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HARIDOPOLOS
President of the Senate

STATE OF FLORIDA
OFFICE OF PUBLIC COUNSEL

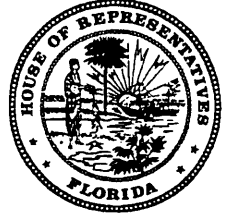
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Speaker of the
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July 2, 2012

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COMMISSION
CLERK

Ms. Ann Cole, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 1200015-EI

Dear Ms. Cole:

The Office of Public Counsel's PFT/EX's of Kevin W. O'Donnell, CFA, Jacob Pous, J. Randall Woolridge, Daniel J. Lawton, Donna Ramas, CPA, Helmuth Schultz III, and David P. Vondle, CMC is being filed pursuant to the October 26, 2011 Memorandum of Understanding.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Joseph A. McGlothlin

Joseph A. McGlothlin
Associate Public Counsel

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cc: All parties of record

04417 JUL -2 2
FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for increase in rates)
by Florida Power & Light Company)
_____)

Docket No. 120015-EI

FILED: July 2, 2012

DIRECT TESTIMONY

OF

KEVIN W. O'DONNELL, CFA

ON BEHALF OF THE CITIZENS OF THE STATE OF

FLORIDA

04417 JUL -2 2012
FPSC-COMMUNICATIONS SECTION

1 **DIRECT TESTIMONY**

2 **OF**

3 **Kevin W. O'Donnell, CFA**

4 On Behalf of the Office of Public Counsel

5 Before the

6 Florida Public Service Commission

7 Docket No. 120015-EI

8 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS**
9 **FOR THE RECORD.**

10 A. My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants,
11 Inc. My business address is 1350 Maynard Rd., Suite 101, Cary, North Carolina
12 27511.

13
14 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
15 **PROCEEDING?**

16 A. I am testifying on behalf of the Florida Office of Public Counsel ("OPC"), which
17 represents the interests of consumers in utility rate proceedings before the Florida
18 Public Service Commission ("FPSC" or "Commission").

19
20 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
21 **RELEVANT EMPLOYMENT EXPERIENCE.**

1 A. I have a Bachelor of Science in Civil Engineering from North Carolina State
2 University and a Master of Business Administration from the Florida State
3 University. I have worked in utility regulation since September 1984, when I
4 joined the Public Staff of the North Carolina Utilities Commission (NCUC). I left
5 the NCUC Public Staff in 1991 and have worked continuously in utility
6 consulting since that time, first with Booth & Associates, Inc. (until 1994), then as
7 Director of Retail Rates for the North Carolina Electric Membership Corporation
8 (1994-1995), and since then in my own consulting firm. I have been accepted as
9 an expert witness on rate of return, cost of capital, capital structure, cost of
10 service, and other regulatory issues in general rate cases, fuel cost proceedings,
11 and other proceedings before the North Carolina Utilities Commission, the South
12 Carolina Public Service Commission (SC PSC), the Virginia State Commerce
13 Commission (VSCC), the FPSC and the Minnesota Public Utilities Commission
14 (MN PUC). In 1996, I testified before the U.S. House of Representatives,
15 Committee on Commerce and Subcommittee on Energy and Power, concerning
16 competition within the electric utility industry. Additional details regarding my
17 education and work experience are set forth in Appendix A to my direct
18 testimony.

19

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
21 **PROCEEDING?**

1 A. The purpose of my testimony in this proceeding is to present to the Commission
2 my findings as to the proper capital structure for Florida Power & Light Company
3 (“FPL” or “Company”).
4

5 **Q. HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY OF**
6 **OTHER OPC WITNESSES?**

7 A. Based on the capital structure that I recommend, OPC witness Dr. Randall
8 Woolridge will develop and quantify the return on equity capital that reflects the
9 risk of an investment in FPL, including the financial risk associated with my
10 recommended capital structure. Dr. Woolridge will also quantify the lower return
11 on equity that should be associated with the much higher equity ratio, and
12 correspondingly lower financial risk, of FPL that the Commission should approve
13 in the event the Commission declines to adopt my recommendation and instead
14 approves the 59.6% equity ratio sought by FPL. OPC witness Dan Lawton will
15 then evaluate the impact of OPC-recommended capital structure, return on equity,
16 and all other OPC adjustments on the financial integrity of FPL as measured and
17 perceived by the investment community.
18

19 **Q. PLEASE SUMMARIZE YOUR PRIMARY RECOMMENDATION IN**
20 **THIS CASE.**

21 A. After reviewing the merits of FPL’s proposed capital structure and several
22 alternatives for rate-setting purposes, I recommend that the Commission employ a

1 capital structure that reflects the imputation of a 50% common equity ratio of
2 investor-supplied equity and debt capital into the overall capital structure of FPL.

3

4 **Q. HOW IS YOUR TESTIMONY STRUCTURED?**

5 A. The remainder of my testimony is divided into nine sections as follows:

6 I. Economic and Legal Guidelines for Fair Rate of Return

7 II. Capital Structure

8 III. Summary

9

10 **I. ECONOMIC AND REGULATORY POLICY**

11 **GUIDELINES FOR A FAIR RATE OF RETURN**

12 **Q. PLEASE BRIEFLY DESCRIBE THE ECONOMIC AND REGULATORY**
13 **POLICY CONSIDERATIONS YOU HAVE TAKEN INTO ACCOUNT IN**
14 **DEVELOPING YOUR RECOMMENDATION CONCERNING THE**
15 **CAPITAL STRUCTURE THAT THE COMMISSION SHOULD EMPLOY**
16 **FOR RATEMAKING PURPOSES IN THIS PROCEEDING.**

17 A. The theory of utility regulation assumes that public utilities are natural
18 monopolies. Historically, it was believed or assumed that it was more efficient
19 for a single firm to provide a particular utility service than multiple firms. Even
20 though deregulation for the procurement of natural gas and generation of electric
21 power and energy is spreading, the delivery of these products to end-use
22 customers will continue to be considered a natural monopoly for the foreseeable

1 future. When it is deemed that a perceived natural monopoly does in fact exist,
2 regulatory authorities regulate the service areas in which regulated utilities
3 provide service, e.g. by assigning exclusive franchised territories to public utilities
4 or by determining territorial boundaries where disputes arise, in order for these
5 utilities to provide services more efficiently and at the lowest possible cost. In
6 exchange for the protection of its monopoly service area, the utility is obligated to
7 provide adequate service at a fair, regulated price.

8
9 This naturally raises the question - what constitutes a fair price? The generally
10 accepted answer is that a prudently managed utility should be allowed to charge
11 prices that allow the utility the opportunity to recover the reasonable and prudent
12 costs of providing utility service and the opportunity to earn a fair rate of return
13 on invested capital. This fair rate of return on capital should allow the utility,
14 under prudent management, to provide adequate service and attract capital to meet
15 future expansion needs in its service area. Obviously, since public utilities are
16 capital-intensive businesses, the cost of capital is a crucial issue for utility
17 companies, their customers, and regulators. If the allowed rate of return is set too
18 high, then consumers are burdened with excessive costs, current investors receive
19 a windfall, and the utility has an incentive to overinvest. If the return is set too
20 low, adequate service is jeopardized because the utility will not be able to raise
21 new capital on reasonable terms.

