**BEFORE THE FLORIDA**
**PUBLIC SERVICE COMMISSION**

**DOCKET NO. 080677-EI**
**FLORIDA POWER & LIGHT COMPANY**

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

**TESTIMONY & EXHIBITS OF:**

**KIM OUSDAHL**

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **DIRECT TESTIMONY OF KIM OUSDAHL**

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5

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

7 A. My name is Kim Ousdahl, and my business address is Florida Power & Light

8 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

10 A. I am employed by Florida Power & Light Company ("FPL" or the

11 "Company") as Controller.

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

13 A. I am responsible for financial accounting and internal reporting for FPL, along

14 with the management of the Property Accounting and Regulatory Accounting

15 functions. In these roles, I am responsible for ensuring that the Company's

16 financial reporting complies with requirements of Generally Accepted

17 Accounting Principles (GAAP) and multi-jurisdictional regulatory accounting

18 requirements.

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

20 **experience.**

21 A. I graduated from Kansas State University in 1979 with a Bachelor of Science

22 Degree in Business Administration, majoring in Accounting. That same year,

23 I was employed by Houston Lighting & Power Company in Houston, Texas.

1 During my tenure there, I held various accounting and regulatory management
2 positions. Most recently, prior to joining FPL in June 2004, I was the Vice
3 President and Controller of Reliant Energy.
4
5 I am a Certified Public Accountant (CPA) licensed in the State of Texas and a
6 member of the American Institute of CPA's, the Texas Society of CPAs and
7 the Florida Institute of CPAs.
8 **Q. Are you sponsoring any exhibits in this case?**
9 A. Yes. I am sponsoring the following exhibits:
10 • KO-1 – Minimum Filing Requirements (MFRs) & Schedules
11 Sponsored and Co-sponsored By Kim Ousdahl
12 • KO-2 – MFR A-1 for the 2010 Test Year
13 • KO-3 – Listing of MFRs & Schedules Directly Supporting Requested
14 Revenue Increase
15 • KO-4 – 2010 and 2011 ROE Calculation Without Rate Relief
16 • KO-5 – MFR A-1 for the 2011 Subsequent Year
17 • KO-6 – Base Rate Recovery Formula for Nuclear Uprates
18 • KO-7 – Depreciation Expense Reconciliation from Forecast to
19 Proposed Amount
20 • KO-8 – FPL's 2009 Dismantlement Study
21 • KO-9 – FPL's Cost Allocation Manual
22 • KO-10 - NARUC Cost Allocation and Affiliate Transaction Guidelines

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

2 A. The purpose of my testimony is to support the calculation of the rate relief
3 requested by FPL in this proceeding. Specifically, this includes:

4 1. The calculation of rate relief requested for the 2010 Test Year;
5 2. The calculation of FPL's requested 2011 Subsequent Year Adjustment
6 starting January 1, 2011, excluding the impact of West County Energy
7 Center (West County) Unit 3;
8 3. The continuation of the Generation Base Rate Adjustment (GBRA)
9 mechanism, including use of the GBRA to recover costs and expenses
10 associated with West County Unit 3 being placed into service in June
11 2011; and
12 4. Adjustments that FPL proposes to rate base, net operating income and
13 working capital, in order to better reflect 2010 Test and 2011
14 Subsequent Year results for ratemaking purposes.

15 **Q. Please summarize your testimony.**

16 A. I will present and discuss the following items:

17 1. <u>2010 Base Rate Revenue Increase</u> – The information necessary to
18 support the calculation of the rate relief requested by FPL using a 2010
19 test period. FPL believes a 2010 Test Year would be the most
20 representative since this would be the year in which the new rates
21 would go in effect, and it coincides with the effective date of FPL's
22 2009 depreciation and dismantlement studies. Absent base rate relief

1 for 2010, FPL's adjusted jurisdictional ROE is estimated to be 4.7
2 percent.
3 2. 2011 Subsequent Year Adjustment - The information necessary to
4 support the calculation of the rate relief requested by FPL for a
5 January 1, 2011 Subsequent Year Adjustment. Absent both the 2010
6 and 2011 requested base rate relief, the 2011 adjusted jurisdictional
7 ROE is projected to be only 3.1 percent. With FPL's requested base
8 rate relief for 2010 but absent the requested rate relief for 2011, the
9 2011 adjusted jurisdictional ROE is projected to be only 10.7 percent,
10 which is still well below the Company's cost of equity. If the
11 Commission does not approve FPL's proposed Subsequent Year
12 Adjustment for 2011 in this proceeding, FPL will have to consider
13 initiating another proceeding to seek further rate relief in 2011.
14 3. GBRA – FPL is requesting the continuation of the GBRA mechanism,
15 including the recovery of costs and expenses associated with West
16 County Unit 3 being placed into service in June 2011; therefore those
17 costs are excluded from the 2011 Subsequent Year requested rate
18 relief. It has proven to be an efficient and effective way of providing
19 for new generating plant inclusion in base rates commensurate with the
20 time fuel savings associated with new plant begin to be achieved, and
21 the Company's expenses associated with operation of new units begin
22 to be incurred. The estimate used in the GBRA is assured of true-up
23 when actual capital costs are known, which ensures that any savings

1 achieved through improved cost control are realized by customers.
2 Application of this mechanism avoids the expenditure of costs and
3 resources associated with back-to-back base rate proceedings.

4 4. Nuclear Uprates – FPL expects to include the full in-service revenue
5 requirements estimate for the nuclear uprate projects in its Nuclear
6 Cost Recovery (NCR) clause filings. Therefore, all costs projected for
7 new nuclear and nuclear uprates are excluded from the base rate
8 revenue requirements through Commission and company adjustments
9 in this proceeding. Since this proceeding and the NCR clause
10 proceeding are occurring almost simultaneously, and the uprates will
11 facilitate fuel cost benefits to customers, the Company should not be
12 denied recovery of prudently incurred nuclear plant investment and
13 operating costs. Therefore, FPL requests that any amount that is
14 excluded from NCR clause recovery solely because it is believed to be
15 included in base rates should be recovered instead in base rates
16 through a base rate adjustment using the formula that I provide.

17 5. Depreciation and Dismantlement – FPL has included the current
18 approved depreciation rates and dismantlement accrual in its forecast
19 for the 2010 Test Year and 2011 Subsequent Year, and has made
20 company adjustments to these years to reflect changes in expense
21 based on its 2009 depreciation and dismantlement studies.

22 6. Company Adjustments – The accounting adjustments which impact the
23 determination of FPL's rate base, working capital, rate of return,

1 capital structure and net operating income and resulting revenue
2 requirements. With the adjustments proposed, I believe that the MFRs
3 fairly present FPL's financial condition and requested revenue
4 increases based on the projected results for the 2010 Test and 2011
5 Subsequent Years.
6 7. Affiliate Transactions – I conclude my testimony with discussions
7 regarding the methods FPL uses to charge costs to its affiliates, and the
8 controls in place to ensure retail customers do not subsidize FPL's
9 affiliates. I also discuss how FPL has removed all costs and expenses
10 associated with FPL's New England Division (FPL-NED), a division
11 of FPL, from the determination of its retail base rate revenue
12 requirements in this proceeding.
13
14 **SPONSORSHIP OF MINIMUM FILING REQUIREMENTS,**
15 **2011 SUBSEQUENT YEAR ADJUSTMENT SCHEDULES AND**
16 **2011 WEST COUNTY UNIT 3 ADJUSTMENT SCHEDULES**
17
18 **Q. Are you sponsoring or co-sponsoring any MFRs in this case?**
19 A. Yes. Exhibit KO-1 shows my sponsorship and co-sponsorship of MFRs as
20 well as 2009 Supplemental MFR schedules that FPL has agreed with the
21 Florida Public Service Commission ("FPSC" or the "Commission") Staff and
22 the Office of Public Counsel to file.

1 **Q. What is the basis and time periods covered by the MFRs and schedules**
2 **that FPL is filing in this proceeding?**
3 A. As further described in the testimony of FPL witness Barrett, FPL is filing
4 MFRs based upon forecasts completed in late 2008 and is utilizing a 2010 Test
5 Year as the basis for its overall jurisdictional revenue requirement calculation.
6 Generally, the periods covered in FPL's MFRs are a 2008 historical year, 2009
7 Prior Year, and 2010 Test Year. Additionally, FPL has prepared a set of MFRs
8 for 2011, which are equivalent to the information provided for the 2010 Test
9 Year, supporting a Subsequent Year Adjustment beginning on January 1, 2011.
10 Finally, FPL has prepared a set of schedules that follow the format of certain
11 MFRs, to reflect the revenue requirements that would result from West
12 County Unit 3 being placed into service on June 1, 2011 if GBRA
13 continuation was not approved. These 2011 West County Unit 3 schedules
14 cover the twelve months ended May 31, 2012, which is the first full year of
15 operations after West County Unit 3 is scheduled to go in service.
16 **Q. Why is 2010 a representative Test Year for FPL to use to set base rates?**
17 A. Based on the stipulation to the Company's 2005 rate settlement agreement,
18 approved by the Commission in Order No. PSC-05-0902-S-EI, FPL's base
19 rates remain unchanged, excluding GBRA, for a minimum term of four years,
20 January 1, 2006 through December 31, 2009, and would continue to be
21 effective thereafter until new base rates are set. FPL's forecasts for 2010 and
22 beyond show that FPL's earnings are expected to deteriorate significantly by
23 2010, so FPL is seeking to revise its base rates once the rate settlement

1 agreement's minimum term has passed, which would be on January 1, 2010.
2 Therefore, FPL believes a 2010 Test Year is necessary in order to match its
3 rate change with the year in which those costs are expected to be incurred. An
4 additional benefit of a 2010 Test Year is that it coincides with the proposed
5 January 1, 2010 effective date of FPL's 2009 dismantlement and depreciation
6 studies included as Exhibit KO-8 and FPL witness Clarke's Exhibit CRC-1,
7 respectively. As discussed later in my testimony, the 2005 rate case settlement
8 does not permit depreciation rates to be changed until January 1, 2010. Using
9 a Test Year earlier than 2010 would be inconsistent with that limitation, as it
10 could not reflect the new depreciation rates or dismantlement accrual.
11
12 **2010 AND 2011 REVENUE REQUIREMENT CALCULATIONS**
13
14 **Q. Which Exhibit shows the calculation of the base revenue increase that**
15 **FPL is requesting for 2010?**
16 A. Exhibit KO-2, which is MFR A-1 for the 2010 Test Year, shows the
17 calculation of our requested base revenue increase for 2010 of $1.044 billion.
18 **Q. Does FPL's requested base revenue increase for 2010 of $1.044 billion**
19 **reflect the Company's proposed adjustments to move costs between base**
20 **rates and clause recovery?**
21 A. Yes. This amount is net of proposed company adjustments, which I will
22 discuss in further detail later in my testimony, for certain costs to be recovered
23 through FPL's cost recovery clauses. There are six adjustments which move

1 costs between base rates and clause recovery: clause bad debt expense, St.
2 John's River Power Park capacity clause recovery, incremental hedging costs,
3 incremental security cost payroll loadings, energy conservation cost recovery
4 (ECCR) payroll loadings, and nuclear uprate operations and maintenance
5 expenses. These adjustments are all summarized on MFR C-2.
6
7 As stated in Note 2 to MFR A-1, FPL's total requested base rate increase,
8 without these adjustments, would be $1.121 billion. The Company has
9 presented the total revenue increase in Note 2 in the Test Year in order to
10 remind the Commission that FPL will seek recovery of a portion of its total
11 Test Year revenue requirements through cost recovery clauses rather than base
12 rates.

13 **Q. Which MFRs directly support the 2010 revenue increase calculation on**
14 **Exhibit KO-2?**

15 A. Page one of Exhibit KO-3 lists the MFRs that directly support the overall
16 2010 jurisdictional revenue requirement increase of $1.044 billion requested
17 by FPL. Those MFRs include schedules that support adjusted jurisdictional
18 rate base of $17.1 billion, adjusted jurisdictional net operating income of $726
19 million and the calculation of the jurisdictional revenue expansion factor of
20 1.63342 to arrive at the requested overall jurisdictional revenue requirement.
21 Additionally, I present the jurisdictional adjusted capital structure which
22 reflects FPL's requested return on equity (ROE) of 12.5 percent, which is
23 further discussed in the testimonies of FPL witnesses Pimentel and Olivera,

1 and an overall rate of return of 8.0 percent. Related FPSC and company
2 adjustments applicable to the above schedules are included in the MFRs filed
3 in this case.

4 **Q. What would be the resulting ROE for the 2010 Test Year absent the**
5 **requested rate relief?**

6 A. Exhibit KO-4 shows that absent the requested rate relief, the 2010 adjusted
7 jurisdictional ROE is projected to be 4.7 percent. Since FPL's growth in
8 revenues will be insufficient to offset increased costs, a base rate increase is
9 necessary. This current and projected decline in revenue growth coupled with
10 the need to invest in infrastructure is further discussed in FPL witness
11 Pimentel's testimony.

12 **Q. Which MFR shows the calculation of the base revenue increase that FPL**
13 **is requesting for 2011?**

14 A. MFR A-1 for the 2011 Subsequent Year, which is Exhibit KO-5, shows the
15 calculation of our requested base revenue increase for 2011 of $247.4 million.

16 **Q. Which MFRs directly support the 2011 Subsequent Year increase**
17 **calculation on Exhibit KO-5?**

18 A. Page two of Exhibit KO-3, lists the MFRs that directly support the overall
19 2011 jurisdictional revenue requirement increase of $247.4 million requested
20 by FPL. Those MFRs include schedules that support FPL's adjusted
21 jurisdictional rate base of $17.9 billion, adjusted jurisdictional net operating
22 income of $662.8 million and the calculation of the jurisdictional revenue
23 expansion factor of 1.63256 to arrive at the requested overall jurisdictional

1 revenue requirement. Additionally, I present the jurisdictional adjusted capital
2 structure which reflects FPL's requested ROE of 12.5 percent, which is further
3 discussed in the testimonies of FPL witnesses Pimentel and Olivera, and an
4 overall rate of return of 8.2 percent. Related FPSC and company adjustments
5 applicable to the above schedules are included in the MFRs filed in this case.

6 **Q. Did FPL include any costs or expenses related to West County Unit 3 in**
7 **calculating its 2011 Revenue Requirements?**

8 A. No. As discussed later in my testimony, these projected costs were removed
9 from rate base and operating expenses as company adjustments in FPL's 2011
10 Subsequent Year Adjustment schedules. FPL is requesting the continued use
11 of a GBRA mechanism for recovery of costs and expenses related to West
12 County Unit 3 being placed into service on June 1, 2011. Therefore, FPL has
13 removed all amounts associated with West County Unit 3 from its 2011
14 revenue requirements.

