have been impressive. Since 1998, there have been significant  
20 improvements in FPL's reliability such as:

21       – A reduction of more than 30% in customers' average annual outage  
22       time. The standard industry performance metric for this is the System  
23       Average Interruption Duration Index (SAIDI). SAIDI encompasses  
24       both the average frequency of outages and their average duration and,

1                   therefore, is the most relevant indicator for customers. For 2003 and  
2                   2004 FPL's results were the best in the State. Further, based on the  
3                   Edison Electric Institute's (EEI) 2003 Reliability Report, FPL  
4                   Distribution's performance ranks among the industry leaders and is  
5                   50% better than the industry average.

- 6                   – A reduction of more than 20% in the average annual number of  
7                   outages that a customer experienced. The industry standard  
8                   measurement for this "frequency" element is the System Average  
9                   Interruption Frequency Index (SAIFI).
- 10                  – A reduction of more than 10% in the average time it takes to restore a  
11                   customer's power if an outage does occur. This "duration" element is  
12                   measured by the Customer Average Interruption Duration Index  
13                   (CAIDI).

14  
15                  It should be noted that this excellent performance has been achieved while base  
16                  rates have been reduced by more than 15% since 1998.

17   **Q.   Please provide some examples of the reliability initiatives.**

18   A.   Vegetation Management – Vegetation growth into power lines represents one of  
19           the top causes of customer interruptions and is a particular challenge in Florida  
20           due to the year-round growing season. FPL has always had a program in place for  
21           vegetation management, but beginning in 1997 Distribution has significantly  
22           enhanced it. In 2004, Distribution trimmed vegetation from 9,300 miles of line.  
23           This represents about 1,800 more miles (almost a 25% increase) over the 7,500

1 miles trimmed in 1998. We estimate this has meant avoiding about 1 million  
2 customer interruptions annually. We are currently on a 3-year cycle for all  
3 feeders and are accelerating the pace for laterals. We have also achieved  
4 additional outage reductions by moving to a circuit-clearing practice whereby we  
5 trim all feeders and laterals associated with a given substation at the same time.

6  
7 Cable Rehabilitation – Another significant cause of interruptions has been  
8 underground cable failures. Since 1998, about 2,400 miles of direct buried feeder  
9 and lateral cable have been rehabilitated either by injecting the cable with silicone  
10 which extends its life or, when injection was not an option, by replacing the cable.  
11 We have determined that once a section of cable experiences a couple failures  
12 replacing or injecting the cable is the best way to avoid increasingly frequent  
13 outages. We estimate this program has avoided more than 47,000 customer  
14 interruptions since 1998.

15  
16 Automated Feeder Switches – This program started as a pilot in 2001 with the  
17 first significant deployments in 2002. It consists of installing, operating and  
18 maintaining remotely-controlled automated switches which isolate faults by  
19 segmenting lines into smaller sections. The result is that fewer customers are  
20 affected by any given fault thereby reducing the overall number of customers  
21 interrupted. To date, more than 300 switches have been deployed with  
22 approximately another 400 planned for installation by 2006. Even though this is a

1 relatively recent program, we estimate that almost 140,000 customer interruptions  
2 have already been avoided.

3 **Q. What benefits has Distribution seen from reliability research and**  
4 **development efforts?**

5 A. Distribution continuously works on developing and evaluating a number of new  
6 innovative technologies. I will discuss a couple of these that are aimed at  
7 addressing equipment failures, a significant cause of outages.

8

9 Partial Discharge Testing – This diagnostic tool used for testing underground  
10 cables to identify existing or potential locations of faults has already yielded  
11 substantial cost savings. FPL has been an early adopter of this emerging  
12 technology which we have successfully employed in two ways. First, to  
13 determine the extent of work needed to repair a cable or splice after a failure.  
14 Previously, the solution was to replace the entire cable. But, as a result of the  
15 more precise diagnosis, we have saved approximately \$5 million by replacing  
16 only the sections needed. Second, we have used the tool on a preventative basis  
17 to test cables to see if they are vulnerable to failure. We have saved about \$8  
18 million so far by avoiding replacement of cable sections that should have been at  
19 their end of life based on age but were found to still be functioning adequately.

20

21 Lightning Protection and Predictive Modeling – We are studying ways to  
22 minimize the impact to customers of lightning by developing enhancements to  
23 make our facilities more resistant and by better prediction of weather events.



1        These measures should reduce the number of interruptions, restoration time and  
2        associated cost. The Lightning Protection Standards project is designed to search  
3        for enhanced construction or other protection schemes. The data collected thus  
4        far by triggering strikes on a de-energized line section enabled us to develop a  
5        computer model which simulates the impact of lightning in multiple framing and  
6        operating conditions. Initial results indicate that in most cases our existing  
7        protection and framing standards are adequate for nearby strikes, but cannot  
8        withstand a direct strike. We are also working to enhance our lightning location  
9        and timing forecast modeling which should increase the effectiveness of our  
10       service centers in allocating resources. We have already improved forecast  
11       accuracy by establishing correlations and statistical equations between lightning  
12       occurrences and various weather parameters such as; wind flow speed, direction  
13       and temperature, moisture, and convection. We plan to continue refining the  
14       model by incorporating additional specialized parameters from the National  
15       Weather Service.

16    **Q.    Given the success of Distribution's reliability program, what are your plans**  
17    **going forward?**

18    **A.**    We continue to aggressively seek ways to further improve reliability to our  
19       customers. An example of the difficult challenges we face is reducing vegetation-  
20       related interruptions. First, some customers refuse to permit pruning or removal  
21       of trees which interfere with the lines, thereby delaying or preventing necessary  
22       work. Ensuring safer and more reliable operations in these circumstances will  
23       require closer community and developer involvement to address current situations

1 and avoid future problems through better landscape design. Second, even though  
2 the number of customers affected by tree-related interruptions has been reduced,  
3 additional resources need to be applied to avoid outages on lateral lines. As  
4 mentioned before, this requires increasing the frequency of trimming these  
5 circuits. Therefore, it is necessary and prudent to make further significant  
6 incremental investments in our vegetation management program.

7  
8 We will also continue to perform proactive analysis to identify any worsening  
9 trends for any of our infrastructure components and take the appropriate  
10 mitigation steps. Additionally, we will continue to improve our inspection and  
11 predictive modeling programs. Finally, our Model Feeder initiative will allow us  
12 to continue optimizing the configuration of feeders we construct.

13 **Q. As was evident from the unprecedented 2004 season, restoration of service**  
14 **after hurricanes and tropical storms is an important issue in Florida. Please**  
15 **comment on your emergency preparedness and the 2004 restoration results.**

16 **A.** Many records were established during 2004's storm season. This was only the  
17 second time in recorded history that four hurricanes have struck a single state in  
18 one year – and the last time was 120 years ago. Also, three hurricanes have never  
19 previously made landfall in FPL's service territory in one year. And, to our  
20 knowledge, the 2.8 million outages associated with Hurricane Frances were the  
21 most ever experienced by a single utility in U.S. history (only four other utilities  
22 have that many customers). The storms impacted virtually every part of our  
23 27,000 square mile service territory, requiring 5.4 million customer restorations.

1 More than 3.1 million, or 75%, of our 4.2 million customers were affected at least  
2 once.

3  
4 FPL has developed, and continuously hones, comprehensive contingency plans  
5 for rapid and safe restoration of customers' service. These plans are thoroughly  
6 tested and refined through annual "dry run" exercises and by performance  
7 analysis after each event. FPL's primary mission is to safely restore the greatest  
8 number of customers in the least amount of time so that the communities we serve  
9 are able to return to normalcy as rapidly as possible. Our many years of  
10 experience have shown that extensive planning, training, process discipline, on-  
11 site management teams' expertise, and scalable implementation are critical.

12  
13 The 2004 restoration results demonstrate that by consistently and flexibly  
14 applying our restoration strategy we successfully achieved our primary mission.  
15 Over 75% of the affected customers were restored by the third day after each  
16 storm. We were able to effectively manage as many as 13 staging sites per event  
17 and coordinate up to 16,700 personnel – both of which were substantially more  
18 than in any prior restoration. While in recent times FPL has experienced a  
19 number of lesser hurricanes, only once did we have to restore in the wake of a  
20 major hurricane, Hurricane Andrew in 1992. However, in 2004, we experienced  
21 the landfalls of two major hurricanes and one category two hurricane within six  
22 weeks. In spite of the challenges, we completed restoration from all these storms  
23 in two weeks or less, as compared to more than one month for Andrew. Based on

1 these outcomes, we believe that our emergency restoration response plans,  
2 processes and implementation proved to be highly effective and significantly  
3 exceeded all past performance.

4  
5 FPL is recognized as an industry leader in storm restoration. We have been  
6 visited by numerous other utilities desiring to learn and implement our processes  
7 and practices. Further validation of this expertise is the industry awards we have  
8 received. FPL has received EEI awards for its emergency response performance  
9 three times in the past four years. First, in 2000, we received the Emergency  
10 Response Award for our performance during Hurricane Irene, which affected 1.4  
11 million customers. Secondly, in 2003, FPL was recognized with the Emergency  
12 Assistance Award for our efforts in supporting Dominion Virginia Power during  
13 Hurricane Isabel. And again this year, our industry-leading performance was  
14 recognized with the 2004 Emergency Response Award.

#### 15 16 CUSTOMER SERVICE

17 **Q. In addition to the customer benefits resulting from excellent reliability and**  
18 **restoration, please describe some of Distribution's other initiatives aimed at**  
19 **delivering continuously improving customer service.**

20 **A.** Distribution is very focused on providing our customers with dependable service  
21 delivered in a responsive and caring manner. We recognize that any power  
22 outage, whether due to a hurricane, a thunderstorm, new infrastructure  
23 construction, system maintenance, or some other cause, is a source of

1 inconvenience and stress for customers. For this reason, we have identified key  
2 customer issues, developed solutions, and implemented many initiatives that have  
3 boosted the effectiveness of our customer service, particularly in the areas of  
4 communications and process performance. To support these enhancements, we  
5 have also implemented many significant new information systems.

6 **Q. Regarding customer communications, what measures has Distribution**  
7 **undertaken to ensure effective performance in this critical area?**

8 A. One prime example is providing better information to our customers when they  
9 experience an outage. FPL was an industry pioneer in providing customers with  
10 immediate Estimated Time of Restoration (ETR) for service when a customer  
11 calls to report an outage.

12  
13 In creating the ETRs, FPL uses sophisticated computer simulations that analyze  
14 the pattern of calls received to determine what type of facility is likely affected  
15 and uses those results to create the estimate. Some of the factors that are  
16 evaluated are historic requirements for the specific type of repair, crew workload,  
17 time of day, season, and geographic location. To provide customers further  
18 flexibility, they can receive this information either through FPL's voice response  
19 unit (VRU) or by speaking directly with a care center representative. Once repair  
20 personnel arrive and assess the situation, an updated estimate is communicated to  
21 our dispatch center if necessary. If a customer desires, they are automatically  
22 called back with an update whenever the new estimate varies from the original by  
23 more than one hour (either up or down). Other information provided includes the

1 outage cause, number of customers affected, and damage found. Customers are  
2 also called back after the work is complete to ensure that their power has been  
3 restored.

4  
5 We continue to work to improve the quality of both the estimates and the delivery  
6 mechanisms. The tables used for the estimates are routinely updated to reflect  
7 anticipated performance based on history, so that the estimates will be as accurate  
8 as possible. Currently, in excess of 80% of our trouble tickets are being restored  
9 within the targeted one hour of the ETR time – an overall excellent level of  
10 accuracy. Also, the VRU and screens used by the care center representatives have  
11 undergone substantial redesign to ensure consistency, the use of customer-friendly  
12 terms, and to include additional information and scripting regarding issues such as  
13 the crew's status, outage cause, ETR updates, and area-specific emergency  
14 messages. Finally, like other care center processes, random samples of  
15 interactions with customers are monitored and evaluated to ensure proper quality  
16 control and performance.

17 **Q. Since excellent customer service relies on consistent process performance,**  
18 **how do you ensure FPL is delivering on this throughout the service territory?**

19 A. FPL has always focused on continuous improvement in this area. To build on  
20 previous advancements, we have launched a program called "Model Area."  
21 Initiatives in this program target standardizing field process delivery to improve  
22 productivity, meet customer commitments, and keep customers fully informed  
23 along the way. Assessments are conducted to provide area-level reviews of

1 compliance with established field processes. Hundreds of process steps are  
2 evaluated and training is conducted to reinforce areas of good performance and  
3 address any needed enhancements. Development and refinement of computer  
4 systems provide critical support for this program.

5 **Q. Can you further explain the role technology is playing in delivering enhanced**  
6 **customer service?**

7 A. Yes. Distribution has made, and continues to make, substantial investments to  
8 expand our existing computer systems' capabilities to provide customers better,  
9 more efficient service and information. We are nearing completion of a  
10 comprehensive program implementing several major new systems. For example,  
11 we have installed a new data and voice radio communication system. This system  
12 helps to eliminate delays in the movement of service restoration crews throughout  
13 our service territory and provides more complete coverage allowing mobile data  
14 terminals to be used system-wide. The value of these capabilities has been  
15 demonstrated in the past and was again evident during the 2004 storm  
16 restorations. Crews who moved from one end of the state to the other could  
17 immediately go to work without the delays previously required to reprogram  
18 radios and mobile terminals.

19

20 A new Work Management System was implemented providing the ability to  
21 manage and measure all work from a single system with resource management  
22 tools. This system improves resource utilization through enhanced scheduling to  
23 better meet customer commitments. Cumulative cost savings since 2003 have

1       been almost \$30 million from increased crew productivity and reduced third-party  
2       contracting.

3  
4       A companion system is the Mobile Work Management System. This paperless  
5       system allows field crews to receive, update and complete work using laptops in  
6       their trucks. Approximately 250 crews are using the system and over 30,000  
7       work requests have been completed to date using this tool. 2004 savings were in  
8       excess of \$2 million. Productivity gains are derived from increasing available  
9       work time by reducing travel, administrative and technical support time.

10  
11      Additional examples of new or upgraded systems are:

- 12           – The new Asset Management System which houses records of all  
13           existing and proposed facilities with their precise location and other  
14           relevant information displayed in a geographical format. Besides daily  
15           operational benefits, direct savings are expected from reduced drafting  
16           labor costs.
- 17           – The new Routine Work Management System distributes work orders  
18           to the field metering department via hand-held devices. It  
19           automatically schedules work based on crew workload, work area, and  
20           the closest personnel to the job. This increased productivity enhances  
21           our ability to meet customer commitments for repairs and has already  
22           saved about \$2 million. Savings are driven by more efficient connect  
23           and disconnect performance and decreased dispatcher time.



1           – The new Distribution Management System is currently being  
2           implemented and will provide a real-time computer model of the  
3           distribution network to Dispatch Center operators. Information  
4           currently tracked on wall-mounted “trouble boards” will be electronic  
5           and accessible from any location via FPL’s intranet. In addition to  
6           operational improvements, future savings are expected from dispatch  
7           labor reductions.

8  
9           All of these measures, and additional planned system enhancements, are  
10          substantially improving efficiency, process consistency and customer  
11          communications and help provide savings to offset other cost requirements.

12       **Q. Have these actions resulted in improved customer service?**

13       A. Yes. Since 1998, there has been a reduction of about 55% in logged service  
14          quality-related customer complaints per 1,000 customers.

15       **Q. You have previously mentioned safety in conjunction with other issues.**  
16          **Would you comment on Distribution’s worker safety performance?**

17       A. Yes. FPL considers safety to be integral to effective operations. The superior  
18          reliability and customer service discussed above have been delivered while  
19          maintaining a continual focus on worker safety. In fact, Distribution is currently  
20          posting our best safety performance on record. As a result of concerted and  
21          sustained efforts, we have achieved about a 45% improvement since 1998 in the  
22          Occupational Safety & Health Administration’s (OSHA) industry-standard metric  
23          of reportable injuries per 200,000 man-hours. The absolute number of injuries

1 has declined by almost 40%. This achievement is even more impressive given the  
2 requirements of performing three back-to-back-to-back hurricane restorations in  
3 2004.

4  
5 The main reason for this dramatic improvement is our commitment to the “Total  
6 Safety Culture”. This program involved establishing a partnership with  
7 employees to institute an environment where actions are guided by the principles  
8 of trust, open communication, mutual respect, and actively caring. Some of the  
9 specific actions involved are crew visits to ensure compliance with safety rules,  
10 peer-to-peer observations and coaching, plus constant communication of the  
11 safety plan with monthly themes. Distribution continues to enhance and refresh  
12 the program. New initiatives such as the recent “Make the Right Choice – Work  
13 Safe” campaign serve to constantly reinforce the need for everyone’s continued  
14 commitment to safety principles.

## 15 16 2006 DISTRIBUTION COSTS

17 **Q. Please discuss your recent and forecasted capital expenditures.**

18 A. Document No. GJW-3 shows that the required capital investment in the  
19 Distribution infrastructure is forecasted to be about \$1.8 billion between 2002 and  
20 2006. These capital expenditures are primarily driven by customer growth,  
21 reliability initiatives, and infrastructure restoration and maintenance. Customer  
22 growth is by far the largest factor, accounting for about 65% of the capital  
23 investment. Every year, since 2002, FPL has been adding in excess of 100,000

1 new service accounts, the size of an entire small utility, and that level is forecast  
2 to continue through 2006. Accommodating this growth requires investment not  
3 only for the hook ups of individual residences and businesses, but also for  
4 capacity upgrades to the upstream network such as new feeders and related  
5 equipment, and for other supporting infrastructure such as street lights. The  
6 second major investment requirement is for reliability improvements, the  
7 customer benefits of which have been described earlier in my testimony. These  
8 initiatives account for about 15% of expenditures. As shown in Document No.  
9 GJW-1, there are a number of different initiatives, but the heaviest capital  
10 requirements are related to the Cable Rehabilitation and Automated Feeder  
11 Switching initiatives. The last major driver is restoration and maintenance which  
12 combined account for about 15% of spending. The remaining expenditures are  
13 for relocations of facilities, vehicle acquisition, and multiple other smaller  
14 requirements.

15 **Q. Please comment on Distribution's recent and forecasted Operations &**  
16 **Maintenance (O&M) costs.**

17 A. As shown in Document No. GJW-3, Distribution has been able to largely offset  
18 increased O&M costs in past years through cost management efforts. The result  
19 has been a relatively modest total rise of less than 5% (less than 1% per year) for  
20 the period of 1998 through 2003. If this trend were carried forward from 2003,  
21 the forecasted 2006 O&M requirement would only be slightly above the projected  
22 trended level in 2006. This somewhat higher amount is because O&M  
23 requirements are forecast to exceed Distribution's mitigation capabilities by a

1 greater extent. Forecasted O&M increases are largely driven by various reliability  
2 initiatives previously discussed in my testimony such as vegetation management  
3 lateral trimming and Model Feeder.

## 4 5 SUMMARY AND CONCLUSION

6 **Q. Please summarize your testimony.**

7 A. Distribution is responsible for the planning, engineering, construction, operations,  
8 maintenance, and restoration of FPL's distribution infrastructure. Distribution  
9 continues to improve its excellent delivery system reliability performance. FPL's  
10 customers benefit from low service unavailability (stated as the average amount  
11 of time a customer is without electricity per year). In fact, 2004 performance,  
12 which was more than 30% better than 1998, is the best in Florida, ranks among  
13 the industry's top performers, and is 50% better than the 2003 industry average.  
14 This performance has been achieved even while base rates, since 1998, have been  
reduced by 15%.

16  
17 Distribution has continued to search for and implement enhancements to customer  
18 service. The cumulative success of these initiatives has resulted in a reduction of  
19 about 55% in logged service quality complaints filed with the Commission since  
20 1998.

21  
22 This reliability and customer service performance has been delivered while  
23 maintaining a continual focus on safety. In fact, Distribution's current safety  
24 performance is the best on record. The OSHA rate has improved by 45% since

1 1998 and the number of injuries has declined by almost 40% during the same time  
2 period.

3  
4 All of these operational improvements have been achieved while still effectively  
5 managing costs. Historical O&M increases have been contained to about 1% per  
6 year from 1998 through 2003 and are forecast to increase only modestly above  
7 this pace by 2006. As in the past, capital investment requirements are forecast to  
8 continue to increase at a measured pace, mainly to fund construction of the  
9 infrastructure necessary to serve ongoing customer growth and to continue  
10 delivering excellent reliability.

11  
12 Distribution has delivered excellent balanced performance resulting in substantial  
13 benefits to customers. This has been achieved as a direct result of Distribution's  
14 management and employees committing to safely provide superior reliability and  
15 customer service at a reasonable cost. FPL's ability to continue the commitment  
16 to delivering this level of performance to our customers requires the increased  
17 future funding requested.

18 **Q. Does this conclude your direct testimony?**

19 **A. Yes.**

# ERRATA SHEET

**(X ) DIRECT TESTIMONY, OR ( ) REBUTTAL TESTIMONY (PLEASE MARK ONE WITH "X")**

**WITNESS: Geisha J. Williams**

[illegible]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**REBUTTAL TESTIMONY OF GEISHA J. WILLIAMS**

**DOCKET NOS. 050045-EI, 050188-EI**

**JULY 28, 2005**

**INTRODUCTION AND SUMMARY**

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

A. My name is Geisha J. Williams. My business address is 9250 West Flagler Street,  
Miami, Florida 33174.

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

A. Yes.

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

A. I will respond to portions of the testimonies submitted on behalf of the Staff of the Florida Public Service Commission by Sidney W. Matlock, regarding FPL's reliability indexes for the years 1992 through 2004 and Carl S. Vinson and Robert "Lynn" Fisher, regarding the results of their review of FPL's vegetation management, lightning protection and pole inspection processes. I will also address testimony submitted on behalf of the Office of Public Counsel (OPC) by Donna DeRonne regarding FPL's increased vegetation management expenses in 2006.

**Q. Are you sponsoring an exhibit to your rebuttal testimony?**

A. Yes. I am sponsoring an exhibit consisting of two documents, GJW-4 and GJW-5, which is attached to my rebuttal testimony.

**RELIABILITY INDEX COMPARISONS (MATLOCK)**

**Q. Do you agree with Mr. Matlock's conclusion that FPL's reliability performance has not been exceptional because "the index values are practically the same as they were thirteen years ago"?**

**A.** No, his conclusion is based upon a comparative review that is less comprehensive and, therefore, less meaningful than the one contained in page 1 of Document GJW-2, attached to my direct testimony. Mr. Matlock's review only compares FPL's performance to one company (FPL vs. itself) and to only one year (1992). Document GJW-2, which contains the average of over sixty U.S. utilities and includes comparisons over multiple years, is a more valid comparison. Document GJW-2 indicates that FPL's overall reliability, as measured by SAIDI, has not only been better than the national average; it has been substantially better.

This excellent performance has also been sustained. Over the last five years, FPL's SAIDI has averaged 45% better than the national average, and over the last three years, it has been 51% better than the national average. Additionally, reliability challenges today are quite different from those encountered 13 years ago. For example, FPL has added almost 1 million customers since 1992. This kind of growth creates infrastructure planning and design challenges which can greatly impact reliability if not properly addressed. For instance, customer growth in areas that were once more rural creates increased outage exposure for the electrical system until the entire electrical infrastructure is completed. Also, as FPL's urban areas have been and continue to be redeveloped and revitalized, the installation of new facilities,



1 relocation of existing facilities, and building of temporary facilities during the  
2 construction phase of these projects, creates more instability for the electrical system  
3 than it would if things remained static.

4 **Q. Mr. Matlock suggests that improvements in FPL's reliability index values**  
5 **occurred "only after the data indicated marked deterioration from 1992 to 1996**  
6 **or 1997, and after this deterioration received regulatory attention". Do you**  
7 **agree that FPL only began to act once this issue received regulatory attention?**

8 **A.** No. As described in several sections of the Staff's December 1997 Review of  
9 Electric Service Quality and Reliability, by the beginning of 1997, FPL had already  
10 recognized the need for reliability improvement and had already begun to take actions  
11 to address reliability concerns, before Staff notified FPL of their intention to initiate  
12 their review. These actions included re-organizing the distribution business unit,  
13 conducting an environmental assessment, developing recommendations to address the  
14 environmental assessment's findings and establishing tactical teams to address key  
15 areas of focus. In fact, in the conclusions contained in that 1997 report, Staff noted  
16 that FPL's actions were already yielding some promising results. Mr. Matlock's  
17 suggestion that marked deterioration and regulatory attention were the only reasons  
18 for reliability improvements is not accurate.

