# BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

## DOCKET NO. 120015-EI
## FLORIDA POWER & LIGHT COMPANY

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

## REBUTTAL TESTIMONY & EXHIBITS OF:

## ROBERT E. BARRETT, JR.

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**JULY 31, 2012**

## TABLE OF CONTENTS

## I. INTRODUCTION

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

A. My name is Robert E. Barrett, Jr. My business address is Florida Power & Light Company ("FPL" or "the Company"), 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

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

A. The purpose of my rebuttal testimony is: (1) to explain why the Commission should reject the adjustments presented by Office of Public Counsel's ("OPC") witness Donna Ramas to exclude certain expenses from the 2013 Test Year; (2) to explain why "normalizing" expenses by averaging multiple years is not an appropriate approach to forecasting, as asserted by OPC witness Ramas relating to overhaul expenses and South Florida Hospital and Healthcare Association's ("SFHHA") witness Lane Kollen relating to nuclear maintenance expenses; (3) to explain why the Commission should reject the adjustments presented by OPC witness Helmuth Schultz to exclude Other Accounts Receivable from the 2013 Test Year because of asserted vague account title descriptions and alleged inability to identify them as utility related; (4) to rebut the assertion by OPC witness Schultz that the 2012 depreciation surplus amortization forecast cannot be relied upon due to a 2010 variance to budget in reserve surplus amortization caused by extreme weather;

and (5) to address non-recurring costs and FiberNet charges identified in Staff witness Kathy Welch's testimony and audit report.

**Q. Please summarize your rebuttal testimony.**

A. In my rebuttal testimony, I will demonstrate why none of the proposed forecast adjustments by the intervenor witnesses described above would be appropriate. The Company has a rigorous forecasting process, as described in my direct testimony, and it has a proven track record of reasonableness and reliability. I will discuss why a holistic view of the financial forecast is a more accurate approach than focusing on specific costs or costs savings in isolation. FPL's 2013 Test Year forecast is representative of costs that will be incurred in 2013, and it should be the basis on which rates are set.

## II. 2013 TEST YEAR AND FORECAST

**Q. OPC witness Ramas and SFHHA witness Kollen assert that a forecast developed for the 2009 rate case proceeding of 2013 cost savings for the smart meter program should be used rather than the current forecast for the purpose of setting base rates in this docket. (Ramas, pages 19-23) (Kollen, pages 42-45) Do you agree with this assertion?**

A. No. The Company prepares multi-year forecasts, and inherently the closer the preparation of a forecast is to the forecasted time period, the more precise the estimations will be. Accordingly, a current view of a forecast period should always be preferred for rate setting purposes over older views of that period.

The company's forecast of 2013 that was included with this 2012 filing is much more current than the forecast that was referenced in the 2009 rate case. For additional information regarding the smart meter program 2013 costs and cost savings, refer to FPL witness Santos' rebuttal testimony. I should point out that neither witness Ramas nor witness Kollen, nor any other witness, has questioned the reasonableness of FPL's current 2013 O&M forecast for the smart meter program.

**Q. OPC witness Ramas suggests that it is "unfair" to FPL's customers for them to pay the net O&M expense of $3.7 million that is projected for the smart meter program in the 2013 test year, because there will be net O&M savings outside the test year. (Ramas, pages 21, 22) Would this be a valid basis to adjust FPL's test year O&M expenses for the smart meter program?**

A. No. In fact, a very similar argument was specifically addressed and rejected by the Commission in FPL's 2009 rate case. SFHHA witness Kollen recommended that the Commission impute a higher level of savings from the smart meter program into the 2010 test year that was used in that case, based on FPL's projection that the savings would increase in the years following 2010. The Commission rejected this recommendation as follows:

> We believe SFHHA's arguments are unfounded. While we agree the savings are not in the test year, it would be inappropriate to move costs or savings from outside of the test year into the test year.

(Order No. PSC-10-0153-FOF-EI, at page 96)

**Q. Is it appropriate to apply a "normalized level" for O&M expenses as recommended by OPC witness Ramas in her testimony regarding overhaul expenses? (Ramas, pages 23, 24)**

A. No. The 2013 Test Year is representative of the overhaul expenses that are projected to be incurred in that year. As referenced in witness Kennedy's rebuttal testimony, the projected 2013 overhaul expenses are appropriate and witness Ramas' proposed adjustment lacks appropriate justification. Additionally, witness Ramas does not attempt to substantiate her approach with any facts, such as specifics of planned activities, duration of overhaul activities, or any other substantive basis. She arbitrarily asserts that the 2010-2013 average is indicative of the 2013 test year with no foundation. Moreover, her approach would actually have the effect of disallowing the reasonably estimated expenses of delivering the overhaul work planned for 2013.