15 **Q. What would be the resulting ROE for the 2011 Subsequent Year absent**
16 **the requested rate relief?**

17 A. Exhibit KO-4 shows that, absent both the 2010 and 2011 requested base rate
18 relief, the 2011 adjusted jurisdictional ROE is projected to be only 3.1 percent.
19 The exhibit also shows that, with FPL's requested base rate relief for 2010 but
20 absent the requested rate relief for 2011, the 2011 adjusted jurisdictional ROE
21 is projected to be 10.7 percent, which is still well below the cost of equity for
22 FPL that is supported by FPL witness Avera. Therefore, if the Commission
23 does not approve FPL's proposed Subsequent Year Adjustment for 2011 in this

1 proceeding, FPL will have to consider initiating another proceeding to seek
2 further rate relief in 2011. Subsequent year adjustments are used for precisely
3 this reason, to avoid the cost and distraction for all parties of back-to-back rate
4 proceedings.
5
6 **GENERATION BASE RATE ADJUSTMENT**
7
8 **Q. Why is it appropriate for FPL to recover the costs associated with the in-**
9 **service of new generating plant through a GBRA mechanism?**
10 A. The stipulation to the Company's 2005 rate settlement agreement, approved
11 by the Commission in Order No. PSC-05-0902-S-EI, provided for the use of a
12 GBRA for recovery of annualized base revenue requirements for new
13 generating units. This revenue requirement is based on projected amounts
14 reflected in FPL's need determination filings and subsequently adjusted once
15 actual plant costs are known. This mechanism was used to implement a base
16 rate change effective beginning in May 2007 for FPL's Turkey Point Unit 5
17 fossil plant and is to be used for West County Units 1 and 2, which are
18 projected to be in-service before the expiration of the current rate settlement.
19
20 FPL expects substantial base rate cost impacts from adding new, more
21 efficient generating units beyond 2011. FPL proposes these generating plant
22 investments be included in base rates through the continuance of the GBRA

1 mechanism; thereby avoiding the expenditure of costs and resources
2 associated with back-to-back base rate proceedings.
3
4 The GBRA mechanism has proven to be an efficient and effective way of
5 providing for new generating plant inclusion in base rates commensurate with
6 the time fuel savings associated with new plant begin to be achieved, and the
7 Company's expenses associated with operation of new units begin to be
8 incurred. It allows for FPL to make these needed investments, pass benefits
9 on to customers and mitigate the financial impacts associated with the
10 inherent regulatory lag that would be unavoidable in a traditional base rate
11 proceeding. The use of a GBRA for West County Unit 3 and subsequent
12 generation additions will achieve the same objectives with the greatest
13 regulatory and administrative efficiency.
14 **Q. Would it not be more expedient in this proceeding to include West**
15 **County Unit 3 in FPL's 2011 Subsequent Year Adjustment increase**
16 **requested herein?**
17 A. The GBRA mechanism is a preferable approach even in the context of the
18 current rate filing, which includes a 2011 Subsequent Year Adjustment
19 request. It is appropriate for West County Unit 3 because it provides
20 flexibility and insures precision in timing of base rate changes commensurate
21 with in-service dates. In the event West County Unit 3 is placed in service
22 before or after the current June 1, 2011 estimated in-service date, a GBRA

1 would be perfectly timed to synchronize the base rate cost changes with the
2 fuel cost decreases.
3
4 Use of the GBRA avoids the need to determine the revenue requirement
5 calculations in a traditional base rate proceeding, as the GBRA is based upon
6 the previously approved need determination estimate of revenue requirements.
7 Additionally, the estimate used in the GBRA is assured of a true-up when
8 actual capital costs are known, which ensures that any savings achieved
9 through improved cost control are realized by customers. In contrast, FPL's
10 requested 2011 Subsequent Year Adjustment would not provide for a true-up.
11
12 Lastly, the GBRA mechanism is analogous to and consistent with the
13 Commission's own benchmarking practice, whereby production plant costs
14 are benchmarked to increases in CPI plus new generating plant O&M. The
15 Commission has explicitly acknowledged through this approach that
16 production plant cost increases are reasonable when related clearly to the
17 addition of generating plant already determined to be necessary to serve
18 customers. Using GBRA to recover base rate cost increases for new units,
19 while reflecting fuel cost decreases in the fuel adjustment clause, is thus quite
20 consistent with Commission production plant recovery practices overall.

1 **NUCLEAR UPRATES**

2

3 **Q. Why are nuclear uprate costs a necessary consideration in FPL's request**
4 **for base rate relief?**
5 A. FPL is entitled to recover prudently incurred nuclear uprate costs through
6 rates. This can be accomplished through the NCR clause, through base rates,
7 or a combination of the two approaches.
8 **Q. How does the Company propose to recover the in-service revenue**
9 **requirements associated with its nuclear uprate projects?**
10 A. Consistent with the Commission decision in Order No. PSC-08-0749-FOF-EI,
11 Docket No. 080009-EI and with Rule 25-6.0423, Florida Administrative
12 Code, FPL expects to include the full in-service revenue requirements
13 estimate for the nuclear uprate projects in its NCR clause filings. At the
14 proper time, subsequent to completion of all uprate in-service activities at the
15 end of each outage (two at each of FPL's four nuclear units), the Company
16 will file a separate petition as required by Rule 25-6.0423, requesting final
17 base rate treatment for the balance of uprate costs.
18 **Q. Has FPL made corresponding adjustments to remove any uprate-related**
19 **costs from the Test Year in this proceeding?**
20 A. Yes, all costs projected to be incurred for new nuclear and nuclear uprates are
21 excluded from the base rate revenue requirements through Commission and
22 company adjustments shown on MFRs B-2 and C-3.

1 **Q. Do these adjustments also remove all of the labor charges associated with**
2 **the nuclear uprate project?**
3 A. Yes, and by so doing the adjustment resets the basis upon which incremental
4 labor for clause recovery is established.
5 **Q. Please explain the process and necessity of resetting the basis for**
6 **incremental cost recovery.**
7 A. The Commission's policy and approach for the determination of incremental
8 vs. non-incremental labor has always relied on the test year assumptions as the
9 baseline for later determination. Costs reflected in base rates are not
10 incremental and not recoverable in the NCR clause filings. Conversely, costs
11 excluded from base rates are considered incremental and thus eligible for
12 NCR clause recovery. Because FPL has removed 100 percent of labor costs
13 associated with projects included in the NCR clause filings, the 2010 Test
14 Year in this base rate proceeding will reset the basis upon which incremental
15 labor will be established.
16
17 As a result of the process of resetting the determination of what is
18 incremental, it is possible that costs which were not deemed incremental in
19 years prior to 2010 would become incremental in 2010 and thereafter. For
20 example, if an employee's labor cost was not included in the NCR clause
21 filing in 2009 because that employee's salary was charged to base rate
22 operations and maintenance expense during 2006 (the Company's Test Year
23 in its last rate case filing), that salary would be included in the total company

1 amount forecasted as recoverable in the 2009 Prior Year. However, by
2 separate adjustment, this amount is removed for ratemaking purposes. Thus,
3 in 2010, the Test Year restarts and that same salary would be removed as a
4 company adjustment in this filing and thus becomes recoverable in 2010 in the
5 NCR clause filing.

6 **Q. Will the operation of Rule 25-6.0423 ensure recovery of all the uprate-**
7 **related costs that FPL's adjustments have removed from the Test Year?**

8 A. That is FPL's expectation, but the scope of recovery under Rule 25-6.0423 is
9 unknown at this time.

10 **Q. If all the prudently incurred nuclear uprate costs that FPL has removed**
11 **from the Test Year are not recovered through the NCR clause, how**
12 **should they be recovered?**

13 A. Any such prudently incurred costs ultimately found to be ineligible for
14 recovery through the NCR clause would have to be recovered in base rates.

15 **Q. How does FPL propose to address this contingency?**

16 A. FPL requests that any prudently incurred amount that is excluded from clause
17 recovery be recovered instead in base rates through a base rate adjustment.
18 The proposed formula to calculate the resulting revenue requirements is
19 shown on Exhibit KO-6. This formula would also apply to any costs that are
20 capitalized in the normal course of business and not recoverable through the
21 NCR clause, because they could not be shown to be incremental in the year
22 incurred.

1 For example, assume the Commission does not allow recovery of $5 million
2 in prudently incurred capital expenditures associated with the St. Lucie Unit 2
3 nuclear uprate through the NCR clause starting in January 2010. It further
4 determines these expenditures are prudent, but not recoverable through the
5 NCR mechanism due to its application of the "separate and apart" criterion
6 that has been announced by the Commission in Order No. PSC-08-0749-FOF-
7 EI, Docket No. 080009-E1, but not yet interpreted. In this case, the
8 Commission should use the template provided on Exhibit KO-6 to insert the
9 $5 million of capital expenditures for the St. Lucie Unit 2 uprate and calculate
10 the resulting revenue requirement to add to the base rate increase that it
11 approves in this base rate proceeding.

12 **Q. Why should the Commission approve a mechanism to allow FPL to**
13 **recover nuclear uprate costs in base rates that are not recovered through**
14 **the NCR clause?**

15 A. In order to accommodate the use of the NCR mechanism as contemplated by
16 statute and Commission rule, FPL has made an adjustment in good faith to
17 reduce the amount of its rate request that otherwise would be justified, based
18 on reasonable expectations of what is recoverable under the NCR mechanism.
19 However, 2009 will only be the second year in which that mechanism has
20 been in operation and there remains some uncertainty about the details of its
21 application. The Company should not be denied recovery of prudently
22 incurred nuclear plant investment and operating costs, which will facilitate
23 substantial fuel cost benefits to customers, because of uncertainty in

1 regulatory proceedings that are occurring almost simultaneously. Without the
2 recognition of this Catch-22 and establishing a mechanism to address it, the
3 Company would be denied the opportunity to earn a fair return and could be
4 required to file for additional recoveries in future proceedings.
5
6 **DEPRECIATION AND DISMANTLEMENT**
7
8 **Q. Please comment on the approach the Company has taken for inclusion of**
9 **depreciation expense in 2010 and beyond.**
10 A. The depreciation rates used in the forecast of FPL's 2010 Test and 2011
11 Subsequent Year are based on the depreciation study filed with the FPSC in
12 March 2005, and approved in Order No. PSC-05-0902-S-EI issued on
13 September 14, 2005. FPL has prepared and filed its 2009 depreciation study
14 with the Commission on March 17, 2009, which is being sponsored by FPL
15 witness Clarke as Exhibit CRC-1, and has made a company adjustment to the
16 2010 Test and 2011 Subsequent Years to reflect changes in depreciation
17 expense based on this depreciation study. The reconciliation of total
18 depreciation expense per books in FPL's 2010 and 2011 forecast to the
19 calculated expense based on the proposed rates included in FPL's 2009
20 depreciation study can be found on Exhibit KO-7.
21
22 Rule 25-6.0436, Florida Administrative Code, requires a study to be filed at
23 least once every four years and as stated in Order No. PSC-05-0902-S-EI,

1 FPL's depreciation rates are not to be changed during the term of FPL's
2 current Stipulation and Settlement. Therefore, the Company's 2010 Test Year
3 and 2011 Subsequent Year requests include the impact of these updated
4 depreciation rates.

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

7 A. The new study's analyses are based on actual plant and reserve balances as of
8 December 31, 2007 in order to reflect a full year of historical data, i.e.,
9 salvage, retirements, etc. The results of these analyses are then applied to
10 estimated balances through the end of 2009, which include actuals as of
11 September 30, 2008. The composite depreciation rates, which are based on
12 the new study, are used to calculate company adjustments to the 2010 Test
13 Year and 2011 Subsequent Year. Further assumptions and details of the study
14 are discussed in FPL witness Clarke's testimony.

15 **Q. Please discuss the $125 million annual credit to depreciation expense**
16 **authorized by the FPSC in the Company's 2005 rate settlement**
17 **agreement.**

18 A. Included in FPL's 2005 rate settlement agreement, which was approved by the
19 Commission, FPL was provided the option to record up to $125 million
20 annually as a credit to depreciation expense and a debit to a bottom line
21 depreciation reserve over the term of the agreement. Annually, FPL must
22 make a decision, which is irrevocable, on the amount to record up to the $125
23 million. For 2006, 2007, and 2008, FPL recorded a $125 million credit to

1 depreciation expense, and is expected to record the same amount in 2009.
2 Therefore, by the end of 2009, FPL is forecasted to show a $500 million
3 reduction in the bottom line depreciation reserve balance associated with these
4 annual credits. No continuation of this credit is extended via this filing to the
5 Test Year or beyond.

6 Q. **How has the Company accounted for the $500 million bottom line**
7 **reduction in the depreciation reserve in its new depreciation study?**

8 A. FPL has allocated the $500 million bottom line depreciation reserve debit to
9 the functional areas identified with theoretical reserve excesses in the
10 Company's 2005 depreciation study based on the percentage of each
11 functional area excess to the total. The functional areas receiving an
12 allocation of the reserve are steam, nuclear, other production, and distribution.
13
14 The amount allocated to each functional area was then distributed to the site
15 and plant account level based on the percentage of current theoretical reserve
16 excesses to the functional total excesses identified in FPL's 2009 depreciation
17 study. Allocation of the debit in this manner ensures that only sites and
18 accounts with current reserve excesses receive an allocation of the debit. The
19 allocation of the bottom line depreciation reserve debit is shown in Exhibit
20 CRC-1 included in FPL witness Clarke's testimony.

21 Q. **Has the FPSC approved FPL's 2009 depreciation study?**

22 A. Not at this time. The concurrent filing of FPL's 2009 depreciation study along
23 with FPL's base rate filing was made to allow the FPSC time to review and

1 approve the depreciation rates prior to setting base rates in this proceeding.
2 FPL requests that the final outcome of the FPSC's review and approval of the
3 depreciation study be reflected in the 2010 Test and 2011 Subsequent period
4 results.

5 **Q. Please discuss the basis for FPL's fossil dismantlement accruals in the**
6 **2010 Test Year and beyond.**

7 A. FPL's current annual accrual for fossil dismantlement is $15.3 million, which
8 was approved by the FPSC in Order No. PSC-08-0095-PAA-EI issued on
9 February 14, 2008. However, FPL has made a company adjustment to the
10 2010 Test Year and 2011 Subsequent Year results reflecting a $5.8 million net
11 increase in dismantlement accrual based on its 2009 dismantlement study,
12 which was filed with the Commission on March 17, 2009. The Company has
13 filed its 2009 dismantlement study as required in Order No. PSC-08-0095-
14 PAA-EI, Docket No. 070378-EI, issued on February 14, 2008. The
15 Commission required FPL to file its next dismantlement study concurrently
16 with the filing of its next depreciation study, which must be on or about March
17 17, 2009. A copy of FPL's 2009 filed dismantlement study is presented on
18 Exhibit KO-8.

19 **Q. What are the primary drivers for the increase in dismantlement accruals?**

20 A. There are three primary drivers for the increase. One driver is the addition of
21 the West County Units since the last dismantlement study was prepared in
22 2007. Inclusion of those units increases the dismantlement expense by $1.4
23 million. A second driver is the increase in labor rates caused by the increase

1 in the equipment component of that rate. We studied the equipment rental
2 rates more carefully in consultation with our engineering and construction
3 team. This team has been considering the costs to be incurred in the near
4 future at the Riveria and Cape Canaveral sites, which are planned for
5 modernization. In our discussions, the team recommended the use of higher
6 heavy equipment rental rates that they believe will be incurred and are more
7 representative of the actual costs. Use of these higher equipment rates has
8 resulted in an increase in the proposed dismantlement accrual of about $3.7
9 million. The last driver is an increase in fuel oil tank removal costs of $1.1
10 million. These removal costs have increased due to higher demand for fuel oil
11 tank cleaning services and higher transportation costs for the disposal of
12 contaminated materials. Further information related to these drivers, as well
13 as other reasons for the change in the total dismantlement accrual, can be
14 found in Exhibit KO-8.
15
16 One important consideration to note is that the Company did not reflect the
17 current depressed market values for salvage in this study, but chose instead to
18 use the higher salvage rate estimates that were reflected in its 2007 study.
19 Had we instead reflected the current market drop in salvage rates, the accrual
20 would have increased by another $4 million. We feel that the current salvage
21 rates do not represent those expected to be realized upon retirement of these
22 units as the economic conditions today may have unduly depressed those
23 prices.

