

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE:

PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)

DIRECT TESTIMONY
AND EXHIBITS
OF
RICHARD A. BAUDINO

ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

July 2012

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APA _____
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TABLE OF CONTENTS

I. QUALIFICATIONS AND SUMMARY	1
II. REVIEW OF ECONOMIC AND FINANCIAL CONDITIONS.....	5
III. DETERMINATION OF FAIR RATE OF RETURN.....	19
Discounted Cash Flow ("DCF") Method.....	21
Capital Asset Pricing Model.....	29
Conclusions and Recommendations	36
Capital Structure and Weighted Cost of Capital	37
IV. RESPONSE TO FPL TESTIMONY	46
EXHIBITS.....	65

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DIRECT TESTIMONY OF RICHARD A. BAUDINO

I. QUALIFICATIONS AND SUMMARY

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

2 A. My name is Richard A. Baudino. My business address is J. Kennedy and Associates,
3 Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell,
4 Georgia 30075.

5 **Q. What is your occupation and by whom are you employed?**

6 A. I am a consultant with Kennedy and Associates.

7 **Q. Please describe your education and professional experience.**

8 A. I received my Master of Arts degree with a major in Economics and a minor in
9 Statistics from New Mexico State University in 1982. I also received my Bachelor
10 of Arts Degree with majors in Economics and English from New Mexico State in
11 1979.

12
13 I began my professional career with the New Mexico Public Service Commission
14 Staff in October 1982 and was employed there as a Utility Economist. During my
15 employment with the Staff, my responsibilities included the analysis of a broad range

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1 of issues in the ratemaking field. Areas in which I testified included cost of service,
2 rate of return, rate design, revenue requirements, analysis of sale/leasebacks of
3 generating plants, utility finance issues, and generating plant phase-ins.

4
5 In October 1989, I joined the utility consulting firm of Kennedy and Associates as a
6 Senior Consultant where my duties and responsibilities covered substantially the
7 same areas as those during my tenure with the New Mexico Public Service
8 Commission Staff. I became Manager in July 1992 and was named Director of
9 Consulting in January 1995. Currently, I am a consultant with Kennedy and
10 Associates.

11
12 Exhibit ____ (RAB-1) summarizes my expert testimony experience.

13 **Q. On whose behalf are you testifying?**

14 A. I am testifying on behalf of the South Florida Hospital and Healthcare Association
15 ("SFHHA").

16 **Q. What is the purpose of your Direct Testimony?**

17 A. The purpose of my direct testimony is to address the allowed return on equity and
18 capital structure for ratemaking purposes for Florida Power and Light Company
19 ("FPL" or "Company").

20 **Q. Please summarize your Direct Testimony.**

21 A. I recommend that the Florida Public Service Commission ("Commission") approve a
22 rate of return on equity ("ROE") for FPL of 9.00%. This recommendation is based

1 on the results from my Discounted Cash Flow (“DCF”) analyses for a comparison
2 group of electric companies that has similar bond ratings to FPL. I also employed
3 the Capital Asset Pricing Model (“CAPM”), but did not directly incorporate the
4 results into my recommendation. In my opinion, a return on equity of 9.00% is a
5 reasonable, even generous estimate of the required return on equity for a low-risk,
6 financially robust electric company such as FPL. As I will demonstrate in the
7 following sections of my testimony, the market evidence I examined supports my
8 ROE recommendation.

9
10 Turning to the Company's testimony, the Commission should reject the return on
11 equity recommendation of 11.25% of Dr. William Avera, witness for FPL. As I will
12 explain in detail in Section IV of my Direct Testimony, the results from Dr. Avera's
13 quantitative analyses do not support his recommendation. In particular, FPL's
14 requested equity return simply exceeds the range of results calculated by FPL itself
15 for its utility proxy group. Dr. Avera's recommended ROE only is supported by the
16 ROE range from a group of non-utility companies. This non-utility group utterly
17 fails to reflect the lower risk, regulated utility operations of FPL. Dr. Avera's
18 recommended return on equity of 11.25% would burden Florida ratepayers with
19 excessive rate levels. Moreover, an objective evaluation of current evidence from
20 the financial markets fails to support anything close to Dr. Avera's 11.25% ROE
21 recommendation.

22

1 Several FPL witnesses also supported the addition of 0.25% to Dr. Avera's
2 recommended ROE, raising the Company's requested ROE to 11.50%. I will explain
3 later in my testimony that the addition of a ROE adder for "excellent performance" is
4 unreasonable and should be rejected by the Commission.

5 **Q. What exhibits are you sponsoring as a part of your Direct Testimony?**

6 A. I am sponsoring the following exhibits as a part of my Direct Testimony:

7 Exhibit ___(RAB-1) - Resume of Richard A. Baudino

8 Exhibit ___(RAB-2) - Historical Bond Yields

9 Exhibit ___(RAB-3) - DCF Dividend Yield Calculations

10 Exhibit ___(RAB-4) - DCF Growth Rates and ROE Calculation

11 Exhibit ___(RAB-5) - CAPM Analysis - Comparison Group

12 Exhibit ___(RAB-6) - CAPM Analysis - Historic Market Premium

13 Exhibit ___(RAB-7) - Avera Utility Proxy Group Growth Rates

14 Exhibit ___(RAB-8) - Five Year VIX Chart

15 Exhibit ___(RAB-9) - NextEra Investor Presentations

16 Exhibit ___(RAB-10) - Avera Prior Testimony

17 Exhibit ___(RAB-11) - FPL Data Responses

18 Exhibit ___(RAB-12) - Credit Rating Agency Report

19 Exhibit ___(RAB-13) - Florida Corporate State Income Tax and Wage Data

1 **II. REVIEW OF ECONOMIC AND FINANCIAL CONDITIONS**

2 **Q. Mr. Baudino, what has the trend been in long-term capital costs over the last**
3 **few years?**

4 **A. Exhibit ___(RAB-2) presents a graphic depiction of the trend in interest rates from**
5 January 2000 through December 2011. The interest rates shown are for the 20-year
6 U.S. Treasury Bond and the average public utility bond from the Mergent Bond
7 Record. Exhibit ___(RAB-2) shows that the yields on long-term Treasury and
8 utility bonds have declined since early 2000, although not in an unbroken trend-line.
9 Yields trended downward from 2002 through 2006, with the 20-year Treasury bond
10 yield declining from 5.69% to 4.78% at the end of December 2006. The yield on the
11 average public utility bond also decreased significantly over that time, falling from
12 7.83% in March 2002 to 5.83% in December 2006, a decline of 200 basis points.
13 Public utility bond yields fell far more than long-term Treasury yields over that four
14 year period.

15
16 2007 saw a rise in bond yields, fueled in part by investors' concerns over turmoil and
17 defaults associated with the sub-prime lending market. This accelerated in 2008, a
18 year in which world financial markets experienced tumultuous changes and volatility
19 not seen since the Great Depression. As noted in the SBBI 2009 Yearbook, both
20 large and small company stocks declined around 37% for the year.¹ Investors, in a
21 flight to quality and safety, also pulled their funds out of those corporate bonds that

¹ 2009 Ibbotson SBBI Classic Yearbook, Morningstar, page 11.

1 were perceived to be higher risk and invested in the safety of Treasury securities.
2 The 2009 SBBI Yearbook reported that long-term Treasury Bonds returned 25.87%
3 during 2008, while long-term corporate bonds returned 8.78%. Thus, bonds
4 significantly outperformed stocks in 2008.

5
6 The stocks of electric utilities did not fare well during the financial market upheaval
7 of 2008. The Dow Jones Utility Average was down from its opening level in
8 January 2008 of 532.50 to 370.76 at the end of December, a decline of 30.4%. This
9 decline was smaller than the decline in the overall stock market. Utility bond yields
10 also increased significantly during the year, rising from 6.08% in January to a high
11 of 7.80% in November. As investors flocked to the safety of Treasury securities, the
12 yield spread between long-term Treasury securities and the index of public utility
13 bonds widened from 1.73% in January to 3.69% in December, the highest spread
14 during the entire period shown in Exhibit ___(RAB-2).

15
16 In 2009 and continuing through 2011, utility bond yields fell significantly from
17 November 2008 levels, as did the spread between public utility bond yields and long-
18 term Treasuries. The average utility bond yield in December 2011 was 4.47%, a
19 decline of 333 basis points from the November 2008 level of 7.80%. At the end of
20 December the yield spread between utility bonds and the long-term Treasury bond
21 declined substantially to 1.80%. This is much closer to the historical spread.

22

1 So far in 2012, bond yields have changed little from their December 2011 levels. As
2 of June 13, the Moody's average public utility bond yield stood at 4.28%.

3
4 On June 20, 2012, the Federal Reserve issued a Federal Open Market Committee
5 press release indicating that it intended to extend what has been termed "Operation
6 Twist". This refers to the Federal Reserve maturity extension program whereby the
7 Federal Reserve redeems or sells shorter-term treasury securities and uses the
8 proceeds to buy longer-term securities. By reducing the supply of longer-term
9 Treasury securities, the prices of these securities will rise, putting downward
10 pressure on long-term interest rates. The Fed hopes this accommodative monetary
11 program will provide additional stimulus to the economy. Thus, it is reasonable to
12 assume that long-term interest rates will remain low in the near future.

13 **Q. Please compare current financial market conditions with the conditions that**
14 **were present in FPL's last rate case, Docket No. 080677-EI.**

15 A. When I submitted my testimony in July 2009 in Docket No. 080677-EI, the financial
16 markets were recovering slowly from the tumultuous volatility and substantial losses
17 sustained in 2008 and the country had fallen into a deep recession. I reported in that
18 testimony that as of June 30, 2009 the average public utility bond was yielding
19 6.22%, almost 200 basis points higher than the yield as of June 13 this year. Since
20 2009, financial markets have recovered from the tumult of 2008 and interest rates are
21 near historic lows. The Dow Jones Utility Average, which closed at 357.81 in June
22 2009, closed at 484.02 as of June 18, 2012, a rise of approximately 35%.

23

1 In addition the Chicago Board of Options Exchange ("CBOE") VIX index, a well-
2 known measure of stock market volatility that Dr. Avera cited in his Direct
3 Testimony in FPL's last rate case, has declined significantly. A chart of the VIX
4 over the past five years is provided as Exhibit ____ (RAB-8). At the end of February
5 2009, the VIX stood at 46.35. At the end of January 2012, the VIX has fallen to
6 19.44, indicating far less stock market volatility in this proceeding vis-à-vis FPL's
7 last rate case. In FPL's last rate case, Dr. Avera stated that VIX "is a key measure of
8 expectations of near-term volatility and market sentiment . . ."²

9
10 Also, FPL and NextEra Energy, Inc. ("NextEra"), FPL's parent company, have stated
11 in investor presentations that economic conditions in FPL's service territory have
12 been improving. Please refer to pages 1 through 7 of Exhibit ____ (RAB-9). Because
13 Florida's hourly wage rates and state corporate income tax rate are comparatively
14 low, FPL's service territory will likely experience continued economic development
15 and growth in its employment. Exhibit ____ (RAB-13) at pp. 1-2 (Florida's corporate
16 tax rate as compared to other states) pp. 3-4, row "All Occupations", columns
17 "Median hourly wage", "Mean hourly wage", and "Annual mean wage" (Florida's
18 wage rates as compared to the average rate in the United States).

19 **Q. What does this suggest for the return on equity in this proceeding?**

² Avera Direct Testimony, Docket No. 080677-EI at p. 13 lines 6-7.

1 A. It suggests that the ROE in this case should be lower than in FPL's last rate. My
2 ROE analysis in the next section of my testimony supports exactly this conclusion.

3 **Q. How does the investment community regard the electric utility industry as a**
4 **whole?**

5 A. The March 23, 2012 Value Line report on the Electric Utility (Central) group of
6 companies noted the following regarding the effect of the current low interest rate
7 environment on electric utilities:

8 Interest rates are at their lowest level in many years. Most of the effects of
9 low interest rates on utilities are good, but there are drawbacks, too. As
10 one would expect, many utilities have taken advantage of the low interest
11 rate environment to refinance debt that was much more costly. The
12 ensuing reduction in interest expense will eventually be passed onto
13 customers, if the debt is held at the utility level, but the companies will
14 retain the savings if the debt is held at the parent company or a
15 nonregulated subsidiary. Low interest rates mean a lower cost of capital,
16 which is beneficial for utilities financing large construction projects or
17 acquiring assets—or entire companies.

18
19 On the other hand, when interest rates are low, the allowed returns on
20 equity that are awarded in rate cases trend downward. For instance, the
21 two gas utilities in Illinois that are owned by Integrys Energy were granted
22 an allowed ROE of just 9.45% for rate hikes that took effect at the start of
23 2012. Also, when a company such as CenterPoint Energy is holding onto
24 cash in anticipation of acquiring assets, it is earning a negligible return on

1 these funds. Finally, pension expense for most utilities will increase this
2 year because the interest rate used to discount future obligations has
3 declined. Although a few companies have regulatory mechanisms that
4 track pension costs, most will have to wait for their next rate case before
5 recovering these increased expenses.

6
7 Low interest rates also help utility stocks. Many investors have turned to
8 dividend stocks such as utilities because the returns on CDs or money
9 market funds are minuscule. Nevertheless, when interest rates finally
10 begin to rise, we believe that won't be disastrous for these equities
11 because rates will be advancing from such a low level and will still be
12 relatively low.

13

14 Value Line's May 4, 2012 review of the Electric Utility (West) group of companies
15 also noted:

16 The broader market averages have fared well so far in 2012, but electric
17 utility stocks (as a group) have declined. This is a reversal from 2011,
18 which was a very good year for utility equities. Perhaps the market is
19 concerned about the possibility of a tax increase on dividend income, but
20 we believe that the underperformance can be explained by a simple
21 reversion to the mean. Electric utility equities now offer an average yield
22 of 4.3%, which is nearly twice that of all dividend-paying issues under our
23 coverage.

24

1 **Q. Briefly describe Florida Power and Light Company.**

2 A. FPL is a wholly owned subsidiary of NextEra. NextEra's other principle subsidiary
3 is NextEra Energy Resources, which engages in the competitive energy business and
4 produces its energy primarily from clean and renewable fuels. FPL's 2011 10-K
5 noted that NextEra is one of the largest electric power companies in North America,
6 serving over 4 million customers and having over 41,000 megawatts ("mW") of
7 generating capacity in 24 states and 3 provinces in Canada. As of December 31,
8 2011, FPL's resources for serving load consisted of 26,538 mWs, 24,460 of which
9 are owned by FPL. On page 3 of the Company's 2011 10-K report, it is stated
10 "[w]ith 85% of its power generation coming from natural gas, nuclear and solar, FPL
11 is also one of the cleanest electric utilities in the nation." FPL also noted that it
12 provided residential and commercial bills that were among the lowest in Florida and
13 below the national average based on rates per kWh in July 2011.

14
15 On page 6 of its 2011 10-K report, FPL noted: "FPL relies upon a diverse mix of fuel
16 sources for its generation facilities, along with purchased power, in order to maintain
17 the flexibility to achieve a more economical fuel mix by responding to market and
18 industry developments." FPL collects fuel costs through a recovery mechanism
19 approved by the FPSC that enables the company to true-up differences between
20 actual and projected costs.

21
22 FPL derived approximately 62% of its 2011 generation from natural gas fired
23 generating plants. Compared to electric utilities that rely on coal-fired capacity,
24 FPL's risk is lower since it will not be as vulnerable to carbon-based environmental

1 rules and legislation. In a recent presentation to investors, NextEra stated: "Our
2 strategic focus on clean generation assets has resulted in one of the lowest emissions
3 profiles among the nation's top 50 power producers ... which provides attractive
4 upside given the continuing direction of U.S. environmental policy." Exhibit
5 ____ (RAB-9) at pp. 12-13, 8-9, 11. Also, Dr. Avera previously stated in other
6 proceedings (an example of which is provided in Exhibit ____ (RAB-10) at p. 2 lines 5
7 through 10) that utilities, unlike FPL, that rely on coal-fired generation faced higher
8 risks because of existing and potential environmental regulations.

9
10 In fact, FPL receives substantial benefits from a number of cost recovery clauses that
11 have been approved by the FPSC. As the Company stated on page 11 of its 2011 10-
12 K report:

13 Cost recovery clauses, which are designed to permit full recovery of certain
14 costs and provide a return on certain assets allowed to be recovered through
15 the various clauses, include substantially all fuel, purchased power and
16 interchange expenses, conservation and certain environmental-related
17 expenses, certain revenue taxes and franchise fees. Beginning in 2009, pre-
18 construction costs and carrying charges on construction costs for FPL's
19 planned two additional nuclear units at Turkey Point and carrying charges on
20 construction costs for FPL's approximately 450 mw to 490 mw of additional
21 capacity at St. Lucie and Turkey Point are also recoverable through a cost
22 recovery clause. Also beginning in 2009, costs incurred for FPL's three solar
23 generating facilities are recoverable through a cost recovery clause. Cost

1 recovery clause costs are recovered through levelized monthly charges per
2 kwh or kw, depending on the customer's rate class.

3

4 FPL's 2011 10-K noted that the Company would incur significant planned capital
5 expenditures through 2016 that are expected to total \$10.725 billion.

6

7 With respect to capitalization, FPL's regulated utility operations are far less
8 leveraged than NextEra's unregulated operations. As of 2011, FPL's utility
9 operations were capitalized with 58% common equity compared to NextEra's
10 unregulated operations, which were supported by only 21.1% common equity. In
11 fact, NextEra's unregulated operations have increased their debt leverage from 73.8%
12 in 2009 to 80.9% in 2011. This data came from FPL's Schedule D-2.

13 **Q. What are the current senior secured bond ratings for FPL?**

14 A. FPL's first mortgage bonds are rated A by Standard & Poor's ("S&P") and Aa3 by
15 Moody's. These are basically the same bond ratings that the Company had during its
16 last base rate case before this Commission, Docket No. 080677-EI.

17

18 FPL's rating changed for various reasons after the Commission's decision in the last
19 rate case. According to Moody's Global Credit Research report published on April
20 9, 2010 NextEra and FPL's ratings reflected "higher risk throughout the consolidated
21 organization resulting from increased leverage at the company's unregulated
22 businesses, higher earnings and cash volatility, a growing energy trading and
23 marketing business, and a deterioration in the political, regulatory, and economic

1 environment at its core Florida regulated utility.”³ Despite that deterioration,
2 Moody’s described FPL’s regulatory framework as “characteristic of an *average*
3 *regulatory environment*”, not a high risk regulatory environment.⁴ In particular,
4 Moody’s assessment of FPL’s credit risk did not find the ROE granted FPL by the
5 Commission in FPL’s last rate case to be a negative factor in its assessment.
6 Moody’s stated, “[t]he downgrade of [FPL] is attributed to . . . [h]istorically strong
7 financial metrics that may decline somewhat following the recent rate case decision,
8 although Moody’s expects any decline to be modest as a high percentage of [FPL’s]
9 revenues are recovered through riders or other cost recovery provisions that remain
10 strong. In addition, [FPL’s] recently awarded *10% ROE is consistent with those*
11 *granted to some utilities in other parts of the country and its 59.1% equity ratio*
12 *remains one of the highest in the U.S., mitigating the negative effect of the relatively*
13 *low base rate increase.*”⁵ FPL’s more recent credit rate agency reports also
14 demonstrate FPL’s risk environment.

15
16 Moody’s April 10, 2012 report on FPL noted that the ratings drivers for the Company
17 are:

- 18
- Stabilized political and regulatory environment with new base rate case

³ Moody’s Investors Service, “Rating Action: Moody’s Downgrades FPL Group to Baa1 and FP&L to A2”, *Global Credit Research* at p. 1 (Apr. 9, 2010).

⁴ *Id.* at p. 2 (emphasis added).

⁵ *Id.* at p.2 (emphasis added).

1 pending

- 2 • Strong credit metrics and low leverage
- 3 • Substantial capital expenditures program
- 4 • Strong liquidity

5 More specifically, the Moody's report noted the following:

6 FPL continues to exhibit some of the stronger financial performance
7 measures and cash flow coverage ratios in the industry, with ratios that are
8 generally well above the parameters required for its rating under our
9 Regulated Electric and Gas Utilities rating methodology. These include
10 CFO pre-working capital interest coverage in the 6.0x to 8.0x range and
11 CFO pre-working capital to debt in the 30% to 35% range in recent years.
12 Its debt to capitalization of 33.8% at December 31, 2011 is among the
13 lowest in the industry and the company maintains a fully funded pension
14 plan, contributing to this low leverage profile (as Moody's adds pension
15 underfunding to debt).

16 * * *

17
18 **Liquidity Profile** . . . FPL's cash flow has been strong (totaling \$2.2
19 billion in 2011) and relatively stable in recent years due to the lack of
20 regulatory deferrals that had affected the company's financials in some
21 previous years as a result of storms and high fuel costs. With fuel costs
22 remaining relatively low and exhibiting less volatility more recently,

1 regulatory deferrals have not been as significant.⁶

2
3 Moody's currently maintains a stable rating outlook for FPL.

4
5 S&P's April 24, 2012 Summary Report on FPL stated the following:

6 Standard & Poor's Ratings Services' bases its ratings on [FPL] on the
7 consolidated credit profile of its parent, diversified energy holding
8 company [NextEra]. The credit fundamentals on its regulated utility side
9 have been among the strongest in the U.S., due primarily to low regulatory
10 risk and an attractive service territory with healthy economic growth and a
11 sound business environment. Both of those pillars have been shaken in
12 recent years as Florida, and [FPL] service territory in particular, suffered
13 during the recession, and regulators have responded in ways that reflect
14 greater political influence over regulatory decisions. Although the utility
15 has found maintaining financial strength despite mild regulatory upheaval
16 and a moribund economy in Florida to be challenging, its actions to
17 rebuild its regulatory risk profile have been effective. *More importantly,*
18 *the proportion of NextEra's unregulated businesses--the riskier merchant*
19 *generation, marketing, and trading activities--could increase, which could*
20 *further erode its consolidated business risk profile.* [italics added]

21

⁶ Moody's Investors Services, "Credit Opinion: Florida Power & Light Company", *Global Credit Research*, at pp. 1-2 (Apr. 10, 2012).

* * *

1
2
3 Standard & Poor's Ratings Services' ratings on all NextEra entities reflect
4 the strength of the regulated cash flows from integrated electric utility
5 [FPL], and the diverse and substantial cash-generation capabilities of its
6 unregulated operations at subsidiary NextEra Energy Resources (NER).
7 [FPL] represents about half of the consolidated credit profile and has
8 better business fundamentals than most of its integrated electric peers,
9 with a better-than-average service territory, sound operations, and a credit-
10 supportive regulatory environment in which the company has been able to
11 manage its regulatory risk very well. A willingness to expand through
12 acquisitions, fluctuating cash flows from NER's rapidly expanding
13 portfolio of merchant generation assets and growing marketing and trading
14 activities, and significant exposure at the utility to natural gas detract from
15 credit quality, in our view.

16
17 Exhibit ____ (RAB-12) at pp. 1-2.

18 S&P's rating outlook for NextEra and FPL is stable.

19 **Q. Mr. Baudino, what is your conclusion regarding the financial health and overall**
20 **risk of FPL?**

21 A. Since its last rate proceeding before the Commission, the Company has had nearly
22 unfettered and low cost access to capital markets for its construction program and for
23 other corporate purposes. In fact, in a recent presentation to its investors, NextEra
24 noted that in June 2011, FPL issued \$250 million of 30-year bonds at 5.125% and in
25 December issued \$600 million of 30-year bonds at 4.125%. NextEra noted that both

1 issues were "oversubscribed representing investor confidence and demand for our
2 debt." Exhibit ___(RAB-9) at p. 19. And the December issuance of \$600 million is
3 at a rate less than the current average utility bond yield I cited earlier of 4.28%. In
4 addition, FPL's short term debt costs have declined from 5.301% in January 2007 to
5 0.220% in March 2012. Exhibit ___(RAB-11) at pp. 1-2.

6
7 FPL also benefits from several Commission-approved cost recovery clauses that
8 significantly reduce its business and financial risk profiles and help stabilize its
9 earnings. Its excellent bond ratings currently enjoy a stable credit outlook from
10 Moody's and S&P. Overall FPL remains a low risk electric utility with rock solid
11 financial health and overall better credit metrics than its electric utility peers.

12
13 Further, as I mentioned earlier, current interest rates are at or near historic lows.
14 This suggests a much lower return on equity, other things equal, for FPL than in
15 Docket No. 080677-EI. I expect the Federal Reserve to support the current low
16 interest rate environment based on recent statements that indicate that the Federal
17 Funds rate will remain exceptionally low through at least late 2014.⁷ In the next
18 section of my testimony, I will discuss what rate of return I recommend the
19 Commission should adopt for FPL in this proceeding.

⁷ http://www.federalreserve.gov/faqs/money_12849.htm

1 utility stock, a utility bond, a mutual fund, a money market fund, or any other
2 number of comparable investment vehicles.

3

4 The key determinant in deciding whether to invest, however, is based on
5 comparative levels of risk. Our hypothetical investor would not invest in a particular
6 electric company stock if it offered a return lower than other investments of similar
7 risk. The opportunity cost simply would not justify such an investment. Thus, the
8 task for the rate of return analyst is to estimate a return that is equal to the return
9 being offered by other risk-comparable firms.

10 **Q. What are the major types of risk faced by utility companies?**

11 A. In general, risk associated with the holding of common stock can be separated into
12 three major categories: business risk, financial risk, and liquidity risk. Business risk
13 refers to risks inherent in the operation of the business. Volatility of the firm's sales,
14 long-term demand for its product(s), the amount of operating leverage, and quality of
15 management are all factors that affect business risk. The quality of regulation at the
16 state and federal levels also plays an important role in business risk for regulated
17 utility companies.

18

19 Financial risk refers to the impact on a firm's future cash flows from the use of debt
20 in the capital structure. Interest payments to bondholders represent a prior call on the
21 firm's cash flows and must be met before income is available to the common
22 shareholders. Additional debt means additional variability in the firm's earnings,
23 leading to additional risk.

1

2

Liquidity risk refers to the ability of an investor to quickly sell an investment without

3

a substantial price concession. The easier it is for an investor to sell an investment

4

for cash, the lower the liquidity risk will be. Stock markets, such as the New York

5

and American Stock Exchanges, help ease liquidity risk substantially. Investors who

6

own stocks that are traded in these markets know on a daily basis what the market

7

prices of their investments are and that they can sell these investments fairly quickly.

8

Many electric utility stocks are traded on the New York Stock Exchange and are

9

considered liquid investments.

10

Q. Are there any sources available to investors that quantify the total risk of a company?

11

12

A. Assessments by credit rating agencies are tools that investors use to assess the risk

13

comparability of firms. Rating agencies such as Moody's and Standard and Poor's

14

perform detailed analyses of factors that contribute to the risk of a particular

15

investment or enterprise. The end result of their analyses is a rating that reflects

16

these risks.