**VEGETATION MANAGEMENT, LIGHTNING PROTECTION,  
AND POLE INSPECTIONS FINDINGS (VINSON/FISHER)**

**Q. Do you have any comments regarding the findings on FPL's vegetation management, lightning protection and pole inspection processes included in Mr. Vinson's and Mr. Fisher's report attached, as Exhibit No. CSV/RLF-1, to their testimony?**

**A. Yes. Prior to the issuance of the report's first draft, FPL was provided preliminary findings and asked to submit comments on those findings. FPL's initial comments are included in the report attached to Mr. Vinson's and Mr. Fisher's testimony. FPL was then subsequently provided a draft of the report and asked to review the report for accuracy. Along with corrections and other suggested changes, FPL also provided revised comments to the findings to Mr. Fisher. Mr. Vinson and Mr. Fisher did not include FPL's revised comments with their testimony. I have included the revised comments in my Document GJW-4. They confirm that: (1) although there were relatively small increases in vegetation related outages during 2000-2003, FPL's overall reliability, as measured by SAIDI, actually improved during this period; and (2) FPL's pole inspection initiatives are effective and its pole infrastructure is well maintained and resilient. Pole related outages account for only 0.2% of total outages and 1% of SAIDI, and FPL had to replace only approximately 1% of its poles after the 2004 hurricanes.**

**FPL's 2006 VEGETATION MANAGEMENT EXPENSES (DERONNE)**

**Q. On page 24 of her testimony, Ms. DeRonne, on behalf of OPC, has recommended a deferral and return to ratepayers of any of the \$48,128,000 vegetation management costs "under-spent" due to the amount of the projected increase and an alleged lack of supporting detail. Do you agree that there is a lack of supporting detail for the increase in vegetation management costs for 2006?**

**A.** No. In my direct testimony I make several specific references to increased lateral trimming efforts (pages 5, 8, and 18). On page 2 of my direct testimony, I also provide the MFRs that I am sponsoring. MFR C-8 provides details of changes in expenses for the test year, 2006, compared to the prior year, 2005. The variance explanation (Footnote K) for Account 580 notes that the primary reason for the increase in the account is due to proactive reliability initiatives, including increasing the number of lateral miles trimmed. Also, there have been several interrogatories that have requested information related to our vegetation management spending, for instance, Staff's 1<sup>st</sup> Set of Interrogatories, No. 38, which Ms. DeRonne used in developing Schedule C-7 attached to her testimony.

**Q. Do you have any additional comments concerning FPL's response to Staff's First Set of Interrogatories, No. 38?**

**A.** Yes. My Document GJW-5 provides a year by year comparison of FPL's actual vegetation spending versus its budgeted spending for the period 1998 – 2004. As can be seen in this document, over the past seven years FPL has averaged spending 99.9% of its vegetation management budget. No annual variance is greater than 2%. I

1 believe this historical performance demonstrates FPL's commitment to its vegetation  
2 management plans and spending.

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

4 **A.** Yes, it does.

# ERRATA SHEET

( ) DIRECT TESTIMONY, OR (X ) REBUTTAL TESTIMONY (PLEASE MARK ONE WITH "X")  
WITNESS: **Geisha J. Williams**

[illegible]

1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                   **FLORIDA POWER & LIGHT COMPANY**

3                   **DIRECT TESTIMONY OF MARLENE M. SANTOS**

4                   **DOCKET NO. 050045-EI**

5                   **MARCH 22, 2005**

6  
7   **Q.    Please state your name and business address.**

8   A.    My name is Marlene M. Santos. My address is 9250 W. Flagler Street, Miami,  
9           FL 33174.

10 **Q.    By whom are you employed and what is your position?**

11 A.    I am employed by Florida Power & Light Company (FPL) as Vice President of  
12       Customer Service.

13 **Q.    Please describe your duties and responsibilities in that position.**

14 A.    As Vice President of Customer Service for FPL, I have responsibility for  
15       development and implementation of programs and services that optimize the level  
16       of customer service provided to FPL's customers. In that regard, I oversee  
17       development and execution of policies, processes and systems related to customer  
18       contact, billing, complaint resolution and other services provided to customers.  
19       This involves responsibility for the operations of the customer care centers, meter  
20       reading, billing, payment processing, revenue recovery, field services, and  
21       marketing.

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

23 A.    I have a Bachelor of Arts degree in finance and a Masters in Business

1 Administration from the University of Miami. Since joining FPL in 1981, I have  
2 held numerous positions of increasing responsibility in several functional areas  
3 including finance, marketing, and customer service and have participated in  
4 various special projects as assistant to FPL's President. I joined Customer  
5 Service in 1990 and have been manager of marketing, manager of commercial  
6 services, director of revenue recovery, and director of customer care. I became  
7 Vice President of Customer Service in January 2005.

8 **Q. Are you sponsoring an exhibit in this case?**

9 A. Yes. I am sponsoring an exhibit consisting of five documents, Document Nos.  
10 MMS-1 through MMS-5, which are attached to my direct testimony.

11 **Q. Are you sponsoring or co-sponsoring any MFRs in this case?**

12 A. Yes. I am sponsoring the following MFRs:

- 13 • C-11, Uncollectible accounts
- 14 • C-14, Advertising expenses
- 15 • D-6, Customer deposits
- 16 • F-9, Public notice

17 Additionally, I am co-sponsoring the following MFRs:

- 18 • C-8, Detail of changes in expenses
- 19 • C-15, Industry Association Dues
- 20 • C-41, O&M benchmark variance by function
- 21 • E-7, Development of service charges
- 22 • E-13b, Revenue by rate schedule – service charge

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

2    A.    The purpose of my testimony is to describe the high quality of service that FPL  
3           provides to our customers while maintaining low cost and efficient operations.  
4           Furthermore, my testimony supports FPL's need to increase base rates to a level  
5           that would allow the Company to continue providing high quality service at  
6           reasonable rates.

7   **Q.    Please describe FPL's achievements in the area of Customer Service.**

8    A.    FPL's achievements in the area of customer service have been driven by the  
9           mission of the Customer Service business unit to build customer satisfaction  
10          through excellence in customer service. FPL employees are committed to  
11          demonstrate care and concern for our customers and to strive to meet or exceed  
12          customers' expectations.

13

14          As I will explain in more detail later in my testimony, FPL is recognized as an  
15          industry leader in terms of customer service performance. There also has been a  
16          significant effort by FPL to develop new and innovative ways to make it easier  
17          and more convenient for our customers to do business with FPL.

18

19          Recently, FPL was awarded the ServiceOne Award by PA Consulting Group. PA  
20          Consulting Group is a leading management, systems and technology consulting  
21          firm with worldwide operations in more than 35 countries. The ServiceOne  
22          Award recognizes utilities that provide exceptional service to their customers as  
23          determined by a set of 18 objective measures of excellence in customer care



1 developed by a panel of industry experts. These measures were selected to  
2 provide comprehensive, quantitative measurement of the service attributes that  
3 matter to customers. The measures include meter reading, billing, call center,  
4 field service, revenue recovery (credit and collections), and theft protection. I  
5 will discuss key measures of this achievement in detail later in my testimony.

6  
7 While customer service achievements are pervasive throughout the business unit,  
8 I would like to focus first on the successes FPL has achieved with our customer  
9 care centers, billing and payment options, and the development of automated  
10 services through both the telephone and the internet.

11  
12 The customer care centers generally are a customer's first point of contact for  
13 almost any inquiry or matter needing attention. FPL care centers have been  
14 designed and engineered to provide a high level of service to customers by  
15 answering inquiries promptly and accurately. In recognition of our high level of  
16 performance, FPL became the first electric company in the nation to have its  
17 customer care centers certified as a Center of Excellence by Purdue University's  
18 Center for Customer Driven Quality. I will discuss this achievement in detail  
19 later in my testimony.

20  
21 FPL's customers are offered an extensive array of billing and payment options  
22 that are designed to supply customers with added convenience and flexibility in  
23 receiving and paying their bills. These billing and payment options are designed

1 to make it easier for customers to do business with FPL and at the same time,  
2 reduce the cost to the company.

3  
4 Finally, a significant effort has been undertaken to develop and expand our Voice  
5 Response Unit (VRU) and internet business applications. These applications  
6 offer customers the ability to conduct business using interactive self-service  
7 functions, while reducing the cost per transaction.

### 9 CUSTOMER CARE CENTERS

10 **Q. Please describe the operation of the customer care centers.**

11 **A.** FPL's customer care centers have been designed and engineered using state of the  
12 art technology with the objective of ensuring that all customer inquiries are  
13 answered promptly and accurately. There are two care centers and numerous  
14 remote agents that have been configured to act as one virtual contact center that  
15 handles inbound and outbound calls as well as faxes, letters, and all forms of  
16 electronic mail, such as e-mail and internet contacts. The two customer care  
17 centers allow customers to contact FPL 24 hours a day, 7 days a week. One  
18 center is located in West Palm Beach with average annual staffing of  
19 approximately 230 representatives, while the second is located in Miami with  
20 average annual staffing of approximately 370 representatives. Excluding  
21 hurricane related contacts, these centers handled over 24 million customer  
22 contacts in 2004, an increase of over 110%, or 13 million contacts, from 1998.  
23 These contacts included 7.7 million representative handled calls, 8.9 million

1 automated calls, 6.7 million internet transactions, 975,000 outbound contacts,  
2 170,000 faxes, 44,000 e-mails, and 16,000 customer letters. As a result of  
3 hurricanes Charley, Frances, and Jeanne striking FPL's service territory, over 2.9  
4 million hurricane related contacts were also handled in 2004. These contacts  
5 include 900,000 representative handled calls, 1.7 million automated calls and  
6 280,000 internet contacts.

7 **Q. Please describe how the customer care centers have achieved high**  
8 **performance.**

9 A. The use of leading edge technology along with a strong emphasis on process  
10 management has enabled us to achieve high performance. At the care centers,  
11 FPL has consistently sought to employ innovative systems and applications to  
12 ensure that all types of customer contacts are handled promptly, accurately and  
13 efficiently. We also have designed and organized our processes to complement  
14 our technology in ensuring consistency and accuracy when handling customer  
15 issues.

16  
17 One of the fundamental operational challenges of a care center, and a priority for  
18 FPL, is to ensure that customers do not receive busy signals when calling FPL.  
19 Many call centers limit the number of incoming calls at any one time. Such a  
20 limitation will often cause customers to receive a busy signal. FPL's care center  
21 management worked together with systems providers and telecommunications  
22 partners to design a telecommunications network solution to ensure that all calls  
23 are delivered to FPL with the lowest probability of receiving a busy signal,

1 regardless of where in our territory the call originates. This was accomplished  
2 through the use of overflow capabilities between local lines, toll-free lines, and  
3 the FPL network. Local lines can only be utilized by a limited number of callers,  
4 so it is important to have available the overflow capabilities and expanded  
5 capacity of toll-free lines. For example, a customer will call a local line to contact  
6 FPL; if all the local lines in that area are being utilized, the call is automatically  
7 routed to a toll-free line and ultimately reaches FPL without a delay to the  
8 customer. We also have a back-up provider that will handle outage calls in the  
9 event that all of the lines into our system are being utilized.

10  
11 This system has proven invaluable for our customers during the recent hurricanes  
12 that impacted our service territory and caused approximately 5.4 million customer  
13 outages. FPL's care centers and our overflow partner handled over 2.6 million  
14 outage calls during the period between August 13 and October 4, 2004, including  
15 handling an all time FPL high of over 283,000 calls in a single day. Due to the  
16 efficient design and integration of our telecommunications network, FPL was able  
17 to promptly answer our customers calling to report power outages.

18  
19 We also strive to have customer calls answered by a representative with the  
20 appropriate skill level. Automated Call Distributor (ACD) technology, which is  
21 the "brains" of our care center telecommunications infrastructure, has been  
22 combined with Computer Telephony Integration (CTI) to provide optimum call  
23 routing and allow the two centers and remote agents to act as one virtual care

center. This integration of technologies enables calls to be routed to a representative based on the order in which they were received by the FPL system combined with the priority assigned to the type of call. The result is that all FPL customers throughout the state receive the same level of service, with priority given to customers reporting urgent matters, such as a wire down or a power outage. The routing of the calls within the network ensures that the representative receiving the call has the skills and language capability necessary to handle the specific customer inquiry. The interface of the telecommunications network with the customer information systems facilitates retrieval of the customer's records. Through CTI, customer-specific information is delivered to the representative's computer screen as the call is being answered by automatic retrieval of the customer's records based on the telephone number from which he or she is calling. The system also contains Graphical User Interface (GUI) software on the desktop which provides the representatives with standardized processes for each inquiry type. The GUI software ensures that any customer calling with a similar issue will be handled in the same manner and provided with the same answers.

**Q. How do these technologies benefit customers?**

A. As previously described, the technology and architecture of the care centers have been designed with the objectives of making it easier for our customers to contact us and allowing us to handle customer calls as efficiently as possible. Having overflow and routing capabilities allows a customer's request to be handled with the shortest possible wait time by a specialized representative who is specifically trained to proficiently handle the customer's request or area of concern. This

1 maximizes the opportunity to handle calls quickly and efficiently without having  
2 to transfer the call between service representatives. The ability to automatically  
3 identify and deliver customer-specific information through CTI allows the  
4 representative to greet the customer and immediately respond to the customer's  
5 inquiry without having to ask the customer to provide account information up  
6 front. This process saves approximately 20 seconds on each successful account  
7 retrieval. FPL's care center systems and standardized processes ensure that  
8 customers will be provided with a consistent and accurate response to the inquiry.

9 **Q. How do FPL's customer care centers compare with other call centers in the**  
10 **industry?**

11 A. When comparing FPL's care centers to other utility call centers, we generally find  
12 that FPL has a higher level of automation and lower cost due to the combination  
13 of the many different systems and applications. Also, in 2003, FPL was  
14 recognized as the first utility in the nation to have its customer care centers  
15 certified as a Center of Excellence by Purdue University's Center for Customer  
16 Driven Quality. Purdue's Center for Customer Driven Quality is an organization  
17 focused on helping business partners attain the highest standards for customer  
18 service.

19 **Q. Please describe the nature of this certification.**

20 A. The Purdue University Center of Excellence certification process is a joint effort  
21 between Purdue University and Benchmark Portal. Benchmark Portal manages  
22 the call center database located at Purdue University's Center for Customer-  
23 Driven Quality where call center applicants are compared against each other. The

1 Call Center Certification process is unique in the following ways:

- 2 • It begins with a thorough statistical comparison between the call center  
3 striving to be certified and a peer group of similar call centers in the same  
4 industry sector.
- 5 • It is based on a balanced scorecard approach, namely, how well call centers  
6 are able to manage call handling at a high level of efficiency (high volumes at  
7 low cost) and effectiveness (high quality in terms of results).
- 8 • It identifies areas of high performance and quantifies gaps in areas of low  
9 performance based on hard statistical comparisons.

10  
11 The Purdue certification process involves a rigorous two-day onsite review during  
12 which Purdue University experts evaluate the call centers based on objective,  
13 quantitative data. As a result of meeting or exceeding all requirements for  
14 certification, FPL became the first utility to have its customer call centers certified  
15 as Centers of Excellence.

16  
17 In 2000, FPL's customer care centers also were recognized as the number one  
18 ranked care center in the META Group benchmarking study based on six  
19 operational effectiveness areas. The META Group is a leading research and  
20 consulting firm that focuses on information technology and business  
21 transformation strategies. There were 20 participants in the study representing  
22 other comparable call centers in the gas and electric utilities industry within the  
23 United States.

1 FPL believes these third-party evaluations confirm that our customer call centers  
2 are operating at a high level of performance.

3 **Q. Please provide examples of key metrics and how FPL's customer care centers**  
4 **compare with other call centers in the industry.**

5 A. FPL participates in an annual benchmarking study conducted by PA Consulting  
6 Group. PA Consulting Group is a leading management, systems and technology  
7 consulting firm with worldwide operations in more than 35 countries. PA  
8 Consulting has provided comprehensive benchmarking services for over a decade  
9 to utility companies focusing on how their costs and services measure against  
10 those of other utilities. The 2004 benchmarking study, based on 2003 year ending  
11 data, consisted of 35 electric and gas utilities. As part of this study, many  
12 individual performance measures that are typical industry indicators were  
13 benchmarked. The following metrics are indicative of FPL's outstanding  
14 performance compared to other participants.

- 15 • Average speed of answer – group average: 76 seconds; FPL: 29 seconds
- 16 • Call abandonment rate – group average: 5.8%; FPL: 2.0%
- 17 • Cost per call – group average: \$3.63; FPL: \$1.85

18 **Q. What is average speed of answer?**

19 A. Average speed of answer (ASA) is an accepted industry measure for determining  
20 how quickly a customer's call is answered. FPL's ASA is significantly better  
21 than the group average. Over the years, FPL has committed to improving this  
22 operating indicator. In 1998 FPL's ASA for representative handled calls was 50  
23 seconds. As mentioned above, our 2003 ASA was 29 seconds which is a



1 significant improvement. However, in 2004 our ASA was 49 seconds, much  
2 higher than 2003. This increase was due to the associated increase in phone calls  
3 as a result of the 3 hurricanes that impacted our service territory. Prior to the first  
4 hurricane in August 2004, FPL's ASA year-to-date was 28 seconds. Due to the  
5 large number of estimated bills and catch-up work created as a result of the focus  
6 on the hurricanes, call volume for September through December was significantly  
7 higher than originally forecast. While some immediate operational and staffing  
8 changes were made as a result of the extraordinary storm season, we were not  
9 able to achieve the same ASA that we had in 2003.

10 **Q. What is the "call abandonment rate"?**

11 A. The call abandonment rate is an indicator that measures the percent of customers  
12 who hang up while in queue waiting to speak to a representative. Typically, the  
13 longer customers have to wait to speak to a representative the higher the  
14 abandonment rate will be. FPL's call abandonment rate improved from 4.7% in  
15 1998 to 2.0% in 2003. This is significantly better than the group average of 5.8%.  
16 However, the rate in 2004 increase to 3.7%. This increase was due to the higher  
17 call volume due to the impact of the extraordinary hurricane season that was  
18 discussed in my previous answer. As I indicated, the increase in call volume  
19 drove up our ASA which resulted in a higher call abandonment rate.

20 **Q. Why is FPL's cost per call so much lower than the other companies that**  
21 **participated in the study?**

22 A. FPL has created an efficient and cost effective operation at the care centers. Our  
23 strong emphasis on processes results in enhanced accuracy and consistency,

1 which lowers our cost per transaction. In addition to continuously monitoring  
2 these processes, the leveraging of technology has enabled FPL to keep its cost per  
3 transaction low. In 1999, FPL reengineered the VRU and focused on improving  
4 and expanding the automated services offered through the VRU. In 2004,  
5 approximately 56% of FPL's inbound call volume was handled in a completely  
6 automated manner by the VRU. This penetration rate is among the best in its  
7 class for our industry. In the 2004 PA Consulting Benchmarking study, FPL  
8 reported the highest 2003 VRU penetration rate of 49%. The average for the 32  
9 companies reporting VRU penetration data was 21% and only 2 other utilities had  
10 a rate greater than 40%. A higher VRU penetration rate demonstrates our  
11 customers' acceptance of automated services. Additionally, by offering a wide  
12 variety of automated VRU applications, we are providing customers with options  
13 that make doing business with FPL easier, and at the same time, lower our cost  
14 per transaction.

15  
16 Additional technological enhancements that have lowered costs per call include  
17 integration between the telecommunications equipment and the customer  
18 information systems, and the development of other applications that improve the  
19 overall efficiency of the call handling process. For example, as I previously  
20 mentioned, CTI functionality saves about 20 seconds per call.

21  
22 Finally, another significant contributor to our low cost is the manner in which we  
23 have engineered our telecommunications network using a combination of local

1 lines, toll-free lines and other telecommunications options instead of the more  
2 expensive toll-free lines.

3 **Q. Why does FPL have such a high VRU penetration rate?**

4 A. FPL's industry leading VRU penetration rate is the result of the development of  
5 many applications that allow customers to easily complete general inquiries  
6 through the VRU without the need to speak to a representative. VRU capabilities  
7 have been created that provide interactive customer applications for disconnecting  
8 service, power outage reporting, billing inquiries, bill payment, payment  
9 extensions, reconnection of service, requesting duplicate bills and obtaining  
10 general information on many other services we offer. In addition to providing  
11 customers with an alternate option to doing business using interactive telephone  
12 applications, VRU technology also results in a significantly reduced cost per  
13 transaction, since there is no manual intervention required to complete a  
14 transaction performed over the VRU.

15 **Q. What evidence is there that customers like to use the VRU option?**

16 A. While customers have the option of speaking to a live representative, many  
17 customers like to do business through the VRU. The VRU is a simple and  
18 efficient way for them to do business with us. The rapid growth of VRU use  
19 since 1998 demonstrates growing acceptance by our customers of the VRU  
20 system and the increase in and improvement of the VRU features. In addition,  
21 customer care center satisfaction research performed in 2004 indicates that 70%  
22 of customers that used the VRU were very satisfied or satisfied with the call. Our

1 research also found that 82% of our customers stated that the VRU has directions  
2 and instructions that are clear, and 74% found the VRU easy to use.

3 **Q. What percentage of customer inquiries are resolved with one call?**

4 A. Based on FPL's residential customer care center satisfaction research, the percent  
5 of customer inquiries resolved with one call has increased from 72% in 2000 to  
6 78% in 2003. In 2004, there was a decrease to 73%, driven by estimated bills and  
7 service restoration issues as a result of the hurricanes.

8  
9 Reducing repeat calls has been an ongoing priority and has improved over the  
10 past few years. At the end of 1999 we implemented the Request Issuance  
11 Tracking System (RITS), which enables customer service representatives to  
12 inform the customer of when to expect resolution of their request. The system  
13 also allows us to track requests that have been forwarded to other departments  
14 outside of the care center. RITS has contributed significantly to the reduction of  
15 call-backs from customers.

16 **Q. What type of quality assurance program is in place at the care centers?**

17 A. The quality assurance program at the care centers is focused on continually  
18 improving the overall quality of the response to a customer call. The program is  
19 based on a voice and data monitoring system that is used to score the overall  
20 quality of a call and provide appropriate feedback to the representative. Through  
21 quality assurance observations, representatives are monitored for accuracy,  
22 compliance to processes, and demonstrating understanding and empathy to  
23 customers. The quality program also includes process coordinators who focus

1 solely on continuously identifying improvements within the underlying processes.  
2 We gather data from the quality observations and analyze trends to identify  
3 improvement opportunities with policies or processes.

4 **Q. Does FPL measure customer satisfaction for customers who contact the**  
5 **customer care centers?**

6 A. Yes. Ongoing surveys are performed to measure satisfaction of residential  
7 customers with the way their calls are handled.

8 **Q. Please describe the results of these surveys.**

9 A. FPL's residential customer care satisfaction research results are attached to my  
10 testimony as Document No. MMS-1. The surveys were initially performed  
11 during the first quarter of 1999 and they measure overall satisfaction with FPL,  
12 the call, the representative and the VRU. The percent satisfied score is the  
13 percent of customers who are very satisfied or satisfied with the area being  
14 measured. A key design of the surveys is to provide a means of identifying  
15 improvement opportunities. FPL continuously monitors the result of the surveys  
16 in order to proactively take action in areas of opportunity.

17

18 Since 1999, there has been a positive trend in each of the four measures. While  
19 each of the tracking lines shows positive improvement, individual data points  
20 reflect decreases in a few periods. For example, there is a drop in the attribute for  
21 "Overall Satisfaction with the VRU" for the 2 periods in 2004. We believe this is  
22 due to a change in the VRU made at the end of 2003 that affected customers who  
23 were not able to successfully transact in the VRU. These customers were

1 automatically provided the most common requested information, such as current  
2 balance and recent payments. Initial analysis shows that these customers did not  
3 find this information beneficial and test changes are being made to confirm. If  
4 this holds true, the change made at the end of 2003 will be removed and  
5 satisfaction scores with the VRU should improve to prior year levels.

6  
7 The three other key measures also dropped slightly in the second period of 2004.  
8 Although analysis of the surveys is not complete, it is certain that these customer  
9 satisfaction scores were impacted by the aftermath of the hurricanes. However,  
10 overall there is significant improvement in each of the four key satisfaction  
11 measures between the scores in 1999 when the surveys were first performed, and  
12 the most recent scores for 2004.