1 **Q. Has the FPSC approved FPL's new dismantlement study?**
2 A. Not at this time. The concurrent filing of the dismantlement study along with
3 FPL's base rate filing was made to allow the FPSC time to review and approve
4 the dismantlement accruals prior to setting base rates in this proceeding. FPL
5 requests that the final outcome of the FPSC's review and approval of the
6 dismantlement study be reflected in the 2010 Test and 2011 Subsequent period
7 results.
8
9 **PROPOSED ADJUSTMENTS TO 2010 TEST AND**
10 **2011 SUBSEQUENT YEAR RESULTS**
11
12 **Q. Are there any adjustments FPL is proposing at this time to rate base, net**
13 **operating income or working capital in this proceeding that would better**
14 **reflect 2010 Test Year and 2011 Subsequent Year results for ratemaking**
15 **purposes?**
16 A. Yes. These adjustments are detailed in MFR B-2 and MFR C-3.
17 **Q. Would you please describe the adjustments FPL is proposing?**
18 A. Below is a brief description of each adjustment FPL is proposing. Additional
19 information regarding each adjustment can be found in the above mentioned
20 MFRs.

1 <u>Adjustments Impacting Revenue Requirements</u>

2 • Storm Damage and Property Insurance Reserve Accrual – As discussed in
3 FPL witness Pimentel's testimony, FPL is requesting an annual storm
4 damage and property insurance reserve accrual of $150 million. This
5 amount is reflected as an expense in the Company's filing in each of the
6 Test and Subsequent Years.

7 • FGPP Cost Recovery – Based on the Commission's ruling in Order No.
8 PSC-07-0557-FOF-EI, Docket No. 070098-EI, FPL was ordered to cease
9 construction of two coal-fired generation units at FPL's Glades Power
10 Park (FGPP). However, FPL had already incurred $34.5 million in capital
11 expenditures associated with necessary steps in order to construct the units
12 to serve customers starting in 2013. Since this ruling, FPL petitioned the
13 Commission for recovery of these costs over a five-year period. In Order
14 No. PSC-09-0013-PAA-EI, Docket No. 070432-EI, issued on January 5,
15 2009, the Commission granted FPL recovery of these costs and provided
16 for amortization of $34.1 million of these costs over a five-year period
17 beginning on January 1, 2010. Therefore, FPL has included $6.8 million
18 of amortization expense in the 2010 Test and 2011 Subsequent Years. As
19 it is necessary and appropriate for all recoverable assets, the unamortized
20 balance must be included in rate base in the Test Year in order to avoid an
21 implicit disallowance.

22 • Rate Case Expenses - FPL is requesting that a three year amortization of
23 estimated rate case expenses totaling $3.7 million be included in the

1 calculation of FPL's 2010 and 2011 revenue requirements. Recovery of
2 necessary rate case expenses is appropriate and historically has been
3 included as requested herein. Similar to FGPP cost recovery, the
4 unamortized balance must be included in rate base in the Test Year in
5 order to avoid an implicit disallowance. The Company has been prudent
6 in limiting its incremental rate case expenses, while being mindful of the
7 need to present and fully support its case in accordance with Commission
8 requirements.

9 • Dismantlement Study – As previously discussed, the $5.8 million
10 adjustment is needed in order to reflect FPL's total annual dismantlement
11 accrual of $21.1 million FPL has proposed in its 2009 dismantlement
12 study.

13 • Depreciation Study – As previously discussed, the $95.1 million
14 adjustment is needed in order to reflect FPL's 2010 total depreciation
15 accrual, excluding depreciation related to clauses, of $1.1 billion FPL has
16 proposed based on the rates determined in its 2009 depreciation study.
17 FPL has made a similar adjustment for 2011 of $101.2 million to reflect an
18 accrual of $1.1 billion.

19 • Gas Pipeline – FPL is in the early stages of the development of a gas
20 pipeline to secure additional reliable natural gas supplies to key generating
21 plants in its fleet. It expects to file a need determination with the
22 Commission in the spring of 2009. Upon the granting of an affirmative
23 determination of need, the required construction costs will begin to

1 escalate dramatically. In 2010, the company projects it will have incurred
2 approximately $64.5 million in development of this pipeline. The
3 Company expects that subsequently it will secure siting board approval, at
4 which time the costs would be transferred from the deferred debit account
5 where it is recorded today to Construction Work In Progress (CWIP), in
6 recognition of the change in status from development to construction.
7 FPL could simply leave the 2010 projected costs in working capital as
8 reflected in the forecast filed herein and receive a cash return in base rates
9 on the 13-month average estimated balance. Instead, we are proposing a
10 company adjustment to transfer the estimated capital expenditures
11 associated with this project from working capital to Construction Work In
12 Progress, Account 107. This transfer reduces the base rate increase
13 request and instead provides for FPL to accrue Allowance for Funds Used
14 During Construction (AFUDC) on the investment at the time it is
15 approved for construction. This is appropriate due to the difficulty in
16 estimating cash flows reliably this early in the developmental stage of a
17 complex project such as this and due to the uncertainty around the timing
18 of the need determination. In using this approach, a non cash return is
19 provided and neither the customer nor the Company is disadvantaged by
20 those uncertainties.
21 • End-of-Life Nuclear Fuel Last Core and M&S Inventory – Per FPSC
22 Order No. PSC-02-0055-PAA-EI, Docket No. 981246-EI, FPL is required
23 to update and report the values associated with its end-of-life nuclear fuel

1 last core and end-of-life materials and supplies inventory concurrent with
2 the filing of each of its subsequent nuclear decommissioning studies.
3 Since the filing of its last study in 2005, FPL has noted a significant
4 increase in the projected value of the end-of-life nuclear fuel last core due
5 to a sustained increase in the price of fuel. FPL believes the updates of
6 these values should be accounted for in this proceeding, since FPL is not
7 required to file its next nuclear decommissioning study until December
8 2010. As a result, FPL has included an additional expense accrual of $6.0
9 million for end-of-life nuclear fuel last core and $137 thousand for end-of-
10 life materials and supplies inventory in both the 2010 Test Year and 2011
11 Subsequent Year.

12 • Commercial/Industrial Demand Reduction (CDR) – CDR is a voluntary
13 energy management program that provides customers bill credits, while
14 helping FPL efficiently manage the supply of electricity by allowing the
15 Company to unilaterally reduce power usage during peak demand periods,
16 capacity shortages, or system emergencies. FPL records an offset to its
17 base revenues for the benefits received by those customers who participate
18 in the CDR program. FPL inadvertently excluded the debit to base
19 revenues in its 2010 Test Year and 2011 Subsequent Year forecasts.
20 Therefore, FPL has included a reduction in base revenues of $10.3 million
21 for the 2010 Test Year and $10.6 million for the 2011 Subsequent Year.

22 • Nuclear Fuel Lease – FPL Fuels, Inc., set up in 1979 under the former
23 name of St. Lucie Fuel Company, was established for the purpose of

1 financing the acquisition of nuclear fuel and then subsequently leasing the
2 fuel to FPL. A credit facility was also established to support commercial
3 paper issuance to fund nuclear fuel acquisitions; however, this was
4 dropped in 2007 and commercial paper is now guaranteed directly by FPL.
5 Since the rating agencies no longer give off-balance sheet treatment to
6 commercial paper issued by FPL Fuels, Inc. and changes in accounting
7 rules now require FPL to consolidate FPL Fuels, Inc. into its financial
8 statements, there is no longer any benefit to maintain a separate fuel
9 company. Further discussion of the dissolution of FPL Fuels, Inc. is
10 included in FPL witness Pimentel's testimony. Therefore, FPL intends to
11 dissolve FPL Fuels, Inc. on or before January 1, 2010. Because the
12 carrying costs for nuclear fuel will no longer be part of a lease payment to
13 FPL Fuels that is recovered through the fuel clause, FPL has included a
14 company adjustment to add $378.7 million in 2010 and $412.8 million in
15 2011 of net capitalized nuclear fuel to rate base. Like any other
16 investment, FPL will incur cash outflows in the purchase of capitalized
17 nuclear fuel. These investments must earn a cash return as would any
18 other prudently incurred capital expenditure required in the provision of
19 electric service to customers.
20 • Atrium Expenses – Per Order No. 10306, Docket No. 810002-EU, the
21 Commission ordered FPL to exclude the costs associated with the atrium
22 in its General Office from operating expenses because FPL was not "cost
23 conservative" in the design and construction of the atrium. Since then, the

1 capital investment in the atrium has been retired and FPL is only incurring
2 a small amount of continuing maintenance costs. FPL believes the $22
3 thousand included in its 2010 and 2011 revenue requirements related to
4 atrium maintenance expenses are insignificant, an administrative burden to
5 provide as a Commission adjustment each month in its required FPSC
6 surveillance reporting, and therefore no longer appropriate to remove from
7 base rates.

8 • Orange Groves - In Docket No. 830465-EI, FPL made a commission
9 adjustment to impute the revenues it could have received had it rented the
10 orange groves at its Manatee Plant site to a third party. FPL is now
11 leasing the property at the Manatee Plant site to other parties for grove
12 operations (orange, lime and avocado) and has included the rental
13 revenues above the line in our 2010 Test Year forecast. Therefore, it is no
14 longer necessary or appropriate to impute rental revenues, and this
15 adjustment should be excluded.

16 • Clause Overrecoveries – The Commission's current practice with regard
17 to cost of capital on clause over and underrecoveries is not equitable.
18 When FPL is projected to be in an overrecovery position regarding the
19 fuel, capacity, environmental and conservation clauses at the time of a
20 base rate filing, the FPSC has not permitted FPL to remove the liability
21 from working capital even though FPL compensates customers by paying
22 interest on the overrecovery through the cost recovery clauses. This is
23 inconsistent with the treatment of underrecoveries, where the FPSC has

1 previously required FPL to remove the asset from working capital. The
2 FPSC should acknowledge that base rates should never include the cost of
3 capital associated with clause over or underrecoveries as that cost is
4 already provided for in the clause rate itself. Instead, FPL must remove
5 the regulatory liability associated with projected overrecoveries from
6 working capital.
7
8 Adjustments to Move Items between Base Rates and Clause Recovery
9 • Clause Bad Debt Expense – Bad debt expense is normally recovered
10 through base rates; however, bad debts associated with clause revenues are
11 clearly an incremental cost that should be associated with the incremental
12 (to base rates) revenues that give rise to them. The Commission has ruled
13 on a number of occasions that incremental costs may be recovered through
14 clauses and other incremental-recovery mechanisms (e.g., storm
15 surcharges, nuclear cost recovery, etc.) so long as the costs are
16 functionally related to the reason for the incremental recovery. The bad
17 debts associated with clause revenues would not exist but for the clause
18 revenues, so both criteria are met: they are incremental (in the sense of
19 being a higher level of bad debt expense than would be associated solely
20 with base rates) and they are functionally related to the reason for the
21 incremental recovery (i.e., they are driven by, and proportional to, the
22 clause revenues that recover the costs covered by the clause in question).
23 In addition, because the clause-related bad debt expenses are proportional

1 to the clause revenues and those revenues fluctuate substantially from year
2 to year, the clause-related bad debt expenses are volatile and thus most
3 properly recovered through the clauses.
4
5 The Company's 2010 and 2011 forecast includes an estimate of bad debt
6 expense on its total revenues, including revenues generated from clauses,
7 in accordance with current practice. The company adjustment removes
8 estimated bad debt expense related to clause revenues from base rates and
9 proposes to include the clause related bad debt expense with the clause
10 revenues giving rise to the bad debt exposure itself. Including the clause
11 bad debt as a clause recoverable cost ensures that the estimate is consistent
12 with and related to the clause revenues that are not collected. It results in
13 the measurement of clause recoveries being based on amounts collected,
14 not amounts billed. Also, as clause revenue increases or decreases over
15 time, the bad debt expense is consistent with the level of that revenue
16 resulting in no benefit or detriment to the Company or its customers as
17 clause rates are reconciled. Therefore, FPL has removed $16.9 million
18 and $13.9 million of bad debt expense for 2010 and 2011, respectively,
19 which is calculated based on the relative percent of clause revenue to total
20 revenue multiplied by the forecasted bad debt expense. Beginning in
21 2010, FPL's bad debt expense associated with clause revenue would be
22 recovered through the clauses.

1 • St. Johns River Power Park Capacity Clause Recovery - Capacity charges
2 associated with St. Johns River Power Park (SJRPP) and certain capacity
3 related revenues that are currently in base rates should be removed from
4 base rates and included in the capacity clause in order to be consistent
5 with the recovery mechanism for other capacity arrangements and to
6 comply with the Commission's decision in Order No. 25773, Docket No.
7 910794-EQ which stated in part "that capacity related purchased power
8 costs not currently being recovered in any manner may be included in the
9 capacity recovery factor. Those costs currently being recovered in base
10 rates will remain in base rates until the utility's next general rate case." A
11 net amount of $56.9 million was included for recovery in 1988 base rates
12 as explained in FPSC Order No. PSC-94-1092-FOF-EI, Docket No.
13 940001-EI. Therefore, FPL is requesting that this amount be transferred
14 from base rates to the capacity clause.
15 • Incremental Hedging Costs – Incremental hedging costs of $715 thousand
16 for 2010 and $736 thousand for 2011 primarily consist of the labor costs
17 associated with the trading, back office, and middle office staff employed
18 in support of the Company's Commission-sanctioned fuel hedging
19 program. In accordance with Commission Order No. PSC-02-1484-FOF-
20 EI, issued October 30, 2002, in Docket No. 011605-EI, incremental costs
21 associated with the Company's hedging program were recoverable as a
22 part of the fuel clause until the earlier of 2006 or the establishment of new
23 base rates in the Company's next base rate case. FPL's clause recovery of

1 its incremental hedging costs was extended in Docket No. 050001-EI,
2 Order No. PSC-05-1252-FOF-EI, issued on December 23, 2005, through
3 at least December 31, 2009 and thereafter until FPL's next base rate
4 proceeding. At this time, it is appropriate to include these costs in the
5 current base rate revenue requirements calculations.

6 • Incremental Security Payroll Loadings – This company adjustment applies
7 payroll loadings consistent with the payroll dollars recovered through the
8 capacity clause. Currently, FPL has not been including payroll taxes
9 related to compensation associated with incremental security through the
10 capacity clause. FPL proposes to remove $430 thousand from base rates
11 in the 2010 Test Year and $506 thousand from the 2011 Subsequent Year
12 for payroll taxes related to compensation associated with incremental
13 security, in order to facilitate recovery of fully loaded incremental security
14 payroll costs through the capacity clause beginning in 2010. These
15 loadings are incremental and vary directly with incremental security
16 payroll costs charged to the capacity clause.

17 • ECCR Payroll Loadings – This company adjustment applies payroll
18 loadings consistent with the payroll dollars recovered through the energy
19 conservation cost recovery (ECCR) clause. Currently, FPL makes an
20 adjustment to the ECCR clause to reduce total payroll loadings related to
21 compensation associated with conservation employees by the amount of
22 loadings for FICA and unemployment taxes. This adjustment has been
23 required due to a finding in Docket No. 850002-PU that these items were

1 already included in base rates at that time. FPL is proposing to remove
2 $1.6 million for 2010 and $1.5 million for 2011 for the FICA and
3 unemployment taxes remaining in base rates, in order to facilitate recovery
4 of fully loaded ECCR payroll costs through the ECCR clause beginning in
5 2010. The amount of these loadings varies directly with payroll costs
6 charged to the ECCR clause, so it is appropriate that they be recovered via
7 that mechanism.
8
9 Adjustments Made to Isolate Certain Costs from Base Rate Revenues
10 Requirements
11 • Nuclear Uprates - As previously discussed all clause revenue and expenses
12 associated with the nuclear uprate projects are identified and removed
13 from base revenue requirements consideration. Specifically, during the
14 Test Year and Subsequent Year in this filing, we must reflect the
15 determination of the optimal recovery mechanism for the nuclear uprates,
16 all of which will go into service during the 2010, 2011, and 2012 outages.
17 As already discussed, FPL is including its in-service revenue requirements
18 related to nuclear uprates with its NCR filings. Therefore, FPL has
19 removed all amounts associated with nuclear uprates from the Test and
20 Subsequent Years through this company adjustment.
21 • West County Unit 3 - Included in the 2011 Subsequent Year Adjustment
22 schedules are amounts associated with West County Unit 3, which is
23 projected to be placed in service on June 1, 2011. As already discussed,

1 FPL is requesting a GBRA recovery of the revenue requirements for
2 commercial operation of this unit and therefore made an adjustment to
3 remove $457.2 million from rate base and $20.0 million from operating
4 expenses from the 2011 Subsequent Year.