17

Discounted Cash Flow ("DCF") Model

18

Q. Please describe the basic DCF approach.

19

A. The basic DCF approach is rooted in valuation theory. It is based on the premise that

20

the value of a financial asset is determined by its ability to generate future net cash

21

flows. In the case of a common stock, those future cash flows generally take the

22

form of dividends and appreciation in stock price. The value of the stock to

1 investors is the discounted present value of future cash flows. The general equation
2 then is:

$$V = \frac{R}{(1+r)} + \frac{R}{(1+r)^2} + \frac{R}{(1+r)^3} + \dots + \frac{R}{(1+r)^n}$$

3
4
5 Where: $V =$ asset value
6 $R =$ yearly cash flows
7 $r =$ discount rate

8
9 This is no different from determining the value of any asset from an economic point
10 of view; however, the commonly employed DCF model makes certain simplifying
11 assumptions. One is that the stream of income from the equity share is assumed to
12 be perpetual; that is, there is no salvage or residual value at the end of some maturity
13 date (as is the case with a bond). Another assumption is that financial markets are
14 reasonably efficient; that is, they correctly evaluate the cash flows over time relative
15 to the appropriate discount rate. Finally, the model I employ also assumes a constant
16 growth rate in dividends. The fundamental relationship employed in the DCF
17 method is described by the formula:

$$k = D_1 / P_0 + g$$

18
19 Where: $D_1 =$ the next period dividend
20 $P_0 =$ current stock price
21 $g =$ expected growth rate
22 $k =$ investor-required return

23

1 Under the formula, it is apparent that “k” must reflect the investors’ expected return.
2 Use of the DCF method to determine an investor-required return is complicated by
3 the need to express investors’ expectations relative to dividends, earnings, and book
4 value over an infinite time horizon. Financial theory suggests that stockholders
5 purchase common stock on the assumption that there will be some change in the rate
6 of dividend payments over time. We assume that the rate of growth in dividends is
7 constant over the assumed time horizon, but the model could easily handle varying
8 growth rates if we knew what they were. Finally, the relevant time frame is
9 prospective rather than retrospective.

10 **Q. What was your first step in conducting your DCF analysis for FPL?**

11 A. My first step was to construct a comparison group of companies with a risk profile
12 that is reasonably similar to FPL.

13 **Q. Please describe your approach for selecting a comparison group of electric**
14 **companies.**

15 A. I used several criteria to select a comparison group. First, using the June 2012 issue
16 of AUS Utility Reports, I selected electric companies that were rated at least A by
17 Moody’s and Standard and Poor’s. FPL currently carries senior secured bond ratings
18 of A from S&P and Aa3 from Moody’s, so using the either/or criterion for an A
19 rating assures that the companies in the comparison group carry bond ratings that are
20 similar to FPL.

21

22 From that group, I selected companies that had at least 50% of their revenues from
23 electric operations and that had long-term earnings growth forecasts from Value Line

1 and either Zacks Investment Research ("Zacks") or Thomson Financial. I will
2 describe Zacks and Thomson Financial later in my testimony. From this group, I
3 then eliminated companies that had recently cut or eliminated dividends, were
4 recently or currently involved in merger activities, or had recent experience with
5 significant earnings fluctuations.

6
7 The resulting comparison group of 12 electric companies that I used in my analysis
8 is shown in the table below.

	<u>S&P</u>	<u>Moody's</u>
1 Alliant Energy Corporation	A-/BBB+	A2/A3
2 Consolidated Edison, Inc.	A-	A3/Baa1
3 DTE Energy Company	A	A2
4 IDACORP, Inc.	A-	A2
5 MGE Energy, Inc.	AA-	A1
6 Nextera Energy	A	Aa3
7 Pepco Holdings, Inc.	A	A3
8 Portland General Electric	A-	A3
9 SCANA Corporation	A-	A3
10 Southern Company	A	A2/A3
11 Wisconsin Energy Corporation	A-	A1
12 Xcel Energy Inc.	A	A3

10
11 **Q. What was your first step in determining the DCF return on equity for the**
12 **comparison group?**

13 **A.** I first determined the current dividend yield, D_1/P_0 , from the basic equation. My
14 general practice is to use six months as the most reasonable period over which to
15 estimate the dividend yield. The six-month period I used covered the months from

1 December 2011 through May 2012. I obtained historical prices and dividends from
2 Yahoo! Finance. The annualized dividend divided by the average monthly price
3 represents the average dividend yield for each month in the period.

4
5 The resulting average dividend yield for the group is 4.04%. These calculations are
6 shown in Exhibit ____ (RAB-3).

7
8 **Q. Mr. Baudino, did the dividend yield for your comparison group exhibit**
9 **volatility over the six-month period you used in your analysis?**

10 A. No, not really. Page 2 of Exhibit ____ (RAB-3) shows the monthly average yields
11 for the comparison group, which ranged from 3.96% to 4.10%. The 6-month
12 average dividend yield for the comparison group, 4.04%, is quite close to the April
13 and May dividend yields. Monthly dividend yields for the comparison group have
14 been relatively stable over this 6-month period.

15 **Q. Having established the average dividend yield, how did you determine the**
16 **investors' expected growth rate for the electric comparison group?**

17 A. The investors' expected growth rate, in theory, correctly forecasts the constant rate
18 of growth in dividends. The dividend growth rate is a function of earnings growth
19 and the payout ratio, neither of which is known precisely for the future. We refer to
20 a perpetual growth rate since the DCF model has no arbitrary cut-off point. We must
21 estimate the investors' expected growth rate because there is no way to know with
22 absolute certainty what investors expect the growth rate to be in the short term, much
23 less in perpetuity.

1

2 In this analysis, I relied on three major sources of analysts' forecasts for growth.
3 These sources are Value Line, Zacks, and Thomson Financial.

4 **Q. Please briefly describe Value Line, Zacks, and Thomson Financial.**

5 A. The Value Line Investment Survey is a widely used and respected source of investor
6 information that covers approximately 1,700 companies. It is updated quarterly and
7 probably represents the most comprehensive of all investment information services.
8 It provides both historical and forecasted information on a number of important data
9 elements. Value Line neither participates in financial markets as a broker nor works
10 for the utility industry in any capacity of which I am aware.

11

12 According to Zacks' website, Zacks "was formed in 1978 to compile, analyze, and
13 distribute investment research to both institutional and individual investors." Zacks
14 gathers opinions from a variety of analysts on earnings growth forecasts for
15 numerous firms including regulated electric utilities. The estimates of the analysts
16 responding are combined to produce consensus average estimates of earnings
17 growth.

18

19 Like Zacks, Thomson Financial also provides detailed investment research on
20 numerous companies. Thomson Financial also compiles and reports consensus
21 analysts' forecasts of earnings growth. I obtained these forecasts from Yahoo!
22 Finance.

1 **Q. Why did you rely on analysts' forecasts in your analysis?**

2 A. Return on equity analysis is a forward-looking process. Five-year or ten-year
3 historical growth rates may not accurately represent investor expectations for
4 dividend growth. Analysts' forecasts for earnings and dividend growth provide
5 better proxies for the expected growth component in the DCF model than historical
6 growth rates. Analysts' forecasts are also widely available to investors and one can
7 reasonably assume that they influence investor expectations.

8 **Q. How did you utilize your data sources to estimate growth rates for the**
9 **comparison group?**

10 A. Exhibit____(RAB-4) presents the Value Line, Zacks, and Thomson Financial
11 forecasted growth estimates. These earnings and dividend growth estimates for the
12 comparison group are summarized on Columns (1) through (5) of Exhibit
13 ____ (RAB-4).

14

15 I also utilized the sustainable growth formula in estimating the expected growth rate.
16 The sustainable growth method, also known as the retention ratio method, recognizes
17 that the firm retains a portion of its earnings to fuel growth in dividends. These
18 retained earnings, which are plowed back into the firm's asset base, are expected to
19 earn a rate of return. This, in turn, generates growth in the firm's book value, market
20 value, and dividends.

21

22 The sustainable growth method is calculated using the following formula:

23

$$G = B * R$$

1 Where: *G = expected retention growth rate*
2 *B = the firm's expected retention ratio*
3 *R = the expected return*

4
5 In its proper form, this calculation is forward-looking. That is, the investors'
6 expected retention ratio and return must be used in order to measure what investors
7 anticipate will happen in the future. Data on expected retention ratios and returns
8 may be obtained from Value Line.

9
10 The expected sustainable growth estimates for the comparison group are presented in
11 Column (3) on page 1 of Exhibit ____ (RAB-4). The data came from the Value Line
12 forecasts for the comparison group.

13 **Q. How did you approach the calculation of earnings growth forecasts in this case?**

14 A. For purposes of this case, I looked at two different methods for calculating the
15 expected growth rates for my comparison group. For Method 1, I calculated the
16 average of all the growth rates for the companies in my comparison group using
17 Value Line, Zacks, and Thomson. For Method 2, I calculated the median growth
18 rates for my comparison group. The median value represents the middle value in a
19 data range and is not influenced by excessively high or low numbers in the data set.
20 The median growth rate for each forecast provides additional valuable information
21 regarding expected growth rates for the group.

22
23 The expected growth rates produced from these two methods fall in a range from
24 3.75% to 5.04%.

1 **Q. How did you proceed to determine the DCF return of equity for the electric**
2 **comparison group?**

3 A. To estimate the expected dividend yield (D_1) for the group, the current dividend
4 yield must be moved forward in time to account for dividend increases over the next
5 twelve months. I estimated the expected dividend yield by multiplying the current
6 dividend yield by one plus one-half the expected growth rate.

7

8 I then added the expected growth rates to the expected dividend yield. The
9 calculations of the resulting DCF returns on equity for both methods are presented on
10 page 2 of Exhibit ____ (RAB-4).

11 **Q. Please explain how you calculated your DCF cost of equity estimates.**

12 A. Page 2 of Exhibit ____ (RAB-4) presents the DCF results utilizing the two different
13 methods I described earlier. Method 1 utilizes the average growth rates for the
14 comparison group. I used the Value Line earnings and dividend growth forecasts
15 and the consensus analysts' forecasts. The average for the comparison group is
16 8.96% and the midpoint is 9.00%.

17

18 Method 2 employs the median growth rates from Value Line, Zacks, and Thomson.

19 The average DCF return on equity is 8.72% and the midpoint of the results is 8.50%.

20 **Capital Asset Pricing Model**

21 **Q. Briefly summarize the Capital Asset Pricing Model ("CAPM") approach.**

22 A. The theory underlying the CAPM approach is that investors, through diversified
23 portfolios, may combine assets to minimize the total risk of the portfolio.

1 Diversification allows investors to diversify away all risks specific to a particular
2 company and be left only with market risk that affects all companies. Thus, the
3 CAPM theory identifies two types of risks for a security: company-specific risk and
4 market risk. Company-specific risk includes such events as strikes, management
5 errors, marketing failures, lawsuits, and other events that are unique to a particular
6 firm. Market risk includes inflation, business cycles, war, variations in interest rates,
7 and changes in consumer confidence. Market risk tends to affect all stocks and
8 cannot be diversified away. The idea behind the CAPM is that diversified investors
9 are rewarded with returns based on market risk.

10
11 Within the CAPM framework, the expected return on a security is equal to the risk-
12 free rate of return plus a risk premium that is proportional to the security's market, or
13 non-diversifiable, risk. Beta is the factor that reflects the inherent market risk of a
14 security and measures the volatility of a particular security relative to the overall
15 market for securities. For example, a stock with a beta of 1.0 indicates that if the
16 market rises by 15%, that stock will also rise by 15%. This stock moves in tandem
17 with movements in the overall market. Stocks with a beta of 0.5 will only rise or fall
18 50% as much as the overall market. So with an increase in the market of 15%, this
19 stock will only rise 7.5%. Stocks with betas greater than 1.0 will rise and fall more
20 than the overall market. Thus, beta is the measure of the relative risk of individual
21 securities vis-à-vis the market.

1 Based on the foregoing discussion, the equation for determining the return for a
2 security in the CAPM framework is:

3

$$K = R_f + \beta(MRP)$$

4

5 Where: *K* = *Required Return on equity*
6 *R_f* = *Risk-free rate*
7 *MRP* = *Market risk premium*
8 *β* = *Beta*

9

10 This equation tells us about the risk/return relationship posited by the CAPM.
11 Investors are risk averse and will only accept what they anticipate as higher risk if
12 they expect to receive higher returns. These returns can be determined in relation to
13 a stock's beta and the market risk premium. The general level of risk aversion in the
14 economy determines the market risk premium. If the risk-free rate of return is 3.0%
15 and the required return on the total market is 12%, then the risk premium is 9%. Any
16 stock's required return can be determined by multiplying its beta by the market risk
17 premium. Stocks with betas greater than 1.0 are considered riskier than the overall
18 market and will have higher required returns. Conversely, stocks with betas less than
19 1.0 will have required returns lower than the market as a whole.

20 **Q. In general, are there concerns regarding the use of the CAPM in estimating the**
21 **return on equity?**

1 A. Yes. As briefly discussed earlier, there is some controversy surrounding the use of
2 the CAPM.⁸ There is evidence that beta is not the primary factor in determining the
3 risk of a security. For example, Value Line's "Safety Rank" is a measure of total
4 risk, not its calculated beta coefficient. Beta coefficients usually describe only a
5 small amount of total investment risk. Finally, a considerable amount of judgment
6 must be employed in determining the risk-free rate and market return portions of the
7 CAPM equation. The analyst's application of judgment can significantly influence
8 the results obtained from the CAPM. My past experience with the CAPM indicates
9 that it is prudent to use a wide variety of data in estimating returns. Of course, the
10 range of results may also be wide, indicating the difficulty in obtaining a reliable
11 estimate from the CAPM.

12 **Q. How did you estimate the market return portion of the CAPM?**

13 A. The first source I used was the Value Line Investment Analyzer, Plus Edition, for
14 June 6, 2012. This edition covers nearly 7,000 stocks. The Value Line Investment
15 Analyzer provides a summary statistical report detailing, among other things,
16 forecasted growth in earnings and book value for the companies Value Line follows.
17 I have presented these two growth rates and the average on page 2, lines 8 and 9 of
18 Exhibit ____ (RAB-5). The average growth rate is 10.74%. Combining this growth
19 rate with the average expected dividend yield of the Value Line companies of 0.65%

⁸ For a more complete discussion of some of the controversy surrounding the use of the CAPM, refer to *A Random Walk Down Wall Street* by Burton Malkiel, pp. 229 – 239, 1999 edition.

1 the past. Indeed, evidence presented in the following sections
2 indicates that relative expected returns should, and do, vary
3 significantly over time. Empirically, the measured historic
4 premium is sensitive both to the choice of estimation horizon
5 and to the end points. These choices are essentially arbitrary,
6 yet can result in significant differences in the final outcome.⁹

7
8 In summary, the use of historic earned returns should be viewed with a great deal of
9 caution. There is no real support for the proposition that an unchanging,
10 mechanically applied historical risk premium is representative of current investor
11 expectations and return requirements.

12 **Q. How did you determine the risk free rate?**

13 A. I used the average yields on the 20-year Treasury bond and five-year Treasury note
14 over the six-month period from December 2011 through May 2012. Exhibit
15 ____ (RAB-5) at p. 2, lines 1 through 7. The 20-year Treasury bond is often used by
16 rate of return analysts as the risk-free rate, but it contains a significant amount of
17 interest rate risk. The five-year Treasury note carries less interest rate risk than the
18 20-year bond and is more stable than three-month Treasury bills. Therefore, I have
19 employed both of these securities as proxies for the risk-free rate of return. This
20 approach provides a reasonable range over which the CAPM may be estimated.

⁹ Brigham, E.F., Shome, D.K. and Vinson, S.R., "The Risk Premium Approach to Measuring a Utility's Cost of Equity," *Financial Management*, Spring 1985, pp. 33-45.

1 **Q. What is your estimate of the market risk premium?**

2 A. Exhibit ____ (RAB-5), lines 9 and 22 of page 1, presents my estimates of the market
3 risk premium based on a DCF analysis applied to current market data. The market
4 risk premium is 8.65% using the 20-year Treasury bond and 10.52% using the five-
5 year Treasury bond.

6

7 Utilizing the historical Ibbotson data on market returns, the market risk premium
8 ranges from 4.50% to 6.50%. This is shown on Exhibit ____ (RAB-6), line 3.

9 **Q. How did you determine the value for beta?**

10 A. I obtained the betas for the companies in the electric company comparison group
11 from most recent Value Line reports. The average of the Value Line betas for the
12 electric group is .68. Exhibit ____ (RAB-5) at p. 2, line 20.

13 **Q. Please summarize the CAPM results.**

14 A. The CAPM results using the 20-year and five-year Treasury bond yields and Value
15 Line market return data range from 8.06% to 8.65%. Exhibit ____ (RAB-5) at p. 1,
16 lines 14 and 27.

17

18 The CAPM results using the historical Ibbotson data range from 5.81% to 7.18%.

19 These results are shown on Exhibit ____ (RAB-6), line 7.

1 **Conclusions and Recommendations**

2 **Q. Please summarize the cost of equity you recommend the Commission adopt for**
3 **FPL.**

4 A. I recommend that the Commission adopt the DCF model I developed and the cost of
5 equity estimates for the comparison group of electric utility companies that I
6 compiled. The results for the electric company comparison group using the constant-
7 growth DCF model and the expected growth rate forecasts ranged from 8.50% to
8 9.00%. Exhibit ___(RAB-4) at p. 2, lines "Midpoint of Results". Based on this
9 range of results, I recommend that the Commission adopt a 9.00% return on equity
10 for FPL in this proceeding. Notwithstanding the lower level of risk FPL experiences
11 relative to my comparison group, for purposes of the ROE ranges I am
12 recommending, I am placing FPL at the top of my range (a positioning that would
13 not be justified using FPL's inflated ranges). I offer this recommendation to the
14 FPSC as a just and reasonable estimate of investor return on equity requirements for
15 a lower risk electric utility such as FPL.

16
17 Finally, it should be noted that the CAPM results are significantly lower than the
18 DCF results in this proceeding. Exhibit ___(RAB-5) at p. 1, lines 14 and 27 and
19 Exhibit ___(RAB-6) at p. 1, line 7. This is the case with both the forward-looking
20 and the historical versions of the CAPM. I do not rely on the CAPM for my ROE
21 recommendation, but these results suggest that my recommended ROE of 9.00% is
22 reasonable, even generous, based on current capital market conditions.

1 **Capital Structure and Weighted Cost of Capital**

2 **Q. Did you review FPL's requested capital structure?**

3 A. Yes. The Company's requested capital structure and weighted cost of capital is
4 presented in Schedule D-1A and is supported by the Direct Testimony of FPL
5 witnesses Avera, Ousdahl, Barrett, and Dewhurst. These witnesses supported an
6 "adjusted" equity ratio of 56.3%, which includes the imputation of \$949 million of
7 off-balance sheet purchased power agreements ("PPAs"). It is important to note that
8 this is not the capital structure the Company is using for ratemaking purposes, but is
9 instead one that is designed to reflect how FPL off-balance sheet PPAs are treated
10 for purposes of bond rating agency reporting. Dr. Avera presented the calculation of
11 this so-called adjusted equity ratio in his Exhibit WEA-14.

12

13 FPL witness Dewhurst and Dr. Avera both testified that based on investor supplied
14 capital, the Company's equity ratio is 59.6%.

15 **Q. Mr. Baudino, is FPL's proposed level of equity comparable to the companies in**
16 **your comparison group?**

17 A. No. FPL's proposed level of equity is significantly higher than that used by the
18 companies in my comparison group. Table 2 below presents the common equity
19 ratios for the comparison group. I obtained the data from the Value Line Investment
20 Survey and from AUS Utility Reports, June 2012.

21

**TABLE 2
COMPARISON GROUP CAPITAL STRUCTURES**

	2011 Value Line Common Equity	AUS Common Equity
1 Alliant Energy Corporation	50.9%	51.2%
2 Consolidated Edison, Inc.	52.5%	51.0%
3 DTE Energy Company	49.4%	47.1%
4 IDACORP, Inc.	54.4%	51.8%
5 MGE Energy, Inc.	60.4%	60.6%
6 Nextera Energy	41.8%	38.8%
7 Pepco Holdings, Inc.	53.3%	45.3%
8 Portland General Electric	50.4%	49.3%
9 SCANA Corporation	45.7%	42.1%
10 Southern Company	47.1%	46.5%
11 Wisconsin Energy Corporation	46.0%	43.9%
12 Xcel Energy Inc.	<u>48.9%</u>	<u>45.5%</u>
Average	50.1%	47.8%

Source: Value Line Reports 2012; AUS Utility Reports, June 2012

1

2

3

It is abundantly clear that FPL's equity ratio greatly exceeds the comparison group equity ratio. Only MGE Energy has a common equity ratio anywhere close to FPL's.

4

5 **Q.**

Please summarize FPL's presentation of its capital structure and common equity ratio.

6

7 **A.**

Both Dr. Avera and Mr. Dewhurst support an adjusted equity ratio of 56.3%. Dr. Avera supported this presentation as being reasonable based, in part, on the premise that the rating agencies take PPAs into account when evaluating financial strength and bond ratings.

8

9

10

11 **Q.**

Does FPL need to maintain an unadjusted equity ratio of 60% to maintain its bond and credit ratings?

12

1 A. In my opinion, it does not. The utilities in my comparison have similar bond ratings
2 to FPL and have much lower common equity ratios, even when FPL's PPAs are
3 factored into the capital structure equation. In my view, this suggests that FPL could
4 reduce its equity ratio by several percentage points and likely be able to maintain its
5 bond ratings.

6
7 S&P described how it assigns three key financial ratios in developing and assigning
8 bond ratings using a business risk and financial risk matrix.¹⁰ These ratios are as
9 follows:

- 10 ● Funds from Operations ("FFO") Interest Coverage
- 11 ● Funds from Operations / Total Debt
- 12 ● Total Debt / Total Capital

13 S&P explained how these key ratios are used by it to develop a "Business Risk
14 Profile" and "Financial Risk Profile" for the companies that it is rating. The
15 Financial Risk Profile is assessed based on the three key ratios cited above. The
16 Business Risk Profile encompasses S&P's qualitative assessment of factors such as
17 the quality of regulation, the markets in which the company operates, operations,
18 competitiveness, and management. Business Risk Profiles are characterized by S&P
19 as Excellent, Strong, Satisfactory, Fair, Weak, or Vulnerable. Financial Risk Profiles
20 are characterized as Minimal, Modest, Intermediate, Significant, Aggressive, or
21 Highly Leveraged.

¹⁰ Please refer to "Business Risk/Financial Risk Matrix Expanded", originally published by S&P on May 26, 2009 and updated on November 30, 2011.

1

2 The April 24, 2012 S&P report I cited earlier in my testimony assigned an
3 "excellent" business risk profile to FPL and an "intermediate" financial risk profile
4 to NextEra. According to S&P, the adjusted debt/total capital ratios to support these
5 ratings would fall into a range of 35% - 45%. The corollary is an adjusted equity
6 ratio range of 55% - 65%.

7

8 S&P noted that its ratio analysis matrix serves as a guide and that it does not arrive at
9 ratings by rote. Other factors may lead its rating committee to a different conclusion
10 than what would otherwise be indicated by the matrix.

11

12 Another important factor to consider is that FPL's PPA obligations are going to
13 decline significantly in 2015. Dr. Avera and FPL's 2012 10-K report noted that
14 FPL's take-or-pay purchased power contracts with the Jacksonville Electric
15 Authority and subsidiaries of the Southern Company provide 1,330 mWs of power
16 through 2015 and then decline to 375 mWs thereafter through 2021. This means that
17 the 949 mW of imputed debt from the PPAs will decline significantly within the next
18 2 - 3 years.

19 **Q. Does FPL have a capacity cost recovery clause that mitigates the risk of its PPA**
20 **obligations?**

21 A. Yes. Page 11 of the Company's 2012 10-K stated that "[c]apacity payments to other
22 utilities and generating companies for purchased power are recovered from
23 customers through the capacity clause." The capacity clause assures FPL of

1 complete recovery of its purchased power obligations and is much less risky than
2 including these costs in base rates.

3 **Q. Do you have any other concern regarding FPL's equity rich capital structure?**

4 A. Yes. An excessive FPL common equity ratio could result in ratepayers subsidizing
5 NextEra's unregulated affiliate activities. It is unlikely that NextEra would be able
6 to support and maintain a single 'A' credit rating on a corporate-wide basis without
7 the support of an excessive FPL common equity ratio because NextEra Energy
8 Resources is extremely highly leveraged. And, as I noted in Section II of my Direct
9 Testimony, NextEra's unregulated operations have actually increased leverage over
10 the last few years to over 80% debt.

11

12 Second, it is an economically inefficient outcome for ratepayers to support a higher
13 than necessary equity ratio for FPL. There is a transfer of income in the form of
14 economic rents being paid by FPL's customers to FPL, a monopoly provider of
15 electric service. Regulation should prevent this kind of income transfer, which
16 benefits shareholders to the detriment of ratepayers.

17 **Q. What is your recommendation in this proceeding for FPL's capital structure**
18 **and weighted cost of capital?**

19 A. I recommend that the FPSC adopt the Company's requested test year capital
20 structure, but only if it adopts my recommended return on equity of 9.00%. It would
21 certainly be reasonable to reduce the Company's excessive common equity ratio in
22 this case; however, the Commission declined to accept my recommendation to
23 reduce the Company's common equity ratio in the last base rate case Order in 2009.

1 So for purposes of this case only, I am proposing use of FPL's proposed common
2 equity ratio, and the result of my DCF computations. If a higher ROE is adopted, the
3 capital structure issue would warrant much greater skepticism, because it means that
4 ratepayers are not getting one of the prime benefits of a thick equity cushion, namely
5 the benefit of the lower resulting risk. Please refer to Table 3 below for the
6 calculation of my recommended weighted cost of capital for FPL, which is 5.85%.

7

	<u>Amount</u>	<u>Pct</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	\$ 6,199,550	29.46%	5.26%	1.55%
Preferred Stock	\$ -	0.00%	0.00%	0.00%
Customer Deposits	\$ 426,531	2.03%	5.99%	0.12%
Common Equity	\$ 9,684,101	46.03%	9.00%	4.14%
Short-term Debt	\$ 360,542	1.71%	2.11%	0.04%
Deferred Income Tax	\$ 4,369,074	20.76%	0.00%	0.00%
ITC	\$ 923	0.00%	9.06%	0.00%
Tdals	\$ 21,040,721	100.00%		5.85%

8

9 **Q. If the Commission chooses to adopt a higher ROE than your recommendation**
10 **of 9.00%, then what is your recommendation with respect to FPL's common**
11 **equity ratio for ratemaking purposes?**

12 **A. I recommend that the Commission reduce FPL's common equity ratio if it adopts a**
13 **return on equity higher than 9.00%. One reasonable way to make this adjustment**

1 would be for the Commission to reduce FPL's equity ratio by two percentage points
2 for every 0.50% increase in the ROE over 9.00%. So for example, if the
3 Commission adopted a ROE of 9.50%, the Company's equity ratio could be reduced
4 by 2% to 57.6% of investor supplied capital. See Table 4 below for the calculation.

			<u>Pct</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	\$ 6,526,996	31.02%	5.26%	1.63%	
Preferred Stock	\$ -	0.00%	0.00%	0.00%	
Customer Deposits	\$ 426,531	2.03%	5.99%	0.12%	
Common Equity	\$ 9,356,655	44.47%	9.50%	4.22%	
Short-term Debt	\$ 360,542	1.71%	2.11%	0.04%	
Deferred Income Tax	\$ 4,369,074	20.76%	0.00%	0.00%	
ITC	\$ 923	0.00%	9.06%	0.00%	
Totals	\$ 21,040,721	100.00%		6.01%	

5
6
7 In this example, I moved common equity into long-term debt in order to reduce the
8 common equity ratio to 57.60%. This reduced the amount of common equity for
9 ratemaking purposes to \$9,356,655,000, a decrease from the Company's requested
10 amount of equity of \$327,446,000. The Commission could also accomplish this by
11 allocating a pro-rata share of the \$327.446 million between long-term debt and short-
12 term debt. This would slightly lower the overall weighted cost of capital. This

1 equity ratio is still within the S&P guidelines for a company with an intermediate
2 financial risk profile.

