

1 corporate center costs. The appropriate involvement of Lone Star during the
2 bottoms-up development and scoping of the budget as well as rigorous cost
3 control processes subsequently employed, provide the necessary methods to
4 ensure that Lone Star's needs are appropriately served. Additionally, the frequent
5 analysis and review by management provides the oversight necessary to ensure
6 that corporate support service costs are reasonably managed and controlled.

7
8 **B. Benchmarking**

9 **Q. WHY IS BENCHMARKING AN IMPORTANT TOOL IN EVALUATING**
10 **COST REASONABLENESS?**

11 A. Benchmarking is an important internal cost control tool used by management to
12 improve performance, institute best practices and establish an organizational
13 culture that embraces continuous improvement. Within the corporate center
14 functions, the conduct of discrete benchmark studies can identify cost
15 performance and/or service delivery opportunities. A company that frequently
16 employs benchmarking exercises is more likely to also have a corporate culture
17 built on continuous improvement and effective cost control mechanisms. For
18 these reasons, the Commission's RFP lists benchmarking comparisons as an
19 example of the type of evidence that may be presented to support the utility's
20 burden of proof for the recovery of affiliate costs.

1 **Q. DO FPL AND NEER UTILIZE BENCHMARKING?**

2 A. Yes. Benchmarking is utilized by FPL and NEER to understand the
3 comparability of costs incurred for a variety of functions such as Human
4 Resources and ECCS to provide for third-party input into relative cost levels and
5 underlying practices.

6

7 **Q. HOW IS THE BENCHMARKING CONDUCTED BY FPL AND NEER**
8 **BENEFICIAL AND DOES IT LEAD TO ENHANCED COST CONTROL?**

9 A. The benchmarking assessments undertaken by FPL and NEER benefits them in
10 three primary ways. First, it gives management a comparative view of business
11 unit performance and allows them to assess their own cost performance relative to
12 previous years and with their peers. Secondly, this information is used as an
13 objective measure when evaluating performance of business unit managers
14 relative to attainable targeted cost performance levels. Lastly, benchmarking
15 results are an important mechanism by which management determines whether to
16 outsource activities deemed cost ineffective or not core to the business. In this
17 manner, benchmarking inserts more rigor into cost identification and control
18 efforts at FPL and NEER.

C. Cost Management Summary

Q. WHAT DO YOU CONCLUDE FROM YOUR REVIEW OF NEER AND FPL COST MANAGEMENT PROCESSES?

A. A tightly executed budgeting process, rigorous monitoring of costs and targeted benchmarking constitute an effective approach to managing corporate support center costs that are employed by all the entities. These mechanisms, in particular, allow Lone Star to have broad visibility into, and exercise influence over, support center costs. The combination of a top-down guidance approach, with a bottom-up detailed budgeting process that involves focused interaction between FPL and NEER and their affiliates (including Lone Star), allows for alignment of cost levels with the expected performance of the enterprise and the requirements of the business. Periodic and detailed cost performance reporting mechanisms allow FPL and NEER and their affiliates (including Lone Star) to closely track and manage costs consistent with the budget, and provide the cost transparency to ensure that charges from affiliates to Lone Star are reasonable and necessary.

VII. ALLOCATION PROCESS

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. The purpose of this section is to demonstrate that the assignment and allocation of affiliate costs to Lone Star from FPL and NEER are reasonable and appropriate. Notably, NEET's costs are direct charged and not currently allocated.

1 Q. WHAT APPROACH DID YOU TAKE IN EVALUATING THE
2 REASONABLENESS OF THE NEER AND FPL COST ASSIGNMENT
3 AND ALLOCATION TO LONE STAR?

4 A. Appropriate cost assignment and allocation from FPL and NEER to their affiliate
5 companies is a necessary element in determining whether corporate center
6 (support service) costs are fairly and reasonably distributed. This section
7 evaluates the reasonableness of the methodologies and processes utilized by FPL
8 and NEER to assign or allocate corporate center costs to Lone Star. The
9 reasonableness and appropriateness of FPL's and NEER's approach can then be
10 assessed by evaluating its allocation methodology and allocation factors as well as
11 by comparing its allocation practices to those adopted by other utilities (*i.e.*,
12 benchmarking). In short, my analysis of the relevant allocation principles,
13 processes and end results consisted of the following activities:

- 14 • Interview of responsible NEET, NEER, FPL and Lone Star
15 management to understand the nature and application of the allocation
16 methodologies employed;
- 17 • Review of the current FPL CAM, NEER AMF P&P, NEER
18 Transactions with Subsidiaries and Affiliates Policy & Procedure and
19 allocation processes to assess whether they are in alignment with the
20 cost causative nature of the underlying functional areas (*i.e.*, do the
21 allocation methods used bear a reasonable and direct relationship to
22 the actual activities performed); and
- 23 • Analysis of the allocation factors used by other peer utilities to
24 determine whether those employed by FPL and NEER are comparable.

1 **Q. WHAT SPECIFIC CRITERIA DID YOU UTILIZE IN ESTABLISHING**
2 **THE FRAMEWORK FOR ASSESSING THE NEER AND FPL COST**
3 **ALLOCATIONS?**

4 A. I used several discrete criteria based on my experience and expertise to evaluate
5 FPL and NEER service cost allocations for corporate service center activities:

- 6 • Are allocation methods fully documented?
- 7 • Do allocation methods reflect acceptable standards?
- 8 • Do allocation methods reflect cost causation?
- 9 • Are allocation methods consistent with similar companies?

10 These criteria provided a definitive basis for the conduct of the assessment and
11 established a specific framework against which the allocations could be compared.

12

13 **Q. PLEASE DESCRIBE THE MANNER IN WHICH YOU PERFORMED**
14 **YOUR EVALUATION OF THE NEER AND FPL COST DISTRIBUTION**
15 **METHODOLOGY AND PROCESSES.**

16 A. My assessment was structured to understand whether the FPL and NEER
17 assignments and allocations comply with the fundamental tenets of cost causation
18 and responsibility. It was also structured to determine whether these methods are
19 fully documented and consistently applied. A review of the overall cost recording
20 assignment and allocation processes and practices was conducted to construct a
21 basic understanding of the underlying mechanics of the process. Further, the FPL
22 and NEER allocation factors were compared with allocation factors utilized by a
23 peer group of other utilities' parent or service companies to determine

consistency. This analysis provides the basis for my conclusion that the FPL and NEER assignment and allocation procedures and policies are reasonable when compared to standard industry practices and in consideration of their specific application to the FPL and NEER costs.

