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FPL Responses to Staff's Eighth Interrogatories  
Nos. 150-156.

QUESTION:

Please refer to the Direct Testimony of Jun K. Park. At Page 8, Line 16, the witness states that Florida's nonfarm employment is expected to grow at an average of 2.7 percent per year through 2023.

- a. Please identify the source(s) of this projection.
- b. Does FPL monitor the percentage of nonfarm employment on a continuous (ongoing) basis? If so, please discuss how any trends that FPL has observed related to this metric have been useful to FPL for budget forecasting purposes.

RESPONSE:

- a. The projections of Florida's nonfarm employment were from IHS Markit's August 2020 economic forecasts.
- b. FPL routinely monitors Florida's nonfarm employment because it provides meaningful insight into the state's overall economic and inflationary growth. Additionally, actual employment growth results are monitored to evaluate whether current economic growth is in line with budget expectations.

QUESTION:

Please refer to the Direct Testimony of Jun K. Park. At Page 10, Lines 2-3, the witness states that the CPI projections used in its forecasting and budget calculations are from IHS Markit's May 2020 forecast.

- a. Please provide the updated actual IHS Markit CPI value for the year 2020. Include in your response a comparison to the values used in the initial filing.
- b. Please provide the most current CPI projections for all years 2021-2025.

RESPONSE:

- a. The actual 2020 CPI index was 258.811, or an increase of 1.2% over 2019. In the initial filing, the 2020 CPI index was 258.107, or an increase of 1.0% over 2019.
- b. Below is IHS's most current CPI forecast (June 7, 2021) for the years 2021-2025.

Year	CPI (% Change)
2021	3.3%
2022	2.1%
2023	2.0%
2024	2.1%
2025	2.2%

**QUESTION:**

Please refer to the Direct Testimony of Jun K. Park. At Page 9, Lines 11-17, Witness Park states that the Company utilized IHS Markit's May 2020 economic forecast for the Company's projected CPI increases of 1.7 percent and 0.8 percent in 2022 and 2023, respectively. Please provide:

- a. A comparison of FPL's inflation forecast with other nationally recognized CPI forecasts, such as may be provided by Blue Chip Economic Indicators (a consensus forecast).
- b. If a significant difference exists between FPL's CPI forecast and forecasts of CPI from other sources, please explain whether IHS Markit's forecast is preferred for purposes of estimating FPL's test year O&M expenses, and why.

**RESPONSE:**

- a. Please see the table below for comparisons of FPL's CPI forecast versus other nationally recognized CPI forecasts.

Forecast Source	Date Economic Data Posted	Forecast Year % Increase	
		2022	2023
FPL Forecast (IHS Markit)	May-20	1.7	0.8
Philadelphia Fed - Survey of Professional Forecasters	May-20	2.0	N/A
Blue Chip Economic Indicators (CBO)	Oct-20	2.2	2.2
Blue Chip Economic Indicators (Consensus)	Oct-20	1.7	2.1
Wall Street Journal (WSJ)	May-20	2.1	N/A
The Florida Office of Economic & Demographic Research (EDR)	Jul-20	2.2	1.8
University of Central Florida	Mar-20	2.1	N/A
University of Central Florida	Jul-20	1.8	2.0

- b. Although FPL's CPI forecast is lower than those from some of the other nationally recognized sources, the CPI forecasts from IHS Markit are preferred because of the consistency with the projections of the other economic variables used in the forecasting and budgeting process.

QUESTION:

Please refer to the Direct Testimony of Jun K. Park. At Page 9, Line 15, the witness states that FPL “has relied on projections from HIS Markit for forecasting and budgeting purposes” for preparing its 2012, 2016, and the instant rate case petitions. Please identify all other sources of data that FPL has relied on for similar purposes, if any.

RESPONSE:

The referenced portion of FPL witness Park’s direct testimony addresses economic projections. FPL has relied on economic projections from IHS Markit for forecasting and budgeting purposes in its 2012, 2016, and the instant rate cases. In FPL’s 2012 rate case, the Company relied on the Florida Bureau of Business and Economic Research (“BEBR”) but only for the demographic projections for population. Beginning with FPL’s 2016 rate case, the Company has relied on IHS for both economic and demographic projections for forecasting and budgeting purposes.

QUESTION:

Please refer to the Direct Testimony of Jun K. Park. At Page 9, Lines 19-22, the witness addresses the inflation measure used by FPL, which is the IHS Markit's forecast of Consumer Price Index (CPI).

- a. Why was IHS Markit's CPI most appropriate for the development of the test year budgets, compared to other available inflation measures?
- b. Please identify any other alternative forecast(s) of CPI that FPL considered when it prepared its test year budgets for the instant rate petition.

RESPONSE:

- a. IHS Markit's CPI forecast was most appropriate for the development of the test year budgets compared to other available inflation measures because CPI measures inflation as experienced by FPL's customers in their day-to-day living expenses. In addition, the use of CPI as an appropriate and reasonable measure of inflation has been established in prior proceedings before the Commission.
- b. FPL did not consider other alternative forecasts of CPI because IHS Markit's CPI forecast was developed as part of their overall U.S. macro model. Using this forecast provided consistency and connectivity with other economic variables used in the forecasting and planning processes.

QUESTION:

Please refer to the Direct Testimony of Scott R. Bores, specifically Exhibit SRB-9, and the Direct Testimony of Jun K. Park. In Park's testimony, at Page 10, Lines 11-12, he states that "there are significant differences between the increase in overall CPI versus the subcategories that make up overall CPI."

- a. What subcategories of the CPI used in the calculation of the compound multipliers show on SRB-9, are representative of the O&M expense categories included in FPL's test year budgets?
- b. What subcategories included in the calculation of CPI are not representative of subcategories of O&M expense?

RESPONSE:

- a. FPL utilizes a forecast of the CPI for all goods and services (or overall CPI) as an appropriate and reasonable measure of inflation as part of the budgeting process and in the benchmark calculation used in preparation of Exhibit SRB-9. FPL did not perform an analysis of each individual component of CPI or the degree to which they are representative of FPL's functional O&M expenses.
- b. See response to subpart (a) above.

QUESTION:

Please refer to the Direct Testimony of Scott R. Bores. At Page 15, Lines 11-13, the witness addresses the Company's planning and budget assumptions including "projections for inflation, customer and load growth, and the new service accounts."

- a. What trend factors, other than inflation and customer growth, were broadly used by FPL in the preparation of its 2022 Test Year and 2023 Subsequent Year Budgets?
- b. How were these other trend factors used in the preparation and calculation of the 2022 Test Year and 2023 Subsequent Year Budgets?

RESPONSE:

- a. As part of developing the budgets, FPL considers trend analysis as well as the nature of the work being performed and the material and labor needed for those specific projects. For example, FPL uses trends for labor and materials rates, program execution metrics (e.g., total miles to be trimmed within the year for vegetation, total lateral and feeder feet to be executed, total inspections to be completed). For large projects and work scopes that are contractually defined, FPL uses costs as defined in the project contracts. Please refer to FPL's response to OPC's Fourth Set of Interrogatories No. 164 and Exhibit SRB-4 to FPL Witness Bores' direct testimony for a description of FPL's budgeting process.
- b. See response to subpart (a) above.