080677-EI
090130-EI

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Sent: Sunday, August 30, 2009 9:18 PM

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Subject: e-filing (Dkt. Nos. 080677-EI & 090130-EI)

Attachments: 080677.notice of service of OPC's errata to test. of Jacob Pous.pdf version.pdf

Electronic Filing

a. Person responsible for this electronic filing:

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b. Docket Nos. 080677-EI and 090130-EI

In re: Petition for rate increase by Florida Power & Light Company.

In re: 2009 depreciation and dismantlement study by Florida Power & Light Company.

c. Document being filed on behalf of Office of Public Counsel

d. There are a total of 11 pages.

e. The document attached for electronic filing is the Notice of Service of the Office of Public Counsel's Errata to the Direct Testimony of Jacob Pous.
(See attached file: 080677.notice of service of OPC's errata to test. of Jacob Pous.pdf version.pdf)

Thank you for your attention and cooperation to this request.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Power & Light Company.	DOCKET NO. 080677-EI
In re: 2009 depreciation and dismantlement Study by Florida Power &	DOCKET NO. 090130-EI DATED: August 31, 2009

NOTICE OF SERVICE OF
THE OFFICE OF PUBLIC COUNSEL'S
ERRATA TO THE DIRECT TESTIMONY OF JACOB POUS

The Office of Public Counsel (OPC), by and through its undersigned attorneys, hereby files revised pages 35, 53, 54, 56, 57, 95, 120, and 149 to the direct testimony of Jacob Pous filed on July 16, 2009 by Electronic Mail and U.S. Mail on this 31st day of August, 2009.

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DOCKET NOS. 080677-EI & 090130-EI
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing NOTICE OF SERVICE OF THE OFFICE OF PUBLIC COUNSEL'S ERRATA TO THE DIRECT TESTIMONY OF JACOB POUS has been furnished by U.S. Mail and electronic mail to the following parties on this 31st day of August, 2009.

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Q. WHY DO YOU REFER TO *MATERIAL* IMBALANCES RATHER THAN IMBALANCES IN GENERAL?

A. Any process that involves estimates will result in actual values that differ from the predicted values. As previously noted, I do not believe most utilities allow identified imbalances of this magnitude to be created. Generally speaking, by revisiting the reserve situation with a comprehensive study every few years, one would reasonably expect the variance between the theoretical reserve and the book reserve to stay within reasonable bounds. When reserve imbalances occur, they are normally treated through the remaining life process. Not every discrepancy between theoretical and book reserves is so large as to require a departure from the method of recalculating the accrual that will recover the asset over its remaining life. However, the greater the disparity in the reserve, the greater the level of intergenerational inequity that exists. The greater the level of intergenerational inequity, the more compelling becomes the corresponding rationale for addressing the imbalance over a shorter period.

Q. IS THERE ANY REASONABLE QUESTION IN THIS CASE WHETHER A SIGNIFICANT OR MATERIAL EXCESS IN THE DEPRECIATION RESERVE EXISTS?

A. No, in my view there is no room for argument on this question. The Company identifies a $1.25 billion excess in its depreciation study. I submit that this level of excess must be considered material and significant by any reasonable measuring index. Moreover, the $1.25 billion size of the reserve excess reported in FPL's depreciation study has been artificially *understated* by the effect of inappropriate net salvage and life estimates. When restated to adjust for the distortions created by the inappropriate net salvage and life assumptions, the reserve excess is not $1.25 billion, but well over $2.7 billion as

As time progressed and more empirical data became available the life span issue changed from one where utilities would propose 30 to 35-year lives to where the utilities were proposing upper 30 to low 40-year lives. In other words, as time progressed and it became obvious that units were operating for time periods approaching or exceeding the initially proposed 30 to 35 years of operation coupled with the fact that there were no plans for retirement, utilities could no longer support the initial artificially short life spans. As additional years passed the life span discussion for steam-fired generation continued to change. Utilities began proposing 45 and 50-year life spans, again in recognition of reality. The process continues through today. In the last several years utilities and regulators are recognizing that 50 and 60-year life spans are more appropriate for steam-fired generating facilities.