Q. PLEASE EXPLAIN FPL's COST ASSIGNMENT AND ALLOCATION PROCESS.

A. FPL's CAM has been used for an extended period of time and has been reviewed by the Florida Public Service Commission. The FPL CAM provides an overview of all topics relevant to the assignment and allocation process including the types of management fees that exist and the theoretical basis for assigning costs. Costs are apportioned in three ways:

- **direct bill:** include cost of resources which are used exclusively for the provision of services that are easily identified with an activity. Examples include employee time and travel expenses;
- **direct assigned:** include cost of resources used not just by Lone Star but also other affiliates and are apportioned using cost causative factors. The cost of office space used by Lone Star using the square footage occupied by Lone Star is an example of direct assigned cost; and
- **allocated:** this includes costs incurred to support one or more organizations but cannot be directly billed or assigned using cost causative factors (FPL AMF).

Inter-Company transactions and the proper way to apportion costs between regulated and non-regulated areas of the business are covered as well in the CAM. With respect to Lone Star, the FPL CAM utilizes the AMF approach which ensures that costs are correctly and fairly allocated among its constituents. The

1 AMF is applied to a cost pool of common services determined annually through a
2 review of the products and services provided by FPL corporate center
3 departments. This review identifies the products and services within each budget
4 activity that benefit the entire enterprise or specific companies. The corporate
5 center functional budget costs that are not directly billed or assigned are then
6 allocated using specific drivers (where available and appropriate) or with the
7 Massachusetts Formula. These mechanisms are explained in more detail in Ms.
8 Dietrich's direct testimony.

9
10 **Q. HOW ARE THE NEER AND FPL COSTS ASSIGNED OR ALLOCATED**
11 **TO LONE STAR?**

12 A. With respect to Lone Star, the FPL and NEER costs are either directly billed,
13 direct assigned to affiliates, or are allocated using allocation factors that are
14 assigned to specific cost categories. These allocations take place through
15 application of two available methods: specific cost-causative drivers or the
16 Massachusetts Formula-based allocation.

17
18 Specific cost driver based application focuses on identifiable metrics affecting
19 cost levels, such as headcount or number of workstations, while the
20 Massachusetts Formula-based method utilizes an average of general bases of
21 revenues, gross property plant and equipment and payroll to distribute costs.
22 Allocated costs do not include direct charges, which are incurred directly in
23 support of a business unit and billed directly to that business unit based on time

1 capture. The allocation factors used by FPL and NEER as well as a breakdown of
2 affiliate costs to Lone Star are examined in detail in Exhibit TJF-4.

3
4 These allocation factors are based on objective metrics and are cost-causative
5 (i.e., these factors have a direct relationship to the causation of the expense and
6 the effect this activity has on the operations of the benefiting entity). In cases
7 where allocation factors cannot be definitively used, the Massachusetts Formula is
8 applied.

9
10 **Q. CAN ALL COSTS BE CHARGED DIRECTLY TO EACH AFFILIATE,**
11 **INSTEAD OF ALLOCATED THROUGH A FACTOR?**

12 A. No. Many employees perform multiple activities, often on behalf of multiple
13 affiliates. Costs are directly billed to affiliates to the extent practicable, but costs
14 jointly incurred on behalf of more than one business unit or affiliate have to be
15 allocated because such costs are not easily divisible or directly assignable.

16
17 **Q. DOES LONE STAR HAVE INPUT INTO THE ALLOCATION PROCESS?**

18 A. Yes, Lone Star is involved in the allocation process in two ways. The first way is
19 during the budget development exercise. Lone Star has the opportunity to provide
20 input directly to the relevant operating functions during the budgeting process
21 when these entities are developing their budget plans. Secondly, Lone Star
22 leverages its interaction with these operating functions to obtain enhanced
23 explanation, understanding and justification for these activities and costs that are

1 allocated. Through these mechanisms, which occur throughout the year, Lone
2 Star has an appropriate level of input.

3

4 **Q. ARE THE DIRECT ASSIGNMENT AND COST ALLOCATION**
5 **METHODOLOGIES UTILIZED BY FPL AND NEER SIMILAR TO**
6 **THOSE USED ELSEWHERE IN THE UTILITY INDUSTRY?**

7 A. Yes. FPL and NEER directly charge their affiliates for services rendered, when
8 circumstances permit. They utilize cost allocation if there is no clear way to
9 direct charge services. This is similar to other utility service companies. For
10 costs that are not directly charged, these entities generally employ a similarly
11 robust process to allocate costs among the business units or affiliates based on
12 specifically identified, cost-causative allocation factors that relate closely to the
13 nature of the activity, or through adoption of a multi-part general allocator like the
14 Massachusetts Formula. Companies consistently allocate costs to the entity for
15 whose benefit the cost was incurred. The cost allocation methodologies used by
16 FPL and NEER, as described in my testimony as well as the FPL CAM and
17 NEER AMF P&P, are grounded in the same principles as other companies in the
18 industry.

1 **Q. WHAT DO YOU CONCLUDE ABOUT THE ALLOCATION AND**
 2 **DIRECT BILL PROCESSES AND ASSOCIATED COSTS THAT LONE**
 3 **STAR SEEKS TO RECOVER IN THIS CASE?**

4 A. The FPL and NEER direct billed, direct assigned and cost allocation processes are
 5 reasonable and well structured. They involve the key elements required to
 6 establish a fair and objective system of cost allocation to affiliates. I believe that
 7 the cost allocation processes employed by FPL and NEER allow for an equitable
 8 allocation of affiliate costs. Therefore, I believe that the costs that have been
 9 allocated to Lone Star through these methodologies, as well as the costs direct
 10 charged to it, are reasonable and necessary.

11

12 **VIII. COST COMPARABILITY**

13 **Q. PLEASE DESCRIBE THE METHODOLOGY YOU UTILIZED IN**
 14 **PERFORMING THE EXTERNAL BENCHMARKING ANALYSIS FOR**
 15 **LONE STAR.**

16 A. To further assess the reasonableness of affiliate costs, I conducted a high-level
 17 external benchmarking analysis. I based my assessment on a multi-level approach
 18 by:

- 19 • comparing Lone Star to a limited number of transmission entities, both
- 20 in Texas and in other states, to assess overall cost comparability; and
- 21 • performing a broader benchmarking of FPL, one of the main entities
- 22 providing services to Lone Star.

23 NEER services were not benchmarked because comparability among peers is
 24 limited and data is insufficient due to the unregulated nature of these operations.

1 Multiple operating company peer groups based on FERC Form 1 data were
2 used to develop external benchmarks for FPL. A summary of the
3 benchmarking data and peer group selection process is in Exhibit TJF-5. I
4 benchmarked FERC Form 1 administrative and general costs because most of
5 the FPL costs billed to its affiliates are captured in this account category. The
6 Form 1 also provides the administrative and general costs for other utility parent
7 or service companies.