1 In the case of Federal Power Commission v. Hope Natural Gas Company, 320
2 U.S. 591 (1944), the U.S. Supreme Court recognized that utilities compete with
3 other firms in the market for investor capital. Historically, this case has provided
4 legal and policy guidance concerning the return which public utilities should be
5 allowed to earn.

6

7 In that case, the U.S. Supreme Court specifically stated that:

8 "...the return to the equity owner should be commensurate with
9 returns on investments in other enterprises having corresponding
10 risks. That return, moreover, should be sufficient to assure
11 confidence in the financial integrity of the enterprise so as to
12 maintain credit and attract capital." (320 U.S. at 603)

13

14

15 **Q. HOW DO THE ECONOMIC PRINCIPLES AND COURT**
16 **PRONOUNCEMENTS THAT YOU HAVE DESCRIBED RELATE TO**
17 **CAPITAL STRUCTURE?**

18 A. The short answer is that the choice of capital structure affects the risk of the
19 enterprise, and the appropriate rate of return is a function of that risk.

20

21 **Q. PLEASE EXPLAIN.**

22 A. Since every equity investor faces a risk-return tradeoff, the issue of risk is an
23 important element in determining the fair rate of return for a utility. As I will
24 develop in greater detail below, the risks that a regulated utility faces can be
25 broadly categorized as financial risk and business risk. Financial risk refers to the
26 possibility that the utility may not be able to meet its debt obligations. As the

1 amount of debt relative to equity capital increases, the amount of money
2 necessary to pay the interest on debt increases, and financial risk increases.
3 Similarly, as the amount of debt relative to equity capital decreases, financial risk
4 decreases. This is another way of saying that the relative amounts of equity and
5 debt in the total capital raised by the utility bear directly on the risk perceived by
6 investors, and thus to the rate of return that is commensurate with that risk. The
7 task of the utility is to employ prudent and reasonable levels of debt and equity.
8 The related task of the regulator is to adjust those levels of equity and debt for
9 ratemaking purposes if adjustments to the utility's actual capital structure are
10 necessary to prevent customers from paying rates that are unreasonably high.

11

12 **II. Capital Structure**

13 **Q. MR. O'DONNELL, WHAT IS A CAPITAL STRUCTURE?**

14 A. The term "capital structure" refers to the relative percentages of debt, equity, and
15 other financial components that are used to finance a company's investments.

16

17 For purposes of simplicity, there are basically three financing methods. The first
18 method is to finance an investment with common equity, which essentially
19 represents ownership in a company and its investments. The portion of common
20 equity returns, that takes the form of dividends to stockholders, are not tax
21 deductible which, on a pre-tax basis alone, makes this form of financing about
22 40% more expensive than debt financing, for which interest is a tax-deductible

1 expense of the company. The second form of corporate financing is preferred
2 stock, which is normally used to a much smaller degree in capital structures.
3 Dividend payments associated with preferred stock are not tax deductible.
4 Corporate debt is the other major form of financing used in the corporate world.
5 There are two basic types of corporate debt: long-term and short-term. Long-
6 term debt is generally understood to be debt that matures in a period of more than
7 one year. Short-term debt lasts one year or less. Both long-term and short-term
8 debt represent liabilities on the company's books that must be serviced with
9 payments prior to any common stockholders or preferred stockholders receiving a
10 return on their investment.

11

12 **Q. HOW IS A UTILITY'S TOTAL RETURN CALCULATED?**

13 A. A utility's total return is developed by multiplying the component percentages of
14 its capital structure represented by the percentage ratios of the various forms of
15 capital financing relative to the total financing on the company's books by the
16 cost rates associated with each form of capital, and then summing the results over
17 all of the capital components. When these percentage ratios are applied to various
18 cost rates, a total after-tax rate of return is developed. Since the utility must pay
19 dividends associated with common equity and preferred stock with after-tax
20 funds, the post-tax return is then converted to a pre-tax return by grossing up the
21 common equity and preferred stock returns for taxes. The final pre-tax return is
22 then multiplied by the Company's rate base in order to develop the amount of

1 money that customers must pay to the utility for its return on investment and tax
2 payments associated with that investment.

3

4 **Q. HOW DOES CAPITAL STRUCTURE IMPACT THIS CALCULATION?**

5 A. From the above discussion, it is clear that costs to consumers are greater when the
6 utility finances a higher proportion of its rate base investment with common
7 equity and preferred stock versus long-term debt. However, long-term debt,
8 which is first in line for repayment, is more risky to the utility than is common
9 equity, due to the fact that debt is a contractual obligation, as opposed to common
10 equity, which involves no contractual obligations. As a result, regulators and the
11 utility must balance the needs of consumers, who desire low rates (best attained
12 through the use of long-term debt), versus the desire of the utility to protect its
13 stockholders' interests (by minimizing the use of long-term debt).

14

15 **Q. WHAT DOES THE CAPITAL STRUCTURE OF A COMPANY**
16 **REPRESENT TO INVESTORS?**

17 A. As noted above, any type of debt, long-term or short-term, is more risky than
18 common equity, because debt holders must be paid prior to equity investors.
19 Since debt must be repaid in the future along with financing costs, a level of
20 uncertainty is raised by equity investors because the Company must have enough
21 future resources to repay the debt in the future. This level of uncertainty is called
22 financial risk in the investment community. In general, the more debt found in a

1 Company's capital structure, the more financial risk that must be borne by
2 investors. To bear this extra financial risk, investors will require higher returns to
3 compensate for the added risk.
4

5 **Q. HAVE YOU REVIEWED THE CAPITAL STRUCTURE REQUESTED BY**
6 **THE COMPANY IN THIS PROCEEDING?**

7 A. Yes, I have.
8

9 **Q. WHAT CAPITAL STRUCTURE IS FPL SEEKING IN THIS CASE?**

10 A. According to the testimony of FPL witness Moray P. Dewhurst, when focusing
11 solely on investor-provided sources of capital (debt and equity), the Company is
12 seeking approval of a capital structure that consists of a 59.6% equity ratio.
13 However, based on the testimony of FPL witness Kim Ousdahl, the Company has
14 made several adjustments to its proposed, investor-provided capital structure to
15 reflect additional sources of capital, such as deferred income taxes and customer
16 deposits, which the Commission takes into account when quantifying a utility's
17 revenue requirements. The end result of these adjustments, along with the
18 requested 11.5% return on equity results in a requested total return of 7.00%. The
19 Company's investor-supplied capital structure as proposed by Mr. Dewhurst and
20 the final adjusted capital structure as contained in Ms. Ousdahl's testimony can be
21 found in Exhibit KWO-1.

1 **Q. HOW DOES THE CAPITAL STRUCTURE IN THIS PROCEEDING**
2 **IMPACT CUSTOMER BILLS?**

3 **A.** The cost of common equity is higher than the cost of long-term debt, so that a
4 higher equity percentage will translate into higher costs to FPL's customers with
5 no corresponding improvements in quality of service. In a pure mathematical
6 sense, the cost of common equity is more than twice as expensive as the cost of
7 long-term debt.