5 **Q. Is FPL making an adjustment to reflect the impacts of the recently**
6 **enacted Economic Stimulus bill?**

7 A. No. The Economic Stimulus bill was signed into law by the President on
8 February 17, 2009 and many of the provisions of the bill are effective for the
9 2009 tax year. The Company is presently researching the various provisions
10 of the legislation but many compliance and accounting questions remain. At
11 this time, the Company has not quantified or captured the potential benefits.
12 Certainly, during this proceeding, additional insights will be provided and
13 shared with all parties so that these benefits may be provided to our customers
14 to the extent they can be realized by the Company.

15

16 **AFFILIATE TRANSACTIONS**

17

18 **Q. Please describe FPL Group's structure and its impact on FPL.**

19 A. As the originating legal entity of today's successor FPL Group, Inc. (FPL
20 Group), FPL has long been the primary operating entity of FPL Group. In the
21 course of the years since the formation of FPL Group, FPL has continued to
22 operate and grow in concert with the growth of its service area. At the same
23 time, new operating affiliates of FPL within the FPL Group corporate

1 umbrella have been formed. Today, FPL is one of more than 500 legal
2 entities that operate under FPL Group's corporate legal structure.
3
4 As the primary operating entity for many years, FPL has had to provide
5 resources and incur the related costs in order to perform all necessary
6 operating and support functions in order to provide electric service to
7 customers. More recently it has acted as the service company for its parent
8 company and affiliates in many of the staff functions and activities, as well as
9 operating support activities such as those performed by the nuclear and power
10 generation divisions. A sample list of these shared services may be found on
11 Exhibit KO-9. The activities embedded in FPL today continue to be
12 necessary to support the provision of electric service to FPL's Florida retail
13 customers; charging a portion of these support services to its affiliates has
14 allowed FPL and its customers to reduce its share of these necessary fixed
15 costs.
16
17 This structure has been proven over the years to be efficient and effective
18 from an operating perspective, as the special skills and talents can be
19 leveraged over the largest organizational reach. Furthermore, by spreading
20 the fixed cost of the support activities over a broader base, the retail utility
21 customers' cost responsibility is reduced below what they would otherwise
22 incur.

1 FPL implements this cost sharing via an integrated structure of billings and
2 allocations that are codified in its Cost Allocation Manual (CAM).
3 Maintaining the CAM is a requirement of Rule 25-6.1351, Cost Allocations
4 and Affiliate Transactions. The CAM largely follows the published
5 guidelines recommended by the National Association of Regulatory Utility
6 Commissioners (NARUC). The CAM is included as Exhibit KO-9, and the
7 NARUC guidelines are included as Exhibit KO-10.

8 **Q. What methods are used by FPL to charge costs to affiliates?**

9 A. As reflected in Exhibit KO-9, there are currently three ways FPL charges costs
10 of shared activities to its affiliates:

11 1. Direct Charges - Costs of resources used exclusively to provide service
12 for the benefit of one company are directly charged to that company.
13 Payroll is charged to a specific work order, which translates to a
14 specific affiliate accounts receivable account. To ensure the coding of
15 these work orders is accurate, each employee charging their time to an
16 affiliate is held responsible for the accuracy of the charges. Each FPL
17 Business Unit then performs an annual review of their employees'
18 fixed payroll distribution;

19 2. Service Fees – Costs for ongoing services provided to or shared by
20 affiliates of FPL. All service fees are charged monthly based on
21 budgeted amounts and reviewed for potential true-up quarterly and at
22 year end when actuals are known, and may be revised during the year,

1 as needed, to reflect significant changes. FPL currently has four
2 service fees:
3 a. Power Generation – Services includes fleet team management
4 and direct plant specific support. Costs are directly charged
5 and fully loaded;
6 b. Nuclear – Services include nuclear operations, fuels support,
7 management team, engineering, and assurance support to
8 NextEra Energy Resources' nuclear plants. Costs are fully
9 loaded and allocated based on the number of generating units;
10 c. Energy, Marketing, & Trading (EMT) - Services include back
11 office support, which are fully loaded and allocated based on
12 time studies or specific analysis by function; and
13 d. Information Management Nuclear – Services include nuclear
14 procurement and work management system application
15 support, Information Management Business Unit management
16 team support, data services, and infrastructure support to
17 NextEra Energy Resources' nuclear plants. Costs are fully
18 loaded and allocated based on either the number of application
19 systems or number of generating units.
20 3. Affiliate Management Fee (AMF) – Corporate staff infrastructure and
21 governance costs that benefit both FPL and the affiliates are
22 categorized into specific cost pools. The AMF is charged on a
23 monthly basis based on budgeted amounts and trued-up at year end

1 when actuals are known, and may be revised, as needed, during the
2 year to reflect significant changes;
3 a. Where distinct cost "drivers" may be determined, the cost of
4 ongoing services shared jointly to support utility and affiliate
5 operations are allocated using specific factors. Examples of
6 these cost pools include corporate systems applications,
7 support for computer mainframe operations, benefit programs,
8 and corporate security. The drivers to allocate these costs are
9 carefully selected in order to accurately allocate costs.
10 Examples of commonly used drivers include number of
11 personal computers, number of transactions, headcount and
12 square footage; and
13 b. Those cost pools which do not have distinct cost drivers are
14 allocated using the Massachusetts Formula, a methodology
15 widely accepted by utility regulators as a fair and reasonable
16 way to allocate common costs among affiliates. The
17 Massachusetts Formula has three components: property, plant
18 and equipment, revenue and payroll. The annual amounts
19 forecasted for each of these components are collected from
20 FPL and its affiliates, and used as the basis in calculating the
21 percentage to be charged to each affiliate. First, the percentage
22 for each component to the total is determined. Then once these
23 percentages are determined, they are then averaged to give

1 each of the three components equal weight. The use of a
2 calculated average of property, plant and equipment, revenue
3 and payroll appropriately considers the various factors
4 affecting the use of common services. Examples of cost pools
5 that do not have a specific driver include budgeting, and
6 planning, external financial reporting, corporate
7 communications, mail services, and shareholder services.

8 **Q. Please describe the controls FPL designs, maintains and relies on to**
9 **ensure that FPL retail customers do not subsidize the operation of an**
10 **affiliate.**

11 A. FPL has documented the practices and procedures that must be adhered to by
12 each employee in the conduct of shared services and appropriate billings.
13 These procedures may be found in the CAM, which can be accessed readily
14 by each and every employee through the internal FPL Group corporate
15 website.
16
17 In addition, the Company maintains a Cost Measurement and Allocations
18 department whose responsibilities include the monitoring and controlling of
19 the affiliate billing process. These employees perform the following
20 functions: prepare affiliate billings for FPL's direct charges based on the
21 transactions provided by the originating services organization; review,
22 implement and oversee the service fees; annually review services that should
23 be allocated to the affiliates during the budgeting and forecasting process for

1 the upcoming year with each corporate staff group; and perform the
2 allocations included in the Affiliate Management Fee. This group is the
3 primary control and oversight organization whose mission is to ensure that
4 FPL complies with Rule 25-6.1351.

5 Q. **Does FPL conduct self-assessments of its affiliate transactions to ensure**
6 **that they are properly documented and comply with the Commission's**
7 **rule?**

8 A. Yes, FPL Group's Internal Audit Department performed a review of FPL's
9 affiliate transactions in 2008 to ensure FPL's controls are operating as
10 designed in order to record and transfer costs to its affiliates. The scope of the
11 review included the AMF, Service Fees, direct charges, and other affiliate
12 transactions. Overall, Internal Audit deemed the results of these controls to be
13 adequate. As always, some improvement opportunities were noted and
14 implemented by year end.

15 Q. **Please discuss how the Company handles the costs and expenses**
16 **associated with FPL-NED, in determining retail base rate revenue**
17 **requirements.**

18 A. The amounts recorded at FPL-NED, a division of FPL, represent its
19 ownership share of the Seabrook Transmission Substation (STS) at NextEra
20 Energy Resources' plant located in New Hampshire.

21

22 All transmission operations and maintenance costs associated with FPL-
23 NED's ownership share of the STS are charged to FPL-NED. Also, FPL

1 direct charges any services it performs for FPL-NED on the same basis it
2 charges its affiliates, fully loaded. The costs recorded at FPL-NED are
3 recovered from ISO-New England customers and NextEra Energy Resources.
4 Amounts are recorded to FPL-NED, instead of FPL, in order to separately
5 identify these transactions and, for regulatory purposes, assign them as 100
6 percent non-Florida, non-retail jurisdictional. Costs associated with FPL-
7 NED's ownership and operation of the STS are reported as a separate
8 reporting division and not included in FPL's determination of retail
9 jurisdictional rate base, operating income, or revenue requirements. This is
10 reflected on MFRs B-6 and C-4, where all system amounts associated with
11 FPL-NED have a retail jurisdictional factor of zero.

12 Q. **How is FPL-NED reflected in FPL's capital structure for ratemaking**
13 **purposes?**

14 A. FPL removes FPL-NED from its capital structure on a prorata basis,
15 consistent with Commission practice. As a result, and based on the removal
16 of costs previously mentioned, FPL has removed all amounts associated with
17 FPL-NED in determining its retail base rate revenue requirements in this
18 proceeding.

19 Q. **Is FPL taking steps to evaluate and implement a transfer of FPL-NED**
20 **assets into a separate corporate entity**?

21 A. Yes, FPL is currently in the process of evaluating the most appropriate way to
22 structure and implement transferring FPL-NED from a division of FPL to a
23 separate corporate entity. A separate corporate entity would further simplify

1 the tracking of the assets and operations associated with the ownership share

2 of the STS, and would confirm its separation from FPL's Florida retail

3 operations. Once a transfer is complete, there would then be no further

4 connection of the STS with FPL.

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

6 A. Yes.

# MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY KIM OUSDAHL

| MFR # | PERIOD | TITLE |
|---|---|---|
| **SOLE SPONSORSHIP:** | | |
| B-1 | 2008 Historic<br>2009 Prior<br>2010 Test | ADJUSTED RATE BASE |
| B-3 | 2008 Historic | 13-MONTH AVERAGE BALANCE SHEET – SYSTEM BASIS |
| B-4 | 2008 Historic | TWO YEAR HISTORICAL BALANCE SHEET |
| B-18 | 2008 Historic | FUEL INVENTORY BY PLANT |
| B-19 | 2010 Test | MISCELLANEOUS DEFERRED DEBITS |
| B-20 | 2010 Test | OTHER DEFERRED CREDITS |
| B-21 | 2008 Historic | ACCUMULATED PROVISION ACCOUNTS – 228.1, 228.2 AND 228.4 |
| B-25 | 2010 Test & 2009 Prior | ACCOUNTING POLICY CHANGES AFFECTING RATE BASE |
| C-1 | 2008 Historic<br>2009 Prior<br>2010 Test | ADJUSTED JURISDICTIONAL NET OPERATING INCOME |
| C-2 | 2008 Historic<br>2009 Prior<br>2010 Test | NET OPERATING INCOME ADJUSTMENTS |
| C-3 | 2008 Historic<br>2009 Prior<br>2010 Test | JURISDICTIONAL NET OPERATING INCOME ADJUSTMENTS |
| C-7 | 2010 Test | OPERATION AND MAINTENANCE EXPENSES |
| C-9 | 2008 Historic | FIVE YEAR ANALYSIS-CHANGE IN COST |
| C-13 | 2008 Historic | MISCELLANEOUS GENERAL EXPENSES |
| C-15 | 2008 Historic | INDUSTRY ASSOCIATION DUES |
| C-18 | 2008 Historic | LOBBYING EXPENSES, OTHER POLITICAL EXPENSES AND CIVIC/CHARITABLE CONTRIBUTIONS |
| C-20 | 2008 Historic | TAXES OTHER THAN INCOME TAXES |
| C-22 | 2008 Historic<br>2010 Test | STATE AND FEDERAL INCOME TAX CALCULATION |

# MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY KIM OUSDAHL

| MFR # | Period | TITLE |
|---|---|---|
| **SOLE SPONSORSHIP:** | | |
| C-24 | 2008 Historic<br>2010 Test | PARENT(S) DEBT INFORMATION |
| C-25 | 2010 Test, 2009 Prior,<br>2008 Historic | DEFERRED TAX ADJUSTMENT |
| C-26 | 2008 Historic | INCOME TAX RETURNS |
| C-27 | 2010 Test | CONSOLIDATED TAX INFORMATION |
| C-28 | 2008 Historic | MISCELLANEOUS TAX INFORMATION |
| C-30 | 2010 Test | TRANSACTIONS WITH AFFILIATED COMPANIES |
| C-31 | 2010 Test & 2008 Historic | AFFILIATED COMPANY RELATIONSHIPS |
| C-32 | 2010 Test & 2008 Historic | NON-UTILITY OPERATIONS UTILIZING UTILITY ASSETS |
| C-38 | 2010 Test | O&M ADJUSTMENTS BY FUNCTION |
| C-39 | 2008 Historic | BENCHMARK YEAR RECOVERABLE O&M EXPENSES BY FUNCTION |
| C-44 | 2010 Test | REVENUE EXPANSION FACTOR |
| D-1b | 2010 Test, 2009 Prior,<br>2008 Historic | COST OF CAPITAL – ADJUSTMENTS |
| D-4a | 2008 Historic | LONG-TERM DEBT OUTSTANDING |
| F-1 | 2008 Historic | ANNUAL AND QUARTERLY REPORT TO SHAREHOLDERS |
| F-2 | 2008 Historic | SEC REPORTS |
| **JOINT OR CO-SPONSORSHIP:** | | |
| A-1 | 2010 Test | FULL REV REQUIREMENTS INCREASE REQUESTED |
| B-2 | 2008 Historic<br>2009 Prior<br>2010 Test | RATE BASE ADJUSTMENTS |
| B-6 | 2008 Historic<br>2010 Test | JURSIDICTIONAL SEPARATION FACTORS – RATE BASE |
| B-15 | 2010 Test & 2009 Prior | PROPERTY HELD FOR FUTURE USE – 13 MONTH AVG |

# MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY KIM OUSDAHL

| MFR # | Period | TITLE |
|---|---|---|
| **JOINT OR CO-SPONSORSHIP:** | | |
| B-17 | 2010 Test & 2009 Prior | WORKING CAPITAL – 13 MONTH AVG |
| B-22 | 2010 Test & 2008 Historic | TOTAL ACCUMULATED DEFERRED INCOME TAXES |
| B-23 | 2010 Test, 2009 Prior, 2008 Historic | INVESTMENT TAX CREDITS – ANNUAL ANALYSIS |
| C-4 | 2008 Historic 2010 Test | JURISDICTIONAL SEPARATION FACTORS – NET OPERATING INCOME |
| C-8 | 2010 Test & 2009 Prior | DETAIL OF CHANGES IN EXPENSES |
| C-6 | 2010 Test, 2009 Prior, 2008 Historic | BUDGETED VERSUS ACTUAL OPERATING REVENUES AND EXPENSES |
| C-10 | 2010 Test | DETAIL OF RATE CASE EXPENSES FOR OUTSIDE CONSULTANTS |
| C-12 | 2010 Test & 2008 Historic | ADMINISTRATIVE EXPENSES |
| C-16 | 2008 Historic | OUTSIDE PROFESSIONAL SERVICES |
| C-17 | 2010 Test & 2008 Historic | PENSION COST |
| C-18 | 2010 Test | LOBBYING EXPENSES, OTHER POLITICAL EXPENSES AND CIVIC/CHARITABLE CONTRIBUTIONS |
| C-21 | 2010 Test, 2009 Prior, 2008 Historic | REVENUE TAXES |
| C-23 | 2010 Test & 2008 Historic | INTEREST IN TAX EXPENSE CALCULATION |
| C-29 | 2010 Test, 2009 Prior, 2008 Historic | GAINS AND LOSSES ON DISPOSITION OF PLANT AND PROPERTY |
| C-33 | 2010 Test, 2009 Prior, 2008 Historic | PERFORMANCE INDICES |
| C-36 | 2010 Test, 2009 Prior, 2008 Historic | NON-FUEL OPERATION AND MAINTENANCE EXPENSE COMPARED TO CPI |
| C-37 | 2010 Test | O&M BENCHMARK COMPARISON BY FUNCTION |
| C-41 | 2010 Test | O&M BENCHMARK VARIANCE BY FUNCTION |
| C-42 | 2010 Test, 2009 Prior, 2008 Historic | HEDGING COSTS |

# MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY KIM OUSDAHL

| MFR # | Period | TITLE |
|---|---|---|
| **JOINT OR CO-SPONSORSHIP:** | | |
| C-43 | 2010 Test, 2009 Prior, 2008 Historic | SECURITY COSTS |
| D-1a | 2008 Historical<br>2009 Prior<br>2010 Test | COST OF CAPITAL – 13 MONTH AVG |
| D-4b | 2010 Test & 2009 Prior | REACQUIRED BONDS |
| F-5 | 2010 Test | FORECASTING MODELS |
| F-8 | 2010 Test | ASSUMPTIONS |

| | Period | TITLE |
|---|---|---|
| **2011 WEST COUNTY UNIT 3 SPONSORED OR CO-SPONSORED:** | | |
| A-1 | 2011 West County Unit 3 | FULL REV REQUIREMENTS INCREASE REQUESTED |
| B-1 | 2011 West County Unit 3 | ADJUSTED RATE BASE |
| B-6 | 2011 West County Unit 3 | JURISDICTIONAL SEPARATION FACTORS – RATE BASE |
| C-1 | 2011 West County Unit 3 | ADJUSTED JURISDICTIONAL NET OPERATING INCOME |
| C-4 | 2011 West County Unit 3 | JURISDICTIONAL SEPARATION FACTORS – NET OPERATING INCOME |
| C-22 | 2011 West County Unit 3 | STATE AND FEDERAL INCOME TAX CALCULATION |
| C-23 | 2011 West County Unit 3 | INTEREST IN TAX EXPENSE CALCULATION |
| C-44 | 2011 West County Unit 3 | REVENUE EXPANSION FACTOR |
| D-1a | 2011 West County Unit 3 | COST OF CAPITAL – 13 MONTH AVG |

# MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY KIM OUSDAHL

| | Period | TITLE |
|---|---|---|
| **FPL'S 2011 SUBSEQUENT YEAR ADJUSTMENT SCHEDULES SPONSORED OR CO-SPONSORED:** | | |
| A-1 | FPL's 2011 Subsequent Year Adjustment | FPL's 2011 SUBSEQUENT YEAR ADJUSTMENT REVENUE REQUIREMENTS AND RATES OF RETURN CALCULATIONS |
| B-1 | FPL's 2011 Subsequent Year Adjustment | ADJUSTED RATE BASE |
| B-2 | FPL's 2011 Subsequent Year Adjustment | RATE BASE ADJUSTMENTS |
| B-6 | FPL's 2011 Subsequent Year Adjustment | JURISDICTIONAL SEPARATION FACTORS – RATE BASE |
| B-15 | FPL's 2011 Subsequent Year Adjustment | PROPERTY HELD FOR FUTURE USE – 13 MONTH AVG |
| B-17 | FPL's 2011 Subsequent Year Adjustment | WORKING CAPITAL – 13 MONTH AVG |
| B-19 | FPL's 2011 Subsequent Year Adjustment | MISCELLANEOUS DEFERRED DEBITS |
| B-20 | FPL's 2011 Subsequent Year Adjustment | OTHER DEFERRED CREDITS |
| B-22 | FPL's 2011 Subsequent Year Adjustment | TOTAL ACCUMULATED DEFERRED INCOME TAXES |
| B-23 | FPL's 2011 Subsequent Year Adjustment | INVESTMENT TAX CREDITS – ANNUAL ANALYSIS |
| B-25 | FPL's 2011 Subsequent Year Adjustment | ACCOUNTING POLICY CHANGES AFFECTING RATE BASE |
| C-1 | FPL's 2011 Subsequent Year Adjustment | ADJUSTED JURISDICTIONAL NET OPERATING INCOME |
| C-2 | FPL's 2011 Subsequent Year Adjustment | NET OPERATING INCOME ADJUSTMENTS |
| C-3 | FPL's 2011 Subsequent Year Adjustment | JURISDICTIONAL NET OPERATING INCOME ADJUSTMENTS |
| C-4 | FPL's 2011 Subsequent Year Adjustment | JURISDICTIONAL SEPARATION FACTORS – NET OPERATING INCOME |
| C-6 | FPL's 2011 Subsequent Year Adjustment | BUDGETED VERSUS ACTUAL OPERATING REVENUES AND EXPENSES |
| C-7 | FPL's 2011 Subsequent Year Adjustment | OPERATION AND MAINTENANCE EXPENSES |

# MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY KIM OUSDAHL

| MFR # | Period | TITLE |
|---|---|---|
| **JOINT OR CO-SPONSORSHIP:** | | |
| C-8 | FPL's 2011 Subsequent Year Adjustment | DETAIL OF CHANGES IN EXPENSES |
| C-10 | FPL's 2011 Subsequent Year Adjustment | DETAIL OF RATE CASE EXPENSES FOR OUTSIDE CONSULTANTS |
| C-12 | FPL's 2011 Subsequent Year Adjustment | ADMINISTRATIVE EXPENSES |
| C-17 | FPL's 2011 Subsequent Year Adjustment | PENSION COST |
| C-18 | FPL's 2011 Subsequent Year Adjustment | LOBBYING EXPENSES, OTHER POLITICAL EXPENSES AND CIVIC/CHARITABLE CONTRIBUTIONS |
| C-22 | FPL's 2011 Subsequent Year Adjustment | STATE AND FEDERAL INCOME TAX CALCULATION |
| C-23 | FPL's 2011 Subsequent Year Adjustment | INTEREST IN TAX EXPENSE CALCULATION |
| C-24 | FPL's 2011 Subsequent Year Adjustment | PARENT(S) DEBT INFORMATION |
| C-25 | FPL's 2011 Subsequent Year Adjustment | DEFERRED TAX ADJUSTMENT |
| C-27 | FPL's 2011 Subsequent Year Adjustment | CONSOLIDATED TAX INFORMATION |
| C-29 | FPL's 2011 Subsequent Year Adjustment | GAINS AND LOSSES ON DISPOSITION OF PLANT AND PROPERTY |
| C-30 | FPL's 2011 Subsequent Year Adjustment | TRANSACTIONS WITH AFFILIATED COMPANIES |
| C-31 | FPL's 2011 Subsequent Year Adjustment | AFFILIATED COMPANY RELATIONSHIPS |
| C-32 | FPL's 2011 Subsequent Year Adjustment | NON-UTILITY OPERATIONS UTILIZING UTILITY ASSETS |
| C-33 | FPL's 2011 Subsequent Year Adjustment | PERFORMANCE INDICES |
| C-36 | FPL's 2011 Subsequent Year Adjustment | NON-FUEL OPERATION AND MAINTENANCE EXPENSE COMPARED TO CPI |
| C-37 | FPL's 2011 Subsequent Year Adjustment | O&M BENCHMARK COMPARISON BY FUNCTION |
| C-38 | FPL's 2011 Subsequent Year Adjustment | O&M ADJUSTMENTS BY FUNCTION |
| C-41 | FPL's 2011 Subsequent Year Adjustment | O&M BENCHMARK VARIANCE BY FUNCTION |

# MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY KIM OUSDAHL

| | Period | TITLE |
|---|---|---|
| **FPL'S 2011 SUBSEQUENT YEAR ADJUSTMENT SCHEDULES SPONSORED OR CO-SPONSORED:** | | |
| C-42 | FPL's 2011 Subsequent Year Adjustment | HEDGING COSTS |
| C-43 | FPL's 2011 Subsequent Year Adjustment | SECURITY COSTS |
| C-44 | FPL's 2011 Subsequent Year Adjustment | REVENUE EXPANSION FACTOR |
| D-1a | FPL's 2011 Subsequent Year Adjustment | COST OF CAPITAL – 13 MONTH AVG |
| D-1b | FPL's 2011 Subsequent Year Adjustment | COST OF CAPITAL – ADJUSTMENTS |
| D-4b | FPL's 2011 Subsequent Year Adjustment | REACQUIRED BONDS |
| F-5 | FPL's 2011 Subsequent Year Adjustment | FORECASTING MODELS |
| F-8 | FPL's 2011 Subsequent Year Adjustment | ASSUMPTIONS |

| | Period | TITLE |
|---|---|---|
| **2009 SUPPLEMENTAL MFR SCHEDULES SPONSORED OR CO-SPONSORED:** | | |
| B-04 | 2009 Supplemental MFR Schedule | Two Year Historical Balance Sheet |
| B-06 | 2009 Supplemental MFR Schedule | Jurisdictional Separation Factors - Rate Base |
| B-19 | 2009 Supplemental MFR Schedule | Miscellaneous Deferred Debits |
| B-20 | 2009 Supplemental MFR Schedule | Other Deferred Credits |
| C-04 | 2009 Supplemental MFR Schedule | Jurisdictional Separation Factors – NOI |
| C-09 | 2009 Supplemental MFR Schedule | Five Year Analysis - Change In Cost |
| C-10 | 2009 Supplemental MFR Schedule | Detail Of Rate Case Expenses For Outside Consultants |
| C-12 | 2009 Supplemental MFR Schedule | Administrative Expenses |
| C-17 | 2009 Supplemental MFR Schedule | Pension Cost |
| C-18 | 2009 Supplemental MFR Schedule | Lobbying Expenses, Other Political Expenses And Civic/Charitable Contributions |
| C-30 | 2009 Supplemental MFR Schedule | Transactions With Affiliated Companies |
| C-31 | 2009 Supplemental MFR Schedule | Affiliated Company Relationships |

# MFRs AND SCHEDULES SPONSORED AND CO-SPONSORED BY KIM OUSDAHL

| | Period | TITLE |
|---|---|---|
| **2009 SUPPLEMENTAL MFR SCHEDULES SPONSORED OR CO-SPONSORED:** | | |
| C-37 | 2009 Supplemental MFR Schedule | O&M Benchmark Comparison By Function |
| C-38 | 2009 Supplemental MFR Schedule | O&M Adjustments By Function |
| C-39 | 2009 Supplemental MFR Schedule | Benchmark Year Recoverable O&M Expenses By Function |
| C-41 | 2009 Supplemental MFR Schedule | O&M Benchmark Variance By Function |
| C-44 | 2009 Supplemental MFR Schedule | Revenue Expansion Factor |
| F-01 | 2009 Supplemental MFR Schedule | Annual And Quarterly Report To Shareholders |
| F-02 | 2009 Supplemental MFR Schedule | SEC Reports |
| F-05 | 2009 Supplemental MFR Schedule | Forecasting Models |
| F-08 | 2009 Supplemental MFR Schedule | Assumptions |

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES

DOCKET NO. 080677-EI

EXPLANATION: PROVIDE THE CALCULATION OF THE REQUESTED FULL REVENUE REQUIREMENTS INCREASE

TYPE OF DATA SHOWN:
X PROJECTED TEST YEAR ENDED 12/31/10
___ PRIOR YEAR ENDED 12/31/09
___ HISTORICAL TEST YEAR ENDED 12/31/08
___ PROJ. SUBSEQUENT YR ENDED 12/31/11

WITNESS: Kim Ousdahl, Armando Pimentel

| LINE NO. | (1) DESCRIPTION | (2) SOURCE | (3) AMOUNT ($000) |
|---|---|---|---|
| 1 | | | |
| 2 | JURISDICTIONAL ADJUSTED RATE BASE | SCHEDULE B-1 | $ 17,063,586 |
| 3 | | | |
| 4 | RATE OF RETURN ON RATE BASE REQUESTED | SCHEDULE D-1A | x 8.00% |
| 5 | | | |
| 6 | JURISDICTIONAL NET OPERATING INCOME REQUESTED | LINE 2 X LINE 4 | $ 1,364,748 |
| 7 | | | |
| 8 | JURISDICTIONAL ADJUSTED NET OPERATING INCOME | SCHEDULE C-1 | 725,883 |
| 9 | | | |
| 10 | NET OPERATING INCOME DEFICIENCY (EXCESS) | LINE 6 - LINE 8 | $ 638,865 |
| 11 | | | |
| 12 | EARNED RATE OF RETURN | LINE 8 / LINE 2 | 4.25% |
| 13 | | | |
| 14 | NET OPERATING INCOME MULTIPLIER | SCHEDULE C-44 | x 1.633420 |
| 15 | | | |
| 16 | REVENUE INCREASE (DECREASE) REQUESTED | LINE 10 X LINE 14 | $ 1,043,535 |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |
| 21 | | | |
| 22 | | | |
| 23 | | | |
| 24 | NOTE 1: TOTALS MAY NOT ADD DUE TO ROUNDING. | | |
| 25 | NOTE 2: TOTAL REQUESTED INCREASE, EXCLUDING THE EFFECT OF PROPOSED COMPANY ADJUSTMENTS RELATED TO COST RECOVERY CLAUSES SHOWN ON | | |
| 26 | MFR C-2, IS $1,121.4 MILLION. | | |
| 27 | | | |
| 28 | | | |
| 29 | | | |

SUPPORTING SCHEDULES: B-1, C-1, D-1a, C-44

RECAP SCHEDULES:

# 2010 Test Year

| MFR # | MFR Description | Comment(s) |
|---|---|---|
| A-1 | Full Revenue Requirements Increase Requested | Derivation and calculation of our full revenue requirement increase requested of $1.044 Billion and resulting jurisdictional rate of return at December 31, 2010 |
| B-1 | Adjusted Rate Base | Projected December 31, 2010 thirteen month average jurisdictional adjusted rate base of $17.1 Billion |
| B-2 | Rate Base Adjustments | Includes those necessary, in the opinion of the company, to fairly present rate base and working capital |
| B-17 | Working Capital - 13 Month Average | Adjusted working capital calculation using the balance sheet approach approved by the FPSC (adjustments are explained on MFR B-2) |
| C-1 | Adjusted Jurisdictional Net Operating Income | Projected adjusted net operating income of $726 Million for the year ended December 31, 2010 |
| C-2 | Net Operating Income Adjustments | Explanations are on MFR C-3. Includes details of net operating income adjustments on MFR C-1. |
| C-3 | Jurisdictional Net Operating Income Adjustments | Explanations of net operating income adjustments found on MFR C-2 |
| C-44 | Revenue Expansion Factor | Calculation of the factor used for the 2010 revenue requirement calculation. The factor as of December 31, 2010 is 1.63342. |
| D-1a | Cost of Capital - 13 Month Average | Includes Jurisdictional Capital Structure and Required Rate of Return by Class of Capital. The overall rate of return and requested ROE as of December 31, 2010 is 8.0% and 12.5%, respectively. |
| D-1b | Cost of Capital - Adjustments | Includes Details for Cost of Capital Adjustments listed on MFR D-1A |