Q. HAVE THERE BEEN RECENT CASES TO WHICH 60-YEAR LIFE SPANS HAVE BEEN ADOPTED FOR STEAM GENERATING FACILITIES?

A. Yes. For example, in a 2007 Oklahoma Corporation Commission ("OCC") ordered Public Service Company of Oklahoma ("PSO"), a member of the very large American Electric Power Company group, was ordered to rely on a 60-year life span for its coal-fired generating facilities. (See OCC Cause No. 200600285). In PSO's most recent case decided in early 2009, PSO did not challenge and even relied on a 60-year life span for its coal generating facilities. (See OCC Cause No. 200800144). In fact, the head of generation production for American Electric Power Corporation stated that based on its experience and expectation there was no reason why it could not operate generating facilities for a minimum of 60 years. PSO's life spans for its gas-fired generating facilities were not at issue as PSO was proposing 60-plus years for such facilities.

Q. CAN YOU PROVIDE OTHER EXAMPLES?

A. Yes. Another example is a recent Rocky Mountain Power Company case in the state of Utah. In that case, the regulatory staff of five states negotiated a settlement where that Company's proposed life span for its coal-fired generating facilities was reduced to 61 years. (See Utah Public Service Commission Docket No. 07-035-13). In that case, the Company had actually proposed a longer life span for its coal-fired generating facilities. Yet another very recent example is the settlement in the Southwestern Public Service Company ("SPS") case in Texas. (See Public Utility Commission of Texas Docket No. 35763). It should further be noted that SPS is part of the large Xcel holding company which has operations in numerous states across the country. In that case, SPS had proposed a 55-year life span for its coal-fired generating facilities, but settled and accepted a 60-year life span. It is worth noting that SPS is one of the utilities that for decades argued in rate cases that anything in excess of a 35-year life span was unrealistic and would not occur. Yet, in only a period of a decade or so SPS is now not only proposing 55-year life spans, but accepting 60-year life spans for its coal-fired generating facilities.

Q. DOES THE FEDERAL GOVERNMENT MAINTAIN INFORMATION THAT WOULD FURTHER SUPPORT LONGER LIFE SPANS FOR COMPANY'S GENERATING FACILITIES THAN THOSE THE COMPANY PROPOSES IN THIS PROCEEDING?

A. Yes. The Energy Information Administration of the Department of Energy maintains a listing of all generating facilities. I have reviewed such information numerous times in the past. The government's database clearly demonstrates that there is more than

across the country are recognizing the longer realistic life spans for such units with full knowledge and concerns regarding carbon emissions.

Q. IS THERE ANY BASIS TO DENY LONGER LIFE SPANS ASSOCIATED WITH ANY POTENTIAL ARGUMENT ASSOCIATED WITH INTERIM ADDITIONS?

A. No. First, it must be noted that some utilities have claimed that longer life spans cannot be recognized for ratemaking purposes absent the recognition of interim additions. Interim additions simply mean certain unknown levels and timing of capital additions in the future to keep generating facilities operating for the expected life spans.

Q. WHY WOULD SUCH AN ARGUMENT NOT BE APPROPRIATE?

A. The interim addition issue has been an issue before regulators for an extended period of time. The FERC and other state jurisdictions have ruled, consistent with the National Association of Regulatory Utility Commissioners' ("NARUC") publication entitled "Public Utility Depreciation Practices," that interim additions are not appropriate for inclusion in depreciation analyses. Interim additions represent significant unknown timing and quantities. They should be recognized after the fact once they have occurred. Thus, any argument raised by the Company associated with interim additions should be dismissed as having no merit.

Q. WHAT DO YOU SPECIFICALLY RECOMMEND?

A. I recommend the lengthening of life spans for the Company's two coal-fired generating stations, as well as the Company's large Manatee and Martin oil or gas-fired generating facilities. Specifically, I am recommending a 60-year life span for coal-fired generating

Revised

stations and a minimum 50-year life span for the Company's two large oil or gas-fired generating stations.

With respect to the Company's investment in the Scherer generating facility, I relied on the 1989 in service date for determining the 60-year life span for that facility. The Company did not purchase an ownership share in that facility until 1991. However, for life span purposes it should be the initial in service date for the facility even prior to when the Company took ownership. Therefore, I have increased the projected retirement date from mid 2029 to mid 2049. That extension results in a 39 ½-year remaining life compared to the Company's proposed 19 ½-year unadjusted remaining life.

For the Company's investment in the SJRPP plant, I relied on the 1988 in service date for SJRPP Unit 2. A future retirement date of mid 2047 corresponds to a 60-year life span for that unit and approximately the same for the station. The SJRPP remaining life associated with my recommendation increases to 37 ½ years compared to the Company's proposed 18 ½-year remaining life.