8

9 Long-term debt is a financial promise made by a company and is carried as a
10 liability on the company's books. Common stock is ownership in the company.
11 Due to the nature of this investment, common stockholders require higher rates of
12 return to compensate them for the extra risk involved in owning part of the
13 company, versus having a promissory note from the company.

14

15 Secondly, the tax treatment of common stock is more costly than the tax treatment
16 of debt. Public corporations, such as NextEra, can write-off interest payments
17 associated with debt financing. Corporations are not, however, allowed to deduct
18 common stock dividend payments for tax purposes. All dividend payments must
19 be made with after-tax funds, which are more expensive than pre-tax funds. Since
20 the regulatory process allows utilities to recover all expenses, including taxes,
21 rates must be set so that the utility pays all its taxes and has enough left over to
22 pay its common stock dividend. If a utility is allowed to use a capital structure for

1 ratemaking purposes that is overweighed in common stock, customers will be
2 forced to pay the incrementally higher revenue requirement, which includes the
3 associated income tax burden, thus resulting in unfairly, unreasonably, and
4 unnecessarily high rates. This situation would violate the fundamental principles
5 of utility regulation that rates must be fair but only high enough to support the
6 utility's provision of safe, adequate, and reliable service at a fair price.

7
8 **Q. FOCUSING AGAIN ON THE INVESTOR-PROVIDED SOURCES OF**
9 **EQUITY AND DEBT, DO YOU AGREE WITH THE COMPANYS**
10 **REQUESTED CAPITAL STRUCTURE IN THIS PROCEEDING?**

11 A. No. First and foremost, FPL's requested capital structure in this proceeding is
12 simply unreasonable and inconsistent with other comparable electric utilities.
13 Secondly, the Company's requested capital structure does not reflect the true
14 risk/return relationship inherent in an investment in FPL. As a result, FPL's
15 requested cost of capital in this proceeding is inconsistent with common equity
16 and long-term debt investor expectations.

17
18 **Q. WHY DO YOU BELIEVE THAT THE COMPANY'S REQUESTED**
19 **CAPITAL STRUCTURE IN THIS PROCEEDING IS UNREASONABLE?**

20 A. As stated above, the higher the equity ratio of the utility, the higher the rates that
21 captive ratepayers must pay in order for the utility to earn its allowed return on
22 equity. In comparison to other electric utilities, the requested capital structure of
23 FPL in this case is grossly excessive for ratemaking purposes. In Exhibit KWO-

1 2, I have provided the common equity ratios for 2010 and 2011 for Company
2 witness William E.Avera's comparable group as compared to FPL in this case.
3 As can be seen in this exhibit, the average common equity ratio of companies in
4 Dr. Avera's comparable group is 47.2%, as compared to the FPL-requested
5 common equity ratio in this proceeding of 59.6%.

6
7 **Q. HOW DO YOU RESPOND TO A CLAIM THAT COMPARING A**
8 **SUBSIDIARY COMPANY, SUCH AS FPL, TO WITNESS AVERA'S**
9 **HOLDING COMPANIES IS NOT A PROPER COMPARISON?**

10 A. The provision of electric power supply service in a monopoly market has very
11 low business risk. To the extent that witness Avera's comparable group contains
12 companies that have any business ventures that are more risky than monopoly
13 electric service companies, the risk of FPL would be lower than the overall risk of
14 Dr. Avera's comparable group. Hence, if anything, such a comparison would be
15 over stating FPL's required rate of return.

16
17 **Q. WHAT IS THE AVERAGE COMMON EQUITY RATIO OF OPC**
18 **WITNESS WOOLRIDGE'S PROXY GROUP?**

19 A. According to Exhibit JRW-4 of Dr. Woolridge's testimony, the average common
20 equity ratio of his comparable group of utilities was 45.4% which, again, is far
21 less than FPL's requested common equity ratio of 59.6%.

1 **Q. DO YOU HAVE ANOTHER REFERENCE POINT WITH WHICH TO**
2 **COMPARE FPL'S REQUESTED COMMON EQUITY RATIO IN THIS**
3 **CASE?**

4 A. Yes. Exhibit KWO-3 provides the average common equity ratio for all electric
5 utilities followed by Value Line. It shows an average common equity ratio of
6 47.0% which, again, is much lower than FPL's requested 59.6% common equity
7 ratio in this case.

8

9 **Q. HOW DOES FPL'S REQUESTED CAPITAL STRUCTURE IN THIS**
10 **CASE COMPARE TO THE CAPITAL STRUCTURE OF ITS PARENT**
11 **COMPANY, NEXTERA ENERGY?**

12 A. The NextEra consolidated capital structure contains much less common equity
13 than does FPL's. Exhibit KWO-4 shows the NextEra consolidated capital
14 structure, which consists of only 39.4% common equity.

15

16 **Q. WHY IS THE COMMON EQUITY RATIO OF NEXTERA ENERGY SO**
17 **MUCH LESS THAN THE COMMON EQUITY RATIO OF FPL?**

18 A. NextEra Energy has chosen to fund its unregulated operations with a much more
19 debt-heavy capital structure than its regulated utility, FPL. The capital structure
20 of NextEra's unregulated activities is shown in Exhibit KWO-5. When FPL is
21 excluded and only the unregulated entities are measured, the common equity ratio
22 is only 21.1%.

1

2

A side-by-side comparison of the common equity ratios of NextEra, FPL, and

3

NextEra's unregulated entities can be seen graphically in Exhibit KWO-6.

4

5 **Q.**

**GENERALLY, WHAT IS THE RELATIONSHIP BETWEEN THE
RISKINESS OF AN ENTERPRISE AND THE PERCENTAGE OF
EQUITY THAT IS APPROPRIATE IN THE CAPITAL STRUCTURE OF
THAT ENTERPRISE?**

8

9 **A.**

Prudent management practices attempt to ameliorate higher business risk with
offsetting, lower financial risk. In other words, a company that is not regulated
and operates in a highly competitive industry will, most likely, attempt to dampen
its business risk with a capital structure that has a comparatively lower amount of
debt, which translates into a higher equity ratio.

10

11

12

13

14

In the case of NextEra's unregulated subsidiaries, which operate in higher risk
areas than FPL, the Company has reversed this simple logic and given the
unregulated subsidiaries a higher, and not lower, debt ratio. The fact that the
regulated monopoly, FPL, has a 59.6% common equity ratio and NextEra's
unregulated entities have a 21.1% common equity ratio is simply illogical and
defies basic financial wisdom.

15

16

17

18

19

1 **Q. WHY DO YOU SAY THAT THE UNREGULATED AFFILIATES ARE**
2 **MORE RISKY THAN FPL?**

3 A. The unregulated affiliates of NextEra operate in non-regulated businesses such as
4 nuclear generation, gas generation and wind energy without traditional monopoly
5 markets. These entities face competition for market share and do not enjoy
6 automatic cost recovery clauses or the ability to seek additional revenues through
7 filed rate cases. The earnings of these unregulated affiliates are typically more
8 volatile than those of regulated utilities.