3
4 This is one alternative I recommend to the Commission. The importance of this
5 exercise is that if the Commission decides to raise FPL's ROE above my
6 recommendation, it is reasonable to reduce the equity ratio so as not to increase the
7 overall weighted cost of capital that must be supported by ratepayers. My market
8 evidence suggests that a 9.0% ROE would be reasonable even with a lower equity
9 ratio than FPL's 59.6% based on the equity ratios from my comparison group of
10 companies. However, a higher ROE award in this case should only coincide with a
11 lower equity ratio for FPL. This appropriately balances the interests of shareholders
12 and ratepayers.

13 **Q. Mr. Baudino are you aware of the Commission Order in Docket No. 110138-EI,**
14 **which is the most recent Gulf Power rate proceeding?**

15 A. Yes. I reviewed the portion of Commission Order No. PSC-12-0179-FOF-EI that
16 discussed return on equity and the weighted cost of capital for Gulf Power Company.
17 The Commission's Order adopted a 10.25% return on equity. In addition, the
18 Commission's adjusted capital structure included the following percentages of
19 investor-supplied capital.

TABLE 5
GULF POWER INVESTOR SUPPLIED CAPITAL

	<u>Amount</u>	<u>Pct.</u>
Long-Term Debt	\$ 657,374,442	47.21%
Preferred Stock	\$ 72,956,634	5.24%
Common Equity	\$ 644,159,245	46.26%
Short-term Debt	\$ 17,925,426	1.29%
Total	\$ 1,392,415,747	100.00%

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It is important to note that Gulf Power's current S&P bond rating is A and Moody's rating is A3. The common equity ratio approved by the Commission was 46.26%, with the total equity ratio being 51.5%. This is a substantially lower equity ratio than FPL is requesting in this case. Indeed, it would be reasonable for the Commission in this proceeding to approve a significantly lower ROE than it did in the Gulf Power case, given that FPL's common equity ratio is so much greater than Gulf Power's equity ratio.

1 **IV. RESPONSE TO FPL TESTIMONY**

2 **Q. Have you reviewed the Direct Testimony of Dr. William Avera?**

3 A. Yes.

4 **Q. Please summarize your conclusions with respect to Dr. Avera's testimony and**
5 **return on equity recommendation.**

6 A. Dr. Avera's approach to estimating the cost of equity for FPL has some parallels with
7 the approach he used in FPL's last base rate case, Docket No. 080677-EI, which was
8 largely rejected by the FPSC in that case.

9
10 First, Dr. Avera's recommended 11.25% return on equity is grossly overstated, relies in
11 essence entirely on the results of an inapposite non-utility proxy group and, just like the
12 last base rate case, fails to reasonably track the majority of the results from his Utility
13 Proxy Group analyses (not subject to unjustified adjustments), which range from 9.6%
14 to 10.8%. As I shall demonstrate later in my testimony, even this range overstates the
15 investor required return for FPL. Furthermore, equity return computations that exceed
16 the upper end of this range are fatally flawed and should be rejected for reasons that I
17 will explain later in my testimony.

18
19 Second, Dr. Avera made largely subjective changes to the results of his DCF analysis
20 by excluding individual company DCF results that he considered to be either too high
21 or too low. His results are skewed toward including DCF results that are still excessive,
22 resulting in an overstatement of the average adjusted results from his Utility Proxy
23 Group.

1

2 Third, Dr. Avera failed to include forecasted dividend growth in his DCF analyses.
3 Failing to include this important information overstated his DCF results.

4

5 Fourth, Dr. Avera overstated the Market Risk Premium in his CAPM analysis because
6 of a faulty approach to estimating the market return portion of the CAPM. My CAPM
7 results incorporate a more sound method of estimation. Regardless, any defensible
8 analysis on this issue would produce a lower ROE than that proposed by FPL.

9

10 Fifth, Dr. Avera included a size adjustment to his CAPM formulations that is incorrect
11 and inappropriate. This size adjustment resulted in a significant overstatement of his
12 CAPM results.

13

14 Sixth, Dr. Avera's expected earnings approach is inappropriate and should be rejected
15 by the Commission.

16

17 Seventh, Dr. Avera's adjustment for flotation costs is inappropriate and should be
18 rejected.

19

20 **Dr. Avera's ROE Range and Recommendation**

21 **Q. Please summarize the results of Dr. Avera's ROE analyses.**

22 A. Dr. Avera used four methods to estimate the cost of equity for FPL: a DCF model, a
23 CAPM, a risk premium model, and an expected earning approach. He applied a DCF

1 model to two groups of companies, one composed of regulated electric utilities ("Utility
2 Proxy Group") and another using unregulated companies ("Non-Utility Proxy Group"),
3 which completely excluded utility operations. The results from his various methods
4 are as follows:

5
6 Utility Proxy Group:

7
8 DCF – 9.6% to 10.3%

9 CAPM - 10.4% - 10.8%

10 CAPM Size Adjusted – 11.2% - 11.6%

11 Utility Risk Premium – 9.6% - 10.4%

12 Expected earnings – 10.5% - 12.0%

13
14 Non-Utility Proxy Group:

15
16 DCF – 11.5% - 12.3%

17
18 Notably, the group containing non-utility enterprises not surprisingly produced
19 significantly higher upper range returns than the utility group.

20
21 Dr. Avera also recommended a 15 basis point adjustment for flotation costs. Finally,
22 Dr. Avera supported an additional 0.25% adder for excellent management
23 performance.

24
25 Based on these results, Dr. Avera recommended a range for FPL cost of equity of
26 10.25% - 12.25%. His recommended ROE was 11.25% "before any adder for low
27 rates and excellent management". Adding 0.25% for these factors resulted in his
28 final ROE recommendation of 11.5%.

1 **Q. In your opinion, do the results of Dr. Avera's various analyses support his**
2 **recommended 11.5% ROE for FPL?**

3 A. No. Most of Dr. Avera's results from his Utility Proxy Group suggest a much lower
4 ROE. The size-adjusted CAPM results, while higher than the DCF results suffer
5 from several serious infirmities and should be disregarded by the Commission. I will
6 discuss this later in my testimony. The Non-Utility Proxy Group DCF results
7 support an ROE above 11.0%, but these results should be rejected as well.

8 **Q. Is it appropriate to use a group of unregulated companies to estimate a fair**
9 **return on equity for a low-risk regulated electric company such as FPL?**

10 A. Absolutely not. Dr. Avera's use of non-utility companies to estimate a fair rate of
11 return for FPL is completely inappropriate.

12

13 Utilities have protected markets, e.g. service territories, exclusive franchises granted
14 by Florida municipalities, and may increase the prices they charge in the face of
15 falling demand or loss of customers. This is contrary to competitive, unregulated
16 companies who often lower their prices when demand for their products decline.

17 Generally, the non-utility companies simply do not have these characteristics and
18 must compete with other firms selling the same product for sales and for customers.

19 Obviously, the non-utility companies have higher overall risk structures than a lower
20 risk electric company like FPL and will have higher required returns from their

21 shareholders. It is not at all surprising that Dr. Avera's ROE results for his Non-
22 Utility Proxy Group were substantially higher than the results for his Utility Proxy

23 Group. Given the higher business risk for the non-utility group of companies, this is

24 exactly the result that would have been expected. However, these results do not

1 form any kind of reasonable basis to estimate the investor required ROE for FPL.
2 Quite the contrary, the returns from the non-utility proxy group are a good measure
3 of returns that are, by definition, substantially in excess of those to be expected in the
4 utility segment.

5 **Q. Are the DCF returns for the Non-Utility Proxy Group comparable to the DCF**
6 **returns for Dr. Avera's Utility Proxy Group?**

7 A. No. The DCF results for the Non-Utility Proxy Group are presented in Dr. Avera's
8 Exhibit WEA-7. It is instructive to note that DCF returns are uniformly higher for
9 this group of companies than one would expect for regulated electric utilities. For
10 example, the DCF results for Kellogg range from 11.6% to 17.5% and the results for
11 McCormick & Co. range from 10.6% to 22.8%. Dr. Avera attempted to eliminate
12 what he considered to be excessively high DCF results from the DCF averages for
13 the Non-Utility Proxy Group, but he still included returns ranging from 12.0% to
14 16.8%, returns that are clearly excessive when applied to electric utilities such as
15 FPL because the Company experiences lower risk than non-utility enterprises.

16

17 In my opinion, Exhibit WEA-7 clearly shows that DCF results for the Non-Utility
18 Proxy Group have no bearing whatsoever on investor expected returns for regulated
19 electric companies.

20 **Q. Do you have any concluding remarks for this section of your response to Dr.**
21 **Avera?**

22 A. Yes. In my subsequent response to Dr. Avera's DCF analyses, I will confine my
23 remarks to the results from his Utility Proxy Group. I will not further address the

1 Non-Utility Proxy Group because I have already explained why the Commission
2 should reject the use of this group in estimating the cost of equity for FPL.
3

4 **DCF Analyses**

5 **Q. Please summarize Dr. Avera's approach to the DCF model and its results.**

6 A. Dr. Avera utilized the constant growth form of the DCF model to estimate the fair
7 return on equity for a group of what he considered to be comparable risk utility
8 companies, which he referred to as the Utility Proxy Group. The criteria he used to
9 select companies to include in this group are discussed and enumerated on pages 33 and
10 34 of his Direct Testimony. He employed analysts' earnings growth forecasts from
11 Value Line, IBES, and Zacks to estimate the growth component of the DCF model.
12

13 Dr. Avera adjusted the results of his DCF analyses by eliminating what he considered
14 to be high and low outliers from the group average DCF results. Dr. Avera discussed
15 the criteria he used for making these adjustments on pages 49 through 53 of his Direct
16 Testimony. He presented the results of his Utility Proxy Group DCF estimates in
17 Exhibit WEA-4, page 3 of 3. The results ranged from 9.6% to 10.3%.

18 **Q. Did Dr. Avera include unreasonably high DCF results in his adjusted DCF**
19 **calculations for the Utility Proxy Group?**

20 A. Yes. Exhibit WEA-4 shows that Dr. Avera included DCF results that ranged from
21 14.3% to 16.0%. These results are clearly outside the range of investor required
22 returns for electric utility companies. For example, according to Dr. Avera's Exhibit
23 WEA-11, page 3 of 4, the average allowed ROEs for utilities since 2002 ranged from

1 11.16% (2002) to 10.22% (2011), and the trend is downward. There is no sound
2 reason for including ROEs above 14% in Dr. Avera's DCF analyses and, therefore,
3 their inclusion merely serves to inflate the ROE results presented in Exhibit WEA-4.

4
5 Excluding the extreme DCF results I mentioned earlier lowers Dr. Avera's Utility
6 Proxy Group results as shown in Table 6.

**TABLE 6
AVERA ADJUSTED UTILITY PROXY GROUP DCF RESULTS**

Company	Value Line	IBES	Zacks	br+sv Growth
1 Alliant Energy	11.4%	9.3%	10.4%	10.0%
2 Consolidated Edison	7.1%	7.8%	7.4%	8.0%
3 Dominion Resources	8.6%	7.3%	9.1%	9.3%
4 Integrys Energy Group	14.3%	14.7%	9.8%	8.4%
5 ITC Holdings Corp.	16.0%	20.7%	18.5%	15.8%
6 NextEra Energy, Inc.	8.6%	9.9%	10.5%	10.5%
7 OGE Energy Corp.	9.6%	11.3%	9.9%	10.1%
8 PG&E Corp.	10.5%	5.9%	8.5%	10.4%
9 SCANA Corp.	7.7%	9.3%	8.9%	9.7%
10 Sempra Energy	7.3%	11.2%	10.8%	9.9%
11 Southern Company	10.5%	10.4%	9.6%	10.1%
12 Vectren Corp.	10.4%	10.9%	9.6%	8.8%
13 Wisconsin Energy	12.2%	11.5%	11.2%	8.4%
14 Xcel Energy, Inc.	9.1%	9.4%	9.2%	8.4%
Average (b)	9.4%	9.8%	9.6%	9.4%

8
9
10 Please note that the DCF values that were excluded are shown in rectangular boxes
11 in Table 5. Excluding the remaining implausible DCF calculations from Dr. Avera's
12 analysis results in a range of 9.4% - 9.8%, which is close to my recommended 9.0%
13 ROE for FPL.

1 **Q. Did Dr. Avera consider dividend growth forecasts in his DCF analysis?**

2 A. No. Dr. Avera failed to include dividend growth forecasts in his analysis.

3

4 On page 44 of his Direct Testimony, Dr. Avera opined that dividend growth rates "are
5 not likely to provide a meaningful guide to investors' current growth expectations."

6 **Q. Should Dr. Avera have included dividend growth forecasts in his DCF analyses?**

7 A. Yes. Dr. Avera erred in failing to include dividend growth forecasts from Value Line in
8 his DCF analyses. With respect to regulated utility companies, dividend growth
9 provides the primary source of cash flow to the investor. It is certainly the case that
10 earnings growth fuels dividend growth and should be considered in estimating the ROE
11 using the DCF model. However, Value Line's dividend growth forecasts are widely
12 available to investors and can reasonably be assumed to influence their expectations
13 with respect to growth. Because I used three earnings growth estimates and one
14 dividend growth estimate in my average growth rate calculation, I weighted earnings
15 growth 75% and dividend growth 25%. Exhibit ___(RAB-4) at p. 2, cols. 1 through 5,
16 line "DCF Return on Equity". Therefore, I agree to some extent with Dr. Avera that
17 earnings growth is the primary factor considered by investors. But it should not be
18 considered the only factor.

19 **Q. What are the average and median dividend growth rates for Dr. Avera's Utility
20 Proxy Group?**

21 A. The average and median dividend growth rate forecasts are shown below in Table 7.

TABLE 7
AVERA UTILITY PROXY GROUP
VALUE LINE DIVIDEND GROWTH FORECASTS

<u>Company</u>	<u>Value Line Div. Growth</u>
Alliant Energy	5.50%
Consolidated Edison	1.00%
Dominion Resources	6.00%
Integrus Energy Group	0.50%
ITC Holdings Corp.	8.00%
NextEra Energy, Inc.	8.00%
OGE Energy Corp.	4.50%
PG&E Corp.	2.00%
SCANA Corp.	2.00%
Sempra Energy	9.00%
Southern Company	4.00%
Vectren Corp.	2.50%
Wisconsin Energy	13.50%
Xcel Energy, Inc.	5.00%
Average	5.11%
Median	4.75%

Source: 2012 Value Line Reports

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Please refer to Exhibit ___(RAB-7), which shows the average and median earnings growth rates for the Utility Proxy Group used by Dr. Avera. The average earnings growth forecasts for this group range from 5.8% to 6.6% and the median growth rates range from 5.1% to 5.9%. Since the average growth rates are unduly influenced by unusually high growth rates for certain companies in this group, the median growth rates are more indicative of investor expected earnings growth for this group of companies. In any case, Dr. Avera's exclusion of forecasted dividend growth serves to overstate the DCF ROE for the companies. Adding Dr. Avera's

1 4.1% dividend yield for the Utility Proxy Group to Value Line's forecasted dividend
2 growth results in the following DCF ROE estimates:

3
4 $4.1\% * (1 + (0.5 * 4.75\%)) + 4.75\% = 8.95\%$

5 $4.1\% * (1 + (0.5 * 5.11\%)) + 5.11\% = 9.31\%$
6

7 **Capital Asset Pricing Model**

8 **Q. Please present your conclusions regarding the results of Dr. Avera's CAPM**
9 **analysis.**

10 A. I disagree with Dr. Avera's formulation of the CAPM and in particular with his
11 estimate of the expected market return. Dr. Avera estimated the market return
12 portion of the CAPM by estimating the current market return for dividend paying
13 stocks in the S&P 500. This limited his "market" return to only 373 companies.

14
15 The market return portion of the CAPM should represent the most comprehensive
16 estimate of the total return for all investment alternatives, not just a small subset of
17 publicly traded stocks. In practice, of course, finding such an estimate is difficult
18 and is one of the more thorny problems in estimating an accurate ROE when using
19 the CAPM. If one limits the market return to stocks, then there are more
20 comprehensive measures of the stock market available, such as the Value Line
21 Investment Survey that I used in my CAPM analysis. Value Line's projected
22 earnings growth used a sample of 2,455 stocks and its book value growth estimate
23 used 1570 stocks. These are much broader samples than Dr. Avera's limited sample

1 of dividend paying stocks from the S&P 500.

2

3 The forward-looking CAPM results I present in Exhibit ___(RAB-5) using a broader
4 market index suggest much lower required rates of return than Dr. Avera
5 recommends in his testimony.

6 **Q. On page 57 of his Direct Testimony, Dr. Avera explained that he incorporated a**
7 **size adjustment of 81 basis points to his CAPM results, which increased the**
8 **CAPM cost of equity to 11.2%. Is this size adjustment appropriate?**

9 A. No. The data that Dr. Avera relied upon to make this adjustment came from the
10 *Ibbotson SBBA, 2011 Valuation Yearbook* published by Morningstar. Dr. Avera
11 supplied the source document from this publication with his work papers in response
12 to Staff's Request for Production of Documents. The group of companies from
13 which Dr. Avera took the 81 basis point adjustment contains many unregulated
14 companies and the group has an average beta of 1.03. This beta is greatly in excess
15 of my utility comparison group beta of 0.68 and Dr. Avera's Utility Proxy Group
16 beta of 0.70. There is no evidence to suggest that the size premium used by Dr.
17 Avera applies to regulated utility companies, which on average are quite different
18 from the group of companies included in the Morningstar research on size premiums.
19 I recommend that the Commission reject Dr. Avera's size premium in the CAPM
20 ROE.

21 **Q. Dr. Avera also recommended using forecasted interest rates in the formulation**
22 **of the CAPM. Do you agree with using forecasted interest rates?**

23 A. No. I recommend that the Commission reject the use of forecasted Treasury bond
24 yields. Current interest rates embody all of the relevant market data and expectations of

1 investors, including expectations of changing future interest rates. The forecasted
2 interest rates used by Dr. Avera are speculative and may or may not come to pass.
3 Current interest rates present tangible market evidence of investor return requirements
4 today, and these are the interest rates that should be used in the CAPM.
5

6 **Risk Premium**

7 **Q. Please summarize Dr. Avera's risk premium approach.**

8 A. Dr. Avera developed an historical risk premium using Commission-allowed returns
9 for regulated utility companies and average public utility bond yields from 1974
10 through 2011. He also used regression analysis to estimate the value of the inverse
11 relationship between interest rates and risk premiums during that period. On page 66
12 of his Direct Testimony, Dr. Avera calculated the risk premium return on equity to
13 be 9.60% using a public utility bond yield as of December 2011. Dr. Avera also
14 used a forecasted bond yield of 6.00% and, as he explained on page 67, calculated a
15 risk premium ROE of 10.6%.

16 **Q. Please respond to Dr. Avera's risk premium analysis.**

17 A. The bond yield plus risk premium approach is imprecise and can at best provide very
18 general guidance on the current authorized ROE for a regulated electric utility. Risk
19 premiums can change substantially over time and with varying risk perceptions of
20 investors. As such, this approach is a "blunt instrument", if you will, for estimating
21 the ROE in regulated proceedings. In my view, a properly formulated DCF model
22 using current stock prices and growth forecasts is far more reliable and accurate than

1 the bond yield plus risk premium approach, which relies on an historical risk
2 premium analysis over a certain period of time. In addition, Dr. Avera's study
3 assumes that this Commission should rely on the decisions of other regulatory
4 commissions for its ROE award in this case. I do not agree with this implied
5 assumption and I recommend that the Commission rely upon valid current market
6 evidence presented in this proceeding to support its ROE decision.

7
8 Second, for the reasons I stated in the CAPM subsection of my testimony, it is
9 inappropriate and incorrect to use forecasted interest rates in the risk premium
10 approach. Current interest rates are the valid ones to use and are far more reliable
11 than forecasted interest rates, which will likely be incorrect and subject to change
12 depending on future economic events. Thus, I recommend that the FPSC reject the
13 10.6% risk premium ROE presented by Dr. Avera.

14
15 **Expected Earning Approach**

16 **Q. Please comment on Dr. Avera's expected earning approach.**

17 A. Dr. Avera's expected earnings approach should be rejected by the Commission.

18
19 All Dr. Avera did in this analysis was report Value Line's forecasted returns on book
20 value over the 3-year period of 2014 - 2016. He did not use any market-based model
21 such as the DCF or CAPM. Forecasted earned returns on book equity may have
22 nothing whatsoever to do with investors' required returns in the marketplace. For
23 example, if earned returns on book equity exceed the market-based DCF return on

1 equity, then investors may expect a company to earn more on book equity than the
2 market-based required rate of return. Instead, I recommend that the Commission utilize
3 a range of returns generated by the DCF model in setting FPL's cost of equity in this
4 case.

5
6 **Flotation Costs**

7 **Q. On page 72 of his Direct Testimony, Dr. Avera recommended a 15 basis point**
8 **adjustment to recognize flotation costs. Should the Commission add a flotation**
9 **cost adjustment to the cost of equity for FPL?**

10 **A.** No. I recommend that the Commission reject Dr. Avera's proposed flotation cost
11 adjustment. In my opinion, it is likely that flotation costs are already accounted for in
12 current stock prices and that adding an adjustment for flotation costs amounts to double
13 counting. A DCF model using current stock prices should already account for investor
14 expectations regarding the collection of flotation costs. Multiplying the dividend yield
15 by a 4% flotation cost adjustment, for example, essentially assumes that the current
16 stock price is wrong and that it must be adjusted downward to increase the dividend
17 yield and the resulting cost of equity. I do not believe that this is an appropriate
18 assumption. Current stock prices most likely already account for flotation costs, to the
19 extent that such costs are even accounted for by investors.

20
21 **ROE Adder for Excellent Management**

22 **Q. Several FPL witnesses, including Dr. Avera, recommended that the Commission**
23 **recognize and encourage exemplary management in setting the return on equity**
24 **for FPL by adding 0.25% to the return on equity in this proceeding. Do you**
25 **agree?**

1 A. Definitely not. The Commission should base its allowed return on equity on market-
2 based data and analysis that I have provided in my testimony. Using appropriate cost
3 of equity models to estimate the investor required return for FPL will, if applied
4 properly, fairly compensate investors for their equity investment. Arbitrarily
5 increasing the investor required return to recognize factors such as alleged "excellent
6 management" would overcompensate investors and result in excessive rates to
7 ratepayers. The regulatory balance would be tipped in favor of shareholders and
8 against customers.

9
10 Moreover, providing an inflated return on equity to recognize claimed "exemplary
11 management" performance undercuts the benefits of such performance, which should
12 be greater efficiency, lower costs, and lower rates to customers. Ratepayers should
13 *expect* exemplary management from the Company without having to support inflated
14 returns to shareholders. It is important to realize that FPL's ratepayers have paid FPL
15 dollar for dollar for the O&M expenses and capital investments the Company has
16 made over time that have resulted in the rates currently being paid by customers.
17 And FPL's management and employees have accomplished this without any special
18 ROE adder that would flow to shareholders.

19
20 Also, with respect to FPL's relatively low rates, there are other factors that have
21 benefitted the Company beyond what could be considered "excellent management".
22 One major factor is that gas prices are currently quite low. Since FPL derives
23 approximately 62% of its generation from gas-fired units, low gas prices are a major

1 contributing factor to lower rates. FPL's management is not the cause of low gas
2 prices and its need to build new generation capacity over the past 3 decades to meet
3 population growth has afforded it an opportunity to add gas-fired units when other
4 utilities, not benefitting from such population growth, have not had the same
5 opportunity.

6
7 Another major factor contributing to FPL's low rates is the fact that the Company is a
8 very large utility with a contiguous Florida service territory that has taken advantage
9 of economies of scale. This means that fixed costs per customer will be lower for
10 FPL than other, smaller utilities that have higher fixed costs per customer.

11
12 FPL's current nuclear fleet has also been significantly depreciated. Turkey Point has
13 been operating since 1973 and St. Lucie has been in operation since 1983. These
14 depreciated nuclear units, combined with very low running costs, are significant
15 contributors to FPL's low rates. Once again, this was not due to exemplary
16 management and does not merit any bonus on the Company's ROE.

17
18 **Capital Structure**

19 **Q. On page 89 of his Direct Testimony, Dr. Avera concluded that FPL's requested**
20 **59.6% equity ratio "is well within the range of individual results" for the Utility**
21 **Proxy Group. Do you agree with this assessment?**

22 **A.** No. FPL's 59.6% book equity ratio is significantly higher than the average book
23 equity ratio of each of Dr. Avera's Utility Proxy Groups, which ranges from 45.9%
24 to 48.1% according to Exhibit WEA-16. This demonstrates that FPL's equity ratio

1 is, in fact, well outside the range of results for the Utility Proxy Group on average.
2 With respect to individual company results, the highest book equity ratio is 54.5% on
3 a projected basis for Integrys Energy Corp.

4

5 With respect to operating company results shown on Exhibit WEA-15, the group
6 average book equity ratio is 53.8%, again substantially lower than FPL's equity ratio.

7 **Q. On Exhibit WEA-17, Dr. Avera calculated market value equity ratios for the**
8 **companies in his Utility Proxy Group. Is this analysis of any value in gauging**
9 **the reasonableness of FPL's equity ratio in this proceeding?**

10 A. No, it is not. Comparing the market value of the Utility Proxy Group's equity to the
11 book value of FPL's common equity is comparing apples and oranges and does not
12 provide a valid test of the reasonableness of the book value of FPL's common equity
13 ratio. Although the market value of common equity is relevant to investors with
14 respect to their investment decisions, it is the book value of common equity that is
15 relevant to ratemaking and to the rates paid by ratepayers. Comparisons of the book
16 equity ratios from my utility comparison group and Dr. Avera's Utility Proxy Group
17 indicate that, without a doubt, FPL's common equity ratio is substantially higher than
18 that of firms with similar credit and bond ratings.

19

20 **Other ROE Considerations**

21 **Q. Please summarize some of the main considerations Dr. Avera mentioned in**
22 **arriving at his recommended 11.25% ROE, before the adder for excellent**
23 **management.**

1 A. On page 80, Dr. Avera summarized several factors he considered in arriving at his
2 11.25% ROE. These included "potential exposures faced by FPL and the economic
3 requirements necessary to maintain access to capital even under adverse
4 circumstances." Dr. Avera specifically cited the following:

- 5 • Recent challenges in the capital markets.
- 6 • Ongoing economic uncertainties.
- 7 • FPL's ability to "absorb potential shocks associated with devastating
8 hurricanes, volatile fuel pricing, and disruptions in energy supply."

9 **Q. Do these considerations, in connection with Dr. Avera's quantitative analyses,**
10 **support a ROE of 11.25%?**

11 A. No. First, it is important to note that, with appropriate adjustments, I have
12 demonstrated that the majority of Dr. Avera's DCF results indicate a ROE around
13 9.0% - 9.50%. Even his risk premium analysis indicates a cost of equity of 9.6%.
14 My own cost of capital analyses do not support anything above a ROE of 9.0% for
15 FPL. In short, the current market data in this low interest rate environment indicate
16 that investor required returns for electric utilities with characteristics similar to FPL
17 are about 9.0%. An 11.25% ROE simply cannot be justified on the basis of current
18 financial market evidence.

19
20 Second, the risks and concerns enumerated by Dr. Avera have all been taken into
21 account by S&P and Moody's, which currently rate FPL's senior debt as A and Aa3,
22 respectively. These are very strong ratings with solid financial support, Dr. Avera's
23 concerns notwithstanding.