The goal of a test year forecast is to be representative of the period in which rates will be in effect. As noted by the Commission in Order No. PSC-10-0153-FOF-EI discussed above, "it would be inappropriate to move costs or savings from outside of the test year into the test year." The first year the rates will be in effect is 2013, and the level of overhaul expenses in the test year is representative of the expenses for 2013 – much more so than the "normalized level" proposed by witness Ramas. For the years beyond 2013, it would be speculative to attempt to "normalize" one element of expenses in anticipation of the trend that specific element might take. Witness Ramas recommends that the Commission normalize expenses "based on a four-year average cost level" (Ramas, page 25). The Commission should reject this notion, as it would be inconsistent with the holistic approach to forecasting to average one specific category of expense over a multiple-year period while using the specific test-year values for the other categories of expenses and revenues.

In this regard, I would like to point out that the ultimate measure of whether a test year forecast remains representative during the period in which rates are in effect is the Commission's earnings surveillance process. Earnings surveillance reports show actual revenues, expenses, investment and borrowing costs that a utility experiences during the period when rates are in effect. The Commission evaluates the continued appropriateness of a utility's rates by comparing its earned Return On Equity ("ROE") to the approved ROE range for that utility; it does not attempt to use the earnings surveillance process to compare individual elements of revenues, expenses, investment or borrowing costs to the values that appear in the test year. This process inherently recognizes that it is the holistic relationship among the elements of a forecast -- rather than individual values within the forecast -- that must remain intact.

**Q. Has witness Ramas been consistent in applying her "normalization" approach?**

A. No. Witness Ramas' approach to generation overhaul expense is completely at odds with her suggested approach on the smart meter program just discussed. "Normalizing" the net O&M expense of the smart meter program as she suggests for overhaul expense would have yielded a normalized value of $7.5 million, an <u>increase</u> of $3.8 million to the forecasted net O&M of $3.7 million. However, witness Ramas employs a different argument to recommend lowering smart meter program revenue requirements by $20 million (*i.e.*, she resorts to an outdated forecast of 2013 rather than a normalized view over multiple years). Witness Ramas appears to be basing her adjustments on whatever approach results in the greatest decrease to revenue requirements, without regard for logic or consistency.

"Cherry picking" individual elements to increase or decrease expenses based on anticipated changes outside the test year would be inconsistent with a holistic view of a forecasted test year. There are instances of adjustments to the test year forecast for out-of-period changes that go the other direction from the adjustment that witness Ramas proposes. For example, FPL's proposed 2013 revenue requirements benefit from the amortization of $191 million of depreciation reserve surplus, but FPL will amortize absolutely no reserve surplus after the end of 2013. This credit to revenue requirements in 2013 is not indicative of a "normal" level of depreciation. However, to maintain the integrity of the forecast for the test year, FPL has not attempted to adjust it for those changes that would increase revenue requirements, and the intervenors should not be permitted to "cherry pick" adjustments going the other way.

Q. **Is it appropriate to apply a "normalized level" for O&M expenses as recommended by SFHHA witness Kollen regarding nuclear maintenance reserve accrual?**

A. No. SFHHA witness Kollen simply computes an average of the nuclear maintenance outage accruals for 2010, 2011 and 2012 and asserts that average as an appropriate level of outage expense for 2013. What he fails to acknowledge is that the appropriate level of accrual for 2013 should be based on the specific outage work to take place in 2013 and subsequent year outages that are being reserved for in 2013. The reserve-in-advance method followed by FPL specifically looks *forward* not backward to determine the accrual amount. All nuclear refueling outages are unique to the maintenance work to be performed in that outage. While there is standard refueling work to be performed, there is also maintenance work that is based on certain intervals driven by the technical specifications of the unit that was approved by the NRC. This work is required to be completed in order to stay in compliance with those specifications.

Q. **Is witness Kollen correct in his statement on page 31 of his testimony that "the Company's request fails to recognize that in some years it incurs the costs for three outages and in some years it incurs the costs of only two**

**outages," and that the Company should levelize these expenses to reflect an average?**

A. No. He is not correct and, furthermore, it appears he does not understand the reserve-in-advance method. His testimony states that FPL reserves for two outages in some years and three outages in others, when in fact FPL is continually reserving for 12 months of outage expenses for each of its four units in every year. The number of outages to which each year's reserves relate depends on the timing of the completion of an outage. For example, if an outage ends in May 2013 for a unit, FPL's 2013 accrual for that unit would reflect five months of the outage expenses for that outage and then seven months of the outage expenses for the next outage at that unit after 2013. In contrast, if there were no outage for a unit in 2013, the accrual for that unit would reflect 12 months of the outage expenses for that unit's next outage after 2013. By using this approach, FPL ensures that twelve months of outage expenses are included for each unit in every year.

**Q. Is Mr. Kollen correct in his statement that outage expenses for 2014 and 2015 are lower than the 2013 Test Year? (Kollen, page 30, 31)**

A. No. One could see how Mr. Kollen might get that impression from FPL's response to SFHHA POD 1:9. In fact, however, the forecasts for years subsequent to the test year are not complete for outage reserve purposes in FPL's response to POD 1:9 because they are not relevant to what is being requested in FPL's 2013 Test Year. Under the reserve-in-advance method, FPL estimates costs in 2014 and 2015 for outages that will take place in 2014, 2015, 2016, and in some cases, depending on outage timing, 2017. Outages that far in the future were not fully estimated at the time FPL's forecast was completed in 2011. In addition, the response to POD 1:9 does not include any accruals for outages beyond the end of 2015. If the response to POD 1:9 reflected the total projected expenses for all outages through the end of 2017, then the outage reserve expenses in 2014 and 2015 would be comparable to the 2013 Test Year, and assuming the same scope of outage work the amounts of expense would be materially similar each year.