8
9 **Q. HOW DOES LONE STAR COMPARE TO THE PEER GROUP?**

10 A. Lone Star performs well and is better than the average of the peer group. My
11 benchmarking used FERC Form 1 data of transmission entities both in Texas and
12 outside as well as Commission filings. The details of this comparison are shown
13 in Exhibit TJF-5. I note that transmission-focused utilities such as Lone Star are
14 limited in number and publicly available operational data is limited. Additionally,
15 I also compared Lone Star's projected administrative and general costs in 2013
16 with the costs of its peers by using published data from the Consumer Price Index
17 and Producer Price Index to deescalate those costs to the most recent date where
18 information is available for Lone Star's peers. This was necessary as Lone Star is
19 currently in a construction phase and will become fully operational in 2013.

1 **Q. HOW DOES FPL'S PERFORMANCE COMPARE TO ITS PEER**
2 **GROUPS?**

3 A. Across all of the peer groups analyzed, FPL performs extremely well; this is
4 reflective of a longstanding commitment to cost management and business
5 optimization that translates into extremely competitive positioning against peers
6 as illustrated in Exhibit TJF-5.

7
8 Better than average performance (*i.e.*, lower costs than the peer group) can
9 generally be viewed as indicative of effective cost management. This relative
10 cost position against peers thus suggests that some combination of internal
11 execution and specific local circumstances have combined to provide for
12 favorable cost positioning. As shown in Exhibit TJF-5, FPL performed better
13 than average (*i.e.*, lower comparative costs) in all of the benchmark metrics
14 analyzed across the peer groups for each time period indicating a very high level
15 of cost control.

16
17 **IX. CONCLUSION**

18 **Q. WOULD YOU PLEASE SUMMARIZE YOUR REVIEW OF THE**
19 **AFFILIATE COSTS BILLED TO LONE STAR?**

20 A. In my opinion, the affiliate charges incurred and billed by NEET, NEER and
21 FPL to Lone Star are reasonable, necessary and should be fully recognized for
22 recovery by the Commission for the following reasons:

- 1 • The services performed by these entities are consistent with those
2 performed by the service companies of utilities in the peer group set
3 and similar to those typically centralized to achieve economies of
4 scale.
- 5 • The activities performed by Lone Star's affiliates are necessary and
6 required of any public utility to satisfy the responsibilities to
7 customers and governmental entities and to support the effective and
8 efficient operations of the business.
- 9 • The lower costs of centralization and/or more reliable operations that
10 result from the performance of these activities are available to all
11 customers. The benefits also include increased employee productivity
12 and enhanced corporate performance.
- 13 • The budgeting process incorporates appropriate and effective
14 mechanisms at the NEET, NEER and FPL level to enable Lone Star to
15 provide adequate input into the service and cost levels and maintain
16 control over cost performance after the budget is established.
- 17 • NEET, NEER, FPL and Lone Star employ several mechanisms to
18 monitor costs on an ongoing basis. These mechanisms are effective
19 and mirror typical practices used to exercise appropriate control over
20 cost incurrence.
- 21 • The multiple allocation factors for FPL and NEER reflect appropriate
22 cost causation principles and are comparable to those used by other
23 similar companies. The use of the Massachusetts Formula is also a
24 reasonable approach and mirrors other multi-part factors used within
25 the industry.
- 26 • Direct charges from NEET, NEER and FPL to affiliates, including
27 Lone Star, utilize time recording processes to ensure that benefiting
28 companies are charged equitably for incurred service costs. This
29 ensures that costs billed to Lone Star are appropriately tracked and
30 monitored.
- 31 • External benchmarking demonstrates that Lone Star's support service
32 costs are better than the average when compared to similar entities. In
33 addition, external benchmarking also shows that services costs at FPL,
34 one of the main entities supporting Lone Star, is consistently better
35 than peers that were analyzed.

36 The conclusions reached above indicate that Lone Star has legitimately incurred
37 and benefited from the services and associated costs provided by NEET, NEER

1 and FPL, that these costs are reasonable and necessary and that these costs are
2 passed on to Lone Star through mechanisms that provide an equitable result for
3 the involved parties.
4

5 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

6 **A. Yes, it does.**

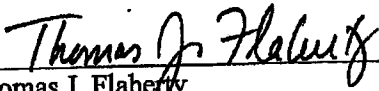
STATE OF TEXAS §
 §
COUNTY OF DALLAS §

AFFIDAVIT OF THOMAS J. FLAHERTY

BEFORE ME, the undersigned authority, on this day personally appeared Thomas J. Flaherty, who, having been placed under oath by me, did depose as follows:

1. “My name is Thomas J. Flaherty. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge. My current position is Senior Vice President in the Energy, Chemicals and Utilities practice of Booz & Company.
2. I have prepared the foregoing direct testimony and the attached exhibits offered by me are true and correct to the best of my knowledge.”

Further affiant sayeth not.



Thomas J. Flaherty

SUBSCRIBED AND SWORN TO BEFORE ME by the said Thomas J. Flaherty this
20th day of December, 2011.



Notary Public, State of Texas



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Exhibit TJF 1

Summary of Regulated Utility Experience

Summary of Experience

- Alaska Public Utilities Commission
 - Anchorage Sewer Utility
 - Arizona Corporation Commission
 - U S WEST Communications - Docket No. E-1051-88-146
 - Arkansas Public Service Commission
 - FPL Group, Entergy Corporation, WCB Holding corp. and Entergy Arkansas, Inc.— Docket No. 00-329U
 - Beaumont, Texas
 - Entex, Inc.
 - Gulf States Utilities Company
 - California Public Utilities Commission
 - The Washington Water Power Company and Sierra Pacific Power Company -- Application No. 94-08-043
 - Pacific Enterprises and ENOVA Corporation - Application No. A-96-10-038
 - Clark County, Washington
 - Washington Public Power Supply
 - District of Columbia, Public Service Commissions
 - Baltimore Gas and Electric Company and Potomac Electric Power Company -- Formal Case No. 951
-

Summary of Experience (contd.)

- Colorado Public Utilities Commission
 - Public Service Company of Colorado and Southwestern Public Service Company – Docket No. 95A-513EG
- Delaware Public Service Commission
 - Atlantic City Electric Company and Delmarva Power & Light Company – Docket No. 97-65
- Federal Energy Regulatory Commission
 - Baltimore Gas and Electric Company and Potomac Electric Power Company – Docket No. EC96-10-000
 - IES Utilities Inc., Interstate Power Company, Wisconsin Power & Light Company,
 - South Beloit Water, Gas & Electric Company, Heartland Energy Services and
 - Industrial Energy Applications, Inc. - Docket No. EC96-13-000
 - Trans-Alaska Pipeline System - Docket No. OR78-1
 - Middle South Energy, Inc. – Docket No. ER-82-483-000
 - Middle South Energy, Inc. - Docket No. ER-82-616-000
 - Kansas Power and Light Company and Kansas Gas and Electric Company Docket No. EC91-2-000
 - Southwestern Public Service Company and Public Service Company of Colorado – Docket No. EC96-2-000
 - The Washington Water Power Company and Sierra Pacific Power Company - Docket No. EC94-23-000
 - Northern States Power Company and Wisconsin Energy Corporation – Docket Nos. EC95-16-000 and ER95-1357-000
 - Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company – EC95-4
 - Ohio Edison Company, Pennsylvania Power Company, The Cleveland Electric

Summary of Experience (contd.)