9

10 **Q. IF THE UNREGULATED SUBSIDIARIES OF NEXTERA ENERGY, INC.**
11 **ARE RISKIER THAN FPL, WHY ARE THEIR EQUITY/DEBT RATIOS**
12 **THE INVERSE OF WHAT ONE WOULD EXPECT TO SEE, BASED ON**
13 **CONSIDERATIONS OF RELATIVE RISK?**

14 A. This reversal of the risk/return relationship would be nonsensical in the normal
15 business world, but it does make sense in utility regulation, where captive
16 ratepayers are required to pay revenues to support a set return on equity. The
17 parent holding company has an incentive to maximize the amount of its equity
18 investment in the less risky utility, with the knowledge that the returns on that
19 investment will be relatively safer and more certain. The parent can use dividends
20 from its equity investment in the utility to fund its unregulated ventures.

1 Q. PLEASE EXPLAIN HOW NEXTERA'S UNREGULATED BUSINESSES
2 AFFECT THE RETURN ON EQUITY THAT WILL BE GRANTED IN
3 THIS PROCEEDING?

4 A. There are two primary risks, business risk and financial risk, which investors
5 consider when making an investment in a publicly traded company. Business risk
6 reflects the ongoing viability of a particular business or businesses. Financial risk
7 represents the creditworthiness of the operating entity—i.e., the ability of the
8 entity to service its debt obligations.

9
10 In the case of business risk, it is important to note that FPL is a wholly-owned
11 subsidiary of NextEra Energy. A common stock investor cannot single out FPL
12 for purchase. Instead, the investor must purchase the stock of NextEra Energy.
13 When an investor makes that purchase in NextEra, the investor accepts the low
14 business risk of the utility, FPL, as well as the higher business risks associated
15 with the Company's unregulated ventures. This conglomerated mix of the low-
16 risk utility in FPL mixed with the high business risks of the other NextEra
17 subsidiaries is all reflected in the price of the NextEra stock.

18
19 In the case of NextEra, it is a well-known fact that the holding company has
20 multiple unregulated entities, such as clean energy operations, which present
21 greater business risk than does FPL. These entities operate in competitive
22 environments without the safety net of captive customers, as is the case with FPL.

1 Hence, the business risk of NextEra is higher than the corresponding business risk
2 of FPL on a stand-alone basis. This higher business risk is taken into account by
3 investors when pricing the NextEra stock and, by default, must be taken into
4 consideration in this case. The Company's rate of return witness, Dr. Avera,
5 recognizes this link when he uses NextEra as the benchmark around which he
6 developed his comparable group (Avera, p. 38, l. 7-10).

7
8 A common stock investment in NextEra also entails financial risk, in that an
9 investor must accept the fact that bondholders will receive payments that are due
10 on the outstanding debt before equity investors receive a return. Again, an
11 investor cannot buy the stock of FPL alone but, instead, must purchase the
12 common stock of NextEra Energy. When examining the financial risk of NextEra
13 versus that of FPL, it is critical to note that the equity ratio of the low-risk utility,
14 FPL, is much higher than NextEra's unregulated operations and the consolidated
15 company of NextEra Energy.

16
17 **Q. DO FPL'S LONG TERM DEBT INVESTORS FPL HAVE SIMILAR**
18 **CONCERNS REGARDING NEXTERA'S UNREGULATED ACTIVITIES?**

19 **A.** Yes. Investors in debt placements recognize the utility holding format and
20 understand that, if an unregulated affiliate ever gets into financial trouble, it is
21 very likely that the parent holding company can lean on its regulated utility for
22 funding to bail out the unregulated subsidiary.

1

2 **Q. HOW DO YOU KNOW THAT DEBT INVESTORS EXPECT THE**
3 **PARENT HOLDING COMPANY TO GUARANTEE PAYMENT OF**
4 **UNREGULATED SUBSIDIARIES?**

5 A. The following two statements can be found in the NextEra Energy Capital
6 Holdings, Inc. prospectus for \$350,000,000 Series C Debentures due June 1,
7 2014:

8 NEE Capital's corporate parent, NEE, has agreed to absolutely,
9 irrevocably and unconditionally guarantee the payment of
10 principal, interest and premium, if any, on the Debentures. The
11 Debentures and the guarantee are unsecured and unsubordinated
12 and rank equally with other unsecured and unsubordinated
13 indebtedness from time to time outstanding of NEE Capital and
14 NEE, respectively. NEE Capital does not plan to list the
15 Debentures on any securities exchange. (p. S-1)

16

17 NEE guarantees many of the obligations of its consolidated
18 subsidiaries, other than FPL, through guarantee agreements with
19 NEE Capital. NEE Capital, in turn, guarantees many of the
20 obligations of its consolidated subsidiaries through additional
21 guarantee agreements. These guarantees may require NEE or NEE
22 Capital to provide substantial funds to their respective subsidiaries
23 or their creditors or counterparties at a time when NEE or NEE
24 Capital is in need of liquidity to meet its own financial
25 obligations. (p. S-21)

26

27

28 **Q. WHAT IS THE SIGNIFICANCE OF THE PARENT HOLDING**
29 **COMPANY GUARANTEEING THE DEBT OF UNREGULATED**
30 **SUBSIDIARIES IN THIS CASE?**

31 A. The credit rating of a utility that is part of a utility holding company with
32 unregulated affiliates is typically lower than it would be if the utility was a stand-
33 alone entity with no ties to the more risky unregulated affiliates. Since the credit

1 ratings of utilities that are controlled by utility holding companies are lower than
2 for utilities that are not part of utility holding companies with more risky
3 unregulated sister companies, the price (interest rate) of debt investments is also
4 higher for these utilities. Hence, in this case, the price that investors are paying to
5 support the debt of FPL is higher than it would be if FPL was truly a stand-alone
6 entity.

7
8 **Q. DO YOU HAVE ANY EVIDENCE THAT SUPPORTS YOUR**
9 **STATEMENT THAT THE HIGHER RISK OF UNREGULATED**
10 **AFFILIATES CREATES HIGHER INTEREST COSTS FOR**
11 **REGULATED UTILITIES THAT ARE PART OF A HOLDING**
12 **COMPANY?**

13 A. Yes. Standard & Poors (S&P) is the pre-eminent bond rating agency in the world.
14 Two years ago, S&P made the following statement in regard to the credit ratings
15 of a utility subsidiary and its parent company:

16
17 Utility subsidiaries' ratings are linked to the consolidated group's
18 credit quality because of the financial linkage of the parent to the
19 subsidiary and the likelihood that, in times of stress or bankruptcy,
20 the parent will consider the utility subsidiary as a resource to be
21 used. Accordingly, our base-case financial analysis primarily
22 focuses on the performance, cash flow, and balance sheet of the
23 consolidated group.
24

25 Source: Methodology: Differentiating The Issuer Credit Ratings Of A
26 Regulated Utility Subsidiary And Its Parent, **Standard &**
27 **Poors**, March 11, 2010
28
29

1 **Q. DO YOU BELIEVE THAT FPL'S CREDIT RATING WILL BE**
2 **NEGATIVELY IMPACTED IF THE COMMISSION DOES NOT GRANT**
3 **THE COMPANY'S REQUESTED COMMON EQUITY RATIO OF 59.6%?**

4 A. No, I do not.

5

6 First, as we have seen above, S&P looks at the consolidated capital structure
7 when considering credit ratings. Stockholders consider the consolidated capital
8 structure as well when considering stock purchases. Hence, the consolidated
9 capital structure is the primary driver for investments. In addition, while the
10 market will pay attention to the overall revenue increase granted in this case, the
11 actual capital structure used for setting the revenue requirement in this regulatory
12 proceeding will have little bearing on FPL's credit rating. The market is going to
13 examine the actual capital structures of NextEra and FPL as opposed to how this
14 Commission handles the matter for purposes of setting the revenue requirement.
15 If anything, the fact that NextEra's consolidated capital structure consists of a
16 common equity ratio much lower than FPL's indicates that ratepayers of FPL are
17 already paying more today in interest costs than they would be if FPL were a
18 stand-alone company. Hence, it seems only fair that ratepayers should receive
19 some of the benefit of this lower common equity ratio.