## 2011 Subsequent Year Adjustment Schedules

| MFR # | MFR Description | Comment(s) |
|---|---|---|
| A-1 | Full Revenue Requirements Increase Requested | Derivation and calculation of our full revenue requirement increase requested of $247.4 Million and resulting jurisdictional rate of return at December 31, 2011 |
| B-1 | Adjusted Rate Base | Projected December 31, 2011 thirteen month average jurisdictional adjusted rate base of $17.9 Billion |
| B-2 | Rate Base Adjustments | Includes those necessary, in the opinion of the company, to fairly present rate base and working capital |
| B-17 | Working Capital - 13 Month Average | Adjusted working capital calculation using the balance sheet approach approved by the FPSC (adjustments are explained on MFR B-2) |
| C-1 | Adjusted Jurisdictional Net Operating Income | Projected adjusted net operating income of $662.8 Million for the year ended December 31, 2011 |
| C-2 | Net Operating Income Adjustments | Explanations are on MFR C-3. Includes details of net operating income adjustments on MFR C-1. |
| C-3 | Jurisdictional Net Operating Income Adjustments | Explanations of net operating income adjustments found on MFR C-2 |
| C-44 | Revenue Expansion Factor | Calculation of the factor used for the 2011 revenue requirement calculation. The factor as of December 31, 2011 is 1.63256. |
| D-1a | Cost of Capital - 13 Month Average | Includes Jurisdictional Capital Structure and Required Rate of Return by Class of Capital. The overall rate of return and requested ROE as of December 31, 2011 is 8.2% and 12.5%, respectively. |
| D-1b | Cost of Capital - Adjustments | Includes Details for Cost of Capital Adjustments listed on MFR D-1A |

**2010 AND 2011 RETURN ON EQUITY CALCULATION**
**WITHOUT RATE RELIEF**

| Line No. | | MFR Reference | 2010 | 2011 (A) | 2011 (B) |
|---|---|---|---|---|---|
| 1 | Adjusted Jurisdictional Net Operating Income | C-1 | $ 725,883 | $ 662,776 | $ 1,311,376 |
| 2 | Adjusted Jurisdictional Rate Base | B-1 | 17,063,586 | 17,880,402 | 17,880,402 |
| 3 | **Estimated Earned Rate of Return (Line 1 / Line 2)** | | **4.25%** | **3.71%** | **7.33%** |
| 4 | | | | | |
| 5 | Adjusted Jurisdictional Non-Equity Component of Weighted Average Cost of Capital | D-1a | 2.01% | 2.21% | 2.21% |
| 6 | **Earnings Available for Common (Lines 3 - 5)** | | **2.25%** | **1.50%** | **5.13%** |
| 7 | | | | | |
| 8 | Adjusted Jurisdictional Common Equity Ratio | D-1a | 47.93% | 47.80% | 47.80% |
| 9 | | | | | |
| 10 | **Jurisdictional Return on Common Equity (Line 6 / Line 8)** | | **4.69%** | **3.14%** | **10.73%** |

**Notes:**
(A) Calculation assumes FPL's base rate increase for 2010 is not granted.
(B) Calculation assumes FPL's base rate increase for 2010 is granted.

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: FLORIDA POWER & LIGHT COMPANY
AND SUBSIDIARIES

DOCKET NO. 080677-EI

EXPLANATION:
PROVIDE THE CALCULATION OF THE REQUESTED FULL REVENUE REQUIREMENTS INCREASE

TYPE OF DATA SHOWN:
___ PROJECTED TEST YEAR ENDED 12/31/10
___ PRIOR YEAR ENDED 12/31/09
___ HISTORICAL YEAR ENDED 12/31/08
X PROJ. SUBSEQUENT YR ENDED 12/31/11

WITNESS: Kim Ousdahl, Armando Pimentel

| LINE NO. | (1) DESCRIPTION | (2) SOURCE | (3) AMOUNT |
|---|---|---|---|
| 1 | | | |
| 2 | JURISDICTIONAL ADJUSTED RATE BASE | SCHEDULE B-1 | $ 17,880,402 |
| 3 | | | |
| 4 | RATE OF RETURN ON RATE BASE REQUESTED | SCHEDULE D-1A | x 8.18% |
| 5 | | | |
| 6 | JURISDICTIONAL NET OPERATING INCOME REQUESTED | LINE 2 X LINE 4 | $ 1,462,895 |
| 7 | | | |
| 8 | JURISDICTIONAL ADJUSTED NET OPERATING INCOME | SCHEDULE C-1 | 662,776 |
| 9 | | | |
| 10 | NET OPERATING INCOME DEFICIENCY (EXCESS) | LINE 6 - LINE 8 | $ 800,119 |
| 11 | | | |
| 12 | EARNED RATE OF RETURN | LINE 8 / LINE 2 | 3.71% |
| 13 | | | |
| 14 | NET OPERATING INCOME MULTIPLIER | SCHEDULE C-44 | x 1.632560 |
| 15 | | | |
| 16 | REVENUE REQUIREMENT ( NO 2010 RATE RELIEF ) | LINE 10 X LINE 14 | $ 1,306,243 |
| 17 | | | |
| 18 | 2010 REVENUE INCREASE REQUESTED | SEE NOTE 1 | $ 1,058,876 |
| 19 | | | |
| 20 | RATE INCREASE REQUESTED ( AFTER FULL 2010 RATE INCREASE ) | LINE 16 - LINE 18 | $ 247,367 |
| 21 | | | |
| 22 | | | |
| 23 | | | |
| 24 | NOTE 1: 2010 REVENUE INCREASE REQUESTED ON TEST YEAR MFR A-1, $1,043,535,000 ADJUSTED FOR 2011 SALES GROWTH. | | |
| 25 | | | |
| 26 | | | |
| 27 | | | |
| 28 | NOTE: TOTALS MAY NOT ADD DUE TO ROUNDING. | | |
| 29 | | | |

SUPPORTING SCHEDULES: B-1, C-1, D-1a, C-44

RECAP SCHEDULES:

Docket No. 080677-EI
MFR A-1 for the 2011 Subsequent Year
Exhibit KO-5, Page 1 of 1

## BASE RATE RECOVERY FORMULA
## FOR
## ST. LUCIE AND TURKEY POINT NUCLEAR UPRATES

| Line No. | | Formula | | Base Rate Rev Req Calc Example (B) |
|---|---|---|---|---|
| 1 | Plant-in-Service | Insert Value | $ | 5,000,000 |
| 2 | Accumulated Depreciation | (1.2% of Line 1) / 2 | | (30,000) |
| 3 | **Net Plant-in-Service (C)** | **Lines 1 + 2** | **$** | **4,970,000** |
| 4 | | | | |
| 5 | Cost of Capital (D) | 11.7765% | | 11.7765% |
| 6 | **Return on Investment** | **Lines 3 * 5** | **$** | **585,292** |
| 7 | | | | |
| 8 | Operations & Maintenance Expenses | Insert Value | $ | - |
| 9 | Property Insurance Expense (A) | 0.37% of Line 1 | | 18,500 |
| 10 | Depreciation Expense (A) | 1.2% of Line 1 | | 60,000 |
| 11 | Property Taxes (A) | 2.0% of Line 1 | | 100,000 |
| 12 | **Total Expenses** | **Sum of Lines 8 - 11** | **$** | **178,500** |
| 13 | | | | |
| 14 | **Total System Revenue Requirements** | **Lines 6 + 12** | **$** | **763,792** |
| 15 | Separation Factor (E) | 98.8182% | | 98.8182% |
| 16 | **Total Jurisdictional Revenue Requirements (F)** | **Lines 14 * 15** | **$** | **754,766** |

**Notes:**

(A) Percentages in formula are same as what was used to estimate expenses for St. Lucie Unit 2 nuclear uprate forecast in this filing. The following percentages would need to be changed if base rate recovery is for a plant other than St. Lucie 2:
- St. Lucie Unit 1 - Depreciation Rate 1.6%
- Turkey Point Unit 3 - Property Tax Rate 1.8%
- Turkey Point Unit 4 - Depreciation Rate 1.4%, Property Tax Rate 1.8%

(B) Base rate revenue requirement calculation example if $5 million in capital costs at St. Lucie Unit 2 are determined non-recoverable through Nuclear Cost Recovery by the FPSC.

(C) Based on a 13-month average.

(D) Represents pre-tax cost of capital used for the 2010 Test Year in this filing. The rate applicable to 2011 is 11.9759%.

(E) Represents the nuclear separation factor used for the 2010 Test Year in this filing. The factor applicable to 2011 is 98.8108%.

(F) Does not take into account gross up for bad debt or regulatory assessment fee.

**DEPRECIATION RECONCILIATION FROM FPL'S 2010 FORECAST TO PROPOSED DEPRECIATION EXPENSE**
**($000)**

| Line No. | Function | 2010 Forecast (1) | 2010 Depreciation Expense Related to Clauses (2) | Subtotal (1) + (2) = (3) | 2010 Calculated Expense Using Proposed Rates (4) | 2010 Expense From Capital Recovery Schedules (5) | 2010 Total Expense (4) + (5) = (6) | 2010 Company Adjustment (6) - (3) = (7) |
|---|---|---|---|---|---|---|---|---|
| 1 | INTANGIBLE | $ 26,011 | $ (1,142) | $ 24,869 | $ 22,067 | $ - | $ 22,067 | $ (2,802) |
| 2 | | | | | | | | |
| 3 | STEAM | 82,402 | (16,140) | 66,262 | 88,945 | 11,227 | 100,172 | 33,911 |
| 4 | | | | | | | | |
| 5 | NUCLEAR | 66,936 | (1,281) | 65,655 | 103,428 | 42,059 | 145,487 | 79,831 |
| 6 | | | | | | | | |
| 7 | OTHER PRODUCTION | 296,012 | (7,895) | 288,117 | 284,302 | - | 284,302 | (3,815) |
| 8 | | | | | | | | |
| 9 | TRANSMISSION | 94,420 | (284) | 94,135 | 97,622 | - | 97,622 | 3,486 |
| 10 | | | | | | | | |
| 11 | DISTRIBUTION | 389,015 | (7,167) | 381,848 | 357,266 | 25,270 | 382,536 | 688 |
| 12 | | | | | | | | |
| 13 | GENERAL | 48,188 | (1,647) | 46,542 | 30,353 | - | 30,353 | (16,188) |
| 14 | | | | | | | | |
| 15 | **TOTAL** | **$ 1,002,984** | **$ (35,555)** | **$ 967,429** | **$ 983,983** | **$ 78,556** | **$ 1,062,539** | **$ 95,111** |
| | | **(A)** | **(B)** | | **(C)** | **(D)** | **(E)** | **(F)** |

**Notes:**

(A) Excludes amounts related to asset retirement obligations, acquisition adjustment, dismantlement, and FPL-NED, which are included in the total amount forecasted for depreciation expense.
(B) Includes forecasted depreciation related to nuclear uprates since it is recovered through the nuclear cost recovery mechanism.
(C) Calculated amounts are based on FPL's proposed depreciation rates included in its 2009 depreciation study. The amounts also include expense related to amortizable property.
(D) Capital Recovery Schedules are for the recovery of the net book cost over a four year period:
Steam: Cape Canaveral and Riviera Plant modernizations (recovery of net book cost of existing facilities)
Nuclear: St. Lucie and Turkey Point Plant uprates (recovery of net book cost of retirements and associated removal costs)
Distribution: Automated Meter Infrastructure (recovery of net book cost of meters being replaced and associated removal costs)
(E) Total expense is based on FPL's proposed depreciation rates and capital recovery schedules included in its 2009 depreciation study. The amounts also include expense related to amortizable property.
(F) Included in depreciation company adjustment shown on MFR C-3.

## DEPRECIATION RECONCILIATION FROM FPL'S 2011 FORECAST TO PROPOSED DEPRECIATION EXPENSE
## ($000)

| Line No. | Function | 2011 Forecast (1) | 2011 Depreciation Expense Related to Clauses (2) | Subtotal (1) + (2) = (3) | 2011 Calculated Expense Using Proposed Rates (4) | 2011 Expense From Capital Recovery Schedules (5) | 2011 Total Expense (4) + (5) = (6) | 2011 Company Adjustment (6) - (3) = (7) |
|---|---|---|---|---|---|---|---|---|
| 1 | INTANGIBLE | $ 37,739 | $ (1,527) | $ 36,211 | $ 31,953 | $ - | $ 31,953 | $ (4,258) |
| 2 | | | | | | | | |
| 3 | STEAM | 85,355 | (17,993) | 67,362 | 90,815 | 11,227 | 102,042 | 34,680 |
| 4 | | | | | | | | |
| 5 | NUCLEAR | 75,687 | (7,072) | 68,616 | 114,820 | 42,059 | 156,879 | 88,264 |
| 6 | | | | | | | | |
| 7 | OTHER PRODUCTION | 323,792 | (24,033) | 299,760 | 292,014 | - | 292,014 | (7,745) |
| 8 | | | | | | | | |
| 9 | TRANSMISSION | 98,152 | (564) | 97,587 | 101,219 | - | 101,219 | 3,631 |
| 10 | | | | | | | | |
| 11 | DISTRIBUTION | 412,201 | (8,539) | 403,662 | 383,153 | 25,270 | 408,423 | 4,761 |
| 12 | | | | | | | | |
| 13 | GENERAL | 56,189 | (3,418) | 52,771 | 34,629 | - | 34,629 | (18,142) |
| 14 | | | | | | | | |
| 15 | **TOTAL** | **$ 1,089,115** | **$ (63,146)** | **$ 1,025,970** | **$ 1,048,603** | **$ 78,556** | **$ 1,127,159** | **$ 101,191** |
| | | (A) | (B) | | (C) | (D) | (E) | (F) |

**Notes:**

(A) Excludes amounts related to asset retirement obligations, acquisition adjustment, dismantlement, FPL-NED, and West County Unit 3, which amount forecasted for depreciation expense.
(B) Includes forecasted depreciation related to nuclear uprates since it is recovered through the nuclear cost recovery mechanism.
(C) Calculated amounts are based on FPL's proposed depreciation rates included in its 2009 depreciation study. The amounts also include expense related to amortizable property.
(D) Capital Recovery Schedules are for the recovery of the net book cost over a four year period:
Steam: Cape Canaveral and Riviera Plant modernizations (recovery of net book cost of existing facilities)
Nuclear: St. Lucie and Turkey Point Plant uprates (recovery of net book cost of retirements and associated removal costs)
Distribution: Automated Meter Infrastructure (recovery of net book cost of meters being replaced and associated removal costs)
(E) Total expense is based on FPL's proposed depreciation rates and capital recovery schedules included in its 2009 depreciation study. The amounts also include expense related to amortizable property.
(F) Included in depreciation company adjustment shown on MFR C-3.

# Florida Power & Light Company

## Fossil Dismantlement Studies

Cape Canaveral
Cutler
DeSoto Solar
Fort Lauderdale
Fort Myers
Manatee
Martin
Port Everglades
Putnam
Riviera
Sanford
Scherer
St Johns River
Turkey Point
St. Lucie Wind
West County

**Note:** Filed on March 17, 2009, due to Commission timing requirements for this study and not duplicated separately due to volume.

2009 Filing

# Cost Measurement & Allocation Department
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## BACKGROUND

Market Rate Disclosure

Florida Power & Light Company (FPL) supports affiliate operations through direct project activities and shared administrative functions. Direct activities are charged to affiliates through specific work orders. Shared administrative functions are allocated through five (5) management fees.

All services provided to affiliates, either direct or allocated, are transferred at fully loaded rates. Payroll is transferred by using the employee job role reference point plus adders, which covers benefits, and administrative costs; thus fully loaded rates reflect market rates. Therefore, FPL believes that the rates it charges Affiliates for services it provides are in compliance with its policy to charge at the higher of cost or market.