13 **Q. What options do FPL customers have if they are not satisfied by the response**  
14 **that the representative provides?**

15 A. Customers are offered the option of speaking with a care center account  
16 supervisor. Account supervisors are a group of employees with more experience  
17 and broader authority who are dedicated to resolving elevated customer issues  
18 quickly and efficiently. There is also a complaint resolution process that has been  
19 established to ensure that customers' concerns or issues are handled appropriately.

20 **Q. Please describe FPL's customer complaint resolution process.**

21 A. FPL implemented a new customer complaint resolution process in 2001 to ensure  
22 that customer complaints are handled in an expeditious manner by a network of  
23 contacts throughout many business units and departments. This process,

1 combined with the RITS process described earlier, provides customers with a  
2 specific contact person to ensure resolution of their matter and a timeframe within  
3 which FPL will address the customer's issue. Once a customer asks to speak with  
4 a supervisor, the call is forwarded to a care center account supervisor.

5  
6 Once a call is elevated from a care center representative to a care center account  
7 supervisor, the account supervisor determines how to resolve the customer's  
8 issue. The majority of calls are resolved directly by the care center account  
9 supervisor, however, if the call requires follow-up with a department outside of  
10 the care center, the customer is provided the department name to which their  
11 matter is being referred to, as well as a timeframe in which the appropriate  
12 representative will contact the customer for resolution. Additionally, for all calls,  
13 the customer is given the care center account supervisors name and telephone  
14 number in the event they need further assistance and a ticket is then created, and  
15 the matter is monitored for completion in a timely manner.

16  
17 In the event that a customer complaint is not resolved, the customer may choose  
18 to contact the Florida Public Service Commission (FPSC). As part of our  
19 complaint handling process, FPL participates in the FPSC warm transfer program.  
20 This program was established by the FPSC to help resolve disputes as quickly,  
21 effectively, and inexpensively as possible by transferring the customer call or  
22 email directly from the FPSC to FPL if the customer agrees. FPSC contacts will  
23 be discussed later in my testimony.

1 In addition to the complaint resolution process, FPL implemented the Customer  
2 Account Satisfaction Tracking (CAST) system, a process to capture and track  
3 both customer dissatisfaction and commendations. This data is rolled up into  
4 daily, weekly and monthly reports by department and business process and  
5 available for review by all levels of supervision and management. CAST  
6 provides a means for analyzing daily, weekly and monthly data and is useful in  
7 identifying trends or issues, modifying processes and policies, and gauging the  
8 impact of changes to processes and policies that impact the efficiency and quality  
9 of customer service.

#### 11 BILLING AND PAYMENT OPTIONS

12 **Q. What types of billing and payment options does FPL provide its customers?**

13 **A.** FPL strives to enhance its service to customers by offering a variety of billing and  
14 payment options that are designed to make it easier for customers to do business  
15 with the Company. Customers may choose to pay their bills through the internet,  
16 by phone, through automatic bank withdrawals, at our pay agents, with credit  
17 cards or, of course, through regular mail with a check or money order. Customers  
18 choosing to pay their bills through the internet may do so directly from our  
19 website or through other websites where they can pay multiple bills. The list of  
20 billing and payment options, including a description of the options, the date each  
21 option began and the number of participants in each option as of December 2004  
22 is attached to my testimony as Document No. MMS-2.



1 In addition to developing new and expanding existing billing and payment  
2 options, FPL has been recognized as a leader in payment processing operations.  
3 FPL's payment processing operations were recently recognized by the  
4 Association of Work Process Improvement as having best practices in quality,  
5 innovation and workload. As described in their April 2003 Journal of Work  
6 Process Improvement, "FPL uses a combination of sound technology, efficient  
7 business practices and strong customer focus to reduce costs and improve  
8 customer satisfaction in their payment remittance operation."

9 **Q. Would you please elaborate on FPL's billing options?**

10 A. Yes. In recent years, FPL has developed several programs to better serve both  
11 residential and business customers' needs relative to billing. Customers may now  
12 enroll in our e-mail billing program and those that do receive an e-mail that lets  
13 them know their new bill is ready for them to view. They may then access our  
14 internet website through a direct link included in the e-mail and view their bill and  
15 bill insert on-line. They may also pay the bill on-line as well.

16  
17 The Summary Billing program allows a customer with ten or more FPL accounts  
18 to request a single statement for the billing and payment of those accounts. This  
19 program eliminates the task of handling and paying multiple bills throughout the  
20 month.

21  
22 FPL also provides a program called "FPL Budget Billing" as an option for  
23 customers who want to avoid the peaks and valleys of seasonal or monthly

1 electric bills. The monthly electric usage is levelized over a 12-month period,  
2 allowing the participating customer to more easily budget their payments for  
3 electric service.

4  
5 Another billing option is the "FPL 62 Plus Payment Plan." This plan is available  
6 to all customers who depend on fixed incomes such as social security, disability  
7 or other similar type benefits. The program extends the due date of the bill by ten  
8 days, thus allowing one full month to pay after the bill is issued. This means that,  
9 regardless of when the customer's monthly benefit check is received, the  
10 customer will have sufficient time to pay his or her electric bill. This helps  
11 participating customers manage their monthly budget, especially if their electric  
12 bill is due at some time other than when the monthly benefit check arrives.

13  
14 FPL recognizes the customer benefits and cost reduction opportunities in having  
15 customers utilize electronic billing and payment options when compared to  
16 standard bill delivery and payments through the U.S. Postal Service (USPS). In  
17 1998, approximately 75% of all payments were received via mail and processed  
18 through FPL's payment processing center. At year end 2004, less than 60% of all  
19 payments were received via mail and processed through FPL's payment  
20 processing center.

21 **Q. Does FPL have any plans for Automated Meter Reading (AMR)?**

22 A. Yes. Approximately 50,000 AMR meters will be deployed in 2005. The meters  
23 deployed will be single phase, non-demand meters that generally serve residential

1 and small and medium size business customers. Two different communication  
2 technologies will be deployed. There will be approximately 34,000 power line  
3 carrier meters and approximately 16,000 radio frequency meters. In addition to  
4 the AMR meters, FPL will deploy a connect/disconnect switch on a limited basis  
5 as a pilot. Analysis of the first phase deployment is expected to be completed by  
6 mid-year 2006. Once completed, FPL will begin system wide deployment. This  
7 phase is estimated to take approximately 5 to 8 years.

8 **Q. What are the benefits of Automated Meter Reading?**

9 A. In addition to providing cost-efficiencies through automation, AMR will improve  
10 customer satisfaction and employee safety by lessening the need for estimated and  
11 adjusted bills and create a safer work environment by eliminating the need to  
12 enter a customer's property to read meters. An AMR solution also has the  
13 potential to provide additional benefits from functionality in the areas of:

- 14 • Meter tamper detection
- 15 • Load profile analysis
- 16 • Outage restoration verification

17  
18 **OTHER CUSTOMER SERVICES**

19 **Q. Would you elaborate on the other customer services that FPL provides to its**  
20 **customers over the internet?**

21 A. Yes. FPL recognizes that many customers appreciate the ability to use interactive  
22 self-service to do business. In recent years, FPL has been developing and  
23 expanding its internet applications so that its customers can conduct business with

1 FPL over the internet. Customers may perform transactions such as payment  
2 extensions, power outage reporting and status update, street light outage  
3 reporting, order a duplicate bill, and connect, disconnect or transfer service over  
4 the internet. As previously discussed, they may also view and pay their monthly  
5 bill on-line. In addition, they may use the internet to enroll in the e-mail bill and  
6 online pay options discussed earlier. Almost all of the information that may be  
7 obtained by calling the care centers is available on-line.

8  
9 Two of the most successful applications have been FPL Pay Online (POL) and the  
10 Online Home Energy Survey. In 2001, the first full year FPL POL was available,  
11 approximately 275,000 payments were processed. During 2004, over 2.4 million  
12 payments were processed. This application has proven very successful and  
13 continues to steadily increase in participation. The Online Home Energy Survey  
14 was developed to help customers better understand and manage their energy costs.  
15 The survey provides a detailed billing breakdown summarizing how their energy  
16 dollar was used during the survey period, explains the impacts of weather on  
17 energy usage and provides customers with recommendations on how to conserve  
18 energy and save money on their electric bill. This application was implemented  
19 in mid-2001 and has been very effective in providing customers with a better  
20 understanding of the impacts of energy consumption, particularly during the  
21 summer period when energy consumption is highest.

1 A list of all the transactions that may be performed by customers over the internet  
2 is attached as Document No. MMS-3. During 2004, approximately 6.7 million  
3 transactions were performed by customers using internet self-service applications.

4 **Q. What types of programs does FPL offer its special needs customers?**

5 A. FPL 62Plus, a program that I previously discussed, is especially designed for  
6 customers with fixed incomes from social security, disability and other benefits.  
7 Another program that was designed to help prevent disconnection of electric  
8 service is the "FPL Friendly Reminder Plan." The plan allows the customer to  
9 designate someone to receive a Final Notice prior to service disconnection. A  
10 designated person, such as a caregiver, family member or neighbor, will receive  
11 notification of any final notice issued by FPL, protecting the customer from  
12 service disconnection because of an inadvertently unpaid bill.

13 **Q. What type of community outreach programs does FPL offer?**

14 A. FPL and its employees go above and beyond in caring for our customers. This  
15 has been achieved primarily by working with the various social services agencies  
16 in the communities that FPL serves. A process has been established whereby  
17 customers experiencing financial difficulty are referred to an appropriate social  
18 services agency. FPL personnel work with the agencies to ensure continuity of  
19 service while resources are allocated and secured for the customer. In 2004 over  
20 81,000 assistance payments were received from numerous agencies, representing  
21 approximately \$11.7 million toward customers' electric bills.

22

23 In 2001 FPL also established "AWARE" (Always Watching for At-Risk Elders).

1 This program was established in conjunction with the Center for Information and  
2 Crisis Services of Palm Beach County, where customers needing special  
3 assistance due to abuse, exploitation, or medical neglect, are referred to the  
4 appropriate social services agency. It has since been expanded to most other  
5 counties in FPL's service territory. FPL customer service field employees, such  
6 as collectors and residential representatives, are trained to recognize possible  
7 cases of abuse or neglect with senior citizens. Since inception, the program has  
8 identified hundreds of individuals who were potentially at risk and provided  
9 agency referral for assistance. This program is highly valued by the community  
10 social services agencies, as it is filling a need in our communities that is difficult  
11 to meet.

12 **Q. What other type of assistance does FPL provide customers?**

13 A. FPL has established "Care to Share." This is a special fund that receives  
14 donations from customers and FPL corporate contributions. Funds donated to  
15 Care to Share are administered by local social service agencies that partner with  
16 FPL. FPL refers customers needing financial assistance to one of the agencies  
17 that administers Care to Share funds. In 2004, contributions exceeded \$450,000  
18 and over \$6,500,000 has been donated since the program inception in 1994.

19  
20 FPL was also very responsive to community needs in the aftermath of the  
21 hurricanes in 2004. While working around the clock to restore power, FPL also  
22 helped rebuild the lives of thousands of Floridians by raising funds for the  
23 American Red Cross and the Florida Hurricane Relief Fund. Between FPL

1 employees, customers and Company matching gifts, FPL raised approximately  
2 \$1.4 million toward hurricane relief.

3 **Q. Are there any other functions of Customer Service that you would like to**  
4 **discuss?**

5 A. Yes. An additional service that FPL provides to its customers is its field force of  
6 residential, small and medium business, and commercial and industrial  
7 representatives. This group of employees is dedicated to serving the individual  
8 customer at his or her home or place of business. Residential and small and  
9 medium business representatives conduct high bill investigations and address any  
10 other concern that a customer may have about his or her electrical service.  
11 Commercial and industrial representatives provide a personalized level of service  
12 to our larger commercial/industrial customers. They proactively work with the  
13 customer on specific electric service requirements and related issues as well as  
14 any other customer service matters. Additionally, FPL offers an array of services  
15 to its business customers. These services include power monitoring, thermal  
16 scanning, performance contracting and preventative maintenance programs.  
17 Revenues generated by these services are greater than the costs incurred by FPL.

18 **Q. Please discuss FPL's Revenue Recovery operations.**

19 A. Revenue Recovery's primary role is to set policies and processes for credit and  
20 collections. The objective of this function is to ensure that policies are fair and  
21 reasonable and that they are applied consistently. The policies are established to  
22 be more lenient with customers who normally are good-paying customers and  
23 unexpectedly need additional time to pay, while being strict with habitually

1 delinquent customers. In 2004, approximately 782,000 payment extensions were  
2 granted. We recognize that the inability to pay timely is a sensitive issue for  
3 many customers; therefore, customers that prefer not to discuss this issue with a  
4 customer service representative have the capability of requesting a payment  
5 extension through the VRU or over the internet. A decision about whether to  
6 grant the extension is automatically made by the system, based on a complex  
7 analysis of data and criteria, and a response is provided to the customer  
8 immediately. Since the system generates a recommendation, customers will  
9 receive the same recommendation, whether they speak to a customer service  
10 representative directly or use an automated payment extension application  
11 through the VRU or over the internet.

12  
13 The critical measure of success for FPL's Revenue Recovery operations is  
14 reflected in the amount of write-offs as a percent of revenues. Through changes  
15 in policies and processes we have been able to maintain write-offs as a percent of  
16 revenues at or below 0.158% between 1998 and 2004 despite significant increases  
17 in fuel charges during this period. This operating indicator is considered the best  
18 in its class. In the 2004 PA Consulting Benchmarking study, 18 electric and gas  
19 utilities with greater than 1,500,000 customers provided their write-off rate for  
20 2003. FPL ranked number one in this group with a write-off rate of 0.134% for  
21 2003. FPL ended 2004 with a write-off rate 0.158%. The change between 2003  
22 and 2004 is attributable to the increase in fuel charges. All other things being  
23 equal, higher bills produce an added difficulty in payment.



## **FPSC CUSTOMER CONTACTS**

**Q. How has the number of FPL customer contacts to the FPSC changed in recent years?**

**A.** For the Customer Service business unit, total customer contacts to the FPSC, including warm transfers, courtesy calls, and logged complaints were 3,660 in 2003 and only 3,320 in 2004. When comparing 2004 with 2003, we had a 9% decrease in customers contacting the FPSC. What is most impressive about this decrease in customer contacts is that it was achieved even with the three major storm events of 2004. The storms mainly created customer contacts associated with estimated bills as a result of redeployment of our meter readers and subsequent true-up bills. Excluding these storm-related contacts, there was an 18% reduction in customer contacts to the FPSC. Additionally, Customer Service, on an overall basis, has seen a decrease in the number of FPSC infractions in recent years. Infractions are cited by the FPSC when a utility has violated a FPSC rule, the company tariff or the stated company policy. Customer Service infractions per 1,000 customers decreased from .004 in 1998 to no infractions in 2004.

## **COST MANAGEMENT**

**Q. Has FPL's high level of service resulted in commensurate increases in costs?**

**A.** No. The Company has been able to successfully balance the delivery of high quality services while maintaining cost-efficient operations. Since 1998, FPL has been able to improve the quality of its service and offer additional products and services to our customers while maintaining a low Operation & Maintenance

1 (O&M) cost per customer. FPL's Customer Service O&M cost per customer has  
2 decreased from \$28.53 per customer in 1998 to \$28.32 per customer in 2004.  
3 This has been accomplished by the commitment of Customer Service  
4 management and employees to identify and implement process improvements  
5 throughout the business unit. We have focused on enhancing the processes that  
6 support the interface with the customer. We also have streamlined and automated  
7 many of the back-end processes, such as billing and accounting. A key  
8 contributor to cost savings has been the use of technology to enhance customers'  
9 ability to conduct self-service transactions through the internet or the VRU. This  
10 was demonstrated earlier in my testimony by FPL's best in class VRU penetration  
11 rate.

12  
13 Although Customer Service has managed to keep its O&M cost per customer  
14 relatively flat since 1998, based on the 2006 forecast, O&M cost per customer  
15 will increase from \$28.32 in 2004 to \$28.98 per customer. I will explain the need  
16 for this increase later in my testimony. FPL's historical and projected Customer  
17 Service O&M cost per customer is attached as Document No. MMS-4.

18 **Q. Can you provide additional examples of Customer Service processes that**  
19 **have been streamlined and improved and thereby minimized cost increases?**

20 **A.** Yes. FPL has achieved streamlined, accurate and efficient operations in the  
21 billing and payment processing functions. Many of the process and system  
22 enhancements that have been implemented have mitigated the increases in  
23 postage that have occurred over these years. Since 1999, the United States Postal

1 Service (USPS) postage has increased 3 times for a cumulative total of over 15%.  
2 However, due to process improvements within FPL's billing operations, the  
3 average cost of mailing a customer's bill increased by only 11% during the same  
4 period. These cost savings have been accomplished through systems and process  
5 implementation that allow FPL to receive the greatest USPS discounts for bulk  
6 mailings, zip code optimization and reduction in return mail. FPL's printing and  
7 mailing function was featured by Pitney Bowes as a world class operation in a  
8 special November 2001 edition of "Document Processing Technology," a  
9 publication sponsored by Pitney Bowes. Also, as mentioned earlier in my  
10 testimony, in 2003 FPL's payment processing operations were recognized by the  
11 Association of Work Process Improvement as a best practice in quality,  
12 innovation and workload.

13  
14 Encouraging customers to participate in the option of viewing their bills through  
15 the internet is another measure that allows FPL to continue to manage billing and  
16 mailing costs in spite of continuing postage increases. As of December 2004,  
17 there are over 133,000 customers enrolled directly in FPL's E-mail bill program  
18 or Online Billing through third party vendors. FPL believes this is an area of  
19 continued opportunity and is strongly focused on increasing customer  
20 participation in electronic billing and payment options.

21  
22 **Q. How will FPL continue to manage costs?**

23 **A.** FPL has been very successful at containing costs while achieving high quality and

1 level of service in customer service in recent years. This has been accomplished  
2 in spite of tremendous customer growth and many adverse economic conditions  
3 including deterioration in the economy as a result of the events on September 11,  
4 2001 impacting customers' ability to pay their bill, higher fuel costs which  
5 increase write-offs and several increases in postage. While FPL has been a leader  
6 in implementing technology and process improvements that provide both  
7 enhanced services for customers and cost reduction for FPL, we can no longer  
8 squeeze additional efficiencies out of current systems and processes to continue to  
9 meet the needs of our customers. An example is FPL's VRU systems. The VRU  
10 system has been utilized to the fullest extent of its current technology in providing  
11 useful self-service applications to customers. In order to continue to make  
12 significant increases in VRU penetration, new applications that are more complex  
13 in nature and offer greater functionality will be required. Examples of such  
14 applications include voice recognition and a system that allows a care center  
15 representative the ability to provide assistance to customers having difficulty  
16 accessing their account within the VRU.

17  
18 Tremendous customer growth will continue to be the key driver in cost. FPL is  
19 forecasting customer growth of over 147,000 new customers through 2006. The  
20 addition of these customers will increase the number of meters read by  
21 approximately 1.7 million annually. In addition, this will add approximately 1.7  
22 million bills to render and payments to process annually and a significant increase  
23 in customer contacts. Although FPL will continue to seek improvements in

1 efficiencies and processes, costs continue to increase faster than our ability to find  
2 offsetting savings and increased expenditures will be necessary to continue to  
3 excel in Customer Service areas.

4 **Q. How much are Customer Service O&M cost forecasted to increase in 2006?**

5 A. In order to meet the demands of customer growth and continue providing high  
6 quality customer service, Customer Service O&M costs are projected to increase  
7 by approximately \$7.1 million or 6% from 2004 to 2006. FPL's historical and  
8 projected Customer Service O&M expense is attached as Document No. MMS-5.

9 **Q. Please explain the major drivers of the O&M increase.**

10 A. Customer growth is the biggest driver of this increase. Of the \$7.1M increase,  
11 just over \$2.4 million is directly related to increases in expenses in meter reading,  
12 billing and payment operations and handling higher call volume in our care  
13 centers. In 2006, there is a projected USPS postage increase of \$0.04. This  
14 increase contributes an additional \$2.2 million in billing expenses. Increases of  
15 \$1.2 million in AMR spending associated with deployment of an additional  
16 100,000 meters and \$1.2 million for initiatives or customer service project  
17 spending account for the remaining amount.

18 **Q. How much are Customer Service capital expenditure cost forecasted to**  
19 **increase in 2006?**

20 A. Customer Service capital expenditure cost are projected to increase from \$2.6  
21 million in 2004 to \$14.6 million in 2006; an increase of approximately \$12.0  
22 million.

23

1   **Q.     Please explain the major drivers of the capital expenditure increase.**

2   A.     Deployment of 100,000 additional AMR meters and the associated cost account  
3           for approximately \$9.0 million of the increase. Development of new care center  
4           systems designed to better manage and enhance our customers experience when  
5           contacting FPL accounts for the remaining \$3.0 million.

6   **Q.     Please summarize your testimony.**

7   A.     Since 1985, FPL's Customer Service operations have been significantly enhanced  
8           in terms of additional functionality and technical capabilities to allow customers  
9           to be served as accurately and efficiently as possible. FPL has been recognized  
10          for providing high quality service with several awards including the ServiceOne  
11          Award from PA Consulting Group and certification as a Center of Excellence by  
12          Purdue University's Center for Customer Driven Quality. FPL also has expanded  
13          the types and number of options and services provided to its customers in order to  
14          better meet their growing expectations and changing needs. The Company also  
15          exceeds expectations by reaching out into the communities with special programs  
16          for the different customer segments we serve. My testimony demonstrates and  
17          confirms FPL's high performance in the area of Customer Service and high level  
18          of customer satisfaction. Finally, I have shown that the increased spending in  
19          Customer Service is reasonable and necessary and supports FPL's need to  
20          increase base rates to a level that would allow FPL to continue providing high  
21          quality of service at reasonable rates.

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

23   A.     Yes.

## ERRATA SHEET

(X) DIRECT TESTIMONY, OR ( ) REBUTTAL TESTIMONY (PLEASE MARK ONE WITH "X")  
WITNESS: **Marlene M. Santos**

[illegible]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**REBUTTAL TESTIMONY OF MARLENE M. SANTOS**

**DOCKET NOS. 050045-EI, 050188-EI**

**JULY 28, 2005**

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

**A.** My name is Marlene M. Santos. My business address is 9250 W. Flagler Street, Miami, FL 33174.

**Q. By whom are you employed and what is your position?**

**A.** I am employed by Florida Power & Light Company (FPL) as Vice President of Customer Service.

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

**A.** Yes.

**Q. Are you sponsoring an exhibit to your rebuttal testimony?**

**A.** Yes. I am sponsoring an exhibit consisting of four Documents, MMS-6 through MMS-9, which is attached to my rebuttal testimony.

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

**A.** I will respond to portions of testimony submitted on behalf of the following intervenors:

- Florida Office of Public Counsel (OPC) by Donna DeRonne which addresses Automated Meter Reading (AMR) project expenses,
- OPC by Donna DeRonne and Florida Retail Federation (FRF) by Sheree L.



1 Brown which address bad debt expenses, and

- 2 • OPC by Kimberly H. Dismukes which addresses advertising expenses.

3  
4 **AUTOMATED METER READING**

5 **Q. On pages 18-19 of her testimony, Ms. DeRonne contends that FPL's AMR**  
6 **program is a pilot program. Do you agree?**

7 A. No. FPL is currently in the first phase of the full deployment of AMR to our  
8 residential and small and medium commercial customers. This is a significant  
9 project that has the potential to transform the manner in which FPL interacts with  
10 its customers and produce significant benefits. FPL intends to fully deploy AMR  
11 meters over the next five to eight years. In this first phase, we are deploying  
12 approximately 50,000 meters, utilizing both power line carrier and radio  
13 frequency technology, to address any issues with a smaller scale deployment prior  
14 to the next phase of deployment. We currently have approximately 18,000 meters  
15 deployed and the remaining 32,000 meters will be deployed by the end of the  
16 third quarter of 2005. We have installed the communications software for both of  
17 the solutions deployed and are in the process of integrating the vendor's meter  
18 data management interface to our customer information system to use the  
19 readings for billing. The software enables the reading of the meter remotely and  
20 provides the readings for billing.