20

21 **Q. DOES FPL PROVIDE NEXTERA ENERGY A SET DIVIDEND**
22 **PAYMENT EACH YEAR?**

1 A. FPL does pay NextEra a dividend each year, but the amount of that payment
2 varies from year to year. Exhibit KWO-7 provides a graph of dividend payments
3 from 1990 through 2011 from FPL to NextEra.

4
5 As can be seen in this exhibit, the dividend payments from FPL to NextEra have
6 varied from a net payment of \$410 million from NextEra to FPL to a \$1.1 billion
7 payment from FPL to NextEra. I believe this chart shows the “linkage” as noted
8 by S&P above, in that, NextEra can lean on FPL in times of stress to take
9 whatever dividend payment it needs to maintain the sanctity of FPL’s sister
10 subsidiaries.

11
12 **Q. DO YOU BELIEVE INVESTORS EXAMINE ONLY THE FPL CAPITAL
13 STRUCTURE WHEN CONSIDERING A STOCK PURCHASE IN FPL?**

14 A. No. Investors cannot buy stock in FPL. Investors can only buy stock in NextEra
15 Energy if they want any investment at all in FPL. Hence, equity investors
16 examine the consolidated capital structure of NextEra when considering
17 investments into NextEra and FPL.

18
19 **Q. GIVEN YOUR DETERMINATION THAT THE 59.6% EQUITY RATIO
20 SOUGHT BY FPL IS TOO HIGH, WHAT ALTERNATIVES TO FPL’S
21 PROPOSAL HAVE YOU CONSIDERED?**

1 A. The capital structure that most accurately reflects investor expectations is the
2 NextEra consolidated capital structure. The unadjusted equity ratio of the
3 consolidated capital structure, as stated above, is 39.4%.

4
5 The advantage of using the consolidated capital structure in this proceeding is that
6 this capital structure is the one viewed by the market when making investment
7 decisions on common equity and long-term debt. Hence, the link between the
8 stock price of NextEra and its capital structure is pure and absolute. The
9 disadvantage is that the revenue requirement impact in this case would, most
10 likely, be unexpected to the investment community and to the Company. While I
11 believe the consolidated capital structure is the most accurate capital structure to
12 employ in this case, I do recognize the impact that a \$450 million revenue
13 reduction would have in this case if the consolidated capital structure were to be
14 employed by the Commission.

15
16 I also considered using the average equity ratio of Dr. Avera's proxy group of
17 companies, which is 47.3%, and/or the corresponding composite equity ratio of
18 Dr. Woolridge's comparable group, which is 45.4%. The advantage of using the
19 average capital structure of the proxy group of either witness is that capital
20 structure would be reflective of the manner in which the utility industry broadly
21 balances the issue of how much leverage to employ.

1 Finally, I considered the appropriateness of a capital structure that consists of 50%
2 common equity and 50% debt to be used in conjunction with Witness Ousdahl's
3 capital adjustments. The advantages of this proposed capital structure are that: (1)
4 the equity ratio is still higher than the majority of other electric utilities within the
5 industry, (2) the concept of a 50/50 capital structure is easy for the investment
6 community to understand, and (3) this capital structure is approximately halfway
7 between the Company's requested capital structure of 59.6% equity and the
8 capital structure that I believe is the most theoretically accurate structure to use in
9 this proceeding, which is the consolidated capital structure, to use in this
10 proceeding. The revenue requirement impact of replacing FPL's requested,
11 59.6% equity capital structure with a 50/50 capital structure is approximately
12 \$214 million.

13
14 **Q. WHICH EQUITY RATIO DO YOU RECOMMEND FOR RATEMAKING**
15 **PURPOSES IN THIS CASE?**

16 A. I recommend that the Commission find the middle ground between the
17 Company's requested capital structure, which I believe is unreasonable and an
18 unnecessary burden on ratepayers, and the consolidated capital structure, which I
19 believe is the capital structure considered by investors of NextEra Energy and
20 FPL. To be specific, I recommend that the Commission employ a capital
21 structure of 50% common equity and 50% debt, combined with the capital

1 adjustments as outlined by FPL witness Ousdahl. My specific recommended
2 capital structure can be seen in Exhibit KWO-8.

3

4 I will also accept the cost rates of customer deposits, short-term debt, deferred
5 income taxes, and investment tax credits as proposed by the Company. I have
6 included the return on equity recommended by OPC witness Woolridge.

7

8 **Q. WHAT IS THE OVERALL RATE OF RETURN ON INVESTMENT THAT**
9 **THE COMMISSION SHOULD APPLY USING YOUR RECOMMENDED**
10 **CAPITAL STRUCTURE AND THE RECOMMENDED RETURN ON**
11 **EQUITY FROM DR. WOOLRIDGE?**

12 A. Utilizing the 50% equity ratio that I recommend and the 9% fair and reasonable
13 return on equity that Dr. Woolridge associates with that capital structure, the
14 overall rate of return on investment recommended by OPC in this case is 5.56%.
15 The recommended OPC capital structure and return on equity can be seen in
16 Exhibit KWO-8. However, in the event the Commission allows the 59.7% equity
17 ratio sought by FPL, for the reasons developed by Dr. Woolridge, the return on
18 equity associated with the lower financial risk would be 8.5%, and the resulting
19 overall return on investment would be 5.62%. This capital structure and
20 associated 8.5% return on equity can be seen in Exhibit KWO-9.

21 **Q. CAN YOU PROVIDE THE COMMISSION WITH A TABLE SHOWING**
22 **THE IMPACT TO THE REVENUE REQUIREMENT IN THIS CASE**

1 **THAT RESULTS FROM A CHANGE IN THE CAPITAL STRUCTURE**
2 **AND ASSOCIATED RETURNS ON EQUITY AS RECOMMENDED BY**
3 **OPC WITNESS WOOLRIDGE?**

4 A. Yes. In Exhibit KWO-10, I have provided a table that shows the approximate
5 impact on the revenue requirement under the following four scenarios:

- 6 • Case I: Company requested capital structure and return on equity;
- 7 • Case II: OPC's recommended capital structure and 9.0% return on equity;
- 8 • Case III:FPL Capital Structure with a 8.5% ROE; and
- 9 • Case IV: 55% Common Equity Ratio and 8.75% ROE

10
11 **III. SUMMARY**

12 **Q. PLEASE SUMMARIZE YOUR TESTIMONY IN THIS PROCEEDING.**

13 A. The capital structure requested by FPL in this case is unreasonable and is not
14 reflective of investor expectations. As compared to the comparable group of its
15 own witness, Dr. Avera, FPL's capital structure has an excessive amount of
16 common equity. Since common equity is approximately twice as expensive as
17 long-term debt, a capital structure top-heavy with equity is unnecessarily and
18 unreasonably expensive to captive ratepayers.