Description of the five (5) management fees:

1. Affiliate Management Fee (AMF) - FPL Corporate Staff infrastructure that benefits Affiliates are transferred at fully loaded rates. This management fee is based on a cost pool of shared services, which is allocated based on specific drivers (where available), or the Massachusetts formula, which is the weighted average of Revenue, Payroll, and average Property, Plant, and Equipment. The Fee is billed monthly based on budget, and trued-up to year-end actuals during the last quarter of the current year and then again during the first quarter of the subsequent year. The fee may be revised during the year to reflect significant changes such as merger and acquisition activities. Examples of services provided include:

- Payroll Processing
- Tax Accounting
- Accounting / Auditing
- Environmental
- Information Management
- Human Resources
- Corporate Communications
- Finance / Treasury
- General Counsel

2. FPL's Power Generation Division (PGD - Direct Charge Method) - provides fleet team common and direct plant specific support to FPL Energy; Inc. (FPLE). Fully loaded costs are charged to the Affiliate based on budgeted dollars with a year-end true-up based on actual accumulated dollars via specific work-orders. The fee may be revised during the year to reflect significant changes such as level of service, and/or merger and acquisition activities.

3. Energy Marketing & Trading Business Unit (EMT – Specific Allocations) - provides Back-Office (Risk Management and Systems) support. Costs are allocated to the Affiliate based on time studies or specific analysis by function. Fully loaded costs are also charged to the Affiliate based on budgeted dollars with a periodic true-up to actual dollars, including one at year-end. The fee may be revised during the year to reflect significant changes such as level of service, and / or merger and acquisition activities. In addition, the Affiliate is charged a facilities usage fee.

4. Nuclear Division (NUC – Generating Units) – provides nuclear operations, fuels, management team and assurance support to FPLE nuclear plants. Fully loaded costs are allocated to the Affiliate based on number of generating units and budgeted dollars with periodic true-up to actual dollars, including one at year-end.

The fee may be revised during the year to reflect significant changes such as level of service, and / or merger and acquisition activities.

5. Information Management Nuclear Support (IMNUC – Systems or Generating Units) – provides Passport system support, IM management team, data services and infrastructure support to FPLE nuclear plants. Fully loaded costs are allocated to the Affiliate based on either number of Passport systems or number of generating units and budgeted dollars with periodic true-up to actual dollars, including one at year-end. The fee may be revised during the year to reflect significant changes such as level of service, and / or merger and acquisition activities.

**An Introduction**

This Cost Allocation Manual was prepared for the use of FPL Group's regulated utility subsidiary, FPL, to document cost allocation policies and practices, and to provide guidelines to employees regarding the use of those policies for both Inter-Company and Intra-Utility transactions.

Outside vendors doing work for the affiliates should be instructed to bill affiliates directly for work performed and not process payments through FPL. This eliminates duplicate invoice processing and provides Affiliates with a clear approval of work performed.

Whenever practical, FPL employees should direct charge for services to the benefiting Affiliate. This manual describes processes to direct charge those costs, as well as the allocation processes used when direct charging is not practical.

**Cost Accounting Concepts**

This manual is based on the premise that all costs will be apportioned between regulated and non-regulated activities. Apportionment is defined as any distribution of costs to the benefiting regulated or non-regulated activities. Additionally, corporate center costs remaining in FPL (regulated), which provide a direct benefit to the operating business units, will be apportioned to the benefiting operating business units. Consistent with the foregoing premise and definition, costs are apportioned based on three cost characteristics:

- **Direct** - Costs of resources used exclusively for the provision of services that are readily identifiable to an activity. An example of Inter-Company direct costs would be the salary of an engineer working on a non-regulated Affiliate's power plant. Direct is also used to indicate work done within FPL (regulated) directly benefiting a Business Unit other than the provider. An example of Intra-FPL direct costs (regulated) would be Human Resources charging the operating Business Units for specific recruiting activities.

- **Assigned** – Costs of resources used jointly in the provision of both regulated and non-regulated activities that are apportioned using direct measures of cost causation. The square footage cost of office space used by non-regulated activities would be an example of assignable costs.

- **Unattributable (Management Fee)** – Cost of resources shared by both regulated and non-regulated activities for which no causal relationship exists. These costs are accumulated and allocated to both regulated and non-regulated activities through the use of the AMF for Inter-Company transactions. The costs associated with FPL Group's board of directors is an example of unattributable costs allocated using the Affiliate Management Fee. (See Affiliate Management Fee section for more details on unattributable charges.)

**Inter-Company Transactions - Between Regulated and Non-Regulated Entities**

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This manual is designed to document the processes used to apportion costs between regulated and non-regulated activities. The prevailing premise is that resources shared between regulated and non-regulated activities should not result in subsidization by either entity. This manual describes the standard services provided between regulated and non-regulated entities, FPL's (regulated) inter-company process for charging direct and indirect costs, AMF, and other apportionment methods. The costing concepts and principles described herein are applied consistently to all subsidiaries.

### Purchase Orders

When Affiliates procure goods from common vendors of FPL (regulated), they should do so directly under separate Affiliate purchase orders. This ensures invoicing and product delivery will be processed directly to the Affiliate, and the Affiliate will not be billed for FPL's (regulated) loading costs. It also ensures that the contract terms (warranties and liabilities) of the purchase order(s) are placed with the Affiliate, not with FPL (regulated).

### Transfer of Assets

When an asset used in FPL's regulated operations is transferred to a non-regulated Affiliate, FPL will charge the Affiliate the greater of market price or net book value. Except, FPL may charge the Affiliate either the market price or net book value if documentation is maintained to support and justify that such a transaction benefits regulated operations. When an asset that is to be used in FPL's regulated operations is transferred from a non-regulated Affiliate, the asset must be recorded at the lower of market price or net book value. On certain occasions, FPL may record the asset at either market price or net book value if it maintains documentation to support and justify that such a transaction benefits regulated operations. An independent appraiser must verify the market value of a transferred asset with a net book value greater than $1,000,000.

## REGULATORY REPORTING

### Diversification Report

In addition to the FERC Form No. 1, Annual Report of Major Electric Utilities, Licenses and Others, the FPSC requires the Utility to file an Annual Diversification Report. This report contains:

- Summary of changes to the corporate structure,
- Updated organizational charts of parent and affiliates,
- Summary of new or amended contracts with affiliates,
- All transactions between regulatory and non-regulatory activities
- Detail reports of all individual transactions over $500,000 between affiliates
- Summary of asset transfers between affiliates,
- Employee transfers between affiliates,
- Analysis of non-tariffed services and products provided by the Utility.

### FERC Accounting

The Uniform System of Accounts (USOA), as prescribed by the Federal Energy Regulatory Commission (FERC), and adopted by the Florida Public Service Commission (FPSC), is found in the Code of Federal Regulations, Title 18, Subchapter C, Part 101 states the following:

- Inter-company transactions are to be recorded in account 146.XXX (See sub account listing at the ER 99 Reporting section).
- Intra-Utility direct charge transactions are to be recorded in the appropriate account(s) within the operational function receiving the goods or services.

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- Intra-Utility allocations of corporate center costs for business unit financial reporting are to be recorded in the administrative and general (A&G) range of accounts. Administrative and general accounts should contain charges not chargeable directly to a particular operating function.
- Based on the USOA guidelines, functional accounts should be charged for corporate center charges when the work benefits only one business unit. If the work is allocated to several business units for financial reporting purposes, the costs should remain in the A&G range of accounts (920.XXX - 935.XXX).

**FPSC Rule**

The Florida Public Service Commission has adopted rules concerning cost allocation and affiliate transactions. The purpose of this rule is to establish cost allocation requirements to ensure proper accounting for affiliate transactions and non-regulated utility activities in order for these transactions and activities to not be subsidized by FPL (regulated) customers. This cost allocation manual addresses all processes for compliance under this rule.

**SFAS 131**

FPL Group and its subsidiaries are subject to the provisions and required disclosures of Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. SFAS 131 only requires disclosure for business operations that exceed 10% of the total business operations. FPL Group has three reportable segments, FP&L (regulated operations), FPL Energy (unregulated operations – Independent Power Producer) and Corporate & Other.

**INTER-COMPANY BILLING PROCESS**

**Billings from Affiliates to FPL**

Billings from affiliates to FPL are based on the lower of cost or market. When these billings occur, notification must be given to Cost Measurement and Allocation to ensure proper reporting of these transactions as required by FERC and FPSC. The Cost Measurement and Allocation Department records these transactions. If a Business Unit elects to pay such invoices themselves, they are required to forward copies of all transactions to Cost Measurement and Allocation. All inter-company billings through the CARMS account receivable system are reconciled to the general ledger on a monthly basis.

**Approval for Affiliate Direct Charges**

When working directly for an Affiliate, FPL employees must first obtain approval from the Affiliate and obtain a corresponding ER 99 work order. This applies to both payroll and non-payroll transactions. For payroll transactions the employee must also verify that their payroll location/section is valid for the stated work order. Validation of work orders can be checked through the system (GA30) or by calling IM-Financial Systems at (305) 552-3567. When providing services to a specific Affiliate, the employee is responsible to ensure that the appropriate ER 99 work order is recorded on their time sheet and/or cash vouchers.

Use the following contacts to obtain approval to charge affiliate work orders:

| Affiliate | Contact | Phone Number |
|---|---|---|
| FPL Energy | Grace Wynter<br>Cathy Gibson | (561) 304-5269<br>(561) 691-7467 |
| FPL Energy Services | Kenneth Frantz | (305) 552-3239 |
| FPL FiberNet | Lourdes Caballero | (305) 552-2018 |
| FPL Group Capital | Peaches Libkie | (561) 694-4853 |

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**ER 99 Function**

FPL uses the Expenditure Requisition (ER) code 99 in the account key structure to designate work orders used exclusively for inter-company billings. A work order is a combination of ER, work order (WO), location and section (Example WO 4300 ER 99 Loc 0009 Sec 21). Each work order has a unique translation to FPL general ledger accounts.
All ER 99 work orders translate to receivable accounts from Affiliates. Below is a list of our current Affiliate receivable accounts:

| Affiliate | Account |
|---|---|
| Alandco | 146.400 |
| Duane Arnold | 146.430 |
| Fibernet | 146.610 |
| FPL Energy, Inc. | 146.880 |
| FPL Energy Maine | 146.890 |
| FPL Energy – Seabrook | 146.856 |
| FPL Energy Services (NE Gas) | 146.905 |
| FPL Energy Services, Inc. | 146.906 |
| FPL Group | 146.300 |
| FPL Group Capital | 146.800 |
| FPL Group International | 146.370 |
| FPL New England Division | 146.320 |
| FPL Readi-Power LLC | 146.612 |
| FPLE Power Marketing | 146.860 |
| FPLE Project Management | 146.870 |
| Palms Insurance | 146.310 |
| Point Beach | 146.440 |
| N. American Power Systems | 146.380 |
| Seabrook Station | 146.855 |

Charges to the ER 99 work orders are accumulated each month and billed by the 15th of the following month. Included in these charges are payroll charges which are billed based on standard rates by classification (standard rates are described in the next section.) All payroll related overhead charges are included in the standard rates. Also included in the billable charges are non-payroll charges that do not contain any loadings. To facilitate proper supporting documentation for the invoices, Cost Measurement and Allocation maintains special reporting from the ER 99 transactions. These reports provide the detail transactions for each bill and are broken down by payroll and non-payroll transactions. These reports contain the description fields for the account key structure that identifies the charging location, employee name, and EAC description.

For payroll transactions, the ER 99 process cross-references the last five digits of the employee's social security number and the last five digits of the last name to the employee's job classification. The job classification is then matched to the standard billing rate table to obtain the hourly-billing rate. Cost Measurement & Allocation reviews all transactions to ensure the employee name is listed on the billing support documentation. Each month some payroll transactions are not matched to standard rates due to transfers, new employee, etc. These transactions appear on the Payroll Exception Report, which are then manually researched, and then the transactions are billed. Cost Measurement and Allocation ensures employee names are included on all Payroll Exception Reports transactions as

well. Affiliates are required to pay all invoices within 15 days of invoice date. Any corrections required based on the review by the Affiliate Project Managers are included in the subsequent month's billing.

**GA 30 Access Instructions**

| Step | Action |
|---|---|
| 1 | Logon to PCICS |
| 2 | Type GA30, hit <Enter> |
| 3 | Select BUCS option 4 <Enter>. There are 8 options on this screen |
| 4 | To determine if your location section is valid for ER 99 select Option 8 Work Order Translation <Enter> |
| 5 | Type the Work Order, ER 99, your location section <Enter> |
| 6 | If your location section is valid it will show the account translation.<br>If your location section is not valid, it will skip to the next valid location. |

**Long Term Assignment Rates**

When FPL employees are used exclusively for Affiliate activities for extended periods of time, they should not be charged out at the standard rates but at a reduced Long-Term Loading Rate. This is due to two factors. First, their non-productive time (sick, vacation, holiday) is already included in the salary being allocated since it is expected that a full year's salary is allocated. If their time were also loaded for non-productive time, the Affiliate would be receiving a duplicate charge. Secondly, the Affiliate will be providing the necessary A&G support, such as supervision, office equipment, supplies, etc. Therefore, A&G expenses should not be included in the loading rate.

The 2008 Long-term Loading Rate is 15.19%, which includes Taxes & Insurance of 7.83% and Pension & Welfare of 7.36%. To qualify for reduced loading, the employee must reasonably expect to charge their time to ER 99 work orders for one full year, and be physically located at the Affiliate. If an employee's charges during the year fall below 75% they must be removed from the Long-Term loading rate.

Employees meeting the above requirements should forward their social security number, payroll location, business unit name and immediate supervisor's name to the Cost Measurement & Allocation department. The social security number will then be entered into the ER 99 billing program to facilitate this exception handling. The employee is responsible to ensure that their time is charged to the ER 99 work orders including all non-productive time such as vacation, holiday, sick, jury duty, etc. It is recommended that employees set up their Fixed Distribution with ER 99 work orders to accomplish this. Since the Long-Term rates are based on actual payroll, any bonus and/or incentives paid during the year will also be passed on to the Affiliate. Additionally, all Affiliate non-payroll related expenses should be charged at 100%.

**Standard Hourly Payroll Rates**

The standard hourly rates are determined by taking each job classification's Market Reference Point (MRP), applying the common cost loading rate, and dividing by 2080 hours. The common cost rate loads payroll for benefits and A&G costs related to the employee.

Loadings, computed annually by the Cost Measurement and Allocation section of Regulatory Accounting, are incorporated into the 2008 Standard Billing Rates (commonly referred to as the "Short Term Rate"):

| Loading | Feb 2007 – Rate | Feb 2008 – Rate |
|---|---|---|
| Non-Productive Payroll | 21.47% | 21.74% |

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| | | |
|---|---|---|
| Administrative and General Payroll * | 13.84% | 14.26% |
| Taxes and Insurance** | 11.24% | 10.64% |
| Pension & Welfare** | 11.28% | 10.02% |
| Administrative and General Expense * | 15.02% | 13.46% |
| **Total** | **72.86%** | **70.13%** |
| Note: Rates above are compounded, except Non-Productive Payroll.<br>* Applied to the total of Productive and Non-Productive Payroll<br>** Applied to the total of Productive, Non-Productive and A & G Payroll | | |

**Market Reference Points**

FPL employees working for the subsidiaries are billed out at their job role's Market Reference Point (MRP) which began back in June 2005. There are approximately 224 MRP's in existence and when an employee charges an ER 99 work order, the system automatically performs a table lookup based on their last 5 digits of their social security number and first 5 digits of their last name to locate the employee's job role and apply the appropriate MRP and loader. It should be noted that the MRP in the billing rate column on the Affiliate billing ERTRAN reports is unloaded; however, the dollars under the "Amount" column are loaded.

## MANAGEMENT FEES

**Affiliate Management Fee**

When FPL Group started diversifying into non-regulated activities, FPL developed an Inter-Company accounting policy to address the transfer of goods and services between the regulated (FPL) and non-regulated (Affiliate) activities. This process uses FPL's ER 99 work orders to capture charges directly benefiting Affiliates. As the non-regulated activities expanded, a shared service concept called the Affiliate Management Fee was implemented to address Corporate Staff shared services and capital benefiting both FPL and its Affiliates.