- Illuminating Company, and The Toledo Edison Company – ER97-412-000
 - Atlantic City Electric Company and Delmarva Power & Light Company – EC97-7 Union Electric and Central Illinois Public Service Company – EC-96-7-000
 - Federal Power Commission
 - Organization and Operations Review
 - Florida Public Service Commission
 - Florida Power & Light Company and Entergy Corporation – Docket No. 001148
 - City of Garland, Texas
 - General Telephone Company of the Southwest
 - Lone Star Gas Company
 - Georgia Public Service Commission
 - Georgia Power Company - Docket No. 3673-U
 - City of Houston, Texas
 - Houston Lighting & Power Company
 - Idaho Public Utilities Commission
 - The Washington Water Power Company and Sierra Pacific Power Company – Case Nos. WWP-E-94-7 and WWP-G-94-4
-

Summary of Experience (contd.)

- Illinois Commerce Commission
 - Illinois Power - Docket No. 84-0055
 - Iowa-Illinois Gas and Electric Company and Mid-American Company Energy – Docket No. 94-0439
 - Central Illinois Public Service Company, CIPSCO Incorporated and Union Electric Company - Docket No. 95-0551
- Indiana Utility Regulatory Commission
 - IPALCO and PSI Resources
 - Veolia – Cause No. 43936
- Iowa Utilities Board
 - Midwest Resources Inc., Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company - Docket No. SPU-94-14
 - IES Industries Inc., Interstate Power Company, WPL Holdings, Inc. – Docket No. SPU-96-6
- Iowa Electric Light and Power
 - Organization and Operations Review
- Kansas Corporation Commission
 - Southwestern Bell Telephone Company - Docket Nos. 117,220-U and 123,773-U
 - Kansas Gas & Electric - Docket No. 120,924-U
 - Kansas Power and Light Company and Kansas Gas and Electric Company Docket No. 174,155-U

Summary of Experience (contd.)

- Western Resources and Kansas City Power and Light - Docket No. 190,362-U
- Western Resources, Inc. and Kansas City Power and Light - Docket No. 97- WSRE-676-MER
- Kentucky Public Service Commission
 - Louisville Gas & Electric Company - Case Nos. 5982, 6220, 7799, 8284, 8616 8924
 - South Central Bell Telephone Company - Case Nos. 6848, 7774 and 8150
 - Kentucky-American Water Company - Case No. 8571
 - Duke Energy Corporation - Case No. 2005-00228
- Louisiana Public Service Commission
 - American Electric Power Company, Inc., Southwestern Electric Power and Central and South West Corporation - Docket No. U-23327
 - Entergy Louisiana, Inc. and Entergy Gulf States, Inc. Merger with FPL Group, Inc. - Docket No. U-25354
- Maryland Public Service Commission
 - Baltimore Gas and Electric Company and Potomac Electric Power Company - Order No. 73405, Case No. 8725
 - FirstEnergy Corporation - Case No. 9233

Summary of Experience (contd.)

- Massachusetts Department of Telecommunications and Energy
 - Boston Edison, Cambridge Electric Light Company, Commonwealth Electric Company and Commonwealth Gas Company – Docket D.T.E. 99-19
 - Nstar and NU - D.P.U. 10-170
- Michigan Public Service Commission
 - Wisconsin Electric Power Company and Northern States Power Company No. U-10913
- Minnesota Public Service Commission
 - Continental Telephone Company - Docket No. PR-121-1
 - Northern States Power Company - Docket No. E002/GR-89-865
 - Northern States Power Company and Wisconsin Energy Corporation - Docket No. E, G002/PA-95-500
- Mississippi Public Service Commission
 - Mississippi Power & Light Company - Docket No. U-4285
 - Entergy Mississippi, Inc., Entergy Corporation, FPL Group, Inc. and WCB Holding Corporation – Docket No. 2000-UA-925
- Missouri Public Service Commission
 - Union Electric Company - Case Nos. ER-84-168 and EO-85-17
 - Union Electric Company and Central Illinois Public Service Company - Case No. EM-96-149
 - Kansas City Power & Light Company - Case Nos. ER-85-128 and EO-85-185
 - Kansas Power and Light Company and Kansas Gas and Electric Company – Case No. EM-91-213

Summary of Experience (contd.)

- Southwestern Bell Telephone - Case No. TC-93-224
- Western Resources and Kansas City Power and Light – EM 97-515
- Nevada Public Service Commission
 - Bell Telephone Company of Nevada - Docket No. 425
 - Central Telephone Company - Docket No. 91-7026
 - The Washington Water Power Company and Sierra Pacific Power Company - Docket No. 94-8024
- New Jersey Board of Public Utilities
 - Atlantic City Electric Company and Delmarva Power & Light Company – Docket No. EM-97-020103
- New Mexico Public Service Commission
 - Public Service Company of New Mexico
 - Southwestern Public Service Company and Public Service Company of Colorado - Case No. 2678
- New Mexico State Corporation Commission
 - Continental Telephone of the West - Docket No. 942
 - General Telephone Company of the Southwest - Docket Nos. 937 and 990
 - Mountain States Telephone and Telegraph Company - Docket Nos. 943, 1052, and 1142
 - U S WEST Communications - Docket No. 92-227-TC

Summary of Experience (contd.)

- City of New Orleans, Louisiana
 - New Orleans Public Service Company
- New York, State of, Public Service Commission
 - Long Island Lighting Company and Brooklyn Union Gas Company - Case 95-G-0761
- North Carolina Utilities Commission
 - Duke Energy Corporation – Docket No. E-7, Sub 795
- Ohio Public Utilities Commission
 - Ohio Bell Telephone Company - Case No. 79-1184-TP-AIR
 - Cleveland Electric Illuminating Company
 - Cinergy Corporation – Case No. 05-732-EL-MER and Case No. 05-733-EL-AAM
- Oklahoma Corporation Commission
 - Organization and Operations Review
 - Southwestern Bell Telephone Company - Cause No. 26755
 - Public Service Company of Oklahoma - Cause Nos. 27068 and 27639
 - Southwestern Bell Telephone Company - Cause No. 000662
 - American Electric Power Company, Inc., Public Service Company of Oklahoma and Central and South West Corporation – Cause No. PUD-980000444

Summary of Experience (contd.)