19 The capital structure requested in this case is also not reflective of the capital
20 costs as seen by market investors. The Company's own rate of return witness
21 used comparable companies in his rate of return analysis that have much more
22 conservative (i.e., less equity) capital structures than FPL. The rate of return on

1 common equity granted in this case will be based on market expectations of a
2 much lower common equity ratio than granted in this case. In addition, the cost
3 of long-term debt paid by ratepayers today reflect the unregulated activities of
4 FPL's sister unregulated companies.

5

6 My recommendation is that the Commission employ a capital structure that
7 consists of 50% common equity and 50% debt combined with the capital
8 adjustments as outlined by Company Witness Ousdahl in this proceeding.

9

10 I believe my recommended capital structure of 50% equity and 50% debt is
11 appropriate for ratemaking purposes for the following reasons:

- 12 1. a 50/50 capital structure is far higher than the 40% equity ratio that NextEra
13 Energy, Inc. employs on a consolidated basis;
- 14 2. a capital structure with a 50% equity ratio contains a higher percentage of
15 equity than either the composite common equity ratio of the companies in
16 Company Witness Avera's comparable group; OPC Witness Woolridge's
17 comparable group; and the average electric utility as followed by Value Line;
- 18 3. my recommended capital structure with a 50% common equity ratio is
19 approximately halfway between the higher cost capital structure as requested
20 by FPL versus the consolidated capital structure; and
- 21 4. a 50/50 capital structure is fair to stockholders of NextEra as well as FPL's
22 captive consumers.

1 Q. DOES THIS COMPLETE YOUR TESTIMONY?

2 A. Yes, it does.

CERTIFICATE OF SERVICE

I **HEREBY CERTIFY** that a true and correct copy of the foregoing Direct Testimony of Kevin W. O'Donnell, CFA has been furnished by electronic mail and/or U.S. Mail on this 2nd day of July, 2012, to the following:

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Appendix A

Kevin W. O'Donnell, CFA
President
Nova Energy Consultants, Inc.
1350 SE Maynard Rd.
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Cary, NC 27511

Education

I received a B.S. degree in Civil Engineering - Construction Option from North Carolina State University in May of 1982 and a Masters of Business Administration in Finance from Florida State University in August of 1984.

Professional Certification

I am a Chartered Financial Analyst (CFA) and a member of the Association of Investment Management and Research.

Work Experience

In September of 1984, I joined the Public Staff of the North Carolina Utilities Commission as a Public Utilities Engineer in the Natural Gas Division. In December of 1984, I transferred to the Public Staff's Economic Research Division and held the position of Public Utility Financial Analyst. In September of 1991, I joined Booth & Associates, Inc., a Raleigh, North Carolina, based electrical engineering firm, as a Senior Financial Analyst. I stayed in this position until June 1994, when I accepted employment as the Director of Retail Rates for the North Carolina Electric Membership Corporation. In January 1995, I formed Nova Utility Services, Inc., an energy consulting firm. In May

of 1999, I changed the name of Nova Utility Services, Inc. to Nova Energy Consultants, Inc.

Along with my work with Nova Energy Consultants, Inc., I also provide financial consulting services to MAKROD Investment Associates of Verona, NJ. MAKROD is a money management firm that specializes in portfolio management services for high wealth individuals and institutional investors.

I have also worked with North Carolina and South Carolina municipalities in presenting comments to the Federal Energy Regulatory Commission regarding the opening of the wholesale power markets in the Carolinas.

Publications

I have also published the following articles: Municipal Aggregation: The Future is Today, *Public Utilities Fortnightly*, October 1, 1995; Small Town, Big Price Cuts, *Energy Buyers Guide*, January 1, 1997; and Worth the Wait, But Still at Risk, *Public Utilities Fortnightly*, May 1, 2000. All of these articles dealt with my firm's experience in working with small towns that purchase their power supplies in the open wholesale power markets.

Regulatory Cases of Kevin W. O'Donnell, CFA
Nova Energy Consultants, Inc.

Year	Name of Applicant	State Jurisdiction	Docket No.	Client/Employer	Case Issues
1985	Public Service Company of NC	NC	G-5, Sub 200	Public Staff of NCUC	Return on equity, capital structure
1985	Piedmont Natural Gas Company	NC	G-9, Sub 231	Public Staff of NCUC	Return on equity, capital structure
1986	General Telephone of the South	NC	P-19, Sub 207	Public Staff of NCUC	Return on equity, capital structure
1987	Public Service Company of NC	NC	G-5, Sub 207	Public Staff of NCUC	Return on equity, capital structure
1988	Piedmont Natural Gas Company	NC	G-9, Sub 278	Public Staff of NCUC	Return on equity, capital structure
1989	Public Service Company of NC	NC	G-5, Sub 246	Public Staff of NCUC	Return on equity, capital structure
1990	North Carolina Power	NC	E-22, Sub 314	Public Staff of NCUC	Return on equity, capital structure
1992	North Carolina Natural Gas	NC	G-21, Sub 306	Public Staff of NCUC	Natural gas expansion fund
1992	North Carolina Natural Gas	NC	G-21, Sub 307	Public Staff of NCUC	Natural gas expansion fund
1995	Pennsylvania & Southern Gas Company	NC	G-3, Sub 186	Public Staff of NCUC	Return on equity, capital structure
1995	North Carolina Natural Gas	NC	G-21, Sub 334	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1995	Carolina Power & Light Company	NC	E-2, Sub 680	Carolina Utility Customers Assoc.	Fuel adjustment proceeding
1995	Duke Power	NC	E-7, Sub 559	Carolina Utility Customers Assoc.	Fuel adjustment proceeding
1996	Piedmont Natural Gas Company	NC	G-9, Sub 378	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1996	Piedmont Natural Gas Company	NC	G-9, Sub 382	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1996	Public Service Company of NC	NC	G-5, Sub 356	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1996	Cardinal Extension Company	NC	G-39, Sub 0	Carolina Utility Customers Assoc.	Capital structure, cost of capital
1997	Public Service Company of NC	NC	G-5, Sub 327	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1998	Public Service Company of NC	NC	G-5, Sub 386	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1998	Public Service Company of NC	NC	G-5, Sub 386	Carolina Utility Customers Assoc.	Natural gas transportation rates
1999	Public Service Company of NC/SCANA	NC	G-5, Sub 400	Carolina Utility Customers Assoc.	Merger case
1999	Public Service Company of NC/SCANA	NC	G-43	Carolina Utility Customers Assoc.	Merger Case
1999	Carolina Power & Light Company	NC	E-2, Sub 753	Carolina Utility Customers Assoc.	Holding company application
1999	Carolina Power & Light Company	NC	G-21, Sub 387	Carolina Utility Customers Assoc.	Holding company application
1999	Carolina Power & Light Company	NC	P-708, Sub 5	Carolina Utility Customers Assoc.	Holding company application
2000	Piedmont Natural Gas Company	NC	G-9, Sub 428	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
2000	NUI Corporation	NC	G-3, Sub 224	Carolina Utility Customers Assoc.	Holding company application
2000	NUI Corporation/Virginia Gas Company	NC	G-3, Sub 232	Carolina Utility Customers Assoc.	Merger application
2001	Duke Power	NC	E-7, Sub 685	Carolina Utility Customers Assoc.	Emission allowances and environmental compliance costs
2001	NUI Corporation	NC	G-3, Sub 235	Carolina Utility Customers Assoc.	Tariff change request.
2001	CP&L/Progress Energy Ventures	NC	E-2, Sub 778	Carolina Utility Customers Assoc.	Asset transfer case
2001	Duke Power	NC	E-7, Sub 694	Carolina Utility Customers Assoc.	Restructuring application
2002	Piedmont Natural Gas Company	NC	G-9, Sub 461	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
2002	Cardinal Pipeline Company	NC	G-39, Sub 4	Carolina Utility Customers Assoc.	Cost of capital, capital structure
2002	Piedmont Natural Gas	SC	2002-63-G	South Carolina Energy Users Committee	Rate of return, accounting, rate design, cost of service
2003	Piedmont Natural Gas/NCNG	NC	G-9, Sub 470	Carolina Utility Customers Assoc.	Merger application
2003	Piedmont Natural Gas/NCNG	NC	G-9, Sub 430	Carolina Utility Customers Assoc.	Merger application
2003	Piedmont Natural Gas/NCNG	NC	E-2, Sub 825	Carolina Utility Customers Assoc.	Merger application
2003	Carolina Power & Light Company	NC	E-2, Sub 833	Carolina Utility Customers Assoc.	Fuel case
2004	South Carolina Electric & Gas	SC	2004-178-E	South Carolina Energy Users Committee	Return on equity, capital structure, rate design, cost of service
2005	Carolina Power & Light Company	NC	E-2, Sub 868	Carolina Utility Customers Assoc.	Fuel case
2005	Piedmont Natural Gas Company	NC	G-9, Sub 499	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
2005	South Carolina Electric & Gas	SC	2005-2-E	South Carolina Energy Users Committee	Fuel application