**Cost Pool - Corporate Shared Services**

The Shared Service cost pool is determined annually through an extensive review of shared services and capital provided by FPL's Corporate Staff Departments. The review is performed in conjunction with FPL's budget cycle and identifies products and services within each Budget Activity (BA), along with capital benefiting Affiliates. These budgeted costs and capital are combined to obtain an estimated shared cost pool for the year. For 2008, shared services are estimated at $199 million dollars (see listing of Shared Services included below). These shared costs are allocated to non-regulated Affiliates using specific drivers (where available) or the Massachusetts Formula (see below). These shared cost pools are trued up to actuals in the fourth quarter of the current year and again in the first quarter of the following year. The cost pools will also be trued up to actuals for any merger and acquisition activity.

**Allocation - Massachusetts Formula**

FPL reviewed options for allocation of the cost pool(s) where there were no specific driver(s) and elected to use the weighted average of Payroll, Revenues and average Gross Property Plant and Equipment. This methodology is named the "Massachusetts Formula" and has been an industry standard in other regulatory areas for years. The forecasted amounts for each of the three components mentioned are collected from FPL and Affiliates and given equal weight. A weighted average is then computed to yield a ratio of regulated and non-regulated activity. The Massachusetts Formula is updated for merger and acquisition activity as needed.

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FPL Group Capital is billed a monthly portion of the annual Affiliate Management Fee. The annual fee amount is determined by identifying the FPL Group executive costs and FPL corporate staff costs that benefit both FPL and Affiliates. Then the appropriate driver percentages (either specific drivers or the Massachusetts Formula) are applied to the respective cost pools. For 2008, the fee is estimated to be approximately $49 million dollars.

**Corporate Shared Services and Capital**

Below is a list of shared services determined to be beneficial to Affiliates and included in the Affiliate Management Fee. Shared services payroll dollars are loaded with Taxes & Insurance of 7.83% and Pension & Welfare of 7.36% prior to their allocation for 2008.

**Allocation - Specific Drivers**

The Information Management and Human Resources Corporate Staff group shared costs are allocated to the Affiliates by specific drivers. Other Corporate Services and certain Finance costs also have specific drivers to allocate shared costs to Affiliates.

- **Information Management** (Specific drivers relating to workstations, number of transactions, mainframe time, etc.)
  - Corporate Applications - HR Employee Information System, Procurement, Financial Data Base, Lotus Notes, Storehouse
  - Communications & Technology - Telecommunications (excluding Long Distance) and Fibernet
  - Distributed Systems -Workstation and LAN Support
  - Mainframe Operations - GO and JB Computer Centers
  - PC Services - Helpdesk and Workstation support
  - Amortization and ROI - Shared Capitalized Hardware and Software

- **Human Resources** (Specific drivers relating to FTE's)
  - Employee Relations - Safety Polices, Labor Relations Administration, and other employee related issues
  - Shared Services - Benefits Administration, Help Desk, Payroll, Educational Assistance, Recruiting, Equal Opportunity, Workforce Planning, Drug testing and Group University
  - Benefit Programs

- **Finance** (Specific drivers relating to square footage and capacity)
  - Security – Corporate and shared affiliate facility (JB and GO)
  - Business Unit Executive – Power Generation Division and Nuclear

- **Engineering, Construction and Corporate Services** (Specific drivers relating to FTE's)
  - Cafeteria Operations – Shared Affiliate Cafeteria Operations (JB, GO, LFO, CSE, PTN & PSL)

**Allocation - Massachusetts Formula**

- **Finance**
  - Executive – Salaries, Expenses, and Benefits
  - Corporate - Accounts Payable, Cash Management and Banking
  - Accounting - Cost Measurement & Allocation, Accounting Research & Financial Reporting
  - Corporate Tax

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- Finance and Trust Fund Investments
- Planning and Analysis
- Corporate Budgeting
- Annual Report
- Security Administration - Facility Security, Data Security
- Aircraft Operations - Fixed costs of Aircraft Operations only (Variable direct charged on a per flight basis)
- Amortization and ROI – Aviation

- **Corporate Communications**
  - Internal Communications - Inside FPL, FPL Today, FYI FAX
  - External Media
  - Executive Presentations
  - Mail Services – Courier and Mail Services (GO, JB, LFO)

- **General Counsel**
  - Shareholder Services
  - Environmental Services - Environmental Audits and Consulting

- **Engineering, Construction and Corporate Services**
  - Integrated Supply Chain – Administration of Corporate Travel and Integrated Supply Chain

- **Internal Auditing Management**

**SERVICE FEES – Energy Marketing & Trading (EMT), Power Generation Division (PGD), Nuclear (NUC), and IM Nuclear (IMNUC)**

Service fee charges are calculated by the Business Unit (Operating Business Unit or Staff Group) Budget Coordinators or Analysts and represent ongoing services provided or shared among Affiliates. The appropriate Standard Hourly Payroll Rate (see previous section with this title) is applied to payroll charges, and reduced by non-productive time if the payroll dollars are applied at 100%. In general, services provided by EMT include Systems support and Risk Management of the Back Office group and a Facilities Fee for Power Marketing, Inc. space. The Nuclear Fee is support to FPLE nuclear plants and the IM Nuclear fee relates to specific system support for FPLE nuclear plants. The Power Generation Division Fee provides central maintenance and/or technical services to FPLE fossil plants.

**EMT Service Fee**

The EMT Service Fee uses the annual budget to estimate the level of service to be provided and will true-up to actuals periodically or for year-end no later than January of the following year. There are two parts of this fee: 1. Back-Office, and 2. PMI Facilities Usage. There are two (2) groups within the Back-Office portion of the fee: 1. System Group for computer support, and 2. Risk Management. The Systems Group is allocated by specific drivers (i.e. number of devices), and Risk Management is allocated based on a time-study. The second part of the Fee is the PMI Facility Usage, which is allocated bases upon total head count applied to a developed facility rate. The EMT Service Fee includes the following shared services:

- Wholesale Operations Senior Management - Supervision of physical trading front office operations
- Operations and Administration - Support of EMT systems infrastructure
- Risk Management - Compliance with risk management policies and procedures
- Contracts and Regulatory - Contract execution and regulatory filing requirements

- Corporate Loadings - Standard Hourly Payroll Rate applied to payroll
- Facilities Usage - Charge for FPLE employees using EMT facilities and equipment

Specific services not included in the Service Fee, which are direct charged to FPLE by EMT are:

- Services to Plants that are not operated by FPL Energy
- Front office trading and analysis

**Nuclear Service Fee**

The Nuclear Service Fee uses the annual budget to estimate the level of service to be provided and will true-up to actuals periodically or for year-end no later than January of the following year. The fee allocates costs using the number of generating units as the driver. The Nuclear Service Fee includes the following shared services:

- Nuclear Operations Support
- Nuclear Fuels Support
- Nuclear Management Team Support
- Nuclear Engineering Support
- Nuclear Assurance Support

Specific services not included in the Service Fee, which are direct charged to FPLE by Nuclear are:

- Due Diligence
- Construction Projects
- Transition Teams
- Support of FPL Energy Capital Projects
- Outage Support

**Information Management Nuclear Service Fee**

The Information Management Nuclear Service Fee uses the annual budget to estimate the level of service to be provided and will true-up to actuals periodically or for year-end no later than January of the following year. The fee allocates costs depending on the services provided. Costs for services that support the Passport system are allocated on the number of systems in place. Management and infrastructure services costs are allocated using the number of generating units as the driver. The Information Management Nuclear Service Fee includes the following shared services:

- Passport Support
- IM Management
- Data Services
- IMO Nuclear Lead (Infrastructure Support)

**Power Generation Division (PGD) Service Fee**

The PGD Service Fee is based on the direct charge methodology (as previously described). Initially, PGD uses budgeted costs for shared activities and an estimate of the services to be provided to FPLE. Actual costs for the services provided are accumulated in specific work orders. These costs are compared to the budgeted costs and trued-up periodically or for year-end no later than January of the following year.

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The PGD Service Fee includes the following shared services:

- Fleet Team Management – Production Assurance, Balance of Plant, Turbine Generator, Steam Generation, Central Maintenance, Electrical and Instrumentation & Controls, Lab Testing, Environmental, Water Management and Reliability
- Information Systems - support of PGD system infrastructure
- Corporate Overheads - Loadings for Payroll, Facilities, Equipment
- Business Planning, Resource Allocation and Administration
- Safety Programs

## FACILITY AND EQUIPMENT CHARGES

Cost Measurement and Allocation is responsible for monthly entries through ER 99 work orders to bill the following activities:

**Accounting Systems**
The Affiliates use FPL's accounting systems on a limited basis for paying and issuing miscellaneous invoices. These systems are the Cash and Accounts Receivable Management (CARMS) and Customer Information System Plus (CIS Plus). The use of these systems is billed on a transactional basis. A cost study is performed by the Cost Measurement and Allocation department to determine the cost to FPL per transaction for these systems. The number of transactions are collected monthly and billed to the Affiliates at those rates.

**Furniture and Computers**
The Affiliates are billed monthly for office furniture and personal computers on a cost basis. The charges are based on the number of FPL owned equipment utilized by the Affiliates. The 2008 rates are:

| | |
|---|---|
| Cubicle furniture rental rate | $1,448.00 annually per cubicle |
| Office furniture rental rate | $ 731.69 annually per office |
| Workstation computer rental rate | $ 473.23 annually per workstation |
| Laptop computer rental rate | $ 684.93 annually per laptop |

**Long Distance Telephone Charges**
The Affiliates are billed monthly for their long distance service. This is tracked by telecommunications based on employee long distance IDs. Rates are based on actual contracted rates with the phone companies.

**Office Space**
Space is available to the Affiliates in FPL buildings only when vacancies exist. The Affiliates are charged for the square feet they occupy based on the higher of cost or a market rate. The market rate study is performed by Corporate Real Estate. Currently, FPL Energy, FPL Energy Services and Fibernet occupy space in FPL buildings, primarily the General Office and the Juno Beach Office.

## AVIATION POLICY

FPL aviation equipment is available to FPL and Affiliates employees on a business priority basis. Inter-Company flights are charged back to the Affiliates. Intra-FPL flights are not charged back to the business unit.

**Fixed Costs**
Fixed costs include salaries, hangar expenses, and maintenance which are included in the Affiliate Management Fee.

**Variable Costs**

**Cost Measurement & Allocation Department**
**Cost Accounting Manual**
**Updated December 2008**

The variable cost has been determined using an industry standard analysis. The items comprising the variable cost are fuel, fuel additives, landing & parking fees, crew expenses, and small supplies & catering. These costs are charged out on a per flight basis as follows for 2008:

- Helicopter $267.58 per flight hour (1/1/08-6/30/08) and $329.58 (7/1/08 - 12/31/08)
- Airplanes either $2.80 per statutory mile or $2.29 per statutory mile (1/1/08-6/30/08) and either $3.32 or $2.74 (7/1/08-12/31/08), depending on the type of plane used.

## DEFINITIONS

**Affiliates** – Companies that are related to each other due to common ownership or control.

**Cost Allocators** – The methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

**Common Costs** – Cost associated with services or products that are of joint benefit to both regulated and non–regulated business units.

**Cost Driver** – A measurable event or quantity which influences the level of costs incurred and which can be directly traced to an origin of the costs themselves.

**Fully Allocated** – Services or products bear the sum of the cost drivers plus an appropriate share of the indirect costs.

**Incremental** – Pricing services or products on a basis of only the incremental costs added by their operations while one or more pre-existing services, or products, support the fixed costs.

**Non-regulated** – Refers to services or products not subject to regulation by regulatory authorities.

**Prevailing Market Rate** – A generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

**Regulated** – Refers to services or products subject to regulation by regulatory authorities.

**Subsidization** – The recovery of costs from one class of customers, business unit or entity, that are attributable to another.

**Guidelines for Cost Allocations and Affiliate Transactions:**

The following Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are intended to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. The prevailing premise of these Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities unless authorized by the jurisdictional regulatory authority. These Guidelines are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled. They are intended to provide a framework for regulated entities and regulatory authorities in the development of their own policies and procedures for cost allocations and affiliated transactions. Variation in regulatory environment may justify different cost allocation methods than those embodied in the Guidelines.

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties. Various levels of input were obtained in the development of the Guidelines from the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

In some instances, non-structural safeguards as contained in these guidelines may not be sufficient to prevent market power problems in strategic markets such as the generation market. Problems arise when a firm has the ability to raise prices above market for a sustained period and/or impede output of a product or service. Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its non-regulated affiliates. Consideration should be given to any "unique" advantages an incumbent utility would have over competitors in an emerging market such as the retail energy market. A code of conduct should be used in conjunction with guidelines on cost allocations and affiliate transactions.

A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.

2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.

4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.

6. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

7. Direct Costs - costs which can be specifically identified with a particular service or product.

8. Fully Allocated costs - the sum of the direct costs plus an appropriate share of indirect costs.

9. Incremental pricing - pricing services or products on a basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs.

10. Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.

11. Non-regulated - that which is not subject to regulation by regulatory authorities.

12. Prevailing Market Pricing - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

13. Regulated - that which is subject to regulation by regulatory authorities.

14. Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

B. COST ALLOCATION PRINCIPLES

The following allocation principles should be used whenever products or services are provided between a regulated utility and its non-regulated affiliate or division.

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.

2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.

3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.

4. The allocation methods should apply to the regulated entity's affiliates in order to prevent

subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.

5. All costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.

6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.

7. The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators.

## C. COST ALLOCATION MANUAL (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products should maintain a cost allocation manual (CAM) or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. At a minimum, the CAM should contain the following:

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.

2. A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.

3. A description of all assets, services and products provided by the regulated entity to non-affiliates.

4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

## D. AFFILIATE TRANSACTIONS (NOT TARIFFED)

The affiliate transactions pricing guidelines are based on two assumptions. First, affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices. Second, utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Too much flexibility will lead to subsidization. However, if the affiliate transaction pricing guidelines are too rigid, economic transactions may be discouraged.

The objective of the affiliate transactions' guidelines is to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets. It provides ample flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competition. As with any transactions, the burden of proof for any exception from

the general rule rests with the proponent of the exception.

1. Generally, the price for services, products and the use of assets provided by a regulated entity to its non-regulated affiliates should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

2. Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as otherwise required by law or regulation. Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at certain value thresholds as determined by regulators.

4. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

E. AUDIT REQUIREMENTS

1. An audit trail should exist with respect to all transactions between the regulated entity and its affiliates that relate to regulated services and products. The regulator should have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with the guidelines. Regulators should have complete access to affiliate records, consistent with state statutes, to ensure that the regulator has access to all relevant information necessary to evaluate whether subsidization exists. The auditors, not the audited utilities, should determine what information is relevant for a particular audit objective. Limitations on access would compromise the audit process and impair audit independence.

2. Each regulated entity's cost allocation documentation should be made available to the company's internal auditors for periodic review of the allocation policy and process and to any jurisdictional regulatory authority when appropriate and upon request.

3. Any jurisdictional regulatory authority may request an independent attestation engagement of the CAM. The cost of any independent attestation engagement associated with the CAM, should be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.

4. Any audit of the CAM should not otherwise limit or restrict the authority of state regulatory authorities to have access to the books and records of and audit the operations of jurisdictional utilities.

5. Any entity required to provide access to its books and records should make arrangements as necessary and appropriate to ensure that competitively sensitive information derived therefrom be kept confidential by the regulator.

F. REPORTING REQUIREMENTS

1. The regulated entity should report annually the dollar amount of non-tariffed transactions

associated with the provision of each service or product and the use or sale of each asset for the following:

a. Those provided to each non-regulated affiliate.

b. Those received from each non-regulated affiliate.

c. Those provided to non-affiliated entities.

2. Any additional information needed to assure compliance with these Guidelines, such as cost of service data necessary to evaluate subsidization issues, should be provided.