- Oregon, Public Utility Commission of
 - Pacific Power and Light Company - Revenue Requirements Study
 - Portland General Electric Company - Revenue Requirements Study
 - The Washington Water Power Company and Sierra Pacific Power Company
- Pennsylvania Public Utility Commission
 - FirstEnergy Corporation – Docket No. A-2010-2176520
- City of Riverside California
 - San Onofre Nuclear Generating Station
- City of Sherman, Texas
 - General Telephone Company of the Southwest
- Tennessee Public Service Commission
 - United Inter-Mountain Telephone Company - Docket Nos. U-6640, U-6988 and U-7117
 - Texas Attorney General
 - Southwestern Bell Telephone Company

Summary of Experience (contd.)

- Texas, Public Utility Commission of
 - Texas Power & Light Company - Docket Nos. 178 and 3006
 - Southwestern Bell Telephone Company - Docket Nos. 2672, 3340, 4545 and 8585
 - Houston Lighting & Power Company - Docket Nos. 2448, 5779 and 6668
 - Lower Colorado River Authority - Docket No. 2503
 - Gulf States Utilities Company - Docket No. 2677
 - General Telephone Company of the Southwest - Docket Nos. 3094, 3690 and 5610
 - Central Telephone Company - Docket No. 9981
 - Southwestern Public Service Company and Public Service Company of Colorado Docket No. 14980
 - FPL Group, Inc. and Entergy Corporation – Docket No. 23335
 - Reliant Energy HL&P – Docket No. 22355
 - PNM Resources – Texas-New Mexico Power – Docket No. 30172 and 38480
 - Entergy Gulf States – Docket No. 30123
 - AEP – Central and SouthWest – Docket No. 19265
 - Oncor Electric Delivery – Docket No. 35717
 - Entergy Gulf States – Docket No. 34800
 - Entergy Texas Inc – Docket No. 37744
 - PNM Resources – Texas-New Mexico Power – Docket No. 36025
 - Southwestern Electric Power Company – Docket No. 37364

Summary of Experience (contd.)

- Utah Public Service Commission
 - Utah Power and Light Company - Docket No. 76-035-06
- Virginia State Corporation Commission
 - FirstEnergy Corporation – Case No. PUE-2010-00056
- Vermont Public Service Board
 - New England Telephone and Telegraph Company - Docket Nos. 3806 and 4546
 - City of Waco, Texas
 - Texas Power & Light Company
- Washington Utilities and Transportation Commission
 - The Washington Water Power Company and Sierra Pacific Power Company - Docket No. UE-94-1053 and UE-94-1054
 - Puget Sound Power and Light Company and Washington Natural Gas Company – UE-960195
- Washington D.C. Metropolitan Area Transit Authority
 - D.C. Transit
- West Virginia Public Service Commission
 - FirstEnergy Corporation – Case No. 10-0713-E-PC

Summary of Experience (contd.)

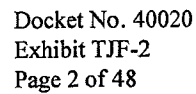
- Wisconsin Public Service Commission
 - Northern States Power Company and Wisconsin Energy Corporation – 6630-UM- 100 and 4220-UM-101
 - WPL Holdings, IES Industries Inc., Interstate Power Company, Inc. - Docket No. 6680-UM-100
- Wyoming Public Service Commission
 - Cheyenne Light, Fuel and Power Company (Southwestern Public Service Company and Public Service Company of Colorado)
 - Docket Nos. 20003-EA-95- 40 and 30005-GA-95-39
 - Mountain States Telephone and Telegraph Company - Docket No. 9343, Subs. 5 and 9
 - Organization and Operations Review Pacific Power and Light Company - Docket No. 9454, Sub. 11

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Exhibit TJF 2

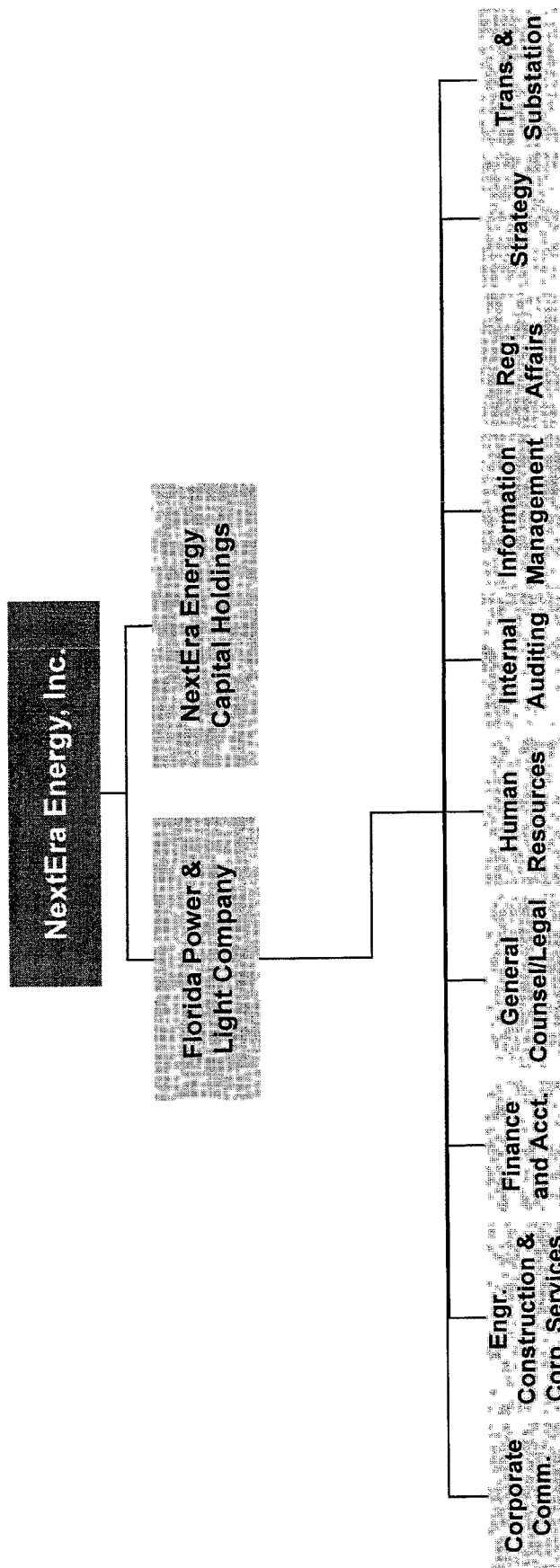
Activity Necessity and Benefits Analysis