Regulatory Cases of Kevin W. O'Donnell, CFA
 Nova Energy Consultants, Inc.

Year	Name of Applicant	State Jurisdiction	Docket No.	Client/ Employer	Case Issues
2005	Carolina Power & Light Company	SC	2006-1-E	South Carolina Energy Users Committee	Fuel applicatoin
2006	IRP in North Carolina	NC	E-100, Sub 103	Carolina Utility Customers Assoc.	Submitted rebuttal testimony in investigation of IRP in NC.
2006	Piedmont Natural Gas Company	NC	G-9, Sub 519	Carolina Utility Customers Assoc.	Creditworthiness issue
2006	Public Service Company of NC	NC	G-5, Sub 481	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
2006	Duke Power	NC	E-7, 751	Carolina Utility Customers Assoc.	Application to share net revenues from certain wholesale power transactions
2006	South Carolina Electric & Gas	SC	2006-192-E	South Carolina Energy Users Committee	Fuel application
2007	Duke Power	NC	E-7, Sub 790	Carolina Utility Customers Assoc.	Application to construct generation
2007	South Carolina Electric & Gas	SC	2007-229-E	South Carolina Energy Users Committee	Rate of return, accounting, rate design, cost of service
2008	South Carolina Electric & Gas	SC	2008-196-E	South Carolina Energy Users Committee	Base load review act proceeding
2009	Western Carolina University	NC	E-35, Sub 37	Western Carolina University	Rate of return, accounting, rate design, cost of service
2009	Duke Power	NC	E-7, Sub 909	Carolina Utility Customers Assoc.	Cost of service, rate design, return on equity, capital structure
2009	South Carolina Electric & Gas	SC	2009-261-E	South Carolina Energy Users Committee	DSM/EE rate filing
2009	Duke Power	SC	2009-226-E	South Carolina Energy Users Committee	Return on equity, capital structure, rate design, cost of service
2009	Tampa Electric	FL	080317-EI	Florida Retail Federation	Return on equity, capital structure
2010	Duke Power	SC	2010-3-E	South Carolina Energy Users Committee	Fuel application - assisted in settlement
2010	South Carolina Electric & Gas	SC	2009-489-E	South Carolina Energy Users Committee	Return on equity, capital structure, rate design, cost of service
2010	Virginia Power	VA	PUE-2010-00006	Mead Westvaco	Rate design
2011	Duke Energy	SC	2011-20-E	South Carolina Energy Users Committee	Nuclear construction financing
2011	Northern States Power	MN	E002/GR-10-971	Xcel Large Industrials	Return on equity, capital structure
2011	Virginia Power	VA	PUE-2011-0027	Mead Westvaco	Capital structure, revenue requirement
2011	Duke Energy	NC	E-7, Sub 989	Carolina Utility Customers Assoc.	Accounting, cost of service, rate design, return on equity, capital structure
2012	Duke Energy	SC	2011-271-E	South Carolina Energy Users Committee	Accounting, cost of service, rate design, return on equity, capital structure
2012	Town of Smithfield/Partners Equity Group	NC	ES-160, Sub 0	Partners Equity Group	Rate design, asset valuation

FPL Requested Capital Structure and ROE

Capital Source	Pre-Adjusted Cap. Components	Ratio	Adjustments	Requested Cap. Components	Ratio %	Cost Rate %	Wgtd Cost Rate (%)
Long-Term Debt	\$6,199,550	38.2%	\$0	\$6,199,550	29.47%	5.26%	1.55%
Cust. Dep.	\$0	0.0%	\$426,531	\$426,531	2.03%	5.99%	0.12%
Common Equity	\$9,684,101	59.6%	\$0	\$9,684,101	46.03%	11.50%	5.29%
Short-Term Debt	\$360,542	2.2%	\$0	\$360,542	1.71%	2.11%	0.04%
Def. Inc. Taxes	\$0	0.0%	\$4,365,176	\$4,365,176	20.75%	0.00%	0.00%
Inv. Tax Credit	<u>\$0</u>	<u>0.0%</u>	<u>\$923</u>	<u>\$923</u>	<u>0.00%</u>	<u>9.06%</u>	<u>0.00%</u>
	\$16,244,193	100.0%		\$21,036,823	100.00%		7.00%

Avera Utility Comparable Group
Common Equity Ratios

Company	2010 Eq. Ratios [1]	2011 Eq. Ratios [2]
Alliant Energy	49.5%	50.9%
Consolidated Edison	50.9%	52.5%
Dominion Resources	42.8%	39.3%
Integrus Energy Group	56.8%	60.6%
ITC Holdings Corp.	30.9%	32.2%
NextEra Energy, Inc	44.5%	41.8%
OGE Energy Corp.	49.2%	48.4%
PG&E Corp.	49.3%	50.2%
SCANA Corp.	47.1%	45.7%
Sempra Energy	49.6%	49.2%
Southern Company	45.7%	47.1%
Vectren Corp.	50.1%	48.4%
Wisconsin Energy	49.0%	46.0%
Xcel Energy, Inc.	46.3%	48.9%
AVERAGE	47.3%	47.2%

Sources:

1. Avera Exhibit WEA-5, P. 2 of 2
2. Value Line Investment Survey of March 23, 2012; May 25, 2012; and May 4, 2012

Value Line Electric Utility Common Equity Ratios

Sector	2010 Common Equity Ratio [1]	2011 Common Equity Ratio [1]
Electric Utility	46.6%	47.0%

Source:

1. Value Line Investment Survey of May 25, 2012

NextEra Consolidated
2011

Capital	%
Common Equity	39.4%
Long-Term Debt	57.0%
Short-Term Debt	3.6%
	100.0%

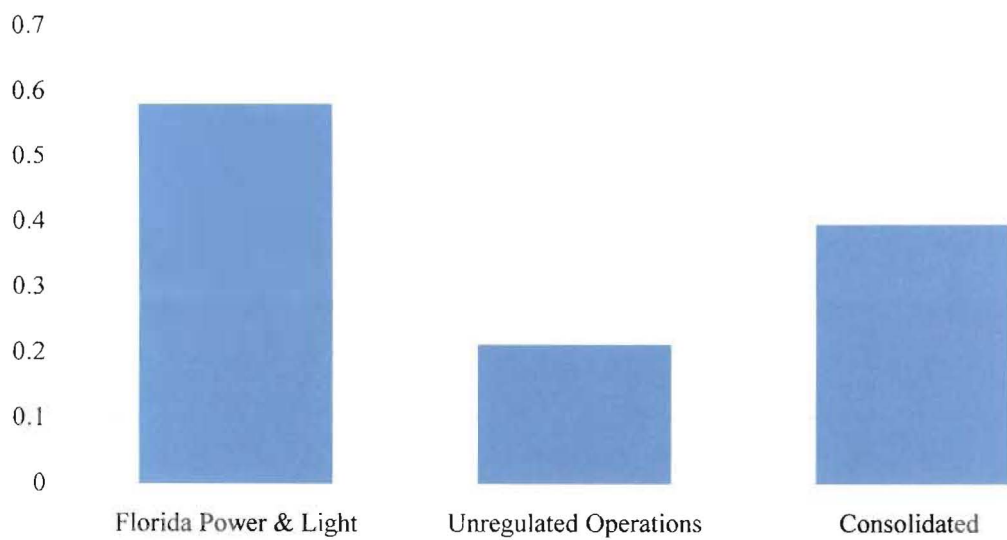
Source: MFR, Schedule D-2

NextEra Unregulated Operations
2011

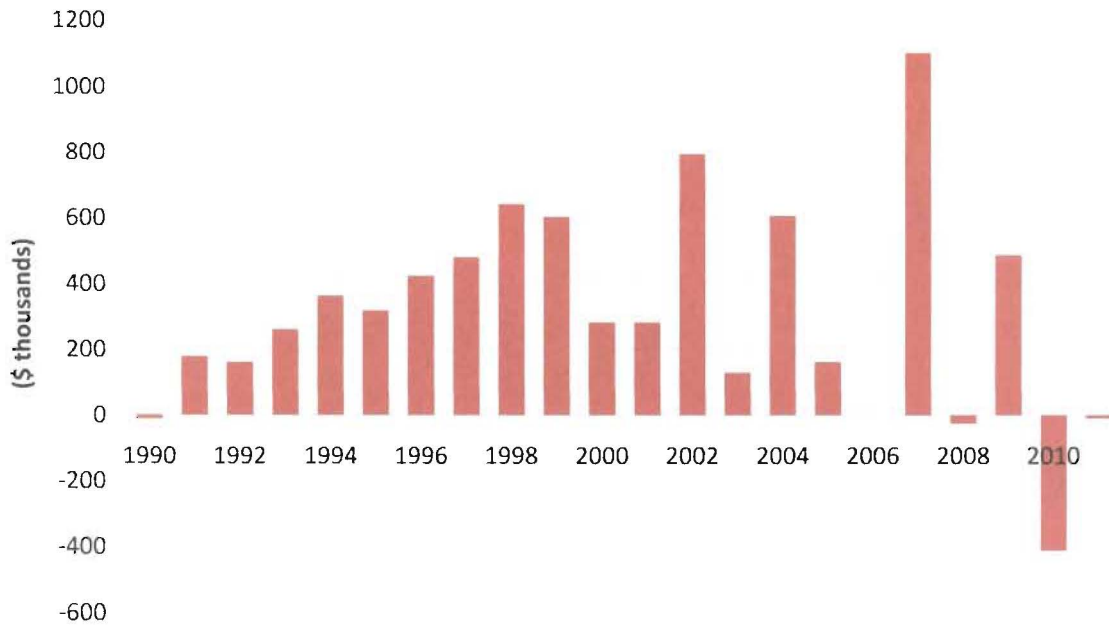
Capital	%
Common Equity	21.1%
Long-Term Debt	73.6%
Short-Term Debt	5.3%
	100.0%

Source: MFR, Schedule D-2

Equity Ratio Comparison Year End 2011



FPL Net Dividend Payment to NextEra



OPC Recommended Capital Structure and ROE

Capital Components	Jurisdictional Capital Structure Per Company	OPC Adjustments to Cap. Struct.	Adjusted Amounts	Ratio	Cost Rate	Per OPC Weighted Cost Rate
	(A)	(B)	(C)	(D)	(E)	(F)
Long Term Debt	\$ 6,199,550	\$ 1,476,157	\$ 7,675,707	36.49%	5.26%	1.92%
Short Term Debt	\$ 360,542	\$ 85,848	\$ 446,390	2.12%	2.11%	0.04%
Preferred Stock	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
Common Equity	\$ 9,684,101	\$ (1,562,005)	\$ 8,122,097	38.61%	9.00%	3.47%
Customer Deposits	\$ 426,531	\$ -	\$ 426,531	2.03%	5.99%	0.12%
Deferred Taxes	\$ 4,365,176	\$ -	\$ 4,365,176	20.75%	0.00%	0.00%
Investment Tax Credits	\$ 923	\$ -	\$ 923	0.00%	7.18%	0.00%
Total	\$ 21,036,823	\$ (0)	\$ 21,036,823	100.00%		5.56%

FPL Requested Capital Structure and 8.5% ROE

Capital Source	Capital \$	Ratio %	Cost Rate %	Wgtd Cost Rate (%)
Long-Term Debt	\$ 6,199,550	29.47%	5.26%	1.55%
Cust. Dep.	\$ 426,531	2.03%	5.99%	0.12%
Common Equity	\$ 9,684,101	46.03%	8.50%	3.91%
Short-Term Debt	\$ 360,542	1.71%	2.11%	0.04%
Def. Inc. Taxes	\$ 4,365,176	20.75%	0.00%	0.00%
Inv. Tax Credit	\$ 923	0.00%	9.06%	0.00%
	\$ 21,036,823	100.00%		5.62%

Revenue Requirement Impacts Under Various Capital Structures and ROEs

Scenarios	Revenue Requirement	Change in Revenue Requirement
Case I: Company Request	\$2,188,657	---
Case II: OPC Recommended Cap. Structure with 9.0% ROE	\$1,641,551	-\$547,107
Case III: FPL Cap. Structure with 8.5% ROE	\$1,712,373	-\$476,284
Case IV: 55% Common Equity Ratio and 8.75% ROE	\$1,683,036	-\$505,622