21 **Q. Does the under budget condition of \$4.653 million in 2004 as a result of the**  
22 **delay in the AMR project necessitate an adjustment to the 2006 test year?**

23 A. No. The expenses not incurred in 2004 as a result of the delay will be incurred in

1 2005 as part of the deployment of the 50,000 meters. As mentioned previously,  
2 the project is on schedule to complete the deployment of these meters by the end  
3 of third quarter 2005. In 2006, the next phase of deployment of 100,000 meters  
4 will begin.

5  
6 **BAD DEBT EXPENSE**

7 **Q. Ms. DeRonne and Ms. Brown both propose that FPL use a three year**  
8 **historical average to forecast the 2006 bad debt rate. Is this methodology**  
9 **appropriate?**

10 **A.** No. It is improper to use the average of three historical years (2001-2003) as a  
11 basis for forecasting 2006 when the data being utilized is out-dated and fails to  
12 acknowledge changing conditions. The most current period utilized in their  
13 average (2003) is already two years removed from the forecast period with the  
14 oldest experience (2001) being four years old. Additionally, their methodology  
15 fails to recognize the more current level of revenues that exist and the reality that  
16 they are continuing to trend higher consistent with an ever increasing customer  
17 base and higher fuel expense. By using an average, they are simplistically  
18 levelizing and ignoring more current revenue levels and the impacts of increased  
19 revenues and prices on bad debt. The use of more current data, such as 2004, on  
20 the other hand, would begin to take into account more current payment  
21 experiences and include other factors such as the effects of rising fuel prices at the  
22 pump, that place additional pressures on our customers' ability to pay. In  
23 summary, the most current bad debt experience and its relationship to revenues

1           should be used to develop a forward looking forecast.

2   **Q.   Is there justification for using a historical average simply because the bad**  
3   **debt factor has varied from year to year?**

4   A.   No, there is not, particularly when revenues, as mentioned previously, are  
5   trending higher and write-offs increase even more rapidly. OPC's and FRF's  
6   argument also fails to recognize that the noted variability in the bad debt factor as  
7   shown in FPL's MFR C-11 (the drop in 2003), is due to revenues being shown on  
8   an un-lagged basis. As write-offs typically occur approximately four months after  
9   they have been billed, the use of a lagged revenue approach provides a better  
10   representation of the actual bad debt factor for the period. If bad debt in MFR C-  
11   11 were matched with the period in which these revenues were billed (by lagging  
12   revenues four months), the resulting bad debt factors would have shown a more  
13   levelized upward trending pattern. As shown in Document MMS-6, these factors  
14   would have been as follows: 2001 - 0.135%, 2002 - 0.143%, 2003 - 0.141% and  
15   2004 - 0.158%. The variability in 2002 is due to higher levels of bad debt as a  
16   result of the economic deterioration following the events of September 11, 2001  
17   which materialized in 2002 due to the time lag between revenues and write-offs.  
18   Absent this economic condition, the bad debt factor would have shown an upward  
19   trend based on rising revenues.

20   **Q.   On page 30 of her testimony, Ms. Brown asserts that "FPL's bad debt history**  
21   **shows that the bad debt factor does not always vary based on revenues...the**  
22   **bad debt factor rose in 2002, although revenues per customer decreased.**  
23   **Then, in 2003, the bad debt factor decreased, although revenues per**

1       **customer increased.” Is her understanding and argument flawed?**

2       A.     Yes. Ms. Brown’s examples fail to recognize, as mentioned earlier, that write-offs  
3             typically occur four months after they are billed and her comparisons do not  
4             reflect this lag. To properly perform this analysis, it is essential that bad debt be  
5             matched with their associated revenues (which were billed four months earlier). If  
6             we were to properly lag revenues for purposes of comparison, as shown in  
7             Document No. MMS-7, one could observe a more direct relationship between  
8             revenue per customer and the bad debt factor. As explained previously, the slight  
9             distortion seen in 2002 (higher than expected) is attributable to higher than normal  
10            bad debt associated with deteriorated conditions resulting from the September 11,  
11            2001 terrorist attacks. While FPL agrees with Ms. Brown’s assertion that  
12            “revenues are not the only factor impacting the level of bad debt expense”, they  
13            are a major variable in its determination. The other major variable affecting the  
14            determination of bad debt is the use of current bad debt patterns  
15            (correlation/relationship between bad debt and revenues) to globally account for  
16            other changing conditions that ultimately affect a customer's ability to pay.

17      **Q.     Does the methodology employed by Ms. DeRonne and Ms. Brown have other**  
18             **short-comings?**

19      A.     Yes. As I alluded to earlier, their methodology minimizes the greater than 1:1  
20             relationship that exists between revenues and bad debt, by averaging the lower  
21             historical relationships that existed between the two in prior years. Historically, a  
22             1% increase in revenues has translated to an approximate 3% increase in bad debt.  
23             As revenues have continued to increase, this relationship (absent process

1 improvements) has continued to deteriorate. The simple reason for this  
2 deteriorating relationship is that it is harder for a customer, for example, to pay a  
3 \$200 bill than it is to pay a \$150 bill. Consequently, as average bills continue to  
4 rise, an increasing population of customers will inevitably also write-off, further  
5 deteriorating this relationship. As such, it would be improper to simplistically use  
6 an averaging methodology that dilutes this deteriorating relationship between  
7 revenues and bad debt.

8 **Q. Is Ms. DeRonne's and Ms. Brown's proposal to exclude the 2004 revenue and**  
9 **bad debt experience appropriate?**

10 A. No. Their proposal to exclude the 2004 experience, the most relevant of years,  
11 because of the "storm experience" should be rejected. The bad debt in 2004  
12 included no incremental storm bad debt charges and as such should be included in  
13 any determination. Specifically, collection activities after the storms did not  
14 resume until late October 2004, therefore, incremental storm related bad debt  
15 would not have materialized until 90 + days later, that is, until 2005.

16 **Q. Do you agree with Ms. DeRonne's recommendation on page 12 of her**  
17 **testimony to exclude from 2004 the effect of the \$1.1 million charge for**  
18 **delayed bad debt?**

19 A. No. The exclusion of this charge from 2004 would be improper. The \$1.1 million  
20 charge was an accrual to normalize bad debt because of a delay in the issuance of  
21 final bills during the storms that pushed their eventual write-off into 2005. Its  
22 purpose was to properly accrue for bad debt in the proper period. Absent this  
23 accrual, bad debt levels would have been abnormal in 2004. Specifically, bad debt

1 in the month of December 2004 would have been \$1.1 million lower than the  
2 historical 2003 level (\$0.6 million vs. \$1.7 million) and bad debt in 2005 would  
3 have been higher by the same amount.

4 **Q. Is the bad debt factor of 0.135% proposed by OPC and FRF reasonable?**

5 A. No. If OPC's and FRF's methodology were to be improperly adopted, bad debt in  
6 2006 would actually be lower than what was experienced in 2004 (even if the  
7 \$1.1 million accrual entry were incorrectly excluded). This is not reasonable  
8 given the fact that revenues are projected to grow 4.6% between 2004 and 2006.  
9 For this reason, it is not logical to use a historical average to calculate the bad  
10 debt factor.

11 **Q. Has FPL provided the calculation for the bad debt forecast?**

12 A. Yes. Contrary to Ms. DeRonne's assertion on page 12 of her testimony, in our  
13 response to OPC's Request for Production of Documents No. 47, FPL provided all  
14 of the work-papers used to calculate the 2006 bad debt forecast. FPL's  
15 methodology for forecasting bad debt is a proven statistical method utilizing  
16 regression analysis. The methodology used to forecast bad debt makes use of a  
17 twelve-month historical relationship (on a lagged basis) between bad debt and  
18 revenues. This relationship, established using regression analysis, is applied to  
19 forecasted revenues in order to obtain the forecast of bad debt expected to  
20 materialize during the period. This bad debt forecast is then reduced for planned  
21 process improvements. Document MMS-8 provides an overview of FPL's  
22 methodology and calculation of bad debt expense for 2006.

23

1   **Q.    Is it appropriate for the 2006 projected annual bad debt rate to be higher**  
2       **than the historical levels?**

3    A.    Yes. FPL's methodology uses the latest relationship and experience between  
4       actual bad debt and lagged revenues to project the anticipated levels of bad debt in  
5       2006. It also utilizes forecasted revenues to properly account for their increasing  
6       level, a 4.6% increase between 2004 and 2006 (6% on a lagged basis). The result  
7       is a projected bad debt that is 12% higher than the 2004 level, but that has been  
8       partially mitigated by the benefits of continued process improvements. It does not  
9       erroneously take a simple average of out-dated levels and relationships as  
10      recommended by Ms. DeRonne and Ms. Brown.

11   **Q.    Is it reasonable to expect that FPL's process improvements will lead to a**  
12       **decrease in bad debt expenses as suggested by Ms. Brown on page 31 of her**  
13       **testimony?**

14   A.    No. It is not reasonable to expect that process improvements can always out-pace  
15       the growth in bad debt. As disclosed in our response to OPC POD No. 47, FPL  
16       has been diligent in identifying and planning for implementation of process  
17       improvements totaling \$1.6 million in savings (between 2005 and 2006) to  
18       directly offset projected bad debt increases for 2006. FPL continuously  
19       implements process improvements in an effort to minimize bad debt expense. As  
20       a result of our continued effort, FPL is consistently ranked among the "best in  
21       class" in bad debt as a percentage of revenues. Document MMS-9 provides  
22       supporting benchmarking data from the 2004 PA Consulting study and a phone  
23       survey conducted in 2005 with peer utilities. This data clearly demonstrates

1 FPL's superior performance in minimizing bad debt expense.

2

3

### ADVERTISING

4 **Q. What advertising expense is FPL proposing to recover in the test year?**

5 A. FPL has included \$3.399 million for advertising expenses in the 2006 test year.

6 Advertising expenses are attributed to two FERC sub-accounts: 909.999 – Base

7 Initiatives (\$2.296 million) and 909.300 – Informational & Customer (\$1.103

8 million.) Expenses associated with Base Initiatives include TV, radio and print

9 advertisements designed to educate customers about staying safe around power

10 lines and communicating pre-hurricane season preparedness. Expenses associated

11 with Informational & Customer are for publications, such as the Energy News

12 newsletter and billing inserts, included in customers' monthly bills.

13 **Q. Did FPL provide copies of advertising during discovery to support the**  
14 **projected advertising expenses, contrary to Ms. Dismukes assertion that the**  
15 **only documents provided were newsletters and inserts upon which she based**  
16 **her calculation for the adjustment in advertising expenses?**

17 A. Yes. FPL provided copies of TV and radio scripts, 2004 Hurricane specific  
18 advertising and other marketing materials in response to OPC POD No. 69.

19 **Q. In analyzing FPL's historical advertising spending, Ms. Dismukes comments**  
20 **that 2004 may be higher due to advertising expenses associated with the**  
21 **hurricanes that impacted Florida last year. Did FPL include advertising**  
22 **expense related to the 2004 hurricanes in FERC account 909?**

23 A. No. The expenses shown in FERC account 909 for 2004 do not include any



1 incremental advertising expenses attributable to the hurricanes that impacted  
2 FPL's territory.

3 **Q. Does FPL agree with Ms. Dismukes' recommendation of reducing FPL's**  
4 **advertising request by 14% or \$475,860?**

5 A. No. Ms. Dismukes' recommendation is based on her interpretation that 14% of  
6 the information in the Energy News newsletter was devoted to information that  
7 was not "either of an informational or instructional nature regarding customers'  
8 bills and service." Ms. Dismukes then applied this factor as a reduction to the  
9 total amount of \$3.399 million included in the test year. However, her assertion  
10 and methodology are not accurate.

11 **Q. Is the information identified by Ms. Dismukes and communicated in the**  
12 **Energy News newsletter utility-related and informational, educational, or**  
13 **related to consumer safety?**

14 A. Yes. FPL occasionally runs articles in Energy News about subjects or events that  
15 affect all or a majority of its customers such as:

- 16 • Calling attention to Earth Day as part of FPL's continuing environmental  
17 outreach.
- 18 • Helping seniors, a significant percentage of FPL's customers, who are viewed  
19 as a vulnerable population. For example, the company has trained its field  
20 employees such as meter readers to be alert to, and to report, suspected  
21 neglect or abuse of seniors. A newsletter article on how to report suspected  
22 elder abuse is consistent with FPL's sensitivity to seniors' needs and  
23 vulnerabilities.

- 1       • Helping fellow Floridians recover from the unprecedented 2004 storm season  
2           through articles about the Red Cross Storm Relief Fund were timely and of  
3           great interest to FPL's customers.

4       The Company believes it is important and appropriate to include communications  
5       such as these in the Energy News.

6   **Q.   Setting aside Ms. Dismukes' assertion regarding the appropriateness of the**  
7       **information in Energy News, is the methodology she used to adjust**  
8       **advertising expense accurate?**

9   **A.   No. Ms. Dismukes analyzed only the content of the Energy News which accounts**  
10       **for approximately 31% or \$1.1 million of the total advertising expenses.**  
11       **Advertising related to Base Initiatives (69% of the \$3.399 million) is solely**  
12       **related to promoting safety and communication for pre-hurricane season**  
13       **preparedness and should not be considered in Ms. Dismukes' recommended 14%**  
14       **reduction. As such and stated previously, FPL does not believe any reductions**  
15       **should be made in advertising expenses.**

16   **Q.   Please summarize your testimony.**

17   **A.   The recommendations made by OPC and FRF to reduce or remove expenses in**  
18       **the test year related to AMR, bad debt and advertising are not based on valid**  
19       **arguments and should be rejected. FPL's AMR project is not a pilot, but a full**  
20       **deployment program. Ms. DeRonne is incorrect in basing her recommendations**  
21       **on the opinion that it is only a pilot. The recommendation by both Ms. DeRonne**  
22       **and Ms. Brown to reduce bad debt expense is overly simplistic and does not**  
23       **account for current trends. FPL's bad debt forecast is based on a statistical**

1 methodology to forecast bad debt that has been validated over the years. And  
2 lastly, the recommendations to reduce advertising expenses are based on partial  
3 analysis of FPL advertising and Ms. Dismukes' incorrect assertion that the  
4 content of the advertising materials is not utility-related and not informational,  
5 educational, or related to consumer safety.

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

7 **A. Yes.**

1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                   **FLORIDA POWER & LIGHT COMPANY**

3                   **DIRECT TESTIMONY OF KATHLEEN M. SLATTERY**

4                   **DOCKET NOS. 050045-EI AND 050188-EI**

5                   **July 14, 2005**

6  
7   **Q.     Please state your name and business address.**

8   A.     My name is Kathleen M. Slattery. My business address is Florida Power & Light  
9           Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

10 **Q.    By whom are you employed and what is your position?**

11 A.     I am employed by Florida Power & Light Company (FPL or Company) as Human  
12          Resources (HR) Manager, Compensation and Benefits.

13 **Q.    Please describe your duties and responsibilities in that position.**

14 A.     I have various duties in the areas of compensation and benefits, including plan  
15          design and administration. In connection with these duties, I have a broad  
16          knowledge of FPL's Human Resources policies and practices.

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

18 A.     I have a Bachelor of Science degree from Florida State University and am a  
19          graduate of the Florida State University College of Law. I have been a member of  
20          the Florida Bar since 1992. Before joining FPL, I worked in labor relations and  
21          served as a trustee of two outside electrical worker unions' pension and health and  
22          welfare funds. I began working at FPL in September 1996 as a benefit plan  
23          administrator and have held various positions of increasing responsibility in

1 Human Resources since that time. My experience at FPL has included qualified  
2 and non-qualified benefit plan administration, non-qualified benefit plan design,  
3 salary and incentive compensation plan design and administration, and legal  
4 compliance of such plans and programs. I have extensive knowledge of FPL's  
5 compensation and benefits philosophy, plans, and practices, and of its payroll  
6 system.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**DIRECT TESTIMONY OF ROBERT H. ESCOTO**

**DOCKET NOS. 050045-EI**

**MARCH 22, 2005**

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

A. My name is Robert H. Escoto. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

**Q. By whom are you employed and what is your position?**

A. I am employed by Florida Power & Light Company (FPL or Company) as Senior Vice President, Human Resources (HR).

**Q. Please describe your duties and responsibilities in that position.**

A. I am responsible for the development and execution of all Human Resources strategies including compensation, employee benefits, talent and performance management, and organizational capability.

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

A. I have been employed by Florida Power & Light for twenty-nine years, working in a variety of technical, operational, and management positions in the areas of power generation, transmission and distribution, and for the last twelve years have held various management positions in the Human Resources business unit. I have a Bachelor of Science degree in Business Management from California Coast University and am a graduate of the University of Michigan Business School's

1           Senior HR Executive Program. I have also obtained certification in Employee  
2           Relations Law and advanced certification in Employment Law from The Institute  
3           for Applied Management & Law.

4   **Q.    Are you sponsoring an exhibit in this case?**

5   A.    Yes. I am sponsoring an exhibit consisting of 9 documents, RHE-1 through RHE-  
6           9, which are attached to my direct testimony.

7   **Q.    Are you sponsoring or co-sponsoring any MFRs in this case?**

8   A.    Yes. I am sponsoring the following MFRs:

9           C-17   Pension Cost

10          C-35   Payroll and Fringe Benefit Increases Compared to CPI

11          F-3     Business Contracts with Officers and Directors

12          Additionally, I am co-sponsoring the following MFRs:

13          C-8     Detail of Changes in Expenses

14          C-15   Industry Association Dues

15          C-41   O&M Benchmark Variance by Function

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

17   A.    The purpose of my testimony is to present an overview of the gross payroll and  
18           benefit expenses as shown in MFR C-35 and MFR C-17, demonstrating the  
19           reasonableness of FPL's forecasted payroll and benefit expenses.

20

21

22

23

**TOTAL COMPENSATION AND BENEFITS**

1  
2 **Q. What are FPL's total compensation and benefits cost and employee count for**  
3 **2006?**

4 A. FPL's total compensation and benefits cost is projected to be \$963 million for  
5 2006. The average number of employees forecasted for 2006 is 10,558,  
6 consisting of 4,490 exempt (salaried) employees, 2,681 non-exempt (hourly)  
7 employees, and 3,387 union employees.

8 **Q. What are the objectives of FPL's total compensation and benefits?**

9 A. There are four primary objectives of FPL's total compensation and benefits  
10 approach. First, the Company strives to offer a compensation and benefits  
11 program to attract, retain and competitively reward its employees based on  
12 national and local comparative markets. Second, FPL's compensation program  
13 reflects a pay-for-performance philosophy, linking total cash compensation to  
14 attainment of corporate, business unit, and individual goals. A third objective of  
15 the approach is to control fixed costs by placing emphasis on variable cash  
16 compensation rather than traditional long-term retirement benefits. Fourth, the  
17 Company strives to keep its total compensation and benefit program expenses at a  
18 reasonable level. FPL's pay-for-performance compensation program has been an  
19 important tool in the Company's achieving the efficiency, reliability, and  
20 customer service improvements.

21 **Q. Is FPL's total compensation and benefits cost reasonable?**

22 A. Yes. Over the last twenty years FPL has made tremendous improvements in  
23 efficiency, reliability, and quality of service while significantly reducing



1 headcount. During a period when customers grew by about 60%, FPL was able to  
2 reduce the work force from approximately 15,000 employees in 1985 to an  
3 average of 10,558 projected in 2006, due to an ongoing focus on continuous  
4 improvement and cost management. The Company's aggressive management of  
5 the work force, supported by the pay-for-performance programs, has had a direct  
6 impact on maintaining total compensation and benefits costs at a reasonable level,  
7 while providing optimum levels of employee productivity.

8  
9 The reasonableness of FPL's total compensation and benefits costs is clearly  
10 evident when the growth in those costs is compared to historical costs escalated  
11 using principal inflation indices. Document RHE-1 shows the increase in FPL's  
12 total compensation (payroll and benefits) costs since the levels reviewed and  
13 approved by the Commission in the 1988 Tax Savings Docket, Docket No.  
14 890319-EI, Order No. 23727 (1988 Review), compared to the 1988 costs  
15 escalated using key indices. The chart demonstrates that if FPL's total  
16 compensation costs had grown only at the rate of the Consumer Price Index (CPI)  
17 since 1988, they would be approximately \$228 million higher than the projected  
18 costs for 2006. Document RHE-1 also compares FPL's total compensation costs  
19 escalated based on the World at Work index, formerly the American  
20 Compensation Association, which the Commission has previously used for  
21 comparison purposes. If compared to that index, FPL's escalated total  
22 compensation is lower by about \$593 million. The chart further demonstrates  
23 that the Company's aggressive workforce management initiatives have allowed it

1 to reward high performance while simultaneously controlling total compensation  
2 and benefits cost.

3  
4 **COMPENSATION**

5 **Q. What is FPL's compensation philosophy?**

6 A. FPL's philosophy has been, and continues to be, to provide competitive, market-  
7 based salaries with consideration of an individual's performance and contribution  
8 to the Company's key goals. The performance-based pay programs have  
9 provided the ability for FPL to develop a sense of employee commitment and  
10 ownership in the performance of the Company. Each exempt employee's  
11 compensation has a portion of pay that is variable, and thus at-risk. The at-risk  
12 pay is linked to individual, business unit and corporate objectives, including  
13 budget and financial performance goals and operating efficiency milestones such  
14 as plant availability, customer reliability, and quality of service. The strategic  
15 emphasis on variable at-risk cash compensation rather than fixed salary costs  
16 lowers the Company's exposure to steadily increasing salary costs and adds  
17 flexibility in recognizing performance.

18 **Q. What resources does FPL use to evaluate its compensation program?**

19 A. FPL uses national resources to evaluate its program. The Company's recruiting  
20 department searches nationally for personnel to fill managerial, professional, and  
21 technical positions. In addition, most of the key nuclear energy and engineering  
22 positions can not be filled from the local labor pool, so FPL must remain  
23 competitive in national as well as local markets. FPL utilizes nationally

1 recognized third party sources to aggregate and provide comparative data from  
 2 other national and regional employers, both in general industry and the utility  
 3 industry. It is important to utilize both general and utility comparative market  
 4 information since our workforce encompasses multi-industry talents. The primary  
 5 information sources that FPL relies upon include:

- 6 • Towers Perrin, a national human resources consulting firm;
- 7 • World at Work, a global not-for-profit association of more than 26,000  
 8 compensation, benefits and human resources professionals;
- 9 • William M. Mercer Incorporated, a national human resources consulting firm;
- 10 • Bureau of Labor Statistics (the Consumer Price Index);
- 11 • Hewitt Associates LLC, a national human resources consulting firm;
- 12 • Watson Wyatt Worldwide, an international human resources consulting firm.

13 The FPSC has previously recognized World at Work market projections as an  
 14 appropriate basis for compensation comparisons.

15 **Q. How does FPL's cash compensation program compare to the market?**

16 **A.** FPL's base pay levels are comparable to the rates paid by its competitors for  
 17 employees performing similar jobs and with similar skill sets. FPL performs a  
 18 detailed annual benchmarking analysis of its pay rates to those of its competitors  
 19 to determine "position to market." The most recent market analysis completed in  
 20 2004 included market survey data from 62 sources, including Towers Perrin,  
 21 Hewitt, Mercer, and Watson Wyatt. Document RHE-2 demonstrates that FPL has  
 22 maintained its average base pay for exempt and non-exempt jobs at or below the

1 market at the 50<sup>th</sup> percentile. Currently on an individual basis the Company  
2 occasionally needs to target the 75<sup>th</sup> percentile to attract certain critical talent.

3  
4 In addition, FPL's cash compensation levels are consistently trending below the  
5 escalated rates of key market indices. When the average wage per employee that  
6 was approved in the 1988 Review is trended with market data from the World at  
7 Work Index on Document RHE-3, FPL's average wage is well below the trend.  
8 FPL has managed to keep cash compensation expense increases about 15% below  
9 the World at Work Index, as shown in Document RHE-3. The World at Work  
10 index is a more appropriate measure than CPI, because the CPI increases have  
11 understated national salary increases for many years. CPI represents the changes  
12 in price of all goods and services purchased by households and does not  
13 adequately account for factors such as company and individual performance,  
14 market competitiveness, and industry trends that directly impact annual pay  
15 budgets. To further illustrate this point, for the period from 2002 to 2006  
16 represented on MFR C-35, the Global Insight Price Indices project an increase of  
17 14.5% in Compensation per Hour (Non-farm Business Sector) compared to 6.6%  
18 growth in CPI. Notwithstanding, as stated above, Document RHE-1 demonstrates  
19 that FPL's total payroll and benefits costs have escalated at a rate less than CPI.