**Q. Is witness Kollen correct that FPL attempted to maximize its estimate of outage expenses in the 2013 Test Year?**

A. No. FPL's forecast reflects FPL's best projections of the scope and related expenses for its nuclear outages.

## III. ACCELERATED AMORTIZATION OF DEPRECIATION SURPLUS

**Q. OPC witness Schultz asserts that "the Company has overestimated the depreciation reserve surplus amortization requirement for 2012 by overstating expenses," basing his judgment of accuracy on the budget to actual difference for reserve surplus in 2010. (Schultz, page 35) Do you agree with his assessment?**

A. No. Witness Schultz references the accuracy of the 2010 projection of reserve surplus amortization as a basis for his reservations regarding the accuracy of the 2012 projection. In 2010, however, extreme weather contributed almost all of the variance between the projected and actual amortization of depreciation surplus, as I discussed in my direct testimony.

Q. **Is OPC witness Schultz's proposed adjustment to the amount of depreciation surplus to be amortized in 2012 reasonable? (Schultz, Exhibit HWS-10, page 1)**

A. No. As addressed previously, the 2013 forecast was developed using a rigorous forecasting process with proven performance. FPL's 2012 Prior Year forecast was developed using that same rigorous process. The forecasted 2012 depreciation surplus amortization of $526 million is based upon the best available information at the time of forecast preparation. Year-to-date performance, and the best available information for the remainder of the year indicate that this projected amortization level is still reasonable and reliable. As referenced in the rebuttal testimony of FPL witnesses Slattery and Hardy, there is no justification for making the adjustments that witness Schultz proposes for 2013. Witness Schultz asserts the same invalid justification for his adjustments to the 2012 surplus requirement shown on HWS-10. Therefore, those adjustments are unfounded and would be inappropriate. The amount of depreciation surplus amortization estimated in the 2013 Test Year forecast is therefore reasonable and appropriate.

Q. **What is the Company's recommendation of the amount of depreciation surplus to be amortized in 2013?**

A. FPL recommends that $191 million of depreciation surplus be recorded as amortized in 2013. The actual amount of depreciation surplus remaining of the original \$894 million established in the last rate case may vary from this amount. FPL's proposal is to amortize \$191 million of reserve surplus in 2013 and then not to amortize any additional reserve surplus in the subsequent years in which the newly approved base rates remain in effect, regardless of what the actual amount remaining at the end of 2013 turns out to be. This will ensure a proper matching of expected revenues at new rates with the revenue requirements upon which those rates were established. This approach also is the most fair and administratively efficient approach for both FPL and customers.

## IV. WORKING CAPITAL

**Q. OPC witness Schultz recommends an adjustment to working capital relating to Other Accounts Receivable. (Schultz, pages 44, 45) Do you agree with this adjustment?**

A. No. Witness Schultz states that he excluded specific Other Accounts Receivable accounts that he assumes do not provide utility services. The accounts that witness Schultz is excluding in the Test Year via his proposed adjustment are necessary for providing utility service, as discussed in FPL witness Ousdahl's rebuttal testimony and the audit performed by the Commission Staff.

## V. FPSC STAFF AUDIT REPORT

**Q. The audit report sponsored by Staff witness Welch identifies specific expenses from 2011 and states that they are non-recurring and should be excluded from the 2013 Test Year forecast. Were these items properly excluded from the 2013 Test Year forecast? (Welch, pages 8, 9)**

A. Yes. Substantially all of the costs identified by Staff witness Welch were non-recurring costs and were appropriately excluded from the 2013 Test Year forecast.

**Q. Staff witness Welch states that the 2013 Test Year forecast should include a reduction for a 2011 non-recurring cost of $101,621 related to FiberNet charges. (Welch, page 11) Does FPL's 2013 Test Year forecast include this non-recurring cost?**

A. No. The 2011 non-recurring cost of $101,621 was not included in the 2013 Test Year and therefore no adjustment is needed.

**Q. Regarding FiberNet charges, witness Welch also states that "although plant has been added, this charge of $6,857,570 (in 2011) to FPL has decreased since our audit was done in 2000 and will probably continue to decrease due to the additional accumulated depreciation." (Welch, page 11) Do you agree with this statement?**

A. No. Witness Welch's assertion that FiberNet's total billings should be declining from the 2011 historical level as a result of growing accumulated depreciation and declining net plant is not correct. The growth in FiberNet's plant balances is exceeding the rate of depreciation. Additionally, there are other costs that are part of the FiberNet monthly charges to FPL, such as property taxes, sales taxes, and other operations and maintenance costs which vary depending on the business needs and external factors such as tax rates.

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

A. Yes.