Overview of Organizational Relationships



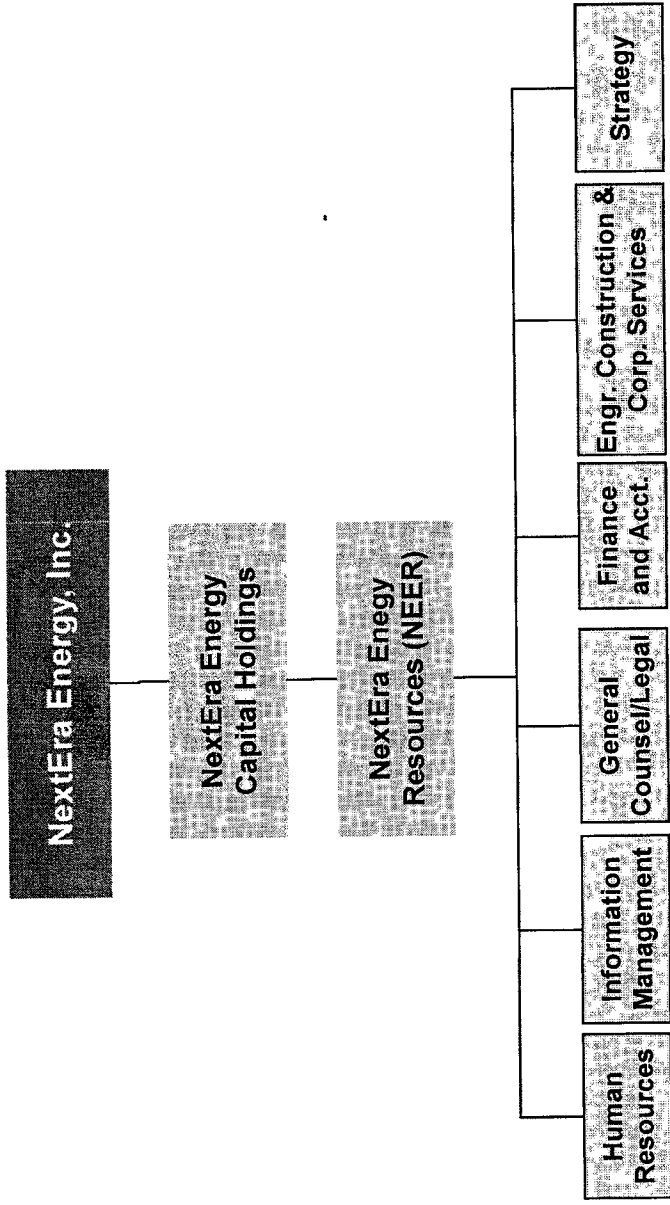
Functions performed at FPL

Functions Performed at FPL



Functions Performed at NEER

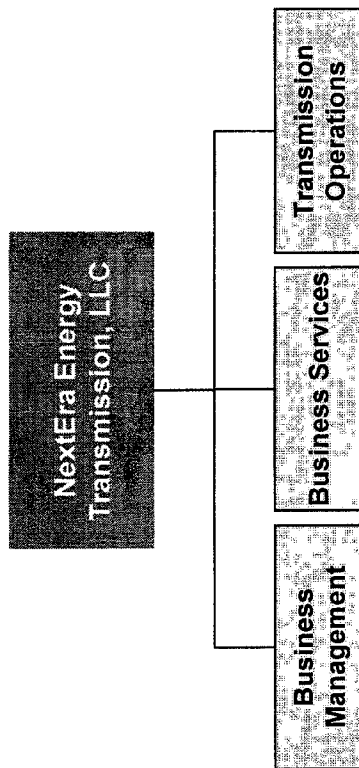
Functions Performed at NEER



Note: General Counsel/Legal is referred to as "Law Department" in Ms. Dietrich's direct testimony

Functions Performed at NEET

Functions Performed at NEET



Necessity Attributes Definitions

Necessity Attributes

Corporate Governance

Activities that are necessary to ensure that corporate and portfolio fiduciary responsibilities and enterprise-wide management and operation is effectively executed. Examples include managing cross-business issues, performing risk management activities and evaluating internal controls

Regulatory Mandate

Activities that are required to fulfill statutory, regulatory and other commitments or mandates. Examples include filing IRS documents and complying with Commission, ERCOT and Texas Regional Entity ("TRE") requirements

Legal Compliance

Costs incurred and activities performed as a direct result of legal proceedings, avoidance of legal proceedings, or compliance with legal requirements. Examples include performing litigation activities and responding to discovery requests

Management Control

Activities performed specifically to provide analysis, decision support data and results to management personnel. Examples include managing projects and reporting results and developing management reports

Operational Execution

Activities that are fundamental functions performed on a daily basis. Examples include performing maintenance activities, performing general accounting, and tracking employee information.

Strategic Planning

Activities that encompass business unit planning and activities directed at providing enterprise-wide direction. Examples include monitoring marketplace activities, performing strategic planning, and providing business planning assistance

Definitions

Necessity Analysis

Corporate Communications	Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
1. Marketing						
Activities include branding and; providing market research activities, including primary and secondary research and customer segmentation analysis; representing the company at conferences; managing external web and web initiatives; management of metrics for the company including media tracking, corporate indicators and benchmarking.						
2. Internal and External Communications						
Activities include creating and distributing print and electronic communications with employees regarding corporate-wide initiatives such as training opportunities, health and wellness programs, volunteering opportunities such as "United Way"; management of employee communication campaigns including executive outreach and weekly newsletters; managing corporate-wide support sources like, "Lexis Nexis", "Energy Daily", copyright agreements and general audio visual support.						
3. Customer Communication and Public Relations						
Activities include assisting in the development of the Annual Report; all media related activities; managing customer outreach through safety communications, hurricane announcements and external newsletters; supporting data queries for Customer Relationship Management (CRM) initiatives; educational initiatives and public awareness programs.						

Necessity Analysis

Engineering, Construction, and Corporate Services		Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
1 Engineering and Construction Services							
Activities include providing centralized engineering design and program management services for major projects such as environmental retrofitting at existing plants, transmission projects, construction of new plants and power systems interconnection; provide program management services such as technology selection, systems integration, vendor selection, and contract execution.							
2. Corporate Real Estate							
These activities include: Lease management; office space and service center planning and design; parking management; move planning and support; vending operations, janitorial and corporate recycling program management; emergency response.							
3 Procurement and Logistics							
Activities include procurement of goods and/or services across the company such as power systems equipment and spare parts that are critical to operations; managing logistics and quality control of materials procured; supplier and category management; overseeing safety measures in the procurement process; managing transportation logistics.							
4. Office Support and Mail Services							
Activities include developing and providing inserts/mass mail applications, corporate-wide mail delivery, recycle support, signage, art services, managing paper supply for all printers and USPS compliance.							