20  
21 Furthermore, FPL's total compensation levels are comparable to those of other  
22 utilities as demonstrated by FERC Form-1 report data. FPL has reviewed its total  
23 cash compensation cost and compared it to that of other comparable utilities. The

1 companies in the comparison included other regional utilities as well as other  
2 vertically integrated utilities of similar size. As shown on Document RHE-4, FPL  
3 continues to be one of the most efficient utilities from a total cash compensation  
4 standpoint. This efficiency is particularly evident when one looks at total cash  
5 compensation whether on a per customer or operating revenue basis.

6 **Q. Describe FPL's annual merit pay increase program.**

7 A. There are two components to FPL's annual merit pay performance-based review  
8 program. The first component is a merit award determined by an individual's  
9 performance level and their salary position relative to market. The second  
10 component is a variable incentive pay program that provides a lump sum payment  
11 based on the achievements of the individual as well as the Company against pre-  
12 established objectives. FPL's incentive compensation is awarded based on an  
13 individual's contribution to corporate, business unit, and individual performance  
14 indicators. These performance indicators include O&M costs, financial indicators,  
15 and operating efficiency milestones such as plant availability, customer reliability,  
16 and quality of service.

17 **Q. How does your annual pay program compare to market?**

18 A. As shown in Document RHE-5, the annual merit base and incentive pay awards  
19 have been at or below market in six of the last seven years from 1998 to 2004.  
20  
21  
22  
23

## BENEFITS

1  
2 **Q. Describe FPL's benefits package.**

3 A. FPL's benefits package includes a full complement of benefits, comprised of three  
4 primary components: health and welfare benefits, retirement plans, and various  
5 benefits required by law.

6 **Q. What is FPL's projected benefits cost for 2006?**

7 A. Total benefits cost is projected to be \$154,241,000 in 2006, the major components  
8 of which are as follows:

9	• Health and welfare benefits	\$97,387,000
10	○ Pension plan and other	
11	post-employment benefits	(\$34,493,000)
12	○ Employee savings plan	<u>\$24,270,000</u>
13	• Total retirement benefits	(\$10,223,000)
14	• Benefits required by law	<u>\$67,077,000</u>
15	Total 2006 Benefits Cost	\$154,241,000

16 Benefits required by law include social security tax, federal and state  
17 unemployment taxes, and workers' compensation.

18 In my testimony, I will discuss the major benefit plans, specifically the medical  
19 and retirement plans.

20 **Q. How does FPL evaluate the design and cost of its benefit programs?**

21 A. FPL uses the Towers Perrin BENVAL Study, an actuarial tool that compares the  
22 value of benefit plans. The study methodology first analyzes the value of each  
23 benefit plan and then converts the plan values to a series of relative value indices

1 by applying a standard set of actuarial methods and assumptions. This method of  
2 comparison neutralizes the effect of differences in employee demographics,  
3 geographic differences, and related issues. Towers Perrin is a nationally  
4 recognized benefits consulting firm whose Employee Benefit Information Center  
5 analyzes the competitiveness of participating companies' benefit programs and  
6 produces the BENVAL Study.

7  
8 As shown in Document RHE-6, FPL's BENVAL Index for the total benefit  
9 program is below average compared to the 701 general industry companies and  
10 the 75 energy industry companies that participated in the 2005 Towers Perrin  
11 BENVAL Study (representing 2004 data). FPL's total benefits program rated  
12 85.7 as compared to 94.1 for general industry and 98.7 for energy industry  
13 companies (index is 100). These results are consistent with the Company's  
14 objective to emphasize cash compensation over traditional long-term benefits.

15 **Q. What is FPL's projected medical cost for the test year?**

16 A. FPL projects medical cost to be \$79,612,000 for active employees and  
17 \$32,770,000 for retiree medical benefits.

18 **Q. How does FPL's medical plan compare to industry standards?**

19 A. On a comparative basis, the relative value of FPL's medical plan is below the  
20 average based on the Towers Perrin BENVAL Study. FPL's plan rated 91.5 as  
21 compared to 96.0 for general industry and 97.9 for the energy industry, as  
22 illustrated by Document RHE-7.

1   **Q.    How do FPL's projected medical costs for 2006 compare to those of other**  
2       **utilities and the national averages?**

3    A.    Although the various factors driving health care costs higher both nationally and  
4       specifically at FPL are projected to result in a medical cost increase in 2006,  
5       FPL's average medical cost per employee is projected to remain below the  
6       industry average, as illustrated in Document RHE-8. The increase in FPL's health  
7       care costs for 2006 is consistent with national and utility industry trends provided  
8       by Hewitt Associates. In fact, Hewitt's utility industry benchmark is still  
9       approximately 10% above FPL's projected cost per employee of \$9,133 in 2006.

10   **Q.    What has been FPL's experience in managing health care costs?**

11   A.    FPL has been very aggressive in managing health care costs and, as a result, has  
12       managed to keep per employee health care costs below the utility industry  
13       benchmarks, and projected costs remain below the utility industry benchmarks in  
14       2006 and beyond. Document RHE-8 illustrates FPL's medical costs per  
15       employee for 2002 to 2004 and the projected costs through 2006 as compared to  
16       national and industry benchmarks. FPL has and will continue to look for ways to  
17       provide employees with a choice of quality medical plans at the most cost  
18       competitive level. However, double-digit health care cost inflation is a national  
19       concern in both the public and private sectors. While FPL has been successful in  
20       maintaining its rate of increase below the national average of 14% in 2003 and  
21       2004, the Company expects total annual health care costs to increase in 2005 and  
22       beyond at a rate comparable to the forecasted national trend of approximately  
23       13% per year.



1    **Q.    What factors are driving the substantial increases in health care costs**  
2       **projected to occur over the next few years in the U.S.?**

3    **A.    There are a number of factors impacting recent increases in national medical costs**  
4       **that will continue to cause costs to climb:**

- 5       • Growing number of uninsured putting pressure on the health care system,  
6       especially in the state of Florida;
- 7       • Technological enhancements in medical treatments and services driving  
8       greater utilization and cost;
- 9       • Continued focus on direct consumer advertising by pharmaceutical  
10      companies;
- 11      • Increased utilization and pricing of brand name prescription drugs;
- 12      • Growth of the aging population ;
- 13      • Trend toward hospital consolidation, reducing competition and increasing cost  
14      pressure leading to more aggressive negotiation of contracts by hospitals with  
15      plan providers;
- 16      • Increased inpatient costs;
- 17      • Outpatient utilization increases;

18   **Q.    In addition to these national trends, are there other health care factors and**  
19       **trends that will specifically impact FPL's medical costs?**

20   **A.    Yes. Those factors are as follows:**

- 21      • Pharmacy costs, which are rising at a higher rate than medical costs, represent  
22      approximately 18% of FPL's total medical costs. This is attributable to an  
23      aging workforce.

- 1       ● Health care costs for employer-sponsored medical plans in Florida are among  
2       the highest in the United States. Because hospitals and physicians in Florida  
3       serve a higher than average uninsured population (23% in Miami, FL, 8% in  
4       Boston, 9% in Seattle, 18% in Orange County, California, 12% in Newark,  
5       NJ), financial losses from the care of those patients are passed along to private  
6       sector payers such as FPL.
- 7       ● Thirty-seven percent (37%) of FPL's medical plan participants are age 50 and  
8       over. Studies have shown a correlation between an aging population and  
9       increasing medical costs.
- 10      ● FPL covers a higher number of dependents than other large companies within  
11      our labor market (7% more dependents covered for non-union employees and  
12      13% more dependents covered for union employees).

13      The impact of these cost factors is a projected increase in medical costs for 2006  
14      of approximately \$11.5 million over 2005's medical costs, and an increase of  
15      nearly \$38 million from 2002 to 2006.

16   **Q. Does FPL offer retirement plans to employees and is that consistent with**  
17   **industry practices?**

18   **A.** Yes, FPL offers its employees retirement plans consisting of a pension plan and a  
19   401(k) employee savings plan, as do 95% of energy industry companies and 61%  
20   of general industry companies in the Towers Perrin BENVOL Study.

1    **Q.     What is FPL's projected retirement expense in the test year?**

2    A.     The projection for the test year is a credit of \$44,393,000. This is the net expense  
3           of the pension plan (credit of \$68,663,000) and the 401(k) employee savings plan  
4           (expense of \$24,270,000).

5    **Q.     Why is the employee pension benefit reflected as a credit?**

6    A.     The assets of the pension plan have been beneficially invested such that the  
7           expected return on assets exceeds the actuarially determined pension cost.

8    **Q.     How do FPL's retirement plans compare to the industry?**

9    A.     As shown in the Towers Perrin BENVAl Study's comparison chart (Document  
10           RHE-9), FPL's retirement plans are valued below both general industry and utility  
11           companies on a relative basis. The value of FPL's plans is 93.8, as compared to  
12           energy industry companies at 102.5 and general industry at 97.6.

13   **Q.     How does this evaluation demonstrate the reasonableness of FPL's**  
14           **retirement plans?**

15   A.     FPL provides both a pension and 401(k) employee savings plan to its employees  
16           in order to attract and retain high quality employees. FPL has been able to do this  
17           despite the fact that the relative value of these plans is less than average as  
18           demonstrated by the BENVAl study.

19   **Q.     Please summarize your testimony concerning FPL's compensation and**  
20           **benefits for 2006.**

21   A.     FPL's total compensation and benefits philosophy, emphasizing pay for  
22           performance, has served the Company and its customers very well since the last  
23           review of total compensation by the Commission in the 1988 Tax Savings

1 Docket. FPL has successfully provided value to its employees and its customers  
2 through efficient use of compensation to drive a culture that provides improved  
3 efficiency, reliability, and service. As FPL moves forward, it must continue to  
4 compensate and provide competitive benefit programs to its employees in order to  
5 attract and retain the best talent. The 2006 projected level of compensation and  
6 benefits expense is reasonable and necessary to attract and retain the caliber of  
7 employees that create a high-performance organization.

8 **Q. Does this conclude your direct testimony?**

9 **A. Yes.**

10

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**REBUTTAL TESTIMONY OF KATHLEEN SLATTERY**

**DOCKET NOS. 050045-EI, 050188-EI**

**JULY 28, 2005**

**INTRODUCTION AND SUMMARY**

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

A. My name is Kathleen Slattery. My business address is 700 Universe Boulevard, Juno Beach, Florida 33408.

**Q. By whom are you employed and what is your position?**

A. I am employed by Florida Power & Light Company (FPL or Company) as Human Resources (HR) Manager, Compensation and Benefits.

**Q. Please describe your duties and responsibilities in that position.**

A. I have various duties in the areas of compensation and benefits plan design and administration, primarily the Company's incentive compensation plans.

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

A. I have a Bachelor of Science degree from Florida State University and am a graduate of the Florida State University College of Law. I have been a member of the Florida Bar since 1992. Before joining FPL, I worked in labor relations and served as a trustee of two outside electrical worker unions' pension and health and welfare funds. I began working at FPL in September 1996 as a benefit plan administrator and have held various positions of increasing responsibility in Human Resources since that

1 time. My experience at FPL has included qualified and non-qualified benefit plan  
2 administration, non-qualified benefit plan design, salary and incentive compensation  
3 plan design and administration, and legal compliance of such plans and programs. I  
4 have extensive knowledge of FPL's compensation and benefits philosophy, plans, and  
5 practices, and of its payroll system.

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

7 A. No, but I have adopted the direct testimony and exhibits submitted by Robert Escoto.

8 **Q. Are you sponsoring an exhibit to your rebuttal testimony?**

9 A. Yes, I am sponsoring an exhibit consisting of one document, KS-1, which is attached  
10 to my rebuttal testimony.

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

12 A. The purpose of this testimony is to demonstrate the reasonableness of the company's  
13 payroll cost estimates in response to challenges by Mr. Helmuth W. Schultz, III of  
14 Florida Office of Public Counsel (OPC), Ms. Sheree L. Brown of Florida Retail  
15 Federation and by Mr. Lane Kollen of South Florida Hospital and Healthcare  
16 Association (SFHHA). In addition, I will defend the Company's total compensation  
17 cost including the use of variable and incentive pay programs and describe why it is  
18 important to allow the company flexibility to design the optimal components of pay  
19 in order to maximize economic efficiency and enable FPL to attract and retain needed  
20 talent. Lastly, I will demonstrate why the Company's incentive plans provide for  
21 improved performance and serve the needs of all constituents, including customers.

**TOTAL COMPENSATION: PAYROLL AND STAFFING LEVELS**

**Q. The level of the Company's total compensation expense has been disputed by the intervening parties. Is FPL's projected total compensation expense for 2006 reasonable?**

**A.** Yes. As previously demonstrated in direct testimony (RHE-1), FPL's projected total compensation and benefits expense is fair and reasonable. The reasonableness of the cost is clearly evident when the growth in the cost is compared to inflation indices, such as CPI and World at Work. The result shows that our actual cost is much lower than the projected values. The reasonableness of our cost is also demonstrated by comparing FPL's salaries to market, where pay levels are below market in six of the last seven years (RHE-5). Comparison of our compensation cost to those of other utilities provides another measure of reasonableness. Total compensation is lower than most comparable utilities on a per employee, per operating revenue, and per customer basis (RHE-4). Finally, the reasonableness of our benefits programs is demonstrated through the use of an analytical survey that benchmarks FPL's plans to those of its peers. The relative value of our benefits plans is consistently below average when compared to both utility and general industry (RHE-6, RHE-7, RHE-9).

**Q. The intervenors have analyzed specific components of FPL's total compensation. In your view, is it appropriate to consider the individual components on a stand alone basis?**

**A.** No, it is not appropriate to analyze the various components of total compensation separately. As stated in the Company's direct testimony (Robert H. Escoto, page 3), FPL employs a total compensation and benefits approach. One of the stated

1 objectives of this approach is to control fixed costs by placing emphasis on variable  
2 pay rather than fixed pay and traditional benefits. The strategic emphasis on variable  
3 pay rather than fixed salary costs lowers the Company's exposure to steadily  
4 increasing salary and fringe benefit costs and adds flexibility in recognizing  
5 performance.

6 **Q. OPC, FRF, and SFHHA have all formulated recommendations for FPL's**  
7 **required staffing and payroll for 2006. Have any of them evaluated the required**  
8 **staffing level in view of FPL's specific workload or operating measures?**

9 A. No. They have relied on general productivity measures and on observed historical  
10 staffing levels, but have evidently made no attempt to analyze FPL's specific  
11 productivity measures or workload trends.

12 **Q. Mr. Schultz and Ms. Brown cite an observed historical gap between budgeted**  
13 **and actual staffing to establish a recommended staffing level, and payroll**  
14 **deductions, for the test year. Should the Commission accept that analysis?**

15 A. No. There is no perfect correlation between headcount and the payroll budget or  
16 between headcount and revenue requirements. FPL has historically estimated  
17 employee headcount based on ideal staffing levels, but historically somewhat under-  
18 estimates salaries and wages. The Company primarily focuses on total compensation  
19 when formulating its operating budget. Headcount is a tool used in that process, but  
20 ultimately the Company is more focused on the total dollars spent. Therefore, the  
21 recommendations made by Mr. Schultz and Ms. Brown only consider one part of the  
22 equation and should be rejected.



1   **Q.    If the headcount budget gap analysis performed by Mr. Schultz and Ms. Brown**  
2       **were valid, wouldn't there be a similar gap in the Company's actual to budget**  
3       **payroll?**

4   **A.    Yes, if headcount and payroll cost are well correlated, one could expect such a**  
5       **shortfall.**

6   **Q.    Has history shown this to be the case?**

7   **A.    No, that has not been the case. Historically, the Company's actual gross payroll has**  
8       **exceeded the estimates.**

9   **Q.    How would you explain the gap between forecast and actual staffing that Mr.**  
10       **Schultz and Ms. Brown have identified?**

11   **A.    The headcount forecasts are management's reasonable estimates of what is required**  
12       **to do the work based on ideal staffing levels. Every effort is made to fill the forecast**  
13       **positions, but a number of factors have made it increasingly difficult for the Company**  
14       **to fill all open positions. Among these are the cost prohibitive nature of the South**  
15       **Florida housing market, limited availability of a local technical and engineering**  
16       **related labor force, and the fiscal constraints the Company has placed on the**  
17       **competitiveness of its pay and benefits package. All of these factors have historically**  
18       **resulted in the hiring process lagging behind expectations.**

19   **Q.    Why is it that the Company has historically exceeded its payroll budget?**

20   **A.    Despite falling short of ideal staffing, the Company has obtained resources to perform**  
21       **the necessary work. Human resource demands are met through means other than**  
22       **forecasted increase in full time employees, such as contractors, outsourcing, overtime,**  
23       **etc. Although total costs have been reasonable, the hiring constraints and**

1 supplemental labor approaches result in higher costs overall, driven by higher than  
2 budgeted contractor and overtime expense, retention payments, relocation costs,  
3 among others.

4 **Q. Despite the Company's record of having reduced staff by over 30% while**  
5 **customer base increased by over 60%, SFHHA and Mr. Kollen suggest that FPL**  
6 **should be able to continue realizing similar staff reductions on a perpetual basis.**  
7 **Do you consider this a logical approach and one the Commission should accept?**

8 **A.** No, I do not. Mr. Kollen's analysis of productivity is purely theoretical with no tie to  
9 any specific FPL operating measures or work drivers. FPL has managed costs and  
10 pursued productivity gains aggressively over the last twenty years. The Company has  
11 demonstrated in direct testimony (RHE-1, RHE-3, and RHE-4) that total  
12 compensation and benefits costs are reasonable and that FPL's costs benchmark most  
13 favorably to those of other utilities. Furthermore, in the face of the steady customer  
14 growth projected for Florida, it is unrealistic to assume that the Company can achieve  
15 continued staff reductions as Mr. Kollen proposes and continue to effectively and  
16 reliably meet the energy needs of current and future customers. Mr. Kollen seems to  
17 suggest that there is no end to productivity gains. His logic, played out, would lead to  
18 "zero staffing" in the year 2075.

19 **Q. Mr. Schultz concluded that the vacant positions referenced in OPC's 1<sup>st</sup> Set of**  
20 **Interrogatories, No. 44, will not be filled. Could you please provide the status of**  
21 **the Company's current staffing level?**

22 **A.** The actual to budget staffing gap that existed at year end 2004 has largely been  
23 closed.

1 Q. So, would you say that the projected 2006 staffing level presented on MFR C-35  
2 is realistic?

3 A. Yes. In response to OPC's Interrogatory No. 111, we identified about 300 positions  
4 that the business units plan to fill in 2005 and 2006. Those new positions added to  
5 the current staffing will result in the projected staffing identified on MFR C-35.  
6 More importantly, the Company's forecast of payroll costs is reasonable.

7 Q. On page 8 of his direct testimony, Mr. Schultz concludes that FPL's test year  
8 overtime expense is excessive. Do you agree?

9 No, I do not. The overtime projection for 2006 is realistic and reasonable. Mr.  
10 Schultz' analysis compares the 2006 expense to historical totals. And yet, the  
11 Company's projected overtime expense for 2006 is less than Mr. Schultz' inflation-  
12 adjusted overtime totals in three out of four years from 2001 to 2004. Even using Mr.  
13 Schultz' logic, there would seem to be no basis for concluding it is excessive.

14 Q. Do you have any concerns with Mr. Schultz' methodology in analyzing overtime  
15 expense?

16 A. Yes. Mr. Schultz selectively omits 2004 (which was unusually high) in his  
17 calculation of average overtime, but includes 2002 which was unusually low.  
18 Overtime by its nature is governed by unusual events; future years will also have  
19 unusual events. Ignoring 2004, but including 2002, discredits his analysis. For an  
20 electric utility, overtime caused by unusual or periodic events will occur at varying  
21 levels in every year.

22 Q. Is it logical to reduce overtime simply based on the historical amount paid?

1 A. No it is not. Payroll costs are budgeted on a comprehensive basis. The use of  
2 overtime may be necessary or cost effective depending on the operational need.  
3 Rather than over staff, FPL uses overtime efficiently to cover peak work loads,  
4 projects and unforeseen events, thus saving the cost of benefits and other loaders  
5 permanent employees would receive.

6  
7 **INCENTIVE COMPENSATION**

8 **Q. Did Mr. Schultz recommend an adjustment to the Company's estimated variable**  
9 **pay?**

10 A. Yes. Mr. Schultz's adjustment for "variable pay" is based on a four-year average of  
11 the amounts *paid* for exempt employees' annual incentive pay in the years 2001  
12 through 2004, which he then compares to the Company's estimated accrued cost for  
13 2005 which would be paid in 2006. In effect, he has skipped the year of accrual in  
14 2004 which has been paid in 2005, making the increase for the test year appear much  
15 larger than it actually is.

16 **Q. After maintaining total annual incentive payouts relatively flat for each of the**  
17 **years from 2001 to 2004, the Company's annual incentive compensation paid in**  
18 **2005 increased to \$40 million and is forecast to be \$41.7 million in 2006. Why?**

19 A. By the end of 2004, increasing employee headcount and planned staffing levels  
20 caused the Company to increase its 2004 annual incentive accrual, which was  
21 originally budgeted at \$38.6 million, and to eventually pay out a total of \$40 million  
22 in 2005. These annual incentive payouts are one component of a total compensation  
23 and benefits package that was carefully designed to attract, retain and competitively

1 reward employees; link rewards to the attainment of results; control fixed costs, and  
2 maintain total costs at a reasonable level. Indeed, external market pressures,  
3 particularly the skyrocketing housing market in South Florida, have significantly  
4 increased the need to use variable pay as a means of attracting and maintaining  
5 employees.

6 **Q. In what other way might the reasonableness of the estimated 2006 cash incentive**  
7 **payouts be demonstrated?**

8 A. The Commission has traditionally used comparisons to indices as a measure of  
9 reasonableness for compensation. While FPL does not believe that components of  
10 total compensation should be individually evaluated, if this approach is used to  
11 escalate the 2002 annual incentive payout forward, the 2006 benchmark for annual  
12 incentive payments to exempt employees would be consistent with the level one  
13 would expect using the World at Work wage growth index.

14 **Q. Mr. Schultz, on pages 11 and 12 of his testimony, implies that FPL's annual**  
15 **incentive plan is not designed to reward improved performance. Is that an**  
16 **accurate assessment?**

17 A. No. He has apparently drawn conclusions without considering the total design of the  
18 plan. First, the net income goal that Mr. Schultz references is simply an initial  
19 "threshold" goal which is used in part to comply with certain tax rules. If the  
20 minimum net income goal is not achieved, then no payouts are made. The net income  
21 goals for the Company, with corresponding incentive payout levels, are determined at  
22 the beginning of the year. At year-end, the payout level earned on the basis of net  
23 income becomes the maximum payout; actual plan payout must be below such level

1 and is based on the degree of achievement of other pre-established financial and  
2 operating performance measures, most of which are specifically customer-focused.  
3 Contrary to Mr. Schultz' contention that FPL's performance goals are not challenging  
4 enough to create better performance; they in fact are structured to reinforce FPL's  
5 culture of continuous improvement.

6 **Q. Can you elaborate on how the goals and performance measures are customer-**  
7 **focused?**

8 A. Yes. Many of the corporate performance goals are oriented specifically towards  
9 driving performance that directly benefits the customer. Specific examples from the  
10 2004 plan are as follows: operations and maintenance costs; capital expenditure  
11 levels; service reliability as measured by the frequency and duration of service  
12 interruptions and service unavailability; system reliability as measured by availability  
13 factors for the fossil power plants and an industry reliability index for the nuclear  
14 power plants; employee safety; number of significant environmental violations;  
15 customer satisfaction survey results; load management installed capability; and  
16 conservation programs' annual installed capacity. In addition, business unit  
17 performance is an important factor in the reward determination, and the business unit  
18 indicators used are overwhelmingly operating and milestone measures that benefit  
19 customers.

20 **Q. Have you obtained any professional advice on the effectiveness of the plan**  
21 **design?**

22 A. Yes. Two outside compensation consulting firms have characterized FPL's selection  
23 of performance goals and overall plan design as more customer-focused than those of

1 the majority of other clients they advise, based on the weighting of operating  
2 performance in our plan.