For the investment in the Manatee Station I am proposing a mid 2027 future retirement date. This compares to the Company's mid 2020 date. My date corresponds to a 50-year life span for Manatee Unit 2, which was placed in service in 1977. The resulting remaining life increases from 10 ½ years as proposed by the Company to 17 ½ years.

Finally, for the Martin plant I recommend a mid-2031 retirement date. That date corresponds to a 50-year life span for the Martin Unit 2, which was placed in service in

Q. PLEASE PROVIDE MORE INFORMATION REGARDING HOW A DEPRECIATION ANALYST PERFORMS SUCH A LIFE ANALYSIS THAT RELIES ON AN ACTUARIAL APPROACH.

A. Aged data is gathered and analyzed. Aged data means that when an asset retires in 2007 we know that it originally went in service in 1967, and was 40 years old at the time of retirement. When all the aged data in a group is statistically analyzed by actuarial techniques, a resulting Observed Life Table or OLT is developed that depicts the rate of retirement over the life of the group. The OLT starts at 100% surviving and declines from there as each year of age is obtained and retirements occur. Naturally, not all units retire at once; instead, the retirement dates are dispersed through time, creating a "dispersion pattern." In order to permit testing of the results some standard or index must be used. The principal tool that a depreciation analyst uses for this aspect of the study is a set of "survivor curves." The industry standard and most extensively used curves are called the Iowa Survivor Curves. The name is derived from the fact that they were developed at Iowa State College in the 1930s.

Most often, and as is the case for many of FPL accounts, the database analyzed does not yield a complete OLT, one that fully declines to 0% surviving. This means that the data set will produce an incomplete OLT or a "stub curve." Also, the limited data base may include atypical or abnormal events not reasonably anticipated to occur again during the remaining life.

The Iowa Survivor Curves are based on empirical studies of retirement "behavior" of physical property. They are designed to predict the retirement patterns of the property under study based on detailed past observations. The Iowa Survivor Curves make the calculation of the average service life far more manageable and comparable; instead of making and weighting a myriad of

that an increase above the Company's proposed 40-year ASL is warranted, and that my recommended 43-year ASL is very conservative.

Industry information confirms that an even longer ASL than the 43-year level I recommend would be warranted. First, Mr. Clarke notes that the industry average is 44 years or appreciable longer than his proposed 40-year ASL. Further, when the industry data is reviewed one finds: (1) that the medium is 46 years, (2) the mode is 48 years, and (3) that all but one of the ASL values based on studies during the past 5 years were 40 years or longer with an average of 45 years. In other words, a mid 40s ASL is more indicative of industry averages.

The lengthening of life expectation by the industry is captured by Mr. Clarke's own testimony in Nevada. In two recent Nevada cases, Mr. Clarke recommended increasing the ASL for NPC from 45 years to 50 years. Mr. Clarke also testified to a 55-year ASL in his recent testimony on behalf of SPPC. (See PUCN Docket No. 06-11023 at Statement A (1) (d) page 5 of 5, and PUCN Docket No. 05-10006 at Statement A (1) (a) page 2 of 4, respectively).

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

A. The standalone impact of my recommendation results in a reduction of $5,026,679 to annual depreciation expense.

Q. WHAT DOES THE COMPANY PROPOSE FOR ACCOUNT 367.6 – UNDERGROUND CONDUCTORS AND DEVICES – DUCT SYSTEM?

Revised

Next, the "trend" of increases in cost of removal, as identified by the Company, is significantly driven by retirements during 2007. (See Exhibit CRC – 1, page 500). The Company failed to investigate why this particular level, which is more than three times the level that has transpired during the prior ten years, is reasonable or typical for estimating future net salvage values. Unlike the Company, I have attempted to investigate the more unusual values set forth in the recent Company database upon which Mr. Clarke relied. The investigation reveals that the Company does not know if it has reacted to a "trend." The Company states it reviewed all years and "not any one particular year." (See OPC's First Depr. POD No. 22). The Company could not identify why "such specific activity" is indicative of the entire remaining investment.

Next, further investigation of the remaining identifiable retirements in 2007 and 2005, the years in which there were unusual levels of cost of removal or gross salvage, yields more indications that the information is atypical. First, the retirement activity in both years is significantly overweighted with the retirement of breakers and switches, and