Necessity Analysis

Engineering, Construction, and Corporate Services (continued)

	Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
6. Warehouse and Distribution Activities related with inventory management and warehouse operations. Key inventory management activities include: Min/max management, facility transfers, material returns, material issues, inspection, receiving, picking /packing, storing, bin location maintenance. Warehouse and distribution activities include: cycle count activities, forecasting, capacity planning, variance analysis, quality control, warehouse optimization, kitting/staging/delivery, meter routine projects.						

Necessity Analysis

Finance & Accounting	Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
1. Investor Relations						
Investor relations is the primary conduit for information between the financial community and the company. Activities include preparation of quarterly earnings release materials, ongoing communication with institutional investors and analysts, and execution of shareholder services, all of which reduce financial risk by providing consistent and pertinent information to shareholders. These activities also provide information to management about the financial community's thoughts about the activities and strategy of company.						
2. Financial Planning						
Activities required to provide utility with focused business and economic modeling. Key activities include: preparing long-range financial plans; participating in budget to actual variance analysis; preparing cash flow and balance sheet forecasts; maintaining planning and forecasting systems and providing user support.						
3. Market Services						
Activities include developing and maintaining banking and rating agency relationships, negotiate terms and conditions, execute financial transactions, provide compliance and regulatory support; acquire capital through non-capital market transactions; negotiate terms and conditions.						

Necessity Analysis

Finance & Accounting (continued)	Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
4. Tax Analysis and Compliance						
Activities include tax advisory and planning, special tax situations, tax audits and appeals and litigation; maintain tax ledger; reconcile deferred tax assets/liabilities; Federal, state and local tax filings; consolidations; ensuring compliance with federal, state and local tax codes/law.						
5. M&A and Deal Analysis						
M&A activities support the actual transaction for valuation, regulatory strategy development, deal negotiation, transaction structuring, integration pre-planning and announcement planning. Deal analysis involves identifying and evaluating the synergistic benefits of potential targets.						
6. Sarbanes-Oxley (SOX) Compliance						
These activities develop and oversee NextEra Energy's ongoing SOX compliance program. Activities include: Develop/ update, maintain and continually enhance SOX internal control documentation; Work with process owners, auditors to identify key controls and to streamline and automate them; Perform testing of control activities to support management's assessment of internal controls over financial reporting; Draft is closures for 10-Qs, 10-Ks to meet SOX and internal controls compliance requirements; Prepare annual materiality calculations for SEC registrants; Monitor SOX rulings, announcements from SEC, PCAOB, FASB, GAAP and FERC and assess their impact of NextEra Energy's SOX compliance requirements.						

Necessity Analysis

Finance & Accounting (continued)		Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
7. Accounting							
Key activities include: Completing monthly general ledger close process; preparing journal entries; recording cash transactions; preparing financial statements; consolidation work; accounting support for financing transactions; reconciling cash accounts; supporting external audit preparation; accounting support for rate cases; reviewing budget variance analysis; providing oversight for business unit accounting and reconciliations; and providing certification reporting for.							
8. Internal and External Reporting							
Activities include reporting of NextEra Energy's monthly earnings and scorecard metrics to BOD, Officers and other stakeholders; production of monthly utility gross margin and O&M reports to accounting personnel and finance / budget personnel; external SEC reporting (10K, 10Q); FERC reporting; corporate governance, management control and strategic planning; consolidation accounting and financial statement preparation which reduce financial and operational risk by eliminating duplication effort leading to lesser probability of statement errors and associated liability.							
9. Payroll							
Key activities include: preparing periodic payroll; preparing annual W-2 filings; implementing tax law changes; maintaining bonus plan payments; maintaining time and attendance system; preparing ad-hoc labor reports as required; reconciling payroll charges to general ledger; accounting support for financing transactions; testing payroll for all acquisitions.							

Necessity Analysis

Finance & Accounting (continued)		Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
10. Accounts Payable							
Activities include centralized PO invoice processing, vendor maintenance, manage relationships with key vendors; create payments to vendors, P-Card and T&E Card management, account reconciliations from A/P to GL among others; support for site invoice processing, void checks and issue stop payments, working duplicate invoice report, manage aged payables.							
11. Cash Operations and Management							
Activities include reconciling cash receipts from A/R to the GL and interfacing with the treasury function to invest the appropriate amount of cash; remittance processing; making cash available on a daily basis for the payment of A/P. These activities ensure that there is enough cash available to pay vendors and employees.							
12. Investments							
Oversees all corporate, trust and foundation investments. Oversees the management of the invested assets of NextEra Energy Inc., such as its employee benefit plans. The primary functions relate to determining and the ongoing monitoring of asset allocation and investment objectives & strategies, selection and oversight of external money managers, and evaluating potential use of new investment vehicles.							

Necessity Analysis

General Counsel/Legal		Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
1. Legal Services							
These activities include all legal support provided to business units in support of operations (litigation, labor & employment, commercial contracting, corporate governance, regulatory proceedings as well as all other operational legal matters); Monitor compliance with federal, state and / or local laws, regulations and ordinances; draft, negotiate and review agreements.							
2. Claims							
Key activities include: negotiating and reviewing agreements such as Settlement/Release; drafting collection demand letters; monitoring and assisting with the support and management of claims-related litigation; managing actual adjustment of claims; evaluating claims and disputes by testing initial evidence; monitoring and assisting in preparing data for regulatory proceedings; maintaining records and other data concerning third-party claims; negotiating and administering settlements of third-party claims.							
3. Ethics							
The Ethics program develops, implements and monitors the corporate ethics program, including all internal efforts to ensure ethical behavior of employees, such as ethics compliance training and the ethics hotline service (if applicable).							
4. Corporate Governance							
Activities include: Ensuring compliance with federal, state and local laws and regulations; environmental mandates and regulations; recommend governance policy and practice to Board of Directors; manage the process for disclosure and resolution of any conflicts of interest; Coordinate annual shareholder meetings, and Board of Director meetings.							

Necessity Analysis

Human Resources	Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
1. Benefits						
Activities include: develop, maintain and administer benefit policies (including pension and short/long-term disability); oversee preparation and distribution of annual benefits statements; manage benefits budget and vendor relationships with benefit providers; manage legally required or company required employee communications regarding benefits; maintain and administer retirement benefit plan; administer insurance benefits						
2. Compensation						
These activities include the development of a "total rewards" package to attract and retain outstanding employees. Developing and administering all incentive plans and payouts, stock options and restricted stock grants; designing and maintaining salary structures; conducting job analysis and market research for existing job classifications; maintaining and administering relocation policy and services; developing and maintaining job descriptions; conducting compensation related due diligence for M&A activity.						
3. Staffing, Recruiting and Workforce Planning						
Activities encompass those required to attract, hire and develop qualified human resources required to sustain efficient operations, as well as those activities required to plan for future workforce requirements. Key activities include: providing recruitment and talent acquisition services; providing full background check for new hires; coordinating new hire on-boarding processes (pre-employment); coordinating contingent worker acquisition (temp. worker services); maintaining and administering all staffing and employment policies. Workforce planning activities include: performing comprehensive workforce competency analysis; identifying future competency requirements; assessing competency gaps and surplus; developing workforce competency models and plans; administering performance evaluation process.						