3 **Q. Mr. Schultz states on pages 14 and 15 of his direct testimony that there is no**  
4 **evidence that the long-term incentive plan benefits or even intends to benefit**  
5 **customers. Is that statement correct?**

6 A. No. Mr. Schultz' testimony states that his basis for making that statement is his  
7 assertion that the plan documents do not use the word "customer." Mr. Schultz  
8 ignores the fact that, as I previously described, the plan's objectives are defined by its  
9 goals, which are inextricably tied to customer benefits.

10 **Q. Mr. Schultz proposes a 50/50 sharing of the cost of incentive compensation**  
11 **between customers and shareholders. Do you agree with this proposal?**

12 A. No. Mr. Schultz has offered no Commission precedent for such an adjustment. If this  
13 adjustment is made, the Commission would be penalizing the Company by not  
14 allowing it an opportunity to recover its fair and reasonable compensation cost. Mr.  
15 Schultz' recommendation would give the Company stimulus to reduce incentive  
16 compensation in favor of base salary, but in doing so it would lose the productivity  
17 gains and flexibility gained from incentive compensation. This is an example of the  
18 folly of breaking out one specific element of FPL's total compensation and benefits  
19 package.

20 **Q. Did Mr. Schultz recommend an alternative adjustment to the Company's**  
21 **estimated long-term incentive compensation expense?**

22 A. Yes. Mr. Schultz's alternative adjustment for long-term incentive compensation is  
23 based on a three-year average of the amounts *paid* to employees through FPL's

1 payroll system for long-term incentive pay in the years 2002 through 2004, which he  
2 erroneously describes as the "cost." Mr. Schultz then compares this average to the  
3 Company's forecasted long-term incentive expense for 2006. As with his analysis of  
4 annual incentive pay, Mr. Schultz is comparing payroll dollars in past years to  
5 estimated accruals that are included in the amount expensed in a future year. This is a  
6 particularly invalid methodology when analyzing long term incentive compensation,  
7 because the expense for a long-term equity-based award is accrued over a multi-year  
8 vesting period, during which the employee realizes no actual compensation. In the  
9 case of stock option expense, for example, the potential gap in timing between the  
10 Company's accrual and the employee's receiving compensation through payroll may  
11 be as much as ten years.

12 **Q. Have the Company's required accruals for long term incentive compensation**  
13 **exceeded the amount paid to employees through payroll during 2002 through**  
14 **2004?**

15 **A.** Yes. FPL is required to accrue an expense for outstanding awards that are granted  
16 during these years, for which compensation will be realized by employees in future  
17 years. In essence, this is merely a timing issue.

18 **Q. How have the Company's required accruals for long term incentive**  
19 **compensation during this period compared to amounts forecasted and budgeted**  
20 **for the period?**

21 **A.** They have been close to the budgeted amounts, as demonstrated in Exhibit KS-1.

22 **Q. Why did the budget for long term incentive compensation increase significantly**  
23 **from 2003 to 2004?**



1 A. Effective January 1, 2004, the Company adopted the fair value recognition provisions  
2 of FAS 123, "Accounting for Stock-Based Compensation." Accordingly, it began  
3 expensing stock options for the first time in 2004; the Company did not have to  
4 expense stock options under the pre-2004 method it used for valuing stock-based  
5 compensation plans.

6 **Q. Has FPL accurately forecasted its costs related to the long term incentive plan**  
7 **for 2006?**

8 A. Yes. FPL has accurately forecasted the long-term incentive 2006 expense required  
9 under accounting rules, based on the existing grants and future grants consistent with  
10 current practice.

11 **Q. Both Mr. Schultz and Ms. Brown suggest that some or all of the long-term**  
12 **incentive plan cost should be disallowed because it does not represent a cash**  
13 **outlay. Is this a logical position?**

14 A. No. Many components of revenue requirements are non-cash as rates are set on the  
15 basis of financial or GAAP accounting which is accrual, and not cash based. This  
16 same argument, if extended, would disallow recovery of all of the Company's  
17 depreciation expense among other such "non-cash" costs.

18  
19 The Commission has already expressly recognized the appropriateness of the use of  
20 GAAP accounting in rates for purposes of deferred compensation expenses such as  
21 pension cost. (Order No. PSC-92-1197-FOF-EI in Docket No. 910890-EI, Petition  
22 for a rate increase by Florida Power Corp.). This is no different. The accrual amount  
23 is included in revenue requirements, not the cash benefits paid.

1 Finally, the Company utilizes a stock repurchase program under which it purchases  
2 on the open market many of the shares used to satisfy awards under the long term  
3 incentive plan; only a portion of equity compensation is currently provided through  
4 the new issuance of shares.

5  
6 **FRINGE BENEFITS: PENSION**

7 **Q. Do you feel there is a logical basis for Mr. Schultz' suggestion to substitute the**  
8 **2005 pension actuarial report for the 2006 actuarial projection?**

9 A. No. The argument made by Mr. Schultz is that 2005 is a known and measurable  
10 amount. This is a true statement for every dollar of 2005 cost; however, this rate case  
11 is based on a projected (2006) test year, not an historical test year. He has not found  
12 fault with the 2006 estimate; he simply chooses to use another number. The basis for  
13 this adjustment is unfounded and is no more appropriate for pension credit than for  
14 any other cost or balance sheet item that Mr. Schultz may decide to substitute with a  
15 2005 amount.

16 **Q. Has Mr. Schultz provided logical analysis and a factual basis for making this**  
17 **substitution?**

18 A. No, he has not. FPL used the same actuary for the forecast for 2006 as it did to  
19 calculate the 2005 credit. These forecasts were not "back of the envelop" estimates,  
20 but were based on actuarial calculations and principles. Mr. Schultz did not perform  
21 an actuarial calculation, nor did he find fault with the actuarial estimate performed.  
22 He simply chose to propose an adjustment with no basis in fact or evidence.

1 Q. Does this conclude your rebuttal testimony?

2 A. Yes.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**TESTIMONY OF K. MICHAEL DAVIS**

**DOCKET NO. 050045-EI**

**MARCH 22, 2005**

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

8 A. My name is K. Michael Davis, my business address is 9250 West Flagler Street,  
9 Miami, Florida 33174.

**10 Q. By whom are you employed and what is your position?**

11 A. I am employed by Florida Power & Light Company (FPL or the Company) as  
12 Vice President, Controller and Chief Accounting Officer.

**13 Q. Please describe your duties and responsibilities in that position.**

14 A. As Vice President, Controller and Chief Accounting Officer, I am responsible for  
15 the development, interpretation and implementation of FPL's accounting policies,  
16 procedures and related internal accounting controls, and for maintaining the  
17 accounting records in compliance with financial and regulatory accounting  
18 requirements.

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

20 A. I graduated from the University of Florida in 1968 with a Bachelor of Science  
21 degree in Business Administration, with a major in Accounting. In that same year  
22 I was employed by Deloitte Haskins & Sells (DH&S), Independent Public  
23 Accountants, (presently Deloitte & Touche). I was promoted to manager in 1976

1 and was elected a Partner in 1981. During my tenure with DH&S I participated in  
2 engagements involving services to a number of diverse industry groups including  
3 the utility industry. In addition, I was responsible for handling accounting  
4 questions concerning the utility industry during a three-year assignment in the  
5 DH&S executive office in New York. In December 1988, I was employed by FPL  
6 as comptroller. On July 1, 1991, I accepted my current position as Vice President,  
7 Controller and Chief Accounting Officer. I am a Certified Public Accountant in  
8 the State of Florida, and a member of the American Institute of Certified Public  
9 Accountants and the Florida Institute of Certified Public Accountants. I am a  
10 member and past chairman of the Accounting Executive Advisory Committee of  
11 the Edison Electric Institute (EEI) which is composed of Chief Accounting  
12 Officers from utilities that are members of EEI. The Committee oversees the  
13 activities of the various accounting committees of EEI and advises senior EEI  
14 committees on accounting issues. It meets annually with the Financial  
15 Accounting Standards Board to discuss accounting issues of interest to the  
16 membership and approves all comment letters issued by EEI on accounting  
17 matters.

18 **Q. Are you sponsoring an exhibit in this case?**

19 A. Yes. I am sponsoring an exhibit consisting of eight documents, KMD-1 through  
20 KMD-8, which are attached to my direct testimony.

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

22 A. The purpose of my testimony is to support the calculation of the rate relief  
23 requested by FPL for 2006. I also support the calculation of FPL's requested 2007

1 rate relief as a result of the costs associated with Turkey Point Unit 5 being placed  
2 into service in 2007, and I provide key 2007 financial forecast results in  
3 connection with that request. Finally, I will present and discuss accounting,  
4 ratemaking and tax policy issues which impact the determination of FPL's rate  
5 base, working capital, rate of return, capital structure and net operating income.  
6

7 **SPONSORSHIP OF MFRs,**

8 **2007 TURKEY POINT UNIT 5 ADJUSTMENT SCHEDULES AND**

9 **FPL's 2007 FORECAST SCHEDULES**

10 **Q. Are you sponsoring or co-sponsoring any MFRs in this case?**

11 A. Yes. My Document No. KMD-1, pages 1 through 4, list the MFRs that I am  
12 sponsoring or co-sponsoring.

13 **Q. Are you sponsoring or co-sponsoring any 2007 Turkey Point Unit 5**  
14 **Adjustment or any of FPL's 2007 Forecast schedules in this case?**

15 A. Yes. My Document No. KMD-1, page 5, lists the 2007 Turkey Point Unit 5  
16 Adjustment and FPL's 2007 Forecast schedules that I am sponsoring or co-  
17 sponsoring.

18 **Q. What are the basis and time periods covered by the MFRs and schedules that**  
19 **FPL is filing in this proceeding?**

20 A. As further described in the testimony of Mr. Stamm, FPL is filing MFRs based  
21 upon the forecast completed in late 2004 and is utilizing a 2006 test year as the  
22 basis for its overall jurisdictional revenue requirement calculation. Generally, the  
23 periods covered in FPL's MFRs are a 2004 historical year, 2005 prior year, and a

1 2006 test year. Additionally, FPL has prepared a set of schedules for 2007 that  
2 follow the format of certain MFRs and show FPL's proposed adjustment to reflect  
3 Turkey Point Unit 5 being placed into service on June 1, 2007. These 2007  
4 Turkey Point Unit 5 Adjustment schedules cover the year ending May 31, 2008,  
5 the first year of operations after Turkey Point Unit 5 is scheduled to be in service.  
6 Finally, FPL is filing FPL's 2007 Forecast schedules, which follow the format of  
7 certain MFRs and contain key financial forecast results for calendar year 2007.  
8

9 **2006 AND 2007 REVENUE INCREASE CALCULATIONS**

10 **Q. Do you have a Document that shows the calculation of the base revenue**  
11 **increase that FPL is requesting for 2006?**

12 **A. Yes. My Document No. KMD-2, which is MFR A-1 for the 2006 test period,**  
13 **shows the calculation of our requested base revenue increase for 2006 of \$385**  
14 **million.**

15 **Q. The revenue requirement increase for base rates in 2006, as reflected in MFR**  
16 **A-1, is \$385 million. However, this amount is net of adjustments made to the**  
17 **recovery of certain costs in the Capacity Cost Recovery Clause (Capacity**  
18 **Clause) and the Fuel Cost Recovery Clause (Fuel Clause), as reflected in**  
19 **MFR C-2. As stated in Note 2 to MFR A-1, FPL's total requested base rate**  
20 **increase, without those adjustments, would be \$430 million. Please explain**  
21 **how the Capacity Clause and Fuel Clause adjustments affect FPL's requested**  
22 **base rate increase.**

1 A. As I will discuss later in my testimony, FPL proposes certain Company  
2 adjustments to the 2006 test year net operating income (NOI). The proposed  
3 Company adjustments are summarized on page 3 of MFR C-2, my Document No.  
4 KMD-3. Three of those adjustments relate to the Capacity Clause and Fuel  
5 Clause: (1) FPL proposes to transfer its 2006 projected incremental power plant  
6 security costs from Capacity Clause recovery to base rate recovery (an increase in  
7 base rate expenses that yields a reduction in test year NOI of approximately \$7  
8 million as shown in Column 4); (2) FPL proposes to transfer certain St. Johns  
9 River Power Park (SJRPP) capacity costs and associated revenues that are  
10 currently embedded in base rates to the Capacity Clause (an increase in test year  
11 NOI of approximately \$35 million as shown in Column 7); and (3) FPL proposes  
12 to transfer its 2006 projected incremental hedging costs from Fuel Clause  
13 recovery to base rate recovery (an increase in base rate expenses that yields a  
14 reduction in test year NOI of \$134,000 as shown in Column 8).

15

16 The net impact of these three adjustments is to transfer the recovery of costs to the  
17 Capacity Clause that, if the adjustments were not made and the costs were  
18 recovered instead through base rates, would reduce FPL's test year NOI by \$28  
19 million. Multiplying that NOI deficiency times the NOI multiplier shown on Line  
20 14 of MFR A-1 (1.61971) would yield an additional \$45 million of test year  
21 revenue requirements. Adding those additional revenue requirements to FPL's  
22 requested revenue increase of \$385 million shown on Line 16 of MFR A-1 would  
23 result in the total revenue increase of \$430 million that is referenced in Note 2 to



1 MFR A-1. The calculation described above is shown on my Document No.  
2 KMD-4.

3  
4 To be clear, the 2006 base rate increase that FPL is requesting in this docket is  
5 \$385 million. FPL has presented the total revenue increase of \$430 million in  
6 Note 2 in order to remind the Commission that FPL will seek recovery of a  
7 portion of its total test year revenue requirements through the Capacity Clause  
8 rather than base rates.

9 **Q. Which MFRs directly support the 2006 revenue increase calculation on**  
10 **Document No. KMD-2?**

11 **A.** Page 1 of my Document No. KMD-5, lists the MFRs that directly support the  
12 overall 2006 jurisdictional revenue requirement increase of \$385 million  
13 requested by FPL. Those MFRs include schedules that support our adjusted  
14 jurisdictional rate base of \$12.4 billion, adjusted jurisdictional net operating  
15 income of \$783 million and the calculation of the jurisdictional revenue  
16 expansion factor of 1.61971 to arrive at our requested overall jurisdictional  
17 revenue requirement. Additionally, I present the jurisdictional adjusted capital  
18 structure which reflects FPL's requested return on equity of 12.30% and an overall  
19 rate of return of 8.22% which is further discussed in the testimony of Messrs.  
20 Dewhurst and Avera. Related FPSC and Company adjustments to the above  
21 schedules are in the MFRs filed in this case.

1 **Q. What would be the resulting ROE for the 2006 test year absent the requested**  
2 **rate relief?**

3 **A.** Absent the requested rate relief, the 2006 ROE would be 8.47%.

4 **Q. Do you have a Document that shows the calculation of the annualized**  
5 **revenue increase that FPL is requesting as a result of Turkey Point Unit 5**  
6 **being placed into service?**

7 **A.** Yes. My Document No. KMD-6, which is 2007 Turkey Point Unit 5 Adjustment  
8 schedule A-1, shows the calculation of our requested annual revenue requirement  
9 of \$123 million associated with the costs of Turkey Point Unit 5 being placed into  
10 service in 2007.

11 **2007 KEY FINANCIAL FORECAST RESULTS**

12 **Q. Please describe the 2007 Turkey Point Unit 5 Adjustment schedules that**  
13 **support the 2007 incremental revenue requirements resulting from placing**  
14 **Turkey Point Unit 5 into service in 2007.**

15 **A.** Page 2 of my Document No. KMD-5 lists the schedules supporting the 2007  
16 Turkey Point Unit 5 Adjustment. The schedules include the revenue requirement  
17 calculation as well as the net operating income and rate base impacts due to the  
18 additional Turkey Point Unit 5 capital and annual operating costs. As a result of  
19 Turkey Point Unit 5 which is scheduled to be placed into plant in service on June  
20 1, 2007, FPL is requesting an additional \$123 million in revenue requirements to  
21 be effective 30 days from the date the unit is placed in service. Mr. Yeager's  
22 testimony discusses Turkey Point Unit 5 in further detail. Ms. Morley discusses  
23 the proposed tariff sheets in her testimony.

1    **Q.    Please describe the impacts of FPL's requested revenue increases on the 2007**  
2    **calendar year forecast results.**

3    A.    My Document No. KMD-7, FPL's 2007 Forecast schedule A-SUM page 2, shows  
4    that without the requested relief sought by FPL in 2006 and 2007, FPL's ROE will  
5    decline to 7.77% in 2007. Assuming FPL's 2006 rate increase is granted as  
6    requested, FPL's ROE for 2007 is still forecasted to be only 11.50%. Even after  
7    including the full rate relief as requested for 2006 and the Turkey Point Unit 5  
8    Adjustment in 2007, FPL is forecast to earn 12.12% in 2007, which is still below  
9    our requested midpoint. Mr. Dewhurst discusses this in his testimony.

10

11

#### **TEST YEAR ASSUMPTIONS**

12   **Q.    In your Document No. KMD-1, you are shown as a co-sponsor of MFR F-8,**  
13   **for the test year assumptions. Which of those assumptions are you**  
14   **sponsoring?**

15   A.    I am sponsoring the assumptions in Section IX, Items A through F.1. of MFR F-8  
16   which appear on pages 7 and 8. For convenient reference, MFR F-8 for the 2006  
17   test period is attached as my Document No. KMD-8.

18   **Q.    Are there any assumptions listed in Document No. KMD-8 that you would**  
19   **like to discuss?**

20   A.    Yes. I would like to discuss the depreciation rates, nuclear decommissioning,  
21   fossil dismantlement and storm accruals included in calculating revenue  
22   requirements in the 2006 test year.

1    **Q.    Please comment on the assumptions in the 2006 test year regarding FPL's**  
2       **depreciation rates.**

3    A.    The depreciation rates used in the calculation of our 2006 test year results and  
4       described in MFR F-8 are the result of a depreciation study filed with the FPSC in  
5       March 2005. Filing this study satisfies the FPSC's requirement in Order No.  
6       PSC-02-1103-PAA-EI that FPL file a depreciation study by October 31, 2005 with  
7       an implementation date of January 1, 2006.

8    **Q.    What is the basis for the plant balances used in FPL's new depreciation**  
9       **study?**

10   A.    The new study is based on actual plant and reserve balances as of September 30,  
11       2004. These amounts have been adjusted for forecasted additions, retirements and  
12       depreciation to arrive at projected plant and reserve balances at December 31,  
13       2005. The composite depreciation rates based on the study are used to calculate  
14       monthly depreciation expense and the resulting reserves (at various plant levels as  
15       described in MFR F-8) in the 2006 test period.

16   **Q.    Has the FPSC approved FPL's new depreciation study?**

17   A.    Not at this time. The depreciation filing was made in compliance with Florida  
18       Administrative Code Rule No. 25-6.0436, to allow the FPSC time to review and  
19       approve the depreciation rates used in calculating 2006 test year depreciation  
20       expense and reserves prior to setting base rates in this proceeding. FPL asks that  
21       the final outcome of the FPSC's review and approval of the depreciation study be  
22       reflected in the 2006 test period results.

1   **Q.   Please discuss the assumptions in MFR F-8 regarding FPL's fossil**  
2   **dismantlement accruals.**

3   A.   FPL's current accrual for fossil dismantlement is \$18,674,395, which was  
4       approved by the FPSC in Order No. PSC-04-0086-PAA-EI issued on January 27,  
5       2004. FPL utilized this accrual and the resulting reserve in determining its 2006  
6       test year revenue requirements. FPL is required to file a dismantlement study  
7       every four years. The next study will be filed in 2007.

8   **Q.   Please discuss the assumptions regarding FPL's nuclear decommissioning**  
9   **accrual.**

10  A.   FPL's 2006 test year results are based on continuing the decommissioning  
11       expense accrual supported by the decommissioning studies that were approved by  
12       the FPSC in Order No. PSC-02-0055-PAA-EI. That order resulted in the  
13       establishment of the current annual accrual of \$78,516,937 on a jurisdictional  
14       basis, which became effective May 1, 2002.

15  **Q.   When is FPL required to file its next nuclear decommissioning study?**

16  A.   FPL's next nuclear decommissioning study must be filed by January 1, 2006.  
17       However, FPL will file the study later this year. If the FPSC completes its review  
18       and approval of the study before FPL's base rates are determined in this  
19       proceeding, FPL would support an adjustment, as necessary, to the nuclear  
20       decommissioning accrual reflected in the MFRs.

21  **Q.   Please discuss FPL's storm damage accrual.**

22  A.   FPL's storm damage reserve balance and projected accrual reflect a zero balance  
23       in the reserve at December 31, 2004, a \$20 million dollar accrual for 2005 and a

1       \$120 million dollar accrual for 2006. The annual accrual for 2006 is based on an  
2       analysis of FPL's reserve balance and recommended accrual level discussed in the  
3       testimony of Messrs. Dewhurst and Harris. FPL is requesting that any decision by  
4       this Commission regarding the surcharge recovery requested in Docket No.  
5       041291-EI that would impact the above assumptions be reflected in the  
6       Commission's decision in this docket.

7  
8                                   **TAX POLICY CHANGES**

9   **Q.    Have there been any tax policy changes that you would like to discuss?**

10  **A.    Yes.** On October 22, 2004, the President signed the American Jobs Creation Act  
11       of 2004 (the Act). The Act included tax relief for domestic manufacturers by  
12       providing a tax deduction (when fully phased-in) of the lesser of :

13               (a)    up to nine percent of "qualified production activities income" as  
14                       defined by the Act,

15               (b)    up to nine percent of taxable income (after the deduction for  
16                       utilization of any net operating loss carryforwards), or

17               (c)    50% of the W-2 wages paid by the utility.

18       I will refer to the lesser of these three amounts as the basis for the deduction.

19  **Q.    How does the domestic manufacturer's tax deduction affect FPL?**

20  **A.    This deduction will be applied to reduce FPL's taxable income attributable to**  
21       domestic production activities, which includes revenue from the production of  
22       electricity in the United States.

1   **Q.    How will the domestic manufacturer's tax deduction be phased in?**

2    A.    The deduction will be phased in over a five year period. For tax years beginning  
3           in 2005 and 2006, the deduction is equal to three percent of the basis for the  
4           deduction. For tax years beginning in 2007, 2008 and 2009, the deduction will  
5           equal six percent of the basis for the deduction. For tax years beginning in 2010  
6           and thereafter, the deduction will be nine percent of the basis for the deduction.

7   **Q.    What is "qualified production activity income" for FPL?**

8    A.    For FPL, the qualified production activities income is equal to our gross receipts  
9           attributable to domestic production activities, reduced by:

- 10           (a)    the cost of goods sold that is attributable to those receipts,  
11           (b)    other deductions, expenses and losses that are directly related to  
12                   those receipts, and  
13           (c)    a share of other deductions, expenses and losses which are  
14                   allocated to the production activities.

15   **Q.    Has FPL made any adjustments to its filing as a result of this Act?**

16    A.    Yes. FPL has included a preliminary estimate of the effect this deduction will  
17           have on the forecasts for 2005, 2006 and 2007 including the Turkey Point Unit 5  
18           Adjustment schedules. We expect the Internal Revenue Service to issue guidance  
19           on how this deduction should be determined. FPL will reflect the effect of any  
20           guidance that it receives prior to the hearing through a Company adjustment.

21

22

23

**PROPOSED ADJUSTMENTS TO TEST YEAR RESULTS**

1  
2 **Q. Are there any adjustments FPL is proposing at this time to rate base, net**  
3 **operating income or working capital in this proceeding that would better**  
4 **reflect 2006 test year results for ratemaking purposes?**

5 A. Yes. These are detailed in MFR B-2 and MFR C-3.

6 **Q. Would you please describe the adjustments FPL is proposing?**

7 A. Below is a brief description of each adjustment and the FPL witness sponsoring  
8 the adjustment if not sponsored by me. Additional information regarding each  
9 adjustment can be found in the above mentioned MFRs.

10 • Charitable Contributions—As further described by Mr. Olivera, this is an  
11 expense that the FPSC did not allow in FPL's 1985 rate case. FPL  
12 supports a number of worthwhile charities and will continue to do so in  
13 the future. Mr. Olivera explains the benefits to FPL and its customers that  
14 result from these contributions. The FPSC should allow these ongoing  
15 costs to be included for all regulatory purposes.

16 • Rate Case Expenses—FPL is requesting that rate case expenses be  
17 included in the calculation of FPL's 2006 base rates through an  
18 amortization of the total cost of this proceeding over a two year period.  
19 Based on prior FPSC practice FPL believes this adjustment is appropriate.