1

2 Third, Dr. Avera's recommendation fails to consider the balance of interests between
3 ratepayers and shareholders. Without a doubt, investors would be extremely happy
4 with a ROE of 11.25% on an investment like FPL. However, the flip side of that
5 coin is that Florida ratepayers would have to shoulder a burdensome increase in rates
6 to support this ROE, compared to the 9.0% I recommend. I suggest to the
7 Commission that my recommended 9.0% ROE balances the interests of ratepayers
8 and shareholders. My analysis is based on current financial data for regulated
9 electric utilities that fully support my recommendation. Contrast this with Dr.
10 Avera's recommendation, which can only be supported by the use of a Non-Utility
11 Proxy Group. Dr. Avera essentially abandoned the results from the Utility Proxy
12 Group in making his recommendation.

13

14 **Q. Does this complete your prepared direct testimony?**

15 **A. Yes.**

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE:

PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)

EXHIBIT __ (RAB-1)
OF
RICHARD A. BAUDINO

ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

July 2012

RESUME OF RICHARD A. BAUDINO

EDUCATION

New Mexico State University, M.A.
Major in Economics
Minor in Statistics

New Mexico State University, B.A.
Economics
English

Twenty seven years of experience in utility ratemaking. Broad based experience in revenue requirement analysis, cost of capital, utility financing, phase-ins, auditing and rate design. Has designed revenue requirement and rate design analysis programs.

REGULATORY TESTIMONY

Preparation and presentation of expert testimony in the areas of:

Cost of Capital for Electric, Gas and Water Companies
Electric, Gas, and Water Utility Cost Allocation and Rate Design
Revenue Requirements
Gas and Electric industry restructuring and competition
Fuel cost auditing
Ratemaking Treatment of Generating Plant Sale/Leasebacks

RESUME OF RICHARD A. BAUDINO

EXPERIENCE

1989 to

Present:

Kennedy and Associates: Consultant - Responsible for consulting assignments in the area of revenue requirements, rate design, cost of capital, economic analysis of generation alternatives, gas industry restructuring and competition.

1982 to

1989:

New Mexico Public Service Commission Staff: Utility Economist - Responsible for preparation of analysis and expert testimony in the areas of rate of return, cost allocation, rate design, finance, phase-in of electric generating plants, and sale/leaseback transactions.

CLIENTS SERVED

Regulatory Commissions

Louisiana Public Service Commission
Georgia Public Service Commission
New Mexico Public Service Commission

Other Clients and Client Groups

Ad Hoc Committee for a Competitive
Electric Supply System
Air Products and Chemicals, Inc.
Arkansas Electric Energy Consumers
Arkansas Gas Consumers
AK Steel
Armco Steel Company, L.P.
Assn. of Business Advocating
Tariff Equity
CF&I Steel, L.P.
Climax Molybdenum Company
General Electric Company
Industrial Energy Consumers
Kentucky Industrial Utility Consumers
Lexington-Fayette Urban County Government
Large Electric Consumers Organization
Newport Steel
Northwest Arkansas Gas Consumers
Maryland Energy Group
Occidental Chemical

PSI Industrial Group
Large Power Intervenors (Minnesota)
Tyson Foods
West Virginia Energy Users Group
The Commercial Group
Wisconsin Industrial Energy Group
South Florida Hospital and Health Care Assn.
PP&L Industrial Customer Alliance
Philadelphia Area Industrial Energy Users Gp.
West Penn Power Intervenors
Duquesne Industrial Intervenors
Met-Ed Industrial Users Gp.
Penelec Industrial Customer Alliance
Penn Power Users Group
Columbia Industrial Intervenors
U.S. Steel & Univ. of Pittsburg Medical Ctr.
Multiple Intervenors
Maine Office of Public Advocate
Missouri Office of Public Counsel
University of Massachusetts - Amherst

**Expert Testimony Appearances
 of
 Richard A. Baudino
 As of June 2012**

Date	Case	Jurisdct.	Party	Utility	Subject
3/83	1780	NM	New Mexico Public Service Commission	Boles Water Co.	Rate design, rate of return.
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop	Rate design.
11/84	1833	NM	New Mexico Public Service Commission	El Paso Electric Co.	Service contract approval, rate design, performance standards for Palo Verde nuclear generating system
1983	1835	NM	New Mexico Public Service Commission	Public Service Co. of NM	Rate design.
1984	1848	NM	New Mexico Public Service Commission	Sangre de Cristo Water Co.	Rate design.
02/85	1906	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
09/85	1907	NM	New Mexico Public Service Commission	Jomada Water Co.	Rate of return.
11/85	1957	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
04/86	2009	NM	New Mexico Public Service Commission	El Paso Electric Co.	Phase-in plan, treatment of sale/leaseback expense.
06/86	2032	NM	New Mexico Public Service Commission	El Paso Electric Co.	Sale/leaseback approval.
09/86	2033	NM	New Mexico Public Service Commission	El Paso Electric Co.	Order to show cause, PVNGS audit.
02/87	2074	NM	New Mexico Public Service Commission	El Paso Electric Co.	Diversification.
05/87	2089	NM	New Mexico Public Service Commission	El Paso Electric Co.	Fuel factor adjustment.
08/87	2092	NM	New Mexico Public Service Commission	El Paso Electric Co.	Rate design.
10/87	2146	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Financial effects of restructuring, reorganization.
07/88	2162	NM	New Mexico Public Service Commission	El Paso Electric Co.	Revenue requirements, rate design, rate of return.

**Expert Testimony Appearances
 of
 Richard A. Baudino
 As of June 2012**

Date	Case	Jurisdic.	Party	Utility	Subject
01/89	2194	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Economic development.
1/89	2253	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Financing.
08/89	2259	NM	New Mexico Public Service Commission	Homestead Water Co.	Rate of return, rate design.
10/89	2262	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Rate of return.
09/89	2269	NM	New Mexico Public Service Commission	Ruidoso Natural Gas Co.	Rate of return, expense from affiliated interest.
12/89	89-208-TF	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Rider M-33.
01/90	U-17282	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
09/90	90-158	KY	Kentucky Industrial Utility Consumers	Louisville Gas & Electric Co.	Cost of equity.
09/90	90-004-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Cost of equity, transportation rate.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
04/91	91-037-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Transportation rates.
12/91	91-410-EL-AIR	OH	Air Products & Chemicals, Inc., Amco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Cost of equity.
05/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Cost of equity, rate of return.
09/92	92-032-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost of equity, rate of return, cost-of-service.
09/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost of equity, rate of return.

**Expert Testimony Appearances
 of
 Richard A. Baudino
 As of June 2012**

Date	Case	Jurisdct.	Party	Utility	Subject
09/92	92-009-U	AR	Tyson Foods	General Waterworks	Cost allocation, rate design.
01/93	92-346	KY	Newport Steel Co.	Union Light, Heat & Power Co.	Cost allocation.
01/93	39498	IN	PSI Industrial Group	PSI Energy	Refund allocation.
01/93	U-10105	MI	Association of Businesses Advocating Tariff Equality (ABATE)	Michigan Consolidated Gas Co.	Return on equity.
04/93	92-1464-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Return on equity.
09/93	93-189-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Transportation service terms and conditions.
09/93	93-081-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost-of-service, transportation rates, rate supplements; return on equity; revenue requirements.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Historical reviews; evaluation of economic studies.
03/94	10320	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Trimble County CWIP revenue refund.
4/94	E-015/GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Evaluation of the cost of equity, capital structure, and rate of return.
5/94	R-00942993	PA	PG&W Industrial Intervenors	Pennsylvania Gas & Water Co.	Analysis of recovery of transition costs.
5/94	R-00943001	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Evaluation of cost allocation, rate design, rate plan, and carrying charge proposals.

**Expert Testimony Appearances
 of
 Richard A. Baudino
 As of June 2012**

Date	Case	Jurisdic.	Party	Utility	Subject
7/94	R-00942986	PA	Armco, Inc., West Penn Power Industrial Intervenors	West Penn Power Co.	Return on equity and rate of return.
7/94	94-0035- E-42T	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Return on equity and rate of return.
8/94	8652	MD	Westvaco Corp.	Potomac Edison Co.	Return on equity and rate of return.
9/94	930357-C	AR	West Central Arkansas Gas Consumers	Arkansas Oklahoma Gas Corp.	Evaluation of transportation service.
9/94	U-19904	LA	Louisiana Public Service Commission	Gulf States Utilities	Return on equity.
9/94	8629	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Transition costs.
11/94	94-175-U	AR	Arkansas Gas Consumers	Arkla, Inc.	Cost-of-service, rate design, rate of return.
3/95	RP94-343- 000	FERC	Arkansas Gas Consumers	NorAm Gas Transmission	Rate of return.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Return on equity.
6/95	U-10755	MI	Association of Businesses Advocating Tariff Equity	Consumers Power Co.	Revenue requirements.
7/95	8697	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Cost allocation and rate design.
8/95	95-254-TF U-2811	AR	Tyson Foods, Inc.	Southwest Arkansas Electric Cooperative	Refund allocation.
10/95	ER95-1042 -000	FERC	Louisiana Public Service Commission	Systems Energy Resources, Inc.	Return on Equity.
11/95	1-940032	PA	Industrial Energy Consumers of Pennsylvania	State-wide - all utilities	Investigation into Electric Power Competition.
5/96	96-030-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Revenue requirements, rate of return and cost of service.

**Expert Testimony Appearances
 of
 Richard A. Baudino
 As of June 2012**

Date	Case	Jurisdic.	Party	Utility	Subject
7/96	8725	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Return on Equity.
7/96	U-21496	LA	Louisiana Public Service Commission	Central Louisiana Electric Co.	Return on equity, rate of return.
9/96	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
1/97	RP96-199-000	FERC	The Industrial Gas Users Conference	Mississippi River Transmission Corp.	Revenue requirements, rate of return and cost of service.
3/97	96-420-U	AR	West Central Arkansas Gas Corp.	Arkansas Oklahoma Gas Corp.	Revenue requirements, rate of return, cost of service and rate design.
7/97	U-11220	MI	Association of Business Advocating Tariff Equity	Michigan Gas Co. and Southeastern Michigan Gas Co.	Transportation Balancing Provisions
7/97	R-00973944	PA	Pennsylvania American Water Large Users Group	Pennsylvania-American Water Co.	Rate of return, cost of service, revenue requirements.
3/98	8390-U	GA	Georgia Natural Gas Group and the Georgia Textile Manufacturers Assoc.	Atlanta Gas Light	Rate of return, restructuring issues, unbundling, rate design issues.
7/98	R-00984280	PA	PG Energy, Inc.	PGE Industrial Intervenors	Cost allocation.
8/98	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Return on equity, rate of return.
10/98	U-23327	LA	Louisiana Public Service Commission	SWEPCO, CSW and AEP	Analysis of proposed merger.
12/98	98-577	ME	Maine Office of the Public Advocate	Maine Public Service Co.	Return on equity, rate of return.
12/98	U-23358	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity, rate of return.

**Expert Testimony Appearances
 of
 Richard A. Baudino
 As of June 2012**

Date	Case	Jurisdct.	Party	Utility	Subject
3/99	98-426	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co	Return on equity.
3/99	99-082	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Return on equity.
4/99	R-984554	PA	T. W. Phillips Users Group	T. W. Phillips Gas and Oil Co.	Allocation of purchased gas costs.
6/99	R-0099462	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Balancing charges.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Cost of debt.
10/99	R-00994782	PA	Peoples Industrial Intervenors	Peoples Natural Gas Co.	Restructuring issues.
10/99	R-00994781	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate flexing, alternate fuel.
01/00	R-00994786	PA	UGI Industrial Intervenors	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity assignment.
01/00	8829	MD	Maryland Industrial Gr. & United States	Baltimore Gas & Electric Co.	Revenue requirements, cost allocation, rate design.
02/00	R-00994788	PA	Penn Fuel Transportation	PFG Gas, Inc., and	Tariff charges, balancing provisions.
05/00	U-17735	LA	Louisiana Public Service Comm.	Louisiana Electric Cooperative	Rate restructuring.
07/00	2000-080	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric Co.	Cost allocation.
07/00	U-21453 U-20925 (SC), U-22092 (SC) (Subdocket E)	LA	Louisiana Public Service Comm.	Southwestern Electric Power Co.	Stranded cost analysis.
09/00	R-00005654	PA	Philadelphia Industrial And Commercial Gas Users Group.	Philadelphia Gas Works	Interim relief analysis.
10/00	U-21453 U-20925 (SC), U-22092 (SC) (Subdocket B)	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring, Business Separation Plan.

**Expert Testimony Appearances
 of
 Richard A. Baudino
 As of June 2012**

Date	Case	Jurisdct.	Party	Utility	Subject
11/00	R-00005277 PA (Rebuttal)		Penn Fuel Transportation Customers	PFG Gas, Inc. and North Penn Gas Co.	Cost allocation issues.
12/00	U-24993	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.
03/01	U-22092	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Stranded cost analysis.
04/01	U-21453 LA U-20925 (SC), U-22092 (SC) (Subdocket B) (Addressing Contested Issues)		Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring issues.
04/01	R-00006042 PA		Philadelphia Industrial and Commercial Gas Users Group	Philadelphia Gas Works	Revenue requirements, cost allocation and tariff issues.
11/01	U-25687	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.
03/02	14311-U	GA	Georgia Public Service Commission	Atlanta Gas Light	Capital structure.
08/02	2002-00145	KY	Kentucky Industrial Utility Customers	Columbia Gas of Kentucky	Revenue requirements.
09/02	M-00021612	PA	Philadelphia Industrial And Commercial Gas Users Group	Philadelphia Gas Works	Transportation rates, terms, and conditions.
01/03	2002-00169	KY	Kentucky Industrial Utility Customers	Kentucky Power	Return on equity.
02/03	02S-594E	CO	Cripple Creek & Victor Gold Mining Company	Aquila Networks – WPC	Return on equity.
04/03	U-26527	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
10/03	CV020495AB	GA	The Landings Assn., Inc.	Utilities Inc. of GA	Revenue requirement & overcharge refund
03/04	2003-00433	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric	Return on equity, Cost allocation & rate design

**Expert Testimony Appearances
 of
 Richard A. Baudino
 As of June 2012**

Date	Case	Jurisdic.	Party	Utility	Subject
03/04	2003-00434	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Return on equity
4/04	04S-035E	CO	Cripple Creek & Victor Gold Mining Company, Goodrich Corp., Holcim (U.S.) Inc., and The Trane Co.	Aquila Networks – WPC	Return on equity.
9/04	U-23327, Subdocket B	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Fuel cost review
10/04	U-23327 Subdocket A	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Return on Equity
06/05	050045-EI	FL	South Florida Hospital and HealthCare Assoc.	Florida Power & Light Co.	Return on equity
08/05	9036	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Revenue requirement, cost allocation, rate design, Tariff issues.
01/06	2005-0034	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Return on equity.
03/06	05-1278-E-PC-PW-42T	WV	West Virginia Energy Users Group	Appalachian Power Company	Return on equity.
04/06	U-25116	LA	Louisiana Public Service Commission	Entergy Louisiana, LLC	Transmission Issues
07/06	U-23327	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Return on equity, Service quality
08/06	ER-2006-0314	MO	Missouri Office of the Public Counsel	Kansas City Power & Light Co.	Return on equity, Weighted cost of capital
08/06	06S-234EG	CO	CF&I Steel, L.P. & Climax Molybdenum	Public Service Company of Colorado	Return on equity, Weighted cost of capital
01/07	06-0960-E-42T	WV	West Virginia Energy Users Group	Monongahela Power & Potomac Edison	Return on Equity
01/07	43112		AK Steel, Inc.	Vectren South, Inc.	Cost allocation, rate design
05/07	2006-661		Maine Office of the Public Advocate	Bangor Hydro-Electric	Return on equity, weighted cost of capital.
09/07	07-07-01		Connecticut Industrial Energy Consumers	Connecticut Light & Power	Return on equity, weighted cost of capital

**Expert Testimony Appearances
 of
 Richard A. Baudino
 As of June 2012**

Date	Case	Jurisdct.	Party	Utility	Subject
10/07	05-UR-103		Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Co.	Return on equity
11/07	29797		Louisiana Public Service Commission	Cleco Power LLC & Southwestern Elec. Power	Lignite Pricing, support of settlement
01/08	07-551-EL-AIR		Ohio Energy Group	Ohio Edison, Cleveland Electric, Toledo Edison	Return on equity
03/08	07-0585, 07-0585, 07-0587, 07-0588, 07-0589, 07-0590, (consol.)	IL	The Commercial Group	Ameren	Cost allocation, rate design
04/08	07-0566	IL	The Commercial Group	Commonwealth Edison	Cost allocation, rate design
06/08	R-2008-2011621	PA	Columbia Industrial Intervenors	Columbia Gas of PA	Cost and revenue allocation, Tariff issues
07/08	R-2008-2028394	PA	Philadelphia Area Industrial Energy users Group	PECO Energy	Cost and revenue allocation, Tariff issues
07/08	R-2008-2039634	PA	PPL Gas Large Users Gp.	PPL Gas	Retainage, LUFPG Pct.
08/08	6680-UR-116	WI	Wisconsin Industrial Energy Group	Wisconsin P&L	Cost of Equity
08/08	6690-UR-119	WI	Wisconsin Industrial Energy Group	Wisconsin PS	Cost of Equity
09/08	ER-2008-0318	MO	The Commercial Group	AmerenUE	Cost and revenue allocation
10/08	R-2008-2029325	PA	U.S. Steel & Univ. of Pittsburgh Med. Ctr.	Equitable Gas Co.	Cost and revenue allocation
10/08	08-G-0609	NY	Multiple Intervenors	Niagara Mohawk Power	Cost and Revenue allocation

**Expert Testimony Appearances
 of
 Richard A. Baudino
 As of June 2012**

Date	Case	Jurisdct.	Party	Utility	Subject
12/08	27800-U	GA	Georgia Public Service Commission	Georgia Power Company	CWIP/AFUDC issues, Review financial projections
03/09	ER08-1056	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Capital Structure
04/09	E002/GR-08-1065		The Commercial Group	Northern States Power	Cost and revenue allocation and rate design
05/09	08-0532		The Commercial Group	Commonwealth Edison	Cost and revenue allocation
07/09	080677-EI		South Florida Hospital and Health Care Assn.	Florida Power & Light	Cost of equity, capital structure, Cost of short-term debt
07/09	U-30975	LA	Louisiana PSC	Cleco LLC, Southwestern Public Service Co.	Lignite mine purchase
10/09	4220-UR-116 WI		Wisconsin Industrial Energy Group	Northern States Power	Class cost of service, rate design
10/09	M-2009-2123945	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Smart Meter Plan cost allocation
10/09	M-2009-2123944	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Company	Smart Meter Plan cost allocation
10/09	M-2009-2123951	PA	West Penn Power Industrial Intervenors	West Penn Power	Smart Meter Plan cost allocation
11/09	M-2009-2123948	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Smart Meter Plan cost allocation
11/09	M-2009-2123950	PA	Met-Ed Industrial Users Gp. Penelec Industrial Customer Alliance, Penn Power Users Group	Metropolitan Edison, Pennsylvania Electric Co., Pennsylvania Power Co.	Smart Meter Plan cost allocation
03/10	09-1352-E-42T	WV	West Virginia Energy Users Gp.	Monongahela Power, Potomac Edison	Return on equity, rate of return
03/10	E015/GR-09-1151	MN	Large Power Intervenors	Minnesota Power	Return on equity, rate of return
04/10	2009-00459	KY	Kentucky Industrial Utility Consumers	Kentucky Power	Return on equity

**Expert Testimony Appearances
 of
 Richard A. Baudino
 As of June 2012**

Date	Case	Jurisdct.	Party	Utility	Subject
04/10	2009-00548 2009-00549	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity
05/10	10-0261-E-GI	WV	West Virginia Energy Users Group	Appalachian Power Co./ Wheeling Power Co.	EE/DR Cost Recovery, Allocation, & Rate Design
05/10	R-2009-2149262	PA	Columbia Industrial Intervenors	Columbia Gas of PA	Class cost of service & cost allocation
06/10	2010-00036	KY	Lexington-Fayette Urban County Government	Kentucky American Water Company	Return on equity, rate of return, revenue requirements
06/10	R-2010-2161694	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Rate design, cost allocation
07/10	R-2010-2161575	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Return on equity
07/10	R-2010-2161592	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Cost and revenue allocation
07/10	9230	MD	Maryland Energy Group	Baltimore Gas and Electric	Electric and gas cost and revenue allocation; return on equity
09/10	10-70	MA	University of Massachusetts-Amherst	Western Massachusetts Electric Co.	Cost allocation and rate design
10/10	R-2010-2179522	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Cost and revenue allocation, rate design
11/10	P-2010-2158084	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Transmission rate design
11/10	10-0699-E-42T	WV	West Virginia Energy Users Group	Appalachian Power Co. & Wheeling Power Co.	Return on equity, rate of Return
11/10	10-0467	IL	The Commercial Group	Commonwealth Edison	Cost and revenue allocation and rate design
04/11	R-2010-2214415	PA	Central Pen Gas Large Users Group	UGI Central Penn Gas, Inc.	Tariff issues, revenue allocation
07/11	R-2011-2239263	PA	Philadelphia Area Energy Users Group	PECO Energy	Retainage rate
08/11	R-2011-2232243	PA	AK Steel	Pennsylvania-American Water Company	Rate Design
08/11	11AL-151G	CO	Climax Molybdenum	PS of Colorado	Cost allocation
09/11	11-G-0280	NY	Multiple Intervenors	Coming Natural Gas Co.	Cost and revenue allocation

**Expert Testimony Appearances
of
Richard A. Baudino
As of June 2012**

Date	Case	Jurisdct.	Party	Utility	Subject
10/11	4220-UR-117WI		Wisconsin Industrial Energy Gp.	Northern States Power	Cost and revenue allocation, rate design
02/12	11AL-947E	CO	Climax Molybdenum, CF&I Steel	Public Svc. Of Colorado	Return on equity, wtd. cost of capital
07/12	120015-EI	FL	South Florida Hospitals and Health Care Assn.	Florida Power and Light Co,	Return on equity, wtd. cost of capital

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE:

PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)

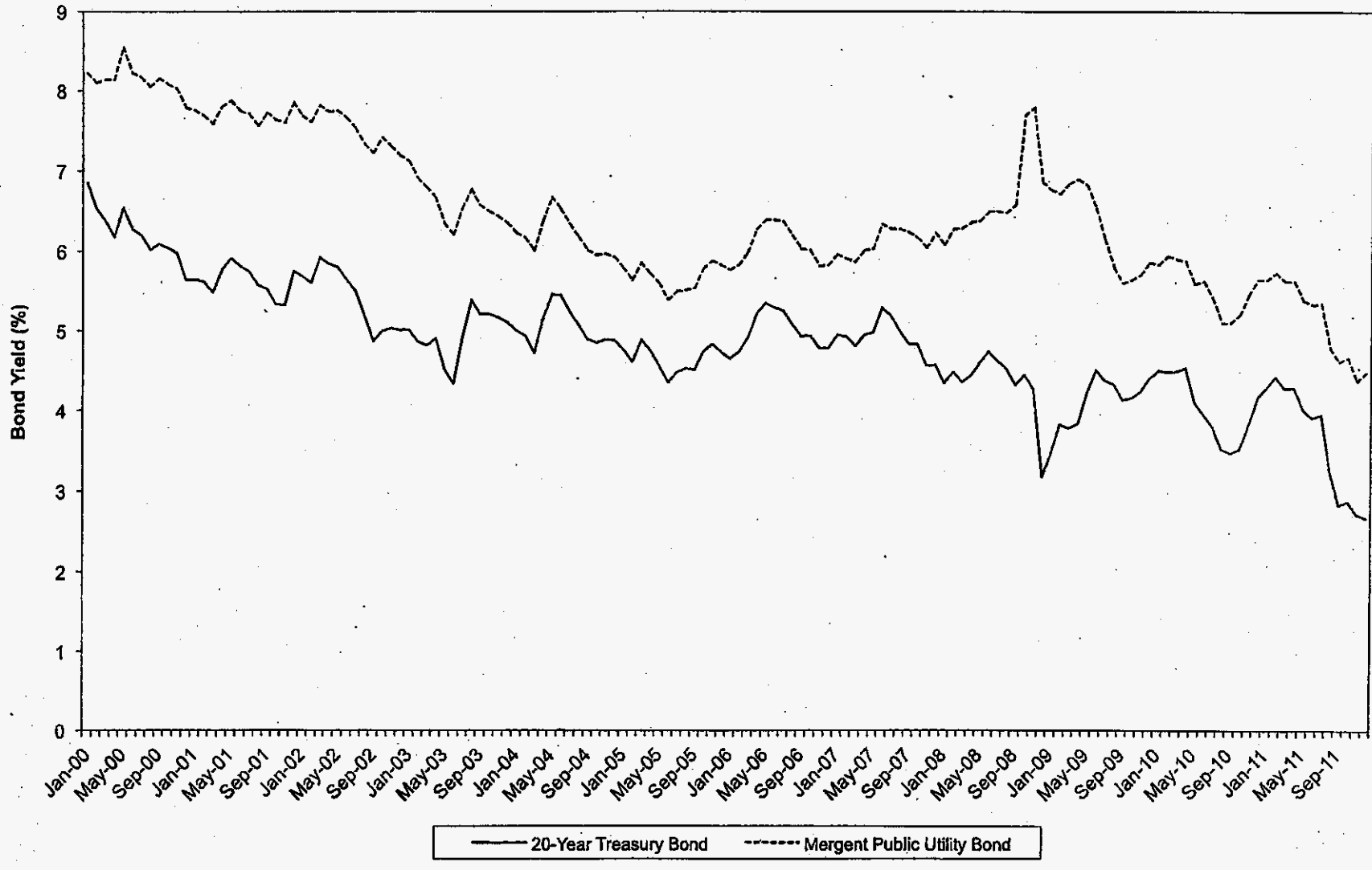
EXHIBIT __ (RAB-2)
OF
RICHARD A. BAUDINO

ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

July 2012

HISTORICAL BOND YIELDS AVERAGE PUBLIC UTILITY BOND VS 20-YEAR TREASURY BOND



BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE:

PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)

EXHIBIT __ (RAB-3)
OF
RICHARD A. BAUDINO

ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

July 2012

**FLORIDA POWER AND LIGHT COMPANY
 COMPARISON GROUP
 AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD**

		May-12	Apr-12	Mar-12	Feb-12	Jan-12	Dec-11
Alliant Energy	High Price (\$)	45.670	45.380	43.760	44.000	44.570	44.490
	Low Price (\$)	43.000	42.000	42.100	42.010	41.860	41.290
	Avg. Price (\$)	44.335	43.690	42.930	43.005	43.215	42.890
	Dividend (\$)	0.450	0.450	0.450	0.450	0.450	0.425
	Mo. Avg. Div.	4.06%	4.12%	4.19%	4.19%	4.17%	3.96%
	6 mos. Avg.	4.11%					
Consolidated Edison	High Price (\$)	60.650	59.500	59.500	59.510	62.260	62.740
	Low Price (\$)	58.350	57.010	56.990	57.460	57.590	58.260
	Avg. Price (\$)	59.500	58.255	58.245	58.485	59.925	60.500
	Dividend (\$)	0.605	0.605	0.605	0.605	0.600	0.600
	Mo. Avg. Div.	4.07%	4.15%	4.15%	4.14%	4.01%	3.97%
	6 mos. Avg.	4.08%					
DTE Energy Co.	High Price (\$)	57.380	56.780	56.520	55.060	55.040	55.280
	Low Price (\$)	54.950	53.700	53.590	52.760	52.460	51.310
	Avg. Price (\$)	56.165	55.240	55.055	53.910	53.750	53.295
	Dividend (\$)	0.588	0.588	0.588	0.588	0.588	0.588
	Mo. Avg. Div.	4.19%	4.26%	4.27%	4.36%	4.38%	4.41%
	6 mos. Avg.	4.31%					
IDACORP	High Price (\$)	41.030	41.550	41.570	42.850	42.890	42.660
	Low Price (\$)	38.170	39.000	39.660	40.460	40.880	39.830
	Avg. Price (\$)	39.600	40.275	40.615	41.655	41.885	41.245
	Dividend (\$)	0.330	0.330	0.330	0.330	0.300	0.300
	Mo. Avg. Div.	3.33%	3.28%	3.25%	3.17%	2.86%	2.91%
	6 mos. Avg.	3.13%					
MGE Energy	High Price (\$)	46.490	46.010	45.930	46.670	47.230	47.850
	Low Price (\$)	44.290	43.100	43.030	43.860	43.590	43.520
	Avg. Price (\$)	45.390	44.555	44.480	45.265	45.410	45.685
	Dividend (\$)	0.383	0.383	0.383	0.383	0.383	0.383
	Mo. Avg. Div.	3.38%	3.44%	3.44%	3.38%	3.37%	3.35%
	6 mos. Avg.	3.39%					
NextEra Energy	High Price (\$)	66.000	64.850	61.210	61.000	61.160	61.200
	Low Price (\$)	62.620	61.200	59.190	59.100	58.570	55.340
	Avg. Price (\$)	64.310	63.025	60.200	60.050	59.865	58.270
	Dividend (\$)	0.600	0.600	0.600	0.600	0.550	0.550
	Mo. Avg. Div.	3.73%	3.81%	3.99%	4.00%	3.67%	3.78%
	6 mos. Avg.	3.83%					