Necessity Analysis

Human Resources (continued)		Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
4. Compliance and Policies							
Key activities include: Monitoring corporate-wide HR-related compliance activities; HR policy administration; assisting in payroll management; developing diversity and equal opportunity compliance, reviews and audits; providing corporate oversight for employee terminations and disciplinary actions; responding to unemployment claims, external agency complaints or inquiries, representing the company and serve as expert witness at unemployment hearings, court proceedings, lawsuits, depositions, arbitration, etc.; administering integrity line process and disseminate investigations into matters such as alleged policy violations, harassment, and discrimination; reviewing company reorganizations to ensure legal and policy compliance and produce disparate impact statistical analysis; overseeing maintenance and retention of all applicable personnel and employee records; diversity program activities including HR interface with the company's current diversity programs.							
5. Employee and Labor Relations							
Employee relations activities include developing corporate employee relations strategy for represented and non-represented employees. Key activities include: providing labor relations expertise on integration issues and other technical issues; preparing for, conduct and advise on labor contract negotiations; advising on contract administration, grievance handling and arbitration cases; advising management on union issues; representing the organization in informal dealings with the National Labor Relations Board and the Department of Labor Wage-Hour Division.							
6. Learning and Development							
Promoting business transformation relies on the following activities: Employee and organizational improvement; learning and leadership development programs; technical, regulatory, safety and compliance training; performance management and development system; executive development; educational assistance plan; organizational development; assessments / evaluations; intern programs; new employee orientation.							

Necessity Analysis

Human Resources (continued)		Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
7. Wellness Programs							
Key activities include: Employee-assistance program for mental health and substance abuse; administering programs that are intended to improve the overall health of the company's employees							
8. HR Cost & Performance							
Activities include benchmarking and hence supporting HR management control through the process of data collection, developing budget and performance indicators; performance analysis and process mapping for the HR group.							

Necessity Analysis

Internal Auditing	Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
1. Internal Audit and Compliance Services						
Activities include providing operational reviews, reports on financial operational issues, internal control advice, task force participation, and responding to management requests in order to test the adequacy and effectiveness of internal controls; handle fraud and conflict of interest cases, conduct fraud awareness training as well as internal control process presentations throughout the company.						

Necessity Analysis

Information Management	Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
1. IT Planning and Performance Management						
These activities range from managing IT department performance to managing the relationships of the IT department with business units. Key activities include: establishing and monitoring IT performance measures; implementing IT Enterprise Process Improvements; liaising with business units for all IT support; developing business requirements for initiatives/requests; managing service levels and constraints; managing account plans; managing account communications; aiding in the development of policy, strategic, and tactical planning; tracking technology project opportunities; monitoring and tracking technology capital budget;						
2. Applications Management						
Applications management activities encompass technical support to all applications including installation, maintenance and compliance. These are part of the service delivery function. Key activities include: application break/fix/enhancement support; system reports set-up and administration; ad-hoc reporting; new application installation; critical application support; application security administration; application and platform retirement; data migration, cleansing and maintenance; application performance monitoring; application documentation compliance; SAP system support.						
3. Architecture Management						
These activities range from strategy and planning to standards and optimization. Key activities include: assessing and recommending technology solutions (includes project support), validating business and technical requirements for alignment with defined architecture; managing technology lifecycles and governance; updating architecture documents; maintaining architecture repository.						

Necessity Analysis

Information Management (continued)

	Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
4. Change Management						
These activities ensure that changes are managed and controlled systematically to minimize disruptions and/or declines in the quality of IT services. Activities include the establishment of procedures for initiating, assessing, planning, scheduling, and implementing changes to IT services.						
5. Information Security						
These activities are critical to operational execution given the importance of securing information assets in the enterprise. Activities include: Develop, implement, and sustain a security architecture that maintains a secure work environment for wired and wireless computing within the LAN as well as controlled interaction with external users entering the system through the WAN; assess third party vulnerability and potential fixes; develop training and awareness of critical security issues.						
6. Database and Enterprise Infrastructure Management						
Activities include the organization, management, retrieval of data as well as the design and monitoring of database architecture. Database assets and functionality must be considered, integrated, and managed within the larger IT architecture for security and resilience. Other activities include managing and providing network accounts and resources, basic system monitoring and control as well as management of storage, active directory, print file server, mainframe and distributed environment.						
7. IM Nuclear*						
Activities include Passport and NAMS support, information systems management, data services, infrastructure support and Nuclear Web Applications Support.						

Note: *IM Nuclear does not provide services to Lone Star

Necessity Analysis

Information Management (continued)		Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
8. Hardware and Software Licensing							
Assess hardware and software needs to ensure that they align with current technology infrastructure. These activities include: Managing hardware and software inventories plus negotiating licensing agreements; Order desktop hardware / software and hardware / software maintenance. Coordinate distribution, installation and documentation of equipment to customer and for invoice payments for desktop hardware / software and hardware / software maintenance.							
9. IT Quality Compliance Management							
Compliance management related to Sarbanes-Oxley (SOX) related applications. Activities include: document creation and maintenance for all SOX related activities within the group; manage software quality assurance program; test validation and defect tracking; test planning and execution; migration and build activities; code control for SOX; enforcement of SOX compliance.							
10. Human Resources Information Systems							
Activities include: Develop and execute processes to support employee actions and to support other HR plans and programs; version control, quality assurance, data integrity, training, analysis and reporting of the system; provide employee data as needed to meet managerial and regulatory requirements;							
11. Telecommunications							
Provision of basic and system-wide data communication capabilities including wired, wireless, fixed, and remote over the LAN and WAN. Activities include: Installing and maintaining PBX system infrastructure; installing and maintaining data network infrastructure; fix and repair LAN connection; creating plan, architecture and strategy for telecom infrastructure; engineering services for developing work / cost estimates, design, validation and implementation							

Necessity Analysis

Information Management (continued)	Corporate Governance	Regulatory Mandate	Legal Compliance	Management Control	Operational Execution	Strategic Planning
12. Quality Assurance (QA) Testing						
QA activities are an important part of the release management function and include: building and configure releases; conducting a quality review; developing standards for release acceptance; and planning for implementation with training and communication.						
13. Service Desk (Help Desk)						
Critical applications are supported by round the clock IT support, non-critical applications and necessary end-user platforms are supported by regular IT support. The service desk activities include: Receipt of technical support calls from employees regarding issues with general desktop computing; telephone, peripheral support and access; help desk support; project support; application administration; employee termination process; user account synching; set-up and support for migrations, moves and org changes; audit table setup and queries.						