20 • Adjustment Clause Overrecoveries—Whenever FPL is in an overrecovery  
21 position regarding the Fuel, Capacity, Environmental and Conservation  
22 clauses, the FPSC has not allowed FPL to remove the liability from  
23 working capital even though FPL compensates customers by paying



1 interest on the overrecovery through the cost recovery clause. This is  
2 inconsistent with the treatment of underrecoveries, where the FPSC  
3 requires FPL to remove the asset from working capital. To achieve equity  
4 and consistency, the FPSC should allow FPL to remove overrecoveries  
5 from working capital. If overrecoveries are not removed from rate base,  
6 FPL is paying a return on these amounts to customers twice, once as a  
7 return on the reduction of working capital included in rate base through  
8 base rates and, a second time through interest expense paid to customers  
9 on the overrecovery at the commercial paper rate through the cost  
10 recovery clause. FPL is not allowed to double recover from its customers  
11 and, likewise, customers should not be allowed to double recover from  
12 FPL.

- 13 • Orange Groves—In FPL's 1985 rate case, Docket No. 830465-EI, FPL  
14 made a Commission adjustment to impute the revenues it could have  
15 received had it rented the orange groves at its Manatee Plant site to a third  
16 party. FPL is now leasing the property at the Manatee Plant site to other  
17 parties for grove operations (orange, lime and avocado) and has included  
18 the rental revenues above the line in our 2006 test year forecast.  
19 Therefore, it is no longer necessary or appropriate to impute rental  
20 revenues, and this adjustment is no longer required.
- 21 • Gross Receipts Tax—Gross receipts tax is a tax imposed pursuant to  
22 Section 203.01 of the Florida Statutes on a utility receiving payment for  
23 electric light, heat or power. FPL is currently collecting a 2.5% gross

1 receipts tax, of which 1.5% is included in base rates and an additional 1%  
2 is shown as a separate line item on the customer's bill. Now that we are in  
3 the process of setting rates, the 1.5% gross receipts tax currently included  
4 in base rates should be combined with the 1% tax and shown separately as  
5 a 2.5% tax on the bill. This would allow the total amount of the gross  
6 receipts tax to be included in one place that is separately identified on the  
7 customer's bill and recovered outside of base rates. Ms. Morley addresses  
8 this in her testimony.

- 9 • Capacity Clause—Capacity charges and revenues associated with SJRPP  
10 that are currently in base rates should be removed from base rates and  
11 included in the Capacity Clause. This treatment is based on the FPSC  
12 decision in Order No. 25773, Docket No. 910794-EQ which stated in part  
13 “that capacity related purchased power costs not currently being recovered  
14 in any manner may be included in the capacity recovery factor. Those  
15 costs currently being recovered in base rates will remain in base rates until  
16 the utility's next general rate case.” A net amount of \$56,945,592 was  
17 included for recovery in 1988 base rates as explained in FPSC Order No.  
18 PSC-94-1092-FOF-EI. Therefore, FPL is requesting that this amount be  
19 transferred from base rates to the Capacity Clause.
- 20 • Dismantlement Costs—This adjustment is to include an additional  
21 \$880,000 to reflect the annual dismantlement costs for Fort Myers Unit  
22 No. 3 which went into service after 2003 (the period used in FPL's last  
23 dismantlement study) and Martin Unit 8 and Manatee Unit 3, both of

1 which will go into service in mid 2005. These costs are in addition to the  
2 \$18,674,395 current dismantlement accrual included in FPL's 2006 test  
3 year expenses. FPL is requesting Commission approval to include this  
4 additional amount of dismantlement costs in 2006 costs.

- 5 • Incremental Security Costs—This adjustment is to move into base rates  
6 the incremental security costs that FPL projects it would recover through  
7 the Capacity Clause in 2006. The Commission authorized FPL in Order  
8 No. PSC-01-2516-FOF-EI, issued December 26, 2001 to recover  
9 incremental security costs due to national security concerns after  
10 September 11, 2001 through the Fuel Clause. In Order No. PSC-02-1761-  
11 FOF-EI issued December 13, 2002, the Commission authorized recovery  
12 through the Capacity Clause. Now that base rates are being set, the  
13 projected level of these costs for 2006 (\$11,032,121, per MFR C-43)  
14 should be removed from the Capacity Clause and included in base rates.  
15 FPL will continue to seek recovery of incremental security costs above the  
16 amount included in base rates through the Capacity Clause.

- 17 • Incremental Hedging Costs—Hedging Costs are currently being recovered  
18 through the Fuel Clause as authorized by the FPSC in Order No. PSC-02-  
19 1484-FOF-EI. That order also stated that this recovery would be allowed  
20 until December 31, 2006 or the time of the next rate proceeding whichever  
21 comes first. MFR C-3 reflects an adjustment to increase 2006 base rate  
22 expenses by \$218,000, the jurisdictional portion of the amount forecasted  
23 in the accounts FPL uses to track Fuel Clause recoverable incremental

1 hedging costs. However, FPL has subsequently determined that the 2006  
2 test year already reflects the proper amount of incremental hedging costs  
3 in base rate expenses (\$496,485, per MFR C-42) and that the amounts that  
4 were forecasted in the Fuel Clause recoverable accounts actually are for  
5 hedging finance expenses that should continue to be recovered through the  
6 Fuel Clause. Therefore, no adjustment for incremental hedging costs is  
7 necessary. FPL will continue to seek recovery of incremental hedging  
8 costs above the amount included in base rates through the Fuel Clause.

- 9 • GridFlorida RTO Incremental Costs—Mr. Mennes explains in his  
10 testimony the components of the \$59 million in GridFlorida O&M costs  
11 that are included in the 2006 test year forecast. Mr. Mennes also explains  
12 that these costs are expected to increase each year through 2010. As  
13 shown in Mr. Mennes' Document No. CMM-10, FPL's share of  
14 GridFlorida start-up costs, cost of operations and costs shifts start out at  
15 \$59 million in 2006 and increase to \$148 million by 2010. However,  
16 FPL's forecast for 2006 reflects only FPL's share of the Grid Florida costs  
17 in that year, \$59 million. This level is not representative of future years.  
18 Therefore, FPL is proposing a \$45 million increase to the O&M expense  
19 included in its test year forecast to more accurately reflect an average of  
20 the annual Grid Florida expenses FPL expects to incur over the next five  
21 years. The specifics of how the GridFlorida start up costs were  
22 determined and what they comprise are explained in Mr. Mennes'  
23 testimony.

**VARIABLE INTEREST ENTITIES**

1  
2 **Q. Is there a new accounting interpretation that you would like to discuss?**

3 A. Yes. I would like to discuss FASB Interpretation No. 46, Consolidation of  
4 Variable Interest Entities (FIN 46R).

5 **Q. Please describe the requirements of FIN 46R.**

6 A. FIN 46R was issued in December 2003 as an interpretation of Accounting  
7 Research Bulletin 51 (ARB 51), Consolidated Financial Statements. Historically  
8 under ARB 51, the determination of whether or not another company should be  
9 included in an investor's consolidated financial statements was based on control  
10 through voting interests. FIN 46R broadens the number of situations where  
11 consolidation is required. Companies may now be required to consolidate entities  
12 based on contractual or other interests that provide those companies significant  
13 risks and rewards of ownership through means other than voting interests. FIN  
14 46R describes a new classification of entities as "variable interest entities" and  
15 requires an enterprise to assess its interests in a variable interest entity to decide  
16 whether it must consolidate that entity. The driving force behind the issuance of  
17 FIN 46R was to address the perceived abuses of companies structuring entities  
18 that they effectively controlled in such a way that they were not reported in their  
19 consolidated financial statements (e.g., off-balance sheet).

20 **Q. What is a variable interest entity?**

21 A. An entity is generally considered a variable interest entity under FIN 46R if  
22 either:

- 1           a.     The entity does not have sufficient equity investment at risk to  
2                 permit the entity to finance its activities without additional  
3                 subordinated financial support. Typically, an equity investment at  
4                 risk of less than 10 percent of the entity's total assets is not  
5                 considered sufficient; or,
- 6           b.     As a group, the holders of the equity investment at risk lack any  
7                 one of the following three characteristics of a controlling financial  
8                 interest:
- 9                 i.     The ability through voting rights or similar rights to  
10                 make decisions ;
- 11                ii.    The obligation to absorb the "expected losses" of  
12                 the entity. The investor(s) do not have that  
13                 obligation if they are directly or indirectly protected  
14                 from the expected losses or are guaranteed a return  
15                 by the entity itself or by other parties involved with  
16                 the entity;
- 17                iii.   The right to receive the "expected residual returns"  
18                 of the entity. The investor(s) do not have that right  
19                 if their return is capped by the entity's governing  
20                 documents or arrangements with other interest  
21                 holders or the entity.
- 22
- 23

1   **Q.     How does FIN 46R define a variable interest?**

2   A.     Variable interests are “contractual, ownership or other pecuniary interests in an  
3           entity that change with changes in the fair value of the entity’s net assets  
4           exclusive of variable interests”. This definition is difficult to understand and  
5           apply: as a result, different methodologies of identifying variable interests have  
6           developed as FIN 46R has been implemented. The Emerging Issues Task Force  
7           (EITF) of the FASB is currently addressing this inconsistency in practice in EITF  
8           Issue 04-7. FPL has taken a “cash flow” approach and identifies as a variable  
9           interest an ownership or contractual interest that absorbs variability in an entity’s  
10          cash flows. For example, if FPL has a contract to purchase power from an entity,  
11          and that contract includes a variable energy payment that is tied to the entity’s  
12          cost of fuel, the power purchase contract would represent a variable interest in the  
13          entity because FPL will absorb some of the entity’s variability in cash flows.  
14          Pending resolution of EITF 04-7, the FASB has indicated that the cash flow  
15          approach is acceptable.

16   **Q.     When is an enterprise required to consolidate a variable interest entity?**

17   A.     An enterprise must consolidate a variable interest entity if that enterprise has a  
18          variable interest (or combination of variable interests) that will absorb a majority  
19          of the entity’s expected losses, receive a majority of the entity’s expected residual  
20          returns, or both. This determination considers the rights and obligations conveyed  
21          by its variable interest and the relationship of its variable interest with variable  
22          interests held by other parties. An enterprise that consolidates a variable interest  
23          entity under FIN 46R is called the primary beneficiary.

1    **Q.     Does FIN 46R apply to all entities?**

2    A.     FIN 46R applies to all entities that are not specifically excluded from its scope.  
3           There are nine listed scope exceptions, some of which apply to FPL. For  
4           example, enterprises should generally not consolidate employee benefit plans or  
5           governmental organizations. Additionally, some entities that are determined to be  
6           a business need not be evaluated under FIN 46R if certain criteria are met.  
7           Finally, an enterprise with an interest in a variable interest entity or potential  
8           variable interest entity created before December 31, 2003 is not required to apply  
9           FIN 46R to that entity if the enterprise, after making an exhaustive effort, is  
10          unable to obtain the information necessary to (1) determine whether the entity is a  
11          variable interest entity, (2) determine whether the enterprise is the primary  
12          beneficiary, or (3) perform the accounting required to consolidate the variable  
13          interest entity.

14   **Q.     Has FPL consolidated any variable interest entities as a result of applying**  
15   **FIN 46R?**

16   A.     Yes. FPL, in its financial statements filed with the Securities and Exchange  
17          Commission, began consolidating FPL Fuels, Inc. (FPL Fuels) effective July 1,  
18          2003. Although FPL has no direct ownership interest in FPL Fuels, the  
19          contractual provisions of its lease agreement result in FPL absorbing the majority  
20          of FPL Fuel's expected losses.

21  
22          FPL was also required to evaluate its power purchase contracts to determine if the  
23          contracts were variable interests in the entities from which FPL purchases power.



1 Of particular concern were those contracts where the term of the contract is for a  
2 significant portion of the estimated useful life of the power plant from which the  
3 power is generated, the power plant is the only significant asset held by the entity  
4 with which we had an agreement, and the contract contains a variable energy  
5 payment that is indexed to the commodity price of the fuel used by the power  
6 plant. Several of the national accounting firms have interpreted FIN 46R to say  
7 that entities holding contracts meeting these criteria are generally considered to be  
8 variable interest entities because the equity holders are protected from expected  
9 variability in a significant cash flow (i.e., the purchase price of fuel).

10  
11 Of the power purchase contracts evaluated by FPL, three had the characteristics  
12 described above which suggest that the entities could be variable interest entities.  
13 One of these entities files financial information with the Securities and Exchange  
14 Commission. Based on this publicly available information, FPL has determined  
15 that it is not the primary beneficiary and is therefore not required to consolidate  
16 the entity. Because FPL has no contractual access rights to the financial  
17 information of the other two entities selling power and those entities have not  
18 voluntarily provided the information, to date FPL has claimed a scope exception.  
19 This scope exception is due to FPL's inability to acquire the information  
20 necessary to determine all of the variable interests in the entities and which of  
21 those variable interests absorbs the majority of the expected losses, expected  
22 returns, or both.

23

1   **Q.    What concerns does FPL have about the ongoing application of FIN 46R?**

2    A.    FPL is concerned that as existing power purchase contracts are amended or new  
3           contracts entered, the scope exception for unavailability of the information needed  
4           to make the assessment about whether or not an entity is required to be  
5           consolidated will not be available (because the exception is provided only for  
6           entities created before December 31, 2003). The FASB has presumed that when  
7           negotiating a new contract a company would have the opportunity to achieve  
8           contractual rights to any information needed, or refuse to sign the contract.  
9           However, in the case of contracts with qualifying facilities entities (QFs), FPL is  
10          required to enter into contracts with any party willing to accept FPL's rate  
11          structure based on avoided costs. FPL does not believe that we would have the  
12          right to demand full access to the confidential financial information of the seller  
13          in the context of entering an agreement to purchase power from a QF.

14  
15          FPL disagrees with the fundamental concept that absorption of an entity's fuel  
16          cost creates control over the entity (such as the owner of a qualifying facility that  
17          sells power to FPL) that should require consolidation. We believe that the equity  
18          owners of those entities continue to retain significant risks and rewards of  
19          ownership as discussed below. However, application of the complex rules of FIN  
20          46R, as interpreted, could result in FPL being required to consolidate these  
21          entities from which it buys power, but over which it has no control. If FPL were  
22          required to consolidate an entity from which it purchases power, but over which it  
23          has no control, we would be very concerned about the potential effects on FPL's

1 financial statements. In the absence of full access to the entity's financial  
2 information, knowledge of accounting controls and policies, and access to key  
3 personnel, we could not have full confidence that the numbers were correctly  
4 presented.

5 **Q. What is FPL requesting from the FPSC?**

6 A. FPL requests that the FPSC state in the final order for this proceeding, that, even  
7 if FPL is required under FIN 46R to consolidate an entity in which FPL has no  
8 ownership interest, the entity should not be consolidated for purposes of  
9 regulatory accounting.

10  
11 FPL further requests that the FPSC lend its support in asking the FASB to  
12 consider an exception for power purchase agreements with QFs and other non-  
13 affiliated entities. These agreements do not generally transfer any rights or  
14 obligations of plant ownership to the buyer of power. For example, the plant  
15 owner establishes the entity without input or involvement of the buyer, secures  
16 financing, selects the location for the facility, designs and constructs the facility,  
17 retains the risk for operational issues such as equipment failures, damage to the  
18 facility, environmental contamination, and asset retirement obligations. The  
19 equity holders typically make all decisions surrounding operation of the power  
20 plant and may have substantial fair value of equity in the entity. FPL and the  
21 Edison Electric Institute have asked the FASB to reconsider the conclusions  
22 reached with regard to when power purchase contracts should be identified as

1 variable interests. The FPSC's assistance in requesting a reasonable solution from  
2 the FASB would be appreciated.

3 **Q. Please summarize your testimony.**

4 A. I have presented and discussed those documents necessary to support the  
5 calculation of the rate relief requested by FPL using a 2006 test period and the  
6 additional rate relief that FPL has requested for 2007 as a result of the costs  
7 associated with placing Turkey Point Unit 5 into service. I have also presented  
8 and discussed accounting, ratemaking and tax policy issues which impact the  
9 determination of FPL's rate base, working capital, rate of return, capital structure  
10 and net operating income and resulting revenue requirements. With the  
11 adjustments that I have proposed, I believe that the MFRs fairly present FPL's  
12 financial condition and requested revenue increase based on the projected results  
13 for the 2006 test year, and that the 2007 Turkey Point Unit 5 Adjustment and  
14 FPL's 2007 Forecast schedules fairly present the 2007 revenue increase requested  
15 as a result of Turkey Point Unit 5 being placed into service.

16 **Q. Does this conclude your direct testimony?**

17 A. Yes.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**SUPPLEMENTAL DIRECT TESTIMONY OF K. MICHAEL DAVIS**

**DOCKET NOS. 050188-EI AND 050045-EI**

5

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

7 A. My name is K. Michael Davis, my business address is 9250 West Flagler Street,  
8 Miami, Florida 33174.

9 **Q. Are you the same K. Michael Davis who filed testimony in Docket No.**  
10 **050045-EI?**

11 A. Yes.

12 **Q. Are you sponsoring an exhibit with your testimony?**

13 A. Yes. I am sponsoring Document No. KMD-9, Florida Power & Light Company's  
14 Proposed Depreciation Rates. Document No. KMD-9 presents the results of the  
15 2005 Study, which is incorporated by reference into the exhibit and into this  
16 testimony.

17 **Q. What is the purpose of your supplemental direct testimony in these dockets?**

18 A. The purpose of my supplemental direct testimony is to present for FPSC approval  
19 the 2005 comprehensive depreciation study filed on March 17, 2005 in Docket  
20 050188-EI (2005 Study). The Commission originally assigned Docket No.  
21 050188-EI to the review the of 2005 study and subsequently consolidated that  
22 review with Docket No. 050045-EI. My testimony will confirm that the 2005  
23 Study was prepared in accordance with Commission rules and practices. I will

1 describe how the depreciation rates for Production Plant sites and the  
2 Transmission, Distribution and General plant accounts were calculated. I will also  
3 address the capital recovery schedule for the St. Lucie Unit No. 2 steam generator  
4 replacement and the reactor head replacements at all of the nuclear units. I will  
5 explain how FPL's method of handling the retirements associated with these  
6 replacement activities is consistent with Commission practice. Finally, I will  
7 address how FPL's current bottom line reserve has been addressed consistent with  
8 Commission directive.

9 **Q. What are the Commission's requirements as to when FPL must file revised**  
10 **depreciation rates?**

11 A. Under FPSC Rule No. 25-6.0436, Florida Administrative Code (Depreciation Rule),  
12 each electric utility is required to file a depreciation study for each category of  
13 depreciable property for FPSC review at least once every four years. FPL's last  
14 approved depreciation study was filed in 1997 in Docket No. 971660-EI. The 2001  
15 depreciation study was not filed with the FPSC due to the terms of the settlement  
16 agreement in Order No. PSC-02-0501-AS-EI issued April 11, 2002 in Docket No.  
17 001148-EI. The FPSC ordered FPL to file a comprehensive depreciation study by  
18 October 31, 2005 in Order No. PSC-02-1103-PAA-EI (issued August 12, 2002) in  
19 Docket No. 020332-EI, stating:

20  
21 Under the Stipulation approved by Order No. PSC-02-0501-AS-EI,  
22 issued April 11, 2002, in Docket No. 001148-EI, the earliest possible  
23 effective date for a change in the depreciation rates is January 1,  
24 2006. Consequently, we find there is good cause to require FPL to  
25 file another study less than four years from the date of the study it  
26 will file in October of this year. Therefore, FPL is required to file its  
27 next depreciation study by October 31, 2005, with an  
28 implementation date of January 1, 2006, for new depreciation rates.  
29

1   **Q.     Does the Depreciation Rule address the need to file a study to support new**  
2       **depreciation rates that are to be included in Minimum Filing Requirements**  
3       **(MFRs)?**

4   A.    Yes. Rule No. 25-6.0436 (8)(c) states:

5  
6           A utility proposing an effective date coinciding with the expected  
7           date of additional revenues initiated through a rate case proceeding  
8           shall submit its depreciation study no later than the filing date of the  
9           Minimum Filing Requirements.

10   **Q.    Did FPL comply with that requirement?**

11   A.    Yes. FPL filed its depreciation study on March 17, 2005.

12   **Q.    Do the MFRs that FPL filed in Docket No. 050045-EI reflect the results of the**  
13       **2005 Study?**

14   A.    Yes.

15   **Q.    When did the Commission last establish depreciation rates for FPL?**

16   A.    Depreciation rates were last approved in several separate proceedings: in Order No.  
17       PSC-99-0073-FOF-EI, Docket No. 971660-EI for the comprehensive depreciation  
18       filing; in Order No. PSC-00-2434-PAA-EI, Docket No 001437-EI for repowered Ft.  
19       Myers Unit 2; in Order No. PSC-01-1337-PAA-EI, Docket No. 010107-EI for  
20       Martin Simple Cycle Unit 8; in Order No. PSC-02-1103-PAA-EI, Docket No.  
21       020332-EI for repowered Sanford Unit 5 and the Heat Recovery Steam Generators  
22       at Ft. Myers Unit 2; in Order No. PSC-03-0634-PAA-EI, Docket No. 030139-EI for  
23       repowered Sanford Unit 4; and in Order No. PSC-03-0869-PAA-EI, Docket No.  
24       030512-EI for Ft. Myers Simple Cycle Units 3A and 3B.

25   **Q.    What plant and reserve balances were used in the preparation of 2005 Study?**

26   A.    The 2005 study was based on plant and reserve balances obtained from FPL's  
27       property records system as of September 30, 2004. These balances were then rolled  
28       forward to December 31, 2005 based on information contained in the rate filing in

1 Docket No. 050045-EI.

2 **Q. Will the 2005 Study be updated?**

3 A. Yes. FPL will update the 2005 Study to incorporate actual plant and reserve  
4 balances as of December 31, 2004, with these balances rolled forward to December  
5 31, 2005. The updated filing will be made in June 2005. FPL does not expect the  
6 update to change the new depreciation rates appreciably, if at all.

7 **Q. Have the depreciation rates that FPL is proposing in the 2005 Study been**  
8 **calculated in accordance with Commission practice?**

9 A. Yes. FPL has used the "remaining life method" which reflects the recovery of the  
10 net book value of the assets over their remaining life. The Commission has  
11 consistently approved the application of the remaining life method for FPL in  
12 Docket Nos. 910081-EI, 931231-EI, and 971660-EI, the last three times new  
13 depreciation rates were established based on comprehensive depreciation studies.  
14 The Commission has also approved the use of remaining life rates for individual  
15 plant studies filed by FPL.

16 **Q. How does FPL calculate depreciation rates for Production Plant sites?**

17 A. FPL calculates depreciation rates at the account/unit level for its Production Plant  
18 sites on a site by site basis. An economic recovery date is established for each  
19 generating unit based on a realistic estimate of the anticipated operating life of the  
20 facility. These estimates are based on the components of equipment, mainly boiler  
21 and turbines for steam and other production plant and on the operating license for  
22 the nuclear units. The estimated service lives of the components of equipment for  
23 each generating unit are based on analyses by FPL engineers who are familiar with  
24 that generating unit. This method ensures that any adjustments to expected lives  
25 due to local experience at the plant or planned construction activities are considered.  
26 This information on operating lives is then used to compute depreciation rates and



1 ensures a systematic, rational recovery of costs over the remaining service lives of  
2 the units.

3 **Q. How are depreciation rates for the Transmission, Distribution and General**  
4 **Plant functions calculated?**

5 A. Due to the nature of the property in these functions, the depreciation rates are  
6 calculated on an account or sub-account basis. Unlike the production plant function,  
7 these functions consist of many items that are similar to one another, but whose  
8 lives are not dependent upon each other. These accounts are "open ended" meaning  
9 that items placed in service in a given year often have different service lives and the  
10 accounts experience relatively continuous additions and retirements. Due to the  
11 large amount of property, and myriad of locations involved, this property is not  
12 studied at a location basis, but rather on a total account basis.

13  
14 In order to estimate the average service life of property in these accounts, FPL  
15 utilizes, to the fullest extent possible, actuarial analysis and comparisons to  
16 established survivor curves. The actuarial data utilized is FPL's own history of  
17 additions to, and retirements from, plant accounts which is obtained from the  
18 Company's Property Records System. Actuarial analysis is a statistical approach to  
19 evaluate retirements and survivors, similar to the statistical approach used to  
20 determine mortality patterns for funding pension plans and determining life  
21 insurance premiums. This method is most accurate when used with plant accounts  
22 that have a long history and continuous pattern of additions and retirements which is  
23 the case for FPL's Transmission, Distribution and General Plant accounts.