**FLORIDA POWER AND LIGHT COMPANY
 COMPARISON GROUP
 AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD**

		May-12	Apr-12	Mar-12	Feb-12	Jan-12	Dec-11
Pepco Holdings	High Price (\$)	19.190	18.980	19.740	20.240	20.480	20.640
	Low Price (\$)	18.470	18.140	18.630	19.350	19.500	19.020
	Avg. Price (\$)	18.830	18.560	19.185	19.795	19.990	19.830
	Dividend (\$)	0.270	0.270	0.270	0.270	0.270	0.270
	Mo. Avg. Div.	5.74%	5.82%	5.63%	5.46%	5.40%	5.45%
	6 mos. Avg.	5.58%					
Portland General Electric	High Price (\$)	26.030	25.860	25.470	25.440	25.620	25.540
	Low Price (\$)	24.260	24.250	24.290	24.540	24.290	24.260
	Avg. Price (\$)	25.145	25.055	24.880	24.990	24.955	24.900
	Dividend (\$)	0.265	0.265	0.265	0.265	0.265	0.265
	Mo. Avg. Div.	4.22%	4.23%	4.26%	4.24%	4.25%	4.26%
	6 mos. Avg.	4.24%					
SCANA Corp.	High Price (\$)	47.220	46.250	46.120	45.850	45.580	45.480
	Low Price (\$)	45.320	43.320	43.770	44.150	43.560	42.280
	Avg. Price (\$)	46.270	44.785	44.945	45.000	44.570	43.880
	Dividend (\$)	0.495	0.495	0.495	0.485	0.485	0.485
	Mo. Avg. Div.	4.28%	4.42%	4.41%	4.31%	4.35%	4.42%
	6 mos. Avg.	4.37%					
Southern Co.	High Price (\$)	46.300	46.000	45.500	45.680	46.060	46.690
	Low Price (\$)	44.950	44.220	43.710	43.850	44.330	43.740
	Avg. Price (\$)	45.625	45.110	44.605	44.765	45.195	45.215
	Dividend (\$)	0.490	0.473	0.473	0.473	0.473	0.473
	Mo. Avg. Div.	4.30%	4.19%	4.24%	4.23%	4.19%	4.18%
	6 mos. Avg.	4.22%					
Wisconsin Energy	High Price (\$)	37.970	36.840	35.350	35.050	35.350	35.380
	Low Price (\$)	36.140	34.540	33.720	33.910	33.620	32.400
	Avg. Price (\$)	37.055	35.690	34.535	34.480	34.485	33.890
	Dividend (\$)	0.300	0.300	0.300	0.300	0.260	0.260
	Mo. Avg. Div.	3.24%	3.36%	3.47%	3.48%	3.02%	3.07%
	6 mos. Avg.	3.27%					
Xcel	High Price (\$)	28.120	27.130	27.250	26.810	27.930	27.780
	Low Price (\$)	26.750	25.890	25.920	26.130	26.160	25.590
	Avg. Price (\$)	27.435	26.510	26.585	26.470	27.045	26.685
	Dividend (\$)	0.260	0.260	0.260	0.260	0.260	0.260
	Mo. Avg. Div.	3.79%	3.92%	3.91%	3.93%	3.85%	3.90%
	6 mos. Avg.	3.88%					
Six-month Average Dividend Yield		4.04%					
Monthly Average Dividend Yield		4.03%	4.08%	4.10%	4.07%	3.96%	3.97%

Source: Yahoo! Finance

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE:

PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)

EXHIBIT __ (RAB-4)
OF
RICHARD A. BAUDINO

ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

July 2012

**FLORIDA POWER AND LIGHT COMPANY
 COMPARISON GROUP
 DCF Growth Rate Analysis**

<u>Company</u>	(1) <u>Value Line</u> <u>DPS</u>	(2) <u>Value Line</u> <u>EPS</u>	(3) <u>Value Line</u> <u>B x R</u>	(4) <u>Zacks</u>	(5) <u>Thomson</u> <u>Financial</u>
Alliant Energy Corporation	5.50%	6.00%	3.50%	6.15%	6.30%
Consolidated Edison, Inc.	1.00%	4.00%	4.00%	3.57%	3.14%
DTE Energy Company	3.50%	4.00%	3.50%	5.00%	4.30%
IDACORP, Inc.	8.00%	3.00%	4.00%	5.00%	4.00%
MGE Energy, Inc.	3.50%	4.50%	2.50%	4.00%	4.00%
NextEra Energy	8.00%	5.00%	6.00%	5.70%	5.24%
Pepco Holdings, Inc.	1.00%	7.00%	2.50%	3.42%	4.85%
Portland General Electric	3.50%	5.50%	4.00%	4.10%	3.67%
SCANA Corporation	2.00%	4.00%	4.00%	4.50%	4.50%
Southern Company	4.00%	5.00%	4.00%	5.04%	5.58%
Wisconsin Energy Corporation	13.50%	6.50%	5.50%	5.28%	5.35%
Xcel Energy Inc.	5.00%	6.00%	3.50%	4.86%	5.27%
Averages excluding negative values	4.88%	5.04%	3.92%	4.72%	4.68%
Median Values	3.75%	5.00%	4.00%	4.93%	4.68%

**Sources: Zack's and Thomson Financial Earnings Reports retrieved June 21, 2012
 Value Line Investment Survey reports dated May 4, May 23, and June 22, 2012**

**RETURN ON EQUITY CALCULATION
 FLORIDA POWER AND LIGHT COMPANY**

	(1) Value Line Dividend Gr.	(2) Value Line Earnings Gr.	(3) Zack's Earning Gr.	(4) First Call Earning Gr.	(5) Average of All Gr. Rates
Method 1:					
Dividend Yield	4.04%	4.04%	4.04%	4.04%	4.04%
Growth Rate	4.88%	5.04%	4.72%	4.68%	4.83%
Expected Div. Yield	<u>4.13%</u>	<u>4.14%</u>	<u>4.13%</u>	<u>4.13%</u>	<u>4.13%</u>
DCF Return on Equity	9.01%	9.18%	8.85%	8.81%	8.96%
Midpoint of Results					9.00%
Method 2:					
Dividend Yield	4.04%	4.04%	4.04%	4.04%	4.04%
Median Growth Rate	3.75%	5.00%	4.93%	4.68%	4.59%
Expected Div. Yield	<u>4.11%</u>	<u>4.14%</u>	<u>4.14%</u>	<u>4.13%</u>	<u>4.13%</u>
DCF Return on Equity	7.86%	9.14%	9.07%	8.81%	8.72%
Midpoint of Results					8.50%

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE:

PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)

EXHIBIT __ (RAB-5)

OF

RICHARD A. BAUDINO

ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

July 2012

**FLORIDA POWER AND LIGHT COMPANY
 Capital Asset Pricing Model Analysis
 Comparison Group**

20-Year Treasury Bond, Value Line Beta

<u>Line No.</u>		<u>Value Line</u>
1	Market Required Return Estimate	
2	Expected Dividend Yield	0.65%
3	Expected Growth (Exh RAB-5 at p.2, ln. 11 "Average")	<u>10.74%</u>
4	Required Return (line 2 plus line 3)	11.39%
5	Risk-free Rate of Return, 20-Year Treasury Bond	
6	Average of Last Six Months (Exh RAB-5 at p.2, ln. 7, col. "20 Year Treasury Bond Data")	2.74%
8	Risk Premium	
9	@ 6 Month Average RFR (Line 4 minus Line 6)	8.65%
10	Comparison Group Beta (Exh. RAB-5 at p. 2, ln. 20 "Average")	0.68
11	Comparison Group Beta * Risk Premium	
12	@ 6 Month Average RFR (Line 10 * Line 9)	5.91%
13	CAPM Return on Equity	
14	@ 6 Month Average RFR (Line 12 plus Line 6)	8.65%

5-Year Treasury Bond, Value Line Beta

15	Market Required Return Estimate	
16	Expected Dividend Yield	0.65%
17	Expected Growth	<u>10.74%</u>
18	Required Return	11.39%
19	Risk-free Rate of Return, 5-Year Treasury Bond	
20	Average of Last Six Months	0.87%
21	Risk Premium	
22	@ 6 Month Average RFR (Line 18 minus Line 20)	10.52%
23	Comparison Group Beta (Exh. RAB-5 at p. 2, ln. 20 "Average")	0.68
24	Comparison Group Beta * Risk Premium	
25	@ 6 Month Average RFR (Line 23 * Line 22)	7.19%
26	CAPM Return on Equity	
27	@ 6 Month Average RFR (Line 25 plus Line 20)	8.06%

**FLORIDA POWER AND LIGHT COMPANY
 Capital Asset Pricing Model Analysis
 Comparison Group**

Supporting Data for CAPM Analyses

Line No.	<u>20 Year Treasury Bond Data</u>	<u>5 Year Treasury Bond Data</u>	<u>Value Line Market Growth Rate Data:</u>	<u>Comparison Group Betas:</u>	<u>Value Line</u>
		<u>Avg. Yield</u>			
					<u>Avg. Yield</u>
1	December-11	2.67%		December-11	0.89%
2	January-12	2.70%		January-12	0.84%
3	February-12	2.75%		February-12	0.83%
4	March-12	2.94%		March-12	1.02%
5	April-12	2.82%		April-12	0.89%
6	May-12	<u>2.53%</u>		May-12	<u>0.76%</u>
7	6 month average	2.74%		6 month average	0.87%
			<u>Forecasted Data:</u>		
8	Earnings	12.96%		Alliant Energy Corporation	0.75
9	Book Value	8.51%		Consolidated Edison, Inc.	0.60
10				DTE Energy Company	0.75
11	Average	10.74%		IDACORP, Inc.	0.70
12				MGE Energy, Inc.	0.60
13	Source: Value Line Investment Survey			Nextera Energy	0.75
14	for Windows, June 6, 2012			Pepco Holdings, Inc.	0.75
15				Portland General Electric	0.75
16				SCANA Corporation	0.70
17				Southern Company	0.55
18				Wisconsin Energy Corporation	0.65
19				Xcel Energy Inc.	<u>0.65</u>
20				Average	0.68

Sources: Value Line reports

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE:

PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)

EXHIBIT__ (RAB-6)
OF
RICHARD A. BAUDINO

ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

July 2012

FLORIDA POWER AND LIGHT COMPANY
Capital Asset Pricing Model Analysis
Historic Market Premium

<u>Line No.</u>	<u>Geometric Mean</u>	<u>Arithmetic Mean</u>
1 Long-Term Annual Return on Stocks	9.80%	11.80%
2 Long-Term Annual Income Return on Long-Term Government Bonds	<u>5.30%</u>	<u>5.30%</u>
3 Historical Market Risk Premium (line 1 minus line 2)	4.50%	6.50%
4 Comparison Group Beta, Value Line (Exh. RAB-5 at p.2, ln. 20, col. "Comparison Group Betas")	<u>0.68</u>	<u>0.68</u>
5 Beta * Market Premium (line 3 times line 4)	3.08%	4.44%
6 Current 20-Year Treasury Bond Yield (Exh. RAB-5 at p.2, ln. 7, col. "20 Year Treasury Bond Data")	<u>2.74%</u>	<u>2.74%</u>
7 CAPM Cost of Equity, Value Line Beta (line 5 plus line 6)	<u>5.81%</u>	<u>7.18%</u>

Source: *Ibbotson S&P 2012 Classic Yearbook*, Morningstar

Note: Income return calculated by subtracting 0.4% capital appreciation from total return of 5.7%.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE:

PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)

EXHIBIT __ (RAB-7)
OF
RICHARD A. BAUDINO

ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

July 2012

avera utility proxy group growth rates

Company	Earnings Growth			br+sv Growth
	V Line	IBES	Zacks	
Alliant Energy	7.0%	4.9%	6.0%	5.6%
Consolidated Edison	3.0%	3.7%	3.3%	3.9%
Dominion Resources	4.5%	3.2%	5.0%	5.2%
Integrus Energy Group	9.0%	9.4%	4.5%	3.1%
ITC Holdings Corp.	14.0%	18.8%	16.5%	13.8%
NextEra Energy, Inc.	4.5%	5.8%	6.4%	6.4%
OGE Energy Corp.	6.5%	8.3%	6.8%	7.0%
PG&E Corp.	6.0%	1.4%	4.0%	6.0%
SCANA Corp.	3.0%	4.6%	4.2%	5.0%
Sempra Energy	3.5%	7.3%	7.0%	6.1%
Southern Company	6.0%	5.9%	5.1%	5.6%
Vectren Corp.	5.5%	6.0%	4.7%	3.9%
Wisconsin Energy	8.5%	7.8%	7.5%	4.7%
Xcel Energy, Inc.	5.0%	5.3%	5.1%	4.3%
Average	6.1%	6.6%	6.2%	5.8%
Median	5.8%	5.9%	5.1%	5.4%

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

IN RE:

PETITION FOR RATE INCREASE BY)	
FLORIDA POWER AND LIGHT)	DOCKET NO. 120015-EI
COMPANY)	

<p>EXHIBIT ___(RAB-8)</p> <p>OF</p> <p>RICHARD A. BAUDINO</p>
--

**ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION**

**J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA**

July 2012

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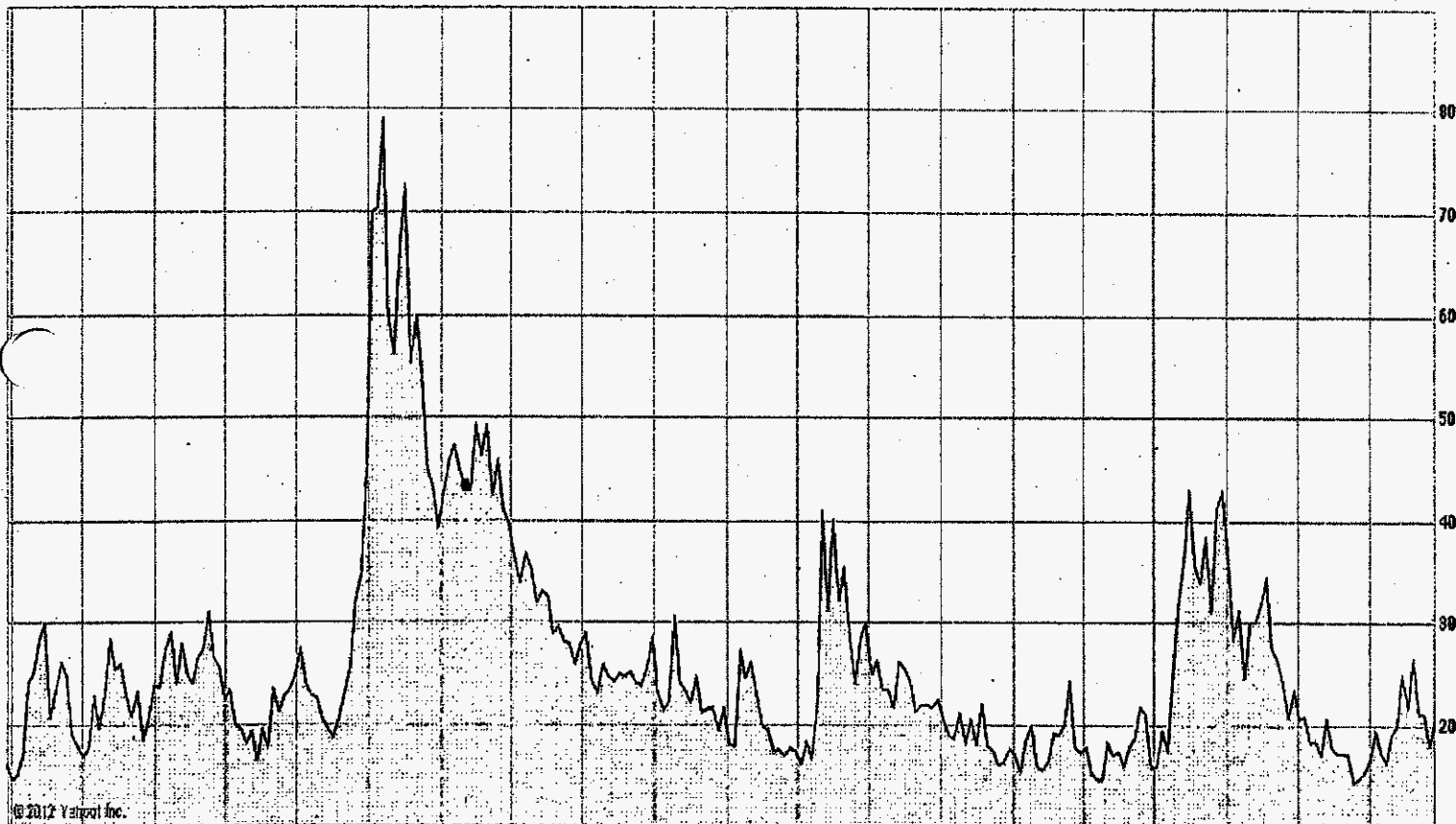
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**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

IN RE:

**PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)**

**EXHIBIT __ (RAB-9)
OF
RICHARD A. BAUDINO**

**ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION**

**J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA**

July 2012



Earnings Conference Call

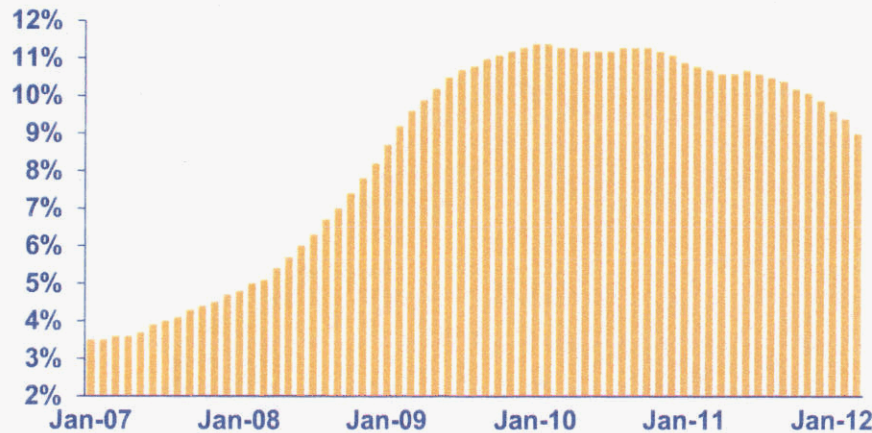
First Quarter 2012

April 25, 2012

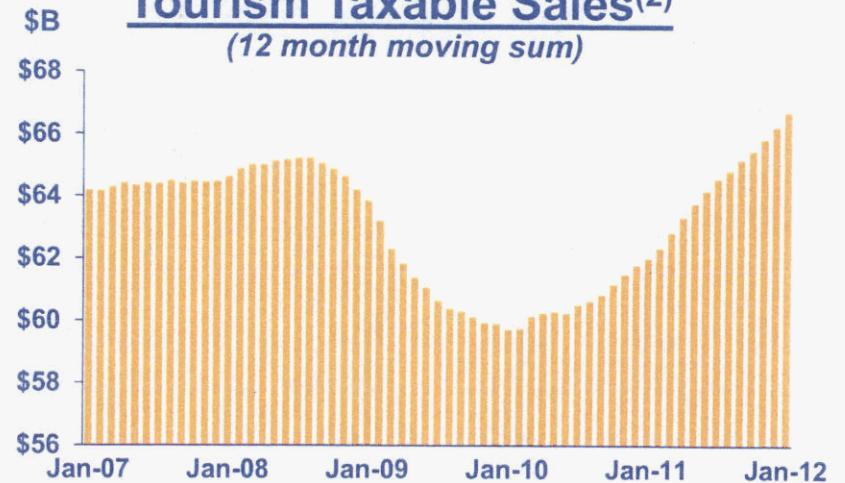
Trends in employment and housing affordability continue to be positive

Florida Economy

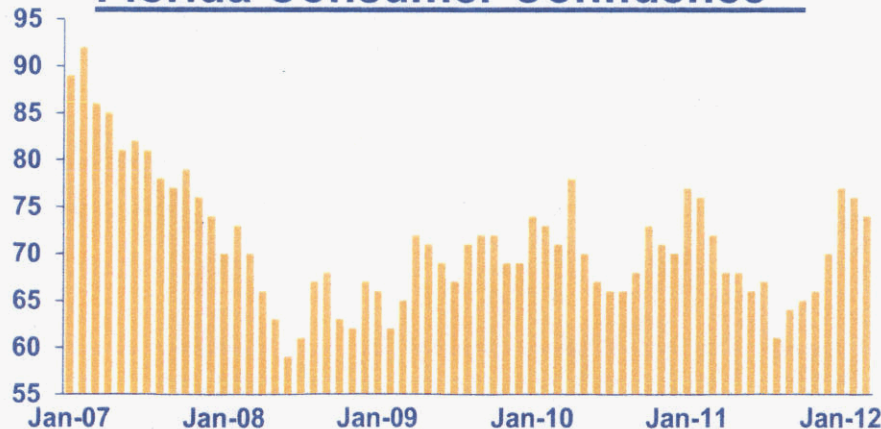
Florida Unemployment Rate⁽¹⁾



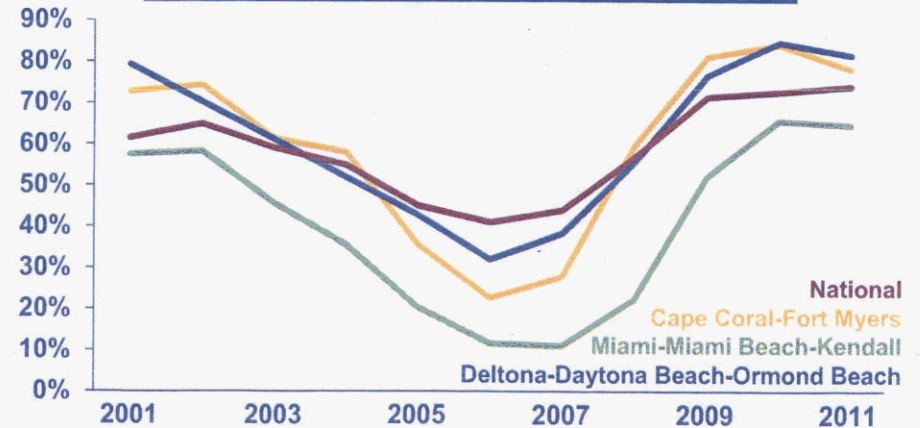
Tourism Taxable Sales⁽²⁾ (12 month moving sum)



Florida Consumer Confidence⁽³⁾



Housing Affordability Index⁽⁴⁾



6

- (1) Source: Bureau of Labor Statistics, through March 2012
- (2) Source: Office of Economic and Demographic Research, through January 2012
- (3) Source: UF Bureau of Economic and Business Research, through March 2012
- (4) NAHB/Wells Fargo. Housing affordability for Florida metropolitan areas and U.S.; based on % of new and existing homes that are affordable to those making the median income in the given area



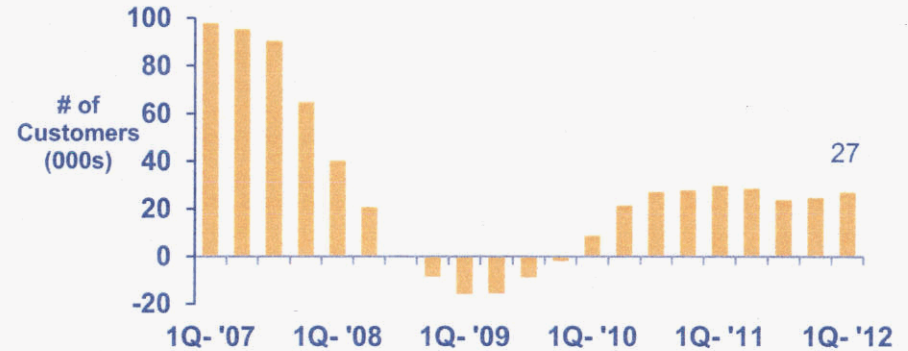
FPL's volume metrics continue to improve slowly

Customer Characteristics – First Quarter 2012

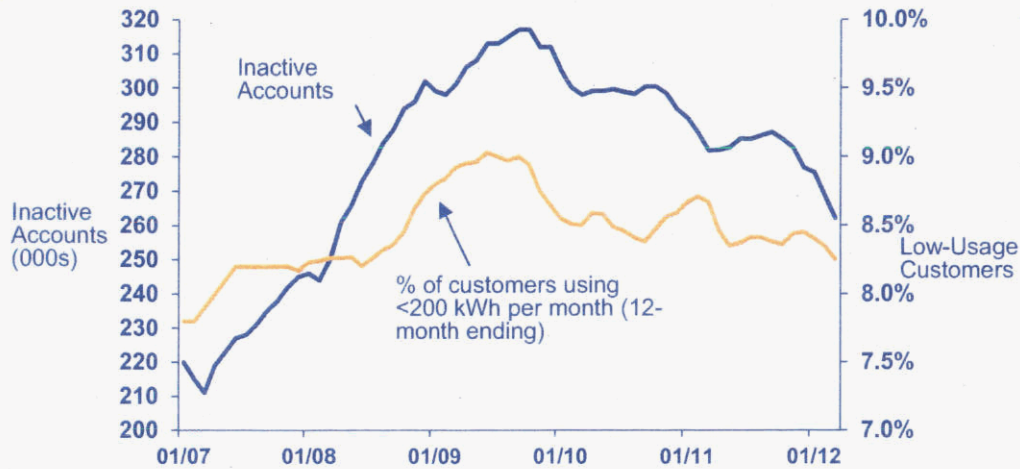
Retail kWh Sales (1)
(Change vs. prior-year quarter)

Customer Growth	0.6%
+ Usage Due to Weather	0.6%
+ Additional Leap Year Day	1.3%
+ Underlying Usage Growth, mix and Other	1.3%
= Retail Sales Growth	3.8%

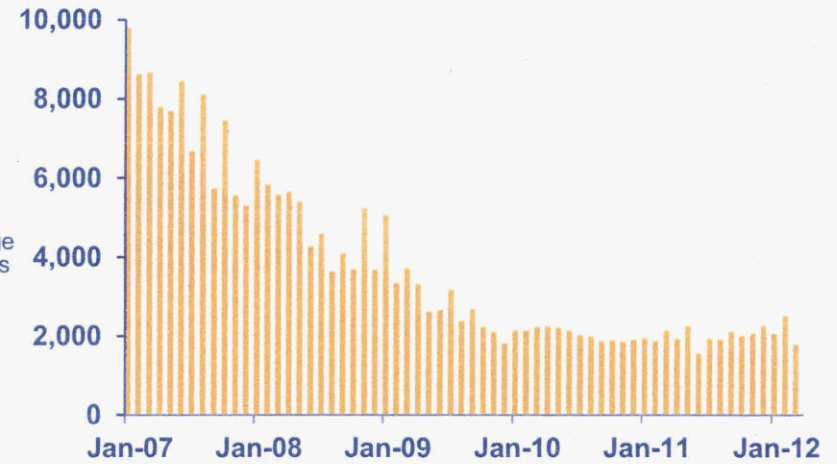
Customer Growth(2)
(Change vs. previous year)



Inactive and Low-Usage Customers



New Service Accounts(3)



7 (1) Retail sales results in the table exclude the impact of FPL's change from a fiscal month to a calendar month; actual retail sales increased 4.0%
 (2) Based on average number of customer accounts for the quarter
 (3) FPL data, through March 2012



**CONFERENCE CALL
FIRST QUARTER 2012 EARNINGS RELEASE
APRIL 25, 2012**

(1) FIRST QUARTER 2012 EARNINGS CONFERENCE CALL

Julie Holmes:

Thank you, Celia.

Good morning everyone, and welcome to our first quarter 2012 earnings conference call. Joining us this morning are Lew Hay, NextEra Energy's Chairman and Chief Executive Officer, Jim Robo, President and Chief Operating Officer of NextEra Energy, Moray Dewhurst, Vice Chairman and Chief Financial Officer of NextEra Energy, Eric Silagy, President of Florida Power & Light Company, and Armando Pimentel, President and Chief Executive Officer of NextEra Energy Resources, LLC. Moray will provide an overview of our results, following which our senior management team will be available to take your questions.

(2) SAFE HARBOR STATEMENT AND NON-GAAP FINANCIAL INFORMATION

We will be making statements during this call that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results

increase rates to offset the loss of the temporary surplus depreciation amortization credit.

(6) FPL – FLORIDA ECONOMY

As I mentioned earlier, the Florida economy continues to improve. Unemployment in March dropped to 9%, still higher than the national average, but well down from the peak of 11.4% in early 2010 and lower than at any time since January 2009. Perhaps more important, Florida has now experienced positive year-over-year job creation for the last 20 months.

The tourism sector has improved markedly since its trough in January of 2010. As of January 2012, the 12-month moving sum of total taxable sales from tourism stands higher than at any point over the last five years. At the same time, Florida consumer confidence has improved from its low in the summer of 2008, although it is still well below the levels we experienced in 2005 through 2007.

The Florida housing market continues to recover, although progress is uneven around the state. The large pipeline of homes in foreclosure remains a drag on the market, and the judicial process used in Florida to process foreclosures is one of the lengthiest in the country. Nevertheless,

the backlog of homes in foreclosure is gradually declining, and the rate of mortgage delinquencies has fallen to its lowest level since 2008. Florida has improved from having the second highest mortgage delinquency rates in the country to having the seventh highest rates.

As painful as the housing market adjustment has been and continues to be, the significant declines in housing prices have resulted in Florida regaining much of the position it had lost in terms of relative housing affordability. In markets where this adjustment has progressed rapidly, such as Miami-Dade, housing market activity has now recovered significantly, and many buildings that we had thought would be unoccupied perhaps for years are now being occupied. Prices in this market have seen a slight uptick recently. On the negative side, construction activity not surprisingly continues at a very low level, and we do not expect this to change for many months. Yet, even here, there are signs of improvement – and we have seen a slight uptick in permit applications for new construction.

(7) FPL – CUSTOMER CHARACTERISTICS

These generally encouraging developments are reflected in the internal indicators that we follow at FPL.

During the first quarter, we had approximately 27,000 more customers than in the comparable quarter of 2011, representing an increase of 0.6%. This growth rate has been fairly consistent for the last 7 quarters. Total retail sales increased 3.8%, driven largely by an extra day of sales due to leap year and an increase in underlying usage.

This is the second quarter in a row with a positive year-over-year increase in underlying usage. Positive economic factors, including increased employment in Florida and a steady drop in the number of empty homes, seem to be contributing to the increase. The number of inactive meters and low usage customers, which are indicative of the number of empty homes, continue to improve and have now fallen to levels not seen since 2008. However, as we have often pointed out, changes in usage can be volatile from quarter to quarter, and we would not extrapolate from this quarter's strong growth. Over the coming months, we continue to expect modest and gradually improving growth, but there are likely to be more bumps along the way.

(8) FPL – 2012 BASE RATE PROCEEDING

On March 19th, we submitted testimony and extensive supporting data for FPL's 2012 base rate case. The overall numbers were

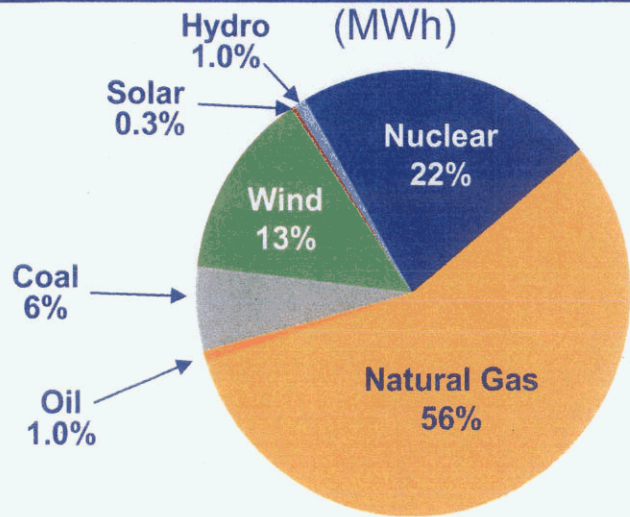


Europe Investor Presentation

June 2012

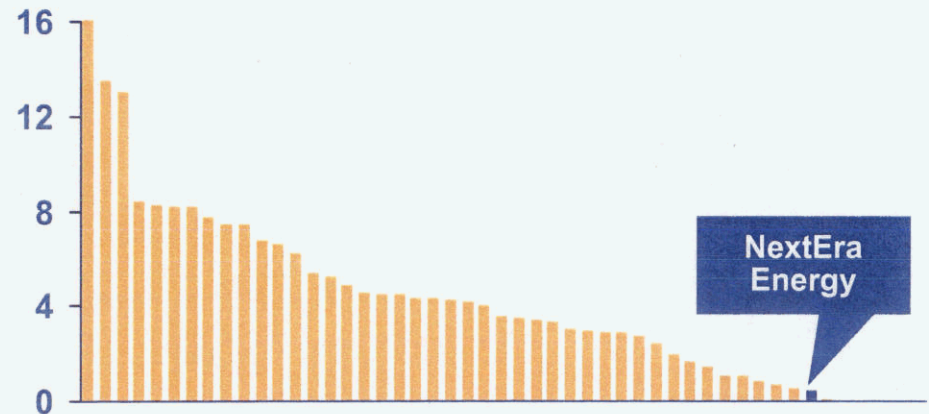
...and one of the cleanest emissions profiles among the nation's top 50 power producers...

NextEra Energy 2011 Fuel Mix⁽¹⁾



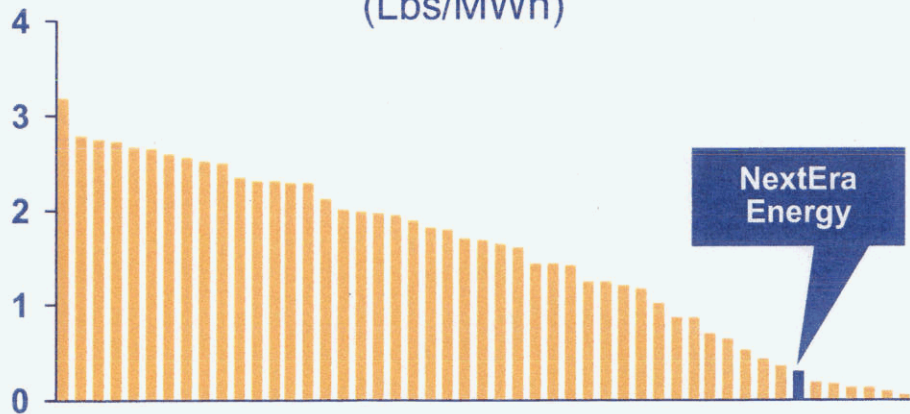
SO₂ Emissions Rates

(Lbs/MWh)



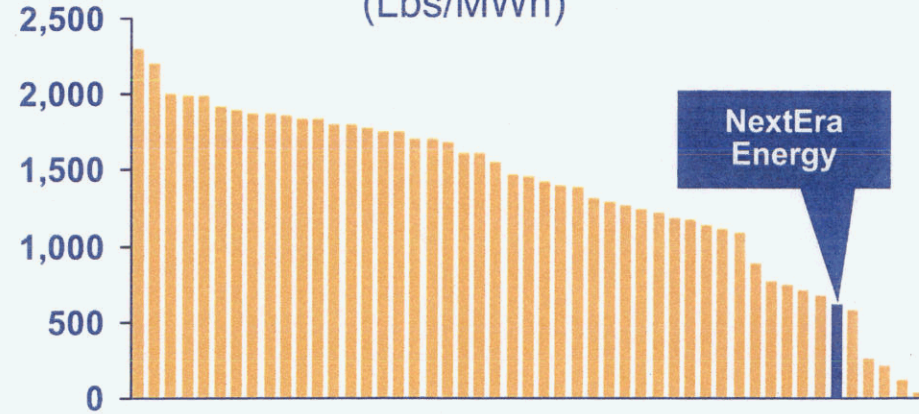
NO_x Emissions Rates

(Lbs/MWh)



CO₂ Emissions Rates

(Lbs/MWh)



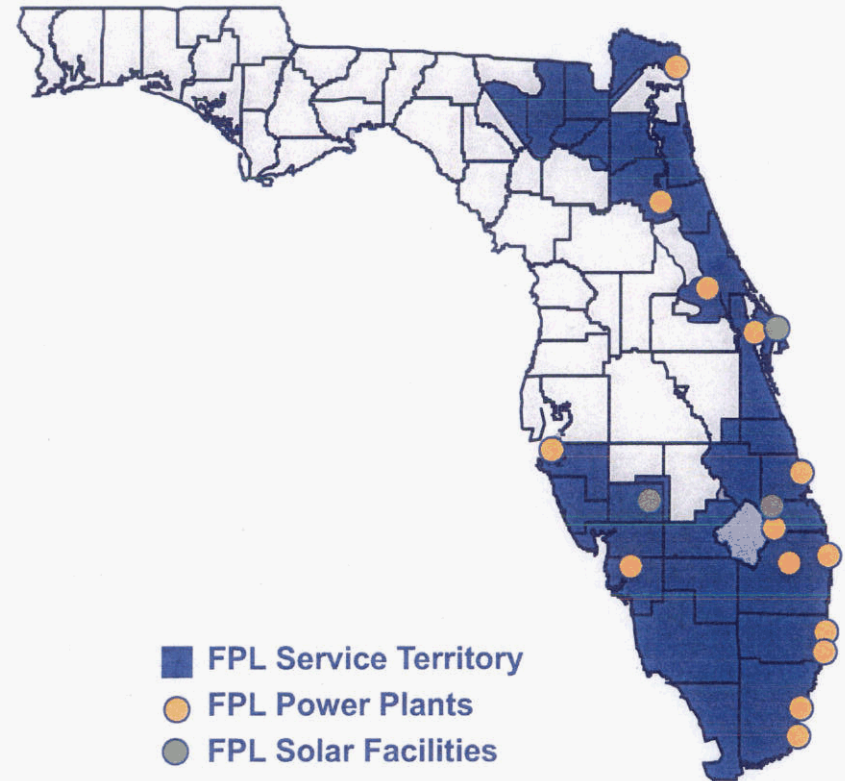
8 1) As of December 31, 2011; may not add to 100% due to rounding
 Source for emissions rates : M.J. Bradley & Associates (2010). "Benchmarking the Top 100 Electric Power Producers in the US" NextEra Energy data derived from internal calculations based on actual generation (MWhs) by fuel type for 2010



Florida Power & Light is one of the best utility franchises in the U.S.

Florida Power & Light⁽¹⁾

- One of the largest U.S. electric utilities
- Vertically integrated, retail rate-regulated
- 4.6 MM customer accounts
- 24,460 MW in operation
- \$10.6 billion in operating revenues
- \$31.8 billion in total assets



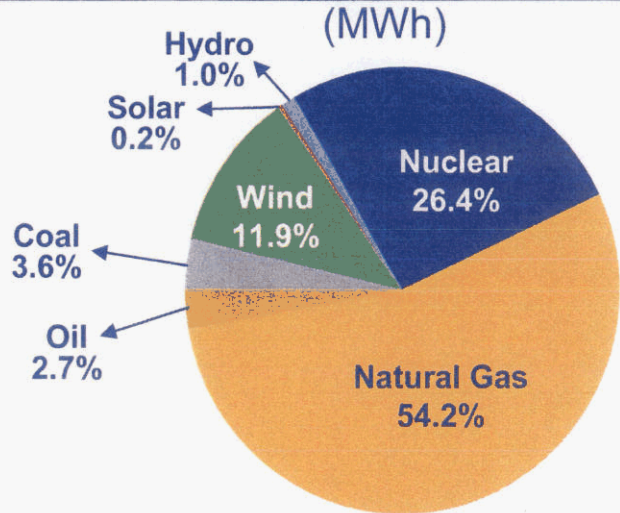
11 1) All data as of December 31, 2011; operating revenues for the 12 months ended December 31, 2011



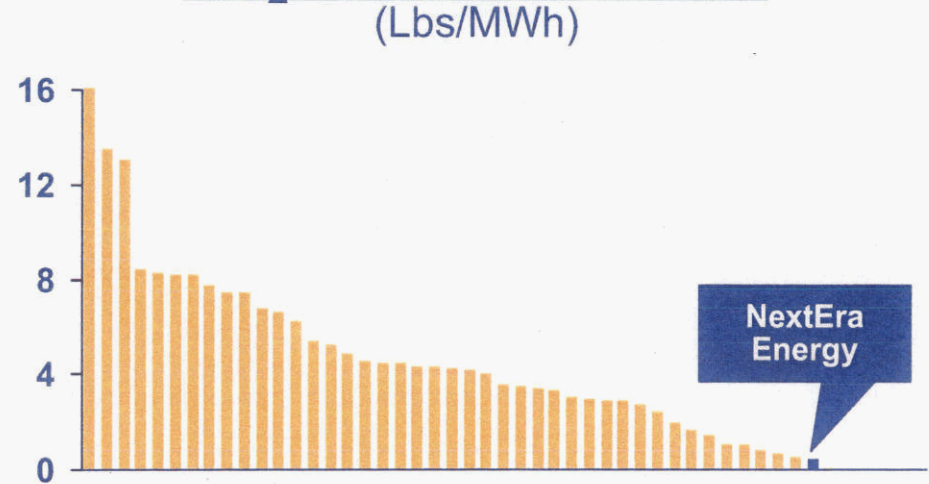
November/December Investor Presentation

Our strategic focus on clean generation assets has resulted in one of the lowest emissions profiles among the nation's top 50 power producers...

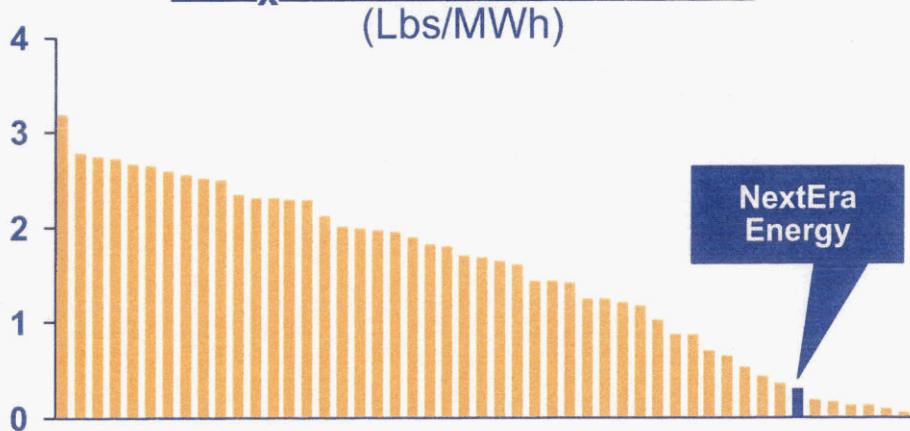
NextEra Energy 2010 Fuel Mix



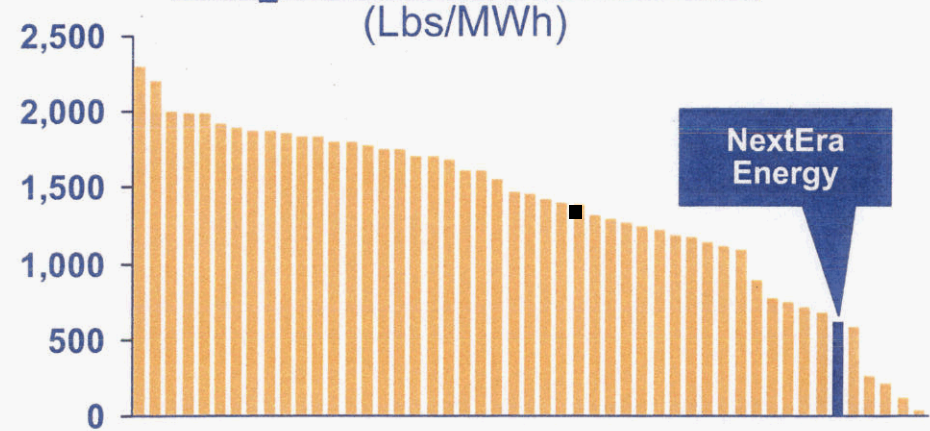
SO₂ Emissions Rates



NO_x Emissions Rates



CO₂ Emissions Rates



6 Source: M.J. Bradley & Associates (2010). "Benchmarking the Top 100 Electric Power Producers in the US." NextEra Energy data derived from internal calculations based on actual generation (MWhs) by fuel type for 2010.

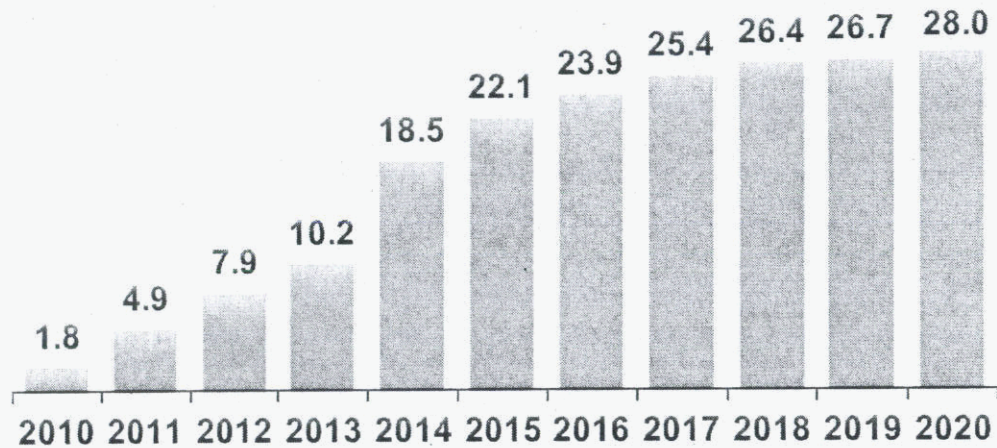


...which provides attractive upside given the continuing direction of U.S. environmental policy

Summary of EPA Rules

Announced Coal Plant Retirements⁽¹⁾
(Cumulative MW 000s)

EPA Rule	Status
Cross-State Air Pollution Rule (CSAPR)	Finalized
SO2 NAAQS	Finalized
Toxins Rule	Proposed
316(b) Rule	Proposed
Ozone NAAQS Revisions	Proposed
Regulation of Coal Combustion Residuals	Proposed
Industrial Boiler MACT Rule	Proposed
GHG NSPS Rule	Planning
PM2.5 NAAQS Revisions (fine particulate)	Planning



Potential Regulation Implications

- More demand for renewable generation
- Higher power prices
- Tightening reserve margins
- Higher capacity prices

Our forecasts do not include any potential upside as a result of EPA rulings, coal plant retirements, or regulation impacts



7 1) Source: SNL Financial as of October 31, 2011; cumulative coal plant retirement announcements



Fixed Income Investor Meeting

Capital Structure Overview and Financing Our Growth

Paul Cutler

Treasurer

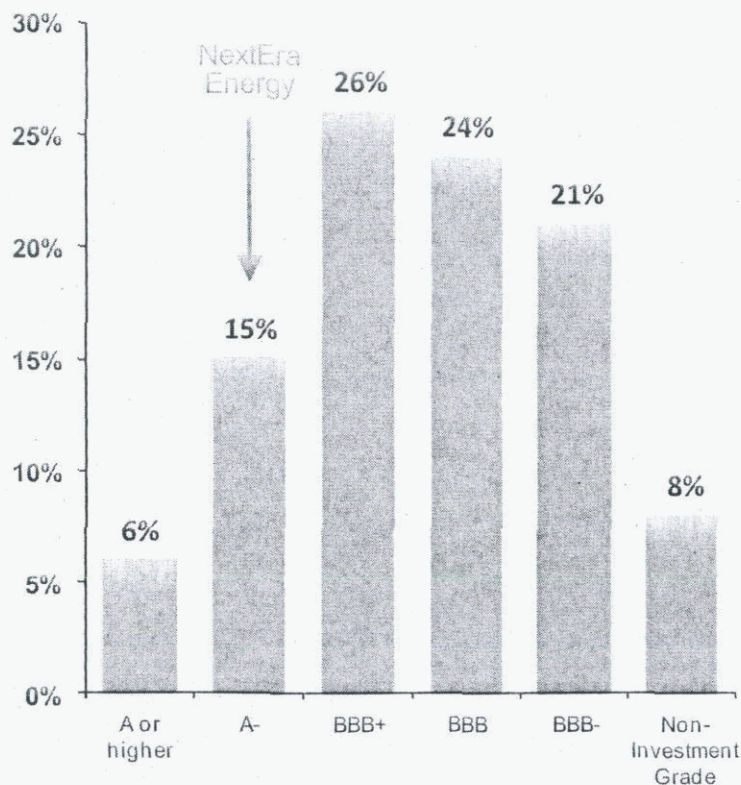
May 7, 2012

NextEra Energy has one of the strongest balance sheets in the industry

Credit Ratings

Utility Credit Ratings⁽¹⁾

NextEra Energy Ratings⁽²⁾



NextEra Energy

Issuer credit rating

Outlook

Florida Power & Light

First mortgage bonds

Commercial paper

Outlook

NextEra Energy Capital Holdings

Sr. unsecured debentures

Commercial paper

Outlook

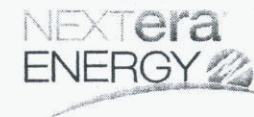
	S&P	Moody's	Fitch
NextEra Energy Issuer credit rating	A-	Baa1	A-
NextEra Energy Outlook	Stable	Stable	Stable
Florida Power & Light First mortgage bonds	A	Aa3	AA-
Florida Power & Light Commercial paper	A-2	P-1	F-1
Florida Power & Light Outlook	Stable	Stable	Stable
NextEra Energy Capital Holdings Sr. unsecured debentures	BBB+	Baa1	A-
NextEra Energy Capital Holdings Commercial paper	A-2	P-2	F-1
NextEra Energy Capital Holdings Outlook	Stable	Stable	Stable

Our credit rating remains solid and supports our business opportunities at our principal subsidiaries

Docket No. 120015-EI
NextEra Investor Presentations
Exhibit RAB-9, Page 15 of 35

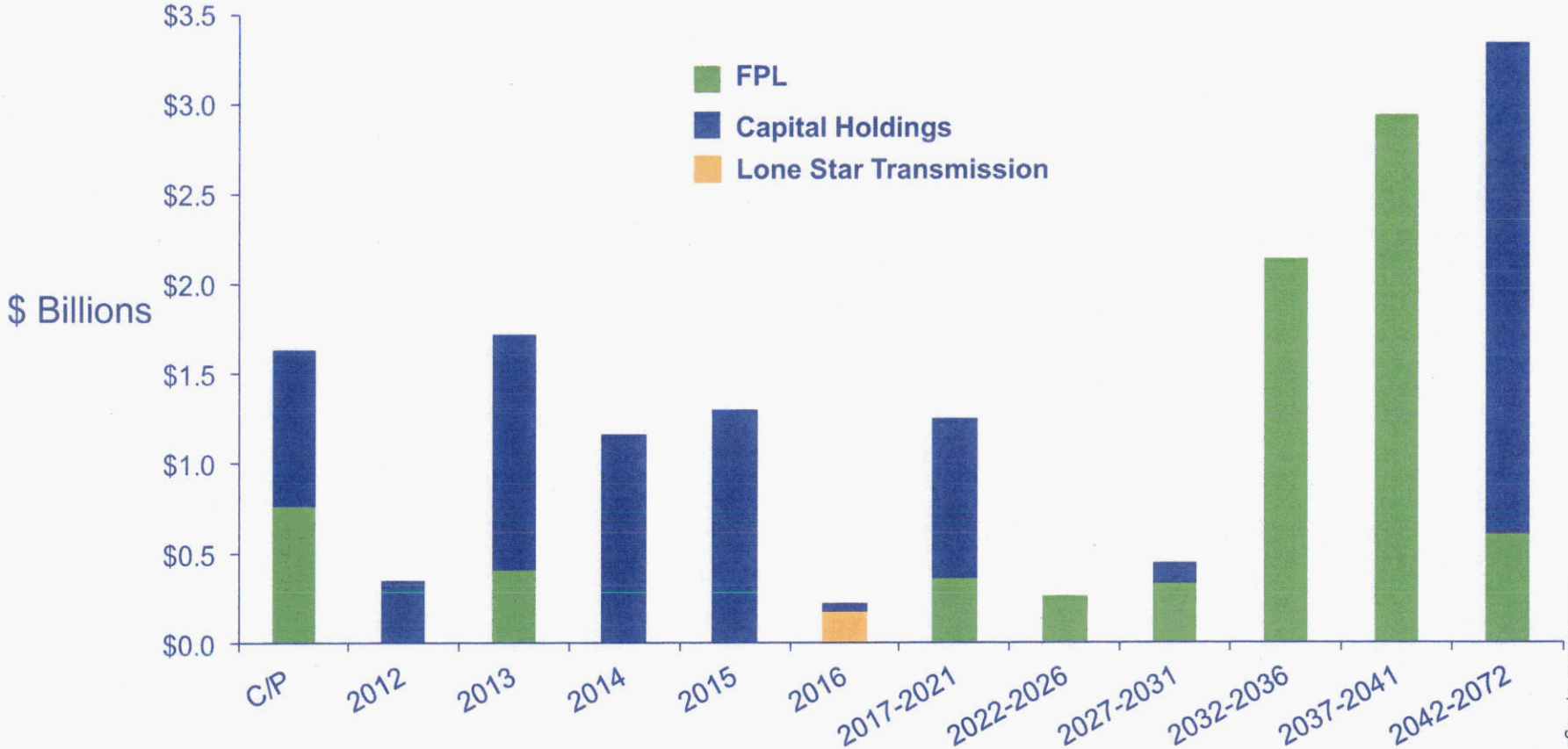
1) Source: Edison Electric Institute: S&P Utility Credit Ratings Distribution – Financial Update Q4 2011

4 2) Reflects latest ratings as published by S&P on April 6, 2012, Moody's on April 10, 2012 and Fitch on April 27, 2012.