24 **Q. How are abnormal retirements handled in the actuarial studies?**

25 A. In the determination of average service life and the net salvage analysis, abnormal  
26 retirements are removed from the universe of data in order to eliminate their

1 influence on the life of the population.

2 **Q. Is there anything in the 2005 Study that you would like to discuss further?**

3 A. Yes. FPL has included the allocation of depreciation accruals which are not  
4 identified to specific functions or plant accounts (bottom line reserve) to the  
5 Nuclear, Transmission and Distribution functions and is proposing a capital  
6 recovery schedule related to the St. Lucie Unit No. 2 Steam Generator replacement  
7 and the nuclear reactor vessel head replacements at all four of the nuclear units.

8 **Q. Can you please explain the bottom line reserve?**

9 A. The bottom line reserve resulted from Commission Order No. PSC-02-0501-AS-EI  
10 in Docket No. 001148-EI authorizing FPL to record a discretionary credit to income  
11 of up to \$125 million of depreciation expense per year with the corresponding debit  
12 recorded in a bottom line reserve. The amount was approved as part of the 2002  
13 Stipulation and Settlement Agreement (2002 Stipulation). Through 2005, under the  
14 2002 Stipulation, FPL will have recorded \$500 million to the bottom line reserve.

15 **Q. What did the 2002 Stipulation provide as to the allocation of the bottom line**  
16 **reserve?**

17 A. The amounts recorded in the bottom line reserve would first go to offset an existing  
18 \$170.25 million bottom line credit recorded under the prior settlement agreement.  
19 The remaining amounts were then to be allocated to reduce any theoretical reserve  
20 excesses by account as determined in FPL's depreciation study filed after the term  
21 of the 2002 Stipulation.

22 **Q. Does the 2005 Study allocate the bottom line reserve consistent with this**  
23 **direction?**

24 A. Yes. FPL has allocated the bottom line reserve first to offset the \$170.25 million  
25 bottom line credit from the previous settlement, as required by the 2002 Stipulation  
26 and has allocated the remaining amount totaling \$329.75 million to the Nuclear,

1 Transmission and Distribution theoretical reserve excesses.

2 **Q. What is a capital recovery schedule?**

3 A. A capital recovery schedule is an approved recovery method where unrecovered  
4 investment, including net removal costs, associated with a specific, significant,  
5 planned near term retirement, is excluded from the depreciation study and amortized  
6 over a shorter time period designed to better match the costs of the assets with their  
7 in service period.

8 **Q. Please describe the capital recovery schedules FPL is proposing in the 2005**  
9 **Study.**

10 A. FPL is requesting that the remaining net book value and anticipated removal costs  
11 associated with the steam generator replacement at St. Lucie Unit No. 2 and the  
12 reactor vessel head replacements at the four nuclear units be included in a capital  
13 recovery schedule to be recovered over a four year period. The estimated amount to  
14 be recovered, including the removal cost is approximately \$102.8 million which will  
15 equal \$25.7 million annually.

16 **Q. Why is FPL proposing the capital recovery schedule?**

17 A. The Commission in past orders has directed FPL to set up capital recovery  
18 schedules for major interim retirements. The Commission's position has been that  
19 the cost should be paid for by the customers who received the benefits of these  
20 assets and not future customers. The four year amortization more closely aligns  
21 recovery with the customers who received the benefits.

22 **Q. Would you please give examples of situations where such recovery schedules**  
23 **have been approved by the Commission?**

24 A. Yes. In Docket No. 931231-EI, the Commission ordered a capital recovery  
25 schedule for the remaining net book value and removal cost associated with St.  
26 Lucie Unit 1 Steam Generator replacement. And in Docket No. 971660-EI, the

1 Commission approved the recovery of the net book value of the assets to be retired  
2 associated with the repowering of the Ft. Myers and Sanford units.

3 **Q. What effective date are you requesting for the new depreciation rates?**

4 A. FPL is requesting that the approved depreciation rates be effective on January  
5 1, 2006, consistent with Order No. PSC-02-0501-AS-EI.

6 **Q. Have you prepared a summary of the new depreciation rates by account?**

7 A. Yes. KMD-9 presents this summary by function, by site and by plant account for  
8 Production property and by plant/sub-account for Transmission, Distribution and  
9 General Plant property.

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

11 A. Yes, it does.

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**DIRECT TESTIMONY OF STEVEN P. HARRIS**

**DOCKET NO. 050045-EI**

**MARCH 22, 2005**

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

A. My name is Steven P. Harris. My business address is ABSG Consulting, Inc. (ABS Consulting), 1111 Broadway Street, Oakland, California 94607.

**Q. By whom are you employed and what is your position?**

A. I am a Vice President with ABS Consulting, an affiliated company of EQECAT, Inc. both of which are subsidiaries of the ABS Group of Companies, Inc. Together these two companies are leading global providers of catastrophic risk management services, including software and consulting, to major insurers, reinsurers, corporations, governments and other financial institutions. In addition, these companies develop and license catastrophic underwriting, pricing, risk management and risk transfer models that are used extensively in the insurance industry. The companies provide the financial, insurance and brokerage communities with a science and technology-based source of independent quantitative risk information. ABS Group acquired EQE International Inc. and EQECAT, Inc. in January 2000.

**Q. Please describe your educational background and business experience.**

A. I hold Bachelors and Masters degrees in engineering from the University of California at Berkeley. I am a licensed civil engineer in the State of

1 California. Over the past 22 years, I have conducted and supervised  
2 independent risk and financial studies for public utilities, insurance companies  
3 and other entities, both regulated and unregulated. My areas of expertise  
4 include natural hazard risk analysis, operational risk analysis, risk profiling  
5 and financial analysis, insurance loss analysis, loss prevention and control,  
6 business continuity planning and risk transfer.

7  
8 A significant portion of my consulting experience has involved the  
9 performance of multi-hazard risk studies, including earthquake, ice storm and  
10 windstorm perils, for electric, water and telephone utility companies, as well  
11 as insurance companies.

12  
13 I have performed or supervised windstorm (tropical storm or hurricane) loss  
14 and solvency analyses for utilities including Florida Power & Light (FPL or  
15 the Company). Additionally, I have performed loss analyses for earthquake  
16 hazard for utilities including the Los Angeles Department of Water and  
17 Power, the California-Oregon Transmission Project, Big Rivers Electric and  
18 Anchorage Municipal Light and Power.

19  
20 For energy companies that have assets in a wide array of geographic locations,  
21 I have performed or supervised multi-peril analyses for all natural hazards,  
22 including earthquakes, windstorms and ice storms.

1   **Q.    Are you sponsoring an exhibit in this case?**

2   A.    Yes. It is comprised of the following two documents:

3       Document SPH-1 – Storm Loss Analysis

4       Document SPH-2 – Storm Reserve Solvency Analysis

5

6                                   **PURPOSE AND SUMMARY**

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

8   A.    The purpose of my testimony is to present the results of ABS Consulting's  
9       independent analyses of risk of uninsured loss to FPL assets. These studies  
10       include storm loss analysis and storm reserve solvency analysis.

11   **Q.    Please briefly describe these studies performed for the Company.**

12   A.    ABS Consulting performed two studies relative to the Storm Reserve: The  
13       Storm Reserve Loss Analysis (the Loss Analysis), and The Storm Reserve  
14       Solvency Analysis (the Solvency Analysis). The Loss Analysis is a  
15       probabilistic storm analysis that uses proprietary software to develop an  
16       estimate of the expected annual amount of uninsured windstorm losses to  
17       which FPL is exposed. The Solvency Analysis is a dynamic financial  
18       simulation analysis that evaluates the performance of the Storm Reserve in  
19       terms of the expected balance of the Storm Reserve and the likelihood of  
20       insolvency over a 5-year period, given the potential uninsured losses  
21       determined from the Loss Analysis, at various annual accrual levels.

22   **Q.    Please summarize the results of your analyses.**

23   A.    The Loss Analysis concluded that the total expected annual uninsured cost to  
24       FPL's system from all windstorms is estimated to be \$73.7 million. The

1 Solvency Analysis demonstrated that, assuming any negative Storm Reserve  
2 balances would be recovered over a period of two years, an accrual level of  
3 \$120 million would result in an expected Storm Reserve Balance of \$367  
4 million and a probability of insolvency of 8% at the end of the five-year  
5 simulation time horizon. Based on a \$120 million annual accrual and recovery  
6 of any Storm Reserve deficit over a two-year period, there is also a 39%  
7 chance that the Storm Reserve fund balance could be greater than \$500  
8 million at the end of five years.

#### 10 LOSS ANALYSIS

11 **Q. Please summarize the Loss Analysis.**

12 A. The Loss Analysis determined the expected magnitude of windstorm losses to  
13 FPL's Transmission and Distribution (T&D) system over periods of one, three  
14 and five years. Windstorm losses include costs associated with service  
15 restoration and repair of FPL's T&D system as a result of hurricanes, tropical  
16 storms and winter storms. Also included are estimates of the costs of pre-  
17 positioning of personnel and equipment (staging) in anticipation of storm  
18 restoration activities, windstorm insurance deductibles attributable to non-  
19 T&D assets, and potential retrospective assessments associated with FPL's  
20 insurance of its nuclear facilities.

21 **Q. Please describe the computer software used to perform the Loss Analysis.**

22 A. USWIND<sup>TM</sup> is a probabilistic model designed to estimate damage and losses  
23 due to the occurrence of hurricanes. EQECAT proprietary computer software  
24 USWIND<sup>TM</sup> is one of only four models evaluated and determined acceptable



1 by the Florida Commission on Hurricane Loss Projection Methodology  
2 (FCHLPM) for projecting hurricane loss costs.

3  
4 Probabilistic Annual Damage & Loss is computed using the results of over  
5 100,000 random variable storms. Annual damage and loss estimates are  
6 developed for each individual site and aggregated to overall portfolio damage  
7 and loss amounts. USWIND's<sup>TM</sup> climatological models are based on the  
8 National Oceanic and Atmospheric Administration's (NOAA) National  
9 Weather Service (NWS) Technical Reports.

10  
11 The version of USWIND<sup>TM</sup> currently reviewed by the FCHLPM utilizes the  
12 FCHLPM's Official Storm Set of November 1, 2003, which includes  
13 hurricanes affecting Florida during the period 1900 through 2002.

14 **Q. Does USWIND<sup>TM</sup> take into account storm frequency and severity?**

15 A. Yes. The analysis is based on storm frequency and severity distributions  
16 developed from the entire 103-year historical record. Year-to-year variability  
17 in storm frequency and severity distributions has not been included.

18 **Q. Do the storm frequency assumptions include the possibility of having  
19 multiple hurricane landfalls within Florida in any given year?**

20 A. Yes. The current version of USWIND<sup>TM</sup> does include the possibility of  
21 having multiple hurricane landfalls within Florida in any given year, including  
22 the impact of such landfalls on aggregate losses, consistent with the 2004  
23 hurricane season.

1   **Q.   Did the Loss Analysis take into account the frequency of storms during**  
2       **the 2004 storm season?**

3   A.   No. The storm database used by USWIND™ is a combination of historical  
4       and random variable storms. NOAA/NWS must update the data set before  
5       historical data becomes a part of the storm database used by USWIND™.  
6       The version of USWIND™ utilizing the updated data set must, then, be  
7       evaluated and approved by the FCHLPM. Information from the 2003 and  
8       2004 hurricane seasons is likely to be incorporated into future versions of  
9       USWIND™, consistent with scientific opinion and subject to review by the  
10      FCHLPM and its Professional Team.

11   **Q.   Do you expect the frequency of storms during 2004 will significantly**  
12       **impact the frequency estimate?**

13   A.   No. There could be a slight increase in the frequency estimate as a result of  
14       including data points reflecting the 2004 storm season in the storm database.  
15       Given the size of the storm database, however, the increase is not likely to be  
16       large.

17   **Q.   Did the 2004 storm season have any effect on the Loss Analysis?**

18   A.   Yes. While the frequency and severity of the 2004 storm season has not yet  
19       been incorporated into the USWIND™ model, FPL's costs of storm  
20       restoration from the 2004 storm season was incorporated into the Loss  
21       Analysis. The 2004 storm restoration costs provide additional data points on  
22       the losses associated with specific levels of damage.

23

24

1   **Q.    What were the results of the Loss Analysis?**

2    A.    I concluded that the total expected annual uninsured cost to FPL's system  
3           from all windstorms is estimated to be \$73.7 million.

4   **Q.    Did the Loss Analysis include a projection for future inflation or future  
5           system growth?**

6    A.    No. The Loss Analysis conservatively assumes no future asset growth or  
7           inflation. It is a snapshot of FPL's current assets. Given conservative  
8           assumptions about system growth and inflation, the Storm Loss estimates may  
9           be systematically biased toward low values. However, this is not a precise  
10          science. The uncertainties represented by these assumptions are within the  
11          overall uncertainties of the storm hazards. The expected annual loss estimate  
12          reflects that FPL has had a significant increase in asset value at risk since  
13          2000. FPL estimates that, for the period 2000 to 2004, there has been  
14          approximately a 15% increase in the replacement value of the Company's  
15          transmission and distribution assets. There has been no fundamental change  
16          in the potential hazards to FPL's system during this same time period.

17   **Q.    What does this expected annual loss estimate represent?**

18    A.    The expected annual loss estimate represents the average annual cost  
19           associated with damage to transmission and distribution assets, insurance  
20           deductibles for damage to other assets, and service restoration activities  
21           resulting from windstorms over a long period of time.

22

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24

1   **Q.    Is the Loss Analysis performed for FPL the same analysis performed for**  
2       **insurance companies to price an insurance premium?**

3    A.    Yes. The natural hazards loss modeling and analysis would be similar for an  
4       insurance company, electric utility, or other entity. The expected annual loss  
5       is also known as the "Pure Premium," which when insurance is available is  
6       the insurance premium level needed to pay just the expected losses. Insurance  
7       companies add their expenses and profit margin to the Pure Premium to  
8       develop the premium charged to customers.

9

10                                   **SOLVENCY ANALYSIS**

11   **Q.    Please summarize the Solvency Analysis.**

12    A.    ABS Consulting performed a dynamic financial simulation analysis of the  
13       impact of the estimated windstorm losses on the FPL Storm Reserve for  
14       specified levels of annual funding. The starting assumption for the Solvency  
15       Analysis was a Storm Reserve balance of zero. This Solvency Analysis  
16       performed 10,000 simulations of windstorm losses within the FPL service  
17       territory, each covering a five-year period, to determine the effect of the  
18       charges for loss on the Storm Reserve. Monte Carlo simulations were used to  
19       generate loss samples consistent with the expected \$73.7 million annual Loss  
20       Analysis results. The analysis provides the expected balance of the Storm  
21       Reserve in each year of the simulation accounting for the annual accrual,  
22       investment income, expenses, and losses using a financial model.

23

24

1   **Q.    What is a Monte Carlo analysis?**

2    A.    Monte Carlo analysis is a technique used to model multiple storm seasons and  
3           simulate variable storm losses consistent with the results of the Loss Analysis.  
4           Because storm seasons and losses are highly variable, 10,000 five-year  
5           simulations are performed to estimate the performance of the Storm Reserve  
6           with various accrual levels.

7   **Q.    Are the results of the Loss Analysis incorporated in the Solvency**  
8       **Analysis?**

9    A.    Yes. Both the likelihoods and amounts of uninsured annual losses determined  
10          in the Loss Analysis are used to simulate losses in each of the five years in the  
11          Solvency Analysis in order to determine the likelihood of Fund insolvency.

12   **Q.    Did the 2004 storm season affect the Solvency Analysis?**

13   A.    Yes. The costs of FPL storm restoration activities from the 2004 storm season  
14          are reflected in the Storm Loss Analysis and are included in the expected  
15          annual losses. These results are inputs to the Solvency Analysis. Each year of  
16          the five-year Storm Solvency analyses uses these projected losses to simulate  
17          the cost of annual storm restoration from the Storm Reserve Fund. These costs  
18          reflect past FPL storm restoration experience including those from the most  
19          recent 2004 season.

20   **Q.    Please describe the assumptions that were included in the Solvency**  
21       **Analysis.**

22   A.    All computations were performed with an initial Storm Reserve balance of  
23          zero. Further, all results are shown in constant 2004 dollars. Investment  
24          earnings were assumed to grow at a rate of 3.9%, and negative Storm Reserve

1 balances were assumed to be financed with an unlimited line of credit costing  
2 4.5%. Also, the analysis performed included certain assumptions regarding  
3 loss exposures. These include assumptions regarding storm frequency and  
4 severity, future FPL system growth, and future increased cost for system  
5 restoration due to inflation.

6 **Q. Please describe the assumptions regarding future FPL system growth.**

7 A. The analysis considered no future growth of the FPL customer base and  
8 system assets. FPL estimates its customer base has grown by about 2% per  
9 year for the period 1993 through 2003, and increased 2.6% in 2004.

10 **Q. Please describe the assumptions about future cost for system restoration**  
11 **due to inflation.**

12 A. The analysis assumed that future system restoration cost would be at  
13 comparable price levels to the present. Based on data from the Handy  
14 Whitman Index, FPL estimates inflationary cost increases for new  
15 transmission and distribution assets have increased at an average of 2.4% and  
16 2.05%, respectively, per year over the past decade.

17 **Q. Please describe the overall impact of the assumptions made.**

18 A. Given these assumptions about system growth and inflation, the Storm Loss  
19 estimates may be systematically biased toward low values of future assets at  
20 risk. However, because the Solvency Analyses looks forward only five years,  
21 this bias is expected to be small compared with the overall uncertainties of  
22 future storm hazards. Any given year has some potential for hurricane damage  
23 to the current asset base that could be much greater than any from the 2004  
24 season.

1   **Q.     Please summarize the results of the Solvency Analysis.**

2   A.     Storm Reserve performance can be viewed in terms of the expected balance of  
3           the Storm Reserve and the likelihood of insolvency occurring in any year of  
4           the five-year period. Based on the simulated loss distributions, there is some  
5           likelihood of the Storm Reserve becoming insolvent for each of the annual  
6           accrual levels analyzed. Higher accrual levels will result in a lower probability  
7           of Storm Reserve insolvency, and will have a higher probability of a positive  
8           Storm Reserve balance at the end of the five year simulation period. If the  
9           annual accrual levels are smaller, there is a much greater chance of  
10          insolvency, especially in the early years. Even small losses in the first year  
11          can cause insolvency since the Storm Reserve balance in the first year is only  
12          equal to the annual accrual plus earnings.

13   **Q.     Did you make a recommendation for FPL's annual level of accrual?**

14   A.     No. My role is not to recommend an annual level of accrual. It is to present  
15          probabilities to FPL regarding Storm Reserve solvency based on various  
16          levels of annual accrual. There are large uncertainties associated with the  
17          hurricane hazard and the specific storm outcomes have large variances. There  
18          could be hurricane seasons with no loss at all and hurricane seasons with  
19          hundreds of millions or even more than a billion dollars in losses. The  
20          Solvency Analysis presents information about the likelihood of insolvency  
21          that can be used to make decisions about the Storm Reserve.

22

23

1   **Q.    Do you feel FPL's selection of a \$500 million target level for the Storm**  
2       **Reserve is adequate?**

3    A.   Based on the current value of FPL's T&D assets, a Storm Reserve balance of  
4       \$500 million would be adequate to cover uninsured losses during most, but  
5       not all, storm seasons.

6   **Q.    Did you analyze a range of annual accrual levels in your evaluation?**

7    A.   Yes. My evaluation included analyses of the likelihood of Storm Reserve  
8       insolvency at the existing annual accrual level of \$20.3 million, and at the  
9       annual accrual level of \$120 million selected by FPL, as well as at a \$150  
10      million and \$170 million annual accrual level.

11   **Q.    What is the likelihood of Storm Reserve insolvency at the current annual**  
12      **accrual level of \$20.3 million?**

13   A.   At the current annual accrual level of \$20.3 million, the likelihood of  
14      insolvency occurring in any year over a five-year period is 79%. At an annual  
15      accrual level of \$20.3 million, it is projected that the Storm Reserve would  
16      have a deficit balance of \$277 million (\$277 million) at the end of five years,  
17      without recovery of any negative Storm Reserve balances as they occur. With  
18      recovery of any negative storm reserve balances over a two-year period, the  
19      Storm Reserve balance is projected to be negative \$71 million (\$71 million) at  
20      the end of five years.

21   **Q.    What did your evaluation show with respect to a \$120 million accrual?**

22   A.   At an annual accrual level of \$120 million, the likelihood of insolvency  
23      occurring in any year over a five-year period is 33%. Because one of the  
24      assumptions in the analysis was a beginning Storm Reserve balance of zero,



1           there is 33% likelihood of insolvency in any one of the five years regardless of  
2           whether there is recovery of any negative Storm Reserve balances over a two-  
3           year period. At an annual accrual level of \$120 million, the expected balance  
4           of the Storm Reserve at the end of five years would be \$367 million with  
5           recovery of negative storm balances over a two-year period, and \$256 million  
6           without such recovery. There would be a probability of insolvency of 8% or  
7           19% at the end of the five-year simulation time horizon with and without  
8           recovery of negative balances respectively. Based on a \$120 million annual  
9           accrual and recovery of any Storm Reserve deficit over a two-year period,  
10          there is also a 39% chance that the Storm Reserve fund balance could be  
11          greater than \$500 million at the end of five years.

12   **Q.    If the target level of the Storm Reserve is \$500 million, what annual**  
13   **accrual amount would be needed to achieve the target level during the**  
14   **five-year period?**

15   A.    The ABS Consulting Storm Reserve solvency analysis estimates that an  
16   annual accrual level of \$150 million and two-year recovery of negative storm  
17   reserve balances would be needed. Without recovery of negative storm  
18   reserve balances, an annual accrual of \$170 million would be needed.

19   **Q.    What is your conclusion with respect to the \$120 million annual level of**  
20   **accrual selected by FPL?**

21   A.    My analysis indicates that, with an expected annual loss of \$73.7 million, an  
22   annual accrual of \$120 million and the ability to recover any negative Storm  
23   Reserve Balances over a two-year period, the balance of the reserve at the end  
24   of five years is expected to be \$367 million. There is a 33% chance that

1       uninsured storm losses will create a deficit in the Storm Reserve in any year of  
2       the five-year period. Additionally, there is a 39% chance that the balance of  
3       the Storm Reserve may exceed \$500 million.

## 5 CONCLUSION

6 Q. Does this conclude your direct testimony?

7 A. Yes.

## ERRATA SHEET

(X ) DIRECT TESTIMONY, OR ( ) REBUTTAL TESTIMONY (PLEASE MARK ONE WITH "X")  
 WITNESS: **Steven P. Harris**

DIRECT EXHIBIT, DOCUMENT NO. SPH-1

<u>PAGE #</u>	<u>LINE #</u>	<u>CORRECTION</u>
6 of 29	last sentence	delete "are" in "These are analysis components"
17 of 29	3rd paragraph, last sentence	change "actually" to "actual"
20 of 29	1st paragraph, 1st sentence	change "on" to "by"
22 of 29	1st paragraph, 2nd sentence	insert "landfall locations" after "series"; delete "are located"; delete "and high"
22 of 29	2nd paragraph, last sentence	change "6-5" to "6-6"

DIRECT EXHIBIT, DOCUMENT NO. SPH-2

2 of 16	Probability of Insolvency	change "31%" to "33%"
7 of 16	1st full paragraph, 2nd sentence	change "31%" to "33%"
7 of 16	2nd full paragraph, last sentence	change "31%" to "33%"
15 of 16	Note 1	change "20005" to "2005"

1 STATE OF FLORIDA       )  
2                               :       CERTIFICATE OF REPORTER  
3 COUNTY OF LEON       )

4       I, LINDA BOLES, RPR, CRR, Official Commission  
5 Reporter, do hereby certify that the foregoing prefiled  
6 testimony was assembled under my direct supervision.

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

12       DATED THIS 24TH DAY OF AUGUST, 2005.

13                               *Linda Boles*  
14                               \_\_\_\_\_  
15                               LINDA BOLES, RPR, CRR  
16                               FPSC Official Commission Reporter  
17                               (850) 413-6734  
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