We have a manageable debt maturity profile and target maturities to match asset lives

NextEra Energy Debt Maturity Profile⁽¹⁾



NextEra's outstanding debt has an average life of 21 years

7 1) Debt as of 3/31/2012; except commercial paper which is as of 4/18/2012 and is net of short term investments; excludes Energy Resources project debt, Pipeline Funding, Water & Sewer bonds and Storm Recovery bonds.



Docket No. 120015-EI
NextEra Investor Presentations
Exhibit RAB-9, Page 16 of 35

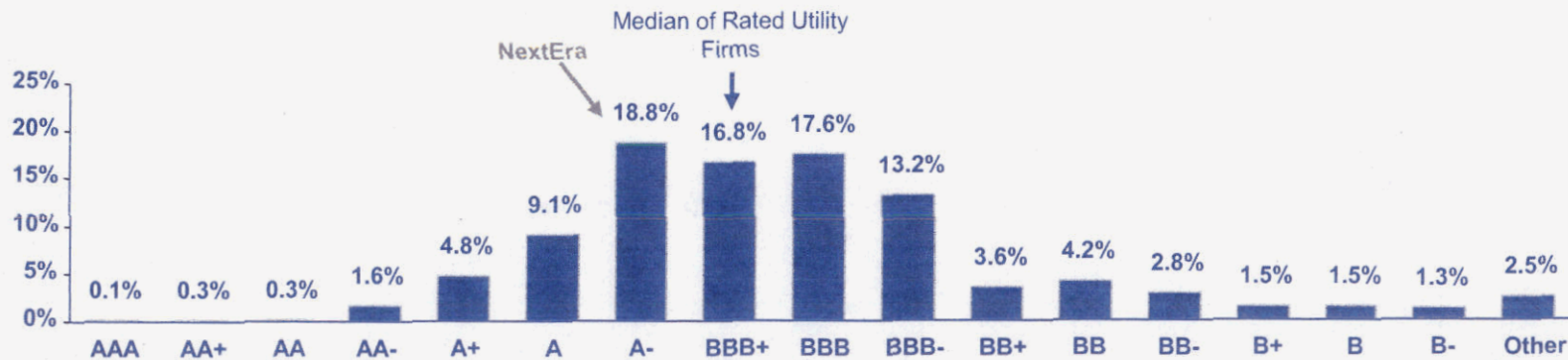
... while on average, most non-financial S&P 500 firms and utilities are at a 'BBB+' rating

Credit Rating Positioning⁽¹⁾

S&P 500 Issuer Rating Distribution (Non-Financial Companies)



Utility Issuer Rating Distribution



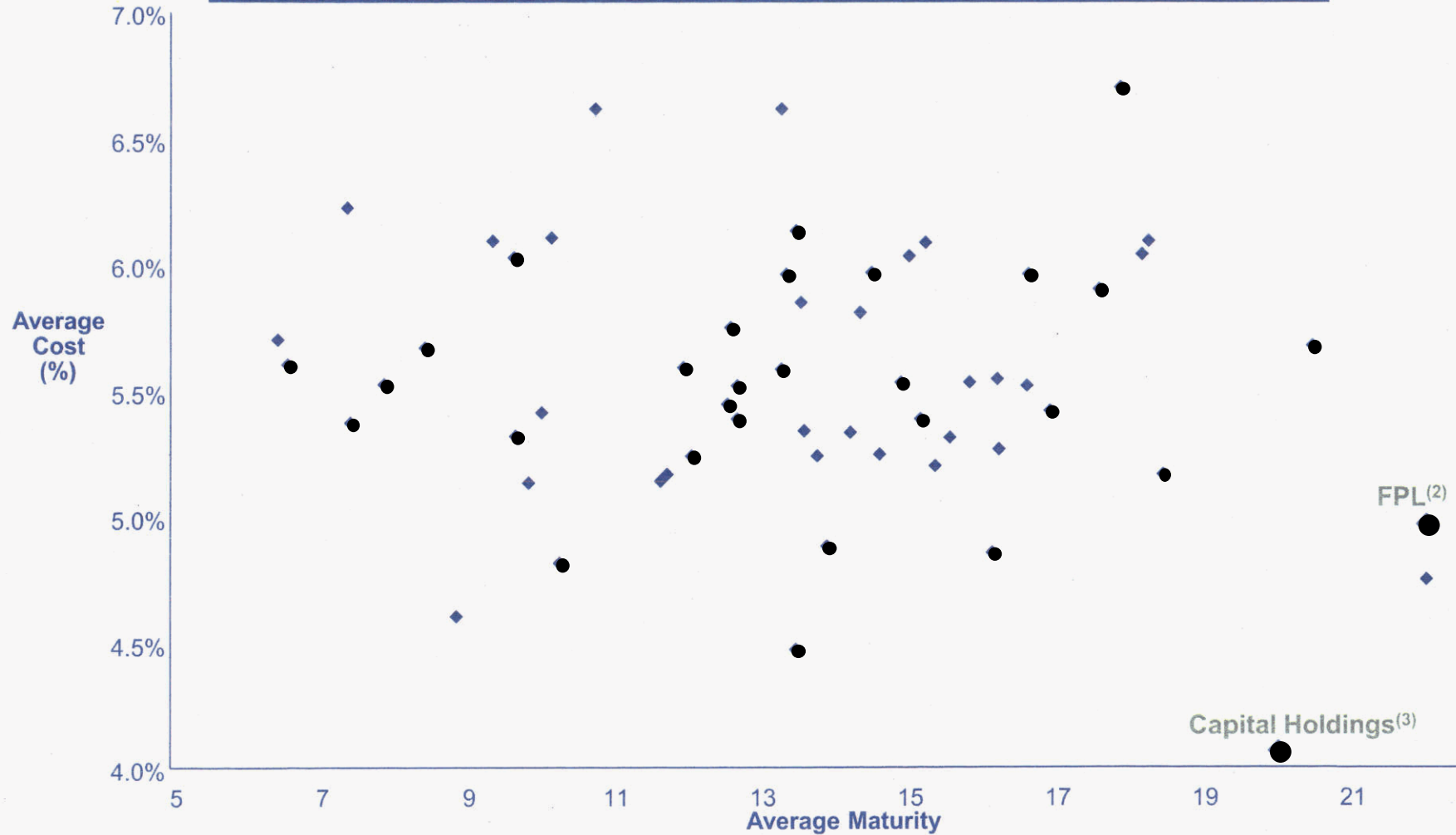
The strength of our credit rating provides us with strategic flexibility



1) Source: Citibank, Factset. Based on S&P ratings data for all utilities with a long term issuer credit rating as of March 2012

NextEra's maturity profile and cost of debt compares favorably to industry peers

Average Debt Profile with Peer Comparison⁽¹⁾



1) Peer group of power and utility companies provided by Citibank based on Bloomberg company filings as of 4/4/12
 2) Excludes Storm Recovery bonds and Waste Water bonds
 3) Includes equity units and assumes final maturity for hybrid securities. Excludes non-recourse debt for Pipeline Funding and NextEra Energy Resources debt.



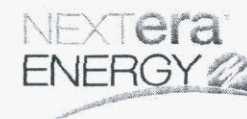
In 2011, we closed on two successful first mortgage bond transactions at FPL

First Mortgage Bonds

- **In June, issued \$250 million of 30-year 5.125% bonds maturing June 1, 2041**
- **In December, issued \$600 million of 30-year 4.125% bonds maturing February 1, 2042**
- **Bonds are rated Aa3/A/AA-(1)**
- **At the time of issuance, each were the lowest coupons in the company's history**
- **Both issuances were oversubscribed representing investor confidence and demand for our debt**

Objective is to match the debt maturity to the asset life of FPL's equipment

Docket No. 120015-EI
NextEra Investor Presentations
Exhibit RAB-9, Page 19 of 25



15. 1) Ratings issued by Moody's, S&P and Fitch, respectively.



Fixed Income Investor Meeting

Equity Units, DOE Loan Guarantees, Credit Diversification

Amy Black

Assistant Treasurer

May 7, 2012

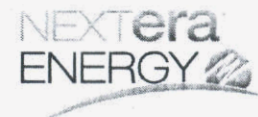
Based on our growing relationship with Asian banks, in 2010 we entered into new credit facilities targeting global banks

2010 Global Credit Facilities

- **\$500 million 3-year credit facility at both FPL and Capital Holdings**
- **Focused on new international relationships in an effort to expand number of banks and sources of liquidity**
 - New bank relationships that participated included
 - 4 Chinese
 - 2 Canadian
 - 8 Taiwanese
 - 2 Japan
 - 2 European
 - Malaysia and Thailand
- **Diversification of credit is extremely important**

Combined facilities added \$1.0 billion of credit and added 20 new banking relationships

Docket No. 120015-EI
NextEra Investor Presentations
Exhibit RAB-9, Page 21 of 35



We receive credit, and have relationships with, many of the largest banks in the world

Global Bank Ranking ⁽¹⁾

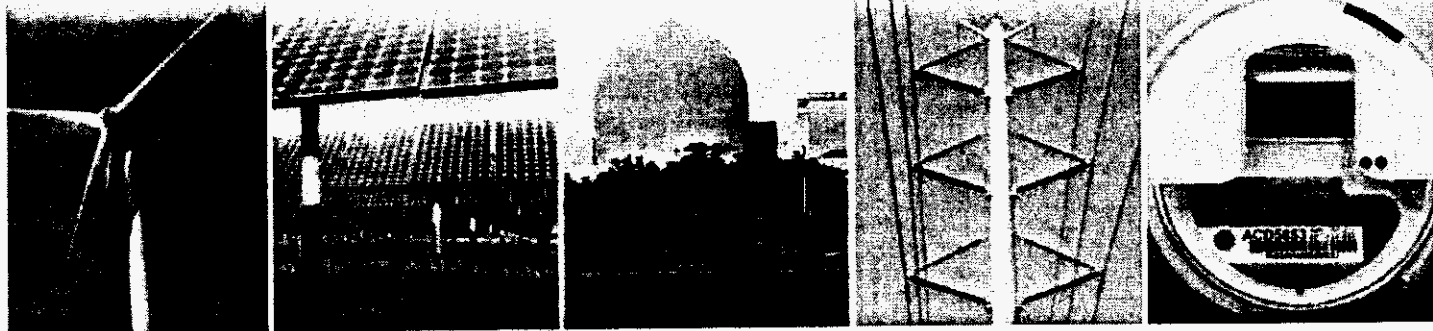
Largest Global Banks by Total Assets					
Rank	Bank	Total Assets (\$Bn)	Rank	Bank	Total Assets (\$Bn)
1	Deutsche Bank	2,805	26	Intesa Sanpaolo	828
2	BTMU	2,799	27	RBC	812
3	HSBC	2,556	28	BBVA	775
4	BNP Paribas	2,547	29	TD Bank	770
5	ICBC	2,457	30	NAB	733
6	Barclays	2,425	31	Bank of Australia	732
7	RBS	2,337	32	CBA	720
8	JP Morgan	2,320	33	Natixis	658
9	Credit Agricole	2,234	34	Westpac	652
10	Bank of America	2,129	35	Scotia Bank	634
11	Mizuho	2,091	36	Standard Chartered Bank	599
12	China Construction Bank	1,950	37	Danske Bank	597
13	Citigroup	1,945	38	ANZ	578
14	Bank of China	1,878	39	Dexia	554
15	Agricultural Bank of China	1,816	40	Resona Holdings	554
16	SMBC	1,725	41	Bank of Montreal	536
17	Banco Santander	1,622	42	Banco do Brasil	527
18	Societe Generale	1,531	43	Fortis Bank	465
19	UBS	1,512	44	Sumitomo Trust Holdings	456
20	Lloyds	1,505	45	China Merchants Bank	444
21	Wells Fargo	1,334	46	Itau Unibanco	439
22	Unicredit	1,201	47	China Citic Bank	439
23	Credit Suisse	1,118	48	Shanghai Pudong Bank	426
24	Nordea	928	49	Shinkin Central Bank	413
25	Commerzbank	858	50	Bradesco	409
Top 50 Banks					62,370

US banks make up a very small portion of the world's largest banks and it is imperative that we diversify our credit relationships globally

Docket No. 120015-EI
 NextEra Investor Presentations
 Exhibit RAB-9, Page 22 of 35



INVESTOR
CONFERENCE
2010



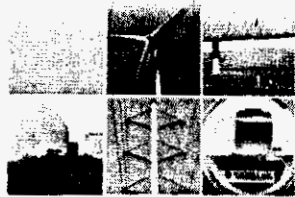
BUILDING THE NEXT ERA
OF CLEAN ENERGY

Financial Review and Outlook

Bob Barrett
Vice President, Finance
May 3, 2010

Docket No. 120015-EI
NextEra Investor Presentations
Exhibit RAB-9, Page 23 of 35





FPL's solar investments and nuclear uprate projects earn returns through clause mechanisms

FPL Clause Recovery Mechanisms

Environmental Cost Recovery Clause (ECRC)

- Recovery of the costs associated with mandated environmental expenditures and approved renewable projects
- Projects earn a cash return during construction and then once placed in service they earn on the net investment value

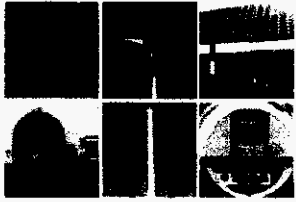
FPL's solar projects earn a return in the ECRC

Nuclear Cost Recovery Rule (NCRR)

- Recovery of the costs associated with new nuclear projects
- During pre-construction, FPL receives dollar-for-dollar recovery of all expenditures
- A project earns a cash return on expenditures during construction
- FPL receives a base rate increase once the project is placed in service

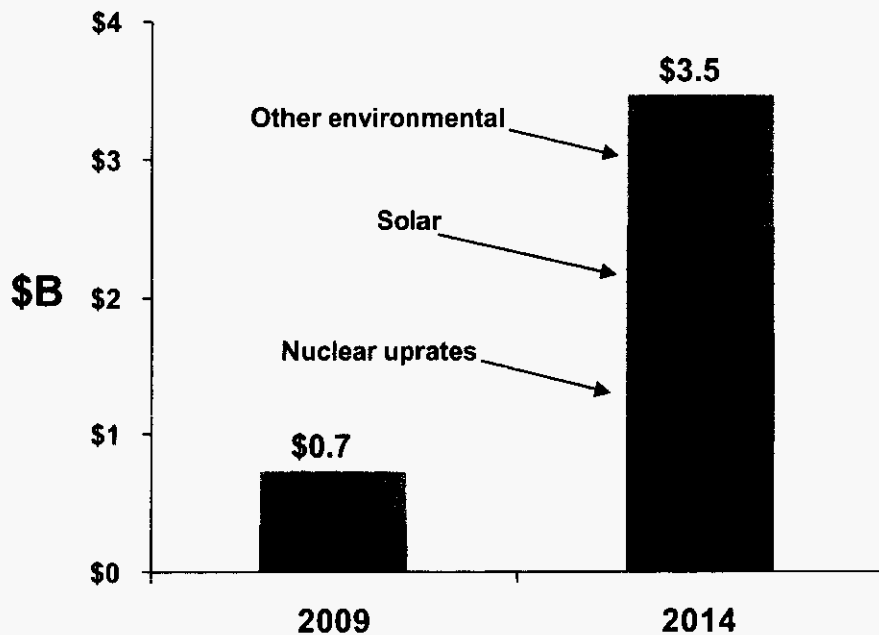
FPL's uprate projects at Turkey Point and St Lucie qualify for NCRR treatment

Note: FPL also recovers certain other operating costs through clauses such as the fuel clause, capacity clause and conservation clause

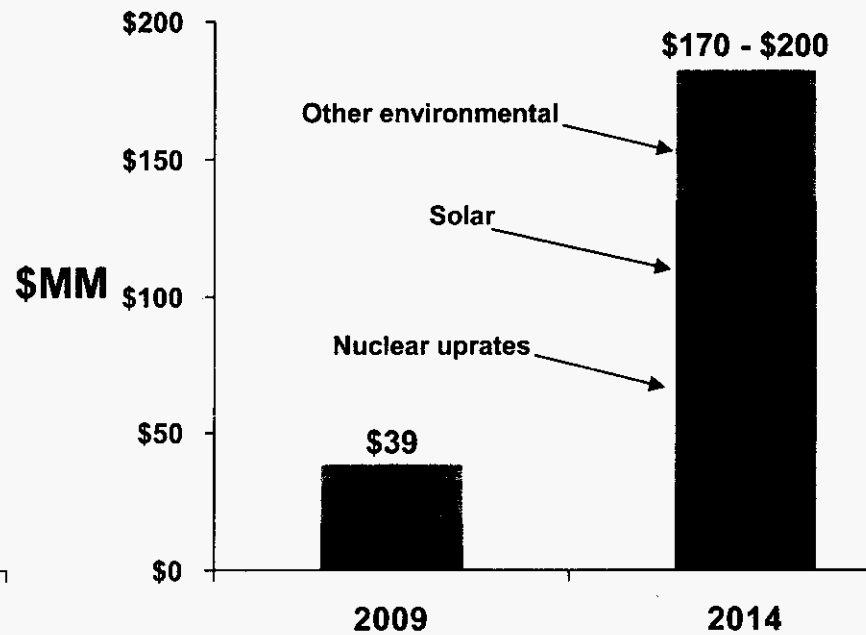


Investments that have clause or clause-like cost recovery are expected to be a significant source of earnings growth

Investments with Cost Recovery ⁽¹⁾



Potential Earnings from Investments with Cost Recovery



Cost recovery clauses are expected to be a significant source of earnings growth

Docket No. 120015-EI
 NextEra Investor Presentations
 Exhibit RAB-9, Page 25 of 35

(1) Amounts shown are 13-month net average investments including CWIP





Earnings Conference Call

First Quarter 2011
April 29, 2011

First QUARTER 2011 EARNINGS RELEASE
April 29, 2011

(1) FIRST QUARTER 2011 EARNINGS CONFERENCE CALL

Rebecca Kujawa:

Thank you, Casey.

Good morning everyone, and welcome to our first quarter 2011 earnings conference call.

Lew Hay, NextEra Energy's chairman and chief executive officer, will provide an overview of NextEra Energy's performance and recent accomplishments. Lew will be followed by Armando Pimentel, our chief financial officer, who will discuss the specifics of our financial results. Also joining us this morning are Jim Robo, President and Chief Operating Officer of NextEra Energy, Armando Olivera, President and Chief Executive Officer of Florida Power & Light, and Mitch Davidson, President and Chief Executive Officer of NextEra Energy Resources, which we will refer to as Energy Resources in this presentation.

Following our prepared remarks, our senior management team will be available to take your questions.

First QUARTER 2011 EARNINGS RELEASE
April 29, 2011

exclusion of net other than temporary impairments on certain investments, or OTTI.

(6) FPL – FIRST QUARTER 2011 RESULTS

For the first-quarter of 2011, Florida Power & Light reported net income of \$205 million, or 49 cents per share.

(7) FPL – EPS DRIVERS

For the term of the 2010 base rate agreement, FPL's earnings will largely be a function of its rate base and return on equity. As we indicated in the fourth quarter 2010 earnings call, we believe that FPL will realize a retail regulatory ROE at or near 11 percent during each of 2011 and 2012, subject to the normal caveats we provide including normal weather and operating conditions. Per the terms of the settlement agreement, FPL will be able to amortize surplus depreciation to offset most of the variability in its normal operations, including the fluctuations due to weather.

During the first quarter, FPL's contribution to earnings per share increased 2 cents relative to the prior-year's comparable quarter, driven primarily by Allowance for Funds Used During Construction, or AFUDC, for

First QUARTER 2011 EARNINGS RELEASE
April 29, 2011

West County Energy Center Unit 3, returns on clause-related investments including Martin Solar and the nuclear uprates, and rate base growth, which was partially offset by share dilution.

During the quarter we recognized \$99 million in surplus depreciation on a pre-tax basis. We currently do not expect to amortize the full amount of surplus depreciation in 2011 that is available to us under the base rate agreement.

(8) FPL – CUSTOMER AND ECONOMIC ATTRIBUTES

We are continuing to see improvements in some of our key customer metrics. The table in the upper left shows the change in retail kilowatt-hour sales in the quarter versus last year's comparable period. Overall, retail kilowatt-hour sales fell by 6.2 percent, a decline due primarily to lower weather-related usage and partially offset by an increase in customer growth. In the first quarter, heating degree days were modestly below normal and well below the record heating degree days experienced in the prior-year comparable quarter. Non-weather-related, or underlying, usage and all other declined by 0.2 percent.



Welcome Shareholders

Lew Hay

Chairman and CEO

May 20, 2011

NextEra Energy's growth is expected to be driven by significant capital investments

NextEra Energy Growth Outlook

- **FPL has approximately \$10 - \$11 B of capital planned for deployment through 2014⁽¹⁾**
 - \$6.7 B of major generation and advanced metering projects to be brought online
 - Retail rate base is estimated to grow at an approximate 8.5% compound annual growth rate from 2009 to 2014
- **NextEra Energy Resources plans to invest in new generation opportunities where risk and return are aligned**
 - Approximately \$3-4 B in solar generation projects from 2010 through 2014
 - 953 MW of expected 2011/2012 wind projects are already under long-term contract
- **Lone Star Transmission expects to invest approximately \$800 MM in its CREZ transmission line in Texas**



Company Overview and Financing Strategy

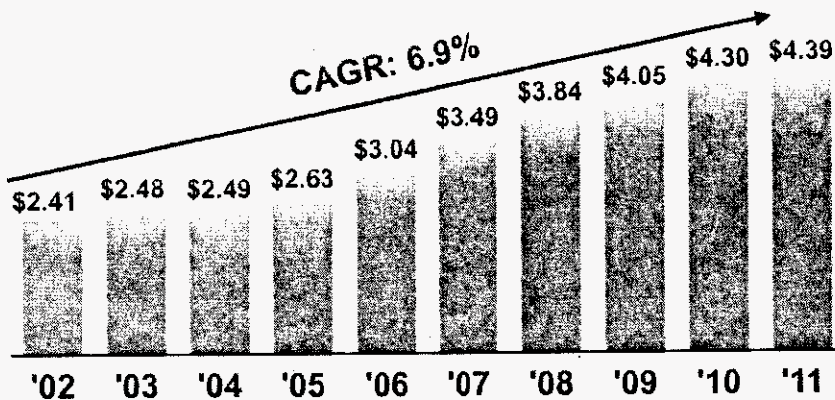
Moray Dewhurst

Vice Chairman and Chief Financial Officer

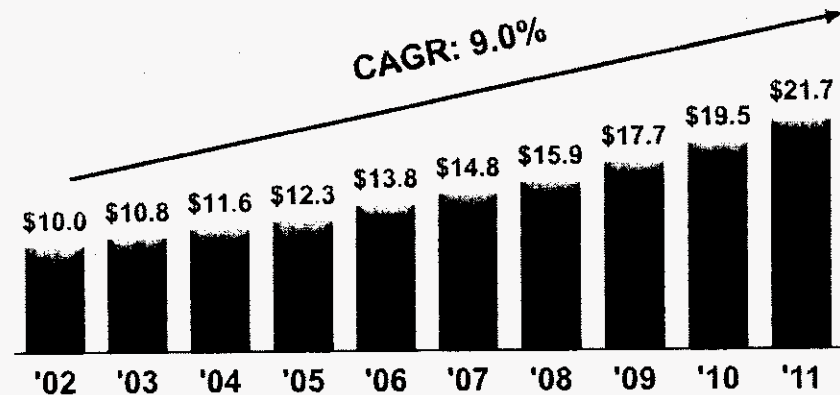
May 7, 2012

History of sustained growth through different industry phases

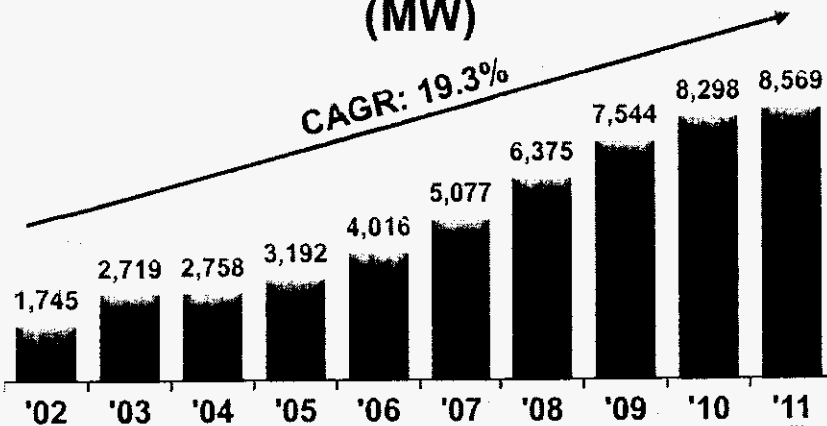
Adjusted Earnings Per Share⁽¹⁾



FPL Cumulative Capital Employed⁽²⁾



Energy Resources Cumulative Wind Growth (MW)



NEE vs Industry

	10-Year CAGR	
	S&P 500 Electric Utility	NextEra Energy
Adjusted EPS ⁽³⁾	2.2%	6.3%
Dividend per Share ⁽⁴⁾	4.9%	7.0%
Total Shareholder Return ⁽⁵⁾	128.6%	208.6%

- (1) See supporting material titled Risk Factors and Reconciliations posted to the Investor section of NextEra Energy's website for reconciliation of adjusted amounts to GAAP amounts
- (2) Includes retail rate base, wholesale rate base, clause-related investments, and AFUDC projects
- (3) Source: Company earnings releases
- (4) Source: Bloomberg
- (5) Source: FactSet; Return from December 31, 2001 to December 31, 2011



November/December Investor Presentation

In 2012, growth at FPL and contributions from new assets at Energy Resources are largely offset by headwinds including lower hedge prices and PTC roll-off

2012 Adjusted EPS Drivers

- **Growth at FPL**
 - Total rate base⁽¹⁾ is expected to grow approximately 14% from 2011, and retail regulatory ROE is expected to be 11%⁽²⁾
- **Strong headwinds at Energy Resources**
 - Roll-off of above-market hedges and PTCs
 - Lower state tax incentives
 - These headwinds are partially offset by:
 - Fewer nuclear outage days
 - Contributions from new assets

(1) Includes retail rate base, wholesale rate base, clause-related investments, and AFUDC projects.

(2) FPL's retail regulatory return on equity expectations assume, among other things: normal weather and operating conditions; no further significant decline in the Florida economy; and access to capital at reasonable cost and terms. Please see the cautionary statements in the Appendix to this presentation for a list of the risk factors that may affect future results, including FPL's retail regulatory ROE.

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

IN RE:

PETITION FOR RATE INCREASE BY)	
FLORIDA POWER AND LIGHT)	DOCKET NO. 120015-EI
COMPANY)	

**EXHIBIT __ (RAB-10)
OF
RICHARD A. BAUDINO**

**ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION**

**J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA**

July 2012

Docket No. 120015-E1
Avera Prior Testimony
Exhibit RAB-10, Page 1 of 2
Exhibit PSC-14

DOC DATE 2-1-2008
FILE DATE 2-1-2008

Vol 1

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**PUBLIC SERVICE COMPANY OF)
COLORADO)**

Docket No. ER08-__-000

527

**PREPARED DIRECT TESTIMONY
OF
WILLIAM E. AVERA, PH.D.**

**ON BEHALF OF
PUBLIC SERVICE COMPANY OF COLORADO**

February 1, 2008

2 [S]everal current and structural developments for the coal mining industry
3 have resulted in a dramatic increase in spot coal prices.¹⁹

4 More recently, the Energy Information Administration ("EIA"), a statistical agency of the
5 U.S. Department of Energy, reported that average delivered coal prices for electric
6 utilities increased 9.7 percent in 2006, the sixth consecutive annual rise.²⁰ At the same
7 time, heightened environmental awareness, particularly over carbon and other emissions,
8 has increased exposure to mandated remediation and other compliance costs. The
9 imperative of meeting evolving emissions standards implies significant capital
10 expenditures for those utilities, such as PSCo, that rely significantly on coal-fired
11 generation.

12 **Q. HAVE INVESTORS RECOGNIZED THAT ELECTRIC UTILITIES FACE
13 ADDITIONAL RISKS BECAUSE OF THE IMPACT OF INDUSTRY
14 RESTRUCTURING ON TRANSMISSION OPERATIONS?**

15 **A. Yes. As S&P recently affirmed, "The U.S. electric power industry is embarking on a
16 period of rapid change."²¹ S&P recently confirmed a "continued lack of clarity from
17 lawmakers and regulators on the regulatory framework surrounding transmission
18 projects."²² Transmission operations have become increasingly complex and investors
19 have recognized that difficulties in obtaining permits and uncertainty over the adequacy
of allowed rates of return have contributed to heightened risk and fueled concerns**

¹⁹ Standard & Poor's Corporation, "Rising Coal Prices May Threaten U.S. Utility Credit Profiles," *RatingsDirect* (Aug. 12, 2004).

²⁰ Energy Information Administration, *Annual Coal Report 2006* at 9 (Nov. 2007).

²¹ Standard & Poor's Corporation, "Top Ten Credit Issues Facing U.S. Utilities," *RatingsDirect* (Jan. 29, 2007).

²² Standard & Poor's Corporation, "Capital Spending on Electric Transmission Is on the Upswing Around the World," *RatingsDirect* (Aug. 7, 2006).

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

IN RE:

**PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)**

**EXHIBIT __ (RAB-11)
OF
RICHARD A. BAUDINO**

**ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION**

**J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA**

July 2012

Florida Power & Light Company
Docket No. 120015-EI
SFHHA's First Set of Interrogatories
Request No. 3
Page 1 of 1

Q.

General: Please provide the average daily balance and percentage cost of FPL's short-term debt by month from January 2007 through the most recent month for which actual information is available, including underlying calculations.

A.

Please see Attachment No. 1.

Florida Power and Light - Average Monthly Outstanding Commercial Paper Balance

Total		Wtd. Avg. Rate of Outstanding CP
Jan-07	\$ 345,348,387.10	5.301%
Feb-07	\$ 288,439,285.71	5.268%
Mar-07	\$ 279,283,870.97	5.267%
Apr-07	\$ 138,226,666.67	5.290%
May-07	\$ 213,441,935.48	5.269%
Jun-07	\$ 287,313,333.33	5.285%
Jul-07	\$ 489,241,935.48	5.332%
Aug-07	\$ 533,664,516.13	5.297%
Sep-07	\$ 425,858,333.33	5.288%
Oct-07	\$ 167,600,000.00	4.827%
Nov-07	\$ 4,763,333.33	4.740%
Dec-07	\$ 350,183,870.97	4.400%
Jan-08	\$ 195,022,580.65	4.306%
Feb-08	\$ -	0.000%
Mar-08	\$ -	0.000%
Apr-08	\$ -	0.000%
May-08	\$ -	0.000%
Jun-08	\$ -	0.000%
Jul-08	\$ 99,158,129.03	2.241%
Aug-08	\$ 435,150,000.00	2.166%
Sep-08	\$ 638,873,100.00	2.326%
Oct-08	\$ 1,289,851,548.39	2.682%
Nov-08	\$ 460,088,366.67	2.141%
Dec-08	\$ 742,165,225.81	0.659%
Jan-09	\$ 579,641,935.48	0.265%
Feb-09	\$ 311,076,785.71	0.292%
Mar-09	\$ 250,396,774.19	0.290%
Apr-09	\$ 264,133,333.33	0.221%
May-09	\$ 230,920,774.19	0.213%
Jun-09	\$ 225,100,000.00	0.217%
Jul-09	\$ 461,716,000.00	0.262%
Aug-09	\$ 404,420,193.55	0.213%
Sep-09	\$ 318,586,666.67	0.186%
Oct-09	\$ 347,241,870.97	0.168%
Nov-09	\$ 175,423,333.33	0.142%
Dec-09	\$ 291,570,967.74	0.152%
Jan-10	\$ 393,491,806.45	0.163%
Feb-10	\$ 500,907,250.00	0.188%
Mar-10	\$ 815,220,548.39	0.270%
Apr-10	\$ 984,782,033.33	0.331%
May-10	\$ 741,669,709.68	0.360%
Jun-10	\$ 694,015,400.00	0.352%
Jul-10	\$ 527,661,483.87	0.392%
Aug-10	\$ 338,617,096.77	0.335%
Sep-10	\$ 96,749,266.67	0.312%
Oct-10	\$ 156,274,387.10	0.308%
Nov-10	\$ 142,442,166.67	0.278%
Dec-10	\$ 118,096,774.19	0.266%
Jan-11	\$ 134,224,677.42	0.264%
Feb-11	\$ 277,778,571.43	0.263%
Mar-11	\$ 274,965,806.45	0.263%
Apr-11	\$ 484,690,000.00	0.267%
May-11	\$ 494,580,645.16	0.261%
Jun-11	\$ 406,243,333.33	0.246%
Jul-11	\$ 508,925,806.45	0.245%
Aug-11	\$ 312,051,612.90	0.260%
Sep-11	\$ 163,225,833.33	0.238%
Oct-11	\$ 315,222,580.65	0.225%
Nov-11	\$ 402,450,000.00	0.209%
Dec-11	\$ 361,870,967.74	0.231%
Jan-12	\$ 314,320,709.68	0.219%
Feb-12	\$ 489,086,206.90	0.216%
Mar-12	\$ 643,903,225.81	0.220%

Florida Power & Light Company
Docket No. 120015-EI
SFHHHA's First Set of Interrogatories
Request No. 3
Attachment No. 1
Page 1 of 1

Docket No. 120015-EI
 FPL Data Responses
 Exhibit RAB-11, Page 2 of 7

Florida Power & Light Company
Docket No. 120015-EI
OPC's Third Request for Production of Documents
Request No. 43
Page 1 of 1

Q.

Mr. Dewhurst's testimony. With reference to the direct testimony of Mr. Dewhurst, pages 32-40, please provide copies of all studies that compare the financial strength of Florida Power & Light to that of other U.S. electric utilities, including the associated data and work papers used in their preparation. Please provide the data, work papers, and calculations in both hard copy and electronic formats (Microsoft Excel), with all data and formulas intact.

A.

FPL has no responsive documents.

**Florida Power & Light Company
Docket No. 120015-EI
SFHHA's First Set of Interrogatories
Interrogatory No. 6
Page 1 of 1**

Q.

Regarding Avera at 6:11-12: Please provide a list of utilities included in Dr. Avera's proxy groups, that "had to accept rates as high as 10% to issue bonds."

A.

The above referenced testimony at 6:11-12 reflects the opinions of the FPSC Staff Memorandum, and was not based on an analysis of debt yields for the firms in Dr. Avera's Utility Proxy Group.

Florida Power & Light Company
Docket No. 120015-EI
SFHHA's First Set of Interrogatories
Interrogatory No. 28
Page 1 of 1

Q.

Regarding Avera at 79:19-80:7: Please quantify and explain in detail how Dr. Avera's consideration "of quarterly dividend payments and flotation costs" affected his recommended range of reasonable returns and ROE for FPL.

A.

As discussed in Dr. Avera's testimony (42:8-17, 70:6-72:5), quarterly payment of dividends and flotation costs both imply an ROE above the "bare bones" cost of equity estimates produced by the approaches discussed in his testimony. Dr. Avera did not make a specific upward adjustment to the results of his analyses for either of these considerations. Rather, he considered the implications of these two factors, along with those outlined in FPL's response to SFHHA's First Set of Interrogatories Nos. 27 and 29, in his evaluation of a fair ROE range

Florida Power & Light Company
Docket No. 120015-EI
SFHHA's First Set of Interrogatories
Interrogatory No. 30
Page 1 of 1

Q.

Regarding Avera at 85:2-5: If FPL did not “take actions to offset this additional financial risk by maintaining a higher equity ratio”, please quantify FPL’s resulting equity ratio and the “higher required rate of return” and provide supporting workpapers for such quantification.

A.

Dr. Avera has not conducted any analyses of a fair ROE for FPL that might be implied by any hypothetical capital structure; nor was such an analysis necessary or relevant to his testimony and recommendations.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE:

PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)

EXHIBIT __ (RAB-12)

OF

RICHARD A. BAUDINO

ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

July 2012

STANDARD
& POOR'S

SUMMARY ANALYSIS

Florida Power & Light Co.

Rationale

Standard & Poor's Ratings Services' bases its ratings on Florida Power & Light Co. (FP&L) on the consolidated credit profile of its parent, diversified energy holding company NextEra Energy Inc. The credit fundamentals on its regulated utility side have been among the strongest in the U.S., due primarily to low regulatory risk and an attractive service territory with healthy economic growth and a sound business environment. Both of those pillars have been shaken in recent years as Florida, and Florida Power & Light's (FP&L) service territory in particular, suffered during the recession, and regulators have responded in ways that reflect greater political influence over regulatory decisions. Although the utility has found maintaining financial strength despite mild regulatory upheaval and a moribund economy in Florida to be challenging, its actions to rebuild its regulatory risk profile have been effective. More importantly, the proportion of NextEra's unregulated businesses—the riskier merchant generation, marketing, and trading activities—could increase, which could further erode its consolidated business risk profile.

FP&L is a large, regulated public utility with integrated assets (generation, transmission, and distribution) in South Florida, along the populous eastern coastline and the growing lower western coastline of the state. FP&L owns more than 24,000 megawatts (MW) of efficient, well-operated, mostly natural-gas- and nuclear-fueled electric generating plants that serve primarily its own customers.

Standard & Poor's Ratings Services' ratings on all NextEra entities reflect the strength of the regulated cash flows from integrated electric utility FP&L, and the diverse and substantial cash-generation capabilities of its unregulated operations at subsidiary NextEra Energy Resources (NER). FP&L represents about half of the consolidated credit profile and has better business fundamentals than most of its integrated electric peers, with a better-than-average service territory, sound operations, and a credit-supportive regulatory environment in which the company has been able to manage its regulatory risk very well. A willingness to expand

Credit Rating:

A-/Stable/A-2

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**RatingsDirect
Publication Date**

April 24, 2012

Florida Power & Light Co.

through acquisitions, fluctuating cash flows from NER's rapidly expanding portfolio of merchant generation assets and growing marketing and trading activities, and significant exposure at the utility to natural gas detract from credit quality, in our view.

We characterize FP&L's business risk profile as "excellent," NextEra's business risk profile as "strong," and the consolidated financial risk profile as "intermediate" under our criteria.

NextEra's business risk profile is anchored by the company's core electric utility operations in Florida, which exhibit proficiency in almost every area of analysis. The service territory has historically fared better than most of the rest of the country despite its lagging performance during the recession, the customer mix is mostly residential and commercial, costs and rates are low, and reliability and customer satisfaction are high. While Florida is not immune to overall economic trends, we expect the state to attract new residents and jobs over the long term and resume an above-average growth trajectory. NextEra's large and growing reliance on natural gas to fuel utility generation could eventually turn from an advantage (because of its favorable environmental status and currently low prices) to a weakness if gas prices are erratic over time.

FP&L has managed regulatory risk, the most important risk a utility faces, well. Despite a slight rise in regulatory risk in reaction to weak economic conditions amid keener attention in the political arena, the company has maintained the utility's financial performance and credit metrics and stabilized its regulatory risk. FP&L has filed a new rate case aimed at a 7% base rate increase (2.6% net of a proposed fuel clause decrease) to take effect when a rate freeze expires at the end of 2012. The conduct and outcome of the case will be an effective gauge of the state's regulatory environment.

NER, the main subsidiary under unregulated NextEra Energy Capital Holdings Inc., engages in electric generation, marketing, and trading throughout the U.S. NER's focus is on geographic and fuel diversity and on developing environmentally advantageous facilities that benefit from public policy trends. The merchant generator's capacity of almost 16,600 MW consists of more than half wind turbines, one-quarter natural-gas-fired stations, and the rest mainly nuclear facilities. More than three-quarters of the wind projects and almost 60% of the total portfolio operate under largely fixed-price, long-term contracts. The rest of the portfolio, including one nuclear plant, is merchant capacity that can be exposed to market prices for its output. While a policy of actively hedging the commodity price risk of plant inputs and outputs helps to reduce the risks associated with merchant energy activities, NER faces an inherent level of commodity price risk. In addition, NER's extensive project financing (approximately 46% of installed capacity) of its assets diminishes its cash flow quality, but this is offset by lower financial risk. NER's risks permanently hinder NextEra's credit quality, especially in light of the influence that marketing and high-risk proprietary trading results have on NER's earnings and cash flows.

We believe the governance and financial policies for managing risk are adequate. NextEra's financial risk profile is characterized by acceptable credit metrics, "adequate" liquidity under our criteria, and a management attitude toward credit quality that supports ratings. Importantly, sound but complex financial structures employed at the project level substantiate significant off-credit treatment of largely nonrecourse debt at NextEra. Any indication that management is using or is willing to use its own financial resources to aid a troubled project in support of strategic objectives could lead Standard & Poor's to reevaluate the adjustments we make to NextEra's reported debt. We also factor in large adjustments to the credit analysis regarding hybrid debt instruments and power-purchase agreements at FP&L. Adjusted credit metrics in current economic and market conditions support the intermediate

Florida Power & Light Co.

financial profile. We expect the adjusted metrics to dip slightly in the near term and then return to historical levels, including funds from operations (FFO) to debt of around 25% and debt to capitalization about 50%.

Liquidity

The short-term rating on FP&L is 'A-2'. The parent manages liquidity (although FP&L has its own sources of liquidity), and we measure it on a consolidated basis. Liquidity is "adequate" under Standard & Poor's corporate liquidity methodology, which categorizes liquidity in five standard descriptors.

Projected sources of liquidity, mostly operating cash flow and available bank lines, exceed its projected uses, mainly necessary capital expenditures, debt maturities, and common dividends, by more than 1.2x. NextEra's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending or sell assets, its sound bank relationships, its solid standing in credit markets, and its generally prudent risk management further support our assessment of its liquidity as adequate.

Debt maturities total about \$800 million in the next 12 months. The company has a \$6.6 billion master revolving credit facility maturing in 2017 and more than \$8 billion in total facilities, with about \$4.7 billion currently available.

NextEra manages the liquidity needs of all its subsidiaries.

Liquidity is adequate based on the following factors and assumptions:

- We expect the company's liquidity sources (including FFO and credit facility availability) over the next 12 months to exceed its uses by more than 1.2x.
- Debt maturities over the next year are manageable.
- Even if EBITDA declines by 15%, we believe net sources will be well in excess of liquidity requirements.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit markets.

In our analysis, based on information available as of Dec. 31, 2011, we assumed liquidity of about \$8.9 billion over the next 12 months, consisting of projected FFO and availability under the credit facility. We estimate the company could use up to \$7 billion during the same period for capital spending, debt maturities, and shareholder dividends. NextEra's credit agreement includes a financial covenant limiting the consolidated debt-to-capitalization ratio, with which the company was compliant as of June 30, 2011.

Recovery analysis

We assign recovery ratings to FMBs issued by investment-grade U.S. utilities, which can result in issue ratings being notched above an issuer credit rating (ICR) on a utility depending on the rating category and the extent of the collateral coverage. We base our investment-grade FMB recovery methodology on the ample historical record of 100% recovery for secured bondholders in utility bankruptcies and on our view that the factors that supported those recoveries (the limited size of the creditor class, and the durable value of utility rate-based assets during and after a reorganization, given the essential service provided and the high replacement cost) will persist. Under our recovery criteria, when assigning issue ratings to utility FMBs, we consider our calculation of the maximum amount of FMB issuance under

Florida Power & Light Co.

the utility's indenture or other legally binding limitations relative to our estimate of the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, as well as any regulatory limitations on bond issuance. FMB ratings can exceed an ICR on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories.

FP&L's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+', which indicates our expectation for 100% recovery in a default scenario, and an issue rating one notch above the ICR.

Outlook

Our rating outlook on NextEra and its subsidiaries is stable and reflects a business profile that is equally affected by higher-risk merchant energy activities and a utility that still presents a better credit profile than its peers. We would consider a lower rating if regulatory risk worsened, operational efficiency at NER deteriorated, investment decisions at NER demonstrated a shift in risk appetite, or financial performance declined due to permanent changes in the Florida economy or merchant energy markets. We would consider a higher rating if a dramatic, sustainable shift in Florida's economic, political, and regulatory environment is accompanied by affirmative steps to reduce risk at NER.

We also base the stable outlook in part on Standard & Poor's baseline forecast that NextEra will attain adjusted FFO to debt of about 17% and adjusted debt to capital of about 52% over the near term, with those metrics improving thereafter. Although year-to-year fluctuations in weather (including hurricanes), fuel cost recovery, and burdensome spending on large solar projects may temporarily affect metrics, we expect the company to adapt its financial risk management and the pace of its capital spending to account for these and other factors so it can achieve better metrics. We could lower the ratings if the company falls short of these expectations.

Related Criteria And Research

- [Liquidity Descriptors For Global Corporate Issuers](#), Sept. 28, 2011
- [Standard & Poor's Updates Its U.S. Utility Regulatory Assessments](#), March 12, 2010
- [Business Risk/Financial Risk Matrix Expanded](#), May 27, 2009
- [Assessing U.S. Utility Regulatory Environments](#), Nov. 7, 2008
- [Criteria: Changes To Collateral Requirements For '1+' Recovery Ratings On U.S. Utility First Mortgage Bonds](#), Sept. 6, 2007

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The McGraw-Hill Companies

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

IN RE:

**PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) DOCKET NO. 120015-EI
COMPANY)**

**EXHIBIT __ (RAB-13)
OF
RICHARD A. BAUDINO**

**ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION**

**J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA**

July 2012

Comparing U.S. State Corporate Taxes to the OECD (2011)

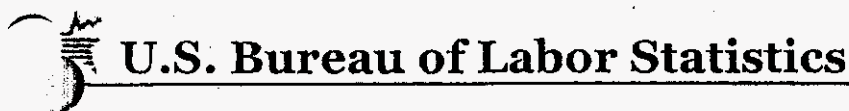
OECD Overall Rank	Country/State	Federal Rate 2010	Top State/Provincial Corporate Tax Rate	Combined Federal and State Rate (Adjusted) ¹
	Iowa	35	12	41.6
	Pennsylvania	35	9.99	41.5
	Minnesota	35	9.8	41.4
	Illinois	35	9.5	41.2
	Alaska	35	9.4	41.1
	New Jersey	35	9.36	41.1
	Rhode Island	35	9	40.9
	Maine	35	8.99	40.8
	California	35	8.84	40.7
	Delaware	35	8.7	40.7
	West Virginia	35	8.7	40.7
	Indiana	35	8.5	40.5
	New Hampshire	35	8.5	40.5
	Vermont	35	8.5	40.5
	Massachusetts	35	8.25	40.4
	Maryland	35	8.25	40.4
	Oregon	35	7.9	40.1
	Wisconsin	35	7.9	40.1
	Nebraska	35	7.81	40.1
	Idaho	35	7.6	39.9
	New Mexico	35	7.6	39.9
	Connecticut	35	7.5	39.9
	New York	35	7.1	39.6
	Kansas	35	7	39.6
1 (2)	Japan (2010 Rates)	30	11.51	39.54
	Arizona	35	6.97	39.5
	North Carolina	35	6.9	39.5
	Montana	35	6.75	39.4
2 (1)	United States	35	6.56	39.3
	Alabama	35	6.5	39.2
	Arkansas	35	6.5	39.2
	Tennessee	35	6.5	39.2
	Hawaii	35	6.4	39.2
	North Dakota	35	6.4	39.2
	Missouri	35	6.25	39.1
	Georgia	35	6.1	38.9
	Kentucky	35	6	38.9
	Oklahoma	35	6	38.9
	Virginia	35	6	38.9
	Florida	35	5.5	38.6
	Louisiana	35	8	38.5
	Mississippi	35	5	38.3
	South Carolina	35	5	38.3
	Utah	35	5	38.3
	*Michigan	35	4.95	38.2
	Colorado	35	4.63	38.0
	*Texas	35	0	35.0

OECD Overall Rank	Country/State	Federal Rate 2010	Top State/Provincial Corporate Tax Rate	Combined Federal and State Rate (Adjusted) ¹
	Washington	35	0	35.0
	*Ohio	35	0	35.0
	Nevada	35	0	35.0
	South Dakota	35	0	35.0
	Wyoming	35	0	35.0
2	Japan (2011 Rates)	30	11.51	34.54
3	France	34.43		34.4
4	Belgium	33.99		33.99
5	Germany	15.83	14.4	30.18
6	New Zealand	30		30
7	Spain	30		30
8	Australia	30		30
9	Mexico	30		30
10	Luxembourg	21.84	6.75	28.59
11	Canada	16.5	11.5	28
12	United Kingdom	28		28
13	Norway	28		28
14	Italy	27.5		27.5
15	Portugal	25	1.5	26.5
16	Sweden	26.3		26.3
17	Finland	26		26
18	Netherlands	25.5		25.5
19	Austria	25		25
20	Denmark	25		25
21	Korea	22	2.2	24.2
22	Greece	24		24
23	Switzerland	11.50	11.17	21.17
24	Turkey	20		20
25	Czech Republic	19		19
26	Hungary	19		19
27	Poland	19		19
28	Slovak Republic	19		19
29	Chile	17		17
30	Iceland	15		15
31	Ireland	12.5		12.5

Source: <http://www.oecd.org/dataoecd/26/56/33717459.xls>, Tax Foundation

* Ohio, Texas, and Washington state have gross receipts-syle business taxes, not traditional corporate income taxes. Michigan's gross receipts tax is not included

1. Combined rate adjusted for federal deduction of state tax. Iowa and Louisiana are also adjusted for federal deductibility



Occupational Employment Statistics

May 2011 State Occupational Employment and Wage Estimates

Florida

These occupational employment and wage estimates are calculated with data collected from employers in all industry sectors in metropolitan and nonmetropolitan areas in Florida.

Additional information, including the hourly and annual 10th, 25th, 75th, and 90th percentile wages and the employment percent relative standard error, is available in the [downloadable XLS files](#).

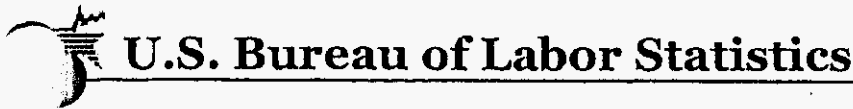
[Links to OES estimates for other areas and States](#)

Major Occupational Groups in Florida (Note--clicking a link will scroll the page to the occupational group):

- [00-0000 All Occupations](#)
- [11-0000 Management Occupations](#)
- [13-0000 Business and Financial Operations Occupations](#)
- [15-0000 Computer and Mathematical Occupations](#)
- [17-0000 Architecture and Engineering Occupations](#)
- [19-0000 Life, Physical, and Social Science Occupations](#)
- [21-0000 Community and Social Service Occupations](#)
- [23-0000 Legal Occupations](#)
- [25-0000 Education, Training, and Library Occupations](#)
- [27-0000 Arts, Design, Entertainment, Sports, and Media Occupations](#)
- [29-0000 Healthcare Practitioners and Technical Occupations](#)
- [31-0000 Healthcare Support Occupations](#)
- [33-0000 Protective Service Occupations](#)
- [35-0000 Food Preparation and Serving Related Occupations](#)
- [37-0000 Building and Grounds Cleaning and Maintenance Occupations](#)
- [39-0000 Personal Care and Service Occupations](#)
- [41-0000 Sales and Related Occupations](#)
- [43-0000 Office and Administrative Support Occupations](#)
- [45-0000 Farming, Fishing, and Forestry Occupations](#)
- [47-0000 Construction and Extraction Occupations](#)
- [49-0000 Installation, Maintenance, and Repair Occupations](#)
- [51-0000 Production Occupations](#)
- [53-0000 Transportation and Material Moving Occupations](#)

To sort this table by a different column, click on the column header

Occupation code	Occupation title (click on the occupation title to view an occupational profile)	Group	Employment	Employment RSE	Employment per 1000 jobs	Location quotient	Median hourly wage	Mean hourly wage	Annual mean wage	Me
00-0000	All Occupations	major	7,151,700	0.3%	1000.000	1.00	\$14.79	\$19.59	\$40,750	0.4
11-0000	Management Occupations	major	233,420	1.0%	32.638	0.68	\$43.73	\$50.62	\$105,290	0.4
11-1011	Chief Executives		14,830	2.3%	2.074	0.99	\$87.70	\$90.37	\$187,970	1.2



Occupational Employment Statistics

May 2011 National Occupational Employment and Wage Estimates

United States

These estimates are calculated with data collected from employers in all industry sectors in metropolitan and nonmetropolitan areas in every State and the District of Columbia.

Additional information, including the hourly and annual 10th, 25th, 75th, and 90th percentile wages and the employment percent relative standard error, is available in the [downloadable XLS files](#).

Major Occupational Groups (Note--clicking a link will scroll the page to the occupational group):

- [00-0000All Occupations](#)
- [11-0000Management Occupations](#)
- [13-0000Business and Financial Operations Occupations](#)
- [15-0000Computer and Mathematical Occupations](#)
- [17-0000Architecture and Engineering Occupations](#)
- [19-0000Life, Physical, and Social Science Occupations](#)
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- [49-0000Installation, Maintenance, and Repair Occupations](#)
- [51-0000Production Occupations](#)
- [53-0000Transportation and Material Moving Occupations](#)

To sort this table by a different column, click on the column header

Occupation code	Occupation title (click on the occupation title to view an occupational profile)	Group	Employment	Employment RSE	Employment per 1000 jobs	Median hourly wage	Mean hourly wage	Annual mean wage	Mean wage RSE
00-0000	All Occupations	major	128,278,550	0.1%	1000.000	\$16.57	\$21.74	\$45,230	0.1%
11-0000	Management Occupations	major	6,183,820	0.2%	48.206	\$44.65	\$51.64	\$107,410	0.1%
11-1011	Chief Executives		267,370	0.5%	2.084	\$80.25	\$84.88	\$176,550	0.4%
11-1021	General and Operations Managers		1,805,030	0.3%	14.071	\$45.74	\$55.04	\$114,490	0.2%
11-1031	Legislators		62,180	1.3%	0.485	(4)	(4)	\$38,860	0.8%

CERTIFICATE OF SERVICE
DOCKET NO. 120015-EI

I HEREBY CERTIFY that a copy of the prefiled Testimony and Exhibits of the South Florida Hospital and Healthcare Association has been furnished by electronic mail, U.S. Mail or Federal Express, this 2nd day of July, 2012 to the following:

Florida Power & Light Company Ken Hoffman R. Wade Litchfield 215 South Monroe Street, Suite 810 Tallahassee, FL 32301-1858 Phone: (850) 521-3900 Fax: (850) 521-3939 Email: ken.hoffman@fpl.com	Florida Retail Federation Robert Sheffel Wright John T. LaVia, III Gardner, Bist, Wiener, Wadsworth, Bowden, Bush, Dee, LaVia & Wright, P.A. 1300 Thomaswood Drive Tallahassee, FL 32308 Phone: (850) 385-0070 Fax: (850) 385-5416 Email: schef@gbwlegal.com
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/s/ Kenneth L. Wiseman
Kenneth L. Wiseman